Indira Gandhi National Open University School of social science

Access to Finance and its Challenges for Private Sector in Ethiopia

By: Firewoini Gebreyesus Menkir

Study center: St. Mary's University

May, 2016

Addis Ababa, Ethiopia

Programme Code: MEC

Course Code: MECP-001

Enrolment No: | I | D | 1 | 3 | 6 | 3 | 6 | 6 | 6 |

Study Center Code: | 8 | 1 | 0 | 5 |

Regional Centeré é é é é é é é é é

Access to Finance and its Challenges for Private Sector in Ethiopia

Project Work summited to the Indira Gandhi National Open University in partial fulfillment of the requirements for the award of the Degree-Master of Arts (Economics). I hereby declare that this work has been done by me and has not been submitted elsewhere.

Signature of the Candidateé é é é é é é é é é é .

Name of the Candidate: **Firewoini Gebreyesus Menkir**

Address: Lideta sub city, Kebelle 12, House No 680,

P.O.Box: 1074code1250, Addis Ababa, Ethiopia

Year: 2016

CERTIFICATE

Certified that the project work entitled Access to Finance and its Challenges for Private Sector in Ethiopia summited by Firewoini Gebreyesus Menkir is her own work and has been done in the light of evaluatorös comments under my supervision.

It is recommended that this project be placed before the examiner for evaluation.

(Signature of the supervisor)

Nameé é

Address: é é é é é é é é é é é é é ..é é é é é é

Study Center é é é é é é é é é é é é é é é é é é

Regional Centeré é .é é é é é ..é é é é é é é é é

Date é

ACKNOWLEDGEMENTS

First and foremost, I would like to thank the Almighty God for giving me the strength and courage in all of my life endeavors.

Secondly, I would like to thank Mr. Negatu Legesse Sima whose help, suggestions, invaluable guidance and encouragement helped me throughout the dissertation process.

Thirdly, I am also grateful and want to acknowledge private enterprises business owner operators, who voluntary filled the questionnaires.

Finally my heartfelt gratitude goes to all my family who were there for me whenever I needed their support.

MAIN ABBREVIATIONS AND ACRONYMS

ACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
AEMFI	Association of Ethiopian Micro Finance Institution
DB	Doing Businesses
ECCSA	Ethiopian Chamber of Commerce and Sectoral Associations
GDP	Gross Domestic Product
GIZ	German International Cooperation
GoE	Government of Ethiopia
IC	Investment Climate
IFC	International Finance Corporation
IMF	International Monetary Fund
MFI	Micro Finance Institution
NBE	National Bank of Ethiopia
PSD	Private Sector Development
SME	Small and Medium sized Enterprise
WBES	World Bank Enterprise Survey
WEF	World Economic Forum

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The focus of this paper have been assessed and to evaluate access to finance that these private enterprises in Ethiopia are having and the factors that hinder them not to properly raise fund. To meet this end of this study, researcher identified the population to conduct this research were the private (small, medium and large sized) enterprises in Addis Ababa. Given its difficulty in covering all the population, the researcher selected a subset of the population. A descriptive survey method and purposive sampling method were employed to conduct this study. As such, the researcher identified judgmental sampling technique be more appropriate and preferable for this research work and data were collected document review and closed questionnaires. A descriptive methods were used to analyze the questionnaires which frequencies and percentiles with the help of tables and figures were used for data presentation and analysis. The data collected through questionnaires were from a sample of 150 private enterprises.

The main findings of the research were despite the important role they play and the positive contribution they make to the overall economy, private enterprises especially SMEs are disadvantaged, and they are fondly referred to as the missing middle. Lack of access to financing on reasonable terms and conditions is probably the most serious constraint facing SMEs.

In order to effectively address this challenge and avail the financial needs of the private enterprises; Promoting policies measures aimed at softening collateral requirements and innovation in ýnancial products in the short run; And the need for the development of dew financial markets and instruments in the long run were the possible actions recommended to be taken by the government bodies as well as relevant stakeholders as per this study.

Key words: Access to finance, private business enterprises

CHAPTER ONE

1. INTRODUCTION

Most growth theories such as, Paul and Frederic (2000), imply that private sector is a carrier of economic growth of any country by involving highly on the industrialization process and other sectors of the economy. For a developing country such as Ethiopia, whose economy is still predominantly agrarian, the private sector plays a vital role in the overall economic growth of the country. As indicated by Alemayehu Geda (2008); the role of private businesses in Ethiopia is becoming an instruments of employment and income generation, human development and poverty alleviation, export promotion, import substitution and entrepreneurship and hence the driving forces behind the growth of the country economy. Therefore, policies and initiatives to develop private businesses and to increase their competitiveness are a priority for Ethiopia. The government in its recent important policy-cum-plan documents unequivocally clearly stated about the importance it attaches to the development of the private sector.

But, the private sector development in Ethiopia is still at low level owing to its internal weakness and other constraints. Several studies on problems of private sector development in Ethiopia (Ethiopian Investment Commission, 2014; Ethiopia Chamber of Commerce and sectoral association, 2010, World Economic Forum, 2014) for instance, revealed that Private entrepreneursô limited access to credit is reported to be the most pressing and binding constraint for doing business in Ethiopia.

The focus of this paper is to evaluate access to finance that these private enterprises in Ethiopia are having and the factors that hinder them not to properly raise fund is going to be assessed. Finance is the core element of any investment process. Investment in any productive sector is very much essential for the growth of industry and increased facilities in obtaining finances can in return enhance that growth. Finance is needed at the opening phase of a business as well as at the continuing phases.

It is widely recognized that there is a pressing shortage of loan funds in Ethiopia. This is, to a certain extent, a result of Government regulations that oblige private commercial banks to buy government bonds equivalent to 27% of each loan made (IFC Getting Credit indicator, 2014). The second constraint to access to finance is high collateral requirements (120%), (World Economic Forum, 2014). The third hampering element is the fact that international supplier credit is rarely allowed. There is also a problem of extending medium to long-term loans; banks are very reluctant to extend loans for long and medium term development activities and they tend to exclude small borrowers and concentrate on their wealthy clients that are creditworthy (Ethiopia Chamber of Commerce and sectoral association, 2010).

Financial sector strength and private sector development are found to be different sides of the same coin as far as their growth is concerned. One of the functions of financial institutions mobilizing resources, particularly savings, is carried out with the ultimate objective of channeling financial resources to would-be investors. In line with this and to assess whether the Ethiopian financial sector is adequately serving the private sector, the strengths and the weaknesses of all financial institutions should be scrutinized. The financial sector needs to be strengthened and ultimately stand on its own so that it can adequately serve the private sector.

1.1. STATEMENT OF THE PROBLEM

It is now recognized that the private businesses are playing and have become an increasingly important contributor to Ethiopiaॠs economy. The contribution of the private businesses in both agriculture and industrial sector to the country's gross domestic product is continuously increasing. The sector contributes to the national objective of creating employment opportunities, income generation, human development, poverty alleviation, export promotion and providing a source of livelihood for the majority of own income households in the country (Eshetu and Mammo, 2009). Had this sector been provided proper emphasis, the sector has a high potential for contributing to meet the objective they were envisaged for. Yet stringent collateral requirements to get access credit from banks are the major impediments for majority of business entrepreneurs. While there are a number of constraining factors obstacle development private firms in Ethiopia, the basic and the one that seek attention is access to finance (GTZ, Access to finance in Ethiopia, 2006)

Improving the availability of finance facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the Ethiopian economy but, the need of private business for finance became higher and complicated when they grow and involve in high dynamic activities. Despite this emphasis, the effects of existing institutional problems, especially the lending terms and conditions on access to credit facilities, have not been addressed yet in the country. In addition, there is no empirical study indicating the potential role of improved lending policies by the financial institutions in alleviating problems of access to finance. Knowledge in this area, especially a quantitative analysis of the challenges private business facing in access finance is lacking for the financial markets of Ethiopia.

Financial sector strength and private sector development are found to be different sides of the same coin as far as their growth is concerned. One of the functions of financial institutions mobilizing resources, particularly savings, is carried out with the ultimate objective of channeling financial resources to would-be investors. But, it can be said that Ethiopian privately owned banks and Micro Financial Institutions are hampered by insufficient capital and limited operational scale. Despite a growing number of Financial Institutions, credit provision remains well below the countryǿs private enterprise investment needs. To meet the objective for which these private enterprises are established, this challenge should be alleviated. Therefore the researcher focused and seen the following main issues:

1. What are the barriers faced by private sector operators in accessing adequate finance?
2. What are the general government policies affecting the operations of banks and other financial intermediaries?
3. What and how appropriate policies and regulatory measures can alleviate the problem?

1.2. OBJECTIVES OF THE STUDY

The overall objective of the paper is to provide a ñbetter understanding of the policy as well as regulatory triggers and incentives that will encourage formal financial institutions to deepen outreach to the Ethiopian private sectorò

To achieve this overall objective, the paper have three specific objectives, namely:

1. A review the Ethiopian financial sector and the barriers faced by private sector in accessing adequate finance;
2. The identification of policies and regulatory issues that determine access to finance for private sector engagements; and
3. Identification of appropriate recommendation to alleviate the constraint.

1.3. SIGNIFICANCE OF THE STUDY

This research paper is assumed to be conducted for the following significance expectation.

- To provide hints as to how the private sector is overcoming the constraints associated with access to finance
- To use the suggestions and recommendations that will forward in this paper for further private sector development activities.
- The paper also provided insight for further study in the subject under consideration

1.4. SCOPE OF THE RESEARCH

The paper took into consideration a various findings linked to the access to finance concept, including analyzing the wide range of functions typically discharged by the financial sector, exploring issue of government policies prevailing in related areas possibly affecting financial markets and transactions and the introduction of instruments currently not in use in the country for possible solutions.

1.5. METHODOLOGY

The purpose of this paper is to provide better understanding one of the major basics, namely financial aspects, of the private enterprise sector in pursuing rapid economic growth. In addition to the assessment of the access to finance provided to the private enterprise in the country, this paper focused on various other financial aspects so as to provide recommendations. For this purpose, extensive survey of literature of relevant publications, previous studies and various initiatives taken by the stakeholders (including the government and the development partners) were reviewed.

A research method can be either qualitative or quantitative. To address the research questions about access to finance for private sector development on the Ethiopian context, this research used both qualitative and quantitative approach.

1.5.1. DATA TYPE AND DATA SOURCE

Both primary and secondary data were used to conduct the research. The primary data the researcher used were data from target group means the owner and/or managers of the business enterprises through closed questionnaires.

The secondary data that the researcher used were from varies secondary sources i.e., Periodic government bodyôs publications, report of development partners, relevant publications and previous studies.

The data (primary data) concerning the main issues of the research were collected using questionnaires. The questionnaires were distributed to private business owner and/or managers operating in Addis Ababa on the basis of judgmental sampling.

1.5.2. SAMPLING TECHNIQUE

The researcher identified the populations to conduct the research on were the private businesses operating in the capital city, Addis Ababa. To improve representativeness of the sample the researcher used judgmental sampling technique. The following table illustrates the number of data employed to conduct this research. Moreover, In order to collect primary sources of data the author of this study has distributed and collected closed questionnaires with judgmentally selected Small Medium and Large Sized businesses in Addis Ababa.

Table 1: Characteristics of the respondents

Types of private enterprises	No. of Respondents	% Share of respondents
Small enterprises	93	62
Medium enterprises	46	30.7
Large enterprises	11	7.3
Total	150	100%

Source: field survey, 2015

1.5.3. METHOD OF DATA ANALYSIS AND INTERPRETATION

The researcher used descriptive data analysis method. After all relevant data collected, data preparation including editing, coding, and data entry have been conducted extensively. Preparing a descriptive statistical summary and using statistical instrument like measures of central tendency and measure of variability were another preliminary step that the researcher conducted for understanding the collected data. To facilitate interpretation process of the research data, the researcher used frequency tables, graphs, and pie charts

1.6. EXPECTED OUTCOME

By providing a better understanding of the policy as well as regulatory initiates and incentives that will encourage formal financial institutions to deepen outreach to the Ethiopian private sector, the research paper will expect to provide as a major input to foster a constructive dialogue among relevant stakeholders interested in the private sector development in Ethiopia.

1.7. LIMITATION OF THE STUDY

The study was restricted to demand side analysis of the private sector enterprises with regard to access to finance. This was mainly because of shortage of necessary finance/budget required to conduct the study in the whole of the country. In addition to this, the study is limited only to know the access to finance and its challenges of private enterprises operating in Addis Ababa.

1.8. ORGANIZATION OF THE PAPER

The research paper have been structured as follows: Chapter one provided the introduction mainly the specific statements of the problems and methodology part of the study, with the descriptions of objectives, significant, expected outcome and scope of the study; Chapter two focused on the empirical and review of literature parts of the study which also provided a presentation of countries financial institutionsô performance and of key recent developments; Chapter three dealt with analysis and interpretation of the access to finance constraints faced by the private sector; Chapter four grasped and summarized the main key findings of the study; And chapter five outlined a series of recommendations for actions that can improve the situation and also incorporated the conclusion part of the research.

CHAPTER TWO

2. REVIEW OF LITERATURE

This chapter outlines the related literatures by different authors on the Assessment of access to finance particularly for private enterprises. Thus, the research mainly focuses on the access to finance for private enterprises, in which case private Enterprise can be defined for categorization as follows:

2.1. DEFINING AND CATEGORIZATION OF PRIVATE ENTERPRISE

There are different worldwide definitions used to categorize private Enterprise although they tend to use the same metrics of employment, turnover and asset base. In Ethiopian context private Enterprise sized and defined as follows; According to the new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011) the working definition for categorizing private Enterprise is based on capital and Labor. The researcher uses the definition In terms of labor to categorize the private business- Micro enterprises (1-4), small enterprises (5-19), Medium enterprises (20-99) and large enterprises (+100).

2.2. THE CONSTRAINTS TO THE DEVELOPMENT OF THE PRIVATE SECTOR

After substantial macroeconomic reforms were initiated more than a decade in many African countries, growth performance remained inconsistent across many of these reforming countries especially in SSA (Levine, Ross. 2005). While the reasons for low performance vary across countries, numerous evidence pointed out, poor private sector investment response in the medium-to-long term has delayed long term growth (Masson, Paul and Catherine. 2005). And hence, this might be the main factor attributed to varying factors in different countries.

The constraints to the development of the private sector can generally be categorized into internal and external factors. External constraints include the policy environment and access to various markets and facilities. Internal constraints relate to the profitability of firms and the ability to pay market rates for resources, as well as management capability. According to World Bank (enterprise survey report , 2014), the problems that generally receive the most attention as the most significant constraints to expansion are the absence and inadequacy of credit for working capital; and the lack of credit for the purchase of capital equipment.

While the obstacles to private sector development are many, the financial constraints have received the most attention from both governments and donors. Throughout the 1980s, it was fashionable to blame the financing constraints of the private sector on the inadequacies of banking systems and their poor perceptions of the creditworthiness of the small ventures that dominate African economies[1]. Increasingly, however, possible solutions to the underlying factors behind the reluctance of commercial and other banks to lend to small enterprises are being sought, as more and more people begin to understand the problems of banks in relation to their structures and policy bottlenecks.

In view of the continuing problems with finance, it is not surprising that reform of the financial sector became a major component of economic reform programs in many countries. Reforms were necessitated by the observation that various policy regimes shifted the allocation of investible funds from the market to the government[2]. In many countries, banking institutions simply became

---

[1] See for instance, IMF and WB, ñfinancial sector assessment handbookò, Washington DC, March 2005;. Indeed, various surveys suggest that a more vigorous response from the private sector in many countries has been impeded by a number of institutional, structural, and financial constraints.

[2] World Economic Forum, the Global Competiveness Report 2014: and Sacerdotal Emilio 'Access to Bank Credit in Sub-Saharan Africa': Key Issues and Reform Strategies. 2005ò IMF Working Paper 05/166: explained that Reforms

institutions for financing the budget deficit or covering operating losses incurred by parastatals. As banks failed to develop the capacity for risk assessment and monitoring of optimal management of their loan portfolio, they became uninterested in investing in information capital which is crucial for the development of financial systems.

2.3. SOURCE OF FINANCE

Only one definition captures the real essence of capital: ñIt takes money to make money.ò particularly in implementing a new business concept and expanding or financing operation. Elton, Edwin, Martin Gruber, Stephen Brown and William Goetzmann, 2003 explains that óFrom the aspiring entrepreneur designing a new office furniture product in a home office to an executive of a multinational corporation looking to expand foreign distribution channels for new product introductions, launching any new business concept requires capital, or money, as a basis to execute the business plan Before a business sells its first product or delivers a service to the marketô. And countless other critical business functions needs such as financial resources for product development, sales, marketing and promotional efforts, administrative support, the companyôs formation and etc. Capital is not only perceived as just the amount of ñcash on handò but rather the amount of financial resources available to support the execution of a business plan. While finance can come from internal and external sources, and also in countless forms, types, and structures. Two main basic types of financial resources are available to most businesses, i.e., formal and informal source of finance

were also made necessary by the fact that financial repression generally hindered the development of the institutional capacity of financial institutions in their development of the commercial viability of their operations.

2.3.1. ACCESS TO FORMAL FINANCE

A formal ýnancial institution is a registered business whose primary activity is provision of ýnancial services. According to World Bank, (Global Financial Development Report 2013), Formal ýnancial institutions can be regulated or non-regulated. A ýnancial institution is considered regulated when it is subject to regulation or supervision by a state regulator. The regulatory requirements that apply to such institutions can be prudential or non-prudential.

As indicated by Cook and Nixson (2000), some of the types of formal financial institutions include,

- Commercial banks: - banks with a full banking license. Majority state-owned banks are included in this category when they perform a broad set of retail banking functions
- Cooperatives: - institutions with a mutual ownership structure, including credit unions.
- Specialized state ýnancial institutions: - specialized ýnancial institutions fully owned by the state or extensions of the government whose main purpose is to lend in support of economic development or to provide savings, payment, and deposit services to the public. This group includes postal banks, government savings banks, small and medium-size enterprise lending facilities, agricultural banks, and development banks.
- Microýnance institutions: - ýnancial institutions whose primary business model is to lend to and possibly take deposits from the poor.

The amount of formal external finance available to SMEs in particular is far less than expected. Despite SMEsô strong interest in credit, banksô profit orientation may deter them from supplying credit to them because of the high transaction costs and risks involved (Jesmin. 2008). First, SMEsô loan requirements are small, so the (more or less fixed) costs of processing the loans tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to assess the risks of new, unproven ventures, especially because the success of small firms often depends heavily on the abilities of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high.

For small and medium sized enterprises, trade credit overwhelmingly dominates finance of operations. Client pre-payment is often more important than suppliersô credit for some microenterprises. The use of client pre-payment for goods as a major way of financing small businesses varies considerably among the different industrial sectors and by sub-region, however. Thus, while it is considered to be unimportant in Zimbabwe, it tends to be extremely important to the furniture industry in Ghana (Sacerdoti. 2003.). Microenterprises are generally more likely to give credit to their customers than receive credit from their suppliers. Even for the finance of capital investments by manufacturing firms, internal sources of funds, mainly retained earnings or personal savings, dominate for small and medium sized manufacturing firms, while bank credit and suppliersô credit tend to be important for large firms[3].

It is important to clarify from the outset here on the vast majority of small firms whose access to external finance is nearly entirely limited to internal financing and families and friends to larger firms with high opportunities for external finance access. In our countryôs context recently micro finances are institutions handling the micro and small business sector (Cull and Xavier, 2004). These are firms with very high growth potential, often in knowledge-intensive high tech industries, who principally access the banks and other financial institutions for early-phase financing. Because these high risk firms generally require large injections of external funding relative to insider

[3] World Bank, Global Financial Development Report 2013: Rethinking the Role of the State in Finance: Indeed, while there is some bank credit in most financial systems, there is considerable evidence from a number of countries that it is not the decisive factor in enterprise development. Bank finance is used mainly for large investments by large firms, p67

financing, have little in the way of tangible assets that may be pledged as collateral, and are subject to significant moral hazard opportunities to change projects, they are ill suited for bank financing and thus tend to have low levels of leverage (World Bank. 2008)

2.3.2. ACCESS TO INFORMAL FINANCE

In searching for alternatives to formal sector finance, some attention is increasingly being paid to informal and semi-formal finance (including micro-finance) for meeting private sector credit demand, particularly from small enterprises. There has been increasing pressure on informal units to provide appropriate supporting finance as would be expected by new structuralist economics.

ñInformal financeò might be defined to embrace all financial transactions that take place beyond the functional scope of various countriesô banking and other financial sector regulations (World Bank 2007). This definition permits the inclusion of a wide range of financial activity whose operational scope may differ across countries. Indeed, there is a wide variety of such informal savings and lending units in SSA[4]. In general, most informal units deal with specific groups of people, ensuring that only people that satisfy distinct selection criteria are able to either deposit with them or borrow from them.

[4] Meredith, Martin. 2005. The State of Africa: A History of Fifty Years of Independence. The definition of informal finance pulls in such schemes as the operations of Savings and Credit Associations (SCA), known all over Africa; professional money lenders; part-time money lenders such as estate owners, traders, relations and friends; mobile bankers generally known as susu or esusu collectors in West Africa; credit unions; co-operative societies; etc. These have been observed in both urban and rural areas. While savings collectors fall under the first category of deposit mobilizers, moneylenders, including relations and friends, do not generally accept deposits and may be placed in the second category. SCAs, credit unions/credit cooperatives take in deposits and also lend in rather varied forms

2.4. ASPECT FINANCIAL SECTOR IMPORTANT FOR BUSINESS ENTERPRISES

Access to finance is a key determinant for business start-up, development and growth for small and medium sized enterprises (SMEs) and they have very different needs and face different challenges with regard to financing compared to large businesses. The latter have ready access to equity capital markets, which are not accessible to the vast majority of small businesses. The lack of equity capital invested in small firms makes these businesses more reliant on other sources such as bank lending and other types of financial products.

An assumption underlying the characterization of growth and dynamism among small and microenterprises is that they are potential efficient users of capital, and that their capital needs, and how these are satisfied, are related to their sizes. As enterprises grow through different stages i.e. micro-, small-, and medium- and large-scale, they are also expected to shift financing sources. They are first expected to move from internal sources to external sources, generally starting with informal finance. While many microenterprises may find informal sources of credit and personal or family savings adequate, their financing needs can no longer be met by these sources as they become larger. Thus, a shift from informal to formal external sources would be expected as enterprises graduate to larger sizes, and would fall back on informal finance only if cheap formal finance is not available.

On the other hand Beck and Augusto (2004) pointed out that because of the time and effort evolved in understanding the borrowers business and financial needs. Relationship leading is costly for the lender and therefore requires either high spreads or large volumes to be viable. If the customerөs creditworthiness is hard to evaluate then there may be no alternative to relationship lending. A point that must be provided emphasis is that relationship lending is at the core of the banking business continuing to give banks a comparative advantage over markets and nonbank financial institutions, even in developed country.

The reality of business start-up and operation in Africa does not portray such a neat progression, however. It shows the domination by internal sources of funds as against external sources, even long after businesses have been established. According to World Bank 2008 ófinance for allô- Policies and Pitfalls in expanding access, report little debt in the portfolios of businesses. Only 25 percent of surveyed Ghanaian manufacturing enterprises had any outstanding debts. As is generally known about many African businesses, the majority of firms use ownersô savings to finance start-up. In Zimbabwe, as many as 71 percent of different sizes of firms used ownersô savings as the primary source of start-up capital[5].

In Ethiopia, Formal ýnancing, whether from banks or non-bank ýnancial institutions, plays a limited role in ýnancing enterprises, especially SMEs. According to World Bank Enterprise Survey (WBES) for Ethiopia, carried out between July 2011 and July 2012; More than 87 percent of the ýrms consider access and cost of ýnance major obstacles to growth. The large majority of Ethiopian manufacturers rely exclusively on their own funds; only 7.4 percent have access to ýnance from the ýnancial sector. This is especially striking for small ýrmsð only 3 percent have access to ýnance, as opposed to 36 percent for large ýrms. While the average for Ethiopia is incomparable to the other countries in the East African countries[6].

---

[5] World Bank 2008 report ófinance for allô- Policies and Pitfalls in expanding access; The use of ownersô savings has been much more prominent in the smaller operations, where also loans from friends and relatives (the major external sources) have made minor contributions.p89

[6] World Bank Enterprise Survey (WBES) for Ethiopia, July 2012; Furthermore, the problem seems to be significantly more severe than in other countries in the region, where the share of businesses indicating access to finance as the biggest obstacle to their business is a fraction of the one found in Ethiopia. However, it has to be mentioned that the degree of cross-country comparability is significantly reduced by the fact that WBES data for other East African countries refer to different, prior years (i.e. 2006 and 2007).

Moreover, the ýnancial sector plays a limited role in ýnancing new investments. On average, only 4 percent of new investments and working capital in Ethiopia is ýnanced externally through the banking sector, compared to more than 13 percent in East African countries, and 18 percent in the rest of the world (World Bank 2014). Banks often prefer to extend credit to large corporate clients and connected individuals that are considered less risky, while start-up companies remain ýnancially constrained. The dependence on internal ýnance indicates that ýrms in Ethiopia are unable to take advantage of growth opportunities, with negative ramiýcations for overall economic and employment growth.

Well-developed non-bank ýnancial institutions can provide external ýnancing and help improve the risk and maturity proýle of corporationsô external ýnancing. Non-bank ýnanceð capital markets, insurance, contractual savings, mortgage ýnance, ýnancial leasing, and factoring can serve as an important source of ýnance for the real sector. However, to date, these forms of external ýnancing are relatively non-existed and underdeveloped in Ethiopia. Non-bank ýnancial institutions in Ethiopia face various obstacles, similar to those impeding efýcient intermediation by the banking system: the still-large role of the state, through ownership as well as tightly prescribed (investment) regulations; the lack of well-functioning and efýcient means of registering and enforcing property rights, especially on collateral; and limited and poorly available information bases on potential clients and borrowers. Although there is progress, further streamlining and more market-based measures are needed.

2.5. ACCESS TO FINANCE AND DEVELOPMENT

As has been established by a large empirical literature, access to ýnance is important for growth and economic development. A well-functioning ýnancial market plays a critical role in channeling funds to their most productive uses, and allocates risks to those who can best bear them. Having an efýcient ýnancial system that can deliver essential services can make a huge contribution to a countryøs economic development. Levin Ross described in his paper õFinance and Growthö(2005); Greater ýnancial development increases growth, reduces economic volatility, creates job opportunities and improves income distribution.

There is ample evidence showing a strong and causal relationship between ýnancial sector development and economic growth. By improving householdsô access to ýnancial services, it also helps reduce poverty and improve income equality (Rioja and Neven. 2004). Financial exclusion can retard economic growth and increase poverty and in equality. An efýcient ýnancial sector that responds to the needs of the private sector increases investment, enhances economic growth, and creates jobsð one of the major challenges for developing economies..

Economists have focused on ways that barriers to financial markets undermine economic efficiency. By the same token, economists have long linked the expansion of financial markets to the spread of broader economic activity. In the 1970s, economists turned their focus on regulations in many countries that capped interest rates on loans (Brain and Howard. 2005).

The association of financial expansion and economic growth is well-established in the empirical literature. The causal link is harder to establish, however, since economic growth spurs financial expansion just as financial expansion can spur growth. Levine (2005) reviews the basic empirical associations, arguing that the link from finance to economic growth cannot be explained merely by reverse causation (drawing on cross country regression analyses including those by Rioja, Felix, and Neven Valev, 2004); and Beck, et al., 2000). These empirical findings are based on data aggregated at a country level. The empirical linkages cannot be tied to the expansion of financial access by households (as opposed to firms), nor to the spread of microfinance[7]. Indeed, the challenge at this point is to establish basic household-level impacts of microfinance.

According to Rioja and Neven. 2004, one of the reasons that so little work has been done to tackle these kinds of links in cross country data rests with the lack so far of breakthrough empirical approaches to solve statistical identification problems. In contrast, there has been a great growth of micro studies that attempt to link financial access to household well-being and decision-making. The micro studies have the advantage of isolating the impacts of particular kinds of financial intermediation (rather than focusing on financial development broadly measured in an economy). The application of general equilibrium models calibrated to specific economies also holds promise as a way to integrate micro and macro analyses.

In recent years, much hope has been placed on the transformative power of financial access. It is, in many ways, the boldest claim so far, and the most unlikely. The best known advocate has been Muhammad Yunus, the co-winner of the 2006 Nobel Peace Prize alongside Grameen Bank, the bank Yunus founded to serve the poor of Bangladesh. Yunus speaks eloquently and forcefully about the power of access to small loansð dubbed microcreditð to transform the businesses of poor households. With those loans, Yunus argues, incomes will grow and, with rising incomes, children will be given long denied opportunities[8].

Moreover, many of the unbanked want to make transactions at too small a scale to attract much interest from profit-seeking institutions (Rioja, Felix, and Neven Valev, 2004). The ñmicrofinance

[7] Rioja and Neven. 2004 At this date, the penetration of microfinance is too low in most countries to draw reasonable inferences about broad economic impacts. P 256

[8] As Beck (2006) described by quoting Yunus: ñwe are creating a completely new generation that will be well equipped to take their children out of the reach of poverty.ò

revolutionò has thus had to contend with incentive problems alongside more prosaic challenges imposed by transactions costs. More fundamentally, the list of other factors correlated with poverty is long (including low education levels, poor health, discrimination, and weak labor markets), and these challenges risk undermining the effectiveness of financial access in raising incomes. Yet, as a practical matter, commercial banks have had difficulty providing such access profitably. The unbanked (and under-banked) tend to be poor and often lack titled assets to offer as security for loans. The evidence to date shows that access to capital may be powerful for some, but it does not yield high returns for all.

From a macro perspective, following the logic of Sethi T. 2005; expanding financial access holds the promise of increasing economic growth by spurring investment in under-funded enterprise. On the savings side, expanding access to reliable, low-cost deposit accounts promises to increase the capital stock. Given that the expansion of access favors lower-income populations, these steps also promise to reduce poverty and inequality. All of this is true in principle, but there is little evidence so far that expanding financial access through microfinance has had notable macro impacts anywhere. Only in a few countriesð Bangladesh and perhaps Indonesia and Boliviað is the scale of microfinance large enough to even imagine the possibility (Rioja and Neven. 2004). We do know from cross-country evidence that financial deepening correlates with inequality reduction, but the lack of scale means we have no firm results with regard to microfinance specifically, and endogeneity and sample size issues hamper causal inference in cross-country regressions.

A well-developed ýnancial market comprise spectrum of well-functioning banks, and non-bank ýnancial institutions. Banks provide deposit and payments services, allocate resources, and monitor operations of ýrms. Equity markets provide ýnancial leverage and ensure efýcient allocation of resources. Well-developed capital markets force banks to pay more attention to smaller ýrms and households. Active domestic bond markets provide ýrms with long-term domestic currency ýnance and ease credit crunch during periods of bank stress. Housing ýnance is important for households and provides an important asset for entrepreneurs. Successful leasing, factoring, and venture-capital markets provide ýnancing and enhance an economyôs productivity.

Where macroeconomic environment is sound, the efýcient and prudent allocations of resources by the ýnancial system makes it crucial for increasing productivity, boosting economic development, enhancing equality of opportunity, and reducing poverty. Getting the ýnancial systems of developing countries to function more effectively in providing the full range of ýnancial services is a task that will be well rewarded with economic growth. Empirical evidence has shown that the ýnancial systems in advanced economies have contributed in an important way to the prosperity of those economies.

Putting in place well-functioning infrastructure in the banking sector and capital markets is crucial for catalyzing domestic and foreign resources for growth and investment. One of the most pressing issues for Africa is to channel existing resources into productive investment so that they can stimulate productivity, create employment, provide individuals and enterprises with basic utilities, and contribute to efficient natural resource management. Financial markets can play a critical role in this respect.

In the World Bankôs report published in 2008 it is indicated that improving access and building inclusive financial system is goal that is relevant to economies, at all level of development. The challenge of better access means making financial service available to all, there by spreading equality of opportunities and tapping the full potential in an economy. But as per the researcherôs perception the challenge is greater than ensuring that as many businesses or firm or individual as possible access to basic financial service. The challenge of access to finance in developing countries includes where, who, when and under what condition that business are accessing credit.

This means on the other hand low of the land, the policies and procedures of the institution providing credit service matter. Here, even though, it is very challenging if not impossible to apply the credit facilities developed countries are using the modern technology oriented instrument; we can make use of the traditional finance oriented instruments by blending them with the modern engineered financial facilities. This article of World Bank indicate, what the researcher strongly support that the challenges are as much about enhancing the quality and reach of credit, savings payments, insurance, and other risk management products (World Bank, 2008).

2.6. MEASUREMENT INDICATORS OF ACCESS AND USE TO FINANCE

In addition to broad economic policies ensuring ýnancial stability, fostering competition, and promoting economic growth, governments have tried speciýc policies to improve access to deposit services. Financial inclusionð providing access to ýnancial services for allð has gained prominence in the past few years as a policy objective for national policymakers, multilateral institutions, and others in the development ýeld (Chamberlain, Doubell, and Richard Walker. 2005). Financial inclusion is a goal declared in many countries around the world, rich and poor.

Access is the availability of ýnancial services at a ñreasonable costò (where ñreasonableò is deýned according to an objective standard and ñcostò reþects all ýnancial and non-ýnancial costs), and refers only to the presence of ýnancial services (CGAP and World Bank (2009). Usage is the actual consumption of ýnancial services. In a standard demand-supply framework, access refers to the presence of supply (at a ñreasonable costò) and usage is the actual intersection of supply and demand. Firms and households may not be receiving ýnancial services either due to their own constraintsð a usage-related issueð or because the formal ýnancial system fails to adequately meet their needsð an access-related issue.

The availability of ýnancial services at a ñreasonable costò to a wide group of ýrms and households depends on a number of factors and constraints. For ýnancial-service providersð whether banks, non-banks or microýnance institutionsð the ýxed costs in ýnancial intermediation can constrain service to small clients in small markets. Moreover, the high transactions cost for providing small-volume ýnancial services to newly established ýrms with no credit history, or to those with limited experience in business, often make it unproýtable to cater to small ýrms and poor households. Acquiring information on small ýrms to expand ýnancial services proýtably requires big investments. Reaching the poor-through increasing the number of branches and extending the network to rural areas-also entails a high cost. Consequently, small and medium enterprises (SMEs) and poorer households are often excluded from ýnancial services.

A basic challenge in measuring ýnancial access is differentiating between the access to and use of ýnancial services. Individuals may choose not to open a bank account or to borrow even if these services are available, reducing use relative to access. Such voluntary exclusion is difficult to measure, however, because it is not directly observable. So, researchers rely on indicators of use as an approximation for access. This the researcher uses access and use interchangeably.

The best indicators of ýnancial access in a perfect world would be the numbers of people, households, and ýrms saving, receiving credit, making payments, and using other ýnancial products from various sources, both formal and informal (Cull, Robert, and Xavier Giné. 2004). These indicators would allow a breakdown by income, ýrm size, and location. And if they were collected regularly using a consistent methodology, they could be compared across countries and time. But such global indicators do not exist today.

For several countries some access indicators are available from country -level household and enterprise surveys. One basic method that Chamberlain, Doubell, and Richard Walker. 2005 have used to measure access to finance is target group surveys. The aforementioned authors in their research conducted in India, Colombia and México give insight into the information that can be obtained from such survey instruments beyond simple measures of use of financial service. These surveys provide a wealth of information on household and ýrm behavior and are indispensable for setting and evaluating policies for improving access to ýnance at a national or subnational level. Indeed, a growing number of countries implement national household surveys that now include questions about ýnancial access. But it is difficult or impossible to compare survey results across countries because of differences in questions and methods.

2.7. CONCLUSIONS

First it is very important to categorize PE so as to study their unique realities. Thus, there are different worldwide definitions used to categorize private Enterprise although they tend to use the same metrics of employment, turnover and asset base. For Ethiopian context the researcher uses the definition In terms of labor to categorize the private business.

Secondly the overall constraints to the development of the private sector are review so as to see the magnitude of the finance constrain which is the subset. Thus constraints, can generally be categorized into internal and external factors. The problems that generally receive the most attention as the most significant constraints to expansion are the absence and inadequacy of credit for working capital; and the lack of credit for the purchase of capital equipment.

Thirdly, the review in relation to the source of finance reviled- Only one definition captures the real essence of capital: ñIt takes money to make money.ò While finance can come from internal and external sources, and also in countless forms, types, and structures. Two main basic types of financial resources are available to most businesses, i.e., formal and informal source of finance. In Ethiopia, Formal ýnancing, whether from banks or non-bank ýnancial institutions, plays a limited role in ýnancing enterprises, especially SMEs.

Fourthly, relation between access to finance and economic development reviewed shows- Having an efýcient ýnancial system that can deliver essential services can make a huge contribution to a countryôs economic development. i.e., greater ýnancial development increases growth, reduces economic volatility, creates job opportunities and improves income distribution.

Finally, the measurement indicators of access and use to finance have been reviewed to build the guidance for the analysis of the main part of the study. That is, access is the availability of ýnancial services at a ñreasonable costò. Usage is the actual consumption of ýnancial services. The best indicators of ýnancial access have been also identified and defined.

CHAPTER THREE

3. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with the presentation, analysis and interpretations of the data in order to answer the main research questions of the study. The data are gathered through questionnaires and document reviews. All data are systematically analyzed presented and discussed under each topic of the main research questions.

The questionnaires provide indicators of how firms finance their operations and of the characteristics of their financial transactions. For example, questionnaires provide indicators that compare the relative use of various sources to finance investment. Excessive reliance on internal funds is a sign of potentially inefficient financial intermediation. Another set of indicators measures the use of financial markets by individual firms. It presents the percentage of working capital that is financed by external sources to the firm, and a measure of the burden imposed by loan requirements measured by collateral levels relative to the value of the loans. Additional indicators focus on the use of financial services by private firms both on the credit side, by measuring the percentage of firms with bank loans or lines or credit, and on the deposit mobilization side, by measuring the percentage of firms with checking or savings accounts.

This study will analyzed in detail;

- Overview of the current status of private sector
- The relative use of various sources to finance investment
- The use of financial markets and financial services by individual firms
- Overall main problems in accessing to finance

3.1. PRIVATE SECTOR CURRENT STATUS REVIEW

Ethiopiaôs private sector is dominated by small and medium enterprises (SMEs) and informal sector operators or micro enterprises. Relative to large-scale enterprises, SMEs and micro enterprises employ a larger segment of the population and account for a great portion of domestic output. They are geographically widespread, cover the entire spectrum of economic activities, and supply a large variety of goods and services both for consumption and productive purposes. Generally speaking, SMEs and micro enterprises are an incubator for entrepreneurial development, and a springboard for larger and more efficient enterprises.

Table: 2. Numbers, Amount of Credit and Jobs Created through MSEs

(Credit in Millions of Birr)

Particulars	2011/12	2012/13	Percentage Change
	A	B	B/A
No. of MSE's	70,455	77,415	**9.9**
Amount of credit	1,088.1	2,725.1	**150.8**
No of Total employment	806,322	1,223,679	**51.8**

Source: FeMSEDA

According to the Federal Micro and Small Scale Enterprises Development Agency (FeMESDA), a total of 77,415 new MSEs which employed 1,223,679 peoples were established in 2012/13. The number of establishments has grown by 10 percent and total employment grew by 51.8 percent, compared to a year ago.

Table 3. : Number and Investment Capital of Approved Projects by Ownership since 1992/93

(Investment Capital in millions of birr)

Fiscal Year	Domestic projects		Foreign Projects		Public Projects		Total Projects	
	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital	No. of Projects	Investment Capital
1992/93	542	3,750.0	3	233	0	0.00	**545**	**3,983.0**
1993/94	521	2,926.0	4	438	1	57.00	**526**	**3,421.0**
1994/95	684	4,794.0	7	505	2	39.00	**693**	**5,338.0**
1995/96	897	6,050.0	10	434	1	6.00	**908**	**6,490.0**
1996/97	752	4,447.0	42	2,268	1	7.00	**795**	**6,722.0**
1997/98	816	5,819.0	81	4,106	1	14.00	**898**	**9,939.0**
1998/99	674	3,765.0	30	1,380	9	4,915.00	**713**	**10,060.0**
1999/00	561	6,740.0	54	1,627	9	5,760.00	**624**	**14,127.0**
2000/01	635	5,675.7	45	2,923	7	257.00	**687**	**8,856.0**
2001/02	756	6,117.3	35	1,474	10	1,598.80	**801**	**9,190.2**
2002/03	1,127	9,362.9	84	3,369	6	706.11	**1,217**	**13,437.9**
2003/04	1,862	12,177.7	347	7,205	16	1,837.04	**2,225**	**21,220.0**
2004/05	2,240	19,571.7	622	15,405	10	1,486.48	**2,872**	**36,463.3**
2005/06	5,100	41,841.1	753	19,980	6	18,215.08	**5,859**	**80,036.3**
2006/07	5,322	46,630.1	1,150	46,949	0	0.00	**6,472**	**93,579.0**
2007/08	7,307	77,868.2	1,651	92,249	3	261.56	**8,961**	**170,378.5**
2008/09	7,184	83,630.2	1,613	73,111	10	82,783.52	**8,807**	**239,524.8**
2009/10	5,080	40,852.2	1,413	55,169	3	393.89	**6,496**	**96,415.4**
2010/11	5,360	42,093	952	53,355	10	154,019	**6,322**	**249,469**
2011/12	5,042	59,316	604	83,975	3	2,877	**5,649**	**146,168**
2012/13	6,273	34,823	722	49,485	16	27,763	**7,011**	**112,072**
Cumulative	**58,735**	**518,250**	**10,220**	**515,641**	**124**	**302,997**	**69,079**	**1,336,890**
Average Annual	**2,797**	**24,679**	**487**	**24,554**	**6**	**14,428**	**3,289**	**63,661**

Source: Ethiopian Investment Agency

The Ethiopian Investment Agency and Regional Investment Offices licensed 69,079 investment projects with an aggregate capital of Birr 1.3 trillion in the period between 1992/93 ï 2012/13. Upon commencement of operation, the approved investment projects are expected to create job opportunities for 125,658 permanent and 255,931 casual workers (Table 3).

Table 3. Numbers, Capital and Expected Job Opportunities (Investment Capital in millions of birr)

Types of Projects		2010/11 A	2011/12 B	2012/13 C	Percentage change C/A	C/B
1. Total Investment	Number	6,322	5,649	7,011	10.9	24.1
	Capital	249,469	146,168	112,072	-55.1	-23.3
	Permanent Workers	227,715	147,400	125,658	-44.8	-14.8
	Temporary Workers	586,380	375,657	255,931	-56.4	-31.9
2. Total Private	Number	6,312	5,646	6,995	10.8	23.9
	Capital	95,450	143,291	84,309	-11.7	-41.2
	Permanent Workers	212,470	147,286	125,488	-40.9	-14.8
	Temporary Workers	412,117	375,504	255,401	-38.0	-32.0
2.1. Domestic	Number	5,360	5,042	6,273	17.0	24.4
	Capital	42,093	59,316	34,823	-17.3	-41.3
	Permanent Workers	146,378	104,582	59,352	-59.5	-43.2
	Temporary Workers	283,277	254,733	125,424	-55.7	-50.8
2.2. Foreign	Number	952	604	722	-24.2	19.5
	Capital	53,357	83,975	49,485	-7.3	-41.1
	Permanent Workers	66,092	42,704	66,136	0.1	54.9
	Temporary Workers	128,840	120,771	129,977	0.9	7.6
3. Public	Number	10	3	16	60.0	433.3
	Capital	154,019	2,877	27,763	-82.0	865.0
	Permanent Workers	15,245	114	170	-98.9	49.1
	Temporary Workers	174,263	153	530	-99.7	246.4

Source: Ethiopian Investment Agency
Note: Total investment (1) = Total private investment (2) + Public investment (3).

Despite the important role they play and the positive contribution they make to the overall economy, SMEs are disadvantaged, and they are fondly referred to as the missing middle. Lack of access to financing on reasonable terms and conditions is probably the most serious constraint facing SMEs. SMEs in general cannot offer collateral required by banks and are, therefore, denied access to loans and credits. Lack of suitable financing has been a major hindrance to the fast growth of business start-ups and to exploiting the full potential of existing SMEs.

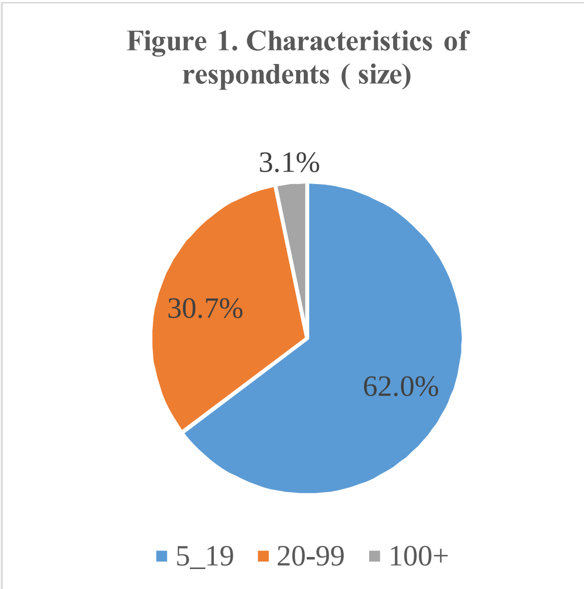
Even though there are some encouraging achievements regarding private enterprises development, the high level of poverty and unemployment in urban areas, the low level of productivity and competiveness of the enterprises still remain to be huge challenges. Still the private is facing many challenges; the most constraint of private sector in Ethiopia according to World Bank ôEase of Doing Businessö are access to finance, starting a business and protecting investors in 2014.

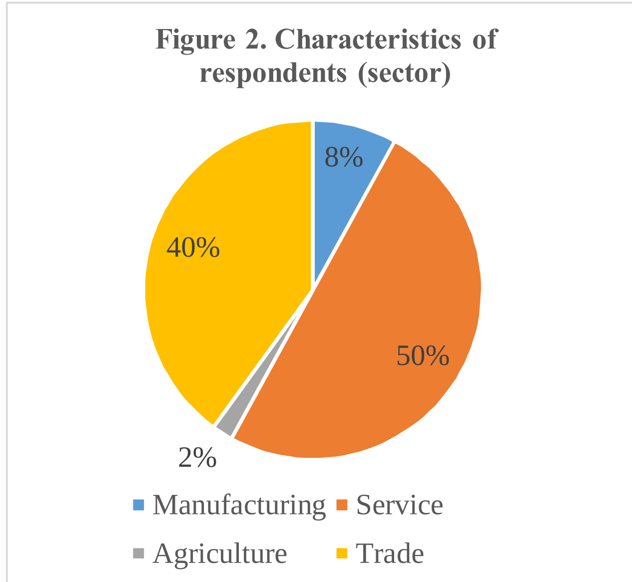
3.2. ANALYSIS OF RESULTS FROM QUESTIONNAIRES SURVEY

3.2.1. Structure of the survey sample and characteristics of the respondents

The purpose of the survey was to collect qualitative elements to complement the data, mainly representing demand-side actors. Information on the experience of businesses with access to finance was collected using a questionnaire mainly with closed questions. Questionnaires were completed in assisted interviews undertaken by the researcher interviewers. The business survey was implemented in September 2015 where most of the business communities finished closing their last year activities and planning for the coming year so as to overburden businesses. As resource constraints prevented a full coverage of all private sector actors in the different areas of business, the researcher employed a stratified random sampling method to obtain a representative sample. In particular, the researcher has been rendered inclusive by encompassing businesses of different size and economic sector of activity, as illustrated in exhibit 1.1. Manufacturing, agriculture, service and trade and large, medium and small- scale businesses- classified based up on their employment level have been included in the sample. All in all, the survey covered 150 businesses in the capital city of the country, i.e. Addis Ababa.

Exhibit 1.1 Characteristics of the respondents





Source: field survey, 2015

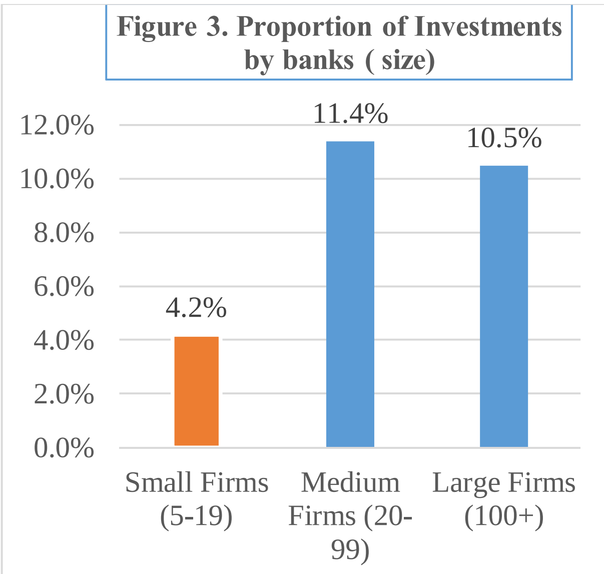
The above Pie Chart (a) in exhibit 1.1 shows that the majority of the respondents are small-scale firms, having 5-19 employees which constitute more than 71% followed by medium-scale enterprises, which have an employeeŝ 20-99 and large-scale companies employing +100 employees by 25.5% and 3.1%, respectively. This implies majority of the business enterprises in the country, particularly in Addis Ababa are fragmented small-scale firms.

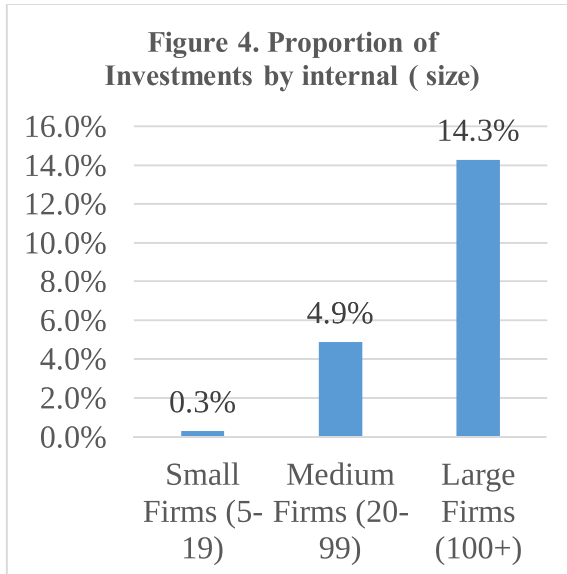
Similarly, the majority of the respondents are involved in the service sector. 50% of the respondent are engaged in service sector and 40%, 8% and 2% of the respondents economic activities are trade, manufacturing and agricultural sector, respectively.

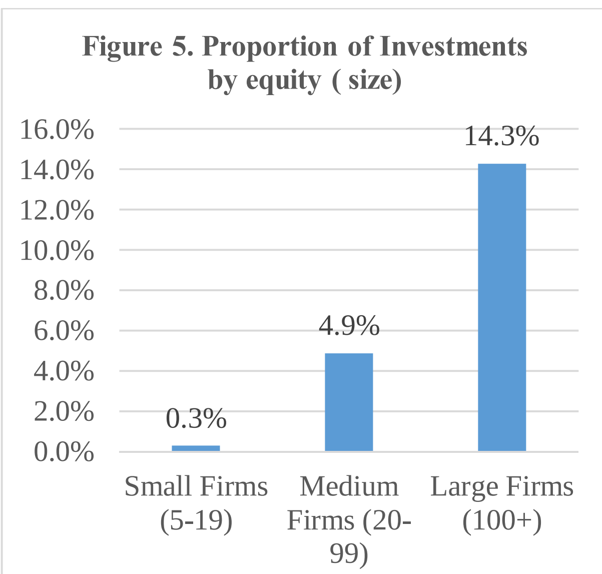
3.2.2. The relative use of various sources to finance investment

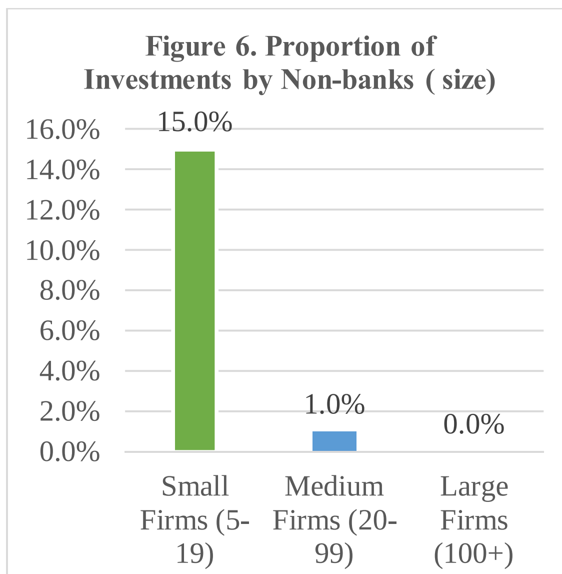
The sources of finances for investment purpose are an indicators used to measure the accessibility of and efficiency of the financial intermediaries.

Exhibit 1.2. Source of finance for investment purpose by firm size









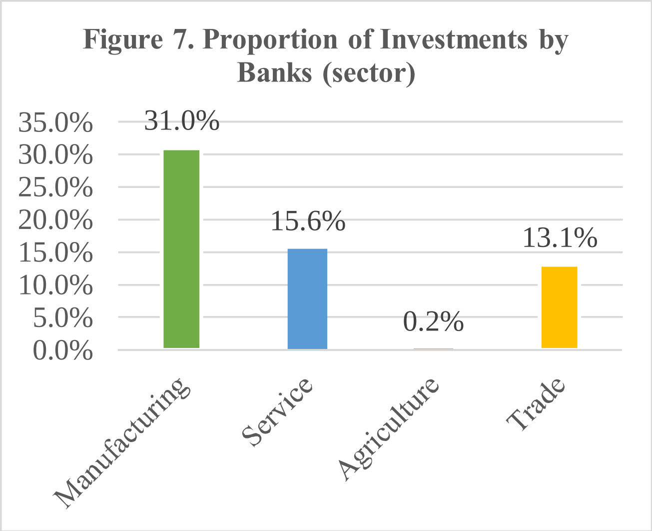
Source: field survey, 2015

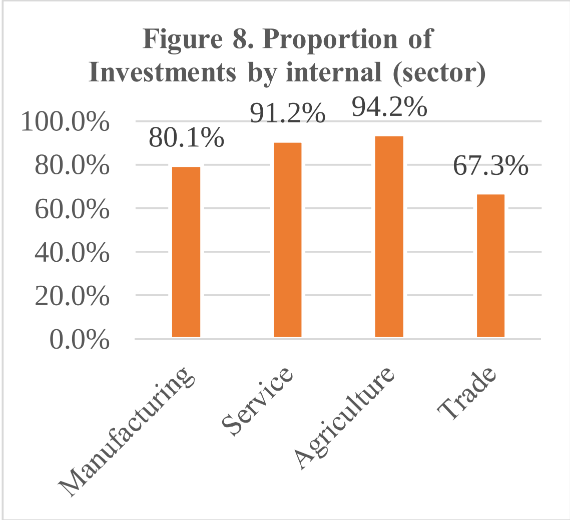
According to exhibit 1.2 firm size determines in accessing finance for investment purpose. As figure 4, medium size firms used banks as their source of finance than large and small firms. 11.4% and 10.4% of the investment of medium and large firm, respectively was financed by banks, whereas, only 4.2% of the investment of small firms get their finance from bank. This implies that though the proportion of investment finance by bank for medium and large firms is also very low, small firms have very limited access to banks in using as a source for financing their investment. On the other hand small firms financed 15% of their investment by non-bank financial institutions but, only 1% of the investment of the medium firms used non-bank.

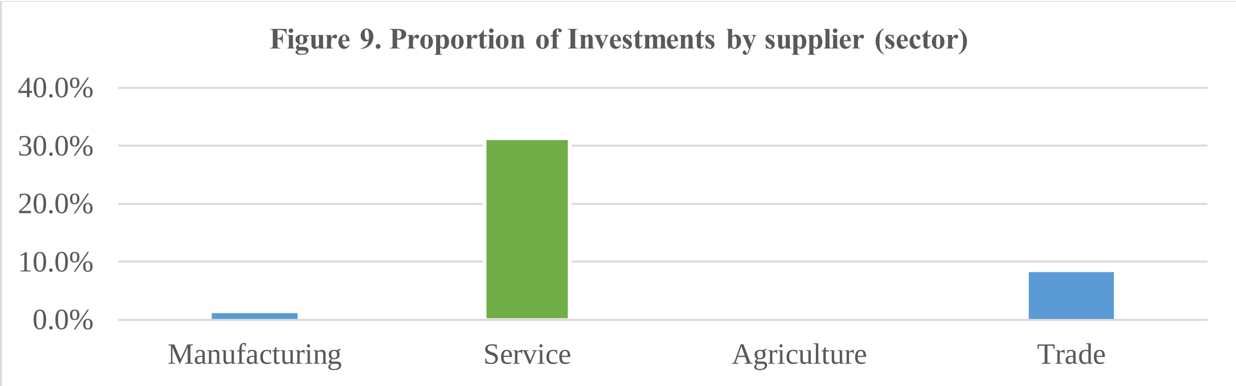
On the contrary, large firms highly used internal and equity sources for their investment purpose than small and medium firms. Figure 5, shows 14.3% of investment of large firms covered from internal sources whereas only 4.3% of medium firms and 0.3% of small firmsôinvestment financed through internal source. The heavy decency on the internal sources of large firms implies the limited and inefficiency of financial intermediation. Similarly 14.3% of investment of large firmed covered by selling equity but, the proportion of investment of medium and small firms used equity as their source of finance stands at 4.9% and 0.3%, respectively.

From the above exhibit 1.2 it easily understood that small firms are much less dependent upon banks for the financing their investment than medium and large firms and they use non-bank institutions. Large firms heavily dependent on their internal and equity sell in financing their investments.

Exhibit 1.3. Source of finance for investment purpose by economic sector activity







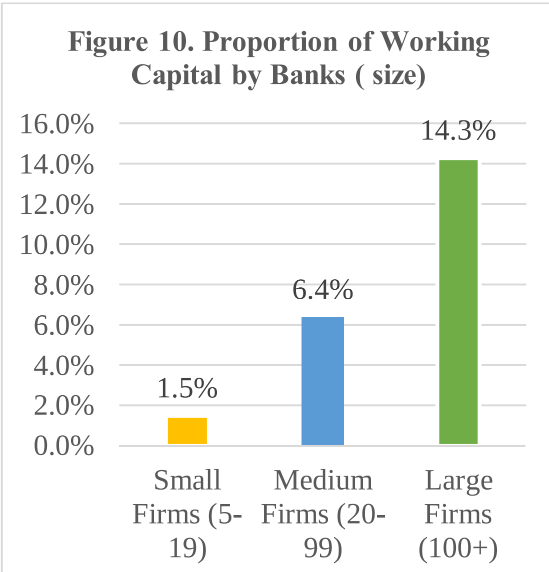
Source: field survey, 2015

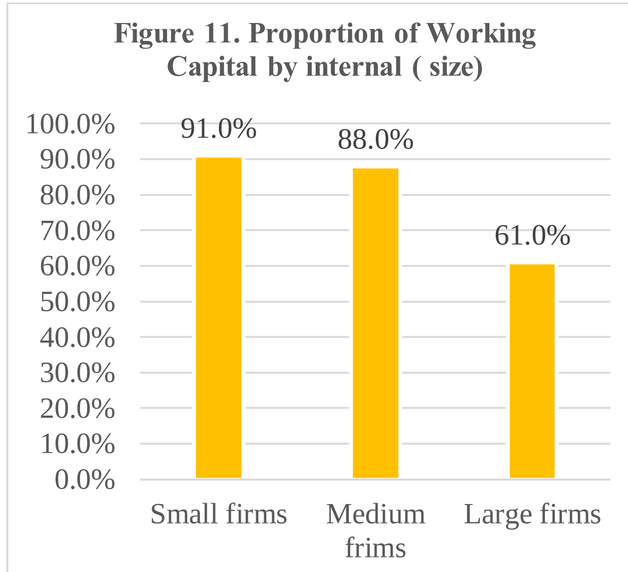
As per figure 7, most of firms engaged in the manufacturing sector used bank to finance their investment than those involved in the other sector of the economy. Manufacturing and service sector finance around 30% and 16% of their investment by banks. But, the agricultural sector almost have not used banks in financing their investment.

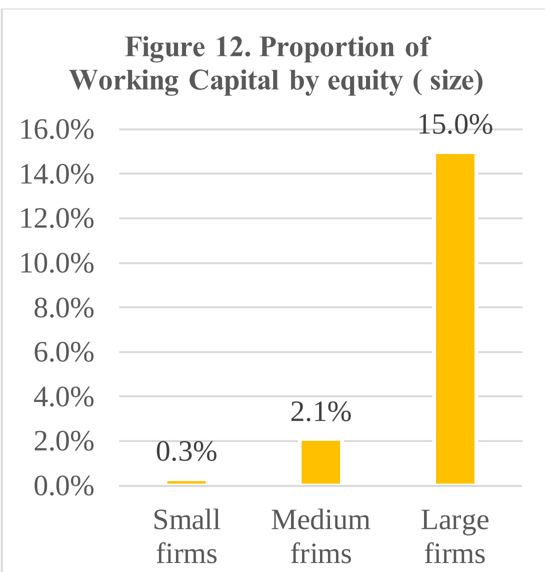
All sector of the economy are heavily dependent on their internal source for financing their investment purpose. Only 15% of the investment of the service sector used the supplier credit for financing their investment needs.

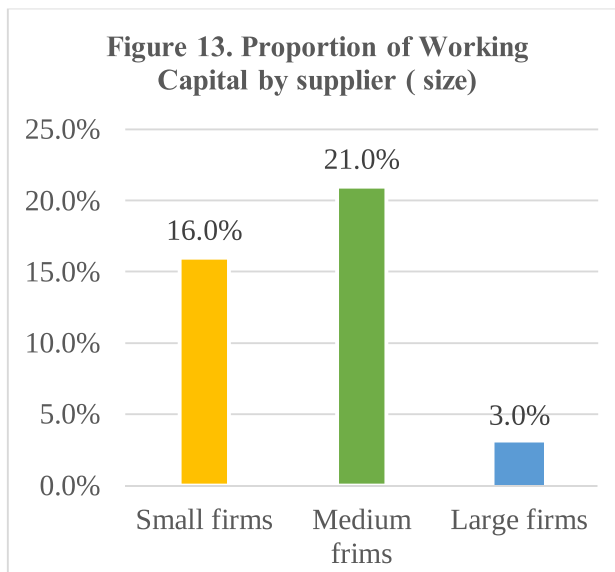
3.2.3. The use of financial markets by individual firms

Exhibit 1.4. Source of finance for working capital by firm size









Source: field survey, 2015

From figure 10, the firm size significantly affects business capacity to access bank lending for working capital, which is comparatively more problematic for smaller firms. Respondents from large firms responded that 14% of their working capital was financed through banks but, only 4.3%

and 1.5% for medium and small firms. Similarly large firms finance their working capital by selling their equity than medium and small firmsôi.e. 15%, 2.1% and 0.3% of their working capital of large, medium and small firms, respectively financed by their equity (figure 11). As a result almost all firms financed the majority of their working capital by internal sources. From figure 12, 91% and 88% working capital of small and medium firms, respectively financed through their internal source. This implies the use of financial market by firms of the different size is very low and they are heavy relied on their internal sources.

On the contrary, as figure 13, medium and small firms get 21% and 16%, respectively their working capital financed through suppliers credit which is higher than 3% of large firms.

Exhibit 1.4.1. Source of finance for working capital by economic sector

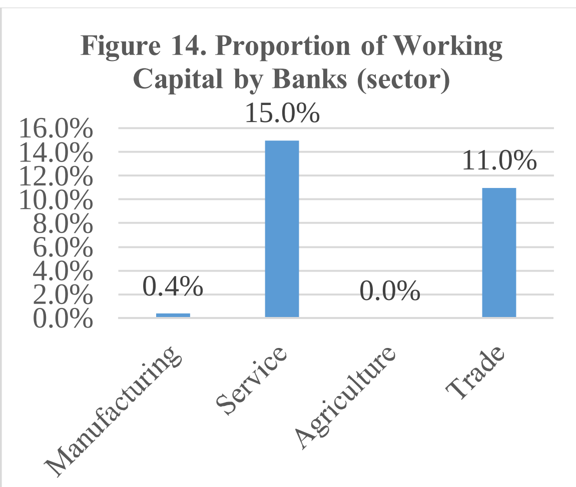


Figure 14. Proportion of Working Capital by Banks (sector)

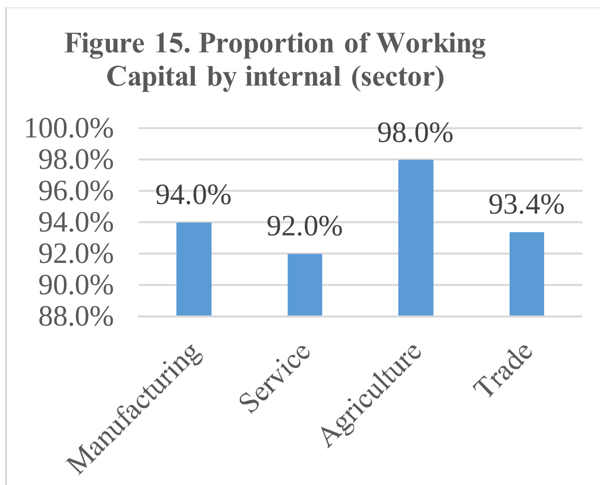


Figure 15. Proportion of Working Capital by internal (sector)

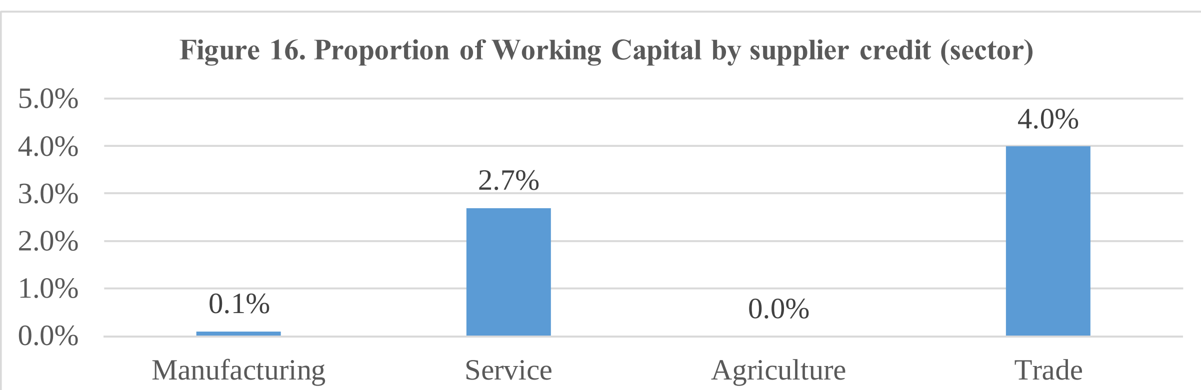


Figure 16. Proportion of Working Capital by supplier credit (sector)

When we look in terms of the economic sector, those in the manufacturing and agriculture sector almost financed their working capital entirely through internal source than those engaged in the service and trade sector. Banks finance 15% and 11% of the working capital need of service and trade sector, respectively. But, almost none for both manufacturing and agricultural sector (figure 14). Similarly, the share supplier credit for financing working capital in service and industry sector is much higher than manufacturing and agricultural sector.

From figure 15, we can observed that there is very low use of financial markets by individual firms as the proportion of their working capital need financed by external source is very limited- an average 94.3% of their working capital in all sectors is financed through their internal source.

3.2.4. Burden imposed by loan requirements

Collateral level and requirement is the best way to measure the burden of financial institutions on the business enterprises in accessing credit and financial instruments/products in general.

Exhibit 1.5. Loans that required collateral by size and sector

Figure 17. Proporation of loan requiring collateral (%) (size)

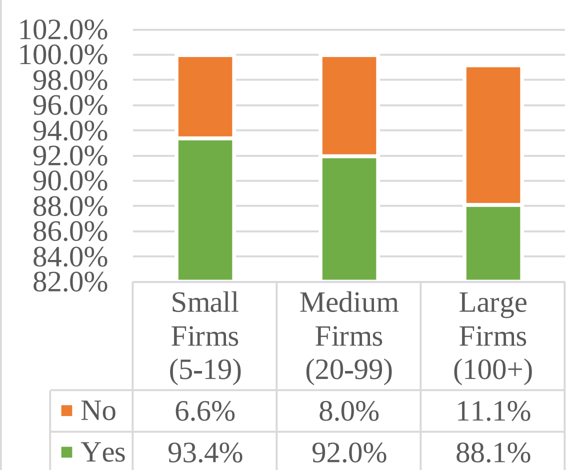
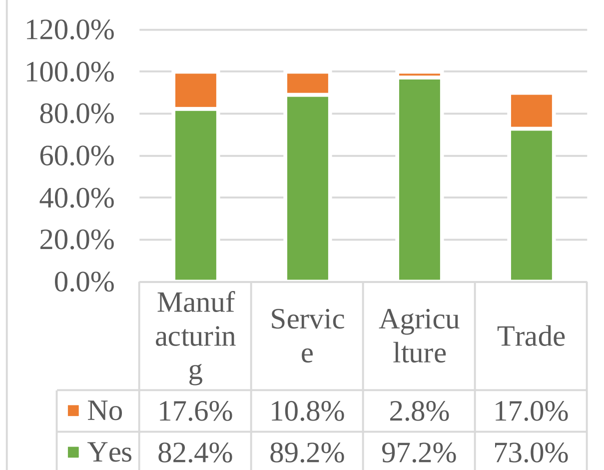


Figure 18. Proporation of loan requiring collateral (%) (sector)



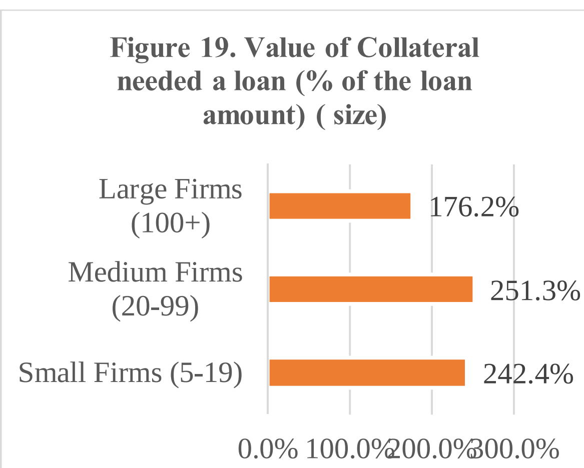
Source: field survey, 2015

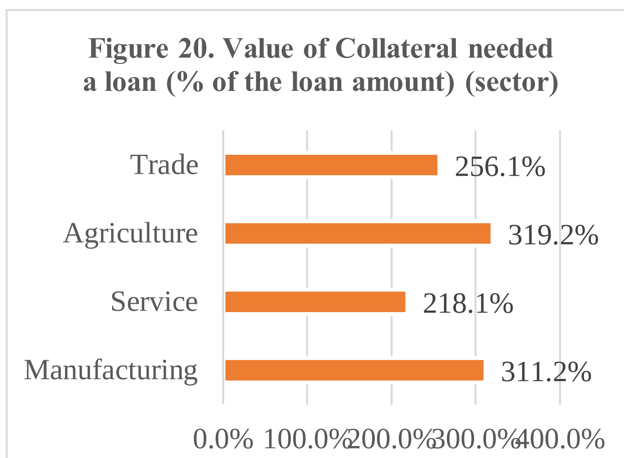
To measure the extent of collateral requirement, I asked the firms on the proportion of their loan that were required collateral so as to find the burdens imposed by banks in providing loans. Accordingly; as per figure 17, above 93% of small and medium firms loan requested required collateral which higher than that of 88% for large firms (though 88% of loans required collateral by itself is high burden). This implied both small and medium firms faced high burden than large firms in terms of the required collateral imposed by banks.

Similarly, the proportion loan that required collateral is not different from the above figure 16 result as we compare across the different sector of the economy. From figure 18, in all the sectors on average 84.4% of their loan required collateral. Though the collateral requirement is very sever in agricultural sector (97.2%) and lower than above average for trade sector (73%).

In addition to collateral requirement, value of collateral requested is also a measurement that indicates the burden imposed on business enterprises in accessing finance needs from financial institutions.

Exhibit 1.5.1. Value of collateral/loan required by banks





Source: field survey, 2015

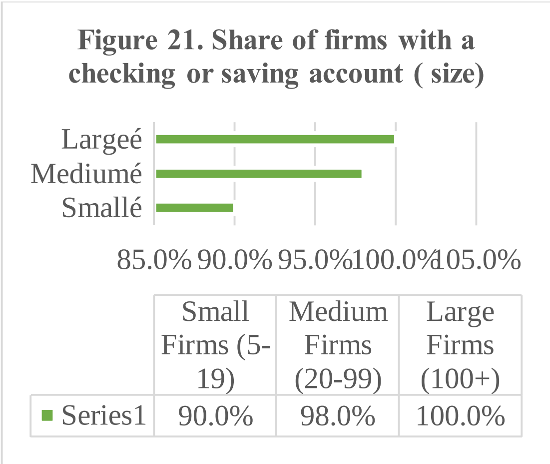
Results from figure 18, the value of collateral needed a loan for medium and small firms are 251% and 242%, respectively which higher than 176% for large firms. This implies that both small and medium firms have to present a collateral to banks valued around 247% of the loan amount they have requested. The results according to economic sector also is not different from the firm size, i.e. the value of collateral as percentage of the loan amount on average stands above 276% (figure 20).

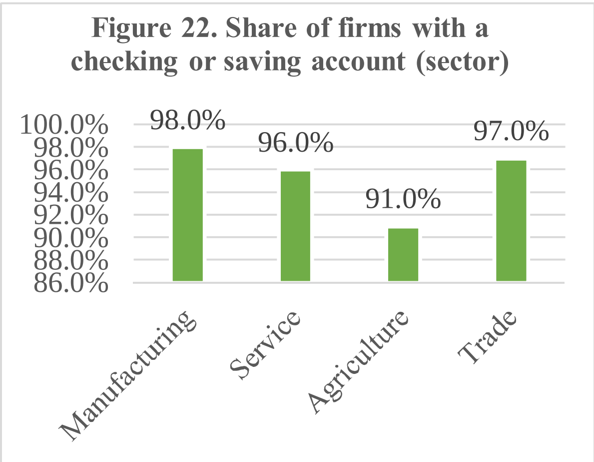
The results from exhibit 1.5 and 1.5.1 shows business enterprises of different size and economic sector faced sever burden in accessing their financing needs from banks as both the requirement and level of collateral is too high to fulfill.

3.2.5. The use of financial services by private firms

This additional indicators focus on the use of financial services by private firms both on the credit side, by measuring the % of firms with bank loans or lines or credit, and on the deposit mobilization side, by measuring the percentage of firms with checking or savings accounts.

Exhibit 1.6. Use of financial services measured from the deposit mobilization side





Source: field survey, 2015

As figure 21, on average 96% of firms have a check and/or saving accounts with in the financial institutions but, about 10% of the respondents of small firms responded that they don't have a check or saving account in the financial institutions. Similarly, on average more 95% firms in terms of the economic sector have check and/or saving account with agricultural sector lacking behind average at 91% (figure 22). Thus, results from figure 21 and 22 shows that there is high usage level of financial service by the business enterprises when measure from the deposit mobilization side.

Exhibit 1.6.1. Use of financial services measured from the credit side

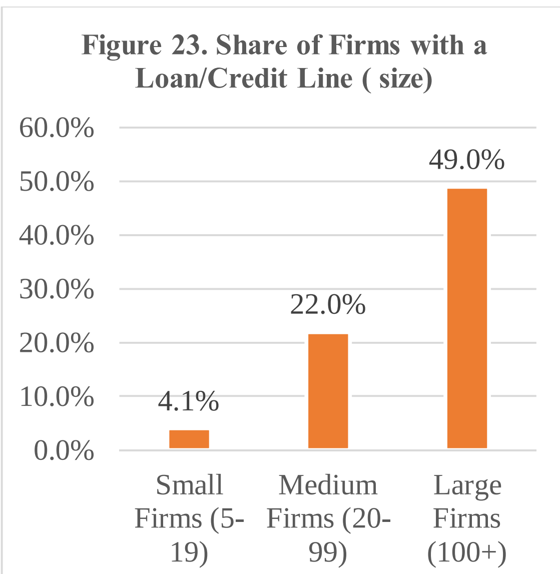


Figure 23. Share of Firms with a Loan/Credit Line (size)

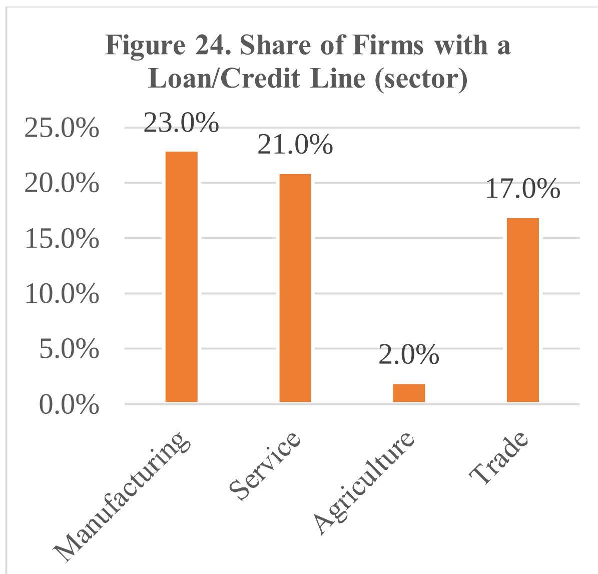


Figure 24. Share of Firms with a Loan/Credit Line (sector)

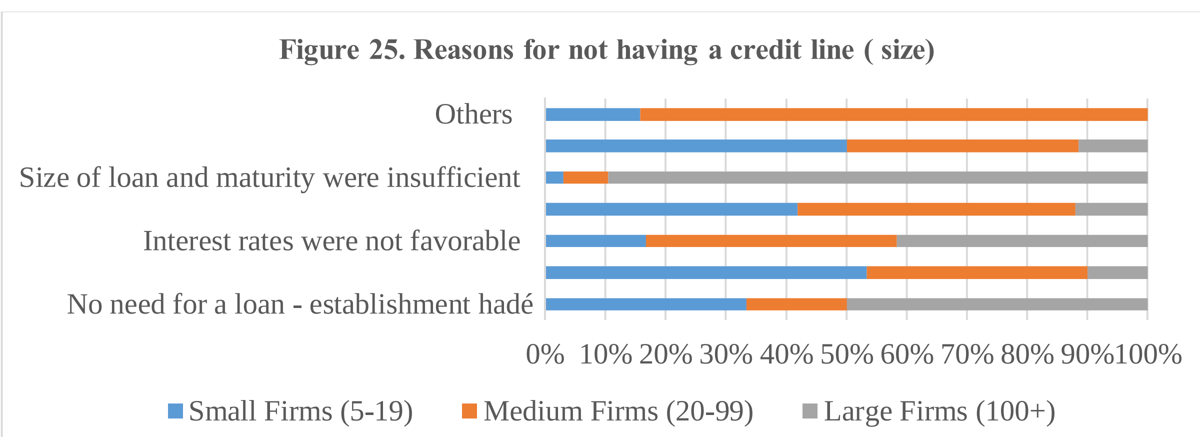


Figure 25. Reasons for not having a credit line (size)

Source: field survey, 2015

On the contrary, results from exhibit 1.6.1 the use of financial service by business enterprises is very low when measures from the credit side. As per figure 23, the share of firms with a loan/credit stands very low at 25%. 49% large firms have a loan/credit line which much higher than both medium (22%) and small firms (4.1%). This from figure 23, the use of financial service by small firms is extremely low followed by medium and large firms, respectively. As such, small firms have very limited access to credit than the others. Similarly, in terms economic activity agriculture sector have the lowest credit line (2%) where manufacturing leads by 23% (figure 24).

Even though, their magnitude level differed among firms high collateral requirement, unfavorable interest rate, complex applications procedures and insufficient loan size are the main reason for the low usage of financial service by business enterprises. According to figure 25, 59% and 65% of small and medium firms, respectively responded that the main obstacle for having a loan/credit is the high collateral requirement and 60% of large firms responded that insufficient loan size and maturity are the main reason behind having low credit line.

Exhibit 1.6.2. Loan rejection rate

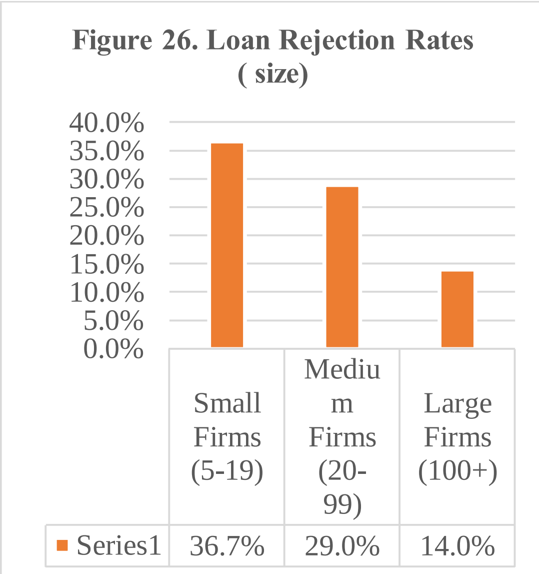


Figure 26. Loan Rejection Rates (size)

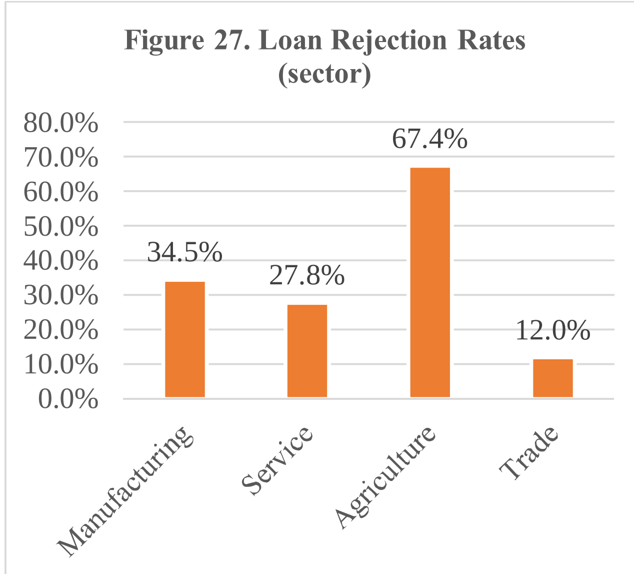


Figure 27. Loan Rejection Rates (sector)

Source: field survey, 2015

In parallel to the above exhibit 1.6.2 result, the rejection rates very high for small firms than medium and large firms. According to figure 26, small firmsô loan rejection rate is above 36% as compared only to 14% for large firms and 29% for medium firms. This results re-affirmed the results that small firms have the lowest usage in financial services when measured from the credit side.

Exhibit 1.6.3. Financing needs

Table 4. Financing needs for the next year

Size of firms	Working capital	Investment capital	Importing machinery
Small Firms (5-19)	26.0%	84.0%	0.0%
Medium Firms (20-99)	11.0%	72.0%	19.0%
Large Firms (100+)	21.0%	63.0%	29.0%

Source: field survey, 2015

This loan rejection rate faced by smaller firms look even more worrisome considering that the vast majority of these firms reported financing needs for the next year, as indicated by the Survey. Among the factors affecting firmsô need for financing, fixed investment played the largest role. For fixed investment, 84%, 72% and 63% of small medium and large firms, respectively currently have or foresee in the near future a financing need. Ongoing/future needs for the purpose of financing inventories and working capital look less frequent, but remains extremely significant in the case of large firms (29%). Vice versa, financing needs for importing equipmentôs and/or production inputs are comparatively more common among more sizable firms.

3.2.6. Severity of problems related to financial services

The Survey also confirms that all firms tend to perceive access to finance constraints as severe obstacle in doing their business. About half of the medium and small firms consider the severity of problems related to access to finance as óvery severeô (figure 28) higher than 39% of large businesses. And 40% of all survey respondents regarded problems concerning access to finance as ómajor obstacleô.

Exhibit 1.7. Severity of problems related to access to finance

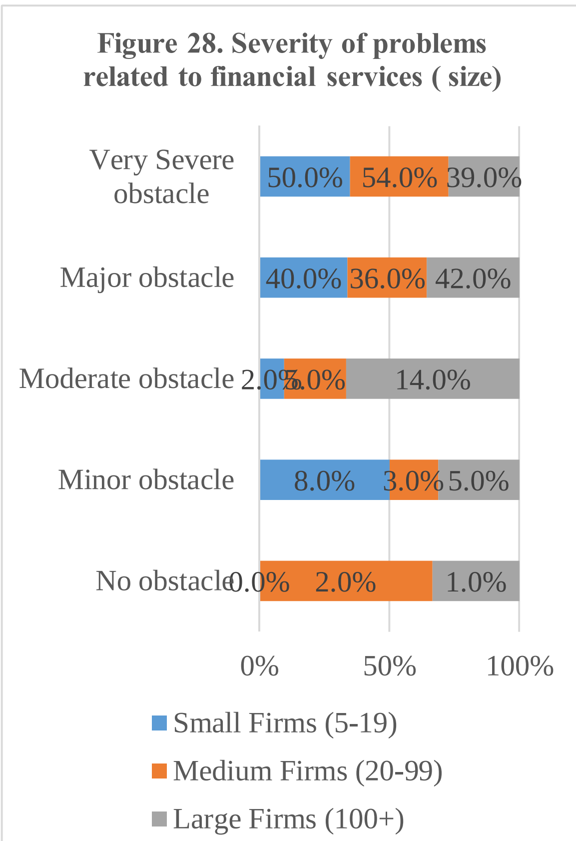


Figure 28. Severity of problems related to financial services (size)

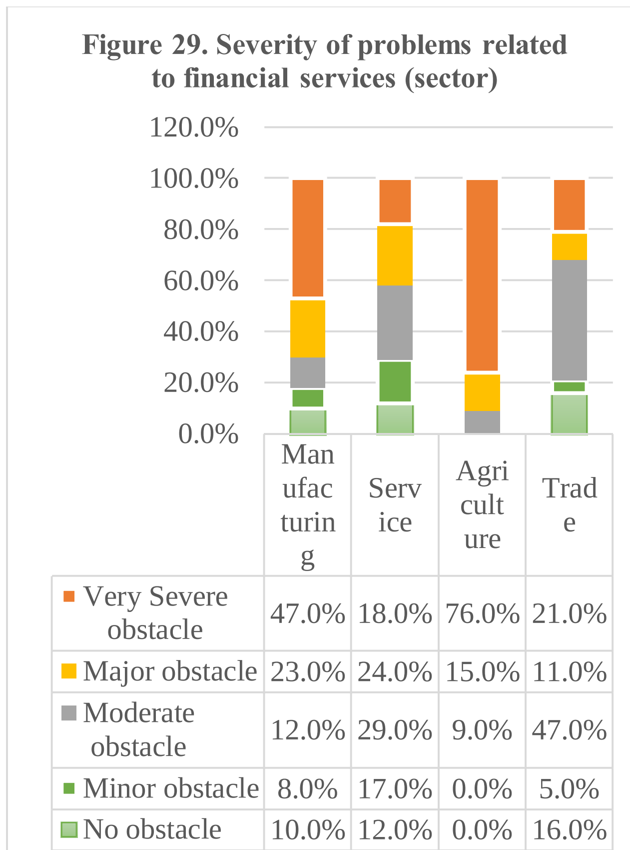


Figure 29. Severity of problems related to financial services (sector)

Source: field survey, 2015

Similarly, the severity of problems related to access to financial services perception is severe when we see across the economic sectors. As per figure 29, 76% of respondents in the agricultural sector described problem related to access to financial service as óvery severeô as opposed to service (18%) and trade (21%) sectors. 47% of respondents from the manufacturing sector regarded problems of access to finance as óvery severeô.

Overall, some 90% of all survey respondents regarded severity of problems related to access to financial services as óvery severe and major obstacleô and only 10% considered them as ómoderate and minor obstacleô (figure 27). Based on the above, it is therefore undisputable that access to finance constitutes a binding constraint for the private sector and the severity of problems related to access to finance regarded here resulted from the above findings shown in exhibits.

3.2.7. Most problematic areas related to access to finance

Exhibit 1.8. Most frequently mentioned high-priority challenges related to access to finance

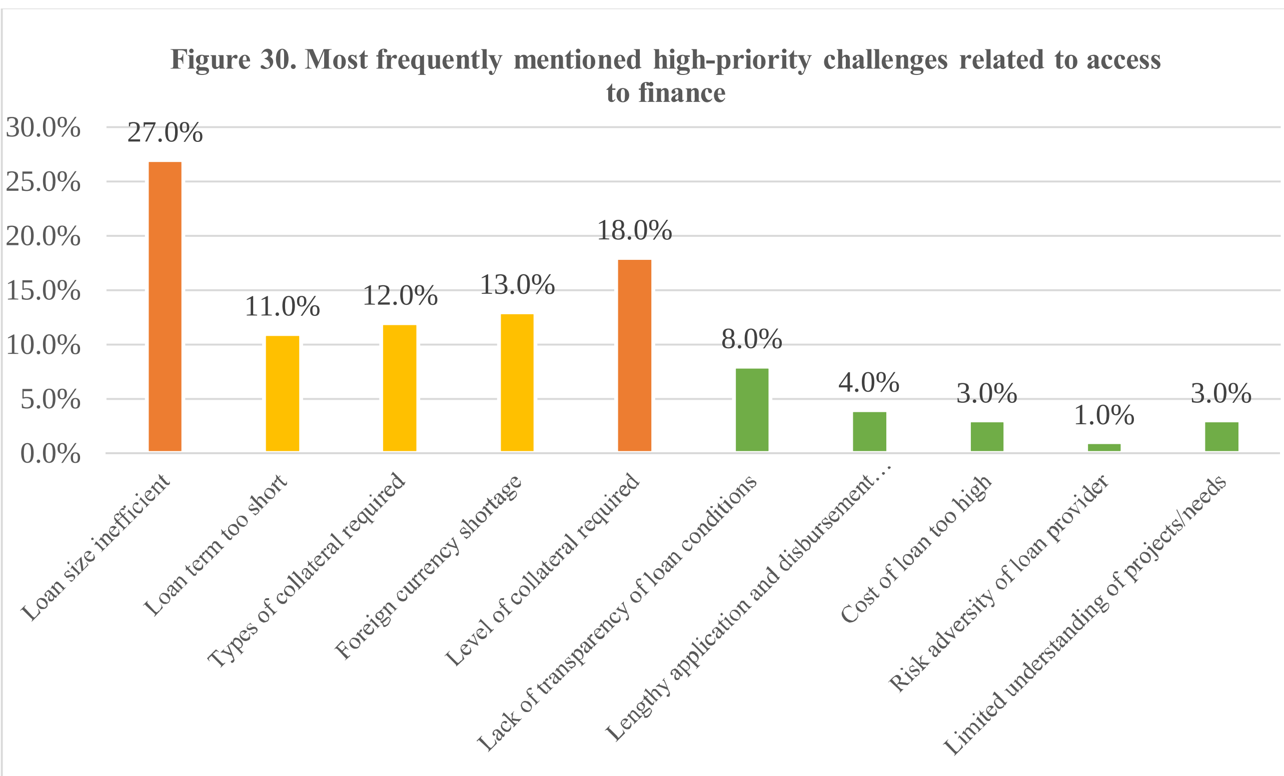


Figure 30. Most frequently mentioned high-priority challenges related to access to finance

Source: field survey, 2015

Besides of studying the severity of problems related to access to finance, it is very important to find out the most problematic areas with in the general hindrances so as to observe the overall pictures in relation to access to finance.

More specifically, when asked about the single most limiting problem in relation to accessing finance (Exhibit 1.8), respondents focused on difficulties faced when accessing bank lending and, more specifically, on insufficient loan size and level of collateral (mentioned by 27% and 18% of respondents). Other three main problems mentioned, (i) foreign currency shortage (ii) types of collateral required and (iii) short loan terms. Minor problems mentioned includes; lack of transparency of loan conditions, lengthy application and disbursement process, cost of loan too high and limited understanding of projects/needs.

CHAPTER FOUR

4. MAIN FINDINGS

Access to finance is one of the most crucial factor for the growth of private businesses. It catalyzed and helps in fostering competition, entrepreneurship and growth of all over the economy. But, very limited and little study have been made on nature and size of business and their status in relative to sufficient access to finance. This research study conducted on 150 business enterprises to assess their conditions in relation to access to finance.

Despite a growing number of Financial Institutions in Ethiopia, credit provision remains well below the countryʹs private enterprise investment needs. To meet the objective for which these private enterprises are established, this challenge mainly should be alleviated.

In detail, the study assessed and examined private business: status trends: how firms finance their operations and of the characteristics of their financial transactions, such as source of finance, uses of financial instruments, experiences of applying for various types of external financing i.e. bank lending, future financing needs and the most problematic areas among the different financial types and services.

The main findings of the research are:

Despite the important role they play and the positive contribution they make to the overall economy, private enterprises, especially SMEs are disadvantaged, and they are fondly referred to as the missing middle. Lack of access to financing on reasonable terms and conditions is probably the most serious constraint facing SMEs. Lack of suitable financing has been a major hindrance to the fast growth of business start-ups and to exploiting the full potential of existing business enterprises particularly SMEs. Thus, with regards to this challenges the main findings are;

First, the accessibility of and efficiency of the financial intermediaries is very limited especially external finance source, and firm size determines in accessing finance for investment purpose. It was found that medium size firms used banks as their source of finance than large and small firms. 11.4% and 10.4% of the investment of medium and large firm, respectively was financed by banks, whereas, only 4.2% of the investment of small firms get their finance from bank. This leads majority of firms highly depended on their internal and equity sources for their investment purpose. The heavy dependency on the internal sources of majority firms implies the financial intermediation is very limited and inefficiency.

Second, the use of financial markets and financial services by individual firms is very low and the firm size significantly affects business capacity to access bank lending for working capital, which is comparatively more problematic for smaller firms. Respondents from large firms responded that 14% of their working capital was financed through banks but, only 4.3% and 1.5% for medium and small firms. Similarly, it was found that 91% and 88% working capital of small and medium firms, respectively financed through their internal source. This implies the use of financial market by firms of the different size is very low and their heavy relied on their internal sources.

Third, the burden of financial institutions on the business enterprises in accessing credit and financial instruments/products in general which is measured by the Collateral level and requirement was found to be very high. It was found that above 93% of small and medium firms loan requested required collateral which higher than that of 88% for large firms (though 88% of loans required collateral by itself is high burden). This implied both small and medium firms faced high burden than large firms in terms of the required collateral imposed by banks. Similarly, I found that the value of collateral needed a loan for medium and small firms are 251% and 242%, respectively which higher than 176% for large firms. This shows business enterprises of different size and economic sector faced sever burden in accessing their financing needs from banks as both the requirement and level of collateral is too high to fulfill.

Fourth, there is high usage level of financial service by the business enterprises when measure from the deposit mobilization side. It was found that, on average 96% of firms have a check and/or saving accounts with in the financial institutions but, about 10% of the respondents of small firms responded that they donꞌt have a check or saving account in the financial institutions. On the contrary the use of financial service by business enterprises is very low when measures from the credit side. That is, the share of firms with a loan/credit stands very low at 25%. 49% large firms have a loan/credit line which much higher than both medium (22%) and small firms (4.1%). As such, small firms have very limited access to credit than the others. Even though, their magnitude level differed among firms high collateral requirement, unfavorable interest rate, complex applications procedures and insufficient loan size are the main reason mentioned for the low usage of financial service by business enterprises.

Fifth, in parallel to the above, the rejection rates were very high for small firms than medium and large firms. It was found that, small firmsꞌ loan rejection rate is above 36% as compared only to 14% for large firms and 29% for medium firms. This results re-affirmed the results that small firms have the lowest usage in financial services when measured from the credit side. This loan rejection rate faced by smaller firms look even more worrisome considering that the vast majority of these firms reported financing needs for the next year, as indicated by the Survey. Among the factors affecting firmsꞌ need for financing, fixed investment played the largest role.

Sixth, the Survey also confirmed that all firms tend to perceive access to finance constraints as severe obstacle in doing their business. It was found that Overall, some 90% of all surveyed respondents regarded severity of problems related to access to financial services as óvery severe and major obstacleô and only 10% considered them as ómoderate and minor obstacleö.

And finally, besides of studying the severity of problems related to access to finance, it is very important to find out the most problematic areas with in the general hindrances so as to observe the overall pictures in relation to access to finance. More specifically, when asked about the single most limiting problem in relation to accessing finance, respondents focused on difficulties faced when accessing bank lending and, more specifically, on insufficient loan size and level of collateral (mentioned by 27% and 18% of respondents, respectively). Other three main problems mentioned, (I) foreign currency shortage (ii) types of collateral required and (iii) short loan terms. Minor problems mentioned includes; lack of transparency of loan conditions, lengthy application and disbursement process, cost of loan too high and limited understanding of projects/needs.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATION

5.1. CONCLUSIONS

The focus of this paper have been assessed and to evaluate access to finance that these private enterprises in Ethiopia are having and the factors that hinder them not to properly raise fund. In detail, the study assessed and examined private business: status trends: how firms finance their operations and of the characteristics of their financial transactions.

A descriptive methods were used to analyze the questionnaires which frequencies and percentiles with the help of tables and figures were used for data presentation and analysis. The data collected through questionnaires were from a sample of 150 private enterprises. The questionnaires provide indicators of how firms finance their operations and of the characteristics of their financial transactions.

By looking deeper into the area of access to ýnance/credit, the main findings of the research were despite the important role they play and the positive contribution they make to the overall economy, private enterprises especially SMEs are disadvantaged- Lack of access to financing on reasonable terms and conditions is probably the most serious constraint facing SMEs.

Based on the above, it is therefore undisputable that access to finance constitutes a binding constraint for the private sector and the severity of problems related to access to finance regarded very high here resulted from the above findings shown in all exhibits.

Finally, in order to effectively address this challenge and avail the financial needs of the private enterprises; in the short run- (i). Promoting policies measures aimed at softening collateral requirements (ii). Innovation in ýnancial products and (iii). The need for the development of new financial markets and instruments in the long run were the possible actions recommended to be taken by the government bodies as well as relevant stakeholders as per this study. The suggestions contained in this research study are all meant to contribute to the creation of a ñPrivate enterprise, particularly, SME ýnance cultureò that would transform into an improved access to ýnance for Private enterprise business and finally to job making and economic progress.

5.2. RECOMMENDATIONS

This last Unit presents some possible solution/ recommendations to address the problems identified in the research. The analysis at this stage deliberately focuses only on the key expected access to finance improvements of the various recommendations.

Finance is the core element of any investment process. The financial sector in Ethiopia has been weak in supporting the private sector. Stringent collateral requirements to get access to credit from banks both for big and small firms are major impediments. In order to effectively address this challenge and avail the financial needs of the private enterprises the following possible actions are recommended to be taken by the government bodies as well as relevant stakeholders;

I. Short term (Some of the immediate tasks to this effect include)

- Endorse policy measures designed at moderating collateral requirements:

Current banking practices on collateral appear to be excessive and could be alleviated by the NBE through the issuance of clarifying directives. Furthermore, measures aimed at;

- Establishing collateral registry of both movable and immovable asset would be important for creating an effective credit market by expanding the scope of secured lending transactions and improving access to ýnancial services will be important given the dominance of collateral lending in Ethiopia,. It registers charges and collaterals created by borrowers to secure credit facilities provided by lenders.

- One of the benefits of establishing collateral registry, among others it encourages lenders to accept a diverse range of movable properties as collaterals. It is also a useful mechanism for enforcing credit agreements as the lender is able to realize the collateral upon the simple delivery of a notice to the borrower.
- The legislation related to the contractual environment would also beneýt from a thorough analysis. Particularly it would be recommended to conduct a diagnostic of the creditor rights and enforcement systems (for secured and unsecured credit); and effectiveness of the relevant institutional and regulatory frameworks in implementing laws in this area. A similar diagnostic would allow identifying bottlenecks, facilitating access to credit for private business and providing a stable backdrop for private transactions.

- Promote innovation in ýnancial products and lending technologies by providing incentives to commercial banks through tailored technical assistance.
  - Designing the right instruments to put in place an innovative product mix and to engage in new lending technologies.
  - Experiences from many countries shows that certain commercial banks have applied lending practices developed in the microýnance sector to overcome the issues of high transaction costs and high-risk proýles of potential borrowers. These best practices can be of use in the Ethiopian context as well.
  - Tailored technical assistance, would help commercial banks to offer a range of products beyond lending, utilize low cost delivery channels, develop and use risk modeling tools

and build adequate hardware and software architecture through stimulating the use of new techniques in line with international best practices.

- Support development of market credit information for private business, particularly SMEs
  - Presently, Ethiopia has a credit information system. However, it is being used simply as a database management system by the National Bank of Ethiopia that collects information on creditworthiness of borrowers from supervised ýnancial institutions and uses it primarily for supervisory purposes.
  - Improving its functions to provide reliable and value added credit information, both positive and negative information (full ýle), is critically important for ýnancial institutions for quality decision.

II. Long term

- Develop new financial markets and instruments
  - Establish new financial markets and instruments such as capital market: This will help in increase in the availability of long-term finance, increase in domestic and óDiasporaô savings and will support in increasing competition in the banking sector. The financial sector in itself is one potential area for private investment. Stock markets are non-existent in Ethiopia.

REFERENCES

ð ð ð . 2005. ñDesigning Innovative Products, Processes, and Channels for the Promotion of Microfinance.ò Conference paper. Nairobi: Micro Save http://www.microsave.org.

ð ð ð . 2006. ñBanking Services for Everyone? Barriers to Bank Access around the World.ò Policy Research Working Paper 4079, World Bank, Washington, DC.

AACCSA (Addis Ababa Chamber of Commerce and Sectoral Associations). (2007). Final Draft: ñHow to Optimize Advantages of Accession to the World Trade Organization and Measures to be taken to Meet Possible Challengesò, Addis Ababa, Ethiopia.

AACCSA (Addis Ababa Chamber of Commerce and Sectoral Associations). (2007). öUrban Land Lease Policy in Addis Ababa: Implementation, Problems, Issues and Alternative Options, Draft Final, Addis Ababa, Ethiopia

Access Capital. (2012). Banking Sector Review

Ackrill, Margaret, and Leslie Hannah. (2001). Barclays: The Business of Banking 1690ï 1996. Cambridge, UK: Cambridge University Press.

Addison, Tony, Alemayehu Geda, Philippe Le Billon, and S. Mansoob Murshed. (2005). ñReconstructing and Reforming the Financial System in Conflict and Post-Conflict Economies.ò Journal of Development Studies 41 (4): 704ï 18.

Alawode, Abayomi, Tadashi Endo, Yongbeom Kim, and Cally Jordan. 2002. ñCapital Market Integration in the East African Community.ò Financial Sector Study, World Bank, Washington, DC.

Alemayehu, Geda. (2008). The Structure and Performance of Ethiopiaốs Financial Sector in Pre and Post Reform Periods, with Special Focus on Banking, in George Mavrotas (ed). Domestic Resource Mobilization and Financial Development, New York: Palgrave-Macmillan

Allen, Franklin, Rajesh Chakrabarti, Sankar De, Jun Qian, and Meijun Qian. (2006). ñFinancing Firms in India.ò Working Paper 06-08, Wharton Business School Financial Institutions Center, University of Pennsylvania, Philadelphia. http://fic.wharton.upenn.edu/fic/papers/06/p0608.htm.

Amha W. (AEMFI), Peck D. (AEMFI), Berhane G. (IFPRI), Aseffa Y. (ILO), and Kidanu B. (FCA) (2013), Ethiopia Strategy Support Program II (ESSP II). Diagnostic Study of Providing Micro-Insurance Services to Low-Income Households in Ethiopia: an Input to a National Micro-Insurance Strategy, ESSP II ï EDRI Report, June 2013

Beck, Thorsten, and Augusto de la Torre. (2006). ñThe Basic Analytics of Access to Financial Services.ò Policy Research Working Paper 4026, World Bank, Washington, DC.

Beck, Thorsten, AslēDemirgüç-Kunt, and María Soledad Martínez Pería. (2005). ñReaching Out: Access to and Use of Banking Services across Countries.ò Policy Research Working Paper 3754, World Bank, Washington, DC, and Journal of Financial Economics forthcoming.

Berhanu Nega and Kibre Moges, (2004.) ñInternational Competitiveness and the Business Climate in Ethiopia: Results from a Survey of Business Leaders, EEA/ EEPRI,

Beyene Fanta A., (2012). ñBanking reform and SME financing in Ethiopia: Evidence from the manufacturing sectorò, African Journal of Business Management.

Brian Snowdon, Howard R. Vane (2005). Modern Macroeconomics, London:

Bruszt, Gabor (2007) óThe Road Map for Corporate Governance in Ethiopiaô (A Study for Addis Ababa Chamber of Commerce and Sectoral Association and Private Sector Development Hub of SIDA)

Chamberlain, Doubell, and Richard Walker. 2005. ñMeasuring Access to Transaction Banking Services in the Southern African Customs Union: An Index Approach.ò Johannesburg: Genesis.

Cull, Robert, and Xavier Giné. (2004). ñLiterature Review on Access to Finance for SME and Low-Income Households.ò World Bank, Washington, DC.

Daumont, Roland, Françoise Le Gall, and François Leroux. (2004). ñBanking in Sub-Saharan Africa: What Went Wrong?ò IMF Working Paper 04/55, International Monetary Fund, Washington, DC..

Detragiache, Enrica, Poonam Gupta, and Thierry Tressel. (2005). ñFinance in Lower Income Countries: An Empirical Exploration.ò IMF Working Paper 05/167,

Dimtsu H. and A. Tesfaye, (2008.) Expanding Outreach through Linkage Banking: The Case of the Commercial Bank of Ethiopia, Addis Ababa

Djankov, Simeon, Caralee McLiesh, and Andrei Shleifer, (2013). Forthcoming. ñPrivate Credit in 129 Countriesô Journal of Financial Economics. World Bank, Washington D.C.

Ejigu L. (2009). ñPerformance Analysis of a Sample Microfinance Institutions of Ethiopiaò, Punjab University

Elton, Edwin, Martin Gruber, Stephen Brown and William Goetzmann, (2003), 6th edition, Modern Portfolio Theory and Investment Analysis; New York: John Wiley and Sons

Endalew Wale, Endrias Geta and Jema Haji, (2013) ñDeterminants of Microfinance Service Utilization: The Case of Dire Dawa, Ethiopiaò, Global Scholars Journal of Economics Vol.1 (1), pp 1-12

Ethiopian Chambers of Commerce (2010). National Business Agenda for Ethiopia, Forthcoming. Addis Ababa

Ethiopian Investment Commission. (2014). ñStatistics on Investment in Ethiopia. Addis Ababa

FDRE, Ministry of Foreign Affairs, (2005) ñPolicy Hand Bookò, Addis Ababa.

GTZ, (2008). Access to finance in Ethiopia - Sector assessment study, Addis Ababa

IFAD, (2011). The Federal Democratic Republic of Ethiopia, Rural Financial Intermediation Programme II (RUFIP II), Draft Programme Design Report, Volume 1 ï Main Report, 24 August 2011

IMF (International Monetary Fund) and World Bank. (2005). Financial Sector Assessment: A Handbook. Washington DC: IMF. http://www.imf.org/external/pubs/ft/ fsa/eng/index.htm.

IMF, (2013). The Federal Democratic Republic of Ethiopia: 2012 Article IV Consultationð Staff Report, October 2013

International Finance Corporation. (2014). Getting Credit indicator. Washington D.C.

Jesmin, Rubayat (2008) óFinancing the Small Scale Industries in Bangladesh: The Much-Talked About, But Less Implemented Issueô University of Dhaka page no 6-8

Kassa, Y., (2010). ñRegulation & Supervision of Microfinance Business in Ethiopia: Achievements, Challenges & Prospectsò, presentation at the International Conference on Microfinance Regulations, March 15-17,

Levine, Ross. (2005). ñFinance and Growth: Theory and Evidence.ò In Handbook of Economic Growth, vol. IA, ed. Philippe Aghion and Steven Durlauf, 865ï 934. Amsterdam: Elsevier.

Maimbo S., (2007). ñMaking Finance Work for Ethiopia, Improving Access to Finance - Opportunities and Challengesò, presentation,

Masson, Paul R., and Catherine Pattillo. (2005). the Monetary Geography of Africa. Washington, DC: Brookings Institution Press.

Meredith and Maxtin (2005). óThe state of Africaô A history of fifty years of independency. Washington, DC: Global Scholars Journal of Economics Vol.13 (3), pp 121-198

Ministry of Trade and Industry (2007). The impact of WTO accession on the financial services sector of Ethiopia, Addis Ababa

Montel, Peter J., (1996). ñFinancial Policies and Economic Growth: Theory, Evidence, and Country-Specific Experience from Sub-Saharan Africa.ò Journal of African Economies 5 (3 Suppl.): 65ï 98.

National Bank of Ethiopia (2013/14). Quarterly Bulletin, First Quarter, Volume 23 Addis Ababa

National Bank of Ethiopia, (2008/09). ñQuarterly Bulletinò, Vol. 21, No. 4,

NBE, Annual Report (http://www.nbe.gov.et/publications/annualreport.html)

NBE, Annual Report (http://www.nbe.gov.et/publications/annualreport.html)

NBE, Quarterly Bulletin (http://www.nbe.gov.et/publications/quarterlybulletin.html

Ogujiuba, K. K. Ohuche, F. K and Adenuga, A. O. (2004). ‗Credit Availability to Small and Medium Scale Enterprises in Nigeria‘: Importance of New Capital Base for Banks – Background and Issues, University Abakaliki, Nigeria

Paul Cook and Frederick Nixson, (2000). "Finance and small and medium-sized enterprise development" finance and development Research programme Working paper series no.14, University of Manchester, Manchester.

Rama Mohana Rao & Tamrat Ludego Fitamo, (2013). ‗Credit Provision and Savings Mobilization of Microfinance Institutions in Ethiopia. A Study of Microfinance Institutions in South Nations, Nationalities, and Peoples Regional State‘, International Journal of Accounting and Financial Management Research, Vol. 3, Issue 1

Rioja, Felix, and Neven Valev, (2004). "Does One Size Fit All? A Reexamination of the Finance and Growth Relationship." Journal of Development Economics. 74 (2): 429–47.

Sacerdoti, Emilio,. (2005). "Access to Bank Credit in Sub-Saharan Africa: Key Issues and Reform Strategies." IMF Working Paper 05/166, International Monetary Fund, Washington, DC.

Sethi, T.T (1981). Monetary Economics. New Delhi: S.Chand and Company Ltd.

Sida, (2004), Ethiopia: Economic Performance and the Role of the Private Sector (Swedish International Development Agency, Stockholm)

Sundararajan, V., Abayomi A. Alawode, Mathew Jones, and Martin Cihak, eds. (2005). Financial Sector Assessment: A Handbook. Washington, DC: World Bank and International Monetary Fund. http://www.imf.org/external/pubs/ft/fsa/eng/index.htm.

Weeks, John, Alemayehu Geda Gebrehiwot Ageba and Jonse Degefa (2004), ôProblem of Financing Development in Ethiopia (Final Report, Government of Ethiopian, Ministry of Finance and Economic Development, Addis Ababa, Ethiopia)

World Bank, (2007). Results of Ethiopia Investment Climate Survey: Policy and Productivity Ethiopia, Investment Climate Team Presentation the World Bank.

World Bank, (2012). Financial Sector Capacity Building Project ï Implementation Completion and Results Report.

World Bank. (2008). ñFinance for allöô, Policies and Pitfalls in Expanding Access,ò Washington D.C.

World Bank. (2013). ñGlobal Financial Developmentöô, Access to finance,ò Washington D.C.

World Bank. (2011). (http://www.enterprisesurveys.org/Data/ExploreEconomies/2011/ethiopia)

World Bank. (2012). (http://www.enterprisesurveys.org/Data/ExploreEconomies/2012/ethiopia)

World Bank. (2014). (http://www.enterprisesurveys.org/Data/ExploreEconomies/2014/ethiopia)

World Economic Forum. (2014). the Global Competitiveness Report. Palgrave Macmillan

ANNEX 1.

Indira Gandhi National Open University (IGNOU- SMU PROGAMMES)

Master of Arts (Economics) Program

Title of the project: <u>Access to Finance and its Challenges for Private sector in Ethiopia</u>

Dear Sir/Madam,

This questionnaire is designed to conduct survey research on challenges that the private business enterprises are facing in accessing finance. As such, the surveys are intended to provide indicators of how firms finance their operations and of the characteristics of their financial transactions. The researcher do believe that the outcome of the research will be helpful in providing short term as well as long term solution for the challenges that these enterprises are facing. The data your business is providing will not be used for purpose other than the intended and indicated here in the questionnaire, so the researcher want you to be honest and truthful in replaying the questions.

Thank you very much for your time and cooperation.

With best regards

1. What type of business is this establishment?

Manufacturing	
Service	
Agriculture	
Trade	
Others	

2. How many employees does this establishment have?

5-19	
20-99	
100+	

3. At this time, does this establishment have a line of credit or a loan from a financial institution?

Yes	
No	

4. Over fiscal year [2014], please estimate the proportion of this establishmentôs total purchase of fixed assets (investments) that was financed from each of the following sources:

Internal funds or retained earnings	
Ownersô contribution or issued new equity shares	
Borrowed from banks: private and state-owned	
Borrowed from non-bank financial institutions	
Purchases on credit from suppliers and advances from customers	
Other, moneylenders, friends, relatives, bonds, etc.	

5. Over fiscal year [2014], please estimate the proportion of this establishmentôs working capital that was financed from each of the following sources?

Internal funds or retained earnings	
Borrowed from banks: private and state-owned	
Borrowed from non-bank financial institutions which include microfinance institutions, credit cooperatives, credit unions, or finance companies	
Purchases on credit from suppliers and advances from customers	
Other, moneylenders, friends, relatives, bonds, etc.	

6. Referring only to this most recent loan or line of credit, did the financing require collateral?

Yes	
No	

7. Referring only to this most recent line of credit or loan, what was the approximate value of the collateral required?

Value of collateral (% of the loan amount)	

8. To what degree is Access to Finance an obstacle to the current operations of this establishment?

Access to finance	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very Severe Obstacle	Does Not Apply

9. Now letôs talk about the establishmentôs current situation. At this time, does this establishment have a checking or savings account?

Yes	
No	

10. Referring only to these most recent sales: What percentages of this establishmentös total annual sales of its goods or services were paid for before delivery - Proportion of sales that are pre-paid (%)?

Paid for before the delivery?	Percent

11. Referring only to these most recent sales: What percentages of this establishmentös total annual sales of its goods or services were paid for after delivery? - Proportion of sales sold on credit (%)

Paid for after delivery?	Percent

12. Referring again to the last fiscal year [2014], did this establishment apply for any loans or lines of credit?

Yes	
No	

13. If No, What was the main reason why this establishment did not apply for any line of credit or loan?

No need for a loan - establishment had sufficient capital	
Application procedures were complex	
Interest rates were not favorable	
Collateral requirements were too high	
Size of loan and maturity were insufficient	
Did not think it would be approved	
Others	

14. Referring only to this most recent application for a line of credit or loan, what was the outcome of that application?

Application was approved	
Application was rejected	
Application still in process	

15. What finance need does this establishment have for the next year?

Working capital	
Investment capital	
Importing machinery	

16. What do you see as the most important limiting factor for the establishment in accessing finance?

Loan size inefficient	
Loan term too short	
Types of collateral required	
Foreign currency shortage	
Level of collateral required	
Lack of transparency of loan conditions	
Lengthy application and disbursement process	
Cost of loan too high	
Risk adversity of loan provider	
Limited understanding of projects/needs	
Others	

And again thank you very much for your time and cooperation