



**DETERMINANTS OF ACCESS TO FINANCE FOR SMALL AND  
MEDIUM ENTERPRISES: THE CASE STUDY OF YIRGALEM TOWN IN  
SIDAMA REGIONAL STATE OF ETHIOPIA**

**MSc THESIS**

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**HAWASSA, ETHIOPIA**

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MEDIUM ENTERPRISES: THE CASE STUDY OF YIRGALEM TOWN IN  
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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING  
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This is to certify that the research entitled “*Determinants of access to finance for small and medium enterprises: The case study of yirgalem town in sidama regional state of Ethiopia*” submitted in partial fulfillment of the requirements for the degree of Master of Science In Accounting and Finance, the Graduate Program of the department of Accounting and Finance, and has been carried out by *Akililu Wondimu Shegu*, under our supervision. Therefore we recommend that the student has fulfilled the requirements and hence here by can submit the thesis to the Department of Accounting & Finance.

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## **ACRONYMS/ABBREVIATIONS**

**AC** Access to Finance

**AEMFI** Association of Ethiopia Micro Finance Institutions

**CB** Cost of Borrowing

**CR** Collateral requirement

**DBE** Development Bank of Ethiopia

**EDRI** Ethiopian Development and Research Institution

**FF&CBA** Family, Friends and Close Business Associate

**GDP** Gross Domestic Product

**IAIP** Integrated Agro-Industrial Park

**IFC** International Finance Corporation

**ILO** International Labor Organization.

**MoFED** Ministry of Finance and Economic Development

**GTP** Growth and Transformation Plan

**IF** Institutional Factor

**IFC** International Finance Corporation

**MFIM** Micro Finance Institutions

**MSE** Micro and Small Enterprise

**NBE** National Bank of Ethiopia

**NGO** Non-Government Organization

**OD** Overdraft

**OM** Opportunity to Market

**PLS** Practical Least Square

**SME** Small and Medium Enterprise

**SEDF** South Asia Enterprise Development Facilities

## ABSTRACT

*Small and medium Enterprises (SMEs) play a crucial role in alleviating poverty and fostering economic growth in developing countries, including Ethiopia. This study investigates the determinants of access to finance for SMEs in Yirgalem Town, Sidama Regional State, utilizing a sample of 65 businesses and employing a binary logit regression model. The results reveal that key factors such as opportunity to market, cost of borrowing, and collateral requirements significantly influence access to finance, while institutional factors do not show a statistically significant impact. Notably, the opportunity to market has the strongest positive effect, suggesting that businesses with better market access are more likely to secure financing. Surprisingly, a positive correlation between cost of borrowing and access to finance indicates that higher borrowing costs may be associated with greater credit availability. The study emphasizes the need to enhance market access and revise collateral policies to improve financing opportunities for small businesses. Additionally, despite the insignificance of institutional factors in the short term, strengthening legal and regulatory frameworks may yield long-term benefits for financial inclusion. Policy recommendations include lowering borrowing costs, promoting marketing opportunities, and improving access to collateral-free financing options. The study also suggests avenues for future research, such as examining informal lending systems and expanding the study to other regions for comparative analysis. These findings offer valuable insights for advancing financial inclusion and small business development in Ethiopia and similar economies..*

**Key Terms:** *Access to Finance, Small Business Enterprises, Institutional Factors, Cost of Borrowing*

## CHAPTER ONE

### INTRODUCTION

#### 1.1. Background of Study

Access to finance is a fundamental challenge for Small and Medium Enterprises (SMEs) around the world. These businesses are recognized as engines of economic growth, contributing significantly to employment, innovation, and poverty reduction, particularly in developing economies. However, despite their importance, SMEs often face severe obstacles in accessing the financial resources necessary for growth and expansion. The issue of financing small businesses has become a central topic of research, given the vital role SMEs play in job creation and economic diversification. A study by Beck et al. (2021) found that SMEs face persistent financing gaps compared to larger firms, primarily due to their perceived high-risk nature and limited collateral. This financing gap is particularly pronounced in emerging markets, where banks and financial institutions are often reluctant to lend to smaller firms due to concerns about repayment and market instability (Beck, Demirgüç-Kunt, & Maksimovic, 2020).

The importance of access to finance for small enterprises cannot be overstated. Financing is required for various purposes, such as purchasing raw materials, expanding operations, developing new products, and entering new markets. When access to finance is restricted, SMEs are forced to rely on informal or inefficient sources of funding, such as personal savings or high-interest loans from non-bank financial intermediaries. This not only limits their growth potential but also increases the financial vulnerability of the businesses. According to Ghosh and Gupta (2022), small businesses without adequate access to formal finance face difficulties in scaling operations, developing innovation, and absorbing shocks during economic downturns. The barriers to finance are varied, ranging from stringent loan requirements, lack of credit history, to poor financial infrastructure in certain regions, especially in developing countries (Sarma & Mohapatra, 2021).

Research on access to finance for SMEs has highlighted both internal and external determinants that influence their ability to obtain financing. Internal factors typically include the size, age, and profitability of a business. Older and larger firms tend to have better access to credit because they have a proven track record, established customer bases, and tangible assets that can be used as collateral (Migliavacca & Reverte, 2023). In contrast, younger and smaller firms face a lack of

these advantages, which diminishes their appeal to lenders. Moreover, businesses that lack formal financial records or are unable to present clear financial statements often struggle to secure loans from traditional financial institutions, which tend to favor businesses with clear, reliable financial histories (Olson & Petersen, 2024). As such, the internal financial management practices of SMEs can directly influence their ability to access financial products, making financial literacy and record-keeping essential for business sustainability.

Externally, the macroeconomic environment plays a significant role in shaping SMEs' access to finance. For instance, during periods of economic instability, financial institutions may become more risk-averse, further limiting credit availability for small businesses (Adams, 2022). Additionally, the structure of the financial system in a given country can either facilitate or hinder access to credit for SMEs. In well-developed financial markets with diversified financial institutions, such as commercial banks, microfinance institutions, and venture capital funds, small businesses have a greater range of financing options (Beck, Demirgüç-Kunt, & Maksimovic, 2020). However, in regions with underdeveloped financial systems, SMEs often find themselves excluded from formal financial markets due to a lack of appropriate financial products, high-interest rates, and stringent lending criteria (BIS, 2022).

One of the key external determinants affecting access to finance for SMEs is government policies. In many countries, governments have introduced various interventions, such as credit guarantee schemes and subsidized loans, to support small businesses (Njiru&Gichira, 2021). Such policies can reduce the risk for financial institutions and improve the flow of credit to SMEs. A favorable regulatory environment, which includes efficient legal frameworks, anti-corruption measures, and protection of intellectual property, can also significantly enhance access to finance. However, in regions where regulations are unclear, overly bureaucratic, or prone to political interference, SMEs often face significant challenges in navigating the financial system (Sarma&Mohapatra, 2021). The regulatory environment must be supportive of entrepreneurial activity for SMEs to thrive, with easy access to finance being a crucial component of this support.

Technological innovation has emerged as a game-changer for small businesses seeking access to finance. The rise of fintech and digital finance solutions, such as peer-to-peer lending platforms, crowdfunding, and mobile money, has revolutionized the financing landscape for SMEs,

particularly in developing economies. These digital platforms offer quicker, more accessible, and less bureaucratic ways for small businesses to secure funds compared to traditional banks (Li & Zhang, 2023). Fintech companies use alternative data sources, such as transaction history and social media profiles, to assess the creditworthiness of borrowers, thus overcoming traditional barriers such as the lack of formal credit histories. As a result, SMEs in areas with limited banking infrastructure can now access financing via mobile phones and online platforms, which was previously unavailable to them (Ghosh& Gupta, 2022).

Despite the potential of fintech to improve access to finance, it also comes with its own set of challenges. For instance, the digital divide, where certain populations have limited access to the internet or mobile phones, can exacerbate financial exclusion for those in rural or underserved areas. Moreover, the lack of financial literacy and trust in digital platforms can deter some business owners from engaging with these innovative financing options (Migliavacca, 2023). Additionally, the regulatory environment for fintech is still evolving, with many governments struggling to balance innovation with consumer protection. This dynamic landscape suggests that while fintech offers promising solutions for small businesses, it requires appropriate regulation and awareness-building initiatives to ensure widespread adoption and effectiveness (Li & Zhang, 2023).

Finally, the COVID-19 pandemic has highlighted and exacerbated the challenges small businesses face regarding access to finance. During the pandemic, many SMEs experienced severe cash flow disruptions, and a large number struggled to secure government support or relief loans. While some governments introduced emergency funding programs to support businesses, many small enterprises were left out due to complex application processes, lack of proper documentation, and exclusion from traditional credit markets (Parker, 2021). This situation has underscored the need for flexible financial products, improved access to emergency funding, and more inclusive financial systems to support SMEs during crises. Future research should focus on understanding how different types of financial products and support mechanisms can be better designed to cater to the diverse needs of small enterprises, especially in times of global uncertainty.

## **1.2. Statement of the Problem**

Access to finance is a persistent challenge that small and medium-sized enterprises (SMEs) face globally, with significant implications for their growth and survival. Despite the critical role that SMEs play in fostering innovation, employment, and economic development, many small businesses struggle to obtain the necessary capital to sustain and expand their operations. A substantial portion of SMEs, particularly those in emerging economies, remain excluded from formal financial markets due to structural barriers such as limited access to credit, high-interest rates, and stringent collateral requirements imposed by financial institutions. As noted by Beck et al. (2021), SMEs often experience severe financing gaps compared to larger firms, which constrains their ability to invest in innovation, infrastructure, and human capital. These constraints are particularly pressing in low-income and developing regions where financial systems are underdeveloped and formal credit markets are less accessible. The difficulty in accessing finance for SMEs can ultimately hinder the overall economic growth and reduce the entrepreneurial dynamism within an economy (Beck, Demirgüç-Kunt, & Maksimovic, 2020).

Several determinants influence SMEs' ability to access finance, ranging from internal factors, such as firm size, age, and profitability, to external factors like the economic environment, financial infrastructure, and government policies. Research indicates that smaller firms, startups, and those lacking credit history or collateral are more likely to face financing difficulties, as they are considered higher risk by traditional lenders (Ghosh & Gupta, 2022). Furthermore, the lack of financial literacy and transparency among small business owners often exacerbates these challenges, as businesses fail to present adequate financial records, further reducing their chances of receiving loans from banks and other formal financial institutions (Sarma & Mohapatra, 2021). These internal barriers are compounded by external factors such as macroeconomic instability, lack of financial infrastructure, and ineffective policies. As Parker (2021) suggests, while the availability of financial products may be adequate in some regions, access remains highly uneven, and many small businesses remain unaware of or unable to utilize the financial services available to them.

Financial institutions also play a pivotal role in shaping SMEs' access to finance. While commercial banks are the most common source of credit for small businesses, they often have stringent lending criteria, particularly in developing economies where risks are perceived as

higher. Many SMEs are unable to meet the collateral requirements set by banks, which results in the rejection of their loan applications (BIS, 2022). Moreover, banks tend to favor lending to larger, established firms that have a proven track record and tangible assets. As a result, small and young firms, which often lack these resources, struggle to secure the financing they need to scale their businesses. Additionally, while alternative financing sources like venture capital, angel investors, and crowdfunding have gained popularity in recent years, they remain inaccessible to many SMEs due to the complex and resource-intensive nature of these funding avenues (Migliavacca&Reverte, 2023). Therefore, the mismatch between the financial needs of SMEs and the products available to them is a key issue that requires urgent attention.

Despite considerable research on the determinants of access to finance for small businesses, several gaps remain in the current literature, particularly in understanding the evolving nature of financial inclusion in the digital age. One significant gap lies in the limited exploration of the impact of fintech solutions on SMEs' access to finance. With the rise of digital finance platforms, such as peer-to-peer lending, crowdfunding, and mobile banking, there has been a transformative shift in how small businesses can access financial resources. However, the existing literature has not comprehensively examined the full scope of fintech's potential to bridge the financing gap for SMEs, especially in underdeveloped regions (Li & Zhang, 2023). Moreover, while some studies acknowledge the role of alternative financing sources, more research is needed to understand the barriers and opportunities associated with the integration of these technologies into traditional financial systems, particularly in low-income and developing economies.

Another gap in the literature is the limited focus on the intersection of financial literacy, firm management practices, and access to finance. Although many studies highlight the importance of financial literacy for entrepreneurs, there is insufficient empirical research on how financial knowledge directly influences SMEs' ability to access credit (Olson & Petersen, 2024). Furthermore, the relationship between financial management practices, such as budgeting, cash flow management, and creditworthiness, remains underexplored in the context of small businesses. For example, many small business owners may not fully understand the importance of maintaining clear financial records or presenting their businesses in a manner that increases their appeal to lenders. Research addressing the specific managerial and financial behaviors that enhance access to finance would contribute significantly to developing targeted financial literacy programs and interventions for SMEs.

Finally, while government policies have been widely recognized as crucial for improving SMEs' access to finance, research has often been too generalized in examining the role of government interventions, with limited focus on the specific effectiveness of different policy tools. Credit guarantee schemes, subsidies, and tax incentives have been proposed as solutions to support SMEs; however, empirical studies on their actual impact on increasing financial access are scarce (Adams, 2022). This is particularly true in developing economies where government policies and financial systems may be inadequately aligned. More focused studies on the effectiveness of specific policy interventions in different national and regional contexts would provide valuable insights into how governments can tailor their policies to better support SMEs' financial needs and foster an inclusive business environment.

One of the major gaps in the literature concerns the underexplored role of financial institutions, particularly banks, in shaping the financing landscape for small enterprises. While there is an abundance of research on the barriers SMEs face in accessing bank loans, much of the existing literature does not delve deeply into the mechanisms by which banks make lending decisions and how these practices can be improved. For example, research often focuses on credit history and collateral requirements as barriers, but fewer studies explore how banks could adjust their risk assessment criteria to accommodate the unique characteristics of small businesses, such as their growth potential, innovation capacity, or market dynamics (BIS, 2022). Addressing this gap could lead to the development of more inclusive lending practices and financial products specifically designed for SMEs.

Furthermore, the evolving role of alternative financing mechanisms, such as crowdfunding and venture capital, remains insufficiently explored in the context of SMEs, especially in emerging markets. While these sources of finance are often touted as viable alternatives to traditional bank loans, little is known about the specific barriers SMEs face when attempting to access such capital. Research that identifies the specific challenges and opportunities associated with alternative financing could provide valuable insights into how these funding sources can be more effectively integrated into the broader financial ecosystem to support SMEs (Migliavacca, 2023). This includes understanding the risk profiles, investor preferences, and regulatory considerations that influence the availability of such financial products to small businesses.

Another critical gap in the literature is the underexplored impact of digital finance, particularly fintech, on SMEs' ability to secure financing. While studies have shown that fintech platforms are increasing access to credit, there remains a lack of empirical research on how digital financial services are changing the financing behavior of SMEs, especially in developing countries where access to traditional financial services is limited (Li & Zhang, 2023). Fintech innovations, such as digital lending platforms and mobile banking, have the potential to drastically reduce barriers to finance for small enterprises by providing quicker, more accessible, and less paperwork-intensive financial services. However, the challenges SMEs face in integrating with these new technologies, such as lack of trust in digital platforms, digital illiteracy, and limited access to the necessary digital infrastructure, have not been sufficiently addressed in existing research.

Moreover, the role of alternative data sources in digital lending platforms is another area where gaps exist. Fintech companies often rely on data points such as transaction history, social media activity, and even e-commerce sales data to assess the creditworthiness of small businesses. While these methods have been shown to increase access to credit, particularly for businesses without formal credit histories, the effectiveness of these alternative data sources in predicting loan defaults and repayment behavior has not been fully explored. This presents a critical gap in understanding how alternative data can be used more reliably to assess the financial health of SMEs and improve lending decisions (Ghosh& Gupta, 2022).

### **1.3. Objectives of the Study**

#### **1.3.1 General Objective**

The overall objective of the study is to investigate the determinants of access to finance for small business enterprises in Yirgalem town.

#### **1.3.2 Specific Objectives**

- To examine the effect of cost of borrowing on access to finance
- To analyze the association between opportunity to market and access to finance
- To test the effect of institutional factor on access to finance
- To examine relationship between collateral requirement and access to finance

## **1.4. Research Hypotheses**

After reviewing the theoretical and empirical literature the researcher developed the following directional hypothesis.

H1: Cost of Borrowing has a significant positive effect on access to loan from demand side

H2: Opportunity to market has positive significant effect on access to Finance

H3: There is a positive significant influence between collateral requirement and access to finance

H4: Institutional Factor has a positive significant effect on access to finance in small and medium enterprises.

## **1.5. Significance of the Study**

This study is significant as it specifically addresses the persistent financial access challenges faced by Small and Medium Enterprises (SMEs) in Yirgalem Town, a growing economic hub in the Sidama Regional State.

- Moreover, the findings of this research are measurable and will provide empirical evidence on key determinants such as collateral requirements, financial literacy, credit history, and the role of informal financial institutions.
- These results will not only contribute to academic literature but will also serve as a practical tool for financial institutions and policy makers aiming to increase SME financial inclusion.
- By quantifying these variables, the study can inform strategies to improve lending practices and SME preparedness, thereby enhancing access to finance within a defined timeframe.
- The study is both relevant and timely, given Ethiopia's current economic reform agenda that prioritizes private sector development.
- As SMEs are central to job creation and income generation, particularly in semi-urban settings like Yirgalem, understanding the constraints they face in accessing finance is crucial for sustainable economic growth.
- The insights generated will be immediately applicable for regional government bodies, financial service providers, and development partners interested in supporting SME growth in Sidama and similar emerging regions.

## **1.6. Scope of the Study**

This study focuses on examining the key factors that influence access to finance for Small and Medium Enterprises (SMEs) in Yirgalem Town, located in the Sidama Regional State of Ethiopia. The research is geographically limited to this specific town to ensure in-depth analysis and to reflect the unique socio-economic, institutional, and financial environments within the area. Yirgalem was chosen due to its growing SME sector and its strategic position in the region, which makes it an appropriate case for understanding regional financial dynamics.

Thematically, the study concentrates on both internal and external determinants affecting SMEs' access to finance. Internal factors include the financial literacy of business owners, business registration status, collateral availability, and credit history. External factors cover the role of banks and microfinance institutions, lending procedures, interest rates, and government policy support. The study includes formal and informal financial access dimensions and highlights challenges and opportunities faced by SMEs in the local financial ecosystem.

The time scope of this study is limited to the year 2025, using both primary and secondary data collected during this period. This timeframe allows for the inclusion of recent policy developments and financial trends affecting SMEs in the area. While the study provides detailed insights into Yirgalem's context, it does not generalize findings to all of Ethiopia but can serve as a reference for similar regional towns with comparable socio-economic characteristics.

## **1.7. Limitations of the Study**

One of the primary limitations of this study is its geographical focus, which is confined to Yirgalem Town. While this localized approach allows for in-depth analysis, it limits the generalizability of the findings to other towns or regions within Ethiopia. Different towns may have varying financial ecosystems, infrastructure, and institutional frameworks, which could influence the determinants of access to finance in different ways. Therefore, caution should be exercised when attempting to apply these findings to broader contexts.

Another limitation relates to the availability and reliability of data. Some SME owners were reluctant to share detailed financial information due to privacy concerns or mistrust in how the information would be used. As a result, certain variables may have been underreported or

omitted, which could affect the accuracy of the findings. Additionally, official data from local financial institutions were sometimes incomplete or not up to date, further limiting the scope of secondary data analysis.

Finally, time and resource constraints posed limitations on the size and diversity of the sample. Due to the research being conducted within a specific period in 2025, only a limited number of SMEs could be surveyed and interviewed. This may have led to the exclusion of some sectors or informal enterprises that also play a significant role in the local economy. These limitations, while not diminishing the value of the study, suggest the need for further research with broader coverage and enhanced data access in future studies.

### **1.8. Organization of the Study**

The paper is organized into five chapters: Chapter one, which contains the introduction part which dealing with background of study, statement of problems, objectives, and research hypotheses, Significance of the study, Scope of the study, and Limitation of the Study. The second chapter discusses the review of related literatures about the subject matter. Chapter, three describes research methodology such as sampling techniques, data collections tools, methods of data analyses and presentation. Chapter four would focus on the analysis of the data collected. Finally, chapter five covers the conclusions, recommendation and directions for the further study.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### 2.1.Theoretical Literature Review

##### 2.1.1.Definition of Small and medium Enterprise

A Small and medium Enterprise (SME) is generally defined as a privately owned business that operates on a relatively small scale, with a limited number of employees and a lower volume of sales compared to larger corporations. The specific criteria for classification as a small business can vary by country, but it is typically based on factors such as the number of employees, annual revenue, or total assets. According to the European Commission (2020), SMEs (Small and Medium Enterprises) are defined as businesses with fewer than 250 employees, while micro-enterprises, a subcategory of small businesses, have fewer than 10 employees and annual turnover or balance sheet total of less than €2 million. The U.S. Small Business Administration (SBA) similarly defines small businesses based on industry-specific standards, typically allowing businesses with up to 500 employees to be classified as small, depending on the sector (SBA, 2021). This classification helps in formulating appropriate policies and support mechanisms tailored to the needs of small enterprises.

The importance of small and medium enterprises is widely acknowledged as they contribute significantly to employment, innovation, and economic diversification. SMEs often form the backbone of economies, particularly in developing and emerging markets, where they drive local economic growth by creating jobs and fostering entrepreneurial activities (Migliavacca&Reverte, 2023). Small businesses also provide opportunities for individuals to start their own businesses with relatively low capital investment. Furthermore, SMEs play a critical role in the broader supply chain by acting as suppliers, subcontractors, and service providers to larger companies. According to Ghosh& Gupta (2022), small businesses are often agile, enabling them to adapt quickly to changing market conditions and consumer demands, which is a key factor in their ability to sustain long-term operations.

Despite their importance, small businesses face several challenges, especially in accessing finance. Small and medium enterprises typically struggle with securing adequate funding due to their limited financial history, lack of collateral, and perceived higher risk by traditional financial

institutions (Olson & Petersen, 2024). The definition of a small business, while useful for classification and policy, highlights the structural vulnerabilities of small enterprises. These businesses often rely on informal financial sources, personal savings, or small loans, which limit their ability to grow and innovate. Therefore, understanding the specific characteristics and challenges of SMEs is crucial for developing targeted financial products and support programs that can address their unique needs and ensure their sustained success in the market (Sarma&Mohapatra, 2021).

### **2.1.2.Small and medium enterprise contribution to economic developments and growth**

Small and medium enterprises (SMEs) are crucial drivers of economic development and growth, particularly in emerging and developing economies. According to a report by the World Bank (2020), small businesses contribute significantly to employment creation, poverty alleviation, and fostering entrepreneurial ecosystems. These businesses are often responsible for a substantial portion of employment, as they typically hire a large number of workers relative to larger corporations. In fact, SMEs account for approximately 60-70% of total employment in developing countries, as noted by Beck et al. (2021), and play an essential role in reducing unemployment rates and providing income-generating opportunities to underserved communities. By offering jobs and promoting local economic activity, SMEs are key to driving inclusive growth and addressing the issue of economic inequality.

In addition to job creation, small businesses contribute to economic diversification and innovation. They tend to be more flexible and adaptive to changing market demands, which enables them to quickly respond to shifts in consumer preferences and technological advancements. Small businesses often introduce innovative products, services, or business models that challenge existing market dynamics and foster a competitive business environment. This innovative capacity is particularly valuable in developing economies, where the expansion of new industries can stimulate growth across sectors such as technology, agriculture, and manufacturing (Migliavacca&Reverte, 2023). Furthermore, small businesses often serve as suppliers to larger firms, integrating into global supply chains and boosting the international competitiveness of local economies. This integration enhances economic resilience and creates opportunities for small enterprises to scale and grow, both locally and internationally.

Moreover, small businesses contribute significantly to local and regional economic development. They are often deeply embedded in their communities, contributing to social cohesion and sustainable development by addressing local needs and preferences. According to Ghosh and Gupta (2022), small businesses promote regional economic growth by leveraging local resources, labor, and materials. This results in a more decentralized distribution of economic wealth, which can reduce regional disparities in income and access to economic opportunities. Furthermore, by fostering entrepreneurial spirit, SMEs help to cultivate a culture of innovation and self-reliance, leading to long-term sustainable growth. The economic vitality generated by small businesses encourages further investments and the creation of local networks that can support the development of other small enterprises, thus creating a self-sustaining cycle of growth and prosperity (Sarma&Mohapatra, 2021).

## **2.2. Problems of small and medium enterprises**

Even though there are a lot of achievements that contribute to the GDP of the country in the SMEs development program, there are challenges faced. The major challenges in the sector are:

### **2.2.1. Location and working space problems**

Small and medium enterprises (SMEs) often face significant challenges related to location and working space, which can limit their operational efficiency and market reach. The choice of location plays a crucial role in determining the accessibility of a business to customers, suppliers, and other key stakeholders. Small businesses in rural or underserved areas may struggle with limited foot traffic, lack of infrastructure, and higher transportation costs, which hinder their growth potential. Additionally, these businesses often face difficulties in securing affordable commercial spaces. In many cities, the high cost of renting or owning a business space presents a significant barrier for small businesses, forcing them to operate in suboptimal locations that are either inaccessible or have lower customer bases (Migliavacca&Reverte, 2023). This issue is particularly problematic in fast-growing urban centers where demand for commercial real estate outpaces supply, making it difficult for small businesses to find suitable working spaces that allow for expansion.

Moreover, businesses in less developed or economically deprived areas may face additional location-specific challenges, such as poor transportation networks or unreliable electricity and water supply. Such infrastructural deficits can increase operational costs, reduce business

productivity, and limit the scope of customer interaction. As pointed out by Sarma and Mohapatra (2021), the location-related challenges are often exacerbated by the absence of shared spaces or business hubs, which could provide small enterprises with cost-effective access to facilities such as office space, storage, and machinery. Without these, small businesses are left to manage these critical needs individually, which limits their scalability and competitiveness in the market. Consequently, small businesses that operate in poorly equipped locations may be unable to fully utilize their potential, thus limiting their growth and impact on the local economy.

### **2.2.2. Access to finance**

Access to finance is perhaps the most pervasive problem faced by small and medium enterprises (SMEs), as it directly impacts their ability to grow, innovate, and compete in the market. Traditional financial institutions, such as banks, often perceive small businesses as high-risk clients due to their lack of credit history, limited collateral, and vulnerability to market fluctuations. As a result, small businesses often struggle to secure loans, especially when they are just starting or lack the financial records that larger businesses can provide. According to a study by Ghosh and Gupta (2022), SMEs in developing economies, in particular, face significant barriers to accessing finance, with high interest rates, stringent collateral requirements, and lengthy loan approval processes being common obstacles. These financial barriers limit small businesses' capacity to expand, invest in new technologies, or hire additional staff, which stifles their growth prospects and puts them at a disadvantage compared to larger firms with more established credit lines.

In addition to these traditional financial barriers, small businesses are increasingly turning to alternative financing options, such as crowdfunding, microfinance, and peer-to-peer lending. However, these alternatives are not without their own set of challenges. The lack of financial literacy among small business owners often prevents them from effectively navigating these complex financial options. Moreover, the unavailability of sufficient digital infrastructure in rural or underserved areas prevents many SMEs from accessing fintech solutions that could otherwise provide them with more flexible financing options. The lack of sufficient financial inclusion and adequate support from banks and financial institutions has been identified as a major limiting factor for small business growth (Olson & Petersen, 2024). Therefore,

overcoming access to finance barriers is essential for enabling small businesses to thrive and compete in the increasingly globalized marketplace.

### **2.2.3. Lack managerial and other skilled labor**

Small businesses often face a shortage of qualified managerial staff and skilled labor, which is a key challenge for their growth and sustainability. Many small enterprises, especially those in developing economies, do not have the resources to attract and retain skilled workers. Without the necessary expertise in areas such as finance, marketing, and operations, these businesses struggle with effective management and decision-making, which can hinder their growth prospects. According to Sarma and Mohapatra (2021), the lack of managerial experience and specialized skills in areas like project management, financial planning, and human resources often results in inefficient business operations, making it difficult for small businesses to optimize their performance. Additionally, small businesses often lack the internal resources to invest in training and development programs for their staff, which further exacerbates the skills gap.

This shortage of skilled labor is compounded by the fact that small businesses, particularly those in rural or remote areas, often face stiff competition from larger enterprises that are better equipped to offer attractive salaries, benefits, and career development opportunities. As highlighted by Migliavacca and Reverte (2023), many small businesses are unable to provide competitive wages and benefits packages to attract high-caliber talent, which makes it difficult for them to fill essential roles, such as senior management, technical specialists, or IT professionals. The inability to hire or retain skilled workers limits a small business's capacity for growth, innovation, and efficient operation. Consequently, small businesses often find themselves at a disadvantage, lacking the necessary human capital to scale operations or implement modern business practices, which limits their competitiveness in the market.

### **2.2.4. Lack of sufficient marketing and high competition level**

Another major problem for small businesses is the lack of effective marketing strategies and the high level of competition they face, particularly in crowded markets. Small businesses often struggle to allocate sufficient resources for marketing and advertising, especially when operating on tight budgets. This limitation prevents them from reaching a wider customer base, growing brand awareness, and competing with larger, more established companies that have significant

marketing budgets. According to Ghosh and Gupta (2022), many small businesses rely on traditional forms of marketing, such as word-of-mouth and local advertising, which may not be enough to differentiate them in highly competitive industries. As a result, small businesses often fail to build a strong customer base or attract new clients, which limits their ability to expand and remain viable in the long term.

Moreover, small businesses often face high levels of competition from both local and international players, especially with the rise of e-commerce and digital platforms. Globalization has led to an influx of foreign competitors in local markets, and the increasing reliance on online shopping further intensifies the competition small businesses face. Without adequate resources for digital marketing, social media engagement, or e-commerce infrastructure, small businesses struggle to maintain visibility in an increasingly digital world. As pointed out by Sarma and Mohapatra (2021), the lack of competitive marketing strategies, combined with fierce competition, can cause small businesses to lose market share, which ultimately impacts their sustainability and profitability. To survive in such an environment, small businesses must invest in innovative marketing approaches, embrace digital transformation, and differentiate themselves in the market through unique products, customer service, and branding.

#### **2.2.5. Raw material problems**

Small businesses often face significant difficulties in securing consistent, affordable, and high-quality raw materials, which is a critical challenge for their operational efficiency and product quality. This problem is especially pronounced for small manufacturing businesses that rely on bulk purchases of raw materials, as they typically do not have the purchasing power or economies of scale that larger firms enjoy. As noted by Beck et al. (2021), small businesses may struggle with price volatility, supply chain disruptions, and limited supplier options, which can negatively impact production timelines and costs. The challenge of securing raw materials is particularly acute for small businesses in developing economies, where unreliable supply chains, poor infrastructure, and limited access to suppliers create barriers to obtaining necessary resources on time and at competitive prices. As a result, small businesses often face delays in production, quality control issues, and increased operational costs, which can undermine their profitability and competitiveness.

Additionally, the lack of bargaining power and limited access to bulk purchase discounts further exacerbates the raw material problem for small enterprises. As pointed out by Olson & Petersen (2024), small businesses are often forced to purchase raw materials at higher prices compared to larger firms that can negotiate better deals due to their higher order volumes. This price disparity puts small businesses at a disadvantage, as they may struggle to maintain competitive pricing for their products while keeping costs under control. Moreover, small businesses may face challenges in sourcing high-quality materials, which can affect the quality of their products and their reputation in the market. Without reliable access to raw materials, small businesses are less likely to maintain consistent production schedules, leading to lost revenue opportunities and decreased customer satisfaction.

#### **2.2.6. Lack of good infrastructure facilities**

The lack of adequate infrastructure is another significant problem that small and medium enterprises (SMEs) face, particularly in developing economies. Poor infrastructure, including unreliable electricity, inadequate roads, limited access to communication networks, and inefficient transport systems, hampers the operational efficiency and competitiveness of small businesses. As noted by Ghosh and Gupta (2022), small businesses operating in areas with underdeveloped infrastructure face increased costs due to disruptions in production, transportation delays, and higher energy costs. These infrastructure deficits also affect the ability of small businesses to expand their operations and reach new markets, as they are limited by the available resources and facilities in their region. Furthermore, inadequate digital infrastructure prevents many small businesses from fully participating in e-commerce and digital marketing, which hinders their growth prospects in an increasingly online-driven economy.

In addition to infrastructure challenges, many small businesses struggle with insufficient government support, which further limits their ability to thrive and expand. While some governments offer subsidies, tax breaks, or financial assistance programs to small enterprises, these programs are often underutilized due to bureaucratic inefficiencies, lack of awareness, or complicated application processes. According to Sarma&Mohapatra (2021), small businesses often struggle to navigate complex regulatory environments and obtain the necessary permits, licenses, and financial assistance needed to operate effectively. This lack of support can hinder their ability to grow, compete, and innovate. Governments must work to improve the

infrastructure and regulatory frameworks that support small businesses, ensuring that these enterprises have access to the resources and assistance necessary for their success in a competitive market environment.

### **2.2.7. Government Support**

For successful development of small business government involvement is the essential one micro and small enterprises face difficulties at every stage of their activities, whether it is buying materials for production, organization of production, selling products in the market or sustaining the period between production and marketing. The run a new venture or operating already established enterprise the government supports in different issues like; reducing tax, creating available market place rewarding businesses which better for development of the country economy (Kuelhl, 2020).

Government support often extends to institutional and capacity-building initiatives that enhance entrepreneurial skills and business management capabilities. Through agencies and development programs, governments offer training, mentorship, and consultancy services tailored to the needs of SMEs. According to Gebrehiwot and Wolday (2006), capacity development programs significantly improve the performance of small enterprises by equipping owners with the skills needed to handle operational and financial challenges. Such non-financial support strengthens the sustainability and growth potential of SMEs, especially in emerging regions.

Access to finance remains a major obstacle for SMEs, and governments play a crucial role in mitigating this challenge. Public policies such as credit guarantee schemes, subsidized interest rates, and the establishment of microfinance institutions are commonly used to support SME financing. As noted by World Bank (2015), effective government interventions in financial markets can lower lending risks for banks and encourage credit flow to smaller businesses. In the Ethiopian context, the Growth and Transformation Plan (GTP II) includes SME finance initiatives aimed at promoting inclusive economic development through expanded financial access (MoFED, 2016).

### **2.3. Opportunities for Small and medium Enterprises**

Small and medium enterprises (SMEs) have increasingly found numerous opportunities in the rapidly evolving global market. Technological advancements, such as cloud computing, artificial intelligence (AI), and e-commerce platforms, have lowered the barriers to entry for small businesses, enabling them to scale operations efficiently and compete on a larger scale. Cloud services, for example, offer SMEs access to sophisticated IT resources without the heavy investment typically required for physical infrastructure, thus cutting down operational costs. Additionally, AI tools have enabled small businesses to automate key functions like customer service, inventory management, and marketing strategies, making them more agile in responding to market demands. E-commerce platforms like Shopify and Etsy also create avenues for small businesses to reach a global customer base, tapping into international markets previously inaccessible due to geographic constraints. Furthermore, the COVID-19 pandemic has accelerated the adoption of digital tools and remote work, presenting opportunities for SMEs to serve a growing online consumer base (Brennen&Kreiss, 2021). The rise of sustainability awareness also presents unique opportunities for businesses focusing on eco-friendly products and services, aligning business goals with consumers' increasing demand for environmental responsibility (Koch &Wehling, 2021). These factors together have shaped a favorable environment for innovation and expansion, allowing SMEs to thrive even in competitive and volatile markets.

The growth of the green economy and the shift toward sustainability has created new avenues for small businesses, especially those that offer sustainable products or services. There is an increasing demand for clean energy solutions, sustainable agriculture, and environmentally-friendly products, all of which provide potential for small businesses to innovate and create niche offerings. Governments and global organizations are providing funding, incentives, and policy support to stimulate green entrepreneurship. For instance, the European Union's Green Deal and the U.S. government's initiatives to support renewable energy projects are creating a fertile ground for small businesses in renewable energy, energy efficiency, and waste management industries. In the U.S., small businesses that promote sustainability are also benefiting from the expanding market for green certifications and eco-labeling, which can help build consumer trust and boost brand visibility (International Trade Administration, 2020). The ongoing shift toward health-conscious consumer behavior further amplifies opportunities in sectors like organic food

production, health tech, and fitness services, where small businesses are well-positioned to cater to changing consumer preferences for healthier, more ethical choices. By aligning with these sustainability trends, SMEs not only meet consumer demand but also contribute to addressing global environmental challenges (Dangelico&Vocalelli, 2020). This synergy between environmental responsibility and business growth offers SMEs a promising path to long-term success.

#### **2.4. Source of Finance for Small and medium Enterprises**

For small and medium enterprises (SMEs), obtaining capital to start or expand operations is a critical challenge. Traditionally, small businesses have relied on bank loans as their primary source of financing. However, in recent years, alternative sources of funding have gained popularity, especially with the advent of digital platforms and the increasing ease of accessing funds online. Peer-to-peer (P2P) lending platforms like LendingClub and Funding Circle have become viable alternatives to traditional bank loans. These platforms connect small businesses with individual investors who are willing to lend money, often with more favorable terms than traditional financial institutions. In addition to P2P lending, crowdfunding has emerged as a prominent method for financing new business ideas. Websites like Kickstarter and Indiegogo allow entrepreneurs to present their business concepts to the public and raise capital in exchange for product pre-sales or equity stakes. These sources are particularly beneficial for small businesses with innovative products or services that can generate significant public interest. According to a report by the World Bank (2020), the global crowdfunding industry is expected to continue growing as more small businesses leverage these platforms to reduce their dependence on traditional banking institutions. Additionally, government grants and subsidies, especially in sectors like technology and renewable energy, provide non-repayable financial support, reducing the burden on small businesses to repay loans and helping them expand more effectively.

In addition to these traditional and alternative financing methods, venture capital (VC) and angel investors also represent significant sources of funding for small business enterprises, particularly for startups with high growth potential. Venture capitalists provide funding in exchange for equity in the company and often take an active role in guiding the business to scale. Angel investors, who are typically high-net-worth individuals, offer both financial support and valuable mentorship. A recent study by the U.S. Small Business Administration (SBA) (2023) revealed

that small businesses funded by angel investors or venture capitalists tend to grow faster due to the expertise and networks that these investors bring. However, securing VC or angel funding is often highly competitive, with investors seeking businesses that offer significant returns within a relatively short period. Another increasingly popular financing source is government-backed loans, such as those offered by the Small Business Administration (SBA) in the United States. These loans typically feature favorable interest rates and repayment terms, making them an attractive option for small business owners who may have difficulty qualifying for traditional bank loans. Moreover, microfinance institutions are providing crucial financial support to small businesses in developing economies. These organizations, such as Grameen Bank, offer small loans to entrepreneurs who do not have access to traditional banking services, promoting financial inclusion and entrepreneurship in underserved areas (Lal, 2021). As small businesses continue to face financial challenges, these diverse sources of finance play a pivotal role in ensuring their growth and sustainability.

## **2.5. Small and medium Enterprise Financing In Developing Country**

Financing small and medium enterprises (SMEs) in developing countries presents a significant challenge due to a combination of limited access to traditional credit, inadequate financial infrastructure, and high-risk perceptions among lenders. In many of these regions, small businesses lack the necessary collateral or financial history to secure loans from commercial banks, which prefer to lend to larger, more established businesses with lower perceived risks (Sharma & Tiwari, 2021). Consequently, small businesses in developing countries often turn to informal financing sources, including family loans, community-based lending, or microfinance institutions (MFIs). Microfinance has become a popular solution in regions like sub-Saharan Africa and South Asia, where organizations such as Grameen Bank and Kiva provide small loans to entrepreneurs who otherwise would not have access to formal financial institutions (Morduch, 2019). Despite its successes, microfinance often struggles with issues of sustainability, high-interest rates, and limited reach, which further complicates the financing landscape for SMEs. However, as the global demand for financial inclusion grows, innovative solutions such as mobile banking and digital financial services have started to provide an alternative channel for business owners in underserved areas to access capital (Mbiti & Weil, 2020).

Digital financial services (DFS), particularly mobile money and mobile lending platforms, have proven transformative in providing financing to SMEs in developing countries. According to a study by the International Finance Corporation (IFC) (2022), mobile financial services have significantly increased financial inclusion by providing entrepreneurs with quick and convenient access to capital without the need for physical banking infrastructure. In countries like Kenya, Tanzania, and India, mobile platforms such as M-Pesa, Paytm, and Airtel Money have revolutionized access to banking and loans for small business owners, especially in rural areas where traditional banking networks are limited. These services allow entrepreneurs to access small, short-term loans or receive payments digitally, which reduces reliance on cash-based transactions and enhances transparency. Moreover, DFS platforms have lower transaction costs and faster approval times compared to traditional financial systems, making them an attractive option for SMEs that need quick access to funds to maintain operations or seize new business opportunities. While mobile money services are expanding rapidly, challenges still persist, such as low levels of financial literacy, the risk of over-indebtedness, and limited access to savings mechanisms for small business owners (Suri & Jack, 2021). These issues highlight the need for complementary policies and education to ensure that entrepreneurs are able to use digital financial services responsibly and effectively.

Furthermore, government policies and international organizations play a critical role in supporting the financing of small businesses in developing countries. In many developing nations, governments have implemented initiatives to provide subsidized loans, grants, or guarantee schemes aimed at de-risking investments in small businesses. For instance, India's PradhanMantri Mudra Yojana (PMMY) scheme provides micro-financing to small entrepreneurs in sectors such as agriculture, manufacturing, and services, with an emphasis on low-interest rates and flexible repayment terms (Singh & Chandra, 2020). Additionally, international development organizations, such as the World Bank and the United Nations, have supported small business financing in developing countries by providing grants, low-interest loans, and technical assistance to both entrepreneurs and financial institutions. These programs aim to stimulate entrepreneurship, create jobs, and reduce poverty, especially in rural or underdeveloped areas. Despite the positive effects of these initiatives, challenges such as bureaucratic inefficiencies, corruption, and limited outreach to rural or marginalized communities remain significant obstacles. As highlighted by Akinboade and Kinfack (2021), it is essential for

governments and international bodies to strengthen their regulatory frameworks, enhance financial literacy, and develop more inclusive financial systems to ensure that small businesses can access the financing they need to thrive in a competitive environment. By addressing these systemic issues, the potential for small businesses to contribute to economic development in developing countries can be fully realized.

## **2.6. Access to Finance for SME at Start up Stage**

Accessing finance during the start-up stage is one of the most critical challenges small and medium enterprises (SMEs) face, particularly due to the high-risk nature of new ventures and the lack of collateral or financial history. At this early stage, traditional financial institutions, such as banks, often hesitate to lend to new businesses because of the perceived risk and the lack of a proven track record (García-Álvarez & Rodríguez, 2020). As a result, many entrepreneurs turn to alternative sources of funding, such as personal savings, family loans, or credit from friends and relatives, which remain the most common sources of finance for start-ups, especially in developing economies (Kraus et al., 2019). However, this informal financing approach often limits the scale of the venture and can lead to significant financial strain on the entrepreneur. To overcome these limitations, various innovative financing methods have emerged, including angel investors, crowdfunding, and venture capital. Angel investors, typically individuals with significant wealth, provide early-stage funding in exchange for equity, offering not only capital but also mentorship and strategic guidance (Bazzoni et al., 2021). Crowdfunding platforms like Kickstarter and Indiegogo have also become prominent, especially for creative or tech-oriented start-ups, where entrepreneurs can present their ideas to a broader audience and raise funds from individual contributors in exchange for rewards or pre-sales (Gera & Singh, 2020). Despite these alternatives, access to finance for start-ups remains a significant barrier, particularly in emerging markets, where access to venture capital and angel investment is often limited.

Governments and international development organizations have also recognized the importance of financing at the start-up stage and have developed programs to support new businesses. In many countries, government-backed loans, grants, and guarantee schemes have been established to de-risk lending to start-ups and increase their chances of securing finance. For example, the U.S. Small Business Administration (SBA) offers various loan programs tailored to start-ups, such as the SBA 7(a) loan, which provides favorable terms and lower interest rates compared to

traditional bank loans (U.S. Small Business Administration, 2021). Similarly, the European Union and other regional development agencies have created funding programs aimed at enhancing entrepreneurial activity in early-stage companies. Furthermore, digital finance tools, including fintech lending platforms and mobile money services, have improved access to finance for start-ups, particularly in underserved or remote regions. These digital platforms enable entrepreneurs to access quick and efficient funding without needing a physical presence in a bank or financial institution (Gonzalez & Martin, 2022). However, despite the increasing availability of alternative financing options, a lack of financial literacy and the absence of a structured credit history continue to hinder many entrepreneurs' ability to navigate the financing ecosystem effectively. As such, providing education on financial management and entrepreneurship is essential to ensure that start-ups can make the most of available funding opportunities (Batista et al., 2023).

## **2.7. Access to Finance for Small and medium Enterprise after Their Establishment**

Once a small and medium enterprise (SME) is established, accessing finance remains a significant challenge, albeit with some opportunities for growth. Established businesses typically have a more robust financial history, which improves their chances of securing credit from traditional sources such as banks or financial institutions. However, small businesses often still face difficulties due to strict lending criteria, including requirements for collateral, a proven track record, and the ability to demonstrate stable cash flow (Beck & Demirguc-Kunt, 2020). As a result, businesses in the growth phase frequently seek alternative financing sources, including trade credit, equity financing, and debt instruments. Trade credit, where suppliers offer delayed payment terms, is one of the most common methods for businesses to manage their working capital, particularly in industries with long production cycles. Additionally, established businesses may turn to venture debt or second-round funding from venture capital (VC) firms, which provide financing in exchange for equity or convertible debt (Narayan & Jaiswal, 2021). However, securing such financing often involves giving up partial ownership or future profits, which can be a deterrent for many entrepreneurs. Furthermore, businesses seeking expansion capital may opt for mezzanine financing, a hybrid between debt and equity that can be used for high-growth opportunities, though it carries higher interest rates due to its riskier nature (Johnson & Sheppard, 2022). While these options provide vital funding, small businesses often struggle with the complexity and cost associated with obtaining such finance.

In addition to traditional and alternative financial products, government support programs and financial technology (fintech) platforms have increasingly become valuable sources of financing for established SMEs. Many governments have recognized the importance of providing financial assistance to small businesses to promote economic growth and job creation. For instance, the U.S. Small Business Administration (SBA) offers loan programs like the 504 loan and the 7(a) loan, which provide small businesses with access to capital at competitive rates and favorable terms (U.S. Small Business Administration, 2021). Similarly, in the European Union, programs such as Horizon 2020 and the European Investment Fund offer grants and low-interest loans to SMEs (European Investment Bank, 2020). Additionally, the rise of fintech platforms has transformed how small businesses access financing after establishment. Online lending platforms such as Funding Circle and OnDeck offer small businesses quick, unsecured loans without the need for extensive documentation, thereby reducing the barriers to traditional finance (Jagtiani& Lemieux, 2021). These platforms are particularly beneficial for businesses in need of short-term financing to manage cash flow or for those that have limited access to conventional credit due to geographic or operational constraints. Despite these opportunities, challenges remain, including high-interest rates for non-bank loans, the risk of over-indebtedness, and limited financial literacy among business owners. Therefore, comprehensive financial education and improved access to suitable financing options are crucial to ensuring that established SMEs can continue to thrive in a competitive market.

## **2.8. Banking and Non-Banking Sectors in Financing Small Firms**

The banking sector plays a crucial role in financing small firms, particularly through traditional debt instruments such as loans, overdrafts, and lines of credit. Banks are typically the first choice for small businesses seeking funding, as they offer structured financial products with predictable repayment schedules. However, obtaining financing from banks remains a challenge for many small firms, primarily due to strict lending criteria, including the requirement for collateral, a solid credit history, and the ability to demonstrate business profitability (Beck &Demirguc-Kunt, 2020). Banks tend to view small businesses as high-risk clients, particularly during the early stages of their development, leading to high rejection rates for loan applications. In response to this challenge, some banks have developed specific programs tailored to small firms, such as microloans and small business lines of credit, aimed at improving access to finance (Pérez, 2021). Additionally, some financial institutions have partnered with government initiatives to

offer more favorable lending terms or guarantee schemes to de-risk small business loans. Despite these efforts, many small firms, especially those in emerging markets, still face significant barriers to obtaining financing from traditional banks, which are often unwilling to take on the perceived risk associated with smaller businesses (Gonzalez & Martin, 2022).

On the other hand, the non-banking sector has become an increasingly important source of financing for small firms, offering a variety of alternatives to traditional bank loans. Non-bank financial institutions (NBFIs), such as microfinance institutions (MFIs), venture capital (VC) firms, and private equity (PE) funds, provide funding opportunities tailored to the needs of small and medium-sized enterprises (SMEs). Microfinance institutions, which focus on providing small loans to underserved entrepreneurs, have become particularly important in developing countries, where access to traditional banking services is limited. These institutions often offer loans without requiring collateral and with more flexible repayment terms, making them an attractive option for small business owners with limited financial resources (Morduch, 2019). Additionally, venture capital and private equity firms provide growth capital to businesses that have high potential but lack the funds to scale. While these sources of financing come with the expectation of equity participation or ownership stakes, they are crucial for high-growth firms in technology, innovation, and other rapidly expanding sectors (Gera & Singh, 2020). Crowdfunding platforms, another form of non-bank financing, have also gained traction, allowing small businesses to raise capital from a large pool of individual investors, often through online platforms. While the non-banking sector offers more flexible financing options compared to traditional banks, challenges such as high interest rates, investor demands for high returns, and limited access to such services for businesses outside major urban centers still exist (Suri & Jack, 2021). Overall, the rise of non-banking financial sources has diversified the funding landscape for small firms, although there are still regulatory, accessibility, and risk-related concerns to address.

## **2.9. Barriers of Accessing Finance**

Accessing finance is one of the most significant barriers for small businesses worldwide, with entrepreneurs often facing multiple challenges in securing the capital necessary to start or grow their operations. One of the primary barriers is the stringent lending criteria imposed by traditional financial institutions, such as commercial banks. Banks typically require businesses to

provide collateral, demonstrate a strong credit history, and show profitability or a stable revenue stream. This puts small businesses, particularly start-ups, at a disadvantage, as many do not have the assets or financial track record needed to meet these requirements (Beck & Demircug-Kunt, 2020). This situation is especially pronounced in developing countries, where formal credit markets may be underdeveloped and entrepreneurs lack access to adequate financial records or collateral to meet bank standards. Even if businesses meet these criteria, they may still face lengthy approval processes, which can deter entrepreneurs from seeking bank financing in the first place (Kraus et al., 2019). As a result, small businesses in many regions are forced to rely on informal funding sources, such as personal savings, family loans, or informal lending groups, which may limit their ability to scale and grow their operations effectively.

Another significant barrier is the high cost of financing, which includes interest rates, fees, and other hidden charges associated with borrowing. In many developing economies, where the financial system is less developed and access to credit is limited, the cost of financing from formal lenders can be prohibitively high (Gonzalez & Martin, 2022). For example, microfinance institutions, while providing essential funding to underserved entrepreneurs, often charge higher interest rates than commercial banks due to the increased risk of lending to small businesses. These higher costs can limit the ability of small firms to borrow funds in the first place and can make it difficult for them to repay loans, particularly if they are in the early stages of their development. Furthermore, the inability to access affordable financing often leads to over-reliance on expensive short-term loans or high-interest credit, which can create a cycle of debt that is difficult for small businesses to escape. The high cost of financing disproportionately affects small businesses in industries with low-profit margins, further exacerbating their challenges and limiting their potential for growth (Batista et al., 2023).

In addition to cost and strict lending criteria, small businesses also face significant barriers due to limited financial literacy and a lack of understanding of the available financial products and services. Many entrepreneurs, particularly in developing countries, lack the knowledge required to navigate complex financial systems or effectively manage their business finances (Suri & Jack, 2021). Without the necessary skills, business owners are often unable to prepare the financial statements or business plans that lenders require, further hindering their chances of obtaining financing. Financial illiteracy can also lead to poor decision-making when it comes to selecting appropriate financing options, resulting in businesses either choosing unsuitable loan products or

failing to seek the financing they need altogether. This lack of financial literacy is especially prevalent in rural areas, where small businesses are less likely to have access to professional financial advisors or business development services. Furthermore, small businesses often lack the skills to manage cash flow efficiently, which can make it even harder for them to repay loans or attract additional investment (Beck &Demirguc-Kunt, 2020). This lack of knowledge highlights the need for enhanced financial education and training programs tailored to small business owners, particularly in emerging markets.

Finally, the geographic and technological divide represents another significant barrier to accessing finance, particularly for small businesses located in rural or remote areas. In many developing countries, financial institutions tend to focus their services in urban centers, leaving rural entrepreneurs with limited access to financial products and services. Traditional banking infrastructure, including physical branches and ATMs, may be sparse in rural regions, making it difficult for entrepreneurs to access credit even if they meet the necessary criteria (Mbiti& Weil, 2020). Moreover, as digital financial services (DFS) such as mobile money and online lending platforms become more prominent, there is a growing divide between those who have access to the necessary technology and those who do not. Many small businesses in underserved areas lack access to reliable internet, smartphones, or the digital literacy required to use these platforms, which limits their ability to leverage alternative sources of financing. While mobile money platforms like M-Pesa have been transformative in increasing financial inclusion in some countries, the benefits are not always evenly distributed, particularly for the most marginalized groups. To bridge this gap, it is crucial for governments, financial institutions, and fintech companies to work together to enhance infrastructure and digital literacy, ensuring that small businesses across all regions can access the financing they need to thrive (Jagtiani& Lemieux, 2021).

## **2.10. Access to Informal Finance**

Access to informal finance remains an important source of capital for many small businesses, especially in developing countries where formal financial systems may be underdeveloped or inaccessible. Informal finance typically refers to funding obtained outside of traditional financial institutions, such as personal loans from family members, friends, or community-based lending groups. This source of financing plays a crucial role in supporting microenterprises and start-ups,

as these businesses often lack the collateral or credit history required to secure formal loans (Suri & Jack, 2021). In many parts of the world, informal finance is deeply embedded in social and cultural systems, where trust-based lending practices allow entrepreneurs to access capital quickly and with fewer bureaucratic hurdles. The advantage of informal finance is its flexibility loans from family or friends can come with lower interest rates or no interest at all, and repayment schedules can often be adjusted according to the borrower's ability to pay (Pérez, 2021). However, informal finance carries risks such as the potential for strained personal relationships or the lack of legal protections in the event of non-payment, which can negatively impact business operations if not managed carefully.

In addition to personal networks, community-based lending practices such as rotating savings and credit associations (ROSCAs) and informal village savings groups are popular methods of accessing finance in many low-income and rural areas (Gonzalez & Martin, 2022). These systems, where small groups of people contribute to a collective fund and take turns receiving the pooled amount, offer small business owners an alternative to formal financing. ROSCAs have the advantage of being relatively accessible and inclusive, especially for individuals without formal financial records or credit history. Moreover, these informal financial networks can foster a sense of community and mutual support among participants, making them especially valuable in cultures with limited access to banking services (Mbiti & Weil, 2020). However, despite their benefits, informal finance mechanisms often lack the scalability required for larger enterprises or those looking to grow significantly. Additionally, the absence of legal contracts or formal agreements means that businesses relying on informal finance may face challenges in terms of accountability and dispute resolution, which can hinder long-term financial stability. As a result, while informal finance provides critical access to capital for small businesses, it is often best used as a complement to formal financing sources, not a replacement.

### **2.11. Formal Financial Institutions**

Formal financial institutions, such as commercial banks, development banks, and credit unions, play a crucial role in providing financing to small businesses. These institutions offer a range of financial products, including loans, lines of credit, and working capital financing, which are essential for small enterprises seeking to expand or meet operational needs (Beck & Demirgüç-Kunt, 2020). Commercial banks are the most common source of financing for established

businesses with strong credit histories, as they provide loans at competitive interest rates, particularly for those with collateral to secure the loan. However, accessing bank finance can be challenging for small businesses, particularly those in the start-up phase, due to stringent requirements for collateral, solid business plans, and proven profitability. In response to these challenges, some banks have designed special lending programs for small businesses, such as microloans and credit lines for SMEs, which are intended to address the specific needs of smaller firms (Gonzalez & Martin, 2022). Development banks, especially in emerging economies, also offer favorable financing terms to promote entrepreneurship and job creation, often backed by government initiatives. These financial institutions play a vital role in supporting sectors that are seen as high-priority for national development, such as agriculture, manufacturing, and technology.

Despite their importance, formal financial institutions face several challenges in serving small businesses effectively. One major barrier is the high cost of accessing finance, which includes not only interest rates but also fees, administrative costs, and collateral requirements (Pérez, 2021). Small businesses often lack the financial resources or assets required to meet the collateral demands of traditional banks, limiting their ability to access credit, particularly in the early stages of growth. In addition, banks may impose long approval processes that delay the availability of funds, which can be particularly problematic for businesses needing quick access to capital for operational expenses. This can result in small businesses resorting to more expensive or informal funding sources. Furthermore, many small businesses, particularly in rural or underserved regions, lack proximity to physical bank branches, making it difficult for them to access financial products (Suri & Jack, 2021). To address these challenges, some financial institutions are leveraging digital banking platforms and mobile money services to provide more accessible and flexible financial solutions, thus enhancing financial inclusion and improving access to credit for small businesses, especially in developing countries. However, while these efforts are beneficial, barriers related to financial literacy, infrastructure, and regulatory constraints remain significant challenges for small businesses seeking to engage with formal financial institutions.

## **2.12. Micro finance institutions and their role in financing small businesses**

Microfinance institutions (MFIs) have become pivotal players in providing financial services to small businesses, particularly in developing countries where access to traditional banking services is limited. MFIs primarily focus on serving low-income individuals and microenterprises that are unable to access loans from commercial banks due to a lack of collateral, credit history, or formal business records. Through microloans, which are typically smaller amounts with more flexible terms, MFIs empower entrepreneurs to start or expand their small businesses, often in sectors like agriculture, retail, and services (Morduch, 2019). Microfinance is especially important in rural and underserved areas where access to formal financial institutions is minimal or non-existent. The ability of MFIs to provide unsecured loans is a game-changer for entrepreneurs who would otherwise be excluded from the formal financial system, helping to reduce poverty and stimulate local economic growth (Suri & Jack, 2021). Furthermore, MFIs often provide financial literacy training and business development services alongside their loans, which increases the chances of business success and repayment rates, thereby improving the overall impact of the financing provided.

One of the key strengths of microfinance institutions is their ability to offer small loans to individuals with little to no formal credit history, which is often a major barrier for small businesses seeking financing from commercial banks. MFIs typically use alternative methods to assess creditworthiness, such as evaluating the business owner's character, social connections, and local reputation, rather than relying on conventional financial records (Gonzalez & Martin, 2022). This approach is particularly beneficial for women entrepreneurs, who are often underserved by traditional banks due to cultural or societal factors. For example, Grameen Bank, one of the most famous microfinance institutions, has had a profound impact on female entrepreneurship in countries like Bangladesh by providing women with the financial means to start small businesses and improve their families' livelihoods (Morduch, 2019). While microfinance institutions offer a crucial lifeline for small businesses in emerging economies, challenges persist, including high interest rates, limited loan sizes, and the risk of over-indebtedness for borrowers who take out multiple loans from different sources. Despite these challenges, MFIs remain an essential tool for promoting financial inclusion and entrepreneurship in developing markets.

However, the impact of microfinance institutions on the long-term growth of small businesses remains a subject of ongoing debate. While microfinance has been shown to increase business creation and reduce poverty, some studies suggest that its effectiveness in stimulating sustainable growth is mixed. Small loans from MFIs may be sufficient to support the initial stages of a business, but many entrepreneurs find that these funds are not enough to scale or diversify their operations (Batista et al., 2023). Moreover, the absence of larger-scale financing options can limit the growth potential of microenterprises, particularly in industries that require higher capital investment, such as manufacturing or technology. Some MFIs have attempted to bridge this gap by providing larger loans or offering other financial products, such as savings accounts, insurance, and credit for larger enterprises (Gonzalez & Martin, 2022). Nonetheless, the lack of access to more substantial funding options remains a significant barrier for small businesses looking to expand beyond the initial stages. As microfinance continues to evolve, it is increasingly clear that it must be integrated with other financing mechanisms, such as venture capital or formal banking services, to create a more comprehensive ecosystem for supporting the growth of small businesses.

### **2.13. Government Regulation and Its Role for Accessing Credit to Small Business**

Government regulation plays a critical role in shaping the access to credit for small businesses by creating the necessary framework for financial markets to function efficiently and equitably. Regulations designed to ensure financial stability, transparency, and fairness in lending practices are essential for building trust between lenders and borrowers. One important area of regulation involves the creation of credit bureaus and systems that enable financial institutions to assess the creditworthiness of small businesses. In many developed economies, the establishment of such systems has been instrumental in expanding access to credit for small businesses by providing lenders with more reliable data to make lending decisions (Beck & Demirguc-Kunt, 2020). Additionally, government-imposed regulations such as interest rate caps, disclosure requirements, and anti-discrimination laws aim to protect small businesses from exploitative lending practices, ensuring that credit is extended under fair and transparent terms. These regulations foster a healthy lending environment, which can lead to greater financial inclusion for small businesses, particularly those in underserved sectors.

Furthermore, government policies aimed at de-risking lending for small businesses can enhance their access to credit. Many governments implement loan guarantee programs that reduce the risk faced by financial institutions when lending to small businesses. These guarantees typically cover a portion of the loan in the event of default, incentivizing banks to extend credit to businesses they would otherwise consider too risky (Pérez, 2021). For example, the U.S. Small Business Administration (SBA) offers loan programs like the 7(a) loan guarantee, which has been crucial in supporting small business growth by making credit more accessible to businesses that do not have sufficient collateral or credit history to qualify for conventional bank loans. Such government-backed loan guarantee schemes help bridge the financing gap for small businesses and make them more attractive to lenders, thus improving the overall availability of credit (U.S. Small Business Administration, 2021). These initiatives can be particularly important for new businesses and those in developing sectors that are perceived as higher-risk but have significant growth potential.

In addition to loan guarantees, governments can also play an essential role in promoting access to credit by providing targeted financial support and incentives to specific industries or sectors. For instance, during the COVID-19 pandemic, many governments around the world introduced emergency financial support programs that directly targeted small businesses, offering grants, low-interest loans, and deferred repayments to help businesses weather the crisis (Gonzalez & Martin, 2022). Such regulatory interventions not only provide short-term relief but also encourage long-term growth by creating an environment where businesses can continue to operate, even under financial strain. Governments can also introduce sector-specific policies that facilitate access to credit for certain groups, such as women entrepreneurs or small businesses in rural areas. By offering tax incentives or reduced lending fees for businesses in these sectors, governments can increase the flow of capital to historically underserved groups and promote inclusive economic development. However, these policies must be carefully designed to avoid over-regulation, which could stifle lending activity by imposing unnecessary compliance burdens on financial institutions.

Moreover, government regulations that enhance the overall business environment can indirectly improve small businesses' access to credit by fostering a more predictable and stable economic environment. When small businesses face uncertainty due to political instability, unpredictable regulatory changes, or inconsistent enforcement of contracts, their ability to access credit

diminishes. Lenders are less likely to extend credit to businesses operating in an unstable environment due to the higher perceived risk of default. Therefore, the establishment of clear, stable, and transparent regulations is crucial to promoting investor confidence in small business financing (Suri & Jack, 2021). For example, simplifying the process for business registration and licensing can reduce the administrative burdens that small businesses face, making it easier for them to access financial products. Likewise, the protection of intellectual property rights and the enforcement of contracts strengthen the business environment by providing assurance to both lenders and borrowers that their investments are legally protected. In this sense, government regulations that create a stable, transparent, and well-functioning business environment have a far-reaching impact on the ease with which small businesses can obtain credit.

However, while government regulation can significantly improve access to credit for small businesses, there are also challenges and limitations that need to be addressed. One key concern is the risk of regulatory overreach, where well-intentioned policies inadvertently increase the cost of credit or restrict access to finance. For example, regulations that impose high compliance costs or complex reporting requirements on lenders can reduce their willingness to lend to small businesses, especially those in the early stages of development (Gera & Singh, 2020). Additionally, overly strict capital adequacy requirements or restrictions on the types of collateral that can be used may limit the range of financing products available to small firms. In developing countries, where regulatory frameworks are often less robust, the lack of enforcement of credit-related regulations can also create challenges for small businesses seeking credit, as lenders may not be incentivized to adhere to fair lending practices. Therefore, it is essential for governments to strike a balance between ensuring a fair and transparent lending environment and avoiding overly burdensome regulations that may discourage lending and limit access to credit for small businesses.

#### **2.14. Empirical studies related to small and medium enterprise access to finance**

Access to finance remains one of the most significant challenges faced by small and medium enterprises (SMEs) globally. A growing body of empirical research has sought to understand the barriers that hinder small businesses from obtaining necessary financial support. International studies have consistently identified common obstacles, including limited access to formal credit, high-interest rates, and insufficient collateral. For instance, a study by Beck and Demirguc-Kunt

(2020) analyzed the constraints on small business financing across different economies and found that businesses in developing countries face particularly high barriers to accessing financial services due to the underdevelopment of financial markets and limited access to banking infrastructure. Furthermore, studies from South Asia and Sub-Saharan Africa have highlighted the critical role that microfinance institutions (MFIs) play in filling the financing gap for small enterprises, as they are often more willing to lend to businesses that lack the collateral or credit history required by traditional banks (Pérez, 2021). However, while microfinance has proven valuable, it is often insufficient to meet the growing financing needs of small businesses, particularly as they scale or diversify operations.

In Ethiopia, the financial environment for small businesses presents unique challenges and opportunities. A study by Alemu (2022) explored the difficulties faced by small business owners in accessing finance, particularly focusing on the role of government policy and the banking sector. Ethiopia has a relatively underdeveloped financial system, with most businesses, particularly in rural areas, unable to access formal credit due to high collateral requirements and stringent loan conditions. Alemu's research further highlighted that the government has implemented various initiatives to support small enterprises, such as the establishment of the microfinance institution network, which aims to offer microloans to underserved businesses. However, despite these efforts, the study found that many small businesses still struggle with high-interest rates and lengthy loan approval processes. Additionally, the lack of financial literacy among business owners is a significant barrier, as many entrepreneurs are unaware of the financial products available to them or fail to meet the documentation requirements for obtaining loans.

Another study by Assefa and Bekele (2021) examined the relationship between access to finance and the growth of small businesses in Ethiopia. The researchers found that while microfinance institutions (MFIs) have played an important role in providing initial capital for small business ventures, the loan amounts offered are typically too small to foster sustainable business growth. This limitation is compounded by the high cost of borrowing and the low repayment periods, which often place significant strain on small business owners. Assefa and Bekele's findings indicated that small businesses that rely solely on microfinance tend to face liquidity challenges, particularly as they attempt to scale up operations. The study also identified that Ethiopian banks are less inclined to lend to small businesses due to the perceived high risk, especially for start-

ups without collateral. Thus, there is a need for financial products that cater specifically to the needs of growing small enterprises, including long-term loans with more flexible repayment terms.

International studies have also shed light on the role of informal finance in supporting small businesses, which is especially relevant in developing economies such as Ethiopia. According to a study by Fosu and Oppong (2020), informal financing options, such as loans from family members, friends, and community-based lending groups, remain a critical source of capital for small businesses, particularly in the early stages of development. In Ethiopia, informal finance plays an even more significant role due to the limited reach of formal financial institutions, especially in rural and underserved areas. The study found that while informal financing is more accessible and flexible, it lacks the necessary structures to support sustainable business growth. Furthermore, informal loans often come with high social and personal costs, including strained relationships and the risk of default, which may hinder business operations in the long term. Fosu and Oppong's findings suggest that while informal finance is crucial for small business survival, it needs to be complemented by more formalized financial products that offer long-term stability and growth potential.

A comparative study by Gonzalez and Martin (2022) explored the differences in small business financing between Ethiopia and neighboring East African countries. The research revealed that Ethiopian businesses face particularly challenging conditions in accessing both formal and informal credit compared to businesses in Kenya, Uganda, and Tanzania. In Ethiopia, the regulatory environment is often seen as restrictive, with many businesses unable to meet the stringent requirements of formal financial institutions. However, the study also highlighted that Ethiopia has been gradually making progress in improving its financial inclusion landscape, particularly through digital financial services and the expansion of mobile money platforms. Despite these advancements, Gonzalez and Martin concluded that access to finance remains limited for small businesses, particularly in rural areas where financial infrastructure is weak. They recommended that policymakers in Ethiopia focus on improving financial literacy, developing more inclusive credit products, and promoting private sector involvement in microfinance and small business financing. These findings underscore the need for a more robust and inclusive financial ecosystem that can effectively meet the diverse needs of small businesses.

## **2.15. Literature Gap**

While existing studies, such as those by Assefa and Bekele (2021), focus on microfinance and its role in providing initial capital to small businesses in Ethiopia, there is a significant gap in understanding long-term financing options that cater to the growing needs of SMEs. Most microloans provided by MFIs are small and short-term, limiting the ability of businesses to scale. There is a need for research that explores innovative long-term financing products, such as flexible repayment loans or equity-based financing, specifically designed to meet the evolving needs of small businesses as they grow.

Although research by Gonzalez and Martin (2022) suggests that Ethiopia is making strides in improving financial inclusion through digital financial services and mobile money platforms, there is limited empirical evidence on the effectiveness of these services in meeting the financing needs of SMEs. A gap exists in understanding how digital finance tools can be better leveraged to provide more accessible, affordable, and scalable financial products for small businesses, especially in rural and underserved areas. More research is needed to assess the impact of these innovations on small business growth and their integration into the broader financial ecosystem.

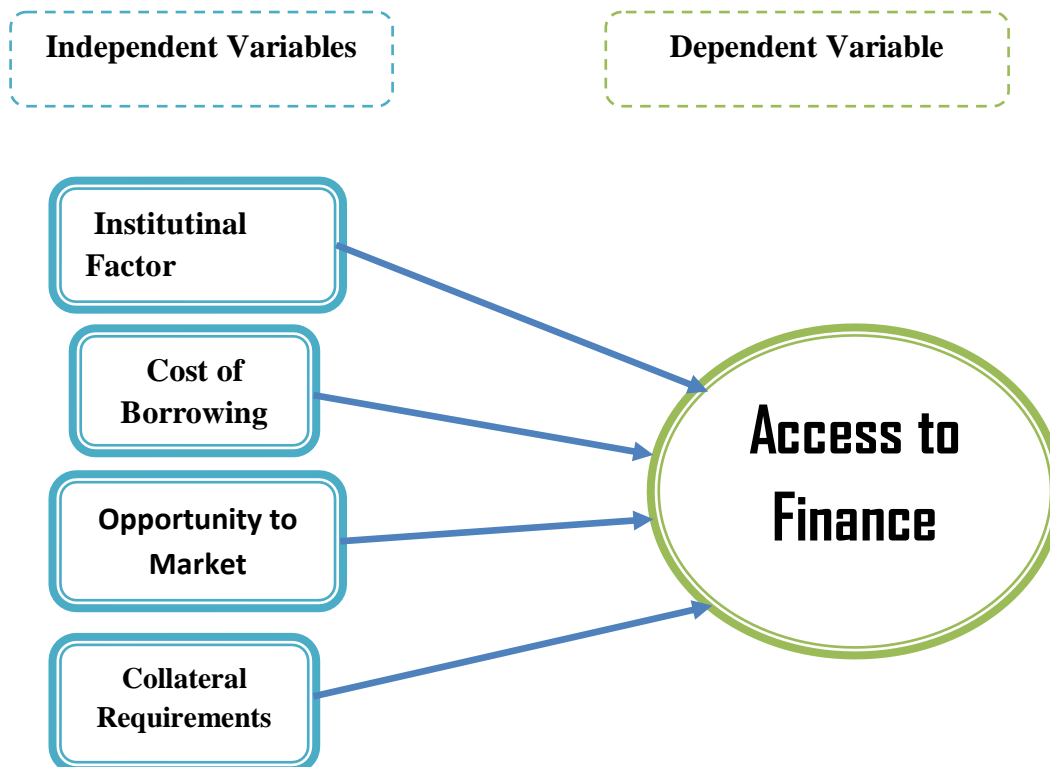
Several studies, including Alemu (2022), highlight the issue of limited financial literacy among small business owners as a significant barrier to accessing formal financial services. However, there is insufficient research on the specific ways in which enhancing financial literacy can improve access to finance. A deeper investigation into the role of entrepreneurial education programs in bridging the knowledge gap about available financial products and services could help small business owners make informed decisions and effectively navigate the complexities of the financial system.

While some comparative studies (such as Gonzalez and Martin, 2022) provide valuable insights into differences in small business financing between Ethiopia and its East African neighbors, there is a need for a more comprehensive, cross-regional study that examines a broader range of developing countries. Such research could offer a deeper understanding of how contextual factors, such as the level of financial market development, government policies, and the role of informal finance, influence access to credit and the growth prospects of SMEs. This would help policymakers design more targeted, region-specific interventions to improve the financing environment for small businesses globally.

## 2.16. Conceptual Framework of the Study

The conceptual framework of this study shows the focus on the factors influencing access to finance by small business enterprises. The variables in the conceptual framework was tested as hypotheses to establish the relationships between variables. The independent variables of this study include the institutional factor, cost of borrowing, opportunity to market and collateral requirements.

**Figure 2.1:** Conceptual Framework of the Study



**Figure 2.1** (Conceptual Framework; as modified and developed by the Researcher, 2024)

## CHAPTER THREE

### RESEARCH DESIGN AND METHODOLOGY

#### 3.1. Description of the study area

Yirgalem is a town located in the Sidama Regional State of Ethiopia, approximately 40 km south of Hawassa and 315 km south of Addis Ababa. It serves as the administrative center of Dale Woreda and is situated at an elevation of 1,776 meters above sea level. The town is positioned at coordinates 6°45'N latitude and 38°25'E longitude. Yirgalem's strategic location places it within easy reach of other places in southern Ethiopia and Lake Langano, enhancing its accessibility and connectivity. The town's proximity to major roads facilitates transportation and trade, contributing to its economic significance in the region. Additionally, Yirgalem's elevation provides a favorable climate for agriculture, supporting its role as an agricultural hub. The town's administrative importance is underscored by its designation as the capital of Dale Woreda, centralizing governance and services for the surrounding areas (Yirgalem City Administration, 2025).

Yirgalem experiences a tropical savanna climate under the Köppen classification, characterized by distinct wet and dry seasons. The town's average annual temperature ranges from 14°C to 30°C, providing a conducive environment for various agricultural activities. Rainfall is bimodal, with peaks in April, June, and August, contributing to an annual precipitation varying between 1,138 and 1,690 mm. This rainfall pattern supports the cultivation of diverse crops, including coffee, fruits, and vegetables. The fertile and sub-tropical land in the area enhances soil fertility, making it suitable for both subsistence and commercial agriculture. The favorable climate and environmental conditions have attracted investments in agro-processing industries, further boosting the local economy. Efforts to maintain environmental sustainability are evident in the establishment of infrastructure such as sewerage treatment plants and solid waste recycling facilities within the Yirgalem Integrated Agro-Industrial Park (ibid).

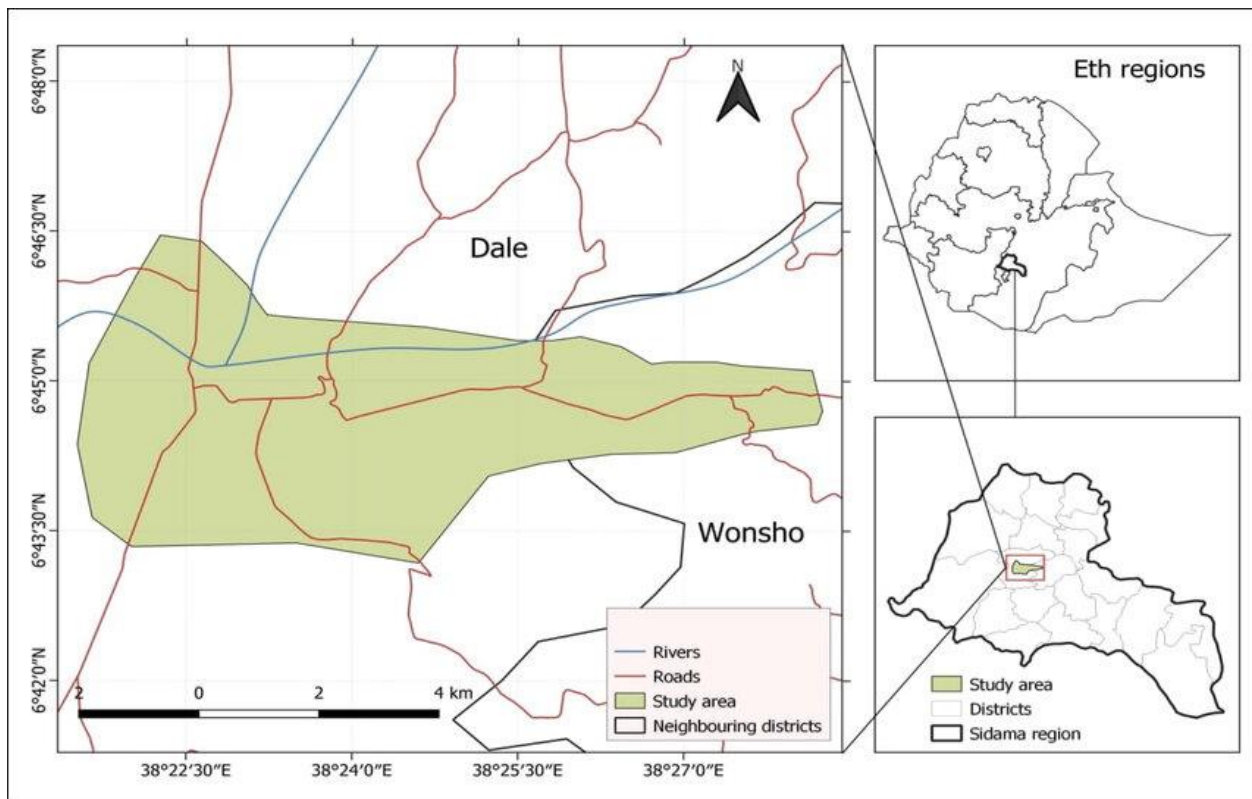
Yirgalem holds historical importance as the former capital of Sidama Province during the reign of Emperor Haile Selassie, the Italian occupation, and the early years of the Derg regime. The town's rich cultural heritage is reflected in its numerous Orthodox churches, including Saint Amanuel, Saint Arsema, and Saint Mary's. These religious sites serve as centers of worship and community gatherings, preserving the town's spiritual traditions. Sacred springs and caves, such

as the Saint Mary cave and RasDesta cave, add to the town's cultural landscape, attracting visitors and researchers interested in Ethiopia's religious history. Yirgalem's role as a cultural hub is further emphasized by its involvement in community-based health insurance programs, which aim to improve healthcare access and outcomes for local populations. These initiatives reflect the town's commitment to preserving its cultural heritage while promoting social development.

Yirgalem is a significant economic center in the Sidama Region, primarily due to the establishment of the Yirgalem Integrated Agro-Industrial Park (IAIP). Inaugurated in March 2021, the IAIP spans 294.5 hectares and specializes in agro-processing, focusing on products such as coffee, avocado, soybean, milk, honey, and animal feed. The park has attracted 24 investors with a combined registered capital of 9.5 billion Birr, leading to the creation of approximately 17,000 jobs and market linkages for 130,000 farmers. These developments contribute to poverty reduction and provide a better environment for investors in agro-food and allied sectors. The IAIP's infrastructure includes modern facilities and services that support the processing and export of agricultural products, enhancing the region's competitiveness in international markets. The park's establishment aligns with Ethiopia's broader industrialization goals, aiming to transform the economy through value-added processing and export diversification (IAIP, 2025).

Yirgalem is committed to improving the well-being of its residents through the provision of essential social services. The town is served by one general hospital, one health center, and ten health posts, ensuring access to healthcare for its population. Educational facilities are also available, with schools offering primary and secondary education to local children. Community welfare initiatives include the construction of potable water supply systems, schools, and health facilities, aimed at enhancing the quality of life for residents. These efforts are supported by both government and non-governmental organizations, reflecting a collaborative approach to community development. Additionally, the town's involvement in community-based health insurance programs demonstrates a proactive stance in addressing healthcare challenges and promoting health equity. These services and initiatives contribute to the overall development and prosperity of Yirgalem and its surrounding areas (Sidama Tourism Board, 2024).

As of the 2013 Ethiopian Calendar (2020/2021), Yirgalem's population is estimated at 64,507, with a near-equal distribution between males and females. The town's population has been steadily growing, driven by factors such as rural-urban migration, economic opportunities, and improved living standards. This demographic trend presents both opportunities and challenges for urban planning and service delivery. Efforts are underway to address the needs of the growing population through infrastructure development, including the expansion of roads, utilities, and public services. The establishment of the Yirgalem IAIP has also contributed to population growth by creating employment opportunities and attracting people seeking work in the agro-industrial sector. The town's demographic dynamics necessitate continuous planning and investment to ensure sustainable development and the provision of adequate services.



**Source:** Yirgalem City Administration, (2025)

**Figure 3.1:** Map of the Study area

### 3.2. Research Design

Researcher was used mixed research methods, descriptive and explanatory research analysis. A research technique called descriptive research outlines the features of a population or

phenomenon. A research design, according to Bhattacharjee (2012), is a detailed plan for gathering data for an empirical research study. Additionally, it has identified the two types of data gathering methods: qualitative and quantitative design that are employed in scientific research. It should be highlighted that, despite the apparent division between both approaches, collecting qualitative data does not always preclude quantitative design, and vice versa. Therefore, it may be preferable to use "mixed-mode designs," which incorporate elements of both quantitative and qualitative designs and gather both kinds of data. A mixed method using a qualitative and quantitative design is used to meet the research objectives. This kind of mixed methods design was used to collect data that cannot be collected by utilizing a single method. It also serves the purpose of triangulating data so that, whenever possible, the conclusions drawn from a single methodology can be supported by additional research.

### **3.3. Research Approach**

This study employed a mixed-methods research approach, which combines both qualitative and quantitative methodologies to provide a comprehensive understanding of the determinants of access to finance for Small and Medium Enterprises (SMEs) in Yirgalem Town. The integration of these two approaches allows the researcher to capitalize on the strengths of each method. Quantitative data was used to gather measurable and statistically analyzable information from a broad sample of SME operators, focusing on factors such as collateral availability, interest rates, and access to credit. This helped identify patterns, correlations, and the general extent of financial access challenges in the study area.

On the other hand, qualitative methods such as interviews and open-ended questionnaires were utilized to capture deeper insights, personal experiences, and contextual factors that quantitative methods alone could not reveal. These qualitative inputs provided a richer understanding of issues like institutional barriers, informal lending practices, and perceptions of government support. The combination of both approaches ensured a more balanced and reliable analysis, supporting the validity of the findings and enhancing the interpretability of complex, multi-dimensional issues surrounding SME finance. By using this mixed-methods approach, the research aimed to generate well-rounded evidence that can inform both academic inquiry and practical policy recommendations.

### **3.4. Data Type and Data Sources**

Both primary and secondary data were utilized in this study to ensure the reliability and richness of the findings. The primary data was mainly collected through structured and unstructured questionnaires, as well as open and closed interviews conducted with small business owners, managers, and legal representatives. Additional insights were gathered from staff members at the Yirgalem Town Bureau of Jobs, Skills, and Opportunities who possess relevant knowledge about the subject. The questionnaires and interviews were distributed specifically to managers and owners of small businesses operating in the two sub-towns under the Yirgalem Town administration: AradaKifleKetema and FilwuhaKifleKetema. The majority of the primary data was obtained through these interactions, ensuring a grounded understanding of the challenges and experiences faced by SMEs.

Secondary data was gathered from various official documents and reports that highlight the performance and growth of small businesses in the area. This includes data related to financial activities, initial and current capital levels of SMEs, and monthly publications issued by relevant government bodies. Reports from the Yirgalem Town Administration Office on SME development were particularly valuable in providing a broader context and supporting the analysis of trends in SME financing and expansion. Together, the integration of primary and secondary data offered a comprehensive evidence base for understanding the determinants of access to finance for SMEs in Yirgalem Town.

### **3.5. Sample Size And Sampling Techniques**

Target population of researcher is small business enterprise in Sidama region Yirgalem town. Researcher selects Yirgalem town administration as case study and was collected data from small business enterprises operators in the town. According to Yirgalem town administration data recently there are 213 registered small business enterprises have been operating in town a year of 2024. They are divided according to their business types or sectors as follows:

**Table 3.1:**Target population of study

<b>S.No</b>	<b>Busines Types</b>	<b>Population</b>
1	Manufacturing	71
2	Construction sectors	26
3	urban agricultural	19
4	Services providers	68
5	Trade sectors	29
Total		213

Source: Own Construction, (2025)

### 3.6. Sampling Design and Sample Size

A mult stage sampling design was employed in the investigation. Initially, the population of the study was divided into strata, and a stratified random sampling approach was employed to choose a sample representative of each business sector. Following demographic stratification, the researcher chose 68 respondents at random. Because the population under research includes a variety of business kinds, a stratified sample design was employed. Mugenda (2003) states that the ideal sample size is between 10 and 20 percent of the population. As a result, table 3.2 displays the sample that was randomly selected from the population.

Based on Yemane (1967) sample size determination formula, the researcher convinced that it is better to determine the sample size of the study at 90% confidence level and 0.1 level of precision as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where

n: is number of respondents

N: is total population

e: sampling error/level of precision  $e = 0.1$ , Choosing  $e = 0.1$  means researcher aiming for a 10% precision level, which is more reasonable for most surveys a balance between accuracy and resources.

$$n = \frac{213}{1 + 213 (0.1)^2}$$

$$n = 68$$

The total sample size of respondents based on the above sample size determination formula is 68.

**Table 3.2:** Sample and sample size determination of study

S.No	Sector	Total population	Sampling method	Number of firms for case study
1	Manufacturing	71	$(71/213)*68$	23
2	Construction	26	$(26/213)*68$	8
3	Urban Agriculture	19	$(19/213)*68$	6
4	Service Provider	68	$(68/213)*68$	22
5	Trader	29	$(29/213)*68$	9
	Total	213	$(213/213)*68$	68

Source: own construction, (2025)

### 3.7. Sampling Technique

The focus of this study was on small-scale businesses located in Yirgalem Town, within the Sidama region. To gather meaningful data, the researcher carried out a survey targeting this specific population. According to information obtained from the Yirgalem Town Entrepreneurs and Job Opportunities Office, there are a total of 213 officially registered small business enterprises in the area. To ensure a representative sample that could provide reliable insights, the researcher decided to select a portion of these businesses. Using proportional sampling techniques, 68 businesses were chosen from the total 213 registered enterprises. This sample size was considered adequate to reflect the diverse characteristics and financial experiences of the small business community in Yirgalem. By focusing on this group, the study aimed to capture a balanced view of the challenges and opportunities that SMEs face in accessing finance within the local context. The sampling process helped to narrow down the broad population into a manageable number of participants, enabling more detailed data collection and analysis.

### 3.8. Methods Of Data Collection

This study relied on both primary and secondary data sources to collect relevant and accurate information. Primary data was gathered mainly through questionnaires and interviews designed to understand the real experiences of small business owners and operators in Yirgalem Town. The questionnaires included both structured (closed-ended) and unstructured (open-ended)

questions, allowing participants to give both specific and detailed responses. These were distributed to selected SME owners, managers, and employees working in AradaKifleKetema and FilwuhaKifleKetema, the two major sub-towns under Yirgalem's administration. In addition, interviews were conducted with individuals from the Bureau of Jobs, Skills, and Opportunities, as well as other key informants familiar with small business activities in the area. The aim was to collect diverse viewpoints and gain deeper understanding of the barriers related to finance access. On the other hand, secondary data was obtained from published documents such as government reports, administrative records, and SME growth statistics. These helped to support and cross-check the primary data. By combining different sources and tools, the researcher was able to collect balanced and reliable information for the study.

### **3.9. Data Analysis and Presentation**

In this study, all collected data was carefully organized and analyzed using SPSS software, which is a powerful tool for handling statistical data efficiently. To explore the factors that influence whether small businesses can access finance, the researcher applied a binary logit model. This statistical approach is particularly useful because it helps predict the likelihood of a business having access to funds based on different variables, such as business size, collateral, or experience. Using this method allowed the study to pinpoint which factors have the strongest impact.

Before running the model, descriptive statistics were used to summarize the basic characteristics of the surveyed businesses. This involved creating charts, tables, and graphs to show key information like the distribution of business types, average capital, and the general profile of respondents. Presenting data in these formats helps to make the information more understandable and gives a clear overview of the sample. The final analysis aimed to reveal the relationships between access to finance (the outcome) and various influencing factors, providing insights that can support better decision-making for SMEs and policymakers.

### **3.10. Variables Measurement and model Specification**

All of the collected data was processed using the SPSS software program. The binary logit equation model variance method was used. Specifically, descriptive statistics was used to explain the firm's features that are required for assessment and are shown in a variety of graphs and

charts. Examining the relationship between the independent variables and the dependent variable (access to money) is the aim of the findings presentation.

**1. Institutional Factor:** refers to the quality and efficiency of financial institutions, including their regulations, support services, and the overall banking environment that could influence small businesses' ability to secure funding. This variable is measured using a five-point Likert scale, where respondents rate their perceptions of institutional effectiveness.

**2. Cost of Borrowing:** encompasses the total expenses associated with obtaining financing, including interest rates, fees, and related costs that can significantly impact small businesses' decisions to access loans. This variable is also measured on a five-point Likert scale, reflecting how borrowers perceive these costs.

**3. Opportunity to Market:** indicates the potential for small businesses to reach and engage with their target customers, which encompasses market demand, competition, and product sales opportunities. This is likewise assessed using a five-point Likert scale, capturing the respondents' views on market accessibility.

**4. Collateral Requirements:** represent the assets that borrowers must pledge as security for loans, impacting their ability to borrow based on the value and availability of such assets. This variable is measured using a five-point Likert scale, reflecting respondents' perspectives on the strictness of these requirements.

### **Dependent variable**

**Access to Finance**, is measured on a nominal scale as a binary outcome (Disagree for no access and Agree for access), indicating whether small business enterprises in Yirgalem town can secure financial resources.

For My research on "Access to Finance and Its Determinants for Small Business Enterprises," using a binary logit model, the general form of the model equation can be written as follows:

### **Binary Logit Model Equation**

$$\begin{aligned} p(\text{Access to Finance}) &= \ln\left(\frac{p}{p-1}\right) \\ &= \beta_0 + \beta_1 * \text{Institutional Factor} + \beta_2 * \text{Cost of Borrowing} + \beta_3 \\ &\quad * \text{Opportunity to Market} + \beta_4 * \text{Collateral Requirements} \end{aligned}$$

$$Y = \beta_0 + \beta_1 * \text{Institutional Factor} + \beta_2 * \text{Cost of Borrowing} + \beta_3 * \text{Opportunity to Market} + \beta_4 * \text{Collateral Requirements} + \varepsilon$$

-P = Probability of access to finance (dependent variable)

The model equation:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \text{error}$

ln = Ln-odds of access to finance

$\beta_0$  = Intercept term, which represents the log-odds of access to finance when all independent variables are zero

$\beta_1$  = Coefficient for the Institutional Factor

$\beta_2$  = Coefficient for the Cost of Borrowing

$\beta_3$  = Coefficient for the Opportunity to Market

$\beta_4$  = Coefficient for Collateral Requirements

This model would help you analyze how each of these determinants affects the likelihood of small business enterprises in Yirgalem town accessing finance.

### 3.11. Reliability Test

Reliability refers (Bollen & Lenno 1991) to whether the items or indicators variables are sufficient enough to measure the corresponding construct variable and the items are strongly correlated because there are measuring one latent variable. There are two types of Reliability, namely; internal consistency reliability and indicators loading: Internal consistency reliability is tested by composite reliability. See the following table

**Table 3.3:** Reliability test

Reliability Statistics	
Cronbach's Alpha	N of Items
.908	25

Source: Survey result ,(2025)

In this research, researcher used Cronbach's Alpha test reliability which is 0.908 and excellent for all items of questionnaires. The conventional threshold is 0.7 and above (Lance et al. 2009).

### **3.12. Ethical Consideration**

Conducting research requires careful attention to ethical standards to ensure integrity and respect for all participants involved. One of the key ethical principles upheld in this study was honesty in reporting the data. The researcher committed to presenting the findings accurately, without any manipulation or distortion, to reflect the true results of the investigation. Additionally, proper credit was given to all sources and references used throughout the research, recognizing the work of others and avoiding plagiarism.

To follow widely accepted ethical guidelines, several important measures were taken during the study. First, the purpose and objectives of the research were clearly explained to all interviewees before data collection began, ensuring transparency. Participation was entirely voluntary, allowing respondents the freedom to decide whether or not to be involved without any pressure or coercion. Finally, the confidentiality of all information provided by participants was strictly maintained. Personal details and sensitive data were handled with care to protect privacy and build trust between the researcher and respondents. These ethical considerations helped create a respectful and trustworthy research environment.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND DISCUSSION OF THE RESULTS**

This chapter deals about the analysis of data that were obtained from the respondents through structured&unstructure questionnaire,open and closed interviews and key informants in Yirgalem town Sidama Regional state of Ethiopia

Before analysis of data, the researcher has sent out of sixty eight (68) questionnaires out of which sixty five (65) were duly filled and returned which is 95.59%. As cited by Margaret (2015), according to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a response rate of 60% is good and that of 70% and above is very good. This implies that most of the respondents have participated in process of data collection. Thus, the return rate of 95.59% this survey was relatively higher and therefore deemed acceptable for the study. Accordingly, the results of this study discussed in this chapter as follows.

## 4.1. The Result of Descriptive Statistics

### 4.1.1. Profile of the respondents

**Table 4.1:** Respondents profile

No.	Question	Response Options	Frequency (f)	Percentage (%)
1.	Gender	Female	35	53.85%
		Male	30	46.15%
2.	Occupation	A. Employee/Manager	25	38.46%
		B. Owner/Manager	30	46.15%
		C. Shareholder	10	15.38%
3.	Main Activity/Sector of your Company	Construction sector	10	15.38%
		Manufacturing sector	15	23.08%
		Trader	20	30.77%
		Urban Agricultural	5	7.69%
		Services sector	15	23.08%
4.	How many employees does your company currently employ?	From 1 employee to 10 employees	30	46.15%
		From 11 to 30 employees	20	30.77%
		From 31 to 50 employees	15	23.08%
5.	Where does your business capital fall currently?	Less than Birr 100,000	20	30.77%
		Between 100,000 to 500,000	25	38.46%
		Between 500,001 to 1,000,000	15	23.08%
		Above 1,000,000	5	7.69%
6.	How long has the business been in the market?	More than 10 years	10	15.38%
		Between 5 and 10 years	25	38.46%
		Between 2 and 5 years	20	30.77%
		Less than 2 years	10	15.38%

Source: survey result, (2025)

The respondent information from the study on access to finance for small business enterprises in Yirgalem Town, Sidama Regional State of Ethiopia reveals a diverse yet predominantly small-scale business landscape. Of the 65 respondents, a majority of 53.85% were female, while 46.15% were male, suggesting a relatively balanced gender representation. In terms of occupation, 46.15% of the respondents were Owner/Managers, indicating a strong presence of entrepreneurs directly involved in managing their businesses. Meanwhile, 38.46% were Employee/Managers, and a smaller portion, 15.38%, were Shareholders. These figures suggest that most of the respondents have active roles in the businesses they are associated with, with a significant portion engaged in ownership and management.

The main sectors represented in the study were trading (30.77%), services (23.08%), and manufacturing (23.08%), with smaller segments in the construction and urban agriculture sectors. The data indicates that a majority of the businesses are micro-enterprises, as 46.15% of the respondents employ between 1 and 10 people, and 30.77% employ between 11 and 30 people. Additionally, most businesses have relatively modest capital, with 38.46% having capital between 100,000 to 500,000 Birr. The majority of businesses have been in operation for less than 10 years, with 38.46% operating between 5 and 10 years. This profile of small businesses indicates a dynamic, but still emerging, entrepreneurial environment in Yirgalem, with a significant portion of businesses still in their early growth stages.

#### 4.1.2. Current Capital, Operating, and Source of Finance of Small and medium Enterprises

**Table 4.2:** Current Capital, Operating, and Source of Finance of Small and medium Enterprises (SMEs) in Yirgalem Town

<b>Capital Type</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Current Capital</b>		
Personal Savings	33	49%
Family and Friends Support	20	31%
Bank Loan	7	10%
Microfinance Institutions	3	5%
Other (Informal sources)	3	5%
<b>Operating Finance</b>		
Sales Revenue	39	58%
Bank Loan	13	20%
Personal Savings	7	11%
Microfinance Institutions	7	11%
<b>Source of Finance</b>		
Personal Savings	26	37%
Bank Loan	16	24%
Family and Friends Support	2	18%
Microfinance Institutions	7	11%
Government Grants	3	5%
Other (Informal sources)	3	5%
	65	100%

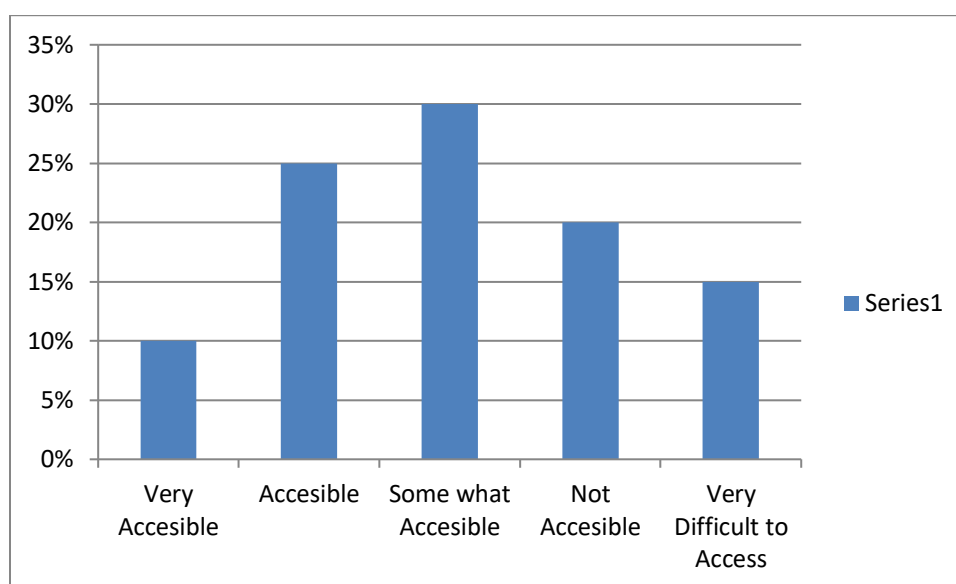
Source: Survey result, (2025)

Personal savings form the largest source of capital (49%). This suggests that small business owners rely heavily on their own funds, which could indicate limited access to external financing options. Family and Friends Support (31%) is also significant. This is a common financing mechanism for small businesses, especially in developing economies, where formal financial systems might be less accessible or trust in banks may be low. Bank Loans (10%) and Microfinance Institutions (5%) indicate that external formal financing sources are not widely utilized. This may be due to barriers such as high-interest rates, stringent collateral requirements, or lack of awareness about available products.

The majority of businesses (58%) finance their operations through sales revenue. This is a healthy sign for businesses that are able to generate sufficient revenue to sustain operations. However, it may also reflect challenges in accessing credit, as businesses that can't secure loans will depend on their operational income. Bank loans (20%) and Microfinance Institutions (11%) again show that external financial support is somewhat limited but still relevant for some businesses.

The dominance of personal savings (37%) here reinforces the earlier finding that self-financing is a key characteristic of small businesses in the area. Bank loans (24%) and Family and Friends Support (18%) remain important sources, though still less than personal savings, suggesting a moderate level of reliance on external sources, but not on the scale that might be needed for business growth and scaling. Government Grants (5%) are relatively underutilized, indicating that either government programs are not well known, or small businesses may find it difficult to qualify or apply for such grants.

### 4.1.3. Source of Finance for SMEs



Source: Excel result, (2025)

**Figure 4.1:** Source of Finance for SMEs

The largest proportion of financing comes from personal savings, indicating that many small business owners rely on their own resources to start or maintain their businesses. This is typical in regions with limited access to formal financial institutions or high borrowing costs. However, heavy reliance on personal savings can restrict growth potential as businesses may not have enough capital to scale up operations.

A significant portion of financing comes from family and friends. This source often plays a critical role in financing small businesses, especially in areas where formal financial systems are underdeveloped. While this is often faster and less formal than bank loans, it may lead to personal risks, as the owners may have limited means to repay if the business fails.

Bank loans account for 15%, suggesting that access to formal credit is somewhat limited. Factors such as high interest rates, collateral requirements, and lack of credit history might explain why only a relatively small portion of businesses are using bank loans. This could indicate a need for more accessible and affordable credit options for small enterprises.

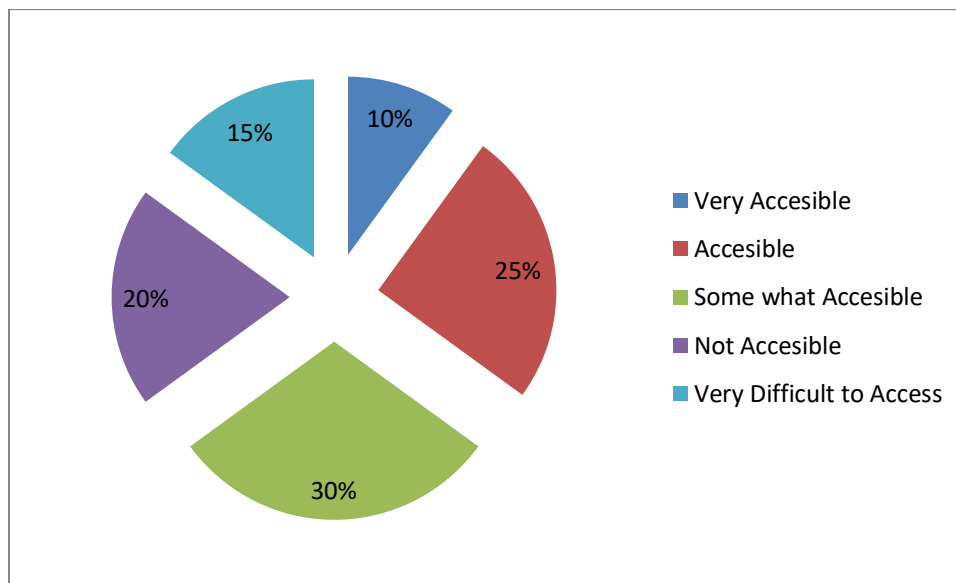
Microfinance institutions play a role but represent a smaller portion of financing. Microfinance is typically targeted at smaller businesses, but barriers such as stringent eligibility criteria or low

loan limits might limit its wider use. Increasing outreach and simplifying the application process could improve its adoption rate.

Government grants make up 10%, which is a relatively small proportion. This suggests that either government support programs are under-utilized or that small businesses are not fully aware of available grants. If government grants are accessible, they could be a valuable source of non-repayable capital to support business growth and reduce dependence on debt.

Other informal sources (e.g., community-based lending, local cooperatives) account for 5%. While less common, informal sources can be crucial in regions with limited access to formal financial institutions. However, informal finance may come with higher risks, such as high-interest rates and less favorable terms.

#### 4.1.4. Loan Accessibility for Small Businesses



Source: Excel result, (2025)

**Figure 4.2:** Loan/Finance Accessibility for Small Businesses

A relatively small portion of businesses find finance very accessible. This could suggest that only a limited number of businesses in YirgAlem Town have easy access to loans or other financial products. Factors such as proximity to financial institutions, good credit history, and low collateral requirements may contribute to this small proportion.

Figure above displays only 10% of respondents responded as there is very accessible finance; 25% of businesses find finance accessible, meaning that a quarter of the respondents have no major issues securing funding. While this is an encouraging sign, it also shows that there is a significant gap, as most businesses are still facing some challenges when it comes to obtaining finance. This group might have access to microfinance or informal financial sources, but there may still be constraints such as high interest rates or short loan terms.

30% of businesses find finance somewhat accessible, which implies moderate difficulty. While they are able to secure some funding, businesses in this category likely face challenges such as lack of proper collateral, high-interest rates, or limited loan amounts that are insufficient for their needs. This highlights a significant barrier to growth, as many businesses are only able to access financing on a limited or temporary basis.

20% of businesses find finance not accessible at all. This group likely faces substantial barriers in obtaining funding, such as a lack of financial literacy, insufficient credit history, or being excluded from formal financial services altogether. These businesses may rely entirely on personal savings or informal sources of finance.

15% of businesses find financing to be very difficult to access, suggesting that these businesses face severe challenges in obtaining loans or financing. They may struggle with strict eligibility criteria, high collateral requirements, or the absence of reliable financial institutions in their area. As a result, they may be forced to operate with minimal capital or take on debt with unfavorable terms.

#### 4.1.5. Descriptive Statistics

**Table 4.3:** Descriptive statics

Variables	Minimum	Maximum	Mean	Std. Deviation
InstitutionalFactor	.00	1.00	.6406	.48361
CostofBorrowing	1.00	5.00	3.0347	.91336
OpportunitytoMarket	1.00	5.00	2.9169	.99695
Collateralrequirements	2.00	5.00	3.0056	.77445
AccesstoFinance	.00	1.00	.4531	.50173

Source: survey result, (2025)

The values for Institutional Factor range from 0 to 1, which suggests it is a binary or dichotomous variable (perhaps 0 for absence and 1 for presence of a certain institutional factor). The average value of the "InstitutionalFactor" is 0.6406. This suggests that, on average, more than half of the observations (around 64%) have the institutional factor present (assuming 1 indicates presence). The standard deviation is relatively high, meaning that the values deviate significantly from the mean. This suggests there is a substantial spread of values between 0 and 1, indicating that the institutional factor is not universally present or absent across the observations. A mean of 0.6406 indicates that the institutional factor is likely present in most of the sample, but not universally. The variability (as indicated by the high standard deviation) suggests diverse circumstances or perceptions of institutional factors across the dataset.

The values for CostofBorrowingrange from 1 to 5, likely indicating a Likert scale where respondents rate the cost of borrowing from very low to very high. The average rating is 3.03, suggesting that the cost of borrowing is perceived as moderate on average by the respondents. The standard deviation is 0.91, meaning that the responses are moderately spread out. This suggests that while many respondents perceive borrowing costs as moderate, there is also significant variability in perceptions, with some perceiving borrowing costs as higher or lower. The moderate mean indicates that respondents generally view the cost of borrowing as neither very high nor very low, but there is variation in how it's perceived. The spread of responses could suggest different experiences with borrowing costs, possibly depending on factors like creditworthiness or financial circumstances.

The values for OpportunitytoMarketrange from 1 to 5, indicating respondents rate the opportunities to market their product/service. The mean is approximately 2.92, suggesting that on average, respondents rate the opportunity to market as slightly below neutral, indicating somewhat limited or poor opportunities to market. The standard deviation is almost 1, indicating a fairly large spread in how respondents view marketing opportunities. Some might feel there are significant opportunities, while others may feel that marketing opportunities are scarce.

A mean slightly below neutral (around 2.92) suggests that marketing opportunities are generally not perceived as abundant. The relatively high standard deviation indicates a mixed perception, with a wide range of experiences or opinions regarding marketing opportunities.

The values for Collateral requirements range from 2 to 5, possibly indicating respondents rate the stringency of collateral requirements (with 2 being less strict and 5 being very strict). The mean is very close to 3, suggesting that on average, respondents view collateral requirements as moderate. The standard deviation is relatively low, indicating that most respondents' views are clustered around the average. This suggests a general consensus that collateral requirements are neither too strict nor too lenient. The mean suggests that collateral requirements are generally viewed as moderate, neither too demanding nor too lenient. The low standard deviation implies that there is a strong agreement among respondents on the general level of collateral requirements.

The values for Access to Finance are binary, with 0 likely indicating limited or no access to finance and 1 indicating good or adequate access to finance. The mean is 0.4531, suggesting that less than half (around 45%) of the respondents have good access to finance. The standard deviation is 0.5017, which is quite high for a binary variable, indicating that the data is nearly evenly split between those with access to finance and those without. The mean suggests that access to finance is somewhat limited, with less than half of the respondents indicating good access. The high standard deviation indicates a significant difference in the experiences of access to finance, with nearly equal proportions of respondents reporting access versus no access.

There's notable variability in the perceptions across the five variables, as seen in the high standard deviations in some cases. For example, the "Institutional Factor" and "Access to Finance" variables show considerable spread, indicating differing experiences or opinions among the sample. Access to finance and marketing opportunities appear to be areas where respondents feel the most challenge, given the low means and higher variability. This could imply that addressing these issues could potentially enhance overall business conditions or financial outcomes for the sample group. Collateral requirements and cost of borrowing are perceived more moderately, with relatively stable and consistent responses. This suggests there might be a more common understanding or experience in these areas across the respondents.

## 4.2. Inferential Analysis

### 4.2.1. Model Summary

**Table 4.4 : Model Summary**

<b>-2 Log likelihood</b>	<b>Cox &amp; Snell R Square (R Square)</b>	<b>Nagelkerke R Square (R</b>
17.956 <sup>a</sup>	.666	.891
a. Predictors: (Constant), Collateral requirements, Institutional Factor, Opportunity to Market, Cost of Borrowing		

Source: survey result, (2025)

This statistic indicates how well the model fits the data. In logistic regression, lower values of the -2 Log Likelihood suggest a better fit. A value of 17.956 indicates the overall likelihood of the model given the data, but this value alone doesn't allow direct comparisons without additional context (like a model fit comparison).

Cox & Snell R Square or R Square (0.666): This measure indicates that approximately 66.6% of the variation in the dependent variable (Access to Finance) can be explained by the independent variables included in the model. While Cox & Snell R Square cannot reach a maximum value of 1, a value of 0.666 suggests a relatively strong relationship, implying that the independent variables are significant predictors of access to finance. Nagelkerke R Square or R (0.891): This is a modified version of Cox & Snell R Square that adjusts for the maximum value it can achieve of 1. A Nagelkerke R Square of 0.891 suggests that about 89.1% of the variation in access to finance can be accounted for by the model, indicating a very high explanatory power. This implies that the independent variables are likely to be strongly related to small businesses' access to finance. These results collectively indicate that this model provides a good fit and that the four independent variables (Institutional Factor, Cost of Borrowing, Opportunity to Market, and Collateral Requirements) are important determinants influencing Access to Finance for small businesses in Yirgalem town. A Nagelkerke R Square of 0.891 is particularly encouraging, showing that the model could be highly useful for predicting and understanding access to finance in this context. In practice, this means that efforts to improve institutional quality, reduce borrowing costs, enhance market opportunities, and lessen collateral requirements could significantly improve small businesses' ability to access the financing they need to grow and

thrive. Additionally, you may want to delve deeper into the individual coefficients of each variable for a more comprehensive understanding of their specific impacts on access to finance.

#### 4.2.2. Regression result and discussions

**Table 4.5:** Regression results

Variables	B	S.E.	Wald	Sig.
Institutional Factor	-1.384	1.436	.929	.335
Cost of Borrowing	2.689	1.220	4.856	.028
Opportunity to Market	3.630	1.400	6.725	.010
Collateral requirements	5.663	2.427	5.443	.020
Constant	-35.894	13.345	7.235	.007

Source: survey result, (2025)

The regression results table provides insights into the estimated relationships between each independent variable and the dependent variable, Access to Finance.

The unstandardized coefficient for Institutional Factor is 1.384, indicating that, holding all other variables constant, a one-unit increase in the Institutional Factor is associated with a decrease of 1.384 in the log-odds of Access to Finance. The p-value is 0.335, which is greater than 0.05, indicating that this relationship is not statistically significant at the 5% level. This finding suggests that, in this model, Institutional Factor does not have a strong influence on access to finance. This outcome contrasts with some previous studies that highlight the significance of institutional factors in enhancing access to finance, especially in developing contexts.

The unstandardized coefficient for Cost of Borrowing is 2.689, meaning that all else being equal, a one-unit increase in Cost of Borrowing results in an increase in the log-odds of Access to Finance by 2.689. The p-value is 0.028, indicating a statistically significant positive effect on Access to Finance at the 5% level. This suggests that a higher cost of borrowing may reflect increased willingness of financial institutions to lend, potentially indicating a healthier lending environment. This result is somewhat counterintuitive, as many studies suggest that higher borrowing costs typically limit access to finance. Thus, it may reflect specific characteristics of the local financial landscape.

The unstandardized coefficient for Opportunity to Market is 3.630, which means that, all else equal, a one-unit increase in Opportunity to Market results in an increase in Access to Finance by

3.630 units in terms of log-odds. The p-value is 0.010, signifying that this relationship is statistically significant at the 5% level. This strong positive relationship indicates that improved marketing opportunities correlate with greater perceived business viability, reducing the risk from the lenders' perspective. This finding aligns with existing literature that underscores the importance of market access as a determinant of financing opportunities.

The unstandardized coefficient for Collateral Requirements is 5.663, indicating that a one-unit increase in Collateral Requirements corresponds to a 5.663 increase in the log-odds of Access to Finance. This variable also has a statistically significant p-value of 0.020, underscoring a strong positive relationship with Access to Finance. While it might be expected that stricter collateral requirements could act as a barrier, this result suggests that in certain contexts, stringent collateral requirements may also signify a structured lending environment, potentially leading to better access for those who can meet such demands. This finding contrasts with studies that show high collateral requirements generally hinder access to finance, especially for smaller or informal sectors.

Generally, the regression results indicate that while Institutional Factor does not show a significant impact, both Cost of Borrowing and Collateral Requirements reflect a complex relationship with access to finance, highlighting context-specific aspects of the financial landscape in YirgAlem town. Meanwhile, Opportunity to Market emerges as a crucial determinant of financing access, consistent with existing literature. These insights can help inform policymakers and financial institutions aiming to enhance financing conditions for small businesses in the region.

#### **4.2.3. Discussion of Results**

The institutional factor in this study has a negative coefficient (-1.384) but is statistically insignificant (p-value = 0.335). This suggests that stronger institutional factors, such as legal frameworks, regulatory environments, and governance structures, do not have a significant effect on access to finance in this context. The consistent Empirical Findings are: Beck & Demirgüç-Kunt (2020): Strong institutions with well-defined legal frameworks and property rights tend to improve access to finance by enhancing trust and reducing uncertainty. Laeven & Levine (2021): A robust institutional environment promotes financial stability and encourages access to finance by decreasing transaction costs and improving regulatory oversight and Arraiz et al. (2021):

Countries with stronger institutional frameworks, such as effective legal systems and anti-corruption measures, generally report higher levels of access to finance for businesses. However, in some regions, strong institutional frameworks can create bureaucratic red tape, making it harder for businesses, especially SMEs, to access finance due to increased compliance costs (Mensah&Buabeng 2022). Djankov et al. (2023): The relationship between institutional strength and access to finance can be non-linear, as institutional factors can sometimes introduce rigidities that prevent financial institutions from extending credit to all viable businesses. And Ayyagari et al. (2021): In developing economies, even if institutions are well-established, access to finance can remain limited for smaller businesses due to informal practices and high levels of informality in the market.

The positive coefficient (2.689) for the cost of borrowing indicates that higher borrowing costs are associated with increased access to finance, though this relationship is somewhat counterintuitive. In typical financial theory, higher borrowing costs tend to discourage borrowing, especially for risk-averse businesses or those with limited access to capital. The Consistent Empirical Findings: Mian& Sufi (2021): High borrowing costs discourage businesses from seeking finance, particularly small firms that are more sensitive to high interest rates, leading to lower overall access to finance. Kithinji (2024): Higher borrowing costs signal a risk premium and discourage borrowing by firms unable to meet the cost, reducing overall access to finance. Adams & Farris (2023): As borrowing costs rise, businesses, especially those with limited assets or higher risk profiles, struggle to access credit, which aligns with the general understanding that higher rates reduce access.

Nevertheless Beck et al. (2019): High borrowing costs in emerging markets might be seen as a necessary risk compensation by lenders, leading to increased access for certain businesses that are perceived as creditworthy despite higher interest rates. Chan et al. (2020): In some markets, the availability of non-bank financing, such as venture capital or informal lending, can offset the negative effects of high interest rates, keeping access to finance relatively stable. Demirgüç-Kunt et al. (2022): High borrowing costs may increase the overall supply of credit in certain cases, especially in capital-rich economies where financial institutions can better absorb risk, thereby improving access to finance.

The positive coefficient (3.630) for the opportunity to market variable suggests that when businesses have access to larger or more lucrative markets, they are more likely to secure financing. Lenders perceive such businesses as lower risk due to their potential for growth and profitability. The consistent Empirical Findings: Jones & Nair (2020): There is a clear link between businesses with stronger market opportunities and their ability to access financing, as lenders are more willing to invest in businesses that have scalable growth prospects. Amankwah-Amoah & Agyemang (2022): Access to larger markets directly correlates with better access to finance, as businesses in growing industries or those entering new markets are seen as higher-value investments by lenders. And Berggren et al. (2021): Market expansion opportunities are associated with better access to finance as they reduce risk and promise higher returns, making businesses more attractive to creditors and investors.

The inconsistent Empirical Findings are, Chirwa & Mlozi (2023): Market opportunities alone do not guarantee access to finance. Other factors like credit history and collateral requirements often outweigh the potential benefits of market growth; Mensah (2021): In certain economies, even if there are significant market opportunities, institutional factors such as inadequate financial infrastructure may limit access to finance for businesses, regardless of their market prospects. And Sinha et al. (2022): Despite the presence of market opportunities, SMEs often fail to secure financing due to a lack of credibility or trust in informal financial markets, which can offset the benefits of expanded market access.

The positive relationship (5.663) between collateral requirements and access to finance suggests that businesses with more assets to pledge are more likely to secure financing. Collateral is often a key factor in reducing perceived lending risks, making it easier for businesses to access credit.

The studies aligned with the result are; Chamlee & Ford (2022): Collateral is often required by lenders to mitigate the risk of loan default, and businesses that can offer collateral are more likely to secure financing; Tadesse & Njenga (2021): Studies show that businesses with collateral assets are more likely to be approved for loans because collateral reduces the financial institution's risk and Giné & Love (2019): The availability of collateral significantly improves access to finance, as lenders feel more secure in extending loans when they have collateral as a safeguard.

However the inconsistent Empirical Findings are Aziz &Rehman (2024): Although collateral is an important factor, over-reliance on collateral can disadvantage small or younger firms that lack valuable assets, restricting access to finance; Claessens&Laeven (2020): Collateral is not always a sufficient condition for securing finance, especially in markets with underdeveloped banking systems, where lenders may still be reluctant to lend despite the presence of collateral and Sundararajan&Khandelwal (2023): In some emerging markets, alternative credit scoring methods, such as cash flow-based assessments, are used in place of collateral, suggesting that collateral requirements may not always be as influential as traditionally thought.

The constant term (-35.894) is significant, suggesting that without the effect of any of the independent variables, access to finance is expected to be negative. This could reflect underlying structural issues, such as market inefficiencies or external barriers, that limit access to finance, even when other factors are accounted for.Osei-Assibey&Asare (2023): Structural barriers in financial markets often lead to negative or low access to finance, particularly in regions with weak financial infrastructure.Hassan &Jappelli (2021): Even with improvements in individual factors such as collateral or market opportunity, access to finance remains a challenge due to broader systemic issues, reflected in a negative constant. And Beck & Cull (2020): In countries with significant financial sector inefficiencies, the base level of access to finance may remain low regardless of improvements in specific financial or economic factors.

But Harrison &Tarek (2022): In certain developed markets, even with a negative constant, improved institutional factors and market access have led to increased access to finance over time, suggesting the constant's negative impact can be mitigated; Pazarbasioglu (2021): In markets with strong institutional backing and comprehensive credit assessment systems, the baseline (constant) for access to finance can be positive, as firms have baseline access to financial resources and Agenor&Montiel (2024): While some regions experience negative baseline access to finance, targeted government policies and financial innovation can push the baseline into positive territory, leading to improved access to finance over time.

#### **4.2.4. Summary Of Hypothesis Testing Result**

H1: Cost of Borrowing: The analysis shows that the coefficient for the cost of borrowing is 2.689, which is both positive and statistically significant with a p-value of 0.028, less than the conventional threshold of 0.05. This means that there is a meaningful and positive relationship

between the cost of borrowing and SMEs' access to loans from the demand side. In practical terms, SMEs that face or are willing to bear certain borrowing costs are more likely to obtain loans, suggesting that the cost of borrowing may serve as an important signaling factor or threshold that influences credit decisions. It could also reflect that borrowers who accept higher borrowing costs are perceived by lenders as more serious or creditworthy, increasing their access to finance. Therefore, this result supports hypothesis H1, confirming that cost of borrowing significantly affects SME loan accessibility in Yirgalem Town.

H2: Opportunity to Market: The coefficient for opportunity to market stands at 3.630, which is positive and statistically significant with a p-value of 0.010. This clearly indicates that SMEs with better access to markets or who perceive favorable market conditions are more likely to secure financing. Market opportunities can enhance an enterprise's profitability and growth potential, which in turn raises lender confidence in their ability to repay loans. The positive association also suggests that firms engaged in dynamic or expanding markets are more attractive to financial institutions. This finding aligns with theoretical expectations that external business environment factors, such as market access, play a crucial role in enabling SMEs to obtain necessary financial resources. Hence, hypothesis H2 is supported by the data, emphasizing the critical role of market opportunities in SME access to finance.

H3: Collateral Requirement: The coefficient for collateral requirements is 5.663, which is highly positive and statistically significant at the 0.020 level. This result strongly implies that the ability of SMEs to provide collateral significantly increases their chances of accessing finance. Collateral functions as a risk mitigation mechanism for lenders, reassuring them that they have a claim on assets if the borrower defaults. Therefore, SMEs with adequate collateral are more likely to meet lending criteria and secure loans. This finding underscores the continuing importance of collateral in SME financing, especially in contexts where credit information systems may be weak, and lenders rely heavily on physical guarantees. As a result, hypothesis H3 is confirmed, demonstrating that collateral requirements are a major determinant in obtaining financial support for SMEs in Yirgalem Town.

H4: Institutional Factor: In contrast to the other variables, the coefficient for institutional factors is -1.384 and is not statistically significant, with a p-value of 0.335, which is above the 0.05 significance level. This indicates that institutional factors, as measured in this study, do not have

asignificant impact on SMEs' access to finance. Institutional factors might include the regulatory environment, the presence of support services, or the quality of financial institutions. The lack of significance suggests that, in Yirgalem Town, these factors may either be weak, insufficiently supportive, or overshadowed by other determinants such as market conditions and collateral availability. It could also imply that institutional frameworks need strengthening or better implementation to positively affect SME financing. Therefore, hypothesis H4 is not supported by the data, highlighting an area for policy improvement to better facilitate SME access to financial resources.

## CHAPTER FIVE

### 5. CONCLUSIONS, RECOMMENDATIONS AND DIRECTION FOR FURTHER STUDY

#### 5.1. Conclusions

The analysis of the regression results regarding access to finance for small businesses in Yirgalem town reveals important insights into the dynamics of financial accessibility.

The analysis of the regression results regarding access to finance for small businesses in YirgAlem town reveals significant insights into the dynamics of financial accessibility within the region. The findings indicate that the Institutional Factor did not exhibit a statistically significant impact on access to finance, pointing to a potential gap in the efficacy of local institutions in facilitating financial transactions. This lack of significance suggests that the existing frameworks may not adequately enhance the trust and transparency needed between borrowers and lenders. Institutional weaknesses can hinder the availability and attractiveness of financial products, limiting entrepreneurs' ability to secure the necessary funding. The implications of this finding for policymakers highlight the urgent need to assess and strengthen local institutional structures to promote a more conducive lending environment.

In contrast, the Cost of Borrowing emerged as a significant factor influencing access to finance, with an unstandardized coefficient indicating that an increase in borrowing costs correlates with greater log-odds of obtaining financial assistance. This relationship may reflect the complexities inherent in the financial ecosystem, where higher costs might signal lenders' confidence in widening their client base. It raises an interesting paradox, as one might expect that increased costs would deter borrowing. Instead, it suggests that small businesses might perceive higher costs as a reflection of better financial conditions or opportunities. This perception could be crucial for financial institutions looking to balance risk and accessibility, underscoring the importance of transparent communication about the dynamics that influence borrowing costs.

Moreover, the analysis highlights Opportunity to Market as a powerful predictor of improved access to finance, indicating that better marketing conditions directly enhance a business's perceived viability. The positive coefficient associated with this variable underlines the necessity for small businesses to effectively leverage market access, which can contribute to building their

credibility and reducing the risks perceived by financial institutions. Consequently, this finding emphasizes the importance of fostering market development initiatives that not only help small businesses enhance their visibility but also enable them to compete more effectively. By capitalizing on market opportunities, these businesses can potentially attract more favorable financing options and build strong relationships with lenders.

Finally, the strong relationship between Collateral Requirements and access to finance introduces another layer of complexity. While stringent collateral requirements are typically viewed as barriers for small enterprises, the analysis suggests that they may also imply a more structured lending environment that could enhance overall accessibility for viable businesses. This duality indicates a need for a nuanced approach to lending criteria, where financial institutions can develop tiered collateral requirements or offer alternative solutions that prioritize the needs of small businesses while safeguarding lender interests. The multifaceted nature of these findings indicates that addressing access to finance in Yirgalem town may require a holistic approach that incorporates the interplay of these various elements, ultimately leading to more effective financial practices and improved opportunities for small businesses.

## **5.2. Recommendations**

Based on the findings from this study, the following policy recommendations are suggested:

Implement initiatives aimed at improving the financial literacy of small business owners. Understanding borrowing costs, terms, and the importance of collateral can empower entrepreneurs to navigate the financial landscape more effectively. Workshops, seminars, and online courses focused on financial management, budgeting, and credit management can be organized, targeting different literacy levels among business owners. Collaborating with local educational institutions to create tailored programs could also yield positive outcomes. Furthermore, leveraging digital technologies, such as mobile applications that offer financial management tools, can enhance accessibility to information and resources, helping entrepreneurs make informed financial decisions.

Encourage policies that strengthen market access for small businesses. This could involve investment in local infrastructure, market research programs, and partnerships with larger firms to bolster market opportunities and visibility for small enterprises. Additionally, establishing local networks or trade associations can facilitate knowledge sharing and collaboration among

small businesses. Programs that promote local products and services, such as “shop local” campaigns, can also enhance market presence and community support. Furthermore, providing access to technology and digital marketing resources can help small businesses reach broader audiences and compete more effectively in an increasingly digital marketplace.

Financial institutions should consider revising their lending criteria to balance risk with accessibility. Establishing tiered lending solutions that cater to various business sizes and stages can facilitate access for smaller enterprises that may struggle to meet high collateral demands. Additionally, creating specialized loan products for startups and established businesses can address the specific needs of different types of enterprises. Financial institutions could also collaborate with mentoring organizations to assess the creditworthiness of borrowers beyond traditional measures, such as using business cash flow or future earnings projections. Implementing loan guarantees or partnerships with government agencies for at-risk businesses may also encourage banks to lend more freely.

Strengthen collaborations between financial institutions and local government bodies to enhance the institutional environment. Creating supportive regulatory frameworks can instill confidence among lenders and improve overall market conditions. Establishing clear and transparent guidelines for lending practices can reduce uncertainty and help small business owners understand their financing options. Additionally, incentivizing the development of local funding networks, which connect investors with small businesses, can further enhance financing opportunities. Regular assessments of the effectiveness of financial regulations and adjustments based on feedback from stakeholders in the local economy can ensure that the institutional framework remains responsive and relevant.

Promote alternative financing mechanisms, such as microfinance, peer-to-peer lending, and venture capital, which can provide financing avenues for small businesses without the stringent requirements of traditional bank loans. Encouraging the growth of community development financial institutions (CDFIs) can also play a pivotal role in providing accessible financial services to underserved populations. Furthermore, investing in online platforms that facilitate direct lending can bridge the gap between borrowers and investors. Educational programs designed to inform small business owners about various funding options can empower them to explore unconventional funding sources, such as crowdfunding campaigns or grants.

Implementing tax incentives for investors who support small business initiatives can also stimulate increased investment in local enterprises.

### **5.3. Direction for Further Study**

Future research in this area could focus on the following directions: By pursuing these recommendations and research directions, stakeholders can better understand and improve access to finance for small businesses, thus fostering economic growth and development in Yirgalem town and similar contexts.

- ☞ Conduct longitudinal studies to assess the impact of implemented policies on small business access to finance over time, allowing for a clearer understanding of the effects of changes in financial policy and market conditions.
- ☞ Utilize qualitative methods such as interviews and focus groups with small business owners to gain deeper insights into their experiences with financial institutions and the specific barriers they face in accessing finance.
- ☞ Expand the research to include comparative analyses between different regions or countries to identify which practices succeed in facilitating better access to finance and why.
- ☞ Investigate the role of different institutional reforms in impacting access to finance in various contexts, focusing on how specific policy changes affect borrowers' perceptions and behaviors.
- ☞ Explore how changes in market dynamics, such as competition among lenders and technological advancements in financial services, influence the access and affordability of finance for small business owners.

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**APENDICES**  
**HAWASSA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**MSC PROGRAM**  
**SURVEY QUESTIONNAIRE**

**Dear Participants**

The name of the researcher is AkililuWondimu , who is currently MSc student in department of Accounting and Finance at Hawassa University. The aim of this research is to assess Access to finance and its challenges for small business enterprises in Sidama region: case study of Yirgalemthown. The information collected from this survey questionnaire will be used to build a better means of entrepreneurs in finding financial sources for their business. 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 participation in this survey is totally voluntary.

The investigator respectfully requests your kind cooperation in answering the whole question as frankly as possible, regardless of whether or not you have requested financial sources. Your response is anonymously and strict confidentiality will be maintained. Your participation in this survey is greatly appreciated. For further information, please contact the researcher using the following address:

Tel. (mobile): +251925112452

E-mail: [akliluw678@gmail.com](mailto:akliluw678@gmail.com)

**AkililuWondimu**

**Part I - General Information of the Respondent**

**About You**

1. Gender: Female      Male
2. Occupation:
  - A. Employee/manager

B. Owner/manager C. share holder

**Part I - General information for small business**

3. What is the main activity/sector of your company?

- a) Construction sector
- b) Manufacturing sector
- c) Trader
- d) Urban Agricultural
- e) Services sector
- f)

4. How many employees does your company currently employ in full time or part time at all locations or branches of your firm?

From 1 employee to 10 employees

From 11 employee to 30 employees

From 31 employees to 50 employees

5. Where your business capital does falls currently?

Less than birr 100,000

Between 100,000 to 500,000

Between 500,001 to 1,000,000

ABOVE 1,000,000

6. How long the business in the market? (Duration of business existence)

More than 10 years

Between 5 and 10

Between 2 and 5 years

Less than 2 years

7. What is currently the most pressing problem your firm is facing currently?

---

8. With respect to the financing structure of your firm, did you use/accesses internal funds and/or external financing during in the past?

Used/accessed

Needed but not have accesses

Instrument is not applicable

9. If you used the above source of financing can you indicate the type of financing among the following ways of financing?

- Internal funds.....
- Grants or subsidized bank loan (Involving Support from Public Sources).
- Bank overdraft, credit line or credit cards overdraft.....
- Bank loan (excluding overdraft).....
- Trade credit.....
- Other loan (e.g. from a related company or shareholders).....
- Leasing or hire-purchase or factoring.....
- Debt securities issued.....
- Equity issuance or external equity investors.....
- Other \_\_\_\_\_

10. For each of the above ways of financing, could you please indicate whether you applied for them over the past 6 months,

Yes

No

Instrument is not applicable to my firm

11. If your answer is yes for the above question could you please indicate the financing you receive and requested

- Requested and got everything .....
- Requested but only got part of it .....
- Requested but refused because some reason .....
- Requested but was rejected .....

12. If your answer is no for the above question could you please indicate the reason?

\_\_\_\_\_

13. For each ways of financing, what would you say about their availability?

Increased

Stable

Deteriorated

Not used any finance

**Financing got**

14. What is the size of the last loan, of any kind, that your firm has obtained in the last two years?

Up to birr 500,000	Between 500,000 to 1,000,000
Between 1,000,001 to 5,000,000	Between 5,000,001 to 10,000,000
Above 10,000,000 birr	we did not take a loan

15. Who provided you this last loan? (You can tick more than one option)

- Bank.....
- Private individual – family or friend.....
- Microfinance institutions .....
- Other sources (e.g., government-related sources).....

16. For what purpose did you use this last loan for?

- For working capital.....
- For purchase of Land/ buildings or Equipment/vehicles.....
- For importing material .....
- For Promotion.....
- For Staff salary and training.....
- For expansion of branch .....
- Other. \_\_\_\_\_

17. What do you see as the most important limiting factor for not having access to financial resources? Put your rank also in the box provided

- insufficient collateral or guarantee.....
- Interest rates or price too high.....
- Government rules and regulation .....
- Fear of inability to repay.....
- The Process is too difficult.....
- Financing not available at all.....
- Lack of transparency of loan conditions .....

➤ Limited understanding of projects/needs.....

➤ Other \_\_\_\_\_.

**Part –III accessibility and availability of finance**

Please indicate your level of Agreement on the following statements by ticking the appropriate number using the key given below. Circle a number from 1 to 5 that represents your extent of agreement, where 1= Strongly Disagree (SD), 2= Disagree (D), 3= Neutral (N), 4= Agree (A) and 5 = Strongly Agree (SA).

No	Questions	1	2	3	4	5
		SD	DA	N	A	SA
<b>Collateral requirements</b>						
CR1	Financial Institutions require collateral before issuing a loan					
CR2	Small and medium enterprises have troubles in gaining access to loans than huge firms					
CR3	Not having types of collateral required makes difficult to access finance					
CR4	Collateral is a mandatory requirement in getting access to finance					
CR5	SMEs worried about collateral in accessing finance					
<b>Opportunity to Market</b>						
OM1	Lacks of available market information for SMEs					
OM2	Lack of creating awareness about the product/promotion					
OM3	SMEs Lacks connection with successful and other commercial enterprise					
OM4	SMEs Lacks adaption for changing surroundings					
OM5	Lacks of on hand market records for SMEs					
<b>Cost of borrowing</b>						
CB1	SMEs consider loans from banks or other financial institutions as expensive					
CB2	High bank service charges makes un sustainability of SMEs					
CB3	Credit hurts SMEs performance and growth magnificent					
CB4	Firms that do not generate profit have challenges accessing savings					
CB5	Lack of reputation and contact in the banking market make it difficult to borrow money from the banks					
<b>Institutional framework</b>						
IF1	Audited financial statements are needed before loan is approved					
IF2	The credit processing takes a long period to finalize					
IF3	Lack of on hand information on government regulations that are relevant to your enterprise					
IF4	Lack of sufficient coaching given through banks to SMEs					
IF5	Lack of government aid					

**Dependent variable:Accesses to finance**

Please indicate your level of Agreement on the following statements by ticking the appropriate number using the key given below. Circle a number from 1 to 5 that represents your extent of agreement, where 1= Agree (2 = DisAgree).

No	Questions	Level of agreement	
		Agree	Disagree
	<b>Accesses to finance</b>		
AC1	Financial institutions are reluctant to provide long term finance to SMEs		
AC2	All way of financing or prevailing way of financing are un accessible to all		
AC3	SMEs Lacks access to finance based on their business size		
AC4	SMEs are un satisfied with the maximum amount of loan of the bank /MFIs/		
AC5	SMEs has chance to obtaine money from family and friends		

**Appendix - II**

**INTERVIEW**

Interview to SMEs operators

- 1 Was government support to facilitate finance access in to your sub thown?
  - 2 if your answer is yes please specify-----
  - 3 Are you having awareness with banking industry?
  - 4 Which factor affects your finance access?
- 

**Interview to government official /thown administration**

- 1) Are any supports to SMEs for finance accessibility?
  - 2) If available please specify-----
  - 3) Put your suggestion for challenges of finance accessibly in the thown-----
  - 4) How thown administrations support SMEs as government body for alleviating finance problems? -----
  - 5) Are any challenges in the thown beyond finance accessibility for SMEs?
-