An Assessment of Financial Sources of Micro and Small Enterprises in North Shoa Zone Debre Berhan

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Abstract: The purpose of this study to assess the source of finance, explore challenges and identify supports for Micro and Small Enterprises through their operation in Debre Birhan Town, 2016. A descriptive case study was employed to achieve the objectives of the study. In order to get relevant data from the target populations both quantitative and qualitative methods were employed. The findings of the study indicated that the main financial sources for start-up and expansion or working capital of MSEs relied on the informal sources especially from personal savings, relatives and friends. Owners find it very difficult to access credit from banks due to lack of collaterals and the loans provided by MFIs are small with high interest rates. So, the study suggests the need for the integration of the activities of the formal with that of the informal financial institutions to alleviate the problem of finance. The study also indicated that people starting MSEs are facing numerous difficulties both at start-up and while in due course of operation. Hence, pertinent bodies need to intervene in order to address these challenges and ensure sustainability of these businesses development. Finally, the study presented some possible recommendations so as to alleviate the problems.

Key words: Assessment, challenges, Problem, financial institutions and difficult.

Introduction

The development of MSEs is used to accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook and Nixson 2000). MSEs contribute to over 55% of GDP and over 65% of total employment in high – income countries. Whereas, in low-income countries accounts over 60% of GDP and over 70% of total employment (OECD 2004). MSEs represent over 90% of private business and contribute to more than 50% of employment and GDP in most African countries (UNIDO 1999). In Ethiopia, MSEs Sector is the second largest employment-generating sector following agriculture. MSEs contribute 13.4% of GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA 2005). Although the contribution of the sector is very much important, it is not without problems; these problems in developing countries typically includes, lack of access to appropriate financial sources with appropriate financing mechanisms, competition, market, appropriate technology, access to raw materials. However, in the majority of developing countries, most SMEs' activities are undertaken in the informal sector even though they play a major role in economic growth (Albaladejo 2001). They use their own saving, reinvestment of profits, and own labour as the main sources for their development. Nevertheless, the supply of finance from the informal institutions is often so limited to meet the financial needs of the MSEs (Admasu 2012).

On the other hand, the formal financial institutions are unable to provide finance to MSEs due to regulatory rigidities or gaps in the legal framework that make it hard to cover the high costs and risks involved in lending to small firms (OECD 2006). So, their sustainable growth will largely depend on the capacity of formal financial institutions to mobilize resources from low valued to high valued and invest in SMEs activities.

Though, a peculiar and most critical problem to MSEs in developing countries, like Ethiopia, is lack of access to financial sources both as initial and working capital. Thus, addressing the most constraining factor, i.e., financial sources can be considered as tackling the other factors. To deal with this issue one should understand type of financial sources obtained by MSEs at the outset or establishment and in their operation. Hence, this research was conducted to assess the MSEs at Debre Birhan town with a specific focus on the financial sources of the sector.

1.2 Statement of the problem

In almost all economies of the world especially in developing countries in Africa and Ethiopia, micro and small enterprises are crucial and a key factor for sustained growth and development. According to (Okpara and Wynn 2007), MSEs are generally regarded as the driving force of economic growth, job creation and poverty reduction in developing countries. In Ethiopian, as to the Ethiopian government's strategy of Growth and Transformation plan,

micro and small enterprises are the bridge to achieve the goals of the government (MoFED 2011).

Though, availability of adequate and reliable financial sources are essential inputs in the growth and development of Micro and Small Enterprises and also it is necessary to set up and expand their operations, choice of technology, access to market, build up new products, invest in new staff or production facilities and access to essential resources which in turn greatly influence the viability and success of a business (WB 2008).

The main sources of finance for start-up and expansion of most MSEs in Ethiopia largely depends on informal institutions. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs (Admasu 2012). On the other hand, the formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs this is due to that such enterprises are lack of strong capital, lack of collateral requirement, high interest rate and gaps in the legal frame work (OECD 2006). So, the success of these enterprises is seriously impaired. As a result employment, poverty and contribution to GDP have low in developing countries like Ethiopia than developed countries.

Some empirical studies have been conducted in the past by different researchers to assess the factors that affect success, performance and growth of MSEs in urban areas. Those empirical studies by (Admasu 2012; Brhane 2011; Fetene 2010 and Haftu 2009) attempted to identify finance was the primary factor for the success, performance, and growth of MSEs and (Werkilul 2011) attempts to asses financial sources of MSEs in Ethiopia. These studies have short comings as: First, most are concerned with the capital city of Ethiopia i.e. Addis Ababa which are alternative financial institutions are available. Second, most did not consider the challenges of MSEs. Third, does not include Micro businesses which are the bases of Small businesses. Fourth, have classified financial sources in to three as formal, semi-formal and informal , but their classification did not clear and also did not classify Micro and Small Enterprises in to manufacturing, construction, urban agriculture, trade and service rather simply listing of sub-sectors under such sectors.

This study attempts to address these gaps in knowledge on financial sources of MSEs in Ethiopia, with particular focus on Debre Birhan town. It uses cross-sectional data to assess the financial sources of Micro and Small Enterprises in Debre Birhan town. It also employs appropriate tools of analysis to identify and measure the main sources of finance.

1.3 Research questions

- ❖ What are the sources of finance for MSEs through their operation?
- ❖ What are the challenges of MSEs through their operation?
- ❖ Which types of supports given to MSEs?

1.4 Objectives of the study

1.4.1 General objective
To assess the source of finance, explore challenges and identify supports for Micro and Small Enterprises through their operation in Debre Birhan Town.

1.4.2 Specific objectives
- ❖ To identify the financial sources of MSEs through their operation.
- ❖ To explore the challenges of micro and small enterprises through their operation.
- ❖ To identify the various supports provided for the growth of MSEs.

1.6 Delimitation /scope of the study
The study covers the MSEs which, includes manufacturing, construction, service and urban agriculture where as the other dimensions were beyond the scope of this paper. Geographically, the study focus was in North Shoa Administrative Zone at Debre Birhan Town.

2. METHODOLOGY OF THE STUDY
This chapter explains the study area, the research design, the population, sample size determination and sampling techniques, data and data source, the research instruments /methods used in collecting data for the study, data analysis and presentation methods, limitation of the study, inclusion and exclusive criteria of the study.

2.2 Research design
A descriptive research design was used to conduct the study. Descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting (Seiliger and Shohamy 1997). Thus, descriptive study has preferred to understand how MSEs are generating their financial sources. Moreover, in order to achieve the intended objectives, a case study strategy is used .This is because case study brings empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. Case study strategy is likely to need to use and triangulate multiple sources of data. **Triangulation** refers to the use of different data collection techniques within one study in order to ensure that the data are telling you what the researcher think. The researcher used a sequential study with the qualitative follow-up phase building on and helping to explain the initial quantitative phase. The intent of these two-phase, sequential mixed methods was to discuss first on quantitative findings. Information from the first phase were explored further in a second qualitative phase i.e., by interview method. The reason following-up with qualitative research in the second phase was to better understand and explain the quantitative results. The study uses both approaches in tandem so that the overall strength of the

study is greater than either qualitative or quantitative research (Creswell 2009).

2.3 Target populations

The study has conducted in five MSEs centre owners /operators of Debre Birhan Town. In addition, the TVET and Micro and small enterprise officials of Debre Birhan Town were included in the interview.

2.4 Sample size determination and sampling techniques

Probability sampling techniques especially simple random /lottery method was used in the study. Hence, two MSEs centres out of the five MSEs centres of Debre Birhan Town were considered for the study. Accordingly, zero hulet (2) and zero sidest (06) centres of MSEs were selected based on the simple random/lottery method. There is a sample determination formula by Godden (2004); (Aczel, Amir, Sounderpandin and Jayavel 2006) with much better margin error, i.e., 0.05. Accordingly, the sample size is determined as follows:

$$n = \frac{(Z)^2 p\ (1-p)}{C^2} = 384$$

Where, n = the required sample size   Z = the value of the standard normal curve corresponding to the given confidence interval = 1.96

P = the proportion of financial sources of Micro and Small Enterprises = 50%

C^2/d^2 = the permissible margin of error (the required precision) = 5 % (0.05)

Since the total numbers of Micro and Small Enterprises in 02 and 06 center is 836 less than 10,000; the desired sample size calculated using the (Cochran 1977) correction factor formula as follows:

$n_f = n/(1+[n/N])$, where N= study population

$n_f = 384/(1+[384/836]) = 263$, with 10% non-response rate the total sample size= 289

Sampling procedure

Quantitative Method:

Step 1: simple random probability without replacement $(1/N_n)$ sampling has used by employing lottery method for the study site from the prepared sample frame.

N= number of MSES in 02 and 06 centers in D /Birhan town = 836

n= the required study parts needed by the researcher are in manufacturing (92),

Construction (3), Urban agriculture (8), and service (194) = total 297

(N_n)= the required sample frame to select the required study unit

$1/(N_n)$ = the required unit selection from the given sample frame by lottery method

2.5 Data source

The study used both primary and secondary data sources. This includes;

Primary data sources: Primary data for this study has obtained from MSEs owners of Debre Birhan Town, and concerned organs of the town. Data were collected from MSEs owners located in the following centres: Zero Hulet (02) and Zero Sidest (06). To conduct the study, structured questionnaires were employed to obtain the required data from selected sample respondents. The questionnaires were prepared in English language and to ensure clarity and understand ability it was translated into a local Amharic language. On the other hand, interviews were also conducted with Debre Birhan Town TVET and Micro and small enterprise officials.

Secondary data sources: Secondary data's were obtained from different published and unpublished trusted documents which were complied by different researchers, reports, journals, statistical bulletins, government publications and trusted web sites as well.

2.6 Methods of data collection

Two data collection instruments were used, questionnaire as the major tool and interview as supportive instrument to triangulate the data found through questionnaire. The researcher decided to use questionnaire for MSEs owners and interview for government officials in Debre Birhan town that have a direct interest in the sector.

 Questionnaire: The main tool for collecting quantitative data was through structured questionnaire. The questionnaire was kept very simple to encourage meaningful participation by the respondents. It provides a higher reliability in the data than other methods because it is possible to consider each question, check necessary records, and reflect on their answers (Yount 2006). It has an advantage over some other types of surveys it was cheap, do not require as much effort from the respondent and often has standardized answers that make it simple to compile data.

Key informant Interview: Semi-structured interview was conducted by the researcher. It helps the researcher to know specific information. The researcher undertook an interview to individuals by preparing list of specific questions and an interview schedule. The prepared question was asked to all interviewees to ensure continuity. These were done to officials that were a direct interest to the sector like TVET colleges and Micro and Small Enterprise officials of Debre Birhan Town.

2.7 Data analysis and presentation method

The data that were collected from data sources were organized and following this, grouped on the basis of common characteristics. The qualitative data that was obtained through in-depth interview were stated qualitatively were summarized in the form of statements. Responses from the MSEs owners were processed and analyzed using SPSS statistical package version 16. Descriptive techniques such as percentage and frequency were made to draw implication and conclusion employed. Finally, the results were summarized into simple tabulations

and figures, the analysis and meaningful interpretation of results were made to draw implication and conclusion.

3. ANALYSES AND DISCUSSION OF DATA

The sources used to this study were both primary and secondary data sources. The primary data's were collected directly from MSEs in Debre Birhan town and government officials who has direct interest in the sector i.e., Debre Birhan town's Micro and Small Enterprises Development Agency officials, Debre Birhan poly technique College and Micro finance institutions at Debre Birhan branch. The researcher gathered data by distributing questionnaires to MSEs and interview with government officials was conducted. It has 289 MSEs covered in this analysis; these enterprises are engaged in different Developmental oriented sectors which include manufacturing, construction, services and urban agriculture. Out of 289 questionnaires circulated 263 samples (91%) to MSEs were returned and filled appropriately. At the introduction part of each questionnaire, respondents were made aware of the objectives of the study why it is conducted with each respondent and make consensus during gathering the appropriate data. On the questionnaire, respondents were allowed to choose more than one response if needed and to give any suggestions about MSEs. Similarly, the participants of the interviewees were made aware of objectives of the study and make oral consensus to participate in the study.

3.2 Demographic data Male versus Female respondents and its percentage
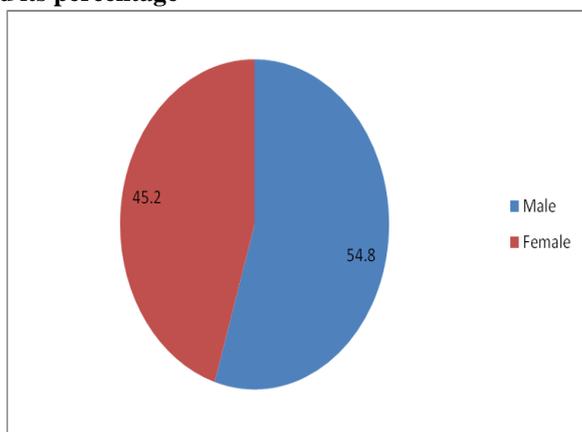
Source: Survey Result, 2016

Fig. 1

Respondents of male and female has presented in Figure1. It shows that 144(54.8%) of the selected sample populations were males and the rest 119 (45.2%) were females. Even though the gap is not that much pronounced. It has a clear indication that there is still 10 percent gap between the two genders that should be closed. MSEs are assumed to be the basis for medium and large industries, this strategy will not meet the ultimate goal in the absence of females, where they are half of the population.

Table 1. Age distributions of respondents

Age	Frequency	Percentage
15-24	59	22.4
25-34	125	47.5
35-44	67	25.5
≥45	12	4.6
Total	263	100

Source: Survey Result, 2016

From the Table 1 shows that, MSEs are operated by relatively young operators, ranging from 25-34 years of age 125(47.5%), followed by 35-44 years of age 67(25.5%). The remaining 59(22.4%) of the sample respondents are between 15-24% years old and12 (4.6%) are 45 and above years old. From the table, young population is the backbone of the country's economy, the participation of young people is encouraging and must be given due attention for their engagement in MSEs.

Table 2. Marital Status and its percentage

Response	Frequency	Percentage
Married	132	50.2
Single	86	32.7
Divorced	42	16
Others	3	1.1
Total	223	100

Source: Survey Result, 2016

Marital Status is exhibited in Table 2, it shows 132(50.2%) of the sample respondents are married followed by single 86(32.7%), divorce 42(16%) and others 3(1.1%). From this we can understand that MSEs have more financial sources, because they have at least two members in family, i.e., the husband and wife. So they are married, they have the probability of good saving habit there by financing their own MSEs properly.

Table 3. Educational Status of Respondents and its percentage

Response	Frequency	Percentage
Grad1-8/primary	40	15.2
school/	100	38
Grad9-12/Secondary	80	30.4
school/	42	16
Diploma/TEVT/	1	0.4
Degree	263	100
Others/ 2nd degree, Phd		
Total		

Source: Survey Result, 2016

As shown in Table 3, it has 100(38%) of the respondents belongs to secondary school, 80 (30.4%) TVET/diploma holders, 42 (16%) degree, 40 (15.2%) primary school and 1 (0.4%) followed by others. Since the owners are in formal education, these enable them to develop proper financial management and other skills necessary for the smooth running of enterprises.

4.3 Company information

Table 4 Structure/ownership of Enterprises and its percentage

Responses	Frequency	Percentage
Sole proprietor ship	136	51.7
Partnership	65	24.7
Cooperative	61	23.2
Others /share company/	1	0.4
Total	263	100

Source: Survey Result, 2016

Table 4 shows that, 136(51.7%) are operated as private owners (sole proprietorships), 65(24.7%) as joint ownership (partnerships), 61(23.2%) as cooperatives and 1(0.4%) as others. This is a positive step to MSEs indicating that the practice of pooling of capital by a group of individuals as a way to overcome the problems at start-up and while in due course operation. However, it does not mean that joint ownership and cooperatives have an absolute advantage over sole proprietorship.

Table 5. Nature/Kind of organization /types of Developmental Oriented Sector

Responses	Frequency	Percentage
Manufacturing	79	30
Construction	3	1.1
Service	175	66.5
Urban agriculture	6	2.3
Total	263	100

Source: Survey Result, 2016

Nature/kind of organization / type of developmental Oriented Sector presented in Table 5, it has 175 (66.5%) of the respondents are engaged in service sector, 79(30%) engaged in manufacturing sector, 3(1.1%) engaged in construction and 6(2.3%) as urban agriculture. From these the researcher understand that among the developmental oriented sectors, service sectors are outweigh the other sectors, this is due to the capital required to start such business is relatively low.

Table 6. Operating period of the business

Responses	Frequency	Percentage
1-5years	142	54
6-10years	99	37.6
11-15years	22	8.4
Total	**263**	100

Source: Survey Result, 2016

Table 6 exhibited the frequency and percentage of businesses operating period, 142(54%) of businesses operate less than or equal to five years, 99(37.6%) between six to ten years and 22(8.4%) above fifty years.

Table 7. Numbers of People Working in the Enterprises

Responses	Frequency	Percentage
1-5 workers	161	61.2
6-10 workers	93	35.4
11-15 workers	8	3
16-20 workers	1	0.4
Total	263	100

Source: Survey Result, 2016

In Ethiopia, CSA defines MSEs as having employees not exceeding 10 people. From the Table 7 numbers of people working in the enterprises shows that, 161(61.2%) the largest sample population which represents 1-5 workers, 93(35.4%) of the respondents replied that 6-10 workers, 8 (3%) of respondents replied that 11-15 workers, 1(0.4%) of respondents replied that 16-20 workers. Most of the MSEs have employed one up to five workers and this is a sign of participating/employing more workers; and this is good to the economy of country at large and strength of this sector in particular.

Percentage of Professionals and non-professionals in managerial positions
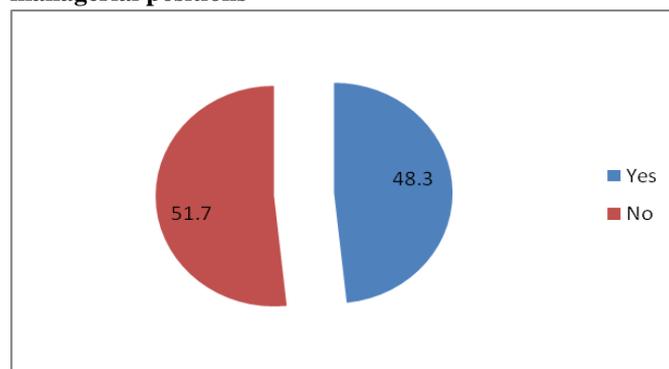
Source: Survey Result, 2016

Fig. 2

Figure 2 presented the professionals in managerial positions, it has 127 (48.3%) of business enterprises are professionals in managerial positions and the remaining136 (51.7%) of enterprises are non-professionals in the managerial positions.

Table 8 Qualification of the management

Responses	Frequency	Percentage
Diploma/TVET	142	53.9
First degree	90	34.2
Second degree	21	8
Others/Phd	10	3.9
Total	263	100

Source: Survey Result, 2016

The Table 8 shows the qualification of the management and it has 142 (53.9%) business are managed by diploma holders, 90(34.2%) managed by first degree holders, 21(8%) managed by second degree holders and 10(3.9%) by others.

Organizations have an existing business plan
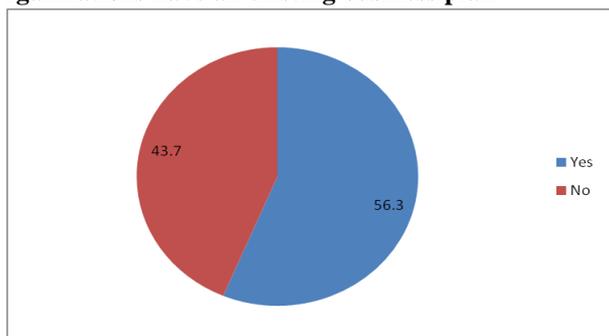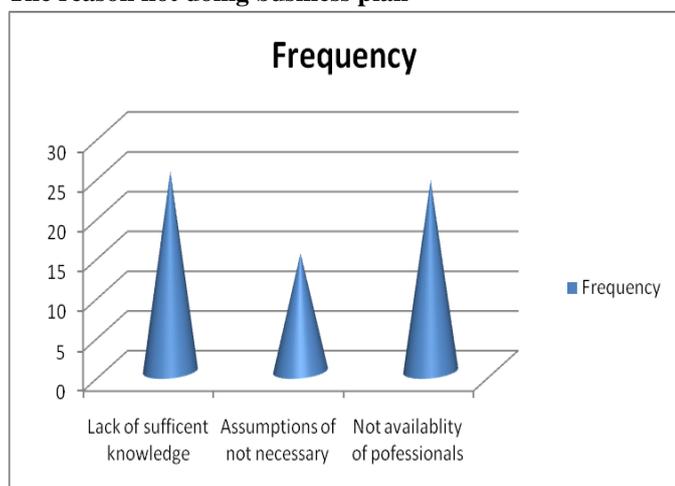

Source: Survey Result, 2016

Fig. 3

As shown in the Figure 3, the organizations have an existing business plan and it has 148 (56.3%) of sample respondents replied that they have prepared business plan and the rest 115 (43.7%) did not prepare business plan for their business.

The reason not doing business plan

Source: Survey Result, 2016

Fig. 4

As shown in Figure 4 the reason not doing business plan and it has 66(25.1%) of sample respondents replied that they do not prepared business plan as a result of not sufficient knowledge, 63(24%) as a result of unavailability of professionals and the rest 39(14.8%) assumptions of not necessary.

Table 9. Monthly turnover of the business

Response	Frequency	Percentage
Less than Birr5,000	123	46.8
Birr 5,000-Birr 15,000	117	44.5
Above Birr15,000	23	8.7
Total	**263**	**100**

Source: Survey Result, 2016

Monthly turnover of the business is presented in the Table 9 and the respondents replied that 123 (46.8%) less than birr 5,000, 117(44.5%) between birr 5,000 up to birr 15,000 and 23 (8.7%) are above birr 15,000.

4.4 Training Information

Work Experience before Starting the Current Business and its percentage
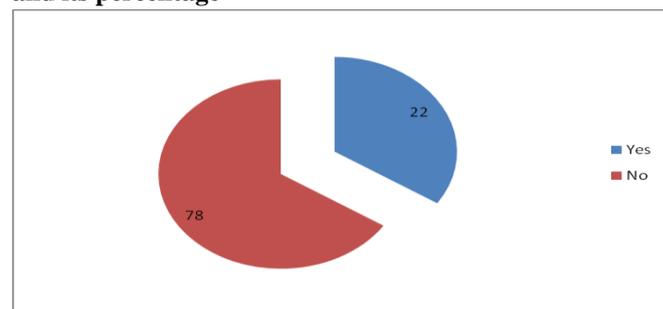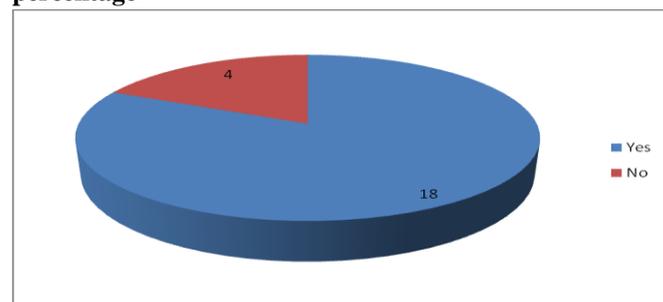

Source: Survey Result, 2016

Fig. 5

As shown in the Figure 5 work experience before starting the current business. Most of the MSEs respondents did not have previous work experience 205(78%) and the rest 58(22%) have work experience before starting the business. Even though, most of the respondents have no work experience. There is no question at all that business experiences are very crucial for successfulness of MSEs.

**The Relatedness of the Experience to the Business and its percentage**

Source: Survey Result, 2016

Fig. 6

The previous Figure 5 shows that, 58(22%) of respondents replied that they have previous work experience. As shown in the Figure 6 the relatedness of the experience to the business, 47(18%) of the respondents replied that, the relationship between the existing businesses with the previous work experience was related and the rest 11 (4%) replied that the previous work experience is not related with the current business.

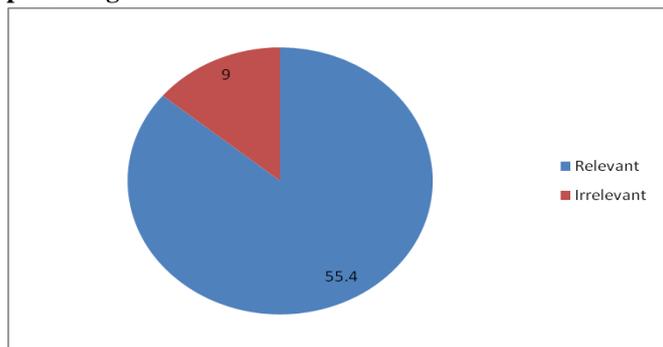**Training before Starting-Up the Business and its percentage**
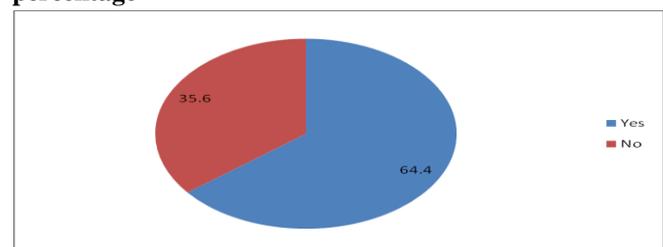
Source: Survey Result, 2016

Fig. 7

Training applies to any transfer of knowledge, skills or an attitude which is organized to prepare people for more productive activities, or to change their working environment. As presented on the Figure 7 shows that 169(64.4%) of the sample respondents have taken training and the rest 94 (35.6%) did not take any training before starting-up the current business. Therefore, the training given to MSE owners/operators should be continuously monitored and evaluated or the need must be assessed periodically.

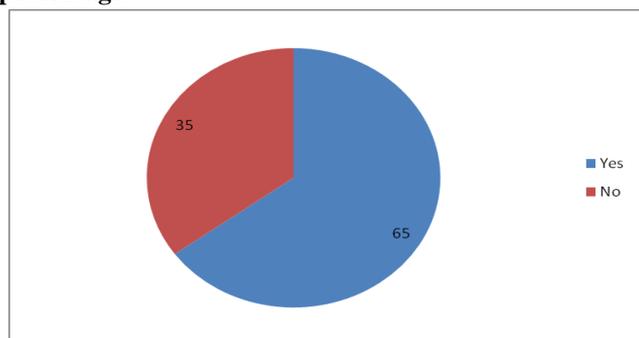**The Degree of Relevance of the Training and its percentage**

Source: Survey Result, 2016

Fig. 8

As presented in the previous Figure 7, 169(64.4%) of respondents replied that they have taken training before starting the current business. The degree of relevance of the training shown in Figure 8 and it has 145 (55.4%) of the respondents replied the training is relevant for the current business where as 24 (9%) of the respondents replied the training is irrelevant for the business.

Training after Starting-Up the Business and its percentage
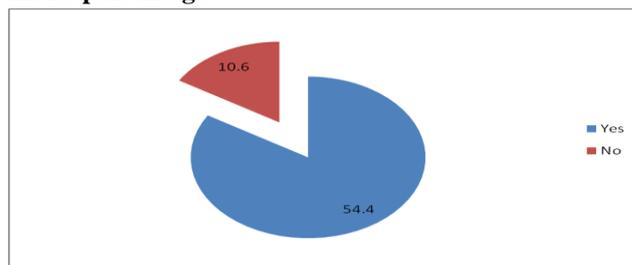

Source: Survey Result, 2016

Fig. 9

As shown in Figure 9 the training after starting-up the business, the respondents of 171(65%) replied that they have taken training after starting up the business and the rest 92(35%) replied that they were not taken any training after starting up the business.

The Degree of Relevance of the Training after Start-Up and its percentage

Source: Survey Result, 2016

Fig 10

As presented in the previous Figure 9, 171(65%) of respondents replied that they have taken training after starting up the current business. The degree of relevance of the training after start-up shown in Figure 10, 143 (54.4%) of the respondents replied that, the training is relevant for the business. Whereas 28 (10.6%) of the respondents replied that the training is irrelevant for doing business.

Table 10. Types of Training Opportunity Gained and its percentage

Response		Frequency	Percentage
Skill and entrepreneurship training	Yes	164	62.4
	No	99	37.6
Financial, marketing, strategic management	Yes	143	54.4
	No	120	45.6
Raw material utilization	Yes	135	51.3
	No	128	48.7
Sanitation and climate change	Yes	106	40.3
	No	157	59.7

Source: Survey Result, 2016

As exhibited in Table 10 the types of training opportunity gained, 164 (62.4%) of the respondents replied that they got skill and entrepreneurship training, 143(54.4%) gained financial, production, marketing/sales and strategic management training, 135(51.3%) gained raw materials utilization and quality improvement training and 106(40.3%) gained sanitation and climate change training.

4.5 Business information / challenges / problems of MSEs
Table 11 Problems/obstacles MSEs at start-up and its percentage

Response		Frequency	Percentage
Lack of capital	Yes	199	75.7
	No	64	24.3
Input constraint	Yes	130	49.4
	No	133	50.6
Obstacles from government rule and regulation	Yes	100	38
	No	163	62
Working premises	Yes	171	65
	No	92	35

Source: Survey Result, 2016

Table 11 shows the percentage of problems/obstacles MSEs at start-up, 199 (75.7%) replied that lack of capital are their primary problem, working premises 171 (65%), input constraint 130(49.4%) and obstacles from government rules and regulations 100(38%).

Table 12. Major problem of business after start up in priority order

Response	Frequency	Percentage
Lack of working capital	95	36.1
Poor market and market information	85	32.3
	83	31.6
Price increment or shortage of supply	263	100
Total		

 Source: Survey Result, 2016

Major problem of business in order after start up shown in the Table 4.12, respondents of 95 (36.1%) replied as lack of working capital, 85(32.3%) as poor market and market information, and 83(31.6%) as price increment or shortage of supply of inputs in order of priority.

Table 13. Reason for Getting into Specific Business and its percentage

Response	Frequency	Percentage
Skill in this business	28	10.6
Parents/relatives	5	1.9
Apparent ship practice	95	36.1
Thought it would be profitable	36	13.7
	17	6.5
Matching of capital requirements	82	31.2
No alternative	263	100
Total		

Source: Survey Result, 2016

Table 13 shows the reason for getting into specific business, 95 (36.1%) of respondents replied as apprenticeship practice, 82(31.2%) said as no alternative, 36(13.7%) as thought it would be profitable, 28(10.6%) replied as skill in this business, 17(6.5%) as matching of capital requirement and 5(1.9%) as parents/relatives are the reasons of getting in to this business.

**Table 14. Working Premises of Enterprises and its percentage**

Response	Frequency	Percentage
Owned	17	6.5
Rented	166	63.1
Family	58	22.1
Government building	22	8.4
Total	263	100

Source: Survey Result, 2016

Table 14 shows the working premises of enterprises, it has 166 (63.1%) are operating their businesses in rented

premises, 58(22.1%) their families premises, 22(8.4%) in government buildings (no payment at all till now), 17(6.5%) owned. From this one can understand that most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay. In order to begin borrowing from formal financial sources and these financial institutions like the sector to begin their own working premises. At the same time the price of monthly rent is increasing and not confident enough to continue at this rented working premises because the owners of rented working premise may change their ideas.

Finance/Loan Providers have Positive Attitude towards Working Premise
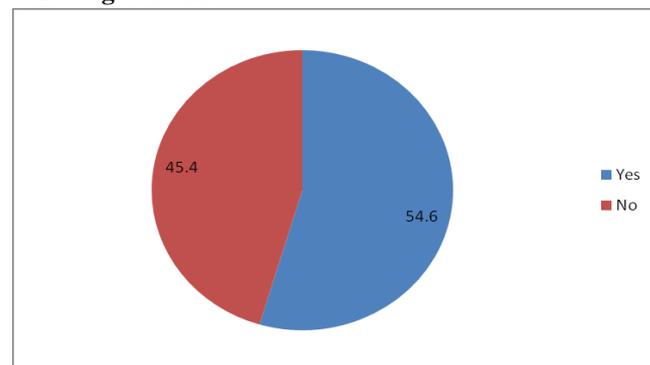
Source: Survey Result, 2016

Fig. 11

Finance/loan providers have positive attitude towards working premises shows in Figure 4.11 and the respondents were also responded on the perceptions towards owning their own working premises by finance/loan providers. It has 144(54.6%) respondents replied that they have positive attitude towards working premises and the rest119 (45.4%) replied they are not.

4.6 Financial information

**Table 15. Range of Capital in Ethiopian (Birr)**

Responses	At start up		During the study period	
	Frequency	Percentage	Frequency	Percentage
From Birr 150-15000	95	36.1	26	9.9
	95	36.1	95	36.1
	59	22.4	81	30.8
From Birr 15001-40000	7	2.7	55	20.9
	7	2.7	6	2.3
	-	-	-	-
From Birr 40001-100000	263	100	263	100
From Birr 100001-200000				
From Birr				

200001-350000 From Birr 350,001-500,000 Total				

Source: Survey Result, 2016

Table 15 shown the range of capital in Ethiopian, the respondents of 95(36.1%) and95 (36.1%) are in the range of 15,001-40,000 Birr, 95(36.1%) and 26(9.9%) are in the range of 150-15,000 Birr, 59(22.4%) and 81(30.8%) are in the range of 40,001-100,000 Birr, 7(2.7%) and55 (20.9%)are in the range of 100,001-200,000 Birr, 7(2.7%) and6 6(2.3%) are in the range of 200,001-350,000 Birr at start-up and during the study period respectively where as from Birr 350,000-500,000 there is no registered MESs business in Debre Birhan Town.

Main Sources of Finance at Start-Up
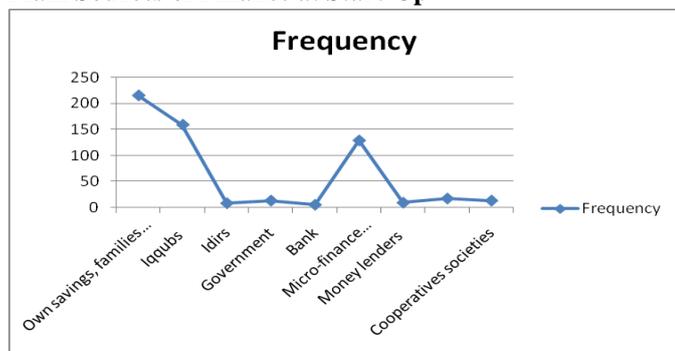
Source: Survey Result, 2016

Fig 12

Figure 12 presented the main sources of finance at start –up, MSEs were mainly financed out of the owner's personal savings or family or friends 215 (81.7%) followed by Iqqub 159(60.5%), loans from MFIs 129(49%), NGO and Community-Based organization 18(6.8%), cooperatives and government 14(5.3%) each, money lenders 10(3.9%), Idir 9(3.4%), and 6(2.3%) from banks. Here the sample respondents were not exploiting external sources especially the formal financial sources i.e., banks at start-up and this may be the reason why MSEs fail to establish and progress.

Table 16 Source of finance to acquire fixed assets at the time of establishment

Response		Frequency	Percentage
Trade credit	Yes	130	49.4
	No	133	50.6
Equipment loans and leases	Yes	10	3.8
	No	253	96.2
Instalments payment	Yes	134	51
	No	129	49

Source: Survey Result, 2016

Table 16 depicts sources of finance to acquired fixed assets at the time establishment, it has 134(51%) of the respondents replied fixed assets acquired through instalment payments, 130(49.4%) through trade credit and the rest10 (3.8%) through equipment loans and leases.

Loan Received by Micro and Small Enterprises
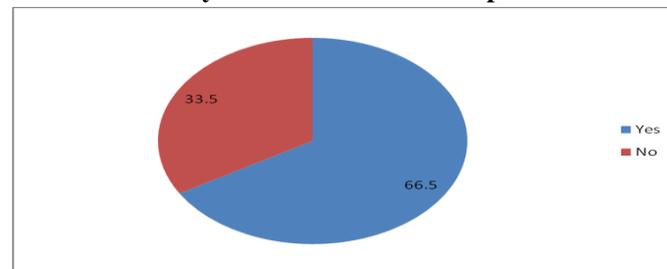
Source: Survey Result, 2016

Fig 13

Figure 13 shows loan received by micro and small enterprises, MSEs 175(66.5%) have received loan and the rest 88 (33.5%) did not receive loan until now. Debt-financing is favourable for most businesses until some percentage or mix with capital financing. For those who did not receive loan must use the advantage of loan-financing so that they will compete with other MSEs that receives loan and further with medium and large industries.

Table 17. Sources of Loan for MSEs

Response		Frequency	Percentage
Banks	Yes	6	2.3
	No	169	64.2
Micro finance institutions	Yes	129	49
	No	46	17.5
Cooperatives	Yes	17	6.5
	No	158	60
Money lenders	Yes	14	5.3
	No	161	61.2

Source: Survey Result, 2016

Sources of loan for MSEs presented in Table 17, the sources of finance or loans received by MSEs are carried out by MFIs 129(49%), cooperatives 17 (6.5%), and money lenders 14(5.3%) where as formal banks are refrained from providing finances to MSEs in Debre Birhan Town even after establishment or in due course of operation only 6 (2.3%), This narrow source of finance may be the reason why businesses fail to establish and progress.

Table 18. Reason for not receiving Loan

Responses		Frequency	Percentage
Absence of collateral	Yes	51	19.4
	No	36	14.1
Assumption of not receiving	Yes	8	3.5
	No	79	30
Fear of inability to repay	Yes	7	3.1
	No	80	30.4
High borrowing cost	Yes	35	13.3
	No	52	20.2

Source: Survey Result, 2016

Table 18 presented the reason for not receiving loan; the MSEs were forwarded the reason behind not receiving a loan from different sources of finance. So, the reasons were absence of collateral requirement 51(19.4%), high borrowing cost 35 (13.3%), assumption of not receiving loan 8 (3.5%) and fear of inability to repay 7(3.1%). Most of the sample respondents replied that the collateral required by institutions especially by banks was beyond their capacity and their business. Due to this they force to use other informal sources which are costly and risky than the formal sources of finance.

Table 19. Financial challenges/Difficulties in their order of Priority

Responses	Frequency	Percentage
Lack of proper credit facilities	110	41.8
Inability to expand operation	94	35.7
Price escalation (boom) of raw materials	32	12.2
Lower contribution of money by members	27	10.3
Total	263	100

Source: Survey Result, 2016

Financial challenges/difficulties in the order of priority indicated in Table 19, the MSEs were replied about their financial challenges/difficulties by their order of priority. Thus, 110(41.8%) lack of proper credit facilities, 94(35.7%) inability to expand operation, 32(12.2%) Price escalation (boom) of raw material, 27(10.3%) lower contribution of money by members and were the major financial difficulties/challenges in the order of priority.

## MSEs Address Working Capital or Financial Difficulty
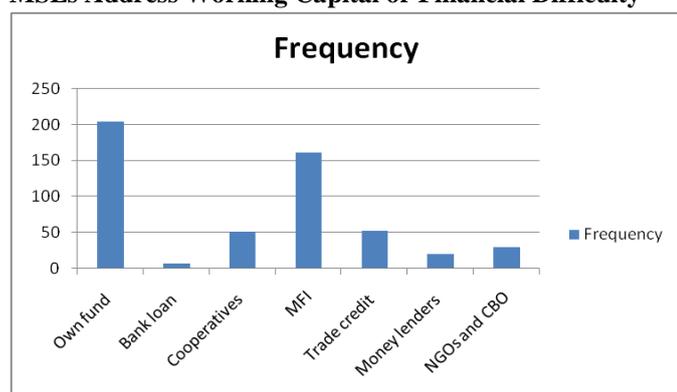
Source: Survey Result, 2016

Fig. 14

Figure 14 shows how MSEs address working capital or financial difficulty, it has own fund or family 205 (77.9%), loan from micro finance institutions 162 (61.6%), trade credit suppliers 53(20.2%), cooperatives 51(19.4%), NGOs assistance 30 (11.4%), money lenders 20(7.6%) and bank loan 7(2.7%) were the sources of working capital used by the MSEs.

Experiences of Financial Records
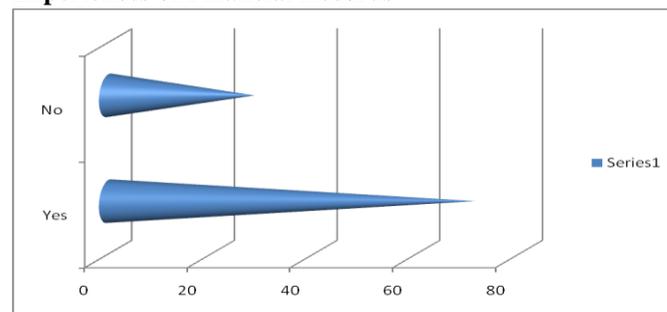
Source: Survey Result, 2016

Fig. 15

Experience of fincial records depicted in Figure 15, it has 188(71.5%) of respondents do have the experiences of financial record keeping for their activity while they are performing businesses. The rest 75 (28.5%) of respondents do not have the experience of financial record keeping. Financial record keeping experience is very crucial for MSEs to evaluate their works profitability which avoid/minimize them from bankruptcy.

Financial Records Keeping as Indicator of Sound Financial Management
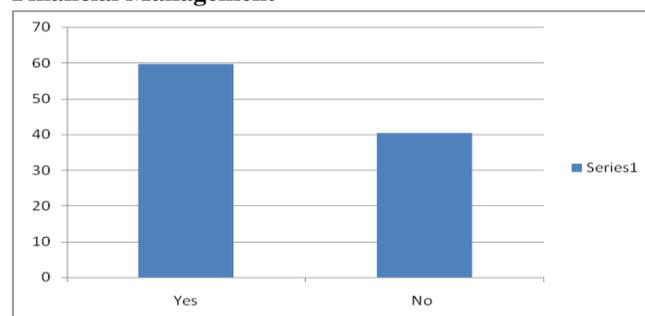
Source: Survey Result, 2016

Fig. 16

Finance/loan providers towards financial record keeping presented in Figure 16, it has 157(59.7%) of sample respondents were replied that proper financial record keeping as indicator of sound financial management where as the rest 106(40.3%) replied that fincial record keeping were not indictor of sound financial management. Thus, MSEs must begin or continue the experience of financial record keeping. Especially the formal financial sources demanded the financial record keeping and to cope up with this trend MSEs must have the capacity and experience of financial record keeping.

Table 20. Present Tax System of Ethiopia towards MSEs

Responses	Frequency	Percentage
Very high	52	19.8
High	83	31.6
Medium	120	45.1
Low	8	3
Very low	-	-
Total	263	100

Source: Survey Result, 2016

Table 20 shows the present tax system of Ethiopia towards MSEs, the impact of present tax system of Ethiopia to their businesses is very low (0%), low 8 (3%), medium 120 (45.1%), high 83(31.6%) and vey high 52(19.8%).

4.7 Economic information
Table 21 Role of MSEs in the Economic Growth of Ethiopia

Responses		Frequency	Percentage
Job opportunity for the owners and other workers	Yes	214	81.4
	No	49	18.6
Tax payment for the government	Yes	86	32.7
	No	177	67.3
Bring fair income distribution within the society	Yes	90	34.2
	No	173	65.8
Serve as a foundation for medium and large enterprises	Yes	99	37.6
	No	164	62.4
Poverty reduction	Yes	153	58.2
	No	110	41.8

Source: Survey Result, 2016

The Role of MSEs in the Economic Growth of Ethiopia shown in Table 21, the sample respondents were also responded about the role of MSEs as creation of job opportunity for the owners and other workers 214(81.4%), as poverty reduction 153(58.2%), serve as a foundation for medium and large enterprises 99 (37.6%), bring fair income distribution within the society 90(34.2%) and tax payment for the government 86(32.7%).

**Support Received by MSEs**
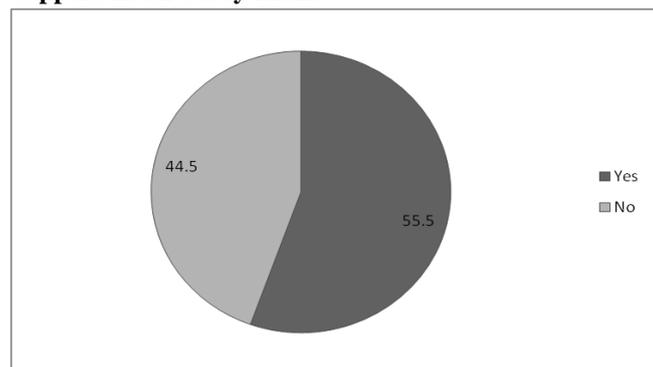
Source: Survey Result, 2016

Fig. 17

Figure 17 shows support received by MSEs, it has 146(55.5%) of the respondents indicates that they receive a support to promote their activities where as 117(44.5%) of the sample respondents indicated that they did not receive any support what so ever to promote their activities. This indicated that supports to the MSEs are greatly ignored as a result the sector is still under developed or it is not as they planned.

Supporters of MSEs
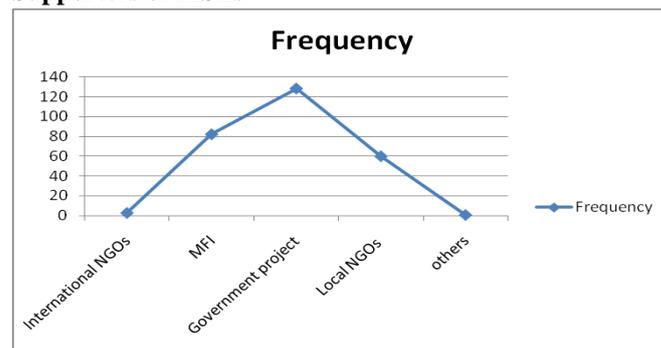
Source: Survey Result, 2016

Fig. 18

Figure 18 shows the supporters of MSEs, the respondents were also forwarded who assist them at the time of establishment and/or in due course of operation. The data clearly revealed that nearly 128(48.7%) of the sample respondents who receive support were from government. MFIs 82(31.2%), local NGOs 60 (22.8%), International NGOs 3 (1.1%), and others 1(0.4%) were supported the sample MSEs in Debre Birhan town.

Table 22. Activities to be done for MSEs to make them Successful in Order

Responses	Frequency	Percentage
Fair and proper credit facilities	104	39.5
Appropriate training modalities	95	36.1
Marketing linkage (value chain)	47	17.9
Follow-up and continuous discussion	17	6.5
Total	263	100

Source: Survey Result, 2016

The activities to be done for MSEs to make success in priority order shows in Table 22. The sample respondents were replied about the future actions to be taken and/or past weaknesses to be corrected so that they will be succeeded for themselves in particular and will contribute to the economic growth of Ethiopia. The respondents of 104(39.5%) replied that fair and proper credit facilities, 95(36.1%) appropriate training modalities, 47(17.9%) marketing linkage (value chain) and 17 (6.5%) follow-up and continuous discussion.

4.8 Results of interview
The interview was conducted officials of Debre Birhan Town Micro and Small Enterprise Development office, Debre Birhan Poly Technique College and it is summarized as follows.

The Reason for Micro and Small Enterprises Establishment and Operation
MSEs are essential actors in the development process together with medium and large industries; they play a key

role in mobilizing public and private resources and allocating them to productive activities. The MSEs are more labour intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneur ship. Besides MSEs important for special groups such as women, youth, and the landless to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment) in rural- urban areas. In Debre Birhan town it is important that the potential of MSEs generating new employment opportunities and create additional incomes, thereby contributing to improved social and economic well-being, as well as the alleviation of poverty.

Major Problems of MSEs in the Order of Priority

The responses gained from sample respondents was the major problems of MSEs in order of priority as lack of working capital, poor market and market information, and price increment or shortage of supply of inputs. However, the interviewee said that insufficient credit facility, working premises, and dependency to government are the most one. Hence, the owners of MSEs uses the narrow source of finance is the reason why businesses fail to establish and progress i.e., the credit facilities is not as needed because of collateral requirement, short period of repayment coupled with small amount of money, etc. Most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay.

Training Given to Micro and Small Enterprises

Financial management, skill training, skill upgrading, marketing management, entrepreneurship, technical training, accounting, business management and planning advice, and improved market information and access, policy and strategy of Ethiopia, strategy and globalization, sanitation, climate change, quality improvement, and raw materials utilization trainings were offered.

Incentives given to MSEs; and to Help, Solve or Minimize their Problems

MSEs in Debre Birhan town were given incentives like certificate of accreditations, medal and cups, and gives prizes to model MSEs that do a better way or introducing a new technology and/or innovations. Business Development Strategy such as entrepreneurship training, management and planning advice, and improved market information and access, are likely to be needed. Assistance in making loan applications and advice on dealing with financing agencies will also be required and institutional capacities to provide specialized support to MSE at start-up and/or to existing owners. Debre Birhan town MSE Development office with North Shoa MSEs department and others are doing their best to minimize or solve the problems of MSEs. This may be in giving different types of trainings, access to credit facilities in collaboration with MFIs, marketing linkage with many

institutions, and providing working premises even if it is not to all MSEs.

Recommendations to Overcome the Financial Difficulty of MSEs

Business Development Strategies (BDSs) are designed to help MSEs overcome barriers to increased profitability by improving their productivity and access to high value markets. The services include training, consultancy and advisory services, marketing assistance, information, business linkage promotion, and linkages to finance and financial services. By accessing to BDSs offered or coordinated by government the MSEs must take the advantage to overcome the financial difficulties.

Good accounting record and financial control over different activities like cash flow, inventory, receivables, customers' data, sales, and cost so that they have a good data base over all financial concerns. By keeping good financial record the MSEs can expand the probability of getting loans from external sources like banks. Similarly, MSEs must utilize their own as well as external sources of finance economically. Financial services, particularly credit, are not always appropriate for all people at all times and the mix of debt with capital financing must give due attention before they receive a loan (proper utilization of existing capital).

Activities to be done for MSEs to make them Successful in Priority Order

Formal financial sources must be adequate to support MSE growth. Hence, MFIs were born because banks are not always willing to accommodate very small business loan requests or compensate for individuals whose credit may not be perfect. Because of this and social responsibility, MFIs must be serious enough or give due attention to the advancement of loans to MSEs. In line with this, the credit advanced to MSEs must be enough for starting and/or expanding businesses and the repayment period must be adjusted by continuous discussions with MSEs. MFIs must also be concerned about the impact of excessive interest rates, abusive lending practices, and over-indebtedness on poor borrowers. The effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services, creating benefits for clients and improving social responsibility of MFIs. Most MFIs have a social mission that they see as more basic than their financial objective, or at least co-equal with it. If MSEs exploits at least two external sources of finance besides others like their own retained earnings and families no question they will be succeeded.

4. SUMMARY OF THE FINDINGS

The main objective of the study was to assess the source of finance, explore challenges and identify supports for Micro and Small Enterprises through their operation in Debre

Birhan Town, 2016. In order to attain the main objective of the study, relevant data were gathered through questionnaire and key informant interview. The data found from these subjects were analyzed with the aid of descriptive statistics i.e., frequency and percentages. According to the discussion and analysis of the data presented in chapter four, the following findings were drawn and summarized below.

- The study shows MSEs is mostly operated by young people in the age category of 25 to 34, this reveals that the business has encourage young generation to start such business.

- The survey shows larger proportion of MSEs (54.8%) are owned / managed by male owners and or managers, which indicates that the need for extra efforts has to raise the involvement of females in the sector.

- The survey also provided some data on marital status of the operators, which revels 50.2% of the operators were married as a result their fincial capacity were strong. It demands MSEs have more financial sources, because they have at least two families, i.e., the husband and wife. The married one has the probability of good saving habit there by financing their MSEs properly.

- It also noted that about 38% of the MSEs Owners / managers have attended high school as their highest level of education, followed by (30%) TVET Education. This indicates that business needs technical background for better production and running of the business.

- The study indentify shortage / lack of sufficient capital is the principal challenge of businesses at start-up followed by lack of working premise, input access constraints and obstacles from government rules and regulations. Similar to the start-up MSEs face numerous problems after start-up like lack of working capital, poor market and market information's, and price or shortage of supply of raw materials are the strong challenges inhibiting the growth of these enterprises.

- The study also indicated that the main financial source for start-up and expansion of MSEs comes from personal saving, families, relatives, and friends. Owners find very difficult to access credit from banks due to lack of collaterals and the loans provided by MFIs are small with a short repayment period and high interest rates.

- The study also shows that the main financial difficulties / challenges that most MSEs encountered are lack of proper credit facilities, inability to expand operations, and price escalation (boom) of raw materials.

- MSEs in Debre Birhan Town were given incentives / supports by different governmental and nongovernmental organizations like certificate of accreditations, medal, cups and prizes to model MSEs and other supports which include internal and external factors that affect the growth and performance of the business. Internal factors are inherent to the enterprises performances like record keeping practices, educational background, experiences of similar activities where as external factors include availing sufficient loan services, providing working premises, trainings and consultancies. Though such instruments are very supportive for the growth of MSEs, availability and quality of this support instrument has its own impact on their growth.

4.1 Conclusion

The study shows that, MSE ownership is dominated by men (54.8%). Effort could be made to encourage female participation in businesses. This might be done through setting up facilities that help to develop a better enabling environment and funding incentives for women. Legal ownership / structure of MSEs were achieved mainly through sole proprietorships which are dominant especially among the micro sized businesses. Sole proprietorships reduce bureaucracy leading to efficiency but at the risk of a lack of accountability. There is an opportunity for donors to intervene especially at micro-enterprise level by providing tailor-made capacity building opportunities to this group in areas such as financial management. The study clearly demonstrates that, limited access to finance is major constraint / challenges to MSE's growth and development. MSEs used to finance their business through their own funds, families and relatives, Iqqb and microfinance than that of large Banks. This implies that access to finance from large banks is very difficult for MSEs due to collateral requirement and high cost of finance (interest rates). The finding has a clear indicator that most are not able to meet collateral requirements by financial institutions for accessing loans. There is an opportunity for the government and relevant stakeholders to come up with sensitization on training. Moreover, high interest rate, assumption of not receiving, absence of collateral and fear of inability to repay hampering MSEs from access to finance. The government has made significant progress in improving access to finance for small and growing businesses over recent years. There are still market failures and anomalies in the system that needs to be addressed. By addressing market failures, government backed schemes have an important role to play in enabling businesses to access finance. Access to finance underpins business start-ups and growth, and creates the employment and wealth needed by the country.

4.2 Recommendation

The main interest of this thesis was to assess the financial sources of MSEs through their operation and to suggest certain solutions for the problems that the researcher identified in the process of the study. After a detail investigation the researcher would like to forward the

following constructive recommendations to MSE owners, Financial Institutions and to the Government bodies.

- The money currently released is insufficient to support the MSEs owners. Hence, it is better to raise the amount of money or loan size given to MSEs.
- Providing adequate working and marketing premise is one of the very essential inputs for the growth.
- Improving or maintaining administrative efficiency is required.
- The financial sources available to MSEs largely depend on informal financial sources. So the government should adopt a strategy for formal financial sources to raise finance for MSEs.
- Universities, TVET and other institutions are better to work jointly with other supporters of the sector so as to improve the modern management capacity & technological level of the MSEs.
- Business Training Centres for capacity building should be established in Regions, Zones, Wereda and Kebele levels.
- Creditors should better to reduce the procedures of lending to MSEs.
- Many MSEs are weak in book keeping and preparing financial statements. Hence, continuous training is highly important for MSEs owners to create awareness on the advantage of book keeping
- The Government support approach would be based on the owners of MSEs interest and wants.
- The training given to MSEs owners / operators should be continuously monitored and evaluated or the need and requires must be assessed periodically.
- Further research on the MSEs Owners / operators in wider area (urban and rural area) should be conducted.

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