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Credit availability for the performance of micro and small enterprises in Afar Region: Case study of three selected zones, Awssa, Kilbat and Gabii

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Micro and small enterprises (MSEs) aid the growth of national economy to assume increasing importance especially in job establishment, poverty reduction and reducing income variation. Numerous organizations have treaded in to finance their operations, resolve this problem and uphold their commercial success. This study was therefore conducted to investigate the effect of financial factors on success of MSEs business firms in three selected zones. Success of MSEs is measured in expressions of their working-capital, number of workforces, revenue, expansion plus diversification of the work. It was possible to identify finance as the major problem of MSEs firms. Respondents were selected using stratified sampling method. This study focused on MSEs sectors in three selected zones of Afar region. From the study, the most problems identified are credit availability and inappropriate delivery of the finance. MSEs are facing difficulties such as loan payment duration, interest rate, loan amount, as well as other accessibility of monetarist instruments. Thus, most designated independent variables have meaningfully explained the differences in the dependent variable at 10% degree of significance. MFIs should identify appropriate businesses for region before credit.

Key words: Finance, interest-rate, loan, MSEs, success.

INTRODUCTION

Micro and Small Enterprises (MSEs) are the heart of most economies. To be fruitful MSEs and other business segments, finance plays key role in any feature of business task. Micro and small enterprises (MSEs) need finance to start, develop, diversify and for operational capital of the firms. Devoid of finance, no one enterprise can realize its objective, as it is the backbone of one MSEs enterprise (Mckernan and Chen, 2005).

Many authors have properly defined MSEs in a different way and in dissimilar places at different times. On the other hand, different authors of the world settled and used number of employees to categorize and define MSEs. However, in Ethiopia, it hinged on the capital investment of Federal Micro and Small Enterprises Development Agency (FeMSEDA), which further defined Micro and Small Enterprises and also categorized them from support facility point of view which complements Moderate Enterprises.

Hereafter, to curve with the economic grade of the country, modification could be made by growing the total asset for the type via the GDP growth rate. State Micro, Small and Medium Enterprises are based on number of workforces, firm asset and yearly sales/revenue. As total asset and annual revenue are similar in the definition set, the choice of total asset is preferred due to comfortable obtainability of facts.

The MSE deeds can account for growing tax-incomes for the administration and enable the government in the long run to finance the money. To further strengthen the position of MSEs, the financial and non-financial services play an essential role in the performance and development of these businesses. The consolidation and expansion of present MSEs and the provision of fresh enterprises can be subsidized to achieve social objectives, appeal significant foreign reserves for the nation and have a pure importance in giving that employment, meaning they are the support of the private segments in unindustrialized countries (Mead and Liedholm, 1998:61).

The purpose of MSE improvement and the facility of MSE services are to aid the entrepreneurs to take benefit of market opportunities and recover the access to expertise development occasions that strengthen commercial skills (UNIDO, 2002:36).

MSEs in Ethiopia are, though, challenged by major financial influences that affect the performance of MSE. For that reason, this study has contributed to block this gap by identifying the credit availability touching the MSEs in Afar region particularly in three selected zones.

Statement of the problem

In the economies of the world, micro and small enterprises are energetic for sustained growth. MSEs are commonly viewed as the driving force of economic development, job making and scarceness reduction in developing nations. According to Okpara and Wynn (2007), they have been the means through which enhanced economic growth and hasty industrialization is to be attained.

The problems that MSEs create when trying to access financing consists of several imperfect range of financial related activities, regulatory inflexibilities or holes in the legal framework, absence of information on both the bank's and the MSE's. Banks may escape providing financing to certain categories of MSEs in particular for those which are in start-up and very new firms that typically lack sufficient collateral, or firms whose activities offer the potentials of high returns but at a significant risk of loss (OECD, 2006).

Acute financial constraint becomes a strong obstacle for MSEs in developing countries (Wattanapruttipaisan, 2003). In contrast to this, Riba (1999) argued that the major constraint for MSE development, expansion, diversification and preferment is not the shortage of access to finance; it is rather absence of access to medium and long-term credit (time duration of credit) that hinders MSEs. This is because most credits available for MSEs are on short-term loans.

In Ethiopian situation, as regards Ethiopian government's strategy, Growth and Transformation plan, micro and small enterprises are the bridge to realizing the goals of the government (MoFEC, 2011). Subsequently, as Ethiopia is a developing nation, policy makers of the country remuneration is due to consideration of MSE sectors. Due to their small capital requirement, fixed with the fact that they are easy to startup, work and easy to operate in town, they appeal the attention of the government. Even though MSEs are supposed to require squat capital expenditure, finance remains the crucial requirement to start and track MSEs. Capital is vital to start-up, expansion, diversification and operation of MSEs (OECD, 2006). MSEs growth, development, expansion, diversification and upgrade is not continuing much as expected.

Gebrehiwot and Wolday (2006), who conducted their research on this subject in Ethiopia, stated that insufficient loan size, loan lengths that do not match with the gestation periods and cash flow patterns of borrowers' activities financed by the loan, disappointment to disburse timely, and the propensity of group collateral requirements are the difficulties of MSEs in growing and diversifying their enterprise. In addition to this, Mulu (2007), who conducted a study on selected businesses in six major zones administrations of Ethiopia, identified these difficulties.

Studies decided that the problem of MSEs are access to working capital and extended term credit, loan size, insufficient infrastructure, high transactional cost, imperfect managerial and practical experts and marketing glitches (Hailay, 2003; Gebrehiwot and Wolday, 2006; World Bank, 2008). Many writers have concluded the above listed problems of MSEs, and are still upset on each idea. For example, Wattanapruttipaisan (2003) detailed that lack of access to finance is a strong hindrance for MSEs in developing nations. In contrast, Riba (1999) argued that the major constraint to MSEs' growth, expansion, diversification and promotion is not the lack of access to finance, but rather its loan term to medium and long-term credit; and also Malhotra et al. (2006) shared the arguments of both sides. In addition to this, these authors did not identify some more serious problems.

This research has focused on the effect of financial factors that lead to success or failure in the performance of the firm. The major focus was on adequacy of loan size, interest rate, loan term (loan duration), the availability of loan on time (delays in loan request processing), and the variables were investigated to assess whether access to backing by itself is appropriate or unsuitable.

Table 1. Categorization of MSEs.

Level of enterprise	Segment/sector	Number of people involved	Total asset of in Ethiopian Birr (ETHB)
Micro enterprise	Manufacturing	≤5	≤100,000 ETB
	Service	≤5	≤50,000 ETB
Small enterprise	Manufacturing	6-30	≤Birr 1.5 million ETB
	Service	6-30	≤Birr 500,000 ETB

Ethiopian Definition (2016).

Objectives of the study

General objective

General objective of the study was to assess financial factors that affect the Micro and Small Enterprises in Afar Region.

Specific objectives

Specific objectives of the study are:

(1) To identify the sources of finance for micro and small enterprise operators
(2) To examine the challenges that micro and small enterprises face in obtaining capital to finance their enterprise.
(3) To examine the connection between credit appropriateness and success of MSEs.

Research questions

Based on the problems identified from personal experience and literature review, the researcher developed the following questions:

(1) What are the sources of capital to MSEs for expansion, diversification, growth and working capital?
(2) What are the financial factors or challenges of MSEs faced from their financial provider after establishment?
(3) To what extent has appropriate or inappropriate finance has affected the growth, expansion and promotion of MSEs?

Hypotheses

To examine the above-specified objectives the following hypothesis were tested with the support of enough and appropriate empirical facts on the factors affecting the success of MSEs. The study was tried using the following hypotheses:

Ha$_1$: The sources of capital to MSEs for expansion, diversification, growth and working capital affects the success of MSEs and firms in Awssa, Kilbat and Gabii.
Ha$_2$: Degree of interest rate, loan duration, amount of loan and availability of loan on time affects the business success of MSEs in the three selected zones, Awssa, Kilbat and Gabii.
Ha$_3$: The appropriateness or inappropriateness of finance affects the success of MSEs in the three selected zones, Awssa, Kilbat and Gabii.

REVIEW OF LITERATURE

There is no generally recognized single definition of MSEs. The usual criteria include one or more of the following; employment, turnover, assets, and paid up capital (SMEDAN, 2007). However, definitions vary from country to country relative to the overall size and structure of the domestic economy.

Different authors concluded and used number of employees to classify and define MSEs. However, in Ethiopia, it depends upon the capital investment of Federal Micro and Small Enterprises Development Agency (FeMSEDA), hence adopting the definition of MSMEs with minor modification is required.

In this study, the researcher have used capital to describe MSEs which is the same as being used by Ethiopians to define and categorize MSEs (Table 1).

Importance of financing micro and small enterprises

The capacity to build growth capital is dependent on 'whom you know' particularly put as your 'technical know-how'. In Africa, one of the main problems facing small and medium enterprises is capital required to finance their activities (Orodje (2012). Enterprises are funded either by debt, equity or a combination of the two forms of financing resulting from either the formal or informal financial sector. In the formal sector, commercial and development banks are the main sources of financing for businesses, while the informal sector comprises of loans from friends, families, Ikub (Traditional Financing in Ethiopia), and cooperative societies. Finance is the heart of enhancement process for MSEs (World Bank, 2008).

Source of finance for micro and small enterprises

Ewiwile et al. (2011) stated that the sources of finance accessible to small businesses include:

i) Individual savings of the business owner as well as friends and family who may be business associates.
ii) Business partners and connections.
iii) NGOs
iv) Banks and financial organizations.
v) The small business management and financial aid program.
vi) Members of the trade, as well as manufacturers, wholesalers, and in some cases, customers.

From the above listed sources, individual savings is the most accessible to a lot of people. The other choices available for financing small businesses such as loans from financial institutions are almost not reachable.

Bank finance is classically the main source of external finance for all firms, regardless of size (Beck et al., 2007). Hailay (2003) spelt out that there are three possible sources of finance, namely, owner managers own investment, business expansion scheme and venture capital. Levitsky (1989) also discussed the possible sources of finance for MSEs which consistently support the idea of Hailay (2003). As far as personal manager own investment is concerned, Levitsky (1989) and Hailay (2003) conceded that some MSEs are capable of generating their finance from privately own capital.

Michalowski (2008) stated the sources of finance for MSEs in a simple way. In relation to formal sources of finance, Michalowski (2008) and Levitsky (1989) clearly concerned that formal sources of finance are not easily accessible to MSEs, which are expected to accomplish several requirements from formal sources of finance. This idea was opposed by Beck et al. (2007).

Financial challenges of MSEs for their expansion, growth and diversification

The "absence of financing" can also reflect the principals' insufficient market knowledge when setting up their enterprises (Paetkau, 1999). The study of Ayyagari et al. (2007) indicated that barriers such as accessibility of minimum account and loan balances account fees, fees associated with payments documentation requirements and processing ties are found to vary significantly both across banks and across countries.

SME sectors in its present form are largely an informal sector with many family owned and controlled firms and with heavy reliance on informal channels of finance (OECD, 2005). Meanwhile, many SMEs face limited access to external financing. OECD (2006) stated that the difficulties that MSEs encounter when trying to access financing can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, lack of information on both the bank's and the MSE's side. The entrepreneur may have re-mortgaged his or her house to acquire the start-up funds for the company (Green et al., 2006). According to Brhane (2011), if entrepreneurs cannot gain access to finance through the regular system, they may not start up a business or simply go out of business, which is a potential loss to the economy. But the other danger is that they will abandon the formal system altogether and operate in the informal economy, sidestepping taxes and regulations, and thus not making a full contribution to economic growth and job creation.

The greater challenge to effective resolution of the non-performing loan problem might well be a cultural one. In some countries, business failure is routine, as is foreclosure action by lenders with a court judgment or under the terms of loan agreement. Shareholders and management accept the losses as part of the occupational hazard of being in business, and get on with their other activities (Paetkau, 1999). Similarly, Brhane (2011) explained that existing financial programmers for MSEs face high transaction costs for both lender and borrower. Credit programmer for MSEs very often ignore savings as means of internal resources mobilization and saving habits as psychological basis for investment and repayment behavior.

Conceptual framework for the study

Pissarides (1999) stated that access to bank loans is practically absent. The main causes are their illegality or partial legality, lack of proper accounting; small size, therefore, high transaction costs for banks; firm mobility, leading to high moral hazard and risk of default from a bank's point of view. In order to borrow from formal banks, MSEs should bring mortgageable assets or collateral. These are the main problems of MSEs in obtaining finance. In addition to this, Wattanapruttipaisan (2003) stated that lack of access to credit, shortage of credit period and collateral are acute financial constraint for MSEs in developing countries. Malhotra et al. (2006), Beck et al. (2007) and Vandenberg (2009) also raised this problem. In similar fashion, Pissarides (1999) stated that credit constraints constitute one of the main obstacles to growth of MSE (Figure 1).

RESEARCH DESIGN AND METHODOLOGY

This study used descriptive design which was aimed at investigating how financial factors affect the success of the MSEs in Afar region particularly in three selected zones Awssa, Kilbat and Gabii.

Data type, data sources and data collection techniques

To conduct this study, primary and secondary data were used. Primary data were collected through questionnaires and interview.
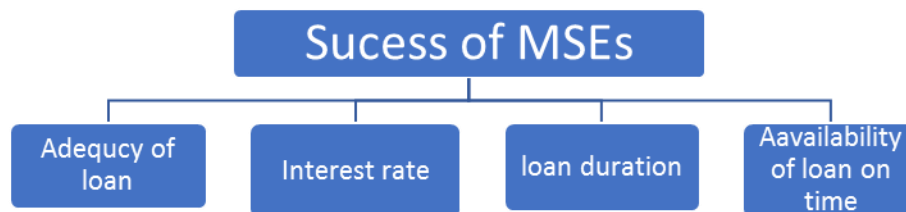
Figure 1. Conceptual frameworks.

Table 2. Sample distribution.

Sector (strata)	Number	%	Size
Service	360	34	99
Urban Agriculture	240	23	66
Construction	450	43	125
Total	**1050**	**100**	**290**

Source: Afar (Awssa, Kilbat and Gabii) SMEs office, 2008 E.C.

The questionnaires were designed for owner, managers of MSE and employees; the interviews were also designed for legal officers (Bureau of Awssa, Kilbat and Gabii Administrative zone). The secondary data were collected on financial conditions, performance and growth of MSEs from different reports.

To investigate the effects of the financial factors such as, availability of loan on time, loan size, interest rate, and loan term, the open ended questionnaire were provided, that were more of qualitative. In the quantitative approach, closed ended questions were used. From the qualitative approach, the study have used questionnaire to get full exploration about the role of financial factors in growing and diversifying MSEs. The questions were open ended for the qualitative one.

The research questions were formulated based on scientific literature review and then were tested by the survey. Questionnaires were distributed to MSE managers and owners. Unstructured interviews were also used while conducting the study. The in-depth interviews were conducted with official coordinators (Head Offices) of MSEs. In addition to this, the researchers conducted interview with selected MSE coordinators of the Administrative zones.

The researchers used semi-structured interview in a flexible way to ask questions. Hence, the interviews were not constrained by rigid questions and allow the interviewee to elaborate on a topic that enables the study to provide a better understanding about the financing conditions and benefit for the MSEs.

Sample size and sampling techniques

Stratified random sampling was used to get information from different sizes of the MSEs. With this technique, the sampling frames have been organized into comparatively regular groups before selecting fundamentals for the sample. The strata are sectors including: Construction materials, service and urban agriculture. In this study to select sample size, a list of the population officially recorded MSEs by the Afar Region Administration was obtained.

According to the information acquired from Administrative of MSEs, MSEs are classified into seven categories based on their type of engagements. From the seven clusters, the researchers

have selected three subdivisions based on their coverage in region and impact on the GDP of the economy.

In the study conducted, out of 1791 operators of MSEs in the three selected zones (Awssa, Kilbat and Gabii) 3 from each sector of MSEs was selected from total population of 1050. Stratified random sampling was used to address the problems in these sectors.

Since the population of the study is heterogeneous, two stages of stratified random sampling method were applied. The first stratum was the sectors (that is, urban agriculture, service sectors and construction) and the second stratum was proportional stratified random sample drawn from each of the strata; the total population of these three sectors (that is, service, urban agriculture, and construction) is 1050. For the study, 290 of the total population was taken as a sample by using proportional random sampling method (Table 2).

A questionnaire was distributed to each sample bands of the MSE sectors to the administrators and owners. Official coordinators of the MSEs were asked for general information. Meanwhile, the Administrative Coordinator's Office was required for extra information.

To obtain the applicable data, judgmental sampling method were used based on the position of the officials.

Yemane formula: $n = N / 1+N(e)^2 = 1050 / 1+1050(.05)^2 = 290$

Data processing and data analysis

Filled and completed questionnaires were checked carefully to ensure that the facts were true and were regularly entered and organized to facilitate percentages and tabulation systems. Coding data have been provided by allocating symbols to the response of the population and to group into limited number of categories. To attain the percentages and tabulations, the researcher used both Excel and The Statistical Package for Social Science (SPSS) as a tool in order to incorporate them into a document or research presentation.

The data were analyzed using regression, tabulations, percentages, bar graphs, pie charts and finally with statements.

The instruments helped to facilitate the clarification process of
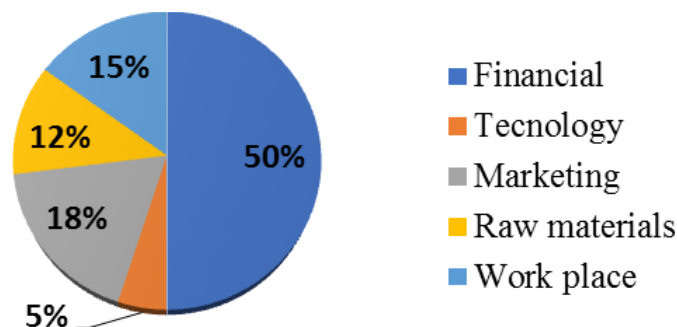
Figure 2. Major problem of MSEs (%).
Source: Own survey (2018).

the research. The model used for this study is multiple regression through SPSS.

RESULTS AND ANALYSIS

Major problems of MSEs

The hindrances of one enterprise are not similar with those of other enterprises. Some of the hindrances of MSEs may be finance, raw material, technology, marketing, know-how, work place, utilities (electric zones and water) and other related problems. Among these alternatives, the researcher asked owner managers to indicate the major problem of their enterprise and the responses of the respondents were as follows (Figure 2).

The majority (50%) of the MSE respondents stated that the major hindrance to expanding and diversifying their enterprise was lack of finance. It is clearly known that if there is lack of finance, MSEs do not expand and progress as expected.

Some (18%) of them replied that marketing was the main problem, while 15% of the respondents indicated lack of work place. Meanwhile, 12 and 5% of the respondents revealed that lack of raw materials and technology were the major problems of MSEs respectively.

Demand for finance and accesses of MSEs

Finance is the backbone of any business enterprise, including MSEs (Mckernan and Chen (2005). Hence, MSEs are part and parcel of business enterprise, as capital is crucial for MSEs. This indicates that finance is the success, limited success and failure factor for MSEs' growth, diversification and expansion. Almost all MSEs have a need to get access to finance whether from their families, friends, *Ikub, Idir* or in terms of credit from microfinance and other banks. However when we look it on practice, they are lacking access to finance. When we compare the demand they need to finance their enterprise

and the supply they actually accessed, there is gap. If there is shortage of access to finance, the degree of expansion, diversification and growth of MSEs were also limited. OECD (2006) stated that financing gap (the demand and supply) is seen as the most common problems of MSEs.

Besides, owner managers have been asked whether there is a hole between their demand and the actual access to finance they received. The response is presented by the pie chart as follows (Figure 3).

As can be seen from the above Pie/Doughnut chart, the majority (60%) of the respondents of owner managers of MSEs responded that they had a demand to finance their MSEs and got access to it. This implies that they are able to access the finance in accordance to their demand. They further revealed that there is no gap between the desired needs and the actual supply they received. However, 30% of the respondents responded that they had a desire to get finance to expand, diversify and buy raw materials but they were unable to get access to finance. This is because they failed to provide the requirements asked by the lenders. Some of the requirements are: Collateral and they were asked to form a group and to be a guarantor to each other.

In line with the above arguments, some owner managers stated that the problem of access to finance is yet to be solved. On the other hand, 10% did not have a desire to get access to finance from somebody else, because they have sufficient capital to run their business.

Moreover, it was possible to identify that there were many times that MSEs failed to operate the plan of their enterprise due to lack of access to finance at the right time.

Sources of finance to expand and diversify MSEs

Finance plays a pivotal role to establish and operate MSEs. Funds are used to acquire and utilize modern technology, purchase critical raw materials and it makes the business to be bipedal. The bases of capital can be raised from multiple sources. Businesses can engage in
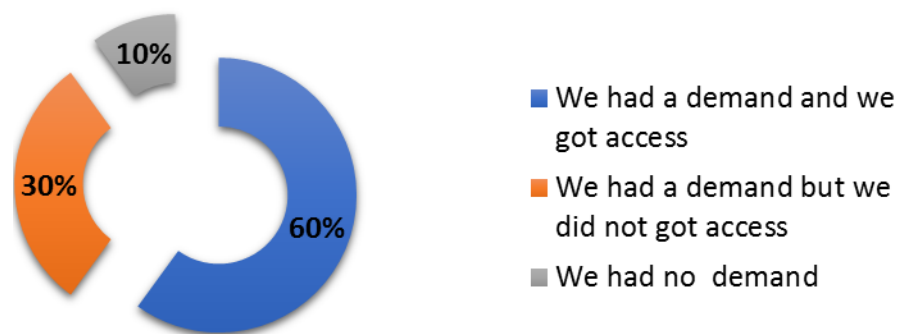
Figure 3. Demand and access of MSEs (%).
Source: Own survey (2018).
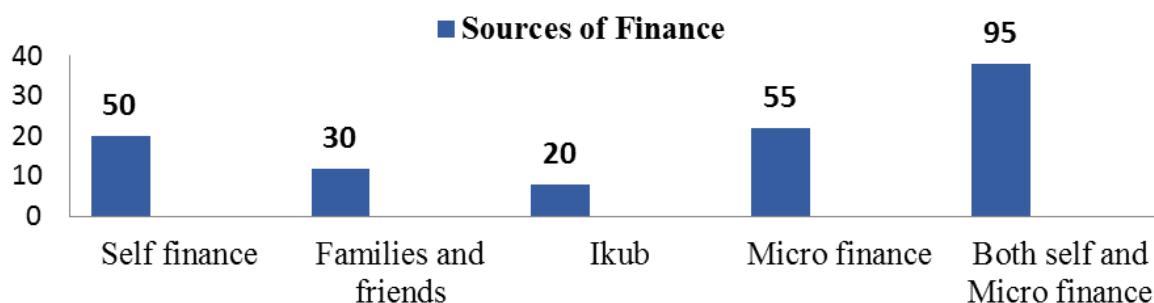
Figure 4. Sources of finance.
Source: Own survey (2018).

routine internal or external funds to finance operations and investments. Firms can practice one of the two financing sources or both of them. Similarly, some MSEs could generate the sources of finance from their own capital (personal saving, retained profit and sales of assets), debt, *Ikub*, family, *Arata* and other source. As a result, owner managers of MSE were asked their source of finance, and the outcome of this analysis and argument is shown in the bar chart (Figure 3).

As indicated in Figure 4, 38% MSEs have raised their finance from both self and microfinance institutions. By using this fund, MSE operators were growing, diversifying, and promoting their business in the zones. After MSE owners received the money from their own and micro finance, they used it to purchase raw materials and for other operation of their business.

According to the owner managers, 20% of MSEs have raised from self-financing only. It is not to mean that their own capital is enough somewhat due to their failure to get access to finance at the right time from other sources. In addition to this, some respondents replied that since most of MSEs are financially weak, many of the financial institutions (creditors) were not ready to lend them. As a result, they lacked access to finance from other sources. So, the only alternative they had is to use their own capital. Similarly, some MSEs also raised finance from relatives. As per the respondents, 12% of MSEs obtained

from their families (father, mother, sister, brother and other bloodily related bodies) and friends. In connection with this, 8% of MSEs have acquired from *Ikub*, whereas 22% generated from microfinance institutions. None of the respondents replied that the sources of their finance were from banks and NGOs. This implies that large banks were not ready to lend to MSEs due to fear of repayments.

In addition to this, after they received the finance from the above mentioned sources, they used it to, Expand and strength their existing enterprise (expansion), diversify their business, in addition to the existing one, and also purchase raw materials and house rent.

Impacts of lender on MSE owners

Lenders have their own rules and regulations to manage their clients. Some lenders or creditors are stringent in their credit policy and ask their clients to pay penalties if they pass the due date. On the other hand, some creditors charged high interest rate while others are fair in treating their customers that they would not force them to pay penalty for late payment and charged fair interest rate. Accordingly, owner managers of MSEs were asked the impacts of lenders on their business and the response was as shown in Figure 5.
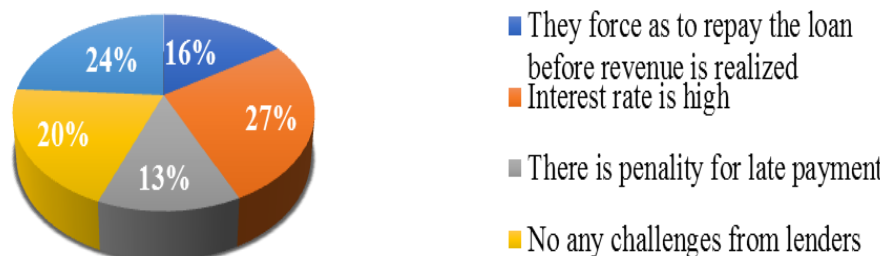
Figure 5. Impacts of lenders on MSE owners.
Source: Own survey (2018).

Figure 6. Loan size.
Source: Own survey (2018).

As can be seen in Figure 5, most (27%) of the owner manager of MSEs replied that the challenge was interest rate. The interest rate that MSEs were charged and the financial capacity of MSE owners did not match. Since the income of MSEs is not that high, their concern was the interest rate.

Conversely, 20% of MSE owner managers stated that there was no negative impact from the credit providers rather own and interrelated problems. In addition to this, they stated that there was fair interest rate, medium time duration for repayment of the loan and no penalty for late payments. Whereas, 24% of the respondents stated that

i) they were required to pay the loan before revenue is realized,
ii) there was unfair interest rate compared with their income
iii) there was penalty for late payments, and they lost access to credit for other time since creditors believed that they are financially weak and not loyal.

Some (13%) of the respondents stated that there was only short term loan. However, they agreed with the fairness of the interest rate and penalty for late payment. The remaining 16% of the respondents disclosed that there was penalty but the other conditions are comfortable with their enterprise.

Loan size of MSEs

Owners have been asked the loan size of their enterprise

and the response was as revealed in Figure 6. As indicated in Figure 6, only 41.2% of MSE owner managers borrowed sufficient amount of the money. This is due to their loyalty in repaying the loan, long period relationship between them and other safety of collateral and guarantee related things. This indicates that there is restriction to borrow money. This in turn impeded the expansion and diversification of MSEs. Moreover, 58.8% of MSE respondents responded that they borrowed insufficient amount of loan due to loan restriction and fear of interest rate.

Moreover, the most (58.8%) of MSE respondents replied that the amount they borrowed was still insufficient. This happens because the creditors were not trying to disburse the amount of loans asked by borrowers. Conversely, some MSEs lacked willingness to take sufficient loan size due to their fear of risk in repaying the amount and high interest rate.

Credit periods of loans or terms of loans

Many MSE owners of the three selected zones, Awssa, Kilbat and Gabii, who are in form of a group, are users of credit from microfinance institution. Microfinance provides different terms of credit based on the agreements of both parties which include length of credit term, interest rate, and ways of repayment for both the principals and interest rates. In principle, there are three types of credit terms, which are short term, medium term and long term credit periods. Besides, some of MSE owners are users of these credit terms. Accordingly, owner managers of
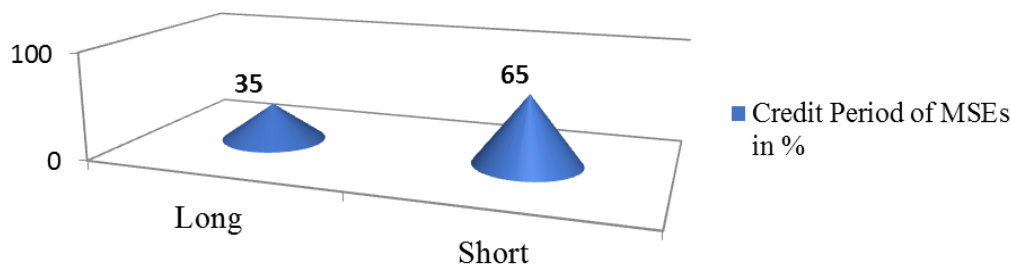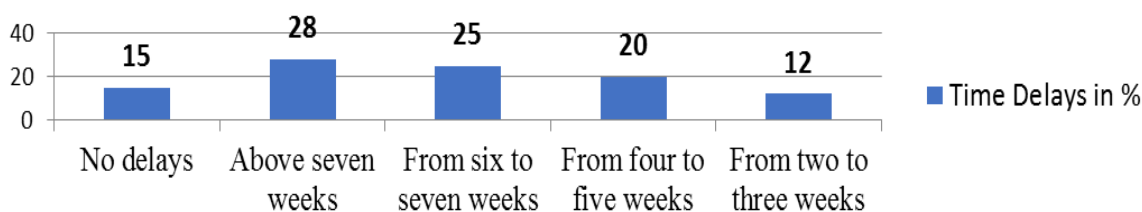
Figure 7. Credit term of loans.
Source: Own survey (2018).
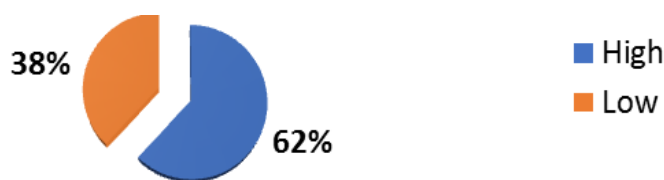
Figure 8. Interest rate.
Source: Own survey (2018).

Figure 9. Time delays in percent.
Source: Own survey (2018).

MSEs have been consulted in order to discuss the terms of loans and they responded as expressed in Figure 7.

Out of the assessed MSEs, 35% of the owner managers elaborated that the credit periods were long. This encourages MSEs to expand, diversify, promote and thereby increase the status of their financial condition. These (35%) of the respondents stated that they do not have a problem with the time duration.

Conversely, 65% of MSE respondents stated that the duration of the credit was short. In addition to this, they responded that the credit providers did not wait for them until they generate cash inflow (revenue). Seasonality of market affects negatively or positively for the product they produce and thereby the income generation periods. As a result, the fluctuation of product period affects the ability to repay the loan.

Degrees of interest rate

The degrees of interest rates are different from institution to institution. To identify the interest rate, MSE managers

have been asked about the interest rate levied on them by credit providers and their response is indicated in Figure 8.

As can be seen from the Figure 8, 62% of the owner managers responded that the interest rate is high or very high to bear whereas 38% of the respondents stated that the interest rate was fair.

Delays of fund from credit providers

To create employment opportunities, the government is attempting to provide suitable conditions on how to run and get finance. In providing the finance, some lenders are disbursing the money without considerable delays while others are not disbursing the money at the right time. Accordingly, to investigate the time delays, respondents have been asked about the time delays and their response was as shown in Figure 9.

From Figure 9, we can observe that the majority (about 85%) indicated that there is time lag between the date of request and the time funds are released. They responded
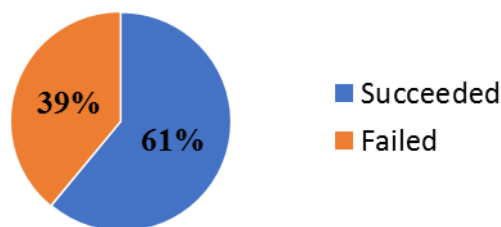
Figure 10. Success of MSEs.
Source: Own survey (2018).

Table 3. Descriptive statistics.

		N	Minimum	Maximum	Mean	Std. Deviation	Variance
Dependent variable	Success	250	1	2	1.39	0.490	0.240
Independent variables	Time duration	250	1	2	1.66	0.497	0.247
	Delays of loan	250	1	2	1.85	0.359	0.129
	Interest rate	250	1	2	1.62	0.488	0.238
	Loan size	250	1	2	1.59	0.494	0.244

Source: Computed from SPSS.

that the waiting time extends from two weeks to over seven weeks (that is, 12% from two to three, 20% from four to five, 25% from six to seven and 28% above seven weeks). Divergently, 15% of MSE respondents stated that there is no considerable time delay.

Although some respondents tended to indicate the absence of time lag between the request and disbursement of loans, majority of the respondents agreed that there were time delays which adversely affected the expansion, diversification and growth of their business.

Success of MSEs

When any one engages in any activity, he or she could be successful, stagnant or fail. Likewise, MSEs also have the same probability. Accordingly, to know how many of MSEs are on the truck of success, owner managers have been asked in relation to their success and the responses of the respondents is displayed in Figure 10.

As indicated in Figure 10, the majority (61%) of the owner managers stated that their enterprise has succeeded, while 39% of the respondents of the enterprise elaborated that their enterprise has failed. In addition to this, owner managers have also been asked how they measure the degree of success for their enterprises. Accordingly, some of them opined that they measured by:

i) Revenue - simply focused on the sale volumes of their enterprise.
ii) Net profit - measured by net profit after total expenses

is deducted from total revenue.
iii) Capital - if they retain the profit in the business.
iv) Number of employees - if the number of employees is increased.
v) Work of the enterprise - if the enterprise is expanded and diversified.

Descriptive statistics of the data

Table 3 presents the outcomes of the descriptive statistics for main variables involved in the regression model. The dependent variable is the growth/success of the enterprise. The remaining are the independent variables such as: Availability of loan on time, length of loan time given by creditors, degree of interest rate, amount of money that enterprise have borrowed, key data, such as mean, median, standard deviation, minimum and maximum value that were reported. This was generated to give overall description about data used in the model and served as data screening tool to spot unreasonable figure.

According to Table 3, all variables comprised 100 observations and the success of enterprises/growth measure used in this study, namely success of the enterprise indicates that the MSE firms attained showed that the MSEs in Awssa, Kilbat and Gabii have an average success on the total sample, and the average mean of the success was 1.39 with standard deviation of 0.490.

Among the above listed financial factors, delays of loan scores has the highest mean (1.85) and with standard

Table 4. Relationship between independent variables and success of MSEs.

Independent variable	Success
Interest rate	
Pearson Correlation	0.626**
Sig. (2-tailed)	0.087
N	250
Loan size	
Pearson Correlation	0.667**
Sig. (2-tailed)	0.064
N	250
Time duration	
Pearson Correlation	0.591**
Sig. (2-tailed)	0.058
N	250
Delays of loan	
Pearson Correlation	0.431**
Sig. (2-tailed)	0.326
N	250

**: Correlation is significant at the 0.1 level (2-tailed)
Source: Computed from SPSS.

deviation of 0.359 for operators engaged in MSEs in Awssa, Kilbat and Gabii zones. The second most important factor that affects the success of MSEs is time duration with a mean score of 1.66 and standard deviation of 0.497 for owners engaged in MSEs firms. This shows that the owners and managers of all sectors agreed with what they have faced from the problem of short period of loan payments.

Furthermore, interest rate charged by banks and other lending institutions is the third financial factor that hinders the success of enterprises in the three selected sectors, and has a mean score of 1.62 with standard deviation of 0.488 for MSEs engaged in urban agriculture, services and construction sectors in the three selected zones, Awssa, Kilbat and Gabii.

With regard to loan size, the mean score of 1.59 with standard deviation of 0.494 for entrepreneurs engaged in all the three selected MSEs sectors.

This is consistent with previous findings, for instance, Woldehanna et al. (2008) stated that formal money lending institutions have so far failed to produce innovative, affordable and user friendly financial services with a particular view to assist the struggling MSE sector in Ethiopia.

Table 4 presents the association between the selected variables and success of MSEs for a sample of 100 firms in the three selected zones, Awssa, Kilbat and Gabii of Afar region.

As indicated in Table 4, a strong positive relationship was found between Loan Size and Success (r = 0.667, p <0.1), and Time duration and Success (r = 0.591, p < 0.1), and negative relationship was found between Interest rate and Success (r =0.626, p < 0.1) which are statistically significant at 90% confidence level. This implies that at a 10% level of significance, it was discovered that the financial factors such as adequacy of loan size, interest rate, and loan term (loan duration) plays a significant role in determining the success of MSEs in the three selected zones, Awssa, Kilbat and Gabii. On the other hand, delays of loan and success of firm (r =0.431, p>0.1) are statistically insignificant at 90% confidence level. This implies that at a 10% level of significance, it was discovered that just one financial factor named delays of loan (delays in loan request processing) have an impact but does not play a significant role in determining the success of MSEs in the three selected zones Awssa, Kilbat and Gabii.

Results: Awssa, Kilbat and Gabii MSEs firms

Before running multiple regression, it is mandatory to check the nature of the variables both dependent and independent. In addition to the nature of the data, it is quite fundamental to run tests for validity of the data.

Durbin-Watson Statistic

This test checks for independence of observation (that is, independence of residuals) when we use linear or multiple

Table 5. Success of enterprise Model Summary[b]

Model	R	R square	Adjusted R square	Std. error of the estimate	Durbin-Watson
1	0.944[a]	0.890	0.886	0.166	0.2

a. Predictors: (Constant), Delays of loan, Loan size, Loan Time duration, Interest rate; b. Dependent Variable: Success.
Source: Computed from SPSS.

Table 6. ANOVA[b].

Model		Sum of squares	Df	Mean square	F	Sig.
	Regression	10.602	4	2.650	19.092	0.063[a]
1	Residual	13.188	95	0.139		
	Total	23.790	99			

a. Predictors: (Constant), Delays of loan, Loan size, Loan Time duration, Interest rate; b. Dependent Variable: Success.
Source: Computed from SPSS.

Table 7. Success multicollinearity test.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		B	Std. error	Beta			Tolerance	VIF
	Constant	0.341	0.198		1.716	0.049		
	Interest rate	-0.082	0.286	-0.082	-0.287	0.087	0.072	10.838
1	Loan size	0.659	0.221	0.665	2.990	0.064	0.118	8.475
	Time duration	0.094	0.197	0.096	0.480	0.058	0.147	6.804
	Delays of loan	-0.072	0.726	-0.079	-0.097	0.326	0.683	1.465

a. Dependent Variable: Success.
Source: Computed from SPSS.

regression models. Generally, the Durbin-Watson test value lies between 0 and 4. When the value approaches to 4 there exist positive autocorrelation. When the value approaches to 2 there is no autocorrelation. When the value approaches to 0 there is negative autocorrelation. In order for the data to be free of autocorrelation, the Durbin-Watson result should be around 2. Therefore, based on the data obtained from the companies about dependent (Success) and independent variables (Delays of loan, Loan size, Time duration of loan, Interest rate), results of the three selected zones, Awssa, Kilbat and Gabii MSEs are presented in Table 5.

The results in Table 5 reveal the closeness of the data to the fitted regression (R square) and the independence of the observation (Durbin-Watson). According to the figures in the Table 5, the percentage of response variation is highly close since the R square is 89%. On the other hand, the Durbin-Watson tells that there is negative autocorrelation as the result is 2.

ANOVA test

Table 6 shows the output of the ANOVA analysis and whether we have a statistically significant difference between our group means.

The above ANOVA test result shows that the relationship between the independent (Delays of loan, Loan size, Time duration, Interest rate) and dependent variable (Success of MSEs) is statistically significant at 10%.

Multicollinearity test

Multicollinearity explains the situation whereby two or more variables in regression models, particularly multiple regression models are highly correlated. In other words, a given variable can be linearly estimated from the other variables with a reasonable degree of accuracy. To detect the existence of SPSS most of the time, Variance Inflation Factor (VIF) is used. Although, there is no strict rule to apply; however, most researchers agree that VIF value more than 10 indicates the existence of multicollinearity. The higher the value of the VIF, the more severe the multicollinearity problem. From the success table (Table 7), there is no multicollinearity problem; it is due to the fact that the VIF values of all the variables are less than 10 with one variable close to 10.

Regressions analysis

This was employed for the purposes of defining the degree to which the explanatory variables clarify the variance in the explained variable. The outcomes of such analysis are further shown. Table 8 shows the estimates of the multiple regression of success against its variables for the sample of 100 MSEs in Awssa, Kilbat and Gabii zones. The hypothesis which states that the financial factors such as, sufficiency of loan size, interest rate, loan term and the delays in loan request processing affects the success of selected MSE firms of Awssa, Kilbat and Gabii zones is tested at a 10% level of significance, and it was discovered that among the financial factors such loan size, interest rate and loan duration plays a significant role in determining the success of MSEs firms. Thus, the null hypothesis were rejected and it is accepted that factors such as, adequacy of loan size, interest rate, and loan term (loan duration) do affect the success of MSEs in the selected zones of Awssa, Kilbat and Gabii. On the other hand, it was discovered that among the financial factors, the obtainability of loan on time have insignificant role when determining the success of MSEs firms of Awssa, Kilbat and Gabii zones. Thus, the null hypothesis is accepted and it is rejected that, the delays of loan do affect the success of MSEs in the selected zones of Awssa, Kilbat and Gabii.

Table 8 shows that, the correlation between practical value of Success and the optimum linear combination of the independent variables (Loan size, interest rate of the loan, loan duration, accessibility of loan on time) is 0.944, as indicated by multiple R. Besides, given the R Square value of 0.890 and adjusted R square value of 0.886, it may be realized that 89% of the variation in performance can be explained by the independent variables. The remaining 11% of the variance is clarified by further variables not included in this research. Unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

Predicted Success score = 0.341 + 0.659 (loan size) + -0.082 (interest rate) + 0.094 (loan duration) + -0.072 (delays in loan request processing)

Table 8, shows all the explanatory variables involved in the study which can meaningfully explain at 90% confidence level the variation on the dependent variable and also the standardized beta coefficient column thar displays the impact an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable (loan size loan and time duration) increases by one standard deviation and the dependent variable rises when the independent variable (interest rate and delays in loan request processing) decreases by one standard

deviation. So we can compare them. Thus, the largest influence on the Success of MSEs is from the loan size (0.665) and the next is loan duration (0.096) and the interest rate with beta value of (0.082). On the other hand, the delay of loan with the beta value of (0.009) is the poorest predictor of Success when it is compared with the other explanatory variables under this study.

Result Summary: MSEs in selected three zones, Awssa, Kilbat and Gabii

Based on the regression result of MSEs in the three selected zones, Awssa, Kilbat and Gabii, we find that some of the variables (Loan size and Time duration of the loan) have positive effect on the success of the firm. Statistically, the results were found to be significant at 10% for loan size) and insignificant at 10% (Interest rate, Time duration, and Delay of loan) (Table 9).

Conclusion

This study was conducted in Afar Region, particularly in the three selected zones, Awssa, Kilbat and Gabii with the prime intent of critically assessing the financial factors affecting the Success of MSE operators engaged in Construction, Services, and Urban agriculture. Based on this study, the following conclusions are reached.

Among the many challenges of MSEs, the majority (50%) stated that the major hindrance to expanding and diversifying their enterprises was lack of finance, and that was an obstacle to runnnig the business smoothly.

Most of MSEs' finance relies on microfinance institutions in addition to their own capital. From the finding, it was possible to identify that no MSE has obtained its capital from formal banks. This implies that the preconditions, including collaterals and guarantors, of borrowing from formal banks are high compared to microfinance institutions.

The preconditions of loans for both microfinance and other formal banks are collateral, guarantee, business plans and other conditions but a little bit less in micro finance. Due to this, it is possible to say that the only alternative access to credit is microfinance institutions. However, only microfinance institutions are not enough to fulfill the gap or need of finance. Accordingly, inadequate loan size, high interest rate, delays of loan and short loan durations are causes for the failure of MSEs

The objective of the study was to examine financing factors, on success of SMEs in the three selected zones, Awssa, Kilbat and Gabii. To this end, the study used survey method and secondary data method. A self-administered questionnaire was used to obtain relevant data from a sample of 100 SMEs firms in the Construction, Urban agriculture and Services sectors of the the three selected zones, Awssa, Kilbat and Gabii. In addition, a strata sampling method was used to select

Table 8. Regress success of MSEs (as dependent variable) on the selected variables (as independent variables) using multiple regressions.

Variable	*Unstandardized coefficient*		*Standardized coefficient*	T	Sig.
	B	**Std. Error**	**Beta**		
Constant	0.341	0.198		1.716	0.049
Interest rate	-0.082	0.286	-0.082	-0.287	0.087
Loan size	0.659	0.221	0.665	2.990	0.064
Time duration	0.094	0.197	0.096	0.480	0.058
Delays of loan	-0.072	0.726	-0.079	-0.097	0.326

a. Dependent Variable: Success.
Source: Computed from SPSS.

Table 9. Result summary.

S/N	Variable	Effect on the success of MSEs
1	Interest rate	Negative♣♣
2	Loan size	Positive♣♣
3	Time duration	x
4	Delaying of loan	Negative

♣♣ Significant at 10%.

the firms. Both descriptive and multiply regression analysis were used in the analysis of the relevant data. The analyses were done using descriptive statistics including frequency tables and multiple regression analysis to examine the financial effect on the success of SMEs in the three selected zones, Awssa, Kilbat and Gabii. The multiple regression analysis results showed that, appropriate financing (interest rate, loan term, loan size on time) increase in total investment, start-up capital and annual turnover have significant positive effect on the success of SMEs in three selected sectors employment level of the business as proxy for success of MSEs. Besides, the study has shown that there are financial factors that determine the success of MSEs. Among these, loan size and time duration of the loan have positive statistically significant influence on the success of MSEs at 10% level of significance. On the contrary, interest rate has negative statistically significant influence on the success of MSEs at 10% level of significance. Conversely, a financial factor named delays of loan has negative impact but have statistically insignificant influence on the success of MSEs.

Recommendations

Helpful recommendation to boost the success of MSEs is important. Based on the research findings and assumptions of this study, some recommendations are outlined.

1) The Afar regional government bodies should provide other reasonable sources of funding for MSEs by interconnecting with banks and other credit institutions to reduce their requests; if this is done, the MSEs can get access to proper finance for their business activities.
2) Interest on loan issue was the most challenging issue observed in the Afar regional state. Changing the name of interest by service charge was not also accepted by most of the Afar people. Thus, it needs long lasting solution; and here there are two recommendations forwarded as: 1) either serving the poor without a profit by covering calculated cost of operation; 2) by designing a profitable MFI which comply with the culture and religion of the MSEs operators. This could be done by adopting the contemporary Islamic finance into the region's conditions.
3) Microfinance institutions alone should not only be responsible for providing appropriate credit for MSEs. Owners of MSEs should also find other alternative sources of capital such as sponsor from Universities, NGOs and other institutions.
4) MFIs should identify appropriate businesses for the region before credit delivery. Working much on training of the operators to be aware about income diversification skills and saving habits has helped with the interventionists working in similar areas and could also help sustainable MFI in the region.
5) Generally, the researcher would like to adhere to the helpful recommendations for financial organizations and to the Afar Regional government; it will best if the

creditors who provide funds to MSEs do so at fair interest rate, offer sufficient amount of loan, adequate repayment period and at the right time. When this is done, MSEs will grow using this opportunity.

CONFLICT OF INTERESTS

The author has not declared any conflict of interests.

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