

**ANALYSIS OF MICROENTERPRISE PARTICIPATION AND CREDIT SEEKING BEHAVIOR OF
SMALL TRADERS IN NEKEMTE TOWN.**

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ABSTRACT

Small and microenterprises have many economic contributions mostly in developing countries as instrument for poverty alleviations. This study tries to analyze the main determinants of the households' decision to participate in microenterprises activities and their credit seeking behaviors in Nekemte town. Both primary and secondary data were used. For the collection of primary data questionnaires was developed and interviews were conducted. Statistical and econometric method of analysis, were employed. Binary probit regression was used for the analysis of both microenterprise participation and credit seeking decisions. The study finding shows that education level of household head, age of household head, availability of active family labor, and existence of collateral positively and significantly determines the household decision to group participation in the Micro enterprises; where marital status of household head and amount of initial capital negatively and significantly determines the household decision to group participation in the Micro enterprises. Additionally, the availability of active family labor, availability of collateral and existence of initial capital for business start-up of the household, interest rate on credit and number of institutions participated in are significantly and positively determine the credit seeking behaviors of the MEs. But, numbers of relatives in the community negatively and significantly determines the credit seeking behaviors of the participants of microenterprises. Moreover-test also conducted for comparison test of difference between the MEs participant and non-participant, and difference between credit seeking participant of MEs and non-credit seeking behavior. This test result reflects that the difference between participant and non-participant, and credit seeking participant and non-credit seeking participant were shown by the only significant explanatory variables which determines the respective dependent variables. Finally, based on the findings the possible policy implications were also provided. Follow-Up and Continuous Discussions With Concerned Bodies, sufficient credit facilities, problem solving and skill developing good training facilities, developing good marketing linkage(value chain), saving habits improving incentives and etc should be encouraged to alleviate MSE challenges.

Keywords: Credit seeking, Group participation, Microenterprises, Probit model and T-test.

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In most African countries, the share of small and micro enterprises (SMEs) in economic activities has been significantly increasing (Aga and Relly, 2011). Microenterprises greatly contribute in promoting economic growth and poverty alleviation in both developed and less developed countries (Kaunda et al., 2012). SMEs contribute immensely to gross domestic product (GDP) and it has sizeable influence in growth of economy (Okpukpara, 2009). For example the importance of

SMEs has increased for employment generation, income and poverty reduction in Ethiopia (Bekele and Worku, 2008).

A research for 76 developed and developing countries shows that on average SMEs account for about 60% of manufacturing employment likewise in Ethiopia a survey conducted by the country's central statistics agency (CSA) in 2002 showed that 974,679 micro enterprises, generating a means of livelihood for about 1.3 million people. A study conducted by the same institution in 1863, SMEs employing 97,782 individuals (Aga and Reilly, 2011)).

However, many SMEs are constrained access to credit; economic theory suggests that credit constraint may have significant negative impacts on income and welfare especially, for small firms (Boucher et al., 2006). Some are constrained in their access to formal credit, commercial banks and other financial information asymmetry and SSMEs do not meet the required collateral (Atieno, 2001). In case of credit constraint, some firms able to obtain credit while others with identical characteristics who are wanting to borrow at exactly the same term do not or firms are either received lower amount than demanded rejected information is one of the most important factors in the lower decision making of financial institutions. Banks face challenges to get information about their borrowers however borrowers have more information than the lender about the project. Banks are also uninterested to allow credit to SMEs due to the vast problem of information asymmetry, screening, and monitoring credit to SMEs due the many problems of information asymmetry, screening, and enforcement problems. In this case when there is an information asymmetry, financial institutions are in certain about the repayment of the loan. In addition, SMEs are unable to provide reliable financial information and business plan; this we will be leading to banks to incur higher cost in dealing with the SMEs as a result banks unable to assess the creditworthiness of individual SMEs and this will lead banks either grant small loan or reject.

In line with theme of this thesis, for example in Brazil by using logit model find that banks faces difficulties in expanding the supply of credit to MSEs mainly due to transaction cost, collateral and asymmetric information (Zabaldi et al., 2011). The study in South Africa on the constraint of credit access by new SMEs from commercial bank showed that collateral business information, managerial competencies and networking are major determinants of credit constraints (Fatoki and Odeyemi, 2010).

Using enterprise survey data from Kosova showed that commercial banks made decision to grant loan to firms primary on the basis of collateral but they did they did not consider firm profitability as sufficient condition to get credit (Krasniqi, 2010).

Study carried in South- East Europe to investigate the impact of firms characteristics on SMEs of credit constrain nets, small firms are more likely refused a loan and face problems in accessing both short- term and long- term small form banks (Hashi and Toci, 2011).

Study in UK investigate impact of business and entrepreneur characteristics on severity of financial problem faces in access to credit by entrepreneurs, showed characteristics of entrepreneur such as education, experience, wealth and business characteristics such as size and credit card have strong effect on the dangers of financial problems faced by MEs.

Although small and micro enterprises (SME) sector had been given little attention and support from the Ethiopian government in terms of technical and managerial support, provision of credit and other basic facilities. Only large- scale firms and state owned institutions have enjoyed supreme support in terms of policy and intuitional support from successive governments.

Historically, SMEs in Ethiopia have done relatively well during emperor hailesilase's regime

before 1974. Following regime (19974-1990) Mengistu Hailemariam came to power and the sector has performed poorly. In comparison with previous governments the current government seemed well in devoured a national development strategy for the development of SME though the success is the most crucial factor hindering for the growth and development of SME in developing countries in general Ethiopia in particular (Gebeyehu and Assefa, 2004).

Lack of access to finance is the most crucial factor hindering for the growth and development of MEs in development of SME is poor even today in comparison with similar sectors in other sub-Saharan African countries. SME in Ethiopia are generally characterized by an acute shortage of finance lack of technical skills, poor management, and lack of training opportunities, shortage of raw materials, poor infrastructure and over-tax (**ibid**).

Though the current government of Ethiopia has a great interest in helping and creating conducive environment for growth development of SMEs, the macro- economic environment (monetary and fiscal policy) in many developing countries including Ethiopia is not appropriate for the growth and development of medium, small and micro enterprises (MSMEs). For example the IMF recently agreed with government of Ethiopia to strict monetary and fiscal policies, such as reduction of public expenditure on investments, increase commercial bank reserve requirements and deflating while there is inflation in the country. Therefore, though macroeconomic tightening is a cruel medicine for short term but it devastating long term consequences (Hailu, 2009).

In addition several development economists have called for intervention in order to alleviate the acute shortage of finance experienced by the MSMEs nectar, no meaningful institutional support has so far been given to the struggling sector (Ageba and Amha, 2004).

SMEs have a greater credit demand both at the start- up and expansion phase in comparison with well- established firms however due to the rules and regulation by formal financial institutions as a result many of the SMEs stand at their vary low level in terms of number of employment creation and capital (Aryeetey et al.,1997).

1.2 Statement of the Problem

The contributions of the micro enterprise sectors to the economy are tremendous. These are through creating employment opportunities, production of goods and service and other value added activities. Although the MEs mainly focus on the poverty, there were no favorable economic and political conditions to develop and strengthen Micro enterprises. According to survey reports of CSA(2009) cited in AAMSEDA(2011), microenterprises in Ethiopia face a wide range of constraints and problems such as lack of access to finance, unfavorable regulatory environment, limited access to markets, BDSs, information, business premises, acquisition of skills and managerial expertise, restricted access to appropriate technology and limited access to quality business infrastructure.

Thus, micro enterprise generally have gone through the range of problems at start up and in while due course of operation. Among others need of credit was the most central and leading problem (Green, 2002). Adding to difficulty potential finance providers formal, semi-formal and informal is also reluctant in to commit funds for MEs perceiving them as unsound position. This lack of funds may be the reason why MEs fail to start and progress. MEs not entitled to visible and intentionally incentives and enabling environment has long been against them. In the past years, it is not surprise that Sub-Saharan countries like Ethiopia have not managed to reduce the aggravating poverty and deprivations of their

citizens while giving almost no care for how the financial sources of MEs are obtained (Gebrehiwot and Wolday, 2004) the long disregard of the sector particularly by government, academicians and politicians in Ethiopia has made the area with untouched research problems to be explored so as to promote the growth dynamics of the sector. Recently, however, there is a move towards understanding the potential of the sector in helping to reduce poverty among academicians, development practitioners, NGOs, Donors and politicians.

For a country like Ethiopia where about 80.1% of its population lives in rural area (CSA, 2010), which is characterized by rain feed agriculture smashed by perpetual drought and 29.2% of its population below poverty line(MoFED,2010), Development practitioners, government, NGOs and the like argue support for MEs. This favor has largely been the results of understanding the role of ME play in uplifting the life of the poor.

More importantly in Nekemte town, where this study focuses, there are no published works on the factors that determine microenterprise owners participation and the credit seeking behavior of small Traders' in east Wollega zone in general and Nekemte town in particular. This study tries to identify the gap

Objectives of the Study

1. To analyze the determinants of participation in group microenterprise development
2. To analyze the determinants of credit seeking behavior of small traders.
3. To examine the impact of credit on the income level of microenterprise owners.

2. Review of Literature

2.1 Theoretical Literature Review

Why pay attention of Microenterprises? The proposition that MEs offer unique development advantages is as the concept of economic development itself. Proponents of policies and programs to support MEs have long claimed that they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs.(Snodgrass et al, 1996)

Through MEs are widely recognized as contributing to growth in many developed economies (such as the United States, Italy, Japan, and the "East Asian tigers"), the presence of large numbers of MEs in developing economies often carries a stigma, especially when the enterprises are informal and concentrated in markets with low barriers to entry. So, is the presence of a large number of MEs an indicator of economic health or not? Recent data in this case is neutral, showing that a higher contribution by MSEs is associated with, but not a cause of, higher growth (Beck et al., 2003).

In addition to the perceived economic benefits, ME development has long been viewed by policy makers as a means to increase income of the poor. ME owners and workers do tend to be disproportionately poor, with the incidence of poverty within MSEs higher than in medium and large industries. However, current thinking on the part of international donors focuses less on the size of enterprises and more on outcomes, seeking patterns of economic growth that are beneficial to the poor, or "pro-poor," Growth that is broad-based by both region and sector is more likely to be faster and provide greater opportunities for the poor. Similarly, rapid growth in regions where the poor live and sectors of the economy in which they work is likely to result in poverty reduction

(OECD, 2004).

In today's global economy, large multinational firms are increasingly concentrating their efforts on branding and marketing rather than production. These firms prefer to source from flexible networks, rather than setting up large production plants. The result is a new, extended supply chain reaching far into developing countries and providing new opportunities for MES. MES offer a number of potential advantages as partners in value chains, often serving as a flexible and low-cost production resource, offering proximity to market and access to land and other key resources, providing a "Storyline" for companies and consumers interested in social responsibility, and supplying unique products (Gold mark et al., 2005).

MSEs seek to clarify in which enterprise growth, upgrading, or both may happen, and to stimulate through about how and when ME growth is a contributor to economic growth and poverty alleviation. In some cases ME growth is not realistic; in others it may not be necessary. For example, some owners may view their enterprises as important sources of household incomes and wish to avoid risk-taking. Others may actively seek to enter new markets and earn increased incomes; such activities may generate local investment. However, the enterprise may not always be the vehicle that takes the owner from start to finish; these goals may be achieved by individuals supported by social networks, or groups of firms working together.

2.2. The Economic Role of Microenterprises

From a number of directions donor agencies, academicians, politicians, and development analysts are converging in MEs development as a (potential) priority area in development policy in general, and in least developed countries in particular such as Ethiopia. The MEs have the potential to contribute substantially to value chain productivity and ultimately to economic growth of Ethiopia. According to Nichter and Gold mark (2005) Value chain refers to the "full range of activities which are required to bring a product or service from conception, through the different phases of production, delivery to final consumers, and final disposal after use."

The MSEs are considered as one of the vital units of business for local or national economy and even in global environment. Therefore, the most important role of the MSEs in the economy is employment. It is important to take note that employment is a vital aspect in the economic development because it helps to provide every individual or citizen the source of income which they can use in order to improve their living standards. If most of citizens are employed, then the government will receive more tax in terms of income and the values or things that the people buy. This will help in order to attract number of investors or multinational companies because of the market, which will help in order for the government to focus more on important economic activities than supplying daily living in the society. (<http://www.academicus.edu.al/nr5/Academicus-MMXII-5-060-069>)

The study Leegwater and Shaw (2008) shows that those countries with larger shares of MSEs employment have higher economic growth than their counterparts. This is because of the fact that, as have mentioned, the employment rate of the country directly affect other financial or economic activities in the country due to the capacity of individual family or citizen to spend money for their daily needs and caprices. Therefore, they can affect the overall operation of different commercial companies in the country, which will help in order open opportunities for additional financial sources for the local economy.

According to the (Stewart et., al 1990 cited in Helmsing and Kolstee, 1993), the key question is

now so much the advantages of caprices per se rather the extent to which the development of the sector will assist in resolving major (economic and non-economic) development issues. Over the past few years, MSEs promotion has come out of its confines and has begun to taxies and answer some of the major development questions, in part aided by a cumulative wealth of experiences and evaluations of a great variety of promotional efforts and projects. Studies of past projects and programmers have shown that the effectiveness of micro-level efforts can be improved by addressing scrotal/regional and macro-economic factors. Thus, also from this angel there is a greater disposition to consider the wider policy frame work for MSEs development.

According to (AAMSEDA, 2011) in overall economic development, a critically important role is played by MSEs in Ethiopia. Expansion and development of the sector increases agricultural inputs and creating demand for agricultural outputs. Further, MEs play key role in stimulating other sectors of the economy such as trade, construction and service sector and in reducing unemployment. The specific social and economic roles of MEs are Serving as incubation for medium and large scale enterprises, mostly begin with low amount of capital, less capital intensive (they are labor intensive),large employment opportunity to unskilled and semi-skilled labor force (particularly for women),important to bring fair income distribution within the society, develop pool of skilled and semi-skilled workers necessary for future industrialization process to take place, promote inter-sector linkage, apply simple and suitable technologies, mostly utilize local raw materials, critically important for recycling for solid wasters, Serve as sources of raw materials and distribution channel for the formal sector, Save scarce resources and have the capacity to generate foreign exchanges by predicting import substitute/export products, Serve as channel of products especially for poor people, play significant role on the regulation of the market price, the sector has advantage to protect and transmit countries historical, religious and social values, Serve as a center of innovation, and etc.

It is from this point of view that the government of FDRE formulated a National MEs Strategy of Ethiopia. The industrial development strategy of Ethiopia clearly states that the private sector will be the engine of industrial development which MSEs are one of the important instruments to create productive private sector and entrepreneurship and that the government will give due emphasis and priority to promote this sector. A better understanding by policy makers of this sector and of the constraints (like lack of sufficient capital, raw material, makers of this sector and of the constraints (like lack of sufficient capital, raw material, market access) it faces, which are often different from those encountered by larger firms is, therefore, crucial for the purpose of further expanding the economy's growth potential.

The debate over the deeper determinants of growth now seems to settle in favor of MEs. MSEs are the most important factors if we are to gain from trade or if our strife for development is to have any payoff. It is widely accepted that MEs play vital role in socio-economic development of Ethiopia as a means for generating sustainable employment and income. Moreover, MEs play an important role by providing the founding ground for medium and large industries and in the process contributing to the reduction ground for medium and large industries and in the process contributing to the reduction of poverty. MEs make a significant contribution to the socio-economic life of the country by way of supplying basic goods and services for local consumption. In economic theory, the significant role that MEs play in fueling a capitalistic and free market economy. This emphasizes the role of the sector and locally owned businesses in economic development of Ethiopia, Hence, financial institutions, governmental and non-governmental

institutions that promote economic and social infrastructure are among the keys for growth.

2.3. The Need for Finance

In the current environment characterized by a reduced availability of credit and tighter lending standards, the financing needs of MEs deserve particular attention. In this regard it is important to recall that MEs in general firms, which have the expertise, experience, and resources to tap the financial markets.

Obviously, a decision to start a business or expand an already existing firm involves an implicit decision of how to raise money. Consequently, financing is at the center of an operation of ME. For instance, it is indicated that the inability to raise finance is one of the greatest challenges facing the MSEs and is the critical factor in the establishment and growth of such businesses (Sargent and Young cited in Gashahun, 2004:13).

Similarly, it is pointed out that MSEs need finance to invest in new equipment and machinery, reach out to new markets and products and cope with temporary cash flow shortages as well as to innovate and expand (Fafchaps cite in Gebrehiwot and Wolday, 2003:3). Some argue that capital, being scarce in developing countries, should essentially be deployed in a way that maximizes the creation of new jobs and production of new goods and services (without basically changing the dual nature of the economy) rather than being used to convert a very small number of businesses into modern capital-intensive ones (Ibid, 2004:54). In spite of this, MSEs limited access to available finance compared to larger organizations have limited their growth and development. In addition, MSEs are forced to higher transaction costs than larger enterprises to obtain finance. Moreover, insufficient funding has been made available working capital scarce (Levy cited in Paul Cook, 200:7).

According to the 1995/96 survey of urban informal activities in Ethiopia, lack of working capital was among the most pressing problems that small manufacturing industries identified (the others being marketing and shortage of supply of raw materials) as limiting expansion of their business. According to the survey of 1995/96, 50% of the informal sector operations indicated that their main problem in operation was lack of sufficient initial capital. Lack of sufficient capital, particularly at the start of their operations, was also identified as the major problem for about 35% of the small scale manufacturing industries (Gebrehiwot and Wolday, 2004:54).

Some researchers, however, argued that factors such as marketing or technological assistance might be the critical factors in the success or failures of MSEs. Yet, despite the contribution of these factors to the development of such enterprise, it should not be over looked that marketing or technological assistance do require finance. Marketing normally involves producing quality product, promotion and making the product available at the consumers' destination. Undoubtedly, such activity requires considerable amount of finance which MSEs have limited access to it. Technological assistance, too, no matter how it is made available, is not cost free to run. It requires knowledge to operate and maintain, there by requiring finance. Some also argued that capital, being scarce in developing countries should essentially be deployed in a way that maximizes the creation of jobs and production of new goods and services rather than being used to convert a very small number of businesses in to modern capital intensive only (Wolday, 2002:4).

It is generally assumed by policy makers in developing countries that there is either a high unsatisfied demand or a significant potential demand for finance by MSEs' borrowers. It is also assumed that where this does not already exist, it can be created. These assumptions lead to policies that have been described as either demand-following finance' or 'supply-leading finance'.

In many developing countries where the MEs sector is seen to be active, (at least interims of numbers in relation to the size of the economy) and where one of the biggest constraints to its further development is perceived to be finance, general governmental policy on the development of the financial system may be regarded to be 'demand-following'. What is interesting about this type of 'demand-following' finance is that as a result of market imperfections, the financial system's development does not always automatically follow the growth of the real sector of the economy. In fact, the increased supply of financial services in response to demand may not be at all automatic, flexible or inexpensive in developing countries. Restrictive banking legislation, religious barriers against interest charges and imperfections in the operation of the market mechanism May dictates an inadequate 'demand-following' response by the financial system) Patrick, 1966 cited in Helmsing and Kolstee, 1993).

In view of these impediments to the 'demand-following' effect, a need is often perceived for intervention in the intermediation process, specifically for the redirection of credit. International entails governments setting up institutions where the private sector is deemed incapable of doing so, pegging deposit and lending rates at levels perceived to be fair to borrows and savers but not necessarily coinciding with free market levels, rationing credit to different rates under criteria that underlie mainly government priorities (ibid, 1993).

Financing of MSEs is one of the best ways to provide regular employment to millions of poor people. MSEs are, nowadays, taken as a development vehicle for least developed countries like Ethiopia as clearly stated in the industrial development strategy of the country. Their proliferation apart from creating employment opportunity would help to facilitate capitalist industrializations. A path to development, nonetheless, could not be realized without enabling economic environment and access to finance. Financial sources, in this case, are the most important factor determining the survival and growth of MSEs at the time of establishment and operation in both developing and developed countries. Here in order to be effective the need for finance must be 'demand-following' rather than 'supply-following.' Finance must not be offered by the force of finance providers rather the MSEs must have the initiative to get the money they require. However, this does not mean that the financial system (financial institutions) must be passive.

2.4. Sources of Finance

Theoretically, enterprises may use internal and external sources of finance. The former comprises own savings and retained earnings while the latter includes security finance, explicit borrowing from formal and informal sources, implicit borrowing in the form of accounts payable (i.e., trade credit and advances from clients), hire purchases, and lease to buy contracts. For firms that can't resort to primary and secondary money and capital markets (either because the markets do not exist or the firms are not in a position to access such markets) (Gebrehiwot and Wolday, 2004:54). For instance, raising funds through securities (bond and equity) issue involves listing requirements that are too stringent for many firms to meet, and it costly. This leaves explicit (formal or informal) and implicit borrowing. But access to bank loans is virtually absent. The main reasons are their "illegality or partial legality, lack of proper accounting; small size, therefore high transaction costs for bank; firm mobility, leading to high moral hazard and risk of default from a bank's point of view, and lack of education." Yet, they are generally able to obtain "venture capital" relatively cheaply partly as a consequence of the absence of a stock market that minimizes the adverse selection and moral hazards problems. Unable to invest their savings in high-return/high-risk investments via an organized market, the only possible forms of such investment for small

investors are either “creating one’s own enterprise, or financing the enterprises of close friends and relatives whose skills and performance can be monitored” (Fafchamps, 1994:8-9).

According to Chant and Walker (1988), on the other hand, the two crucial sources of funding for working capital of MSEs for example, trade and bank credit are critical sources of funding for working capital. Bank credit typically finances ongoing operations, seasonal or cyclical cash flow shortages, start-up costs for new operations, etc. trade credit; on the other hand, is given for the purchase of raw materials and other input.

In Ethiopia the potential sources of finance include conventional banks, MFIs, cooperatives, government projects, and other informal lenders, as well as trade credit. Equity finance is limited: although we have not direct evidence, one could reasonably expect much more equity finance to be forthcoming in a situation where equity holders (in partnerships, for example) could liquidate their holding quickly and with relative ease when they want to (Gebrehiwot and Wolday, 2004:54). Finance sources can be discussed categorically in many classifications. Some may classify them as institutional and non-institutional others in degree of formality of operating within a given financial system. For the purpose of this paper, the sources of finance are classified as formal, semi-formal and informal sources of finance.

2.4.1. Formal Sources of Finance

Formal sources are providers of finance who are subject to banking laws of the country of operation and are engaged in loan extension to customer and diversified financial intermediation (Tewodros Giday, 2005), formal credit institutions generally shy away from lending to MEs. A recent study indicated that in most countries. MSE finance accounted for less than 1 percent of the broad money supply, with the major exceptions being Indonesia and Thailand (about 6 percent each) and Bangladesh (3 percent). It is difficult for micro-enterprises to obtain credit because of their lack of fixed assets, their low volumes of business and their existence on the margins of, or outside, the law (Leleux and Constantinou, 2007:26).

In the Ethiopian context, the formal finance sources are Commercial Banks (private or public owned). Development bank of Ethiopia, and construction and Business Bank. Commercial banks aim to provide service such as deposits mobilization, working capital, and loan extension for enterprises operating in any economic sector, and feasible projects financing. The provision of the financial service may be for short, medium and long time horizon. Invariable commercial bank assesses the credit worthiness of the applicant using the traditional five parameters, namely, capacity; collateral; capital, condition, and character.

- a. Capacity:** this criterion is used to assess the management of the business for which the loan is to be extended for. As indicators of capacity, conventional banks consider relevant working experience, educational status of the managers of the business, and availability of skilled employees in the firm.
- b. Collateral:** Banks hold title to an asset that is at least equivalent to the amount of loan to be taken. The purpose of this asset is to enable the banks recover their amount of loan in case of default by the borrower. While assessing the asset that is pledged collateral, the banks look at the quality and most of the time prefers an asset that appreciates over time.
- c. Capital:** This component of the assessment parameter is used to compare and contrast the capital of the applicant should be free from any debt. Hence, the capital on which reference is made for loan extension purpose should be of equity type.

- d. Condition:** The condition factors include government political and economic situation, policies and strategies in a given sector. Competitiveness within the sector, [profitability of the sector along with its significance for the country is assessed for a loan request process. It is aimed at assessing the business risk associated with the operating environment of the business.
- e. Character:** The willingness and relation of the applicant is scrutinized so that the applicant's loan paying ability is determined (Tewodros Giday, 2005).

Regardless of the number, nature, and type of loan extension criteria conventional banks are not interested in providing finance to MSEs for they are not only faced with lack of having adequate information infrastructure but also are not required to finance MSEs in their mission statements (Wolday, 2002:5). Nor is their capacity, especially their branch network, extensive and dense enough to effectively reach MSEs throughout the country (in rural areas in particular). Moreover, the delivery of financial services to MSEs requires the development of innovative financial products that attract MSE operators, which Ethiopian banks are lacking (Gebrehiwot and Wolday, 2004:55). Besides, conventional banks in Ethiopia do not have interest in promoting new markets with higher perceived risks (MSEs) and relatively high information costs. As a result, the formal banks deliberately avoid the delivery of financial services to MSE operators who might need small loans such as Br, 10,000, 15,000, 20,000, 30,000 etc (Wolday, 2002:10).

The researcher has argued that there are very large numbers of MEs unable to access to formal credit to carry out their work. There is a lack of financing options for MEs. The banks are unwilling to lend to MEs due to their perceived investment risk and lack of any formal information to provide risk analyses. Thus, in general, it appears that there has born much less involvement of the formal financial support to MEs. It can be understood that, the loan evaluating criteria have excluded MSEs from being part of the formal financial system. Their exclusion, undoubtedly, would hamper the development of the MSE in the economy that are the host of the entrepreneur skill and large area of employment.

2.4.2. Informal Source

Unlike the formal and semi-formal sources, the informal sources do not constitute a neat category. The researcher have included in the informal sources such as credit and saving credit suppliers in this category. Informal sources provide finance to most of MSEs operating outside the formal financial system. Informal sources are important source of initial as well as working capital requirement of MSEs. Getting access a significant amount of money is most evident in informal sources than formal or semi-formal sources (Martin et al., 2001:30).

Credit and saving unions: Are most often to salary and wage earners pertaining in urban areas, there by excluding the bulk of MSE operators. Although there is the continuous increase in the number of credit and saving institutions and members, it has entirely excluded MEs.

Cooperative societies: Are taken as group formation to reach out by many working institutions. In the Ethiopian context, membership in cooperatives has been long politicized and not preferred by many members. Even in the metropolis entrepreneurs are anxious of being members of a cooperative, as they referred to its bad experience (Wolday, 2002).

“Ekub”: A study by Dejene Aredo who examines the role and functioning of the “Ekub” in Ethiopia. The “Ekub” is a type rotating savings association with an element of chance in the analyzed in general and for a number of specific cases. The ‘ekub’ is conceived as a form of traditional savings institution: ‘Ekub’ is a form of saving institution in which weekly or monthly payments of a fixed

sum are exchanged for the privilege of receiving a large sum at some point in the life of the group. 'Ekub' belongs to the type of traditional financial institutions which are included under the savings associations. "Ekub" was a saving club combining a bank and lottery.

The 'ekub' is widespread in Ethiopia, in many sectors and for many purposes, and said to have originated during the Italian occupation. Its continued spread is explained, among others, by the repressed character of formal institutional credit to the private sector. The 'ekub' may involve fairly small amounts, as in predominantly rural areas for consumptive purposes, but may also involve large amounts, as for example among the big traders in Addis Ababa (cited in Helmsing and Kolstee, 1993).

Larger 'ekubs' are more institutionalized with elaborate by-laws, employ staff, and have sophisticated mechanisms to compensate members for longer waiting times (which indicates non-zero interest rates). And have direct links with the banking system (to deposit receipts and use cherubs). These compensatory mechanisms also reduce the importance of the element of chance in the awarding of the lot in any cycle and therefore make the 'ekub' potentially more appropriate to finance MSEs credit needs. The design of financial policies and of MSE financial assistance programmers should take the potential role of indigenous financial institutions such as the 'ekub' into account (cited in Ibid, 1993).

'idirs': are indigenous institutions collecting a specified set of money from their members to pay out a specified lump sum of money and assistance to a member, at his/her bad times especially at times of mourn. Despite the need to mobilize resources kept by the 'idir', so far, are not reported that they provided loan or assistance to business activities (Tewodros Giday, 2005).

Money-lenders: Covers a wide range of credit arrangement that differ across countries, with interest ranging from zero to as many as 100% a month (Aryeetey cited in Godfried al., 2000:47). Discussions with traders operating at 'Mercato' has revealed that there are money-lenders both individually and employees in branches of some government institutions that provide them with finance at about 10-15% per month. Due to high cost of borrowing, MSEs use money-lenders as a last resort. Most of the informal money-lenders base their lending disciplines on a firsthand knowledge of the borrower (Nisanke et al. cited in Gebrehiwot and Wolday, 2003:6). Own savings, relatives, and friends: are the most important alternative sources of finance to MEs in developing countries like Ethiopia. They usually extend finance as non-interest bearing loan based on intimate knowledge and trust of each other, making the need security in the form of collateral or guarantee low (Fasika and Daniel, 1997 cited in Tewodros Giday, 2005).

Trade credit suppliers" Are significant sources of informal credit in an enhanced credit rating system. Trade credit refers to loans suppliers extend to their customers in connection with product sales. They supply either input or cash advances to MSE operators. Enterprises may receive trade credit either as a substitute for or complement to bank credit. Trade credit has attraction feature of not being guaranteed by mortgagable assets, which is advantageous for enterprises which have no collateral assets. Enterprises could resort to trade credit both as a means of financing purchases (i.e., receive trade credit from suppliers) and promoting sales (i.e., grant trade credit to customers). Extending trade credit to customers may be important in sealing deals as well as become and remain competitive as it represents better terms of sales compared to requiring payment in advance or up front (sales promotion motive). Hence, enterprises could be engaged in trade credit for establishing good business relationships or for financing purpose. In the context of Ethiopia, it is reported that the practice of providing trade credit exists for either

purpose (Gebrehiwot and Wolday, 2004:63). However, trade credit suppliers are unwilling to extend trade credits, the only option left for these enterprises is to depend on personal funds or turn to friends and relatives. This limits the amount of funds available for working capital and reinvestments in productive capacities like high use operating equipment and facility refurbishments. Lack of this investment is limiting the ability of MSEs to provide better products and /or services to customers. The absence of the wide spread of proactive trade would limit the financing benefit of MEs.

The lack of access to adequate credit from formal and semi-formal financial institutions is through to drive MSEs to high interest charging moneylenders and to hinder their growth and development. This has, in turn, often been used as the justification for establishing special financial agencies and programmers to provide cheaper credit for MEs. But, the number of such institutions is usually out of proportion to the number of MSEs that could obtain loans from them.

Generally, informal financial sources, notwithstanding the dynamism upward or downward are the principal sources of finance reaching to MSE in variety ways of intermediation. Specifically nowadays, those of 'ekubs' are main sources of finance to micro and small enterprise.

2.4.3 Conceptual Framework of Micro and Small Enterprises

There is no universally accepted definition of MSEs. Different regions or countries have defined MSEs based on local operations and conditions. It should be noted therefore that certain definitions may not be applicable in certain regions or settings (Agyapong, 2010).

Rigorously defining MSEs has always been difficult, even controversial. The term covers a variety of firms and most writers use it rather as they refer to their particular interest. The term micro-enterprise was coined in 1973 by Accion, to distinguish the vast number of enterprises in the informal sector, which existed below the radar screen of the earlier categories, used "small business" or "small enterprise" or "small-scale industry,"

The term was perhaps first officially used when the Act for Micro-Enterprise was introduced in the United States House of Representatives in 1990. The bill's aim was to assist in the development of microenterprises and microenterprise lending. It defined a microenterprise to be "any unincorporated trade or business with five or fewer employees, one or more of whom own the enterprise", and limited a microenterprise loan to between \$ 50 and \$5,000. The bill referred to a house sub-committee, where it languished. Later the USA enacted the Microenterprise Act, 1996 but did not directly define micro-enterprise. It also specified that credit to these enterprises would include at least 50 percent for "poverty lending"; a term defined as loans below \$ 300 to very poor members of community, particularly women. The Act envisaged the provision of credit along with training and technical assistance (Leleux and constantionou, 2007:21-22).

In India, the term is not used officially. Instead, the central Statistical Organization (CSO) of India uses the phrase "own Account enterprise" for those enterprises in which the owner is self-employed, other workers is from his or her family and there is no hired worker. In contrast, an "Establishment" is a business that employs at least one hired worker. By contrast, China distinguishes enterprises by legal status: from "Individually Owned Enterprises" to "Legal entity Enterprises", which can be non-state owned or state owned (Ibid, 2007:22).

According to the Micro and Small Enterprises Development Strategy of Ethiopia the working definition of MSEs in Ethiopia is based on capital (cited in AAMSEDA, 2003 E.C.). Hence Micro-enterprises can be defined as follows: Micro-enterprises means trade organizations whose capital is not exceeding from birr 20,000.00 and higher consultancy service organizations and other

higher technological enterprise are not included.

The small business administration of the USA defines a small business as having less than \$18 million in net assets and /or less than \$6 million in net income. There are also alternate industry-based tests based on the number of employees. It is obvious that these limits are far too high for any developing country. In India, for example, tiny industries are defined as below Rupees (INR) 2.5 million (about \$55,000) investment, whereas small-scale industry is below INR 10 million (about \$220,000) in plant and equipment.

However, even these numbers are too high. A better definition for a small business might be what the central statistical organization of India terms a "Directory Enterprise" an enterprise that has at least one hired worker on a "fairly Regular Basis" and more than five workers in total (Leleux and Coinstantaneous, 2007:23).

Hence, small enterprises in Ethiopia can be defined as follows: Small-enterprises means trade work organizations whose minimum paid up capital is not less birr 20,000.00 and not exceeding from birr 500,000.00 and shall not include higher technological consultancy service and other higher technological institutions. (AAMSEDA, (2011)

While the precise definitions may vary from one country to another depending on the local conditions, the general characteristics are clear: compared with microenterprises; small enterprises have more capital invested, employ somewhat better technology, man power, and enjoy slightly better access to formal financial institutions. Therefore, the researcher attempts to see those enterprises that are bounded by the capital stated above in the Ethiopia context.

Notwithstanding this, the increase in employment in small firms tends to have been a common feature of the economies of many an industrialized country in the 1980s. According to a report by Sengerberger et al., (1990). Small firms of less than 200 employees had increased their overall share of total employment in France, Germany, Italy, Japan, the UK and the USA, which 'signifies the reversal of a substantial downward trend in the employment shared of small units that had prevailed for many decades' Although the rate of increase had varied by country and industrial sector (Cited in Agyapong, 2010).

3. Methodology of the Study

For the successful accomplishment of the desired goal of the research, both primary and secondary data were employed to carry out the study. Primary source of data was the original source for large part of the analysis. In order to collect the data, questionnaire was prepared and distributed to those MEs in the study area and group discussion was also employed to generate further qualitative information. In addition secondary data was also collected from relevant government offices, published and unpublished documents. Moreover, secondary data from the micro and small enterprise balance sheet and others written document was collected to furnish the studies with historical background of the selected enterprises. Having these two sources the writer has also made physical observation and visits to sites.

The study would employ cross sectional survey to analysis of microenterprise owners and their credit seeking behavior in Nekemte town by being based on the number of microenterprises found in the town. There are 111 microenterprises in the town and all of them were employed for the study. All population is used for the study. These microenterprises were registered by Micro and small enterprise development agency of Nekemte town, 2014.

The prepared questionnaire was employed as instrument to gather information at a household

level and group discussion with the officials of micro and small enterprise development agency in Nekemte town was employed. The questionnaire was first prepared in English and then translated into Afaan Oromo before it was distributed to micro and small enterprise owners with the help of enumerators who are well versed with the local language and settings of the area.

By training those supportive people or informing them how it will be done, the administration of the questionnaire was done and the researcher has supervised the enumerators during their data collection.

The specific methods of data analysis involved were the descriptive statistics analysis (tabulation and cross tabulation, frequency, percentages) and the econometric analysis were employed. The percentages of participants compared to non participants are used to assess the level of effect of engaging in the enterprise on their livelihoods in the towns. According to Desale (2008), the larger percentages of microenterprise clients, compared to the non clients, the more likely the level of awareness of households on the significance of microenterprise to their livelihoods.

Hence, throughout the analysis descriptive statistics was used to analyze key variables and make comparison between the group microenterprise participants and non-group microenterprise participants. Similarly, descriptive statistical analysis was used to measure variables related to credit seeking decisions. Where ever found necessary, tables were used to present analytical results.

Econometric model was used to address objective one and two of the research. That is in order to analyze the determinants of group microenterprise participation decision and credit seeking decision, which are binary in their outcome, econometric model was used. Once the factors (microenterprise owners) that determine willingness to participate in group microenterprises and credit seeking are identified, **probit** regression function was employed to show the functional form and relationship of these factors with the participation decision and credit seeking behavior. Using probit model, the functional relationship of willingness to participate in group microenterprise (Z_1) and its determinants was set.

By considering households decision to participate in group MEs and MEs owners' credit seeking behavior as two different dependent variables, many variables were identified to analyze whether they explain households decision to participate in group MEs or otherwise they run sole proprietor and also whether they seek credit or otherwise. It is hypothesized that some household characteristics such as age of the household head, educational level of the household head, , initial investment, sex of household head, and others were hypothesized as major determinants of household participations in group MEs (Z_1). Z_1 is a dependent variable in the model that takes a value of 1 if household a beneficiary of group MEs and 0 otherwise.

In the same way, education, interest rate, collateral, active age family size, initial investment and access to training services are hypothesized as major determinants of MEs credit seeking behavior (Z_2). Z_2 is the dependent variable in the model that takes the value of 1 if the MEs seek credit and 0 if the MEs do not seek credit.

3.1. Definitions of Variables and Hypothesis

Dependent variables

For the first objective of the study if the household=is willingness to participate in group microenterprises (Z_{1i}) and for the second objective if the ME owners' are will to seek credit (Z_{2i}) is

the two dependent variable of the two different models addressing the first two objectives of the study consecutively.

Explanatory variables

In this paper the explanatory variables included in the econometric model could be categorized into socioeconomic & institutional factors, which are hypothesized to have influences on the household participation in group MEs and their behavior towards credit seeking. Based on the review of literature and actual conditions of the study area the following explanatory variables are expected to explain the probability of having influence on household participation in group MEs and ME owners credit seeking behavior.

1. Economically active family labor (activel) it is a continuous variable referring to the number of members of household with age interval of 15-65. If majority of the households' members are active age category, they may be involved in various income generating activities specially organized in group to develop a business of their one, which will enable them to access capital from the relevant government agency to improve their business operation. On the other hand, as they can avail collateral and be able to access initial capital support from the concerned government agency, their level of income increases raising poor households' outlook on credit seeking.

2. Age of household head (h-age) and age square (h-age²) as the household head gets older his/her managerial ability and physical capacity is expected to decrease. According to the study by Biruk (2010), the physical weakness of household contributes to poverty in several ways: through the low productivity of weak labor; through in ability to work long hours; through lower wages paid to those who are weak. But to see the increasing effect of age increment (experience) on participation in group microenterprises age square is used by the researcher in probit model.

Hence age and age square are hypothesized to have negative and positive effect on household' decision to be part of the group microenterprises. The credit seeking behavior of the household head will expected to be decreases since the production capacity of the head of house hold decline.

3. Education level of household head (educhd): it is a continuous variable in terms of the household head's grade level. Educational attainment by the household head will be lead to awareness of possible advantages of using the loan wisely. Therefore, it is hypothesized that this variable has positive effect on both the decision to participate in group microenterprises and ME owners' credit seeking behavior.

4. Sex of household head (hhhsex): It is dummy variable. Households head being female or male. 1 if Households head is male and 0 otherwise. This variable is expected to have positive sign for both group participation in MEs and credit seeking decision. It might be expected that male headed households might demand more working capital (production credit) than women household heads.

5. Wealth (amount of current capital) of the households (Accapital): it continuous variable. It refers to the wealth status of household who participate in group MEs. This variable is expected to have negative sign both for group participation in MEs and credit seeking decision. .

6. Marital Status of Household head (hhhmsatus): It is dummy variable.1 if marital status of house hold head is married and 0 otherwise. This variable is expected to have negative sign for both group participation in MEs and credit seeking decision.

It might be expected that married headed households might demand more working capital

(production credit) than unmarried and others household heads.

7. Number of relatives in the community (hnrel): It refers to the number of relatives of MEs participant in the community. It is continuous variable. This variable is expected to have positive sign for group participation in MEs and credit seeking decision.

8. Number of institutions participated in (Ninst): It is continuous variable. This variable is expected to have positive sign.

9. Amount of saving (Asaving): it is continuous variable. It amount of business owners willing to save per year. This variable is expected to have negative sign for both group participation in MEs and credit seeking decision.

10. Amount of initial capital (Alcapital): This variable is expected to have negative sign for both group participation in MEs and their credit seeking decision.

11. Types of business format (bustype) (for credit seeking only): It is a dummy variable that 1, if sole proprietorship, 0, Otherwise. The expected sign is negative for credit seeking decision.

It might be expected that households who participated in agricultural investments have more incentive than other sectors economy.

12. Business location (Blocation) (credit seeking only): It refers to the location of business center from the main road or not. 1 if on main road, 0 otherwise.

The expected sign was positive for the credit seeking decision. The business location which is located around markets (on main road) requires the further investment so that owners take decision to receive credit.

13. Legal status of business (lstatus)(credit seeking only):It refers to whether the business institution got license or not. 1 if have license and 0 otherwise. This variable is expected to have positive sign for credit seeking decision.

14. Age of the firm (agef) (credit seeking only): It is continuous variable. This variable is expected to have positive sign.

15. Source of initial capita (Sincapital) (credit seeking only): It is expected to have positive sign for credit seeking decision of MEs.

16. Business type (service, agriculture, manufacturing, etc): It is expected to have negative sign credit seeking decision MEs.

17. Location of residence in relation of Nekemte town (resilocation): It is expected to have positive sign for their residence location is in or near to Nekemte town.

18. Collateral: Household that has collateral is expected to more likely seek credit and the institutions who give the credit will also have confident on them. This is because incase household decline to repay back their loan, financial institution will sell the collateral and covered at least some of the loan.

19. Interest rate on credit (inrcrd): this is dummy variable which takes value 1 if the household perceives the interest rate to be high, 0 otherwise. A household more likely to prefer credit sources with lower interest rates to those with higher rates. The higher interest rates the lesser the participants to go for credit in MEs development. Thus it is hypothesized that higher interest rate on credit and participation in MEs are inversely related.

The study finding by Desale (2008), using probit model results also showed that perception of interest rate on credit that it was high was negatively related with households' decision to participate in MEs and lower willingness to have credit.

20. Availability of credit markets (amrkt): it is a dummy variable which takes value 1 if the

market is available, 0 otherwise. In less developed countries, there is little lending activity and no saving mobilization, mainly due to the high and unfair transaction cost involved and hence all sorts of financial transactions are concluded at the village level. Money is borrowed or lent by individuals and households hoarded or saved at home, in rotating savings and credit associations (the ekub system), social insurance systems (such as Eddirs) or the individual money lender (the arata abedari)(Getaneh,2002). All these conditions are reversed with the availability of markets near by the households. Therefore, availability of markets is hypothesized to have a positive effect on households' attitude of having credit and participation in MEs.

22. Initial investment (Ininv): Microenterprises that have higher initial investment are expecting high likely to have credit from financial institutions and low participation in group MEs.

Table 3.1 Summary of explanatory variables

S/N	Name of variables	Code	Variable type	Unit	Hypothesized for Group microenterprise participation	Hypothesized for Credit seeking
1.	Group MEs participation	Z ₁	Dummy	1,ifparticipate,0,otherwise		
2.	Credit seeking behavior of SSB Owners	Z ₂	Dummy	1 if they seek cred,0 otherwise		
3.	Active family labor	activel	Dummy	1; if they are active labor, 0 otherwise	+	+
4.	Ages of HHs head	hage	Continuous	Number of Years	+	-
5.	Education of the HHs head	educd	Continuous	Number of Year	+	+
6.	Collateral	collat	Dummy	1,ifthey have collateral, 0,otherwise	-	+
7.	Interest rate on credit	inrcrd	Dummy	1, if low, 0 otherwise	-	+
8.	Availability of credit markets	amrkt	Dummy	1ifavailable,0,otherwise	+	+
9.	Initial investment	Ininv	Dummy	1if they have, 0 otherwise	-	-
10.	Sex of hhs head	hhdsex	Dummy	1,if male,0 other wise	+	+
11.	Access to training	actr	Dummy	1 if there is access to training,0 otherwise	+	+
12.	Exhibition and bazar	EBazar	Dummy	1,participate,0 otherwise	+	+
13.	Wealth(amount of current capital)	Acurrecapital	Continous		-	-
14.	Marital Status	HHmstatu	Dummy	1,ifMarried,0 otherwise	-	-

15.	From which credit is sought	frCrseek	Dummy	1,ifmicrofinance,0 otherwise	+	+
16.	Number of institutions participated in	Nlpart	Continuous			
17.	Amount of saving	Asaving	Continuous		-	-
18.	Amount of initial capital	Aicapital	Continuous		-	-
19.	Types of business format (for credit seeking only)	bform	Dummy	1,soleproperitorship,0 otherwise		-
20.	Business location (for credit seeking only)	Blocation	Dummy	1 if along main road,0 otherwise		+
21.	Legal status of business(credit seeking only)	legalst	Dummy	1,havelicense,0 otherwise		+
22.	Age of the firm (credit seeking only)	firmage	Continuous			-
23.	Source of initial capital (credit seeking only)	Scapital	Dummy	1,microfinance,0 otherwise		
24.	Business type	Btype	Dummy	1,if trade,2 if Service 3,if Construction and manufactory,0 if other wise	+	+
25.	Location of residence in relation of Nekemte town	Location Resi	Dummy	1 ,near to Nekemte town ,0, otherwise		
26.	No of relatives in the community	nrelcomm	Continuous		+	+
27.	Type of institutions participated in	Typeinst.	continuous		+	+

3.2. Binary probit model

According to Stock Watson, (2006) probit and logit regression models can address these problems related to linear probability model. All the three models, linear probability models, logit and probit models are just approximations to the unknown population regression functions $E(Y/X) = Pr(Y=1/X)$. Logit and probit regression are non linear functions of the coefficients specifically designed for binary dependent variables. If we assume that the probability density function (pdf) of the error term is the standard $\mu/N(0, 1)$ normal distribution, the model is called probit model. According to a leading author, Amemiya (1981) there are no compelling grounds for selecting logit

to probit and vice versa. Selection depends on the researchers own interest. For this study the researcher selected the probit model. According to Stock Watson, probit regression uses the standard normal cumulative distribution function and can be expressed by the formula:

- The probit model makes use of the normal distribution

$$\Pr (Y = 1/x) = \int_{-\infty}^{X'\beta} \phi(t) dt = \Phi(X'\beta)$$

where $\phi(t)$ is the standard normal density: $\phi(t) = \frac{e^{(-\frac{t^2}{2})}}{\sqrt{2\pi}}$ and $\Phi(\cdot)$ is the standard normal distribution function.

- The corresponding marginal effects is given by:

- Where $\Phi(X'\beta)$ is the scale factor

Where the dependent variable (Z_{1i}) represent the willingness to participate in group microenterprise, Φ is the cumulative standard normal distribution function and X_1, X_2, \dots, X_n are determinants of participation in group microenterprise against running personally owned microenterprise. Linearly, probit model become

$$Y = \Pr (Z_{2i} = 1/X_i) = \Omega (\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_n X_n)$$

Here $\beta_0, \beta_1, \beta_2, \dots, \beta_n$ are parameters to be estimated using the model. To analysis the significance of the determining factors of participation in group microenterprise as opposed individual micro-enterprise and, the researcher used different statistical tests such as t-tests and Chi-square tests.

3.3. Specification of the Determinants of Credit Seeking Behavior of Microenterprise Owners

3.3.1 Probit Model

In the same way, to assess the credit seeking behavior of small scale business owners, the researcher used the probit model. Using probit model the functional relationship of microenterprise credit seeking behavior (Z_2), and its determinants given by:

- The probit model makes use of the normal distribution

$$\Pr (Y = 1/x) = \int_{-\infty}^{X'\beta} \phi(t) dt = \Phi(X'\beta)$$

where $\phi(t)$ is the standard normal density: $\phi(t) = \frac{e^{(-\frac{t^2}{2})}}{\sqrt{2\pi}}$ and $\Phi(\cdot)$ is the standard normal distribution function.

- The corresponding marginal effects is given by:

- Where $\Phi(X'\beta)$ is the scale factor

The linear equation become,

$$Y = \Pr (Z_{2i} = 1/X_i) = \Omega (\alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 \dots + \alpha_n X_n)$$

Where Dependent variable: level of willingness to get access to credit that can be ranked as very willing to get credit (2), willing to get credit (1) and not willing to get credit (0).

$$Y = \Pr (Z_1 = 1/X_i) = \Omega (\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \dots + \beta_n X_n)$$

Where Z_1 is dependent variable which is binary representing the determinants of participation in group microenterprise development, Ω is the cumulative standard normal distribution function and X_1, X_2, \dots, X_n are determinants of participation in group MEs. The probit coefficients $\beta_0, \beta_1, \dots, \beta_n$ are best interpreted by computing predicted probabilities and the effect of the change in repressors'. The predicted probability that $Z=1$ given the value of $X_1, X_2, X_3, \dots, X_n$ is computed by calculating the Y Value:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \dots + \beta_n X_n$$

Using the concept of variable (Z^*) the probit model to be used to examine the microenterprise owners 'decision to participate in using the services of microenterprises is formulated as

$$Z_i^* = \beta_i X_i + \mu_i$$

Where Z^* is an observable magnitude, which can be considered the net benefit to individual i of participating in microenterprises ($\beta_i X_i + \mu_i$ is participation index.) we cannot observe that net benefit but we can observe the participation decision of the individual having followed the decision rule:

$$Z_i = 0 \text{ if } Z^* < 0$$

$$1 = \text{if } Z^* \geq 0$$

This decision rules reveals that if an individual's participation index exceeds zero, he or she participates in microenterprises otherwise not. By this, we speak of Z^* as a latent variable linearly related to a number of factors X and disturbance term μ . In the latent variable model, we assume that the disturbance process has a known variance, σ^2_{μ}

In the same way, to identify factors that influence the MEs to seek credit, probit model is used. The probit model (saving decision model) can be given as:

$$Cr_i^* = \alpha_i Y_i + \epsilon_i$$

Where Y_i reveals factors influencing MEs willingness to credit, C^* is an observable magnitude which can be considered the net benefit to ME owners' to seek credit. We cannot observe that net benefit but we can observe the willingness to have credit having followed the decision rule:

$$Cr_i = 0 \text{ if } Cr_i^* < 0$$

$$Cr_i = 1 \text{ if } Cr_i^* \geq 0$$

That is we speak of Cr^* as a latent variables, linearly related to a number of factors Y and a disturbance term ϵ . in this model the probability of observing a response that means whether the MEs decides to have credit or not is bounded between 0 and 1.

4. RESULTS AND DISCUSSIONS

4.1. Econometric Model Result

Before the application of binary model, pre-testing of the availability of multi-Collinearity, Autocorrelation, hetroscedascity and other econometric problems were checked.

For this specific study, to analyze household level determinants of ME participation and the credit seeking behavior of small scale traders, the binary model (probit model) were used.

For the group microenterprise participation probit model, eighteen (18) socio-economic and institutional factors are entered and analyzed by the help of STATA-12. For the credit seeking model, again twenty (20) socio-economic and institutional factors are used.

4.1.1 Analysis of group Participation of people in Microenterprise by use of the Probit Model.

The effect of explanatory variables on Microenterprise participation is discussed as follows.

Determinants of the household participation in Microenterprise

Table Output of probit model of group participation in MEs

In the marginal effect output, $y = \text{Pr}(\text{Group participation})$ (predict = 0.93052432) indicates That about 93% of the respondents has the chance to participate in group MEs.

Group Participation	Robust Coefficient	Marginal Effect	P-Value
Sex of HHH	0.4577919	0.0712203	0.224
Age of HHH	0.0784*	0.0104575	0.033
Marital status HHH	-0.1985*	-0.0265036	0.085
Availability of active family labor	1.179*	0.2711272	0.017
Education level of HHH	0.2722***	0.0363371	0.000
Interest rate of credit	0.4166683	0.0548413	0.268
Access to credit market	0.183896	0.0237334	0.615
Availability of Initial investment	0.1137416	0.0151462	0.781
Access to training	-0.4089105	-0.0541267	0.240
Number of relative of HH	0.0258643	0.0034527	0.398
Type of institution HH participated in	-0.0993726	-0.0132656	0.449
Amount of saving	2.69e-06	3.59e-07	0.715
Amount of initial capital	-6.79e-06*	-9.07e-07	0.016
Amount of current capital	1.29e-06	1.73e-07	0.717
Local of residence	0.1355523	0.0180953	0.638
Business saving need	-0.2624637	-0.0350371	0.693
Credit seeking place	-0.2406743	-0.0330721	0.495
Participation in exhibition and bazaar	-0.4580617	-0.06115	0.202
Constant	-4.230944	-	0.035

Number of Observation
 = 111
 Wald chi² (18) =
 30.42
 Prob > chi² =
 0.0336
 Log pseudolikelihood = -
 33.691566
 Pseudo R² =
 0.2834

Source: Own survey result, 2014

*, ** and *** indicates level of significance at 10%, 5%, 1% respectively

Discussion of Results:

Out of the total 18 explanatory variables, 5 variables of which 3 were continuous and 2 were dummies, were found to be significantly creating variation on the probability of group participation in MEs. In general, the sign of coefficients of all variables have been as prior expectation except access to training, business saving need and participation in exhibition and bazaar. The sign of this coefficient of variables is not as prior expectation due to some reasons.

Educational level of household head: Education acquired by the head of household is one of the major determinants of the probability of households’ participation in microenterprises. It positively and significantly (at 1% level of significance) determines group participation in MEs. This is due to the fact that education of the house hold heads can raise their level of information gathering and adjustment abilities by providing awareness regarding expectation for decision making.

Educated individuals have the potential to expand income and thereby own assets necessary for collateral, better to appreciate participation in ME and the need to credit and have less entry costs as they face fewer difficulties in collecting and evaluating the information needed to apply a loan(Magri,2002). Bates (1990) advocates the positive impacts of education through its effect on making good business judgments, exposure to new technology, exploiting opportunities well and

There by contributing to business longevity and success. As the year of schooling (education level) increases by one year the probability that households participate in the group MEs is also rise by 0.0363371(3.63%).

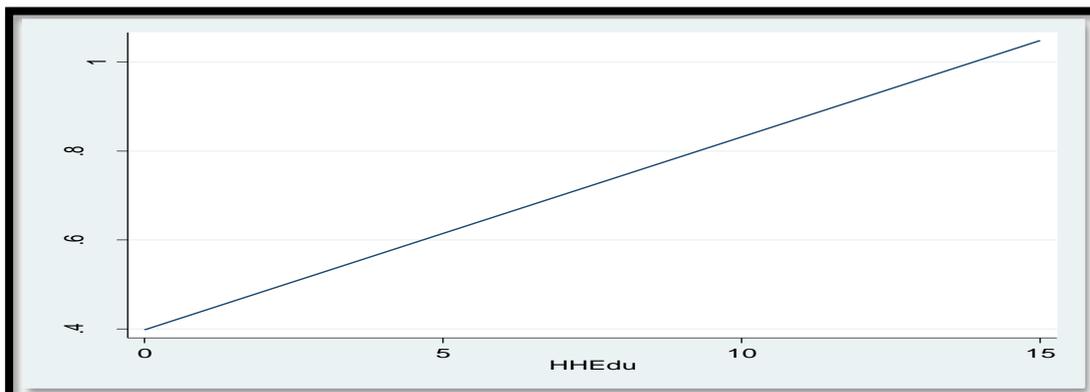
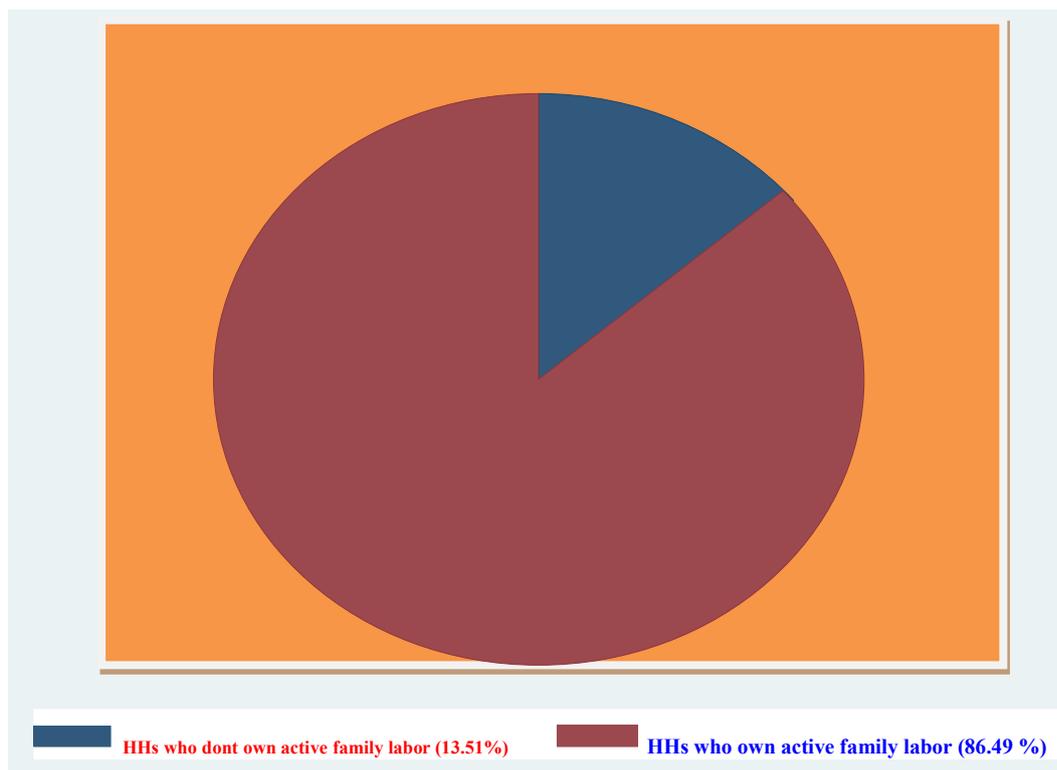


Figure 1: Correlation of education and group MEs participation

As it can be seen from the above figure 1, there is positive correlation between the years of schooling and participation in the MEs. Currently, since unemployment level is high in Ethiopia, specifically in Oromia regional state, the more educated people are forced by unfavorable conditions to participate in MEs.

Availability of economically active family labor: Availability of economically active family members is hypothesized to have positive effect on probability of HH participation in microenterprise. Controlling for family size household with larger number of active persons more likely participant than those with low active family members. This result also shows that number of active family members is found to be positive and significant at 5% level of significance for the households' outlook on participation in microenterprises. This is as a result of the fact that if there is large active family members and they need a job to generate an income. So to do this, they participate in group microenterprise because of the fact that one of the roles of microenterprise is creating job opportunity for the society. As the number of economically active family number is increased by one person, the probability of participation of house hold in the group MEs will also rise by 0.271(27%).



Pie chart 1: Percentage of availability of economically active family labor

This above pie chart show the households who have economically active family labor were about 86 percent, where about 14percent don't have economically active family labor.

Age of household head: The study found that household head age positively and significantly (at 5%) determines the group participation in MEs. Because as age of household head rises their work experience mostly on management and operation of ME will also increase so that it has positive impact on it. The expected sign is never attained. Hence, it was also supported with the more

economically productive age group population (15-64) more participates in the MEs than economically non-productive age groups (less than 15 and above 65 age group population).

As age of people increased by one year, the probability of participation of house hold in the MEs will also rise by 0.0104575 (1%). The big reason for this result is that the range of ages of respondents is between 19 and 62. Hence, according to economically active based age classification of our country, all respondents age in economically productive age group population (15-64).

The studies conducted by Azhar (1995) and Muradoglu and Taskin (1996), indicate that as age progresses farmers will acquire experience and the level of responsibility to manage the family and the need to have asset for tomorrow become increased.

Age of an operator is an important factor for it has something to do with entrepreneurial success through its effect on growth ambition, determination and willingness to test abilities (Welter, 2001).

Marital status of Household: The study result shows that, marital status of house hold head negatively and significantly (at 10%) determines the group participation of household decision. If they married the life expenditure will raise, so that their participation may be low. The unexpected sign is obtained. Saving has an important contribution for participation in themes, because for taking loan people/group should save some percent of their loan the need and monthly saving for repayment of loan taken is necessary. People who have more saving, is more interested in participation in MEs. According to study, when people married, the probability of participation of house hold in the MEs will fall by 0.0265(2.6%).

The married population is subjected to more liabilities which discourage them to save more as the income of the individuals is spent on the family's consumption. The unmarried or the widowed population saves a significant amount from their income. (Subhashree Nayak, 2013)

Amount of initial capital: This variable explains that the wealth of respondents measured by money saved/capital owned before participated in the MEs. This variable negatively and significantly (at 5%) affects the group participation in the MEs. This is obviously fact that if people own some of capital, its participation in themes is low because they prefer to establish sole proprietorship. Based on the study result, when people own more capital, the probability of participation of house hold in the MEs will fall by $9.07e-07$ (907e05%).

The Comparison of participants of MEs with non-participants

T-test was run to determine the differences between participants and non-participants in group ME. Comparison was made on variables: Active family labor, House Holds heads education level, Collateral, Availability of credit market (amrkt), Initial investment (ininv), Access to training (actr), Sex of HHH, age of HHH, marital status of HHH, type of institutions participated in, amount of saving, amount of current capital, location of residence, interest rate on credit, business saving need, amount of initial capital, from which they seek credit and participation in the exhibition and bazaar. Results of the Mean significant T-test indicate that there are significant differences between participants of group ME and non-participants of group ME in relation to education level of households head(1%), age of households head(5%), marital status of households head(10%), availability of active family labor(5%), and amount of initial capital(5%) (See below, Table 4.21.)

The T-test results show that the education level of households head, age of households head,

marital status of households head , availability of active family labor, existence of collateral and amount of initial capital of participants have greater differences than that of non- participants in group ME.

It was evident that majority of those who participated in group ME were individuals whose education level is equal or less than to ten (mean=10.6596) and Non- participants education level is equal to or less than eight (mean=8.5). The implication is that the increases in literacy level of household heads stimulate them to participate in ME than illiterates. This may not true in the long-run phenomena. The adult group of population more participated in group ME than youths..

Additionally, T-test also shows that the wealth (capital) difference between the before they participated in group ME and after they participated in ME group. T-test result shows that there is big difference between the mean of amount of capital of people before they participated in ME group and after they participated in ME group. The mean capital before they participated is birr (31,811.97826) and after they participated is birr (142,576). This shows ME group participation has positive impact on the livelihood of poor. (See below table)

Table: T-test Results of participants ME versus Non- participants of ME of Nekemte town

Variable Name	Mean values for ME participants	T-test For ME participants	Mean Values For ME non-participants	T-test For non-participants	Level of Significance (P-value)
Sex of HHH	0.7128	15.191	0.6875	5.745	0.0224
Age of HH H	29.6170	45.015	28.2500	22.845	0.033**
Marital status HHH	3.6809	18.876	4.250	10.543	0.085*
Availability of active family labor	0.8936	27.95	0.6875	5.745	0.017**
Education level of HHH	10.6596	41.926	8.500	31.038	0.000***
Collateral availability	0.5851	11.452	0.3125	2.611	0.086*
Interest rate of credit	0.4681	9.047	0.3750	3.000	0.268
Access to credit market	0.3617	7.259	0.3750	3.000	0.615
Availability of Initial investment	0.5000	9.644	-0.4375	3.416	0.781
Access to training	0.5000	9.644	0.6875	5.745	0.240
Number of relative of HH	16.3936	25.279	14.3750	13.362	0.398

Type of institution participation	HH	1.9149	13.522	2.1250	7.059	0.449
Amount of saving		3.6490E4	7.068	2.8182E4	2.701	0.715
Amount of initial capital		3.1812E4	6.29	2.9167E4	2.960	0.016**
Amount of current capital		1.4258E5	11.781	1.2050E5	7.036	0.717
Local of residence		1.5851	23.787	1.6875	14.10	0.638
Business saving need		1.0532	45.258	1.0625	17.00	0.693
Credit seeking place		0.4149	8.121	0.5625	4.392	0.495
Participation in exhibition and bazaar		1.3404	27.28	1.375	11.00	0.202

Source: Own Survey (2014)

***, ** and * indicate that level of significance at 1%, 5% and 10% respectively.

4.1.2. Analysis of Credit Seeking Behavior of Small Traders by Use of Probit Model

The effects of significant explanatory variables on credit seeking behavior of small traders are discussed as follows.

In the marginal effect output, $y = \text{Pr}(\text{Credit seeking})$ (predict = 0.86425086) indicates that about 86% of the respondents has the probability to get access to credit facilities.

Table: Determinants of Credit Seeking Behavior of microenterprises

Credit Seeking behavior	Robust Coefficient	Marginal Effect	P-Value
Sex of HHH	-0.4820368	-0.0841685	0.184
Age of HHH	-0.0455309	-0.0089382	0.217
Marital status of HHH	-0.1779118	-0.0349261	0.107
Availability of active family labor	1.938***	0.612037	0.000
Education level of HHH	0.1127575	0.0221356	0.123
Collateral availability	0.865**	0.1803052	0.024
Interest rate of credit	0.6515*	0.1248429	0.077
Access to credit market	-0.1171267	-0.0234557	0.743
Availability of Initial investment	0.7046*	0.1389386	0.079
Access to training	-0.5034588	-0.0973936	0.154
Number of relative of HH	0.09619***	0.0188833	0.002
Type institutions HH participation	-0.298**	-0.0584755	0.020
Amount of saving	-1.55e-06	-3.05e-07	0.786
Amount of current capital	-1.25e-07	-2.46e-08	0.963
Business location	0.5200447	0.1011367	0.140
Age of firm	.1069651	0.0209985	0.167
Source of initial capital	0.1247427	0.0244884	0.554
Business type	-0.1602989	-0.0314685	0.394
Credit seeking institutions	0.088384	0.017211	0.843
Participation in exhibition and bazar	.1723024	0.0349596	0.604

constant	-1.654745	-	0.348
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Number of obs	=	103
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Wald chi2(20)	=	58.04
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Prob > chi2	=	0.0000
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Logpseudo likelihood	=	-32.7747
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Pseudo R2	=	0.4469
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Source: Own Survey (2014)

Initial investment: Initial investment is one of the most significant variables that affect credit seeking behavior of small scale business owners. Initial investment is positive and significant impact on being get credit. The result of the study also shows initial investment is found to be significant at 10% level of significance for the households' outlook on the need of credit. As the firm's initial capital increases the probability of being getting credit is also increase. This implies firms that have enough capital to start their business do not need to apply for loan from formal financial institutions. The same firms with higher initial investment are expecting higher return there by a higher probability to repay back their loan (credit). Therefore, financial institution interested to extend to firms with higher initial investment without credit limit. Initial investment is also negatively associated with quantity from formal financial institutions. This implies that though financial institutions cannot identify good borrower from the poor borrower by their initial investment (Berg and Roland, 1997) but, they expect those with high initial investment more likely more profit. So firms with higher investment are not constrained in quantity in their access for loan. In other words financial institutions are more likely to reimburse their loan when firm's initial investment is high.

The above table result show that about as initial investment capital rises, the probability the firm obtain the credit facilities will also increase by 0.1389386(14 %). The majority of MEs (about 49%) in Nekemte town their startup capital is less than birr 10, 000, that mainly obtained from their own saving or family support.

Collateral Availability: Collateral availability is positive and significant impact on both participation of microenterprise owners' and the credit seeking behavior of small scale business owners'. The econometric result also shows collateral availability to be positive and significant (at 5% of significance) for the households' outlook on credit seeking. It is also obvious people who have their own house are the medium and higher class family so it is easy for them to owned small business and finance by their own money.

Supportive study results shows that, firm with collateral are unconstrained borrowers, as far as they pledge their collateral; to financial institution (Boucher et al., 2006).

Firms that have collateral are not constrained since collateral can solved the problem that rose from information asymmetry, uncertainty about the profitability of the project and the riskiness of the borrower (Reyes Duartem 2011).

According to the study finding of the (Gyeltshen, 2012) firms that have collateral are less likely being credit constrained from formal financial institutions. This implies that MEs that don't own collateral are more constrained to borrow from formal financial institutions.

According to this study, MEs to take the credit the physical collateral availability is major determinant. Because, majority of the small firms of Nekemte town took loan from different MFIs, like Wasasa, Buusa Gonofa and Oromia credit and saving share company(OCSSCO). To

borrow from OCSSCO it is not a must for them to provide collateral. Rather if they have someone who works in government institution as permanent employee and whose monthly salary is above 2000 Ethiopia Birr can bail them So that they can take loan without collateral. To explain more, the one who is bailed should be a government employee, he/she has required getting letter from his employer that specific his detail including his/her monthly salary. Then the letter will be sending to OCSSCO so that he/she is going to bail to the borrower and reached an agreement. In case, if the borrower is declined to repay the loan the employee will be enforced to repay the loan by deducting from his/her salary on behalf of the defaulter.

But, in case of the microenterprise owners who seek credit from formal financial institutions especially bank, the applicants have to have collateral to get credit. Collateral consider as a means of solving problems of information asymmetry and banks uses collateral as a sorting out risk that can face borrower and reducing risk of default. The microenterprise owners who seek credit from formal financial institutions are not this study focus.

Availability of economically active family labor: Active family members are hypothesized to have positive effect on probability of credit seeking behavior of small traders. Controlling for family size household with larger number of economically active persons more likely seek credit than those with low economically active family members. This result also shows that number of economically active family members is found to be significant (at 1% level of significance) for the households' outlook on credit seeking. This is as a result of the fact that if there is large active family members and they need a job to generate an income. So to do this, they seek credit because of the fact that one of the roles of microenterprise is facilitating the credit market. The expected result is obtained. Economically active human power is the base for any activities mostly in business enterprises. As study result shows that, the marginal effect shows that a change from family where no economically active labor to the family where there is economically active labor increases by one, the probability of the decision to take credit for business operation increases by **0.612037** (61%) higher than their counterparts, *ceteris paribus*.

Interest rate on credit: The study result point out that if the interest rate on credit is low, the household take decision to take credit. It positively and significantly (at 10% level of significance) affects the decision of MEs to take credit. This refers to if the credit interest rate is low, the probability that the decision of the seeking credit by MEs are high. The above binary-probit model shows that, if the credit interest rate becomes low the probability that credit seeking decision of the MEs will become increase by 0.1248429 (12.5%).

According to the study finding of the (Subhashree Nayak,2013), factors like the interest rate, loan processing time, type of loan, credit information and loan size, significantly affected this borrowing behavior of the farm households. Moreover, when the real rate of interest is high people are more interested to save rather than invest and when the rate of interest is less people are less inclined towards saving rather than they are likely to invest more in an expectation of getting more rate of return. The marginal effect shows that a change from high credit interest rate to low credit interest rate increases the probability of the decision to take credit for business operation by 0.1248429(12%) higher than their counterparts, *ceteris paribus*.

Number of relatives in the community: The study result shows that it positively and significantly (at 1% level of significance) affects credit seeking decision of MEs. Availability of many relatives of the person can create atmosphere of easily cooperative and grouping for the organization of MEs than non-relative people. If people are relative ,they almost know clearly the

behaviors(honesty, discipline, work habit, and etc) of each other’s and easily establish cooperative business and easily reach on an agreement of decision of seeking credit for business purpose.

The marginal effect shows that as the number of relatives in the community increases the probability of the decision to take credit for group business activities will increase by 0.0188833(2%) higher than their counterparts, keeping other variables constant.

Type of institution HH participation: As study result shows on above table, this variable negatively and significantly (at 5% level of significance) affect decision of credit of MEs. The marginal effect shows that as the type institution household participated changed from other institutions to the Edir/ Ekub the probability of the decision to take credit for group business activities will decrease by 0.0188833(2%)higher than their counterparts, keeping other variables constant. The Ekuip is one of the traditional saving institutions, so if people participate in the Ekuip, they can save more money and use it for their own business. Hence, they don’t seek more credit/loan from others.

Table: T-test Results of Credit seekers versus Non- Credit seekers in ME of Nekemte town

Variables	Name	Mean values for Credit seekers	Mean difference for Credit seekers	T- test for Credit seekers	Mean Values for Credit seekers	Mean difference for non-Credit seekers	T-test Non Credit Seekers	Level of Significance (p-value)
Sex of HHH		.6747	.67470	13.041	.7857	.78571	9.950	0.184
Age of HHH		29.1084	29.10843	40.849	30.1429	30.14286	30.729	0.217
Marital status HHH		3.6988	3.69880	17.873	4.0000	4.00000	12.00	0.107
Availability of active family labor		.9398	.93976	35.766	.6429	.64286	6.971	0.000***
Education level of HHH		10.6867	10.68675	43.130	9.3929	9.39286	18.415	0.123
Collateral availability		.6024	.60241	11.146	.3929	.39286	4.180	0.024**
Interest rate of credit		.4819	.48193	8.734	.3929	.39286	4.180	0.077*
Access to credit market		.3614	.36145	6.813	.3571	.35714	3.873	0.743
Availability of Initial investment		0.5542	.55422	10.097	.2857	.28571	3.286	0.079*
Access to training		.4819	.48193	8.734	.6429	.64286	6.971	0.154
Number of relative of HH		17.1325	17.13253	24.848	12.9643	12.96429	17.499	0.002***
Type institutions HH participation		1.8193	1.81928	13.049	2.3214	2.32143	8.233	0.020**
Amount of saving		3.5504E4	35503.7394	6.388	3.3694E4	33693.5714	4.125	0.786
Amount of current		1.3781E5	1.37811E5	13.070	1.4090E5	1.40898E5	4.900	0.963

capital	5						
Business location	0.5301	.53012	9.618	.3214	.32143	3.576	0.140
Age of firm	3.3133	3.31325	13.004	3.5000	3.50000	6.754	0.167
Source of initial capital	1.6145	1.61446	16.437	1.7143	1.71429	11.89	0.554
Business type	1.9639	1.96386	21.112	2.1071	2.10714	15.122	0.394
Credit seeking institutions	1.0723	1.07229	495	1.0000	.42857	4.500	0.843
Participation in exhibition and bazar	.6747	.67470	13.041	.4286	.78571	9.950	0.604

Source: Own survey (2014)

*, **and *** Level of significance at 10%, 5% and 1% respectively

4.1.3. The comparison of the ME participant who seek credit and Non-credit seekers

T-test was run to determine the differences between credit seekers and non- credit seekers of MEs. Comparison was made on variables: availability of Active family labor, households' heads education level, existence of Collateral, Availability of credit market (amrkt), Initial investment (ininv), participation on exhibition and bazaar, from which they seek credit, business type, source of initial capital, age of the firm, business location ,amount of current capital, amount of saving, type of institution participated in, credit interest rate, number of relatives of household and Access to training (actr).

Result of the Mean significant T-test indicate that there are significant differences between credit seekers MEs and non- credit seekers of ME in relation to availability of active family labor (at 1%), availability of Collateral (at 5%), availability of Initial investment (at 10%), credit interest rate (at 10%), number of relatives of household (1%) and type of institution participated in (at 5%). (See above, Table 22).

The T-test results show that the availability of active family labor have greater influences in credit seeking behavior of MEs participants than that of non-credit seekers. The ME participants which have of the characteristics of credit seeking have more collateral asset than non-credit seekers of the ME participants.

4.1.4. Analysis the impact of credit on the income level of microenterprise owners

Table 23 Capital of HHs at start-up of the Business

Amount of initial Capital	Frequency	Percent
<2000	14	12.88
[2001 5000]	23	21.16
[5001 9,000]	4	3.68
[9001 13,000]	8	7.36
[13,001 17,000]	7	6.44
[17,001 30,000]	16	14.72
[30,001 50,000]	10	9.20
[50,001 92000]	13	11.96
[92,001 360,000]	9	8.28
Total	109	100

As it can be seen from above table, many people before they participated in the group MEs their capital was on average between birr 2001 and birr 5000 (21.16 %) and between above 17,001

and less than birr 30,000.

Table: Capital of HHs after engagement in the group MEs

Amount of current capital	Frequency	Percent
<30,000	1	0.91
[30,000 60,000]	20	18.20
[60,001 90,000]	23	20.93
[90,001 120,000]	24	21.84
[120,001 150,000]	14	12.74
[150,001 180,000]	4	3.64
[180,001 210,000]	10	9.09
[210,001 240,000]	5	4.55
[240,001 270,000]	3	2.73
[270,001 300,000]	1	0.91
[300,001 330,000]	1	0.91
[330,001 360,000]	2	1.82
[360,001 800,000]	2	1.82
Total	110	100.00

It is miracle, as it was described in the above table, the total capital of many respondents were significantly changed. This shows that participation the group MEs has directly improve the livelihood of the respondents. For example many respondents total capital was between birr 90,001 and 120,000 about 21.84% and birr above 60,001 and less than 90,000 about 20.93%.

From the above two Tables (Table 23 and 24), we can conclude that there is significant difference between income level of the stockholders before and after they take the credit. In another way this answers the third objectives of the model.

4.2. Results of Group Discussion

A focus group discussion was conducted with the officials of Micro Enterprise Development Agency in Nekemte town, and the qualitative information obtained was summarized as follows.

Types of Training Given to Microenterprises

The participants of the group focus discussion said the following training types were given till now. Those are 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, quality improvement, and raw materials utilization.

The Major Challenges/Difficulties of Microenterprises

The major challenges of the microenterprises can be classified into two groups.

1. Financial challenges

It is crucial to identify and analyze why certain businesses fail, so that we can learn from their mistakes and take guidance from the successful ones. Many enterprises fail because of some common causes that many owners ignore the financial difficulties of their businesses. Many MEs fail because managers/owners do not integrate accounting and accounting practices to a reasonable level in their business. By failing to do so, they suffer from the lack of financial control and consequently cash flow problems force the businesses to fail.

The MEs MEs were replied about their financial challenges/difficulties. Thus, the inability to

expand operations, lack of proper credit facilities, and price escalation (boom) of raw materials are the major financial difficulties/challenges in their order of priority. Although the prior difficulties were taken the largest percentage, still some MEs MSEs were responded others like inability to finance existing operations, lack of trained man-power of cashier and finance officer, improper utilization of existing capital, lower contribution of money by members.

2. Non-financial challenges of microenterprise

Similar to the start-up MEs face numerous problems after start-up or at due course of operation. The MEs responded the three major problems in the order of priority. Lack of working capital, bureaucracy of government rules and regulation and price increment or shortage of supply of raw materials (input shortage). In the study area the finding of the study revealed that many of the MEs were failed because of lack of working capital.

Enterprises in this market tend to compete for the same customers. This limits their growth potential and stability and is one of the reasons why MEs experience a relatively high instance of down fall. Many of the MEs in Nekemte town market their product and/or services to a limited local market. Most of the MEs also sell their products directly to consumers where as few of them through intermediaries. This shows that MEs have limited sales outlets.

There is also very low promotion of businesses by MEs as the majority use word of mouth and signboards to advertise their product and/or services. In other words, advertising and introducing of business through participation in exhibition, distribution flyers and business cards, etc. are not well used by many MEs and seen as important means of creating additional demand for their product or service in Nekemte town. Besides, lack or expensiveness of market place, lack of promotional place (display), low level of market linkage, and unable to compete with foreign products are also major problems.

CONCLUSIONS AND POLICY IMPLICATIONS

5.1. CONCLUSIONS

Small and micro enterprises have many economic contributions mostly in developing countries as instrument for poverty alleviations.

Small and micro enterprises are new phenomena in Ethiopia. Hence, there is no adequate researches were conducted in relation to this research title in Ethiopia.

This study tried to analysis the main determinants of the households' decision to participate in micro enterprises and their credit seeking behaviors of Nekemte town which is the capital city of Eastern Wollega zone of Oromia Regional state.

Both Primary and Secondary data were used. For collection of data questionnaires and interviews were employed.

For analysis of collected data both descriptive statistical and Econometric methods of analysis, binary model (particularly probit model) were employed.

The study finding shows that education level of household head, age of household head, availability of active family labor, and existence of collateral positively and significantly determines the household decision to group participation in the Micro enterprises; where marital status of household head and amount of initial capital negatively and significantly determines the household decision to group participation in the Micro enterprises. On other hand other

regressors are insignificant.

Additionally, the availability of active family labor, availability of collateral and existence of initial capital for business start-up of the household, interest rate on credit and number of institutions participated in are significantly and positively determine the credit seeking behaviors of the MEs. But, numbers of relatives in the community negatively and significantly determines the credit seeking behaviors of the microenterprises; where other predictors were insignificant.

A T-test result also shows the strong difference between group participant in MEs and non-participants in MEs. Their difference strongly indicated by mean value differences of significant explanatory variables which affect group participation in MEs either positively and negatively. Additionally, the t-test also points out that the difference between the credit seekers participants of MEs and Non-credit seekers of MEs participants. Their difference is showed by mean values differences of the significant explanatory variables which either positively or negatively affect credit seeking behavior of the MEs participants.

The study finding also shed light on the challenges of micro enterprises with their possible policy recommendations for concerned body.

5.2. RECOMMENDATIONS

Based on the findings of the study, the following policy recommendations are given.

1. As the results of the findings revealed, Education acquired by the head of household is one of the major determinants of the probability of households' participation in microenterprises. It positively and significantly (at 1% level of significance) determines group participation in MEs. This is due to the fact that education of the house hold heads can raise their level of information gathering and adjustment abilities by providing awareness regarding expectation for decision making. Therefore, local households in collaboration with the local leaders and other stakeholders should strive in expansion of both informal and formal schools.
 2. According to the probit analysis result, number of active family labor was related to both participation in group ME and credit seeking of small traders positively and significantly. So microenterprise development agency has to have the information about the households' members before giving credit for them that means identifying is there productive or not .
 3. The study result point out that if the interest rate on credit is low, the household take decision to take credit. It positively and significantly affects the decision of MEs to take credit. This refers to if the credit interest rate is low, the probability that the decision of the seeking credit by MEs are high. For this matter the interest rate has to be low and fair for the credit seekers.
 4. Furthermore, Based on the responses gained from group discussion and 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 in general, the three most important measures should be taken in the order to alleviate prior challenges. These were as follows:-
- Fair and Proper Credit Facilities:** First of all credit must be available then the requirements must be fair and the amount of money must be enough in order to do their operations. As much as possible the credit amount must be increased and the process short to fill the gap of MEs quickly. They also recommended that either the interest rate must decrease or the

beginning of the repayment period must be extended to more than one year for loan given by MFIs.

- ☑ **Marketing Linkage (Value Chain):** Refers to the full range of activities which are required to bring a product or service from conception, through the different phase of production, delivery to final customers. When we begin from the raw materials, respondents demanded about their prices and availability i.e., when they want. The price of raw materials is increasing from time to time and they recommended the distribution of raw materials must be in the hand of government even if it is difficult. At the time of production they requested the working premise to be enough for their production and/or the price will be affordable for them. At the time of delivery to final customers, the market must be searched and seen in advance whether it is profitable or not. MEs need to worry about their product where they sale and/or promote it.
- ☑ **Follow-Up And Continuous Discussions With Concerned Bodies:** Once those MEs are organized under the development strategy they need continuous follow-up and discussion with them. Organizing as an enterprise is not an end by itself, the end is successfulness of MEs operators. In order to cope up with the changes and compete with medium and large industries and imported products; they need continuous follow-up from governmental and non-governmental bodies. This may be in terms of organizing exhibition and bazaar in the name of MEs, discusses on their problems, and to exchange their good experiences with others.

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