RESEARCH ARTICLE

ASSESSING, ACCESS TO FINANCE AND ACCOUNTING PRACTICES OF SMALL AND MEDIUM SIZE ENTERPRISES-A CASE STUDY OF HAWASSA CITY ADMINISTRATION, SNNPRS, ETHIOPIA

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ABSTRACT

This study was aimed at assessing effective accounting practices and access to finance of SME's with special reference to Hawassa City Administration, SNNPR, with the specific objectives of the study is determining whether SME does maintain formal effective accounting practices or not, identifying sources and types of access to finance available to SME's, examining the determinants of the effective accounting practices of the SME and examining the factors that affect access to finance of the SMEs. For this study the researcher made use of primary and secondary data. The data were generated by individual interview schedules and key informants interview using semi structured questionnaires and checklists, respectively. This was supplemented by secondary data collected from different published and unpublished sources. The result revealed that, 58percent of SME's does not maintain any form of records. Majority of SME's do not follow formal accounting practices and principles. Majority of SME's (63%) have no access to finance which hinder their effort to expand their business. The major reasons for lack of access to finance were inadequate collateral (55%), high interest rate (57%) and bureaucracy (53%). The OLS result of this study revealed that SME's size, capital market, education status, and professional support were factors significantly affect accounting practices and age of the business, interest rate, bureaucracy, accounting practices and average income of SME's were factors significantly affect access to finance in the study area. To improve problems related accounting practices and access to finance to SME's in the study area, the following key points were recommended.

1. INTRODUCTION

1.1. Background of the study

Small and Medium enterprises (SMEs) and financial institutions are vital contributors to the overall performance of an economy. SMEs play a crucial role in developing the economy and in creating employment. They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth.

SME's provide a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risks by offering a diversity of financial instruments. Furthermore, they provide financial assistance to fulfill the varied needs of enterprises.

Small and medium sized enterprises are an important ingredient for stable and equitable growth in any national economy. Ethiopia takes the development and expansion of SME's as the main way to solve many of the social problems. Hawassa(hub of the region) is a city with several socio-economic problems. The unemployment rate is estimated to be about 13.2% of male and 25.8% of female. The total average of unemployment is 18.3 % (C.S.A, 2007). At present various reforms and development activities are being carried out. One of these is the promotion and development of SME's in the city. The program has been started seven years (2002/03 G.C) ago to enhance the promotion of the sector, emphasizing on employment creation through the development of SME's. Yet despite specific global efforts to strengthen the SME sector, these businesses face a number of stifling financial and regulatory barriers, particularly in developing countries. In Ethiopia one of the main problems of SME's may be their access to

finance and effective accounting practices (HCATID, 2013).

1.2. Statement of the problem

It appears that considering the enormous potentials of the SME sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries.

SMEs frequently lack access to institutional credit (WB, 1978), causing them to encounter high financing costs and high failure rates (Byron & Friedlob, 1984). The possible reasons for SME failures include among others 1) the poor management and/or administrative skills of the owner/manager, 2) insufficient capital invested by the owner, 4) an over-reliance on external borrowings, and 5) poor record-keeping, and etc. (Brooks et al.,1990). Poor record keeping and inefficient use of accounting information are a major cause of the above (Siop, 1997: Walton, 2000: Wichmann,1983: WB,1978). The inefficient use of the accounting information to support their financial decision-making and the low quality and reliability of financial data are part of the main problems of SME's.

Considering the enormous potentials of the SMEs sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. Most of SME's in HCA frequently lack access to institutional credit, causing them to encounter high financing costs and high failure rates. Similarly in this SME's continue to exist with many problems among others are; inability to maintain accounting practice and lack of access to credit. They lack of access to credit and high interest rates charges are partially the result of incomplete (or no) accounting records, and the inefficient use of accounting information. Poor record keeping and accounting information make it difficult for financial institutions to evaluate potential risks and returns, making them unwilling to lend to SMEs. Therefore, this study tries to assess the accounting practices and access to finance with

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special reference to Hawassa City Administration, SNNPRS.

1.3. Objectives of the study
1.3.1. General objective
The general objective of the study is to assess effective accounting practice and access to finance of SME's with special reference to Hawassa City Administration, SNNPRS.
1.3.2. Specific Objectives
Specifically the study has the following aims:
1) To determining whether SME does maintain formal effective accounting practices or not.
2) To identify sources and types of access to finance available to SME's
3) To study the determinants of the effective accounting practices of the SME.
4) To examine the factors that affect access to finance of the SMEs.
1.4. Research Questions
The major questions that this study will attempt to address are:
1) Dose SME maintain formal effective accounting practices or not?
2) What type and sources of access to finance does the SME uses?
3) What are the main determinants of access to finance of the SMEs?
4) What are the source of credit available to SMEs and the types of finance used?
1.8. Definition of terms
a. **Small Scale enterprises-** means a business engaged in commercial activities whose capital is exceeding birr 20,000 and not exceeding 50,000 birr, other than high technological and consultancy service institutions (Ethiopia Ministry of Trade and Industry, 2003).
b. **Micro scale enterprises-**refers to the provision of financial services to low-income clients, including consumers and the self-employed (Ethiopia Ministry of Trade and Industry, 2003).

2.1. THEORETICAL PERSPECTIVE
Development strategists have advocated the progressive use of small and medium enterprises (SMEs) to accelerate the pace of economic growth especially in the developing countries of the world (Daodu, 1997). Most African countries are basically agrarian societies with the majority of the populace engaging in agro-related activities such as farming, livestock rearing, agro forestry and fishing. With little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SMEs to link agricultural production with manufacturing activities. This requires specific incentives to assist in the development of the SMEs sub-sector, which include among others easy accessibility to credit, provision of infrastructural facilities, industrial extension services and development of production capacity based on locally developed or adapted technology and locally designed equipment and spares (Ekpenyong,1997).

Similarly, modern manufacturing processes are characterized by high technological innovations, the development of managerial and entrepreneurial talents and improvement in technical skills which normally promote productivity and better living conditions of the people. The impact of this is that productivity level will be enhanced, a sustainable level of economic growth will be achieved with the prospect of economic diversification and increased exports. The economy will have the potential of being competitive in the global market (Olorunshola, 2002).

2.2. Concepts of SMEs
The issue of what constitutes an SME is a major concern in the literature. Different authors have usually given different definitions to this category of business. Some attempt to use the capital assets while others use number of employees and turnover level. Others define SMEs in terms of their legal status and method of production.

The UNIDO (1999) also defined SMEs in terms of number of employees by giving different classifications for developed and developing

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countries. The definition for developed countries is given as follows: Large firms with 500 or more workers; Medium firms with 100-499 workers; and Small firms with 99 or less workers. The classification given for developing countries is also as follows (UNIDO, 1999): Large firms with 100 or more workers; Medium firms with 20-99 workers; Small firms with 5-19 workers; and Micro firms with less than 5 workers.

In the context of Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as:

1. Microenterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.
2. Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000, but not more than Birr 500,000, but excluding high-tech consultancy firms and other high-tech establishments.

2.3. Nature and Importance of SMEs

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or framework may expand in time with the collection of both tangible and in tangible (resources that are human nature) (Penrose, 1995).

The term SMEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover. However, the most common basis of defining SMEs is number of employees (Nugent, 2001).

2.4.1. Measurement of Effective Accounting Practices

Simplified financial reporting standards should be adopted or set for SME. Entities, which do not fall into the definition of public interest entities, will fall into the SME category. There is international acceptance that SME require simplified financial reporting standards fitting their reduced size and narrow stakeholder base. The International accounting Standards Board is in the process of setting simplified effective accounting standards, which can be adopted or adapted for the small and medium enterprises in Ethiopia. According international accounting standard board SME at least should report the following financial statements (IFRS 2005):

2.5. Access to finance of SME

There are two sources of finance available to SME which includes; internal and external sources (Chizea, 2002). Internal sources as the dominant source of finance for most small-scale businesses. And for most businesses, internal sources of finance constitute retained earnings for the period including provisions made for depreciation which is essentially a book transfer A survey conducted by the World Bank (1995).

2.6.1. Measurement of access to finance

Access to finance is measured by the number of times SME had successfully obtained financial loan. Similarly the dependent variable access to finance was measured by the number of times an SME had successfully obtained financial assistance used by (Quartey,2003). The theoretical frame work of the determinants of access to finance is presented as below.

2.7. Challenges of SMEs

Despite the potential role of SMEs to accelerate growth and job creation in developed and developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors. A set of constraints, which is not intended to be exhaustive, is identified below.

A) **Input Constraints**: SMEs face a variety of constraints in factor markets (Kayanula and Quartey, 2000).

Taxation & Tariffs: Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favorable to SMEs. At the same time, the tariff and non-tariff barriers which favor larger firms that play a role in policy making are often biased against SMEs (Kayanula and Quartey, 2000).

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Legal: High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs.

Labor Markets: Inflexible labor codes and other indirect labor costs bear most heavily on SMEs, raising their cost of doing business and depriving them of the flexibility to adapt.

3.1. RESEARCH DESIGN

The main objective of this study is to examine the effective accounting practices of SMEs and its impacts on access to finance in Hawassa City Administration, SNNPRS. To this end, the study had been employed both quantitative and qualitative approaches with cross sectional survey design because it is possible to obtain the desired information at one time.

3.2. Sampling and Sampling procedure

Three stage sampling procedure employed to select sample of small and medium enterprises (SME's). First, it will employ purposive sampling method to select Hawassa City Administration as a study area. In the second stage, by employing Probability Proportional to Size (PPS) the number of SME's was drawn each sub-cities. Finally, based on the sampling frame to be collected from each sub-cities, Systematic Random Sampling is used at the third stage to select the sample SME's based on their economic activity (Table 1). The determination of sample size is resolved by means of Slovin's sampling formula with 90 percent confidence level.

Populations for quantitative data collection for this study were SME's from eight sub-cities of Hawassa City Administration. So, it is 1,320 SME's representing 100 from eight sub-cities of Hawassa City Administration. The researcher deemed necessary to take independent sample for each sub-cities to ensure equal representation of households as the eight sub-cities have different number of SME's.

Therefore, sample size was determined on the total number of SME's 1,320 and independent sample were considered from SME's in each sub-cities, 150 Tabor sub-city, 211 Menharia

sub-city, 152 Haike Dar sub-city, 211 Bahel Adarash sub-city, 184 Misrak sub-city, 157 Hawella Tulla sub-city, 111 Adiss Ketema sub-city and 139 Mehale Ketema sub-city used random sampling method.

The sample size for collecting quantitative data for this research was determined using Cochran's (1977) formula as indicated on Bartlett Kotrlik and Higgins (Bartlett and Higgins,2001). This study uses the following formula to calculate sample size:

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

The following step is used to determine sample size derived from the above formula to collect quantitative data using questionnaire:

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

n= sample size for the research use
N= total number of SME's in the study area
e = margin of errors at 10%

Therefore:

$$n = \frac{N}{1 + N(e)2} \quad , \quad n = \frac{1230}{1 + 1230(0.1)2} = 100$$

Sum of sample sizes that was taken from eight sub cities become 100 SME's.

Generally, quantitative data collection sample had been taken from eight sub-cities in Hawassa City Administration. Data was collected from 11 SME's in Tabor sub-city, 16 SME's in Menharia sub-city, 13 SME's in Haike Dar sub-city, 16 SME's in Bahel Adarash sub-city, 14 SME's in Misrak sub-city, 12 SME's in Hawella Tulla sub-city, 8 SME's in Adiss Ketema sub-city and 10 SME's in Mehale Ketema sub-city using questionnaires.

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Table 3.1. Sample size determination in different business sectors in HCA, 2013/14

Sub cities	Producers		Merchandises		Service Givers		Total	
	Pop.	sample	Pop.	sample	Pop.	sample	Pop.	sample
Tabor	44	3	81	9	25	2	150	13
Meneharia	110	7	76	4	25	2	211	13
Hayekdar	56	4	72	5	24	2	152	11
Bahil Adarash	103	7	73	8	35	4	211	18
Misrak	73	6	83	6	28	2	184	14
Hawela Tula	51	4	72	5	34	3	157	12
Adis Ketema	43	3	52	4	16	1	111	8
Mehale Keteme	48	3	56	5	35	3	139	11
Total	528	37	565	46	227	17	1320	100

Source: Hawassa City Administration Trade and Industry Department (2015)

3.3. Data Analysis and Interpretation

As expla3ined in different econometric models, there is a need to test the presence of multicollinearity as its presence leads to biased estimates. This study employed simple correlation coefficients between the explanatory variables to test the presence or absence of multicollinearity. Following some authors (e.g., Studenmund, 2001) it is argued that the test does not detect the existence of severe multicollinearity of explanatory variables if the values of the correlation coefficients between the explanatory variables are lower than 0.8. This study also used the same argument.

In addition to testing the presence of multicollinearity, this study also considered the goodness of fit of the model. As it is discussed in different econometric models, the goodness of fit of a model for a simple OLS model is tested by R-square. The R square of a model explains how good the model is in explaining the dependent variable. In other words, it explains the explaining power of the explanatory variables on the dependent variable. In this regard, if the independent variables included in the model explain the dependent variable well, the better is the model and the more R square approaches to one. On the other hand, if the independent variables included in the model do not explain the dependent variable well, the goodness of the model is not fit and the value of R square approaches to zero (Gujurati, 2004).

3.4. Variables of the Study
3.4.1. Dependent Variables

1. **Effective accounting practices (ACP);** - effective accounting practice of SMEs is measured based on their normal recording system, preparation of balance sheet and income statement. Based on this firms with no recording system and other accounting tasks is seen as firms do not maintain any accounts, firms with only keeping records do not maintain financial reports is considered as maintaining minimum accounts, and firms with standardized recording system based on IASB, prepare balance sheet and income statement is considered as firms maintaining formal effective accounting practice.

For the test of access to credit effective accounting practice is an independent variable which takes a value (0= do not maintain any records, 1=maintain minimum records and 2= maintain a formal accounts. Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is given by:

$$ACP = \beta_0 + \beta_1 CAP + \beta_2 EDU + \beta_3 AGE + \beta_4 GP + \beta_5 CM + \beta_6 SSME + \beta_7 PS + \beta_8 AS + \beta_9 SY + \varepsilon$$

2. **Access to finance (AF);**- In order to provide evidence on who gets credit among SMEs, the firms are divided in two based upon their

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response to question whether they have a bank loan. If the firm answered "Yes", they are classified as non-constrained firms.

Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is given by:

$$AF = \alpha_0 + \alpha_1 COL + \alpha_2 ACP + \alpha_3 AGE + \alpha_4 BU + \alpha_5 IR + \alpha_6 LPP + \alpha_7 TC + \alpha_8 AI + \upsilon$$

3.4.2. Independent Variables

1. **Capital of SMEs (CAP)**; - Capital is an independent variable which is measured using capital to total asset ratio. It is measured as:-

Capital = **Capital/ total asset**

2. **Age of the SMEs (AGE)**; - The number of years in business has been identified as an important variable in the previous studies which determines the effective accounting practice and creditworthiness of the business

3. **Educational level of Managers of SMEs(EDU)**;- Education of the principal owner manager is redefined by categories from 0 to 4, corresponding to whether manager is illiterate, less than grade 9, grade 9 to twelve complete, TVET/Diploma and BA/BSC degree and above. The education variables is managers level of education (illiterate =0, less than grade nine =1, grade nine to twelve complete = 2, TVET/Diploma= 3, BA/BSC Degree and above=4).

4. **Collateral (COL); -** The collateral of the firm is measured using fixed asset to total asset ratio. It is measured as follows:

Tangible asset/collateral = tangible **net fixed assets/total assets**

5. **Interest Rate (IR)**; - If the interest rate pay by the bank is relatively better compared to other commercial banks the depositors choose the bank. On the other hand if the interest rate payed by the bank is relatively low depositors may be discouraged to deposit their money in the bank.

6. **Loan Supervision (LSU)**:- the probability of using loan funds for non-intended purposes decreases if adequate loan supervision is made regarding loan utilization. In such cases we expect a negative sign for this variable.

7. **Average Income (AI)**;- it is the average income of SME's per year.

8. **Loan Payback Period (LPP); -** If loan is disbursed in time, it is unlikely that it will be diverted to non-intended purposes. Johnson and Rogaly (1997) noted that timeliness of loan disbursement is important when loans are used for seasonal activities such as agriculture.

9. **Government policy (GP)**; - The government policy plays an important role in effective accounting system in many developing countries (Jermakawicz, 2007, Chamisa, 2000).

10. **Capital Market (CP)**;- Among the factors noted to be influencing the accounting practices in developing countries, availability of capital market is singled out as very cogent (Zeghal and Mhedhbi,2006).

11. **Professional Support (PS)**;- professional body is a group of people in a learned occupation who are entrusted with maintaining control or oversight of the legitimate practice of the occupation.

12. **SME's Size (SSIZ); -** It is the size of the SME's based on the number of employees they accommodate and the amount of capital they are performing their activities.

13. **Service Year(SY);-** it is the time in which the owner of the SME's engaged in the business and the

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experience he got due to managing the works of SME's

14. **Area of Specialty (AS); -** It is the area of the specialty of his educational background if the owner is graduate of Diploma /TVET or above.

The type of business SME's engaged was analyzed in terms of whether they are manufacturers, merchandisers and service providers. The study result is depicted below on the type of business of SME of Hawassa City Administration.
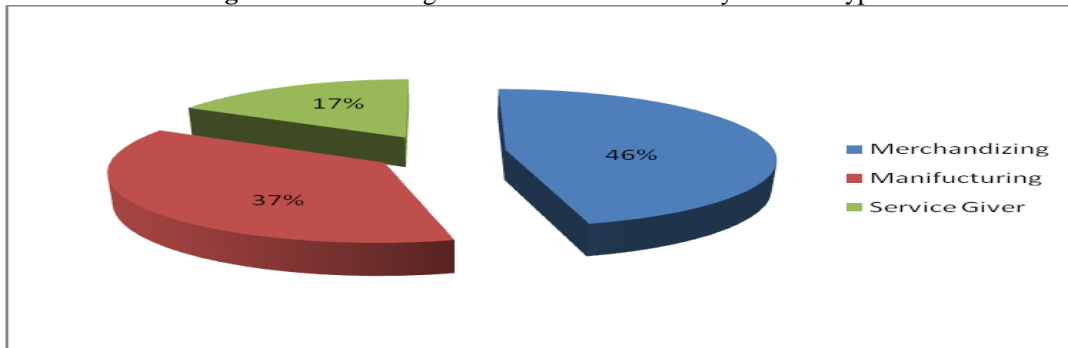
4. DISCUSSION

Table 4.1: Percentage distribution of SME's by business type

Types of Business	Frequency	Percent
Merchandizing	46	46
Manufacturers/producers	37	37
Service providers	17	17
Total	**100**	**100**

Source: Primary data (2016)

Figure 4.1: Percentage distribution of SME's by business type

Source: Primary data (2016)

Determinants of Accounting Practices of SME's

Table 4.2: Testing the model through ANOVA (Goodness of fit statistic)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.691	9	3.855	10.291	.000[b]
Residual	31.836	85	.375		
Total	66.526	94			

. **Dependent Variable**: Accounting practice

b. **Predictors**:(Constant), Service year, Capital of SME's, Capital Market Size of SME's, Educational level, area of specialty, Professional support , Government policy and Age of business

Source: SPSS regression result(2016)

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The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 10.291 with a p-value of less than 0.05 (i.e.

p<0.000) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2.

Table 4.2.1. Goodness of fit through R Square

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.721	. 791	.61199

a. **Predictors**:(Constant), Service year, Capital of SME's, Capital Market Size of SME's, Educational level, area of specialty, Professional support , Government policy and Age of business

Source: **Source**: Primary data (2016)

As shown in the table above, both R^2 and adjusted R^2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. Thus, as it is shown on table 4.18, the value of adjusted R^2 is 0.791, indicating that; the independent variables in the model are explaining 79.1% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the

data. This outcome empirically indicates that the independent variables in this study are the major determinants of accounting practices of SME' in the study area.

Table 4.3 below shows the results of the regression model. The result reveals that, with the government policy, area of specialty of the owner, age of SME's and service year of the owner in the business were insignificant. Whereas, there exists a significant relationship between independent variables such as company size, capital market, education status, and professional support and dependent variable, i.e. effective accounting practices.

Table 4.3: Regression analysis on effective accounting practice

Model	Un-standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant)	3.698	.540		6.848	.000
Government policy	.048	.056	.076	.861	.392
Capital Market	-.073	.069	-.093	-1.055	.008**
Size of SME's	-.042	.058	-.063	-.719	.044**
Professional Support	-.093	.063	-.123	-1.469	.014**
Educational Status	-.176	.059	-.286	-3.011	.003**
Area of specialty	.005	.048	.010	.108	.914
Age of SME's	-.045	.092	-.042	-.487	.628
Capital of SME's	-.650	.104	-.508	-6.269	.000***
Service year	.147	.095	.139	1.545	.126

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Source: SPSS regression result

As shown in the above table, of the total nine explanatory variables tested in this study, SME's size (p-value= 0.044), education status (p-value=0.003), capital market (p-value=0.008), and professional support (p-value=0.14) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between government policy, area of specialty, age of SME's, service year and effective accounting practices with a regression p-value of 0.39, 0.941, 0.628 and 0.126, respectively. The result also reveals that there is a positive relationship between all the independent variables and effective accounting practices.

Finally, the researcher discusses the effect of each independent variable tested under this study using multiple regression is discussed and analyzed based on the theoretical predictions, prior empirical studies and research questions formulated for this study. The regression result on table 4.21 shows that, out of the nine independent variables considered in the model. Around nine variables were regretted of which, five found to be significant. These were age of the business, interest rate, bureaucracy, accounting practices, and average sale/income of SME's.

Table 4.4. Testing the model through ANOVA (Goodness of fit statistic)

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	4.024	8	.503	2.330	.026[b]
Residual	18.565	86	.216		
Total	**22.589**	**94**			

. **Dependent Variable**: Access to finance

b. **Predictors** :(Constant), interest rate, payback period, bureaucracy, terms of credit, loan supervision, collateral, accounting practices, age of the business and income of SME's.

Source: SPSS regression result(2016)

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 10.291 with a p-value of less than 0.05 (i.e.

p<0.000) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2.

Table 4.5: Goodness of fit through R Square

Model	**R**	**R square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.422[a]	. 781	.802	.46462

a. **Predictors** :(Constant), Interest rate, payback period, bureaucracy, terms of credit, loan supervision, collateral, accounting practices, age of the business and income of SME's.

Source: SPSS regression result (2016)

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As shown in the table above, both R^2 and adjusted R^2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. Thus, as it is shown on table 4.21, the value of adjusted R^2 is 0.802, indicating that, the

independent variables in the model are explaining 80.2% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of SME's access to finance in the study area.

Table 4.6: Regression analysis on SME's Access to finance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	**1.282**	**.391**		**3.277**	**.002**
Age of business	.051	.063	.083	.820	.014**
Accounting practices	-.055	.075	-.095	-.733	.011**
Bureaucracy	.106	.083	.140	1.280	.004**
Collateral	.249	.140	.200	1.775	.972
Interest rate	-.002	.135	-.002	-.017	.036**
Payback period	.185	.182	.145	1.018	.312
Terms of credit	-.089	.060	-.175	-1.490	.140
Average income	-.079	.100	-.106	-.795	.029**

Source: SPSS regression result (2016)

As shown in the above table, of the total nine explanatory variables tested in this study, Age of the business (p-value= 0.14), Accounting practices (p-value=0.11), Bureaucracy (p-value=0.04), Interest rate (p-value=0.036) and average income (p-value=0.029) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between collateral, payback period and terms of credit and access to finance.

Finally, the researcher discusses the effect of each independent variable tested under this study using multiple regression is discussed and analyzed based on the theoretical predictions, prior empirical studies and research questions formulated for this study.

Interest Rate

In this study, the regression result shows that, there is a significant positive relationship between interest rate and access to finance to SME's. As it is presented on table 20, the regression result also shows, a significant relationship between interest

rate and access to finance to SME's, with a regression coefficient of -0.002, t-statistic of -0.0171 and P-value of 0.036. Thus, from the result it can be conclude that interest rate influences the access to finance to SME's.

Bureaucracy

As it is presented on table 4.6, the regression result shows a significant positive relationship between access to finance to SME's and bureaucracy, with a regression coefficient of 0.140, t-statistic of 1.280 and P-value of 0.004. This indicates that, bureaucracy with in financial institutions influences the access to finance to SME's and the result is consistent with the result of the study.

Accounting Practices

As it is presented on table 4.6, the regression result shows a significant positive relationship between access to finance to SME's and effective accounting practices, with a regression coefficient

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of 0.095, t-statistic of -.733 and P-value of 0.011. This indicates that effective accounting practices influence access to finance to SME's.

Age of the Business
In this study, the regression result also shows a significant relationship between age of the business and access to finance to SME's, with a regression coefficient of 0.083, t-statistic of -0.820 and P-value of 0.014. Thus, from the result it can be conclude that age of the business influences the access to finance to SME's. According to the regression analysis results there is a significant relationship between age of the business and access to finance to SME's.

Average Income
In this study regression results indicate that, there is significant relationship between SME's average income and access to finance to SME's. The results of the regression analysis shows, capital exerts a positive significant influence on access to finance to SME's at a regression coefficient of -.106, t-statistic of -.795 and P-value of 0.029. This indicates that this value is significant to further the relationship with access to finance to SME's.

5.1. SUMMARY AND CONCLUSION
I. About 58percent of SME's do not maintain any form of records and the remaining SME's maintain minimum and formal account.

II. Concerning applying accounting principles and standards , only 26percent apply principles of regularity, only 26percent apply principles of consistency, only 23percent the principles of sincerity, only 26percent apply the principle of permanence of methods and only 19percent apply the principles of full disclosure. However, substantial portion of SME's doing not maintain records.

III. Most of the SME's (88%), 58percent, 53percent, and 55percent prepare records for the purpose of taxation, inventory and cost control, periodic management accounts, keep records and payrolls, respectively.

IV. Majority of SME's (63%) have no access to finance which hinder their effort to expand their business. However, it was only 37% of SME's have access to finance from various banks and MFI's.

V. The major reasons for lack of access to finance were inadequate collateral (55%), high interest rate (57%) and bureaucracy (53%).However, no need of credit (9%) and fear of inability to repay loan (27%) were less important reasons for lack of finance.

VI. Substantial number SME's have a problem to meet criteria's set by financial institutions for accessing finance.

VII. Majority of the respondents were using the loan for the purpose of saving and payment services.

VIII. SME's size, capital market, education status, and professional support were factors significantly affect accounting practices. However, government policy, area of specialty, age of SME's and service year were less significant factors.

5. 2. RECOMMENDATIONS
Based on the findings of the study, the following recommendations can be drawn;-

1. There is the need for clear national development objectives to meet the needs of the SMEs sector.

2. Sound policies and regulations should be developed since this sector is the missed sector in the country particularly medium sized business.

3. Since there is international acceptance that SME's require simplified financial reporting standards fitting their reduced size and narrow stakeholder base, the government needs to adopt Simplified financial reporting standards set for SME's.

4. Government should accelerate the development of market for financial services suited to the special characteristics of SME's by promoting product innovation and building institutional capacity.

5. Improving SME's access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable.

6. Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds

being made available through these sources should be given at preferential interest rates.

7. Studies must be initiated regarding access to finance and accounting practices. Researchers must be encouraged to carry out an extensive research projects regarding access to finance and accounting practices.

8. SME's size, capital market, education status, and professional support were significant variables affecting SME's effective accounting practices.
   - Therefore, stakeholders should consider SME's size expansion should be compatible with access to finance, government should attempt to introduce capital market, the owners should have access to education specially in business areas, and government should provide professional support to SME's.

9. Age of the business, interest rate, bureaucracy, accounting practices and average income of SME's were significant variables affecting SME's access to finance.
   - Therefore, stakeholders should consider improvement in service delivery of those offices following SME's, encourage and support SME's to have effective and formal accounting practices and the SME's owners should search other alternative investments.

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International Journal of Research in Management, Sciences and Technology

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