Determinants of Micro Businesses' Confinement to Informal Financial Sources: The Case of Shashemene City, West Arsi Zone, Oromia Regional State of Ethiopia

Tarekegn Girma Fanta (MA), College of Social Science, Addis Ababa University
Tebarek Lika Megento (PhD), Department of Geography and Environmental Studies, Addis Ababa University
Tamru Yihun Mewahaign (MBA), Department of Management, MizanTepi University

ABSTRACT

Several factors affect the financial sources preferences of micro business owners. However, the aim of this study is to identify factors determining micro businesses' confinement to informal financial sources (CIFS) by considering readymade clothing sellers in Shashemene City, West Arsi Zone, Ethiopia. Simple random sampling technique was employed to select a total of 334 research participants. Data was collected pertinent to entrepreneurs' and firms' characteristics as well as financial aspects. The obtained valid responses were analyzed using binary logistic regression and a statistically significant relationship between the independent variables and the dependent variable established. The results of binary logistic regression revealed that from entrepreneur's characteristics predictors, focus of information searchand purpose of searching information, from firms' characteristics predictor variables firm ownership, and from unfounded financial information leak predictors mixed messages of released information from different sources, ex-borrowers views, perceived firm selection bias, lending modality bias, and personal communication bias, perceived inconvenience of installment time duration to payback debts, and consistency of internet technical nuisance of local financial institutions were found to be useful predictors testifying their effect on firms confinement to informal financial sources (CIFS). In order to reduce the effect of CIFS, local financial institutions need to be initiated and appreciated in making vibrant financial information networking, practice joint clients attracting modalities and reconsider the role of views from their ex-borrowers.

Keywords

Micro-business, informal financial sources, binary logistic regression, Shashemene City

INTRODUCTION

Small businesses cover the bulk of businesses world wide[1]. Various factors hinder micro enterprises growth and expansion. The most recurrently cited barrier to the advance of small business is the strain of gaining sufficient finance[2]. The inaccessibility of finance is critical factor that deters the growth of businesses irrespective of their size, location, industry and the economic situation of the market[3]. So, finance remains blockade to MSEs[4] as the formal banking sector is hardly supporting them. For instance, in Ethiopia banks and micro-finance institutions (MFIs) do not appear to support MSEs whereas the trade (supplier) credit and other informal sources, affect growth positively and significantly[4]. This shows that in the absence of formal source of credit informal networks seem more appealing for MSEs. Besides, unlike bank loans, trade credit and other informal sources are not guaranteed by any form of collateral[5]. Nonetheless, getting appropriate evidence with regard to micro businesses basic financial information sources so far challenged interested scholars for the obtained data vary across regions and countries to make efficient comparison a difficult task[6]. Among others, misleading formal and informal sources of financial information enormously affect the way businesses attempt to thrive. Due to ambiguity of financial information release, small enterprises curb their financial shortfall through the adaptation of preliminary requirements of informal financial sources[7]. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints and grow quicker [5]. Yet, they lack sufficient understanding of financial information for their firm and to compete with immediate business environment[8]. Since in most cases small businesses are managed by owner's, gap exists between performing daily routine of the transactions and match the necessary advanced approaches to evolve their business[9]. Therefore, time and possessions are the major constraints for most of small business operators[10] that is why they often prefer fewer tight slants, strategies and policies that may not be articulated but may "occur" from a range of actions and trials[10]. Study (2010) indicates that usually businesses owners obtain financial information by talking and sharing experiences with other businesspersons, debating with friends/relatives, reading newspapers and magazines, and questioning clients[11]. Thus, they depend largely on unwritten networks of communication to address their information needs[12] for they can be probed and enquired to explain themselves, and they are acquainted with the owners and their experience. Contemporary, network investigation findings revealed that family, friends, and business companions were perceived as valuable information sources about starting a business, and kind of business to work out[13]. However, study in Tanzania (2014), reported the role of business operators' memory and a trust-based business traction system on resolving obstacles deriving from accustomed meager record-keeping systems and unattached business dealings [14] while such an arrangement retain its own benefit in terms of cost saving and reducing transaction costs, monitoring and evaluation by unspecified appraiser is difficult[14] this situation may lead to information cloudiness[15.] A study in Chattisgarh (2011), in India identified ambiguity of financial information about credit sources as a barrier of MSMEs (micro, small and medium enterprises) for not seeking credit[15]. It could be argued that the capacity of micro enterprises on handling financial support from formal financial institutions (especially banks) and the application of formalized information through advanced media like internet all depend on authenticity of their held scrutiny. For instance, the link between information communication technology and micro enterprises is well acknowledged. As micro businesses grow and expand they find the use of internet access ideal[16]. Therefore, to avoid local specific constraints businesses need to link their activities with internet technology as it opens up firsthand opportunities to get evolving markets[17]. Besides, it is well established fact that internet facilitates inter- business partnership as well as dispersal of technical expertise pertinent to its usage[18] though awareness of its importance far outweigh critical cost-benefit assessment for using the IT is not acknowledged by small business owners[19]. Usually small business owners are accustomed to follow chain of financial guarantee steps beginning from start-up phase to maturity or graduation phase. In their order of allowing freedom for the owners - personal saving followed by short term borrowing to long term borrowing, their least favored option is permitting new equity investor to involve the business[20]. Based on the pecking order approach chain of financial guarantee steps are stated as hierarchy of funding sources. Thus, pecking order approach argues that initially businesses stick to internal financing when obtainable and external financing otherwise. If external financing is carefully chosen, then logically debt is ideal over equity. This tiered ranking indicates the existing relationship between the financial stakeholder and the executive is characterized by information asymmetry[21]. As far as small business owners prioritize internal financial sources to maintain control over their tasks and belongings, the '*pecking order approach*' works for them as well[22]. Consistent with other studies, a study in Tigray Regional State of Ethiopia on micro and small enterprises (MSE) owners (2009) substantiates the logic of '*pecking order* approach'[23]. Similar results are reported in a study of Mauritian manufacturing firms (2000)[24]. In general, small businesses essentially are requested to achieve the expected level of asset accumulation as a base of collateral to get financial access from formal financial institutions[25].

Problem Statement

Micro-businesses suffer from a 'liability of smallness'[26], which exposed them to deprived financial resources access. Hence, the existence of meaning full networking among small businesses has been forwarded as panacea to lessen the effect of size on gaining finance[27]. Pertinent to the aforementioned argument, in most cases the accessibility of resources recounts intensely to network connections[28]. Although vast array of researches examined the link between micro businesses and their unmeet financial needs by contextualizing specific business environments in light of financial institutions in general, this study attempts to provide deep insight in to the inclinations of business owners specifically to immediate informal financial sources based on formal as well as informal information advices as a backup and rewarded endeavor. So, the focus of the present research is on investigating the role of owners held unfounded information base as a factor affecting formal financial access to micro business under study. Thus, issues like how the eligibility for micro businesses to access formal support both financial and informational is affected by owners' personal characteristics specifically the way how they scrutinize their information sources is addressed. Therefore, the main argument of the research is as far as micro businesses favor informal sources of finance and unfounded information base to carry out their business, the probability to lose long term growth and expansion opportunities is higher. There is research gap in documenting this aspect of barriers to micro business financial and informational free will.

So, the research goal uncovers factors that determine micro businesses' confinement to informal financial sources (CIFS) which act as barriers to accessing formal sources of finance. The research questions are stated as:

i. Are socio-economic profiles of research participants plausible to capture evidence on their usage of informal sources of financial information?

ii. What explains the effect of informal sources of financial information on research participants' confinement to informality under study?

iii. Are there significant useful predictors to testify confinement of research participants to informal sources of financial information?

The Research Context

In Ethiopia 98 percent of firms denote micro and small enterprises[29]. The micro enterprise manufacturing sector alone absorbed 1.3 million persons [30] and official report indicates the sector accounts for about 97 percent of all industrial formations and about 19 percent of production valued[31]. Ethiopia's growth plans like the PASDEP (Plan for Accelerated and Sustained Development to End Poverty) from 2004/5 to 2009/10 and its second phase the GTP (Growth and Transformation Plan) with time scheduled to enforce between 2010/11-2014/15, incorporated objectives of promoting and expanding micro and small enterprises (MSEs). In this respect, while the PASDEP aimed to create 1.5 million new jobs, the GTP targets to double the figure to 3 million[32]. Despite the huge number of people earning their livelihood from the sector, the micro enterprises have been performing below capacity and their growth has been inhibited by numerous factors[33]. Evidences from Ghana and Tanzania about bank credit facilities have revealed that relatively large business enterprises are beneficial as compared to smaller once[34]. The study is consistent with the case in Ethiopia for MSEs are viewed to have higher financial risk [35]. Therefore, several researches had examined the barriers of access to finance following the theories of firm characteristics [36-37], financial characteristics [38]and entrepreneurial characteristics[39]. This study aims not to inspect the details of aforementioned theories nonetheless among others to substantiate entrepreneurial characteristics with evidence from micro businesses specifically manufactured readymade clothing sellers of Shashemene city. The early writers expected eventual disappearance of demarcation between formal-informal divide with regard to opportunities for laborers[40]. Although both theoretical and empirical researches show deficiency of defining the term informality[41], the idea of formal– informal divide is well established concept especially from a point of view of labor market perspective and informality is found to have negative effect on a given economy when economic activities concentrate in low-productivity that lead to sluggish growth and lesser economic enactment[42]. For example a study on the effect of informality on productivity in Egypt and Turkey uncovered the link among entrepreneurs' age, gender, education and the enterprise's age with the likelihood to stay informal[43]. Similar cases research reports in Middle East and North Africa Region substantiated evidences about the existing linkages among high concentration of low productivity with discouraging economic out comes[44]. So, writers claim informality as a problem of small enterprises[45] hindering possibilities to make relation with formal instituions[46]. In Ethiopia, enterprises are defined based on number of employees and capital. So, enterprises with less than five employees and about one hundred thousand birr are labeled as industrial micro-enterprise while less than fifty thousand birr are categorized as service micro-enterprises. Likewise, industrial small enterprises have six to thirteen employees and about one point five million birr while the case for service is fifty thousand birr[47]. USA 1$ (23.1290birr,for 2017)[48].

RESEARCH METHODOLOGY

Study Area

This study was carried out in Shashemene city. Shashemene as a secondary city in Ethiopia is an administrative center of West Arsi Zone, with a surface area of 12,868 ha. The city is located between 7^0 $8^'50^"$ N and $7^0 18^' 17$"N latitude and 38^0 $32^'$ 43" E and 38^0 40' $58^"$E longitude (Figure 1).

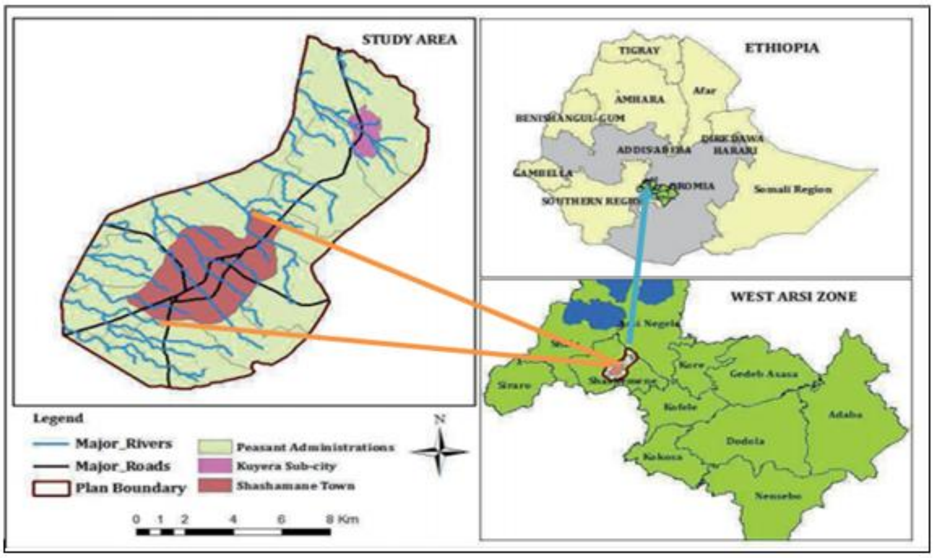

Fig1: Map of Ethiopia, West Arsi Zone and Shashemene City (study area)

Source: Adopted from Genemo, 2013

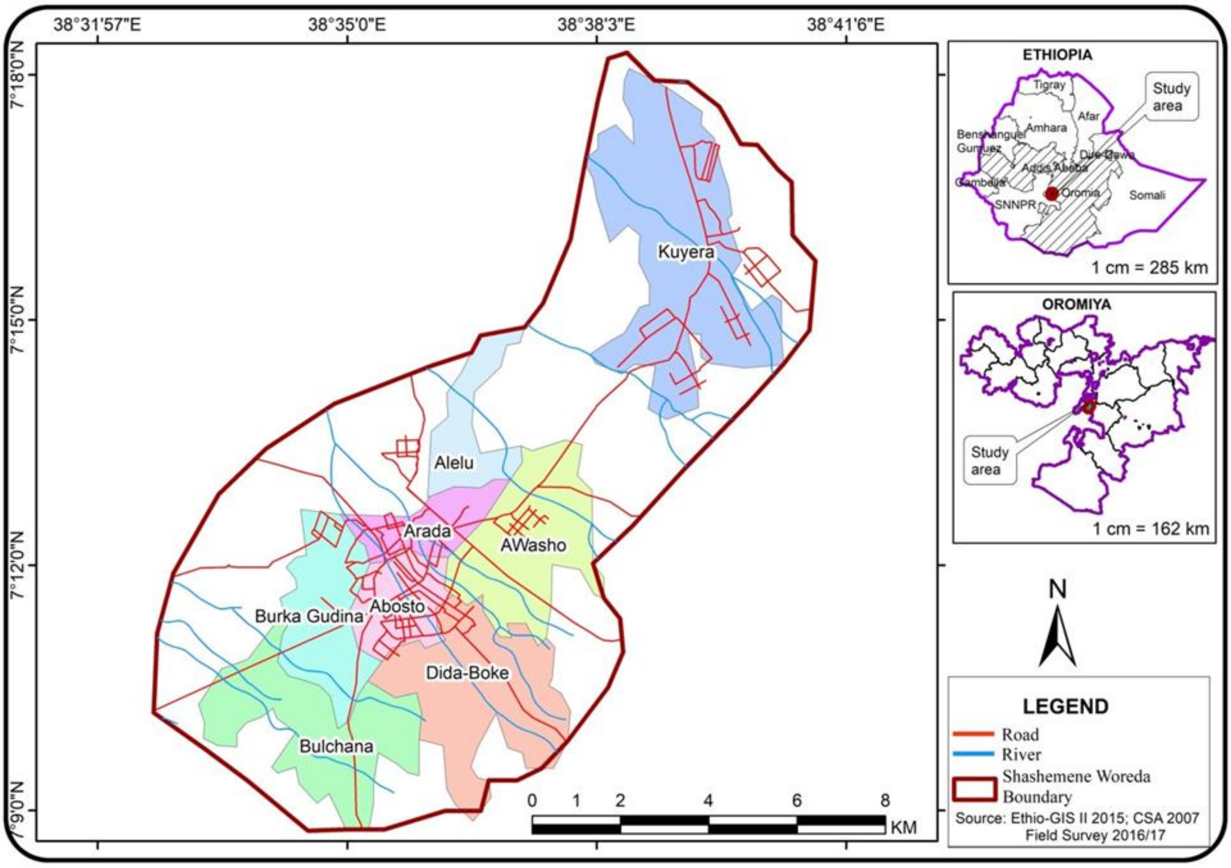

Figure 3.2 Astronomical location of Shashemene City

Source: Ethio-GIS 2015: CSA 2007 Field Survey 2016/2017

Based on the 2003 organizational division, Shashemene is divided into eight sub-cities, namely: Awasho, Abosto, Dida-Boke, Bulchana, Burka-Gudina, Arada, Alelu and Kuyera (Figure 2)[49]. Kuyera is a sub-city lately integrated from rural peasant association. With the total population of 339,981 (Shashemene city administration 2016), Shashemene is among the main urban centers in Ethiopia and the secondary cities - defined as the 18 cities that will participate in the ULGDP (Urban Local Government Development Program) capacity building component[50].

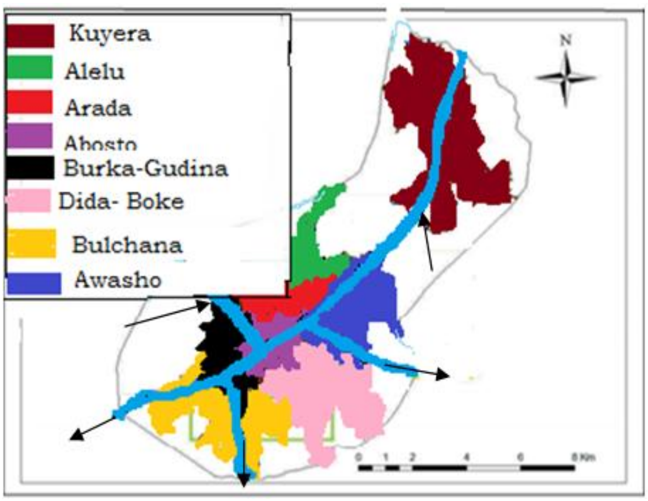

Fig 2: A map of Shashemene Sub-cities (arrows indicating outlets) Source: Adopted from Genemo 2013

There are seventeen Local Financial Institutions in Shashemene city currently conducting businesses transaction (Table2 annexed). All of them are concentrated in Abosto sub-city, now dominant business center of the city. And that in terms of distribution pattern Commercial Bank of Ethiopia has 12 branches for it is early established to compete with the emerging Private Share Company Banks like Cooperative Bank of Oromia and Awash Bank each with 4 branches in the city. However, proportion of financial information release with regard to credit in Ethiopia, specifically in Shashemene covers approximately less than one percent[51].

The Research Design

Dynamic shift from focusing on category of information sources to the character of information fitting process to users and then to users' changes in their perceptions were studied by applying both quantitative and qualitative methods. Therefore, some researchers have approached their cases qualitatively and others quantitatively[52]. Series of theoretical perspectives including "symbolic interaction, pragmatic systems theory, qualitative studies, cultural studies, hermeneutics, political economy, phenomenology, constructivism, interpretive anthropology, situational-ism and postmodernism" have also evolved in parelle[53]. For example, a study by using interviews method with 600 small enterprise owners in Uganda revealed that businesses incline to prefer information from informal, personal sources over formal sources[54]. In general, a survey design provides strong reliability and generalizability, though the use of a structured questionnaire limits variability in understanding of varied research questions[55]. However, the survey design is considerably criticized as being unable to deal with the context, being inflexible to changes and to lead to superficial dealing of complex issues due to standardization[55]. Therefore, to substantiate the weakness of each approach both close ended and open ended questions was employed in this study in which case using various data sources and statistical analysis techniques are left to the judgment of the researcher.

Sampling Method and Sample Size

Prior to sample frame and sample size determination, we tried to acquire complete list of participants pertinent to manufactured readymade clothing sellers from 2003 through 2016 in Shashemene city. However, considerable part of the list containing these businesses owners found to be incomplete and misleading. Some have mixed titles like cultural clothing collection, imported fashion collection and décor collection altogether. Equally, some have returned their licenses in between aforementioned years and others reportedly shifted businesses with unknown justifications. The only qualifying record accessed from the City Municipality Trade and Industry Office was that of the year's 2007through 2016. Therefore, according to Shashemene City Trade and Industry Office (2016), there are 2015 manufactured readymade clothing sellers formally carrying out their business in the city. So, using simple random sampling method is appropriate for the number of study population is finite. However, by prospecting the presence of mixed titles/licenses and to avoid unintended bias in selection of legible research participants, snowball sampling technique was fixed on purpose to validate the requirements of the study focus. Moreover, the snowball was accompanied by door to door field visit and a check list. Thus, a new sample size of businesses under study was constructed by making door-to-door field visits of businesses with the help of knowledgeable local assistants. Besides, regarding the accuracy of the sampling outcome the city municipality trade and industry office was consulted and the ultimate sample element of manufactured readymade clothing sellers was drawn based on simple random sampling technique. Following on Yemane (1996) sample size determination formula[47], we can get a grand total sample of 334, at 95 percent confidence level and 0.05 precision levels.

$$n_0 = \left(\frac{N}{1+N(e^2)}\right) \ldots\ldots\ldots\ldots\ldots (1.1)$$

Where, n_0 = sample size

N = population size

e = sampling error/level of precision

Methods of Data Collection

Valid information was obtained for the study. The primary data were gathered through a structured micro business owner's questionnaire and administered by trained enumerators to the selected businesses. A total of 50 study questionnaires were first pre-tested for consistency and rationality. Basically, the data was cross-sectional in nature for it intends to capture a portion of the case under study. These data were collected between May 2016 and July 2016.The primary data have included three set of independent variables such as profile of business entrepreneurs characteristics, characteristics of responding firms, and unfounded financial information leak inducing factors (the financial information authenticity, banks coupled bias, banks procedural requirements easiness, and banks proximity and technical suitability) to capture their significant effect on the held views of business owners in relation to informal financial information diffusion and authenticity, claims on formal financial institutions customer selection bias, easiness of their procedural requirements and their infrastructural as well as technical competence. Pre-tested structured questionnaire for sample micro business owners was used for primary data collection. About 334 copies of structured questionnaire were directly administered to the micro business owners in Shashemene City and micro business owners by and large agreed to answer the questions keenly, and non- response was almost zero.The data collection took three months and involved the investigator and trained data collectors in the city.The primary data obtained from the study participants was incorporated with another data sources-secondary. The later data was gathered from sources like books, journals, bulletins, magazines, internet, government official reports and other relevant literature materials. Barriers for formal information release related information of the study area was collected from government information communication agency of the municipality.

Data Processing and Analysis

To evaluate the probability of a firm fixation for using informal sources of information to access informal financial resources, binomial logistic regression analysis was employed. To facilitate analysis dependent variable represents the value of 1 when the firm has reliable informal financial sources and 0 when the firm has no reliable informal financial sources. Explanatory variables in this analysis constitute three sets of variables; unfounded financial information leak inducing factors (the financial information authenticity, banks coupled bias, banks procedural requirements easiness, and banks infrastructural and technical competence as judged by participants), entrepreneur's characteristics (owner's age, owner's education level, source of information, information focus, information search enhancing factors, and the purpose of information search), firm's characteristics(state of firm's market share, firm's age and firm's ownership). Therefore, there are categorical variables with yes/no questions, and continuous variables (owner's age and firm's age). Each explanatory variable enabled to capture intended data (valid response). Binomial logit model comprises an assumption that the log-odds of every response follow a rectilinear model[56]. To avoid asymmetry problem that arise from using odds ratio (OR) directly and to determine the log odds, we can take the odds as preservative function of a + bx[56]. Thus, the following equivalence can be generalized to embrace clarifying variables:

$$\text{Log } (p/(1-p)) = a + b_1x_1 + b_2x_2 + b_3x_3 + \ldots + b_nx_n \ldots\ldots (1.2)$$

Moreover, logistic regression does not predict a continuous dependent variable but the log odds of the outcome arising. Thus for logistic regression the b coefficient designates the increase in the log odds of the outcome for a one unit increase in X. However, these log odds (or logits) do not provide an instinctively expressive scale to interpret the variation in the dependent variable. Taking the exponent of the log odds permits interpretation of the coefficients in terms of Odds Ratios which are applicable to interpret. Favorably, SPSS gives this OR for the explanatory variable labeled as Exp(B)[57]. Therefore, the general Logistic Regression model for this study is expressed as follows;

Log $\{\frac{\pi}{1-\pi}\} = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 \ldots\ldots + \beta_k x_k \ldots$ (1.3)

Where, π = the probability of success at covariate level x

α = intercept

$\beta 1x1 + \beta 2x2 + \beta 3x3 \ldots\ldots + \beta kxk$ = Logistic gradient coefficients which can be inferred as the outcome of a unit of variation in the X variable on the expected logits with the other variables in the model seized constant. That is, how a one unit deviation in X upsets the log of the odds when the other variables in the model held constant. Odds ratio is the "exponentiated coefficient" of the logit coefficient. Hence, with reference to 1.2 & 1.3 the basic model of this study can be generalized as;

FCIFS = $a_0 + a_1 X_n + e_n$ ……………………….. (1.4)

Where, FCIFS = Firm's confinement to Informal Financial Sources

FCIFS (dependent variables) 1= Firms with reliable informal financial sources (coded as 1)

0= Firms without reliable informal financial sources (coded as 0)

a_0 = intercept/ constant

a_1 = a vector of regression coefficient

X_n = entrepreneur's characteristics (owner's age, owner's education level, owner's information need), firm's characteristics(state of firm's market share, firm's age and firm's ownership) and unfounded financial information leak inducing factors (the financial information authenticity, banks coupled bias, banks procedural requirements easiness, and banks proximity and technical suitability)

e_n = error term/ residual/

So, this study constitutes dichotomous data for the purpose was to examine how the probability of the firm owner's confinement to informal financial sources affected by the unfounded financial information leak inducing factors, entrepreneur's characteristics and firm's characteristics.

Model Specification

Table 3: Determinants of Firm's Confinement to Informal Financial Source (FCIFS)

Dependent Variable = FCIFS	Description
The most recurrent informal financial sources for business owners (0= without reliable informal financial sources (with possibility of selling ornaments or home furniture) = said No, 1=with reliable informal financial sources (said =yes) as the need arise	
Independent Variables	Description
1. Entrepreneur's Characteristics	
General Back Ground	
Age Owner	Age of the owner in years
EDU OWNER	Education of the owner (0= Illiterate, 5= up to secondary education, 10= up to matric or college, university education)
Source of information	Owner's immediate information source (1= partner ,2= local mass media, 3= local financial institution)
Type of information acquired	course of information(1= customer focused,2=brand focused ,3= regulatory focused)
Determinants of information source selection	Information enhancing factors (1=Urgency of the need, 2= Level of personal communication, 3=Relevance)
Uses made of obtained information	Purpose of searching information (1= to make decision, 2= To learn about business environment,3= To verify acquired information)

2. Firm's Characteristics	
FIRMAGE	No. of years since establishment
MARKETSHARE	Average weekly sale of the firm during last two years (1=increased, 2=decreased, 3=constant)
FIRMOWNERSHIP	Firm owned by (1=owner, 2=family, 3= both)
3. FCIFS Inducing Factors	
3.a Owner's perceived information authenticity	
Ex-borrower view/advice	Its contribution (1=insignificant, 2= slightly significant, 3= moderately significant, 4= extremely significant)
Mixed messages of financial information	Its effect (1=insignificant,2= slightly disturbing , 3=highly disturbing, 4= severely disturbing)
Content of released financial information	Its effect (1=insignificant ,2= slightly misleading, 3= highly misleading,4=extremely misleading)
3.b Owner's perceived Financial institution internal bias	
Customer care	Customer reception (1=not biased, 2= slightly biased, 3= highly biased, 4= severely biased)
Firm selection	Size & category bias (1=not serious, 2=slightly serious,3= highly serious , 4= extremely serious)
Lending modality	Consideration of personal failings (1=informative, 2=slightly vague, 3=highly vague, 4=severely vague)
Personal communication	Priority favours (1=infrequent, 2=slightly perceptible, 3=highly perceptible, 4=extremely perceptible)
Bureaucracy	Paperwork burden (1= tolerable, 2=slightly repulsive, 3=highly repulsive, 4=extremely repulsive)
Corruption	Payment for favour (1=exceptional, 2 =slightly customary, 3=highly customary, 4=extremely customary)
Sluggish remuneration	Setback to make payment (1=irregular, 2=slightly consistent, 3=highly consistent, 4= extremely consistent)
Indirect asset assessments	Means of resolving info asymmetry (1=credible, 2=slightly disguising , 3=highly disguising, 4=extremely disguising)
3.c Owner's perceived Financial institution procedural requirements	
Installment time duration	Concerned with market fluctuation (1=disregard market share, 2=highly disregard market share ,3=slightly heed market share, 4=highly heed market share,)
Abiding rule & regulation	Stiff & stringent (1=inflexible, 2=slightly flexible, 3=highly flexible, 4=extremely flexible)
Interest rate	(1= Fear-provoking, 2=slightly relaxing, 3=highly relaxing, 4=extremely relaxing)
Guarantor	Readiness (1=can be ascertained , 0=otherwise)
Collateral	Readily available (1=yes, 0=otherwise)
3.d Owner's Perceived Financial institution technical & location suitability	
Internet technical nuisance	Level of disruption (1= inconsistent, 2=slightly consistent, 3=highly consistent, 4=extremely consistent)
proximity	State of accessibility (1=ill-timed,2=slightly well-situated , 3=highly well-situated, 4=extremely well-situated)

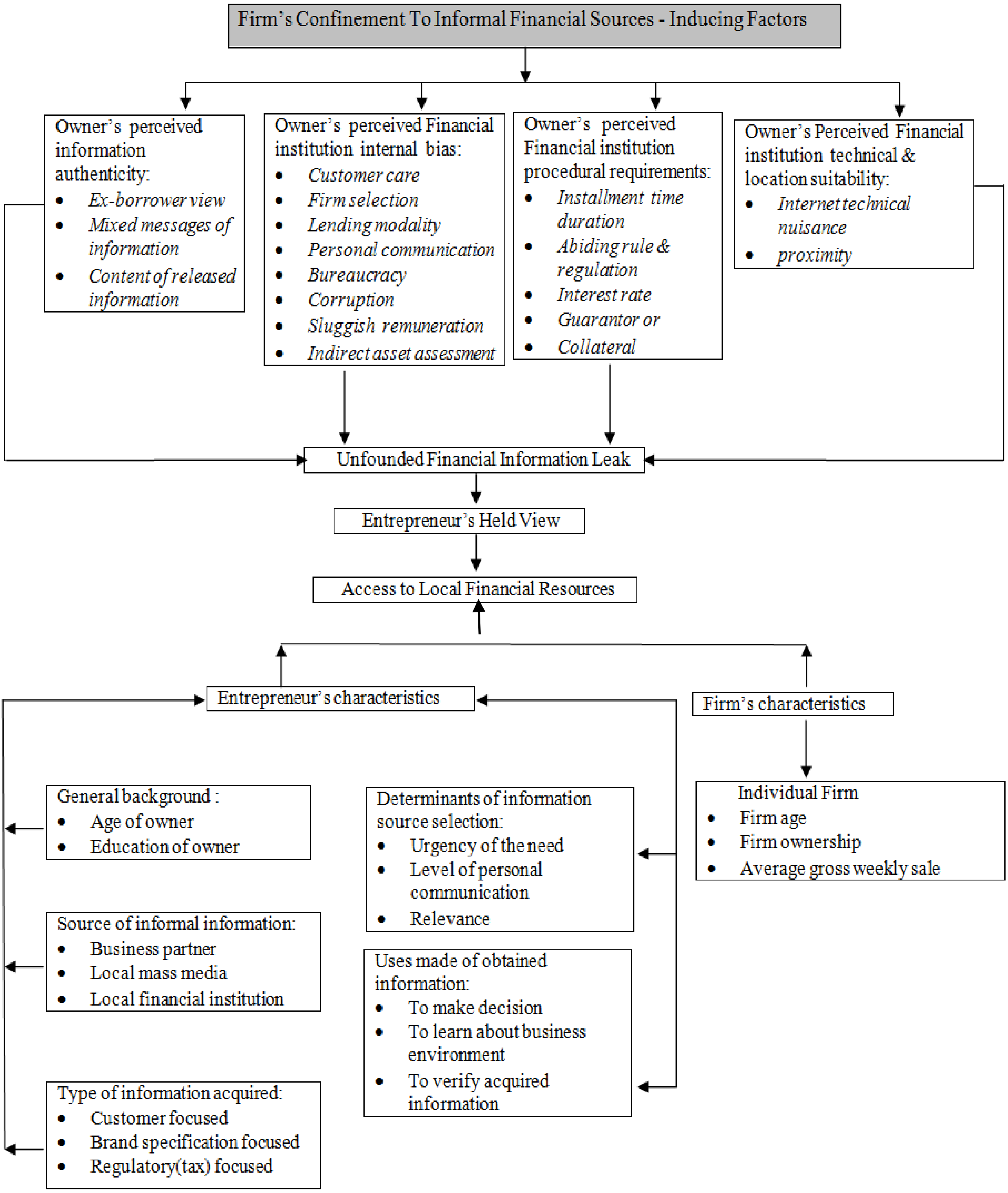

Figure 3: Conceptual/Analytical Framework for Firm's Confinement to Informal Financial Source (FCIFS)
Source: Developed by Author (2017)

RESULT AND DISCUSSION

Forward stepwise Likelihood Ratio was applied to analyze data and this section is meant to describe only selected Binary Logistic Regression output.

No	Set of independent variables		ß co-efficient	Exp(ß)	95% C.I for Exp(ß)	The Wald test sig.
1	Entrepreneur's characteristics	**Info_ focus**	over all			.003***
		Info_ focus$_1$	-4.316	.013	.001-.162	.001***
		Info_ focus$_2$	-4.162	.016	.001-.180	.001***
		Info _search	over all			.017***
		Info _search$_1$	3.937	51.252	2.941-893.193	.007***
		Info _search$_2$	3.941	51.467	3.381-783.500	.005***
		Age _owner	-.048	.953	.898-1.011	.108*
		Educ _ owner$_1$	.219	1.245	.161-9.655	.834*
2	Firm's characteristics	**Firm_ owner**	over all			.007***
		Firm_ owner$_1$	-1.099	.333	.168 - .662	.002***
		Firm_ owner$_2$	1.499	4.479	1.223 - 16.411	.024***
3	Aspects of unfounded financial information leak **3.1***Info _ authenticity effect*	**Mix _ messa**	over all			.038***
		Mix _ messa$_3$	1.597	4.938	1.318-18.501	.018***
		Info_ con	over all			.000***
		Info_ sour	over all			.047***
		Exbo_ advice	1.076	2.934	.885-9.728	.078*
	Set of independent variables		ß co-efficient	Exp(ß)	95% C.I for Exp(ß)	The Wald test sig.
	3.2*Firm Owner's perceived financial institutions bias (by applying forward step wise/**likelihood ratio**/ method)*	**Firm_ sele**	over all			.000***
		Firm_ sele$_3$	2.374	10.738	1.060-108.774	.044***
		Len_ moda	over all			.000***
		Len_ moda$_3$	-4.045	.018	.001-.365	.009***
		Per_ com	over all			.003***
		Per_ com$_3$	.920	2.509	1.035-6.084	.042**
	(by applying backward step wise/**likelihoodratio**/ method) Corruption appears sig.	*Len_ moda$_3$*	-2.612	.073	.006-.829	.035***
		Per_ com$_3$	-.962	.382	.084-1.736	.213*
		Corru _ ion	4.333	76.180	6.582-955.198	.001***

No	Set of independent variables		ß co-efficient	Exp(ß)	95% C.I for Exp(ß)	The Wald test sig.
	3.3 Financial Institutions Procedural Requirement Induced Effects	**Ins _ tidu**	over all			.002***
		Ins_tidu$_2$	-1.635	.195	.077-.496	.001***
		Ins_tidu$_3$	-1.443	.236	.091-.615	.003***
	3.4 Financial Institutions Technical and Location suitability Induced Effects	*Inter_ technu*	overall			.000***
		Inter_ technu$_1$	2.546	12.759	5.252-30.995	.000***
		Fin_ inpro	overall			.000***
		Fin_ inpro$_1$	-3.364	.035	.005-.248	.001***
		Fin_ inpro$_3$	-3.231	.040	.007-.209	.000***

*** Significant at P< .05, * not significant at P< .05

Entrepreneur's Characteristics

From among the Entrepreneur's characteristics set of predictors variables; course of informationand purpose of searching information were useful predictors for distinguishing between groups – firms with reliable informal financial and information source and their counterparts on the probability of falling under the influence of confinement to informal financial sources. These predictors differentiate survey respondents who thought information as significant factor for ascertaining focus on customers and their brand selection orientation thereby reducing the effect of confinement to informal financial sources from those who thought the merit of information as less important to keep way from CIFS. The odds ratio (OR) is the difference between the odds for the base category (x=0) and the other category (x=1). Thus, for this study (x=0, represent firms without reliable informal financial sources) and the other category (x=1, represent firms with reliable informal financial sources). Hence, for Info_ *focus*$_1$the OR was .013 indicating (x=1) .013 times as likely as (x=0) to focus on customers and similarly for *Info_ focus*$_2$ the OR was .016 indicating (x=1) .016 times as likely as (x=0) to pay attention to customers brand selection preferences. By inference this would mean that information focus is a useful predictor of firm owners endeavor to keep themselves away from the effect of CIFS. The other useful predictors whose meanings interpreted in the same way are *Info _search*$_1$and*Info _search*$_2$ with the OR values of 51.252 and 51.467 respectively.These predictors also differentiated those survey respondents who thought the purpose of searching information was to make decision and to learn about business environment from those who thought searching information for the purpose of business function (to liberate from the effect of CIFS) as less important. Micro businesses are under the influence of various specificity like environmental, organizational, decisional,psycho-sociological and information systems specificity thus by their nature socially embedded[60].

The Firm's Characteristics

From among the firm's characteristics predictor variables *Firm_ owner*$_1$ and *Firm_ owner*$_2$ with OR values of .333 and 4.479 respectively were found to be useful to see the possible effect of firms as owned by owners (*Firm_ owner*$_1$) and firms owned by family members (*Firm_ owner*$_2$) on lessening the vigor of CIFS. Therefore, for*Firm_ owner*$_1$ the OR was .333 indicating (x=1) .333 times as likely as (x=0) to loosen up the effect of CIFS and similarly for *Firm_ owner*$_2$ the OR was 4.479 indicating (x=1) 4.479 times as likely as (x=0) to make the influence of CIFS negligible. Between the groups comparison of firms owned by owners and firms owned by family members indicate the later are more unleash from the CIFS effect than the former. Financial access for businesses from bank relies on the success of owners in accumulating assets satisfactorily that could be assured as collateral[58]. Besides, business' desire to avoid external financial sources as equity limits their possibility to gain finance[59].

Unfounded Financial Information Leak

The unfounded financial information leaks for this study were operationalized as held perception of study participants on local financial information for which they have no persuasive evidencewhile of the study was in progress. So, respondentswereenquired to rate their views based on pre-described statements having a rating scale of 1= least important to 4= the most important (detailed in table 4). Moreover, the interpretation of the analysis considered the weight participants attached to each response category. Therefore, the way research participants accept informal financial information as valid and based on these assumptions they judge that financial institutions are and/or are not free from bias, experience stiff and stringent rules and regulations/and or not, as well as these institutions have and/or have not problems of technical nuisance and location suitability. Therefore, the binary logistic analysis made based on the obtained data indicates *Info_ authenticity effect (Mix_messa*$_3$ and *Exbo_ advice* with OR values of 4.938 and 2.934 respectively*), Firm Owner's perceived financial institutions bias (Firm_ sele*$_3$, *Len_ moda*$_3$, and*Per_ com*$_3$with OR values of10.738, .018 and 2.509 respectively*),Financial Institutions Procedural Requirement perceived Induced Effects* (*Ins_tidu*$_2$, and *Ins_tidu*$_3$ with OR values of .195 and .236) and *Financial Institutions Technical and Location suitability Induced Effects* (*Inter_ technu*$_1$, *Fin_ inpro*$_1$ and *Fin_ inpro*$_3$ with OR values of 12.759, .035 and.040) as useful predictors of the unfounded financial information leak. Based on aforementioned information authenticity predictors, (x=1) were found to be negatively affected by mixed messages and views of ex-borrowers from formal financial institutions than (x=0) which ultimately influence their level of fixation to CIFS. Likewise, (x=1) held substantial negative views on financial institutions bias for they rated lending modality, personal communication and firm selection bias as highly influential factors than (x=0), yet again enhancing the effect of CIFS on them. Furthermore, (x=1) held negative views on paying back debt (i.e. installment time duration as financial institutions procedural requirement were indicated as inconvenient in light of firms market share as they claimed needs due regard), they also held similar views on internet technical nuisance but positive views on financial institutions proximity/ suitability than (x=0). Therefore, it could be argued that held negative views enriched by unfounded financial information leak were among the factors enforcing firm owners to stay long with informal financial and informal information sources. Since micro enterprises are headed by their owners lonely, usually the merit of gaining advice or paying for it devalued[61]. For example, research piloted in Kozhikode district (2014), the south west coast of India recognized bankers' non co-operative attitude as one of the barriers faced by micro, small and medium enterprises in raising finance leading to mixed message counterfeit[62].So, Government regulations affect the financial standing of small businesses[63] and SMEs activities shift from the informal to the formal economy as markets and their institutions develop and regulations are eased[64].Technical problems like connectivity is an important, if not actually critical factor for success and can become potentially insurmountable barriers for small businesses wishing to use the Internet for business activities and operations[65].

CONCLUSION

This studyattempted to identify factors for firms' confinement to informal financial sources (CIFS). Entrepreneur's characteristics, firm's characteristics and the unfounded financial information leaks were found to be useful variables to examine firms' confinement to informal financial sources (CIFS). Therefore, from among the entrepreneur's characteristics variables, course of informationand purpose of searching information were useful predictors for distinguishing between groups – firms with reliable informal financial and information source and their counterparts on the probability of falling under the influence of CIFS. Moreover, from among the firms' characteristics predictor variables firm ownership was found to be useful to see its possible effect on lessening the vigor of CIFS. Furthermore, mixed messages of released information from different sources, ex-borrowers views, perceived firm selection bias, lending modality bias, and personal communication bias of local financial institutions, perceived inconvenience of installment time duration to payback debts, and consistency of internet technical nuisance were found to be useful predictors indicating the contribution unfounded financial information leak to CIFS. In order to reduce the effect of CIFS, local financial institutions need to be initiated and appreciated in making financial information networking, practice joint clients attracting modalities and reconsider the role of views from their ex-borrowers.

Acknowledgements

This research was financially supported by the Ministry of Education in the Federal Democratic Republic Ethiopia, Addis Ababa University and Mizan-Tepi University.

REFERENCES

[1] Di Giovanni, J., Levchenko, A. A. and Rancière, R.(2010). 'Power Laws in Firm Size and Openness to Trade: Measurement and Implications', IMF Working Paper No. 10/109.

[2] Heinonen J., Nummela N. and Pukkinen T. (2004). 'To grow or not to grow?: An analysis of internationally growth oriented Finnish SMEs'. EIBA Annual Conference. Slovenia, pp: 5-8.

[3] Gopalan S. (2003) *SMITs: From infancy to adulthood*. IIMB Management Review 15: 80-83.

[4] Mulu G. (2007) 'Growth of Micro-Enterprises: Empirical evidence from Ethiopia.', Ethiopian Development Research Institute (EDRI) Department of Economics, Gothenburg University, Sweden

[5] Fafchamps, M. (1997). *Trade Credit and in Zimbabwean manufacturing*. World Development, vol. 25, no. 5, 795-815.

[6] ACCA the Association of Chartered Certified Accountants (2010). 'The global body for professional accountants'. www.accaglobal.com/ accountants_business

[7] Japhet Eke Lawrence (2009).'The Internet and Small to Medium-sized Enterprises': *Research Notes, Information, Society and Justice*, Volume 2 No. 2, June 2009: pp 221-235 ISSN 1756-1078

[8] Auger, P., and Gallaugher, J., (1997). *Factors affecting the adoption of an Internet- based sales presence for small businesses*, The information society, 13, pp. 55-74

[9] Pavic, S.Koh, S.C.L. Simpson., M. and Padmore, J. (2007). Could e-business create a competitive advantage in UK SMEs? *Benchmarking*, International Journal, Vol.14, No.3 pp.320-351.

[10] Mason, R.M.,(1997). 'SME adoption of electronic commerce technologies: Implication for emerging national information infrastructure, Systems sciences', Proceedings of the thirtieth Hawaii international conference on information systems, pp. 495-504

[11] Kassim, Norliya Ahmad &SitiZahrahBuyong (2010). International Conference on 'Science and Social Research (CSSR)' held in Malaysia, 5-7 Dec 2010,pp 944-949. Print ISBN: 978-1-4244-8987-9

[12] Johnson, L.J. & Kuehn (1987).'The small business owner/manager's search for external information' .Journal of small business management, 25, 53-60.

[13] M. S. Omar, (2008) 'Financial constraints and structural characteristics of small and medium sized enterprises: the case of Tanzania,' Thesis report, Lund University, Sweden,

[14] NyankomoMarwa (2014). 'Micro, Small and Medium Enterprises' External Financing Challenges.'*The Role of Formal Financial*

Institutions and Development Finance Intervention in Tanzania International Journal of Trade, Economics and Finance, Vol. 5, No. 3, June 2014

[15] Mishra, S. K., &Brahme, K.(2011). 'Study of Strategic Financial Management and growth in MSMEs in Chattisgarh'. The Indian Journal of Commerce, 64 (1).

[16] Blili, S., and Raymond, L., (1993). 'Information technology: threats and opportunities for small and medium enterprises.', International journal of information management, vol. 13, pp. 439-448

[17] Cameron, J.,And Clarke, R.,(1996). 'Towards a Theoretical Framework for Collaborative Electronic Commerce Projects involving Small and Medium-Sized Enterprises', Proc. 9th Int'l Conf. EDI-IOS, Bled, Slovenia.

[18] Hsieh, C., and Lin, B., (1998). 'Internet Commerce for Small Business.'*Industrial Management & Data Systems*, Volume 98, Issue No. 3

[19] Lawrence , J. E. (2002).'The Use of Internet in Small to Medium-Sized Enterprises', PhD thesis, University of Sanford, UK. 23-25

[20] Cressy, R. (2006). 'Determinants of Small Firm Survival and Growth', in Casson et al. (2006) (eds), Oxford Handbook of Entrepreneurship (Oxford University Press).

[21] Devi, D. And Samujh, H. (2010). 'Accountants as Providers of Support and Advice to SMEs in Malaysia', research report no. 118.<http://www.accaglobal.com/pubs/general/activities/research/research_archive/rr-118-001.pdf>

[22] Myers, S. C. (1984). 'The capital structure puzzle. Journal of Finance', 39(3), 575−592.

[23] Gebru, G. H. (2009). 'Financing preferences of micro and small enterprise owners in Tigray: Does POH hold? Journal of Small Business and Enterprise Development', 16(2), 322−334

[24] KessevenPadachi, Carole Howorth and M. S. Narasimhan (2012). 'working capital financing preferences.' *the case of Mauritian manufacturing small and medium-sized enterprises (SMEs) Asian academy of management*, journal of accounting and finance AAMJAF, Vol. 8, No. 1, 125–157, 2012

[25] Irwin D. (2006). 'Barriers faced by SMEs in raising finance from banks, Institute for Small Business & Entrepreneurship,' 29th National Conference - Oct-Nov 2006

[26] Aldrich, H., and E. Auster. (1986). 'Even dwarfs started small: Liabilities of size and age and their strategic implications.' *In Research in Organizational Behavior*, vol. 8, ed. B. M. Staw and L. L. Cummings, pp. 165-198. Greenwich, CT: JAI Press.

[27] Szarka, J. (1990). 'Networking and small firms.' International Small Business Journal 8 (2): 10- 22.

[28] Schiffer, M &Weder, B (2001). 'Firm size and the business environment.'*Worldwide Survey Results*, IFC Discussion paper 43.

[29] Aregash, A. (2005). 'Public Private Partnership Projects of the GTZ in Ethiopia,' *International trade and the protection of natural resources in Ethiopia*. Bonn: Eschoborn.

[30] Mulat, D. and Fantu G. (2006). 'Issues in Employment and Poverty,' *Towards a More Employment Intensive and Pro-Poor Economic Growth in Ethiopia*,Issues and Policies. Discussion Paper.ILO, Geneva.

[31] CSA (2003). Report on the Urban Informal Sector Sample Survey, Vol. 282. Addis Ababa: Ethiopian Central Statistics Authority 208 pp.

[32] MoFED (2010), Growth and Transformation Plan 2010/11—2014/2015, November, 2010, Addis Ababa.(MoFED, ministry of finance and economic development)

[33] The Ethiopian Federal Democratic Republic Government Micro and Small Enterprises Development Strategy (2010). Report on micro enterprises growth and expansion. <http://www.borjournals.com/a/index.php/jbmssr/article/view/2027>

[34] Dawson, J. (1993). 'Impact of structural adjustment on the small enterprise sector.' *a comparison of the Ghanaian and Tanzanian experiences*, London, IT Publications, 71-90

[35] Haftu, B. Tseahye, T. Teklu, K. Tassew, W. (2009). 'Financial Needs Of Micro and Small Enterprise (MSE) Operators in Ethiopia',

Occasional Paper No. 24 Addis Ababa, Ethiopia AEMFI

[36] Berger, A. and G. Udell (2002). 'Small business credit availability and relationship lending: the importance of bank organizational structure', Economic Journal 112, 32-53.

[37] Beck, T, Levine, R and Loayza, N. (2000). 'Finance and the sources of growth', Journal of Financial Economics 58: 261-300.

[38] Baas, T., &Schrooten, M. (2005). 'Relationship Banking and SMEs.'*A theoretical Analysis*, Berlin: German Institute for Economic Research, 12-23.

[39] Talavera, O, Xiong, L &Xiong, X (2010). 'Social capital and access to bank financing', *The case of Chinese entrepreneurs*, University of East Anglia AEP Discussion Papers in Economics, School of Economics, University of East Anglia, Norwich, UK.

[40] James H. (2012). 'Informality, Inclusiveness, and Economic Growth.'*An Overview of Key Issues University of Massachusetts*, Amherst, USA Political Economy Research Institute SIG WORKING PAPER 2012/2 July 2012 [49] Guha-Khasnobis, Kanbur, and Ostrom, 2006

[41] Perry, G.E., Maloney, W.F., Arias, O.S., Fajnzylber, P., Mason, A.D., and Saavedra-Chanduvi, J. (2007). 'Informality: *Exit and Exclusion'*, Washington DC: The World Bank, World Bank Latin American and Caribbean Studies.

[42] Jutting, J.P. etLaiglesia, J. R. (eds.), (2009). 'Is Informal Normal? : Towards more and better jobs in developing countries*'*, Paris: Organization for Economic Co-operation and Development (OECD).

[43] Hendy, R. and C. Zaki (2012).'On Informality and Productivity of Micro and Small Enterprises: Evidence from MENA Countries', Cairo, Egypt: Economic Research Forum (ERF) Working Paper No: 719.

[44] Gatti R., D. Angel-Urdinola, J. Silva, and A. Bodor, (2011). 'Striving for Better Jobs: The Challenges of Informality in Middle East and North Africa Region.' Washington, DC: World Bank, Directions in Development, No: 90271.

[45] Loayza, N. and Rigolini,J. (2006). 'Informality trends and cycle.', World Bank Policy Research Working Paper No. 4078, Washington, DC, World Bank.

[46] Heinonen J, Nummela N, Pukkinen T (2004). 'To grow or not to grow?: An analysis of internationally growth oriented FinnishSMEs.' EIBA Annual Conference. Slovenia, pp: 5-8.

[47] Zemenu A. & Mohammed M (2014). 'Determinants of Growth of Micro And Small Enterprises In Ethiopia (A case of MSEs in MekelleCity,Tigray).' International Journal of Advance Research in Computer Science and Management Studies, Research Article / Survey Paper / Case Study

[48] USD/ETB - US Dollar Ethiopian Birr; <https://www.investing.com/currencies/usd-etb-converter>

[49] Genemo, B. (2013). 'Remote sensing and GIS based urban sprawl susceptibility analysis; a case study of Shashemene Town', West Arsi Zone, Ethiopia, LAMBERT Academic Publishing press.

[50] MWUD (Ministry of Works and Urban Development), 2008 and 2009 report, Addis Ababa Ethiopia.

[51] Gebru, G. (2009). 'Financing preferences of Micro and Small Enterprises owners in Tigray: Does POH hold?' J. Small Bus. Enterp. Dev. 16(2): 322-334

[52] Babbie, E. (2004). *The practice of social research*. Wadsworth: Belmont, CA

[53] Brady, Henry E. And David Collier, Eds. (2004). 'Rethinking Social Inquiry: Diverse Tools, Shared Standards.' Boulder, CO and Berkeley, CA: Roman & Littlefield and Berkeley Public Policy Press.

[54] Ikoja-Odongo, R. and Ocholla, D. N. (2004). 'Information seeking behavior of the informal sector entrepreneurs: The Uganda experience.' Libri, 54(1), 54-66. Retrieved 19 July, 2008 from http://search.ebscohost.com.helicon.vuw.ac.nz/login.aspx?direct=true&db=lxh&AN=134390

[55] Field, A. (2005). *Discovering statistics using SPSS*.Sage, London. <https://www.amazon.com/iscovering-Statistics-Using-IBM-SPSS/dp/1446249182>

[56] Schwab, J. A. (2002). ‘Multinomial logistic regression: Basic relationships and complete problems.’http://www.utexas.edu/courses/schwab/sw388r7/SolvingProblems/

[57] Tarrow, S. (2004). ‘Bridging the Quantitative-Qualitative Divide.’ In Brady, Henry E. and David Collier, eds. 2004.*Rethinking Social Inquiry: Diverse Tools, Shared Standards*. Boulder, CO and Berkeley.

[58] Bigsten A.(2000).’ Credit Constraints in Manufacturing Enterprises in Africa,‘ CSAE Working Paper 2000.24, Oxford: Centre for the Study of African Economies.

[59] GIBB AA (1993) 'Small Business Development in Central and Eastern Europe: Key factors in the design of policy support for small and medium enterprises development process: *An overview. Entrepreneurship and Regional Development*, Entrepreneurship and Regional Development Journal.Vol. 12. No. 2.15: 1-24. <www.allangibb.com/expertese_international_dev_PUB1.htm>

[60] Levy, Santiago (2008). *Good Intentions, Bad Outcomes*: *Social Policy, Informality, and Economic Growth in Mexico*. Washington, DC: Brookings Institution.

[61] Case, D. O. (2007). *Looking for information.A survey of research on information seeking, needs and behavior.* San Deigo, CA: Academic Press. 2nd edition.

[62] Johannessen, J.A. and Kolvereid, L. (1994). ‘Information search behavior during business gestation: Information Management & Computer Security.’ 2(5), 31-41. DOI: 10.1108 /09685229410072609

[63] Jorosi, B. (2006). ‘The information needs and information seeking behaviors of SME managers in Botswana.’ Libri, 56(20), 97-107. http://vnweb.hwwilsonweb.com.helicon.vuw.ac.nz/hww/jumpstart.jhtml ?recid=0bc05f7a67b1790e

[64] Shokane, J. (2002). ‘Towards meeting the information needs of small- and medium-sized enterprises in Acornhoek.’Mousaion 20(2): 34-48.<http://vnweb.hwwilsonweb.com.helicon.vuw.ac.nz/hww/jumpstart.jhtml ?recid=0bc05f7a67b179>

[65] Fuller,T.AndJenkins,A.(1995). ‘Public Intervention in Entrepreneurial Innovation and Opportunism: Short Cuts or Detours to the Information Superhighway?’ Babson Entrepreneurship Conference, London Business School, London, UK June.