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Determinates of Financial Inclusion and its Effect on the Growth of Micro and Small Enterprises in Addis Ababa: Empirical Evidence from Selected Wordas in Lemi kura Subcity Addis Ababa

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Abstract

Examining the determinants that influence financial inclusion and how they affect the growth of micro and small enterprise in Addis Ababa was the aim of this study. The following specific objective served as the study's compass: to determine the primary factors that influence financial inclusion and to investigate how financial inclusion affects MSE growth. The study, which focused on the 2651 MSE operators of the four chosen Wordas (03, 04, 08, and 13) in Lemi Kura Sub-city, employed a descriptive mixed research approach. Conveniently, 336 operators were selected from the population. The data was examined for descriptive statistics once the completed surveys were entered into the SPSS statistical program. Eight criteria were used in the study to gauge MSE operators' financial inclusion. The results showed that financial inclusion is positively and significantly affected by outreach, penetration, availability, technology, financial knowledge, trust, and income. The conclusionwas that financial inclusion is significantly affected by both supply-side and demand-side factors. However, the perceived advantages of use had a detrimental and substantial impact on financial inclusion. Additionally, financial inclusion significantly increases the growth of MSEs. According to the survey, MSE operators should participate in training courses designed to fill in any knowledge gaps around financial inclusion. In addition to the training, financial literacy, spending habits, and saving habits should be promoted. Such a program would improve MSE operators' saving practices, improving their wellbeing and increasing productivity at work.

Key words: Financial Inclusion, Micro and Small Enterprise

1. Introduction

Financial inclusion has become an attractive topic at the global level with governments, financial institutions, and policymakers, developing interest in understanding it more deeply (Amoah et al. 2020). The existence of financial exclusion has been acknowledged by many developed and developing nations as one of the socio-economic challenges on the agenda (Wentzel et al., 2016). The World Bank in its 2020 targets placed universal financial access as one of its objective (Demirguc-Kunt et al., 2018). This shows how financial inclusion has become an attractive topic

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globally and more than 50 countries made headline financial inclusion commitments as of the end of 2014 (Demirguc-Kunt et al., 2018). In 2017, the World Bank Group (WBG) made it abundantly evident that numerous nations are creating National Financial Inclusion Strategies (NFIS) to guarantee that the necessary tools and measures are implemented in order to fulfill their financial inclusion commitments. Since firms in Sub-Saharan Africa still have notably limited access to external funding (WBES, 2018), the data from (WBES, 2018), show that on average, only 22% of enterprises have a loan or a line of credit. Small businesses in Sub-Saharan Africa have a significant obstacle when trying to obtain external loans, just as in other parts of the world. According to a number of studies, MSEs in both developed and developing nations face greater financial constraints than larger businesses. In developing economies including Sub-Saharan Africa, MSEs are typically more credit-constrained than large firms, severely affecting their possibilities to grow (Beck et al, 2005). Calomiris and Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater. Furthermore, according to Beck et al., (2006) cited in El-Said et al., (2013), small firms consistently report more financing obstacles than medium and large enterprises.

Ethiopia's Industrial growth Strategy places a high priority on the growth of micro and small businesses. Particularly since the creation of jobs is the main goal of the nation's development plan and MSEs are the primary tools for doing so in urban areas. The role of MSEs as the principal job creators is not properly promoted. Because a lot of empirical studies show that; MSEs lack confidence, appropriate products, rigid policies, and requirements, as well as very high bank charges and interest rates in most financial institutions, are were the main influences for their failure to transact through the formal channels (Hassan, 2014).

Additionally; the MSE sector in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people particularly women and youth without demanding high-level training, much capital, and sophisticated technology (Nega and Hussien, 2016). However, evidence from different empirical studies shows the reverse (Wolday and Gebrehiwot, 2004).

Therefore, improving MSEs‟ access to finance is significantly important in promoting performance and firm productivity in the country (World Bank, 2015). In addition to this, despite the enormous importance of the MSEs sector to the national economy with regards to job creation and the alleviation of abject poverty, many of the MSEs are unable to realize their full potential due to the existence of different factors that inhibit their growth and performance (Wolday and Gebrehiwot, 2004). One of the leading factors contributing to the unimpressive growth and performance of the enterprises in Ethiopia are limited access to finance and the financing gap to MSEs can be attributed to both the demand side and supply side (Wolday and Gebrehiwot, 2004). In this regard, a lot of studies were conducted in Ethiopia.

For example; ((Nega and Hussien, 2016), (Abera et.al, 2019), (Negash and Kumera, 2016), (Ageba and Amha, 2006), (Hadis and Ali, 2018), (Seyoum et.al, 2016), (Ashenafi, 2012), (Wolday and Gebrehiwot, 2004) and (Hassan, 2014)) were conducted studies to identify the main determinant factors that influence financial inclusion among MSEs in Ethiopia. Even

though, the above research studies identify the main determinate factors of financial inclusion, but not analyze determinates of financial inclusion with the link of its effect on the growth of the enterprises. Geographically, this study restricted in Addis Ababa selected woredas in lemi kura subcity. In addition, methodologically this study will use structural equation modeling approach. Hence, by considering the above research gap, this study focus on identify the main determinate of financial inclusion and its impact on the growth of Micro and Small Enterprises in Addis Ababa selected wordas from Lemi kura Subcity.

The general objective of study was to identify the main determinate of financial inclusion and its impact on the growth of Micro and Small Enterprises in Addis Ababa, selected wordas from Lemi kura Subcity. The following were the specific objectives of this study: 1) to identify the main determinates of financial inclusion; and 2) to examine the effect of financial inclusion on the growth of MSE.

2. Review of Related Literature

2.1 Financial Inclusion

Financial inclusion is more straightforward to define and recognize. Lower-income countries tend to see a large portion of their population and firms not having access to formal financial services for a number of reasons, including: limited branch networks of banks and other financial institutions; limited availability of automatic teller machines (ATMs); the relatively high costs of servicing small deposits and loans; limitations on satisfactory personal identification; and limitations on collaterizable assets and credit information. Two definitions are:

"Financial inclusion aims at drawing the "unbanked" population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance" (Hannig & Jansen 2010).

"… the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. It primarily represents access to a bank account backed by deposit insurance, access to affordable credit and the payments system" (Khan 2011).

Financial inclusion is most commonly thought of in terms of access to credit from a formal financial institution, but the concept has more dimensions. Formal accounts include both loans and deposits, and can be considered from the point of view of their frequency of use, mode of access, and the purposes of the accounts. There may also be alternatives to formal accounts, such as mobile money via mobile telephones. The main other financial service besides banking is insurance, especially for health and agriculture (Demirguc-Kunt & Klapper 2012).

2.2 Key Determinants of Financial Inclusion

2.2.1 Outreach and Financial Inclusion

Outreach is the ability of a bank or financial institution to provide the necessary knowledge and help needed to clear the doubts of consumer and bring them under the umbrella of financial

inclusion (Chattopadhyay, 2011). Chakravarty and Pal (2013) studied different indicators of outreach that are important for financial inclusion. Garg and Agarwal (2014) concluded that insufficient outreach is a big issue in banks' lending models. Thus, it is hypothesized that outreach is related to financial inclusion.

H_1: Outreach has a significant impact on financial inclusion.

2.2.2 Penetration and Financial Inclusion

The depth to which the bank can provide the financial services and products to the entire section is called as penetration. It can be demographical depth, cultural depth or any other depth that may hinder financial inclusion. Penetration is an important factor for the creation of water markets, which in turn affects financial inclusion (Kelkar, 2010). Anand and Chhikara (2013), and Lal (2017) related economic growth of a nation to financial inclusion of rural households and identified penetration as an important determinant of financial inclusion. Kabakova and Plaksenkov (2018) analyzed and observed different patterns of financial inclusion based on different penetration levels. Penetration, as implied by the items measuring it, is focusing more on the adequacy part of the services. Taking into account the definition of financial inclusion, simply focusing on accessibility may not bring out a significant result as focusing on adequacy of services as well would. There is a clear line drawn between the two constructs. Because what's accessible may not always be adequate as per consumer's need or demand. Thus, the hypothesis being tested for this study is:

H_2: Penetration has a significant impact on financial inclusion.

2.2.3 Availability and Financial Inclusion

The availability or the lack of proper setup for providing financial products and services to every individual is a major contributor to financial inclusion or exclusion. Shankar (2013) in her study addressed the access barriers of financial inclusion and lack of financial product that result into exclusion of certain sections. Thus, it is hypothesized that availability is an important aspect of financial inclusion, as the lack of availability leads to exclusion. Sarma and Pais (2011), Dixit and Ghosh (2013), and Anand and Chhikara (2013) all developed an index of financial inclusion with availability as a dimension of financial inclusion. Accordingly, it is hypothesized that:

H3: Availability has a significant impact on financial inclusion.

2.2.4 Accessibility and Financial Inclusion

The physical aspects like the distance to bank branches, ATMs, necessary documentations, among many others, is termed as accessibility (Paramasivan & Ganeshkumar, 2013). In a developing country, access to affordable banking services and innovation can lead to total financial inclusion (Shafi & Medabesh, 2012). Access to financial services endorses inclusion (Kelkar, 2010) and access to financial services empowers individuals economically (Lal, 2017).

From the financial inclusion point of view, accessibility is more about the convenience and ease of using the available banking services. In general, there are always products and services that are available to consumers but not every service is accessible, the reason for which vary from consumer to consumer. In the study, accessibility is taking into consideration the suitability of the available financial services and products for the respondents rather than just focusing on their availability. From inclusion point of view, it is significant to ensure smooth availability as well as accessibility of products and services, both of which are different aspects of financial inclusion. Thus it is hypothesized that:

H4: Accessibility has a significant impact on financial inclusion.

2.2.5 Technology and Financial Inclusion

The technology aspect of financial inclusion covers new technologies in banking sector like internet banking and mobile banking, the reliance of which has been increased for improving financial inclusion (Kabakova & Plaksenkov, 2018). Even social media has a huge impact on access and use of financial services (Bongomin et al., 2017). Sharma and Kukreja (2013) suggested use of technology for its potential to deliver financial services even in remote or rural areas. Ramakrishna and Trivedi (2018) and Rastogi and Ragabiruntha (2018) in their studies identified technology as an important and positively influential factor of financial inclusion.

H5: Technology has a significant impact on financial inclusion.

2.2.6 Financial Literacy and Financial Inclusion

Financial literacy is the degree to which the households and individuals are informed or aware of the knowledge required to make informed financial decisions. Kabakova and Plaksenkov (2018) in their study concluded that financial literacy is a decider between inclusion and exclusion, but Fischer (2011) concluded that financial literacy is not as important as utilization. Financial attitude, financial behavior and financial knowledge determine the level of financial literacy which in turn helps in determining financial inclusion (Rastogi & Ragabiruntha, 2018; Rai et al., 2019; Shankar, 2013). Thus, it is hypothesized that:

H6: Financial literacy has a significant impact on financial inclusion.

2.2.7 Perceived Benefits of Usage and Financial Inclusion

The perceived benefits that an individual feels when they can access financial services as and when required are very essential from financial inclusion point of view (Anand & Chhikara, 2013). Iqbal and Sami (2017) implied that government has been taking a lot of steps to ensure passing on the benefits of financial services to economically weak or the neglected sections of the society. Ramakrishna and Trivedi (2018) concluded that a benefit of having a bank account positively influences financial inclusion as banks are more reliable, helpful and trustworthy. Thus, it is hypothesized that:

H7: Perceived benefits of usage have a significant impact on financial inclusion.

2.2.8 Trust and Financial Inclusion

Trust is one of the biggest barriers to inclusion due to lack of knowledge leading to people's lack of trust in a formal bank or financial institution channel. Garg and Agarwal (2014) related financial inclusion or exclusion to human aspects like religion and trust. Shankar (2013) suggested that lack of trust leads to financial exclusion. Thus, we can say that trust is an important aspect when talking about finances and financial inclusion. Deb and Agrawal (2018) related attitude and trust to India's potential for financial inclusion as a result of adoption of mobile banking. Hence it is hypothesized that:

H8: Trust has a significant impact on financial inclusion.

2.2.9 Financial inclusion and growth of MSE

Inadequate access to cheaper credit is recognized the world over as a major challenge facing MSEs, and these therefore constraint the growth of the existing MSEs. Shah, Nazir, Zaman, and Shabir (2013) opined that it is very difficult to access financial services from formal financial institutions due to their unrealistic demand for collateral, loan guarantees and securities, and high interest rates. Prohorovs and Beizitere (2015) posit that access to finance and financial services has been some of the major factors constraining the growth and development of MSEs.

H9: financial inclusion has a significant impact on the growth of MSE.

2.3 Financial Inclusion and Micro and Small Enterprise

Financial inclusion (FI) refers to a change in one's mindset as an economic agent on how to see money and profit, and aims to eliminate any barrier in accessing and utilizing financial services, and this is supported by the existing infrastructure. It is noted that more than half of the world's economically challenged adults do not have bank accounts, and this therefore leaves them vulnerable to exploitation and theft, and this results to heavy losses (World Bank, 2012). UNIDO (2015) opines that the cost associated with the capital transaction is always too high which greatly affects the performance of MSEs. The World Bank (2016) establishes that high concentration, weak competition, and the prevalence of public ownership in the financial intuitions are specifically some of the key constraints in financing MSEs. Financial inclusiveness supports the principle of financial stability which provides strong risk management and financial facilities. It would also close the financial inclusion gap within the MSEs, and these can bring a significant gain in the growth. However, a very low financial inclusion in the region suggests important untapped potential for the growth of increased access to finance by SMEs. Popov and Rocholl (2016) posit that increased constraints to financing during recession may put more pressure on employment by MSEs than by large firms. Kazimoto (2014) observed that governments and other stakeholders should therefore avail financial facilities and access to finance at a reasonable interest rate and use up-to-date information and communication

technology in business and marketing, and these can be through improved network and training. Lega (2015) establishes that MSEs in Africa face a lot of challenges and among them include financial inclusion, non-favorable laws, regulations, and poor infrastructure, which affect the growth of MSEs. The government should take the responsibility of providing MSEs with a conducive environment for their growth and development, seeking international and local opportunities for its MSEs, developing fair and encouraging policies, and making it easy for MSEs to access financial facilities at a fair and affordable rate (Fariza, 2012). Moreover, the existing literature does not offer substantial information on the financial inclusion and growth of micro and small enterprises in Ethiopia thus making the current study timely.

2.4 Conceptual Framework

The figure below shows the proposed conceptual model for the study derived from the literature review with some modification, it has been well established that the below mentioned factors are key contributors of successful financial inclusion. But one conclusion that could be drawn from the past literatures is that the impact and the significance of these determinants have been changing from time to time and place to place. Hence this needs to be continuously monitored and analyzed.

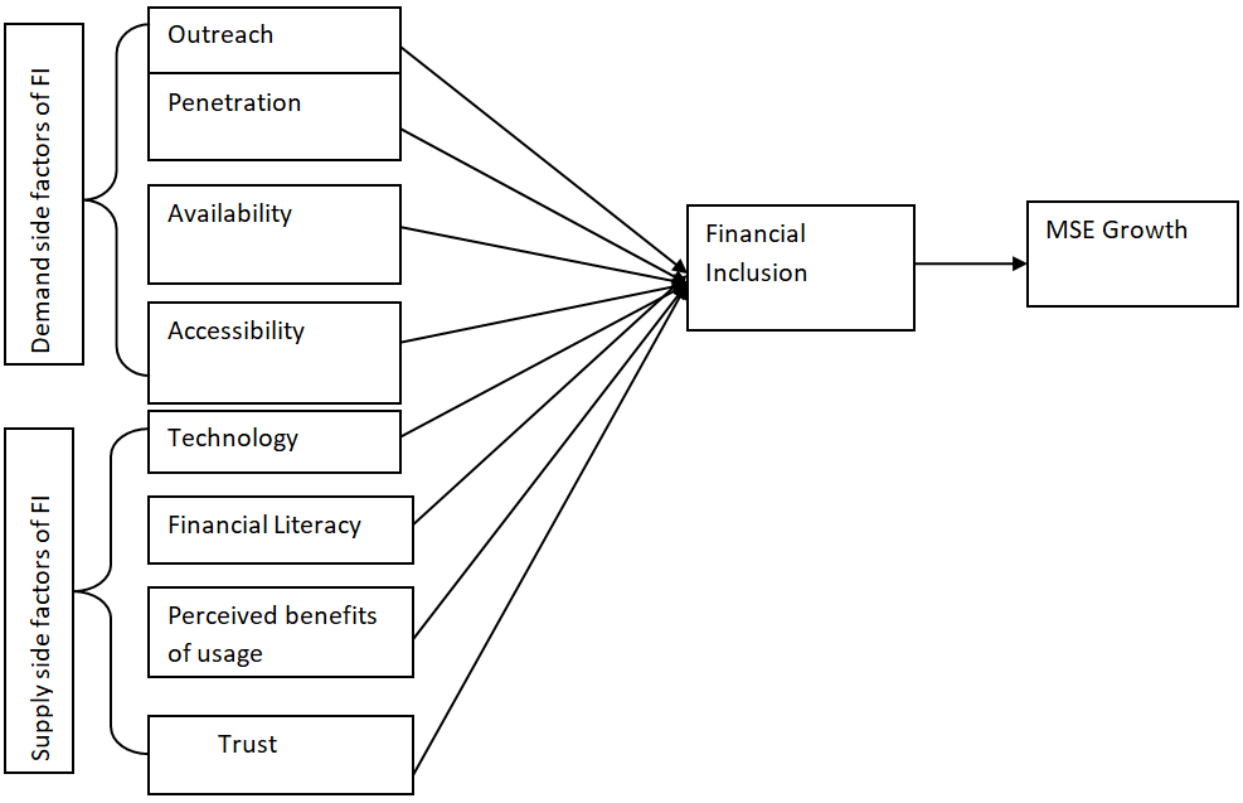


Figure 2.1 Conceptual Framework
Source: adapted from Yashwant, 2020

3. Materials and Methods

3.1 Research Approach

In this study the researcher used concurrent triangulation mixed strategy. In concurrent triangulation strategy, both quantitative and qualitative data were collected simultaneously and the qualitative data were used to triangulate in the quantitative data during the analysis.

3.2 Research Design

The study used explanatory research designs to determine the factors of financial inclusion and its effect on the growth of MSE. Since, explanatory research design deals with the determination of causes and effects through hypothesis testing and its results and conclusions constitute the deepest level of knowledge (Creswell, 2009).

3.3 Sources of Data

The primary data was gathered from the sampled Micro and Small enterprise operators. The data relevant to the issues of the study will be collected using questionnaires. Then the questionnaire will be translated in to Amharic language for easy understanding of the respondents by the researcher prior of distribution. In addition, the researcher used focus group discussion with the sampled to obtain the necessary information. The secondary data were collected from different manual, reports and strategic plan documents of micro and small enterprise office.

3.4 Data Collection Instrument

The researcher used survey to collect information from respondents by asking questions in order to describe the characteristics of the population-sample. The survey was conducted using both open and closed ended structured questionnaires. The questionnaires distributed to the respondents had two parts the first part aimed at the collection of demographic information of the participants and the second had questions related to the determinants of successful financial inclusion and MSE growth. Respondents were asked to rate each item based on their degree of agreement or disagreement to the statement in question. A five-point Likert scale was used to measure the degree of agreement, where 1 stood for ‘Strongly Disagree’, 2 for ‘Disagree’, 3 for ‘Neither Agree nor Disagree’, 4 for ‘Agree’ and 5 for ‘Strongly Agree’. A pilot test of the questionnaire was conducted for validating the measurement instrument. On receiving satisfactory results in accordance to the objectives of the study, the research continued with data collection process.

3.5 Population of the Study

Addis Ababa Lemi Kura Sub-city has ten woredas from this due to the location advantage and large number of MSE operators the researcher has selected four wordas namely, wereda 03, 04, 08 and 13. Thus, the four woredas had the total number of 2651 MSE operators. Therefore, the above 2651 were the target population for this study.

3.6 Sample Size and Sampling Technique

In order to take a sample from the target population the researcher used Cochran (1963) sample size formula.

$$n = \frac{Z^2{}_{\alpha/2}\,[P\,(1-P)]}{e^2 + \frac{Z^2{}_{\alpha/2}\,[P\,(1-P)]}{N}} \quad n = \frac{1.96^2\,[0.5(1-0.5)]}{0.05^2 + \frac{1.96^2\,[0.5(1-0.5)]}{2651}} = \mathbf{336}$$

The sample size distributed proportionally for the four wordas MSE operators. Furthermore, the questionnaires were distributed randomly for each operating sector.

3.7 Methods of Data Analysis

Statistical techniques for data analysis involved Structural Equation Modeling (SEM) using SPSS-AMOS.

3.8 Model Specification

3.8.1 Description of the Observed and Latent Variables

The table below depicts the SEM path model with successful financial inclusion factors namely outreach, penetration, availability, accessibility, technology, financial literacy, perceived benefits of usage, and trust are as exogenous variables. Financial inclusion is considered as the endogenous variable. In other way to analyze the impact of financial inclusion on its growth of the enterprises financial inclusion become exogenous variable and growth of the enterprise becomes endogenous variable. The description of the latent variables and the number of observed variables are shown in 3.1.

Table 3.1 Description of the Observed and Latent Variables

	Latent variables	**Number of observed variables**
Financial inclusion factors (exogenous variables)	Outreach (OU)	6 (OU1,OU2,OU3,OU4, OU5, OU6)
	Penetration (PE)	6 (PE1,PE2,PE3,PE4, PE5 PE6)
	Availability (AV)	6 (AV1,AV2,AV3,AV4, AV5, AV6)
	Accessibility (AC)	6 (AC1,AC2,AC3,AC4 ,AC5, AC6)
	Technology (TE)	6 (TE1, TE2, TE3, TE4, TE5, TE6)
	Financial literacy (FL)	5 (FL1,FL2,FL3,FL4, FL5)
	Perceived benefits of usage (PB)	5 (PB1,PB2,PB3,PB4,PB5, PB6)
	Trust (TR)	6 (TR1,TR2,TR3,TR4, TR5, TR6)
Endogenous/Exogenous variable	Financial inclusion (FI)	7(FI11,FI2,FI3,FI4, FI5, FI6 FI7)
Endogenous variable	MSE Growth (MG)	7(MG1,MG2,MG3,MG4 MG5, MG6, MG7)

3.8.2 Structural Equation Model

- $FI_i = \beta_0 + \beta_1 OU_i + \beta_2 PE_i + \beta_3 AV_i + \beta_1 AC_i + \beta_2 TE_i + \beta_3 FL_i + \beta_4 PB_i + \beta_5 TR_i + \varepsilon_i \ldots Eq.1$

Where:

FI_i= Financial inclusion as dependent variable

OU_i= Outreach as independent variable

PE_i= Penetration as independent variable

AV_i= Availability as independent variable

AC_i= Accessibility as independent variable

TE_i= Technology as independent variable

FL_i= Financial literacy as independent variable

PB_i= Perceived benefit of usage as independent variable

TR_i= Trust as independent variable

- $MG_i = \beta_0 + \beta_1 FI_i + \varepsilon_i \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots Eq.2$

Where:

MG_i= Micro and small enterprise growth as dependent variable

FI_i= Financial inclusion as independent variable

4. Results and Discussions

4.1 Data Reliability

Before proceeding to analyze the results found from the questionnaire the reliability of determinates of financial inclusion parameters distributed to MSE operators are checked using SPSS software. Table 4.1 shows the data reliability of each parameters of financial inclusion. Cronbach's α (alpha) (Cronbach, 1951) is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees.

Table 4.1 Data Reliability Checking

N$^{o.}$	Parameters	Number of items	Cronbachs α
1	Financial Inclusion	6	0.898
2	Outreach	4	0.870
3	Penetration	4	0.857
4	Availability	4	0.900
5	Accessibility	5	0.921
6	Technology	5	0.923
7	Financial literacy	5	0.822
8	Perceived benefit of usage	4	0.887
9	Trust	5	0.925
10	MSE Growth	9	0.946

Source: Field Survey, 2024

As cited by Mihretie (2013) the reliability coefficients of the factors exceeded the value of 0.7 recommended by (Nunnally, 1978). Therefore, the above table shows that the reliability coefficients of all parameters exceed 0.7; hence, each of the factors and the related items are analyzed and interpreted.

4.2 Financial Management Practices of MSE Operators

From the results, majority 48.2% of the respondents reported a monthly income of between Ethiopian birr 500 and 2000, 40.6% reported between 2001 and 5000, 6.7% reported an income of 5000 to 10000 and 4.5 % above 10000 as shown in table 4.2.

Majority (95.5%) of the respondents said they had bank accounts and the remaining 4.5% of the respondents had no bank account. Furthermore, 49.8% of the respondents reported that they save below 10% of their income every month, 24.0% of the respondents reported saving between 16 to 20 percent of their income every month, 15.7% of the respondents save between 1-15%, 7.3 % save between 21 to 25 percent, and 3.2% save above 25% of their income every months. A general rule of thumb is we should be saving at least 10% to 15% of our income. This is just a minimum amount; it is advisable to save more. This indicates that majority of the respondents save a small proportion of their income. This is illustrated in the table 4.2.

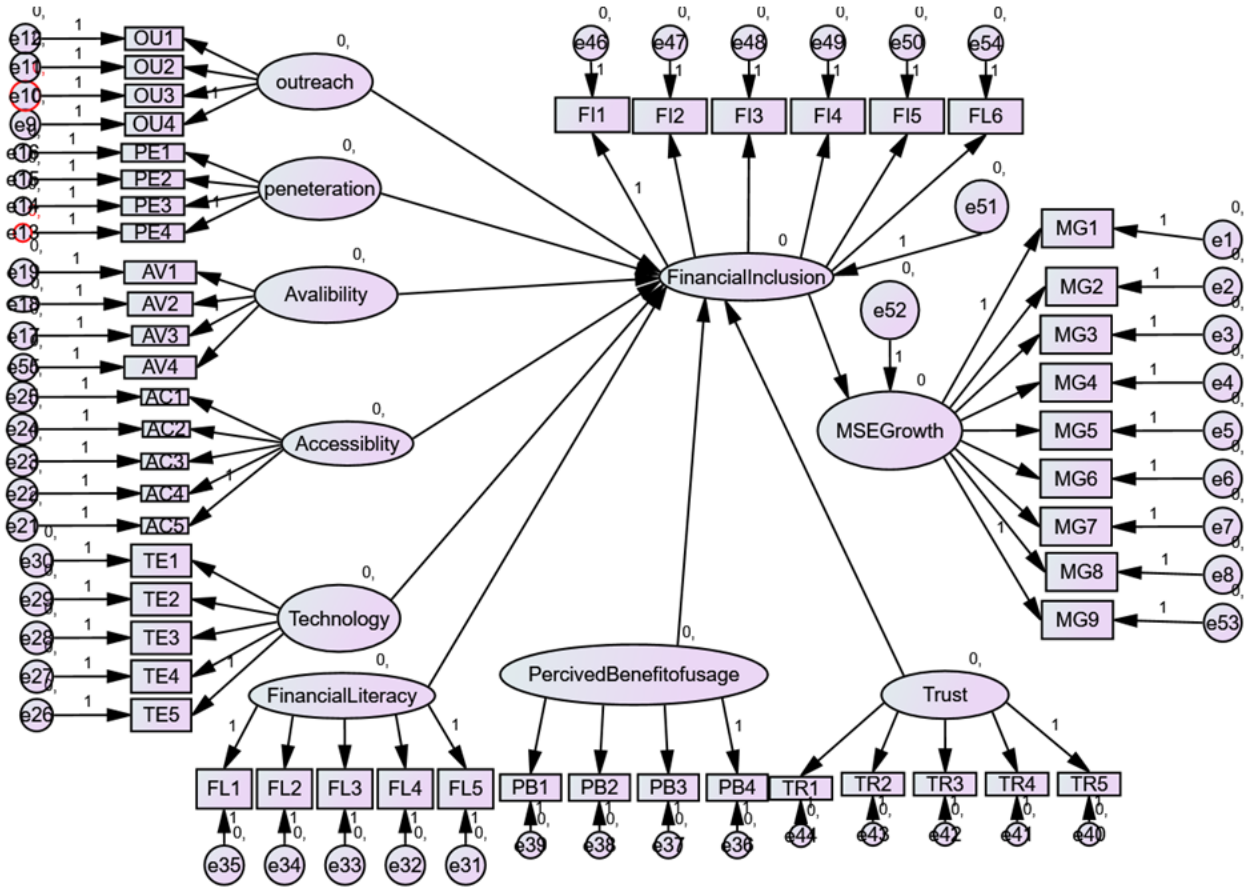
From the results, 78.3% of the respondents put their money on bank, 17.3% of the respondents save their money on saving and credit association and 4.5% of the respondents save their money other than bank and saving and credit association, which stated in the open ended question they put their money at home and Equb. The findings are shown in the table 4.2.

Table 4.2 Financial management practices of MSE operators

Financial Management practices	Item	Frequency	Percent
Monthly income	500-2000	151	48.2
	2001-5000	127	40.6
	5001-10000	21	6.7
	Greater than 10000	14	4.5
Do you have bank account	Yes	299	95.5
	No	14	4.5
Saving amount	0-10%	156	49.8
	1-15%	49	15.7
	16-20%	75	24.0
	21-25%	23	7.5
	Above 25%	10	3.2
Where do you save	Bank	245	78.3
	Saving and Credit Association	54	17.3
	other	14	4.5

Source: Field Survey, 2024

4.3 Path Diagram



4.4 Goodness-of-Fit of the Model

4.4.1 Chi-Square Test of Goodness-of-Fit for the Model

The results of the Chi-Square test of goodness-of-fit for the specified model the test statistics is 1414.6 with a p- value < 0.0001. Even if the statistics is considerably lower than that of the original model, still reject the null hypothesis that the model fits the data will.

Results (default model)
Minimum was achieved
Chi- Square = 1414.6
Degree of Freedom = 365
Probability level = 0.000

Then assess the goodness of fit of the specified model based on the model fit indices.

4.4.2 The Root Mean Square Error of Approximation (RMSEA) of Model

Table 4.3 The Root Mean Square Error of Approximation

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.0576	.0922	.1030	.0000
Independence model	.1848	.1801	.1897	.0000

Source: SPSS-AMOS output, 2024

The above table shows that the RMSEA of the specified model is 0.0576. This figure is in fact below the threshold of 0.06 for a good model. Therefore, the specified model can still be considered as „marginal fit" (or „mediocre fit") to the data since the RMSEA is not greater than the threshold.

4.4.3 Comparative Fit Index (CFI) and Tucker-Lewis Index (TLI) of the Model

Table 4.4 Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.6922	.6576	.7519	.7213	.7495
Saturated model	1.0000		1.0000		1.0000
Independence model	.0000	.0000	.0000	.0000	.0000

Source: SPSS-AMOS output, 2024

From the above Table 4.4 the Comparative Fit Index (CFI) and Tucker-Lewis Index (TLI) are both less than 0.95, this shows the model does not satisfy the measure of good-fit.

In general the use of RMSEA is very common, and it is considered an excellent general-purpose error metric for numerical predications (*Simon P. Neill 2018).* Therefore, based on the results of RMSEA the model fits reasonably well. As a result, it can interpret the results of tests of significance of the model parameters.

4.5 Interpretation of the Final Model

Based on the regression weights results presented in Table 4.5 the latent independent financial inclusion factors outreach, penetration, availability, technology, financial literacy, perceived benefit of usage and trust are the p-values less than 0.05, indicating that all are statistically significant. The coefficients of outreach, availability, accessibility, technology, financial literacy and trust are positive, form this it can conclude that increases in outreach, availability, accessibility, technology, financial literacy and trust are associated with increase the level of financial inclusion. However, the coefficient of penetration and perceived benefit of usage are negative, form this it can conclude that increases in penetration and perceived benefit of usage are associated with decrease the level of financial inclusion.

SPSS – AMOS output of the fitted model is shown below

Estimates (Group number 1 - Default model)

Scalar Estimates (Group number 1 - Default model)

Maximum Likelihood Estimates

Regression Weights: (Group number 1 - Default model)

Table 4.5 The fitted model

Dimension			Estimate	S.E.	C.R.	P	Label
Financial Inclusion	<---	Outreach	.300	.044	6.752	***	
Financial Inclusion	<---	Penetration	-.091	.033	-2.778	.005	
Financial Inclusion	<---	Availability	.395	.038	10.374	***	
Financial Inclusion	<---	Accessibility	.044	.026	1.699	.089	
Financial Inclusion	<---	Technology	.114	.032	3.540	***	
Financial Inclusion	<---	Financial Literacy	.403	.050	8.017	***	
Financial Inclusion	<---	Perceived Benefit of usage	-.550	.049	-11.225	***	
Financial Inclusion	<---	Trust	.134	.029	4.608	***	
MSE Growth	<---	Financial Inclusion	.607	.062	9.759	***	

Source: SPSS-AMOS output, 2024

The p-values corresponding to the latent independent variables financial inclusion with MSE growth is the p-value is less than 0.05, this indicating that it is statistically significant. The coefficient (0.607) is positive; from this it can conclude that increases in financial inclusion are associated with increase the level of MSE growth.

Table 4.6 Squared Multiple Correlations: (Group number 1 - Default model)

	Estimate
Financial Inclusion	.777
MSE Growth	.321
AV4	.756
FL6	.741
MG9	.631
FI5	.764
FI4	.638
FI3	.713
FI2	.523

Source: SPSS-AMOS output, 2024

Based on the above estimated of the squared multiple correlations (R-Squared) for financial inclusion is 0.777. This indicates that 77.7% of the variations of the level of financial inclusion are explained by the change of eight financial inclusion factors (outreach, penetration, availability, accessibility, technology, financial literacy and perceived benefit of usage).

However, the squared multiple correlations (R-Squared) for MSE growth is 0.321. The figure 32.1% indicates that the variation in the level of MSE growth explained by the change of financial inclusion.

Table 4.7 Total Effects – group model 1 – default model

Total Effects (Group number 1 - Default model)

	PercivedBenefitofusage	FinancialLiteracy	Technology	Accessiblity	Avalibility	peneteration	outreach	Trust	FinancialInclusion	MSEGrowth
FinancialInclusion	-.550	.403	.114	.044	.395	-.091	.300	.134	.000	.000
MSEGrowth	-.334	.245	.069	.026	.240	-.055	.182	.081	.607	.000
AV4	.000	.000	.000	.000	1.052	.000	.000	.000	.000	.000
FL6	-.755	.554	.157	.060	.542	-.126	.413	.183	1.374	.000
MG9	-.334	.245	.069	.026	.240	-.055	.182	.081	.607	1.000
FI5	-.727	.533	.151	.058	.522	-.121	.397	.177	1.322	.000
FI4	-.573	.420	.119	.045	.412	-.095	.313	.139	1.043	.000
FI3	-.536	.393	.111	.042	.385	-.089	.293	.130	.976	.000
FI2	-.469	.343	.097	.037	.336	-.078	.256	.114	.852	.000
FI1	-.550	.403	.114	.044	.395	-.091	.300	.134	1.000	.000

Source: SPSS-AMOS output, 2024

Based on the above SPSS-AMOS output the total effects of financial literacy (0.403) to financial inclusion are higher comparing to the remaining financial inclusion factors. Nevertheless, the total effects of financial inclusion (0.607) are also higher to MSE growth.

4.6 Discussion

As per the results of path analysis, except hypothesis four, which is accessibility has significant effect on financial inclusion all the hypotheses of the study, that is, H1, H2, H3, H5, H6, H7 and H8 are accepted. Financial inclusion has been found to be positively significantly affected by outreach, penetration, availability, technology, financial literacy, trust, and income. The conclusion is that financial inclusion is significantly affected by both supply-side and demand-side factors. However, the perceived advantages of use have a significant and substantial effect on financial inclusion.

As expected from the results, the degree of impact of independent variables on financial inclusion has varied to a certain degree. Results indicate that financial literacy had the maximum effect followed by availability on successful financial inclusion. This supports the findings of Lal (2017) who in their study found financial literacy and availability to be significant indicators of financial inclusion. The same goes with this study where the two factors namely availability and financial literacy have been identified as major determinants of financial inclusion. The policy makers should understand the demand of financial services throughout the regions and ensure proper availability and financial literacy of the same for better inclusion results. Financial

institutions should concentrate on reaching the various groups and meeting their financial needs. Moreover, outreach and penetration were found to be important factors in determining financial inclusion in this study.

Another important component of financial inclusion was found to be trust. However, trust has little effect on financial inclusion. This is encouraging since it demonstrates that trust is not as powerful an impact as it once would have been. Banks and other financial institutions should take a note of this. With the different microfinance programmes available, even low-income population avails financial services for their development. Developing consumer trust is still crucial in practically every industry today. This study demonstrates that the finance sector also strives to establish credibility. Hence, institutions should put strong efforts in developing a sense of trust in the population to bring them under the umbrella of financial inclusion.

Financial inclusion has been positively and significantly affected by the advantages of using financial services, according to previous research. Although there is a significant relationship between the benefits of usage and financial inclusion, this study shows that the benefits have a negative impact on financial inclusion. This was presumably caused by the suppression effect caused by the other eight latent components acting as independent variables. The outcomes of the test that was conducted on this option are outlined in the analysis. The effects of usage and financial inclusion were found to be positively and significantly correlated when the other eight independent factors were removed. This shows that under normal circumstances the more the person feels benefitted by the financial services, better are the chances of the individual always being a part of the financial system.

According to this study, financial inclusion was significantly affected by technology. According to earlier research, technology is also insignificant (Ramakrishna & Trivedi, 2018). However, with current trends in digitization and the shift to a cashless economy particularly following Ethiopia's demonetization process technology has begun to play a significant role in financial inclusion. But taking into account the advancement in telecommunication sector and availability of technologies like smartphones and internet at much cheaper prices than they used to be, even low-income category can easily afford these services. Given that the technology construct in the current study was based on services like online banking, bank and financial institutions help the consumers understand the use of online services to check their balance, transfer money online (which is a major function for the target demographic as many of them need to transfer money to their spouse, parents, children studying away from home, etc.; for household and personal expenses since a significant portion of them are migrant labors), among other functions. More and more people are relying on online services for day to day transactions and hence, technology has become an integral part of financial services. Proper use and adoption of technology could be the differentiating factor between achieving the required high level of financial inclusion or the unwanted ‘total financial exclusion’ (Kabakova & Plaksenkov, 2018).

To understand the relationship between financial inclusion and the contribution to MSE growth, this study further examined how financial inclusiveness supports the growth of micro and small enterprises in the sub-city. Financial inclusion eases payments to service providers,

access to ATM services, and switching from one bank to another. These services make the transaction very easy. The findings agree with Gabor and Brooks (2017), Dorfleitner and Roble (2018), and Eton, Mwosi, Edaku, Ogwel, and Obote (2018). The presence of multiple providers of financial services increases the flow of money in the economy and reaching it to the "unbanked" population (Damodaran, 2013). The findings justify the government's action to promoting financial inclusion across all social and economic sectors in the country. However, participants indicate some difficulty in using some of these financial services. The fact that some of the MSE owners are not highly educated, they find it difficult to interact with some of these financial services.

The study found that financial inclusion plays a significant role in MSE growth. However, the role played appears high, which suggests an influence on other factors in the relationship. The findings support Ayyagari et al. (2016) who assert that MSEs are constrained financially and find it hard to access credit compared to large firms. Though they might have access to credit, they often fall short of such requirements like guarantors, collateral security, and business profile, which agree with Eton, Mwosi, Mutesigensi, and Ebong (2017). Most of the MSEs lack such information that financial providers need to assess their creditworthiness. While such process requirements save financial providers from losses and properly manage credit provision, MSEs view them as bureaucratic with tough regulations (Park & Mercado, 2015). Therefore, the argument that as much as financial services appear to be available to MSEs, the cost associated to acquiring and servicing them affects their financial performance (UNIDO, 2015). In addition, the platforms on which some of the financial services are provided are too technical for MSE owners to operate. The findings, however, disagree with GSMA (2017) who asserts that financial service providers allow for easy transfer of payments from MSEs to suppliers and service providers and reduce theft, financial crimes, and the risk of loss. Financial inclusion is likely to increase the level of investment, employment opportunity, and poverty reduction, which are the core functions of MSEs in the economy. Finally, the study established relationship between financial inclusion and MSE growth; however, the relationship was statistically significant.

5. Conclusion

The aim of this study was to identify the main determinate of financial inclusion and its impact on the growth of Micro and Small Enterprises in Addis Ababa, selected wordas from Lemi kura Subcity. The researcher used eight factors with 51 financial inclusion and MSE growth items. It was found that eight of the factors were reliable for measuring financial inclusion and MSE growth, and all of the factors of gap measuringwere reliable using Cronbach's alpha (α). The researcher also sought to establish effects of outreach, penetration, availability, accessibility, technology, financial literacy and perceived benefit of usage on financial inclusion. The findings concluded that these factors strongly influenced financial inclusion of MSE operators. Furthermore financial inclusion also had a significant effect on MSE growth. In general financial inclusion, it needs an attention since poor saving behavior adversely affects wellbeing and by extension productivity at work place.

6 Recommendations

Based on the research findings, the researcher recommends that the Addis Ababa Job Opportunity Creation and Enterprise Development Bureau particularly for Yeka Sub City better to organize training programs for MSE operators aimed at closing any knowledge gaps regarding financial inclusion. The training should be complemented by promotion of a saving behavior, financial literacy, and expenditure practices. Such initiative would ensure that to improve the saving practice of the operators which would enhance their welfare and to make more productivity at places of work.

From the study findings, most respondents attribute their low savings rate on the high cost of leaving. This is a macro-economic factor that affects all sectors of the economy hence the government should develop initiatives that would not only ensure training on saving practice to its citizens but also seek to subsidize the high cost of leaving to create room for savings and investment. Such initiative would ensure sustained economic growth by creation of employment resulting from the investments.

The operator's should strive to up their saving skills by attending financial workshop seminars/training, reading financial journals or otherwise. This would equip the operators with necessary skills in formulating their personal financial plans that is premised on a sustainable expenditure, saving and investment plans aimed at long-term financial freedom.

7. Suggestions for Further Research

This study focused on to identify the main determinate of financial inclusion and its impact on the growth of Micro and Small Enterprises in Addis Ababa, selected wordas from Lemi kura Subcity. It is therefore recommended that similar researches should be replicated in other sub city so as to establish whether there is consistency on financial inclusion and MSE growth among respondents in the remaining sub city of Addis Ababa.

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