

## **PROJECT FINANCING PRACTICES: A CASE STUDY OF SELECTED SMALL AND MEDIUM SIZE ENTERPRISES IN ADDIS ABABA, ETHIOPIA**

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**Purpose:** The main objective of the research is to evaluate the project financing practice of some selected small and medium-sized businesses (SMEs) of Addis Ababa. As recommendations, the researcher suggests that the SMEs should receive support from the government in the form of tax exemptions, expanded alternative financing sources and assistance in obtaining the equipment and raw materials they need.

**Design/methodology/approach:** In order to do this, a self-administered questionnaire is utilized to collect primary data from a sample of 177 respondents out of the total population of 1870. An explanatory research design is applied. Only 165 of the 177 questionnaires that are sent are returned to the researcher where each of the items has been evaluated for internal consistency or reliability. Both descriptive and inferential statistics such as Multiple Linear regression (using the ordinary least squares method) and correlation analysis are applied in which the data is analyzed using SPSS Version 21.

**Findings:** The project financing trend indicates that local credit and savings associations are the main source of funding for the SMEs, although this tendency is currently seen to be waning over time. The finding also pinpoints that the top three project financing determinants at SMEs are the firm's age, the cost of borrowing and the need for collateral.

**Research limitations/implications:** The main challenges were lack of proper documentation of the operating SMEs in Addis Ababa. And the other challenge was to convince respondents that it was purely for research purpose as most commonly firms are afraid of sudden business assessment by the government followed by tax levy.

**Originality/value:** The study offers new insights into the challenges SMEs face in obtaining project financing, highlighting issues such as weak business performance, limited raw materials, and declining reliance on local credit and savings institutions.

**Keywords:** Project Financing, Cost of Borrowing, Small and Medium Size Business Enterprises.

**Category of the paper:** Research paper.

## 1. Introduction

The concept of project finance is very simple, as it involves a capital investment on the merits of the asset's returns, but despite the simplicity of the concept, there is no definite definition agreed upon by the financial community. Project Financing is generally used to refer to a non-recourse or limited recourse financing structure in which debt, equity, and credit enhancement are combined for construction and operation or the refinancing of a particular facility in a capital intensive industry in which lenders base credit appraisals on the projected revenues from the operation of the facility, rather than the general assets or the credit of the sponsor of the facility, and rely on the assets of the facility, including any revenue producing contracts and other cash flow generated by the facility, as collateral for the debt (Hoffman, 2001).

Project finance is the structured financing of a specific economic entity - the SPV, or special purpose vehicle, also known as the project company - created by sponsors using equity or mezzanine debt and for which the lender considers cash flows as being the primary source of loan reimbursement, whereas assets represent only collateral (Gatti, 2013). The term Project Finance was particularly developed by bankers to refer to a particular method of mobilizing corporate finance. Projects that use this technique are highly leveraged and financed by lenders with limited recourse to the sponsor(s). Broadly, lenders finance a large corporate undertaking through one of two different ways: (a) a traditional loan backed by the full faith and credit of corporate balance sheet; or b) a limited recourse loan. Under the former, the lending decision is based on the prospects of the project to be built and also the general credit standing of the corporate borrower, i.e., its sponsor(s). Even if the project is not generating as much cash flow as originally anticipated, the lenders can expect to get paid if the cash flows from the various other commercial activities of the corporate entity remain robust.

Since these pioneering theoretical developments, a number of scholars have examined the particular nature of SMEs to examine how their innate characteristics may influence their ability to obtain credit (and the cost thereof). This has also led to theoretical development concerning the capital structure of small firms which we will outline below: namely the growth cycle theory and the pecking order hypothesis. Essentially, a number of critical factors are theorized to hinder the ability of SMEs to obtain credit from their preferred funding source. Small firms are different from big firms and these features have significant ramifications for their ability to obtain finance.

Plus, there are important differences between SMEs and this heterogeneity affects the ability to raise finance. Prior literature suggests that SMEs find it both difficult and expensive to raise outside capital from banks and other investors (Berger, Udell, 2006). Informational opacity is a key feature of start-ups and SMEs. Small firms do not have audited financial statements or publicly visible contracts with staff and suppliers.

According to (Finnerty, 1996), “the raising of funds to finance an economically separable capital investment project in which the providers of the funds look primarily to the cash flow from the project as the source of funds to service their loans and provide the return on their equity invested in the project”. According to (Nevitt, Fabozzi 2000) “A financing of a particular economic unit in which a lender is satisfied to look initially to the cash flow and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan”. According to (Pacelle et al., 2001) “It is a term that typically refers to money lent to build power plants or oil refineries”. According to (Esty, Sesia, 2005) “It involves the creation of a legally independent project company financed with equity and non-recourse debt for the purpose of financing a single purpose capital asset, usually with a limited life.” In general, it may be inferred that project finance is the financing of long term infrastructure and industrial projects based upon a complex financial structure.

The future of project financing looks bright as the world economy has improved and developing economies increasingly understand the importance of project finance in augmenting their economic development. Project Financing is also necessary to create an economic environment that enables firms to grow and prosper. McMahon (2001) found that enterprise size significantly linked to better business performance. Larger enterprises were found to have a higher level of success. SMEs in developing countries, however, face significant barriers to finance. Financial constraints are higher in developing countries in general, and specifically in Ethiopia but SMEs are particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Enterprises face financing constraints around the world, both in developed and developing markets (Ayyagari, 2007; Beck et al., 2005). Increased financing of projects for SMEs can improve economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth.

Using a quantitative method, the Project financing practices is assessed briefly. In particular, its practice, problems encountered, perceptions about project financing as well as determinant factors of project financing are examined using the quantitative research method where both descriptive techniques of data analysis as well as the inferential analysis technique are applied such as the correlation and the regression analysis. A hypothesis for the determinants of project financing is also made and tested for six independent variables (Age of the firm, Business skill of the firm, Cost of Borrowing, Collateral Requirement, Availability of Finance, and Past Financing Practice ) that are assumed to affect project financing. At the end, the research finding is expected to be used as a guidance for the individual owners of SMEs through the practical knowledge of how overall SMEs finance their projects. It will also be used as an input for City Government of Addis Ababa, Job Creation and Enterprises Development Bureau to strategize their activities in regards with SMEs of Addis Ababa and learn the demand side of financing practices. Finally, the study is significant in

helping policy makers in crafting appropriate policy in addition to helping other researches in understanding how Small and Medium Enterprises in Addis Ababa finance their projects.

In light of the above targets, the researcher has made detailed study of the financing practice of SMEs by systematic selection of Addis Ababa's ten Kifle-Ketemas.

## 2. Methods

### 2.1. Research Design and Approach

The appropriate research design and approach followed in this study are explanatory and quantitative respectively. This is due to the nature of the study itself and with the intention to address the objective of the study i.e. The assessment and evaluation of the Project financing practices: a case study of selected small and medium size enterprises in Addis Ababa" where the above design and approach help the research to critically examine the practice, problems encountered, perceptions about project financing as well as determinant factors of project financing.

The technique of sampling used in this study is a stratified sampling with systematic sampling under each stratum. Assuming the population being measured, the sample size for this study is 177.

The researcher assume failure and success value of 0.5, 95 percent confident interval ( $Z^2 = 1.96$ ), and tolerable error is set at 7 percent and determine a sample size as 177 Enterprises using scientific formula based on Kothari (2004) as follows:

$$n = \frac{Z^2 * p * q * N}{[e^2 * (N-1)] + [Z^2 * p * q]}$$

where:

N = size of population,

n = size of the sample,

p = sample proportion of successes,

q = 1 - p,

Z = standard variant for given confidence level (as per normal curve area table),

e = acceptable error (the precision).

$$n = \frac{(1.96)^2 * (0.5) * (0.5) * (1,870)}{[(0.07)^2 * (1,870-1)] + [(1.96)^2 * (0.5) * (0.5)]} = 177.$$

Therefore, assuming the population being measured, the sample size for this study is 177.

The researcher used a quantitative data collections instrument. In order to collect the quantitative data, the researcher employed both open and close-ended questionnaires. A questionnaire is used in order to measure and clearly show the perception of the respondents about project financing and its determinants. In data processing, after collection of data, the questionnaires are edited to determine the degree of response and the number of usable questionnaires. The data are coded and then entered into a computer data sheet for analysis.

However, only 165 of them properly filled and returned the questionnaire resulting in a response rate of 93.2% which is good enough to conduct the data analysis (Kothari, 2004) and the study is conducted based on a data collected, organized and analyzed for one full year (2023).

## 2.2. Data type, source and method of Analysis

A primary data gathered through a self-administered questionnaire is collected from 165 respondents that are chosen via the stratified sampling with systematic sampling techniques. The collected data is coded, edited and made ready for further analysis after conducting a pilot study with some selected respondents to check on the reliability of the questionnaire using Cronbach's Alpha value as shown in the following table by using SPSS where it is 0.813 on average and hence it can be said that reliability is maintained based on a pilot survey data collected from 20 respondents (Saunders, Lewis, Thornhill, 2009). Then after, both descriptive and inferential (correlation and regression analysis) techniques are applied. As Kitindi et al. (2007) point out that lenders use firm's business information to assess current and future performance of the firm.

**Table 1.**  
*Reliability Test*

Variable	Cronbach's Alpha	No. of items
Age of the firm [A]	0.745	3
Business skill of the firm [BS]	0.714	3
Cost of borrowing[CB]	0.761	3
Collateral requirements[CR]	0.832	3
Availability of Finance[AF]	0.800	4
Past financing practice [PFP]	0.880	2
Project Financing ability of the Firm [PFAF]	0.864	2
<b>ean</b>	<b>0.813</b>	

Source: (SPSS output).

The following Multiple Linear Regression Model is used to identify the major determinant factors of project financing at small and medium size enterprises in Addis Ababa:

$$PFAF = \beta_0 + \beta_1A + \beta_2BS + \beta_3CB + \beta_4CR + \beta_5AF + \beta_6PFP + e_i \quad (1)$$

where:

PFAF = Project Financing ability of the Firm (Dependent variable of the study),

$\beta_0$  = constant or intercept,

A = Age of the Firm (an independent Variable),

BS = Business skill of the Firm (an independent Variable),

CB = Cost of borrowing (an independent Variable),

CR = Collateral requirements (an independent Variable),

AF = Availability of Finance (an independent Variable),

PF = Past financing practice (an independent Variable),

where:  $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  and  $\beta_6$  are coefficients and  $e_i$  is an error term.

### 3. Results

Male respondents formed majority of the target sample with a total of 158 representing 95.8% of the total sample taken, while 7 respondents were female representing 4.2%. 32.1% of the respondents were in the position of Employee/manager, 60% of the respondents were in the position of Owner/manager and the remaining 7.9 % of the respondents were shareholders. With regard to the type of business activity in which the respondents are engaged, it is shown that 153 (92.7%) of them are engaged in the manufacturing business, 6 (6%) of them are engaged in the Agricultural sector and the remaining 6 (6%) of them are engaged in the textile sector. 77% of them have 1 to 20 employees, 15.8% of them have 21 to 50 employees, 3.6% of them have 51 to 250 employees and the remaining 3.6% of them have more than 250 employees.

The researcher is also interested to know the current capital status of the enterprises and hence the result shows that 44.2%, 20.6%, 27.3%, 7.9% of them have less than birr 500,000, Between 500,000 to 1,000,000, between 1,000,001 to 5,000,000 and between 5,000,001 to 10,000,000 capital respectively. This implies that most of the small and medium size business enterprises that are found in Addis Ababa are running their business operation at a very low capital. Even none of them have more than 10,000,000 birr capital. Regarding the life span of each business enterprise 4.2%, 55.8%, 24.2% and 15.8 % of the respondents said that their organization has more than 10 years, between 5 and 10 years, between 2 and 5 years, and less than 2 years of experience respectively.

Notwithstanding with the long years of business experience, the small and medium size business enterprises of Addis Ababa are also expected to suffer from various kinds of problems. Among these problems, shortage of raw material and machine accounts for 55.8%, low business activity accounts for 8.5 %, lack of finance accounts for 3.6%. On the other hand, 32.1% of them replied that they didn't face any problem.

#### 3.1. Descriptive Analysis

A variety of questions are posed to the respondents in order to look into the firm's overall project finance practice and related difficulties. As a result, the replies are analyzed using percentage and frequency distributions and hence it is shown that 79 (47.9%) of the respondents

said that they used internal funds and/or external financing during the past periods in their respective business enterprise while the remaining 86 (52.1%) of them didn't. That is more than half of them didn't have the experience of using internal funds and/or external financing in their financial structure. Even if they needed the finance from both sources they didn't have the access to get it. Of course, some of them asserted that they can get it either from internal or external sources.

The result also reveals that 31.6% of the respondents replied that internal financing is one way of financing the projects of small and medium size business enterprises while 11.39%, 10.12%, 27.84%, 10.12% and 8.86% of them replied respectively that bank overdraft, credit line or credit cards overdraft, subordinated loans, participation loans or similar financing instruments, others like credit and saving associations, internal financing and other loan (e.g. from a related company or shareholders), trade credit, leasing or hire-purchase or factoring and others like credit and saving associations are the other alternative ways of financing their projects.

The respondents are also asked to show up their response about whether they have applied the above alternative ways of financing in order to finance their projects or not, over the past six months. The result indicated that 16.4% of them replied "yes indeed" and 83.6% of them replied "not at all". That is, the majority of the respondents didn't apply the different alternative ways of financing (such as internal financing and other sources like credit and saving associations) over the past 6 months. However, from those 27 respondents who said that they have applied the different alternative ways of financing (such as internal financing and other sources like credit and saving associations) over the past 6 months, 14 (51.9%) of them requested the finance but it was completely rejected while 13 (48.1%) of them requested the finance and got only part of it.

In order to assess the reason behind why the respondents failed to get the requested finance, the researcher posed different possible factors to the respondents and the finding shows that 4.2%, 4.2%, 15.8%, 16.4%, 15.8% and 3.6% of them forwarded respectively the following reasons; Level of job, Job situation, loan is not given intensively, low business activity due to Covid-19, due to high interest rate, due to high criteria required and inability to repay back or settle previous loan. Out of the different possible reasons for the small and medium size business enterprises not to get the requested finance fully or partly, the major reasons include low business activity due to Covid-19 and due to high and various criteria required for the loan, and loan is not given intensively.

With regard to the availability of the finance or loan, 32.1% of them said that it has increased through time, 47.9% of them said that it has decreased through time while 4.2% of them said that it has remained stable for a long time and 15.8% of them said that they didn't used any finance at all.

But, the most known and identified limiting factors of Project financing of small and medium size business enterprises that are found in Addis Ababa are insufficient collateral or guarantee and high level of interest rates.

The study also has also examined how the respondents view project financing from a variety of angles, including the firm's age, business acumen, borrowing costs, collateral requirements, awareness of financing opportunities (financial availability), and previous financing practices on current financing. The result has shown that 47.9% and 16.4% of the respondents replied with strongly agreed and agreed response respectively that the age of the firm affects its ability to project financing. Almost half of them (51.5%) and 16.4% of them said that having business skills will influence business performance and hence project financing.

The respondents' perception about the cost of borrowing from different angles is reflected. 7.9%, 16.4%, 20.6%, 7.9% and 47.3% of them gave a strongly disagreed, disagreed, neutral, agreed and strongly agreed response respectively to the item 'Small businesses are usually charged higher interest rate by banks than large firms'. In a similar fashion, 15.2%, 19.4%, 12.7% and 52.7% of them gave a disagreed, neutral, agreed and strongly agreed response respectively to the item 'Lack of reputation and contact in the banking market make it hard to borrow money from the banks'. At last 4.2%, 52.1%, 4.2%, 3.6% and 35.8% of them gave a strongly disagreed, disagreed, neutral, agreed and strongly agreed response respectively to the item 'Lack of information and knowledge as a method or ways of financing makes to borrow hard'. The great majority of the respondents i.e. 87.9% and 4.2% of the respondents have strongly agreed and agreed respectively that inability to possess the required collateral makes project financing difficult. The same is true for those respondents who have strongly agreed and agreed with 12.7% and 59.4% response rate respectively that collateral is a mandatory requirement in project financing. Close to half of the respondents i.e. 44.2% of them are very worried about collateral in project financing. 55.8% and 32.1% of the respondents have agreed and disagreed respectively over the fact that there is available information on who is offering credit facilities. Majority of them (44.2%) disagreed that the performance of the lenders helps to get loan while only few of them 35.2% agreed upon it. 55.7% of the respondent disagree over the fact that alternative sources of finance are accessible to all SME. Most of them (60.9%) of them replied that past experience has an impact on obtaining project financing successfully.

With regard to general information on project financing by the SME, it is shown that 3.6%, 60.6%, 12.1%, 12.1%, and 11.5% of them gave a strongly disagreed, disagreed, neutral, agreed and strongly agreed response to the item 'All the financing opportunities are equally accessible'. Similarly, 3.6%, 23%, 12.7%, 16.4%, and 44.2% of them gave a strongly disagreed, disagreed, neutral, agreed and strongly agreed response to the item 'Using all the alternative sources of financing has more of good side than its bad side'. Close to 64.8% of the respondents said that past experience in financing has no direct effect on the current sources of financing while 26.7% of them said it did so. Also 37% of them said that the presence of past financing has not created an easy opportunity for the current sources of financing while 50.3% of them said it did so.

### 3.2. Inferential Analysis

This section presents the results of the multiple regression analysis.

$$PFFA = 2.324 + 0.754 A + 0.611BS + 0.658 CB + 0.355 CR + 0.720 AF + 0.125PFP \quad (2)$$

**Table 2.**  
*OLS Regression Result for all Explanatory Variables*

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	2.324	.385		6.037	.025
	Age	.754	.057	.627	3.180	.000
	Business skill	.611	.043	.216	2.560	.001
	Cost of borrowing	.658	.094	.209	3.933	.010
	Collateral requirements	.355	.098	.388	3.788	.012
	Availability of finance	.720	.057	.627	6.892	.000
	Past financing experience	.125	.043	.216	2.501	.045

a. Dependent Variable: project financing ability of the firm.

Source: SPSS Result.

In addition to the individual statistical significance (shown by the t- value and sig. values) of each independent variable in affecting the dependent variable, the value of R<sup>2</sup> is 0.810 which shows the effect of independent variables on the dependent variable is too large. That is 81 percent of variation in Project Financing ability of the Firm [PFAF] is caused by the six independent variables (age of the firm [A], Business skill of the firm [BS], Cost of borrowing [CB], Collateral requirements [CR], Availability of Finance [AF] and Past financing practice [PFP]).

To demonstrate the relationship between the independent and dependent variables, a correlation analysis is performed and the result has shown that all the independent variables are found having a positive and strong correlation with the dependent variable. That is among the six independent variables, the three major ones that are highly associated with Project Financing ability of the Firm [PFAF] are Age of the firm [A], Cost of borrowing [CB], Collateral requirements [CR]. The result is depicted here under.

**Table 3.**  
*Correlation Result*

Independent Variables	Dependent variable: Project Financing ability of the Firm [PFAF]	
	Age of the firm [A]	Pearson Corr.
	Sig.	0.000
Business skill of the firm [BS]	Pearson Corr.	0.674
	Sig.	0.001
Cost of borrowing[CB]	Pearson Corr.	0.752
	Sig.	0.002
Collateral requirements[CR]	Pearson Corr.	0.811
	Sig.	0.001

Cont. table 3.

Availability of Finance[AF]	Pearson Corr.	0.667
	Sig.	0.000
Past financing practice [PFP]	Pearson Corr.	0.621
	Sig.	0.000

Source: (SPSS output).

#### 4. Discussions

Despite a wealth of study on SMEs, a review of the literature reveals a gap in the body of knowledge about the particular subject of SMEs' project funding. The supply side of financing instruments is the main topic of most studies. However, the demand side of SMEs' project financing practices is the focus of my research, which will be valuable because I have explained the current state of affairs for SMEs in practice.

Three main areas are highlighted in my research: SMEs' financing practices, factors influencing SMEs' project financing and challenges SMEs face when financing their projects. Furthermore, comparable studies have concentrated on certain industries, such as manufacturing or a particular category of SMEs; however, this research is wide in its approach and there is a knowledge vacuum because not much research has been done on SMEs in the Addis Ababa area. In general, the characteristics of SMEs affect their financial decisions and behavior and ultimately the firm's performance and growth.

From the research finding it was found out that the age of the firm has an effect on project financing. Similarly, it is found that business skill of the firm has an effect on its project financing. According to the study, the cost of borrowing explained in terms of high rate of interest that banks charge and lack of reputation affects the project financing of SME adversely. The research finding revealed that collateral as a mandatory requirement for project financing has become a serious issue and determinant factor of project financing for most of the Small and Medium Enterprises. It is revealed that that availability of finance has a great impact on project financing of Small and Medium Enterprises. For instance, availability of information on who is offering credit facilities and past experience has an impact on obtaining project financing successfully. In its general sense, even if past experience in financing has no direct effect on the current sources of project financing, it may have an indirect effect on project financing. For instance, past project financing has created an opportunity for the SME to have an easy access to the current sources of financing.

## 5. Summary

From the study result, it is concluded that shortage of raw material and machine, low level of business activity, and lack of finance, are the major problems that small and medium size business enterprises of Addis Ababa are suffering from. The trend of project financing shows that the major source of financing are local credit and saving associations and this trend is currently found declining through time.

Finally, the study result clearly depicted that Project Financing ability of the Firm [PFAF] of the small and medium size business enterprises is determined by factors such as age of the firm [A], Business skill of the firm [BS], Cost of borrowing [CB], Collateral requirements [CR], Availability of Finance [AF] and Past financing practice [PFP]). Among these six factors, the top three determinant factors of project financing are Age of the firm [A], Cost of borrowing [CB], and Collateral requirements [CR].

Although the critical study on project financing methods in Ethiopian small- and medium sized businesses (SMEs) in Addis Ababa offers insightful information, it should be noted that there are certain drawbacks and shortcomings. The 165 SME respondents in the study may not be a representative sample of all Addis Ababa's SME community, which restricts the findings' potential to be applied broadly. The study's dependence on self-administered surveys could have led to response bias since participants might not have comprehended the questions or might have given socially acceptable replies. The supply side of project financing practices, such as the role of financial institutions and governmental regulations in supporting SMEs' access to funding, may have been neglected in favor of the study's demand-side focus. The study's dependence on quantitative research techniques might have limited our knowledge of the elements influencing project finance practices and the difficulties experienced by SMEs. Because the business climate and financing methods in different places and nations may vary, the study's focus on SMEs in Addis Ababa could not be applicable to SMEs in other locations or nations.

However, the study has yielded important new insights and lessons in a number of important domains. The study provides fresh perspectives on the obstacles SMEs encounter while trying to secure project funding, especially in the context of Addis Ababa. It clarifies the particular problems associated with poor company activity, a shortage of raw materials, and a downward tendency in the use of local credit and savings institutions as funding sources. SME owners, policymakers, and financial institutions can learn a lot from the discovery of the top three project financing determinants for SMEs: the firm's age, the cost of borrowing, and the collateral requirements. Gaining insight into these factors can assist project stakeholders in identifying and removing obstacles to project funding. It suggestions also , which include the necessity for SMEs to obtain funding, diversify their commercial endeavors, and receive government assistance by making resources and financing more accessible, provide useful

guidance for decision-makers in government offices. In summary, the critical research provides fresh insights and insightful lessons about the obstacles and factors influencing project finance for small and medium-sized enterprises (SMEs) in Addis Ababa. It also has useful ramifications for future researchers, policymakers, and SME owners.

There are various reasons why it is crucial to conduct critical study on project financing practices in small and medium-sized enterprises (SMEs) in Addis Ababa, Ethiopia. With regard to Ethiopian SME financing practices, particularly in the setting of Addis Ababa, the study fills a vacuum in the literature. The study's conclusions can be used to guide the creation of programs and policies that assist SMEs and increase their access to funding. By gaining a better understanding of the obstacles and factors influencing project finance, SME owners can create plans to increase their marketability and financing availability.

Lastly, the researcher makes the following important suggestions. The small and medium size enterprises are advised to raise up their internal capital from government and non-government financial institutions. The government needs to support the small and medium size enterprises by facilitating the necessary raw material, machine and finance; through tax exception, leasing and by broadening the alternative sources of finance. The small and medium size enterprises are recommended to diversify their business activity other than the manufacturing, agricultural and textile industries; whereby creating the possibilities in the area of importance for the financiers. The government is also recommended to broaden its policy in providing the alternative sources of finance to the SME other than only saving and Credit Associations. National Bank of Ethiopia which sets the bench mark for interest rates is recommended to introduce a new policy for lending with lowering of interest rate, thereby, minimizing the cost of borrowing of the small and medium size business enterprises. Those stakeholders who are involved in project financing need to make the procedure and requirements of the collateral simple and conducive to the enterprises.

Furthermore, in addition to previous recommendations, conducting a study on supply side of project financing practice would provide a holistic project financing assessment of SMEs. This would enable us to identify any gaps or areas for improvement in the current practices and develop more effective strategies to support SMEs in their financing needs.

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