



ADDIS ABABA UNIVERSITY SCHOOL OF BUSINESS AND ECONOMICS

**Department of Public Administration and Development Management
Master's in Public Management and Policy (MPMP)**

Assessment of the challenges of Micro and Small Enterprise:

The case of Kirkos Sub city (MSEs)

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Declaration

I, the undersigned that this thesis entitled “ An Assessment on the challenges of Micro and small enterprise, The case of Kirkos sub city (MSEs) “ Is my original work and has not been presented for a degree in any other university and that all source of materials used for the thesis have been duly acknowledged.

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Acknowledgment

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Acronyms

AACAIB	Addis Ababa City Administration Industry Bureau
BDS	Business Development Service
CBO	Community Based Organizations
CSA	Central Statistical Authority
EPRDF	Ethiopian People Republic Democratic Front
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GTP	Growth and Transformation Plan
MFI	Micro Finance Institute
SMEs	Small and Micro Enterprise

Abstract

This study assessed Assessment of the challenges of Micro and Small Enterprise the case of Kirkos Sub city (MSEs. To achieve the overall objective of the study data were collected from member respondents of SMEs works. The researcher follows systematic and purposive sampling technique, these sectors were selected with the consultation of the Woreda officials and data obtained from the organizational profile of different enterprises operating in the sub city. On the other hand using purposive sampling technique sample participant were selected accordingly, from 397 total members of SMEs 129 were included Accordingly, challenges of financial facilities, marketing networks, infrastructural faculties, management efficiency as well as socio political situations had very high effects and negative effect on the progress of the studied area SMEs. Thus Considering the output of the research, the study were recommended the following; MFI interest rate is so high and loan payback period is short, to reduce this challenges the study recommend MFI reconsiders the procedures, to reduced management efficiency among member groups of SMEs the study recommend that the sub city bureau of SMEs may providing experts technical assistance and training according to the nature of the enterprises. And finally the study the sub city to conduct continuous research to identify the potential problems of the enterprises.

Key Words: *SMEs, Fiancé, market, infrastructure, management and socio-political situation*

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Micro and Small Enterprises (MSEs) sector is described as the natural home of entrepreneurship. MSEs have the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress (Kayanula and Quartey, 2000).

Despite their potential to improve economic growth, micro and small enterprises (MSEs) in developing countries lack serious attention. They produce largely for the low income group and employ lower levels of techniques. Many of them are self-employed type with a low transformation rate into higher size categories and their innovative activities are limited (Murinde, 2006).

Small and Medium Enterprises are widely acknowledged to contribute towards promotion and development of inventions, and thereby generate employment opportunities in Ethiopia. MSEs are particularly important in the context of the country's poverty-reduction strategy because they are seedbed for the development of medium and larger enterprises, and because they absorb unemployed labor in the country (CSA, 2007).

Tushabomwe (2006) revealed that small businesses face different challenges that limit their survival and development. Majority of local entrepreneurs establishing micro businesses are susceptible to failure that is attributed to both internal factors (wrong pricing, negative cash flows, poor record keeping, management problems, lack of planning and faulty products) and external factors (government taxation, load shading, inadequate capital, poor markets and high rents)

According to Temtime and Pansiri (2004) sustainability and competitiveness and; internal managerial problems are identified as the major causes of small businesses failure. The managers of small businesses perform poorly in the areas of bookkeeping, marketing,

Ware housing, stock control, production scheduling and quality controls.

Mead and Liedholm (1998) and Swierczek and Ha (2003), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998), intense competition with replication of micro-businesses (Manning & Mashego, 1993); manager characteristics including lack of skills and experience (Katwalo and Madichie, 2008 and Verhees, 2004).

There can be various factors like Policy and procedure of government system, political, financial, managerial and motivational challenge that affect performance of small business in general and MSEs in particular. Searching on the literature challenge affecting MSEs Performance is not similar across the world, we can find various challenge affecting their activities (Ishengoma, 2004). The study done by O.Okpara (2011), on MSEs operating in Nigeria report that, lack of management experience of the small business owners is the major reason to small business failure in Nigeria. As the findings of this study shows that, most business owners who do not have management experience and adequate training and skills to operate a business faces a problem of collapse of their businesses. Temtime and Pansiri (2004) also reported in their study of Small business Critical Success/Failure Factors in Developing Economies, in Botswana shows that; marketing activities such as product marketing, market research, and demand forecast and so forth have a greater impact on small businesses performance.

Ethiopian MSEs are also challenged by many factors. According to the CSA Report (2008), the major obstacles experienced MSEs in Ethiopia differ according to the types of MSEs and the area where they exist. Accordingly, MSEs located in Urban and rural parts of the country didn't affected by similar factors.

Therefore, the selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process. The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measure that might not truly reflect its performance (Alasadi and Abdelrahim, 2007).Based on the above premises in this study attempt will tried to investigate the assessment of challenges performance of MSEs in Kirkos Sub – City.

Kirkos Sub-City is one of the 10 Sub-Cities of Addis Ababa, which is located at the center of Addis Ababa, where Addis Ababa stadium and Meskel square are located. The Sub-City is one of the densely populated parts of Addis Ababa. The Sub-City has 11 woredas, which constitute grassroots urban administration units in Ethiopia. There are 738 MSEs which are registered in kirkos Sub-City MSEs office. Commonly the sub city classified MSEs in Five categories (Construction, Service, Petty Trade, Manufacturing, and Urban Agriculture).

The sub city has the highest MSEs in compare with the rest sub city of Addis Ababa. According to CSA report of (2008), the unemployment rates in Addis Ababa reach 31.46%. Kisros sub city with dense population are faced with socio-economic problems as unemployment, housing problem, inadequate market infrastructure, problem of waste disposal, shortage of recreational center for the youth and the inhabitants migrate to find job. Most of the populations of the sub city fall in medium and lower living standards, and are engaged in low standard informal activities.

1.2 Statement of the problem

Micro and Small Enterprises (MSEs) sector is described as the natural home of entrepreneurship. MSEs have the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (Bass, 2005). In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress. In Ethiopia, although MSEs exist for longer periods, they have got the attention of policy makers, academicians, and researchers very recently.

The first's time MSEs were designed in Addis Ababa city Administration in 2003E.C developed a business plan for the first time in garment, dry food, metal and woodworks sub sectors. Later on in 2005 an overall MSEs Development program was designed for the entire country.

Apart its business opportunity and reduction of poverty and unemployment rate of youths, Small and micro Enterprise hampered their performance through several variables such as, lack of finance for projects, lack of qualified employees, marketing problems, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how problems and so forth (CSA, 2007).

There are a lot of factors that affect the performance of MSEs either positively or negatively which in turn will determine their fate in the competitive business environment. These factors which contribute to the success of the enterprises are mainly related with the personal attribute of the owners' and attributes related to the enterprises. Given the importance of small business for an economy, the survival, success and performance of these enterprises in this sector is an issue of continuous concern. Research that can lead to the identification of those factors associated with small business performance is therefore of a great interest to policy makers, owner-managers and their advisors (Alasadi and Abdelrahim, 2007).

Understanding of why some firms performed well and others not is crucial to the stability and health of the economy. Despite this fact, however, which factors are the most important factor affecting performance of MSEs Sector in Ethiopian has not been adequately studied empirically. In this regard the study were assessed several published and unpublished academic researches to reduced area of similarity, accordingly, there were a study took place by Dagmawit on determinants of Micro and Small Enterprises Growth: The Case of Durame Town, KembataTembaro Zone, Southern Nations and Nationalities and Peoples Region, Ethiopia, in 2016 and the finding implied, that out of the total sample 40% of Micro and Small Enterprises are growing and 60% of Micro and Small Enterprises are non-growing in terms of employment. In terms of capital 69% of Micro and Small Enterprises are growing and 31% are non-growing. The study was simply indicated Progress of MSEs interims of employment creation, and capital development. However, were not Investigate which factor affect MSEs Performance. There were also a study conducted by Alemayehu (2010) on factor affecting performance of MSEs in the Construction Sector of Addis Ababa; the finding identified major factors affecting construction

sectors of MSEs of Addis Ababa. One of the research gaps of this is that, the study consider only constriction sector.

Zelege (2009) conducts a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises.

The study conducted above have been tried to indicate challenge of the sector in specific sectors of MSEs and considering specific factors and their effect of MSEs. However, in this study attempts will made to assess several types MSEs and tried to identify common Challenges affecting performance of the sectors. Accordingly the study consider major types of MSEs such as, Wood Work, Constriction, food and beverage, Urban Agriculture, and Textile and Garment sectors.

1.3 Basic Research question

1. How Financial Constraints affect Performance of Micro and Small Business enterprise in Kirkos Sub – City
2. What are the major constraints SMEs marketing practice?
3. What are the common challenges of infrastructural facilities in MSEs?
4. How Society perception and view affect the enterprise performance?
5. How SMEs Members management systems affect their enterprise Performance?

1.4 Objective of the study

The study have both general and specific objective

1.4.1 The General Objective

The overall objective of the study is assessing the common challenges micro and small business enterprises performance in Addis Ababa in the case of Kirkos Sub – City.

1.4.2 The specific objective of the study

1. To assess financial challenges and constraints affect Performance of Micro and Small Business enterprise in Kirkos Sub – City
2. To identify major constraints with respect to market relation challenges impending the enterprises performance
3. To assess infrastructural challenges with respect to performance of MSEs
4. To examine society perception and its effect on SMEs performance
5. To examine members of MSEs management efficiency system and its effect on their enterprise Performance

1.5 Significance of the Study

The study can help in identifying the existing challenges and posed on the successfulness by identifying the major constraints which affect the activities of MSE. The main findings of the study expected to indicate the strategic intervention areas that might be improved. Furthermore, this small case study also used, as academic experience for the researcher and reference for others researchers and academicians in related area.

In addition the Findings from this study will assist academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical factors that affect the performance of MSEs. The findings of this study will help MSEs in Kirkos sub-city and others, within an insight into the benefits of using different factors studied in this research to predict the assess the challenge that affect the performance of MSEs. The government can use the findings of this study to assist in policy formulation and development for a framework for critical finance, marketing, work premises and other common challenge that affect the performance of MSE. Moreover, the findings of this study will help the policy makers and financial institutions how to encourage establishing or expanding MSEs. It also enables them to know what kind(s) of policies should be framed.

1.6 Scope of the study

Because of time, cost/financial, work load constraints it is difficult to study including all micro small enterprise found in the sub – city. Therefore, this study is delimited only to assess determinates affecting SMEs business development in Kirkos sub city giving spatial emphasis to Wereda 05 and 06 MSE. In line with the area the study will investigate current practice of MSE, factors that affect the enterprise regarding external factors such as, Shade accesses, government strategies, infrastructural challenges, financial challenges, view of and society, while internal factors will focus on assessing management efficiency of the enterprise, rule and regulations effectiveness. The study delimited on members of the MSEs engaged in Construction, Textile and garment, food and beverage and Wood works. In addition the sub city administration of SMEs will also included as respondents of the study

1.7 Organization of the Study

The report of the study will divided into five chapters:

Chapter One: Introduction: This chapter which will divided into sub-sections, sets an overview part. It also deals with the background information to the research problem, statement of the problem, objectives of the study, research questions, research hypothesis, and significance of the study, scope of the study, limitation of the study, operational definitions of terms and organization of the study.

Chapter Two: Review of Related Literature: This Chapter will focus on reviewing related literatures. It includes a brief description of the literature review such as related theories, theoretical reviews and empirical findings, conceptual framework of the study which served as subsequently related to the study.

Chapter Three: Research Methodologies: The chapter will be divided into sub-sections such as research design and methods (data sources, target population, sampling techniques, data collection methods, reliability and validity and ethical consideration) and analysis of the study.

Chapter Four: Data Presentation, Analysis and Interpretation will be applied.

Chapter Five: Summary, Conclusions and Recommendations: Finally, this section will presents a summary of findings, major conclusions and sets recommendations on how to enhance small and micro enterprise challenges.

CHAPTER TWO

2. Literature Review of the Study

2.1 Definitions and concepts of Micro and small enterprises

Universally there is no common definition of MSEs and different countries use different words based on the conditions of MSEs and countries economy. The statistical definition of MSEs varies by country, and is usually based on the number of employees or the value of assets. The lower limit for MSEs is normally set at 5 to 10 workers and the upper limit at 50 to 100 workers. Since these limits can vary in different countries, one should not overly concern about the lack of consistency in employment-based definition of MSEs. For example, a 50-employee firm in USA would be considered as smaller than a 50-employee in Bolivia due to the relative size of their economy (Adil, 2007).

According to Kayanula and Quartey (2000) in Malawi, the official definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees and turnover. An enterprise is defined as small scale if it satisfies any two of the three criteria, that is, it has a capital investment of USD 2,000 - USD 55,000, employing 5-20 people and with a turnover of up to USD 110,000 (using 1992 official exchange rate). The same authors narrated that, Some of the key characteristics of small enterprises are mobilizing funds which otherwise would have been idle; being a seed-bed for indigenous entrepreneurship; their labor intensiveness; employing more labor per unit of capital than large enterprises; promoting indigenous technological know-how; using mainly local resources, thus have less foreign exchange requirements; catering for the needs of the poor and; adapting easily to customer requirements (flexible specialization).

In Kenya, by referring the 1999 MSE National Baseline Survey, MSEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people (Ronge et al., 2002 cited in Mulugeta, 2011:15). More specifically, according to them, micro enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the

three criteria mainly used in literature to define MSEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based; and lastly they claimed that the term MSE incorporates firms in both the formal and informal sectors.

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Similarly, in Ethiopia there is no uniform definition at the national level to have a common understanding of the MSE sector. Ministry of Trade and Industry (MoTI) and the Ethiopian Central Statistics Authority (CSA) have defined MSEs separately. While the definition by MoTI uses capital investment, the CSA uses employment and favors capital intensive technologies as a yardstick. The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating MSE development strategy in 1997 (MoTI, 1997:8-21).

According to the official definitions of MoTI, micro enterprises are businesses enterprises found in all sectors of Ethiopian economy with a paid up capital (fixed assets) of not more than Birr 20,000, but excluding high technology consultancy firms and other high technology establishments. Small enterprises are business enterprises with a paid up capital of more than Birr 20,000 but not exceeding Birr 50,000 and excluding high technology consultancy firms and other high technology establishments (MoTI, 1997:8-21).

The central statistical authority has attached various definitions to enterprises based on capital, level of technical and technological capacities. In 2003 the CSA based its definition of MSEs on the size of employment and extent of automation for small scale enterprises and used a combination of these criteria for defining such enterprises. Accordingly, it has defined small scale manufacturing enterprises as: Establishments engaging less than 10 persons Enterprises in the micro enterprise category are sub-divided into informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non power driven machines. The informal sector is defined as household type establishments or activities, which are non-registered [enterprises] and cooperatives operating with less than 10 persons (CSA, 2003:21).

According to regulation, “micro enterprise” means an enterprise having a total capital, excluding building, not exceeding Birr 50,000 in the case of service sector or not exceeding Birr 100,000 in the case of industrial sector and engages 5 workers including the owner, his family members and other employees (Art. 2(1)). The same regulation defines “small enterprise” as an enterprise having a total capital, excluding building, from Birr 50,001 to 500,000 in the case of service sector or Birr 100,001 to Birr 1,500,000 in the case of industrial sector and engages 6 to 30 workers including the owner his family members and other employees (Art.).

As we can understand from the above definitions, there is no universally acceptable definition of MSEs. Different scholars define MSEs differently based on the level of development of the differently using their own parameters.

2.2.1 Ethiopian Micro and small enterprise (MSEs) Strategy

In contrast to many MSE related studies, the working definition of MSE in Ethiopia is based on capital according to the micro and small enterprise development strategy

- Micro enterprise are those business enterprise with paid-up capital of not exceeding birr 20,000 and excluding high tech consultancy firms and other high-tech establishment
- Small enterprise are those business enterprise with a paid-up capital above birr 20,000 and not exceeding birr 500,000 and excluding high tech consultancy firms and other high-tech establishments (FDRE Ministry of trade and industry 2007)

Hence, in this case the definition is based on capital and the level of technical and technological capacities adopted. The information on MSE in Addis Ababa indicated that from all the total licensed enterprise, 75.4 % are micro enterprise, 20.9 % are small enterprise and the remaining 3.7 % are medium and large enterprise (Addis Re MSED 2009).

During the socialist regime (1974-1991) due to extensive nationalization of private sector, many of the former private sector firms ceased to exist. But after 1991, the current government adopted several policies and regulations aimed at supporting the informal sector. MSE serves as sources for sustainable job opportunities not only for developing countries like Ethiopia, but also for developed countries like USA. Thus they are given prior attention as they are important and serve for sustainable source of job opportunities to our country. As a result many important overall policy and institutional reforms have been undertaken including: safety net, decentralization, market economy, agricultural development led industrialization (ADLI), etc, Moreover, a number of sector specific policy reforms and restructuring of regulatory institutions may have contributed to the process of creation of micro and small enterprises. One of them frameworks was related to issuance of National Micro and Small enterprise Development strategy in 1997 and the issuance of proclamation No. 33/98 to provide for the establishment of the Federal Micro and small enterprises Development Agency (Addis Re MSED 2009).

In the same way to promote MSE, the Addis Ababa Trade and industry Development Bureau has two branches, one is for MSE which focus on the development of enterprise and the

other one is for trade and industry. Micro and small enterprise are one of the focal points on development agenda of the municipal government of Addis Ababa. MSE branch has three main departments namely, MSE Development, Marketing, Research and promotion Department and the Cooperatives promotion and Controlling Department. Similarly, the structure of the MSE is extended to all sub cities in Addis Ababa. There are MSE teams and teams for the promotion of cooperatives in each sub-city while at” Kebele “level it is handled by the MSE office under the kebele chief executive (Addis Re MSED A 2009). The MSE branch has been organizing people with different skills into individual business and cooperatives by creating job opportunities and providing various supportive services in coordination with NGOs to create a favorable environment for growth of sector (Addis Re MSED A 2009). Organizing and licensing was done by the cooperative office and a working premise was provided by the sub-city administration, and other concerned housing and land agencies space was provided depending on the size of the available land by assigning four square meters per person for a monthly fee of birr 1.00/m² for the food processing sector and monthly fee birr 2.00/m² for the metal and wood works sectors (Addis ReMSED A 2009).

In November 1997, the Ethiopian Ministry of trade and industry published the “Micro and small Enterprises Development strategy “, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MOTI, 1997). Elements of the program include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the establishment of new and expansion of existing MSEs. In addition specific support programs also include measures related to providing working premises, facilitating access to finance, provision of incentives, promotion of partnership, business skill development training, Access to appropriate technology, Access to market, Access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

2.2.2 Ethiopians Micro and small Enterprise (MSEs) Promotion Policy

The role of Micro and small enterprise (MSEs) is indispensable in poverty reduction through employment generation. Cognizant of this, a national MSEs Development Strategy was formulated in 1997. Ethiopian's MSEs Policy envisages not only reducing poverty in urban areas but also nurturing entrepreneurship and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment and number of entrepreneurs and transition to medium size level (Addis Re MSED A 2009)

MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space. The government strongly believes that MSEs are the right solution to reduce urban unemployment and hence reduce poverty. This ambition is reflected in the GTP. For instance, it plans to create three million new jobs in the MSE sector in the five years growth and transformation period. Therefore, MSE promotion and support is the vital strategy to fulfill this national plan of employment creation in the short-run and achieving industrialization in the long- run. Ethiopia adopts a layered policy support in which MSEs are categorized into start-ups, growing-middle and maturity. Start-up stage enterprise refers to those enterprise found at their establishment stage and comprise a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of know how about the different government policy and directives related to the sector. In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique.

Growing stage enterprise refer to those enterprise that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business, However, enterprise at this stage also suffer from different challenges like financial constraint, lack of appropriate technology and technical skill, absence of

sufficient working and sales premise and rent seeking behavior. To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, enterprise are consider to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FEMSEDA has a strategy that aims to strengthen enterprise in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to enterprise.

2.2.3 Challenges of Micro and Small Enterprise (MSEs) Development in Ethiopia

In Ethiopia, MSEs are confronted with various problems, which are of structure, institutional and economic in nature, Lack of capital, working premises, marketing problems, shortage of supply of raw material and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sectors contribution to the economy, there are still constraints related to infrastructure, credit, working premise, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and improvement. It is in this context that the Ethiopian Micro and Small Enterprises Development Strategy was conceived and developed (Ministry of Trade and Industry, 1997)

2.3 Theories on micro and small enterprises

Different views have been developed and discussed in the area of micro and small enterprise's role and their function. Among them, labor surplus theory, output demand theory and firm growth theories are the major theories and discussed below.

2.3.1 The labor surplus theory

Among different theories developed for MSEs, labor surplus theory focuses on labor related issues. The labor surplus theory, called the main theory, which goes back to the seminal work by Lewis (1955), argues that the driving force behind MSE development is excess labor supply,

which cannot be absorbed in the public sector or large private enterprises and is forced into MSEs in spite of poor pay and low productivity (Alemayehu, 2010). Arguably, the MSE sector develops in response to the growth in unemployment, working as last option for people who are unable to find employment in the formal sectors. According to this theory, MSEs are expected to grow in periods of economic crisis, when the formal sector contracts or grows too slowly to absorb the labor force. However, when formal employment grows, the MSE sector is assumed to contract again and thus develops an anti-cyclical relationship with the formal economy (Abdi, 2010). However, there are some empirical problems with the unemployment theory of the growth and development of MSEs (Murinde, 2006). First, there is lack of reliable and adequate data for researchers to test the hypothesis that MSEs absorb surplus labor from the public sector or large private enterprises and the hypothesis that increases in labor demand by MSEs has taken place before or after structural adjustment. Second, for the MSE sector to function as a place of last resort, it must be easily accessible. However, many studies have shown that this is only the case for a handful of MSE activities. It is also sometimes argued that MSEs concentrate on trade because this requires less capital and knowledge than production (Christopher & Murinde, 2006).

2.3.2 The output-demand theory

This theory assumes that a precondition for the development of MSEs is that there is a market for their products and services. Therefore, the MSE sector will tend to develop a cyclical relationship with the economy as a whole. However, MSEs will also develop in competition with large enterprises in the formal sector, and their development will be constrained by formal sector monopolies. Structural adjustment and other policies that limit such monopolies, and attempt to create more competition, will therefore be advantageous to the MSEs, because this may allow them to capture market shares from the large enterprises (Benyam, 2008). Proponents of structural adjustment and stabilization policies tend to base their arguments on this theory. Empirical studies based on the output-demand theory tend to focus on the upper end of the MSE sector, particularly the manufacturing enterprises and the larger, more resourceful and successful MSEs, which have a potential to grow into the formal economy. These studies propose strengthening of the MSEs through networks or via the creation of forward linkages with the formal economy, for example franchising and sub-contracting (Murinde et al, 2006).

2.3.3 The firm growth theory

The firm growth theory known asserts that MSEs are more likely to disappear and be replaced by modern large-scale industry. This theory has, however, been shown to be inaccurate in the sense that MSEs do not normally compete directly with large enterprises; rather, they often tend to remain micro and small, co-existing with large multi-national companies, which phenomenon the World Bank (1989) has identified as the 'missing middle' (Ryan, 2005). The most obvious activity where these niches exist is in distribution to areas or income groups where their costs would be prohibitively high for large enterprises. However, in a literature survey on macro analyses of micro enterprises in developing countries, Liedholm and Mead (1993) came to the conclusion that macro-level empirical evidence indicates that, as aggregate per capita income increases, there is a systematic pattern of evolution of MSEs towards larger firms based in larger localities, producing more modern products. Nevertheless, critics of this view argue that analyses on MSE development must take account of differences in their efficiency, the type of influence MSEs exercise in society, linkages between small and large enterprises, the changing roles of women entrepreneurs, differences in the level of education in the labor force and other socio-economic differences (Murinde et al, 2006). In general, each of the three theories has been modified into some variants; however, one of the important elements common to all the theories and variants is the proposition that the growth of MSEs can contribute to poverty reduction or in other word enhance the local economy.

2.4 Local economic development approaches

Concerning local economic development approaches, there are two broad strategic orientations as mentioned on Tegegne (2011). These strategies are discussed by Tegegne (2011) and summarized as follow.

2.4.1 The market-driven approach

The market-driven approach, focus on the pursuit of economic growth, investment attraction, and courting high profile business. This approach has a number of benefits; it addresses the goals of individual self-reliance, entrepreneurship, expansion of the market, competitiveness, reduction of unemployment and sustainable growth (Rogerson, and tegegn, 2011). The various interventions in market-driven approach include:

1. Location (general tax incentive, enterprise zones, industrial parks),
2. Pro-globalization (sister cities program, export promotion, foreign trade zones, attraction of international direct investment),
3. General entrepreneurial (venture capital provision, targeted tax incentive),
4. Entrepreneurial mercantile (business incubators, equity participation, local development corporations, and
5. Human capital (employment training, human capital initiatives) (Rogerson, 2000).

2.4.2 Pro-poor LED approach

There are different dimensions in pro-poor LED. The first relates to the role and functions of municipality or the MSEs-level intervention in poverty reduction. It is understood that municipalities are well placed to undertake local planning in the area of poverty alleviation in association with the private sector, NGOs and CBOs (Pieterse cited in Tegegne, 2011). The poverty reduction roles of municipalities involve facilitation, coordination, planning and programming, implementation and monitoring of different infrastructure. On the other hand pro-poor LED can be measured based on community-based economic development. Helmsing (2003) cited in Tegegne (2011) has noted that community economic development has five broad aims:

- To stimulate a sense of community;
- To promote self-help and empowerment;
- To contribute to the generation of (self-)employment;
- To improve living and working conditions in settlements; and
- To create public and community services.

Helmsing (2005) notes that most CED activities in Africa have related to the following components as mentioned in Tegegne (2011) these are creating local safety nets, housing improvement and settlement upgrading, basic service delivery; micro-enterprise programs. CED enterprises are based on a consideration of the relationship between economic factors and other community elements such as housing, education, the natural environment, health and the arts.

2.4.3 Role of the MSE Sector

MSEs have been recognized as engines of growth and development throughout the world (Munyori and Ngugi, 2014). The MSE operations worldwide plays a pivotal role by adding value to the economy by creating jobs, enhancing income, lowering costs and adding business convenience. MSEs are now widely recognized as a major component in the growth and development of emerging economies. They are found to be one of the most reliable economic development and livelihood strategy, especially during economic turbulence. The importance of MSEs in general and new businesses in particular makes a significant contributions in addressing socio economic problems such as unemployment, poverty, income inequalities, political stability and economic growth among others. In Ethiopia, the MSE has prioritized for economic growth, employment generation and building an industrial economy. The MSE sector serves as vehicle of development and broadens employment opportunities at urban center. The elements of the sector are taken as the major productive forces in the manufacturing sector and serve as incubation hubs for developmental investors. MSEs play great role in utilizing local resources and are labor intensive (FMSEDA, 2012). According to the Central Statistic Authority (2003), almost 50% jobs created in Ethiopia are attributable to MSE of which 974,676 micro and 31,863 are small enterprises, which accounts for 99.40% and 0.46% respectively. In addition, micro enterprises and small enterprises provide employment opportunities to 89.75% and 0.91% respectively.

2.5. Challenges of SMES progress

According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia face critical constraints both at the operation and start up level. Some of these constraints include Challenges of Financial access, Challenges of Market, infrastructural, Policy and procedure of government as well as managerial challenges. Some of the determinate variables assessed in this study also discussed with related literatures as follow:

2.5.1 Financial Challenges

Different research evidenced that the small firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators/owners are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions (Sethuraman, 1997). Credit from formal sources are not only managed by government regulations but often they also form part of public sector domination, and hence administered by a bureaucracy that is generally unfriendly to the poor, illiterates and semi-educated in the small firm sector. Similar attitudes also prevail in the private sector; the private banks for example rarely find it profitable to deal with these units, though a few exceptions are emerging (Sethuraman, 1997).

Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new

Enterprises and the growth and survival of existing ones will be impeded (Commission

On Legal Empowerment of the Poor, 2006). Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most micro and small enterprises do not have access to

micro finance institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The standard of loan appraisal, the long delay the banks take to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100% of the loan amount, are the major obstacles that small scale enterprises are facing (Commission on Legal Empowerment of the Poor, 2006).

Moreover, the interest rate by most micro finance institutes, which is higher than the lending rate of formal banks, inhibits effectiveness in addressing the needs of micro enterprises (Commission on Legal Empowerment of the Poor, 2006). According To Wolday and Gebrehiwot (2006), more than 93% of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.).

The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSEs Expansion. Due to this 85% of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with Better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

2.4.2 Marketing Challenges

Marketing problem is the main constraint for the growth of enterprises (Rahel& Paul, 2010). Micro and small enterprises in Ethiopia faced various marketing problems. There is lack of product diversity and as a result similar products are over crowding the market. In addition to this certain micro and small enterprises lack the skill to modify their products and they have lack of sufficient range of product designs (Assegedech, 2004). Ethiopian micro and small enterprises have different pricing problems such as lack of costing knowledge, did not include over head costs, salary or wage of family members involved in the production process are not considered, and do not know the exact earning From sales (Assegedech, 2004).

Many MSEs Plan to promote their products, however, their budget is mostly limited. In addition to this, such MSEs have lack of awareness how to compete in the market. MSEs are less advantageous to compete in the market than large companies since they have smaller economies of scale (Assegedech, 2004). In terms of problems related to product diversity, the findings of Assegedech (2004), Rahel and Paul (2010) and Eshetu and Mammo (2009) are similar. According to Eshetu and Mammo (2009), majority of MSEs produce or give services of similar products in a limited domestic market.

Most of them do not seek new possibilities and opportunities outside the local markets. (Rahel and Paul 2010) also reported the presence of competition is the most significant factor. This is because of the reason that enterprises in the same sector sell identical products without any additional distinctiveness and innovative activities. This led them to compete for the same demand. Due to this, the local markets crowded with similar products or services and the level of competition among local producers of goods and services is intense. As result, the returns are fairly low In addition, presence of illegal traders around their market place leads to unbalanced competition and low demand for merchants who are legal. This results in lack of demands which is another problem for the enterprises.

The establishment of markets in residential areas also limits the demands. The change in Demand and being unable to modify their products with the demand is the other marketing problem. Because of such collective factors (stiff competition from local and foreign products), most of the MSEs are claimed that they are at a disadvantage. There are no sufficient institutional facilities that nurture the promotion, growth and development of MSEs. Marketing their products effectively as well as accessing and acquiring information on business opportunities are the major bottlenecks that small and micro entrepreneurs face all over the country. As a result, the design and quality of products of MSEs are below standard. In addition, lack of marketing skills and weak infrastructural facilities renders small businesses to be uncompetitive (Commission on Legal Empowerment of the Poor, 2006).

Mbonyane and Ladzani, 2011, Olawale and Garwe, 2010 Bowen et al, 2009 also found that lack of appropriate marketing practices are among the major constraints that hinder the smooth function of MSEs. Bowen et al (2009) found that there is fierce competition in the small business sector which leads to price competition and small margin of profit. Olawale and Garwe (2010)

also show that high competition is among the major factors that hinder the growth of micro and small enterprises. This is due to the reason that most of MSEs tend to congregate in dense markets and overcrowded cities. Small business owners do no long find it easy in competing with their own goods which is mostly perceived by consumers as low quality ones when compared with those of the multinational companies. Due to the aggressive competition small business enterprises are facing from companies that operate with greater capital outlay, companies with better and modern equipment's for production, companies with better manpower and companies with marketing capabilities have resulted to low level of business and at times outright closure by small business owners (Etumeahu, 2009).

2.4.3 Infrastructural Challenges

The most of small firms faced lack of appropriate location for their businesses. Some of the small firms are located in places with inadequate supply or lack of public services and economic infrastructure (water and electricity, transport systems, telecommunication system, sanitation services). In comparison to middle or high-income communities, small firms with access to these services incur a relatively high cost per unit for the service. Besides, small size firm cannot afford to invest in private public goods (Reinikka and Svensson, 2002) or to buy services from private providers which would be more expensive than supplying from government suppliers (Ishengoma, 2004). A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards (Hygiene standards in café), hinders their participation in linkage relationships.

Good infrastructure facilitates have a positive effect in reducing the cost of operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu& Mammon, 2009).

According to Commission on Legal Empowerment of the Poor (2006), though not directly linked, inadequacy of infrastructure (road, banking service, electricity,

telecommunication and other services in facilitating smooth operation of private investment are serious impediments. Rahel& Paul (2010) also identify that even if access to infrastructure is not reported as a significant problem, lack of access to water and lack of awareness about the advantages of telephones and media leads to a negative or insignificant effect on the growth of enterprises.

According to the findings of the same research most MSEs have an easy access to transportation. But, the number of enterprises that has access to the rest of the infrastructures such as telephone, television, radio and water are limited.

2.5 Managerial Challenges

There is lack of knowledge of entrepreneurial and managerial capacity, and marketing experience. Lack of skill leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipments is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control, and those with technical knowledge (Commission on Legal Empowerment of the Poor, 2006).

Moreover, MSEs lack resources required for research and development and there is inadequate technical and entrepreneurial skills (Commission on Legal Empowerment of the Poor, 2006). There is lack of formal education and training in MSEs operators.

The most common form of acquiring skills in the MSEs sector is through apprenticeships. Though the formal education system prepares students for paid employment, there are very few vocational institutions that cater for developing skills. This inevitably leads to low level of innovation in almost all sectors of the economy and severe shortage of training opportunities for potential entrepreneurs (Gebrehiwot and Wolday, 2004). Mboniyane and Ladzani (2011) found that more than 50 percent of micro-enterprises lack training in proper business management. As a result, there is lack of technology available to micro and small businesses enterprises. The results of this research show that the government does not have enough support mechanisms available to ensure that small business owners and their employees receive the training that would enable them to run the business successfully. Most owners do not have management

experience and adequate training and skills to operate a business (Okpara, 2011). Olawale and Garwe (2010) also found lack of business skills and shortage of skill labor which results from absence of proper training are affecting micro and small enterprises negatively.

Furthermore, there has been research that indicates that enterprises who had received training in their areas of business reported that their businesses were doing well. But enterprises who did not receive training in their areas of business perform less. This indicates that relevant training can produce positive results in the running of businesses (Bowen et al 2009). Management is one of the fundamental bases of business development. Most of the small business owners do not acquire enough education before establishing business of their own and they are still blind in seeing the wisdom of formal Learning or acquiring managerial skills in doing business though claim to be successful with their acquired experience. This has resulted to the low level of attention to the welfares of their workers. It is therefore important for small business owners to absorb the skills of proper management (Etumeahu, 2009).

2.5.1 Location and working space problems

For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to start up businesses (Eshetu and Mammo, 2009).

According to Rolfe et al (2010) findings location is critical factor for sales and income of Small scale enterprises and hence entrepreneurs benefit from businesses in formal residential areas. Logically, this finding stems from the higher per capita income and demand density in developed urban areas. Demand density also makes taxi ranks and train stations more lucrative. These spaces are limited and thus a source of competitive advantage that cannot be copied or re-created. Mboniyane and Ladzani (2011) found that small businesses select a site without first thoroughly analyzing the suitability of location. The same researcher found that most of the micro-enterprises are failing owing to a lack of space provided by the government and the various shortcomings of the small business owners regarding their businesses. Olawale and

Garwe (2010) also found that poor location has a negative impact of the performance of micro and small enterprises.

2.5.2 Raw material Problems

Raw material a basic component for the existence of the MSEs since they create a backward linkage and demand for other sector products the high cost is the key raw material problem for the growth of enterprise lack of standardization raw material storage and poor quality of raw major problems (Rahel and paul 2006) Strong forward and back ward linkage between sector of the economy in supply of raw materials facility market for the output goods and service (Eshetu and Mamo 2009). From the factors in the literature study, Year establishment, Favovarblity of the business environment, Level of competition access to raw material, Access to training and management practice, Quality of supporting institutions, financial factors, Infrastructure factor, Marketing factors and rules and regulations related factors were tested to see their impact on

2.5.3 Impact of record keeping finance control on performance

Poor record keeping can also lead to strained relationship with vendor which may result in difficulty in obtaining and recording merchandize inadequate working capital decision and accounting information have been referenced consistently as cause of small business failure the study Nijanja (2009) supports this fact. In his study he reported that business that do not keep updated and accurate records and do not use adequate financial controls have a great chance of failure than firms that do.

However, the study of rose, Kumar and yen (2006) did not show any significant relationship between small business performance and the record keeping the financial control practice of the enterprises

2.6. Lack of clear and pragmatic national policy

Despite the strategies and other rules and regulations that are in vigor in theory, most intervention policy regarding MSEs are in appropriate and impractical for instance most government policy have a tendency to over regulate and limit the growth of private sector enterprise and they are over burecrtize unfriendly to support small business (Commission on legal empowerment of the poor, 2006). A study conducted by economic commission of Africa (

ECA) (2001) In country such as Ethiopia, Cameron, Gabon, Nigeria, Senegal and Uganda have shown that the regulator and policy environment in which MSEs operate proves to be major handicap for their expansion and growth the same study reveals that the complexity of customs system and many forms and declarations required have had a negative impact on the general business environment diverting enterpeniour efforts from productive tasks. The finding of Eshetu and Mammo (2009) also indicate that legal and regulatory problems are major obstacles to efficient operation of micro and small enterprise

According to this study, bureaucratic registration requirement for licensing, high policy control, over regulation, corruption, high tariffs and unfair tax were found a major policy – related constraints adversely affect sector free market policy has also exposed them international competition and this had significant negative on their performance

2.6.1 Personal Related Factors Affecting SME

2.6.2 Education

Some business owners are highly educated and extremely successful whereas others have yet to complete their high school but are equally successful. In many instances, it may depend on the Individual himself herself nevertheless, education level can have an effect on the performance of a business as e in many studies. A reason for supposing it would do so is that education improves literacy, quantitative training, social and communication skills. And of course specialized education is necessary for many occupations.

The study of Lussier (1995) suggested that ‘people without any college education who start a business have a greater chance of failing than people with one or more years of college education. Education can provide the skills set and knowledge, which can help owner/managers with tools, like technology literacy, which helps to increase productivity and success.

‘If education cultivates comprehensive literacy, this would help owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization’s success’ (Mohan -Niell, 2009). Thapa and

Goswami and Joshi (2008) in their study they found that the education of owners has positive effect on entrepreneurial and small business success. Similarly Rose, Kumar and Yen (2006), in their study of the 'Dynamics of Entrepreneurs Success Factors reported that, higher Education level helps the business owners to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneur's with information and understanding about the industry and thus, assisted them in venturing into the current business they are in. Another research by Charney and Libecap (2000), found that entrepreneurship education produces self-sufficient enterprising individuals.

Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high- tech business.

2.6.3 Age

Entrepreneurs vary in age from young to old in many instances, an individual may begin a business as a hobby or secondary source of income and have it grow into a profit-driven enterprise. A number of studies have focused on the entrepreneurial characteristics of the owners/managers of small businesses as key factors to small business success. Age of the owners/managers was one of the most important characteristic that was repeatedly used to predict small business performance and success (Lussier and Pfeifer, 2001). Lussier (1995) also argued the relationship of the business owner's age and its effect on the Performance of the enterprises. He reported in his study that, 'younger people who start a Business have a greater chance to fail than older people starting a business. 'Similarly, Praag (2003), in his study of business survival and success of young small business owners, younger small business starters have a lower success and survival probabilities than older starters.

The chance of both voluntarily and forced exit from the business is higher to young starters. From this one can understand that the age of small business owners have its own contribution to the success and failure because individuals learn not only from formal education

but also from their walks of life. Njanja, (2009) in their study of Small Business Performance in Syria also reported that, as the age of the business owner increase it contributes to the success of the enterprises performance. From the study result of, it may be argued that increased age brings with it a sufficient level of accumulated knowledge or experience of ascertain trade to try going into self-employment alone.

2.7 Prior Business and Industry Experience

Prior to starting their businesses, entrepreneurs are involved in a number of different fields of Work and for a variety of reasons such as desire, flexibility, independence, and family commitments decide to open their own businesses. In most instances, they start a business in an Area in which they feel comfortable. However, there are also a number of individuals who have absolutely no experience in a given field, but start businesses nevertheless because prior Business experience is useful training to both a prospective entrepreneur and to that person's prospective employers, the empirical effect of such experience on business success is not entirely unambiguous Praag (2003), reported that experience as in the same industry as a business venture gives better Chances and so does experience within the same occupation.

Relevant experience helps to become a successful business owner and to survive. Shonesy and Gulbro (2004) cited from the study of Beckman and Marks (1996) and reported that, Business experience is a factor in the success of small firms. Dyke, Fischer, and Reuben (1992) also found that management experience may be a significant factor in achieving success or successful performance in the small business environment.

In their study they stated that 'would be business owners should be concerned to gain related industry, management, and start-up experience regardless of the type of industry in which they plan to operate'. It was also noted, however, that while experience was a significant factor, it could vary by industry importance.

2.7.1 Entrepreneurial Skill

Entrepreneurship is recognized as an important driver of economic growth, productivity, innovation and employment. Entrepreneurship is related to the functional role of entrepreneurs and includes coordination, innovation, uncertainty bearing, capital supply, decision making, ownership and resource allocation in their organization. Most of the prevalent areas in which MSE faces a problem are sales or marketing, human resource management, and general marketing research and training (Iordache, 2014).

The growth of a firm is, to a certain extent, is a matter of decisions made by individual entrepreneur. This is very much pronounced for MSEs that are run by owner-managers. Personality traits, motivation, individual competencies and personal background are important factors for the success/failure of MSE (Praag, 2003) Schooling is important personal background that influences MSE performance and growth.

Education helps entrepreneurs to make good judgments, best use of information, exploit opportunities well leading to firm growth and success (Bates, 1990). Study conducted by Okpara, & Wynn, (2007), argue that higher education not only raises enterprise performance, but also increases outside options such as wage employment. Lower education and vocational training significantly influenced the likelihood of being entrepreneurs rather than wage employees. Higher education was found to influence post entry firm growth.

2.7.2 Drivers to sustainable practices of MSEs

The purpose of every business is to serve its customers through a process which converts resources and distinct knowledge into a contribution of economic value in the market place by adapting to the customer needs, wants and benefits, and providing solutions to problems. When customers evaluate a firm based on the sustainable practices, so the businesses are then challenged to incorporate sustainability concepts into the business performance in order to

increase market value. In this respect, there are some factors which contribute to the adoption of sustainability practices within the business (Thapa, A., Goswami, T. A, and Joshi, P.2008)

Increasing profitability and cost saving through eco-efficiency: A recurring theme throughout the literature is Small enterprises emphasis on financial and operational risks due, at least in part, to the largest perceived risk being “the failure to survive”. The result is a focus on day-to-day activities, short-term problem solving and “making ends meet.” As such, a demonstrated relationship financial performance and environmental/social considerations is very important for small enterprises adoption of CSR initiatives, including environmental improvements. Achieving greater profitability through energy efficiency and waste reduction measures is another frequently cited benefit (Agyapong, 2010).

Reputation Protection: firms with a reputation for environmental-related proactive CSR build skill and knowledge resources by attracting and retaining highly qualified employees interested In preventive environmental management. small enterprises successful adoption of sustainable practices can be feasible if the establishment of positive and stable relationships with external stakeholders (e.g. public institutions, research centers, industrial unions and government agencies) provides small enterprises access to the high level skills, resources and information necessary for the introduction and management of complex environmental initiatives (Lussier, . and. Halabi,2010)

Market creation/Innovation: smaller firms may be more flexible, and thus able to exploit environmental niche opportunities.” Additionally smaller firms “founded and structured using a lens of sustainability can focus on new innovations without the distractions of having to “fix” existing operations.” (Shonesy,L. and Gulbro, 2004)

Leadership: Personal interest in an “inherent business responsibility” and the internal benefits of morale and increased employee motivation seem to be of high importance as drivers. Respecting the environment and giving something back to the local community is expected to result in a good business image or reputation. Personal fulfillment for those involved is also a key driver – and an added benefit.

Environmental and social responsible activities are often driven by the personal values and frame of mind of the owner and the company’s senior management (UNEP, 2003).

Legislation: self-interest is as an insufficient tool for promoting sustainability within small firms. Government intervention is necessary for compelling businesses to engage in socially and environmentally responsible actions. Public, private and community environmental education plays an important role in generating support and ideas which lead to the creation of sustainable business. The awareness in the community of sustainable lifestyles can be developed by education and it can increase the demand for environmental products and services (Watson 2001).

Supply chain demands: Within international supply chains, large corporate customers increasingly ask small enterprises to comply with health, safety and environmental practices. To a lesser degree, this is also becoming more evident regarding Small enterprises' social or community commitments.

There is clearly a role for large organizations in promoting and influencing Small enterprises (as opposed to enforcing), in combination with trusted service providers and intermediaries. Shifting markets, the need to align production towards changing consumer preferences, and internationalization of standards are another driver.

Suppliers are also drivers of activities in Small enterprises, as companies supply environmental information on existing and new substances or life-cycle assessment data to customers. Providing leadership and inspiring Small enterprises to take action seems beneficial to large companies through increased social and environmental responsibility, but also through enhanced customer relationships. However, very often little preventive cooperation exists between large companies and Small enterprises (UNEP, 2003).

2.7.3 Empirical Studies

Thapa and Goswami and Joshi (2008) in their study they found that the education of owners has positive effect on entrepreneurial and small business success. Similarly Rose, Kumar and Yen (2006), in their study of the Dynamics of Entrepreneurs Success Factors, reported that, higher education level helps the business owners to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneurs with

information and understanding about the industry and thus, assisted them in venturing into the current business they are in. King and McGrath,(2002) in their study suggest that those with more education and training are more likely to be successful in the SME sector.

A study conducted by Okpara and Wynn, P. (2007) implied that the most successful MSEs Members (owners) in Singapore have higher educational levels compared to that of unsuccessful MSEs. Accordingly their survey implied that, Seventy percent of successful entrepreneurs are university graduated, while 23% are not. According to Lussier, R.N. and Halabi,C.E.(2010) after entering the MSEs entrepreneurial world, those with higher levels of education are more successful because university education provides them with knowledge and modern managerial skills, making them more conscious of the reality of the business world and thus in a position to use their learning capability to manage business.

Praag, M. (2003) further found that the government is not actively providing support mechanisms for business registration to ensure the success of micro-enterprises. There is also poor communication between the government and small business owners. Lack of proper regulation in terms of borrowing funds from the banks by small business owners; lack of focus in formulation and implementation of policies, and tax laws affects the performance of MSEs. For the proper promotion of the development of small business enterprises, there is need for a well articulated plans or programs by the government (Etumeahu, 2009).

According to Watson, (2001), there is lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control and those with technical knowledge.

Furthermore the study was assess several related studies of the area, to minimize similarities and fill research gaps. Accordingly, there were a study conducted by Gebreeyesus, (2009), the study assess to Identify success factors of MSEs in Addis Ababa. Though the study implied success factors of the studied SMEs, however, it was not indicated constraints that affect the enterprise development negatively.

The other study report of Lafuente and Rabetino (2011) indicates the relationship between enterprises performance and forms of ownership. They reported that rather than those firms with a single-tier leadership structure (entrepreneur-manager), the presence of entrepreneurial teams increases firm's resources and capabilities, a fact that enhances employment growth indicating that the presence of entrepreneurial teams improve internal decision making processes leading to higher growth rates. Similarly the study of Lusseir (1995) supports the fact that enterprises which are owned by more than one owner have a higher chance of success than those enterprises owned and managed by a single owner.

2.8 Gap Analysis

Habtamu (2012) conducted his study on the determinants of MSEs Growth in Mekelle city by taking entrepreneur characteristic factor (gender), firm characteristic factors (initial employment size, initial investment size, firm age, location, sector) and inter-firm factor (market linkage). His research found that initial investment size, location, sector and gender are the main determinant factors for MSEs growth.

However, the study didn't implied major factors that affect performance of MSEs. MuluGeta (2010) conducted on the effect of Financial Institution on the growth SMEs in Hawasa. The results implied that, access of debt financing is negatively affecting growth potential of MSEs. Similarly a study by Eshetu and Zeleke (2008) found that absence of loan from formal financial institution for investment is the major factor affecting long-term survival of MSEs in Ethiopia.

Therefore, the reviewed literature implied that studies regarding MSEs in Ethiopia are scanty and most of the available studies were not conducted in line with identifying the major determinant factors and performance aspects of micro enterprises. However, this research tried to assess factors affecting the performance of MSEs in a holistic way by targeting and deeply investigating those operators engaged different types of micro-and small enterprises in Kirkos Sub-City.

2.9. Conceptual Frame Work

The research addressed various types of factors that affect small and micro enterprise such as, Financial challenges, Marketing Challenges, Infrastructural Challenges, Policy and procedure Challenges, and Managerial Challenges. The theoretical consideration on the link between business constraints and the growth potential or performance of MSEs can be viewed from different angles.

Business constraints may, on the one hand, limit physical capital accumulation. On the other hand, they may constrain a firm's ability to undertake its daily operations since they may reduce its internal financing and its capacity to make proper business decisions. Moreover, they may interrupt a firm's business operations and therefore impede its performance.

Majority of MSEs have limited access to external financing. As a result, they depend mainly on their internal resources to finance investment. High tax rates reduce firms' internal sources of finance. In some developing countries, it also discourages MSEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating.

When MSEs have limited access to relatively differentiated markets, they are forced to operate in low-income market segments. This limits their levels of sales and profits since most of them Independent Variables compete for the same customers. Access to business services (Marketing information) Networking, short-term training, and counseling and consultancy services) also hinder the growth potential of MSEs (Ishengoma and Kappel, 2008).

Besides the above stated obstacles, other factors which may cause MSEs to fail or to upgrade their performance are lack of infrastructure and weak institutional quality. Absence of infrastructure increases cost of production and results in lack of on time production and delivery. Due to poor quality of institutions that are established to support MSEs, rules and regulations will not be enforced and the enterprises will not get the next phase of class

CHAPTER THREE

3. Research Design and Methodology

3.1 Research Design

Descriptive research method was employed as it is efficient to evaluate and determine the adequacy of a program under existing condition against the established standards. The descriptive method is special importance for this particular study to assess several factors and portray how they affect performance of MSEs. The method descriptive research design is special importance for this particular study to portray how the micro and small enterprise business activities determined by several variables such as, financial adequacy, infrastructural facilities, marketing networks, Policy and procedure and legality condition as well as, managerial efficiency of members belong to the enterprise. In general the method is believed to generate adequate and relevant data breadth pertaining to the issue under investigation if backed by appropriate research procedure.

3.2 Data sources of the study

The study used both primary and secondary data sources, the primary data sources of the study were enterprise members belongs in different theses of Micros and Small enterprises of Kirkos Sub-City, such as, MSEs belongs to construction sectors, Metal and Woodwork sectors and Food and beverage sectors. On the other hand the study also used documents related to MSEs of the sub – City as secondary data sources of the study area. In addition the study used related areas sources of documents such as, related studies, books, journals, articles and so forth.

3.3 Method of Data Collection

The quantitative and qualitative data were collected through questionnaire and interview. Questionnaires used to gather data from different types of MSEs found in the selected Weredas. Organization of the questionnaire is in to two major parts, the first part were deal about personal characteristics of respondents and the second part deal with the issue of MSEs of the sub city.

Finally, the questionnaire in this way was distributed to the selected sample population. Interviewee also gathered from subjects that are fewer in numbers such as, leaders of the enterprise and employees from the Woreda MSEs office. Generally, the primary sources of the data serves as a main sources of the study; this is because the study more depend on the opinion of individuals on certain issues. On the other hand secondary data also collected, from different sources to develop conceptual frame works such as, from related books, internet, magazines, pamphlets and journals.

3.4 Target Population and Sample Techniques of the study

3.4.1 Target Population of the study

Target population of the study area was composed of MSEs Operators in the 11 Woredas of Kirkos Sub – City. Majorly, the sub – city have four types of enterprises these are construction sectors, textile sectors, food and Beverage sectors, as well as MSEs sectors of Metal and Wood Works. The study focused on all of the enterprise by selecting two Woredas these are Woreda 4 and 5 MSEs. There are 397 total Member participants of the sectors in those Woredas and the study consider sample from those total population.

3.4.2 Sample Techniques of the study

To select a sample for the study, sampling frame is required for selection of different sampling units. Since one of the characteristics of MSEs Sectors are having registration and the exact number of operators is somehow known. The researcher follows systematic sampling method and purposive sampling technique for primary data collection. The researcher employed systematic sampling from construction, textile, food and beverage and woodworks sectors. These sectors were selected with the consultation of the wereda officials and data obtained from the organizational profile of different enterprises operating in the sub city.

The woreda officials told the researcher and the researcher analyzed from the data that these sectors have ample experience on micro and small enterprise activities and majority dwellers are engaged in these sub-sectors.

The sample survey also shows that most operators working in micro and small enterprises are engaged in these sub sectors and have different manifestations. The list of weredas with the corresponding number of enterprises and the list of individuals working in the selected weredas was the sampling frame.

Initially two weredas were purposely selected from the sub city considering number of enterprises, the number of individuals who are engaged in MSEs in the selected woreda and woredas which are not adjacent in their location to get necessary information from different corner of the sub city. Therefore, the two wereda selected namely wereda 4 and wereda 5.

Size of the sample was represented as stated in the rule of thumbs. "A sample account 20% to 30% for number of total population less than 400 is found to be appropriate" (Thumb, 2010). With regards to this, total numbers of target population of the study are 397. According to the rule 30 % (129) of them will participate as sample of the study.

Table 3.1 Distribution of sample size

Wereda	No. of Enterprises	Population	Sample Population	sample population of the field			
				Construction	Textile	Food and Beverage	Woodwork
04	16	159	48	21	15	6	6
05	21	238	81	39	20	11	11
Total	37	397	129	60	35	17	17

3.5 Method of data analysis

The data collected from different sources, both quantitative and qualitative, were processed and analyzed using descriptive data analysis method using a data analysis Techniques such as, percentage, frequency and table. All types of data such as questioner based, interview and documents related to the study were analyses in mixed approaches. These types of analysis help to construct comprehensive evidenced cross sectioning sources implication.

3.6 Ethical Consideration of the Research

During the course of administering the questionnaires, names and any identifying remarks were not used. The confidentiality of the respondents is kept and any data received for the study kept at the hands of the researcher and the advisor. The data's were analyzed based on the questionnaires rather than using the researcher opinion and input. The researcher stays truth full to responses of the respondents and free from any personal assessment. Results depicted were only from out puts of truth full inputs

CHAPTER FOUR

4. Result and Discussion

This core chapter deals with the discussion and analysis of data collected from different SMEs MSEs located in Kirkos sub – City. The study was distributed 129 questioners, however, 10 of them were omitted due to their error and some of them were not returned back. Based on this the study analyzed as follow:

4.1 Demographic characteristics of respondents

Understanding background of the enterprise and its operator (employee) are necessary to associate, work experience, educational status, income sources and other related basic factors and their effect on the progress of SMEs development.

Table 4.1 Characteristic of respondents

Character	Category	Frequency	Percentage (%)
Sex	Male	80	67.22
	Female	39	32.77
	Total	119	100
Age	From 18 - 25	45	37.81
	From 26 – 35	40	33.61
	From 36 - 45	25	21
	From 46 – 55	20	16.8
	Above 55	9	7.56
	Total	119	100

Educational Level	10 or 12 complete	34	28.57
	Certificate	35	29.41
	Diploma	36	30.25
	Degree	14	11.76
	Master degree	-	1.9
	Ph.D.	-	-
	Total	119	100
Marital Stats	Married	85	72
	Unmarried	34	28
	Total	119	100
Business Startup fund sources	Personal saving	50	42
	Micro – finance	54	45
	NGOs	15	13
	Banks	-	-
	Total	119	100

Source Questionnaire 2019

Based on the above gender profile data, respondents who participated in this research, from 119 total respondents 80 which represent 67.22% are male while, 39 respondents 32.77% of them are female. According to the data, participant of male are greater than female participant. Based on these we can analyzed that, in the studied Woreda there were male domination than female in operating Micro small enterprises (MSEs).

With regard to the data of age frequency and percentage shows that, 45 (37.81%) of respondents found between the age groups of 18 – 25, about 40 (33.61%) of them found between

the age groups of 26- 35 on the other hand 25 (21%) of them found between the age group of 36 – 45, the rest 20 (21%) and 9 (7.16%) found between the age group of 46 – 55 and above 45 respectively. With regards to the age distribution of the respondents majority of them found at young and youth age which is appreciated because starting operating business in the young by itself minimize unemployment of youth and it minimize youths unemployment in the city.

With regards to educational distribution of the respondents analyses show that, 34 (28.57%) and 35 (29.41%) of respondents respectively found between the education level of 10 – 12 completed and certificate holder, on the other hand, there were 36 (30.25%) diploma and 14(11.76%) degree with no master degree and Ph.D. according to the data we can associate that, about 105 (88.23%) of respondents found on the low level of educational background which is 10 -12, certificate and diploma holder.

The study also implied that, 72% of member groups of the studied SMEs were unmarried, while the rest 28% married. In fact, marital status have its own contribution on the saving and using the enterprises money, accordingly, married member groups of the studied SMEs need more home consummation money than unmarried member groups.

Regarding the startup business finance sources of the studied enterprise, large proportion 45% and 42% respondents respectively implied saving by theme selves and borrowing money from microfinance institutions. This was followed by money obtained NGOs (13%), where as banks were not contributed for the development of SMEs.

4.1.2 Number of member at start up and currently

Table 4.2 Distribution of sample size

No. of Enterprises	Members	Character	Decrease in No	Decrease in %
Construction	Startup	221	40	18
	Current	181		
	Total	402		
Textile	Start up	123	47	38
	Current	76		
	Total	199		
Woodwork	Startup	98	58	56
	Current	40		
	Total	138		
Food and Beverage	Start up	201	101	51
	Current	100		
	Total	103		

The aim of this information is to determine whether the numbers of members are Increased or decreased. As it can be observed from table above the numbers of members when the business is started are greater than the current numbers of members, that means the current numbers of members are decreased by totally, by 40.75% while at individual level it can be observed that high percentage of decrease observed in woodwork (56%), food and beverage (51%), Textile (38%) as well as Construction (18%) respectively. With regard to this interview was conducted to identify the reason for the enterprises that have high percentage of decrease in members. The

problems of enterprises in the textile and garment are related to absence of market place to sale their products. The enterprises get production place from the government at rent. As per the understanding of the researcher from the respondents answer the individuals prefer to produce a small amount of output at their home and hence leave their production site. The absence of the habit of working in group was also another factor.

4.2 Factor Affecting Performance of MSEs

There are several factors that affect MSEs Performance, however, in this study some of major areas of determinate were assumed as a major determinates of SMEs such as, availability of finance, marketing networks, infrastructural facilities, policies and procedural conditions and managerial efficiency.

4.2.1 Financial Constraints affecting Performance of SMEs

Financial availability and other financial related factors determine performance of SMEs development, accordingly, in this study attempts tried to assess how financial related factors determine the studied SMEs using questioner and interview, the questioner were provided through five scale likert types of questions (Whether, Strongly Disagree (SD), Disagree (D), Neutral (N) Agree (A) strongly disagree (SA) an d their view implied below in the table as follow:

Table 4.3 Financial constraints affecting MSEs Performance

No	Questions	SD	D	NW	A	SA
1	High collateral requirement	10 (8%)	29 (24%)	9 (8%)	65 (55%)	6 (5%)
2	High interest rate of Facial institution	14 (12%)	25 (21%)	5 (4%)	60 (50%)	15 (13%)
3	Inadequate payback period	12 (10%)	23 (19%)	4 (3%)	60 (50%)	20 (17%)
4	Lack of better record keeping and financial control mechanism	17 (14%)	30 (25%)	5 (4%)	50 (42%)	17 (14%)
5	Unplanned withdrawal of cash for varied activities	19 (16%)	31 (26%)	2 (1%)	55 (46%)	12 (10%)

Source questioner, 2019

As implied from the table above 60% of the respondents implied there is high collateral requirement asked by micro and finance institution. The high collateral requirement of micro and finance institutions affected innovative as well as entrepreneur development in the country, supporting innovators and entrepreneur ideas by assessing their feasibilities can encourage SMEs business development and it can reduced unemployment problems.

In this regard the study correlated that, the country need small business entrepreneur development, in contrary there is no competitive financial access that is prohibited by the regulatory rule of NBE, these activities kill the micro economic development of the country. Therefore, the growing number of youth's unemployment and the existence high collateral requirement contradict strategies to develop SMEs business.

Regarding the loan interest played by the enterprise, respondents accounted for, 63% assured it very high. Accordingly it was reported that the terms of credit of Addis MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate that is 9% in comparison with the interest rate of 6% charged by the banks. Majority of respondents indicated that, MFI charges them totally 12% of the extended credit, of which 9% is paid as interest on the loan, 3% as service charge. This high loan cost puts the affordability of the loan of the MFI demanding by the users. Obviously, such high loan cost further damages the already low meager revenue of the enterprises.

On the other hand, 67% of the respondent still indicates that the short repayment period scheduled by the MFI put them in worrisome state as they face shortage of market resulting in their inability to repay the loan with in the period stipulated by the MFI.

Use of formal record keeping and financial control mechanism in the enterprises day to day business operation is considered as another variable that would result difference in performance between those use the system and those do not use. Based on this the study were assessed the MSEs financial recording and controlling system, however, the enterprise were not have well organized financial recording and controlling this were assured in addition to observation of the researcher, by 54% respondents that said strongly disagree.

Finally, the study were assessed whether, the study SMEs use financial with drawl according to plan or not, the result implied by 56% (which their disagreement), SMEs still didn't

withdraw for the plan. The possible justification to the importance of using plan is that, planning in advance what needs to be done helps enterprises to act strategically to realize established development goals rather than moving in a random and unsystematic way to the opportunities as well as unfavorable situation that will happen in their business operations.

This proactive move of the enterprises increases their chance of success in the dynamic environment. And this also works to the enterprises that use a short term plan of 1 to 2 years for their business activities.

4.2.2 Marketing Factors Determining Performance of MSEs

Regarding the marketing factors and SMEs progress the study was assessed some of major areas that affect effectiveness of Market of SMEs development. In this regard, the study assessed market networking of the studied enterprise, competitiveness with similar companies, promotion methods, and product quality as well as price computation. Below the table implied members of the enterprise response regarding the provided questions.

Table 4.4 Marketing factors affecting SMEs Performance

No	Questions	SD	D	NW	A	SA
1	Shortage of market networking	6 (5%)	12 (10%)	4 (3%)	85 (71%)	12 (10%)
2	Inability to compete with large companies	5 (4%)	10 (8%)	8 (7%)	80 (67%)	16 (13%)
3	Lack of promotion to attract potential customer	10 (8%)	16 (13%)	7 (6%)	65 (55%)	21 (18%)
4	Challenges of competitive product quality	9 (7%)	17 (14%)	7 (6%)	60 (50%)	26 (22%)
5	Challenges of competitive price setting	11 (9%)	23 (19%)	5 4(%)	60 (50%)	20 (17%)

Source questioner, 2019

As implied 81% of respondents shortage of market network was one of the major factors that determine the progress of the SMEs. In this regard some of the enterprise member employee interview implied that, specifically, the sectors of Constriction and Wood Works, suffer from lack of marketing network, some of them implied that, there are different types of enterprise similar us government in somehow create network in some of the projects managed by government such as, condominium, and other related projects however, it was difficult to maintained parts of work on the projects this is because of some of SMEs are networked,

In addition as indicated by 80% respondents large organization also unfairly computed with SMEs. As a result as above 56% of SMEs specifically that engaged in wood works and 18% in construction sectors members were out from their enterprise.

Regarding the SMEs promotional activities, respondents accounted for 73% who said strongly agree and agree implied their less-activities to promote and attract potential customers. There are different types of promoting SMEs such as, transporting martial's on time, discounting price, provide credit and so forth, however, the studied SMEs except those SMEs participated in food and beverage that tried to excesses to promote their customers such transporting food product (Enjera) to hotels based on their own transportation facilities and providing credit service, the rest of the studied SMEs were not used proportional marketing activities.

As implied by 72% respondents, the quality of the products cannot compete with similar large companies, this is because to produced quality of products it may supported by several inputs such as, qualified man power, equipment's, and other necessary input. As a result of this quality of products were not make the studied SMEs progressive.

Finally, the study were assessed how competitive price setting affect the studied SMEs progress, accordingly, 67% that said agree and strongly agree were confirmed there price setting on the products were affected their market, specifically, the SMEs found in textile and garment, implied that producing the products and price of the market was not balance, this is because some of the textile products enter in contraband, some of them sold in less price at every street so that it was difficult to commutate with this types of environment.

In addition respondents in interview also implied that, the recently price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The

operators indicated that the continuously increasing price of inputs has been checked by the government action. They also indicated that the materialization of this ceiling has also saved them from being ‘exploited’ by illegal merchants, who always increase prices of basic commodities unreasonably.

4.2.3 Infrastructural Challenges affecting MSEs Performance

Infrastructural facilities are another sources of challenges of SMEs progress, accordingly, in this study attempts were tried to assess major challenging areas specifically considering the nature of SMEs in Addis Ababa, such as, sources of raw materials, supply of water and electric power, working shades, site location, transportation accessibility and facilities of machineries and equipment’s. Based on these the study discussed the studied SMEs characteristics internes of infrastructural facilities.

Table 4.5 infrastructural Facilities of SMEs

No	Questions	SD	D	NW	A	SA
1	There is shortage of raw materials	6 (5%)	29 (24%)	10 (9%)	65 (55%)	9 (8%)
2	Insufficient and interrupted electric supply	10 (8%)	16 (13%)	7 (6%)	65 (55%)	21 (18%)
3	Insufficient and interrupted water supply	17 (14%)	30 (25%)	5 (4%)	50 (42%)	17 (14%)
4	Accessibility of transportation	7 (6%)	21 (18%)	10 (8%)	65 (55%)	16 (13%)
5	Site area of the SMEs	10 (8%)	16 (13%)	7 (6%)	65 (55%)	21 (18%)
6	Lack of space of working place	5 (4%)	10 (8%)	8 (7%)	80 (67%)	16 (13%)
7	Lack facilities of machinery and equipment	19 (16%)	31 (26%)	2 (1%)	55 (46%)	12 (10%)

Source questioner, 2019

The study regarding the supply of raw materials implied that, 55% and 8% collectively account for 63 % member respondents assured except food and beverage SMEs the rest constriction; textile, metal work and wood works have shortage of raw material.

Regarding electric supply, most of the respondents accounted for 76% assured Insufficient and interrupted electric supply, affect all of the studied area SMEs, in this regard some of the Member respondents implied that because of the shortage of electric supply they are enforced for additional cost such as, costs for generators. Similarly, inefficient water supply also affected SMEs business in this regards 59% of the respondents assured even though the intensity of the problem is not high like electric shortage problem, however, lack of water supply also has its own effect on the production process of the SMEs; this problem is even worst in some of SMEs, such as, construction sectors SMEs as they depend more on water for their production.

Regarding the accessibility 68% respondents engaged between Agree and Strongly agree assured, that, transportation problem affect the SMEs business progress, specifically, Construction and Wood and metal work SMEs more affected through lack of transportation Vehicles, as interview and observation of the SMEs any one of them didn't have their own car that transport materials like cements, sands, and other relegated raw materials, so that they were spending large amount of money through renting of machineries and cars.

In this regard some of the members of construction of SMEs implied the benefit of their enterprise is much affected through lack of transportation facilities. Regarding the site area of the studied organization, respondents accounted for 73% implied that, the site that were given by the government were not market site area, some of the SMEs even though they were licensed in Kirkos Sub – City, because of lack of shade they were given working shade at the edge of the city such as, Construction, wood and metal works, as well as textile

SMEs located far apart from their center such as, Gelan and Bole Arabsa , however, the area that they located even does have infrastructural access such as, road, electric as well as water supply, as a result most of the members leave from their enterprise. In addition 80% of the respondents found in all of the SMEs confirmed that absence of selling place has aggravated the already existing 'inadequacy and crowdedness' of the internal working space of the shades.

The operators intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied MSEs.

Finally the study were assessed accessibility of equipment's and machineries, however respondents accounted for 56% implied that the lending MFI amount is fixed the maximum allowed for the enterprise 1 million birr so that it was difficult to fulfill all of the necessary equipment's.

4.2.4 Policies and procedural challenges affecting MSEs Performance

Regarding polices and procedural challenges factors the study were assessed some of the major challenges that were observed in the environment of SMEs such as, bureaucracy in registration and licenses, political intervention, government support, Society view and condition of tax levied. In this regards respondents view were analyzed as follow:

Table 4.6 Scio – Political effect of SMEs Performance

No	Questions	SD	D	NW	A	SA
1	Bureaucracy in SMEs registration and licensing	18 (15%)	30 (25%)	4 (3 %)	54 (45%)	13 (11%)
2	There is high degree of Political intervention	29 (24%)	51 (43%)	4 (3%)	30 (25%)	5 (4%)
3	Lack of government support	16 (13%)	38 (32%)	5 (4%)	50 (42%)	10 (8%)
4	Society view of SMEs as political favors than job creation	5 (4%)	15 (13%)	3 (2%)	64 (54%)	32 (27%)
5	The tax levied is not reasonable	10 (8%)	20 (17%)	4 (3%)	64 (54%)	21 (18%)
6	Lack of training and Technical assistance from the sub – city Bureau	8 (7%)	19 (16%)	2 (1%)	58 (49%)	32 (27%)

Source questioner, 2019

Regarding bureaucratic process to register and get licensee, respondents accounted for engaged on the option of agreement and strong agreement (56%) assured there were bureaucratic challenge of getting license.

Regarding the question asked whether political interference affect the enterprise smooth working progress or not, accordingly respondents accounted for 67% assured there were no that much political interference, however, some of the rest 29% implied there were political interference, accordingly some of the respondents implied in the interview some of the SMEs much favored and have network of market specialty in the government project, for example, some of the SMEs engaged in food and beverage supply their products in several types of government officials meeting, those SMEs are politically, in favored this is because they are active participant and members of the ruling party, while the Neutral SMEs area not invited on an opportunities as such.

With related to the questions assessed intensity of government support 50% of the respondents implied still there is lack of governmental support starting from establishing fair marketing networking on government projects up to diminishing its bureaucratic working. On the other hand respondents accounted 50% implied government support were better, this is because government supports SMEs through providing shade accesses, finance, and technical support in somehow.

Regarding the society view of SMEs respondents accounted for 81% implied society view about SMEs more tied with political mission than creating employment opportunities; as a result most of the view of the society affected the progress of the enterprise.

Regarding the tax levied fairness respondents accounted for 72% confirmed their disagreement i.e., the tax levied by government were not fair. As implied in the interview the enterprises engaged in wood and metal work, textile and food processing sector, the tax levied on their business is not reasonable.

Finally, respondents of the studied enterprise accounted for 76% assured there were lack of training and technical assistance given from the sub city as well as the Woreda Bureau. As implied by the enterprise employee the sub – city and Woreda officials are assigned politically, in addition there were no employee specifically assigned to support SMEs technically, as a result

some of the officials just supervise and visit SMEs but not support technically or providing training.

4.2.5 Management challenges that affect Performance MSEs

Management efficiency of SMEs is one of the determinant factors that determine the progress of SMEs. In this regarding the study were tried to assess factors that determine members of the SMEs management and collaborative work efficiency. Based on this below in the table respondents view provided as follow:

4.2 Table 4.7 Management challenges that affect preference of MSEs

No	Questions	SD	D	NW	A	SA
1	Mistrust among members of SMEs.	16 (13%)	31 (26%)	5 (4%)	45 (39%)	22 (18%)
2	Lack of well trained and experienced employees in the enterprise	4 (3%)	18 (15%)	2 (1%)	76 (64%)	19 (16%)
3	Lack of tolerance among members groups	4 (3%)	10 (8%)	9 (8%)	65 (55%)	31 (26%)
4	Lack of strategic business planning	5 (4%)	11 (9%)	6 (5%)	58 (49%)	39 (33%)

Source questioner, 2019

As indicated on the above table respondents of SMEs were assessed how management efficiency of members of the enterprise and its effect on the effectiveness of their enterprise and their view for each of the related questions analyzed as follow:

Regarding the assessment the challenges of mistrust among members respondents accounted for 57% assured, there were challenges of mistrusting among members of the enterprise. With regard to this an interview were conducted with some the enterprise operators, they were implied that, most of members of the enterprise are youths, have low level of

educational background and some of them experienced misbehavior, therefore these condition collectively make members to mistrust and tolerated each other's.

In addition as implied by 80% respondents most of the enterprise have not well trained and experienced employees specifically, Wood Work and Metal Works enterprise, Textiles, and construction sectors. It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Enock N., 2010:43). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and forecasting under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals.

Down to the matter of lack of a proper business plan challenges of the studied enterprise respondents accounted for 82% confirmed that operators of MSEs have no proper business plans at start faces the most challenges during the course of their lives. According to operators, lack of trust in doing business on the other hand seems to have prevailed in most of the cooperative and partnership business (mistrust between business associates).

To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, mistrust among business associates, insufficient training, lack of proper business plan and lack of relevant qualifications among employees.

CHAPTER FIVE

5. SUMMARY, CONCLUSIN AND RECOMENDATION

5.1 Summary of the Study

The major objective of the study was to analyses assessment on the challenges the major factors micro and small enterprise (MSEs) Kirkos Sub – City. The study was analyzed using descriptive approach and the major finding of the study summarized as follow:

Regarding the startup business finance sources of the studied enterprise, large proportion 45% and 42% respondents respectively implied saving by theme selves and borrowing money from microfinance institutions.

The study were assessed numbers of members at start up the business and the study period (current time), the aim of the information was to determine whether the numbers of members are Increased or decreased. Accordingly, member’s number in each of the enterprises at started up the business greater than the current numbers of members. This implied members out from the enterprises through several reasons. Based on this the studies implied members number decreased by 40.75% from all of the studied enterprise and as per individual levels, high percentage of decrease in number of members is observed in woodwork (56%), textile (51%), food and beverage (38%) as well as Construction (18%) respectively.

Regarding financial constraints that affect performance of MSEs were collateral requirement accordingly, 60% of the respondents implied there is high collateral requirement asked by micro and finance institution. The high collateral requirement of micro and finance institutions affected innovative as well as entrepreneur development in the MSEs of the sub - city.

The other factors that affect the sub – City MSEs performance regarding fiancé were observed on the loan facilities such as, loan interest rate challenges were highly affect MSEs Performance. Accordingly, it was reported that the terms of credit of Addis MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate that is 12% (which is 9% paid as interest on loan and 3% as a service charge) in comparison with the interest

rate of 6% charged by the banks MFI asked very high interest rate and it discourage MSEs enterprise to take loan from the enterprise.

With relation of shortage of marketing 81% of respondents implied there is shortage of market network was one of the major factors that affect performance of MSEs in Kirkos Sub - City. In this regard some of the enterprise affected highly than the others such as, construction and Wood Works.

As implied by 72% respondents, the quality of the products cannot compete with similar large companies, this is because, lack of qualified man power, equipment's, and other necessary input. The study regarding the supply of raw materials implied that, 55% and 8% collectively account for 63 % member respondents assured except food and beverage SMEs the rest construction; textile, metal work and wood works have shortage of raw material.

Regarding electric and water supply, most of the respondents accounted for 76% assured Insufficient and interrupted electric and water supply. In this regard the enterprises enforced for additional cost such as, costs for generators and fetching water

Regarding the accessibility of transport 68% respondents engaged between Agree and strongly agrees assured that, transportation problem affect the SMEs business progress, specifically, Construction and Wood and metal work SMEs more affected through lack of transportation access.

Regarding the tax levied fairness respondents accounted for 72% confirmed their disagreement i.e., the tax levied by government were not fair. As implied in the interview the enterprises engaged in wood and metal work, textile and food processing sector, the tax levied on their business is not reasonable.

5.2 Conclusion of the study

The contribution of MFIs has shown an increase, however, there are still problems related to high interest rate, collateral problems, small loan size, bureaucracy, and lack of awareness. The contribution of banks has shown a decreased, and majority of the enterprises do not apply to take loans from banks.

The relationship between marketing of SMEs and enterprises the study has identified the critical marketing management practices strategies challenges prevalent in the MSEs in Kirkos Sub City such as, poor market networking, in ability to compete with large company, poor pricing, , absence of promotion, and lack of efficient distribution channel.

The finding of the study regarding infrastructural facilities constraints have found that, there was lack of efficient, reliable, safe and affordable infrastructural facilities that smoothly facilities SMEs projects. As a result, most MSEs have problems related to business premises such as shortage of electric and water supply, transportation facilities, and site of location problems.

The main internal factors affecting performance MSEs were management challenges such as, lack of strategic business planning, mistrusting and lack of tolerance among members, poor training facilities for members, lack of persistence and courage to take responsibility for one's failure and absence of initiative among members of the enterprise were the major challenges affecting performance of MSEs.

Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degree of those critical factors in food processing sector slightly differ from the factors that are critical to textile and wood and metal work sectors, most of the factors are considerably common for three sectors. It has been noted that the contextual factors are prevalent to the businesses such as challenges of financial facilities, marketing networks, infrastructural faculties; management efficiency as well as police and procedure had very high effects on the progress of the studied area SMEs.

5.3 Recommendation

- It was observed during the field work that a number of operators come together to form association without interest. Those individuals who have interest to work in the MSEs are merged with few uninterested people just for the sake of to form an association. This condition hinders the effort of interested people because the non- motivated individuals take advantages at the expense of others. For instance some non-motivated individual forms an association to get working premises without any interest to work in the area and later on they fail to proceed. Some associations have also family members who are not working in the SMEs but registered only for the purpose of getting assistance from the government. Therefore, in order to avoid such kind of problems due emphasis should be given at the time of group formation.

- Training helps transfer of knowledge, skills or attitude that enables people to prepare for production activities, or to change their working behavior. One way of assisting SMEs is in terms of providing training that helps them boost their production, help increase the quality of the final product and boost their performance. However, in the study area, only a limited number of operators are taking training in their operating field. Even if the training provided to the operators is important, the training is not targeting all operators in a given enterprise. Therefore, representatives of the enterprises should be aware to share the knowledge they are getting from training sessions to the rest of the association in the form of training for trainers and other operators, who impact the development of the enterprise in particular and local economic development in general. Hence, government officials needs to exert much effort towards providing training and coordinating resources from different stakeholders to work on providing technical and management trainings for MSE operators.

- The development of MSEs in the study area needs various improvements in general and the working areas of the operators in particular. The working areas are located far from administration offices and market. The working area lacks basic infrastructure such as road so that potential customers cannot easily be able to access them. Governmental and non-

governmental organizations should facilitate sustainable market linkage between the producer and potential customers.

- The officers entitled to support the operators also fail to reach them due to lack of transportation or necessary allowance or any motivational mechanism to provide them with the necessary advices. Due to these factors, officers are not able to follow up how the operators are doing their job in terms of the training provided to the entrepreneurs. Responsible bodies should act to tackle such problems by providing transportation or motivational mechanism for the officers who provide necessary advice and follow up.
- One of the findings in this research is a very limited participation of women in the MSEs Sector in the study area. Though different affirmative actions are applied to motivate women to participate in MSEs, due consideration should be given to increase their participation. Though enough is stated at the policy level to encourage women to participate in the MSEs, aggressive awareness raising mechanism, provision of special credit window and women focused special training is mandatory to increase their number. This will create a better conducive environment for women to play a major role in local economy development.
- The Addis Ababa city government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to lessen their requirements. Beside the size of initial investment directly affects the growth of MSEs and having appropriate understanding of these factors is important in order to solve financial needs of MSEs and help them prosper and achieve their objectives of profit, growth and employment opportunities and also alleviating poverty. Thus, it is important for the government and nongovernment organizations together with financial institutions to formulate their policies and strategies that work towards meeting the financial needs of MSEs. This should be done so that MSEs can get enough access to finance for their business activities.

- The government should improve the quality and accessibility of the service of the supporting institutions by assigning employees that have proper knowledge in the specific business area and through continuous follow up of the implementation of the programs.

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ADDIS ABABA UNIVERSITY

DEPARTMENT OF PUBLIC ADMINISTRATION

Questionnaires to be fill by Customers

Introduction

This questionnaire is intended to gather primary data. Assessment on the challenge and the major factors of small and micro Business enterprise progress in Kirkos Sub – City. The purpose of the study is to fulfill a thesis requirement for the Master of Arts Degree in Public management and policy from the University. Your genuine responses for the questions are very important for the success of completing this study. All information collected through the questionnaire will be used only for the purpose of the study and will be kept confidential. And thus, I would like to thank you in advance for your kindly cooperation.

Part One: Biographical Information (please use the right (√) mark to show your choice)

- 1. Gender Male Female
- 2. Age 25 or below 26 – 35 years 36 – 45 years ≥ 46 years
- 3. Educational Background Diploma B/A or BSc MA/MSc
If other Specify -----
- 4. Marital status: Unmarried 2. Married
- 5. How did you raise funds to start-up your business?
A. Personal saving NGOs Micro finance institutions Banks
Others (specify)-----

Part Two The following questions are dealing about internal and external factors that affect MSEs progress. Therefore, indicate your e motivated level of agreement or disagreement by putting tick (√) mark with the corresponding score value

S.N.		Score Values				
		Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Agree (5)
	Financial factors determining progress of SMEs	1	2	3	4	5
1	High collateral requirement					
2	High interest rate of Facial institution					
3	Inadequate payback period					
4	Lack of better record keeping and financial control mechanism					
5	Unplanned withdrawal of cash for varied activities					
	Marketing factors					
1	Shortage of market networking					
2	Inability to compete with large companies					
3	Lack of promotion to attract potential users					
4	Challenges of competitive product quality					
5	Challenges of competitive price setting					

Infrastructural facilities affecting progress of MSEs						
1	There is shortage of raw materials					
2	Insufficient and interrupted electric supply					
3	Insufficient and interrupted water supply					
4	Accessibility of transportation					
5	Site area of the SMEs					
6	Lack of space of working place					
7	Lack facilities of machinery and equipment					
Government policy and procedure						
1	Bureaucracy in company registration and licensing					
2	There is high degree of Political intervention					
3	Lack of government support					
4	Society view of SMEs as political infamous than job creation					
5	The tax levied is not reasonable					
6	Lack of training and Technical assistance from the sub – city Bureau					
Managerial factor						
1	Mistrust among members of the enterprise.					
2	Lack of well trained and experienced employees in the enterprise					
3	Lack of tolerance among members groups					
4	Lack of strategic business planning					