



College of Development Studies
Center for Regional and Local Development Studies

**The Challenges in the Transitional Process of Micro and
Small Enterprises in Addis Ababa City**

**A Thesis Research submitted to the Center of Regional and Local
Development Studies in Partial Fulfillment of the Requirements for
the Degree of Master of Arts in Regional and Local Development
Studies**

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Declaration

I, Abriham Lisanework Beyene, ID Number GSE/6441/11, hereby declare that the thesis entitled: “The Challenges in the Transitional Process of Micro and Small Enterprises in Addis Ababa City” submitted by me to the award for the Degree of Master of Arts in Regional and Local Development Studies in Addis Ababa University, is a product of my original work and it hasn’t been presented for the award of any other Degree, Diploma, Fellowship of any other university or institution. This work has also accredited the views of the research participants. To the best of my knowledge, I have fully acknowledged the materials and pieces of information used in the study.

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This is to certify that this thesis entitled: “The Challenges in the Transitional Process of Micro and Small Enterprises in Addis Ababa City” prepared by Abriham Lisanework and submitted in partial fulfillment of the requirements for the award of Degree of Master of Arts in Regional and Local Development Studies complies with the regulation of the University and meets the accepted standards for originality and quality.

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Acronyms

CSA- Central Statistical Agency
DBE-Development bank of Ethiopia
EED-Ethiopian Enterprise Development
GTP- Growth and Transformation Plan
MFI -Microfinance Institution
MOFED- Ministry of Finance and Economic Development
MSEs- Micro and Small-scale Enterprises
MSME- Micro, Small, and Medium-scale Enterprises
NBE- National Bank of Ethiopia
OECD-Organization for Economic Cooperation and Development,
SIDA- Sweden's Government Agency for Development Cooperation
SME- Small and Medium Enterprises
UN- United Nations Organization
UNDP- United Nations Development Program

ABSTRACT

The purpose of this study is to assess the challenges in the transitional process of micro and small enterprises in Addis Ababa city. The study attempted to address challenges that micro and small enterprises faced in their transition from infancy to maturity. The study was conducted using a descriptive study design. A quantitative approach was used to collect the data. A sample size of 340 micro and small enterprise owners and operators was represented from three sub cities namely Kolfe Keranyo, Addis Ketema, and Arada sub cities. A stratified sampling method was used to select the MSEs in different levels of transition from infancy, transition, and maturity based on their years of engagement in the sector. A random sampling method was used for selecting MSE respondents for the survey. The findings of the study revealed that the majority of entrepreneurs were young, with a secondary education level. Family size also played a role in business challenges, with larger families affecting business and family responsibilities. Woodworking and construction were the dominant sectors for MSEs, aligning with Ethiopia's traditional industries and growing construction demand. The analysis also identifies key factors that affect the transitional process of MSEs. These factors include support service factors like access to financial services, market opportunities, business trainings, machinery services, infrastructure, and necessary technologies. Socio-cultural factors such as network connections, attitudes towards products, Additionally, legal and administrative factors such as government support, regulatory knowledge, political interference, and bureaucratic hurdles were identified as crucial determinants of the success and growth of MSEs.

Key Words

MSE, Development, economic growth, employment, industry, transition, Addis Ababa City Administration

CHAPTER ONE

1. INTRODUCTION

1.1 Background

Micro and Small businesses contribute significantly to global economic growth by creating a diverse range of job opportunities for youth and women, reducing import dependency, and maximizing the use of domestic resources (ONG, 2012). Micro and small-scale enterprises (MSEs) are well-known for their significant contribution to economic growth and job creation. MSEs have emerged as one of the most important tools for addressing economic and social issues and achieving development objectives in both developed and developing countries (Matthew, 2020).

According to the Organization for Economic Cooperation and Development, OECD (2017) MSEs account for more than 60% of the gross domestic product in developing economies and more than 70% of total employment. Because developing countries have the lion's share of the rapidly increasing workforce, the MSEs sector is seen as a key catalyst for job creation, unemployment, and social development in general. They have the highest rates of employment growth and contribute significantly to industrial production and urban center export growth (Meressa, 2020).

Micro and Small Enterprises (MSEs) play a vital role in the economic development of any country, creating jobs, fostering innovation, and contributing to local communities. In the context of Addis Ababa city, the capital of Ethiopia, MSEs are crucial for poverty reduction and overall economic growth. However, these enterprises face numerous challenges throughout their lifecycle, particularly during the transition process from infancy to maturity. Understanding and addressing these challenges is essential for the sustainable growth and successful transition of MSEs in Addis Ababa.

The history of MSEs in Addis Ababa can be traced back to the early years of industrial development in Ethiopia. As the country embarked on its journey towards modernization and economic growth, the establishment of MSEs played a significant role in driving local entrepreneurship and fostering innovation (OECD,2017). These enterprises emerged as a

response to the need for economic self-reliance, job creation, and the utilization of local resources.

In the early years, MSEs in Addis Ababa were primarily small-scale enterprises involved in traditional crafts and trade activities. However, over time, their scope expanded to include various sectors such as manufacturing, services, and technology (Meressa,2020). The government of Ethiopia recognized the potential of MSEs in promoting economic growth and implemented policies to support their development.

In recent decades, MSEs in Addis Ababa have faced a changing economic landscape, characterized by globalization, technological advancements, and shifting market dynamics. These enterprises have had to adapt to these changes to remain competitive and sustain their growth. The transition process from infancy to maturity has become a critical phase for MSEs, as they strive to overcome challenges and capitalize on opportunities for expansion and success (Matthew,2020).

However, those MSEs found challenged to be effective in transition to higher level. Constraints related to finance credit issues, lack of workplace, business challenges, lack of managerial skills, and rent money are attributed as factors for their lower performance and contribution to city development (Hadis& Ali, 2018). Another study conducted by Geremew (2018) on factors that hinder MSEs' growth and program outcomes in aggregate forms discovered poor government regulation, infrastructure investment, management, and financial and legal boundary limitations.

This study had examined the challenges faced by micro and small-scale enterprises in transition process in the context of Addis Ababa city, the capital of Ethiopia. MSEs are crucial for poverty reduction and overall economic growth. However, these enterprises face numerous challenges throughout their lifecycle, particularly during the transition process from infancy to maturity. Understanding and addressing these challenges is essential for the sustainable growth and success of MSEs in Addis Ababa.

Addressing the challenges faced by MSEs at each stage of their development is crucial for their long-term successful transition and the economic development of Addis Ababa city. By identifying and understanding these challenges, policymakers, business support organizations,

and other relevant stakeholders can develop targeted interventions and strategies to foster the growth and sustainability of SMEs in the city.

1.2 Statement of the Problem

Micro and Small-Scale Enterprises (MSEs) are of paramount importance to the Ethiopian economy, playing a significant role in employment generation, poverty reduction, and economic growth (CSA, 2021). In Addis Ababa City, as in urban areas across the country, MSEs are crucial drivers of economic development (MOFED, 2019). While their importance is widely recognized, it is crucial to acknowledge that the process of transitioning from infancy to maturity is fraught with challenges that hinder the sustainable growth and success of these enterprises.

Although it is known that MSEs go through distinct phases of development, namely infancy, transition, and maturity (Gildas et al., 2017), the existing understanding of the challenges faced by MSEs at each stage is limited. In the infancy phase, challenges revolve around initial capital, market entry, and a lack of entrepreneurial experience (Ampaire et al., 2020). During the transition phase, MSEs must navigate changing market dynamics, improve management practices, and access resources for expansion (Nega, 2015). As these enterprises move towards maturity, they face increased competition, regulatory compliance, and sustainability concerns (Bekele, 2018).

While previous studies have explored challenges faced by MSEs in developing countries, few have comprehensively examined the specific challenges experienced by MSEs in Addis Ababa City during these distinct phases of development. Additionally, it is important to recognize that the urban context of the capital city presents unique challenges that may differ from those encountered by rural MSEs. To effectively address these challenges and foster the growth and sustainability of MSEs in Addis Ababa City, it is essential to understand them in a comprehensive and context-specific manner.

Therefore, the objective of this study is to systematically investigate the challenges that MSEs in Addis Ababa City face during the infancy, transition, and maturity stages of their development. By conducting a thorough examination of these challenges, the research aims to contribute to a more informed and context-specific approach to policy-making and the design of support systems for MSEs in the city. This will enable the development of targeted interventions and initiatives that address the specific needs of MSEs at each stage of their development, ultimately fostering their growth and sustainability.

1.3 Objective of the Study

1.3.1 General Objective

The General objective of the study is to assess the challenges in the transitional process of micro and small enterprises in Addis Ababa city.

1.3.2 Specific Objective

The specific objectives of this study are presented as follows:

- 1) To identify the key challenges faced by micro and small enterprises (MSEs) in during their transitional process from infancy to maturity.
- 2) To examine the impact of Support service and social factors on the transitional process of MSEs'
- 3) To assess the role of government rules and regulations in supporting the transitional process of MSEs.

1.4 Research Questions

This study seeks to answer the following questions

- 1) What are the key challenges faced by micro and small enterprises (MSEs) in during their transitional process from infancy to maturity?
- 2) How do support service and social factors impact the transitional process of MSEs?
- 3) How do government rules and regulations support the transitional process of MSEs?

1.5 Significance of the Study

The findings from this study ought to inform policymakers and practitioners about the challenges to the growth and transition of the micro and small enterprises in contributing to the Addis Ababa City development. It is expected that this study brings about a new approach to micro and small enterprises' development strategies that comprehensively address the barriers related to the challenges to the effective transition of micro and small enterprises.

Furthermore, the study's findings may be useful to someone who needs to learn more about MSEs. Finally, the findings of this study help government institutions at all levels, including micro and small enterprise development agencies and non-governmental development organizations, formulate reasonably sound policies and decisions on MSE development.

1.6 Scope of the Study

The scope of the study is limited to the micro and small enterprises operating in three sub-Cities of the city administration, namely Kolfe Keraniyo, Addis Ketema, and Arada sub-cities of Addis Ababa city by which each sub-city will be represented with three *woredas*. The study had examined the Challenges to the transitional process of Micro and Small Enterprises currently registered and operating in the selected Sub Cities of Addis Ababa city.

1.7 Limitations of the Study

The study had limitations such as the inability to address a larger sample of MSEs in the three sub-cities which can be hampered by a lack of logistic, financial, and manpower resources. After being identified as a sample in the survey, some sample MSEs may not be found at their stated addresses that cannot be interviewed or included in discussions. For a variety of reasons, it may be extremely difficult to find experts and bureau general managers.

To overcome those limitations, an attempt had been made to adopt appropriate methodologies addressing those limitations thoroughly thus the study planned to select a clustered *woredas* from the selected sub-cities in terms of their convenience and accessibility considering the limited financial and logistic capacity, besides this, effort had been made to maximize the quality of the data gathered and interpreted it carefully with the limitations of the study. To overcome the issues of accessing the experts in the field of this inquiry the researcher plans to utilize purposive sampling techniques to target specific individuals of the required expertise in a way that does not affect the relevance of the data collected.

1.8 Organization of the Study

This is organized into Five chapters, which comprises the first chapter will deal with the introduction part, followed by the review of related literature and the next chapter which is the research methodology will portray the kind of method which is going to be employed with the tools of data collection and technique of data analysis. The fourth chapter which is the analysis and discussion section of the study puts the findings from logistic regression output.

The paper finally provides a conclusion and recommendations based on the findings of the study for various concerned bodies as an input for enacting a new approach to micro and small development strategies that address transitional challenges of micro and small enterprises.

1.9. Definition and Concept of MSEs

Micro and Small-Scale Enterprises (MSEs): MSEs refer to businesses that operate on a small scale, employing a limited number of workers and having relatively low levels of capital investment.

MSE Transition standards : Enterprises were classified into one of three transitional stages: infancy (0-3 years), transition (4-7 years), and maturity (7+ years) based on number of years in operation

The infancy phase represents the establishment of the business, where challenges related to initial capital, market entry, and lack of entrepreneurial experience are common.

The transition phase is a critical period of growth and adaptation, involving challenges such as adapting to changing market dynamics, improving management practices, and accessing resources for expansion (Nega, 2015).

The maturity phase is characterized by stability and growth, but also involves challenges such as increased competition, regulatory compliance, and sustainability concerns (Bekele, 2018).

Challenges: Challenges refer to the obstacles and difficulties faced by MSEs during their transitional process from infancy to maturity.

Social Factors: Social factors encompass the influences and impacts of societal elements on the transitional process of MSEs.

Support Service Factors: Support service factors refer to the services and resources available to MSEs that aid in their transitional process.

Government Rules and Regulations: Government rules and regulations encompass the policies, laws, and regulatory frameworks that govern the operations of MSEs.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Introduction

The literature reviewed for this study is aimed at generating knowledge and an appropriate understanding of micro and small enterprises and the assessment of the challenges in their effective performance in contributing to City development, the reviewed literature is organized by six main thematic areas, which include the theoretical framework ,the Concept of Micro and Small Enterprises , Micro and Small Enterprises and Development, MSE Growth and transition in Ethiopia ,Challenges in the Growth and performance of MSEs and Policy Frameworks to Promote the Growth and transition of MSEs in Ethiopia which finally incorporate a description of summary and critical evaluation of the reviewed studies. There are numerous challenges related to micro and small enterprises however the literature reviewed for this proposed study will not incorporate studies on Micro and Small Enterprises other than their effective performance and challenges in the transition process to the next stage of growth.

2.2. Theoretical Framework

The transition process of small and micro enterprises (MSEs) in Addis Ababa city faces several challenges, which can be analyzed using transaction theory and entrepreneurship theory. These theories provide insights into the factors that influence the success or failure of SMEs during their transition from infancy to maturity stages.

2.2.1. Transaction Theory:

Transaction theory emphasizes the importance of transaction costs and the efficiency of economic exchanges. In the context of MSEs in Addis Ababa city, the following challenges can be identified. As MSEs often face difficulties in accessing affordable credit, which hampers their ability to invest in business expansion and innovation. High transaction costs associated with obtaining loans, such as collateral requirements and high interest rates, hinder their growth (World Bank, 2019). MSEs also struggle to gather relevant market information due to limited resources and networks. This leads to difficulties in identifying market opportunities, understanding consumer preferences, and competing effectively in the market (UNCTAD, 2017).

2.2.2. Entrepreneurship Theory:

Entrepreneurship theory focuses on the characteristics and behaviors of entrepreneurs and their impact on business success. In the context of MSEs in Addis Ababa city, the following challenges can be identified: Many potential entrepreneurs in Addis Ababa city are risk-averse due to factors such as limited access to finance, lack of social safety nets, and fear of failure. This hampers the creation and growth of new MSEs, as individuals are hesitant to take the necessary risks associated with entrepreneurship (UNCTAD, 2017).

Moreover, entrepreneurship theory emphasizes the importance of networks and social capital in accessing resources, knowledge, and opportunities. However, MSEs in Addis Ababa city often face challenges in building and leveraging networks due to limited networking opportunities, lack of business associations and weak industry clusters (OECD, 2019). These limitations hinder MSEs' access to valuable information, potential partnerships, and support, which can impact their growth and transition.

The theoretical frameworks for understanding the challenges faced by MSEs in their growth and transition in Addis Ababa city incorporate transaction theory and entrepreneurship theory. Transaction theory highlights the barriers related to access to finance and market information, while entrepreneurship theory explores the risk aversion among potential entrepreneurs and the limitations in building networks and social capital. By considering these theories, policymakers and stakeholders can design targeted interventions and support mechanisms that address these challenges and foster the growth and transition of MSEs in Addis Ababa city.

2.3. Definition of Micro and Small Enterprises (MSEs)

Micro and Small Enterprises (MSEs) form a significant part of the Ethiopian economy and contribute to employment generation and poverty reduction (World Bank, 2020). The definition of MSEs in Ethiopia is provided by the Central Statistical Agency (CSA). According to the CSA, micro-enterprises are those with up to 9 employees and an annual turnover of up to 100,000 Ethiopian Birr (ETB), while small enterprises employ between 10 and 99 individuals with an annual turnover between 100,001 ETB and 1 million ETB (CSA, 2021). Small businesses are those that employ six to thirty people and have a total capital of less than ETB 500,000 (for service-providing businesses) or ETB 1.5 million (for manufacturing businesses).

In the revised definition of MSEs (MSE strategy, 2011), the Central Statistical Authority (CSA) and the Ethiopian Ministry of Trade and Industry define MSEs according to capital and staff counts. Then, some of the commonly utilized criteria include the amount of capital, employment size, market share, growth performance, and yearly and monthly turnover (MOT.2019).

The following is the official definition of a Micro and Small Enterprise in Ethiopia, as adopted by the Ministry of Trade and Industry.

Table 2.1; Definition of a Micro and Small Enterprise

Enterprise	Sector	Employee	Capital
Micro-enterprise	Industry	<=5	<= ETB 100,000.00
	Service	<=5	<= ETB 50,000.00
Small-enterprise	Industry	6-30	<= ETB 1.5million
	Service	6-30	<= ETB 500,000.00

Source: Ethiopian Micro and Small Enterprises Strategy (2011).

2.4. Micro and Small Enterprises (MSEs) in Ethiopia

2.4.1. Characteristics of MSEs

Micro and Small Enterprises (MSEs) form a vital segment of the Ethiopian economy, contributing to employment generation, income distribution, and poverty reduction (World Bank, 2020). MSEs are characterized by their small-scale operations, limited capital, and relatively low number of employees. Understanding the specific characteristics of MSEs in Ethiopia is crucial for developing effective policies and support mechanisms to promote their growth and sustainability.

2.4.1.1. Ownership and Management

MSEs in Ethiopia are often family-owned and operated, with family members actively involved in the day-to-day operations (Desta & Tilahun, 2015). This characteristic ensures a strong sense of commitment and dedication to the business. However, it may also limit the adoption of modern management practices and hinder the professionalization of operations.

Family-owned MSEs often face challenges related to succession planning, as the transfer of ownership and management from one generation to the next can be complex (Kidanemariam, 2017).

2.4.1.2 Sectoral Distribution

MSEs in Ethiopia are engaged in various sectors, including agriculture, manufacturing, services, and retail (Desta&Tilahun, 2015). The agricultural sector remains a significant contributor to the Ethiopian economy, with many MSEs involved in small-scale farming, livestock rearing, and agribusiness activities. The manufacturing sector comprises MSEs involved in small-scale production, processing, and handicrafts. The service sector includes MSEs providing a range of services such as transport, tourism, and hospitality. The retail sector consists of MSEs operating small shops and market stalls.

2.4.1.3 Employment and Labor Practices

MSEs in Ethiopia are labor-intensive and provide employment opportunities for a significant portion of the population, particularly in rural areas (World Bank, 2020). They contribute to reducing unemployment and underemployment by absorbing surplus labor. MSEs often hire workers on a casual or informal basis, with limited job security and social protection. This informal nature of employment can create challenges related to low wages, poor working conditions, and limited access to social benefits (Desta & Tilahun, 2015).

2.4.1.4. Access to Finance and Technology

Access to finance is a significant challenge for MSEs in Ethiopia, particularly formal financing from commercial banks (Desta & Tilahun, 2015). MSEs heavily rely on informal sources of capital, personal savings, or microfinance institutions for their financial needs. Limited access to finance can impede their growth potential, hinder investments in technology and innovation, and limit their competitiveness in the market. Additionally, MSEs in Ethiopia face challenges related to limited adoption of modern technologies and low levels of technological innovation (Kidanemariam, 2017).

In conclusion, MSEs in Ethiopia exhibit distinct characteristics related to ownership and management, sectoral distribution, employment practices, and access to finance and technology. Family ownership, sectoral diversity, and labor-intensive operations are prominent features of MSEs. However, challenges exist in terms of limited access to formal finance, adoption of

modern technologies, and labor practices. Understanding these characteristics is crucial for policymakers, researchers, and stakeholders to design targeted interventions and support mechanisms that address the specific needs and challenges faced by MSEs in Ethiopia.

2.5. MSE Transition standards

The classification of MSEs into infancy, transition, and maturity stages provides a framework for understanding the developmental trajectory and expected achievements of these enterprises. Enterprises were classified into one of three transitional stages: infancy (0-3 years), transition (4-7 years), and maturity (7+ years) based on number of years in operation (Dhliwayo, 2014)..

The infancy stage represents the early phase of an MSE's existence, characterized by limited resources, low market penetration, and high vulnerability. Research by Gebreeyesus and Mohnen (2013) and Tesfaye (2016) suggests that MSEs in Ethiopia's infancy stage are expected to achieve basic operational viability, establish a customer base, and build initial networks. Additionally, studies by Wolde-Rufael (2012) emphasize the importance of acquiring technical skills, accessing finance, and nurturing an entrepreneurial orientation during this stage.

The transition stage is a critical phase where MSEs aim to overcome the challenges of the infancy stage and move towards growth and sustainability. Research by Asfaw et al. (2017) and Gebreeyesus et al. (2019) indicates that MSEs in Ethiopia's transition stage are expected to achieve growth in terms of increasing market share, expanding product/service offerings, and upgrading their technology and production processes. Moreover, studies by Gebreeyesus et al. (2019) and Gebreeyesus and Mohnen (2013) highlight the importance of accessing business development services, establishing strategic partnerships, and enhancing managerial capabilities during this stage.

The maturity stage represents a stable and established phase where MSEs have achieved sustainable growth and market presence. Studies by Admassie and Amha (2015) and Gebreeyesus et al. (2019) suggest that MSEs in Ethiopia's maturity stage are expected to achieve market leadership, maintain profitability, and contribute to job creation and economic development. However, challenges such as limited access to technology and intense competition require MSEs to continuously innovate, diversify their markets, and improve their marketing capabilities during this stage.

2.5.1 Factors Influencing MSEs Transition

2.5.1.1 Access to Finance

Access to finance is a critical factor influencing the growth and transition of MSEs in Ethiopia. Limited access to formal financing from commercial banks remains a major constraint for MSEs, leading them to rely on informal sources or personal savings for their financial needs (Assefa&Melesse, 2015). Insufficient capital hampers their ability to invest in expansion, modernize operations, and adopt advanced technologies. Improving access to finance through targeted financial programs and initiatives can facilitate the growth and transition of MSEs (World Bank, 2020).

2.5.1.2. Entrepreneurial Skills and Management Capacity

The entrepreneurial skills and management capacity of MSE owners and managers greatly influence the growth and transition of these enterprises. Many MSEs in Ethiopia operate in the informal sector, where formal training and education opportunities may be limited (Assefa&Melesse, 2015).

Enhancing the entrepreneurial skills of MSE owners through training programs and providing access to business development services can contribute to their growth and transition. Strengthening management capacity in areas such as financial management, marketing, and operations can also improve the competitiveness and sustainability of MSEs (World Bank, 2020).

2.5. 1.3 Market Access and Linkages

Access to markets and linkages with larger firms and value chains are important factors for the growth and transition of MSEs in Ethiopia. MSEs often face challenges in accessing formal markets due to limited marketing knowledge, lack of information, and inadequate market infrastructure (Assefa&Melesse, 2015). Building market linkages and facilitating access to value chains can enable MSEs to expand their customer base, increase sales, and enhance their competitiveness. Collaboration with larger firms and participation in formal supply chains can also provide opportunities for technology transfer, knowledge sharing, and access to new markets (World Bank, 2020).

2.6. Challenges in the Transition Process of Small and Micro Enterprises

Despite their importance, MSEs in Ethiopia face several challenges that hinder their growth and transition. These challenges include limited access to finance, inadequate entrepreneurial skills and management capacity, market constraints, and regulatory burdens (Assefa&Melesse, 2015). Additionally, issues such as the lack of appropriate infrastructure, bureaucratic procedures, and inconsistent policies can impede the growth and transition of MSEs (World Bank, 2020). Addressing these challenges through targeted policies, institutional support, and capacity-building initiatives is crucial for sustaining the growth and transition of MSEs in Ethiopia.

2.6.1. Infancy Challenges:

During the infancy stage, medium and small enterprises (MSEs) face various challenges that can impede their growth and development. One prominent challenge is the lack of access to finance, as highlighted by Asefa and Tadesse (2016) in the context of SMEs in Addis Ababa. Insufficient financial resources limit their capacity to invest in necessary production equipment, hire skilled employees, and expand their operations. This financial constraint often results in slow growth or even the failure of MSEs during the infancy stage.

2.6.2. Transition Challenges:

The transition from infancy to maturity is accompanied by several challenges that MSEs must overcome. Gebrehiwot and Van Dijk (2014) emphasize the importance of market information and access to markets as critical challenges faced by SMEs in Addis Ababa during this stage. Limited knowledge about market trends, customer preferences, and competition can hinder SMEs' ability to adapt and respond effectively to changing market conditions. Additionally, inadequate access to markets restricts their potential for growth and expansion.

2.6.3. Maturity Challenges:

As MSEs reach the maturity stage, they encounter a new set of challenges that necessitate effective management and strategic decision-making. Tadesse (2017) highlights the significance of human capital challenges during this stage. MSEs often struggle with attracting and retaining skilled employees, developing leadership capabilities, and implementing effective organizational structures. These challenges can impede their ability to innovate, adapt to market changes, and sustain long-term growth.

In summary, the challenges faced by MSEs at different stages of their development, such as infancy, transition, and maturity is multifaceted. Access to finance, market information, and markets themselves are crucial challenges during the infancy and transition stages. On the other hand, human capital challenges, including attracting skilled employees and implementing effective organizational structures, become significant during the maturity stage. Ultimately, the success or failure of SMEs is influenced by factors such as access to finance, entrepreneurial skills, and networking opportunities, which play crucial roles in their growth and sustainability.

The empirical review of related literature highlights the challenges faced by MSEs in Addis Ababa during their performance and development transition process from infancy to maturity stages. Lack of access to finance, market information, and human capital are identified as significant challenges that hinder MSE growth and development. The literature also emphasizes the importance of factors such as access to finance, entrepreneurial skills, and networking opportunities in determining MSE success. This review provides a foundation for the thesis research on addressing these challenges and developing effective strategies to support SMEs in Addis Ababa.

2.7. Challenges in the Support Service Implementation

Micro and Small Enterprises (MSEs) play a crucial role in driving economic growth, fostering entrepreneurship, and creating employment opportunities in Ethiopia. However, the effectiveness of government policies and programs aimed at supporting these MSEs has been a subject of concern. Studies on the challenges faced in the government's implementation of support mechanisms for MSEs in Addis Ababa confirm this fact

According to the study by Ariano and Gessesse (2017) on Challenges of Micro and Small Enterprises in Ethiopia: The Case of Adama Town Access to financial resources is often poses a significant challenge for MSEs in Addis Ababa (Ariano&Gessesse, 2017). Despite the existence of various government-led initiatives to provide credit, the administrative hurdles and stringent requirements associated with these programs have limited their accessibility to MSEs.

Bureaucratic Red Tapes are also found to be another problem revealed By Berhanu and Belay (2015) on their study on the Challenges and Opportunities of Micro and Small Enterprises. Government policies and regulations are frequently considered burdensome and complex,

leading to difficulties in compliance for MSEs (Berhanu& Belay (2015). Cumbersome licensing procedures, taxation, and regulatory requirements contribute to the hindrance of MSE growth.

A study on the Constraints to Micro and Small Enterprises Growth in Gedeo Zone by Getachew and Yirga (2014) also noted that Inadequate infrastructure, including unreliable electricity supply and poor transportation networks, has been identified as a significant obstacle for MSEs (Getachew&Yirga, 2014). These issues impact productivity and the cost of doing business

Another study by Kidanemariam,(2019) on The Role of Micro and Small Enterprises (MSEs) in the Socio-Economic Development of Addis Ababa find out that MSEs often face challenges in accessing local and international markets due to limited marketing skills, lack of information, and intense competition (Kidanemariam, 2019). Government support programs must address these barriers to enhance market linkages.

Similarly, the study on The Role of Micro and Small Enterprises (MSEs) in Employment Generation by Melese and Kebede (2018) mentioned that inadequate training and Skill Development as a major challenge in the support service implementation. The study reveal transition and sustainability s that lack of appropriate training and skill development programs for entrepreneurs and employees in MSEs has been highlighted as a challenge (Melese&Kebede, 2018). Government interventions should focus on capacity-building initiatives.

In conclusion, the literature reveals several common challenges in government implementation to support MSEs in Addis Ababa, including access to finance, bureaucratic red tape, infrastructure deficiencies, limited market access, and inadequate training. Addressing these issues is essential to facilitate the growth and sustainability of MSEs which are vital contributors to the city's economy.

This study ought to shed light on this crucial area of concern and sparked further interest in addressing the institutional support problem based on the identified research gaps from the reviewed pieces of literature and will be discussed on the fallowing section.

2.8. Policy Frameworks to Promote the Growth and Transition of MSEs in Ethiopia

Micro and Small Enterprise Development is another subsector that has received attention. These enterprises are critical in terms of job creation, serving as entrepreneurship schools, and broadening the base for the value-added domestic private sector. Efforts are made to improve their productivity, technological learning, and growth. Micro and small enterprise businesses will

be assisted in the transition to the next level of industry based on their level of development. To make the aforementioned practical and effective, integrated and organized activities will be undertaken in terms of increasing domestic production, job creation and skill development, governmental support and facilitation, extension service provision, and modern data management system. (Ricardo, P29-30, 2019).

Here are some policy frameworks that can be implemented:

The current MSE Development Strategy's vision is to "create a competitive and convenient base for industrial development," with the following objectives:

Access to Finance: Ensuring easy access to finance is essential for MSEs to transition from infancy to maturity stages. Policies should be designed to facilitate access to affordable credit, including microfinance schemes, venture capital funds, and government-backed loan programs (World Bank, 2019).

Business Development Services: MSEs require support services such as training, mentorship, marketing assistance, and technology adoption to enhance their competitiveness and transition to maturity stages. Governments should establish policies that promote the provision of business development services through public-private partnerships (UNCTAD, 2017).

Regulatory Environment: A favorable regulatory environment is crucial for MSEs to navigate the transition process smoothly. Policies should aim to simplify business registration procedures, reduce bureaucratic hurdles, and ensure compliance with labor and environmental regulations (OECD, 2019).

Market Access: MSEs often face challenges in accessing markets due to limited resources and lack of market information. Policy frameworks should focus on enhancing market linkages, promoting domestic and international trade, and facilitating participation in public procurement processes (UNCTAD, 2017).

Infrastructure Development: Adequate infrastructure is a prerequisite for the growth and development of MSEs. Governments should prioritize policies that promote infrastructure development, including transportation networks, industrial parks, and technology hubs (World Bank, 2019).

Supportive Institutions: Establishing supportive institutions such as business incubators, entrepreneurship centers, and industry associations plays a vital role in assisting MSEs during the

transition process. Policies should encourage the strengthening of such institutions (OECD, 2019).

Policy frameworks play a crucial role in supporting and facilitating the transition process of small and micro enterprises (MSEs) from infancy to maturity stages. These frameworks provide guidelines and strategies for addressing the challenges and promoting the growth of MSEs.

2.8 Research Gap

The empirical review of related literature highlights the challenges faced by MSEs in Addis Ababa during their transition process from infancy to maturity stages. Lack of access to finance, market information, and human capital are identified as significant challenges that hinder MSE growth and development. The literature also emphasizes the importance of factors such as access to finance, entrepreneurial skills, and networking opportunities in determining MSE success. This review provides a foundation for the thesis research on addressing these challenges and developing effective strategies to support SMEs in Addis Ababa.

Those studies fail to provide a comprehensive analysis and understanding of the challenges within this realm, leaving a significant gap in the existing literature. Based on the previous studies conducted on the area there is a need to offer a comprehensive examination of the specific challenges that MSEs in Addis Ababa City experience during these distinct phases of development. Additionally, the urban context of the capital city presents unique challenges that may differ from those encountered by rural MSEs. Understanding these challenges is crucial for policy development, support system improvement, and fostering the growth and sustainability of MSEs in Addis Ababa City.

This research aims to bridge the existing knowledge gap by systematically investigating the challenges that MSEs in Addis Ababa City encounter during the infancy, transition, and maturity stages of their development. Through a detailed exploration of these challenges, this study contributes to a more informed and context-specific approach to policy-making and support system design for MSEs in the city.

2.9. Conceptual Framework

In order to address the challenges faced by micro and small enterprises (MSEs) in the transitional process from infancy to maturity in Addis Ababa City, this research study will adopt a comprehensive conceptual framework. This framework will guide the exploration of various

factors that influence the transitional process of MSEs and help in understanding the complexities involved. The conceptual framework consists of three key components: the challenges faced by MSEs, the impact of social factors, and the influence of support service factors and government rules and regulations

The first component of the conceptual framework delves into the influence of support service factors. The second component of the conceptual framework explores the impact of social factors on the transitional process of MSEs. By examining how these factors shape the growth and development of MSEs, the study aims to understand the social dynamics that either facilitate or impede their transition to maturity. The third component which is the government rules and regulations play a vital role in setting the framework within which MSEs operate. This component of the framework aims to analyze how these factors contribute to or hinder the successful transition of MSEs in Addis Ababa City.

Additionally, conceptual framework focuses on identifying the key challenges faced by MSEs during their transitional process. This will involve an in-depth analysis of the obstacles and difficulties encountered by MSEs as they strive to grow and mature. By examining these challenges, the study aims to shed light on the specific issues that hinder the successful transition of MSEs and provide insights into potential solutions.

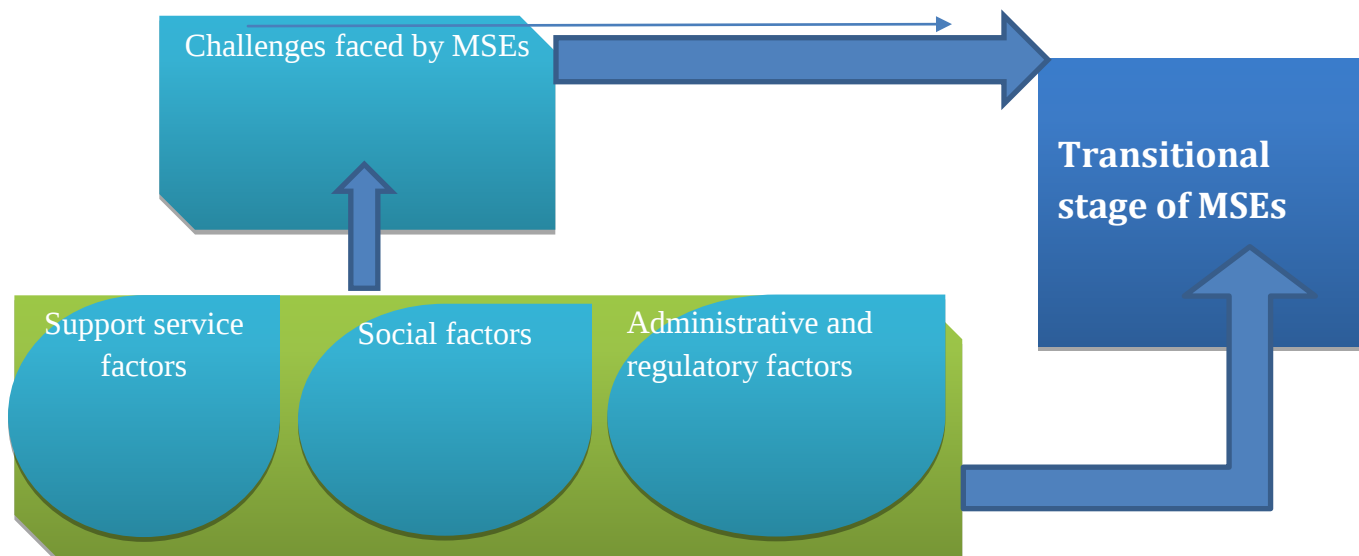


Figure 2.1: - Conceptual Framework

Source: Own Development, 2023

2.10. Transitional stage of MSEs

The classification of MSEs into infancy, transition, and maturity stages provides a framework for understanding the developmental trajectory and expected achievements of these enterprises. Enterprises were classified into one of three transitional stages: infancy (0-3 years), transition (4-7 years), and maturity (7+ years) based on number of years in operation (Dhliwayo, 2014)..

The infancy stage represents the early phase of an MSE's existence, characterized by limited resources, low market penetration, and high vulnerability. Research by Gebreeyesus and Mohnen (2013) and Tesfaye (2016) suggests that MSEs in Ethiopia's infancy stage are expected to achieve basic operational viability, establish a customer base, and build initial networks.

The transition stage is a critical phase where MSEs aim to overcome the challenges of the infancy stage and move towards growth and sustainability. Research by Asfaw et al. (2017) and Gebreeyesus et al. (2019) indicates that MSEs in Ethiopia's transition stage are expected to achieve growth in terms of increasing market share, expanding product/service offerings, and upgrading their technology and production processes.

The maturity stage represents a stable and established phase where MSEs have achieved sustainable growth and market presence. Studies by Admassie and Amha (2015) and Gebreeyesus et al. (2019) suggest that MSEs in Ethiopia's maturity stage are expected to achieve market leadership, maintain profitability, and contribute to job creation and economic development.

CHAPTER THREE

3. METHODOLOGY

3.1. Introduction

In this chapter, the research method used, the data gathering methods and tools; sampling and sampling procedures, and the methods of data analysis will be discussed

The study adopts the post positivist paradigm to guide its research methodology. Post positivism is a philosophical stance that emphasizes the objective and empirical examination of phenomena (Kaushik & Walsh, 2019). It acknowledges the existence of an objective reality that can be studied and understood through rigorous scientific methods. In the context of this research, the post positivist paradigm will allow for a systematic investigation of the challenges faced by MSEs in Addis Ababa City and the development of practical strategies to address these challenges.

Post positivism emphasizes the importance of context and practical implications. By adopting this paradigm, the study aims to bridge the gap between theory and practice, providing actionable insights and recommendations to support the growth and success of MSEs in the city. This approach recognizes the need to understand the practical implications of the challenges faced by MSEs in their transitional process and proposes pragmatic solutions that can be implemented in real-world settings.

3.2 Research Design:

This study had investigated the challenges faced by micro and small enterprises (MSEs) in the transitional process in Addis Ababa City. The research follows a quantitative approach to analyze the data collected from MSEs operating in the city. Besides, in an attempt to develop appropriate tools and procedures in addressing the research questions, this study had used a descriptive research design to better address the challenges on the transition process of the micro and small enterprises in Addis Ababa City:

The researcher takes a comprehensive approach by integrating entrepreneurship theory and resource-based theory. By considering both theoretical perspectives, the study aims to provide a holistic understanding of the challenges faced by MSEs in their transitional process and the role of entrepreneurial factors and resources in shaping their outcomes. This approach will contribute

to the existing body of knowledge in entrepreneurship and inform practical implications for MSE owners, policymakers, and stakeholders in fostering a supportive environment for MSE growth

3.3 Population, Sample Size, and Sampling Technique

3.3.1 Population

. This study is conducted in Addis Ababa, the capital city of Ethiopia. Addis Ababa is home to a vibrant small and medium enterprise sector that plays a key role in the national economy. According to the latest census, the city has a population of over 3.4 million people (CSA, 2018). Specifically, the study will focus on three sub-cities within Addis Ababa that have a high concentration of textile MSEs: *Kolfe Keranio*, *Addis Ketema*, and *Arada*. Together these sub-cities account for over 40% of registered SMEs in the city (EED, 2022). The target population of this research is micro and small enterprise operators in three sub-cities of Addis Ababa city administration namely *Kolfe Keranyo*, *Addis Ketema*, and *Arada Sub-cities*. There exists total population of 2287 micro and small enterprise operators registered under the three sub-cities' micro and small enterprise development office (EED, 2022) which will be used as a target population used for the study

3.3.2 Sample Size and Sampling Techniques

The sample size for the quantitative data collection had determined by using a formula. There are many formulas used for calculating sample size. The study had used one of the most common formulas of sample size calculation Yamane's formula (Asenahabi, 2019). Yamane's formula for sample size calculation: -

$$\text{Sample size } n = N / (1 + N (e)^2).$$

The variables in this formula are:

n = the sample size =340

N = the population of the study=2287.

e = the margin error in the calculation=0.05

A stratified sampling technique was used to select MSEs based on their level of growth from each three sub-cities. Then, a random sampling technique will be used for selecting the MSE operators in each selected stratum.

The MSEs will be stratified based on their transitional stage, categorizing them into three groups: infancy stage transition stage and maturity stage this stratification will ensure that MSEs from each stage of development are adequately represented.

3.3.2.1. Sampling Frame

No	Name of the Sub City	Level of MSEs	Population	Sample Size
1	<i>KolfeKeranyo Sub City</i>	<i>Micro</i>	459	61
		<i>Small</i>	264	35
2	<i>Arada Sub City</i>	<i>Micro</i>	346	46
		<i>Small</i>	218	29
3	AddisKetema sub city	<i>Micro</i>	526	70
		<i>Small</i>	474	63
Total			2287	304

Table 3.1: Sampling frame

3.4. Methods of Data Collection

3.4.1 Data Collection:

Primary data collected using structured questionnaires administered to a sample of MSEs in Addis Ababa city. The questionnaire was designed to capture information on various aspects related to the challenges faced by SMEs in different stages of their development. The collected data will be carefully examined and cleaned to ensure accuracy and completeness. Any missing or inconsistent values will be addressed through appropriate techniques, such as imputation or elimination.

3.5. Data Analysis

The data was collected from the selected sample of micro and small enterprise operators, and it needed to be analyzed to derive meaningful insights and address the research questions. In this study, descriptive statistics were employed as the primary method of data analysis. Descriptive statistics are a branch of statistics that focused on summarizing and describing the main characteristics of a dataset. They provided

a clear and concise overview of the data, allowing for a better understanding of the research findings. The following descriptive statistics tools were utilized in this study:

Frequency distributions: This tool was used to present the distribution of various variables such as the level of MSEs (micro or small), sub-city, and other relevant demographic information. Frequency distributions provided a clear picture of the composition of the sample and helped identify any patterns or trends.

Measures of central tendency: Mean, median, and mode were calculated to determine the average value, middle value, and the most frequently occurring value of certain variables. These measures provided insights into the central values of variables related to the challenges faced by MSEs in the transitional process.

Measures of dispersion: Standard deviation and range were calculated to assess the variability or spread of the data. This helped determine the extent to which the data points deviated from the mean and provided a sense of the overall dispersion of the variables.

Cross-tabulation: Cross-tabulation or contingency tables were used to examine the relationship between two or more variables. This analysis enabled the identification of potential associations or dependencies between variables, aiding in understanding the complex challenges faced by MSEs in the transitional process.

Charts and graphs: Visual representations such as bar charts, pie charts, and histograms were used to present the data in a more comprehensible format. These visual aids enhanced the clarity and interpretation of the findings, making it easier to communicate the results to stakeholders.

The data analysis process was conducted using statistical software, such as SPSS or Excel, to ensure accuracy and efficiency in handling the large dataset. Descriptive statistics provided a comprehensive overview of the challenges faced by micro and small enterprises in the transitional process in Addis Ababa City, facilitating the identification of practical solutions and recommendations. In summary, the data analysis for this research utilized descriptive statistics tools such as frequency distributions, measures of central tendency and dispersion, cross-tabulation, and visual representations.

3.6. Ethical Considerations

In the study, the basic ethical considerations had implemented. First, permission were granted from the authorities in the target sub-cities to conduct the study. The researcher also ensures that the response obtained by the questioners is prepared for MSE Operators in the study area voluntarily to determine whether they should participate or not. In addition, the researcher also shares a summary of the background to the proposed study and its objectives with the Micro and Small Enterprises operators who participate in the study area.

A discussion with survey questionnaire participants was done before actual data collection. This had helped the researcher to ensure that they understood the purpose of the study to be conducted. The agreement was also reached not to indicate personal business names, not to take photos of items' trademarks, to avoid naming specific buildings or floors in the buildings where they operated, and finally to exclude the physical addresses such as street names, block numbers, and stall numbers. No names of MSE owners will be included. But they are allowed to take general pictures that show the work area situations. Consent is assured for both MSE operator respondents and the key informant interview participants.

Besides this, the identity of respondents from the survey questioners were kept confidential for and their responses are mixed so that it is not possible to trace individual respondents selected.

CHAPTER FOUR

4. ANALYSIS AND DISCUSSION

4.1. Introduction

This chapter analyzes the data collected and discusses it accordingly. First, the demographic profile of respondents is analyzed and presented followed by the characteristics of entrepreneurs in MESs. Both are analyzed using frequency tables and percentages and cross tabulations. Thirdly, the data related to the factors that affect the in their transition from infancy maturity stages. The outputs from the ordinal logistic regression are used for the presentation and analysis of these parts. Finally, the summery of findings are discussed based on the data presented and analyzed.

4.2 Response Rate

From the total of 340 sample respondents identified for participation in the 304 of them participated in the survey their responses were correctly completed and gathered. This represents 89.41 % of all responders. These respondent groups are the focus of all the talks that follow, as they are sufficient for the analysis.

4.3. Demographic Profile of Respondents

The following table summarizes the demographic profile of respondents by age, educational level, work experience and marital status.

Table 4.1: - The Respondents' demographic profile

1. Sex	Number	percentage
Male	196	64.47
Female	108	35.53
Total	304	100
1. Age		
20 – 25	91	29.94
26-30	127	41.77
31-35	61	20.07
36 -40	25	8.22
41 – 45		
Above 45		
Total	304	100
2. Educational level		
Can't read and write	11	3.6
Grades 1-6	21	7
Grades 7-8	38	12.5

Grades 9-10	51	16.8
10+1 &10+2	44	14.5
10+3 /diploma	91	29.8
BA/BSC & above	48	15.8
Total	304	100
3. Experience		
1 – 3 years	164	53.9
4-5 years	93	30.6
6-10 years	38	12.5
Greater than 10 years	9	3
Total	304	100
4. Marital status		
Married	141	46.4
Single	122	40.1
Divorced	27	8.9
Widowed	14	4.6
Total	304	100

Source: Field survey, 2023.

As can be seen from the table above it can be observed that the majority of respondents were male (64.47%), while female respondents accounted for 35.53%. This indicates a gender imbalance in the ownership and management of micro and small enterprises in the city. Additionally, most of respondents (41.77%) were between 26-30 years old, followed by 29.94% between 20-25. This indicates that most owners/managers of these small businesses are relatively young, in the early stages of their careers. Only a small fraction (8.22%) was between 36-40, with none reported above 45 years old

Concerning to the Educational level, most respondents had secondary education or above, with 29.8% holding a 10+3/diploma and 15.8% with a BA/BSC degree or above. Only a small percentage lacked basic literacy skills. This shows that while running small enterprises, most respondents possessed at least a secondary level education

The finding that 53.9% of respondents had 1-3 years of experience backs up the earlier age data, with most being young and relatively new to business ownership. Only 3% had over 10 years of experience, indicating high turnover or failure rates for these types of enterprises. Marital status: Slightly under half of respondents (46.4%) were married, with 40.1% single and the remainder divorced or widowed. This provides insights into family/dependents responsibilities that may influence business challenges in summary, the profiles paint a picture of

micro/small enterprises in Addis Ababa typically run by educated but inexperienced young people in their early careers. Their relative youth and lack of longevity in business could correlate to many of the transitional challenges faced. The study offers valuable socioeconomic context for policymakers.

4.4. Characteristics MSEs

The study finds out various characteristics of micro and small enterprises (MSEs) in Ethiopia, focusing on family size, sector engagement, transitional stages, level of enterprise, legal ownership status, skills acquisition, and startup funding sources

4.4.1. Family Size

The following table shows the family size of respondents

Table 4.2 Family sizes of respondents

Family size	Number	Percent
Less than 4	131	43.09
3-5	100	32.9
Greater than 5	73	24.01
Total	304	100

Source: Field survey, 2023.

The finding that 43.09% of respondents had family sizes less than 4 members provides some context behind the earlier demographic that 46.4% were married. It indicates many owners likely had small nuclear families to support through their micro-enterprises

Having smaller family responsibilities may correlate to certain advantages, such as more flexible schedules and fewer dependents to provide for during challenging business periods. This cohort could therefore face fewer hurdles transitioning compared to those with larger families.

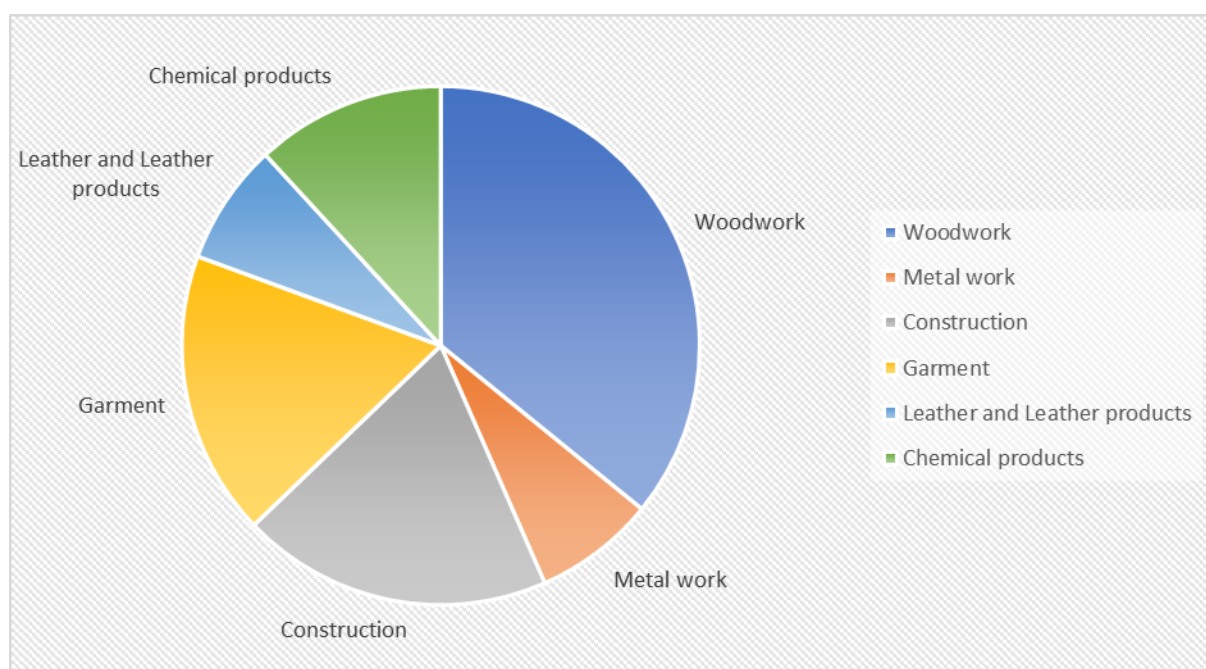
However, nearly a quarter (24.01%) reported families greater than 5 individuals. Large households imply increased financial obligations for necessities like food, healthcare, education and housing. The burden of supporting many dependents makes micro-enterprises the sole lifeline and leaves little room for it standing difficulties (Abate et al., 2014; Gebreeyesus, 2013).

Additionally, 32.9% of families comprised 3-5 members, indicating dual pressures of parenting and business-owning for many respondents. Prior research consistently shows such domestic responsibilities greatly increase stress levels and time constraints for entrepreneurial women especially (Abate et al., 2014; Gebreeyesus, 2013; Hassen& Kebede, 2018).

In light of these analyses, it can be inferred larger family sizes likely amplified challenges faced during periods of business transition. Targeted programs to mitigate family pressures through skills training, credit access, childcare and social safety nets could therefore benefit a segment of these vulnerable entrepreneurs.

4.4.2. Sector of Engagement

Figure 4.1 below displays Woodworking clearly dominates as the top industry, engaging 35.88% of respondents. This aligns with Ethiopia's historical artisanal traditions of carpentry, crafting household items and construction materials (Gebreyesus, 2012; Desta, 2015). However, wood sectors tend to be highly susceptible to economic shocks and environmental disruptions. Construction follows in second place at 19.41%, leaving wood and construction combined accounting for over half the businesses. This reflects the steady urbanization and infrastructure growth in Addis fueling demand (Desta, 2015; Leta, 2017). Yet construction also endures cyclical downturns that could heighten transition pains



Source: Field survey ,2023.

Figure 4. 1 Sectors Respondents Engaged In.

Metalworks engaged the fewest at 7.5%, perhaps needing greater capital investment or technical skills unattainable for many MSEs (Hassen & Kebede, 2018). Leather and chemical products similarly demand specialized equipment and resources beyond the reach of most MSEs.

Garment and textiles represented 17.76%, a moderately growing export-oriented sector benefiting from the city's role as a hub (Gebreyesus, 2012; Leta, 2017). However, low-tech domestic production remains prone to volatility and global market changes. In summary, the concentrated dominance of comparatively unstable industries like wood and construction likely rendered these micro-enterprises highly vulnerable to external disturbances exacerbating transitional obstacles. Long-term stability calls for supporting industry diversification.

4.4.3. Sector of Engagement and Transitional Stage of enterprises Crosstabulation

The data obtained from a sample of 304 MSEs across six sectors including: wood work, metal work, construction, garments, leather, and chemicals.

Table 4.3: Sector of Engagement * Transitional Stage of enterprises Crosstabulation

		Transitional Stage of enterprises			Total
		infancy stage	transition stage	maturity stage	
Sector of Engagement MSEs	Wood work	43	49	17	109
	Metal work	13	6	4	23
	Construction	28	20	11	59
	garment	25	16	13	54
	Leather	10	13	0	23
	Chemical	14	17	5	36
Total		133	121	50	304

Source: Field survey, 2023.

As shown in Table 4.3, the highest percentage of wood work (43%), construction (28%), and garment (25%) MSEs were in the infancy stage. For metal work, the highest percentage was in the transition stage (6%). The majority of leather (13%) and chemical (17%) MSEs were in the transition stage.

The results suggest sector influences the stage MSEs have reached. Wood, construction and garment MSEs, which rely more on manual labor, showed higher percentages in early infancy stage. This aligns with prior research finding labor-intensive sectors face challenges graduating to later stages (Dhliwayo, 2014). In contrast, higher technology sectors like metal work, leather, and chemicals showed higher percentages in transition stage, implying their operations are less dependent on initial startup challenges. These findings provide guidance for policymakers on sectors that may require more support to progress beyond early infancy.

4.4.4. Level of Enterprise

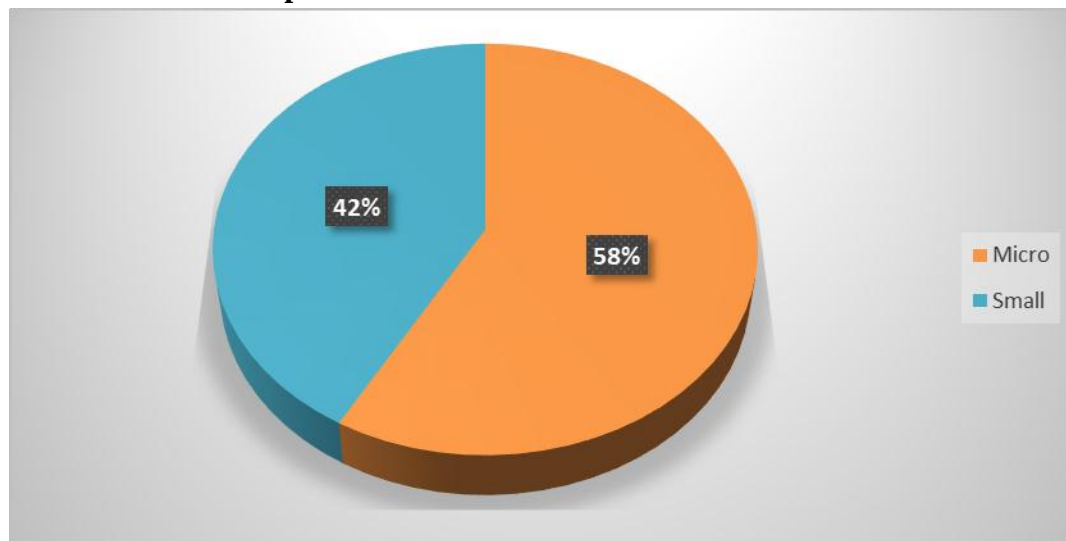


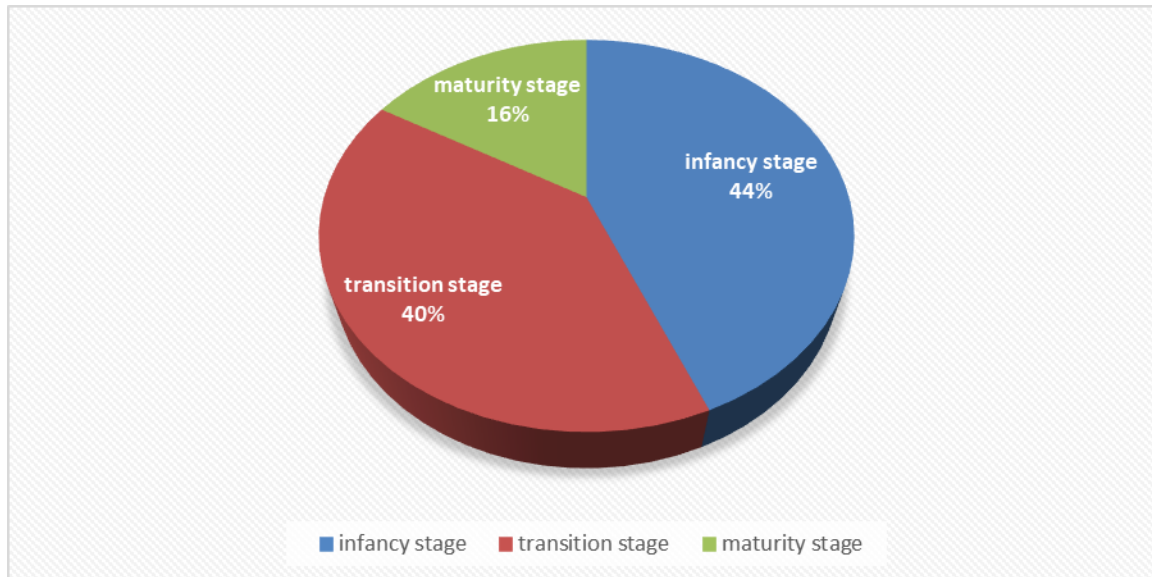
Figure 4.2.: Level of enterprise

Source: Field survey ,2023.

The data finding from figure 4.2 clearly shows that the majority of enterprises in the sample are micro-sized, with 58.2% of the total 304 enterprises falling under this category. This is followed by small-sized enterprises, which account for 41.8% of the total. This finding is consistent with previous research on the characteristics of micro, small, and medium-sized enterprises (MSMEs) in developing countries. For instance, a study by the International Labor Organization (ILO) found that MSMEs in developing countries are predominantly micro-sized, with many facing challenges in scaling up to larger sizes (ILO, 2017).

The high proportion of micro-sized enterprises in the sample may be attributed to several factors. Firstly, the study was conducted in Addis Ababa city, which has a large number of micro-sized enterprises due to its relatively low cost of starting a business and the availability of cheap labor (Alemu & Hailu, 2017). Secondly, many small enterprises in developing countries face challenges in scaling up to larger sizes due to limitations in access to finance, technology, and skilled labor. The finding that the majority of enterprises in the sample are micro-sized highlights the importance of addressing the challenges faced by these enterprises in order to promote their transition.

4.4.5. Transitional Stage of Enterprises



Source: Field survey, 2023

Figure 4.3.: Transitional stage of enterprises

The data displayed from the above table shows that the majority of enterprises in the sample are in the infancy stage, with 43.8% of the total 304 enterprises falling under this category. This is followed by the transition stage, which accounts for 39.8% of the total. The maturity stage accounts for 16.4% of the total.

The high proportion of enterprises in the infancy stage may be attributed to several factors. Firstly, many entrepreneurs in developing countries face challenges in scaling up their businesses due to limitations in access to finance, technology, and skilled labor (Kuratko & Hornsby, 2019). Secondly, the business environment in many developing countries can be challenging, with limited access to markets, inadequate infrastructure, and a lack of regulatory support (Alemu & Hailu, 2017). The finding that the majority of enterprises in the sample are in the infancy stage highlights the importance of addressing the challenges faced by these enterprises in order to promote their growth and development.

4.4.6. Cross-Tabulation of the Transition Stage and Level of Enterprise

Table: 4.4 Cross-tabulation of the transition stage and level of enterprises

Transition Stage of enterprises * Level of enterprises Crosstabulation			Level of enterprises	
			micro	Small
Transition Stage of enterprises	infancy stage	Count	68	65
		% Within transition level of enterprises	50.8%	49.2%
		% Within level of enterprises	38.5%	51.2%
		% of Total	22.3%	21.4%
	transition stage	Count	75	46
		% Within transition level of enterprises	62.0%	38.0%
		% Within level of enterprises	42.4%	36.2%
		% Of Total	24.7%	15.1%
	maturity stage	Count	34	16
		% Within transition level of enterprises	68.0%	32.0%
		% Within level of enterprises	19.2%	12.6%
		% Of Total	11.2%	5.3%
Total		Count	177	127
		% Within transition level of enterprises	58.2%	41.8%
		% Within level of enterprises	100.0%	100.0%
		% Of Total	58.2%	41.8%

Source: Field survey, 2023.

The provided cross tabulation of the transition stage and level of enterprises in Addis Ababa city, shows the distribution of enterprises across different transition stages (infancy, transition, and maturity) and levels (micro and small).

The above table 4.4 portrays the study finding that majority of enterprises are in the infancy stage (50.8%), followed by the transition stage (38.0%), and then the maturity stage (68.0%). In terms of level, most enterprises are micro (51.2%), followed by small (42.4%).

In terms of the transition stage, the SPSS output shows that the majority of micro enterprises are in the infancy stage 6(38.5%), while the majority of small enterprises are in the transition stage (62.0%). This suggests that micro enterprises tend to stay in the infancy stage longer, while small enterprises are more likely to transition to the next stage.

Similarly, in terms of level, the output shows that the majority of enterprises in the infancy stage are micro (50.8%), while the majority of enterprises in the transition stage are small (62.0%). This suggests that micro enterprises are more likely to be in the infancy stage, while

small enterprises are more likely to be in the transition stage. Overall, the finding suggests that there are significant differences in the transition stages and levels of micro and small enterprises in Addis Ababa city.

4.4.7. Number of Employees in the Enterprise

Table 4.5: Number of employees in the enterprise

Number of employees in the enterprise	Frequency	percent
1 – 3	91	29.95
4 – 5	97	31.9
6 – 8	59	19.4
9 – 10	25	8.22
More than 10	32	10.53
Total	304	100

Source: Field survey, 2023.

As it can be seen from the table above, nearly one-third of enterprises (31.9%) hired 4-5 employees, pointing to the vital role of micro-firms as job creators at the grassroots level.

The finding that 29.95% engaged 3 or less workers indicate micro-scale operations, aligning with the sector dominance of woodworking and other artisanal fields. Such mom-and-pop style businesses likely faced acute struggles adapting to macroeconomic shifts.

It is promising that only 10.53% maintained over 10 staff, implying limited vertically integrated structures vulnerable to external demand drops. However, this also points to foregone potential scale and revenue generation if viable enterprises were better equipped to expand. A sizable 29.95% and 19.4% respectively employed 1-3 or 6-8 individuals, demonstrating micro-firms' significant aggregate contribution to local livelihoods and consumption. Targeted interventions to boost their survival rates could therefore yield outsized development impacts.

In conclusion, while the employee numbers affirm micro-enterprises' grassroots economic relevance, their modest size and concentration in unstable sectors likely exacerbated

vulnerabilities to transitional difficulties studied. Strengthening these foundations remains a priority.

4.4.8. Legal Ownership Status of the Establishment

Table 4.6: Legal ownership of the enterprise

Legal ownership status of the establishment	Frequency	Percent
Sole ownership	172	56.57
Joint ownership/Partnership	16	5.28
Family business	34	11.18
Cooperative	82	26.97
Other	--	--
Total	304	100

Source: Field survey ,2023.

As it is depicted from the above table 4.6 Sole proprietorships dominated at 56.57%, underscoring the signature nature of micro-enterprises as individual- or household-run small businesses. While independence is appealing, lack of risk-sharing rendered these enterprises highly susceptible to personal difficulties disrupting operations.

Cooperatives engaged the second largest share at 26.97%, indicating their growing importance for facilitating joint capital access, procurement, marketing and other functions beyond members' individual capabilities (Desta 2015; Gebreyesus 2012; Leta 2017). This collaborative model holds potential to strengthen resilience.

Family businesses made up 11.18%, offering the intimate support but also constraints of kinship ties. Conflicts could arise straining enterprises during periods of change

The low 5.28% reporting joint ventures highlights barriers like capital scarcity inhibiting formal partnerships. Such diversity of structures hints at varying coping capacities when transitional pressures intensified. In summary, while independence is prized, the findings suggest cooperatives and other collective models promoting cooperation over competition may better

weather disruptions through sharing resources and risks. Supporting their inclusive, equitable growth warrants attention.

4.4.9. Source of Skill for Running the Enterprise

Table 4.7: Family entrepreneurial history and source of skill for starting the enterprise

Source of skill for running the enterprise	Number	Percent
Through formal training	132	43.42
From friends	63	20.72
From family	20	6.59
Other	89	29.27
Total	304	100

Source: Field survey ,2023

Formal training engaging the largest share at 43.42% is positive, showing openness to honing business acumen systematically versus relying solely on experience. Structured programs can efficiently build synergies across diverse operators.

The next highest 20.72% sourced skills from friends, denoting the value of informal social learning and peer advising. Such community support networks are integral to micro-business ecosystems in many developing contexts.

However, only 6.59% tapped family experience, oddly low considering over 11% were family firms. Inter-generational knowledge transfer appears limited despite presumed intimacy, hinting at missed opportunities.

The 29.27% categorized as "other" leaves room for clarification on skills acquisition, though independent learning must be acknowledged.

On the whole, these statistics highlight both advantages and remaining gaps in building local entrepreneurial competencies. With expanding technical/vocational education outreach prioritizing business management, foundations can be strengthened for overcoming environmental pressures. While training uptake is encouraging, optimizing informal and inherited learning pathways warrants attention to foster resilience through diverse cooperating support networks. Comprehensive strategies are clearly still needed.

4.4.10. The Main Source of Start-up Funding

The following table shows the main sources of start-up fund.

Table: 4.8 Source of startup funding

Source of startup funding	Number	Percent
Personal saving	88	28.99
Household	61	20.06
Borrowed from relatives or friends/money lenders	23	7.56
Micro-finance institutions	45	14.8
Equb	24	7.89
Assistant from friends/relatives	14	4.6
Inheritance	18	5.9
Borrowed from Bank	22	7.24
Assistant from NGO's	9	2.96
Others	-	-
Total	304	100

Source: Field survey ,2023

Personal savings topped at 28.99%, highlighting individuals' self-reliance but also risks of depleting livelihood buffers with no failsafe. Household funds contributed another 20.06%, again emphasizing family solidarity but potential future strains.

Microfinance institutions engaged 14.8%, underlining their growing yet still limited penetration in filling gaps between informal community sources and traditional banks.

Equbs (rotating savings associations) provided 7.89%, affirming their cultural rootedness as a tried-and-tested collective mechanism.

Relatives/friends and money lenders each loaned 7.56% and 4.6% respectively, speaking to close-knit solidarity networks' sustaining role.

Bank borrowing only reached 7.24%, echoing persistent credit access barriers for the smallest ventures. NGO assistance also remained negligible at 2.96%. In light of these analyses, strategically deepening microfinance while strengthening traditional self-help groups and kinship-based lending appears wise. A diversity of funding avenues, not dependency on any single model, optimizes startup prospects across contexts.

4.5. Factors Affecting Transitional Process of Micro and Small Enterprises

There are a number of challenges that affect the transition of MSEs from infancy, transition to maturity stages which are attributed with different factors. The following section of this study

finding discusses the challenges that affect the transitional process of MSEs in terms of the support service, socio cultural and administrative and regulatory factors.

4.5.1. Support Service System Factors

The following analysis focused on six (6) support service factors: financial access, market access, business trainings, machinery services infrastructure and technologies.

Table 4.9: The major support service system challenge factors for transition level of MSEs

Support Service factors	N	Mean	Std. Deviation
I am satisfied with the financial access given by micro finances and other credit institutions.	304	3.19	1.211
I have a better access to market for my products	304	2.96	.989
A have better access to different business trainings	304	2.94	1.145
I had got machinery services	304	2.79	1.204
I have accesses to the necessary infrastructure	304	2.96	1.085
I have access to necessary inputs	304	3.23	1.082
COMPUTE support service=MEAN (creditfrommf,exhibition,bds,machinery,infrustructure,input)	304	3.0126	.71621
Valid N (listwise)	304		

Source: Field survey, 2023

Table 4.9 presents the major support service system challenge factors for the transition level of MSEs. The table provides information on the number of respondents (N), the mean, and the standard deviation for each support service factor.

The findings indicate that the satisfaction level with financial access provided by microfinances and other credit institutions is moderate, with a mean of 3.19 and a standard deviation of 1.211. This suggests that there is room for improvement in terms of financial support for MSEs.

In terms of market access, the respondents reported a mean score of 2.96, indicating a relatively lower level of satisfaction. This suggests that MSEs face challenges in accessing markets for their products.

Similarly, the mean scores for business trainings (2.94), machinery services (2.79), and necessary infrastructure (2.96) indicate that there is room for improvement in these areas as well. On the other hand, the respondents reported a higher level of satisfaction with access to necessary inputs, with a mean score of 3.23. This suggests that MSEs have relatively better access to the necessary inputs for their businesses.

To provide an overall measure of the support service system, a computed mean score of 3.0126 was obtained by averaging the scores for credit access, market access, business trainings, machinery services, infrastructure, and necessary inputs. Overall, the results of this analysis suggest that financial access, market access, and business trainings are important factors that influence the transitional process of MSEs in Addis Ababa city.

4.5.2. Socio- Cultural Factors

The analysis focused five socio-cultural factors: network connection, racism and hate, attitude towards products, division of labor and positive relationship with workers.

Table 4.10: The socio -cultural factors the transitional process of MSEs

Socio-Cultural Factors	N	Mean	Std. Deviation
I had a good network connection	304	3.89	.878
Racism and hate are not a problem	304	2.94	1.376
People have good attitude towards my product	304	3.51	1.137
there is division of labor between the workers	304	3.54	1.215
I have positive relationship with workers	304	3.21	1.537
COMPUTE social factors=MEAN (network,hate,atitude,division of labor at workers)	304	3.4171	1.03457
Valid N (listwise)	304		

Source: Field survey, 2023

Table 4.10 presents the socio-cultural factors identified in the transitional process of MSEs, providing the number of respondents (N), the mean, and the standard deviation for each factor.

The findings indicate that respondents reported a high level of satisfaction with their network connections, with a mean score of 3.89 and a standard deviation of 0.878. This suggests that MSEs in Addis Ababa City have a strong network of connections that can provide support and opportunities.

On the other hand, racism and hate were identified as a challenge, with respondents reporting a mean score of 2.94 and a relatively high standard deviation of 1.376. This indicates that there are instances of racism and hate that can hinder the progress of MSEs in the transitional process.

The attitude towards products was generally positive, with a mean score of 3.51 and a standard deviation of 1.137. This suggests that people have a favorable perception of the products offered by MSEs.

The respondents also reported a moderate level of satisfaction with the division of labor between workers, with a mean score of 3.54 and a standard deviation of 1.215. This indicates that there is room for improvement in terms of optimizing the division of labor within MSEs.

Furthermore, the mean score for the positive relationship with workers was 3.21, with a relatively high standard deviation of 1.537. This suggests that MSEs face challenges in maintaining positive relationships with their workers.

To provide an overall measure of the socio-cultural factors, a computed mean score of 3.4171 was obtained by averaging the scores for network connection, racism and hate, attitude towards products, division of labor, and positive relationship with workers.

These findings emphasize the significance of socio-cultural factors in the transitional process of MSEs in Addis Ababa City. However, further research and analysis are necessary to gain a deeper understanding of the specific challenges and their implications for the success of MSEs.

4.5.3. Legal and Administrative Factors that Affect the Transitional Process of MSE

The following analysis focused on five legal and administrative factors: government support, political interference, knowledge on regulatory frameworks, bureaucratic hurdles, and benefits from government incentives

Table: 4.11 Legal and administrative factors that affect the transitional process of in MSE

Legal and administrative factors	N	Mean	Std. Deviation
I had government support	304	3.16	1.200
I haven't faced any political interference	304	2.86	1.269
I have enough knowledge on regulatory frameworks	304	2.91	1.073
I don't face bureaucratic hurdles	304	2.83	1.067
I got benefited from government incentives	304	3.06	1.175
COMPUTE gov regulations=MEAN (acessgovs,politics,reguknow,beurocra,incentives)	304	2.9632	.77038
Valid N (listwise)	304		

Source: Field survey, 2023

Table 4.11 presents the legal and administrative factors that affect transitional process of MSEs, providing the number of respondents (N), the mean, and the standard deviation for each factor.

The findings indicate that respondents reported a moderate level of satisfaction with government support, with a mean score of 3.16 and a standard deviation of 1.200. This suggests that while some support is available, there is room for improvement in terms of the extent and effectiveness of government support for MSEs.

On the other hand, respondents reported a relatively lower level of satisfaction with the absence of political interference, with a mean score of 2.86 and a standard deviation of 1.269. This indicates that political interference can be a challenge that hinders the transitional process of MSEs in Addis Ababa City.

The respondents also reported a moderate level of knowledge on regulatory frameworks, with a mean score of 2.91 and a standard deviation of 1.073. This suggests that there is a need for MSEs to enhance their understanding of the regulatory frameworks that govern their operations.

Similarly, respondents reported facing bureaucratic hurdles, with a mean score of 2.83 and a standard deviation of 1.067. This indicates that bureaucratic processes and red tape can pose challenges to the transitional process of MSEs.

Furthermore, the mean score for the benefits from government incentives was 3.06, with a standard deviation of 1.175. This suggests that while some benefits are obtained, there is room for improvement in terms of the effectiveness and accessibility of incentives for MSEs.

To provide an overall measure of the legal and administrative factors, a computed mean score of 2.9632 was obtained by averaging the scores for government support, political interference, knowledge on regulatory frameworks, bureaucratic hurdles, and benefits from government incentives.

These findings highlight the significance of legal and administrative factors in the transitional process of MSEs in Addis Ababa City. However, further research and analysis are necessary to gain a deeper understanding of the specific challenges and their implications for the success of MSEs.

4.5.4. Comparison of the Effect of the Three Factors

The effects of the three factors (support service system, socio- cultural factors, and administrative and regulatory frameworks) on the transition level of micro and small enterprises.

Table: 4.12 Comparison of the Three factors

Comparison of the Three Factors	N	Mean	Std. Deviation
	Statistic	Statistic	Statistic
COMPUTE support service=MEAN (creditfrommf,exibition,bds,machinery,infrastructure,input)	304	3.0126	.71621
COMPUTE social factors=MEAN (network,hate,atitute,divisionofl,workersrn)	304	3.4171	1.03457
COMPUTE gov regulations=MEAN (acessgovs,politics,reguknow,beurocra,incentives)	304	2.9632	.77038
Valid N (listwise)	304		

Source: Field survey, 2023

The SPSS output for the study on the challenges faced by MSEs in the transitional process in Addis Ababa City allows us to compare the effects of three key factors: support service system, socio-cultural factors, and administrative and regulatory frameworks on the transition level of micro and small enterprises.

The computed mean scores for each factor are as follows:

Support Service System:

The mean score for the support service system factor is 3.0126, with a standard deviation of 0.71621. This suggests that there is room for improvement in terms of the support services provided to MSEs, including areas such as credit access, market access, business trainings, machinery services, infrastructure, and necessary inputs.

Socio-Cultural Factors:

The mean score for the socio-cultural factors is 3.4171, with a standard deviation of 1.03457. This indicates that socio-cultural factors, such as network connection, racism and hate, attitude towards products, division of labor, and positive relationship with workers, have a relatively stronger impact on the transition level of MSEs.

Administrative and Regulatory Frameworks:

The mean score for the administrative and regulatory frameworks factor is 2.9632, with a standard deviation of 0.77038. This suggests that there are challenges related to government support, political interference, knowledge on regulatory frameworks, bureaucratic hurdles, and benefits from government incentives that impact the transition level of MSEs.

Based on these results, it can be inferred that socio-cultural factors have the strongest impact on the transition level of MSEs, followed by the support service system and administrative and regulatory frameworks.

4.5.6. Transitional stage of enterprise and factors Correlation

Enterprises are classified into one of three transitional stages: infancy (0-3 years), transition (4-7 years), and maturity (7+ years) based on number of years in operation (Dhliwayo, 2014). The following SPSS output provided displays the correlation analysis between the variables of interest. The control variables include support services, social factors, and government regulations, while the main variable of interest is the transition level of enterprises.

Table: 4.13 Transitional stage of enterprise and factors Correlation

Cont Transitional stage of enterprise and factors Correlation rol			COMPUTE support service=MEAN	COMPUTE socialfactors= MEAN	COMPUTE govregulations =MEAN)
Variables					
Transition Stage of The Enterprises	COMPUTE support service=MEAN (creditfrommf,exibition,bds,ma chinery,infrastructure,input)	Correlation	1.000	.290	.335
		Significance (2- tailed)	.	.000	.000
		df	0	301	301
	COMPUTE social factors=MEAN (network,hate,atitude,divisionof l,workersrn)	Correlation	.290	1.000	.780
		Significance (2- tailed)	.000	.	.000
		df	301	0	301
	COMPUTE gov regulations=MEAN (acessgovs,politics,reguknow,b eurocra,incentives)	Correlation	.335	.780	1.000
		Significance (2- tailed)	.000	.000	.
		df	301	301	0

Source: Field survey, 2023

The correlation coefficients measure the strength and direction of the relationship between variables. In this case, Table 13 clearly depict that the correlation between the transition level of enterprises and the control variables is examined. The correlation between the transition level of enterprises and support services is 0.290, indicating a positive but relatively weak relationship. The correlation is statistically significant ($p < 0.001$), suggesting that there is a meaningful association between the two variables. This indicates that as support services increase, the transition level of enterprises increases as well.

The correlation between the transition level of enterprises and social factors is 0.780, indicating a strong positive relationship. The correlation is statistically significant ($p < 0.001$), indicating that there is a significant association between the two variables. This suggests that as social factors improve, such as networking opportunities and positive attitudes, the transition level of

enterprises also tends to increase.

The correlation between the transition level of enterprises and government regulations is 0.335, indicating a positive but moderate relationship. The correlation is statistically significant ($p < 0.001$), indicating that there is a meaningful association between the two variables. This suggests that as government regulations improve, including access to government services, knowledge of regulations, and reduced bureaucracy, the transition level of enterprises tends to increase.

Overall, these correlation coefficients provide insights into the relationship between the control variables and the transition level of enterprises. The findings suggest that support services, social factors, and government regulations all play a role in influencing the transition level of enterprises. Improving these factors can contribute to the successful transition of enterprises, leading to their growth and development.

A study by Alemu and Admassie (2017) examined the impact of support services on the growth of micro and small enterprises (MSEs) in Ethiopia. They found that access to financial services, business development services, and infrastructure significantly influenced the growth of MSEs. The positive relationship between support services and the transition level of enterprises shown in the SPSS output aligns with their findings, reinforcing the importance of these services in facilitating the transition process of enterprises in Ethiopia.

Regarding social factors, a study by Asrat and Getachew (2018) investigated the influence of social networks on the performance of MSEs in Ethiopia. They found that entrepreneurs who had strong social networks and received support from family, friends, and business associations had higher levels of business performance. The strong positive relationship between social factors and the transition level of enterprises depicted in the SPSS output is consistent with their findings, indicating that fostering a favorable socio-cultural environment that supports networking and positive attitudes is crucial for the successful transition of enterprises in Ethiopia.

In terms of government regulations, a study by Gebreeyesus and Mohnen (2016) examined the effects of regulatory burden on the performance of manufacturing firms in Ethiopia. They found that excessive bureaucratic procedures and delays negatively affected firm performance. The positive relationship between government regulations and the transition level of enterprises shown in the SPSS output may seem contradictory to their findings

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The analysis of the collected data and its implications, the study on the challenges in the transitional process of micro and small enterprises in Addis Ababa city has yielded several significant findings. Firstly, the demographic profile of the respondents reveals that a majority of small business owners in Addis Ababa are relatively young, with a significant proportion falling in the age range of 26-30. Additionally, most respondents possess at least a secondary level of education, indicating a certain level of educational attainment among entrepreneurs. Furthermore, the study highlights the importance of family size in relation to business challenges, with a considerable number of respondents having larger families, which can impact their ability to balance business and family responsibilities. Moreover, the dominant sectors for MSEs were found to be woodworking and construction, aligning with Ethiopia's traditional artisanal industries and the growing demand for construction in Addis Ababa.

The research findings also indicate that the majority of enterprises in the sample are micro-sized, reflecting the prevalence of micro-sized enterprises in developing countries. Additionally, a significant proportion of enterprises are in the infancy stage, emphasizing the need to address the challenges faced by these enterprises to facilitate their growth and development. The study further explores the factors influencing the transitional process of micro and small enterprises. It identifies support service system factors, socio-cultural factors, and legal and administrative factors as key determinants of success and growth.

In terms of support service system factors, access to financial services, market access, business trainings, machinery services, infrastructure, and necessary technologies were found to be crucial for the transitional process of MSEs.

Regarding socio-cultural factors, the study highlights the importance of network connections, the absence of discrimination, positive attitudes towards products, and an effective division of labor in facilitating the transition of MSEs to the next stage.

Furthermore, legal and administrative factors, including government support, political interference, knowledge of regulatory frameworks, bureaucratic hurdles, and benefits from government incentives, were found to significantly impact the transitional process of MSEs.

These findings underscore the importance of targeted support systems and policies to address the specific needs of MSEs in Addis Ababa. By focusing on these factors, policymakers and stakeholders can foster an environment conducive to the success and growth of MSEs, facilitating their transition and contributing to the overall economic development of the city.

5.2 Recommendations

Based on the findings of the study and in alignment with the theoretical frameworks of transaction theory and entrepreneurship theory, the following recommendations can be made to address the challenges in the transitional process of micro and small enterprises in Addis Ababa:

Strengthen Support Services: The Ministry of Trade and Industry should prioritize the improvement and accessibility of support services for micro and small enterprises. By enhancing support systems such as financial services, market opportunities, business trainings, machinery services, infrastructure, and necessary technologies, the Ministry can facilitate transactions between MSEs and support providers. This will help MSEs overcome barriers and navigate the transitional process more effectively, as emphasized by the transaction theory.

Foster a Favorable Socio-Cultural Environment: The Ministry of Culture and Tourism, in collaboration with government agencies, community organizations, and civil society, should create a positive socio-cultural environment that supports the growth of MSEs. Efforts should be made to promote networking opportunities, foster inclusivity, and address issues such as racism and hate. Additionally, raising awareness and changing attitudes towards MSE products can enhance their market acceptance and facilitate their transition to the next stage, aligning with entrepreneurship theory.

Improve Legal and Administrative Frameworks: The Ministry of Finance and Economic Development should focus on streamlining regulatory frameworks, reducing bureaucratic hurdles, and providing government support and incentives to MSEs. By ensuring knowledge dissemination on regulatory requirements, reducing political interference, and creating an

environment that encourages MSEs to thrive and grow, the Ministry can facilitate the transitional process of MSEs, as theorized by transaction theory.

Tailor Programs and Support Systems: The Ministry of Innovation and Technology, in consultation with relevant stakeholders, should develop targeted programs and support systems that address the specific needs of micro and small enterprises in Addis Ababa. By considering the characteristics and challenges identified in the study, such as the young and inexperienced nature of entrepreneurs, the impact of family size, and the dominance of certain sectors for women entrepreneurs, stakeholders can tailor support systems to provide the necessary resources and guidance. This will align with the principles of entrepreneurship theory.

Encourage Collaborative Initiatives: The Ethiopian Enterprises Development, in collaboration with MSEs, government agencies, educational institutions, and other stakeholders, should encourage collaboration and knowledge sharing. Collaboration between MSEs can foster innovation, knowledge sharing, and resource pooling. By encouraging MSEs to collaborate with one another and with established businesses, stakeholders can provide opportunities for learning, growth, and market expansion. Joint initiatives, mentorship programs, industry clusters, and partnerships can facilitate collaboration and align with the principles of both transaction theory and entrepreneurship theory.

Implementing these recommendations will create an enabling environment for the successful transition of micro and small enterprises in Addis Ababa, contributing to job creation, economic development, and poverty reduction in the city. The integration of transaction theory and entrepreneurship theory in these recommendations ensures a comprehensive and holistic approach to addressing the challenges in the transitional process of MSEs.

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Appendixes

Appendix 1

Quantitative Survey Questionnaires Statement of Rights and Confidentiality:

Introduction

My name is Abriham Lisanework: I am a graduate student at the Addis Ababa University in the field Regional and Local Development Studies. I am doing this research for partial fulfillment of my Master of Arts in Regional and Local Development Studies. I am conducting this research to explore the challenges in the transitional process of micro and small enterprises in Addis Ababa city. I am interested in your experience, perspective, and attitude regarding the challenges in the transitional process of micro and small enterprises in Addis Ababa city. The results of the study will be shared with those organizations working closely with the micro and small enterprise sector.

Participation in the research is voluntary. You are free to participate in the study or opt-out at any time. Besides you, as a person, will not be referred to in the results of the study and your identity will remain anonymous throughout the research report.

With Regards

Abriham Lisanework

Appendix 2
Addis Ababa University
Regional and Local Development Studies
Graduate Program

This questionnaire is designed to study the challenges in the transitional process of micro and small enterprises in Addis Ababa city. Therefore, I humbly request you to fill out the questionnaire carefully, realizing that it is only for the purpose of the study,

First of all, I would like to thank you very much for your cooperation.

Note: There is no need to write your name on the questionnaire.

Please circle the letter which contains your chosen answer

Part 1: General Information

1. Age

- | | | |
|---------------------|---------------------|---------------------------|
| a. from 20-25 years | c. from 31-35 years | e. from 41-45 years |
| b. 26-30 years old | d. 36-40 years old | f. More than 45 years old |

2. Gender

- | | |
|---------|-----------|
| a. Male | b. Female |
|---------|-----------|

3. Level of education

- | | | |
|-----------------------------|----------------------|----------------------|
| a. Unable to read and write | d. Grade 9-10 | g. BA/ BSC and above |
| b. Grades 1-6 | e. 10 + 3 / Diploma | |
| c. Grade 7-8 | f. Level 1 - Level 4 | |

4. Work experience

- | | | |
|--------------|---------------|-----------------------|
| a/ 1-3 years | c/ 6-8 years | e/ More than 10 years |
| b/ 4-5 years | d/ 9-10 years | |

5 - Marital Status

- | | |
|--------------|--------------------------|
| a. Married | c. Married and Divorced |
| b. Unmarried | d. Her husband/wife died |

6. Family Size

- | | | | |
|------|---------|--------|----------------|
| a. 1 | b. 2- 3 | c. 4-5 | d. More than 5 |
|------|---------|--------|----------------|

Part 2: the challenges in the transitional process of micro and small enterprises in Addis Ababa city.

1. How long has your enterprise been in operation?

- a. Less than 1 year
- b. 1-3 years
- c. 3-5 years
- d. More than 5 years

2. In which of the following sectors your enterprise belongs to?

Note: -You can select more than one if you are engaged in multiple sectors:

- | | | | |
|--------------------|----------------|------------|----------------------|
| a. Agro-Processing | b. Textile | c. Leather | d. Chemical Products |
| e. Woodwork | f. Metal works | g. Jewelry | |

h. Other please (specify) -----

3. On a scale of 1-5, how would you rate your level of financial literacy in managing the transition process of your MSE?
 - a. Very low
 - b. Low
 - c. Moderate
 - d. High
 - e. Very high
4. Have you received any form of government support during the transition process of your MSE?
 - a. Yes
 - b. No
5. How would you rate your access to technology during the transition process of your MSE?
 - a. Very limited
 - b. Limited
 - c. Adequate
 - d. Extensive
6. What are the major challenges you have faced in accessing markets during the transition process of your MSE?
 - a. working place
 - b. Exhibition Slot
 - c. Shop
 - d. Market linkage
7. How would you rate the overall challenges faced by your MSE during the transition process?
 - a. Very challenging
 - b. Challenging
 - c. Somewhat challenging
 - d. Not challenging
8. What other specific challenges have you encountered during the transition process of your MSE?
 - a. Lack of Credit
 - b. Poor Technology Access
 - c. Lack of adequate Government Support
 - d. Lack of efficient Financial Management
9. How satisfied are you with the level of support and resources provided by the government to assist MSEs in their transition process?
 - a. Very dissatisfied
 - b. Dissatisfied
 - c. Neutral
 - d. Satisfied
 - e. Very satisfied
10. In your opinion, what factors have contributed most to the challenges faced by MSEs in their transition process? (Select all that apply)
 - a. Regulatory barriers
 - b. financial literacy
 - c. Government support
 - d. Technology access

- e. Market access
11. How likely are you to seek external assistance or resources to overcome the challenges faced by your MSE during the transition process?
- Very likely
 - Likely
 - Neutral
 - Unlikely
 - Very unlikely
12. What specific forms of support or assistance do you believe would be most beneficial in overcoming the challenges faced by MSEs in their transition process?

Part 3: Factors Affecting the Advancement of Micro Small Scale to Medium Scale Enterprise

Below is a list of issues expected to be challenges in the transitional process of Micro and small and enterprises?

By relating the influence of each choice to the existing situation of their organization, put /✓/sign (response) in the box.

5 - Strongly agree 4 - Agree 3 - Neither agree nor disagree
2 - Disagree 1 - Strongly disagree

No	Obstacles to the Transition of MSEs	Level of Agreement (size)					Examination
Support Service Challenges		1	2	3	4	5	
1	I am satisfied with the financial access given by Micro finances and other lending institutions.						
2	I have access to promotion to attract potential users.						
3	I have access to different business trainings about demand forecasting.						
4	I have access to appropriate machinery and equipment.						
5	Adequate infrastructures are available like power and water supply.						
6	I have access to necessary inputs (raw materials)						
	Socio Cultural Factors						
1	I have a better of social acceptability						
2	I have a better contact(networks) with outsiders						
3	I have no prejudice or class biases						
4	The societies attitude towards my products/services is positive						
5	I have a positive relationship with the workforce						
	Legal and Administrative Factors						
1	I have business assistants and supporters from government bodies						
2	I have never encountered political intervention						
3	I have accessible information on government regulations that are relevant to my business.						
4	I have never encountered bureaucracies and red tapes						
5	I am beneficiary of government incentives						

Thank you!

አባሪ 2

አዲስ አበባ ዩኒቨርሲቲ

የሃገር ልማት ጥናት ኮሌጅ

የድህረ ምረቃ ፕሮግራም

ይህ መጠይቅ የተዘጋጀው በአዲስ አበባ ከተማ በጥቃቅንና አነስተኛ አንተርፕራይዞች የሽግግር ሂደት ውስጥ ያሉትን ተግዳሮቶች ለማጥናት ያለመ ነው። ስለዚህ መጠይቁን በጥንቃቄ እንድትመለከቱ በትህትና እጠይቃለሁ፤ ለጥናቱ ዓላማ ብቻ እንደሆነ ተረድታችሁ፡-

በመጀመሪያ ለተባበራችሁኝ በጣም ላመሰግናችሁ እወዳለሁ።

ማስታወሻ፡- በመጠይቁ ላይ ስምዎን መጻፍ አያስፈልግም

እባክዎ የመረጡትን መልስ የያዘውን ፊደል ያክብቡ

ክፍል 1: አጠቃላይ መረጃ

1. ዕድሜ

ሀ/ ከ20-25 ዓመታት ሐ/ ከ31-35 ዓመታት ሠ/ ከ 41-45 ዓመታት

ለ/ 26-30 አመት መ/ 36-40 ዓመት ረ/ ከ 45 ዓመት በላይ

2. ጾታ

ሀ/ ወንድ ለ/ሴት

3. የትምህርት ደረጃ

ሀ/ ማንበብና መጻፍ የማይችል ሠ/ 10 + 3 / ዲፕሎማ

ለ/ ከ1-6ኛ ክፍል ረ/ ሌቭል 1 - 4

ሐ/ ከ7-8ኛ ክፍል ሰ/ ቢ.ኤ/ቢ.ኤስ.ሲ እና ከዚያ በላይ

መ/ ከ9-10ኛ ክፍል

4. የስራ ልምድ

ሀ / 1-3 ዓመት ሐ / 6-8 ዓመት ሠ / ከ 10 ዓመት በላይ

ለ / 4-5 ዓመታት መ / 9-10 ዓመታት

5 - የጋብቻሁኔታ

ሀ/ ያገባ/ ያገባች ሐ/ ያገባ/ያገባች እና የተፋታ/የተፋታች

ለ/ ያላገባ/ያላገባች መ/ ባለ/ሚስቱ / የሞተባት / የሞተችበት

6. የቤተሰብ መጠን

ሀ/1

ለ/ ከ 2- 3

ሐ/ ከ 4-5

መ / ከ 5 በላይ

ክፍል 2:- በአዲስ አበባ በጥቃቅን እና አነስተኛ ኢንተርፕራይዞች የሽግግር ሂደት ውስጥ ያሉ ተግዳሮቶች

1. የእርስዎ ድርጅት ለምን ያህል ጊዜ ሥራ ላይ ቆይቷል?

ሀ. ከ1 አመት በታች

ለ. ከ1 - 3 ዓመታት

ሐ. ከ 3 - 5 ዓመታት

መ. ከ 5 ዓመታት በላይ

2. የእርስዎ ኢንተርፕራይዝ ተሰማራበት በየትኛው ዘርፍ ነው?

ሀ.አግሮፕሮሰሲንግ

ሠ. የእንጨት ስራ

ለ.ጨርቃጨርቅ

ረ. የብረታብረት ስራዎች

ሐ. ቆዳ እና የቆዳ ወጤቶች

ሰ. ጌጣጌጥ እና ማዕድን

መ.ኬሚካል ወጤቶች

3. በ1-5 ነጥብ ሚዛን፣ የእርስዎን ኢንተርፕራይዝ ሽግግር ሂደት በመምራት ረገድ የእርስዎን የፋይናንስ አረዳድ እውቀት ደረጃ እንዴት ይመዝኑታል?

1 - በጣም ዝቅተኛ

2 - ዝቅተኛ

3 - መካከለኛ

4 - ከፍተኛ

5 - በጣም ከፍተኛ

4. በእርስዎ ኢንተርፕራይዝ ሽግግር ሂደት ውስጥ ምንም አይነት የመንግስት ድጋፍ አግኝተዋል?

ሀ. አዎ

ለ. አይደለም

5. በእርስዎ ኢንተርፕራይዝ ሽግግር ሂደት ውስጥ የእርስዎን የቴክኖሎጂ ተደራሽነት እንዴት ይመዝኑታል?

ሀ. በጣም ውስን

ለ. ወስን

ሐ. በቂ

መ. ከበቂ በላይ

6. በአነስተኛ እና ጥቃቅን ስራ ውስጥ የሽግግር ሂደት በዋናነት ያጋጠሙዎት ችግሮች ምንድን ናቸው?

ሀ/ የማምረቻ ቦታ

ሐ/ የመሸጫ ቦታ

ለ/ የማሳያ ስፍራ

መ/ የገበያ ትስስር ችግር

7. በሽግግር ሂደቱ ሂደት በእርስዎ አንተረጥራይዝ ያጋጠሙትን አጠቃላይ ፈተናዎች እንዴት ያዩታል?

ሀ. በጣም ፈታኝ

ለ. ፈታኝ

ሐ. በመጠኑ ፈታኝ

መ. ፈታኝ አይደለም።

8. በእርስዎ አንተረጥራይዝ ሽግግር ሂደት ውስጥ ምን ሌሎች ልዩ ተግዳሮቶች አጋጥሞዎታል?

ሀ. የብድር አገልግሎት ሐ. የመንግስት ድጋፍ

ለ. የቴክኖሎጂ አቅርቦት መ. የገንዘብ አያያዝ ክህሎት ክፍተት

9. በእርሶ አንተረጥራይዝ ሽግግር ሂደት በመንግስት በሚደረገው የድጋፍ ደረጃ እና ግብአት አቅርቦት ምን ያህል ረክተዋል?

ሀ. በጣም አልረከውም

ለ. አልረከውም

ሐ. መግለጽ አልችልም

መ. ረክቻለሁ

ሠ. በጣም ረክቻለሁ

10. በእርስዎ አስተያየት፣ የአንተረጥራዘዎ ሽግግር ሂደት ለገጠመዎት ተግዳሮቶች የበለጠ አስተዋጽኦ ያደረጉት የትኞቹ ናቸው? (ከአንድ በላይ የሆኑ ምክኒያቶች ይምረጡ)

ሀ. የአስተዳደር ሰንሰለት እንቅፋቶች

ለ. የፋይናንስ አስተዳደር እውቀት

ሐ. የመንግስት ድጋፍ ወሰንነት

መ. የቴክኖሎጂ ተደራሽነት

ሠ. የገበያ ተደራሽነት

11. በሽግግር ሂደቱ ወቅት በእርስዎ ኢንተርፕራይዝ ያጋጠሙ ችግሮች እና ተግዳሮቶች ለማሸነፍ የሌሎች አካላት እርዳታ ወይም ግብዓቶች አስፈላጊነት ምን ያህል ነው?

ሀ. በጣም አስፈላጊ

ለ. አስፈላጊ

ሐ. መግለጽ አልችልም

መ. አላስፈለገኝም

ሠ. ምንም አላስፈለገኝም

12. በእርስዎ ኢንተርፕራይዝ ሽግግር ሂደት ያሟያጋጥሙ ተግዳሮቶችን ለማሸነፍ ምን ምን አይነት ድጋፎች ወይም የእርዳታ ዓይነቶች በጣም ጠቃሚ ናቸው ብለው ያምናሉ?

ክፍል 3:- ጥቃቅን አነስተኛ ደረጃ ወደ መካከለኛ ኢንተርፕራይዝ እድገት ላይ ተጽዕኖ የሚያደርጉ ምክንያቶች

የጥቃቅንና አነስተኛ እና ኢንተርፕራይዞች የሽግግር ሂደት ተግዳሮቶች ይሆናሉ ተብለው የሚጠበቁ ጉዳዮች ዝርዝር ከዚህ በታች ቀርቧል?

የእያንዳንዱን ምርጫ ተጽዕኖ ከድርጅቱ ነባራዊ ሁኔታ ጋር በማዛመድ /✓/ ምልክት (ምሳሌ) በሳጥኑ ውስጥ ያስቀምጡ

5 - በጣም እስማማለሁ 4 - እስማማለሁ 3 - ስምምነትም ተቃውሞም የለኝም

2 - አልስማማም 1 - በጣም አልስማማም

ተ.ቁ	ለጥቃቅን እና አነስተኛ ኢንተርፕራይዞች ሽግግር እቅፋቶች	የስምምነት ደረጃ (መጠን)					ምርመራ
		1	2	3	4	5	
	ያጋጠሙ ዋና ዋና ተግዳሮቶች						
1	በማይክሮ ፋይናንስ እና ሌሎች አበዳሪ ተቋማት በተሰጠው የፋይናንስ አቅርቦት ረክቻለሁ።						
2	ተጠቃሚዎችን ለመሳብ የሚገዙ የማስተዋወቂያ ቦታ ዕድል ተጠቃሚ ሆኛለሁ						
3	ስለፍላጎት ትንበያ የተለያዩ የስራ ላይ ስልጠናዎችን ማግኘት						

	ችያለሁ።						
4	አስፈላጊ ማሻሻያች እና መሳሪያዎች አግኝቻለሁ።						
5	እንደ ኃይል እና የውሃ አቅርቦት ያሉ በቂ መሠረተ ልማቶች አሉ						
6	አስፈላጊ የሆኑ ግብዓቶች (ጥሬ ዕቃዎች) አገኛለሁ						
	ማህበራዊ ባህላዊ ምክንያቶች						
1	የተሻለ ማህበራዊ ተቀባይነት አለኝ						
2	ከውጪ ካሉ ሰዎች ጋር የተሻለ ግንኙነት (ኔትወርኮች) አለኝ						
3	ጭፍን ጥላቻ ወይም የመደብ ልዩነት ጉዳት አላደረሰብኝም						
4	ማህበረሰቡ ለምርቶቼ / አገልግሎቶቼ ያላቸው አመለካከት አዎንታዊ ነው						
5	ከሠራተኞቼ ጋር አዎንታዊ ግንኙነት አለኝ						
	ሕጋዊ እና አስተዳደራዊ ምክንያቶች						
1	ከመንግስት አካላት የስራ ላይ ክትትል እና ድጋፍ አገኛለሁ						
2	የፖለቲካ ጣልቃ ገብነት አጋጥሞኝ አያውቅም						
3	ከስራዬ ጋር ተዛማጅነት ባላቸው የመንግስት ደንቦች እና መመሪያዎች ላይ በቂ መረጃ አለኝ።						
4	ቢሮክራሲዎች እና ማንቆዎች አጋጥሞኝ አያውቅም						
5	የመንግስት ማበረታቻዎች ተጠቃሚ ነኝ						

አመሰግናለሁ!!

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1 _____

Methodology/ design/ sampling/ data collection methods and analysis methods

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