



COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF COMMERCE

ASSESSMENT OF FACTORS AFFECTS THE SAVINGS OF MICRO AND SMALL ENTERPRISES IN ADDIS ABABA: THE CASE OF KIRKOS SUB CITY TRADE MICRO-ENTERPRINUERS

A RESEARCH THESIS SUBMITTED TO DEPARTMENT OF ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE IN MASTER OF DEVELOPMENT ECONOMICS

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This is to certify that the thesis prepared by **IdosaTolesa** entitled by **Assessment of Factors Affects Savings of Micro and Small Enterprises in Addis Ababa: the case of Kirkos sub city trade enterprineurs** which is submitted in partial fulfillment of the requirements for the degree of Masters in Development Economics, complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Table of Contents

Acknowledgments.....	ii
List of Tables.....	v
List of Figures	v
Acronyms.....	vi
<i>Abstract</i>	vii
11.INTRODUCTION	1
1.1 Background	1
1.2 Problem Statement	3
1.3 RESEARCH OBJECTIVES	4
1.4 Research Questions	4
1.5 Significance of the Study	4
1.6. Scope and Limitation of the Study	5
1.7. Organizations of the Study.....	5
1.8 Basic Concepts and Definitions	5
CHAPTER TWO.....	7
2.1 Conceptual Literature.....	7
2.1.1 Definition of Saving	7
2.2 Micro and Small Enterprises (MSEs).....	7
2.3 Micro and small Enterprises Development strategy in Ethiopia	8
2.4 Challenges of Micro and Small Enterprise (MSEs) Development in Ethiopia	10
2.5The Roles of Micro and Small Enterprises for Economic Development	14
2.6 The Role Saving in Development.....	15
2.7 Determinants of Saving and Micro and Small Enterprise in the Empirical Literature....	16
2.8 Gap Analysis.....	20
2.9 Conceptual Frame Work.....	21
CHAPTER THREE	23
3.1 Methodology.....	23
3.2 Description of the Study Area.....	23
3.2.1 Addis Ababa	23

3.3 Research Approach and Research Design.....	24
3.3.1 Research Approach.....	24
3.3.2 Research Design	24
3.4 Population and Sampling	25
3.5 Data Sources, Types and Collection Procedures.....	26
3.5.1 Data Sources	26
3.5.1 Data collection procedures	26
3.6 Data Analysis	26
3.6.1 Descriptive statistics	27
3.6.2 Econometric analysis	27
3.6.3 Variable Definition	28
3.6 Scale Reliability and Validity	30
3.7 Ethical Consideration	30
CHAPTER FOUR.....	31
DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....	31
4.1 Introduction	31
4.2 Socio-Demographic Characteristics and Prospects of respondents.....	31
4.2.2 Respondents' Family Background	34
4.3 Bank Choice of Respondents.....	35
4.4 Challenges faced during start up the Business	36
4.5 Challenges faced during growth and expansion	37
4.6 Financial Constraints Affecting Performance of MSEs	38
CHAPTER FIVE	43
SUMMARY, CONCLUSION AND RECOMENDATION.....	44
5.1 Summary of the Study.....	44
5.2 Conclusion of the study.....	45
5.3 Recommendations	46
References.....	47
SURVEY QUESTIONNAIRE	50

List of Tables

Table 1; Respondents Age Category, Status of Formal Education and Marital Status.....	33
Table 2: Financial institutio schaoice	35
Table 3: Challenges faced during start up.....	36
Table 4: Challenges faced during growth.....	37
Table 5: Financial constraints affecting	37
Table 6: Attitudinal statements on constraints facing households in access to banking method.....	39
Table 7: Econometric output.....	40

List of Figures

Figure 1: Conceptual Framework	21
Figure 2: kirkos sub city	24
Figure.3 Cronbach alpha value	30
Figure 4: Respondents family Background.....	34

Acronyms

AACATB	Addis Ababa City Administration Trade Bureau
BDS	Business Development Service
CSA	Central Statistical Authority
CBE	Commercial Bank of Ethiopia
EPRDF	Ethiopian People Republic Democratic Front
ETB	Ethiopian Birr
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GDP	Gross Domestic Product
MFI	Micro Finance Institute
MSEs	Micro and Small Enterprise
MPC	Marginal Propensity to Consume
MPS	Marginal Propensity to Save
NBE	National Bank of Ethiopia

Abstract

The study determined assessed the factors that affects the saving of micro enterprises in Addis Ababa: the case of Kirkos sub city trade micro-enterpriners. A multistage cluster sampling technique was used to select 341 respondents for the study and questionnaire was used to elicit information from the respondents. Descriptive statistics and probit regression were used to analyze the data. From total sample of 341 micro and small enterprises 51.9 %(177) of them are 31-35 age this is indication of a relatively they are youths .The result of probit regression shows a negative relationship between the income of respondents and their participation in financial institutions. This because, in these case respondents are merchants (business men) they prefer to work with the money rather than saving at financial institutions. The main financial constraints that affect performance of MSEs to participate in formal financial institutions were high interest rate on loan and high collateral requirement asked by financial institutions. The study recommends that, in order to facilitate access to credit for MSEs, (financial institutions) banks and MFIs make adjustments in interest rate, affordable collateral values as well as need to allocate a certain portion of their loanable funds for MSE entrepreneurs and expand their branches around to increase their accessibility.

Keywords: *Saving , financial institutions, performance, Probit regression, MSE entrepreneurs , multistage cluster sampling*

CHAPTER ONE

1. INTRODUCTION

1.1 Background

Micro and small enterprises play an important role in building world's economy. In different parts of the world they are serving as home of income generation, reduction of unemployment, and innovation (Alemayehu, 2019). MSEs' financing, in fact, is now at the centre of the international development agenda and is of considerable interest to policy makers due to their importance for economic development as well as their potential contribution to economic diversification and job creation. However, MSEs' growth potential in developing economies, especially in Africa, is limited as they are significantly more credit constrained compared to larger enterprises (Kuntchevetal,2012).

Poverty is generally seen from the angles of low or no income, poor infrastructure, poor industrial activities, poor agricultural output, increase in crime and rural-urban migration. All these are referred to as aspects of under- development. To develop, therefore, would mean improvements in them (Anyanwu et al, 2012). Therefore, increase in income from economic activities supported by loans and advances or credit from the banking industry, especially the rural banks could solve a significant part of the causes of poverty (Olashore, 2010).In high-income countries, MSEs are responsible for over 50% of GDP and over 60% of employment, but in low-income countries they are less than half of that: only 30% of employment and 17% of GDP (World Bank,2012).As Mulugeta(2008)the MSE (Micro and Small Enterprise) sector is the second largest employment-generating sector after agriculture in Ethiopia.

The implementation of the government's MSE-support program in Ethiopia has been successful in creating employment to millions of people, particularly the youth. However, providing loan to the youth MSE operators who have limited business experience and exposure, limited technical skills, inadequate property collateral and track record, and inadequate level of commitment, and the wrong mindset of seeking toengage in blue-collar jobs and self-employment, are the serious

challenges to offer a prudent lending service by finance providers, particularly MFIs(Woldehanna, 2017).

Kirkos Sub-City is one of the 10 Sub-Cities of Addis Ababa, which is located at the center of Addis Ababa City Administration, where Addis Ababa stadium and Meskel square are located. The Sub-City is one of the densely populated parts of Addis Ababa. The Sub-City has 11 woredas, which constitute grassroots urban administration units in Ethiopia. There are 2,350 trade MSEs which are registered in kirkos Sub-City MSEs office. The sub city has the highest MSEs in compare with the rest sub city of Addis Ababa. According to CSA report of (2008), the unemployment rates in Addis Ababa reach 31.46%. Kirkos sub city with dense population are faced with socio-economic problems as unemployment, housing problem, inadequate market infrastructure, problem of waste disposal, shortage of recreational center for the youth and the inhabitants migrate to find job. Most of the populations of the sub city fall in medium and lower living standards, and are engaged in low standard informal activities.

The importance of the micro and small enterprises sector in Ethiopia, particularly for the low-income, poor and women groups, is evident from their relatively large presence, big share in employment and small capital requirement. And these enterprises may not practice savings or not practicing formal saving system. To this end, this study would significantly play as its key to examine the factors that affect the saving of micro and small enterprises in Addis Ababa.

1.2 Problem Statement

MSEs in Ethiopia are divided into five sectors and are expected to import substitution and provide job opportunities to the population beyond the owners. They are also hoped to bring about the technological transfer and new corporate management skills to the nation. Although the development of MSEs has been well recognized by the different policy documents their success rate in terms of creating job opportunities and serving as a link in technological transfer is still seriously problematic in Ethiopia (Martha, 2011).

MSEs play dynamic role on the growth of country and were base of medium and large firms. Since the studies focus on the MSEs sector importance and microfinance institutions', role ingeneral. But the pervious study intensively based on the role on the growth of micro, Small andmediumenterprise and the finance source in various financial institutions (Ageba and Amha, 2006; Gebreeyesus, 2007; Nigussie, 2012;Eshetu and Mammo,2009; MoUDC,2013).

Supporting and promoting Micro and Small Enterprises (MSEs) in Ethiopia has many dimensions beyond making finance available. However, access to finance has been one of the key challenges in expanding the activities of MSE operators, particularly in their early growth and start-up phase, which is aggravated by the problem of information asymmetry and lack of property collateral (Schiffer and Weder, 2001).

Savings plays an important role in the economic growth and development process in Ethiopia. Savings determines the national capacity to invest and thus to produce, which in turn, affect economic growth potential of the country. Low saving rates have been cited as one of the most serious constraints to sustainable economic growth in Ethiopia.Savings mobilization is critical for individual and societal welfare.

The scope of this assessment will be limited to kirkos sub-city where there is no a good saving culture among trade microentrepreneurs. They use their income for their daily consumption and there is lack of awareness about importance of saving. Apart from other factors, individuals' ways of living people who save are running their business in a good way. In one way or another they want to save to their level, they are limited to accessibility and different institutional challenges. Taking this into consideration, the researcher is going conduct a research that may fill the gap and will produce valuable information.

1.3 Research Objectives

General Objective

To assess the trend of factors that affect the saving of micro and small enterprises; by focusing on Kirkos sub-city trade micro-entrepreneurs Addis Ababa, Ethiopia.

Specific Objectives

- To explore the factors that influence clients saving culture
- To address the effect of saving on micro-entrepreneur growth

1.4 Research Questions

Given the problems, this study sets out to provide detailed information on the main factors that currently affect the saving of individual growth of businesses which started out as micro and eventually grew into small and medium sized entities. More specifically, the study answers the following questions:

- 1) What were the critical factors that affected their saving growth/failure?
- 2) What other (non-financial) factors exist that are of significance in shaping SME development? Among Kirkos sub-city trade micro-entrepreneurs, what individual characteristics are associated with participation to saving?
- 3) What institutional characteristics are associated with saving of micro-entrepreneurs?

1.5 Significance of the Study

The study has a contribution practically and theoretically. Theoretically the research adds to the pool of knowledge and as a basis for further research in the field of savings and micro enterprises developments. The work also serves as a reference document for other researchers.

1.6. Scope and Limitation of the Study

1.6.1 Scope of the Study

The study were bounded by both area coverage and problem addressed. There are many things about saving and also about micro enterprise in Ethiopiabut, the researcher emphasized on the saving constraints and micro enterprise development.

1.6.2 Limitation of the Study

The study was subject to several shortcomings that can probably limit interpretation of findings. Hence,I conducted the studywithlimited scope of only the factors that affectssaving and micro enterprise developmentandtheresults may not show the effects of other factors on saving and micro enterprise development.

1.7. Organizations of the Study

The rest of the paper is organized as follows. The first chapter introduces the background, the statement of the problem, objectives, and research questions, significance of the study and scope and limitations of the study. The second chapter contains review of theoretical and empirical works related to the study. The third chapter is about methodology, which consists of description of study area, sample design, sampling techniques, data collection and data analysis methods. The fourth chapter contains data presentation, analysis and interpretation and the fifth chapter summaries, conclusions and recommendations.

1.8 Basic Concepts and Definitions

- **Enterprise:** can be defined as an undertaking engaged in production and/or distribution of goods& services for commercial benefits, beyond subsistence (household) consumptionat the household level.
- **Factors:** A factor is a contributory aspect such as government regulation, business information service, and management experience, marketing and financial managementinfluences that affect performance of micro and small enterprises.

- **Micro Enterprise:** when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is $\leq 100,000$ ETB for industrial sector and $\leq 50,000$ ETB for service sector (MSEDS, 2011).
- **Micro-entrepreneurs:** In this study, all the participants who will be use their savings for microenterprise, or those participants who identified their intended saving goal as microenterprise, are referred to as “micro-entrepreneurs”.
- **Informal enterprise:** there is consensus that they are small scale, and operate outside registration, license and tax frameworks.
- **Formal enterprise:** are defined as establishments principally engaged in production of marketed goods and services but formally registered at respective government agencies to undertake the business and hence have licenses to operate.
- **Saving:** Saving is the part of income left over consumption. Hence, the developments of saving theories were associated with the development of consumption theories.
- **Saving Account;** saving accounts are accounts maintained by retail financial institutions that pay interest but cannot be used directly as money in the narrow sense of a medium of exchange (for example, by writing a cheque). These accounts let customers set aside a portion of their liquid assets while earning a monetary return (Robert and Josephine, 2006).
- **Formal Savings;** formal savings occur when individuals or families keep their money with formal financial institutions such as commercial banks or other non-bank financial institutions such as insurance companies, credit unions or savings and loans companies (Boateng, 1994).
- **Informal Savings Institutions;** informal savings are any savings that occur within the informal sector of the economy. Aryeetey and Gockel (1998) observed that the informal financial sector participates in all commercial savings and lending that take place outside the formal sector in the developing economy.
- **Saving Constraints:** Is barriers to save, it exist for many, particularly the world’s poor i.e market frictions, including transaction costs, lack of trust, and regulatory barriers, hinder the supply of savings products.

CHAPTER TWO

REVIEW OF PRACTICAL LITERATURE AND EMPIRICAL EVIDENCES

2.1 Conceptual Literature

2.1.1 Definition of Saving

The word “saving” according to Warneryd (1999) contained broad-based meaning and numerous explanations. In economic contexts, saving is defined as the residual income after deducting current consumption over a certain period of time. Conversely, saving in psychological context is referred to the process of not spending money for current period in order to be used in future. In other word, saving behavior is the combination of perceptions of future needs, a saving decision and a saving action. On the other hand, people are likely to define saving as investing, putting money in a bank account, speculating and paying off mortgages (Warneryd, 1999).

In developing countries, saving is difficult to capture as it can be raised on an informal basis and as a result, it cannot be completely assessed by the national accounts. On the other hand, in OECD countries saving is largely made up of property investments, monetary and financial investments (Schmidt-Hebbel et al, 1999). In developing countries, as households hoard money, savings are perfectly liquid so they can be used to face any urgent need or investment opportunity. This becomes all the more important since households’ confidence in the banking system is low. Moreover, non-financial saving is important in developing countries(Goldstein and Barrow, 1999).

2.2 Micro and Small Enterprises (MSEs)

As per Quartey and Kayanula 2000, there is no single and universally acceptable definition of a small enterprise. This is so because the criteria and ways of categorizing enterprises as micro and small differ from institution to institution and from country to country depending essentially on the country’s level of development. A definition forwarded for MSE differs from country to

country, depending on the stages of economic development and population. In USA and Europe MSE defined on the bases of number of employment and turnover. European Commission and Organization for Economic Cooperation and Development defines MSE as having below 250 employees (Habtamu, 2010).

In developing countries, the definition is a little bit different from developed nations. For instance, in Tanzania to be MSE the major variables are level of employment and capital investment; in Zambia annual revenue and capital investment are major requirements. Likewise, the definition given to MSE in Ethiopia includes the variables such as employment, capital investment, production capacity, level of technology and sub sector (World Bank, 2010)

Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma, 2009) in the past the definition of Micro and Small Enterprises was based on paid up capital only. An enterprise is categorized as micro if its paid up capital is less than or equal to Birr 20, 000. Similarly, an enterprise is considered small when its paid-up capital is less than or equal to Birr 500, 000. However, this does not provide information on the size of jobs or number of employees in the MSE. It also did not tell the size of the total asset for the MSE and did not differentiate between manufacturing (industry) and services. Current definition considers human capital and asset as the main measures of micro and small enterprise to address the limitations of the old definition.

2.3 Micro and small Enterprises Development strategy in Ethiopia

Nowadays, the significant contribution and potentials of the MSE sector in poverty reduction has been recognized in Ethiopia (Adam, 2014). In line with, federal government of Ethiopia has adapted MSE development strategy to promote the sector in 1997. The objective of the strategy is to create enabling environment for the sector (MOTI, 1997). MSE Policy targets reducing poverty in urban areas and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and targets but having similar objectives. According to revised (MSEs) Development Strategy of Ethiopia, the main focus of the government is to create Job opportunities through MSEs development, in order to reduce unemployment problem, alleviate poverty and promote industrial development by considering the MSEs as a base (Joshi and Mihreteab, 2015).

The revised MSE strategy has two major dimensions of MSE development stages. The first is the transition of an enterprise from Micro to Small and from Small to Medium Enterprise level. The second is the process whereby MSEs maintain and strengthen their competitiveness within their own category of MSE. MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space (MoUDH, 2016).

As stated by Assefa, et.al. (2014:9-10) and Seyoum, Aragie, and Tadesse(2016:584-585): Policy support for MSE development in Ethiopia depends on stages of development in which MSEs are categorized into Start-ups, Growing-middle and Maturity. Start-up stage Enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector. In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique. Growing stage Enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business.

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

In November 1997, the Ethiopian Ministry of trade and industry published the "Micro and small Enterprises Development strategy ", which enlightens a systematic approach to alleviate the

problems and promote the growth of MSEs (MOTI, 1997). Elements of the program include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the establishment of new and expansion of existing MSEs. In addition specific support programs also include measures related to providing working premises, facilitating access to finance, provision of incentives, promotion of partnership, business skill development training, Access to appropriate technology, Access to market, Access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

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

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

Given these factors as it is, from this study the MSEs of Kirkossubcity raised that they are highly in challenge of Lack of capital and marketing linkage problems.

2.4.1 Financial Challenges

Different research evidenced that the small firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators/owners are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions (Sethuraman, 1997). Credit from formal sources are not only managed by government regulations but often they also form part of public sector domination, and hence administered by a bureaucracy that is generally unfriendly to the poor, illiterates and

semieducated in the small firm sector. Similar attitudes also prevail in the private sector; the private banks for example rarely find it profitable to deal with these units, though a few exceptions are emerging (Sethuraman, 1997).

Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new Enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor, 2006).

Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most micro and small enterprises do not have access to 30 micro finance institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The standard of loan appraisal, the long delay the banks take to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100% of the loan amount, are the major obstacles that small scale enterprises are facing (Commission on Legal Empowerment of the Poor, 2006).

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

The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSEs Expansion. Due to this 85% of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks

appear more appealing for MSEs. Hence, firms with Better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

2.4.2 Personal Related Factors Affecting SME

a) Education

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

The study of Lussier (1995) suggested that ‘people without any college education who start a business have a greater chance of failing than people with one or more years of college education. Education can provide the skills set and knowledge, which can help owner/managers with tools, like technology literacy, which helps to increase productivity and success. ‘If education cultivates comprehensive literacy, this would help owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization’s success’ (Mohan -Niell, 2009). ThapaGoswami and Joshi (2008) in a study found that the education of owners has a positive effect on entrepreneurial and small business success.

Similarly Rose, Kumar and Yen (2006), in their study of the ‘Dynamics of Entrepreneurs Success Factors reported that, higher Education level helps the business owners to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneur’s with information and understanding about the industry and thus, assisted them in venturing into the current business they are in. Another research by Charney and Libecap (2000), found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high- tech business.

b) Age

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

Similarly, Praag (2003), in his study of business survival and success of young small business owners, younger small business starters have a lower success and survival probabilities than older starters. The chance of both voluntarily and forced exit from the business is higher to young starters. From this one can understand that the age of small business owners have its own contribution to the success and failure because individuals learn not only from formal education but also from their walks of life. Njanja, (2009) in their study of Small Business Performance in Syria also reported that, as the age of the business owner increase it contributes to the success of the enterprises performance.

From the study result of, it may be argued that increased age brings with it a sufficient level of accumulated knowledge or experience of ascertain trade to try going into self-employment alone.

c) Industry experience and entrepreneur skills

Relevant experience helps to become a successful business owner and to survive. Shonesy and Gulbro (2004) cited from the study of Beckman and Marks (1996) and reported that, Business experience is a factor in the success of small firms. Dyke, Fischer, and Reuben (1992) also found that management experience may be a significant factor in achieving success or successful performance in the small business environment. In their study they stated that 'would be business owners should be concerned to gain related industry, management, and start-up experience regardless of the type of industry in which they plan to operate'. It was also noted, however, that while experience was a significant factor, it could vary by industry importance.

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

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

2.5 The Roles of Micro and Small Enterprises for Economic Development

In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit nichemarkets; enhance productivity and technical change and through the combination of all of these measures, to stimulate economic development (Zewde and Associates, 2002; Trovato and Becchetti, 2002; Andy and Paul, 2002; Nuno and Santos; 2003).

Reduction of poverty and unemployment in Ethiopia by supporting and promoting only largescale industries has frequently unsuccessful instead focusing on small businesses, which require relatively less capital and absorb a significant portion of the labor force, will be the solution. The labor absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation activities is vital for many of the challenges facing the country (Petersen and Carpenter, 2002; ILO, 2004; Freel and Robson, 2004; Ishengoma, 2004; Gebrehiwot and Wolday, 2005).

In Ethiopia the contribution of micro and small enterprise (MSE) has been significant. According to the Central Statistical Authority (CSA, 2009) survey the contribution of the small-scale

establishments to the gross domestic product (GDP) or the national economy during the year 2009 E.F. Y, the small-scale manufacturing establishments" value added was to the tune of 32.5 billion birr. Accordingly, all the small-scale manufacturing establishments, together, created employment opportunity for 2,140,668 people.

Furthermore, out of the 2.1 million, 831.5 thousand or 38.85 % were permanent employees. Increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies (Harvie, 2005). The finding of Sethuraman, (1997) indicated that in most of developing countries, the majority of small enterprises lack access to formal financial services. Researches in this area evidenced that the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions.

The introduction and use of new technology can help streamline processes and increase worker productivity of small enterprises if managed properly. The ability of using technology to the business advantage requires the skill to identify possible uses for each technological advance. Some technological advances may prove cost prohibitive for some small business. This evaluation should shine some light on the possible benefits it will provide to both employees and the company. (Nicole Long. demand media, 2016).

2.6 The Role Saving in Development

Savings naturally plays an important role in the economic growth and development process in Ethiopia. Savings determines the national capacity to invest and thus to produce, which in turn, affect economic growth potential of the country. Low saving rates have been cited as one of the most serious constraints to sustainable economic growth in Ethiopia. Savings mobilization is critical for individual and societal welfare.

According to Anton (2018) the household saving and consumption behaviour play an important role in short-term economic stability and long-term economic growth. The household savings

rate is a component in what determines the ability for enterprises and states to take credit for finance investments, the other components of the ability to find credit is the savings rate of enterprises and states themselves. Household saving rates¹ differ surprisingly much in nations on a higher income level, countries with low household savings might have problems finding sufficient domestic credit to finance investments. This means that these countries need to look for credit to finance their investments elsewhere, where the domestic household net savings rate is higher. Financing investments predominantly with foreign credit set countries with low or negative net savings in a vulnerable position to external threats, like economic crises or downturns.

Households are motivated to save for two primary reasons. To finance expenditures after retirement or other planned lifetime situations. As discussed above, with a constant level of consumption over the life-cycle. The other primary reason for saving is to protect the household from unexpected shocks occurring throughout the life-cycle. The household is influenced by several sources of risk over the life-cycle, it being hard to avoid these risks that might cause income loss. Such as failing health, unemployment or other unexpected living expenditures that affect household's standard of living. It is even more complicated to plan for external threats, for instance a downturn in the national or global economy, for which the household has no control over. Therefore, the circumstance of how household consumption and saving behaviour change as the uncertainty of future income increase. Households will therefore build up buffers of wealth to be able to minimize the consequence of these types of risk and unexpected events (Mody, Ohnsorge, and Sandri 2012).

2.7 Factors that Affect the Saving of Micro and Small Enterprise in the Empirical Literature

Econometric research on the determinants of household saving based on micro data drawn from the less developed countries has lagged far behind the pace set in advanced nations. It would appear that there has been limited hypothesis testing in the least developed countries beyond macro formulations of the consumption function. Furthermore, very little of the development literature attempts to isolate the impact of structural change on aggregate personal saving, since few studies provide meaningful disaggregation (Kelley and

Williamson, 2009). This state of affairs seems paradoxical, given the currency of W. A. Lewis's remark that the central problem in development theory is to explain an increase in domestic saving from 4 or 5 percent of national income to 12 or 15 percent.

Gedela(2012) examined the determinants of the savings behaviour of the rural households in the district of Visakhapatnam (India state). Data on 120 sampled households were collected from both tribal and rural households through interview schedule. The study used the Multiple Regression Model and Logistic Regression Model for finding out the determinants of the savings behaviour of households situated in tribal and rural areas. Result also showed that the age of the head of the household, gender, dependency ratio, income and medical expenditure are significantly influenced the savings behaviour in the study area. In the tribal area, dependency ratio and medical expenditure has severely affected of household savings. Income is the most crucial factor of the saving behavior in the entire study. Results also showed that male- headed households saved more than female- headed households.

Besides, few studies assess the determinants of saving at the individual level generally due to the lack of data. Using recent econometric techniques, Carpenter and Jensen (2002) and Kulikov, et al. (2007) identify how youth characteristics affect saving behavior, in Pakistan and Estonia respectively. Carpenter and Jensen (2002) focus on the role of institutions which collect saving and stress on the role of formal (banks) and informal institutions (savings committees). Carpenter and Jensen (2002) found that “increased income leads to a greater desire to participate in some form of savings institutions but as income increases more individuals shift to the formal sector”. Carpenter and Jensen (2002) also found evidence that the urban rural differences in bank use is negligible which suggests that formal finance is not primarily restricted to urban households in Pakistan. As opposed to Carpenter and Jensen (2002) who focus on the savings supply side, where as Kulikov et al. (2007) analyze the saving determinants on the demand side. Making a distinction between regular and temporary household income allows the authors to put forward the role of income variability and the different forms of household assets (financial and non-financial) in a transition economy (Estonia). Their analysis is based on data from household budget surveys. As in many empirical studies, they found that the saving rates depend more on the transitory income than regular income. Among the other variables, the labor market status or the non-financial assets

ownership (real estate for instance) and credit access have not significant effect on the household saving behavior; the durable goods possession (in particular cars) has a negative impact on the saving rate.

Among the few researches done in developing countries; Klause et al. (1992) studied households saving in developing countries and found that income and wealth variables affect saving strongly. Girma et al. (2013) identified determinants of rural household savings in East Hararghe Zone, Oromia Regional State Ethiopia. Nine determinant explanatory variables of rural household savings were identified which include: household head education level, livestock holdings, access to credit service, income, investment, training participation, contact with extension, forms of savings and saving motives.

The study done by Abera (2012), the main sources of startup and expansion finance or funds for most MSEs are personal savings followed by iqub/idir, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

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

According to Tiruneh, (2011) the factors that affect the performance of MSEs could vary from one country to another due to the economic, geographical and cultural differences. This kind of investigation of the success factor is very important for developing countries like Ethiopia

because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

According to (Harvie and Lee, 2005),the significance of SMEs within an economy emphasize the importance of having governmental policies that support SMEs; issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs. Although there has been anAccess to business information services has been identified as one area that needs attention from governments and business services providers if the SMEs sector in developing countries is to achieve sustainable levels of growth and development. Many firms in Africa operate in an information-poor environment due to lack of adequate business support services and the poor information technological infrastructures (OshikoyaandHussain, 2007).

The empirical literature review revealed that there are different factors that affect household savings. Mostof these empirical studies focus on aggregate national savings using macro data. Besides, there is no study conducted on microeconomic level on the determinants of household saving in Addis Ababa and limited studies are found in the country. Therefore, this paper attempted objectively to identify major micro level determinants of savings at household level focusing on the effects of the socio-economic characteristics of the households on saving behaviors and their view on income, expenditure and credit institutions. The study is also intended to contribute to the existing research gap through a better exploration of its determinants.

Tarfasa, et al. (2016) conducted a research to assess the Determinants of growth of Micro and Small Enterprises by using a random sample of 300 MSEs selected from manufacturing, construction, service, trade and urban agriculture in Addis Ababa. According to this research, among manager's or owner's characteristics, age, marital status and education were important factors affecting growth of both Micro and Small Enterprises. The finding of this study reveals that weak business environment influences the growth of firms. In particular, frequent power interruptions, lack of access to credit, and shortage of water is inversely correlated with growth of Micro and Small Enterprises

In his research, Cherkos et.al (2017) studied significant factors in Micro and Small Enterprises performance in Amhara region. In his study, working premises, access to finance, infrastructure,

entrepreneurship and business managerial problems are found to be the most critical factors and took majority of the share for the causes of 50% drop-out. The study also shows that even though working areas are built, they are not functional due to lack of facilities. Moreover, due to infrastructure problem of daily power interruption, 25% of their work time is lost.

According to Watson, (2001), there is lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control and those with technical knowledge. Furthermore the study was assessed several related studies of the area, to minimize similarities and fill research gaps. Accordingly, there were a study conducted by Gebreyesus, (2009), the study assess to identify success factors of MSEs in Addis Ababa. Though the study implied success factors of the studied SMEs, however, it was not indicated constraints that affect the enterprise development negatively.

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

2.8 Gap Analysis

Munir (2019) conducted study on Assessment of the challenges of Micro and Small Enterprise: The case of Kirkos Sub city (MSEs). The results financial constraints that affect performance of MSEs were collateral requirement accordingly, 60% of the respondents implied there is high collateral requirement asked by micro and finance institution. The high collateral requirement of micro and finance institutions affected innovative as well as entrepreneur development in the MSEs of the sub - city. Mulugeta (2010) conducted on the effect of Financial Institution on the growth SMEs in Hawasa. The results implied that, access of debt financing is negatively affecting growth potential of MSEs.

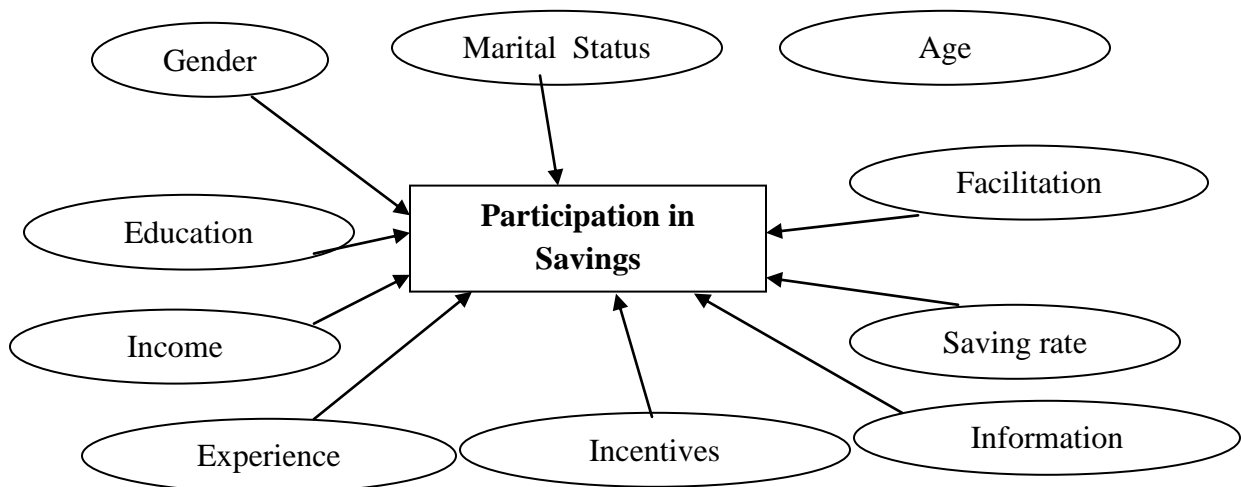
Habtamu (2012) conducted his study on the determinants of MSEs Growth in Mekelle city by taking entrepreneur characteristic factor (gender), firm characteristic factors (initial employment size, initial investment size, firm age, location, and sector) and inter-firm factor (market linkage). His research found that initial investment size, location, sector and gender are the main determinant factors for MSEs growth. However, the study didn't implied major factors that affect performance of MSEs.

Similarly a study by Eshetu and Zeleke (2008) found that absence of loan from formal financial institution for investment is the major factor affecting long-term survival of MSEs in Ethiopia. Therefore, the reviewed literature implied that studies regarding MSEs in Ethiopia are scanty and most of the available studies were not conducted in line with identifying the major determinant factors and performance aspects of micro enterprises. However, this research tried to assess factors that affects the savings of micro and small enterprises in Addis Ababa with specific to Kirkos sub city trade enterprises.

2.9 Conceptual Frame Work

The following framework is adapted from the framework developed by Yusuf et al., (2020) and serve as the foundation of this study. The framework is formulated to explain the relationship of the independent variables (Gender of respondents, Age (years), marital status, experience, Education (financial literacy), house hold monthly income, saving rate, incentives, information, facilitation (accessibility)).

Figure 1: Conceptual Framework



The research addressed various types of factors constraints to the savings of micro and small enterprises such as, financial challenges, start up, growth and expansion challenges and access to formal financial institutions Challenges. The theoretical consideration on the link between MSEs business development and constraints to savings of MSEs can be viewed from different angles.

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

In addition to the above stated challenges, other factors which may cause MSEs to fail or save from their income to upgrade their performance are lack of facilitation, accessibility and weak institutional quality. Absence of infrastructure increases cost of production and results in lack of on time production and delivery. And from all they face high cost of production and lack of market linkage to sell their products. Due to poor quality of institutions that are established to support MSEs, rules and regulations will not be enforced and the enterprises will not get the next phase of class, to save and invest to the next level.

CHAPTER THREE

3.1 Methodology

This chapter describes the research design, population and sample size determination, data collection methods, sampling design, research instruments, and method of data analysis. Research methodology is a process that used to analyze the data with the purpose of generating the required information. The purpose of this chapter is to state out the background of the research methodology. This chapter describes how the research will be carried out in terms of research design, data collection methods, sampling design, operational definitions of constructs, measurement scales, and methods of data analysis will be included in this study.

3.2 Description of the Study Area

3.2.1 Addis Ababa

Addis Ababa is the capital city of Ethiopia. Being the center of the country it has a wider role in the economic, social, political and administrative issues. The center of Addis Ababa is located approximately at 9° latitude and 38° east longitudes with a height of 2000 m above sea level. Its area is about 540km². According to CSA (2017) population estimation, the total population of the city is 3,434,000; from this 1,625,000 male and 1,809,000 is female population. For administrative purpose Addis Ababa is divided into ten sub-cities.

Kirkos sub-city is one of the ten sub-cities of Addis Ababa. It is located at the centre of Addis Ababa. The sub-city hosts different national and international offices. The sub-city covers an area of 1,472 hectare; its total population is about 277,346 from this 128,841 male and 148,505 female population(CSA, 2017). The sub-city has 11 woredas, which are the smallest administrative levels in Addis Ababa.

Figure 2: kirkos sub city



The Map of Addis Ababa, Kirkos Sub City(The shaded Area) Source; Google

3.3 Research Approach and Research Design

3.3.1 Research Approach

In the study, a descriptive and econometric research method is applied. Descriptive analysis is associated with the opinions of the respondents and different scholars regarding the influence of various factors to saving constraints of microenterpreneurs, and econometric model analysis is used to estimate the relationship among variables.

3.3.2 Research Design

The study used descriptive and inferential statistics. According to Schindler and Cooper (2001) descriptive study is defined as being concerned with the description of phenomena and characteristics associated with a subject population (finding out who, what, when, where and how of a topic). The research design is expected to be appropriate, and the researcher needs

to find out the impact of government regulation, business information service, management experience, financial and market strategy factors on the performance of MSE businesses. And inferential statistics helps to determine the relationship between dependent and independent variable under the study.

3.4 Population and Sampling

The target population is defined as the entire group of people the researcher is interested in (Easton & McColl, 1997). A sample is “a smaller (but hopefully representative) collection of units from a population used to determine truths about that population” (Field, 2005). Researcher used multistage sampling design because of the population was too vast and researching every individual were impossible. The target population for this study was the trade micro-entrepreneurs of Kirkos sub city 2, 350. From multistage sampling design the researcher chooses multistage cluster sampling. The nature of the population is homogeneous, has similar socio-demographic and economic characteristics and geographically classified into eleven (11) woredas. From those woredas the researcher purposefully selected 04, 08, 09, 10 and 11 since majority of trade micro-entrepreneurs are found in these woredas.

In order to determine sample size Yamane (1967 cited in Abdissa and Fitwi, 2016) finite and large population sample size formula with 95 % confidence level and 0.05 precision levels is employed. The formula used to obtain this sample size is presented below;

$$n = \frac{N}{1 + N(0.05)^2}$$

$$2350 / 1 + 2350(0.05)^2 = 341$$

Where, n= sample size

N= population size and

e= sampling error (level of precision)

The questionnaires were distributed to sample size (341) plus 5% to minimize error in data collection and from that (341) the response is collected and analyzed using statistical software. The data collection involved socioeconomic characteristics of the respondents, challenges and constraints, methods to save and attitude of respondents towards their banking and savings in various financial institutions

3.5 Data Sources, Types and Collection Procedures

3.5.1 Data Sources

This study used qualitative and quantitative types of data. Concerning sources of data, both primary and secondary sources were used in generating valuable and relevant data. Secondary data was before primary data collection from reviews on different published and unpublished documents/literatures that are relevant for the study. Such reviews were made to know previous works in saving constraints and microenterprise development studies in Ethiopia and elsewhere. Primary data will be collected through field work survey. Information on the status of saving constraints, mse information's and development trends, challenges and other data were collected from the interviewer, government officials and bureaus who were responsible for the case in the study area.

3.5.1 Data collection procedures

Primary source: primary data were collected through field work survey. Information on the status of saving constraints, MSEs information's and development trends, challenges and other data were collected from the interviewer, government officials and bureaus who were responsible for the case in the study area. In the serve I used to interview and questionnaire and Personal observation were utilized to the collect primary data.

Secondary sources: Before primary data collection, reviews were made on different published and unpublished documents/literatures that are relevant for the study. Such reviews were made to know previous works in saving constraints and microenterprise development studies in Ethiopia and elsewhere. Moreover, secondary data were collected from reports of different organizations including government institutions such as Addis Ababa SME offices (City and sub cities).

3.6 Data Analysis

The purpose of data analysis is to reduce accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler, 2011). Two types of data analysis, namely descriptive statistics and econometric analysis will be used for analyzing the data collected from the trade microentrepreneurs of the study areas. The

survey responses were summarized into groups and given codes before entering into computer. The data collected from the study area were entered, into Micro-Soft-Excel spreadsheet for managing the data and was analyzed using SPSS version 25.

3.6.1 Descriptive statistics

This method of data analysis refers to the use of ratios, percentages, means, frequencies, and standard deviations in the process of comparing socio-economic and institutional characteristics of the trade micro entrepreneurs in the study areas.

3.6.2 Econometric analysis

The data obtained from the respondents were subjected the Probit model to analyze the relationship between the socioeconomic characteristics and choice of financial institutions. Probit was applied since the dependent variable is a binary outcome i.e. (participation in saving =1, non-participation in saving=0). The general probit model is stated below;

$$Pr_{(y=1)} = f(\beta_0 + X_1 \beta_1)$$

Where,

Y = 1, if microentrepreneurs do participate in saving,

=0, if microentrepreneurs do not participate in saving,

X_i = the factors that affect the saving of microentrepreneurs /constraints/

β_i= coefficients of estimates

The specified choice of the financial institutions model for the study is therefore given as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \epsilon_0$$

Where:

Y is participation in savings (participation = 1, non-participation = 0)

X₁... X₁₀are independent variables (socio-economic characteristics).

X₁ = Gender of respondents (female =0, male = 1)

X₂ = Age (years)

X₃ = marital status

X_4 = Experience

X_5 = Education (financial literacy)

X_6 = house hold monthly income

X_7 = saving rate

X_8 = incentives

X_9 = information

X_{10} = facilitation (accessibility)

ζ_1 = error term

3.6.3 Variable Definition

In order to explain the microentrepreneurs constraints to save, continuous and dummy variables were identified based on economic theories and the findings of different empirical studies. Accordingly, in order to investigate the research questions of this study, the following variables Dependent Variables were constructed.

Participation in Saving: Is a dummy variable that represents the probability of trade microentrepreneurs using formal saving institutions. For the household which has the opportunity of saving Y takes the value of one whereas it takes the value of zero for the households who do not use formal saving institutions.

Independent Variables

Age: It is continuous variable and is the age of respondents. It has expected to affect saving positively because, as an individual get older and older in age there may be probability in using savings.

Experience: it is continuous variable and is year work experience of households (respondents). It has expected to have a positive relation with saving, because as individual get more year experiences he/she understand the use of saving, and also generate more income thus can probably save.

Financial literacy: It is continuous variable and is measured in years of formal schooling of the household head. Education plays an important role in the adoption of innovations/new technologies, as well it affects positively the use of formal institutions to save their money.

Gender: It is dummy variable that represent sex of the respondents. It takes the value of 1 for male and 0 for female respondents.

Household income: It is continuous variable measured in ETB. This is defined as the income level household earned from trading activities. It is estimated to have a positive effect on saving.

Saving rate: This is defined as the ratio of the average monthly gross deposit to gross monthly household income. It is measured as a percentage, with a theoretical range from 0 to 100 (for our country case it's defined by national Bank of Ethiopia and minimum rate for saving account is 7%). In this case normal saving rate is 7% but banks can increase from 7% to attract customers and also there are customers we did not want interest (interest free banking).

Incentives: Incentives constitute mechanisms provided by banks/formal institutions to encourage higher participant savings. The following survey items are used to measure incentives for microenterprise participants. What is the match rate offered to the participants saving for microenterprises. It is hypothesized that the higher the earnings on savings (exemplified by a higher match rate), the greater the participation and savings.

Information: Is a dummy variable that represents the probability of trade microentrepreneurs have prior information about importance of saving or not.

Facilitation: This construct describes institutional arrangements that make depositing for the participant easier. It includes arrangements whereby depositing is actually done for the participant, as in financial institutions service like providing credit, collecting deposit up on demand, or occurs with some other form of assistance. According to Sherraden, Schreiner & Beverly (2003), this construct is a key feature of most contractual saving systems. And also represents the probability that describes institutional mechanisms that make the saving process by the participant convenient or not.

3.6 Scale Reliability and Validity

The validity and the reliability of the data and the tests were checked by two procedures. The first one was the inter relationship between the responses from different sources of the different types of the instruments. The second one was the Cronbach alpha. The Cronbach Alpha for the data set were 0.696 which can be perfect for social science studies. Here the researcher used Cronbach alpha test for reliability of numeric scale data for analyzing attitudinal statements on Constraints facing households in access to banking methods.

Figure.3Cronbach alpha value

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.696	.699	7

Source;(Researchers survey, 2021)

3.7 Ethical Consideration

Prior to data collection appropriate ethical clearance were taken from ethical committee of College of Business and Economics, school of commerce, Addis Ababa University. During data collection, each respondent were informed about the purpose, scope and expected outcome of the project and appropriate were informed written consent and taken from the respondents. Anyone who were not willing to participate was excluded from the study and during the interview, respondents who would had interested to avoid specific question or discontinue the interview were allowed to do so.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

In this chapter the analysis and discussion of the results of the data collected through different data collection methods and tools were carried out. It includes a discussion of the Socio-demographic Characteristics of respondents, Business and previous occupation of respondents, the saving trends of respondents, the characteristics and prospects Micro and Small Enterprises. The key challenges affecting the performance of Micro and Small Enterprises in general were discussed together with the prospects of these Micro and Small Enterprises. Generally, the analysis and discussion of the results were carried out using a descriptive research design, including statistical tools such as bar graphs, pie charts, tables and binary logistics analysis of econometric tests.

4.2 Socio-Demographic Characteristics and Prospects of respondents

This section discusses the general characteristics of respondents in the Micro and Small Enterprises based on in their responses. It includes respondents sex, age category, and status of formal education and marital status.

4.2.1 Respondents sex, Age category, status of formal Education and Marital status

As shown in the table 1 below, majority of the respondents were within the age category of 31-35 years (51.9 %) followed by those under the category of 36-64 years (32.3%). The remaining respondents were under the age category of 25-30 (15.8%). The study revealed that most of the enterprises in the town were owned by youths who are trying to invest in the sector in order to have their own business. This finding concurs with earlier findings by Goshu(2015) and Leza, Rajan and Kuma(2016) in different studies in which they established that majority of MSEs owners/managers were young. Hence it was believed that Micro and Small Enterprises have a remarkable role in reduce the rate of the youth unemployment in the study town. This meets one of the objectives of the government, that of creating employment opportunities for the youth.

Meanwhile the educational level of the respondents, it was clearly seen from the table that most were within the grade level of 1-8 (47.2%) and 9-10 grade level (29.0%). The table also shows the Diploma (22.0%) and first degree and above (1.8%). This implies that the majority of respondents were not educated enough. There was consensus, more or less through the literature study that for the MSEs to be successful they should consider education as one of the variables. However, with the empirical there was mixed findings as some agreed with literature and others disagreed (Julius, 2016:pp.75). Alemayehu and Gecho(2016) pointed out that Most previous studies claim that formal education has a positive impact on the business performance. As per Getahun (2016) argue that Education increases the chance of the success of the business and the probability of identifying good business opportunities.

As it is indicated in the findings of G/Mariam (2010 pp: 33), in terms of gender male owned MSEs dominate than that of women and account for 46 percent. Similarly, regarding sex of respondent's the proportion of male were significant 54 %(184) and the rest (46%) (154) were female. This clearly shows that in Kirkos sub cities most of Micro and Small Enterprises activities are carried out by male. This result is in agreement with earlier findings of Osunsan, Kinyatta, Baliruno and Kibirige (2015) in which they found out that most business owners are male, 258 or 63.08% noted that there was the traditionally dominant role of men in Ugandan society and business generally. According to the data obtained from CSA report indicates from total population of Kirkos sub city that 46.45% of the town population are male and 53.55% were female.

Hence the participation of female in micro and small enterprises requires further mobilization by the local government to promote their participation in the sector. The marital status of the respondents shows that the majority were married(58.65%) followed by singles(29.33%). The remaining 8.5 % and 3.52% of the respondents were divorced and widowed respectively. This shows that the predominance of married respondents were used Micro and Small Enterprises sector to generate income either as the primary earner for the household or in a supplementary role, or simply the wish to own their own business due to the fact that married people have pressure and responsibility to earn income than unmarried ones.

This finding agrees with earlier findings by Belay (2012) on his study of The Contribution of Group-Based Micro and Small Enterprises to the Local Economy and Social Development in the Arada Sub City: Case Study on Metal and Wood Work Enterprises; in which he found out that majority of MSEs have families and they obliged/forced to provide any support to their respective family members. This finding also consistent with an earlier finding of a study by SirmoloJemal (2018)in which they found out that most MSEs owners were married.

Table 1; Respondents Age Category,Status of Formal Education and Marital Status

1.Sex Respondents	Frequency	Percentage
Female	157	46%
Male	184	54%
Total	341	100%
2. Age category	Frequency	Percentage
25-30	54	15.8%
31-35	177	51.9%
36-64	110	32.3%
Total	341	100%
3. Level of education	Frequency	Percentage
1-8	161	47.2%
8-10	99	29.0%
10+ Diploma	75	22.0%
Degree and above	6	1.8%

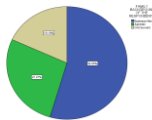
Total	341	100%
4. Marital status	Frequency	Percentage
Unmarried	100	29.33%
Married	200	58.65%
Divorced	29	8.5%
Widowed	12	3.52%
Total	341	100%

Source: (Researchers' survey,2021)

4.2.2 Respondents' Family Background

According to Ranwala(2016) argue that family occupational background with entrepreneurial or Small business experience is a more reliable and agreeable basis of support in managerial competency and entrepreneurial orientation of the youth than families without entrepreneurial background. Respondent's family occupations might have included business men, civil servants, agrarians and civil servants. In this regard, business operators in the study sites were asked about their family's occupations in order to establish whether it was related to their current business activities.

Figure 4: Respondents family Background



Source; (Researchers' survey,2021)

As indicated in Figure 2 above, the majority (185 or 54.55%) of the respondents family backgrounds were businesspersons, followed by 93 (27.27%) whose parents were agrarian and 63 (18.18%) whose families were civil servants by occupation. Since, family occupation background was the prominent issue that nurtures the attitude towards entrepreneurship(Prabhakar, 2016).However, the implication of the finding shows that majority of the respondents in the study lacked the relevant and practical experience that can be gained from an entrepreneurial family. Hence concerned bodies should identify the shortcomings of Micro and Small Enterprises and build their capacity.

4.3 Bank Choice of Respondents

The banks or formal institutions most in this country likely give similar banking services. The respondents may choose banks or formal financial institutions basically on the basis of the nearest branch to their work place, the one which provide same incentives and in a future the bank they think can guarantee them credit facility for their business expansion. From this survey; 49.9% of respondents use to save at Commercial Bank of Ethiopia, 20.2% of them uses other private banks and 29.9% of them replied they are using micro finance institutions.

Table 2: **Financial institutions choice**

Financial Institutions	Frequency	Percent	Cumulative Percent
Commercial Bank Of Ethiopia	170	49.9	49.9
Other Private Banks	69	20.2	70.1
Micro Finance Institutions	102	29.9	100.0
Total	341	100.0	

Source; (Researchers' Survey, 2021)

4.4 Challenges faced during start up the Business

There are many challenges do micro and small enterprises face to start the business. According to the survey result; 54.5% of respondents faced finance related problem i.e.as a major problem, 17% of respondents faced high cost of raw materials, 11.4% responded lack of information or know how to run the business, 6.2% responded the faced market linkages to sell their product, 5.3% of them responded they faced high collateral value to get credit access to start the business, 4.7% of respondents faced challenged with government rule bureaucracy to get business license and 0.9% of them they had lack of feasibility of business area.

Table 3:Challenges faced during start up

Challenges	Frequency	Percent	Cumulative Percent
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Finance Related Problems	186	54.5	54.5
Government Rules	16	4.7	59.2
Lack Of Information	39	11.4	70.6
High Collateral Requirement	18	5.3	75.9
Cost Of Row Material	58	17	92.9
Lack Of Skill	3	.9	93.8
Lack Of Market Linkages	21	6.2	100.0
Total	341	100.0	

Source; (Researchers' survey, 2021)

4.5 Challenges faced during growth and expansion

Micro and small enterprises can grow and expand their business if they are successful to medium enterprises. Despite that, there are many challenges they face to expand their business as they respond to this particular research survey. From total respondents 44.3% of them responds that they are facing lack of capital to expand their business, 27.3% of them responded that there is no market linkage that we can sell our products, 20.5% of them raised that there is general price rise of goods so that we cannot afford to buy, 5.3% of them responded that they are facing even no access to credit or else they were asked high collateral values to get loan facility, 1.8% of them responded that the face challenge in government bureaucracy and 0.9% responded that they have skill gap in growth and expansion.

Table 4: Challenges faced during growth

	Frequency	Percent	Cumulative Percent
Lack of capital	151	44.3	44.3
Government rule	6	1.8	46.0
No access to credit facility	18	5.3	51.3
Cost of raw material	70	20.5	71.8
Lack of skill	3	.9	72.7
Lack of market linkages	93	27.3	100.0
Total	341	100.0	

Source; (Researchers' survey, 2021)

4.6 Financial Constraints Affecting Performance of MSEs

Financial availability and other financial related factors can determine performance of MSEs development. So that, in this study attempted assess how financial related factors determines the studied MSEs using questionnaire and interview, the questionnaire were provided through five scale likert types of questions (whether Strongly Agree (SA), Agree (A), Un-decided (U), Dis-Agree (DA) and Strongly Disagree (SAD) their view replied in the table as follow;

Table 5: Financial constraints affecting

Statement	SA	A	U	DA	SAD
High interest rate of financial institutions on loan	107(31.4%)	158(46.3%)	29(8.5%)	32(9.4%)	15(4.4%)

High collateral value requirement	86(25.2%)	151(44.3%)	79(23.2%)	15(4.4%)	10(2.9%)
Unplanned withdrawal of cash for varies case	15(4.4%)	121(35.5%)	174(51.0%)	25(7.6%)	5(1.5%)
Lack of record keeping and financial control mechanism	17(5.0%)	41(12.0%)	125(36.7%)	148(43.4%)	10(2.9%)

Nb. SA=strongly agree, A=agree, U=un-decided, DA=dis-agree, SAD=strongly dis-agree

Source; (Researcher survey, 2021)

As implied from the table above the loan interest played by the enterprise, respondents accounted for, 70% assured it very high.. Regarding collateral requirement 60% of the respondents implied there is high collateral requirement asked by micro and finance institution. The high collateral requirement of micro and finance institutions affected innovative as well as entrepreneur development in the country, supporting innovators and entrepreneur ideas by assessing their feasibilities can encourage MSEs business development and it can reduced unemployment problems. In this regard the study correlated that, the country need small business entrepreneur development, in contrary there is no competitive financial access that is prohibited by the regulatory rule of NBE, these activities kill the micro economic development of the country. Therefore, the growing number of youth's unemployment and the existence high collateral requirement contradict strategies to develop SMEs business.

And the study were assessed whether, the study MSEs use financial with drawl according to plan or not, the result implied by more than 50% (which their disagreement) in neutral or un-decided way, much MSEs still did not withdraw for the plan. The possible justification to the importance of using plan is that, planning in advance what needs to be done helps enterprises to act strategically to realize established development goals rather than moving in a random and unsystematic way to the opportunities as well as unfavorable situation that will happen in their business operations. This proactive move of the enterprises increases their chance of success in

the dynamic environment. And this also works to the enterprises that use a short term plan of 1 to 2 years for their business activities.

Finally, based on this the study were assessed the MSEs financial recording and controlling system, however, the enterprise were not have well organized financial recording and controlling this were assured in addition to observation of the researcher, by 45% respondents that said disagree.

Table 6: Attitudinal statements on constraints facing households in access to banking method

Statement	Strongly Agree	Agree	Un-decided	Dis-agree	Strongly Disagree
Savings are easy in unorganized financial institution	6(1.8%)	51(15%)	138(40.5%)	134(39.3%)	12(3.5%)
Financial institutions are near to households	6(1.8%)	247(72.4%)	41(12%)	30(8.8%)	17(5%)
Conventional bank staffs are friendly	3(0.9%)	185(54.3%)	107(31.4%)	30(8.8%)	16(4.7%)
Saving in conventional banks is secured	18(5.3%)	223(65.4%)	80(23.5%)	14(4.1%)	6(1.85%)
Loan in conventional bank is accessible without stress	3(0.9%)	115(33.7%)	135(39.6%)	60(17.6%)	28(8.25%)
Conventional loan charges higher percentage of interest	76(22.3%)	217(63.6%)	38(11.1%)	5(1.5%)	5(1.5%)
Form filling in conventional banks is discouraging	5(1.5%)	85(24.9%)	241(70.7%)	5(1.5%)	5(1.5%)
Request for loans in rural un-organized financial	12(3.5%)	67(19.6%)	189(55.4%)	60(17.6%)	13(3.8%)

Source; Researchers survey, 2021)

Table 6 shows that 42.8% of the respondents agree that unorganized financial institutions are not worthy trust while 84.5% strongly agree that unorganized financial institutions are near to them, this shows the reason for their participation in unorganized financial institution. Likewise, 72.4% of the respondents strongly agreed that the conventional banks are almost near to their working place. Also 31.4% were undecided about the attitude of conventional banks staffs to customers. Also 70.7% of the respondents agree that savings in financial institutions are secured.

Furthermore, 25% disagreed about loan accessibility without stress in conventional banks while more than 39% of them are not decided or not much aware of loan. In addition, 85.90% of the respondents strongly agreed that the interest rate on loan in financial institutions was high. This was one of the major constraints affecting their participation in conventional bank perception of respondents about the various banks as it determines their saving access to financial institution behaviors. It also implies that they do not know much about proportion of loan released as a result of low level of patronage. Finally, it is therefore obvious from the table that a “conventional/commercial banks(formal financial institutions) attracts higher percentage of interest” but “Savings in conventional banks are secured”. So that they want to use a financial institutions but they have fear of high interest rate and bureaucracy in loan processing.

Table 7: Econometric output 1

Model	Coefficients ^a				Sig.
	Unstandardized Coefficients		Standardized Coefficients	T	
	B	Std. Error	Beta		
(Constant)	-.498	.227		-2.190	.029
Sex of respondents	.038	.034	.043	1.120	.263
Age of respondents	.164	.028	.248	5.776	.000
Level of education	.030	.024	.057	1.262	.208
Work experience of respondents	.003	.003	.025	.821	.412
Marital status of respondents	.111	.039	.117	2.834	.005
Monthly income of respondents	-1.239e-5	.000	-.204	-2.489	.013
Saving interest rate	.191	.021	.366	8.883	.000
Incentives given by formal financial institutions	.055	.036	.061	1.548	.123
Prior information of importance of savings	.371	.041	.408	9.058	.000
Provision of credit and collection of deposit up on demand	.093	.038	.100	2.417	.016

a. Dependent Variable: **participation in saving**

Note;level of significance at 99%

Respondents’ sex determines participation in savings at formal financial institutions as being a male headed household increases the probability to participate in savings by 3.8% if all other variables are kept constant. In addition to that all other things being constant; if age participant is increased by one year there is 16.4% probability to participate in savings. All factors kept

constant the one more formal educational year increases the probability to participate in savings by 3.0%.

Here for our case income is negatively correlated to the participation in saving; as income of the MSEs traders increase by one ETB their probability to save at financial institutions decreases by 0.83% this is because since they are merchants they want work with that money rather than deposit at a bank and waiting for monthly interest.

All other things being kept constant increasing interest rate and giving them different incentives in increases probability to save by 19.1% and 5.5% respectively. As information is very important in business world sharing the advantage of using formal banks can increase the probability to participate in saving by 37.1%.

Lastly, facilitation; providing banking service more in a simpler way, expand accessibility, provision credit access even collect the deposit up on demand increases the probability to participate in savings by 9.3%.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATION

5.1 Summary of the Study

The major objective of the study was to assess the trend of factors constraints to saving of micro and small enterprises; by focusing on Kirkos sub citytrade enterprises in Addis Ababa, Ethiopia. The study was analyzed using descriptive approach and econometric analysis and the major finding of the study summarized as follow:

The studies were assessed socio economic characteristics of respondents and as the findings of participants profile indicates, males' participation in MSEs is 54 percent compared with females. The age of participants mostly fall between 31-35 years demonstrating 51.9 percent indicates that most of them are youths. Most of MSEs educational qualification is in elementary school level indicating 47.2% percent. Respondents 58.65% of them are married and had lead their own family. The majorities family background were business men 54.55% means they inherit this job category from their family. Considering their banking experience 49.9% of them uses Commercial Bank of Ethiopia.

Regarding challenges faced during start up the business 54.5% of respondents faced finance related problem i.e.as a major problem, 17% of respondents faced high cost of raw materials, 11.4% responded lack of information or know how to run the business, 6.2% responded the faced market linkages to sell their product, 5.3% of them responded they faced high collateral value to get credit access to start the business, 4.7% of respondents faced challenged with government rule bureaucracy to get business license and 0.9% of them they had lack of feasibility of business area.

More about micro and small enterprises challenges faced during growth and expansion the indicates; from total respondents 44.3% of them responds that they are facing lack of capital to expand their business, 27.3% of them responded that there is no market linkage that we can sell our products, 20.5% of them raised that there is general price rise of goods so that we cannot afford to buy, 5.3% of them responded that they are facing even no access to credit or else they were asked high collateral values to get loan facility, 1.8% of them responded that the face

challenge in government bureaucracy and 0.9% responded that they have skill gap in growth and expansion.

The financial constraints that affect performance of MSEs were collateral requirement accordingly, 70% of the respondents implied there is high interest on loan and 65% of them responded that high collateral requirement asked by financial institutions. The high collateral requirement of financial institutions affected innovative, savings as well as entrepreneur development in the MSEs of the sub - city.

Relation to attitudinal constraints facing households in access to banking method a “conventional/commercial banks (formal financial institutions) attract higher percentage of interest” but “Savings in conventional banks are secured”. So that they want to use a financial institutions but they have fear of high interest rate and bureaucracy in loan processing.

Finally, the econometric probit method output shows that the dependent factor participation in savings can be affected by independent that correlated in findings. So that being a male, age, educational level, marital status (being married), incentives, interest rate, facilitations and work experience affects the dependent variable positively, while income is negatively correlated; because in these case respondents are merchants (business men) they prefer to work with the money rather than saving at financial institutions.

5.2 Conclusion of the study

The contribution of financial institutions has great role in MSEs development, however, there are still problems related to high interest rate, collateral problems, small loan size, bureaucracy, accessibility, facilitation and lack of awareness. So that, the enterprises has even fear of applying to credit and expand their business.

The overall COVID-19 effect and inflation has highly affected trade sectors especially the retailers like MSEs. And the relationship between marketing of MSEs and enterprises the study has identified the critical marketing management practices strategies challenges prevalent in the MSEs in Kirkos Sub City such as, poor market networking, in ability to compete with large company, poor pricing, absence of promotion, and lack of efficient distribution channel.

Finally, the study has further identified that the different challenges in which each of the factors under study have in different categories of the business and negatively affecting savings of MSEs. It has been noticed that financial facilities, marketing networks, infrastructural faculties; management efficiency as well as policy and procedure had very high effects on the progress of the studied area MSEs. From these survey results, it can be concluded that MSEs face a lot of challenges in the business world and these challenges limit the development and growth of their business enterprises in Kirkos Sub city.

5.3 Recommendations

Given these major findings of the study, taking into consideration about importance of savings to individual and for development of a given country as well as the huge working force engaged in MSEs sector, the following recommendations are forwarded;

- ✚ The government should arrange; invest on them to get a good return, minimum or limit bureaucracy in licensing and work permit, reduce tax rate, facilitate all infrastructures, provide them input materials and market linkage.
- ✚ MSEs owners/managers should improve internal operations through upgrading their skills, be able to work with financial institutions, use effectively the borrowed money for the intended purposes and able to save money currently and invest in future.
- ✚ Financial institutions should facilitate in working with MSEs; make adjustments in interest rate, affordable collateral values as well as need to allocate a certain portion of their loanable funds for MSE entrepreneurs, providing them special offers and expand their branches around to increase their accessibility.

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Annex 1

Addis Ababa University

College of Business and Economics

School of Commerce

SURVEY QUESTIONNAIRE

Dear respondents: I would like to inform you that this questionnaire is designed to collect primary data to produce a research thesis on;”**Assessment of constraints to savings of Micro and Small Scale Enterprises (MSEs) in Addis Ababa City,thecaseofKirkossubcity trade enterprises.**” Hence providing genuine information will help to identify key constraints of micro and small scale enterprises to save. Any response you provide will be used exclusively for the research purpose only.

The result of the investigation will benefit policy makers, entrepreneur, MSEs product users and other stakeholders who wish to support MSE development by providing important information. on the existing situations. Your contribution for this study is very important I am very grateful for your cooperation.

I. Part: Respondents’ Profile

Instruction: Answer the questions below by circling your point of view and filling your opinion in the space provided.

1. Sex: a) Male b) Female

2. What is your age? a) 18-24 years b) 25-30 years c) 31-35 years d) 36-64 years e) above 65

3. Level of education (financial literacy): a) Uneducated b) 1- 4 c) 5-8 d) 9-10 e) Diploma f) First degree and above

4. Maritalstatus a. Married b. Unmarried c. Divorced d. Other (Specify)_____

5. Familybackground (you can give multiple answers) a) Business men b) agrarian c) Civil servants d) Other (specify)_____

Part II; Business and Occupation

6. What was your engagement before you started this business? a) Unemployed b) daily laborer c) student d) Involved in same business e) Government employee f) others, please specify

7. Where do you obtain the skills that are necessary to operate your business? (you can give multiple answers) a) From my previous experience b) Sharing from family c) short term on job training d) Formal training e) self-effort

8. Does your enterprise have a business plan? a) Yes b) No

Part III; Enterprise Characteristics

9. Do you have an experience in any other business sector(out of trade service)?

a) Yes b) No

10. If yes, why did you changed to this sector?

11. When did you start this business; experience in years? _____

12. Indicate the number of employee at the beginning for your enterprise operation, if any?

_____ By now? _____

13. By how much capital did you start the business?

Part IV; Constraints of Micro and Small Scale Enterprisers to Saving

14. Do you have formal saving book account/ save/? a) Yes b) No

15. Which bank do you use to save? a) Commercial Bank of Ethiopia b) Other private banks c) Micro finance institutions

15. Household income (monthly)? _____

16. If you have saving account by how much interest rate? _____

17. Incentives (is there package of benefits you got by saving) like attractive interest rate, or any prize)? a) Yes b) No

18. Do you have any prior information about importance of saving? a) Yes b) No

19. Do banks, financial institutions provide you credit, collecting deposit up on demand (Facilitation)? a) Yes b) No

20. Do you have nearest bank branches or other simple technology to use banks (access)?

a) Yes b) No

21. What are the major challenges faced your business at start-up and operation? a) Finance related problems --- b) Government rule--- c) Lack of information-- d) High collateral requirement--- e) Cost of raw material----- f) Lack of skill---- g) Getting license require long time----- h) Lack of working place----- I) Lack of market linkages--- J) No problem— K) Other specify (Specify) ----

22. What are the current major impeding challenges for the growth and expansion of your business? a) Lack of capital ----- b) Government rule----- c) No access to credit facility----- d) Lack of information----- e) Cost of raw material----- f) Lack of skill---- g) Getting license require long time-----h) Lack of working place----- I) Lack of market linkages----- j) No problem ----- K) Other (specify) -----

Part V; Attitudinal Statements on Constraints Facing Households in Accessto Banking

Method

Instruction: Answer the questions below by putting “√” to your personal opinions.

Statement	Strongly Agree	Agree	Un-decided	Dis-agree	Strongly Disagree
Savings are easy in unorganized financial institution					
Financial institutions are near to households					
Conventional bank staffs are friendly					
Saving in conventional banks is secured					
Loan in conventional bank is accessible without stress					
Conventional loan charges higher percentage of interest					
Form filling in conventional banks is discouraging					
Request for loans in rural un-organized financial institutions is easy					

Part vi; Financial Constraints Affecting Performance of MSEs

Statement	SA	A	U	DA	SAD
High interest rate of financial institutions					
High collateral value requirement					
Unplanned withdrawal of cash for varies case					
Lack of record keeping and financial control mechanism					

Nb. SA=strongly agree, A=agree, U=un-decided, DA=dis-agree, SAD=strongly dis-agree