

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**Micro and Small Scale Manufacturing Enterprises Growth:
A Case Study from Nefas-Silk Lafto Sub-City, Addis Ababa**

By

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Declaration

I, the undersigned, declare that this thesis is my own original work and has not been presented in any other University. All sources of materials used for this thesis have been duly acknowledged.

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Endorsement

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This is to certify that the thesis prepared by Tewelde Fissehatsion Goey, entitled “Micro and Small Scale Manufacturing Enterprises Growth: A Cases Study from Nefas-Silk Lafto Sub-city, Addis Ababa” and submitted in partial fulfillment of the requirements for the Degree of Master of Science in Economics (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

List of Acronyms	i
List of Figures and Tables.....	i
Abstract.....	ii
CHAPTER ONE	1
1. INTRODUCTION	1
1.1 Back Ground of the Study.....	1
1.2 Statement of the Problem.....	2
1.3 Objective of the Study	5
1.3.1 General Objective	5
1.3.2 Specific Objectives	5
1.4 Research Hypothesis.....	5
1.5 Scope and Limitation of the Study.....	6
1.6 Significance of the Study	6
1.7 Organization of the Study	7
CHAPTER TWO	8
2. LITERATURE REVIEW	8
2.1 Theoretical Literature.....	8
2.1.1 Firm Size Measurement and Growth	8
2.1.2 Determinants of firm growth.....	9
2.1.3 Approaches to Firm Growth	11
2.2 Empirical Literature	12
2.2.1. Entrepreneur Related Factors.....	14
2.2.2 Enterprise Related Factors	16
2.2.3 Networks and the Business Environment Related Factors.....	17
2.3 Empirical research on the Ethiopian MSE Sector.....	22
2.4 The Conceptual Frame Work of the Study	24
CHAPTER THREE	25
3. ETHIOPIAN POLICY ENVIRONMENT.....	25

3.1 Evolution of the MSE Sector	25
3.2 Government Support Schemes for MSE Development	27
CHAPTER FOUR.....	29
4. METHODOLOGY OF THE STUDY	29
4.1 Definition of Micro and Small Enterprises Employed.....	29
4.2 Survey Area and Sector Selection.....	29
4.3 Data and Sampling	30
4.4 Data Collection Instrument	31
4.5 Model Specification and Data Analysis Techniques	32
4.5.1 Model Specification	33
CHAPTER FIVE	36
5. DATA ANALYSIS AND DISCUSSION OF EMPIRICAL RESULTS.....	36
5.1 Introduction.....	36
5.2 Descriptive Data Analysis.....	36
5.2.1 Governments Support Schemes and MSEs Growth.....	37
5.2.2 Entrepreneur Motivation	43
5.2.3 Competition and Growth.....	44
5.2.4 Discussions on the other determinants of Growth	44
5.3 Econometric Analysis of the Data	45
5.3.1 Logit Model Estimation Results and Post Estimation Tests	46
5.3.2 Interpretation and Discussion of Empirical Results	47
CHAPTER SIX.....	53
6. CONCLUSIONS AND IMPLICATIONS.....	53
5.1 Conclusions.....	53
5.2 Implications.....	55
References.....	56
Annex A: Stata estimates and post estimation tests	61
Annex B: Summary of the data Collected	63
Annex C: Research questionnaire	68

List of Acronyms

EDRI	Ethiopian Development Research Institute
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small Enterprises Development Agency
FMSES	Federal Micro and Small-Scale Enterprises Strategy
MoUDH	Ministry of Urban Development and Housing
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
WB	World Bank

List of Figures and Tables

Figure 1: Conceptual frame work of the study	24
Table 4. 1: The Current definition of MSE in Ethiopia introduced in 2011	29
Table 4. 2: Definition and units of measurement of variables used in the logit model.....	34
Table 5. 1: Comparison of descriptive characteristics of growers and non-growers	38
Table 5.2: Logit Parameter Estimates.....	47

Abstract

The main objective of this study is to investigate the roles of government support packages (provision of various trainings, market linkages and working premises), entrepreneur business startup motivations and competition on the growth of micro and small enterprises (MSEs) in Addis Ababa. Primary data was collected from 89 sample MSEs in engaged in furniture and wood works, and metal work sub-sectors, in Nifas-Silk Lafto Sub-City. Descriptive statistics and logit estimation to discrete choice econometric methods are employed to examine the hypotheses of the study. Logit model was used to see the effect of these factors on the probability of growing of MSEs. About 66 percent of the sample enterprises have grown in the study period. Factors associated with MSE growth include access to government shade, technical and management training opportunities, competition from imported products, and business start up to exploit market. The findings suggest strengthening government shed supports and training opportunities among others. The major implication of the study is that, to make the country a hub of manufacturing industries, policies that attract growth oriented entrepreneurs (opportunity entrepreneurs) to the sector are indispensable. It also calls for policies that protect infant manufacturing MSEs from the competition faced from imported products.

Key Words: MSEs growth, government support, competition, training, start up motivation

CHAPTER ONE

1. INTRODUCTION

1.1 Back Ground of the Study

The labeling of enterprises as micro or small is not universal. Countries label their enterprises as micro, small or medium enterprises based on criteria relevant to their industry development, economic and social perspectives, usually defined based on the range of firm sizes. Regional and international organizations also have their own definitions. The measurement of firm size can also vary across countries and organizations. Some of the size indicators are total assets, size of the labor force employed, and annual turnover and capital investments (LaDue, 1977). For example, in the manufacturing sector, Organization for Economic Co-operation and Development (OECD) classifies enterprises as micro (with number of employees less than 10), small (10 to 49 employees), medium (50 to 249 employees) and large enterprises (250 or more employees) OECD (2020). In the Ethiopian context, the 2011 revised micro and small enterprises (MSEs) development strategy defines MSEs based on employment level and assets owned (FDRE, 2011).

Regardless of how diverse the definition could be, MSEs are considered as very important development agents in the development course of developing countries. Besides to employment creation, they are considered as breeding ground for medium and large enterprises (Reeg, 2013a). As a result the sector has got more focus from policy makers, development partners and scholars alike.

Likewise, the MSE sector of Ethiopia has got special focus in the development policy of the nation. Apart from generating employment, the sector is also seen as an emerging private sector, forming the basis for private-sector-led growth. In recognition to the importance of MSEs in the economic development of the nation, the Ethiopian government formulated the country's first comprehensive micro and small enterprises development policy in 1997(FDRE, 1997). Since then various strategies have been implemented to support the emerging sector. A revised strategy which further gives more focus to MSEs was formulated in 2011 (FDRE, 2011). The revised strategy is packed with various promotion and support packages, including facilitating access to markets (market linkages), provision of technical, financial management, marketing

management, entrepreneurial and other trainings, and improving access to finance and working premises.

Beyond generating employment for the urban unemployed, the MSE sector has been recognized by the government of Ethiopia as an important sector in paving the way to create an industry-led economy. As one part, with a vision to make the country a hub of light manufacturing industries by 2025, the manufacturing micro and small enterprises have been given great emphasis (Gebreeyesus *et al.*, 2018). Given this target of the government, it is natural to question whether the already established manufacturing MSEs are growing or not, how effective are the government support packages in the growth of these MSEs? What internal and external factors affect their growth?

1.2 Statement of the Problem

To cope up with the large number of people entering the labor force every year, establishing new MSEs and promoting these already established ones to grow is a must. In Ethiopia, even though a number of new small businesses establishments occur every year, a large number of the previously established MSEs were not seen to grow and expand their business; even some of them were seen to exit the market, which is a situation which increases the unemployment rate. For example, in the year 2007, out of a sample of 1000 MSEs in Ethiopia, around 69% of them were found survival types (Gebreeyesus, 2007), and in a study of MSEs from Addis Ababa, Wasihun & Paul (2010) found that 75.6% of the MSEs under investigation did not grow since establishment and only about 21.9% of them were which managed to grow.

In a survey of MSEs engaged in the manufacturing sector conducted by the Ethiopian Development Research Institute (EDRI) in 2016/17, there were 12,706 micro and 3,298 small formal enterprises in Addis Ababa (Gebreeyesus *et al.*, 2018). Another MSE survey in this sector conducted in 2018/19 by the Micro and Small Enterprises Development Bureau (unpublished data) shows that there were only 5373 micro and 1145 small formal enterprises operating in the city. Given new MSEs entrants to the sector every year, the reduction in the number of MSEs that were engaged in the manufacturing sector further indicates how volatile the sector is. This implies that a number of MSEs exited the market within two years.

Despite the focus given to MSEs in the development path of Ethiopia, information on the performance of MSEs and factors associated with MSEs growth are limited. To the knowledge of the

researcher, there are no detail studies on why most MSEs that started business exit the market or remained stagnant. There are some case studies at the micro level by different researchers, most of them focused on a few features of the sector (Tarfasa, Ferede, Kebede, & Behailu, 2016; Tefera, Gebremichael, & Abera, 2013; Haile, Girmay, & Hagos, 2014; Dagmawit, & Yishak, 2016; Seyoum, Aragie, & Tadesse, 2016). More importantly, these studies are based on samples taken from different sectors and sub-sectors of the different sectors, which ended up with only a few MSEs from each sector and their respective sub-sectors. Though such studies can have their own contribution to the literature, findings from such studies are less likely to represent each sector or sub-sector since each sector or sub-sector might have its own unique characteristics, and thus this calls the need to sectoral study. In this aspect, Gebreeyesus *et al.* (2018) conducted a base line survey from the manufacturing sector MSEs operating in ten largest cities of Ethiopia. From this survey the main features of micro and small manufacturing enterprises are discussed in detail, and yet, it did not examine the roles of government support, competition, startup motivations among others, on the growth dynamics of MSEs.

Moreover, almost all the previous studies on MSEs growth dynamics and its determinants, used employment level in measuring growth, probably due to its simplicity and the focus given to unemployment problem. According to them, a firm is said to be growing if the number of its permanent employees is increased when compared to the number of employees at the time of establishment. However, a firm which showed no difference in the number of permanent employees might have increased its capital when compared to its capital at the time of establishment, and hence the potential for future investment and employment. This could be because of the introduction of a new technology that reduces the number of employment. Yet, this firm is growing since its capital is growing. So taking the growth of employment as a sole factor in determining growing and non-growing firms may underestimate the number of growing firms. In support of this justification, Delmar, Davidsson, & Gartner (2003) stated that employment level does not consider “labor productivity increases, machine-for man substitution, degree of integration, and other make-or-buy decisions”. It also seems to be inappropriate in very small firms with only a few employees.

In studies which used monetary values in their data analysis (Tefera *et al.*, 2013; Dagmawit, & Yishak, 2016; Seyoum *et al.*, 2016), the purchasing power of money were not considered. Failure to use inflation adjusted monetary values in the analysis may lead to wrong conclusions.

As pointed out before, various support packages to the MSEs sector have been implemented by the government of Ethiopia. Out of these packages, provision of various trainings, creating market linkages with government agencies and provision of working promises are the popular ones. Yet, studies on the roles of these support packages on the growth dynamics of MSEs are limited. Studies regarding the effect of competition on the growth dynamics of MSEs are also limited. In a study of 300 formal MSEs from various sectors in the Addis Ababa City Administration, Tarfasa *et al.* (2016) examined the effect of competition from informal MSEs on the growth (in terms of employment) of formal MSEs. But in the face of globalization, in addition to local competition, it is important to investigate the effect of competition from imported products.

One very important point discussed in literatures is the role of entrepreneurs in the growth dynamics of enterprises. Delmar (1996) argues that enterprises owned by entrepreneurs who have great ambitions and aspirations to grow are more likely to grow. This argument considers an entrepreneur as the one who decides the fate of the enterprise; to grow or not to grow. Berner, Gomez, & Knorringa (2008) also seems to support Delmar (1996). They argue that developing countries' enterprises are stagnant because their owners have no intrinsic motivations to grow. With regard to this issue, to the knowledge of the researcher, there is only one study which incorporated entrepreneurs' motivation into the growth equation. In the study of MSEs growth by Dagmawit & Yishak (2016), MSEs owners were asked if they joined the market (business) by choice or because of lack of alternatives; and the result reveals that enterprises owned by entrepreneurs who started business by their own choice are more likely to grow than those enterprises owned by entrepreneurs who started business because of lack of alternatives. But further studies are required to check whether this finding is consistent or not.

Therefore, this study is conducted to fill some of the research gaps outlined above, in part. Given the great emphasis given to the MSEs manufacturing sector by the Ethiopian government and the fact that there is huge knowledge gap in the sector, the focus of this paper is on the manufacturing sector. This paper tries to investigate the roles of entrepreneurs' motivation,

government support packages (trainings, market linkages with government development programs, and provision of working premises) and competition (both local competition and competition from imports) on the growth dynamics (in terms of capital) of micro and small enterprises in the case of the manufacturing sector of the Addis Ababa City Administration. Because of budget and time constraints, the study was limited to two sub-sectors (Furniture and Wood Working and Metal Working), as those sub-sectors account a substantial number out of the MSEs of the sector, following the expansion of the construction sector. The research area was also limited to one sub-city, Nifas-Silk Lafto sub-city.

1.3 Objective of the Study

1.3.1 General Objective

The overall objective of this study is to investigate the factors that affect the growth in capital of micro and small manufacturing enterprises operating in the wood and furniture works, and metal work sub-sectors in the Addis Ababa City Administration.

1.3.2 Specific Objectives

- I. To investigate the role of government sheds (working premises) provided to MSEs as support, on the growth of MSEs.
- II. To investigate the role of market linkages with government projects on growth of MSEs
- III. To investigate the role of trainings given to MSEs in affecting their growth.
- IV. In starting business entrepreneurs are motivated by different factors. So one objective this study is to investigate whether these factors matter the likelihood of growing of MSEs.
- V. To investigate the effects of local competition and competition from imported products that MSEs face, on the likelihood of growing of these enterprises

1.4 Research Hypothesis

Based on theoretical or conceptual and empirical literatures, the following working hypotheses are developed.

- I. MSEs working in a government owned working premises (sheds) are more likely to grow when compared to those MSEs working in rented workshops or own workshops, other things remaining the same.

- II. Keeping other things the same, MSEs who are beneficiaries of market linkages with government agencies' development programs are more likely to grow compared to those who are not.
- III. The more a micro or small enterprise participates in various trainings (technical, financial management, marketing management, entrepreneurship and kaizen trainings), the more is the probability of growing, keeping other things the same.
- IV. Micro and small businesses which are established by entrepreneurs motivated by lack of alternative wage paying jobs, the need to balance their family and work life and the need to have post retirement source of income are less likely to grow when compared to those MSEs established by entrepreneurs motivated by existing business opportunities and the need to exploit these opportunities.

1.5 Scope and Limitation of the Study

The scope of this study is bounded to the MSEs who stayed in the market for at least five years and were engaged in the wood and furniture works, and metal work sub-sectors of the manufacturing sector of one sub-city (Nifas Silk Lafto sub-city) of the Addis Ababa City Administration. The reason why this study is bounded only to this area is nothing but due to time and financial constraints. Moreover, the study only covered formal MSEs; as there were no documented lists of names and addresses of the informal MSEs, they could not be reached out. Thus, I acknowledge inconsistencies that may arise from such limitations.

1.6 Significance of the Study

To the extent of the knowledge of the researcher, the literature on the growth of micro and small enterprises in Ethiopia is not rich. Thus, the findings of this study contribute to the existing literature concerning the growth of MSEs. It may also serve as a base for further detail study on the sector for those who want to proceed with this idea and other arguments related to this topic as well.

Apart from its contribution to the existing literature, the findings from this study can be used as inputs by policy makers in formulating policies and strategies regarding MSEs. The findings may enlighten policy makers regarding the roles of government support schemes, entrepreneurs' motivations and competition on the growth of micro and small manufacturing enterprises and take corrective measures accordingly.

1.7 Organization of the Study

The layout of the rest part of this paper is as follows. The next chapter constitutes the theoretical and empirical review of literatures. In this chapter, the theoretical views about the factors that affect the growth of MSEs, and the national and international empirical evidences on the issue are addressed. Chapter three is about the Ethiopian MSE policy environment. The fourth chapter deals with the data and methodology of the study. The fifth chapter is about the analysis and presentation of data. In chapter six, the study completes by drawing conclusions and policy implications derived from chapter five.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Firm Size Measurement and Growth

A number of measures have been used by researchers to figure out the growth rate of a firm based on how a firm size is measured. Literatures on firm growth site different firm size indicators. Total sales, number of employment, total assets, net assets, profits, financial or stock market value, productive capacity, output and many others (Ardishvili, Cardozo, Harmon, & Vadakath, 1998; Delmar, 1997; LaDue, 1977). As there are various firm size indicators, the ways that growth of a firm is measured are also diverse.

Using each size measurement to determine the growth rate of firms has their own disadvantages. For example, though it seems that sales are easily available (of course this is not the case in micro and small enterprises of developing countries), they are poor indicator since they can be influenced by sudden management decisions and are sensitive to inflation and currency exchange rates (Delmar *et al.*, 2003). In addition to that using sales as size indicator may overstate the size of the firm and hence its growth, since sales do not only indicates the value-added by the firm but also the input prices (Coad, & Hölzl, 2010).

Using assets as size indicator may not also be a good size measurement since they are more rigid to changes in the internal practices of the firm. In industries where non-tangible assets are more important for growth, using assets to measure growth makes it more problematic (Coad, & Hölzl, 2010). But in manufacturing industries assets can be a good measure of firm size (Delmar *et al.*, 2003). Profits can be a good measure of firm size since they are a function of many internal and external features of the enterprise such as the productive capacity and its power to compete in the external environment. But true data on profits is rarely available, especially, MSEs are known for hiding true profits for tax purposes (Cressy, 2006).

The widely used and recommended by many authors measure of firm size is number of employees (Delmar, 1997). A number of reasons are mentioned for the popularity of this firm size measurement. To mention some of them, first, number of employment is considered to

reflect the internal processes and organizational structure of a firm and is believed to adapt changes in activity. Second, it is less problematic in handlings since it is unaffected by inflation and currency exchanges as compared to financial measures which require deflation. Third, compared to other measures, data for employment may be easily available. Lastly, but not least, using number of employees as a firm size measurement has multi-benefits. For example, apart from its implication about the firm capacity, it is important for formulating labor policies, dealing with unemployment and job creation and evaluating labor markets (Hart, 2000), cited in Carrizosa (2007).

But Delmar *et al.* (2003) stated that employment level does not consider “labor productivity increases, machine-for man substitution, degree of integration, and other make-or-buy decisions”.

Generally, though employment size is the most widely used measure, the literature suggests that other measuring variables can also be used to express growth depending on the purpose of the study, since each variable can show a different feature of the firm (Delmar *et al.*, 2003). This means that there is no a universally accepted ideal measure of firm size; the choice of a particular measure is subject to the purpose of the study and its convenience.

In measuring growth, the literatures sites two basic approaches, absolute or relative (Coad, & Hözl, 2010). Absolute growth shows the actual (absolute) difference in firm size, while relative growth (growth rate) refers to relative changes in size. The most widely used approach is relative growth or growth rate.

2.1.2 Determinants of firm growth

Early studies on firm growth focused primarily on the effect of size and age, but later authors such as Storey (1994) found many factors that determine the growth of a firm. He classified these determinants into three groups. The first group consists of factors related to the entrepreneur. This group includes factors such as motivation, education, management experience, training, prior sector experience, age, gender and others. He defined these factors as the inherited and learnt abilities of the entrepreneur. The second group consists of factors related to the firm itself, such as size, age (represents the experience of the firm in the market), location, sector and legal form of the firm. The third classification is strategy associated factors.

Determinants classified under this category include management training, workforce training, technological sophistication, new products, state support, customer concentration, competition, information and advice, exporting, among others.

Storey also asserts that in order to make the firm grow fast, all of these factors should be coordinated in a suitable way to function together; the diversity in firm growth rates over time is due to the different interactions among the various factors.

In addition to these, another factor is also introduced, randomness. Some random events may affect the interaction among the other determinants (Geroski, 1999), cited in Carrizosa (2007). This random factor may make a firm to grow rapidly or may make its growth rate to decline, depending on the type of shock.

In addition to the above factors, other factors that affect the growth dynamics of a firm include economies and diseconomies of scale, mergers and acquisitions and government policies Scherer (1970), cited in Carrizosa (2007).

Education is an investment in human capital and specialized knowledge (Romer, 1994). Thus, it is supposed to increase the entrepreneur's human capital. Individuals with well-equipped human capital are also expected to use their knowledge and skills in accelerating the growth of their business.

Many researchers on firm growth argue that the growth potential of enterprises is also subject to the entrepreneurs' (owners') motivations that derive them to start a business. Delmar (1996) argues that enterprises owned by entrepreneurs who have great ambitions and aspirations to grow are more likely to grow. This argument considers an entrepreneur as the one who decides the fate of the enterprise; to grow or not to grow. An entrepreneur who has superior inherent motivation towards growth is committed to do every possible activity that is supposed to enhance the growth of his/her enterprise. An argument by Berner *et al.* (2008) also seems to support Delmar (1996). They argue that developing countries' enterprises are stagnant because their owners have no intrinsic motivations to grow. They added that enterprises in developing countries are mainly established to generate income for daily consumption since most of the entrepreneurs of developing countries are poor. Authors such as Cotter (1996), Afenyadu *et al.* (1999), cited in Reeg (2013a), Wright (1999) and Reynolds *et al.* (2005), cited in Reeg(2013), also argue that if a

business is established to generate income for basic needs consumption purpose (for subsistence), profits generated from the activities of the business are most likely goes to meet the household necessities; hence additional investment that helps the enterprise potentials to grow is unlikely. All the arguments assert that the motivational factors in starting and running the business determine the growth of the firm; to grow or not to grow. Therefore, incorporating motivation factor in the determination of growth of MSEs seems to be crucial.

2.1.3 Approaches to Firm Growth

The various determinants or factors of growth are represented by different theories. Some of the theories are as follows:

I. Classical economists approach

In searching for the optimal firm size, classical economists studied firm growth indirectly (Viner, 1932), cited in Carrizosa (2007). In this sense firm growth is the difference between one equilibrium condition and another.

This classical approach indicates an inverse relationship between firm growth and firm size. The reason behind this is that competition derives them to operate at the minimum average cost curve point. A positive profit in the market attracts new firms to the industry. As these new firms enter the industry they add their supply to the industry supply. Since the additional supply forces price to decline, a firm which was operating in the industry previously also forces to reduce its output as a response to the decline in price, as it has to reduce its average cost.

II. Behavioral approach

This approach lies on the division of objectives between manager and owner. The objective of the owner is to maximize its profit while the objective of the manager is to maximize utility. Behavioral economists such as Baumol(1959) explain that managers can maximize their utility through expanding the size of the firm. This implies that if the owner cannot control the manager, the firm can be oversized, beyond what the classical economists call it the optimal size.

The maximization of satisfaction by the manager is a continuous process till the manager's capability to organize and inspire self-confidence and security in its staff limits. This approach considers knowledge and organizing ability as an important asset to firm growth (Penrose, 1959).

III. Stochastic models

Popular stochastic firm growth models include Gibrat (1931), Kalecki (1945) and Champernowne (1973). Gibrat(1931) developed a theoretical model of firm growth that consists two independent random shocks and firm size. Using his model he suggests that there is no relationship between firm growth and firm size, firm growth is random. The other two in their own way, also suggest the same that no correlation between firm growth and firm size (Carrizosa, 2007).

IV. The models of learning and selection

These models are recent models that incorporate learning capacity in their models. They concentrate on the ability to learn from the past and the capacity to innovate. The main distinguishing characters of these models are they consider the dynamics of firms and their efficiency. Jovanovic's (1982) model is among the popular learning and selection models. He developed a model assuming that firms do not know their efficiency before they enter the market. After they enter the market the more efficient ones grow faster till they arrive at the minimum efficient size level. But the inefficient ones exit the market through time. To grasp the capability of the firm to learn its economic efficiency, such models introduce firm age into their models. Jovanovic (1982) argue that older firms grow slowly compared to young firms. He used his "learning model" in explaining his theory. As the firm age increases, managers learn from their previous operations and take correction measures from time to time towards optimal operational size. Once they learnt their optimal size, additional adjustments becomes minimal and hence growth in employment too.

2.2 Empirical Literature

The MSE sectors in developing countries are typically characterized by large number of informal enterprises, which consist of a large number of survivalist entrepreneurs (OECD, 2009).

Researches on the nature of MSEs in developing countries show that most MSEs enter traditional markets that are characterized by low entry barriers, the presence of large number of enterprises, sever competition, low profits and low wage rates (Altenburg, & Eckhardt, 2006). But the employment level that MSEs generate in developing economies is large and is highly acknowledged by many scholars. In a survey which was conducted between 1990 and 1995 in

African countries (Botswana, Kenya, Lesotho, Swaziland, Zimbabwe, South Africa and the Dominican Republic), Mead and Liedholm (1998) found that the level of employment in MSEs was twice as many as the employment level in formal large-scale enterprises and public sectors. Surprisingly, most of these MSEs were one person operated enterprises, which suggests how large enterprises in the sector are. Studies in many Latin America countries (Such as Mexico, Paraguay and Bolivia) also showed that the number of workers engaged in MSEs were more than 50 percent of the total working force ILO (2003).

Based on panel data of many developing countries, Liedholm and Mead (1987) found that out of the enterprises which had four or less than four numbers of employees, only 1 percent were managed to upgrade to the next level. Similarly, using panel data of five sub-Saharan African countries, Mead (1994a) found that out of the enterprises which had four or less than four numbers of workers, less than 20 percent were managed to upgrade to the next size category. Shockingly, out of the few micro enterprises which managed to grow, only 1 percent of them were managed to upgrade to the next size (small size) category.

In a study in Mexico, Fajnzylber, Maloney, & Montes-Rojas (2006) showed that in a given year out of the one-person operated enterprises only 12 percent were managed to expand their business. In the same study, they showed that larger micro enterprises have high probability of shrinking than growing. Using panel data, studies on micro enterprises in Sri Lanka and Ghana showed that only very small enterprises managed to grow in terms of employment level (de Mel, McKenzie & Woodruff 2008).

Generally, the existing studies on MSEs in developing countries shows that only a few group of MSEs manage to grow and create sustainable employment. The fact that only a few group of enterprises manage to grow has led to the labeling of enterprises as ‘opportunity’ and ‘survivalist’ enterprises. Opportunity enterprises are enterprises that are owned by entrepreneurs who have the motivations and aspirations to grow, and join the market to exploit existing business opportunity, whereas survivalist or necessity enterprises do not have the objective to grow Reeg(2013a).

Literatures on the study of micro and small enterprises indicate a number of factors that could affect the growth of micro and small enterprises. Though these factors are so diverse, scholars have categorized these different factors into two broad categories, namely, internal factors and

external factors. The internal category comprises factors which are internal to the firm. These are factors that are related to the entrepreneur or to the firm itself, such as the human power of the firm, the technology it uses in producing its products, the invention it introduced, the experience of firm in the sector and others. The external classification consists of factors which are outside the control of the entrepreneur and the enterprise. This category includes factors which are related to government policies and strategies, other business environment that could be affected by the community and other international factors.

To make more clear and simple, scholars have further classified these categories into sub-categories. Accordingly, the internal factors are classified under two groups, entrepreneur characteristics and enterprise characteristics. The former includes factors such as the age of the entrepreneur, gender of the entrepreneur, the education level that she/he accomplished, the special skill that she/he possesses, the work experience of the entrepreneur prior to the establishment of his/her business, motivation of the entrepreneur towards growth, the risk-taking behavior of the entrepreneur, and other factors which are related to the character of the entrepreneur. And the latter group consists of factors that includes the age of the enterprise since its establishment, the type of sector it engages in, the geographical location of the firm, the legality of the firm, access to credit, and absorptive capacity of the firm.

The second category's (the external one) sub-groups are networks and business environment. Networks include personal or social networks and business networks. The business environment comprises of factors such as regime policies and strategies to wards micro and small enterprises, macro-economic conditions and market competitions.

2.2.1. Entrepreneur Related Factors

Entrepreneur's age: A case study on the Ethiopian micro and small enterprises sector by Tarfassa *et al.* (2016) based on a sample of 300 micro and small enterprises from the Addis Ababa City Administration revealed that age of the entrepreneur was found positively statistically significant in the pooled model in increasing the growth of MSE, where as in the separate models for micro and small, was insignificant. Similar studies in Sri Lanka by Demel *et al.* (2008) and in Colombia by Cortes, Berry & Ishaq (1987) showed an inverse relationship between entrepreneur's age and enterprise's growth. Another finding on the issue in five Sub-

Saharan African countries by McPherson (1996) was inconsistent. In general the effect of entrepreneur's age on enterprise growth is inconclusive.

Studies on the effect of gender on the growth of enterprises are in favor of men. Some scholars argue that male-headed enterprises tend to grow faster than their counter parts headed enterprises (McPherson, 1996; McPherson and Liedholm, 1996). This was also supported by a study in Sri Lanka by de Mel *et al.* (2008). Welter (2001) also found a significant difference between men and women entrepreneurs concerning their ambitions to grow. His finding shows that male entrepreneurs have greater ambitions to grow when compared to their female counterparts

Education: It is an investment in human capital and specialized knowledge (Romer, 1994). Thus, it is supposed to increase the entrepreneur's human capital. Individuals with well-equipped human capital are also expected to use their knowledge and skills in accelerating the growth of their business. Different studies on MSEs have revealed that owners of MSEs and their workers possess low levels of education (World Bank, 2009). Researches on Sub-Saharan countries have showed that entrepreneurs with educational level secondary school complete and above grow faster (Mead and Liedholm, 1998). However, in the same study, this was not the case in MSEs headed by owners with primary level education. On the other hand, another study in Latin-America by Kantis, Angelli and Koenig (2004), as cited in Reeg (2013a), has showed that even secondary school attainment has no significant effect on the growth of MSE. This indicates that the effect of the attainment of secondary school on the growth of micro and small enterprises is ambiguous.

Work experience and training: Human capital deals with the abilities of individuals' acquired abilities and knowledge which are gained through education, experience, on-the-job training and labor market mobility (Mincer, 1981). Theoretically, on-the-job training and experience are supposed to affect MSEs to grow faster, since they increase human capital. A study by Parker (1995) in Kenya showed a positive correlation between work experience prior to starting business and growth of MSEs. He also indicated that owners of business enterprises in Sub-Saharan Africa countries owned by entrepreneurs who took practical training grew faster than those businesses owned by entrepreneurs with no practical experience before start up. But when we come to the industry (sector specific) experience, research findings are mixed. Researchers such as Cooper (1993) and Storey (1994) reported that sector related work experience before

business startup is unrelated to the growth of firms, even Storey (1994) showed that sector related work experience before start up is negatively related to firm growth. However, another longitudinal Study in the Netherlands by Bosma, *et al.* (2004), cited in Reeg (2013a) found a positive relationship between entrepreneurs sector based work experience before start up and firm growth.

2.2.2 Enterprise Related Factors

Enterprise age: Many Empirical studies on firm growth seem to support Jovanovic's (1982) explanation. Studies by Evans (1987), Parker (1995), McPherson (1996), Mead and Liedholm (1998) found an inverse relationship between growth rates of enterprises in terms of employment and enterprises' age. On the other hand, Banerjee and Duflo (2000) argue that older firms get so many advantages from their work experience and higher productivity over the young and unstable firms. Other researchers supported with empirical findings argue that in low income countries age of a firm has nothing to do with the growth of a firm; it is the capability, skill and entrepreneurial attitude of the entrepreneur that makes the enterprise to expand, upgrade, attract employment and hence grow (Hyman, 1988; Mead, 1994; Mead & Liedholm 1998).

Generally, one can learn from the above explanations and evidences that the effect of enterprise's age on the growth of the firm is inconclusive.

Location: In the literature, the location that a firm is operating is also considered as one factor that affects the growth path of an enterprise. Some authors argue that firms that operate in cities benefit from agglomeration externalities, thus they grow faster than enterprises that operate in rural or vicinity areas (Mead and Liedholm 1998). Especially, firms that operate in clusters have many advantages. They can benefit from vertical and horizontal work linkages, technology spillover effects, labor supply and so on. Liedholm (2002) empirical finding seems to support this argument. He found that enterprises that operate in city or urban areas grow faster than their rural counterparts.

Sector: The type of sector that an enterprise is engaged in is also mentioned in the literature as one factor that affects an enterprise's to growth. The business environment may be favorable to some sectors and unfavorable to some other sectors; it could be in terms competition, product demands, input availability and costs. For instance, Mead and Liedholm (1998), and de Mel *et al.*

(2008) have found that trading businesses and retail enterprises are less motivated to grow or upgrade themselves than enterprises in the service sector and manufacturing sector.

Formality: This refers to whether an enterprise is formally registered or unregistered. This is also mentioned in the literatures as one determinant to the growth of firms. Informal enterprises are less likely to grow compared to formal ones. The former usually involves in low return businesses and since they are not formally registered they have no access to formal credit institutions, assistances from government bodies, whereas the later get benefits from formal credit institutions and government supports Reeg (2013a).

Absorptive capacity. Another characteristic of a firm that affects the growth of a firm is its absorptive capacity. This refers to the ability, the potential, the capability of a firm to use existing knowledge and to innovate new ways of operation and technology that make the firm competitive and profitable in the face of competitive environment Zahra and George (2002). The lesson here is if a firm is unable to change external knowledge and information into its benefit and does not invest in research and development, it may be forced to exit the market since it cannot compete with others that have high absorptive capacity. Absorptive capacity is usually measured in the level of spending in research and development and human capital stock Cohen and Levinthal (1990).

On average, firms with high absorptive capacity; that have high proportion of spending in research and development and high human capital stock were found to be more innovative and productive (Storey, 1994). But, Schmidt (2005) argues that high expenditures on research and development do not necessary result in high profits. Based on their research findings, Wetter and Delmar (2007) also argue that absorptive capacity has no stable relationship with growth of employment.

2.2.3 Networks and the Business Environment Related Factors

Networks and the business environment, in which the firm is operating in, are among the most important factors mentioned in literatures that affect the growth of firms. Networks refer to both business networks (professional networks) and personal networks. Business networks include inter-firm linkages and value chains, such as linkages between a firm and other firms which supply inputs to the firm and buy its products, and its competitors. But personal networks refer to

the networks with family members, relatives, friends and other contacts with social community. And the other external factor deals with the overall business and regulatory environment such as the business policy, legal and regulatory frameworks, political stability or instability, competition, and overall attitudes of government to the private sector. Findings about these issues are discussed here.

2.2.3.1 Social and Business Networks

When we talk about social networks, we are implicitly talking about social capital. Portes (1998) defines social capital as “the norms and ties that enable people to trust each other and act collectively”. Social capital for the firm can be from the entrepreneur’s family members, relatives, and friends and from the community as a whole. This means that social capital can play a great role in the growth dynamics of a firm. In developing nations, where market failures are predominant, social capital plays a great role in the upgrading of firms; social networks serve as sources of finance, advice and support (Reeg, 2013a). Some empirical studies showed a positive relationship between social networks and firm growth (Romijn, 1997; Chan, 2001 and Taeube, 2004), as cited in Reeg (2013a).

However, some authors also argue that strong social ties can also have their own drawbacks in affecting the growth dynamics of a firm (Sverrisson, 1993; Hobday and Perini, 2009; and Meagher, 2010), as cited in Reeg (2013a). They argue that just as social networks can be an asset to the entrepreneur or the firm, they can also be a liability to the firm. Family members, relatives and others can expect more benefits from the profits that the firm generates. This may hinder from reinvesting the profits there by hamper the growth of the firm. Empirical Studies from Africa show that requests for support from entrepreneur’s family members and relatives were found to be major growth obstacles for micro and small enterprises (Meagher, 2010).

Generally, strong social networks help entrepreneurs to pool resources and get advice and other emotional supports, especially in areas where market failure is predominant. On the other side, strong social ties may hinder the growth of micro and small enterprises.

Concerning the business networks, these are usually expressed in two types of linkages; horizontal and vertical linkages. Horizontal linkages refer to relations between two parallel (similar) firms, whereas vertical linkages are about the relations between a firm and its buyers

(back ward linkages), and between a firm and its input suppliers (back ward linkages). These business networks are found to influence the tendency of a firm to grow.

Researches on Inter-firm horizontal linkages mainly focus on the cooperation and healthy competition of firms with in clusters and how this cooperation among firms benefits individual firms. In the literature, economies of scale, coordination, and competition are the most widely discussed mechanisms through which horizontal inter-firm linkages affect the growth of firms in clusters.

The coordination among firms in clusters benefits individual firms by lowering transaction costs through the developments of large suppliers network, skilled pool of workers, credit and external services, agents who facilitate market linkages, business associations that stands for common interest affairs and other specialized services. Case studies in Latin America, Asia and Africa have proved the benefits of horizontal inter-firm linkages through economies of scale (Schmitz, 2000; Knorringa, 1999; and Yoshino, 2011), as cited in Reeg (2013a).

Another mechanism of inter-firm exchanges that affect the growth of firms is through coordination effects. Effects such as informal information and knowledge diffusion and other coordination positive externalities that arise from coordinated technology adoption, investments in infrastructure (in electricity, water and roads), and business associations are some of the coordination effects that may promote firms growth (Reeg, 2013a).

Inter-firm horizontal linkages also create competition among firms which may bring collective efficiency by encouraging innovation. Since firms in clusters cannot protect knowledge from spilling-over, they are always in a state of pressure from competition. The competition pressure constantly forces them to develop new processes and update their products in order to withstand competition from their competitors, this there by lead to enterprises growth (porter, 1998). It has also to be noted that not every type of competition supports firms to grow. Especially, price based competition may not encourage firms to innovate.

Arguments in support of inter-firm vertical linkages as one factor which leads to enterprises upgrading, mentions two mechanisms; through access to resources and markets, and learning processes. By creating vertical linkages with input suppliers and product buyers, a firm can enhance its growth. A strong connection with input suppliers (back ward linkages) and product

buyers (forward linkages) makes a firm to produce continuously; preventing loss that may arise from idle time that emanates from lack of access to resources and product markets (Aw, 2002). On the other hand, vertical integration of local firms in global value chains gives opportunities for domestic firms to learn from international leading firms; regarding new ways of production, new products and new management and marketing styles which supports upgrading of the firms (Gereffi, 1999), as cited in Milagrosa (2014).

2.2.3.2 Business Environment Factors

The most widely discussed business environment factors in literatures are political stability, regulatory business environment, macroeconomic stability, access to finance, competition, and other infrastructure related factors.

It is natural that a stable economic and political environment is important for businesses to grow. However, which policy measures bring economic stability more effectively is an issue of debate among scholars. Economic instability in developing countries has been found as an obstacle for firms not to grow. Inflation, the existence of high credit interest rates and depreciation of domestic currency are the most repeatedly mentioned problems for firms of developing countries not to grow (Robson and Obeng, 2008; Ocampo, 2005; and Tybout, 2000), as cited in Reeg (2013a).

Following the discovery that institutions matters in economic development, the role of regulatory policies has got great focus by policy makers, as they shape the incentives for economic actors (Acemoglu, Johnson and Robinson 2002). According to the World Bank, developing countries' enterprises face a pool of burdensome and complex regulatory and institutional constraints that hinders them from growing (World Bank, 2011). Though there is no universally accepted optimal regulatory and institutional practices, World Bank recommends that governments should focus on attaining a steady and simple regulatory practices such as introducing fast and low-cost services, creating flexible business regulations and introducing tax incentives (World Bank 2011).

With regard to the effect of competition on the growth of firms, there are different arguments in the literature. Some argue that increased market competition forces enterprises to increase their productivity and efficiency, and there by lead to growth (Porter, 1998). The underlining principle behind this argument is that the continuous entry and exit of firms into and out of markets serve

as incentives for enterprises to design a further productive and innovative use of resources. Proponents of this argument indicate three competition driven efficiencies that lead to firms growth. These are allocative efficiency, productive efficiency and business innovation. Allocative efficiency refers to the improvements in efficiency when resources are efficiently allocated by the market (Harberger, 1954), as cited in Reeg (2013a). Productive efficiency refers to the efficiency increases that arise from producing higher outputs with the same set of inputs; by reducing per unit cost. Lastly, competition forces firms to invent on new processes of production, introduce new products and new ways of management in order to reduce per unit costs so as to compete and stay in the market (Ahn, 2002).

Another argument which seems relevant in the context of developing countries is about the adverse effects of competition. Laffont (1998) argues that firms in developing countries need to earn high rates of profit in order to capitalize themselves in terms acquiring new technologies and product development, etc. If they cannot get these incentives, they will remain stuck in old and inefficient production techniques. This seems to mean that competition in developing countries, especially from imports and international large companies may be a major obstacle for the growth of domestic firms. Others also argue that both too little and too much competitions do not create a favorable environment for enterprises to grow, as they reduce the essential incentives for innovation (Aghion et al., 2001), cited in Reeg (2013a).

Some of the above theoretical arguments are supported by empirical studies. Porter (1990) found a strong correlation between domestic inter-firm competition and industry competitiveness in the international market. This means that a local market grounded on competition equip domestic firms to compete in international markets. Studies by Djankov and Murrell (2002) and Nickell (1996), as cited in Reeg (2013a) showed positive correlation between competition and productivity growth.

But, Tybout (2000), as cited in Reeg (2013a), grounded on his empirical finding argue that efficiency improvements that arise from competition are not as large as anticipated. He found that new firm entrants exit the market at the same productivity level as the start (entry) time. The fact that some East Asia countries have been attained continuous economic development and produced internationally competent companies through protectionist policies (Singh 2002; Aw,

Chung and Roberts 2003), as cited in Reeg (2013a), is also a manifestation of the arguments against competition.

Availability of finance is another factor repeatedly mentioned in the literature. The absence of access to formal finance is considered as a principal obstacle to enterprise growth. The lack of access to credit from formal finance institutions make enterprises to operate at sub-optimal sizes. In developing countries, financing problems are prevalent across all firm sizes; however, it is more severe in micro and small enterprises (Reeg, 2013a).

2.3 Empirical research on the Ethiopian MSE Sector

It is about 23 years since the country has introduced its first formal MSE development strategy in 1997. But the number of studies conducted on growth of micro and small enterprises so far are limited in number and scope. Even, those conducted studies are general in nature; separate sectoral studies of MSEs are very limited, if any.

In a study of 160 micro and small enterprises from various sectors, Haile, Girmay & Hagos (2014) found a positive and statistically significant relationship between growth of MSEs in terms of employment and government owned working premises. Moreover, the study reveals that enterprises working in government owned working premises grow faster when compared to those working in their own and rented working areas.

Regarding market linkages created by government for MSEs, in a study which comprises of a sample of 100 enterprises from various sectors and sub-sectors, Dagmawit & Yishak (2016) found that enterprises which has access to market linkages from government agencies are more likely to grow (in terms of employment) when compared to those which do not have access to those privileges. But the same study shows a negative but statistically insignificant effect of access to market linkages from government agencies on the probability of growing of MSEs in terms of capital.

A study on the growth of MSEs in terms of employment which covered 165 sample MSEs shows that owners of MSEs who attended technical or business management training showed better growth than those who did not attend (Seyoum *et al.* (2016)

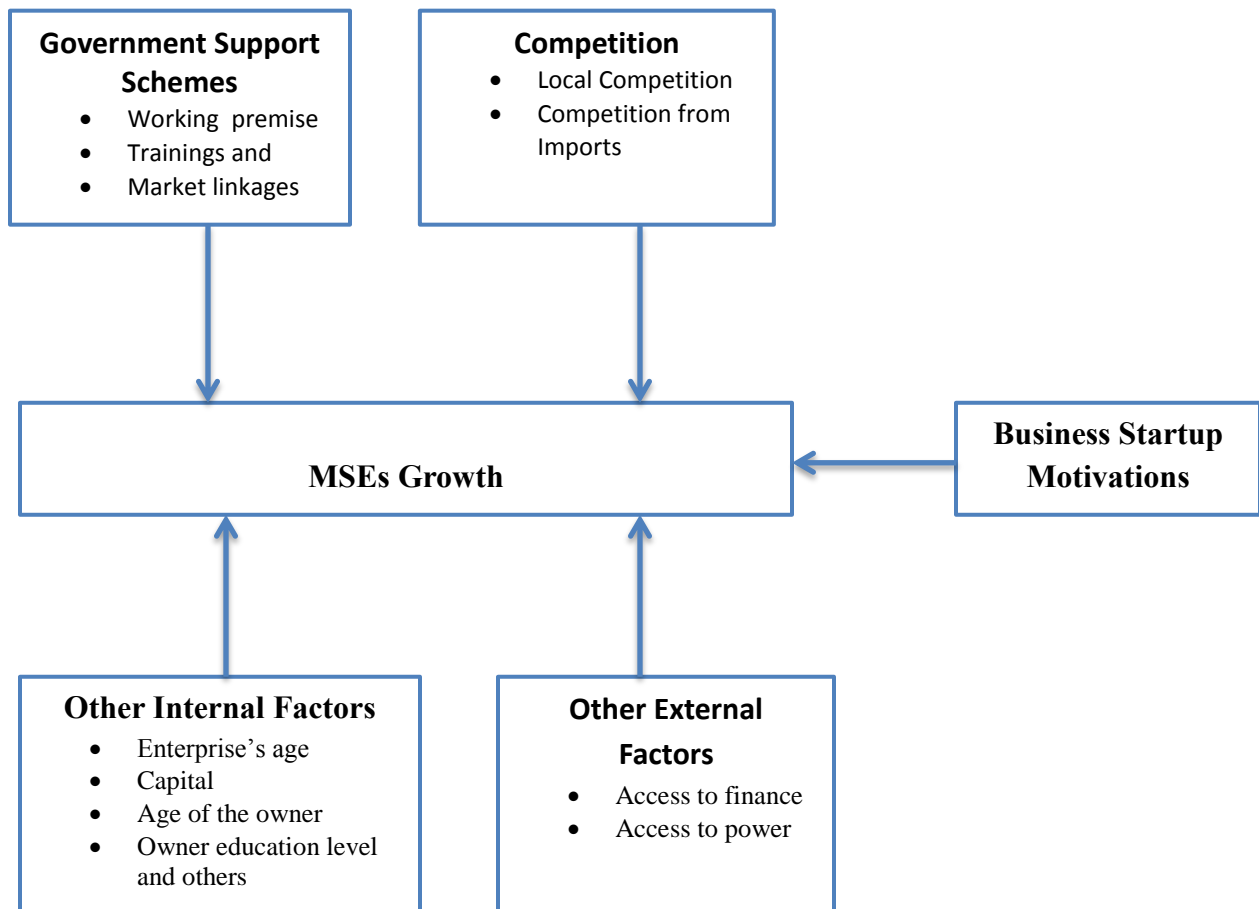
With regard to the effect of competition on the growth of micro and small enterprises, Tarfasa *et al.* (2016) found a positive and statistically significant correlation between employment growth of formal MSEs and absence of competition from unregistered or informal micro and small enterprises. In other words, the result from this study indicates that tough competition from informal sectors may hinder the growth of formal MSEs.

In the study of MSEs growth by Dagmawit & Yishak (2016), MSEs owners were asked if they joined the business world by choice or because of lack of alternatives; and the result reveals that enterprises owned by entrepreneurs who started business by their own choice are more likely to grow than those enterprises owned by entrepreneurs who started business because of lack of alternatives.

2.4 The Conceptual Frame Work of the Study

The conceptual frame work of this study is illustrated in Figure 1. Drawn from the literatures, various internal and external factors which are supposed to affect the growth of micro and small scale manufacturing enterprises are included. The variables of interest of this study are factors related to government support schemes, start up motivations and competition. Other internal and external controlling variables are also included in the model. The details of the model are discussed in the methodology part in chapter four.

Figure 1: Conceptual frame work of the study



Source: Own Illustration

CHAPTER THREE

3. ETHIOPIAN POLICY ENVIRONMENT

3.1 Evolution of the MSE Sector

The industrial policy environment in the pre-1991 era (in the imperial and Dergue regimes) was not enabling for micro and small enterprise Gebreeyesus *et al.* (2018). The main focus of the imperial regime was to promote large-scale manufacturing, which was dominated by foreign nationals. Due to its command economic policy which undermines the private sector, the Dergue period was also not favorable for the emergence of MSEs.

Following the regime change that took place in the 1991 (when the EPRDF took power), Ethiopia began to follow a liberal economic policy in 1992. The then transitional government started to activate the previously neglected private sector by implementing new policies which create conducive environment to the development of the private sector. Proclamations such as Investment Proclamation No.15/1992 and Industry and Handcrafts Bureaus establishment in regional states by Proclamation No.41/1993, as stated in Gebreeyesus *et al.* (2018) are some of the manifestations of the attempt which were done in implementing promising policies to the private sector and to MSEs. These reforms in policy opened the door to the private sector to play its role in the development of the economy. However, these reforms in policy have not been successful in nurturing MSEs (MUDC, 2013).

Then, in 1995 the country adopted a new development strategy; Agricultural Development Led-Industrialization (ADLI). Following the new strategy, MSE development was given more attention in the economic development of the nation (MUDC, 2013). With the general objective of preparing a fertile ground for the development of MSE, laws that allow the establishments of micro finance institutions (MFIs) were declared by Proclamation No.40/1996 (FDRE,1996), as cited in Gebreeyesus *et al.* (2018), which led to the establishment of a number of MFIs which are currently serving the society. After these preparations, the country's first comprehensive micro and small enterprises development policy was come into effect in 1997.

The Federal Micro and Small-Scale Enterprises Strategy (FMSES) which was formulated in 1997(FDRE, 1997) is a manifestation of the government's focus on the roles that MSEs could

play in fostering the economy. For the first time, the 1997 FMSES defines small businesses based on the level of paid-up capital employed by them. Accordingly, enterprises with paid-up a capital up to Birr 20,000 were labeled as micro enterprises, but this did not include high-tech firms, whereas enterprises with paid-up capital that ranges from 20,001 up to 500,000 were labeled as small enterprises. This categorization of small businesses based on paid-up capital was not sector specific; it was applied to all sectors of the economy.

Following the 1997 MSE Strategy, the Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established in 1998 to organize implementation of the strategy (FDRE, 1998). The FeMSEDA structure was extended to all the 9 regions and 2 city administrations, and then to their lower administration units. By acknowledging the role that MSEs could play in the development of the economy, sectoral policies, strategies and medium-plans formulated after that strategy have took MSEs into consideration (Gebreeyesus *et al.*, 2018).

Generally, the 1997 MSE Development Strategy has created an enabling environment, at least ideally, if not practically. A number of possible areas of support were proposed in the strategy such as training, financial assistance, markets, and infrastructure.

After evaluating the 1997 MSEs development strategy and identifying the limitations it had, the MSEs development strategy was revised in 2011 (FDRE, 2011). One improvement that this strategy made is the way it defines MSEs. This revised version uses both assets and employment level in categorizing small businesses into micro and small enterprises. In addition to these two factors, the definition also considers two broad sectoral classifications; industry and service sectors. Accordingly, in the industry sector, enterprises with number of employment five or fewer including the enterprise owners and family members, and with total assets up to Birr 100,000 are labeled as micro enterprises, whereas those enterprises with number of workers 6 up to 30, and with total assets that ranges from Birr 100,001 up to 1,500,000 are labeled as small enterprises. But when it comes to the service sector, while the number of employment ranges are similar to the respective industrial sector, the total assets for each category differ in the two sectors; those with total assets up to Birr 50,000 are termed as micro enterprises, whereas those with total assets that ranges from 50,001 up to 500,000 are labeled as small enterprises. In the revised definition, if ambiguity arises between employment level and total assets, total assets are used as the governing criteria.

Another improvement made in the 2011 strategy is that the categorization of growth of enterprises into three stages of development, start up, growth and maturity level. Accordingly, by identifying the constraints enterprises face in each level of development, sets of specific support schemes are listed for enterprises in each level of development. Apart from the usual focus on the poor, women and less skilled citizens, it extends the scope of its target groups to university and TVET graduates.

The 2011 revised strategy also came up with many other improvements such as the emphasis given to TVET institutions, human resource development, technological improvement, market development, financial and credit services systems, MSE production and marketing facilities and building the capacity of implementing agencies. In order to implement the policies and strategies the roles and responsibilities of federal and regional agencies are outlined following the revision of the 2011 revised MSE strategy (MoUDH, 2012).

To sum up, the 2011 MSE development policy and strategy and the focus given to it seem to be favorable for the development of MSEs.

3.2 Government Support Schemes for MSE Development

Based on the 2011 revised MSE strategy, enterprises support schemes are packaged taking into account the growth stages of enterprises namely, startup stage, growth stage and maturity stage.

MoUDH (2012) defines enterprises at the startup level as “Enterprises at this level are in the process of obtaining a legal entity and are yet to begin producing commodities or services”. The main challenges that were identified in this stage are lack of initial capital to start businesses, little room for individuals to choose the form of organization that they prefer, startup failures that result from lack of prior basic accounting and business management experiences and lack of working level entrepreneurial, business management and professional skills with respect to the specific business they engaged in (MoUDH, 2012). In an attempt to overcome these challenges, the support schemes outlined are facilitating access to startup capital, enabling enterprises to have legal entity, building competencies in business management, entrepreneurship and financial management, and delivering training in technical skills.

The second stage (growth stage) as defined by MoUDH (2012) refers to “the situation where an enterprise that is receiving enterprise development support services, demonstrates its

competitiveness in the market in terms of price, quality and productivity as well as offers credible evidence as to its long term profitability”. After identifying the challenges in this growth stage, the enterprise development support services that are supposed to enable enterprises at this stage in tackling the challenges are facilitating financial support, provision of skills and technological support, expanding production and marketing premises, and formalization of enterprises (MoUDH, 2012).

The last growth stage is maturity stage; MoUDH (2012) defines it as “The “maturity stage” of MSEs arrives when an enterprise receiving support becomes competitive and profitable in the market, makes additional investment to increase its market share, and meets the definition of and criteria for transformation into a medium level enterprise”. According to it “An enterprise operating as a micro or small enterprise level that maintains its market competitiveness and profitability can also be considered to have reached maturity”. After identifying the challenges that enterprises in the maturity stage face, the enterprise development support schemes that are supposed to enable enterprises at the maturity stage in tackling the challenges are creating competitive enterprises, providing capital equipment lease system that enables MSEs to transform themselves to the growth oriented medium enterprises and others. A number of support strategies are also outlined in the strategy for growth oriented medium enterprises.

Generally, the 2011 strategy discusses the main challenges that enterprises in the different growth stages face, and based on that a number of detailed support strategies are outlined that are supposed to deal with these constraints. Though a number of various support schemes are outlined in the strategy, only a few of them are implemented, practically. Among the support schemes that have been practically implemented, providing working premises (sheds), providing various trainings and creating market linkages with government agencies are the popular ones.

CHAPTER FOUR

4. METHODOLOGY OF THE STUDY

4.1 Definition of Micro and Small Enterprises Employed

This study uses the latest definition of MSEs in the Ethiopian context which is the 2011 revised definition of MSEs (Table 4.1).

Table 4. 1: The Current definition of MSE in Ethiopia introduced in 2011

Level of the Enterprise	Sector	Human Power	Total Assets
Micro Enterprise	Industry	≤ 5	\leq Birr 100,000
	Service	≤ 5	\leq Birr 50,000
Small Enterprise	Industry	6 - 30	\leq Birr 1,500,000
	Service	6 - 30	\leq Birr 500,000

Source: FDRE(2011)

The definition also takes total assets as a principal measurement when ambiguity arises between employment and total assets.

4.2 Survey Area and Sector Selection

Addis Ababa is the hub of industries, be it large and medium industries or small and micro enterprises, and the most economically active city in in the country. Micro and small enterprises are supposed to upgrade themselves to medium enterprises, and then to large enterprise through time. Thus, the researcher believes that studying micro and small businesses' growth in this MSEs concentrated area could give better results for the understanding of micro and small enterprises growth. Thus, this study focuses on Addis Ababa City Administration.

Addis Ababa city Admiration has ten sub-cities, but due to time and budget constraints, the survey area was limited to one sub-city. However, the researcher also believes that data form one sub-city can fairly represent the other sub-cities since there is no much difference in economic activities among the sub-cities, while discrepancies in results that may arise from small sample are acknowledged too. The sub-city that is selected as a survey area in this study is Nifas-silk Lafto sub-city. This sub-city is selected for two reasons. One, the number of MSEs engaged in

the sub-sectors under investigation that satisfies the criteria for selection (they must be at least five years age since establishment period) are higher in this sub-city. Secondly, in this sub-city, MSEs that work in government shed (work shop), rented work shop and their own work shop are fairly represented in the population relative to the other sub-cities, which is very important for the study under investigation.

Apart from its importance in minimizing urban unemployment, the manufacturing micro and small enterprises sector has been given great emphasis by the government of Ethiopia hoping that it will play a great role in building an industry –led economy. Following the expansion of the construction sector and urbanization, metal work and wood work (including furniture works) sub-sectors of the manufacturing sector are among the most important sub-sectors in the city.

Beyond their large share in the sector, the activities of these sub-sectors are related. Given their large number and homogeneity, results from studying these sub-sectors can better explain the effect of different variables on growth of MSEs of the sub-sectors than results from a mixed data of different sub-sectors. Thus, this study focuses on the MSEs engaged in furniture and wood working, and metal working sub-sectors.

4.3 Data and Sampling

The focus of this survey is on micro and small enterprises engaged in furniture and wood working, and metal working sub-sectors. The intention of this study is to investigate the roles of different government support packages, entrepreneurs' motive and competition on growth, in terms of capital, of MSEs in these sub-sectors, in five years interval period. The length of the period is chosen considering two things. As growth is a time phenomenon, it is better to study it in long study period. On the other hand, to have representative results, the sample size should reasonably represent the population. In this case, if we take long study period (such as ten years) the sample size shrinks as it is difficult to have enough enterprises that are ten years of age. On the other hand if we try to increase our sample size, we need to reduce the study period. So there is a tradeoff between these two desirable criteria. For this reason a five year study period is chosen that fairly considers the two criteria.

So, in order to do the analysis, data at the time of the interview and data five years back from the time of the interview are needed. Therefore, micro and small enterprises included in this study

are enterprises at least five years age since their establishment. The survey only covers formal enterprises that are registered by the government of the city and have tax-paying identification number. Due to lack of information and availability of data, this study did not cover the informal sector.

In the process of selecting the respondents, first, a list of micro and small enterprises engaged in the manufacturing sector with their full address and contacts were collected from the Addis Ababa City Administration Micro and Small Enterprises Development Bureau. Then, those enterprises which belong to Nifas-silk Lafto sub-city were filtered. Using the revised national definition of micro and small enterprises, these enterprises were categorized into micro and small enterprises. From each category, enterprises with at least five years age since their establishment were filtered. Then a further final cleaning was conducted to remove those enterprises which were operating in sub-sectors other than furniture and wood work, and metal work from the list. After all these processes, the number of micro and small enterprises with at least five years of age since their start-up which were operating in the furniture and wood working, and metal working sub-sectors were found to be 52 and 33, respectively. Thus, the population frame for MSEs is 85 enterprises. So a decision was made to conduct a census of all the micro and small enterprises in this sub-city with at least five years age, since they are small in number. In addition to the micro and small enterprises, 4 medium enterprises which were in the category of micro or small enterprises five years ago, counting from the time of interview, but medium enterprises at the time of interview, were included in the study. These 4 enterprises are enterprises that have graduated to medium enterprises during the five years period. Thus, the study covers a total of 89 enterprises. After all these processes were done, primary data for the study were collected from the 89 enterprises. So, a micro or small enterprise is the unit of analysis of the study.

4.4 Data Collection Instrument

This study uses an interviewer administered structured questionnaire to elicit the necessary information from the respondents. The survey instrument (questionnaire) is designed to have five sections. The first section is introductory part which states the purpose of the research, confidentiality and the selection procedure of the company by the researcher and a request for informed consent.

The second section deals with general information, about the enterprise. The third section is designed to elicit the necessary information about the characteristics of entrepreneurs (owners) and their backgrounds. The fourth one deals with the characteristics and history of the enterprise. And the last section is designed to capture information about business environment.

In designing this questionnaire, the researcher used inputs from the World Bank Enterprise Survey Manufacturing Questionnaire (2015), Gebreeyesus *et al.* (2018) and Tarfasa *et al.* (2016).

4.5 Model Specification and Data Analysis Techniques

In measuring growth, literatures site two basic approaches, absolute or relative (Coad, & Hölzl, 2010). Absolute growth shows the actual (absolute) difference in firm size, while relative growth (growth rate) refers to relative changes in size. The most widely used approach is relative growth or growth rate. Therefore, this study also used the relative growth approach in measuring the growth of micro and small enterprises over the study period.

$$g_i = \frac{S_{i,t} - S_{i,t-s}}{S_{i,t-s}} = \frac{S_{i,t}}{S_{i,t-s}} - 1 \quad (4.1)$$

Where: g_i is growth rate of firm i , $S_{i,t}$ is size of firm i at time t and $S_{i,t-s}$ is size of firm i at s period back from time t .

Literatures on firm growth suggest different firm size measurements such as total assets, sales, profit, capital, permanent employment and others. The choice depends on the suitability and the purposes of each author. In the micro and small enterprises sector of Ethiopia, firms prefer to hire temporary employees (contract workers for a specified project) to permanent employees, perhaps due to lack of continues work orders. Accordingly, the number of permanent employees may not change significantly for years. So using permanent number of employees as growth measurement may understate the growths of the enterprises.

Even though capital is sensitive to inflation, using inflation adjusted capital as a growth measurement can better explain the growth status of micro and small enterprises in Ethiopia. Therefore, the measurement of firm size that this study employed in the analysis of MSEs growth is, inflation adjusted capital.

In analyzing the data it uses both descriptive and econometric data analysis techniques. First, using inflation adjusted capital (adjusted by GDP deflator at 2016 base year), average growth rate for the study period (five years) was calculated for each enterprise. Then, based on growth, the enterprises were categorized into growing and non-growing enterprises. MSEs which registered positive average growth rates were categorized in the ‘growing enterprises’ category where as those with average growth rates less than or equal to zero were categorized in the ‘non-growing enterprises’ category.

After this, in the descriptive analysis part, comparisons of descriptive characteristics of the growing and non-growing enterprises are conducted using unpaired t-tests and other non-parametric tests, and finally the results from the tests are discussed. In the econometrics analysis part, a binary logistic regression is employed to see how the explanatory variables affect an enterprise’s probability of growing.

4.5.1 Model Specification

In econometric analysis where the dependent variable is a binary variable (success or failure), logit or probit models are the most widely used models in determining the effects of the explanatory variables on the probability of occurring of an outcome(success or failure).

The objective of this research is not to provide an overall description of MSEs growth determinants, but to investigate whether our variables of interest are features of growing MSEs or stagnant or non-growing MSEs, or not at all. Given the objective, it is very important to develop the right methodology, particularly the choice of the dependent variable’s nature (continuous versus dichotomic), and which econometric model to use. Thus the nature of the dependent variable that best matches with our objective is a discrete variable, specifically a dummy variable that takes the value 1 if the enterprise is a growing enterprise and 0 otherwise. Econometric models that handle such dependent variable are logit and probit models.

Therefore, since our dependent variable in this case is a binary variable, this paper uses logit regression model to investigate the effects of the explanatory variables (variables of interest) on the probability of growing (success) of a given micro or small enterprise. Moreover this approach can give some valuable observations for policy makers and practitioners who are

interested in quickly identify potential enterprises in terms of growing from non-growing enterprises. The model is shown in equation (4.2).

$$\text{Log}\left(\frac{P}{1-P}\right) = \beta_0 + \sum_i^k B_i X_i + u_i \quad (4.2.)$$

$$P = E(G = 1|X_i) \quad (4.3)$$

Where X_i is a vector that captures the explanatory variables, G is a binary response variable that takes the value **1** if the enterprise is in the ‘growing’ category and the value **0** if it is in the ‘non-growing’ category, P is the probability that a given enterprise is going to grow given the explanatory variables in the X_i vector, u_i is error term, β_0 is the constant term and the vector B_i captures the respective coefficients of the variables in the X_i vector, whereas k represents the number of variables captured in the vector X_i . The term $\text{Log}\left(\frac{P}{1-P}\right)$ represents the natural logarithm of the term in the bracket, where as $E(G = 1|X_i)$ represents the expected value or probability of success given the various explanatory variables.

The variables used in the econometric analysis (in the logit regression) are described in Table 4.2

Table 4. 2: Definition and units of measurement of variables used in the logit model

Variable Name	Description and measurement	Expected Sign
Dependent variable		
growth_status	Growth status dummy variable that takes the value 1 for a grower enterprise and 0 for non-grower.	
Independet Variable		
entage	Enterprise’s age in years.	(-)
logdcap5yearsago	deflated capital of the enterprise five years ago in Birr (in log form)	(-)
entr motive	A dummy variable that takes the value 1 if the entrepreneur's motive in starting business is either to be his own boss or to exploit existing business opportunities and 0 otherwise.	(+)
partnership	A dummy variable that takes the value 1if the legal status of the enterprise is partnership (it includes all those doing business in groups) and 0 if sole proprietor.	(?)

own_workshop	A dummy variable that takes the value 1 if the enterprise works in its own workshop and 0 if government shed or rented workshop.	(+)
shed	A dummy variable that takes the value 1 if the enterprise works in a government shed and 0 if own workshop or a rented workshop.	(+)
private_customers	A dummy variable that takes the value 1 if the major source of revenue of the enterprise is from private customers (end users) and 0 if from government market linkages or from works found through tender.	
market_linkage	A dummy variable that takes the value 1 if the major source of revenue of the enterprise is from government created market linkages and 0 if from private customers (end users) or from works found through tender	(+)
owmage	Age of the owner or manager of the enterprise in years.	(-)
element_highschool	A dummy variable that takes the value 1 if the owner or manager educational level is high school complete or less (grade 1 – 12), and 0 for education levels above grade 12.	(-)
training	The number of various trainings taken by the entrepreneur.	(+)
wexp	Total work experience of the owner or entrepreneur.	(+)
lack_finance	A dummy variable that takes the value 1 if lack of access to finances as an obstacle is rated as very sever obstacle, major obstacle and moderate obstacle, and 0 if low or very low.	(-)
power_cutoff	Power cut off in hours per week.	(-)
local_competition	A dummy variable that takes the value 1 if local competition from informal sector and medium and large industries is rated as very tough, tough or moderately tough, and 0 otherwise.	(?)
Import_competition	A dummy variable that takes that takes the value 1 if competition from similar imported products is rated as very tough, tough or moderately tough, 0 otherwise.	(?)

The variable that handles gender is excluded from the model since the number of female entrepreneurs in the sample is very few in number.

CHAPTER FIVE

5. DATA ANALYSIS AND DISCUSSION OF EMPIRICAL RESULTS

5.1 Introduction

This paper uses quantitative techniques in analyzing the data that were collected by interviewing micro and small enterprises owners.

The analysis has two parts. The first part deals with a descriptive analysis of the data collected, which is done as follows. Based on the data collected, the growth of each micro and small enterprise during the study period is calculated and then enterprises were grouped into two categories, namely, growing and non-growing enterprises. Enterprises that showed a positive growth rate were categorized in the growing group; whereas those that showed a negative growth or zero growth (stagnant enterprises) were grouped in the second category. And then a comparison of the growing and non-growing enterprises was done to find out if they differed substantially in any of the explanatory variables, which could indicate that these variables which showed significant differences between the growing and non-growing might be the major determinants of micro and small enterprises growth. In doing so, descriptive statistics figures of different determinants of growth are used. In comparing the figures, various statistical methods were employed. Finally, the results of the comparison are discussed.

The second part deals with econometric analysis of the data. Here, logistic regression is used to show how significant are these different determinants of growth in affecting the probability of an enterprise to grow. Lastly, results from the logistic regression are discussed.

5.2 Descriptive Data Analysis

As stated in in the methodology part, the total enterprises included in this study are 89; of which 52 enterprises are micro, whereas 33 enterprises are small enterprises. The remaining 4 enterprises are medium enterprises that were small enterprises before five years and graduated to medium level category within the five years period. Before five years, starting from the time of the interview, 68 of the total 89 enterprises were in the micro level category while the remaining 21 enterprises were in the small level category.

During the study period, out of the total 89 enterprises included in this study, 59 enterprises (66 percent) showed a positive growth rate while 30 enterprises registered a negative growth rate. Out of the 59 enterprises that registered a positive growth rate, 49 enterprises (66 percent) were micro enterprises before five years, whereas the remaining 10 enterprises (34 percent) were small enterprises. This indicates that about 72 percent of the enterprises that were in the micro level category before five years have registered a positive growth rate while about 48 percent of the enterprises that were in the small level category before five years have registered a positive growth rate. On the other hand, during the five years period, out of the 68 enterprises that were in the micro level only 12 enterprises (about 17.6 percent) have graduated to the small level category and, out of the 21 enterprises that were in the small level category 4 enterprises (about 19 percent) have graduated to the medium level category. The data also shows that all the 89 enterprises were micro enterprises in their respective establishment period.

It is important to remind that this data is based on the enterprises that managed to stay in the market during the five years period. During this period many MSEs might have exited the market, even the data do not show the ups and downs that enterprises that managed to stay in the market might have faced with in the five years period. Thus, the study did not consider such information (because of lack of data) in its analysis, which is one limitation of this study.

A summary of statistical significance of divergence of statistics for growing and non-growing micro and small enterprises is given in Table 5.1. In comparing the two groups, parametric and non-parametric tests were used.

Based on the tests conducted between growers and non-growers, results on the variables of interest are briefly discussed under this section. Even though the focus of this paper is in analyzing the effect of government support schemes, entrepreneur motivation and competition in the growth of micro and small enterprises, the effects of other determinants of MSEs growth are also discussed.

5.2.1 Governments Support Schemes and MSEs Growth

There are many government support schemes to the micro and small enterprises. Out of these, providing working premises (government built work shop or shed), giving trainings and creating

Table 5. 1: Comparison of descriptive characteristics of growers and non-growers

Variable	Growers (59 observations)		Non-growers (30 observations)		p - value
	Mean or proportion	Std Dev.	Mean or proportion	Std Dev.	
Entrepreneur characteristics					
Age	34.237	3.002	34.433	3.664	0.7878
Level of education in years	10.729	2.132	10.400	2.061	0.6011
Education level					
Elementary school(1-8)	0.119	0.042	0.200	0.073	0.3043
Secondary School(9-12)	0.373	0.063	0.300	0.084	0.4951
College Diploma	0.407	0.064	0.500	0.091	0.4021
University Degree	0.102	0.039	0	-	0.0705
Motivation to start business					
Wanted to be my own boss (1 = Yes, 0 = No)	0.153	0.047	0.067	0.046	0.2446
Saw a market opportunity (1 = Yes, 0 =No)	0.678	0.061	0.067	0.046	0.0000
Allows me to balance my family and work life(1 = Yes, 0 =No)	0.034	0.024	0.267	0.081	0.001
No wage job alternatives (1 = Yes, 0 = N o)	0.136	0.045	0.600	0.089	0.0000
Post Retirement source of Income (1 = Yes, 0 =No)	-	-	-	-	-
Opportunity entrepreneurs (1 if wanted to be my own boss or saw a market opportunity, 0 otherwise)	0.831	0.049	0.133	0.062	0.0000
Necessity entrepreneurs (1 if to balance my family and work life, no wage job alternatives or post- retirement income, and 0 otherwise)	0.169	0.049	0.867	0.062	0.0000
Sector related work experience before start up(in years)	2.492	1.061	1.733	1.258	0.0036
Total work experience	11.967	2.81	10.390	2.611	0.0102

Table 5.1(Cont.): Comparison of descriptive characteristics of growers and non-growers					
Trainings taken (in number)					
Technical skills	1.593	0.619	0.833	0.699	0.0000
Marketing management	0.763	0.878	0.167	0.379	0.0015
Financial management	0.576	0.770	0.067	0.254	0.0007
Entrepreneurship	1.085	0.877	0.200	0.484	0.0000
Kaizen	1.695	0.725	0.900	0.548	0.0000
Enterprise characteristics					
Age in years	7.12	1.72	9.67	3.52	0.0012
Initial investment in Birr	15,114.47	16,650.07	26,491.78	45,900.76	0.092
Current Capital(in 2019) in Birr	280263.80	507,855.50	206423.70	351,925.90	0.0358
Capital five years ago in Birr	121862.00	239,360.20	231531.30	379,656.40	0.0994
Number of permanent employees					
at start up	4.169	3.415	3.633	3.469	0.1174
Currently (in 2019)	4.322	2.431	4.267	2.840	0.7658
Five years ago	3.407	2.198	3.733	2.912	0.8219
Number of temporary employees					
at start up	0.17	0.461	0.40	0.498	0.0079
Currently (in 2019)	2.492	2.991	1.800	1.789	0.2569
Five years ago	1.017	1.167	1.767	2.285	0.2122
Legal status of the Enterprise					
Sole proprietorship (1 = Yes, 0 = No)	0.254	0.057	0.567	0.090	0.0037
Partnership or group based (1 = Yes, 0 = No)	0.729	0.058	0.433	0.090	0.0064
Ownership of Workshop (1 = Yes, 0 = No)					
Its own	0.085	0.036	0.100	0.055	0.812
Rented from Private	0.220	0.054	0.300	0.084	0.4102
Government shed	0.695	0.060	0.600	0.089	0.3706

Table 5.1(Cont.): Comparison of descriptive characteristics of growers and non-growers					
Major source of revenue (sales) (1 = Yes, 0 = No)					
Private customers(End users)	0.356	0.062	0.467	0.091	0.312
Government work linkages	0.373	0.063	0.467	0.091	0.3941
From publicly announced bids	0.271	0.058	0.100	0.055	0.0625
Business Environment Factors					
Power Supply cut off (in hours per week)	6.186	2.603	6.067	2.545	0.0475
Lack of access to finance (1 if very sever obstacle, major obstacle and moderate obstacle, 0 otherwise)	0.556	0.063	0.923	0.052	0.0009
Competition from Imports (1 if very tough, tough or moderately tough, 0 otherwise)	0.571	0.066	0.818	0.067	0.0174
Local Competition from domestic producers (1 if very tough, tough or moderately tough, 0 otherwise)	0.684	0.075	0.647	0.067	0.7138
Explanation: Std. dev. = standard deviation					
Source: Stata 14 output of parametric and non-parametric tests of own data					

work linkages (market linkages) with government agencies are among the popular ones which have been implemented for many years. For this reason, only these three factors are included in this study.

As can be seen from Table 5.1, five types of trainings, namely, technical skill trainings, financial management trainings, marketing management trainings, entrepreneurship and Kaizen trainings were covered in the study. Entrepreneurs were asked to respond the number of trainings taken on each type of training. The results from the tests shows that significantly more entrepreneurs from the growers group have taken higher number of Kaizen and technical skill trainings (with averages 1.69 and 1.59, respectively) than the non-growers group (with averages 0.9 and 0.83,

respectively). Similarly, significantly more entrepreneurs from the growers group have taken entrepreneurship, marketing management and financial management trainings (with averages 1.08, 0.76 and 0.58, respectively) than the non-growers group (with averages of 0.2, 0.17 and 0.07, respectively). Generally, in terms of the total number of trainings taken, significantly more entrepreneurs from the growers group have taken higher number of trainings than the non-growers.

When we come to working premises, entrepreneurs were asked to respond the ownerships of the workshops that their enterprises were working in. I categorized their responses into three types, namely its own workshop, rented from private and government built workshop (they call it 'shed'). The results show no significant differences in the proportion of enterprises who work in their own workshop, rented workshop and government built workshop between the growers group and non-growers group.

In an attempt to know the correlation between growth of micro and small enterprises and government created market linkages, entrepreneurs were asked to respond their firms major source of revenue(sales) in terms of customers. Their responses were grouped under three main sources, from private customers (end users), from work or market linkages created by government and works found from publicly announced bids (tender). While the test results show no significant differences in the proportion of enterprises which got their major sales (revenue) from private customers (end users) and work linkages created by government, there is a weak difference (significant at the 10 percent level of significance) in the proportion of enterprises whose major source of sales in the five years period was from works found from publicly announced bids between the two groups. To make it clear, the proportion of enterprises whose major source of sales in the past five years was from works found from publicly announced bids is higher in the growers group (0.27) than in the non-growers group (0.10).

To sum up, the results show no significant differences between growers and non-growers regarding proportion of enterprises that works in their own workshop, rented workshop and government built workshop, proportion of enterprises whose major source of sales in the past five years were from private customers(end users) and from government created work linkages, while there is a weak difference(in favor of the growers) regarding the proportion of enterprises whose major source of sales in the five years period was from works found from publicly

announced bids. But the results show very significant differences (in favor of growers) between growers and non-growers regarding all types of trainings provided by government.

The fact that significantly more entrepreneurs from the growers group have taken higher number of trainings in all types than the non-growers group seems to show a positive correlation between training and growth of MSEs which is consistent with theory and previous empirical findings such as that of Seyoum *et al.* (2016). The insignificant difference between the two groups regarding working premise seems to imply no correlation between work premises types and growth of MSEs. But theoretically, government built workshops which are given to micro and small enterprises at very low rental prices, are supposed to make enterprises profitable in the face of sky-rocketing private rental prices in the city, and hence supposed to grow. Empirical findings also show a positive correlation between working premises provided by government and growth of MSEs (Haile *et al.*, 2014). The inconsistency with theory and previous empirical findings may be due to two reasons. The fact that majority of the enterprises work in government provided workshops may lead to insignificant difference in the proportion of enterprises which work in government's workshop between the growers group and non-growers group. The other possible reason could be linked to the entrepreneurs' behavior. In the literature entrepreneurs are classified into two groups, namely opportunity entrepreneurs and necessity entrepreneurs (Gebreeyesus *et al.*, 2018). Opportunity entrepreneurs are entrepreneurs who start business to exploit existing business opportunities and have the aspirations to grow and own big company, whereas necessity entrepreneurs are those who start business to balance family and work life, because of lack of alternative wage paying jobs and other reasons. Though it has to be assessed, the inconsistency may be linked to necessity entrepreneurs. Workshops provided at very low rental prices may hinder them from exerting extra effort; they need not to bother much about monthly rental expenses. However, whether this is the case or not, the econometric result will tell us.

With regard to market linkages created by government, enterprises which are beneficiaries of this support are theoretically supposed to significantly correlate positively with growth of MSEs. However, the result seems to show no significance correlation. The inconsistency could be due to the existence of large number of necessity entrepreneurs who lack the motivations to exploit opportunities created by the government and use them in expanding their business. Since such

entrepreneurs can lead their life from incomes generated by work linkages created by government, this may demotivate them from exerting extra effort which boosts their business and hence growth. Another reason could be due to the fixation of low price rates by the government for such work linkages which could not allow entrepreneurs to expand their business, as usually complained by entrepreneurs in various seminars conducted among stakeholders.

5.2.2 Entrepreneur Motivation

Entrepreneurs within the micro and small enterprises were asked to respond to the factors that motivated them in starting their business. According to their responses, they were motivated by different factors. Table 5.1 shows the major factors that motivated the entrepreneurs in starting their business.

As can be seen from Table 5.1, the proportion of entrepreneurs motivated by available market opportunities (to exploit business opportunities) is significantly higher in the growers group (0.68) than in the non-growing group (0.07), whereas the proportions of entrepreneurs who started their business in order to balance their family and work life and due to lack of alternative wage paying jobs are higher in the non-growers group (0.27 and 0.60, respectively) than the growers group (0.03 and 0.14, respectively). But it shows no significant differences between the two groups regarding the proportion of entrepreneurs who started their business due to the desire to be one's own boss.

Those entrepreneurs who were motivated to start their business either because of the desire to be one's own boss or to exploit existing market opportunities are often termed as opportunity entrepreneurs in the literature, whereas those who started their business because of lack of alternative jobs wage paying jobs, in order to balance their family and work life and for post-retirement income are termed as necessity entrepreneurs.

Comparisons of the proportions of opportunity and necessity entrepreneurs in the two groups shows, the proportion of opportunity entrepreneurs is significantly higher in the growers group (0.83) than in the non-growers group (0.13), while the proportion of the necessity entrepreneurs is significantly higher in the non-growers group (0.87) than in the growers group (0.17).

The results seem to show that enterprises owned by opportunity entrepreneurs are most likely to grow, whereas those owned by necessity entrepreneurs are less likely to grow. The results are

consistent with theory and previous empirical findings such as the works of Delmar (1996), Berner *et al.* (2008), Wright (1999) and Dagmawit & Yishak (2016).

5.2.3 Competition and Growth

Regarding competition, this study considers both local competition that MSEs faced from local producers and competition from similar imported products. Entrepreneurs were asked to rate how tough the competitions were in the sector during the last five years on the basis of a five point Likert scale(1 = Very low, 2 = low, 3 = moderate, 4 = tough and 5= very tough). Then I collapsed the Likert scales into binary variable, 1 if the answer is moderate, tough or very tough, and 0 if low or very low.

As can be seen from Table 5.1, the results show that the proportion of entrepreneurs who rated local competition as moderate, tough or very tough is not significantly different between the growers and non-growers groups. But, the proportion of entrepreneurs who rated competition faced from similar imported products as moderate, tough or very tough is significantly higher in the non-growers group (0.82) than the growers group (0.57).

5.2.4 Discussions on the other determinants of Growth

As one can see from Table 5.1, there are no significant differences between growers and non-growers groups regarding entrepreneur age, level of education in years and in the proportion of enterprises owned by entrepreneurs with education levels primary school (1 – 8), secondary school (9 – 12) and college diploma), number of permanent employees of the enterprises(at business startup, at 2019, and at five years back from 2019), number of temporary employees both at 2019 and five years back from 2019, power supply cut off in hours per week during the last five years and the proportion of enterprises which introduced new product and new ways of operating or management style..

The results also show weak differences (significant at 10 percent level of significance) between growers and non-growers regarding enterprises owned by degree holders, initial investment of MSEs, capital of entrepreneurs five years back from the time of interview. All enterprises owned by degree holder entrepreneurs registered positive growth. But average initial investment and average capital five years back from 2019 are higher in the non-growers group than in the growers group.

Factors that showed significant difference (significant at the 5 percent level of significance) between growers and non-growers include: total work experience of the entrepreneur and enterprise's capital at the time of the interview (in 2019). The average total work experience of the entrepreneurs is higher in the growers group (11.97 years) than in the non-growers group (10.39 years), while average capital at the time of the interview, is higher in the growing group (280,263.80) than in the non-growers group (206,423.70).

Finally, very significant differences (significant at the 1 percent level of significance) were observed between the growers and non-growers in terms of sector related work experience before start up, enterprise's age, number of temporary employees at start up, legal status of enterprise and lack of access to finance. The average sector related work experience before startup is higher in the growers (2.49 years) than in the non-growers (1.73 years), whereas the averages of enterprises' age and number of temporary employees at startup are higher in the non-growers than in the growers. Regarding legal status of enterprises, the proportion of partnership (group based) is higher in the growers group (0.73) than in the non-growers (0.43), whereas the proportion of sole proprietorship enterprises is higher in the non-growers (0.57) than in the growers (0.25). With regard to lack of access to finance, the proportion of enterprises who rated lack of access to finance as a very sever obstacle, major obstacle or moderate obstacle is higher in the non-growers group (0.92) than the growers group (0.56).

5.3 Econometric Analysis of the Data

In the description analysis section, measures of central tendencies such as averages (means) and proportions of the different characteristics or factors that are supposed to affect the growth of micro and small enterprises were used to compare how significant are the differences in these characteristics between MSEs that registered positive growth rates and those which registered negative growth rates or remained stagnant during the five years period. In comparing the results between the two groups, parametric (unpaired t-tests and proportion tests) and non-parametric tests were conducted. But results from this type of analysis do not tell us the relative importance or unimportance of factors that affect growth of micro and small enterprises. It only tells us how a statistic of one variable is statistically different or indifferent between the two groups without controlling the other variables. A data analysis technique that solves such limitations of the descriptive data analysis is econometric data analysis technique.

5.3.1 Logit Model Estimation Results and Post Estimation Tests

As described in the methodology part, this paper uses a logit econometric estimation technique to determine how significant are the variables of interest in affecting the probability of an enterprise to grow. The estimates of this model are presented in Table 5.2.

Once we estimated results, we have to diagnose the problems of multicollinearity, goodness of fit and model specification, because without verifying those requirements, the results may be misleading.

Pearson goodness-of-fit test is conducted to test how good the model fits with the data. The results of the test are tabulated in Appendix. The null hypothesis of the test is ‘no goodness of fit problem’. The decision rule is that if the calculated chi-square statistic is greater than the critical chi-square value one can reject the null hypothesis otherwise there is no reason to reject the null hypothesis. Alternatively, if the p-value is less than the level of significance that we employ in the test we reject the null hypothesis; otherwise there is no reason to reject the null hypothesis. Based on that rule, with a p-value 0.7047 we can say that pearson goodness-of-fit test indicates that our model fits the data well.

To test a specification error, link test is employed (see Table A3). Thus, the test fails to reject the null hypothesis (no misspecification errors exist) since **_hat** is significant and **_hatsq** is reasonably insignificant; hence the model specification is correct. The model is also checked for multicollinearity problem. Since multicollinearity is a problem of the explanatory variables, we can use the same testing techniques just as we use in OLS estimation. But, first we have to regress the dummy dependent variable on the explanatory variables (just OLS estimation), after doing that Stata can generate the VIFs of the explanatory variables by entering the vif command. So we can use the VIFs generated from this to check if there is multicollinearity in our model (Menard, 2002, p.76). VIF value less than 5 is considered as less problematic. Therefore, in our case each VIF is less than 5(see Table A4). So we can say that multicollinearity is not a severe problem in our model.

Table 5.2: Logit Parameter Estimates

Logistic regression				Number of obs	=	89
				Wald chi2 (16)	=	37.80
				Prob > chi2	=	0.0016
Log likelihood = -10.739873				Pseudo R2	=	0.8112

Growth dummy	Odds Ratio	Robust Std. Err.	Z-value	P-Value	[95% Conf. Interval]	
Enterprise's age in years	0.725	0.219	-1.07	0.286	0.401	1.309
Capital 5 years ago(in log)	0.150	0.158	-1.81	0.071	0.019	1.176
Entrepreneur's motive	3165.805	9571.231	2.67	0.008	8.453	1185594.0
Partnership(group based)	1.164	2.109	1.77	0.077	0.881	11.643
Own workshop	30.936	55.696	1.91	0.057	0.908	1054.177
Shed	35.633	59.137	2.15	0.031	1.378	921.533
Private customer(end users)	0.869	1.175	-0.1	0.917	0.061	12.295
Market linkage	0.249	0.378	-0.92	0.36	0.013	4.895
Entrepreneur's age	0.699	0.363	-0.69	0.49	0.253	1.934
Education level(1-12)	1.955	2.989	0.44	0.661	0.098	39.111
Total Work experience	1.477	0.645	0.89	0.372	0.628	3.474
Training(in number)	3.786	2.247	2.24	0.025	1.183	12.115
Power cut off(hrs/week)	0.680	0.114	-2.29	0.022	0.490	0.946
Lack of finance	0.618	0.555	-0.54	0.592	0.106	3.590
Competition from imports	0.108	0.116	-2.07	0.038	0.013	0.885
Local competition	3.328	2.815	1.42	0.155	0.634	17.465
Constant	3.75E+10	7.21E+11	1.27	0.205	1.63E-06	8.60E+26

Remark: ***, **, * implies significant at 1%, 5% and 10% lev. of significance, respectively.

Source: Stata output from survey data (Formatted Table)

5.3.2 Interpretation and Discussion of Empirical Results

5.3.2.1 Government Support Schemes and Growth

‘Ownership of work shop’ is a qualitative variable which has 3 categories (government shed, rent and own workshop). For this qualitative variable two dummy variables (shed and own workshop) are introduced in the model while rent is the benchmark (comparison) category. Similarly, the

qualitative variable ‘major source of revenue’ has three categories here (from government created market linkages, private customers (end users) and from bids or tender); hence two dummy variables are introduced in the model, from tender being the bench mark category. Lastly, a continuous variable that handles the various trainings taken by the entrepreneurs is introduced in the model.

As can be seen from Table 5.2, the odds ratio for the variable *shed* is greater than one and significant at the 5 percent level of significance. The odds ratio shows, controlling for other predictors, when an enterprise changes its working premise from rented workshop to government shed, the odds in favor of success(success being growing) increases by a factor of 35.633. We are 95 percent confident that the population odds ratio is between 1.378 and 921.533. This implies that keeping all other things the same, enterprises working in government sheds have higher probability of growing when compared to those working in a rented workshop. In our working hypothesis, it was hypothesized that working in a government shed has an advantage in increasing the probability of growing of an enterprise compared to an enterprise working in a rented workshop. As the results show we failed to accept the null hypothesis regarding rented workshop and government shed, and hence we accept the working hypothesis. When we test the difference of the odds ratios for *own_workshop* and *shed*, it is statistically insignificant. This shows no significant difference in the probability of growing between enterprises working in a government shed and enterprises working in their own workshop, other things the same. The working hypothesis regarding own workshop and government shed is rejected since we failed to reject the null hypothesis.

The result regarding the effects of working in a government shed on the probability of growing of an enterprise when compared to working in a rented workshop is consistent with the theoretical justifications while it is inconsistent when compared to working in own workshop. The theoretical justifications for providing government built sheds for enterprises are; one, since the sheds are given at a very low rental price when compared to workshops rented from individual or private organizations, it has a cost advantage. Second, since government sheds are deliberately built in clusters (industrial areas), enterprises working in these sheds can benefit from cluster-level economies of scale, external market linkage, networks, technological spillover effects and others when compared to enterprises working outside clusters (World Bank, 2011).

Thus, working in government sheds is supposed to have an advantage over both working in own and rented workshops in increasing the probability of growing.

The inconsistency may arise from the fact that they are working in government shed (with very low rental price) which may demotivate them from exerting extra effort. They need not to worry much since its rent is low, and unlike own workshop, there is no opportunity cost since they cannot let for other people to work in as far as government rules and regulations are concerned.

When we come to the odds ratio for *market_linkage*, it is less than one and statistically insignificant. When the difference between the odds ratios for the variables *market_linkage* and *private_customers* is tested for its significance, it is found to be statistically insignificant. This implies that keeping all other things the same, on the average, the difference between the probability of growing of an enterprise whose main source of revenue is from market linkages with government agencies and an enterprise whose main source of revenue is from private customers(end users) or from works found from publicly announced bids is statistically insignificant.

Regarding to market linkages created by government, it was hypothesized that enterprises that have access to market linkages from government development programs have a better chance of growing compared to those which do not have. However, as far as the result is concerned, the effect is insignificant and even negative in its sign. The inconsistency may arise from the habit of always hang on government markets (dependency syndrome) that may hinder them from searching other market sources. Moreover, government market linkages are seasonal; if they do not try to find other market sources independently, they may wait idle for long time until they get other market linkages from government agencies. However, enterprises may stay idle with the hope that they will get market linkages from the government agencies. During the idle time, they consume what they earned before; as a result they may face short of resources in investing and expanding their business; for that matter they may remain trapped, even they may consume their fixed assets and eventually exit the market.

Lastly, the odds ratio for the variable *training* is greater than one and statistically significant at the 5 percent level of significance. Controlling for other factors, on the average, taking additional trainings related to the trainings specified in the model, increases the probability of an enterprise to grow. The odds ratio for training implies that holding other predictors constant, an additional

training related to the type of trainings under investigation increases the odds in favor of success (success being growing) by a factor of 3.786. In other words, taking an additional training related to the type of trainings under investigation increases the odds in favor of success (success being growing) by 278.6 percent. This finding is consistent with our working hypothesis and the empirical findings such as that of Seyoum *et al.* (2016).

5.3.2.2 Entrepreneur's Motive and Growth

The result from Table 5.2 shows a significant and greater than one odds ratio for the variable entrepreneur's motive. The entrepreneur's motive is a dummy variable that takes the value 1 if the entrepreneur is opportunity entrepreneur and 0 if he/she is a necessity entrepreneur. As discussed in the descriptive part, opportunity entrepreneurs are entrepreneurs who joined to the business world not being pushed out of the labour market but to exploit available market opportunities and with the vision and aspirations to grow and become a big company in the future. But necessity entrepreneurs are entrepreneurs who started business either due to lack of alternative wage paying jobs or in order to balance their family and work life or other pushing factors. Such entrepreneurs are survivalists; they do not have the motive and aspirations to grow. The empirical finding from this study supports this justification. Controlling for other predictors, entrepreneurs who start their business to exploit business opportunities (Opportunity entrepreneurs) are most likely to grow than necessity entrepreneurs. The odds ratio for the variable entrepreneur's motive shows, controlling for other predictors, when we move from a necessity entrepreneur to opportunity entrepreneur, the odds in favor of success(growing) increases by a factor of 3165.805. This confirms that our working hypothesis is valid.

Generally, the finding from this study is consistent with the arguments of Berner *et al.* (2008), Cotter (1996), Afenyadu *et al.* (1999), Wright (1999) and Reynolds *et al.* (2005). Berner *et al.* (2008) argue that entrepreneurs of developing countries lack the motivation to grow. Poor entrepreneurs start businesses mainly to satisfy their basic needs; they lack entrepreneurial attitudes and goals. And they concluded that lack of motivation and aspirations to grow by entrepreneurs, as the main reason for stagnant enterprises of developing countries. Cotter (1996), Afenyadu *et al.* (1999), Wright (1999) and Reynolds *et al.* (2005) also showed that most of micro and small enterprises of developing countries were started as a means of survival for their

owners. They argue that if a business is primarily established in order to satisfy basic needs (as a means of survival), it is unlikely to reinvest the returns and expand the business.

This seems to be true in the case of Ethiopia too. Many individuals start business as a response to unemployment. But when they face minor challenges in the business or get wage paying jobs they choose to exit the market. The high number of establishments of new enterprises every year and the high rate of exit of enterprises from the market on the other hand, could be a manifestation of it. Thus, behavioral attitudes of individual entrepreneurs towards the establishment of businesses and their future fate seem to have crucial role in the growth dynamics of their enterprise.

5.3.2.3 Competition and Growth

To capture the effect of competition on the probability of an enterprise to grow, two variables were included in the model to capture the effects of local competition and competition from similar imported products separately. Entrepreneurs were asked to rate how tough the competitions were in both cases in a five point Likert Scale (1 = Very low, 2 = low, 3 = moderate, 4 = tough and 5= very tough). Then, I collapsed the Likert scale into a binary variable, 1 if the answer is moderate, tough or very tough, and 0 if low or very low. The findings seems to indicate that competition from similar imported products has a negative and statistically significant effect, whereas competitions from local producers have positive but statistically insignificant effect on the probability of a micro or small enterprise to grow.

Theories and previous empirical findings on the direction of effect of competition are mixed. Laffont (1998) argues that firms in developing countries need to earn high rates of profit in order to capitalize themselves in terms acquiring new technologies and product development, etc. If they cannot get these incentives, they will remain stuck in old and inefficient production techniques. The finding concerning the competition that MSEs faced from similar imported products seems consistent with this argument. It may be difficult for domestic enterprises to compete with whole sellers or retailers of similar imported products that are produced by highly productive and technologically well-equipped firms of developed countries both in terms of price and quality. As a result, domestic enterprises may be forced to reduce their profit margins; even they may work at break even in order to survive. So they may not have the capacity nor the incentive to invest, and indeed, they may remain trapped in a stagnant state of development; even

exit the industry. This finding also supports the historically convincing evidence that economic development and firm growth have been sustained through protectionist policies in many East Asian countries (Aw, Chung, and Roberts, 2003).

Regarding local competition, though its effect is statistically insignificant the direction of effect has an implication. It shows the potential of local or domestic competition in steering the industry. The direction of effect of local competition seems to be consistent with the argument of Ahn (2002) and the empirical finding of Poter (1990). According to Ahn (2002), in a competitive environment firms are forced to find ways that make them competent in the market; they need to reduce costs and at the same time improve the quality of their products. To do so they must innovate new ways of production or introduce new technologies. Thus, the competition induced innovations spur the production capacities of firms and hence increases the capacity to grow. In an empirical study, Poter (1990) found a strong positive relationship between domestic inter-firm competition and industry competitiveness in the international market. On the other hand, it contradicts with the empirical finding of Tarfasa *et al.* (2016). In a study on the Ethiopian micro and small enterprises sector, Tarfasa *et al.* (2016) found a negative and significant impact of competition from informal enterprises on the growth of formal micro and small enterprises.

However, the effects of competition may not be easily measured. It may vary with the tools that we use in data collection, understandings of individual respondents (entrepreneurs), number of individuals in the sample, the way how we measure competition and many other factors. As a result, this may make comparisons among different empirical findings difficult. So, the possibilities of inconsistency of the results that may arise from such factors are acknowledged.

CHAPTER SIX

6. CONCLUSIONS AND IMPLICATIONS

This paper provides empirical evidence on the roles of government support schemes, entrepreneurs' business startup motivations and competition on the growth of micro and small manufacturing enterprises in terms of capital based on a sample of 89 micro and small enterprise from the Addis Ababa City Administration, Ethiopia. Data were collected in a one-time shoot survey in 2019. During the one time survey entrepreneurs were asked to provide data about their business status in 2019 and five years back from 2019. Using an interviewer assisted questionnaire, interviews were conducted with a total of 89 respondents - 52 micro enterprises, 33 small enterprises and 4 medium enterprises that were in the small level category before five years– from furniture and wood works, and metal work sub-sectors of the manufacturing sector. Based on descriptive and econometric analysis of the data, the following conclusions and implications are drawn.

5.1 Conclusions

During the study period, 59 enterprises (66 percent) showed a positive capital growth. The result from the descriptive analysis shows that no significant differences in the proportion of enterprises who work in their own workshop, rented workshop and government built work shop (shed), between the growers group and non-growers group. However, the econometric analysis result shows that after controlling other factors, MSEs that work in government sheds have higher probability of growing when compared to MSEs that work in rented workshops, but when compared to those that work in their own workshops the difference in the probability of growing is insignificant.

Both the descriptive and econometric analysis of the study shows that provision of various technical and management trainings to MSEs owners has a positive and significant effect on the growth of MSEs.

The finding of this study also reveals that the provision of market linkages with government development projects is not associated with the growth of micro and small enterprises. This

might be due to the habit of always hang on government markets (dependency syndrome) that may hinder them from searching other market sources.

Another major finding of this study indicates how individual entrepreneurs' business startup motivations and attitudes matters in the growth status of MSEs. The finding shows that entrepreneurs that started business motivated by existing business opportunities and hence the need to exploit these business opportunities are very significantly more likely to grow compared to those who start business because of lack of alternative wage paying jobs and the need to balance their family and work life. This implies that it is individual entrepreneurs' attitudes towards growth that takes the lion's share in determining the growth dynamics of their respective enterprises.

The other finding of this study is that the presence of local competition is found to have insignificant effect on the probability of growing of MSEs, whereas the presence of competition from similar imported products has significant and negative effect on the probability of growing of MSEs. This is also supported by the descriptive analysis result.

Lastly, it is important to note that this study is based on data only from the enterprises that managed to remain in the market only. During the five year period, many enterprises might have exited the market, but they are not included in the investigation as we could not reach them. Moreover, even the study did not consider the ups and downs that the MSEs might have gone through during the study period, let alone to include data of exited enterprises. In addition to that there are limitations in the quality of the data collected. Most of the MSEs have no documented evidences for the data they provided us. They provide the data based on their perceptions and guessing. It might be difficult for them to remember the status of their enterprises five years ago and at the time of establishment. Therefore inconsistencies that may arise from such limitations are highly acknowledged.

5.2 Implications

- It is recommended to strengthen the provision of various types of technical and managerial trainings to MSEs. These trainings can be more effect in improving the performance of MSEs if they can be supported with sharing experiences from successful entrepreneurs.
- It is also recommended to further strengthen the provision of working premises (government sheds) to MSEs at affordable costs, equipped with the necessary infrastructures.
- The study also calls for government policy intervention regarding imported products that are substitutes of domestic products in the sector. The MSEs can be protected through imposing tariffs on imported finished products related to the sub-sectors. On the other hand, in order to tackle the strong competition MSEs face from imported products, stakeholders on the sector should focus on building the capacity of MSEs that improves their performances.
- Another major implication of the study arises from the strong association between growth of MSEs and business startup motivations. In order to have more growing MSEs, and consequently more medium enterprises graduated from the micro and small scale levels, we need to have more entrepreneurs that start business not because of pushing factors but with the commitment to exploit business opportunities and future aspirations to grow. Therefore, the government focus should not be only on creating jobs since the role of MSEs in Ethiopia is anticipated to go beyond generating employment. Since it is at the center in paving the way to create an industry-led economy, attracting potential investors (opportunity entrepreneurs) into the sector should also be given a special focus.

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Annex A: Stata estimates and post estimation tests

Table A1: Stata Logit Parameter Estimates

```

Logistic regression                               Number of obs   =           89
                                                  Wald chi2(16)   =           37.80
                                                  Prob > chi2     =           0.0016
Log pseudolikelihood = -10.739873                Pseudo R2      =           0.8112
  
```

growth_status	Robust					[95% Conf. Interval]	
	Odds Ratio	Std. Err.	z	P> z			
entage	.7250393	.2186813	-1.07	0.286	.4014468	1.309468	
logdcap5yearsago	.1498184	.1575043	-1.81	0.071	.0190852	1.176074	
entr motive	3165.805	9571.231	2.67	0.008	8.453416	1185594	
partnership	3.203254	2.109181	1.77	0.077	.8812883	11.643	
own_workshop	30.93628	55.69557	1.91	0.057	.907868	1054.177	
shed	35.63298	59.13669	2.15	0.031	1.377823	921.5329	
private_customers	.8688049	1.174604	-0.10	0.917	.0613929	12.29495	
market_linkage	.248751	.3781394	-0.92	0.360	.0126418	4.894639	
owmage	.6989764	.3630344	-0.69	0.490	.2525605	1.934459	
Element_highschool	1.955197	2.988615	0.44	0.661	.0977432	39.11059	
wexp	1.476957	.6445322	0.89	0.372	.6279289	3.473965	
training	3.785678	2.246745	2.24	0.025	1.182954	12.11489	
power_cutoff	.6804971	.1142357	-2.29	0.022	.4897047	.9456236	
lack_finance	.6181671	.5548691	-0.54	0.592	.10643	3.590439	
import_competition	.1082545	.1160342	-2.07	0.038	.0132456	.8847471	
local_competition	3.327795	2.8149	1.42	0.155	.634083	17.46493	
_cons	3.75e+10	7.21e+11	1.27	0.205	1.63e-06	8.60e+26	

Table A2: Stata Logit model test for goodness-of-fit

Logistic model for growth status, goodness-of-fit test

```

number of observations =           89
number of covariate patterns =       89
    Pearson chi2(72) =          65.11
        Prob > chi2 =           0.7047
  
```

Table A3: Stata Link test results

```

Logistic regression                               Number of obs   =           89
                                                    LR chi2(2)      =           89.47
                                                    Prob > chi2     =           0.0000
Log likelihood = -12.140793                       Pseudo R2      =           0.7865
    
```

growth_status	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
_hat	1.009238	.2952972	3.42	0.001	.430466	1.58801
_hatsq	.0327457	.0919506	0.36	0.722	-.1474742	.2129656
_cons	-.1168859	.6270606	-0.19	0.852	-1.345902	1.11213

Table A4: Stata results for multicollinearity test

Variable	VIF	1/VIF
wexp	4.11	0.243159
entage	3.98	0.251395
private_cu~s	2.65	0.377118
shed	2.38	0.420154
owmage	2.32	0.430539
logdcap5ye~o	2.31	0.432563
training	2.07	0.483762
market_lin~e	1.99	0.503430
own_workshop	1.95	0.512775
lack_finance	1.60	0.626170
partnership	1.57	0.638453
entr motive	1.48	0.674489
Element_hi~l	1.43	0.700083
power_cutoff	1.32	0.757823
import_com~n	1.29	0.775090
local_comp~n	1.28	0.784293
Mean VIF	2.11	

Annex B: Summary of the data Collected

Table B1: Entrepreneurs characteristics

Variable	Categories or Intervals	Freq.	Percent
Entrepreneur Age	28 - 31 years	16	18.0%
	32 - 35 years	38	42.7%
	36 -39 years	29	32.6%
	40 - 43 years	6	6.7%
	Total	89	100%
Gender	Male	83	93.3%
	Female	6	6.7%
	Total	89	100%
Education years	Uneducated	-	-
	6 - 8 years	13	14.6%
	9- 11 years	66	74.2%
	12 - 14 years	1	1.1%
	15 - 17 years	9	10.1%
	Total	89	100%
Education Level	Illiterate(Uneducated)	-	-
	Elementary (1-8)	13	14.6%
	High school (9-12)	31	34.8%
	Diploma	39	43.8%
	Degree	6	6.7%
	Total	89	100%
Start up Motivations	Wanted to be my own boss	11	12.4%
	Saw a market opportunity	42	47.2%
	Allows me to balance my family and work life	10	11.2%
	Lack of alternative wage paying jobs	26	29.2%
	Post Retirement source of Income	0	0.0%
	Others	0	0.0%
	Total	89	100%
Related Work Experience before business startup	0	8	9.0%
	1 - 2 years	46	51.7%
	3 - 4 years	33	37.1%
	5 - 6 years	2	2.2%
	Total	89	100%

Table B1(Cont.): Entrepreneurs characteristics

	Total Work Experience	6 - 8 years	19	21.3%
		9 - 11 years	33	37.1%
		12 - 14 years	25	28.1%
		15 - 17 years	11	12.4%
		18 - 20 years	1	1.1%
		Total	89	100%
Types of trainings taken by Entrepreneurs	Technical trainings taken in number	Took no trainings	13	14.6%
		Took 1 training	34	38.2%
		Took 2 trainings	41	46.1%
		" 3 "	1	1.1%
		Total	89	100.0%
	Marketing management	Took no trainings	56	62.9%
		Took 1 training	16	18.0%
		Took 2 trainings	17	19.1%
		Total	89	100%
	Financial management	Took no trainings	63	70.8%
		Took 1 training	16	18.0%
		Took 2 trainings	10	11.2%
		Total	89	100%
	Entrepreneurship trainings taken	Took no trainings	45	50.6%
		Took 1 training	18	20.2%
		Took 2 trainings	26	29.2%
		Total	89	100%
	Kaizen	Took no trainings	8	9.0%
		Took 1 training	42	47.2%
		Took 2 trainings	32	36.0%
" 3 "		7	7.9%	
Total		89	100%	

Table B2: Enterprise characteristics

Variable		Categories or Intervals	Freq.	Percent
Enterprise's Age		5 - 8 years	64	71.9%
		9 - 12 years	16	18.0%
		13 -15 years	9	10.1%
		Total	89	100%
Legal Status of the Enterprise		Sole proprietorship	32	36.0%
		Partnership or group based	57	64.0%
		Total	89	100%
Ownership of Working Premise (Workshop)		Own workshop	8	9.0%
		Rented from Private	22	24.7%
		Government shed	59	66.3%
		Others	-	-
		Total	89	100%
Major Source of Revenue		From Private customers (End users)	34	38.2%
		From work/market linkages created by government (market linkages)	36	40.4%
		From works found by participating in publicly announced bids	19	21.3%
		Total	89	100.0%
Employment at business start up	Permanent Employees	1-5 employees	69	77.5%
		6-10 employees	17	19.1%
		11-15 employees	3	3.4%
		Total	89	100%
	Temporary employees	No employees	69	77.5%
		1 employee	18	20.2%
		2 employees	2	2.2%
		Total	89	100%
Employment level Five years back (2014)	Permanent employees	1-5 employees	74	83.1%
		6-10 employees	15	16.9%
		Total	89	100%
	Temporary employees	No employees	33	37.1%
		1-5 employees	53	59.6%
		6 -10 employees	3	3.4%
		Total	89	100%

Table B2(Cont.): Enterprise characteristics

Current (2019) Employment level	Permanent employees	1-5 years	65	73.0%
		6-10 years	22	24.7%
		11-15 years	2	2.2%
		Total	89	100%
	Temporary employees	No employees	25	28.1%
		1-5 employees	59	66.3%
		6-10 employees	4	4.5%
		11-15 employees	-	-
		16-20 employees	1.00	1.1%
		Total	89	100%
	Initial Capital in ETB	≤ 50,000	89	100.0%
		50,001 - 100,000	-	-
Total		89	100%	
Capital at five years back (2014) in ETB	≤ 100,000	68	76.4%	
	100,001 - 600,000	16	18.0%	
	600,001 - 1,100,000	5	5.6%	
	Total	89	100%	
Current (2019) Capital in ETB	≤ 100,000	52	58.4%	
	100,001 - 600,000	25	28.1%	
	600,001 - 1,100,000	1	1.1%	
	1,100,101 - 1,600,000	-	-	
	1,600,101 - 2,100,000	8	9.0%	
	2,100,101 - 2,600,000	3	3.4%	
	Total	89	100%	

Table B3: Business Environment Factors

Variable	Categories or Intervals	Freq.	Percent
Power Cut off (in hours per week)	2-4 hrs	24	27.0%
	5-7 hrs	41	46.1%
	8-10 hrs	17	19.1%
	11-13 hrs	7	7.9%
	Total	89	100%
Lack of access to finance as an obstacle to growth (rated in a five point Likert scale)	Very sever obstacle [5]	6	6.7%
	Major obstacle [4]	20	22.5%
	Moderate obstacle [3]	35	39.3%
	Minor obstacle [2]	25	28.1%
	Not an obstacle [1]	3	3.4%
Total	89	100%	
How tough was the competition from local producers (rated in a five point Likert scale)	Very tough [5]	12	13.5%
	Tough [4]	39	43.8%
	Moderately tough [3]	17	19.1%
	Low [2]	15	16.9%
	Very low [1]	6	6.7%
Total	89	100%	
How tough was the competition from similar imported products (rated in a five point Likert scale)	Very tough [5]	7	7.9%
	Tough [4]	26	29.2%
	Moderately tough [3]	34	38.2%
	Low [2]	15	16.9%
	Very low [1]	7	7.9%
Total	89	100.0%	

Annex C: Research questionnaire

Questionnaire

This questionnaire is designed for Micro and Small Enterprises (MSEs) Owners.

All information will be kept confidential and anonymous, and will be used only for academic research.

A: General Information

- | | | |
|------|--|----------|
| I. | Sector: Manufacturing ----- | X |
| II. | In what Sub-sector is the Enterprise engaged in? | |
| | (a) Wood and Furniture Work----- | |
| | (b) Metal Work----- | |
| | (c) Wood and Metal Work ----- | |
| III. | Current level of the enterprise given by the city Administration | |
| | (a) Micro Enterprise----- | |
| | (b) Small Enterprise----- | |
| | (b) Medium Enterprise----- | |
| IV. | In what level was the enterprise five years ago Administration | |
| | (a) Micro Enterprise----- | |
| | (b) Small Enterprise----- | |

B: Entrepreneur characteristics

- | | | |
|----|--|---|
| 1. | Your age ? _____ | yrs |
| 2. | Gender | Male Female |
| 3. | Your number of education years? | yrs |
| 4. | What is your highest level of education? | |
| | (a) Illiterate(Uneducated)----- | |
| | (b) Elementary (1-8)----- | |
| | (c) Highschool (9-12)----- | |
| | (d)TVET (10+1 or 10+2)----- | |
| | (e) Diploma----- | |
| | (f) Degree ----- | |

If any other, please specify _____

5. What was your motivation in starting this business?
- (a) Wanted to be my own boss -----
 - (b) Saw a market opportunity-----
 - (c) Allows me to balance my family and work life-----
 - (d) Lack of alternative wage paying jobs-----
 - (e) Post Retirement source of Income -----
- If any other , please specify _____

6. Did you have the same -sector experience before you started business ?
If the answer is **Yes** how many years?-----

Yes	No
yrs	

7. Your total work experience, including in this enterprise -----

yrs

8. If you have participated in any of the following trainings provided by government or other stake holders,

please specify the number of trainings taken since the establishment of your business

Type of Training

number

- (a) Technical skills training-----
- (b) Marketing management training-----
- (c) Financial management trainings-----
- (d) Entrepreneurship trainings-----
- (e) Kaizen trainings-----

C: General Characterstis of Your Business

9. In What year did your business start trading(Establishment year)? -----

--

10. What is the legal status of your Enterprise?

- (a) Sole propriorship-----
- (b) Partnership-----
- (c) Limited Partnership-----
- (d) Cooperatives-----

11. How many permanent employees did your business have at startup period ?-----

12. How many temporary employees did your business have at startup period?-----

13. How much was your business initial investment (Startup capital)?-----

14. How many (permanent) employees did your business have five years ago ?-----

15. How many temporary employees did your business have five years ago ?-----

16. How much was your enterprise's capital 5 years ago ?-----

17. How many regular (permanent) employees do your business have now ? -----
 How many temporary employees do your business have now ? -----
18. ---
19. How much is your Capital now? -----
20. What is the ownership status of the Workshop you work in?
 (a) Own workshop-----
 (b) Rented from Private -----
 (c) Government shed-----
 If any other, please specify _____
21. What was the major source of your sales in terms of customers in the last 5 years?
 (a) From Private customers (End users)-----
 (b) From work linkages created by government (market linkages)-----
 (c) From works found by participating in publicly announced bids -----
 If any other, please Specify _____

D: Business Environment Related Factors

22. In the last five years, on average, for how many hours per week did power cut off occur in your workshop?-----
23. In the last 5 years, how do you rate lack of access to finance as an obstacle to the growth of your business ?
 (a) Very sever obstacle [5] -----
 (b) Major obstacle [4] -----
 (c) Moderate obstacle [3] -----
 (d) Minor obstacle [2] -----
 (e) Not an obstacle [1] -----
24. How do you rate the competition your business faced from other local producers in the last five years?
 (a) Very tough [5] -----
 (b) Tough [4] -----
 (c) Moderately tough [3] -----
 (d) Low [2] -----
 (e) Very low [1] -----
25. How do you rate the competition your business faced from similar

imported products in the last five years?

- (a) Very tough [5] -----
- (b) Tough [4] -----
- (c) Moderately tough [3] -----
- (d) Low [2] -----
- (e) Very low [1] -----

Thank You!