

Addis Ababa  
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**Addis Ababa University  
College of Business and Economics  
Department of Management  
MBA Program**

**Factors Inhibiting the Growth of Micro and Small  
Enterprises in Ethiopia: Case of Addis Ababa**

**“A Research Project Submitted in Partial Fulfillment  
of the Requirement for the Degree of Master of  
Business Administration (MBA)”**

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**Addis Ababa University**  
**College of Business and Economics**  
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The Case of Addis Ababa”**

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## DECLARATION

I, Yednekachew Hailu, declare that this project work entitled “**Factors inhibiting the growth of Micro and Small Enterprises in Ethiopia- case of Addis Ababa**” is my own original work. I have carried out it independently with the guidance and suggestions of the research advisor. And it has not been presented in Addis Ababa University or any other University and that all sources of materials used for the study have been duly acknowledged.

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## *Abstract*

*This study is an assessment of the factors that hinder the growth of micro and small scale enterprises in Addis Ababa. It is a survey research. The target population of the study were managers/owners and employees of the selected companies. A Sample size of 367 was taken out of 4380 MSEs. The relevant data was collected through survey questionnaire and random sampling technique was employed when distributing the survey questionnaires. Out of the 367 questionnaires distributed to the randomly selected employees and managers, 351 were properly completed and returned. This represents a response rate of approximately 95.6 % from the distributed questionnaires. The data was analyzed by using descriptive analysis technique through using tables, graphs and figures. Major findings revealed that internal factors such as poor management, failure to apply financial statement analysis, unplanned withdrawal of cash have low impact of the growth of the enterprises. However, external factors such as low market competitiveness due to lack of Adequate skill and appropriate equipment's; which will not allow them to produce quality products and compete in the market, low financial provision (access to finance), limiting them from making additional investment; these are the major factors inhibiting the growth and performance of MSEs in Addis Ababa engaged in manufacturing sector. In line with the findings obtained from this study recommendations to respective governmental bodies and MSE's owners/managers have been forwarded. These among others include: MSEs owners/managers have to use effectively the borrowed amount for the intended purposes and able to save money on for future investment, practice ways of gathering customer information for the purpose of satisfying their needs through conducting market research and creating network with other MSEs, the government should arrange and give necessary materials through lease in which MSEs can cover the payment during the operations to reduce doubt of getting back payments for the borrowed finance, and financial institutions, the Federal and Regional Governments, donors, NGOs can assist in creating lines of credit and special windows for assisting growth-oriented businesses.*

*Key words: Micro and Small scale Enterprises, Internal factors, External factors*

## Acronyms

CSA:	Central Statistics Authority of Ethiopia
GDP:	Growth Domestic Product
FMSEDA:	Federal Micro and Small Enterprises Development Agency
MFIs:	Micro Finance institutions
MoFED:	Ministry of Finance and Economic Development
MoTI:	Ministry of Trade and Industry
MSEs:	Micro and Small Enterprises
MSEDS:	Micro and Small Enterprises Development Sector
MUDC:	Ministry of Urban Development and Construction
UNIDO:	United Nations Industrial Development Organization

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# Chapter One

## 1. Introduction

### 1.1. Background of the Study

Recently, the development of micro and small enterprises is getting more and more attention in filling gaps in the development process. According to the report of Central Statistics Authority of Ethiopia (CSA 2003) economic recession, adjustment of policies and continued high rates of urbanization and population growth have led to an unexpected and unprecedented expansion of the informal sector in many developing countries, as modern sector enterprises, and especially the public sector, have been obliged to dismiss workers or reduce wages drastically. As a result, the majority of the labour force in developing countries works in small enterprises. For this reason the development of MSEs could provide a significant role in addressing the unemployment problem, vulnerability and insecurity of a vast number of workers.

Micro and Small Enterprises (MSEs) are widely viewed as important to the growth and stability of an economy. Many studies have suggested that development and promotion of MSEs contribute greatly to new jobs creation, GDP growth and additional tax receipts (Iraq and Besnik, 2011, Aris, 2007). In Ethiopia, MSEs are the second largest employment-generating sector following agriculture (CSA, 2005:34-35). A national survey conducted by CSA in 2005 in 48 major towns indicates that nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labor forces. This is a contribution of 3.4% to GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2005).

Micro and Small enterprise in Ethiopia are, however, threatened with several factors that affect the performance of MSEs. According to Gebrehiwot and Wolday, (2006), the major factors include financial problems, lack of qualified employees, lack of proper financial records, inadequate management and business skill, marketing problems and lack of work premises, lack of information, low level of provision and interest for trainings and workshops etc. These constraints confirm with other developing countries' especially experiences of Sub-Saharan countries in which the major common constraints of MSEs are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructural availability, insufficient profits and low demand for product and services (Arinaitwe, 2006). Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. Personal attitudes or internal factors also affect the performance of MSEs, which are related to the person's individual attitude, training and technical know-how (werotew, 2010). Generally, there are external (contextual) and internal factors which are still affecting the very performance of MSEs.

A recent study on MSEs indicated that MSEs in Ethiopia are confronted by many problems. The constraints facing MSEs in most developing economies are similar: unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and poor access to quality business infrastructure (CSA, 2004).

Even though in the past decades the focus of Ethiopian government was mainly on large organizations, the recent wave of private sector development initiatives however shifted the policy efforts to MSEs. This new orientation has been possible because of poor performance in

most state owned companies and the tension introduced by globalization and the increased need for competitiveness (Zewde & Associates, 2002).

In general, promotion of MSEs in the country is increasingly becoming more important due to the fact that they use what the country possesses and less of what it lacks as well as their role in employment creation for the majority work forces. Because of, the potential of MSEs for economic development through creating market for local products, and utilization of local raw materials and knowledge more attention has given to the sector. Relying upon MSEs helping as an engine to drive to economic growth, elimination of unemployment and poverty and the failure rate of these businesses in Ethiopia indicates that they are in desperate need for assistance. To provide assistance, it is necessary to identify the inhibiting factors of MSEs' growth that they have faced.

## **1.2. Statement of the Problem**

In most developing countries, MSEs face constraints both at start up phases and after their establishment, in Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fedahunsi, 1997). It is typical of MSEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004). This, according to World Bank, has created finance gap in most markets. The MSEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium and large enterprise has undermined the role of MSEs in the economic development in African countries (World Bank, 2004).

The study conducted by Ethiopian CSA (CSA, 2004) discloses that, the contribution of small enterprise in creating job opportunities is vital and lays foundation to the long term development-objectives. However, their contribution is very low as compared with that of other countries;

Research has shown that in order to achieve the contributions made by MSEs and ensures them to grow; it is required to overcome common and major challenges such as: financial constraints, marketing constraints, managerial constraints, infrastructural constraints and others. (Okpara, 2007).

According to Akabueze, 2002 there are inherent problems which affect long term survival and business performance of MSEs due to lack of financial resources, management experience, poor location, poor infrastructure, low demand for products or services, corruption, shortage of raw materials and over-tax. In this regard, Hanna (2010) and MUDC (2013) found out that though their extent varied across regions and cities in Ethiopia, irregular supply of raw materials, lack of working premises, insufficient startup and working capital, lack of access to market and access to land are the major obstacles of the enterprises, Zeleke Worku (2009) also stated that lack of integration between the vocational curriculum taught at academic institutions and skills required at the workplace in small businesses enterprises is a major obstacle to the growth and development of MSEs.

The Federal MSEs Development Agency Annual Statistics Bulletin (2015) stated that there are 51,754 organized MSEs enterprises engaged in manufacturing sector in Ethiopia until 2014 G.C (before 2007 organized 8,000 MSEs, and from 2007 G.C to 2014 G.C organized 43,754 MSEs) from which 4,380 are, established MSEs engaged in manufacturing, found in Addis Ababa and among them only 20% /876/ are transferred to Medium scale enterprise during the aforementioned period the rest are under the “MSE” trap.

And the researcher’s literature search shows that to date, very little research has been conducted on the factors constraining the growth of small businesses in Ethiopia in general, and particularly in manufacturing sectors in Addis Ababa Hence, there is a clear research gap in identifying the

major factors that hinder the growth of MSEs in the capital Addis Ababa. Therefore, this study has given due emphasis in identifying these major factors.

### **1.3. Research questions:**

- What are the internal factors related to skills constraint such as sales, management, accounting and production that hinder the growth of MSEs in Addis Ababa city?
- What are external aspects related to finance, market, infrastructure and governmental support constraining the growth of the sector?

### **1.4. Objectives of the study**

#### **1.4.1. General objective**

In light of the above research questions: The general objective of the study was to assess major factors that are inhibiting the growth of MSEs in Ethiopia particularly in the capital city Addis Ababa.

#### **1.4.2. Specific Objective:**

The specific objectives were:

- Assess the internal factors related to skill such as sales, management, accounting and production that constraints the growth and survival of MSEs.
- Identify external aspects related to finance, market, infrastructure and governmental support.
- Come up with policy recommendations and suggest possible actions to be taken by concerned bodies to overcome such constraining factors in order to make MSEs sustainable and improve their performance.

### **1.5. Scope/Delimitation of the Study**

The study was delimited to assess factors inhibiting the growth of MSEs in Ethiopia focusing on Addis Ababa areas. Although, there are different issues that were researched in relation to MSEs, this study was delimited to only enterprises engaged in manufacturing sector, such as Textile and Garment, Leather and Leather products, Food processing and Beverage, Metal works and Engineering ,Wood works including furniture and Ornaments service and Agro-processing.

### **1.6. Limitations of the Study**

Like all research, this study faced limitations. The difficulties encountered in this study were: most of the documents that are concerned with micro enterprises are written in Amharic. To translate in to the required instruction language (English) has taken longer period. The respondents' were reluctance to cooperate due to suspicion that disclosing information may lead to negative effect on their business. However, the researcher has worked to overcome these limitations and reached at the intended objective.

### **1.7. Significance of the Study**

This research document has much significance and offers help to the policy making institution as a valuable addition to their /MSEs growth agendas, in order to re-design policies intended to help MSEs growth. In addition to this, implementation agencies at federal, regional and local levels will benefit from the research as it helps them recognize managerial and strategic gaps present in the support of MSEs and their growth.

## **1.8. Organization of the Study**

The study is organized to have five chapters. The first chapter contains Introduction; which includes Statement of the Problem, Research Questions, General and Specific Objective, Scope/Delimitation of the Study, Limitation of the Study and Significance of the Study. Literature Review is placed second and the third chapter deals with brief description of the Study area and Research Methodology, sampling and analysis techniques. Results obtained are discussed in chapter four and finally chapter five presents the Summary, Conclusion and Recommendation of the study.

## **Chapter Two**

### **2. Literature Review**

#### **2.1 MSE's at the Global and Ethiopian Context**

The concept of MSEs has been defined and used differently in different countries. This reveals the absence of one universally accepted definition of MSEs. In most cases, MSEs are defined based on the number of people employed in the enterprises, investment outlay, annual sales turnover, paid up capital or a combination of these measures (Stephen & Wasiu, 2013). In this regard, as Osotimehin, Jegede, Akinlabi & Olajide (2012) have noted, in Britain small business is a business with an annual turnover of €2 million or less with fewer than 200 paid employees. In Japan, small enterprises are either having capital not exceeding Y50m or having not more than 300 employees in manufacturing industry and either having capital not greater than Y10m or having not more than 50 employees in commerce and service sectors (Stanley & Morse, 1965). In a similar manner, the definitions of MSE's given by majority of African countries are used more or less same criteria. Concerning this, Olabisi et al.(2013) defined Small scale enterprises in Nigeria as an industry whose total project cost excluding cost of land including working capital does not exceed N5m (i.e. US\$500,000). Besides, MSE's are defined in Ghana that Small-scale enterprise is a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) and with employee less than five workers. However, due to depreciation of currency MSEs are classified in to micro, very small, and small employing six, six to nine, and ten to twenty nine employees, respectively (Daniel, 2012).

The Ethiopian Government has used two definitions in identifying micro and small sized enterprises since 1997. As to MoTI (1997), micro enterprises are those enterprises with a paid-up

capital of not exceeding Ethiopian Birr (ETB) 20,000 and excluding high tech consultancy firms and other high tech establishments. While small enterprises are those business enterprises with a paid-up capital of not exceeding ETB 500,000, and excluding high tech consultancy firms and other high tech establishments. However, according to the new MSEDs (2011), the previous definition was revised as “Micro Enterprise” consist of the number of its employees (including the owner or family) is not greater than 5 and total asset is less than 100,000 ETB for industrial sector and less than 50,000 ETB for service sector; while Small Scale Enterprise is an enterprise which has 6-30 employees and total asset 100,001—1,500,000 ETB for industrial sector and 50, 0001—500,000 ETB for service sector.

The above definitions given by different countries have used nearly similar criteria though their differences have been exhibited by the number of employees, assets, amount of paid up capital and annual turnover due to the economic levels and the social conditions of each country.

## **2.2 Highlights of the Development of MSEs in Ethiopia**

In most developing countries, MSEs by advantages of their size, location, capital investment and capacity to generate greater employment, became the main focused area. In relation to this, MUDC (2013) revealed that there was a government policy to lay the foundation of basic administrative and institutional infrastructure of the state during the 1940’s and 1950’s in order to consolidate the gains of reforms that were launched to accelerate the process of industrialization in Ethiopia. Thus, several reforms to the development of MSE’s such as the Business Enterprise Registration Proclamation No.184/1961 required business enterprises to register under the Ministry of Commerce and Industry, the Industrial Regulation Legal Notice No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and

a permanent license, the Investment Proclamation No. 242/1966 provided MSE's tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature were made during this period.

Although these attempts were made to support MSE's development in the country, the socialist regime which followed a centrally planned economic system since 1974 came to power and introduced socialist proclamations, excessive government interventions, burdensome rules and regulations, bureaucratic red-tape as well as excessive and costly administrative and legal requirements to obtain trading license such as the Proclamation No.26/1975 that ended up owning and controlling the means of production; and the Proclamation No.76/1975 because of which acquisition of private businesses was restricted to a single license and capital ceilings were set at 300,000 birr for wholesale trade, 200,000 for retail trade and 500,000 for industrial establishments. The regime also nationalized the private property and those actions had made the previously existing private sector almost come to an end and got crippled.

In the late 1977, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established by Proclamation No. 124/1977 with the objective to give further improvement to the development of the public economy by encouraging cooperative development in the small scale sector by issuing licenses to cooperatives, regulating their activities, and assisting in the provision of inputs and training. As Teshome (1994) noted, the Dergue regime had declared a new program of mixed economy development with two declarations in two successive years: the Small Scale Industry Development Special Decree No.9/1989 and Special Decree on Investment No.17/1990. The former decree allowed establishment of small-scale enterprises by business organizations, cooperatives and individual entrepreneurs and replaced the restrictive Proclamation No.76/1975 and allowed participation by the Diaspora and raised the capital ceiling for small scale enterprises

from birr 500,000 to between two and four million birr (MoTI, 1997). The Decree No.17/1990 had lifted the restriction of private sector participation to single license and allowed individuals to undertake investment in unlimited number of enterprises though the journey into mixed economy development was short lived due to various factors. After the downfall of the Dergue regime, the Ethiopian People Revolutionary Democratic Front (EPRDF) had introduced public sector reform and private and market economy development. The licensing and supervision of micro financing institutions proclamation in 1996 and the Federal and Regional MSE's Strategy in 1997 were adopted to enhance the operation of MSE's. Besides, Federal and Regional MSE's Development Agencies were established with the main objectives of utilizing local raw material, creation of job, adoption of new and appropriate technologies, and enhancement of the development of MSE's (MUDC, 2013). The first Growth and Transformation Plan (2010 -2015) had also given priority to MSE's development, and has put MSE's as one of the seven growth pillars of the country (MoFED, 2010).

### **2.3. Micro and Small Enterprises Contribution**

Micro and small scale enterprises are one of the priority areas of action among the Programs addressing African development (UN, 2008), and it can be seen as a means of achieving smooth transition from tradition to modern industrial sector; and has a huge contribution to the growth and development of the country in terms of employment generation with a relative low capital cost (Stephen & Wasiu, 2013). In light of this, GFDRE has recognized the contributions of MSE to the national development efforts and MSE's strategy was formulated and has been implemented since 1997 (MSEDS, 2011). During the first MSE's development strategy (1997 to 2002) more than 1.5million people were employed. In addition, according to the Federal Micro and Small Enterprise Agency yearly statistical bulletin (2005) about 2,681,367 people were

employed in MSEs, which is more than 48% improvement from the expected plan of the GTP (1,800,000). Besides, the strategic direction of GTP has taken MSE's as a key for industrial development and envisaged structural transformation of the national economy (MoFED, 2010). The annual Report of the Federal Micro and Small Enterprises Agency (2005) has shown that in the years ranging from 2003 to 2005 many (about 1775) small enterprises were promoted to medium level; and the sector had also contributed to the development of the country economy by fetching 14 Billion Birr and 864 million Birr from the local and foreign markets, respectively.

#### **2.4. Rationale for Emphasizing MSE's Development**

Ethiopia is one of the least developed countries which have a population growth rate of 2.79%, the labor force (the employed and unemployed) has continued to grow faster than what the economy can gainfully and productively employ. The working age population stood at 54% of the population in 2004/05, and is growing by about 1.2 million people per year, and out of the 33,088,792 economically active populations 1,653,686 (5%) are unemployed (CLEP, 2006). Hence, one of the major rationales focusing on MSE's is that they are large employers of the labor force and this helps to handle unemployment and poverty. The second rationale is that it helps to decentralize industries, to accelerate rural development, and to restrict urban immigration and the consequent problems of overcrowding in the cities (MoFED, 2010). The third rationale is that it adds value in the manufacturing sector and to the Gross Domestic Product (GDP) of the economy. The study conducted by Uzor (2004) MSE's could be more eagerly used to achieve industrial dispersal and regional balance in economic development, diversification of the industrial structure and the transformation of the rural economy.

## **2.5. The Role of MSE's Support Institutions**

As the (United Nations Development Program [UNDP], 2006) most of the responsibility to MSE's support relies on government organizations, associations and agencies. Hence, their commitment and degree of cooperation determines the success or failures MSE's. Accordingly, the GFDRE (2011; 1997) has made institutional arrangement such as Ministry of Trade and Industry, Regional Bureau, Federal MSE Development Agency, Regional MSE Development Agencies, or other similar designated organs at the local levels, and Business Associations for MSE's sector support programs and strict controls in the use of funds. The Ministry of Trade and Industry has roles for the formulation of the country's industrial and trade policies and strategies, defining the size of micro and small scale enterprises. In addition, the regional bureau also has roles to set criteria for prioritization of MSEs for support, to create proper networking within business associations, regional chambers, and other stakeholders to strengthen the flow of information. Besides, Micro and Small Enterprises Development Agency with its respective hierarchies has roles to provide human resource training and development, information and consultancy, facilitation, technical, marketing and promotional support services to MSE's owners/managers to equip their managerial, technical and business management skills. Even though these efforts have been made, performing their mandates with maximum effort and commitment is questionable because of bureaucratic and inflexible work Procedures, lack of commitment and responsiveness, and unsuitable regulatory issues (Mulugeta, 2011).

## **2.6. The Challenges of Micro and Small Enterprises**

Even though MSE's have important roles in economic development, poverty alleviation, employment opportunity, they are critically challenged by certain impeding factors to sustain

within the sector. The research conducted by Bowen, Morara and Mureithi (2009) in Kenya revealed that three out of five micro and small businesses failed within the first few months of operation due to competition, managerial inefficiency, insecurity, debt collection, lack of working capital, power interruptions, political uncertainty, cost of materials and low demand of the products.

The problem confronting MSE's appears to be similar in least developed or developing countries. However, the extent of the problems varies from country to country and industry to industry; and it depends on firms' characteristics (Aremu & Adeyemi, 2011). Currently, there are many internal and external challenges face MSE's in their operations and hinder their growth in Ethiopia (MUDC, 2013). A hard look at various studies has revealed a number of deterrents to the growth and survival of the MSEs. These are summarized as under.

**a) Lack of Adequate Finance:** - Financial constraints such as inadequate investment capital, insufficient loan, and inefficient financial market are the major obstacles in doing business, and most MSE's are highly risky ventures involving excessive administrative costs and lack of experience in dealing with financial institutions (CLEP, 2006). According to Sacerdoti (2005) in Habtamu et al. (2013), financial institutions such as microfinance and the banking systems in Africa are not in a position in providing enough financial support to the expansion of micro and small businesses. MUDC (2013) also identified that financing has become a principal challenge to micro and small scale enterprises in Ethiopia; except City administrations and regional microfinance institutions, their savings and family supports, banks in Ethiopia do not provide finance in the form of loan to MSE's due to collateral obligations and other requirement.

**b) Lack of Working Premises:** - Working premises with least leasing price adjustment is the first requirement and taken as mandatory to the government (GFDRE, 2011). According to the three years performance report of FMSEA (2013), the government has supplied 23,263,938 Sq. kilometers land to buildings, sheds and displaying places. Although these efforts have been made, it is the second ranked challenges in regional towns and the major ones in Addis Ababa (Habtamu, et al.,2013; MUDC, 2013). Thus, the problem requires attention to gain MSE's expected benefit.

**c) Lack of Managerial and Technical Skills:** - the problems of MSE's management arises from the limited knowledge and ability of the owner or shortage of competent staff to advice the owner on management policies (Stephen & Wasuu, 2013). Decision-making skills, sound management and accounting practices are very low for MSE operators in developing countries (Aremu & Adeyemi, 2011). In addition, lack of managerial skills leads to problems in production due to lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's and they cannot afford to employ specialists in the fields of planning, finance and administration (CLEP, 2006).

**d) Lack of Adequate Market:-** marketing knowledge is important for the promotion, growth and development of Micro and small enterprises. In this regard, the Ethiopian government has formulated MSE's strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information center (MoTI, 1997).

However, inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting of business and further growth of the sector (MUDC, 2013; MoFED, 2010).

**e) Inadequacy of Infrastructure Facilities:-** A research conducted by Daniel (2012) stated that unfavorable roads, power interruption, shortage of water, and inaccessible telecommunications are the major challenges and without which primary, secondary and tertiary production cannot function. Furthermore, Habtamu et al. (2013) indicated that MSE's operating with available infrastructure facilities has higher probability of long lasting existence and growth as compared to those MSEs that are operating without adequate infrastructures; and electric power interruption and inadequate water supply in Ethiopia was highly affected the growth of the business. Therefore, emphasis should be given since the success or failures of MSE's business growth and development depend on the availability and efficiency of infrastructure utilization.

**f) Erratic Supply of Raw Materials:-** Linking MSEs to production input suppliers, improving suppliers' capacity and regular supply of quality information on input supply sources have positive effects on the success of MSE's (Siva, 2012). As MUDC (2013) has pointed out one of the major problems constraining the MSE's development in Ethiopia was found to be erratic supply of raw materials. To ameliorate such a problem, an aggressive strategy needs to be crafted to promote business ventures which supply inputs by local and international investors.

**g) Regulatory Constraints:-** registration and licensing, and the extent of government official involvement and accessibility of rules and regulations have impacts on MSE's. According to Dlitso, K., and Peter Q. (2000), high start-up costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and

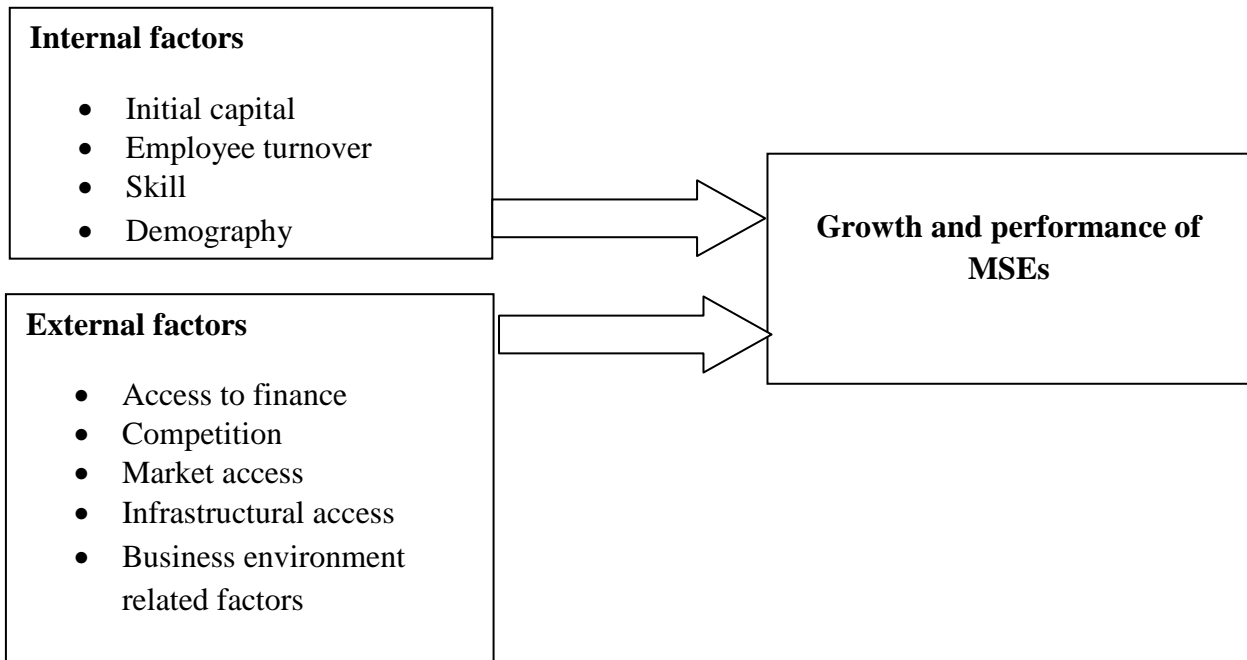
unnecessary burdens on MSE's operations. Even though registration and licensing helps MSE's to have legality rights, and to reduce the prevalence of informality, more than 12% of MSE's in Addis Ababa didn't have registration license (MUDC, 2013).

## **2.7. Theoretical Framework**

The theoretical framework for this study was mainly depended on Okpara (2007) which is the result of several prior studies by (Okpara and Wynn, 2007; Harris and Gibson, 2006; Eeden et al., 2004; Goedhuys and Sleuwaegen, 2000). The base of his framework that he developed was adapted from Ansoff's (1965) framework for classifying the types of decisions needed to start and maintain a successful business and analyzing common problems faced by small business owners. This framework categorized small business constraints as administrative, operating, strategic, and exogenous. Administrative constraints focus on the organizational structure and its capability to obtain and develop necessary resources. These problems include personnel, finance, and management issues. Operating constraints deal with issues of allocating resources in an efficient manner and are more common in the functional areas of a business. Examples include marketing, operations, and inventory management. Strategic constraints involve the ability of small business owners to match their product or/service with the demands of the external environment. This requires that business owners understand the nature of their business and the needs of their customers. Business owners with strategic issues will need assistance with general management and marketing issues. Another area that has been identified in the literature, which is particularly important to small businesses in developing countries, the area of exogenous constraints. These constraints include infrastructure issues, corruption, technology, and demand conditions. Depending on the above

theoretical framework the researchers classify the constraints in to two internal and external to the firms and analysis are done accordingly.

## 2.8. Conceptual Framework



## **Chapter Three**

### **3. Research Methodology`**

#### **3.1. Introduction**

This chapter reports the research methodology which is a systematic way to accomplish the research objectives or to solve the research problem. This chapter includes research design, nature and source of data, method of data collection, sample size determination, measurement instrument and data analysis method.

#### **3.2. Research Design**

As described by Creswell (2009), there are three common approaches to conduct a research project in the area of business and social sciences research, namely; quantitative, qualitative, and mixed research approaches. Quantitative method is an objective and systematic process in which pieces of numerical data are used to obtain information about the world and which are analyzed by using mathematical methods. Whereas Qualitative research is used to test a theory by identifying the variables based on the previous studies, examining the research relationships and obtaining the findings. Quantitative method can generalize research findings when the study collects data from a random sample which represents its population and it has sufficient sample size.

Accordingly, the researchers had employed descriptive survey method to analyze the challenges of MSE's. This method was appropriate in describing the situation by using quantitative and qualitative data (Saunders et al, 2009).

### **3.3. Nature and Source of Data**

There are two types of data: Primary data and Secondary data. Primary data is collected for a specific issue. It could be either qualitative such as interviews, semi-structured or unstructured; focus groups; observations; and case studies, or it could be quantitative such as questionnaires; and structured interview (Saunders , 2009). The Secondary data is collected by reviewing books, previous research works, articles and journals related, annual reports, published and unpublished materials, and online information available related to the issues.

In assessing the inhibiting factors of MSEs growth in Addis Ababa the study utilized both primary and secondary data. The secondary data were collected from the federal MSEs development agency and other related reports; the primary data were gathered through the employment of questionnaires.

### **3.4. Method of Data Collection**

A questionnaire is considered to be a key tool in collecting data and it is the most widely used tool in social research (Lancaster, 2005). It contains easy and to the point questions whereby all respondents may understand these questions in the same way. Therefore, it is more suitable for descriptive and exploratory research which requires many open-ended questions (Saunders, 2009). Hence, this study collected data using a questionnaire because the present study is an descriptive research. Data from MSEs were collected using self-administered questionnaires which were hand delivered and hand-collected.

### 3.5. Time Horizon of the Collection

Based on the horizons of the collected data, studies can be divided into cross-sectional or longitudinal studies (Saunders, 2009). The study used a cross-sectional data because it considered only the current level of challenges of MSEs in Addis Ababa.

### 3.6. Sample Size Determination

According to Federal MSEs Development Agency Annual Statistic Bulletin (2015) there are 51,754 organized MSEs enterprises engaged in manufacturing sector in Ethiopia, out of which 4,380 are found in Addis Ababa. The research was employed through stratified random sampling in selecting the representatives following the method of proportional allocation under which the sizes of the samples from different strata are relatively kept proportional to the sizes of the strata. When the target population size is known, Yamane's (1967) provides a simplified formula to calculate sample size presented as follows:

Where,

$$n = \frac{N}{1 + Ne^2}$$

N= population size

n= sample size

e= the desired level of precision (5%)

Based on this Yamane's formula the sample size of the study was calculated as:

$$n = \frac{4380}{1 + 4380(0.05)^2} = \underline{367}$$

The research was employed through stratified random sampling in selecting the representatives following the method of proportional allocation under which the sizes of the samples

from different strata are relatively kept proportional to the sizes of the strata. The sample for this study consisted of owner, managers and employees of MSEs in responding the questionnaires and 367 MSEs samples were selected as representative of the total population of 4380. After their stratification in to their homogenous sectors categorizing in to six sectors (the sectors were chosen at random from their strata in which they are categorized). Questionnaires were distributed to randomly for a total of 367 MSEs according to their strata.

**Table 3.1 Sample proportion taken from each business type**

<b>Type of business</b>	<b>Population</b>	<b>Proportional sample</b>
Textile and Garment	788	66
Leather and leather products	394	33
Food processing and Beverage	1002	84
Metal Work and Engineering	621	52
Wood works including furniture and ornaments service	1360	114
Agro processing	215	18
<b>Total</b>	<b>4380</b>	<b>367</b>

### **3.7. Measurement Instruments**

The research has used two main sections of questionnaires' as an instrument to collect data. The first one is general information questions, consisting 9 items, developed to gather information about respondent's profile and the undergoing business, the second is related to business

operation questions that are developed in two sections as internal and external factors consisting a total of 16 items which are concerning: source of fund, level of skill and common problems facing micro and small enterprises of developing countries which was based on the literature. The statements were phrased with a possible response continuum based on a Likert-style of five-point scale (1 strongly disagree to 5 strongly agree), Likert, Rensis (1932).

### **3.8. Analysis of Data**

Before analysis of the data they were checked for accuracy, utility and completeness, compatibility with the purpose of the study. After they were arranged depending on the intended objective and responses accepted.

Three hundred sixty seven questionnaires were distributed across the selected MSEs, out of which 351 were completed and retrieved successfully, representing 95.6% response rate. Out of the 367 questionnaires administered 66, 33, 84, 52, 114 and 18 were distributed to Textile and Garment, Leather and Leather products, Food processing and Beverage, Metal works and Engineering ,Wood works including furniture and Ornaments service and Agro-processing respectively. The number of questionnaires retrieved from Textile and Garment, Leather and Leather products, Food processing and Beverage, Metal works and Engineering ,Wood works including furniture and Ornaments service and Agro-processing represents a response rate of 95%, 96.9%, 96% , 92% , 95.6% and 100% respectively.

## **Chapter Four**

### **Data Analysis and Discussion**

#### **4.1. Introduction**

This chapter deals with presentations, discussions and interpretations of the data collected through questionnaire and interview. The main objective of the study is assessing the factors constraining the growth and survival of Micro and Small Enterprises (MSEs) in Addis Ababa. Questionnaires and interviews were the tools selected and used throughout the analysis of the data using Spreadsheet, programmed for such purpose. To collect the data through questionnaire, 367 questionnaires were distributed to MSEs in Addis Ababa and 351 of questionnaires were returned back with completely filled and significant responses. The returned questionnaires have 95.6 response rate and hoped sufficient to analyze the data with it. In addition to questionnaires, interviews were conducted with some selected MSEs Owners /mangers, MSE Development Bureau , Industry and Trade Bureau, MSEs development Agency and so on. The data was analyzed using descriptive statistics with figures and tables using frequency, percentage, mean and standard deviation. The identified factors were expected that their limitation can affect the normal operation of small business and growth. All questionnaires were used as they consists factors constraining the growth of the MSEs.

#### **4.2. Respondent Profile**

Like other country, in Ethiopia both females and males are operating in MSEs at different positions as owners, managers or employees. However the percentage of their involvement in such enterprises is not equal. According to Federal MSEs Development Package, there is difference between males and females participation in MSEs.

**Table 4.1 Respondent profile**

<b>S.N</b>	<b>Item</b>	<b>Frequency</b>	<b>Percent</b>
<b>1.</b>	Gender		
	Male	244	69.6
	Female	107	30.4
	<b>Total</b>	<b>351</b>	<b>100</b>
<b>2.</b>	Educational background		
	Elementary	22	6.3
	High school completed	11	3.1
	Diploma and certificate	299	85.3
	Degree holder	19	5.3
	Masters and above	-	-
	<b>Total</b>	<b>351</b>	<b>100</b>
<b>3.</b>	Experience		
	Less than one years	19	5.5
	1 to 5 years	146	41.6
	6 to 10 years;2	176	50
	11 to 15 years	10	2.9
	More than 15 years	-	-
	<b>Total</b>	<b>351</b>	<b>100</b>

As indicated on item 1 of table 4.1, majority (69.6 %) of total sample are males and the rest 30.4 percent are females participant in this study. This percentage is relatively consistent with the MSEs business environment in Ethiopia in which 34 percent and 66 percent of Ethiopian MSEs beneficiaries are female and male respectively as current Federal MSEs Development Package.

Item 2 of table 4.1 show regarding to educational qualification, 6.3% (22) percent of the respondents' education is elementary, 3.1% (11) of them are high school level, 85.3% (299) have college certificate and diploma, 5.3% (19) percent are first degree holders. This figure indicates most participants are relatively educated individuals reached high school level. Mostly, in Ethiopia participants of MSEs are individuals those who do not have job before joining the business and as this figure indicates the level of education of most participants is high school which implies students taking the National Examination of grade 10 and lost chance to join preparatory school are forced to seek the job. These groups do not have business course back grounds since Educational Curriculum Policy of Ethiopia starts business courses in preparatory. Even though educational qualification didn't aimed to be assesses in the study, it implies lack of business knowledge have impact on owners business.

As indicated in item 3 of table 4.1, most of the respondents surveyed 50% (176) have 6-10 years of experience, 41.6% (146) of them have 1-5 years, 5.5% (19) have less than one year and 2.9% (10) have 10 to 15 years of experience in the enterprises. Even though individuals can learn more from their experience that can help them to predict and flexible according the opportunities in the environment, can learn more from the colleagues in planning and in creating relationship with society/customers consuming their products, most respondents of MSEs have 6-10

years in which their experience of year has impact on their business where many studies indicates there is relationship between experience and business performance.

### **4.3. Validity**

Validity indicates how much an instrument measures what it is supposed to measure (Bryman and Bell, 2007) and it depends on the definitions of the variable which is used to design the measure. The common types of validity are content validity and external validity. This study's questionnaire was evaluated by PhD candidates and university lecturers and they assure that the contents included in the questionnaire were sufficient and easy to understand. Beyond the above reasons measures were derived from well-defined theory and literatures. These indicate that the instrument have good content validity. Regarding to external validity, the actual survey data were based on random sample and adequate sample size from the population as a result this study is believed to have good external validity.

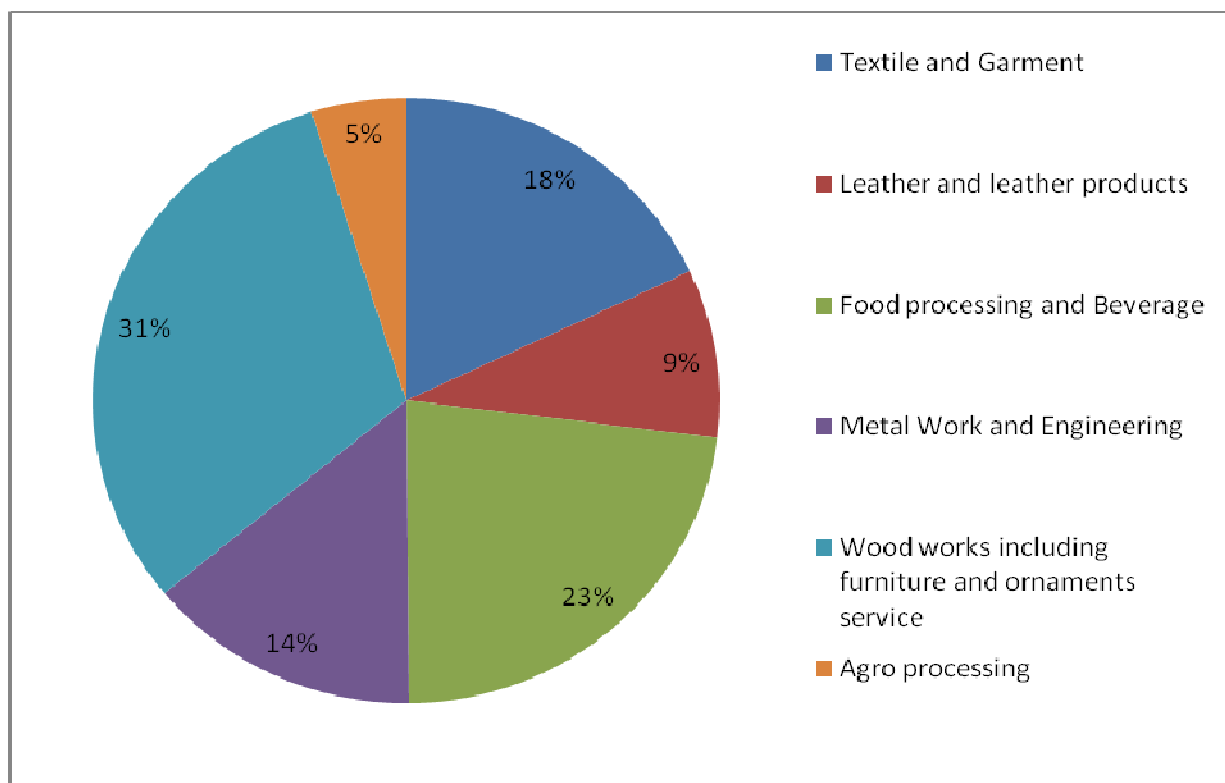
### **4.4. Reliability**

Reliability refers to the extent to which a test measured consistently regardless of what it measured or whether or not a test produced the same results on different occasions. The measure was reliable when respondents gave the same answer in different situations. A question might be unreliable because it contained words which could be misunderstood and, consequently, which might cause confusion (Bordens and Abbott 2014). In order to check that the measures are reliable or not the researcher used Cronbach's coefficient which range from 0 (observed items are not consistent) to 1 (they completely correlate) to test alpha the reliability of the measures (Cronbach 1951).

Internal consistency will be acceptable if Cronbach's alpha is high (George and Mallery, 2003) and ought to be equal to or above 0.70 or 0.60 (Hair et al. 2010). Cronbach alphas for all variables in this study are above 0.7. This enabled the study to validate the viability of the scales used to measure the factors affecting the growth of the sampled SMEs.

#### 4.5. General Information of the MSE's

**Figure 4.1 Business categories of sample firms**



*Source: researcher's survey, 2016*

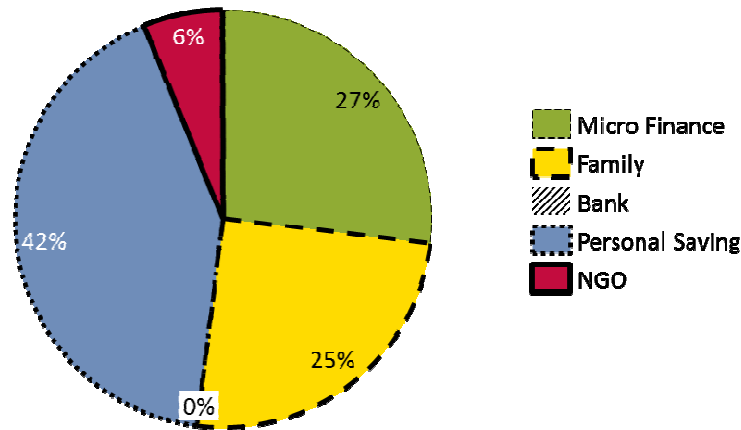
As depicted in the above figure 4.1, the sample enterprises were operating in six categories in the economy. Most of them are engaged in Wood works including furniture and ornaments services (31%) followed by Food processing and Beverage (23%), Textile and Garment (18%), Metal work and Engineering (14%), Leather and Leather Products (9%) and Agro-Processing (5%).

This division of MSEs by economic activity would be helpful to analyses critical internal and external factors affecting growth of the enterprises. This is because enterprises in different economic activity have its unique characteristics and factors. That means the degree of those critical factors in food processing sector may differ from the factors that are critical to textile and garment and wood work and metal work sectors and same in the leather and leather product and Agro- processing sector too.

#### **4.6. Source of Initial Capital to Start up the Business**

Finance is one of the critical requirements for start-up, survival and growth of business firms even though different firms most of the times fail to distinguish between long and short term financing needs and to find appropriate sources. Thus, as individuals cannot join businesses with empty mind, they also need have some sources of finance that helps them to start the business. The sources of this finance can differ from one another depending on different factors. From the major possible financial sources of start-up of businesses in Ethiopia, informal sources were the highest in the past for different individuals operating as private. Also currently micro finances are one of the major sources of finance for individuals working in cooperative.

**Figure 4.2 MSEs start up source of fund**



*Source: researcher's survey, 2016*

As can be seen from the figure 4.2, personal saving (42%) are the most frequently used sources, followed by Microfinance Institutions (27%), Family (25.0%), and NGOs (6%). This shows that the main source of finance for MSEs in Addis Ababa is personal saving. But also other traditional source like iqub/idir, family and friends/relatives plays the greatest role. In such sectors, informal sources play the greatest role in establishment of MSEs than the formal sources like microfinance and banks. Previous studies by (Etsegenet, 2000; Mulu, 2007) show that informal financial source, especially personal saving and loan/assistances from relatives or friends, are a major source of initial capital for about 75% of their sampled MSE operators. Also this study supports that many of MSEs' chief source of initial capital is personal saving and followed by borrowing from financial institution for those can fulfill the requirements.

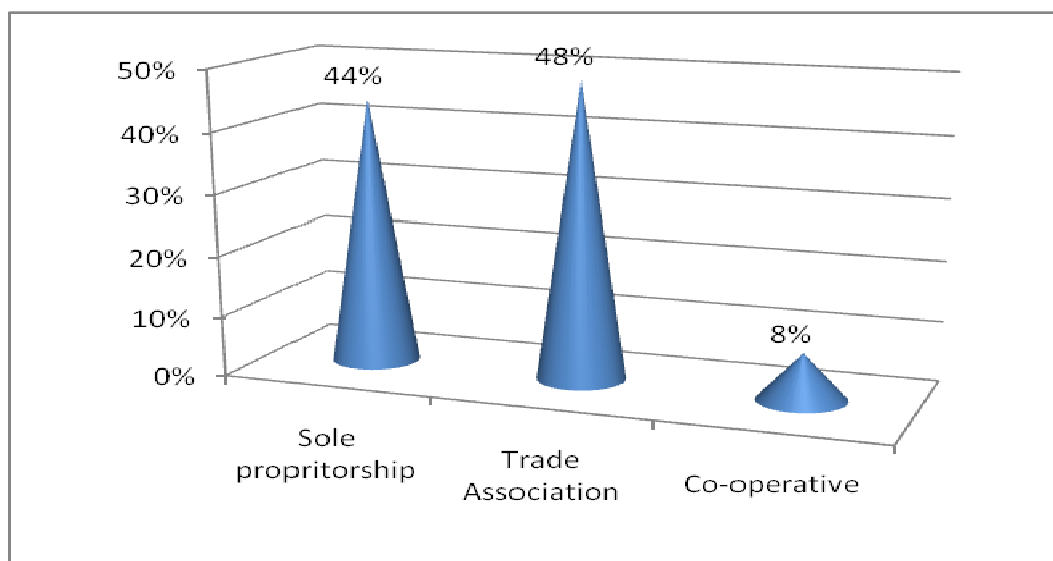
Besides, the result of interview shows that majority of MSEs in the study area uses informal sources. The formal financial institutions have not been able to meet the credit needs of the MSEs. According to majority of the respondent, the reason for emphasizing on informal sector is

that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To wind up, such constraint of finance for MSEs affects their growth directly or indirectly.

#### 4.7. Employment Creation of MSEs and Legal business status

The legal business entity of organizations is sole proprietorship, Trade Association and Co-operative that has legal standing in the eyes of law. A legal entity has legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions and it also believed to be related to types of factor that affect the growth of MSEs.

**Figure 4.3 Legal business entities of the MSEs**



*Source: researcher's survey, 2016*

As indicated in figure 4.3, most (48 percent) of the firms are established as Trade Association, 44 percent of the firms are Sole proprietorship and 8 percent of the firm's are Co-operative. And all

of the owners are Ethiopian. This shows that most MSEs are established in groups with different specialization. To get more finance from financiers with limited collateral.

In the survey from sole proprietorship, 21% of the samples have employees 10 and more than 10, the rest sample firms' (79% of them) have below 10 employees. Employee fluctuation is one of the indicators of the growth in which many researchers used in MSEs. Because, most of the time, MSEs do not have accurate records which show their growth like net profit, market share, productivity, sales turn over etc. Since employment creation is one of the major roles of MSEs and increase of number of employee is one of the indicators of growth. When the number of employees increases it may be due to the increase of work/ expansion of the business, increase of customers and these employees need salary which shows as firms have ability to compensate them financially.

#### **4.8. Factors Affecting the Growth of MSEs**

Ansoff's (1965) framework for classifying the types of decisions needed to start and maintain a successful business and analyzing common problems faced by small business owners and categorized small business constraints as administrative, operating, strategic, and exogenous. Administrative constraints focus on the organizational structure and its capability to obtain and develop necessary resources. These problems include personnel, finance, and management issues. Operating constraints deal with issues of allocating resources in an efficient manner and are more common in the functional areas of a business. Examples include marketing, operations, and inventory management. Strategic constraints involve the ability of small business owners to match their product or/service with the demands of the external environment. This requires that business owners understand the nature of their business and the needs of their customers. Business owners with strategic issues will need assistance with general

management and marketing issues. Another area that has been identified in the literature, which is particularly important to small businesses in developing countries, the area of exogenous constraints. These constraints include infrastructure issues, corruption, technology, and demand conditions. This study classifies the above major constraints in to internal to the firms and external factor and the analysis is done accordingly.

#### **4.8.1. Internal Factors Inhibiting the Growth of MSEs**

Internal constraints/factors are those constraints that affect MSEs owner/manger's ability to operate efficiently, despite any inmate potential in the owner/manager (Baloyi 2010). According to Stokes and Wilson (2006) internal factors are the personal attributes, skills and competencies of the individual owner/manager which are crucial to how well the business faces up to the inevitable crises that arise. Important to note about these constraints is the fact that they are controllable by the owner/manager. As earlier identified the factors include: lack of capital, personal characteristics, marketing, financial management, strategy, human resource, operations, access and use of information technology and the availability of a sound business plan. The discussion on each of these follows below:

##### **4.8.1.1. Skill Acquired by the MSEs**

The competence of the MSEs employees is the ultimate determinant of survival or failure. The root cause of either MSEs failure or poor performance is almost invariably a lack of skilled man power and low management attention to strategic issues such as human resources management. There is an over-reliance on the single owner/manager of most small and micro enterprises and reluctance to have well technical and experienced employees. As a result, this translates into poor human resources performance where no new qualified staff is hired (Nieman 2006).

<b>Table 4.2 Skill gap of MSEs</b>			
<b>Item</b>	<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>
1	Do you think you have a skill gap in doing the business?		
	Yes	144	41
	No	207	59
	<b>Total</b>	<b>351</b>	<b>100</b>
2	What skill gap do you think you have?		
	Sales	91	37
	Management : to handle overall enterprise relations and decision	52	21
	Accounting : to handle financial transaction and decisions	98	40
	Production: basic inventory management and design skill	5	2
	<b>Total</b>	<b>246</b>	<b>100</b>

Source: researcher's survey, 2016

As indicated on item 1 of table 4.2 show that nearly, 41 percent of the firms have skill gap to run their business effectively and efficiently. From this data one can conclude that skill gap is not the major factor that can affect the growth of these targeted MSEs.

Item 2 of Table 4.2 show that, from the total respondents who have skill gap most (40%) of the firms have basic accounting skill gap, 37 percent of them have sales skill gap, 21 percent of the sample firms has basic management skill gap and the rest has lack of basic inventory management and Production and design skill.

#### **4.8.1.2. Personal Characteristics**

The personal characteristics of the MSEs owner/manager and employees are positively correlated with the probability of the MSEs Survival and growth. These include their level of education, gender, and previous management/ professional experience (Shafeek 2009). The level of education and the attendance of management training courses is an important aspect in terms of small and micro business firm survival. According to Clover and Darroch (2005) education is thought to increase intrinsic motivation and energizer behaviors, and the more enterprise education an individual receives, the greater the possibility of the MSEs success. Some researchers identifies ‘energizer’ behaviors as behaviors that are considered to be essential in ‘good’ entrepreneurs (MSEs owners) as the ambition or capacity to grow; the capacity to innovate; collaborating with other businesses and individuals in order to promote higher firm growth; and behaviors such as planning, budgeting, and training employees, that derive from a ‘venturesome spirit’ which should inspire any decision the MSEs owner makes to ensure business survival and growth.

As indicated on item 2 of table 4.1 most (85.3%) of the respondent are diploma holder and only (5.3%) of the respondents are degree holder. From this one can conclude that employees of the targeted SMEs have lower level of educational background and do not have business course backgrounds since educational curriculum policy of Ethiopia starts business courses in preparatory. Even though educational qualification didn't aimed to be assessed in the study, it implies lack of business knowledge have impact on owners business. This may have an impact on their growth and survival.

Regarding their previous experience item 3 of table 4.1 indicate that, nearly 41.6 percent of the respondents have a work experience of 1 to 5 years and no one have above 15 years' experience. This also will have an impact on technical and managerial skill level of the employees.

#### **4.8.1.3. Employee turnover**

Employee fluctuation is one of the indicators of the growth in which many researchers used in MSEs. Because, most of the time, MSEs do not have accurate records which show their growth like net profit, market share, productivity, sales turn over etc. Regarding employment turnover in this study as we have discussed earlier since most of the MSEs are established in groups and for the same goal and staff turnover doesn't pronounced as expected. It can be said that staff turnover is not that a factor contributing for their growth as hindrance.

#### **4.8.1.4. Lack of Updated Information**

To understand what is happening inside and outside the enterprise, it needs reliable updated information that helps the enterprise to closely monitor and act according to its business environment. Information has long been a chief contributor to progress in MSEs and will continue to influence the growth and survival of the MSEs. Micro and Small enterprises in

developing countries like Ethiopia are poor and as such have no access to information technology. It is this lack of access to information technology that also bear a negative effect on the Micro and Small business firms' ability to survive and grow (Baloyi 2010). Availability of marketing related information ( regular prices, on supply and demand, on buyers requirement, etc) on the environment and internal realities of MSEs help them to effectively tapping of market opportunities and defense against emerging markets.

**Table 4.3 Availability of information**

<b>item</b>	<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>
	Lack of updated business environment related information		
	Strongly agree	95	27
	Agree	154	44
	Neutral	42	12
	Disagree	60	17
	Strongly disagree	-	-
	<b>Total</b>	<b>351</b>	<b>100</b>

As indicated in table 4.3 indicate that, respondents response on lack of market related information since in most cases, MSEs have limited means in obtaining effective and relevant data as well as information on market availability that can be obtained from different commercial related associations or institutions. Participants provided their responses in different level of agreements focusing on lack of market related information in their

businesses. Accordingly, 95 participants (27%) strongly agree that there is Lack of updated business environment related information, 154 participants (44%), 42 participants (12%) and 60 participants (17%) implied as agree, neutral, disagree and strongly disagree respectively.

The implication is that if there is lack of market related information in enterprises, they fail to produce the product that is currently demanded in the market with fair price, required design and quality to meet the need of customers. If the enterprise and outside environment cannot meet each other through effective market information, the enterprises cannot hope to stay in the market and show growth to higher ladder. From these it is possible to generalize that if there is lack of market information in the enterprises, the enterprises growth and survive can be in doubt to guarantee for future operation.

#### **4.8.1.5. Other Internal Factors Affecting the Growth of MSEs**

From the interview result the researcher conclude that the performance of MSEs is affected by lack of financial record keeping and documentations, insufficient provision for contingencies, high investment in fixed assets particularly during start up stage, inadequately estimated capital requirements, misperception of turnover as profit, and under-utilization of company assets. High investment in fixed assets means that a huge sum is unnecessarily tied up in fixed assets. Start-up firms must not tie their initial capital in fixed assets because the return from fixed assets cannot be realized in the near future. Investment analysis often produces alternative ways of financing current and fixed assets and identifies appropriate sources of funds. Although the fixed assets can be used as collateral for bank loans, it is mostly difficult for new start-ups to get adequate credits and overdrafts to be used as working capital.

**Table 4.4 Financial related factor affecting MSEs growth**

S.N	Factors	Level of factor affecting									
		Low		Medium		High		Very High		No effect	
1	Failure to apply financial statement analysis	147	42%	119	34%	39	11%	11	3%	35	10%
2	Unplanned withdrawal of cash	151	43%	95	27%	63	18%	4	1%	38	11%
3	Poor management of working capital	172	49%	102	29%	21	6%	18	5%	38	11%
4	Shortage of finance	137	39%	102	29%	42	12%	21	6%	49	14%

*Source: researcher's survey, 2016*

As it is shown on table 4.4, the listed financial related factors don't seem major factor contributing for the slow growth of MSEs.

Regarding failure to apply financial statement most of the firms reported as Low i.e. 42% and 34% of the firms reported as Medium effect and 10% of the sample firms reported as No effect on the growth or performance of the firm. It can be conclude that this is not an influencing factor.

Regarding unplanned cash withdrawal only 18% of the sample firms reported have high impact on business growth or performance, and 27% reported as Medium level of influence. Most of the sample firms i.e. 43% indicated as Low impact.

Regarding poor management of working capital nearly 50% of the sample firms indicated as Low impact and 11% of the firms as No effect.

And regarding Shortage of finance 39% of the firms reported as Low impact on the business and 29% Medium impact and 12% as high impact and 14% No effect on their growth. As it is

indicated on the above statement more than 55% of the firms reported as shortage of cash is not a factor for their growth.

#### **4.8.2. External Factors Affecting the Growth of MSEs**

External factors are all those things that are beyond your control. Tight lending conditions (access to finance), government regulations, access to infrastructure and competition are some of the external factors that affect virtually every small business. Strategic planners anticipate and manage some of the circumstances that affect their business. Exploring alternative financing sources until lending restrictions ease, developing plans for compliance with regulations and enhancing innovation and service to stay ahead of the competition are forward-thinking ways to keep external factors from threatening the survival of SMEs.

##### **4.8.2.1. Access to Financial Service**

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

Table 4.5 indicated that firm's challenges during borrowing and loan application procedure of banks and other lending institutions was the foremost credit related factor affecting the growth of MSEs which follows with high interest rate charged by banks and other lending institutions and high collateral requirement from banks and other lending institutions.

**Table 4.5 Firm's challenges during borrowing**

<b>Finance Sectors</b>	<b>Higher Collateral</b>	<b>Longer process</b>	<b>Bureaucracy</b>	<b>High interest rate</b>	<b>Lack of awareness</b>	<b>Limited loan size</b>
Banks	27%	24%	32%	10%	0%	7%
MFIs	19%	12%	35%	15%	1%	18%

*Source: researcher's survey, 2016*

The above table shows different challenges that MSEs face during borrowing from the two major source of finance. Challenges are identified and categorized in to five major situations.

Accordingly, 32 percent of the respondents put Bureaucracy as the major challenge in getting finances from the bank. And 27% and 24% of the firms reported higher collateral requirement and longer process the other challenges for getting finance from the bank respectively.

Regarding borrowing from MFIs, 35 percent of the respondent responded that high bureaucratic procedure as a major constraint to get finance from MFIs. And 19% and 18% of the firms indicated higher collateral and limited loan size as the second and third challenges respectively.

From this we can conclude that high bureaucratic procedure for loan application, higher

collateral requirement and longer process are the major challenges faced by the MSEs during getting finance banks and micro finance institutions.

#### **4.8.2.2. Competition from Other MSEs, Medium Enterprises, Importers and Big Manufacturers**

Micro and Small Enterprises (MSEs) are increasingly operating in domestic markets. Trade liberalization and the concomitant domestic and international competition exert twin pressures on firms. They need to maintain a sustainable competitive advantage owing to the complexities of domestic trade. New ways are required to compete, as the earlier competitive strategy of differentiation based on price, product or technology, is losing value (Lloyd-Reason, 2003).

It is obvious that there is competition among operators within the MSE sectors that are engaged in the same line of business and mostly serving the similar market segments with the similar products. Sometimes, MSEs face competition challenges not only from MSEs but also relatively from medium and bigger companies which implies that larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity; good personal contacts and networks, sound Industry reputation, sufficient information regarding existing market and capacity to exploit more market opportunities.

**Table 4.6 Market competition related factors**

Item	Description	Low	Medium	High	Very High
		<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
1	Degree of competition	14%	38%	31%	17%
		<b>Quality</b>	<b>Price</b>	<b>Promotion</b>	<b>Deliver</b>
2	Sources of the competition	63%	20%	7%	10%
		<b>Other MSEs</b>	<b>Medium</b>	<b>Importers</b>	<b>Big manufacturers</b>
3	Major competitors	78%	7%	11%	4%

*Source: researcher's survey, 2016*

Item 1 of table 4.6 indicates 38 percent of respondents' response shows as they are at medium and 31 percent responses demonstrate as there is high degree of competitions in their current business. The remaining 17% and 14% of the firms reported as they face very high and Low market competition respectively. most of the competition among MSEs is based on capacity to keep quality of product/service to acceptable standards or as per the needs of the customers that can be achieved through various means such as using raw material with good quality, using improved and efficient production process/technology, proper finishing, and good storage facilities.

Regarding the source and type of competition item 2 of the above table indicate that, 63% of the firms reported the source of completion is quality based and 25% of the firms reported the source of competition is price based and only 12% of the sample firms indicated the source of competition as Service delivery.

Item 3 of table 4.6 show that, 78 percent of the respondent responded that their major competitors are other MSEs in the same business. 11 and 7 percent of them responded big importer and medium and large enterprise (MLE) as their major competitors respectively. The remaining 4 percent responded big manufacturers.

### 4.8.2.3. Market Access

Access to market is one of the decisive for the sustainability of MSEs. If there is no market access, the enterprises cannot have opportunity to sell their products and disable to get the benefit from the product. Market access adds value by making goods and services available at convenient times and locations, by creating a pleasant environment in terms of location, allowing multiple distribution size, making them more responsive to customers' needs. Accordingly, if the customers' demand for the product and supply of MSEs mismatched or the market cannot be easily accessible for the products, then the products of the producers sit idle tying up the capital.

**Table 4.7 Market access factors affecting MSE growth**

<b>Factors</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>	<b>Very High</b>	<b>No Effect</b>
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Lack of skill to set competitive price	34%	37%	17%	8%	4%
Poor location	39%	26%	21%	9%	5%
Lack of demand forecasting	43%	32%	17%	4%	4%
Poor customer handling and relationship	40%	41%	14%	1%	4%

Lack of product diversity & Design up to date	40%	41%	9%	3%	7%
Limited sales skill of staffs	41%	38%	11%	4%	6%
Limited capacity to promote the products	35%	32%	17%	10%	6%
Lack of efficient distribution channel and	36%	38%	12%	8%	6%
Limited Market Networking	31%	38%	14%	11%	6%

*Source: researcher's survey, 2016*

Table 4.7 indicates the market access factor that can hinder the growth of MSEs. Accordingly, regarding setting competitive market price 37 and 34 percent of the firms responded that there is medium and low level of skill problem to set competitive price. Regarding location of marketing and production site most of the firms (39%) responded as Low effect on business growth only 9% of the firms reported as has very high impact.

In General among the above listed market access factors (i.e. Lack of skill to set competitive price, Poor location, Lack of demand forecasting, poor customer handling and relationship, Lack of product diversity & Design up to date, Limited sales skill of staffs, Limited capacity to promote the products, Lack of efficient distribution channel, and Market Networking), the firms relatively affected by the two factors namely limited capacity to promote their products and limited market networking with 17% and 10% high and very high for the former and 14% and 11% high and very high for the later respectively. Marketing related factors are not the major challenges or hindrance for MSEs.

#### 4.8.2.4. Access to Infrastructure

Most of small firms faced lack of appropriate location for their businesses. Some of the small firms are located in places with inadequate supply or lack of public services and economic infrastructure (water and electricity, transport systems, telecommunication system, sanitation services). In comparison to middle or high income communities, small firms with access to these services incur a relatively high cost per unit for the service. Besides, small size firm cannot afford to invest in private public goods (Reinikka & Svensson, 2002) or to buy services from private providers which would be more expensive than supplying from government suppliers. A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards, hinders their participation in linkage relationships (Collier, 2000).

**Table 4.8 infrastructure related factors**

	<b>Low</b>	<b>Medium</b>	<b>High</b>	<b>Very High</b>
<b>Infrastructures</b>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Electricity	26%	61%	11%	2%
Market	33%	62%	4%	1%
Water	27%	62%	9%	2%
Telephone	24%	63%	10%	3%
Transport	42%	52%	4%	2%

*Source: researcher's survey, 2016*

As it is shown on table 4.8 the relationship between availability and quality of infrastructures and MSEs performance most firms indicated that all infrastructure components have medium influence on their activity and growth.

Table 4.9 also indicate that the cost and bureaucratic procedure in accessing of the infrastructures also another factor for the MSEs activity. Accordingly most of the respondent responded medium for all components of infrastructure.

**Table 4.9 Cost and Bureaucratic procedure affecting MSEs performance and growth**

Infrastructures	Low	Medium	High	Very High
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Electricity	16%	46%	25%	13%
Market	21%	46%	17%	16%
Water	17%	52%	17%	14%
Telephone	20%	51%	17%	12%
Transport	25%	49%	14%	12%

*Source: researcher's survey, 2016*

#### 4.8.2.5. MSE Supporting Bureaus on MSEs performance

**Table 4.10 MSEs supporting organizations**

Supporting organizations	Percentage					
	Extremely satisfied	Somewhat satisfied	Neutral	Somewhat Dissatisfied	Extremely dissatisfied	I don't get Service
MSEs Development Bureau	11%	68%	4%	5%	0%	12%

Micro Finance Institutions	6%	62%	10%	4%	1%	17%
TVET Centers	8%	57%	9%	8%	0%	18%
Addis Ababa Communication Bureau	1%	24%	23%	6%	0%	46%
Trade & Industry Bureau	2%	16%	25%	6%	0%	51%
Addis Ababa design & construction	1%	14%	29%	3%	0%	53%
Addis Ababa Housing Project	0%	13%	27%	5%	1%	54%
NGOs	1%	6%	32%	4%	0%	57%

*Source: Own Computation based on survey (questionnaire), 2016*

Regarding supports provided by MSE supporting sectors, there are more than eight supporting organizations though the following three sectors/organizations are the only organizations currently providing services as per the survey these are MSE Development Bureau, TVET centers, and Micro finances as indicated by the surveyed MSEs they are mildly satisfied rated 68%, 62%, 57% respectively. The following supporting organizations are not that engaged on supporting the MSEs according to the survey on average 53% of the samples indicated that they are not getting service form the supporting organizations i.e. Addis Ababa Communication Bureau, Trade & Industry Bureau, Addis Ababa design & construction, Addis Ababa Housing Project, NGOs

We have to also note that among the first listed supporting organizations the micro finance sector support is only during finance provision they are giving support on financial analysis and accounting skills as stated above ~40% of the surveyed MSEs do have accounting skill gap.

#### **4.8.3. Other Policy and Business Environment Related Factors**

There are other different market and business environment related factor that can affect the growth of MSEs like the availability and cost of raw martial. As indicated on table 4.10 it can affect the performance of MSEs negatively because most (43%) of the respondent responded medium impact performance. Enterprises lack quality raw materials at fair market price that can produce profitable products. It further identifies that there is unreliable and inconsistent supply of raw materials which hinders the smooth and on time production process of the enterprises. Regarding tax regulation (uncertainty and tax amount) most of the respondent responded that it affect their business operation at medium level.

Regarding implementation for rules and regulations table 4.12 indicate that most (48%) of the respondent responded that it have medium impact on their growth. Past researches conducted by Eshetu & Mammo (2009), ECA (2001) also suggested that rules and regulation related factors have been a major and significant challenge to MSEs. This research also found that rules and regulation related factors are significant for the performance of MSEs.

**Table 4.11 Other policy and environmental factors**

<b>Factors</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>	<b>Very High</b>
Implementation of Rules and regulations	29%	48%	16%	7%
Lack of working place	37%	39%	15%	9%
Shortage of credit	33%	43%	15%	9%
Higher tax rate	36%	44%	15%	5%
Uncertainty about tax policy	41%	47%	7%	5%
Shortage of raw materials	39%	43%	11%	7%

*Source: researcher's survey, 2016*

## **Chapter Five**

### **5. Summary of Findings, Conclusion and Recommendation**

#### **5.1. Summary of Findings**

The study was aimed at identifying the factors that inhibit the growth of MSEs in Addis Ababa, focusing on manufacturing sector, questionnaires and interviews were the tools selected and used throughout the analysis of the data using Spreadsheet, programmed for such purpose.

Hence, based on the results of this study, different factors were identified as responsible for hindering MSEs growth. The study has used descriptive Analysis technique to analyze the data collected from 351 MSEs in Addis Ababa with a response rate of 95.6 percent.

Majority, 69.9%, from the total respondent are male, 85.3% (299) have college diploma and certificate holder and 50 % (176) have 6-10 years of experience whereas 41.6% (146) have 1 to 5 years experience on their work.

Most of the MSEs in Addis Ababa engaged in the manufacturing sector are highly concentrated in Wood works including furniture and ornaments services, Food processing and Beverage, Textile and Garment and Metal work and Engineering consisting a total of 86% from the sample surveyed. Majority of these MSEs covered their start-up cost from their saving and micro finance institutions and family grants of which personal saving takes the lion share of 42%. And from the total respondent, 48% and 44% of the enterprises are legally formed as Sole proprietor ship and Trade Association.

41 percent (144) of the firms have skill gap to run their business effectively and efficiently from which most (40%) of the firms have basic accounting skill gap, 37 percent of them have sales

skill gap, 21 percent of the sample firms has basic management skill gap and the rest has lack of basic inventory management and Production and design skill.

In depth investigation of Accounting skill gap revealed that from the questioners: unplanned withdrawal of cash, poor management of working capital, and shortage of finance have impact for the growth of MSEs, even though; 42%, 43%, 49%, and 39% of the respondents choose low for the above factors respectively and from the interview lack of financial record keeping and documentations, insufficient provision for contingencies, high investment in fixed assets particularly during start up stage, inadequately estimated capital requirements, misperception of turnover as profit, and under-utilization of company assets have impact for the growth of MSEs.

Lack of business related information is one of the internal factor inhibiting the growth of MSEs, the survey found that 95 participants (27%) strongly agree that there is Lack of updated business environment related information whereas 154 participants (44%), 42 participants (12%) and 60 participants (17%) implied as agree, neutral, disagree and strongly disagree for lack of updated business environment related information respectively.

From the external factors affecting the growth of MSEs, 32 percent of the respondents put Bureaucracy as the major challenge in getting finances from the bank. And 27% and 24% of the firms reported higher collateral requirement and longer process the other challenges for getting finance from the bank respectively. Regarding borrowing from MFIs, 35 percent of the respondent responded that high bureaucratic procedure as a major constraint to get finance from MFIs. And 19% and 18% of the firms indicated higher collateral and limited loan size as the second and third challenges respectively.

38 percent of respondents' responded shows as they are at medium and 31 percent respondents' demonstrated as there is high degree of competitions in their current business. The remaining 17% and 14% of the firms reported as they face very high and Low market competition respectively and most of the competition is based on quality. Regarding setting competitive market price 37 and 34 percent of the firms responded that there is medium and low level of skill problem to set competitive price. Regarding location of marketing and production site most of the firms (39%) responded as low effect on business growth only 9% of the firms reported as it has very high impact.

MSE Development Bureau, TVET centers, and Micro finances as indicated by the surveyed, they, MSEs are mildly satisfied rated 68%, 62%, 57% respectively. Regarding infrastructure and implementation for rules and regulation most respondent implied medium for all their components.

## **5.2. Conclusion**

Based on the above summary of finding, the researcher conclude that from the internal factors skill gap such as sales, management, accounting and production have impact for the growth of MSEs but respondent choose low for the above factors; however, from the external factors acquiring finance from the formal finance provider such as banks and MFIs and lack of competitiveness in quality implied as the major inhibiting factors for the growth of MSEs.

High Bureaucracy in both of the institutions i.e. banks and MFIs, which has highly discouraged the MSEs to go to these financial institutions. Long process and high collateral, rated 24%, 27%, in banks and high interest rate and limited loan, rated 15% and 18% in MFIs is the other challenge in acquiring the necessary financial need.

Lack of competitiveness in quality is the other major challenge MSEs faced. Since most of the MSEs capacitated with low skill and equipment, due to low financial provision, they are unable to produce high quality competitive product and supply to the market. From the total respondents 78% of the MSEs rated lack competitiveness in quality to be their major market side constraint.

Other external factors such as infrastructural provision, Poor location, Limited Market Networking, Lack of working place, etc. are found to have less impact on the growth of micro and small scale enterprises in Addis Ababa who are engaged in manufacturing sector.

### **5.3. Recommendation**

Based on the above conclusion, the study has made the following recommendations for owners, government bodies and other stakeholders to improve the performances of MSEs in Addis Ababa.

- MSE owners/managers should improve internal operations through upgrading their skills, using effectively the borrowed amount for the intended purposes and able to save money on for future investment, in order to skip the challenges they face in borrowing money from financial institutions, and practice ways of gathering customer information for the purpose of satisfying their needs through conducting market research and creating network with other MSEs ,successful businesses and knowledgeable individuals, because the more businesses know how about their customers, the better they can meet their needs.
- The government should arrange and give equipment's, machines and other necessary materials through lease in which MSEs can cover the payment during the operations to reduce doubt of getting back payments for the borrowed finance, government should also

give training to improve their skills so as they can produce quality products and be competent in the market.

- In order to facilitate access to credit for MSEs, banks and MFIs need to allocate a certain portion of their loanable funds for MSE entrepreneurs. This has to be supported by special lending and repayment arrangements. Thus, in order to address the problem of credits, financial institutions, the Federal and Regional Governments, donors, NGOs can assist in creating lines of credit and special windows for assisting growth-oriented businesses.

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## APPENDIX 1

### **QUESTIONNAIRE ON MICRO & SMALL ENTERPRISE (MSEs)**

Dear Respondent,

This is an academic survey questionnaire which is aimed at identifying and collecting data about the internal and external factors inhibiting the growth of Micro and Small Enterprises (MSEs). Your kind and objective response will significantly highlight these factors from your perspective and contributes to identifying practical interventions to the identified factors. This is purely an academic exercise and any information given would not be disclosed.

Thank you for your cooperation

Yednekachew Hailu

**Section A: General information**

**About Respondent**

- A. Age I. 18-30 II. 31-40 III. 41-50 IV. Above 50 years
- B. Sex: I. Male II. Female
- C. Marital status: I. Single II. Married III. Divorced
- D. Size of your business: I. Micro II. Small
- E. Your Status in the enterprise
  - I. Owner manger II. Manger only III. Employee IV. Other (Specify) \_\_\_\_\_
- F. Your highest educational qualification
  - I. Below high school II. High school graduate III. College certificate& diploma
  - IV. University degree V. Postgraduate
- G. Year of experience in the enterprise:
  - I. Less than one year II. Between 1 and 5 years III. Between 6 and 10 years
  - IV. Between 11 and 15 years V. over 15 years

**About the Business**

- 1. Nature of Organization. (Please tick as appropriate)
  - I. Sole Proprietor
  - II. Trade Association
  - III. Co-operation
  - IV. Others (please specify).....
- 2. What is the main activity of the enterprise?
  - I. Textile and garment
  - II. Leather and Leather products

- III. Food processing and Beverage
  - IV. Metal works and Engineering
  - V. Wood works including furniture and Ornaments service
  - VI. Agro processing
3. For how long has your company been in the operation?
- I. Less than one (1) year
  - II. Between 1 and 5 years
  - III. Between 6 and 10 years
  - IV. Between 11 and 15 years
  - V. Over 15 years
4. How did you raise funds to start-up your business?
- I. Personal saving
  - II. NGOs
  - III. Micro finance institutions
  - IV. Family/ Friends/Relatives
  - V. Banks
  - VI. Other (specify) -----
5. How many people are employed by the Enterprise?(Both permanent and temporary) ..
6. Do you have professionals in managerial positions in your company? Yes / No
7. What is the qualification of your management team\_\_\_\_\_
8. Does your organization have an existing business plan? Yes / No

9. What is the average monthly turnover of your business

- I. Less than ETB 15,000.00
- II. ETB 15,000.00 – ETB 25,000.00
- III. ETB 25,000.00 – ETB 35,000.00
- IV. Other (specify) ETB\_\_\_\_\_

**Section B: Internal Factors contributing to the performance of the Enterprise**

1. Lack of technical and other skill

How do you evaluate the level of skill the enterprise has?

- I. Very high
- II. High
- III. Medium
- IV. Low

Do you think you have a skill gap in doing the business?

- I. Yes
- II. No

If the answer for the above question is **Yes**, What skill gap do you think you have? (Multiple selections is possible)

- I. Sales
- II. Management : to handle overall enterprise relations and decision
- III. Accounting : to handle financial transaction and decisions
- IV. Production
- V. Other\_\_\_\_\_

If you have the skill gap of Accounting, please indicate in the box below, the degree to which these finance related factors are affecting the performance of your business.

#	FINANCIAL FACTORS	Very high (1)	High (2)	Medium (3)	Low (4)	No effect (5)
1	Failure to apply financial statement analysis					
2	Unplanned withdrawal of cash					
3	Poor management of working capital					
4	Shortage of finance					

### Section C: External Factors contributing to the performance of the Enterprise

#### 1. Source of Funds (MFIs/ Banks)

What challenges do you face in borrowing money from banks / MFIs?

#	Institution	Challenges						
		Long process (1)	Collateral requirement (2)	Bureaucracy (2)	High interest rate (3)	Lack of awareness (4)	Limited loan size (5)	Others
1	Banks							
2	MFIs							
3	Others							

#### 2. Tough Market Competition

How can you evaluate the degree of competition among the enterprise and other companies?

I. Very high II. High III. Medium IV. Low

What are the basic sources of the competition?

- I. Price II. Quality III. Promotion IV. Delivery V. Other\_\_\_\_\_

Who are your major competitors?

- I. Other MSEs II. Medium and Large enterprises III. Importers  
IV. Big Local producers and manufacturers V. Others \_\_\_\_\_

3. Market Access

Please indicate the degree to which these marketing factors are affecting the performance of the enterprises.

#	Marketing factors	Very high (1)	High (2)	Medium (3)	Low (4)	No effect (5)
1	Lack of skill to set competitive price					
2	Poor location					
3	Lack of demand forecasting					
4	Poor customer handling and relationship					
5	Lack of product diversity and Keeping the existing products up to date					
6	Limited sales skill of staffs					
7	Limited capacity to promote the products					
8	Lack of efficient distribution channel and					
9	Limited Market Networking					

4. Availability of Business environment related Information

Availability	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Lack of updated business environment related information					

5. Government attention in providing trainings and other marketing skills

Compared to your expectations, how satisfied are you with the service provided by the institutions till now?

#	Type of services	Extremely satisfied (1)	Somewhat satisfied (2)	Neither nor (3)	Some what Dissatisfied (4)	Extremely dissatisfied(5)	I do not get Service(6)
1	MSEs Development Bureau						
2	Micro Finance Institutions						
3	TVET Centers						
4	Addis Ababa Communication Bureau						
5	Trade & Industry Bureau						
6	Addis Ababa design & construction						
7	Addis Ababa Housing Project						
8	NGOs						
9	Other _____						

To what extent the success of the enterprise depends on the support provider institutions?

I. Very high II. High III. Medium IV. Low V. Very Low

6. Infrastructure and location (Access to land, Water, Road/Transport, telecommunication, electricity, and waste disposal)

How do you evaluate the quality of the following infrastructures?

#	Facility	Quality			
		Low	Medium	High	Very high
1	Electricity				
2	Market				
3	Water				
4	Telephone				
5	Transport				

How do you evaluate the cost and bureaucracy of accessing the following infrastructures?

#	Facility	Quality			
		Low	Medium	High	Very high
1	Electricity				
2	Market				
3	Water				
4	Telephone				
5	/Road/Transport				
6	Other _____				

## 7. Other

Please indicate the degree to which the following factors are affecting the performance/growth of the enterprise.

#	Marketing factors	Very high (1)	High (2)	Medium (3)	Low (4)	No effect (5)
1	Implementation of Rules and regulations					
2	Lack of working place					
3	Shortage of credit					
4	High tax rate					
5	Uncertainty about tax policy					
6	Poor quality of institutions					
7	Shortage of raw materials					
8	Management problems					

What other overall inhibiting factor do you have for the growth of the enterprise?

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What do you think is the possible solutions to these factors?

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Thank you again for taking your valuable time to complete the questionnaire!

## APPENDIX 2

### **Interview Guiding Questions**

1. Please if you tell me briefly why and how you start this business?
2. What is the major function of your enterprise?
3. How many employees are there in your enterprise?
4. How do you improve the competences and skills of the workers?
5. What are the constraints you faced in accessing and using the finance?
6. How do you see the effort of government support for such enterprises and visible changes to come?
7. What are your major competitive advantages over the competitors? How do you know as you are operating better than them?
8. What do you think the journey of your business looks like in its operation/ sales volumes?
9. Do you have external linkage/network with other individuals or businesses? Who advices you and extent to what you benefited from it?
10. What are the other problems did not reach in our interview but hindering your business to grow or survive?
11. Do you develop new product? What problems do you encountered in this new product development or modifying your existence products?

12. What factors you consider in setting this pricing strategy? Moreover, what are the bases for your pricing strategy?
13. What are the problems you faced in pricing strategy?
14. How do you insure the quality of the products before distributed?
15. What are the problems encountered in the distribution strategy?
16. What problems you encountered concerning promotion of your product?

## APPENDIX 3

### ለጥቃቅንና አንስተኛ ድርጅቶች የተዘጋጀ መጠይቅ

የዚህ መጠይቅ ዓላማ ጥቃቅንና አንስተኛ ተቋማት ወደ መካከለኛና ከፍተኛ ተቋም ለመሸጋገር ያለባቸውን የውስጥና የወጪ ተግዳሮቶች ለመለየት እና የሚፈቱበትን አቅጣጫ ለመጠቀም ሲሆን ከዚህ መጠይቅ የሚገኙ ግብዓቶች በሙሉ ለትምህርት አገልግሎት ብቻ ስለሚውሉ ጥያቄዎቹን በአግባቡና በጥንቃቄ በነፃነት እንዲሞሉልኝ በአክብሮት እጠይቃለሁ።

ስለ ትብብር በቅድሚያ አመሰግናለሁ

ይድነታቸው ሐይሉ



መ. ከቤተሰብ/ከጓደኛ/ከዘመድ ሰ. ከባንክ ረ. ሌሎች ካሉ ይጠቀሱ.....

1.2.5. በቋሚነትና በኮንትራት የሚሰሩ በአጠቃላይ ስንት ሰራተኞች አሉ .....

1.2.6. በድርጅቶች ያሉ ኃላፊዎች የአመራር ትምህርት ያላቸው ናቸው? አዎ/አይ.....

1.2.7. አመራር/ኃላፊ/ ለመሆን ዝቅተኛው መስፈሪት ምንድን ነው.....

1.2.8. ድርጅቶች ግልጽ የሆነ ዕቅድ አለው? አለው/የለውም

1.2.9. የድርጅቶች ወርሃው ሽያጭ ምን ያህል ነው?

ሀ. ከ15,000.00 ብር በታች ለ. 15,000.00-25,000.00 ብር ሐ. 25,000-35,000.00 ብር

መ. ሌላ ከሆነ ይግለጹ

**ክፍል 2: ለድርጅቱ ውጤታማነት/ውድቀት ምክንያቱ የሚሆኑ ጉዳዮች በተመለከተ፤**

**2.1. የውስጥ ጉዳዮችን በተመለከተ**

2.1.1. በድርጅቶች ውስጥ ያሉትን ሠራተኞች የሙያ ብቃት ደረጃ እንዴት ይገልጹታል?

ሀ. በጣም ከፍተኛ ለ. ከፍተኛ ሐ. መካከለኛ መ. ዝቅተኛ

2.1.2. ድርጅቶቻቸውን ስኬታማ እንዳይሆኑ ምክንያት የሚሆን የክህሎት ክፍተት አለ ብለው ያስባሉ?

ሀ. አለ ለ. የለም

2.1.3. ከላይ ለተጠየቀው ጥያቄ ምላሽ አለ ከሆነ ከዚህ በታች ከተዘረዘሩት ውስጥ የትኛው እንደሆነ ቢገልጹልን?

**(ከአንድ በላይ መምረጥ ይቻላል)**

ሀ. የሽያጭ ክህሎት አለመኖር፤ ለ. የድርጅቱን ሃብትና ንብረት የማስተዳደር ክህሎት አለመኖር፤

ሐ. የድርጅቱን የገንዘብ እንቅስቃሴ ተቀባይነት ባለው የአሰራር ዘዴ የመመዘገብ እና በየተወሰነ ጊዜ ገደብ

ውስጥ የትርፍና ኪሳራ ሪፖርት፤ የሃብትና ዕዳ ማሳያ ሪፖርት፤ የገንዘብ ፍሰትን

የሚያሳይ ሪፖርት፤ ሌሎች ከገንዘብ ጋር የተያያዙ ሪፖርቶችን ማዘጋጀት አለመቻልና

እንደዚህ አይነት ሪፖርቶችን ለተለያዩ ውሳኔዎች እንደ ገብዓትነት አለመጠቀም፤

መ. ትክክለኛ የአመራር/ምርትን የማምረት/ ዘዴ አለማወቅ፤

ሠ. ሌላ ካለ ይጠቀሱልን \_\_\_\_\_ ::

2.1.4. ከላይ ከተዘረዘሩት ውስጥ ያለው የክህሎት ክፍተት በተራ ቁጥር ሐ የተጠቀሰው ከሆነ በድርጅቱ ላይ ተግዳሮት የፈጠረበትን ደረጃ ቢገልጹልን።

ተ.ቁ	መግለጫዎች	በጣም ክፍተኛ ተግዳሮት	ክፍተኛ ተግዳሮት	መካከለኛ ተግዳሮት	ዝቅተኛ ተግዳሮት	ተፅዕኖ የለውም
1	ተቀባይነት ባለው የአሰራር ዘዴ ገቢና ወጪን አለመያዘና ለተለያዩ ውሳኔዎች አጋጣሪ አለማድረግ፤					
2	ገንዘብን ያለዕቅድ ማውጣት፤					
3	ማሰራት የሚገባ ገንዘብን ባለስፈላጊ ነገር አስሮ ማስቀመጥ፤					
4	የገንዘብ እጥረት፤					

**2.2. ከድርጅቱ ውጪ ያሉ ጉዳዮችን በተመለከተ፤**

2.2.1. ድርጅቶ ገንዘብ በሚፈልግ ጊዜ (በብድር ወይም በሌላ መንገድ) የማገኘቱን ሁኔታ እንዴት ይገመግሙታል?

ሀ. በጣም ክፍተኛ ነው ለ. ክፍተኛ ሐ. መካከለኛ መ. ዝቅተኛ

2.2.2. ገንዘብ ለመበደር ያሉት ተግዳሮቶች ምንድን ናቸው?

#	ተቋማት	ተግዳሮት						
		ረጅም ሂደት (1)	ማስያዣ ማስፈለጉ (2)	ውስብስብ አሰራር (2)	ከፍተኛ ወለድ (3)	ስለ አበዳሪ ተቋማትና የብድር አሰጣጡን ሂደት በተመለከተ ዕውቀቱ አለመኖር (4)	የብድር መጠኑ አንስተኛ መሆን (5)	ሌላ
1	ባንክ							
2	አንስተኛ ብድርና ቁጣባ ተቋም							
3	ሌላ							

2.2.3. ድርጅቶች ከተመሳሳይ ድርጅትና ከሌሎች (ከፍተኛ) ድርጅቶች ጋር ያለው ውድድር?

ሀ. በጣም ከፍተኛ ነው ለ. ከፍተኛ ሐ. መካከለኛ መ. ዝቅተኛ

2.2.4. ውድድሩ መሠረት ያደረገው ምን ላይ ነው?

ሀ. ዋጋ ለ. ጥራት ሐ. ማስታወቂያ መ. አቅርቦት ሠ. ሌላ \_\_\_\_\_

2.2.5. ዋና ተወዳዳሪዎችሁ ማነው?

ሀ. ሌሎች ጥቃቅንና አንስተኛ ድርጅቶች ለ. መካከለኛና ትልልቅ ድርጅቶች

ሐ. አስመጪዎች መ. ትላልቅ አገር በቀል አምራቾችና አስመጪዎች

ሠ. ሌላ \_\_\_\_\_

2.2.6. ከገበያ ሁኔታ ጋር በተያያዘ ምን ያህል ተጽእኖ እንደሚያሳድር ለመገምገም ከዚህ በታች የተገለጹትን ነጥቦች በተገለጸው ደረጃ መሠረት ምልክት ቢያደርጉልን?

#	የገበያ ሁኔታ	በጣም ከፍተኛ (1)	ከፍተኛ(2)	መካከለኛ (3)	ዝቅተኛ (4)	ምንም ተጽእኖ የለውም(5)
1	ትክክለኛ የዋጋ ተመን ያለማውጣት ችግር					
2	ምቹ የሆነ ቦታ ያለመኖር					
3	ምን ያህል ፍላጎት እንዳለ መገመት ያለመቻል					
4	ደካማ የሆነ ደንበኛ አያያዝና ግንኙነት					
5	የተለያዩ ምርቶችን ያለማምረትና ያለንም ምርት ጥራት ያለማሻሻል ችግር					
6	ዝቅተኛ የሽያጭ ክህሎት					
7	ምርትን ለማስተዋወቅ አቅም አለመኖር					
8	ምርትን በአግባቡ ያለማስራጨት ችግር					
9	ዝቅተኛ የገበያ ትስስር					

2.2.7. ለድርጅቶች ስኬት የሚያግዝ መረጃ በአካባቢያዊ የማግኘት ሁኔታን ለመገምገም የተዘጋጀ

በአካባቢያዊ መረጃ የመገኘት ሁኔታ	በጣም አስማማለሁ	እስማማለሁ	እውቀቱ የለኝም	አልስማማም	በጣም አልስማማም
ዕጥረት አለ					

2.2.8. በመንግስት ተቋማት አገልግሎት ምን ያህል እንደረኩ ቢገልጹልን?

ተ.ቁ	የአገልግሎት አይነቶች	በጣም ረክቻለሁ	ረክቻለሁ (2)	መልስ የለኝም	በተወሰነ ተከፍቻለሁ	በጣም ተከፍቻለሁ	አገልግሎት አላገኘሁም
1	ጥቃቅንና አነስተኛ ልማት ቢሮ						
2	አንስተኛ ብድርና ቁጥጥ ተቋማት						
3	የቴክኒክና ሙያ ማሰልጠኛዎች						
4	የአዲስ አበባ መገናኛ ቢሮ						
5	ንግድና ኢንዱስትሪ ቢሮ						
6	አዲስ አበባ ዲዛይንና እና ግንባታ						
7	አዲስ አበባ ቤቶች ፕሮጀክት						
8	የእርዳታ ተቋማት						
9	ሌሎች						

2.2.9. ለድርጅቶ ስኬት የድጋፍ ሰጪ ድርጅቶች ሚና ምን ያህል እንደሆነ ቢገልጹልን?

ሀ. በጣም ከፍተኛ    ለ. ከፍተኛ    ሐ. መካከለኛ    መ. ዝቅተኛ    ሠ. በጣም ዝቅተኛ

2.2.10. በሰንጠረዥ የቀረቡትን አቅርቦቶች እንዴት ይገመግሟቸዋል?

ተ.ቁ	አገልግሎቶች	የጥራት ደረጃ			
		ዝቅተኛ	መካከለኛ	ከፍተኛ	በጣም ከፍተኛ
1	የሙብራት ኃይል አቅርቦታ				
2	ምቹ የገበያ ሁኔታ				
3	የውሃ አቅርቦታ				
4	የስልክ አቅርቦታ				
5	የመጓጓዣ ሁኔታ				

2.2.11. የሚከተሉትን አገልግሎቶች ለማግኘት የሚያወጡትን ወጪና የሚፈጅበትን ጊዜ እንዴት ይገመግሙታል?

ተ.ቁ	አገልግሎቶች	የጥራት ደረጃ			
		ዝቅተኛ	መካከለኛ	ከፍተኛ	በጣም ከፍተኛ
1	የሙብራት ኃይል				
2	ምቹ የገበያ ሁኔታ				
3	የውሃ				
4	የስልክ				
5	የመጓጓዣ				
6	ሌሎች				

2.2.12. እባክዎ የድርጅቶቻችን እድገት የሚያጓጉቱ ሁኔታዎችን ደረጃ ያመልክቱ

ተ.ቁ	መግለጫ	በጣም ከፍተኛ	ከፍተኛ	መካከለኛ	ዝቅተኛ	ተፅእኖ የለውም
1	የህግና ደንብ አተረጓጎም					
2	የሥራ ቦታ እጥረት					
3	የብድር እጥረት					
4	ከፍተኛ የታክስ መጠን?					
5	በታክስ ፖሊሲ ላይ እርግጠኛ አለመሆን?					
6	የድርጅቱ ጥራት ማከስ					
7	የጥሬ እቃ አቅርቦት እጥረት					
8	የአስተዳደር ችግር					

2.2.13. የድርጅቱን ዕድገት የሚያጎትቱ አጠቃላይ ችግሮች ካሉ ቢጠቅሱልን?-----

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2.2.14. ለነዚህ ችግሮች አማራጭ መፈትሄ የሚሉትን ቢገልጹልን?-----

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ጥያቄዎች ጊዜዎን መስዋዕት አድርገው በመመለስዎ በድጋሚ አመሰግናለሁ?