



Addis Ababa University

College of Business and Economics

Department of Public Administration and Development

Management

**The Role of Government Support Services for the performance of
Small and Medium Manufacturing Enterprises in Addis Ababa City**

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**Thesis Submitted to the School of Graduate Studies of Addis Ababa
University in Partial Fulfillment of the Requirements for the
Master's Degree in Public Management and Policy**

June 2017

Addis Ababa, Ethiopia

DECLARATION

I Mariamawit F/selassie, declare that this Master's thesis, entitled "The Role of government Support Services for the performance of Small and Medium Manufacturing Enterprises in Addis Ababa City" is my original work submitted for the award of Master's Degree in Public Management and Policy at the Department of Public Administration and Development Management, College of Business and Economics, Addis Ababa University. It has not been presented for the award of any degree or other similar titles in any other institution of higher learning to the best of my knowledge, and all sources used have been duly acknowledged.

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City”**

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Acknowledgements

Above all, I would like to thank God for his tremendous gift. It is with deep sense of gratitude that I express my utmost respect to my Advisor Dr. Tilahun Teklu for his encouragement, positive critics and guidance throughout my study.

My sincere thanks extend to Mr.Yared Nigussie for his encouragement and persistent supervision starting from the proposal till the final thesis write up. Beside this, I would like to express my deepest gratitude to Dr, Firehiwot G/hiwot for her guidance, constant supervision and support in completing this research undertaking.

I also extend my special thanks to my beloved little brothers, Kaleab F/Selassie and Henok F/Selassie for their limitless support, especially during the data collection process.

Last but not least, I thank Addis Ababa University for its full scholarship to complete my graduate studies.

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Acronyms

EMSEDS-Ethiopian Micro and Small Enterprises Development Strategy

GBSS-Government Business Support System

LSEs- Large Scale Enterprises

MSEs-Micro and Small Enterprises

FeMSEDA- Federal Micro and Small Enterprises Development Agency

MFI-Micro Finance Institution

MSMEs-Micro, Small and Medium Enterprises

OECD- Organization for Economic Co-operation and Development

ReMSEDAs- Regional Micro and Small Enterprises Development Agencies

SMEs-Small and Medium Enterprises

SMMEs-Small and Medium Manufacturing Enterprises

SSE- Small Scale Enterprises

TVET-Technical Vocational and Educational Training

Abstract

Review of literature indicates that, the role of government support services for Micro, Small and Medium Enterprises and major implementation challenges are not yet fully understood and evaluated in the Ethiopian context. Therefore, this study investigates the role of Government Support Services for the performance of Small and Medium Manufacturing Enterprises(SMMEs) in Bole and Yeka sub-cities of Addis Ababa City Administration and the major implementation challenges encountered during implementation process. A total of 120 questionnaires were distributed for Small and Medium Manufacturing Enterprise operators. In addition, interviews for concerned government officials and operators, document review and observations of SMMEs were also part of the data collection instrument. The collected data were analyzed by qualitative methods and quantitative methods. Qualitative data were analyzed using qualitative data analysis and document review. Quantitative data were analyzed by using descriptive statistics. Based on the findings of the study, the major support services can be broadly divided into five aspects, which are: credit service; consultancy and training service; market linkage support; provision of working premise and one stop shop services. These support services are found to be significant for the performance of SMMEs in terms of their productivity and profitability and the major challenges encountered during the implementation of support services are inaccessibility of support services, lack of infrastructure, lack of good governance, corruption, overbearing regulatory and operational environments and lack of institutional coordination. To tackle the above challenges some options are recommended to policy makers and for concerned government bodies. These include improving the accessibility of support services for enterprises, provision of sufficient infrastructure, taking the appropriate administrative measures on corrupted officials, enhancing the cooperation of concerned government institutions.

Key words: Government Support services, performance, Small and medium manufacturing enterprises

Chapter one: Introduction

1.1. Introduction

This chapter includes background of the study, statement of the problem, objectives of the study, research questions, conceptual framework, operational definition of terms, significance of the study, delimitation and limitation of the study and finally organization of the paper.

1.2. Background of the study

The role of government and public and private partnership in developing the Small and Medium Enterprise sector are found in a number of advanced, emerging as well as developing economies. (Abdullahi et al, 2015; Gebremichael, 2014; Ntiamoah, 2016). When the SME sector fails to grow, in particular where clear potential exists, this would be considered as a market failure for which effective government intervention could improve the market outcome (Labonte, 2010).

Governments could play the role by taking actions to mitigate market failure and eliminate policy biases (Authority, 2006). Governments can also develop strategies and environment for the SME sector to grow and play the role of catalysts towards its promotion (Al Barwani et al., 2014).

SMEs are often in an unfavorable position in market competition, have difficulties in competing with large enterprises and remain vulnerable to market risks, which result from their nature of business, i.e. small size and weak capacity (MacGregor et al., 1998). The vitality and competitiveness of SMEs and the comprehensive and coordinative social and economic development can be enhanced, only if the government adopts appropriate economic policies that are in line with the nature of SMEs, properly handle its relations with enterprises, exercise macro controls of appropriate intensity and timing, and create a fairer, open and enabling external environment for enterprises of varied ownership (Chen, 2006).

In addition to adopting appropriate economic policies and strategies, most governments in the world provide necessary promotional business supports for their Small enterprises. Government supports are broadly divided into two sections; financial and non-financial. Financial supports are property loan, working capital and grant. On other hand, non-financial supports come in forms of advisory, technical, marketing, management, networking, distribution and research and development. The application of the support is based on the SMEs theory which means they are

vulnerable and possesses limitations (Yusoff&Yaacob, 2010). Additionally, Government supports in developed countries also follow entrepreneurship concept on new start up business which SMEs highly need to be innovative, creative and flexible (ibid).

Indeed, policies to promote the development of SMEs are common in both developed and developing countries. Policies designed to assist SMEs, especially in developing economies, have been an important aspect of industrial policy to alleviate poverty and accelerate industrialization of a country (Gebremichael, 2014).

The main argument for favoring SMEs in developing countries is that they are increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation (Abor&Quartey, 2010). In more developed economies, the dynamic arguments for the existence of SMEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms (Kasekende&Opondo, 2003).

Ethiopia is one of the developing countries in Africa, which prioritized MSE development for economic growth, employment generation and building an industrial economy. To this end, in 1997 the government has designed a National MSEs development and promotion strategy which facilitates and paves the ground for the growth and development of the sector. The primary objective of the strategy framework was to create a favorable environment for MSEs so that MSEs could facilitate economic growth, create long-term jobs, strengthen cooperation between MSEs, provide the basis for medium and large scale enterprises and promote export. In addition to creating a conducive business environment for MSE growth, Ethiopia extends direct policy support to MSE operators. The direct policy support includes access to markets, access to finance, access to industrial extension, access to training and technological support (EMSEDS, 2011).

Following the 1997 MSEs Development Strategy, the Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established by the council of ministers' regulation number 33/1998 to lead and stir Ethiopia's MSE development. The agency has been established as an autonomous government institution under the supervision of the Ministry of Urban Development and Construction. The primary goal of the agency is to implement meticulously the strategies mentioned above.

In addition to Federal Micro and Small Enterprises Development Agency (FeMSEDA), there are different government organizations which are involved in the provision of supports for SMEs in Addis Ababa City. These government institutions are SMEs Development Bureau, Micro Finance Institution, TVET Centers, Communication Bureau, Trade & Industry Bureau, Design & Construction Bureau and Housing Project Office (ESMEDS, 2011).

1.3. Statement of the problem

The concept of promoting SMES development goes beyond the establishment of formal incentive support institutions and provision of incentive packages for small-scale entrepreneurs (Chen, 2006) It is also important to give emphasis on the nature of institutions, which can help or harm SMEs development in a given society (Yamoah et al., 2013).

Yamoah et al., (2013) examined the institutional framework for promoting small and medium-scale enterprises in Ghana from the perspectives of SMEs. They concluded that, incentive support institutions, structural support institutions, social support institutions, government policies (political/legal, economic), and regulatory institutions do exist to provide the requisite support services to SME sector in Ghana. However, there appears to be lack of national strategy on the SME sector, and poor coordination of government incentive support institutions as a result of lack of a central agency to coordinate all government incentive support institutions in Ghana. Though some opportunities have been created, it can be concluded that, high interest rate, high tax and import duties and high utility charges are the key constraints related to the operations of government institutions, a situation that leads to high cost of doing business in Ghana.

Yusoff and Yaacob (2010) also conducted a research on the government business support services in Malaysia and stated that the role of the Government Business Support System is of paramount important for SMEs. However, the GBSS providers are challenged by a dynamic and intricate business environment. The issues of bureaucracy, incompetency, unmatched product and unsupportive conditions must be addressed by the providers. The wide ranges of services are futile in absence of maximum utilization from the targeted group. In turn, the services become unproductive and SMEs are not benefitted from the existence of the GBSS. To address the lack of SMEs awareness on the important of the services provided by GBSS is the main focus, and at the same time to further enhances the internal process.

Mago and Toro (2013) conducted a research on South African government's support to small, medium micro-enterprise (SMMEs) and the study found that programs have fallen short of their objectives of providing financial and non-financial services to SMMEs. It is generally agreed that the originally well-intentioned support programmes focus on the main SMME constraints, but suffer from sub-optimal implementation. Contrary to such perceptions, however, the incapacity of support institutions to persuasively raise awareness of their existence and effectiveness explains the low usage of programmes better than their poor implementation. Throughout the study, it was noted that there is general lack of awareness in the field of the government's support strategy. Stronger effort is needed to raise awareness. Apart from these general findings, research evidence of the shortcomings of specific programmes is critical for their revision.

The skill and knowledge transfer between consultants and business owners is not sufficient, leaving the client continually dependent on consulting advice and technology. Lastly, the study found that there is huge variability in the quality of the consulting profession. Most mentors were inexperienced and unskilled. This resulted in poor dissemination of much needed information the SMMEs (ibid).

Maseko et al., (2011) also analyzed the impact of targeted government support on SMEs growth and development in Zimbabwe and concluded that government targeted support advanced to SMEs is effective in bringing about growth and development in this sector. However, the forms of targeted support to SMEs from the government are not complete enough to transform SMEs operations into viable businesses that can compete in the global marketplace. The study then recommends that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology use.

Ben-Caleb et al., (2013) on their article titled 'Empowering small and medium scale enterprises in Nigeria'; they have stated that, SMEs have huge potentials to serve as the engine room for the development of any economy, especially the developing ones like Nigeria. These potentials which include employment generation, rural development, wealth creation etc, will remain buried and unprofitable if SMEs capacity and abilities are not enhanced through empowerment. The past experiences where ad hoc programmes are used to promote SMEs operations and to alleviate poverty had either failed out rightly or yielded no significance result, due to poor funding, lack of focus, political sabotage, poor implementation among others. It is therefore

beyond doubt that the underdevelopment of SMEs is a principal reason for the under performance of our economy as well as the increasing and worrisome incidence of poverty in the Country.

Similar to the above stated experience of developing countries, there have been numerous support services provided by Ethiopian government agencies and institutions aimed at fostering the development of SMEs. Although government supports are significant to enhance the performance of SMEs, there are constraints which are affecting the successful implementation of government supports in the country. To this end, this study identified those factors which are affecting the successful implementations of government supports for Small and Medium enterprises in the manufacturing sector.

Although different studies have been conducted in Ethiopia, regarding the role of Small and medium enterprises on employment creation and income generation and on the importance of SMEs on social and economic area, it has been said that the role of government support services for SMEs and major implementation challenges are not yet fully understood and evaluated (Gebremichael, 2014). Therefore, the thrust of this paper is to analyze the role of government for the performance of small and medium manufacturing enterprises in Addis Ababa and to investigate the major challenges of the implementation of government support services.

1.4. Objectives of the Study

1.4.1. General objective

The major objective of this study is to analyze the role of government support services for the performance of Small and Medium Manufacturing Enterprises in Addis Ababa City.

1.4.2. Specific objectives

- Investigating the forms of targeted government support rendered to SMMEs in Addis Ababa city.
- Analyzing the efficacy of targeted government support to the performance of SMMEs in Addis Ababa.
- Identifying the major constraints facing the implementation of the supportive programs.
- Forwarding possible recommendations that could help to enhance the effective implementation of the programs.

1.5. Research Questions

The major research questions answered by this research paper are;

1. What are the major forms of targeted government support services rendered to SMMEs in Addis Ababa city?
2. What roles are the government support programs playing in enhancing the performance of SMMEs in Addis Ababa?
3. What are the major constraints which hinder the effective implementation of government supportive programs in Addis Ababa?

1.6. Significance of the Study

The analysis of the quantitative data helps to observe the role of government support services for SMEs performance in manufacturing sector. Analysis of the qualitative data helps to identify the major constraints, which affects the successful implementation of support services.

Generally, the findings of this study could be useful to various stakeholders including:

i. Academics/Researchers

Findings from this study can assist academicians in broadening of the prospectus with respect to this study by providing a deeper understanding of the major constraints that affect the implementation of government support services.

ii. Micro and Small Enterprises

The findings of this study help SMME operators in Addis Ababa City, to have a better understanding about government support services and to identify their weaknesses which make support services inaccessible to them. Identifying their weaknesses related to government support programs, may facilitate corrective actions to be taken by the operators.

iii. Governmental Policy Makers

The government can use the findings of this study to assist in policy reformulation, to ensure effective and efficient implementation process and to take appropriate corrective actions.

1.7. Scope of the Study

The study focuses on manufacturing sub-sector SMMEs in Yeka and Bole Sub-cities. This study doesn't incorporate SMEs in other sub-sectors because of time and financial constraints. The study concentrates on manufacturing sector because SMEs have a strong contribution for the economy of developing countries than other sectors (Abor and Quarterm, 2010). Although the

study is restricted only to manufacturing sector SMEs, its findings are expected to somehow reflect some of the common features of others sector SMEs since some of the challenges exhibited in manufacturing sector SMEs are also observed on others. The study also focuses on Small and Medium Enterprises because there are limited researches conducted on these classifications of enterprises (SMEs) than researches conducted on Micro and Small enterprises (MSEs).

1.8. Delimitation of the study

Furthermore, the study is delimited to two sub-cities again due to time and financial constraint. However, since administration procedures are the same in the entire city, the result that is obtained taking case of these specific sub-cities could reflect the situation of SMEs all over the city, under normal circumstances. In addition to that, although, there are different issues that can be researched in relation to government support for SMEs, this study is delimited to the role of government support services for the performance of SMMEs and selected few issues influencing the implementation of supports for SMEs.

1.9. Limitation of the study

The type of questionnaire used for the study was self-administered questionnaire. The researcher asked each respondent all the questions and filled the questionnaire by herself. The researcher also interviewed all the respondents while filling the questionnaire, which was very tiresome and required extra time and effort. Besides this, some respondents perceived the questionnaire as politically-oriented, which made them uncomfortable to be open and honest on their answers concerning government support services.

1.10. Organization of the study

This study is divided into five chapters. The first chapter includes introductory parts of the study (background of the study, statement of the problem, research objective, research questions, and significance of the study, scope of the study and organization of the paper). The second chapter deals with review of related literature, scholars 'perspectives and theoretical background and empirical studies of the issue understudy. The third chapter deals with research methodology. The fourth chapter deals with data presentation, interpretation and analysis of major findings of the study. The fifth chapter contains conclusion and recommendations based on the finding of the study. Finally, list of reference materials and papers are annexed in the appendices.

1.11. Operational Definition of terms

Enterprise: a unit of economic organization, which is engaged in the manufacturing of goods.

Small enterprise: an enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector (EMSEDS, 2011).

Medium enterprises: is an enterprise which has more 30 employees & total assets more than 1,500,000 ETB for industrial sector (EMSEDS, 2011).

Performance: productivity and profitability of the Small and Medium Manufacturing Enterprises.

Manufacturing sector: sector in which enterprises engaged in the production of goods.

Productivity: an increase on the amount of production SMMEs produce.

Profitability: an increase in the amount of profit SMMEs earn.

Government Support: support services, which are given by government. Such as Credit service, consultancy and training support, market linkage support, provision of working premises and one-stop-center support.

Credit service: loan given to SMMEs by Micro Finance Institutions.

Consultancy and training Service: the business advisory and training given to SMMEs by Technical Vocational Education and Training Centers.

Market linkage support: support given by different government organizations to create market opportunities to SMMEs both internally (access to local market) and externally (access to international market). This support includes provision of market information, access to exhibitions and bazaars.

Provision of working premises: working land given to SMMEs on minimum rental basis to undertake their production activities.

One-stop-center support: a center which encompasses experts who facilitate and execute credit service delivering information and advice and, networking/linking actors who need industrial extension service with TVET in one center.

Chapter Two: Review of Related Literature

2.1. Introduction

This chapter discusses the major theories on the role of government in the economy and the major objectives of government, which initiate government to intervene in the economy. The other focus area of this chapter are Small and Medium Enterprises, their distinguishing characteristics, their performance, their role in countries economy and the major constraints they are facing. The chapter also reviewed both conceptual and empirical literatures related to government support services, their role to enhance the performance of Small and Medium Enterprises and major constraints which hinder their successful implementation.

2.2. Theoretical views on the role of government in the economy

2.2.1. Comparison of the Classical and Keynesians Theories

Classical economists stressed the self-adjusting tendencies of the economy. They expressed that if there are no government policies, economy would achieve full employment and full potential. Classical economists were noninterventionist in that they did not favor active monetary and fiscal policies by the government to stabilize the economy. Such policies would have no effects on output or employment given the supply determined nature of those variables in classical system (Gul et al., 2014).

On the other hand, Keynesians view the economy as unstable as a result of instability of aggregate demand, primarily due to private investment component. Aggregate demand does affect output and employment in Keynesian view. Consequently, swings in aggregate demand will cause undesirable fluctuations in output and employment in short run. These fluctuations can be prevented by using monetary and fiscal policies to offset undesirable changes in aggregate demand. Keynesians are interventionists, favoring active policies to manage aggregate demand (ibid).

Keynes's recipe for a less uncertain economy consisted of three main elements: measures to stimulate investment, measures to stimulate consumption, and a reform of the international monetary system to prevent the transmission of unemployment from one country to another. The first duty of the state is to ensure enough investment in the economy to maintain continuous full employment. Although cutting taxes might give a temporary boost to investment it will have only a weak and uncertain effect on profit expectations (Skidelsky, 2011).

2.2.2. Market failure theory

A market failure is a situation in which free markets produce inefficient results. Market failures imply that rational decisions of individuals based on self-interest lead to situations that are unfavorable from a societal point of view. The compilations and interpretations of market failures differ. There are some schools of economic thought that neglect the existence of market failures or the need for governments to intervene. Market failures with respect to policies in support of high-growth SMEs can be traced back to three factors: externalities, imperfect competition and imperfect information (Lilischkis, 2011).

An externality is an impact on a party that is not directly involved in a transaction. Externalities imply that prices do not reflect the full costs (negative externalities) or benefits (positive externalities). Imperfect competition means that one or a few agents in the market are able to shape the equilibrium allocation by their own investment, pricing or quantity decisions. Imperfect competition may be due to entry barriers e.g. in the form of high “sunk costs” or increasing returns to scale which may lead to monopolies. Imperfect information may lead to inefficient investment decisions. For example, imperfect information related to market conditions and resource availability can lead to suboptimal investments (Lilischkis, 2011).

2.2.3. State failure theory

State failure theory is the counterpart of market failure theory. It deals with possible failures in governmental decisions, i.e. with inefficient policies. Assuming that governments as well as companies and industry lobby groups act rationally in an economic sense, political decision making is a “game” between these sets of players. It can be assumed that companies and lobby groups maximize their individual utility and the profits of their members, respectively (Lilischkis, 2011).

Governments may have different objectives. Some schools of economic theory assume that governments act in their own interests. For example, governments may seek to increase the probability for being re-elected or to adopt policy measures which are in line with their own ideology or which support specific lobby groups. Policies in support of high-growth SMEs could also be used to pursue such motives. More positively, it could be assumed that governments seek to maximize social welfare. As regards the relationship between governments and companies, state failure can be traced back to one principal source: imperfect information. As regards high-

growth SMEs, policy makers' information is above all imperfect with regard to what companies may actually perform high growth in the future (ibid).

2.2.4. The structuralist theory

One of the prescriptions of the structuralist paradigm was that countries change their institutional structures. The structuralist theory argues that, traditional structures are not effective enough to provide financial and non-financial services to SMMEs. That is, traditional structures such as banks are not able to provide sufficient financial support to SMMEs, due to their lack of collateral. In the structuralist paradigm, development has to include the expansion of new technology and methods of production in order to eliminate the gap between the most advanced sectors of the economy and those that lag behind (Contreras, 2004). The goal is to have an economy where the total output, is divided equally among all of the country's economic sectors. Economic development, thus, can only be achieved through the expansion of those sectors of the economy which have been neglected (Portes et al. 1989). Structuralists state that the government has a role to play in developing their people. For instance, the government has to assist the neglected sectors in accessing loans from financial institutions (Mago& Toro, 2013).

2.3. Objectives of government intervention

Economics can be used to analyze the relative merits of government intervention in the economy in specific areas, but it cannot answer the question of whether there is "too much" or "too little" government activity overall. That is not to say that one cannot find many examples of government programs that economists would consider to be a highly inefficient, if not counterproductive, way to achieve policy goals. Reducing inefficient government spending would benefit the economy; however, reducing efficient government spending would harm it, and reducing the size of government could involve either one (Labonte, 2010).

Government intervention can increase economic efficiency when market failures or externalities exist. Political choices may lead to second-best economic outcomes, however, and some argue that, for that reason, market failures can be preferable to government intervention. In the absence of market failures and externalities, there is little economic justification for government intervention, which lowers efficiency and probably economic growth. But government intervention is often based on the desire to achieve social goals, such as income redistribution (ibid).

The government intervenes in the economy in four ways. First, it produces goods and services, such as infrastructure, education, and national defense. Measuring the effects of these goods and services are difficult because they are not bought and sold in markets. Second, it transfers income, both vertically across income levels and horizontally among groups with similar incomes and different characteristics. Third, it taxes to pay for its outlays, which can lower economic efficiency by distorting behavior. Not all taxes are equally distortionary, however, so there are ways of reducing the costs of taxation without changing the size of government. Furthermore, deficit spending does not allow the government to escape the burden of taxation since deficits impose their own burden. Finally, government regulation alters economic activity (Authority, 2006).

The economic effects of regulation are the most difficult to measure, in terms of both costs and benefits, yet they cannot be neglected because they can be interchangeable with taxes or government spending (ibid).

There are many different ways to measure the size of the government, making its economic effects difficult to evaluate. Budgeting conventions are partly responsible: tax expenditures, offsetting receipts and collections, and government corporations are all excluded from the budget. But some governmental functions, like regulation, simply cannot be quantified robustly (Labonte, 2010).

2.4. What are the risks of public sector intervention?

The existence of a market failure is not a sufficient case for intervention. Public sector intervention comes at a cost. Therefore, it also needs to be demonstrated that the intervention will make an improvement and the benefits of intervention will exceed the costs. The success of cost-benefit analysis, where all the costs and benefits of public sector intervention are considered, depends on the public sector's ability to accurately assess both the costs and benefits of intervention (Labonte, 2010). This is important because the public sector frequently has poor mechanisms available when deciding how to allocate resources. Indeed, government failure frequently occurs because the public sector faces the same, or worse, information problems than the market itself (Authority, 2006).

Public sector intervention may also fail to deliver the anticipated benefit if private agents do not respond to the intervention in the way the public sector thought they would. In particular, there is a risk that public sector intervention may crowd out or displace future activity by the private

sector, such that there is no overall improvement. Consideration also needs to be given to the displacement, substitution and income effects of an intervention. Political failings arise when individual interests override the public interest, for example when special interest groups are successful in lobbying for an intervention for their own rather than the public's benefit. Administrative failings arise primarily because public servants work for others rather than themselves and face different incentive structures to those of the private sector (ibid).

2.5. The concept of Small and Medium Enterprises

So far, there has been no standard, and globally acceptable definition of what connotes "small enterprises" or "medium enterprises" or "small and medium scale enterprises". Within the same country, the definition varies from one institution to the next, from one state or region to another. Also, one particular government or industries may define SMEs in one way, another government or industries elsewhere may define the same SMEs in a different way (Beyene, 2002; Mukras, 2003; Abor&Quartey, 2010). There is no any universal agreement as to what constitute SMEs.

Different countries classify their industries or enterprises based on the criteria they adjudged appropriate, with minor or major dissimilarities and similarities, some of the commonly used criteria for what constitute SMEs are the total net assets, number of employees, sales and investment level (Kimambo, 2005). World Bank (2006) opined that medium enterprises are those enterprises that have at most three hundred (300) employees with an annual turnover not exceeding fifteen (15) million USD. Further to the above, there is distinction between small enterprises that have fewer than fifty (50) staff members and up to three (3) million USD turnover while micro-enterprises have up to ten (10) staff members and one hundred (100,000) USD turnover (Abdullahi et al., 2015).

Recently, the European Union has standardized the concept by categorizing enterprises with less than ten (10) employees as 'micro', those with fewer than fifty (50) employees as 'Small' and those with fewer than two hundred and fifty (250) employees as "medium". In the United States of America, any business with fewer than one hundred (100) employees is classified as "small" while medium scale business refers to a business with fewer than five hundred (500) employees (Oni & Daniya., 2012).

For Ethiopia, the classification of enterprises into small, medium and large scale depends on a number of variables such as level of employment, turnover, capital investment, production capacity, level of technology and subsector. In Ethiopia, an enterprise can be defined as “Micro Enterprise” when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is $\leq 100,000$ ETB for industrial sector and $\leq 50,000$ ETB for service sector. In a similar manner, an enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50, 0001—500,000 ETB for service sector is defined as “Small Enterprise”. Medium enterprise is an enterprise which has more 30 employees & total assets more than 1,500,000 ETB for industrial sector and more than 500,000 ETB for service sector (NSMEDS, 2011).

2.6. Why Small and Medium Scale Enterprises?

Several reasons explain the focus of special policies and programs on SMEs, over and above the simple fact that they account for a large share of total employment. In addition to employment there are various reasons; Small and Medium Scale Enterprises (i) Mobilize funds which otherwise would have been idle; (ii) Have been recognized as a seed-bed for indigenous entrepreneurship; (iii) Promote indigenous technological know-how; (iv) are able to compete (but behind protective barriers); (v) Use mainly local resources, thus have less foreign exchange requirements; (vi) Cater for the needs of the poor and; (vii) Adapt easily to customer requirements (flexible specialization).(viii)SMEs can be just as, or even more productive than larger firms, but credit constraints and various institutional failures that impinge on them especially severely hold them back. Since alleviating credit constraints and institutional failures takes time, special assistance can be a useful second-best approach, according to this argument (Dalitso& Peter, 2000).

2.7. Characteristics of Small and Medium Enterprises

A major characteristic attributed to SMEs is flexibility, and their survival is often ascribed to their adaptability and speed of response to environmental change (Levy & Powell, 2005). Storey and Cressy (1995), state that SMEs are more flexible than large firms hence they bring about innovation in terms of their goods and service. The authors also find that SMEs have the distinctive advantage of being responsive, flexible, flat structured and simple. On the other hand, MacGregor et al. (1998) suggest that the characteristics of SMEs based on the organizational

environment in which most SMEs operate include a small management team; centralized power and control; informal and inadequate planning and control systems; lack of control over the business environment; lack of resources; limited process and product technology; limited market share; heavy reliance on few customers and a chaotic organizational structure. Raymond et al. (1998) posits that SMEs are characterized by low levels of organizational maturity hence planning and control processes are less formalized. Also, decision-making is often the sole responsibility of the owner-manager (Abdullahi et al., 2015).

2.8. Distinguishing feature of SMEs from larger firms

A distinguishing feature of SMEs from larger firms is that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation costs of smaller projects. In addition, SMEs face the same fixed cost as Large Scale Enterprises (LSEs) in complying with regulations but have limited capacity to market products abroad (Daliso& Peter, 2000). It is interesting to note that small scale enterprises make better use of scarce resources than large scale enterprises.

Research in Ghana and many other countries have shown that capital productivity is often higher in SMEs than is the case with LSEs (Steel, 1977). The reason for this is not difficult to see, SMEs are labor intensive with very small amount of capital invested. Thus, they tend to witness high capital productivity which is an economically sound investment. Thus, it has been argued that promoting the SCE sector in developing countries will create more employment opportunities, lead to a more equitable distribution of income and will ensure increased productivity with better technology (Steel & Webster, 1991).

2.9. The role of Small and Medium Enterprises in the economy

Proponents of policies and programs to support small firms have long claimed that they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs” (Nichter&Goldmark, 2005, P. 1; Daniel Agyapong, 2010). Moreover, the micro and small enterprise sector speeds up the competitive strength of a national economy by generating employment opportunities for a lot of the people, adding flexibility and industrial diversification, and making use of resources that may otherwise not be used in the development process (Abeka&Evance, 2011).

The role of the Small and Medium Enterprises (SME) as a catalyst for economic growth and development has been well documented in the economic literature and recognized in most countries. For example, in many of the newly industrialized nations, more than 98 percent of all industrial enterprises belong to the SMEs sector and account for the bulk of the labor force. SMEs enjoy a competitive advantage over large enterprises in servicing dispersed local markets (Sanusi, 2003).

SMEs plays a significant role in countries economy through employment creation, income generation, productivity, proper utilization of resources, technology transfer, revenue generation, internal and international trade linkages, and equal distribution of wealth. (Atsu&Ojong, 2014; Maunganidze, 2013; Oni & Daniya, 2012; Jibrilla, 2013; Beyene, 2002; Smallbone& Welter, 2001; Biru, 2014; Abdullahi et al., 2015; Abor&Quartey, 2010).

In Ethiopia, next to the agriculture sector, the SME is the second largest employment-generating sector (Fiona Meehan, 2004). Thus, the government of Ethiopia gave due attention to the growth of SMEs, especially for women, as a means to reduce poverty and employment creation (Rahel&Issac, 2010). In some developing countries, which have great economic achievement, “SMEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth” (ILO, 2003). Small and Medium Enterprises contribution towards promotion of employment for young entrepreneurs and economic development of the country is widely acknowledged. In contrast, there are strong arguments that supporting and subsidizing SMEs will result in inefficiency, discourage competitiveness and become a bottleneck factor for development of SMEs (Biru, 2014).

The SME sector in Ethiopia is tied up with a number of problems that mitigate its growth and expansion, thereby minimize its vital role in national economic development and improve the women’s economic empowerment (ILO, 2003). The private sector in Ethiopia remains underdeveloped, which accounts for less than 50 percent of total employment in the formal urban sector. But at this time the situation seems to be changing and the SMEs sector is playing a vital role in the industrial development of Ethiopia. It is recognized that this sector provides not only employment opportunities, but it is also an effective means of alleviating poverty and reducing income inequality (BiruAshenafi, 2014).

2.10. Constraints facing SMEs

Small businesses compared to big business worldwide, faces a wide range of constraints and problems, even in effective functioning market economies. These constraints mainly relate to legal and regulatory environment, access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, quality of the business infrastructure in poverty stricken areas and, in some cases, the tax burden (Diale, 2009).

The constraints may differ from region to region, between rural and urban, between sectors, or between individual enterprises within a sector. However, there are certain constraints that are common to all SMEs. These common constraints include lack of capital, difficulties in procuring raw materials, lack of access to relevant business information, difficulties in marketing and distribution, low technological capabilities, high transportation costs, communication problems, problems caused by cumbersome and costly bureaucratic procedures (especially in getting the required licenses), and policies and regulations that generate market distortions (Tambunan, 2008).

2.11. The concept of Enterprise Performance

The term performance is ambiguous, lack agreement on basic terminology, and there is no simple definition and measurement to evaluate the performance of a firm. As a multidimensional construct, performance has several names, including growth, survival, success and competitiveness. For the purpose of this research Performance can be defined as the firm's ability to create acceptable outcomes and actions (Eniola&Entebang, 2015).

The SME firm performance is regulated along the lucky outcome of firms in the market, each domestically, and globally. Facts on performance are beneficial in the conjecture capability of the enterprise thence analyzing how avail or abjectly an enterprise is performing against its set targets (Eniola&Entebang, 2015). This puts the performance as one of the central issues of SMEs. Perceiving market opportunities, adapting to the environment, and possessing certain managerial factors, product innovations, creativity, proactiveness, technological change, networking, are all vital factors in bringing about strategic improvements in firm performance (Soriano, 2010).

While determining a firm's performance, one cannot solely rely on quantifiable measures such as cost and schedule performance and ignore qualitative measures such as customer satisfaction and innovation. Firm's performance measures are market share, profit, inventory turnover, productivity, also known as financial measures of performance (Khan et al., 2014). Performance of a firm is also based on non-financial measures including customer satisfaction, innovation, reliability, data storing capability, workflow improvement, and skill development (Hafeez et al., 2006).

2.12. Measurement of Performances

According to Khan et al., 2014, we can measure organizational performance by the following attributes such as 1) sales growth, 2) employee turnover rate, 3) market share, 4) customer satisfaction, 5) return on investment, 6) return on assets, 7) profitability, 8) owners' satisfaction, 9) customers' referral rates, 10) delivery time, 11) waiting time, 12) new product development, 13) return on investment (ROI), 14) customer retention, 15) competitive position, 16) innovation, 17) product reliability, 18) data storing capability, 19) workflow improvement, 20) skills development, 21) inventory turnover, 22) customer loyalty achieved, 23) levels of employee satisfaction with their jobs, 24) ability of the organization to attract and employ qualified employees, 25) levels of employee retention, 26) shareholder satisfaction and by any of the models reported by various researchers. For the purpose of this study the researcher selected some performance measurements which are compatible to country's strategy. Those measurements are profitability and productivity.

2.13. Government Policies and Small Scale enterprises

Government in partnership with other stakeholders can play a crucial role in shaping the environment in which growing SMEs can flourish, providing appropriate business information, supporting networks and skills development, and ensuring the availability of suitable business finance. Creating an enabling environment and effective support programmes for sustainable growth is not easy, however, and as policy has developed rapidly in recent years, the evaluation evidence from existing policy programmes remains relatively limited (Roper & Hart, 2013).

Central to many support programmes is the provision of business information and knowledge transfer between firms, and between firms and universities/research institutes. Network contacts and relationships with larger firms both nationally and internationally are also often seen as

important as SMEs grow and develop. Beyond the start-up phase, managerial and marketing skills allied with adequate financing and effective protection for intellectual property rights is also vital to sustain innovation and growth (Roper & Hart, 2013).

Customarily, SME policy has been of two types (European Commission 2001). One focus has been on improving the interactions of government with enterprises in terms of regulations, administrative procedures, and taxation. The other has been on the direct provision of various forms of business support. Traditionally, an important aspect of this support has been the range of financial measures that have been implemented. These have included direct grants, subsidized loans, loan guarantees and, increasingly, initiatives to make venture capital more readily available. In addition, there has long been support through specialized types of training and in the direct provision of services concerning information, advice, and various kinds of practical assistance (Lambrecht&Pirnay, 2005).

Entrepreneurship activity in developing countries such as Nigeria is primarily based on necessity. The creations of Government policies for SMEs vary from advanced economies to developing countries and from country to country attributed to variations in social and custom values, the extent amount industry and business settings (Naudé et al., 2011). Sathe (2006) in particular argues that Government regulations and their bureaucratic procedures can hinder as well as facilitate entrepreneurship activity such as new business origination.

The Government can occur up with policies that can boost and support the growth of novel technologies, products, and solutions (Ntiamoah, 2016). On the other hand, Government can likewise seem to hinder SME firm performance when it introduces policy which can restrict the autonomy, as well as the entrepreneurial freedom of some variety. In an effort to resolve the failure rate of SMEs, the Government decided to create the former institution sector sound, stable, honest, dependable, internationally competitive, and to strengthen its ability to provide acknowledgment to the SMEs (Eniola&Entebang, 2015).

Spasmodically the Government will shift these designs and frameworks cause SMEs to improve the way they operate. Performance of SMEs is thus vigorously laid low by Government policies. The Government of the daytime, often amendment laws in line with its political policies. Therefore, SMEs regularly has to be compelled to alterations in the legal framework. These policies will cause a substantial impact on the competitiveness, ambitiousness and expediency of SMEs (ibid).

2.14. The role of government support for Small and Medium enterprises performance

A successful management of SMEs needs a combination of policies and institutions: economic policies on the one hand that have the critical role and the other hand the institutions should play their role for the promotion and encouragement of SMEs (Kraja et al., 2014). We have thousands of SMEs around the world being thus the most important sources of economic developments (Naghi, 2011). Investments by SMEs are a generator of economic growth and social changes in a country's economy.

Although it is clear that entrepreneurs and managers develop small businesses, government can have a certain effect on how firms, particularly small ones, operate. Indeed, government policy and its influence on the institutional environment has become a key focus of efforts to help to improve how small firms develop and economies compete. As a result, almost all European and several other countries have active policies for improving competitiveness of their SMEs (Vadnjal&Nikolovski, 2011).

One of the common components of the market failure argument has been that SMEs are less aware of advice, information and other business services that may be supplied on the market (Gibb & Dyson, 1984). They are also skeptical about the value of services and are not willing to pay for them, which lead to the unwillingness to seek external support (Storey&Westhead, 1996). This argument is frequently used to justify government advice and information programs for SMEs. While this might have been true in 70's and 80's, there is little evidence that this is still a case today (Bennet& Robson, 2000). An extensive survey of the small firms using external advice, consultancy, training and other business services suggest that small firms are just that likely to use these services as any other firm with the possible exceptions of start-up and early stages of growth (Ramsden&Bennet, 2005).

The cornerstone of the startup process is the support to entrepreneurial idea which is a basis to create and exploit opportunity and create value (Van &Wakkee, 2004). By convincing potential employees, customers, suppliers and investors of the legitimacy of the idea, the founder, with a possible back-up by the outside assistance, is able to mobilize the resources that these stakeholders possess on behalf of the developing firm (Delmar & Shane, 2004) which may be crucial element of the survival probability during the start-up phase. Unfortunately, too many of all newly started firms die within the first two years of their operation (Audretsch et al., 2000).

Probably, the most important issue of market failures for small firms is that they face specific barriers which government should help to remove (Bannock & Peacock, 1989). Larger firms find it easier to gain advantages of economies of scale in examples such as purchasing larger quantities, economies in administration, affordability of outside expertise etc. Unfortunately, it is often government itself, which creates disadvantages for small firms thus, raising their average cost of compliance with regulatory and administrative issues which tend to be two to ten times higher in smaller firms comparing to larger counterparts (Cressy, 2000).

The co-operation process between SMEs and external providers of services is often described with the lack of market transparency, problems in the search phase, a lack of co-operation targets and evaluation criteria as well as deficits in the cooperation during the transfer phase lead to a considerable number of SMEs which are disappointed with the services delivered (Vadnjal&Nikolovski, 2011). This problem can be met by the development of new forms of assistance and services. In this context, new learning technologies can be used to foster co-operative learning and networking (Kailer&Scheff, 1999).

2.15. The concept of Support Services for Small Scale Enterprises

Small business Support services are best understood through an analogy of a doctor-patient relationship (Peacock 1985; Sachs 2005). Such a relationship is established on trust, dialogue and information exchange to establish the correct patient diagnosis by ruling out other possibilities linked to their condition (Sachs 2005). In the business context, support services refer to any form of financial and non-financial services (Ramsden& Bennett 2005) provided by both private and public service providers such as banks, accountants, lawyers, consultants, business organizations, government organizations, media and friends (Bennet& Robson 1999).

In this regard, financial services include access to debt and equity capital, grant funding, tax incentives, waivers of duty, government guarantees and interest subsidies, among others (Gibb 2000). Non-financial services include business consultancy, mentoring and networking, financial and business management advisory assistance, the dissemination of best practice, technological transfer, business skills training and so forth.

2.16. Government support Services

Governments focus on designing effective institutions as a means of providing, entrepreneurs with a predictable framework for business and necessary business skills to scale up their operations. As such, a framework is needed where government interacts with micro enterprise

owners to provide them with basic foundational support through its existing agencies. Thus, government support is when government commits itself to give assistance to the public through its policies and institutions (Mago& Toro, 2013).

Government gives assistance to producers or distributors in an industry to prevent the decline of that industry. The support may be in the form of financial and non-financial assistance. Financial assistance mainly refers to subsidies, credits and soft loan guarantee schemes and Non-financial services comprise training, advice or consulting, supply of information and networking beneficiary enterprises in interactive relationships to the benefit of all engaged parties (Mago& Toro, 2013).

2.16.1. Credit/Matching Grant Services

According to Kasekende and Opondo, (2003), this type of intervention is the most widespread type of SME intervention in African countries. These programs consist of a government subsidy with the government reimbursing the costs firms incur on training, marketing, and/or attending trade fairs. This program is justified on the grounds that these investments have positive externalities and that, on their own, firms are likely to invest less than the optimal level (ibid).

Credit subsidies may incur lower interest rates, include a grace period for repayment, or require less collateral. They may also be made as subordinated loans. In cases of insolvency, these loans do not have to be repaid until the claims of all other creditors have been met. This makes it easier for a young firm to obtain external financing, as creditors need have less fear about being repaid (OECD, 2005).

Subsidized credit lines through SME financing programs are popular and are intended to tackle adverse selection and moral hazards in credit markets, problems that result in financial constraints and limits to SME activities. The availability of credit is thought to allow firms to invest and hire new employees and acquire productive assets. These investments are likely to lead to productivity growth (Aivazian&Santor, 2008).

2.16.2. Training and management services

These are based on the idea that market failures that limit firm growth are related to the lack of skills in the workforce. Thus, skills acquired in specific training programs should contribute to worker employability and wages and to firm productivity. for example, through the adoption of more efficient management practices (Diale, 2009)

According to OECD (2013), although there is evidence that skills and training policies have positive effects on large firms, their impact on SMEs is limited, as is their effectiveness for, and indeed ability to reach, the lower skilled workers. Policies and programmes targeted at SMEs have been in existence for decades, but the gap between large and small firms still exists. Solutions to this situation will require both in-depth understanding of the contexts and issues related to training within SMEs, as well as innovation in the responses to these contexts and issues.

2.16.3. Support to local production systems

These are based on the idea that individual firms benefit from agglomeration externalities and coordination. For instance, consider a project in a region specialized in a given sector providing incentives for firms to act collectively (such as training, joint purchases, or joint certifications). Economic theory suggests that formal firms might act together to capture collective externalities, experience mutual growth, and impact local economic performance (Sanusi, 2003). According to Simpson et al., 2012, a successful project that allows firms to benefit from positive externalities generated by collective actions would affect outcomes such as employment and regional growth through: i) the establishment of collective agreements, and ii) specific outputs from collective action. The resulting causal chain is as follows: firms will organize around a common goal, enabling them to capture positive externalities from collective actions. Collective actions are expected to generate intermediate outputs that allow firms to achieve higher levels of productivity and employment and, in turn, positively impact regional economic performance. Interventions related to agglomeration economies also relate to value chains, networks, or clusters (ibid).

2.16.4. Support for innovation policies

These involve funding for improving processes (Lilischkis, 2011), and are intended to capture externalities stemming from innovations. Innovation programs aimed at SMEs might support innovation transfer, R&D programs, and certifications related to innovations (for example, process innovation and/or product differentiation). The rationale is that innovation will impact productivity and growth of firms, which contributes positively to regional and national growth.

2.16.4. Supporting access to external markets

Finding customers is perhaps one of the most challenging tasks for a young firm. Potential customers are unaware of what the new firm has to offer, or are distrustful of a firm that has no track record. This is called the liability of newness. At the same time, investments in marketing to build a reputation and reach customers can be prohibitively expensive for small, young companies. Public support for the marketing efforts of start-ups often includes the organization of trade fairs where new firms can present their products, or the provision of grants to enable them to participate in existing trade fairs (OECD, 2005).

Such interventions seek to tackle information asymmetries that prevent firms from accessing external markets and involve providing training and counseling. The identification and adaptation to external markets generates exports that may lead to increased production, which, in turn, are thought to impact firm profits and employment creation (ibid).

2.16.5. Provision of Infrastructure

The provision of infrastructure includes such things as office space, telecommunication services, electric power, technical equipment and office services, which may be provided free of charge or at below-market rates. The infrastructure is usually made available in specialized incubators or start-up centers funded with public money (Yusoff&Yaacob, 2010).

2.17. Challenges of Government support services in achieving their objectives

There is no doubt that SMEs are regarded as the locomotive that drive the economic engine of growth, employment generation and poverty reduction (etc.) as their operations and investments cover all aspect of economic and business activities and this will remain untouched and unproductive if SMEs capacity are not enhance through empowerment programmes. The past programmes initiated by the Government used to promote SMEs operations and to alleviate poverty and the likes had either failed out rightly or yielded no significance result, due to poor implementation, lack of good mission and vision, inappropriate planning system, inadequate funding system, corruption and political sabotage (Abdullahi et al., 2015).

The obstacles and constraints that affect SMEs from not performing well in order to provide high expected employment opportunity and to reduce poverty in the country are poor or inadequate financing system, poor state of infrastructure, corruption, weak or inconsistency Government policy, poor strategic planning system and multiple tax charge among others(ibid).

Mago and Toro, 2013 conducted a research on South African government's support to small, medium micro-enterprise (SMMEs) and the study found that programs have fallen short of their objectives of providing financial and non-financial services to SMMEs. It is generally agreed that the originally well-intentioned support programmes focus on the main SMME constraints, but suffer from sub-optimal implementation. Contrary to such perceptions, however, the incapacity of support institutions to persuasively raise awareness of their existence and effectiveness explains the low usage of programmes better than their poor implementation.

Maseko et al., (2011) analyzed the impact of targeted government support on SMEs growth and development in Zimbabwe and concluded that government targeted support advanced to SMEs is effective in bringing about growth and development in this sector. However, the forms of targeted support to SMEs from the government are not complete enough to transform SMEs operations into viable businesses that can compete in the global marketplace. The study then recommends that SMEs do not only need financial support from government but also need support in research, quality assurance, marketing, financial management and technology use.

Ben-Caleb et al., (2013) on their article titled 'Empowering small and medium scale enterprises in Nigeria'; they have stated that, SMEs have huge potentials to serve as the engine room for the development of any economy, especially the developing ones like Nigeria. These potentials which include employment generation, rural development, wealth creation etc., will remain buried and unprofitable if SMEs capacity and abilities are not enhanced through empowerment. The past experiences where ad hoc programmes are used to promote SMEs operations and to alleviate poverty had either failed out rightly or yielded no significance result, due to poor funding, lack of focus, political sabotage, poor implementation among others. It is therefore beyond doubt that the underdevelopment of SMEs is a principal reason for the under performance of our economy as well as the increasing and worrisome incidence of poverty in the Country.

According to Gebremichael, (2014) in accelerating the industrial transformation process, reducing unemployment and alleviating poverty, the government of Ethiopia considered SMEs as the strategic sector by recognizing that they play significant role in stimulating business, creating employment and encouraging innovation which is a base for industrialization. However, in some situations, the support and subsidy for SMEs becomes the determining factor in weakening them and make them more dependent. The result of study shows that the

government's support to SMEs declines gradually when they show growth. This means that the support is highest when the business is at starter level, then lesser support when it grows from starter to growing; and even from growing to maturity this may encourage dependency than doing for growth. If the SMEs wouldn't grow; the number of medium level enterprises couldn't increase consequently. Thus, the SMEs have not any interest to grow more and accumulate capital. This obviously led to dependency on government and others which provide subsidy to them.

2.18. Government support for Small and Medium enterprises in Ethiopia

In Ethiopia there are various Micro and Small enterprises development support frameworks which are formulated by the government in order to implement the development directions set on the country's strategy and to create enabling condition by solving problems of the past years. These development support frameworks are being implemented based on the nature of enterprises and level of growth. They are believed to speed up development of the sector and they would be improved progressively. These supports include Human Resource and technological Development support, Market development and marketing supply support system, Finance and credit service support system, Production and sales center development support and System of one center service (New SMED Strategy, 2011).

The major objectives of the development support framework are as follows;

- a) To create direction that enables to provide industrial extension service by focusing on the basis of interest and result, and in areas that have key role to the sector.
- b) To enabled MSE competent in the market so as to ensure their development.
- c) To supply credit on fair interest base through one center service and credit and saving institutions by enhancing saving mechanism, proper utilization of money, and expanding credit warranty services.
- d) Developing technology, production development and distribution by enabling TVET centers for MSE incubation and incoming and out coming of technology.
- e) Enabling production and sales centers to serve for producing models and for growth and transition of enterprises, and supplying the provisions given in the centers in the form of packages.

f) Devising a method through which strong extension service is provided based on the direction of industrial development strategy.

g) Expanding a strong one center service that enabled to be effective.

For the purpose of this study Government support refers to credits and soft loan guarantee schemes, training and consulting service (in terms of finance and managerial skills) and supply of information and networking beneficiary.

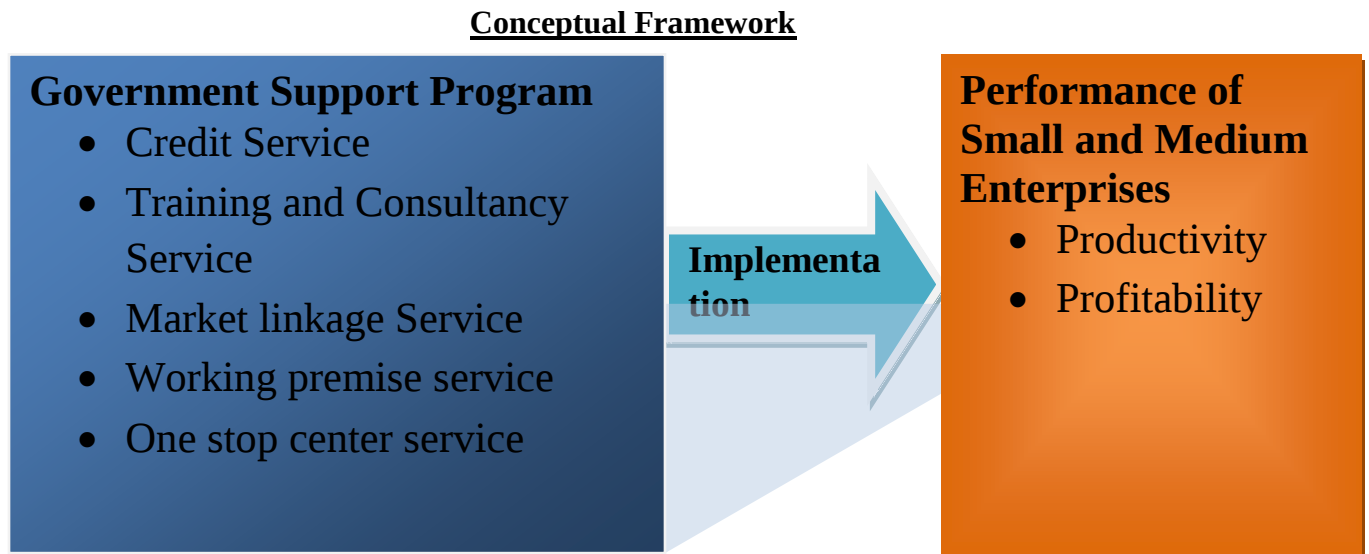
According to Berihu et al, 2014, report it has been clearly indicated that the government, both at federal and regional levels, has put considerable efforts in creating conducive environment for enterprises to function in the economy. These efforts were evidently manifested not only by formulating and promulgating different policies and strategies, but also designing and implementing various support instruments to help enterprises meet the dynamic socioeconomic situations of the country. Despite these efforts, however, the report also showed that in the face of massive demand in the country to move the MSEs involvement further there has, still, been limited capacity to address all supports required at firm levels.

The report also identified a number of good practices which among others include involvements of the younger population—the principal target group in the strategy document, provision of MSEs support packages, and sign of motivational attitudinal changes among the operators as well as capital growth in some MSEs. Despite these good practices mentioned here above, there were also factors limiting the growth the MSEs during the time. Some of such factors include inadequate coverage of the support services, low level of education among the operators, limited relevance of the trainings and exclusion of the most of the private MSE operators from the support services provided by the government.

2.19. Conceptual Framework

The conceptual framework of the study indicates the contribution of government support programs for the performance of Small and Medium Enterprises in Addis Ababa City Administration.

Figure 2. 1 Conceptual framework of the study



Source: own conceptualization, 2017

Chapter Three

3. Research Methodology

Introduction

This research work is a descriptive study with the purpose of analyzing the role of current government support services for the performance of Small and Medium Manufacturing Enterprises and the major constraints affecting the successful implementation of support services in of Addis Ababa City Administration. To achieve the above objective, the following research design, questionnaire design, data collection procedure, sampling strategy, data processing and analysis were used.

3.1. Research Design

This study uses survey method that involves sampling. Survey design is more appropriate to this study, which incorporates questionnaire, field observation and key informant interview in the study area (Creswell, 1994). The study employs both qualitative and quantitative approaches to capture data for the purpose of deep analysis and understanding of the contribution of government support programs for the performance of Small and Medium Manufacturing Enterprises. Document review also employed to analyze the secondary data obtained from related documents.

3.2. Sources of Data

In order to collect reliable data, both primary and secondary sources of data were the major focus of the researcher. To achieve the objectives of this study, the primary data was collected through questionnaires and interviews. Secondary data relevant for this research work were collected from different national documents from FeMSEDA, strategic document, guidelines and other published documents prepared by different governmental and non-governmental organizations. Information extracted from this process provided an insight of government supportive services for small scale enterprises and served as the basis in designing the study and data collection tools.

3.3. Data Collection Techniques

3.3.1. Primary Data Collection Techniques

3.3.1.1. Questionnaire

To collect relevant data from the selected samples, a questionnaire with open and closed ended questions had been applied. The initial questionnaire format was taken from a research by Beri

et al, (2014). And then modified and reshaped by the current researcher. The questionnaire was prepared in English language; however, it was translated through Google Translate into the local language (Amharic) in order to make the questions simple, clear, and understandable to respondents.

3.3.1.2. Key Informants Interviews

The other data collection instrument was interview technique. The information gathered through this method is used to triangulate and complement the information collected through other methods. The data is gathered by interviewing concerned government officials as well as the majority of SME operators, who have better knowledge and experience in the subject matter or in the field. In this study, the key informants are the main actors of the study area such as SME owners, experts and the MSEs development program officers. Face-to-face interview is held about the various issues of government support in order to identify the true nature of the problem. Open-ended discussion is undertaken to gather the required information from the informants.

3.3.2. Secondary Data Collection Techniques

Secondary sources of data are gathered from different official statistical sources (like-National MSE strategy, publications and municipal documents), books, journals, internet sources, research findings of various scholars on the topic under investigation, and other publications.

3.4. Data Collection Procedures

Firstly, to collect relevant data, the researcher randomly selects two sub-cities (Yeka and Bole) among ten sub-cities in Addis Ababa. Then, the researcher went to both sub-cities administration offices to get information about possible Woredas to undertake the research. The managers in Yeka sub city suggested that the researcher to choose Woreda 8,9 and 10 for their concentration of Small and Medium Manufacturing Enterprises. The manager in Bole sub-city recommended Woredas 10, 11 and 12 for the same reason given for Yeka sub city. Therefore, the researcher purposely selected those Woredas for their concentration level. According to the information from Yeka sub-city and Bole sub-city managers, the concentration area of Woredas are located at CMC around Chinese Polytechnic College and GerjiJackos area respectively.

3.5. Sampling techniques

The researcher applied both probability and non-probability sampling methods in the sampling and selection process. Random sampling is applied as a typical method of probability sampling

technique to select the two sub-cities among 10 sub-cities. This method is also applied to select SMEs owners in each sub-city. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. Purposive sampling method was used as a key non-probability sampling tool in selecting three Woredas in each sub-city, which are Woreda 8,9 and 10 in Yeka and Woreda 10,11 and 12 in Bole. The method is used because the researcher purposively selected woredas in each sub-cities, where there is high concentration of manufacturing enterprises.

3.6. Sample size determination

The study population comprises 324 Small and 157 Medium enterprises (total of 481 SMEs), which are working on manufacturing activities in the selected Woredas. Eighty Small and 40 Medium enterprises (total of 120 SMEs), were selected as a sample from the total population. Stratified sampling method is applied for selection of operators for data gathering through questionnaire. The total number of respondents for the survey is selected with the consideration of representativeness.

3.7. Data Analysis Technique

Both primary and secondary sources of data are analyzed using both qualitative and quantitative methods. The statistical package for social sciences (SPSS) version 20 is used for processing and analyzing the data obtained from questionnaires. Descriptive statistics like frequencies, percentage, figures and Binomial Test (to test the significance level of government support programs for SMMEs performance) are applied to facilitate analysis and interpretation of the collected data. Qualitative data obtained from national documents and strategies were analyzed through document review and Qualitative data obtained through interviews are analyzed through qualitative analysis method. Qualitative data analysis method of the study would have four essential major steps: Raw data management, Data reduction, Data interpretation and, finally Data representation. Raw data management or ‘data cleaning’ was the process of preparing and organizing raw data in to meaningful units of analysis. After the data is cleaned the next step is reducing data into themes to make meaning of that data. The third step is Data interpretation, it means data that have similar meaning are coded in several cycles and interpret themes to answer research questions. The final phase of qualitative analysis is data representation (making sense of the data for others) or interpretation and analysis of qualitative data. (Ellen & Marcus, 2003).

3.8. Ethical consideration of the research

The research was based on certain important ethical principles. These are respect for persons, informed consent, confidentiality, honesty and avoiding plagiarism. The researcher has taken great care not to transgress those ethical issues which are considered as bad, and maintained those ethical issues which are considered as good throughout the research process.

CHAPTER FOUR: Data Presentation, Interpretation and Analysis

In this chapter, the data collected through different data collection methods and tools are discussed and analyzed carefully in order to show and assess the role of government support for SMEs in the Manufacturing sector. The questionnaires consist of 39 identical questions for owners of the enterprises. As the researcher indicated in the methodology in the preceding chapters, the questionnaires were prepared for 120 respondents who have been involved in the manufacturing sector. The researcher interviewed all the respondents on each of the questionnaire items and filled the responses on the questionnaire items. Alternative and convenient schedule were arranged with respondents that were busy based; keeping on their willingness. In this manner, the response rate is 100%.

The first section presents major types of government supports provided for Small and Medium Enterprises in Addis Ababa. The second section presents the findings from descriptive data collected from sample Small and Medium Enterprises in the manufacturing sector and findings from interviews with concerned government officials. The third section presents major implementation constraints, which are hindering the successful implementation of government support services. The analysis was made in step-by-step presentation for the purpose of triangulating the results at one hand and to ensure that the findings are discerning from substantive evidence.

The results of the whole survey comprise the socioeconomic and demographic characteristics of the surveyed SMEs, types of government support and the regulatory environment, significance of supports for the performance of SMMEs, along with the challenges and prospects of supports implementation process, are examined with their implications on policy and decision making purposes.

To fulfill the aforementioned objectives, the survey has employed different methods in analyzing the collected data using SPSS software. Descriptive methods like frequencies and percentages have been used at different instances to characterize the raw data and make the numbers transmit enlightening information to the reader. In addition, tables, Pie chart and graphs have also been extensively utilized to achieve the same end.

4.1. Major Government Support services for Micro, Small and Medium Enterprises

Based on secondary data obtained from the National Micro and Small Enterprises Development Strategy and data from interview with concerned government officials, the following support services are being given to Micro, Small and Medium Enterprises by the Ethiopian government.

Federal Micro and Small Enterprises Development Agency along with micro finance institutes and technical and vocational training institutes are the three implementing bodies that are responsible for implementing the national MSE strategy. There is an MSE council that oversees policy implementation and coordination. The council has steering committees which hold regular and extra ordinary sessions to deliberate on the challenges MSEs face and give strategic leadership to the sector. In addition to creating a conducive business environment for MSE growth, Ethiopia extends direct policy support to MSE operators. The direct policy support includes access to markets, access to finance, access to industrial extension, access to training and technological support, provision of physical infrastructures, access to working and selling spaces and other handholding supports(EMSEDS, 2011).

4.1.1. Credit service system

The main input to start-up and expand business is credit. Micro Finance Institutions are responsible to facilitate and formulate system that helps enterprises to carry out credit service on the basis of their growth level. The credit and saving services handled only through MFI. First Credit guarantee fund will be establishing by regional state, and then MFI will share responsibilities in delivering credit guarantee and system will be accomplishing with great care.

Enterprise may pay 1% service fee so as to sustain credit guarantee fund system. The credit guarantees cover both money and lease machine and also deliver full guarantee to those at start up level. Creditors should save 20% in advance to get credit guarantee. Exceptionally enterprises involved in export product and growth focus should save 15% to be beneficiary from credit guarantee. There will be a system that helps for follow up of proper utilization of the money taken from MFI.

Pay back/ refund of credit would be decided based on probation period and nature of the business. The credit pay back /refund of period consider the time that given service to other creditors and are not exceed more than 36 months. MFI and public officials are responsible to

collect the non-paid loan for checking whether they use the money properly or not in order to support in the process.

4.1.1.1. Lease machine services system

This program is intended to help MSE who have collateral problem considering the role they play in the effort of achieving the Gross and Transformation Plan of the country. Lease machine is established by Commercial Bank of Ethiopia and is implemented intensively. Lease financing program is run by CBE and MFI jointly and it is accessible for all MSE found in urban and rural areas.

Saving program for lease machine /investment materials is a program intended to solve micro and small industries capital/asset problem and enable to get loan without guarantee. Accordingly, operators/actors can get 60% loan/credit from bank when they save 40% in bank, while the user saves his/her money for at least 2 years, 3 years is for repaying loan.

Amount of interest paid to users/clients of the programs is determined by national bank of Ethiopia /NBE/ and based on national inflation rate. Accordingly, the interest rate is 5.5%. The interest for 60% credit is 7.5 by adding only 2% believing that it encourages clients.

4.1.2. Training and consultancy service system

Conducting effective, continuous and appropriate trainings that help MSE to enhance production and sales services, supplying new products based on market demand is vital. Accordingly, the following trainings are intended to MSE through Technical Vocational Education and Training (TVET).

- a) Providing training based on their interest and enhances productivity, production and services quality.
- b) Providing training of improving product development and production process based on market.
- c) Support MSE to get ability certificate on products and services sector they are involved.
- d) Providing appropriate training, advice and support to enable enterprises competent internationally by ISO.

4.1.3. Industry extension service

The industrial extension supports include activities such as organizing information, providing training on entrepreneurship and trade management, technological development and growth selection of technological transfer, marketing productivity quality improvement and ISO and include analyzing and transfer best experience. Accordingly, the services are provided through TVET institutions in organized form.

In order to provide the above mentioned Human resource development and technology growth support in full scale, the industry extension service provided to MSE must be first based on the direction of industry development strategy and then on research/study that identify MSE problems and implemented/organize service within the plan.

4.1.4. Production and sales centers

Production and sales centers are organized to provide and coordinate to those who involved in production and service business in towns and other areas; and to those have interest to use. As utilizing the centers help to facilitate production material to use in common, to provide training on market, technology, advising services; enterprise can acquire ability and capacity that help them for transition and growth.

It is to enable enterprises competent enough by facilitating access to production service, fulfilling infrastructure, supplied by constructing building and sheds on fair fee/rent basis, and to administrate clusters in uniform and transparent means.

Enterprise will be given product and sales centers on their business nature and production ability basis, and they will pay rent 25%, 50%, 75% and 100% in the first year, second year, third year, and fourth year respectively.

4.1.5. One center service

One center service is a service established to provide MSE to be involved in production and services legally, to be beneficiary from government support and to enable to provide services in an integrated, transparent and efficient way.

Objective of the center is to ensure legality of enterprise, facilitate enterprise growth and transition process through supplying services in transparent, effective and efficient means.

The service is organized and provided at districts, sub-cities and city level on the basis of the existing environment and actors size/number. The organization encompasses experts who facilitate and execute credit service delivering information and advice and, networking/linking actors who need industrial extension service with TVET. Regulations, manuals and documents would be organized for implementation; such kind of organization helps not only the transition and growth enterprise but also ensures benefit of the community and creates competency in the market.

4.1.6. Market development and marketing supply system

To realize the development of MSE there should be suitable market as it is difficult to create wealth and job opportunities without availability of sustainable market. There must be strengthening and implementing of various market system and function to realize MSE's fast development. In this respect, the following market supports are designed.

Enterprises would be benefited from export market by supporting medium and higher manufacturing enterprises to get higher export market and integrated/networking MSE with them. Similarly, it is applicable with those produce import products.

Based on government procurement systems, medium and higher contractors involved in domestic construction would encourage giving access to MSE in subcontract. In order to make MSE beneficiaries from the created market of subcontracting, integrated support will be given on detail plan basis. For the above mentioned detail implantation manuals of subcontracting is formulated and implemented through federal MSE development agency.

By identifying all the manufacturing and services needed by government, marketing networking is created with MSE in outsourcing market system form. In order to supply standard products and service sustainably, integrated support is given on detail plan basis. Franchising marketing, legal frame work and system would be formulated and implemented as there was no franchising marketing experience in the past years.

4.2. Presentation and Analysis of data collected from Small and Medium Enterprises owners

4.2.1. Small and Medium Enterprises owners profile

The following section illustrates survey results of owner's profile in terms of age, sex, educational status, and experience in relevant business enterprise.

Table 4.1 Demographic features of operators

Sex	Frequency	Percent
Female	26	21.7
Male	94	78.3
Total	120	100.0
Age structure	Frequency	Percent
18-25	5	4.2
26-35	48	40
36-45	49	40.8
46-55	13	10.8
Above 55	5	4.2
Total	120	100
Completed level of education	Frequency	Percent
no formal schooling	1	0.8
primary school	11	9.2
high school	50	41.7
vocational school	28	23.3
university/college	30	25
Total	120	100
Current experience (in years)	Frequency	Percent
less than 3 years	34	28.3
3-5 years	41	34.2
6-10 years	23	19.2

more than 10 years	22	18.3
Total	120	100
Prior job	Frequency	Percent
on similar activities	65	54.2
Employed	38	31.7
no job	17	14.2
Total	120	100.0
Prior experience on the prior job	Frequency	Percent
less than 3 years	11	9.2
3-5 years	22	18.3
6-10 years	4	3.3
more than 10 years	28	23.3
Total	65	54.2

Source: current sample survey, 2017

4.2.1.1. Sex Composition of respondents

As it is shown in Table 4.1, larger proportion of small and medium enterprises 78.3 % are owned by male owners. Female owners constitute about 21.7% in the sampled enterprises. This indicates that there is much pronounced gap between the proportion of female owners and male owners. This perhaps may be due to differences in gender related culture. According to Nichter and Glodmark, (2005: 16), women entrepreneurs face a constrained business environment where culture dictates access to market, education and business skills. According to these studies, disproportionate domestic obligations limit competitiveness of women entrepreneurs to enjoy benefits of additional growth opportunities such as visiting multiple markets to purchase cheaper inputs and tap market demand.

Although one of the goals of national employment policy is to uplift the welfare and unleashing the potentials of women, the achievement on the ground still needs further efforts and commitment on the part of all actors particularly those involved in the implementation of the policies and strategies.

4.2.1.2. Age Structure of Owners

As shown on Figure 4.1 Most owners (80.8%), of sample small and medium enterprises surveyed have ages between 26-45 years that are in the economically active age bracket. This goes in line with the provisions indicated in the Ethiopian MSE strategy that the youth are the main targets of the policy. This age structure is consistent with the nature of the business under consideration, i.e. laboriousness and limited access to infrastructure and machineries, which may not always allow aged people to participate in such activities as freely as their younger counterparts. The finding also indicates that SME operation is playing a vital role in reducing the youth unemployment problem that Addis Ababa is currently suffering from.

4.2.1.3. Educational Background of owners

Nichter and Glodmark (2005: 15) explained that the overall educational level in developing countries and the very educational characteristic feature of small firm owners happens to dictate firm growth. They further explained that owners/ managers with better educational background tend to be more productive and formal education enables them enhance their production, management, and marketing skills.

In line with the previous empirical finding, the survey result indicated on the following Figure 4.1 shows most (40.7) of owners of sample small and medium enterprises surveyed in both sub-cities have attended high school as a highest level of education, next to university/college (25%) which indicates that considerable number of SMEs have adequate educational and technical background needed for production. And few Owners 23.3% have attended TVET education, which indicates that graduates of TVET colleges has not been that much absorbed in the SMEs sector.

4.2.1.4. Current and Prior Experience

According to the finding on Table 4.1: Currently, about 81.7 % of owners of small and medium enterprises have relatively adequate experience, i.e. more than three years, of operating business enterprises, while about 28.3 % of the owners of sample small and medium enterprises have one to two years of experience.

As could be observed from Table 4.1, about 54.2% of owners of small and medium enterprises were on similar businesses before being organized by government. The rest 31.7% and 14.2 % were employed and unemployed respectively. Among 54.2% owners who were on similar businesses before 23.3% of them have more than 10 years of experience before starting to operate the current business enterprises. This finding indicates that they had sufficient experience on the area they are currently working on, which can have a positive impact on their current performance.

This can be compared to empirical studies conducted in other areas. For instance, a study by Mead and Liedholm, 1998; Parker, 1995, cited in USAID (2005: 15) in Kenya acknowledges the significance of business experience for firm performance; and experience of more than 7 years in their own business firm and prior experience in similar business activities have had a paramount importance for the success of business firms. According to these researchers, business experience in small firms capacitates the owners to have contact for obtaining business opportunities, financial resources and alleviating management challenges.

4.2.1.5. Challenges to SMMEs performance

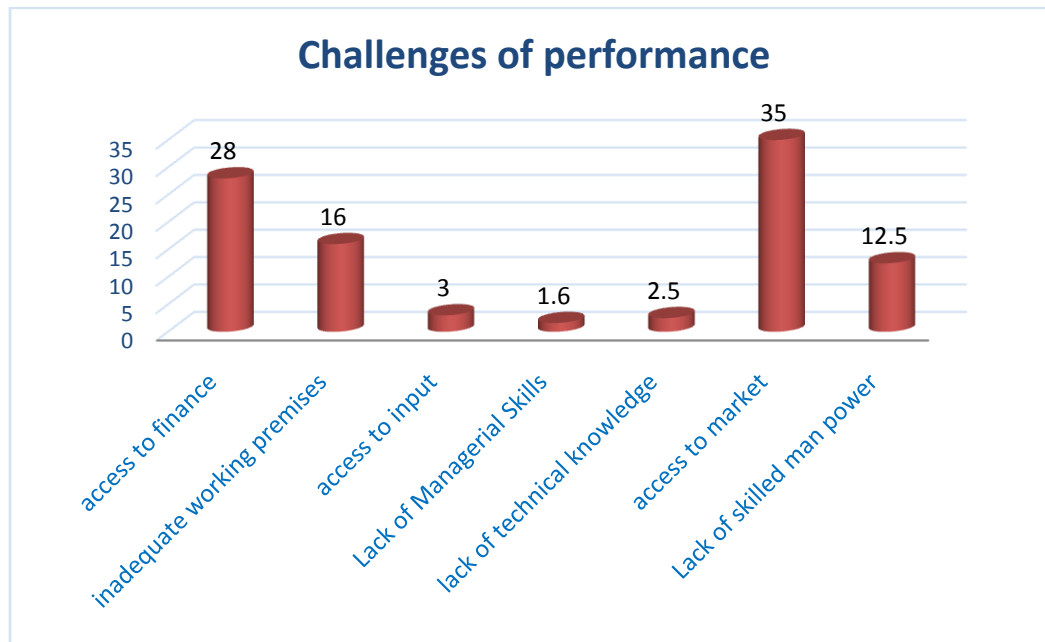
According to Abdullahi, (2010), the problems affecting SMEs performance are inadequate finance, inadequate infrastructural facilities, lack of sound strategic planning system, multiple taxation, restricted market, unfavorable Government policy and corruption.

Some of the challenges which hinder the performance of SMEs are internal, while others are external to the enterprise. The internal constraints include lack of capital, difficulties in procuring raw materials, lack of access to relevant business information, difficulties in marketing and distribution, low technological capabilities and the external constraints includes high transportation costs, communication problems, problems caused by cumbersome and costly bureaucratic procedures (especially in getting the required licenses), and policies and regulations that generate market distortions (Tambunan, 2008).

The data collected from sample enterprises reveals that most of the SMEs complain about lack of access to market or absence of linkage to market (35%) as a major constraint to sell their products and followed by lack of finance (23%) to expand their business; while the third constraining factor is lack of displaying shop (16%) to display their processed products. This shows that there needs to be a concerted effort from both the government and other public &

private side to reduce these barriers that actually stifled the performance of the enterprises, of which the main is access to market.

Figure 4.1 challenges of performance



Source: Current Sample Survey, 2017

4.3. Practice of Government Support Services for SMMEs

There are many external factors that impacts firm performance. This mainly includes supports enterprises receive from local government bodies, which are clearly mentioned both in the old and new MSEs strategies of Ethiopian government. The major ones, among others, include availing credit service system, trainings and consultancies, working premise (clustering), market linkage and one-stop-services and others to the enterprises improved performances. Hence, the researcher attempts to look at the availability and significance of support services being given by the respective government bodies in Addis Ababa City.

4.3.1. Credit/loan service system

Finance plays a central role in enterprise development but this is only possible if it is accessible and reasonably priced. While SMEs are increasingly seen as playing strategic role in economic growth and development, they suffer from limited availability of financial resources to meet a variety of operational and investment needs. Previous studies by Kasekende and Opondo(2003).

have highlighted some difficulties SMEs experience in accessing loans from financial intermediaries to finance working capital and investment needs. According to them some of the reasons why SMEs find difficulties in accessing finance include lack of collateral, high level of interest rate, limited management and technical skills, lack of credible financial accounts, limited access to market, limited capacity of MFI and institutional failures from supporting government bodies.

It is clearly indicated in the strategy that the Ethiopian government facilitates provisions of credit services to micro, small and medium enterprises in the nation during the specified time. Though such supports are very supportive for the performance of SMEs, availability and quality of this support instrument has its own impact on their performance.

4.3.1.1. Significance of credit service for SMMEs performance

As indicated on Table 4.2, In terms of productivity, among SMMEs which obtained credit service, the majority 74 % of sampled SMMEs said their productivity increases after they obtained the credit service and 26 % of them said there was no change on their productivity after they obtained the credit. In terms of profitability, the majority 71% of sampled SMMEs said their profitability increases after they obtained the credit service and 29% of them said there was no change on their profitability after they obtained the credit. Based on the above finding the researcher conducted a Binomial test to identify the success of the credit service to improve the productivity and profitability SMMEs. From the binomial test on Table 4.2, both productivity and profitability of the SMMEs enhanced because of the credit service from government. Since the p-value (0.000) and P-value (0.002) are less than the level of significance ($\alpha=0.05$).

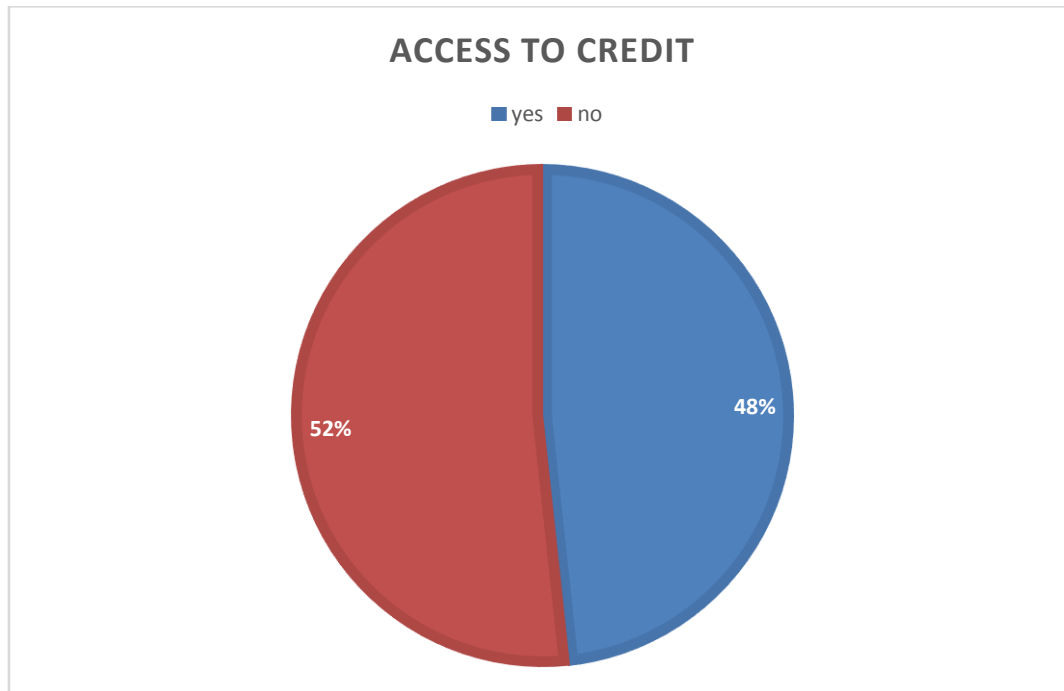
Table 4. 1Binomial Test for the role of credit service to productivity and profitability of SMMEs

Credit Service	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
How do you evaluate your productivity after you obtain the loan?	Group 1-no change	15	.26	.50	.000
	Group 2-Increase	43	.74		
	Total	58	1.00		
How do you evaluate the amount of your profit after you obtain the loan?	Group 1-no change	17	.29	.50	.002
	Group 2-Increase	41	.71		
	Total	58	1.00		

4.3.1.2. Access to credit

The data collected on this issue reveals that the majority of the sample SMEs (52%) had not received any credit service.

Figure 4. 2 Access to Credit service



Source: Current Sample Survey, 2017

This may provide rooms to look into why these SMEs failed to access loan services or as to what was wrong with the system. According to the interview with concerned government officials, one of the plausible reasons for the failure to provide credit service to the enterprises is unavailability of sufficient money to be lent to all SMEs existing in the sector.

The other problem stated by the interviewed enterprise owners is the amount of the credit provided by MFIs is not sufficient to expand their business and the credit offer is always less than the amount they require, because of this reason most of the enterprises are discouraged to take credit and they prefer not to take the loan if it is not going to make a significant contribution to expand their business widely.

According to the finding on Table 4.3 more than half 53.3% of the sample enterprises had not received credit service from microfinance institutions at the initial stage of their establishment.

Among the enterprise which have received loan 22.5% of the sample enterprises have acquired less than 50% of their initial capital from microfinance institutions and only 23.2% of them acquired more than 50% of their initial capital from microfinance institutions. The current proportion of their capital from microfinance institutions is also similar with their initial proportion of their capital from microfinance institutions. This implies that there is no improvement in the amount of credit provided by IMFs to enterprises.

Table 4. 3: Initial and current proportion of enterprises capital from government

Initial capital from government loan	Frequency	Percent
None	64	53.3
15-25%	7	5.8
26-40%	11	9.2
41-50%	9	7.5
above 50%	28	23.2
Total	120	100.0
Current capital from government loan	Frequency	Percent
None	62	51.7
15-25%	6	5.0
26-40%	9	7.5
41-50%	10	8.3
more than 50%	32	26.7
Total	120	100.0

Source: Current Sample Survey, 2017

Another credible reason for low credit penetration was the bureaucracy which might push away potential borrowers. There are some enterprises complaining about the existing system, for instituting a number of different criteria on borrowers to be eligible for the service. For instance, borrowers are obliging to save about 20% of their revenue to be eligible for borrowing from micro financial institutions. In addition to saving 20% of their revenue, they are also obliged to

provide reliable collateral like evidences of house and car ownerships, which most of them found it difficult to fulfill.

As indicated on Table 4.4, the other critical barrier is the amount of the interest rate of the credit, most of the interviewed enterprises especially those who haven't received loan from MFI indicates the amount of the interest rate as a discouraging factor to take credit. And among the sample enterprises which have received the credit service from MFIs 41.4% of them said the interest rate is unfair and 5.2% of them said it is very unfair, because it doesn't consider their capacity and makes it difficult for them to pay back on time.

Table 4.4 Fairness of the interest rate

How do you evaluate the degree of fairness of the interest rate?	Frequency	Percent
very fair	1	1.7
Fair	30	51.7
Unfair	24	41.4
very unfair	3	5.2
Total	58	100.0

Source: Current sample survey, 2017

Another critical cause for the inaccessibility of credit service is the difficult process required to pass in order to get the service. As indicated in Table 4.5, almost half 48.3% of the operators found the process of getting credit difficult and 12.1 % operator found the process very difficult. Only 39.7% of operators found the process to be simple.

Table 4.5 Process of getting Credit

How do you evaluate the process of getting loan?	Frequency	Percent
Very Simple	0	0
Simple	23	39.7
Difficult	28	48.3

very difficult	7	12.1
Total	58	100.0

Source; Current sample Survey, 2017

The other problem is that potential borrowers do not use the loan for the purpose they requested and acquired the loan. They usually observed using the loan for personal consumption and expenses other than their operation in their business. At the end they failed to return the loan at the intended time. Therefore, these and many other problems related to credit services should be assessed to put in place appropriate measures to bring about loan extension to a higher level.

What makes this support service different from others is that the loan service has not reached the majority as other support services like the training and working premise. This shows the extent of the extra distance remaining uncovered in terms of availing the loan and related services to the MSEs and its operators.

4.3.2. Training and consultation support

The other support instrument that small and micro enterprises are entitled to receive is training that enhances production and financial skills of operators. The strategy has provisions for such trainings and clearly indicates that MSEs need to have a symbiotic relationship with vocational schools and other trainers in the market so that their operations are supported by trainings these schools provide.

4.3.2.1. Significance of training services for the performance SMMEs

As indicated on Table 4. 6, 55% of the sample SMMEs said their productivity increases after they received the training on production skills and the rest 45% said there was no change on their productivity after they received the training on production skills. This finding is also the same with the finding for the role of production skills training for the profitability of SMMEs. From the binomial test on Table 8, both training on production skills and financial and managerial skills are not significant to enhance the productivity and profitability of SMMEs. Since the p-value (0.397) is greater than the level of significance ($\alpha=0.05$).

Table 4. 6 Binomial Test for the role of training on production skills to productivity and profitability of SMMEs

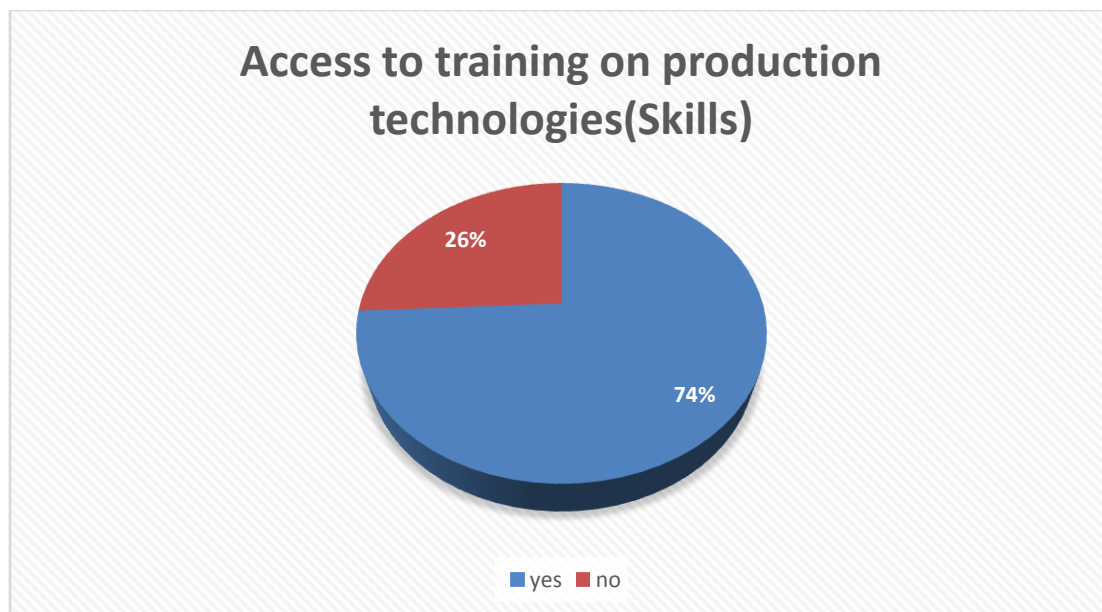
	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
How do you evaluate your productivity after you obtain the training?	Group1-no change	40	.45	.50	.397
	Group 2-Increase	49	.55		
	Total	89	1.00		
How do you evaluate the amount of your profit after you obtain the training?	Group1-no change	40	.45	.50	.397
	Group 2-Increase	49	.55		
	Total	89	1.00		

4.3.2.2. Access to training services

According to OECD (2013), although there is evidence that skills and training policies have positive effects on large firms, their impact on SMEs is limited, as is their effectiveness for, and indeed ability to reach, the lower skilled workers. Policies and programmes targeted at SMEs have been in existence for decades, but the gap between large and small firms still exists. Solutions to this situation will require both in-depth understanding of the contexts and issues related to training within SMEs, as well as innovation in the responses to these contexts and issues.

Similarly, the data collected on availability of formal training on production technologies (skills) show that among sample SMEs surveyed 26% of them had not received any of it so far.

Figure 4. 3 Access to formal training on production technologies (skills)



Source: Current Sample Survey, 2017

According to data collected on availability of formal training on management and financial skills, among sample SMEs surveyed 35% of them had not received any of it so far.

Figure 4.4 Access to formal training on management and financial skills



Source: Current Sample Survey, 2017

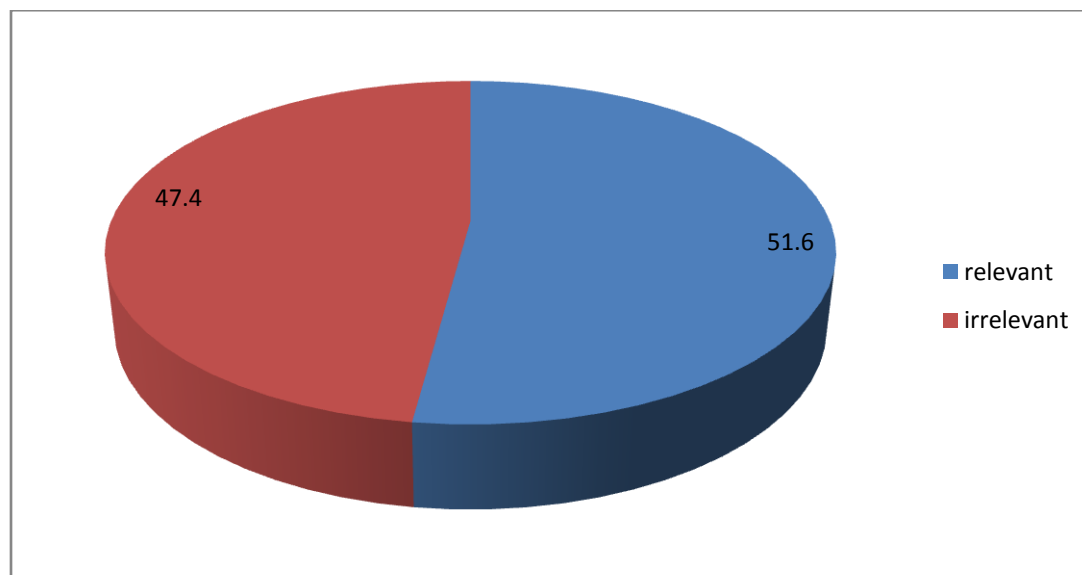
According to the interview with SME owners who didn't received the training on production skills; the major reason why they didn't receive the training is lack of need assessment before giving the training. The area of operation of enterprises' and related technical and operational challenges must be investigated before providing the training. This is because supports being provided by the government may meet or miss the targets intended depending on their area of operation.

Sometimes a production training provided on the manufacturing sector could be considered as wastage of resource, because most of the enterprises in the sector have enough prior experiences on production issues. It may not still be priority to provide training on human resource management for enterprises with no experience while the operator needs more on the enhancement of production skills. Hence, it could be remarked from the data that more works may be required in to bring about some changes in the capacity of these enterprises.

The other problem is the time of the training. The time convenient for the trainers might not be convenient to the trainees and the time convenient for trainees might not be convenient for the trainers. This time inconvenience may negatively affect the process and availability of the training for the enterprises. In addition, there is shortage of experts who can provide training for the large number of operators in the sector. This becomes the other reason hindering the accessibility of training to large number of enterprises as desired.

There were some operators who honestly indicated during the data collection that some of the so called trainers were less qualified, less experienced and were so new to the job to handle things. Even in some cases, operators were heard of articulating for having better knowledge and experience than trainers. Therefore, the government need to intervene on enhancing the number and capacities of trainers and extension agents to improving the content of the training themselves. As shown on figure4.4, 47.4 % sample SMMEs found the training irrelevant to their operational area.

Figur 4.5Relevance of the training service



Source; Current sample Survey, 2017

Regarding financial management trainings, even if they received financial management trainings, most of the owners are observed to employ an accountant to manage their financial activities. This is because they are busy with production activities. But most of the time the employed accountants are observed to be beguile. Therefore, recently the government is made to incline in giving them auditory service for enterprises. Since numbers of enterprises are being dissolved for the problems associated with financial handling.

Not only these training services, but the majority of other support services mentioned in the policy is mostly observed reaching to only limited MSEs, mostly organized under the MSE development or related offices, like the cooperatives bureaus. Nevertheless, as most operators have similar economic and social background, all government bodies are expected to exert more efforts to reach all business establishments falling under the category of MSE as defined in the strategy.

4.3.3. Market linkage Support

Addis Ababa Small and Medium Enterprises development bureau shall form market linkage between enterprises and concerned stakeholders such as Ethiopian Roads Authority, Addis Ababa Housing Construction and Development Agency, and Addis Ababa water and sewerage Authority according to the enterprise's capital, production capacity, product quality and their growth level. Since it is challenging to integrate all enterprises at once, the process of integration shall be made based on competency. The other way of integration is giving space for the exhibition and bazaar on the occasions of holidays.

4.3.3.1. Significance of market linkage support for the performance of SMMEs

As indicated on Table 4.7, 71% of the sample SMMEs said their productivity increases after they get the market linkage support and the rest 29% said there was no change on their productivity after they market linkage support. This finding is also the same with the finding for the role of market linkage support for the profitability of SMMEs. From the binomial test on Table 9, market linkage support is significant to enhance the productivity and profitability of SMMEs. Since the p-value (0.001) is less than the level of significance ($\alpha=0.05$).

Table 4. 7: Binomial Test for the role of market linkage support to productivity and profitability of SMMEs

	Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
How do you evaluate the volume of your sales after you get the market linkage?	Group1-no change	48	.71	.50	.001
	Group 2-Increase	20	.29		
	Total	68	1.00		
How do you evaluate the amount of your profit after you get the market linkage?	Group1-no change	48	.71	.50	.001
	Group 2-Increase	20	.29		
	Total	68	1.00		

4.3.3.2. Access to Market linkage support

Previous study by Kristin, (2007), which says when designing interventions to develop markets for SME services, it is important to bear in mind a basic principle: all else equal, subsidies distort markets. If their long-term objective is to promote the development of markets, one should ask whether their market-development effect outweighs their market-distortion effect. In turn, this depends upon whether the subsidy leads to a solution to the market failure that inhibited market development in the first place. Some of market distortion effects can be characterized by inadequate Government support and patronage, lack of adequate marketing infrastructure/ network facilities continue to be a greater challenge for marketing and sale of MSME products.

Table 4.8: Access to Market linkage

How often did you get market linkages to government projects and/or others?	Frequency	Percent
Regularly	5	4.2
less frequently	35	29.2
only few times so far	28	23.3
not at all	52	43.3
Total	120	100.0

Source; Current Sample survey 2017

As indicated in Table4:8, Very few 4.2% of the sample enterprises are regularly getting the market linkage support, other 29.2% get the market access less frequently, and 23.3 % of them get the market access only few times so far. The majority 43.3 % of the enterprises did not get access to market at all.

According to the data collected from interview, the major problem on market linkage support is corruption. Officials are taking bribe and working in favor of their friendly counterparts. They are also observed to work towards giving integrations for some enterprises repeatedly, this implies there is unfair market linkage distribution among enterprises.

Another critical problem is the profession and specialization areas of the administrative individuals are completely different from the area of operation on which they are currently working. They don't have the necessary knowledge and experience about their working area. For instance, if the managing director of market linkage on construction area is an accounting graduate it would be difficult for him to check the quality of the construction activities and to identify, request and approve the necessary raw materials for the construction. They may also face difficulties to identify and select competent enterprises working with quality standard. Thus it will be difficult to work together by agreement.

The other big problem with market relation support is that government organizations working with the enterprises do not make payment on time, which makes enterprises unable to purchase or procure the required raw materials on time. Moreover, it has liability or losses, which make the companies lack interest and trust on market relation support.

The major problem on the side of enterprises is the intention of waiting only from the Government to access them with market and they aren't exerting any effort to locate market by their own effort. The other problem is when they are accessed with the market opportunity, they strive to enrich themselves shortly through producing substandard products and this may negatively affect the sustainable growth of their business. For instance, one of enterprises facilitated with the market to produce honey observed to mix sugar in the standardized honey after some while and completely loses the market and blocks the opportunities of other enterprises. Thus outlook reform must be brought forward on the enterprises.

4.3.4. Access to Market Information

The other way of supporting enterprises to access a market is providing them with market information. The government tries to reach the enterprises through its agents and one stop centers. This kind of support plays an important role in developing favorable transaction environment for SMEs and to improve the capacity to process and assess information in order to make more rational decisions which lead to minimize transaction cost.

Priyanath and Premaratne., (2011) conducted a research on the Sri Lanka transaction environment to Access Information and they found out that SME development programs failed to develop conducive transaction environment for SMEs to easy access to sufficient information. Salient feature is that all the programs provide their services only for selected SMEs. It means

that these programs have not contributed to develop vigorous transaction environment for all SMEs to access quick and low cost information.

Table 4.9: Access to Market Information

How do you evaluate the accessibility of market information from government?	Frequency	Percent
very accessible	2	1.7
Accessible	40	33.3
not accessible	73	60.8
very difficult to access	5	4.2
Total	120	100.0

Source: Current sample survey 2017

Similarly, as indicated on Table 4.9, according to the collected data from sample enterprises 60.8% of them say market information from government is not accessible to them. And only 35% of them said market information from government is accessible to them. This implies that enterprises are not benefited from the information provided by government, which is not as planned by the government.

4.3.5. Access to working premise (Clustering)

It is obvious that supports mentioned earlier are not the only ones the strategy envisages to provide to the MSEs in the planning period. There are still other support instruments like clustering of MSEs, whose impact has been proved to be successful in many corners of the world. To reap the benefits of economies of scale created because of large scale operation, the strategy the Ethiopian government devised also gave due attention to the issue.

When asked about the support of this clustering to the performance of their enterprises more than 90% of them have given their approval for the support, but given that it is not implemented properly as envisioned in the strategy.

Table 4.10: Access to working premise

the support of the premise for the performance of the enterprise	Frequency	Percent
very helpful	72	60.0
Helpful	46	38.3
Useless	1	.8
Harmful	1	.8
Total	120	100.0

Source; Current Sample survey 2017

It is evident that the performance of many businesses is also dependent up on the amount of working premise availed to them. Especially, newly created ones, as they cannot afford to rent/buy the land on the market value, need to be supplied with land. And, in most cases this variable affects their performance. For instance, operations like metal and wood work are land intensive activities and their performance highly depends on the availability of land. That is why the MSE strategy, promulgated by the Ethiopian Government, envisaged supplying land to the operators so long as it is within the reach.

In Addis Ababa as opposed to scarcity of land in the city, the majority of SMEs are given access to land. This is an indication that the issue is not really the scarcity of urban land; rather, it is about awareness and commitment from both sides. As the data indicates all of sample enterprise operators (100%) have received plots of land. Therefore, it seems that local officials in the city of Addis have better understanding of the strategy, or are faced with closer monitoring as they are nearer to the center or it could still be because the SMEs in Addis Ababa are better informed about their rights to get land for their operations.

According to table 4.11, access to working premises also enables 30% of the sample enterprises to save 1000-3000-birr rental cost, 36.7% of them to save 4000-6000-birr rental cost, 18.3% of them to save 7000-10000-birr rental cost, 14.1% of them to save more than 10000-birr rental cost. This implies if the working premises were on rental basis the enterprise would pay the above amounts of birr each month.

Table 4.11; Rent Price

if the working premise was acquired on rental basis how much would you pay as a rent per month?	Frequency	Percent
1000-3000 birr	37	30.8
4000-6000 birr	44	36.7
7000-10000 birr	22	18.3
10000-13000 birr	13	10.8
14000-17000 birr	4	3.3
Total	120	100.0

Source; Current Sample survey 2017

However, the researcher observed that, even if the principle of clustering is to integrate firms whose products complement and sometimes compete with each other and create a facility, which they cannot afford to have on their own, and which they share at a very reasonable cost, what is being done in Addis Ababa in some cases, is just to bring enterprises together whose products do not complement each other and do not share common facilities. In such situations, it becomes evident that the clustering becomes nominal and firms are not seen enjoying the benefits from the arrangement.

The biggest challenge observed in this support is that clusters are built by contractors engaged with the government as per the contract between the two parties but most of the time there exists corruption on the budget provided for the construction of the clusters. Therefore, most of the clusters are not built according to the required standards. And they are not even completed with minimum infrastructure like water and electric power.

Most of the infrastructure being used by many SMEs is in a dilapidated state or is grossly inadequate to support the assigned population allocated to it. It is argued that the place does not have adequate toilet infrastructure that tally with the available number of people, both the vendors and the customers. In this regard, there is a high probability of an outbreak of such diseases as cholera and typhoid. Business under such an environment does not properly flourish as potential customers will hesitate to come to such a place. The other problem is the selection of plots of land are not based on survey but randomly selected without taking important things like access to market in to consideration.

4.3.6. Provision of sealing sites

In addition to working premises, government also provides sealing sites for enterprises but there are many instances where the enterprises are not getting the sealing sites because of lack of awareness from the officials' side and/or scarcity of the site itself. That is why some establishments are heard of complaining about this crucial support.

The issue here is not only about the supply, as some are still heard of complaining about the quality and position of the site given to them. In some areas, these enterprises are supplied without infrastructure and unusable, it is just to report that they are given. As an example, the researcher has approached many enterprises which are given with sealing sites but are not operating on it because it is not serviced with the minimum infrastructure. In addition, the sealing sites are located far from the main road which makes it difficult to attract customers.

In such cases, it is witnessed that the enterprises are renting sites from private individuals, which actually entails huge cost on the small operators. But such kind of intervention needs to be geared towards providing the enterprises with the necessary kind of sealing sites.

It is widely believed that provision of support services discussed above are among the major determinants of performance. But, there are significant numbers of people who contend that these support services are not reaching all forms of MSEs in an equitable manner. Here corruption is the major reason for inequitable distribution of sealing sites.

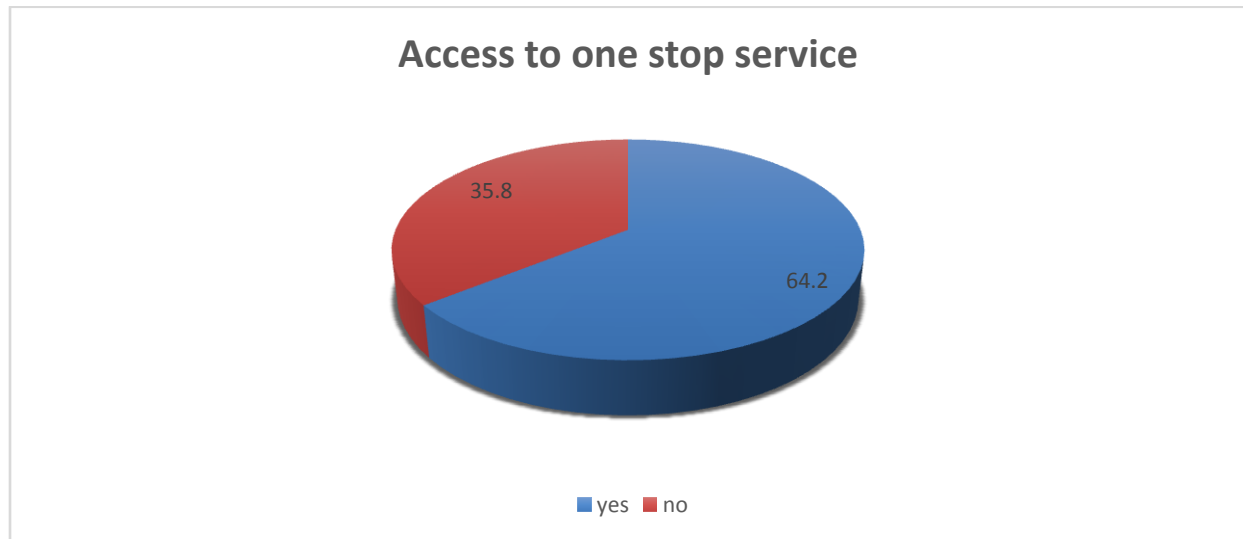
4.3.7. one-stop-service

The other support instrument the strategy granted to the operators is what is commonly known as "one-stop-service". This particular support instrument is aimed at reducing transaction cost the enterprises incur during establishment, improving efficiency and transparency in the system. Hence, to make the entry relatively easy, the government has put in place this support service, where the operators get all/most of the people they want in one office or at one window.

4.3.7.1. Access to one stop service

As it is summarized on the following figure 4.6, only 64.2 % of sample SMMEs have the access to one stop centers. The rest 35.8% did not have the access for one stop centers.

Figure 4. 6 Access to one stop service



Source: Current sample Survey 2017

The problem emanates from two directions; one from the provider side, either because the service is not accessible to the enterprises or in the second place, the operators themselves may not know that the service is there or may not want to use. In some cases, there are people who state that, though the service is there, it is not really a one stop service in practice.

Hence, in many instances, apart from expanding the service, improving its qualities is critical and part of the remaining works to be considered. Government should do more to enhance the quality of the service, in addition to expanding them.

4.3.7.2. Significance of one-stop-service for the performance of SMMEs

As indicated on table 4.12, 94.8 % of the SMMEs who have an access for one stop service said that the services are helpful for their enterprises function and only 5.2% of SMMEs said that is useless for their enterprises operation.

Table 4.12: Significance of one-stop-service for the performance of SMMEs

How do you evaluate the one-stop service?	Frequency	Percent
Helpful	73	94.8
Useless	4	5.2
Total	77	100

Source; Current Sample Survey, 2017

4.4. Employment Characteristics of SMMEs as a performance indicator

The result of the survey indicates that on Table 4.13, currently 41.3% of small enterprises in the sampled enterprises employed less than 5 employees and 30% and 28.8% of the sample enterprises employed 6-10 and 11-30 workers respectively. Similarly, 22.5 and 67.5% of medium enterprises in the sample were able to employ 6-10 and 11-30 workers respectively. The rest 10% employed less than 6 employees.

Table 4.13: Current total employees of Small and Medium Enterprises

Current total employees For small Enterprises	Frequency	Percent
1-5	33	41.3
6-10	24	30.0
11-30	23	27.8
Total	80	100.0
Current total employees for medium Enterprises	Frequency	Percent
1-5	4	10.0
6-10	9	22.5
11-30	27	67.5
Total	40	100.0

Source: Current Sample Survey, 2017

From the above result, the researcher observed that unlike stated on the Ethiopian SMEs strategy most 41.3% of sampled small enterprises and some of 10% of sample medium enterprises employed less than 6 employees. This implies they are not employing as designed by the strategy. According to the data collected from the interviewed sample enterprises, there are different reasons for this underemployment. Among the major reasons shortage of skilled man power, the nature of the work itself, shortage of finance, limited access to market, unwillingness of employees to stay in one enterprise for a long period of time are included.

In addition to this, the data collected from the survey indicates that, there is no significant difference between initial and current employment status of sampled enterprises.

Table 4.14: Initial total employees of Small and Medium Enterprises

Initial total employees for small enterprises	Frequency	Percent
1-5	37	46.3
6-10	25	31.3
11-30	18	22.5
Total	80	100.0
Initial total employees for medium	Frequency	Percent
1-5	3	7.5
6-10	20	50.0
11-30	17	32.5
Total	40	100.0

Source: Current sample survey 2017

4.5. The overall effectiveness of government on administering support services

The researcher attempts to evaluate the effectiveness of government on administering support services in terms of government officials follow up for SMMEs, the level of communicating the existing and new support services for SMMEs and the contribution of government support for the survival of SMMEs.

Regarding government officials follow up for SMMEs, as indicated on Table 4.15, 77.5% of the sample SMMEs said that, there are some Woreda officials who visit them once in a while, but the purpose of their invitation is not to investigate the problems of SMMEs and to provide possible solutions. Most of the time, they are there whether to impose some obligations on SMMEs or to arrange some vote for the election time.

Table 4.15; Government officials' follow-up on SMMEs performance

Do officials from government institutions perform follow up and evaluations for your work and status?	Frequency	Percent
Yes	93	77.5
No	27	22.5
Total	120	100.0

Source: Current Sample Survey, 2017

Regarding the effectiveness of government on communicating the existing and new support services for SMMEs, as indicated on Table 4.16, the majority 40% of sample SMMEs said government is effective in communicating current and enhanced government support services, while 32.5% said government is neither effective nor ineffective in communicating current and enhanced government support services, and the rest 27.5 % said government is ineffective in communicating current and enhanced government support services.

Table 4.16; Government effectiveness in communicating current and enhanced government supports

How would you rate the effectiveness of government in communicating current and enhanced government supports?	Frequency	Percent
Effective	48	40.0
Neither effective nor ineffective	39	32.5
Ineffective	33	27.5
Total	120	100.0

Source: Current survey, 2017

Regarding the contribution of government support services for the survival of SMMEs, as indicated on table 14.17, half of the sample SMMEs said they would have been forced to cease, if there were no government support services. This implies government has a critical role for the survival of SMMEs.

Table 4.17; Government support services for the survival of SMMEs

Would your enterprise have been forced to cease operation in the absence of government support?	Frequency	Percent
Yes	61	50.8
No	59	49.2
Total	120	100.0

Source: Current sample survey, 2017

Regarding the overall effectiveness of government in administering the support services for SMMEs, as indicated on Table 4.18, 29.2 % of sample SMMEs said government is effective in administering new and enhanced government supports, 37.5% of them said government is neither effective nor effective in administering new and enhanced government supports and the rest 32.5% of them said government is ineffective in administering new and enhanced government supports.

Table 4.18; effectiveness of government in administering new and enhanced government support services

How would you rate the effectiveness of government in administering current and enhanced government supports?	Frequency	Percent
Effective	35	29.2
Neither effective nor effective	45	37.5
Ineffective	40	32.5
Total	120	100.0

Source: Current survey, 2017

4.6. Policy implementation related constraints

The following constraints are obtained from the data gathered through interview with the majority of SMME operators and concerned government officials and analyzed through qualitative data analysis method.

4.6.1. Infrastructural Facilities

Inadequate infrastructural facilities or deplorable conditions of the available once and it have posed a formidable obstacle to SMMEs operations, and successful implementation of government policies towards SMEs. The obstacle of infrastructure involves inadequate transportation system, shortage of water supply, poor telecommunication system, and lack of

electricity constitutes one of the constraints to SMME performance. This calls for urgent attention by the government.

4.6.2. Corruption

Corruption can be placed amongst the greatest hindrances to SMEs and its development. Corruption refers to efforts in securing power or wealth through illegal means for a private benefit at public expense or misuse of public power or wealth for private gain and has remained a long-term political and economic challenge. Corruption comprises of illegal payoffs, government officials extorting money from various businesses, the misuse of government funds that could have been used to develop various sectors are channeled to other directions, and so on (Obayelu, 2007).

This problem is observed in all support provisions in Addis Ababa. For instance, on market linkage support, most of the time it was limited to few enterprises by favor and corruption, and there are enterprises not having market relation even if they are organized many years back. In addition to this, in some cases promotion from one status to another status is given by favor and enterprises not fulfilling the requirements are observed getting promotion and others fulfilling the criteria are prohibited promotion level even /closed/. On the other hand, authorized officials who engaged in corruption are not punished, which makes it difficult to solve related problems. For SMEs to work well and for it's to reduce or alleviate poverty, this constraint need to be solved efficiently.

4.6.3. Altitudinal Challenges

The government's support to SMEs declines gradually when they show growth. This means that the support is highest when the business is at starter level, then lesser support when it grows from starter to growing; and even from growing to maturity this may encourage dependency than doing for growth. This obviously led to dependency on government and others which provide subsidy to them. In addition to the above problem, enterprises are observed to wait everything from government. For instance, they always wait for market linkages from government and they don't make an effort to get market by their own.

The other problem is lack of creativity and innovativeness. Most of the operators have no desire to create new products and expanding it. They just want to proceed with what they have but not more. The other problem is after they got organized in a group of many, through process only

few left at the end. This indicates that such individual is not much patient and persistent enough to proceed with things.

4.6.4. Poor Implementation of Policies

The poor implementation of policies including administration of incentives and measures aimed at facilitating SMMEs growth and development have had unintended effects on the sub sector. This had resulted for instance, into confusion and uncertainty in business decisions and planning as well as weakened the confidence by the SMEs on government's capacity to execute faithfully its programmes. Moreover, there has often been weak or no effective monitoring mechanism of the implementation.

4.6.5. Overbearing Regulatory and Operational Environment

It requires a long time, effort and large sum of money and as enterprises owners went to government organs, it is difficult to identify the concerned body. Even if they found the concerned organ due to elongated process it creates negative impact on enterprises activates. In addition to the above problem, there is lack of follow up from the government side. The concerned government organs do not follow up the enterprises performance and act accordingly, which makes it difficult to identify problems and provide solutions on time. But the focus is just on organizing the enterprises (quantity) but not the quality standard of their works. Most of the time companies are evaluated not by work performance but by their political loyalty. Moreover, enterprises grievance is not appropriately considered, which means there is lack of justice and good governance in administering the enterprises.

4.6.7. Misallocated Skilled Manpower

Individuals are observed working irrelevant jobs with their profession. For instance, youth graduated in construction observed to be engaged in the manufacturing sector. The one graduated in manufacturing engaged to the sector of construction. This renders them nonproductive and beneath them act in their skills. Therefore, it is better if they can act as per their skill category.

4.6.8. Institutional Coordination Problem

Ethiopia's MSE policy support is multi-agency. About 10 government agencies are involved in the implementation and follow-up of the MSE policy. Consequently, implementation coordination has been a challenge. The setting up of the MSE council consisting of relevant government agencies has eased the problem to a great extent but the coordination problem still exists. The Council has to be well-mandated and structured so that it addresses not only policy

issues but also follow-up implementation issues on the ground; and for this, the council needs to have smaller units that can regularly monitor and follow-up implementation issues.

Chapter Five: Summary of findings, Conclusions and Recommendations

Based on the objectives of the study, this chapter discusses the major findings of the study, conclusions and possible recommendation for concerned bodies.

5.1. Summary of findings

The major findings critical to major objectives of the study are drawn below;

There are five major types of government support services, which are being actively given for SMMEs in Addis Ababa City. Those major supports are Credit service system, Training and consultancy support system, Market linkage support system, provision of working and sealing sites and One-stop-center services.

Although, the credit service system is not accessible for more than half of the enterprises, it is found to be significant for SMMEs, which are able to access it. However, there are some constraints which make the credit service inaccessible and insufficient. These constraints are limited financial capacity of Micro Finance Institutions, bureaucracy, overbearing rules and regulations, unattainable collateral requirements and high degree of the interest rate.

Regarding training and consultancy service, majority of the sampled enterprises received the service. However, the service found to be insignificant for the performance of SMMEs. There are different reasons for the above result. Among the reasons irrelevant training due to lack of need assessment before the training, time inconvenience for both trainees and trainers, unqualified and inexperienced trainers due to shortage of qualified experts are included.

Concerning market linkage support, more than half of sample SMMEs obtained market linkage support from government. Thus, the support found to be significant for the performance of SMMEs. However, there are different constraints hindering its' effectiveness. Among the constraints corruption, officials/mangers lack relevant knowledge and experience on what they are managing, delay on payment for SMMEs, SMMEs altitude of dependency on government support and substandard products by SMMEs are included.

Another support being given for SMMEs is provision of working premise and sealing sites, all most all sample SMMEs acquired working premise from government with minimum rent price, for which they could pay high amount of money if they were rented it from the private sector.

All SMMEs agreed that the working premises are helpful for their performance. However, there are still problems on the working premises and how they are distributed. Among the problems these places are not attractive to costumers due to lack of survey before selecting them, they do not have the required infrastructure, they are not built according to the required standards and the enterprises in them do not complement each other and they do not share common facilities. Coming to the sealing sites, in addition to the above mentioned problems, corruption is the major challenge, especially on the distribution of the sites.

The fifth support service by government is one stop service. More than half of the sample enterprises had an access to the one stop service. However, there is a doubt that whether the operators clearly understand the overall purpose of the centers. From the providers' side it is observed that, not all experts are attending in the center to provide the service, which might negatively affect the quality of the service. There is also lack of coordination among providers.

Generally, from the findings of the study, it can be concluded that government support programs have a significant role in enhancing the performance of SMMEs.

5.2. Conclusion

The essential contribution that SMEs make in national economic development is widely recognized in many countries, developed and developing countries alike. In Ethiopia, there have been numerous support services provided by government agencies and institutions aimed at fostering the development of MSMEs. These support services can be broadly divided into five aspects, which are: Credit service system, Training and consultancy support system, Market linkage support system, provision of working and sealing sites and One-stop-center services. Although, it can be concluded that government support services have a significant role in enhancing the performance of SMMEs, there are many constraints which are affecting their effectiveness and efficiency. These constraints are inaccessibility of support services, lack of infrastructure, lack of good governance, corruption, overbearing regulatory and operational environments and lack of institutional coordination. However, if government policies were more favorable and if adequate financing, technical assistance, extension and advisory services as well as infrastructure supports were made readily and cheaply available, a more prosperous growth and development of individual small–medium enterprises could be anticipated.

5.3. Recommendation

Based on the findings of this study, the researcher found that important to make some recommendations to guide the enterprises, other concerned bodies and researches.

First, government should improve the quality and accessibility of the service, through building the capacity of the supporting institutions it terms their financial and human resource capacity. This can be done through increasing their financial appropriations from government and through assigning employees that have proper knowledge in the specific business area and through continuous follow up of the implementation of the programs.

Second the overbearing regulatory and operational environments must be alleviated. The process of getting each service must be easy, transparent and clear for SMME operators. The government should create a service environment with a minimum requirement of time, money and effort of SMMEs.

Third, the quality and accessibility of infrastructures should be considered in providing working space to the enterprises. In addition to this, the Micro and Small Enterprises Development Offices should undertake detailed study on the appropriateness of the working place to be given to each type of the enterprises and Enterprises should form a supply chain management and support each other to minimize their raw material related problems. Enterprises should be organized in a way that an enterprise will be able to get raw material from other enterprises in the production process.

Fourth, government should take a serious measurement on Woreda, Kifle Ketema and higher government officials who engaged in corrupted activities. This serious measure can be a lesson for other, not to commit same corrupted activities. In addition to these there should be transparent system of implementation of services, so that the government can easily identify the weaknesses and strengths of each support services.

Fifth, there should be strong cooperation and coordination among government institutions which provide services for SMMEs in order to ensure effective implementation of services. In this regard a lot of effects are expected from MSE council that oversees policy implementation and coordination.

Lastly, from the side of SMME operators, instead of waiting from government, they should enhance their marketing skills through proper training and experience sharing with other micro and large scale enterprises and make an effort to increase their market opportunities.

Different problems with different degree of perceived impact on SMMEs can be addressed at different times in different ways depending on the availability of resources and situations in the operating environment. Hence, a continuous detail research on each sector should be undertaken to identify the major problems.

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Appendix one
Addis Ababa University
School of Graduate Studies
College of Business and Economics
Department of Public Administration and Development
Management
Questionnaire to be Filled by Small and Medium Enterprise owners
in Addis Ababa

Dear Respondents,

I am Mariamwit F/selassie a Master's student of Public Management and Policy at Addis Ababa University, in Department of Public Administration and Development Management. Currently, I am undertaking a research paper entitled 'The Role of Government support for the performance of Small and Medium Manufacturing Enterprises in Addis Ababa city'. You are one of the accredited respondents selected to participate for this study. I understand that your time is valuable, while the successful accomplishment of this study relies on your honesty and kindness cooperation, genuine and loyal response of this questionnaire. Therefore, I kindly request you to genuinely fill and return this questionnaire.

I assure you that your participation in this study is voluntary, all information you provide and results will be recorded anonymously, and confidentiality is maintained. It is for only academic purpose.

A. Respondent Profile

1. Sex

- a. Female b. Male

2. Age

- a. 18-25 b. 25-35 c. 35-45 d. 45-55 e. Greater than 55

3. Completed level of education

- | | |
|------------------------|-----------------------|
| a. No formal schooling | d. Vocational school |
| b. Primary school | e. University/College |

c. High school

4. How long have you been operating this enterprise (in years)?

- a. Less than 3 years
- b. 3-5 years
- c. 6-10 years
- d. Over 10 years

5. What was your job before operating this enterprise?

- a. On similar activities
- b. Different
- c. No job

6. If your answer is 'a' how many years have you been in that job.....

- a. Less than 3 years
- b. 3-5 years
- c. 6-10 years
- d. Over 10 years

B. Enterprise Profile

7. Enterprise Name-----

8. Enterprise Telephone Number-----

	Initially	Currently
9. Capital of the Enterprise in Birr (from other sources including own contribution) %		
10. capital of the enterprise in Birr (from government loan)%		
11. permanent total employees of the enterprise %		
12. permanent total employees of the enterprise %		
13. Status of the Enterprise		

14. Which is the most important business constraint that hindered your enterprise's expansion?

- a. Access to finance
- b. Access to land (working space)
- c. Access to input
- d. Lack of managerial knowledge
- e. Lack of technical knowledge
- f. Access to market
- g. Lack of skilled Man power

Financial Support

15. Have you obtained loan from any micro finance institution?

- a. Yes
- b. No

16. If Yes to Q.15 how do you evaluate the productivity of your enterprise after you obtain the loan?

- a. Increase
- b. Decrease or no change

17. If Yes to Q.15 how do you evaluate the amount of your profit after you obtain the loan?

- a. Increase
- b. Decrease or no change

18. How do you evaluate the degree of fairness of the interest rate?

- a. Very fair
- b. Fair
- c. Unfair
- d. Very unfair

19. How do you evaluate the process of getting loan?

- a. Very simple
- b. Simple
- c. Difficult
- d. Very difficult

Training and Consultancy Support

20. Have you ever received any form of formal training on production technologies (skills) from government?
- a. Yes
 - b. No
21. If Yes to Q.20 how do you evaluate the productivity of your enterprise after you obtain the training?
- a. Increase
 - b. Decrease or no change
22. If Yes to Q.33 how do you evaluate the amount of your profit after the training?
- a. Increase
 - b. Decrease or no change
23. Have you ever received any form of formal training on management and financial skills from government?
- a. Yes
 - b. No
24. If Yes to Q.23 how do you evaluate the productivity of your enterprise after you obtain the training?
- a. Increase
 - b. Decrease or no change
25. If Yes to Q.38 how do you evaluate the amount of your profit after the training?
- a. Increase
 - b. Decrease or no change
26. Do officials from government institutions perform follow up and evaluations for your work and status?
- a. Yes
 - b. No
27. Did you get a “one stop service” at the nearest administrative bodies (like from the MSE development or trade bureau....)
- a. Yes
 - b. No
28. If Yes to Q.27 how do you evaluate the service?

- a. Very helpful
- b. Helpful
- c. Useless
- d. Harmful

Working Premise support

29. Have you acquired land/working premise/ shade from the local administration for your enterprise?

- a. Yes
- b. No

30. If Yes to Q.29 how do you evaluate the support of the cluster for the performance of your enterprise?

- a. Very helpful
- b. Helpful
- c. Useless
- d. Harmful

31. If the working premise was acquired on rental basis how much would you pay as rent per month.....?

- a. 1000-3000 birr
- b. 4000-6000 birr
- c. 7000-10000 birr
- d. 10000-13000 birr
- e. 14000-17000 birr

Market linkage Support

32. How often do you get market linkages to government projects and/or others?

- a. Regularly
- b. Less frequently
- c. Only few times so far
- d. Not at all

33. How do you evaluate the productivity of your enterprise after you get the market linkage?

- a. Increase

- b. Decrease or no change
- 34. How do you evaluate the amount of your profit after you get the market linkage?
 - a. Increase
 - b. Decrease or no change
- 35. How do you evaluate the accessibility of market information from government?
 - a. Very accessible
 - b. Accessible
 - c. Not accessible
 - d. Very difficult to access

Effectiveness of Government support

- 36. Would your firm have been forced to cease operations in the absence of government support?
 - a. Yes
 - b. No
- 37. How would you rate the effectiveness of the government in communicating new or enhanced government support?
 - a. Effective
 - b. Neither effective nor ineffective
 - c. Ineffective
- 38. How would you rate the effectiveness of the government in administering new or enhanced government support?
 - a. Effective
 - b. Neither effective nor ineffective
 - c. Ineffective
- 39. You are invited to comment on any aspect of government support schemes -----

Appendix two
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School of Graduate Studies
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Questionnaire to be Filled by Small and Medium Enterprise owners
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Dear Respondents,

I am Mariamwit F/selassie a Master's student of Public Management and Policy at Addis Ababa University, in Department of Public Administration and Development Management. Currently, I am undertaking a research paper entitled 'The Role of Government support for the performance of Small and Medium Manufacturing Enterprises in Addis Ababa city'. Your selection to participate in this study was purposive, since you are the key personnel in the Micro and Small Enterprise Development Agency. I understand that your time is valuable, while the successful accomplishment of this study relies on your honesty and kindness cooperation, genuine and loyal response of the following questions. Therefore, I kindly request you to genuinely respond to all interview questions.

I assure you that your participation in this study is voluntary, all information you provide and results will be recorded anonymously, and confidentiality is maintained. It is for only academic purpose.

1. What are the major government support services given to Small and Medium Manufacturing Enterprises in Addis Ababa City?
2. What frameworks and institutional structures are there to implement each service?
3. What are the major procedures (requirements) to give acquire each service?
4. What are the major implementation constraints for each support?
5. What do you recommend in order to tackle those constraints?