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COLLEGE OF DEVELOPMENT STUDIES

**CENTER FOR REGIONAL AND LOCAL DEVELOPMENT
STUDIES**

**CHALLENGES OF MICRO AND SMALL-SCALE ENTERPRISES
in ADISS ABABA: IN CASE OF *AKAKI KALITY* SUB-CITY.**

BY

HANNA TILAYE

Advisor: Teshome Tafesse (PhD)

Addis Ababa, Ethiopia

June, 2022

DECLARATION

This is to certify that this thesis is my original work and has not been presented for a degree in any other university, and all sources of material used for the thesis have been properly indicated and acknowledged by means of complete references.

Declared by:

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This is to certify that this thesis entitled “**CHALLENGES OF MICRO AND SMALL-SCALE ENTERPRISES in ADISS ABABA: IN CASE OF AKAKI KALITY SUB-CITY**”. submitted in partial fulfillment of the requirements for the award of the degree of Master of Art in Regional and Local Development studies to graduate program of collage of Development studies, Addis Ababa university by **HANNA TILAYE** is an original work conducted by the candidate under my supervision and this project work has not been submitted earlier for award of any degree or diploma to the best of our knowledge and belief.

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Teshome Tafesse (PhD)

A Thesis Submitted to Center for Regional and Local Development Studies, College of Development Studies, Addis Ababa University for Partial Fulfillment of the Requirement for the Degree of Master of Arts in Regional and Local Development Studies

Addis Ababa, Ethiopia

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By
HANNA TILAYE

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Addis Ababa, Ethiopia
June, 2022

Table of Contents

DECLARATION	
Table of Contents	i
List of Tables	iii
List of Figure	iv
Acknowledgments	v
Acronyms	vi
Abstract	vii
CHAPTER 1: INTRODUCTION	1
1.1 Background	1
1.2 Statement of the Problem	3
1.3. Objectives of the Study	4
1.3.1. General Objective	4
1.3.2. Specific Objectives	4
1.4. Research Questions	5
1.5. Scope of the Study	5
1.6. Limitations of the Study	5
1.7. Significance of the Study	5
2.1. Definition of Micro and Small Enterprise (MSEs)	6
2.2. Role of Micro and Small Enterprise (MSE)	6
2.3. Theoretical framework	7
2.4. Empirical Literature	9
2.5. Conceptual Framework of the study	10
CHAPTER 3: RESEARCH METHODOLOGY	11
3.1. Research Design	11
3.2. Operational definition of variables	11
3.2.1. Population and Sample	14
3.2.2. Sample Design	14
3.3. Data Collection Techniques	15
3.4. Data Analysis Technique	16
CHAPTER 4: DATA PRESENTATION, ANALYSIS, AND INTERPRETATION	17

4.1. Introduction.....	17
4.2. Socio-Demographic characteristics of the Respondents.....	17
4.3. About the characteristics and Status of the Enterprise.....	19
4.3.1 Sector Distribution	19
4.3.2. Ownership Structure.....	20
4.3.3. The category of the enterprise.....	21
4.3.4. Year of Establishment of the Enterprise	22
4.3.5. Ownership of the working premises.....	23
4.3.6. Source of credit to running the business	24
4.3.7. Reason for not request for credit from formal sector	25
4.4. Major Challenges for the Growth of Micro and Small Enterprises.....	26
4.4.1. Major Challenges of MSEs	26
4.4.2. Chi-square Test of Hypothesis	28
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS.....	30
5.1. Introduction.....	30
5.2. Conclusions.....	30
5.3. Recommendations.....	31
REFERENCES	32
Appendix1: Survey Questionnaire.....	36
Appendix2: Key informant questioner.....	39

List of Tables

<u>Table 1. Sector distribution</u>	6
<u>Table 2. Respondents' Sex, Age, Educational Level, and Marital Status</u>	17
<u>Table 3. Sector Distribution of respondent's in the MSEs Enterprises</u>	19
<u>Table 4. Year of Establishment of the enterprise</u>	22
<u>Table 5. The source of credit to running their business in enterprise</u>	24
<u>Table 6. Reason for not request for credit from formal sector</u>	25
<u>Table 7. Descriptive Statistics</u>	26
<u>Table 8. Category of the Enterprise * CMSEs Cross tabulation</u>	28
<u>Table 9. Chi-Square Tests</u>	29

List of Figure

<u>Figure 1.Ownership Structure of the MSE that you are operating in MSEs.....</u>	20
<u>Figure 2.The category of the enterprise does belong.....</u>	21
<u>Figure 3.The owns of the working premise of the Enterprise.....</u>	23

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Acronyms

MSE: Micro and Small Enterprise

FEMSEDA: Federal Micro and Small Enterprises Development Agency

CSA: Central Statistical Agency

GTP: Growth and Transformation Plan

MoFED: Ministry of Finance and Economic Development

FDRE: Federal Democratic and republic of Ethiopia

MOTI: Ministry of Trade & Industry

MoUDH: Ministry of Urban Development and Housing

RBV: Resource-Based View

SPSS: Statistical Package for the Social Sciences

Abstract

Micro and Small-Scale Enterprises (MSE) are important in almost all developing economies in the world, which is characterized by unemployment, import dependency, and income distribution challenges. The study investigated evidence on the occurrence of challenges of Micro and small-scale enterprises, that were different from one place to another place from the survey of 170 sample data collected from three wederas. This study covered MSEs around Akaki Kality Sub-city area in Addis Ababa. The study was confined to the service and manufacturing provision of Akaki Kality MSEs sectors, using mixed methods research. On top of that, the study area was chosen because of its better center of industrial business activities in the capital city. The general objective of this study was to assess the Challenges of micro and small scale enterprises in the case of Akaki kality sub-city, Addis Ababa Ethiopia. The study employed both quantitative and qualitative data. Also, it was used descriptive and inferential statistics to assess the Challenges of a micro and small-scale enterprise. Furthermore, the major factors that affect the growth of MSEs are sufficient capital, adequate market, Customer attitudes; shortages of premises, quality of the product, shortage of raw materials, poor planning, and lack of sufficient capital were the major challenges of MSEs in Akaki Kality Sub-city. From the study result researcher recommends that government bodies must give to advance providing financial access, and working premises, create an adequate market, reduce the interest rate and give awareness to the society that affects the growth of MSEs in the city.

Key words: *Micro and small enterprises, challenges, Akaki kality sub-city*

CHAPTER 1: INTRODUCTION

1.1 Background

Micro and small businesses play a vital of roles in a country's economic development, including strengthening local production structures, creating job opportunities, ensuring a fair distribution of national resources, income, knowledge, power and assisting in the promotion of rural industrialization and export markets (Mulugeta, 2008).

In Africa the MSE sector provides certain benefits to the economy, a key among them is the recognized potential of the MSE sector to come up with incomes and supply job opportunities to an outsized number of people (Fjose, S., Grünfeld, L.A. and Green, C., 2010).

Micro and small enterprise development is very important in Ethiopia's Development Strategy because MSEs are key tools for job creation in urban areas, and job creation is the country's development strategies are focal point (MoUDH, 2012). As a result, the role of micro and small scale enterprises, as primary job creators is being promoted not only in low-income countries like Ethiopia, but also in high-income countries like the United States of America. As a result, because MSEs are critical to job creation, stimulating and strengthening MSE development should be one of Ethiopia's top development priorities (MoUDH, 2012).

The policies, strategies, and support programs of the Ethiopian government have given attention to the development of MSEs as a tool to expand employment, create the foundation for medium enterprises, promote private sector development, and contribute to the growth and transformation process (Wolday, 2015).

According to Desta (2010) MSEs in Ethiopia recent pieces of literature reveal that the MSE sector in Ethiopia is the second-largest employment-generating sector following agriculture. In successful developing countries, MSEs due to their size, location, capital investment, and capacity to generate greater employment opportunities, have shown their powerful gelignite effect for rapid economic growth (Zewde and Associates, 2002).

Recognize the importance of this sector as a key factor for rapid economic development. The government of Ethiopia had issued the Micro and Small Enterprises Strategy (FDRE, MoTI,

1997). Besides, the Growth and Transformation Plan (GTP) of Ethiopia has envisaged the promotion of micro and small enterprises as a crucial tool for poverty reduction (FDRE, MoFED, 2010). This means that small businesses are the engine of a country's economy and the home of job creation (Bereket, 2010).

According to Endalkachew (2008) The MSE sector has also contributed to economic transition by providing goods and services of adequate quality and at reasonable prices. As Endalkachew (2008) study societies particularly in rural areas, and by effectively using the skills and abilities of many peoples without requiring high-level training, large sums of capital or sophisticated technology.

Developing countries, like Ethiopia, have different problems like poverty, unemployment, famine, high population increment, illiteracy, etc., Mekonnen (2004). According to the Federal Urban Development Packages of Ethiopia 2005, MSE development program is one of the pillars of the urban development package, so it is one of every one of the bases of the urban development plan (Endalkachew, 2008).

Addis Ababa City MSEs Development Agency was established to develop, support, and coordinate MSEs inside the Capital city, according to Jemal (2021). Within the 10 sub-cities, there are MSE development agencies. The Addis Ababa City Administration's Akaki Kality Sub-city is one of the city's sub-cities. This study will look at the issues that MSEs face in the Akaki Kality sub-chosen city's weredas in terms of employment creation, market linkages, savings, and MSE growth rates.

1.2 Statement of the Problem

Nowadays MSEs have a large contribution to Economic development, but this industry faces many problems. Mulugeta (2008) identified internal factors such as poor record-keeping, wrong pricing, negative cash flow, management problems, trouble among partners, and external factors such as lack of capital, land, and premises, taxation, poor market and market information, and business support services as major causes of micro and small business failure in his analysis of underlying causes of micro and small business failures in Addis Ketema sub-city.

Generally according to Mulugeta (2008) In his investigation, the entrepreneurs reported that lack of capital, lack of land and premises (high rent charges), taxation, poor market and market information, business support services, and poor record-keeping take the lion's share in contributing to the malfunction of their businesses.

As pre Chane (2010) identified factors affecting the performance of women entrepreneurs in small and micro enterprises are economic, socio-cultural and legal, and administrative factors. He found economic factors as the most binding factors affecting the performance of women entrepreneurs in MSEs. Ababiya (2013) employed linear regression to identify factors affecting the performance of microenterprises. According to his findings, the age of the enterprise, age of the operator, educational level of the operator, number of employees, amount of initial capital, entrepreneurial skill, and business experience of the manager, access to training, and market access were significant variables affecting business performance Ababiya (2013).

Mulatu et al., (2006) identified working capital as a major determinant of performance. Business skill training and technical knowledge are lacking for the most part. Owners of small businesses lack the necessary capacity to benefit from innovative management and expand their businesses. As the small market is shared among too many operators, the income earned is barely enough to meet subsistence requirements (Mulatu et al., 2006).

The majority of operators have joined the enterprises for lack of better opportunities. The note strong purchasing power of the rural community for the products has been identified as one of the major bottlenecks for the growth of the enterprises Mulatu et al., (2006) and In addition, the business environment is hardly conducive for sustainable development.

Also, as stated in WB (2012) land, finance, input industries, entrepreneurship skills, worker skills, bureaucracy in registration and licensing, and taxation were key factors inhibiting the performance of MSEs. Mekonnen and Tilaye (2013) stated the four (infrastructure facilities, financial, managerial and technical skills, and working premises) most impending factors that affect MSEs Operation. Mulugeta (2010) in his study also found that conflicting gender roles, social acceptability, and networking with outsiders were the major social factors that affect entrepreneurs. But to show his investigation he used only quantitative data and simple statistical techniques (tables and percentages) and descriptive statistics (mean and standard deviations) methods of analysis to investigate the Challenges of MSEs Mulugeta (2010).

The research mentioned above illustrate that the obstacles faced by MSEs differ from one area to the other. Quantitative data and descriptive methods of analysis have been used in the majority of them. This research will look into the challenges that micro and small businesses face in Akaki kality sub-select city's woredas.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of this study was to assess the Challenges of micro and small-scale enterprises in Adiss Ababa Ethiopia:in the case of Akaki kality sub-city.

1.3.2. Specific Objectives

The specific objectives of the study were to:

- assess the characteristics and status of the enterprise in Akaki kality sub-city
- assess challenges of MSEs that are operational in Akaki kality sub-city
- analyze ways of addressing the challenges of MSEs in Akaki kality sub-city

1.4. Research Questions

This study described questions that arise whether the Challenges of micro and small scale enterprise in Akaki kality sub-city Adiss Ababa are an obstacle for the role of MSEs in poverty reduction, employment creation, and income earnings for individuals engaged in the sector. Also tries to answer the following questions;

- What are the characteristics and status of the enterprise in Akaki kality sub-city?
- What are the major challenges facing MSEs that are operational in Akaki kality sub-city?
- How can solve the challenges of MSEs in Akaki kality sub-city?

1.5. Scope of the Study

This study covered MSEs around Akaki Kality Sub-city area in Addis Ababa. The study will be confined to the service and manufacturing provision of Akaki Kality MSEs sectors, using descriptive and qualitative research design. On top of that, the study area will be chosen because of its better center of industrial business activities in the capital city.

1.6. Limitations of the Study

The thesis paper was not free of limitations that the researcher might not comfort during the research period. To mention some of the limitations will be:

- ❖ The study might not cover all of the MSEs in Addis Ababa city.
- ❖ During fieldwork, there was a lack of organized and relevant recorded data.

1.7. Significance of the Study

By identifying the fundamental cause of the Challenges of Micro and Small-Scale Enterprises, this study aims to develop the role of MSEs in poverty alleviation, job development, and financial earnings for persons involved in the sector.

Also it helped the local government, Micro and Small Business operators, and the local population to better grasp the challenges of Micro and Small Business development. In addition, the results of this study were to be used as a guide for future researchers.

CHAPTER 2: LITERATURE REVIEW

2.1. Definition of Micro and Small Enterprise (MSEs)

There is no universal definition about what micro and small enterprises are. According to the new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011) the working definition of MSEs is based on capital and Labor (MSE strategy, 2011).

Table 1. Sector distribution

Sector	Hired labor	Capital
Industry	<= 5	<=birr 100,000.00
Service	< =5	<=Birr 50,000.00
Industry	6-30	<=birr 1,500,000.00
Service	6-30	<=birr 500,000.00

2.2. Role of Micro and Small Enterprise (MSE)

Small enterprises are recognized as an integral component of economic development and the most important element in the effort to drive countries out of poverty (Wolfenson, 2001). Small-Scale businesses are the driving factor for economic growth, job creation, and poverty reduction in developing countries. Further, the small-scale business has been recognized as a feeder service to large-scale industries (Fabayo, 2009).

In light of this, Ethiopia's government has been paying close attention to the Small and Micro Enterprise Development Program from 2004/2005 Until 2004/2005; the national plan was executed solely at the national level by the Federal MSE Development Agency MoFED (2013). As a result, it was extremely difficult to place the strategy into practice, particularly when it came to providing business development services to MSE operators. As a result, in 2004/2005, the Ethiopian government decided to determine a regional MSE coordinating body, taking into

consideration the sector's vital role and also the challenges faced by MSE operators MoFED (2013).

The basic challenges at this stage include lack of initial and dealing capital, poor knowledge of business management and entrepreneurship, and lack of know-how about the various government policies and directives related to the sector MoFED (2013). To mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs within the formalization and legalization process, and provision of coaching on business management, entrepreneurship, and production technique MoFED (2013).

2.3. Theoretical framework

Various theories were proposed regarding the growth of enterprises. Churchill & Lewis (1983) described five successive stages of small growth with the underlying characteristics; existence, survival, success, take-off, and resource maturity. As Churchill & Lewis (1983) investigation, In the existence stage the major problem of small enterprise is getting customers and delivering service and the company's strategy is to stay alive, whereas in the survival stage the enterprise demonstrates that it is viable business entity and its goal is to survive. At the success stage the company shows profits. At the take-off stage, the underlying issue of the company becomes how to grow rapidly and how to finance that growth. At the resource maturity stage the concern of the enterprise is consolidating the gains brought by rapid growth and retaining the advantages that small business brings Churchill & Lewis (1983).

According to Mbugua, Mbugua, & Kariuki, (2013), The Enterprises lifecycle model elaborates that, enterprises demonstrate a cycle pattern of growth in which the enterprises born grow and decline then they may disappear or reemerge. The model states important changes happen to an enterprise when they grow from one level to the other level and at each stage of the process a firms can grow, decline or even die (Mbugua, Mbugua, & Kariuki, 2013).

According to Mbugua et al., (2013) some firms may not follow the lifecycle of firm's growth and those common disengagement stages are lifestyle and capped growth. Lifestyle firms have little growth aspiration; principally exist to provide their owner managers with a source of employment and income whereas the Capped growth implies to those firms that do not grow or expand to the level of formal organization operations and management due to a deliberate

decision by the owner-manager out of a desire to avoid risk, uncertainty and problems connected with employee increment, market competition and new investments (Mbugua, Mbugua, & Kariuki, 2013).

According to (Mbugua, Mbugua, & Kariuki, 2013), the enterprise choice theory on the other hand gave much emphasis on individual attributes, behavior and characteristics as a main ingredient for enterprise growth. In other words, the managers' attitude, enthusiasm to grow, abilities to manage the firm determines the growth of an enterprise Mbugua et al., (2013).

The Stochastic models claims that the firm growth is independent from firm size and emphasizes on the random or stochastic nature of the process of enterprise growth. It suggests that many factors affect growth of firms (Bunyasi, Bwisa, & Namusonge, 2014).

There are two intensity theories on the factors affecting MSEs, which are called the industrial organization (I/O) model and the resource-based view of a firm, so Both of the two models have similarity by; both roles at strengthening the organization by using a strategic approach both have a sole objective to achieve a competitive advantage within the market and both point at enhancing the capabilities and capacity of the firms (Collin, 2000).

As Collin, (2000) study, these two models have also difference by; the industrial organization focuses on the external environment of the organization and aims at opportunities and threats, environmental analysis of the market, and the competitors and other industry attractiveness (Hitt et al., 2009). The industrial organization model sees the growth of firms from an external perspective, that is, environmental/external factors, instead of resources and capabilities that are internal to the firm, dominant aim on a company's growth and strategic actions of a firm (Hitt et al., 2009). Whereas the RBV focuses on the internal environment of the organization and aims at strengths and weaknesses, organizational analysis, and the organization's internal resources Hitt et al., (2009).

The RBV focuses managerial attention on the firm's internal resources in an effort to identify those assets, capabilities, and competencies with the potential to deliver superior competitive advantages (Barney, 1991).

2.4. Empirical Literature

Different empirical studies have been assessed to investigate the factors that affect the MSE. In the study conducted by Sirmolo (2018), Lemma (2017), (Chirwa, 2008), (Enock, 2010), (Habtamu, 2012), (Janda et al., 2013), (Mbugua et al., 2013), (Mulu, 2007), (Osinde, 2013) the factors are either internal or external; for example, sex, age, educational level, marital statuses, work experience, lack of market, and so on are internal challenges faced for MSEs.

Mekonnen and Tilaye (2013) conducted a study to assess the external factors affecting MSEs are; poor infrastructural facilities, lack of access to finance, lack of knowledge and skills, lack of working premises, lack of access to market, lack of necessary support from relevant institutions, shortage of raw materials, and regulatory problems. Another study (Solomon, Tadele et al., (2016) conducted the determinants of MSEs like internal problems (e.g. weak human resources and other assets) and of external factors including lack of access to credit, limited market facilities, policy, and regulatory bottlenecks.

For micro and small enterprises access to credit appears to be a binding constraint for their growth as they are 'too big for micro-finance institutions, but they are too small for formal banks in terms of the size of the loan, reflecting the 'missing middle financial intermediaries' that serve small enterprises Solomon, et al., (2016).

On the opposite side, the study conducted by (Sisay, 2019) assesses the role of small-scale manufacturing enterprises in the industrial development OF Addis Ababa, (Case of Akaki-Kality Sub City). He mentioned a number of the constraints: lack of finance, lack of adequate support from the supportive institutions including the government, lack of suitable infrastructure, and lack of selling and promotion support.

According to Berhanu (2014) study report, the most basic factors which affect the growth and success of the MSEs are an Infrastructural factor which includes power interruptions, lack of sufficient and quick transportation service, Lack of communication, and Insufficient and interrupted water supply also, he mentioned that working premises factors include the absence of own premises and inadequate working premises. And also, he mentioned financial factors which include high collateral requirements from banks and other lending institutions, shortage of working capital, high-interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions Berhanu (2014).

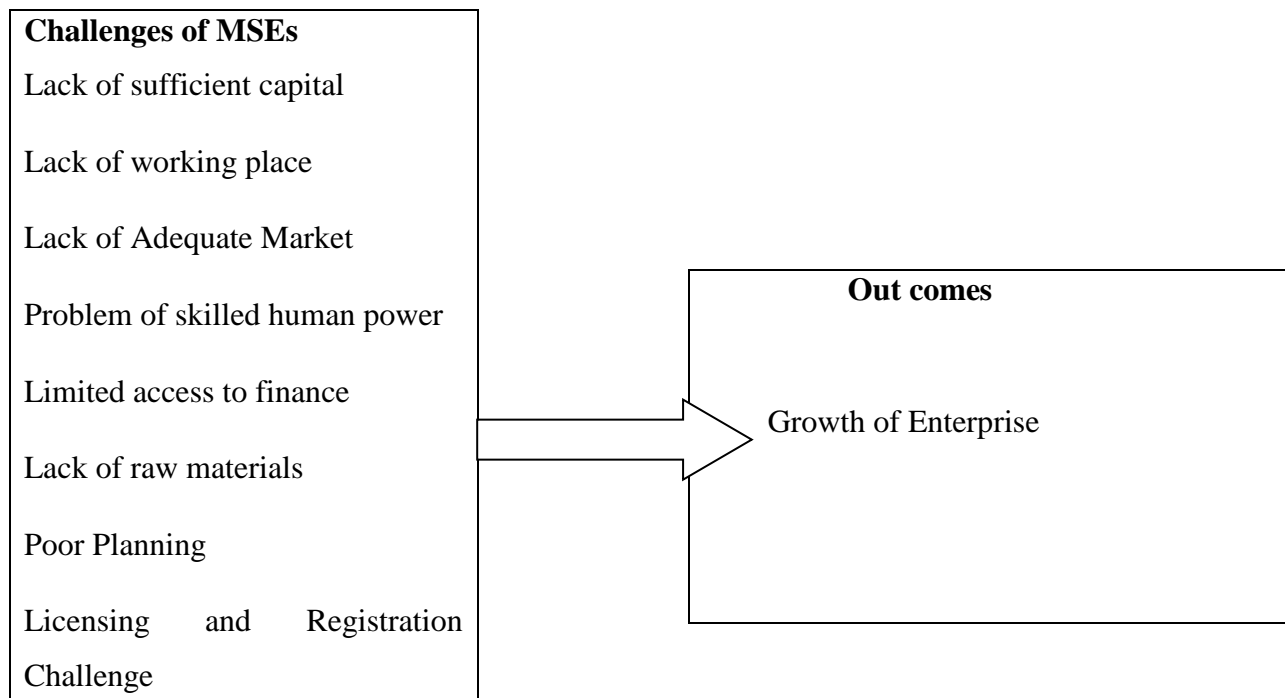
In addition to that, the marketing factors include Lack of skill to set competitive prices, inability to promote the products, Lack of efficient distribution channel and networking, Poor customer handling and relationship, Lack of product diversity, and inability to modify existing product are factors that affect the growth and success of MSEs Berhanu (2014).

The research mentioned above illustrate that the obstacles faced by MSEs differ from one area to the other. Quantitative data and descriptive methods of analysis have been used in the majority of them. This research will look into the challenges that micro and small businesses face in Akaki kality sub-select city's.

2.5. Conceptual Framework of the study

Conceptual framework means a researcher's perception of the research problems (Afribary, 2020). Previous different similar works have been reviewed to attempt to develop the conceptual framework. This study will focus on assessing challenges that affect the Micro and Small-Scale Enterprises. Moreover, may the outcomes of the enterprise be achieved positively, the MSEs under this study will expand, diversify their product, and lastly change themselves to medium and large-scale industries, and also the participants have got improved access to basic needs.

Conceptual framework: Challenges of MSEs in Akaki Kality Sub-city.



CHAPTER 3: RESEARCH METHODOLOGY

3.1. Research Design

According to Kothari (2004, p.31) A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement, and analysis of data Kothari (2004, p.31).

According to Saunders et al, (2009) the choice of the research design depends on the objectives of the study, the available data sources, the price of obtaining the info, and also the availability of your time.

Descriptive statistics summarize the characteristics of a data set. Inferential statistics allow you to test a hypothesis or assess whether your data is generalizable to the broader population. to determine the challenges of micro and small-scale firms, this study used a descriptive and inferential analysis technique. Because of their widespread use and ease of interpretation, these procedures are widely used. Furthermore, it aided in the creation of an accurate profile of the case under investigation, and the study was conducted using both quantitative and qualitative data types.

3.2. Operational definition of variables

Lack of sufficient capital

There are many reasons why small businesses don't succeed, one of the most common reasons being lack of capital.

As per the study by Solomon et al., (2016) a majority of the enterprises, 79% and 72%, micro-enterprises, and small enterprises finance their businesses from their own source, respectively. This implies that the proportion of availability of borrowing from banks was found to be insignificant despite the availability of financial institutions in Addis Ababa. It looks like access to finance appears to be a highly severe or major obstacle as reported by about 55% and 64% of micro and small enterprises Solomon et al., (2016).

Lack of working place

Working place issues are problems and risks that decrease employee satisfaction and organizational performance.

Businesses operating in working places allotted by government agencies had a better chance of survival compared to those set up on privately rented premises (Leza et al. 2016).

Lack of Adequate Market

The lack of proper marketing relative to the product is related both to product quality and the ability of the product or service to provide value to consumers based on their interests, needs and preferences.

Marketing knowledge is important for the promotion, growth, and development of small-Scale enterprises. In this regard, the Ethiopian government has formulated MSE's strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, and developing export support programs and a marketing information center (MoTI, 1997). However, the inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting of the business and further growth of the sector (MUDC, 2013; MoFED, 2011).

Problem of skilled human power

Skilled human power refers to the person who is trained, well-educated, energetic, experienced, devoted to their field and is capable of doing any specific work in a balanced way and efficiently.

As (Jemal, 2021) explains, some operators start businesses without a sound business plan despite the business development services provided by MSE agency. Hence business failures result from a lack of managerial competence and experience. According to Jemal, (2021), Lack of essential and required expertise in production, maintenance, marketing, and finance can lead to funds misallocation and utilization due to wrong decision-making. Hence, managerial experience among SMEs is important as it will influence the manner in which the SMEs operate and how they can interact with the environment.

Limited access to finance

Access to finance refers to public loans or government subsidised loans for firms. Such loans are intended to support and stimulate economic growth by providing financing to firms where the market is failing to do so.

As per the study of (Solomon et al. , 2016) a majority of the enterprises, 79% and 72%, micro-enterprises and small enterprises finance their businesses from their own source, respectively. This implies that the proportion of availability of borrowing from banks found to be insignificant despite the availability of financial institutions in Addis Ababa. As (Solomon et al. , 2016) study, It seems that access to finance appears to be a very severe or major obstacle as reported by about 55% and 64% of micro and small enterprises.

Lack of raw materials

Raw material shortage is one of them. The consequences of such disturbances may be realized through high lead time, high production cost, low reliability of product, wastage of time, materials etc.

Mohammed (2016) stated that Procurement of raw materials of the required quality, and quantity at a competitive price is the most serious faced by this sector. Though the institutional arrangements regarding the allocation mechanism often work against the interest of these. This is more pronounced in the case of scarce raw materials that have to be imported. Besides, frequent interruptions in the availability of essential raw materials prevent fuller and economic utilization of the productive capacity of small units (Bridge et al., 2003).

Poor Planning

The consequences are bad reputation, project cost overruns, project schedule delays, demotivation of the project team, and sustainability risk to the organization. Several researchers confirm the fact that poor project management is responsible for a business failure.

The absence of proper planning leads to subpart execution. A good business plan need not be overly complicated. It is as simple as knowing and developing a strategy around your company, your product and your competition Carter (2019).

Licensing and Registration Challenge

Licensing means the department process respecting the grant, denial, renewal, revocation, suspension, annulment, withdrawal, or amendment of a license.

According to Dlitso, K., and Peter Q. (2000), high startup costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and unnecessary burdens on MSE's operations. Even though registration and licensing helps SSE's to have legality rights, and to reduce the prevalence of informality, more than 12% of MSE's in Addis Ababa don't have registration license (MUDC, 2013).

3.2.1. Population and Sample

In statistics, the population is that the entire set of items from which you draw data for a statistical study. It may be a group of individuals or a set of things. It makes up the information pool for a study. But a sample represents the group of interest from the population, which you will use to represent the information. The sample is an unbiased subset of the population that best represents the total data (Ravikiran A S, 2022).

3.2.2. Sample Design

According to Kothari (2004, p.55), A sample design could be a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. per Zikmund, Babin, Carr, and Girrorfin (2010), "a researcher shouldn't take total population because the results of good and representative samples have similar characteristics as the population as an entire." The target population of this study was owners of MSEs Operators within akaki kality sub-city and the local officials and experts working in MSE departments. Due to the population being larger, the distributions across sectors have been diverse and their lists aren't well organized. Hence, the researchers have decided to conduct the research within three randomly selected districts namely wereda six, eight, and nine to cut back the issues associated with the problems related to finance, and time management of the research facing the researchers during the conducting of the study.

The population of the study consisted of MSEs Operators(owners) engaged in different sectors in the three districts of akaki kality sub-city. (Yamane, 1967) formulate sample size determination method from the given population. The mathematical formula is stated as follows:

$$n=N/(1+N(e^2))$$

Where n=sample size

N=population size

e=sampling error

There for: $n=300/ (1+300(0.05^2))$

$$n=170$$

The systematic random sampling method was to be used to select 170 respondents within different MSEs Operating Sectors. Samples from the sectors were as follows, 53 from manufacturing, 65 from Trade, 30 construction, 15 from survice, 2 from urban agriculture, and 5 from other sectors.

3.3. Data Collection Techniques

Primary and secondary data sources are the two categories of data sources available. Primary data is information gathered by the investigator for the express purpose of the investigation. Secondary data, on the other hand, is information that was not collected directly but was taken through public or unpublished sources.

To achieve the study objective both the primary and secondary data was to be used, to obtain the secondary data published and unpublished sources of documents were collected from the central statistical agency, FEMSEDA, and other research papers. The primary data was collected using questionnaire methods for both quantitative and qualitative research.

3.4. Data Analysis Technique

The study used descriptive and inferential statistics analysis to assess the Challenges of micro and small-scale enterprise. Primary data obtained from different sources will process, classify and tabulate using SPSS software. Descriptive methods will be employed to analyze the data and interpret the results in quantitative ways. The different hypotheses are also will be tested with SPSS and will be analyzed using different forms as table, figures, and graphs and use chi-square test to test the statically significant relationship between dependent and independent variables. The qualitative data obtained from key informant interviews, and personal observations were analyzed through descriptions and narratives using words.

CHAPTER 4: DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1. Introduction

This chapter analyzed and discussed the results of data collected using various data collection methods and technologies. It discusses the Respondent's socio-demographic characteristics, the characteristics and status of the Enterprise, and the Major Challenges to Micro and Small Enterprise Growth. To analyze and present the findings, a descriptive study approach was used, which included statistical tools such as pie charts, bar graphs, and frequency tables.

4.2. Socio-Demographic characteristics of the Respondents

This section discussed the general characteristics of respondents in the MSEs based on their responses. It includes the respondent's sex, age, educational level, and marital status of the participants.

Table 2. Respondents' Sex, Age, Educational Level, and Marital Status of respondent

1.Sex of respondents	Number	Percentage
Male	112	65.9%
Female	58	34.1%
Total	170	100.0%
1. Age of respondents	Number	
18-25	10	5.9%
26-33	72	42.4%
34-41	61	35.9%
>=42	27	15.9%
Total	170	100.0%
3. Educational Level of the respondent	Number	Percentage
Illiterate	1	.6%
1-8	64	37.6%

9-10	38	22.4%
Diploma	30	17.6%
Degree and Above	37	21.8%
Total	170	100.0%
4. Marital Status of the Respondent	Number	Percentage
Single	34	20.0%
Married	119	70.0%
Divorced	17	10.0%
Total	170	100.0%

As the above table 1, Shown that from the total sample (170) of respondents 112(65.9%) were male, and the remaining 58(34.1) were Female. This indicated that most of the enterprises in the sub-city were owned by males than by females.

Meanwhile, the majority of the respondents were within the age group of 26-33 Years old (42.4%), followed by those under the age group of 34-41 Years old (35.9%). The remaining participants were within the age group of ≥ 42 years (15.9%) and 18-25 years (5.9%). Generally, the study indicates that the majority of the enterprises are owned by Young in the sub-city. So the MSEs are playing a significant role to reduce the youth's unemployment rate.

And also the above table shows the educational level of the respondents, it was most of the participants were 1-8(37.6%) and 9-10(22.4%) level. The rests were Degree and above (21.8%), Diploma (17.6%), and Illiterate (0.6%) level. This implies that about the majority (37.6%) of the given respondents had a primary level of education.

The Marital Status of most of the Respondents was married (70.0%) followed by Single (20.0%) and the remaining were divorced (10.0%). So the majority of the respondents were generating their income for their families.

4.3. About the characteristics and Status of the Enterprise.

4.3.1 Sector Distribution

Table 3. Sector Distribution of respondents in the MSEs Enterprises

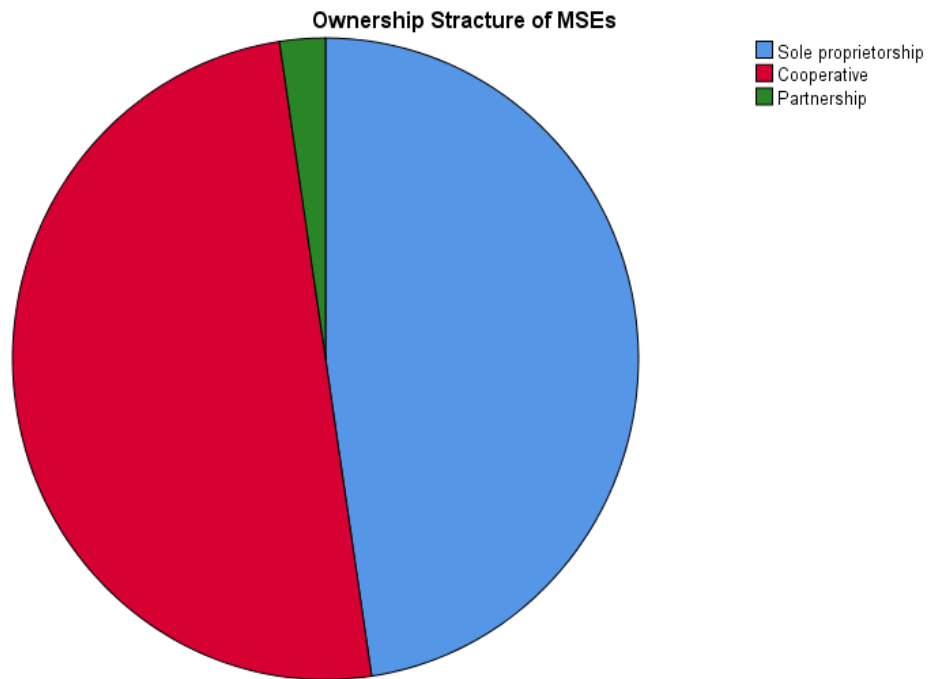
	Frequency	Percent	Valid Percent	Cumulative Percent
Manufacturing	53	31.2	31.2	31.2
Trade	65	38.2	38.2	69.4
Construction	30	17.6	17.6	87.1
Service	15	8.8	8.8	95.9
Urban Agriculture	2	1.2	1.2	97.1
Other	5	2.9	2.9	100.0
Total	170	100.0	100.0	

As shown in above Table 2, the 65(38.2%) of the respondents were merchants, followed by 53(31.2%) in manufacturing, 30(17.6%) in the construction sector, and the like. Generally, the majority of the respondents participated in the trading sector in MSEs.

This investigation contradicts with the other previously conducted studies. Like, This finding also contradicts with earlier findings by Alemu (2015) in his study of "The Challenges of Financing Growth-Oriented Micro and Small Enterprises: The Case of Hawassa City MSEs, Ethiopia. he established that majority of MSEs operators engaged service sector. Sirmolo Jemal (2018) in his study "CHALLENGES OF MICRO AND SMALL ENTERPRISES IN WORABE TOWN, SILTE ZONE OF SNNP REGIONAL STATE OF ETHIOPIA". He assessed that majority of MSEs operators engaged in the construction and service sector.

4.3.2. Ownership Structure

Figure 1. Ownership Structure of the MSE that you are operating in MSEs



From the above figure 1, from the above figure 1, that could be shown that the majority of the respondents were cooperative followed by a sole proprietorship, and some of them were included in partnership in the study area.

4.3.3. The category of the enterprise

Figure 2. The category of the enterprise does belong

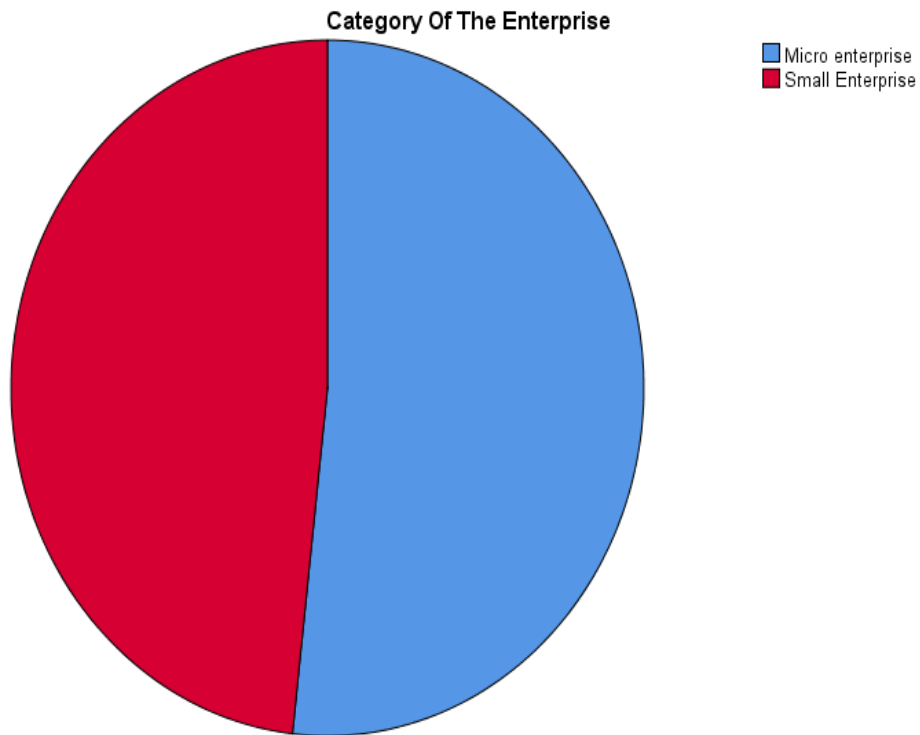


Figure 2, shows as 51.8% of the sectors were categorized as micro-enterprises but the remaining was categorized as small-scale enterprises. This implies that the majority of the enterprises not moving to a growing level.

4.3.4. Year of Establishment of the Enterprise

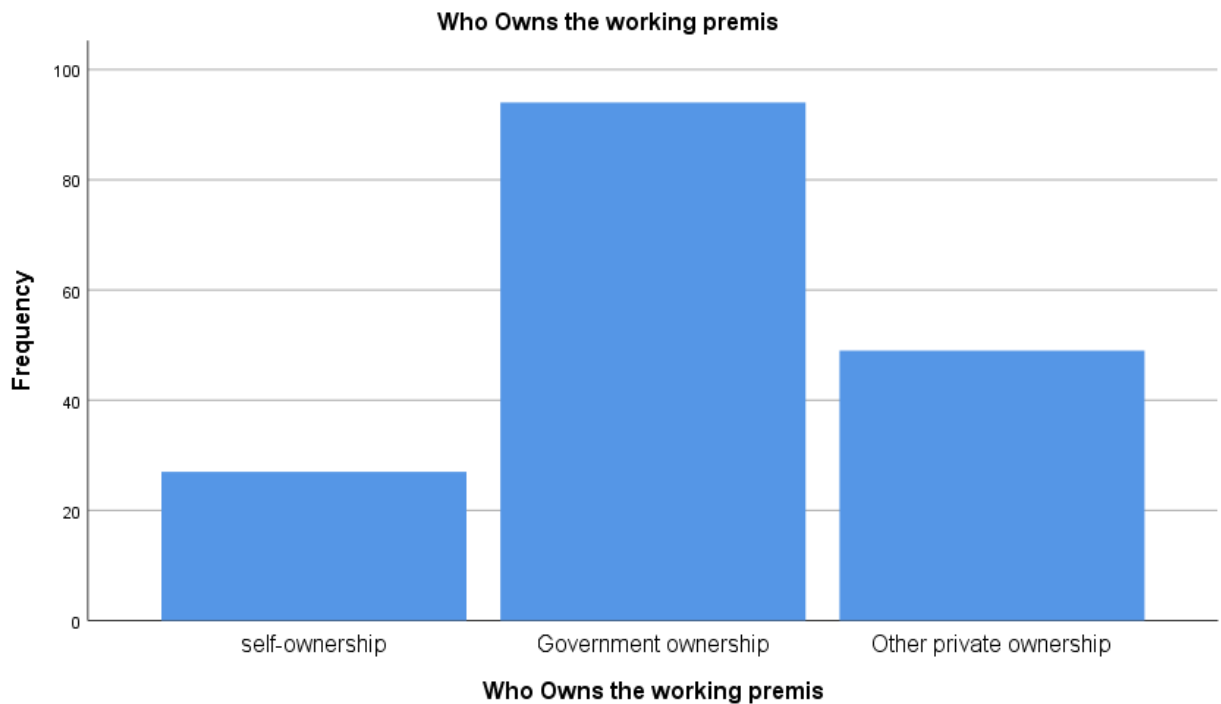
Table 4. Year of Establishment of the enterprise

	Frequency	Percent	Valid Percent	Cumulative Percent
1997	10	5.9	5.9	5.9
1998	12	7.1	7.1	12.9
1999	5	2.9	2.9	15.9
2000	37	21.8	21.8	37.6
2001	9	5.3	5.3	42.9
2002	1	.6	.6	43.5
2003	4	2.4	2.4	45.9
2005	19	11.2	11.2	57.1
2006	1	.6	.6	57.6
2007	9	5.3	5.3	62.9
2008	8	4.7	4.7	67.6
2009	20	11.8	11.8	79.4
2010	14	8.2	8.2	87.6
2011	12	7.1	7.1	94.7
2012	3	1.8	1.8	96.5
2013	2	1.2	1.2	97.6
2014	4	2.4	2.4	100.0
Total	170	100.0	100.0	

From the table above table.3, implies that the (37 or 21.8%) of the enterprises were planted in 2000 E.C but, the others are the most recent year of establishment. which implies that there is an increasing trend of participation in MSE sector in the town.

4.3.5. Ownership of the working premises

Figure 3. Who owns of the working premise of the Enterprise



In the above figure 3, shows that most of the enterprises working premises Ownership were government, 50% were other private ownership and 23% were Self-ownership.

As the experts said, the government helps the sector by building blocks or shades distribute to the participants in the sectors to solve shortages of premises in the sub-city. But still today this is a bottleneck.

4.3.6. Source of credit to running the business

Table 5. The source of credit to running their business in enterprise

	Frequency	Percent	Valid Percent	Cumulative Percent
Bank	19	11.2	11.2	11.2
Micro Finance Institutions	55	32.4	32.4	43.5
Own saving	74	43.5	43.5	87.1
Family	22	12.9	12.9	100.0
Total	170	100.0	100.0	

From above table 4, it shows that the (74 or 43.5%) of the enterprises that run their business on their saving, (55 or 32.4%) were Micro Finance Institutions, (22 or 12.9%) was from families and the rest (19 or 11.2%) were from Bank. So the majority of the sectors were run their business by their saving.

This study has similar and different findings from other studies about the source of credit for running the MSEs business. by Mulugeta (2014) in his study of "Assessing the factors affecting the performance of Micro and Small Enterprises in the case of Yeka sub-city, Addis Ababa" the major sources of credit for MSEs in Yeka Sub-city found out that informal sectors for MSEs were significant. He states that the reason for emphasizing informal sources was that the requirement of collateral is relatively easier since such sources usually take place among parties with intimate relationships and trust in each other.

Kebede and Simesh (2015) in their study of "The Impact of Environmental Factors on the Performance of Micro & Small Enterprises in East Gojjam Zone, Ethiopia" in which they found out that most the enterprises obtain their initial capital from sources that attract little or no interest rates which include personal savings, family members and friends, traditional sources.

Generally, Micro and small-scale enterprises in Akaki kality sub-city obtained the finance to run their business majorly from their source of saving.

4.3.7. Reason for not request for credit from formal sector

Table 6. Reason for not request for credit from formal sector

	Frequency	Percent	Valid Percent	Cumulative Percent
Fear to debt	30	17.6	17.6	17.6
procedure is complex	17	10.0	10.0	27.6
interest rate is high	22	12.9	12.9	40.6
loan amount is inadequate	9	5.3	5.3	45.9
do not have collateral	2	1.2	1.2	47.1
don't need credit	6	3.5	3.5	50.6
NA	84	49.4	49.4	100.0
Total	170	100.0	100.0	

From the above table 5, shows the reason for not request for credit were discussed as follow: (84 or 49.4%) of the respondents were without any reason they don't need any credit, and the other (30 or 17.6%) the respondents were fear of debt, (22 or 12.9%) were interest rate is high, (17 or 10%) were procedure is complex, (6 or 3.5%) were don't need credit and only (2 or 1.2%) were don't have collateral.

Generally, the study shows that fear of the respondents to debt was the major problem than the other constraints in the sectors.

This finding is different from some of the previous findings. As Wolde and Geta(2015) in the study of "Determinants of Growth and Diversification of Micro and Small Enterprises : The Case of Dire Dawa" found that complex procedures; Inadequacy of loan amount and lack of collateral were the most identified reasons.

This result ((30 or 17.6%) of the respondent were fear of debt)) is also contradicts the earlier findings of Kenneth(2012) in his study of the "Factors influencing the performance of youth group Micro and Small Enterprises in Kisumu west district, Kisumu county" in which he identify that lack of collateral, and small equity base were the most common challenges.

4.4. Major Challenges for the Growth of Micro and Small Enterprises

4.4.1. Major Challenges of MSEs

Table 7. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of sufficient Capital	170	1	5	1.61	.664
Lack of Working Place	170	1	5	1.72	.578
Lack of Adequate Market	170	1	5	1.98	.721
Problem of Skilled Man Power	170	1	5	3.17	1.337
Limited Access To Finance	170	1	5	1.97	.559
Lack of Raw Material	170	1	5	2.48	1.116
Poor Planning	170	1	5	3.54	1.167
Licensing and Registration Challenge	170	1	5	3.12	1.163
Valid N (list wise)	170				

In the above table 6 shows that the five-point Likert scale is considered as an interval scale. The mean is very significant. ≤ 1 means strongly agree, 2 means agree, 3 means neutral, 4 means disagree and 5 means strongly disagree.

In the first statement, the mean is 1.61. Hence it means that the majority of the respondents agreed on Lack of sufficient capital is the major challenge for MSE growth. The mean of the second statement is 1.72. Accordingly, the majority of the participants agreed on the Lack of a Working Place is a challenge for MSEs Growth. 1.98 implies that the next statement about Lack of adequate market is challenging for MSEs growth, and also 1.97 implies that, Limited Access to finance is the major Problem of MSEs growth, majority of the respondents disagreed on the

Problem of Skilled Man Power (3.17), Poor Planning (3.54), and Licensing and Registration (3.12) Challenge are not the challenges of MSEs in the study area.

According to Berhanu (2014) study report, the most basic factors which affect the growth and success of the MSEs are a shortage of working premises including the absence of own premises and inadequate working premises, financial factors which include high collateral requirements from banks and other lending institutions, shortage of working capital, high-interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions, and inability to modify existing products are factors which affect the growth and success of MSEs.

Mekonnen and Tilaye (2013) conducted a study to assess the external factors affecting MSEs are; poor infrastructural facilities, lack of access to finance, lack of knowledge and skills, lack of working premises, lack of access to market, lack of necessary support from relevant institutions, shortage of raw materials, and regulatory problems.

Another study (Solomon, Tadele, Shiferaw & Daniel Behailu, (2016) conducted the determinants of MSEs such as internal problems (e.g. weak human resources and other assets) and of external factors including lack of access to credit, limited market facilities, policy, and regulatory bottlenecks.

Alongside, the answer of the key informant's interview shows that Customer attitudes, shortages of premises, quality of the product, shortage of raw materials, poor planning, and lack of sufficient capital were the major challenges of MSEs in Akaki Kality Sub-city. In general conclusion factors that affect MSEs Sectors were different from one place to another place.

4.4.2. Chi-square Test of Hypothesis

A statistical approach for determining the difference between observed and predicted data is the Chi-Square test. This test can also be performed to see if it corresponds with our data's categorical variables. It can be used to determine whether a discrepancy between two category variables is due to chance or is the result of a relationship.

Table 8. Category of the Enterprise * CMSEs Cross tabulation

			CMSEs					Total	
			Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree		
Category of the Enterprise	Micro enterprise	Count	10	33	44	1		88	
		Expected Count	8.8	37.3	40.9	.5	.5	88.0	
	Small Enterprise	Count	7	39	35	0	1	82	
		Expected Count	8.2	34.7	38.1	.5	.5	82.0	
	Total		Count	17	72	79	1	1	170
			Expected Count	17.0	72.0	79.0	1.0	1.0	170.0

From the above table 7 results, 37.3% of small enterprise operators agreed with the presence of challenges of MSEs. Only 0.5% of micro-enterprises strongly disagree. 34.7% of small enterprise operators agreed with the presence of challenges of MSEs. Only 0.5% of small enterprises strongly disagree.

Decision Rule

H0: Challenges of micro and small enterprises aren't the same while running the business in Akaki Kality Sub-city.

H1: Challenges of micro and small enterprises are the same while running the business in Akaki Kality Sub-city.

Table 9. Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	3.848 ^a	4	.427
Likelihood Ratio	4.621	4	.328
Linear-by-Linear Association	.084	1	.772
N of Valid Cases	170		
a. 4 cells (40.0%) have expected count less than 5. The minimum expected count is .48.			

As indicated in table 8, the p-value of the chi-square statistics=0.427 is greater than the alpha level=0.05, we accept the null hypothesis, which means that the challenges of MSEs are not the same from place to place.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter contains conclusions and recommendations. The finding of this study has important implications for the growth of MSEs by the concerned body.

5.2. Conclusions

The objective of this study was to investigate the challenges faced by MSEs in Akaki Kality sub-city of Adiss Ababa city of Ethiopia.

The majorities of the respondents were male and married persons those generating their income for their families in sectors.

Various literature reviews on the problems faced by MSEs were conducted. According to the findings of this study, the majority of respondents worked in the commercial and cooperative sectors of the city, as opposed to other sectors. The bulk of the sectors in the sample were classified as micro-enterprises, while the remainders were classified as small-scale businesses. The majority of the businesses' working spaces were owned by the government, but the rest were privately owned.

Sources of funding to run their businesses, working premises, inadequate planning, product quality, raw material shortages, bad planning, and an absence of adequate capital were the primary issues in the industries. In general, the study found that the characteristics that influence MSE sectors differed from one location to the next. As a result, these difficulties are a stumbling block to the expansion of businesses in the Akaki Kality sub-city.

5.3. Recommendations

The study recommends the following ideas for the government of the city to strengthen the contribution of MSEs in the study area.

- ❖ The majorities of the respondents were male and married persons those generating their income for their families in sectors, but women participation is low in the enterprise business sector. So, assure women empowerment in the sector. Lack of working capital, lack of working premise, lack of adequate market, and limited access to finance are the major constraints for MSEs to their business. So Akaki kality sub-city government bodies must enhance the establishment of other alternatives to improve access to finance, access to the premise, and create trade linkage by working jointly with other concerned bodies.
- ❖ Give awareness about MSEs advantages to the community, and the accessibility of information services for MSEs.
- ❖ Generally, this study result recommends that government bodies must give to advance providing financial access, and working premises, create an adequate market, reduce the interest rate and give awareness to the society that affects the growth of MSEs in the town.

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Appendix1: Survey Questionnaire

Dear Sir/Madam: This questionnaire is prepared to collect data for a research entitled “assess the Challenges of micro and small scale enterprise in case of Akaki kaliti sub-city, Addis Ababa Ethiopia; the Case of Akaki kaliti sub city 02, 06 & 08 Woreda .” Hence you are selected to participate in the study as a sample and your participation is entirely voluntarily and the personal data that you provide here will be kept confidential and only used for academic purposes and your identity will not be disclosed or shared to anyone for these purposes please do not write your name and address in this questionnaire. The success of the research relies on the information you provide in this questionnaire so that please properly answer the questions and return the questionnaire as fast as you can. Thank you in advance for your kind cooperation and dedicating your time!

General Direction: For questions that provide multiple alternatives you can choose more than one alternative and put a “√” mark at the box in front of the alternative that you select; and for questions that require explanation please write precise explanations on the given blank space. In this questionnaire the Enterprise refers to the Micro and Small Enterprise in which you are operating.

Section 1: Socio-Demographic characteristics of the Respondent

1. Sex: _____
2. Age: a.18-24 b.25-30 c.31-35 d.36-64
3. Educational Level a. uneducated b. 1-4 c.5-8 d. 9-10 e. diploma f. First degree and above
4. Marital Status: A. Single B. Married C. Divorced d. Other (specify)_____

Section 2: About the characteristics and Status of the Enterprise.

5. At which sector does the MSE operates?

A. Manufacturing sector B. Trade Sector C. Construction Sector D. Service Sector E. Urban Agriculture sector F. Other (Specify) _____

6. On which ownership structure does of the MSE that you are operating is functioning?

A. Sole proprietorship B. Cooperative C. Partnership

7. Under which category the enterprise does belong?

A. Micro enterprise B. Small enterprise

8. When do you establish the enterprise? _____

9. Please indicate the employees' number in the enterprise at the beginning for your enterprise operation? _____

10. Who owns the working premise of the Enterprise?

A. self-ownership B. Government ownership C. Other private ownership

11. What is your source of credit to running your business?

A. Bank B. Micro Finance Institutions C. Own saving D. Family

12. If you did not request for credit, what are your reasons?

A. I don't need credit B. The interest rate is high C. The procedure is complex D. I do not have collateral E. The loan amount is inadequate F. I fear debt

11. Do you think that your business is growing?

A. Yes B. No

Section 3: Challenges for the Growth of Micro and Small Enterprises

13. In the following table the major challenges that could affect the MSEs growth are listed. Hence, show your agreement on the facing challenge in your enterprise.

The occurrence of the challenge in the MSE

The occurrence of the challenge in the MSE	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Lack of sufficient capital					
Lack of working place					
Lack of Adequate Market					
Problem of skilled man power					
Limited access to finance					
Lack of raw materials					
Poor Planning					
Licensing and Registration Challenge					

Thanks!!!!!!!!!!!!!!

Appendix2: Key informant questioner

The Interview to be answered by officials and experts working municipality MSE offices

Dear respondent: I would like to inform you that this questionnaire is designed to collect primary data to produce a research thesis on; challenges of Micro and Small Scale Enterprises (MSEs) in case of Akaki kality sub-city.

Hence you are selected to participate in the study as a sample and your participation is entirely voluntarily and the personal data that you provide here will be kept confidential and only used for academic purposes and your identity will not be disclosed or shared to anyone for these purposes please do not write your name and address in this questionnaire.

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

1. Does MSEs Operation in the town expanded in the last 5 years? If so why? If not, why? ---

2. What are the challenges the sectors faced during establishment of MSEs in Akaki kality sub-city? -----

3. What challenges are identified during the operation of MSEs in Akaki kality sub-city? ----

4. What supports are given to SMEs in Akaki kality sub-city? -----

5. What is your overall opinion regarding the growing of MSEs in Akaki kality sub-city? -----

Thank you!!!!!!!!!!!!!!