

**Problems of Micro and Small Enterprises in Addis Ababa: The Case of
Kirkos, Kolfe, and Yeka Sub Cities**

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This is to certify that the thesis prepared by Weldegbriel Mezgebe, entitled: Problems of Micro and Small Enterprises in Addis Ababa: The case Kolfe, Kirkos and Yeka Sub Cities and submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration in management complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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List of Acronyms

AADCB	Addis Ababa Design and Construction Bureau
AAHP	Addis Ababa Housing Project
BS	Business Service
CSA	Central Statistical Authority
EC	Ethiopian Calendar
ECA	Economic Commission of Africa
EDRI	Ethiopian Development Research Institute
FeMSEDA	Federal Micro and Small Enterprises Development Agency
MFIs	Micro Finance Institutions
MoTI	Ministry of Trade and Industry
MoUDC	Ministry of Urban Development and Construction
MSEDO	Micro and Small Enterprises Development Office
MSEDS	Micro and Small Enterprises Development Strategy
MSEs	Micro and Small Enterprises
NGO	Nongovernmental Organizations
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
TIB	Trade and Industry Bureau
TVET	Technical and Vocational Educational Training

ABSTRACT

This study aimed at identifying the major problems that are associated with the performance of MSEs in Addis Ababa. In the study, both qualitative and quantitative research methods were used. Primary data was obtained using questionnaires and unstructured interviews. Secondary data was also collected from books, journals, past research works, official documents and the internet. Stratified sampling was used to select proportional number of samples from the study area. The analytical strategy used was based on the assumptions developed by previous studies. On the basis of the findings, the major problems facing MSEs in Addis Ababa are lack business plan, lack of formal and informal association, lack of favorable business environment, high cost and shortage of raw materials, lack of proper institutional support, lack of proper marketing practice, and stiff competition among MSEs in the same business line and medium and large companies. The study recommended that Enterprises should train by professionals how to develop business plan; the culture of cooperation, and formal and informal association should be improved by taking the work of successful enterprises as examples;

enterprises must develop sufficient marketing skills and diversified their product; enterprises should form a supply chain management and support each other to minimize their raw material related problems; the government should adjust the price of output of MSEs parallel with the increase in cost of raw materials purchased by the MSEs; the favorability of the business environment should be enhanced; the quality and accessibility service of supporting institutions should be enhanced; and conducting continuous research to identify the potential problems of the enterprises.

Weldegebriel Mezgebe

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

The health of small business sector is very important for the overall economic growth potential and future strength of an economy since they utilize local resources, satisfying vital needs of large segment of the population with their products and services, serve as spheres of technological, marketing and management capacity and skill acquisition, and enable technological progress via adoption technologies (FeMSEDA, 2004). There has been more written about MSEs business growth in recent years than any other aspect of management. One of the main reasons is the contribution of expanding MSEs to economic development and unemployment reduction, which, generally, has attracted the attention of researchers and policy makers in many countries (Bernice and Meredith, 1997).

In most developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology. Moreover, they create job opportunities for a substantial segment of the population (Commission on Legal Empowerment of the Poor, 2006).

Therefore, in developing countries, the MSEs sector is a large source of employment and income, particularly for the urban population. The MSEs employment, outside of

agriculture, is defined as employment that comprises of both self-employment, in the MSEs, and wage employment, in the MSEs jobs, without secure contracts, worker benefits, or social protection and represents nearly half or more of the total non-agricultural employment in all regions of the developing world. It ranges from 48% in North Africa to 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa (ILO, 2002). In Ethiopia, about half of the urban workforce is engaged in the MSEs sector and Addis Ababa nearly accounts for about 40% of the total operators in micro enterprise activities (Gebrehiwot & Wolday, 2005).

Regarding employment generation of MSEs in Ethiopia, in the PASDEP period (2005/06-2009/10), it was planned to create 1.5 million employment opportunity. Accordingly, through 167,835 MSEs 1.46 million employment opportunities were created (MoUDC, 2011).

Hence, since the sector is a quick remedy for unemployment problem, direct intervention and support of the government is crucial to facilitate the environment for new job seekers and ease self employment (Commission on Legal Empowerment of the Poor, 2006). As a result, the Ethiopian Government recognized the contribution of MSEs and paid due attention to their promotion and development. To this effect, it has formulated a National MSE Development and Promotion Strategy in 1997 which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. The overall objective of the strategy is to create an enabling environment for MSEs, with specific objectives to facilitate economic growth, bring equitable development, create long-term jobs, strengthen cooperation between MSEs, provide the basis for medium and large-

scale enterprises, promote export, balance preferential treatment between MSEs & bigger enterprises (CSA: 2004).

One feature of the Ethiopian private sector as a whole is that it is highly dominated by micro and small enterprises, which are geared towards satisfying the needs of low income groups. MSE sector, accounting for the bulk of non agricultural economic activities, are highly concentrated in the production and consumption of textiles, food and beverage processing (Commission on Legal Empowerment of the Poor, 2006). Therefore the researcher has the belief that development and sustenance of small business in Addis Ababa will go a long way in helping the economy of the city.

1.2. Statement of the Problem

Okpara & Wynn (2007), research on small-business development has shown that the rate of failure of MSEs in developing countries is higher than in the developed world.

Similarly, despite their contribution to economic development and job opportunity, micro and small enterprises in Ethiopia in general and in Addis Ababa in particular are facing variety of problems that hinder their growth and development. In 2009/2010 the number of establishments and total employment created by MSEs in Ethiopia increased by 142.6 and 22.8 percent respectively. However, their contribution to growth rate of GDP was limited to 5.1 percent (NBE, 2010).

Some of the major constraints of micro and small enterprises in Ethiopia affecting the performance of MSEs are: Cumbersome rules/regulations related problems such as high tax level, uncertainty about tax policy, high collateral requirement, lack of/ inadequate

business premise, lack of business support service and inadequate access to credit, an inadequate access to finance, lack of infrastructure, weak supporting institutional quality, access to land, access to raw material, access to training, marketing and competition. Bureaucratic requirements, penalties, weak legal enforcement, entry regulations and inability to use the institutional enforcement mechanism were also among the major problems of MSEs (Commission on Legal Empowerment of the Poor, 2006).

The interruption of electric power, unavailability of adequate transport service and unavailability and unreliability of water supply and other infrastructures are hindering the development of MSEs (Gebrehiwot & Wolday, 2004). The absence of finance further restricts the development of micro and small enterprises. Banks and micro finance institutions in Addis Ababa do not seem willing to give proper loans and they are not actually meeting the financial needs of micro and small enterprises (Gebrehiwot & Wolday, 2004).

The FeMSEDA international workshop on the role of MSEs in the economic development of Ethiopia conducted in Addis Ababa in may 2004 also shows that MSEs in Ethiopia are facing varieties of problems of which lack of access to start up and operating financial resources, lack of working premises both for production and sales, shortage of skill and managerial expertise, inadequate of supply of raw materials and marketing problems are the major constraints (FeMSEDA, 2004).

According to survey of Ethiopian Development Research Institute (2004), conducted in six major cities including Addis Ababa, only 7% of MSEs received short term training. The same research reveals that 74% of MSEs indicated willingness to pay fully for the

share in the cost of training. This indicates that there is shortage of access to training to develop skill, knowledge and attitude (Gebrehiwot& Wolday, 2004).

Marketing problems such as lack of product diversity, pricing problems, lack of awareness how to compete in the market, limited business management and salesmanship ability, limited capacity to promotional activities, and lack of market related knowledge are also hindering the development of MSEs (Assegedeche, 2004).

The rationale of this study is that the Government established many institutions to promote the smooth functioning of MSEs. NGOs are also promoting MSEs. However, this sector is not performing up to the expectations of many stake holders as it has been suffering from several problems. Therefore, conducting such a research seems essential in the light of the fact that different problems centered in this sector. Hence, this study aims at identifying the impact of the varied problems on the performance of MSEs. This study has made an effort to analyze the varied problems of MSEs in Kolfe, Kirkos and Yeka Sub Cities and forwarded possible solutions to the policy makers and business operators.

1.3. Hypothesis of the Study

Several statements of supposition can be made in view of start up, growth and end of MSEs. The following lists of hypotheses are the major ones on which the study is pivoting.

- **Hypothesis 1:** there is no relationship between the experience of owners leading to either performance or nonperformance of MSEs.

- **Hypothesis 2:** there is no relationship between enabling business environment leading to either performance or nonperformance of MSEs.
- **Hypothesis 3:** there is no relationship between the competition level and performance leading to either performance or non-performance of MSEs.
- **Hypothesis 4:** There is no relationship between the supporting institutions quality leading to either performance or non-performance of MSEs.
- **Hypothesis 5:** there is no relationship between access raw material leading to either performance or non-performance of MSEs
- **Hypothesis 6:**There is no relationship between the training factors leading to either performance or non-performance of MSEs
- **Hypothesis 7:** There is no relationship between management factors leading to either performance or non-performance of MSEs.
- **Hypothesis 8:** there is no relationship between the infrastructures related factors leading to either performance or non-performance of MSEs
- **Hypothesis 9:** There is no relationship between the marketing management factors leading to either performance or non-performance of MSEs
- **Hypothesis 10:** there is no relationship between the finance factors leading to either performance or non-performance of MSEs
- **Hypothesis 11:** there is no relationship between the rules/regulations factors leading to either performance or non-performance of MSEs.

1.4. Research Questions

The researcher is intended to answer the following questions.

- What seems the nature of MSEs in Addis Ababa?
- What relationships exist between success of micro and small-scale enterprises and some selected factors?
- What type of relationships exists between the types of MSEs and some selected factors?
- What seems the impact of the selected constraints on the performance of MSEs?
- How the problems facing MSEs should be overcome?
- Why MSEs are not performing well?

1.5. Objective of the Study

The general objective of this study is to analyze problems faced by MSEs in Addis Ababa.

The specific objectives of this study are:

- To identify the nature of MSEs.
- To identify and analyze the specific relationships between the success of MSEs and some selected factors.
- To identify and analyze the specific relationships between the types of MSEs and some selected factors.
- To identify the impact of the selected constraints on the performance of MSEs
- To identify the means to overcome the problems faced MSEs.
- To identify the reason why MSEs are not performing well.

1.6. Significance of the Study

The findings of this study are expected to be significant for the following important reasons: First, government and other concerned bodies involved in the promotion of the development of MSEs may use the finding of this research as additional information to address the problems uncovered in the development of MSEs. Secondly, the micro and small enterprises development office and the owners of such enterprises may be able to know the real problems and then to seek solutions for these problems. Finally, it may be used as a reference for other researchers who are interested to conduct study related to this problem.

1.7. Scope and Limitation of the Study

This study is delimited to problems of micro and small enterprises in Addis Ababa: the case of Kolfe Keranio, Kirkos and Yeka sub cities. The researcher selected these three sub cities which have better equitable distribution of all types of MSEs under the study by considering the homogeneity of the problems of MSEs in Addis Ababa, and by supposing the selected sub cities are representative enough to infer about MSEs in the city.

It is known that different factors may influence performance of MSEs. However, this paper has delimited only on service year, rules/regulations related problems, inadequate access to finance, lack of infrastructure, institutional quality, access to productive resources, access to training, competition, marketing, management related factors, and conducive business environment.

In studying the problems facing MSEs in Addis Ababa, the researcher carried out the study successfully, however there were some limitations. The absence of documentation in MSEDO posed difficulties to the researcher in identifying the performance progress of MSEs. Additionally, another limitation to this study was some respondents did not return the questionnaires on the promised time which resulted to some sort of delay to the researcher in submitting the report on the supposed university schedule

1.8. Organization of the Paper

This paper has five chapters. The first chapter is an introduction which consists of background of the study, statement of the problem, hypotheses, research questions, objectives, conceptual framework, significance, scope and limitation of the study. The second chapter presents review of related literature, and the third chapter is research methodology. Data collected from respondents is presented and analyzed in the fourth chapter, and the last chapter is summary of findings, conclusions and recommendations based on the findings.

CHAPTER TWO: LITERATURE REVIEW

2.1. Definition of Micro and Small Enterprises

2.1.1. Definition of MSEs by European Commission

In 1996 small scale enterprises were defined as enterprises which employ fewer than 50 persons and whose annual turnover does not exceed 7 million euro or annual balance sheet total does not exceed 5 million euro (Kushnir et al, 2010). The Commission developed new definition of MSEs which took effect on January 1, 2005. The new definition is the result of wide-ranging discussions between the Commission, member states, business organizations and experts, and open consultations on the internet. The new definition reflects general economic developments since 1996, and a growing awareness of the specific hurdles confronting MSEs. The new definition is more suited to the different categories of MSEs and takes better account of the various types of relationships between enterprises. It helps to promote innovation and foster partnerships, while ensuring that only those enterprises which genuinely require support are targeted by public schemes (Kushnir et al, 2010).

The new definition is developed to update thresholds, promote micro enterprises, improve access to capital, promote innovation and improve access to Research & Development (R&D), and to take account of different relationships between enterprises (Kushnir et al, 2010).

The European Commission utilizes three criteria to determine whether an enterprise is a micro or small sized. These are staff headcount, annual turnover, and annual balance sheet (Kushnir et al, 2010).

Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro. Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro (Kushnir et al, 2010).

It is necessary to note that while it is compulsory to respect the staff headcount thresholds, a MSE may choose to meet either the turnover or balance sheet ceiling. It does not need to satisfy both and may exceed one of them without losing its status. The new definition developed in 2005 offers this choice since, by their nature, enterprises in the trade and distribution sectors have higher turnover figures than those in manufacturing. Providing an option between this criterion and the balance sheet total, which reflects the overall wealth of an enterprise, ensures that MSEs engaged in different types of economic activities are treated fairly (Kushnir et al, 2010).

2.1.2. Definition of MSEs in India

In the Indian context, micro and small enterprises as per the Micro, Small and Medium Enterprises (MSME) Development Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services. According to the (MSME) Development Act of 2006, (India) a micro enterprise is where the investment in plant and machinery does not exceed

twenty five lakh rupees. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees. In the case of the enterprises engaged in providing or rendering of services, as:

(a) a micro enterprise is where the investment in equipment does not exceed ten lakh rupees.

(b) a small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

According to the MSME, recent ceilings on investment for enterprises to be classified as micro and small enterprises are presented in figure 1 below.

Figure 1: Classification of MSME in India

Classification	Manufacturing Enterprises □	Service Enterprises □□□□ □
Micro	Rs. 2.5 million/ Rs. 25 lakh (US\$ 50,000)	Rs.1,000,000/Rs. 10 lakh (US\$ 2,000)
Small	Rs. 50 million/ Rs. 5 crore (US\$ 1 million)	Rs. 20 million/ Rs. 2 crore (US\$ 400,000)

***. Rs 50 = 1USD

** . Investment limit in equipment

* . Investment limit in plant and machinery

Source: The Micro, Small and Medium Enterprises Development Act, 2006

2.1.3 Definition of MSEs in Kenya

In Kenya, the Micro, Small and Medium Enterprises (MSME) bill 2009 has used 2 criteria to define Small and Micro Enterprises (SMEs) in general: Number of people/employees and the company's annual turnover. For enterprises in the manufacturing sector, the definition takes into account the investment in plant and machinery as well as the registered capital. This SME definition is therefore as follows

Figure 2: Definitions SME in Kenya

Classification	No of Employees /People	Annual Turnover Limit	Investment in Plant and Machinery + Registered Capital	Equipment Investment + Registered Capital
Micro	Less than 10 people	Not exceeding Ksh. 500,000	Not exceeding Ksh. 10M	Not exceeding Ksh. 5M
Small	More than 10 but less than 50	Between Ksh. 500,000 to Ksh. 5M	More than 10M but less than 50M	More than 5M but less than 20M

Source: Kenya Association of Manufacturers, 2009, pp. 1-2

2.1.4. Definition of Micro and Small Enterprises in Ethiopia

Size of employment, capital investment or turnover is used as criteria to categorize enterprises along scales of operations and define micro, small, medium and large enterprises. This categorization is important for functional and promotional purposes to achieve the desired levels of development (MSEDS, 2011).

In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of MSEs sector. While the definition by ministry of trade and industry (MoTI) use capital investment where as the central statistics authority (CSA) uses employment and favored capital intensive technologies as yardstick.

According to the MoTI (2004):

- Micro enterprises are those business enterprises in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments.
- Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high technological establishments (MoTI, 2004).

On the other hand, CSA (2004) categorizes enterprises into different scales of operation on the size of employment and the nature of equipment.

According to CSA (2004):

- Enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries. Cottage and handicraft industries are those establishments performing their activities by hand and using non power driven machines. The informal sector is defined as household type establishments or activities, which are non registered companies and cooperatives operating with less than 10 persons.
- Establishments employing less than ten persons and using motor operated equipment are considered as small scale manufacturing enterprises. (CSA, 2004).

The above definitions given by CSA, however consisted of the following short comings.

- It focuses on manufacturing ignoring other sectors.
- Failure in using size of capital

Due to the absence of uniform definition of the sector, the agency failed in gathering data about cottage and handicraft industries for the last 7 years. Hence, the data collected from the MSE and the ongoing strategy and support frameworks become different to analyze and to interpret in scientific ways.

When the MSE development strategy is formulated in 1998 the definition of MSEs was by considering other countries experience especially the South African experience (MSEDS, 2011). The definition given at that time was only based on paid capital or capital investment as most businesses were confined to family man power basis and lack of availability of manpower information of the sector. Hence, the following are identified as short comings/gaps of the 1998 definition (MSEDS, 2011).

Although the main objective of MSE is to create job opportunity, it was difficult to compare the achievements in job creation with the definition. And it does not show enterprise capital size/amount/ when it is compared with the experience of other countries. The existing definition of the sector considered a paid up capital without considering the experience in reality. It does not show the full pictures of MSEs as they are established based on self paid up capital and credit from banks (MSEDS, 2011).

As the existing definition lasts for more than 13 years, it did not reflect the current situation due to inflation and currency fluctuation. For instance, the current paid up capital-ETB20, 000 or 3000 USD to micro enterprise is what was1200 USD or 900 Euro in the past. Similarly the paid up capital allowed to small enterprise, i.e., ETB 500,000 or 76,000 USD what was 30,000. In other words, the paid up capital existed before 13 years was better by 2.5 fold, due to currency fluctuations.

Though the definition underlines a paid up capital, the transfer from micro to small and from small to middle was on the basis of total asset.

Since the definition of small enterprise does not include high technology and consultancy/advise/ services, it should be revised from the angle of technology and construction services.

Thus, based on the above mentioned reasons the existing definitions of the sector were reviewed in January 2011on international experience and current process of the sector basis (MSEDS, 2011).

2.1.4.1. The Improved Definition of MSEs in Ethiopia

Based on the gathered experience, by identifying the gaps of the existing definition of MSE, ignoring the size of employee and by taking total asset as criteria and by dividing it in to industry and service sector; and considering the coming 5 years inflation and fluctuation/regularity of currency the definition of MSEs was improved in january2011 as follows.

Based on the revised sector both micro and small scale enterprises are categorized in to industrial sector and service sector

Under industry sector (manufacturing, construction and mining) micro enterprises are defined as an enterprise that operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000.

Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service micro enterprises are defined as an enterprise that operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000.

Under the industry sector (manufacturing, construction and mining) small enterprises are defined as operates with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million.

Under the Service sector (retailer, transport, hotel and Tourism, ICT and maintenance service) Small enterprises are defined as operates with 6-30 persons or/and total asset, or a paid up capital is with Birr 50,001 and not exceeding Birr 500,000.

When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick (MSEDS strategy, 2011).

The improved definition of MSE is presented in figure 3 below.

Figure 3: The improved definition of MSEs in Ethiopia

Level of enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	≤5	≤Birr 100000 (\$6000 or E4500)
	Service	≤5	≤Birr 50000 (\$3000 or E2200)
Small enterprise	Industry	6-30	≤Birr 1.5million (\$90000 or E70000)
	Service	6-30	≤Birr 500000 (\$30000 or E23000)

Source: Ethiopian Micro and Small Enterprise Development Strategy (2011)

2.2. Challenges for the Expansion of MSEs in Ethiopia and other Countries

According to Commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia face critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption.

Lack of access to finance and credit: lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor, 2006).

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

Moreover, the interest rate by most micro finance institutes, which is higher than the lending rate of formal banks, inhibits effectiveness in addressing the needs of micro enterprises (Commission on Legal Empowerment of the Poor, 2006). According To

Wolday and Gebrehiwot (2006), more than 93% of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.).

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

Lack of finance has been considered in many studies as a key success factor for MSEs such as Rolfe et al (2010), Mbonyane & Ladzani (2011), Olawale & Garwe (2010) Okpara(2011) and Etumeahu, 2009)

Lack of clear and pragmatic national policy and institutional qualities: Despite the strategies and other rules and regulations that are in vigor in theory, most interventionist policies regarding MSEs are inappropriate and impractical. For instance, most government policies have a tendency to over regulate and limit the growth of private sector enterprises and they are over bureaucratized and unfriendly to support small businesses (Commission on Legal Empowerment of the Poor, 2006). A study conducted

by Economic Commission of Africa (ECA) (2001) in countries such as Ethiopia, Cameroon, Gabon, Nigeria, Senegal and Uganda have shown that the regulatory and policy environment in which MSEs operate proves to be major handicap for their expansion and growth. The same study reveals that the complexity of customs system and many forms and declarations required have had a negative impact on the general business environment diverting entrepreneurs' efforts from more productive tasks.

The findings of Eshetu and Mammo (2009) also indicate that legal and regulatory problems are major obstacles to efficient operation of micro and small enterprises. According to this study, bureaucratic registration requirements for licensing, high policy control, overregulation, corruption, high tariffs and unfair tax were found as major policy-related constraints that adversely affect the sector. Free market policy has also exposed them to international competition, and this had a significant negative impact on their performance.

Mbonyane & Ladzani (2011) further found that the government is not actively providing support mechanisms for business registration to ensure the success of micro-enterprises. There is also poor communication between the government and small business owners. Lack of proper regulation in terms of borrowing funds from the banks by small business owners; lack of focus in formulation and implementation of policies, and tax laws affects the performance of MSEs. For the proper promotion of the development of small business enterprises, there is need for a well articulated plans or programs by the government (Etumeahu, 2009).

Location and working space problems: For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to start up businesses (Eshetu & Mammo, 2009).

According to Rolfe et al (2010) findings location is critical factor for sales and income of small scale enterprises and hence entrepreneurs benefit from businesses in formal residential areas. Logically, this finding stems from the higher per capita income and demand density in developed urban areas. Demand density also makes taxi ranks and train stations more lucrative. These spaces are limited and thus a source of competitive advantage that cannot be copied or re-created. Mbonyané & Ladzani (2011) found that small businesses select a site without first thoroughly analyzing the suitability of location. The same researcher found that most of the micro-enterprises are failing owing to a lack of space provided by the government and the various shortcomings of the small business owners regarding their businesses. Olawale & Garwe (2010) also found that poor location has a negative impact of the performance of micro and small enterprises.

Lack managerial and other skilled labor, and lack of training: There is lack of knowledge of entrepreneurial and managerial capacity, and marketing experience. Lack of skill leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process, and inability to

troubleshoot failures on machinery and/or equipments is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control, and those with technical knowledge (Commission on Legal Empowerment of the Poor, 2006).

Moreover, MSEs lack resources required for research and development and there is inadequate technical and entrepreneurial skills (Commission on Legal Empowerment of the Poor, 2006). There is lack of formal education and training in MSEs operators. The most common form of acquiring skills in the MSEs sector is through apprenticeships. Though the formal education system prepares students for paid employment, there are very few vocational institutions that cater for developing skills. This inevitably leads to low level of innovation in almost all sectors of the economy and severe shortage of training opportunities for potential entrepreneurs (Gebrehiwot & Wolday, 2004).

Mbonyane & Ladzani (2011) found that more than 50 percent of micro-enterprises lack training in proper business management. As a result, there is lack of technology available to micro and small businesses enterprises. The results of this research show that the government does not have enough support mechanisms available to ensure that small business owners and their employees receive the training that would enable them to run the business successfully. Most owners do not have management experience and adequate training and skills to operate a business (Okpara, 2011). Olawale and Garwe (2010) also found lack of business skills and shortage of skill labor which results from absence of proper training are affecting micro and small enterprises negatively.

Furthermore, there has been research that indicates that enterprises who had received training in their areas of business reported that their businesses were doing well. But enterprises who did not receive training in their areas of business perform less. This indicates that relevant training can produce positive results in the running of businesses (Bowen et al 2009). Management is one of the fundamental bases of business development. Most of the small business owners do not acquire enough education before establishing business of their own and they are still blind in seeing the wisdom of formal learning or acquiring managerial skills in doing business though claim to be successful with their acquired experience. This has resulted to the low level of attention to the welfares of their workers. It is therefore important for small business owners to absorb the skills of proper management (Etumeahu, 2009).

Lack of sufficient marketing and high competition level: The marketing problem is the main constraint for the growth of enterprises (Rahel & Paul, 2010). Micro and small enterprises in Ethiopia faced various marketing problems. There is lack of product diversity and as a result similar products are over crowding the market. In addition to this certain micro and small enterprises lack the skill to modify their products and they have lack of sufficient range of product designs (Assegedech, 2004).

Ethiopian micro and small enterprises have different pricing problems such as lack of costing knowledge, did not include over head costs, salary or wage of family members involved in the production process are not considered, and do not know the exact earning from sales (Assegedech, 2004).

Many MSEs plan to promote their products, however, their budget is mostly limited. In addition to this, such MSEs have lack of awareness how to compete in the market. MSEs are less advantageous to compete in the market than large companies since they have smaller economies of scale (Assegedech, 2004).

In terms of problems related to product diversity, the findings of Assegedech (2004), Rahel and Paul (2010) and Eshetu and Mammo (2009) are similar. According to Eshetu and Mammo (2009), majority of MSEs produce or give services of similar products in a limited domestic market. Most of them do not seek new possibilities and opportunities outside the local markets.

(Rahel and Paul 2010) also reported the presence of competition is the most significant factor. This is because of the reason that enterprises in the same sector sell identical products without any additional distinctiveness and innovative activities. This led them to compete for the same demand.

Due to this, the local markets crowded with similar products or services and the level of competition among local producers of goods and services is intense. As result, the returns are fairly low.

In addition, presence of illegal traders around their market place leads to unbalanced competition and low demand for merchants who are legal. This results in lack of demands which is another problem for the enterprises.

The establishment of markets in residential areas also limits the demands. The change in demand and being unable to modify their products with the demand is the other marketing problem.

Because of such collective factors (stiff competition from local and foreign products), most of the MSEs are claimed that they are at a disadvantage. There are no sufficient institutional facilities that nurture the promotion, growth and development of MSEs.

Marketing their products effectively as well as accessing and acquiring information on business opportunities are the major bottlenecks that small and micro entrepreneurs face all over the country. As a result, the design and quality of products of MSEs are below standard. In addition, lack of marketing skills and weak infrastructural facilities renders small businesses to be uncompetitive (Commission on Legal Empowerment of the Poor, 2006).

Mbonyane &Ladzani, 2011, Olawale & Garwe, 2010 Bowen et al, 2009 also found that lack of appropriate marketing practices are among the major constraints that hinder the smooth function of MSEs.

Bowen et al (2009) found that there is fierce competition in the small business sector which leads to price competition and small margin of profit. Olawale & Garwe (2010) also show that high competition is among the major factors that hinder the growth of micro and small enterprises. This is due to the reason that most of MSEs tend to congregate in dense markets and overcrowded cities. Small business owners do no longer

find it easy in competing with their own goods which is mostly perceived by consumers as low quality ones when compared with those of the multinational companies.

Due to the aggressive competition small business enterprises are facing from companies that operate with greater capital outlay, companies with better and modern equipments for production, companies with better manpower and companies with marketing capabilities have resulted to low level of business and at times outright closure by small business owners (Etumeahu, 2009).

Lack of formal or informal linkages / business cooperation amongst enterprises:

according to Gebrehiwot and Wolday, 2004 a good portion (about 50%) of MSEs do not consider them as useful at all. The other factor that hinders growth and expansion of MSEs is the effectiveness with which they interact with large or similar firms. In other words, formal and informal linkages or business cooperation through networking are not common. Large public enterprises and the few foreign affiliates do not outsource some of their operations to local MSEs. The legal and institutional mechanisms to enforce contractual obligations and government policy to design appropriate incentive mechanism to encourage the expansion of business linkages/sub contracting managements is at its infant stage.

A study conducted by Eshetu & Mammo (2009) also indicates that there is poor linkage between enterprises. Despite the existing market problems, only 14.26% of respondents considered linkage as being important for development. According to that research finding one factor that could explain this low level of partnership and other forms of business undertakings could be the capacity of MSEs in Ethiopia. The limited number of

medium and large size enterprises in the country conical the mutually benefits that could be derived from undertakings of partnership and linkages.

Lack of good infrastructure facilitates: Good infrastructure facilitates have a positive effect in reducing the cost of operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu & Mammon, 2009). According to Commission on Legal Empowerment of the Poor (2006), though not directly linked, inadequacy of infrastructure (road, banking service, electricity, telecommunication and other services in facilitating smooth operation of private investment are serious impediments. Rahel & Paul (2010) also identify that even if access to infrastructure is not reported as a significant problem, lack of access to water and lack of awareness about the advantages of telephones and media leads to a negative or insignificant effect on the growth of enterprises. According to the findings of the same research most MSEs have an easy access to transportation. But, the number of enterprises that has access to the rest of the infrastructures such as telephone, television, radio and water are limited.

Previous business experience and service year: Previous business experience of the owner affects growth significantly and positively (Mulu, 2007). The researcher further found that Smaller and younger firms grow faster than large firms. The previous

ownership of business has a positive and significant contribution, since they acquire the knowledge in running business and they expand their social networks (Rahel & Paul, 2010). Eshetu & Mammo (2009), Rolfe et al, (2010) and Olawale & Garwe (2010) also found that lack of experience is among the factors that adversely affected the performance of MSEs. Bowen et al (2009) further found that majority of businesses that had been in operation for a shorter period reported that their business performances were on the decline. It also seems that most micro and small businesses hit their peak at the fifth year. After the fifth year, most entrepreneurs seem to suffer from what may be described as entrepreneurial burnout and the excitement declines.

License and record keeping: Micro enterprises with business license grow faster than those who have not license. But, the results for small enterprises were not significant. . This might be due to the fact that unlike the micro firms the variation of possession of business license might not be important predicting growth differential among the small firms' category since most of them (above 90%) have business license (Mulu, 2007).

According Commission on Legal Empowerment of the Poor (2006), MSEs complain about the bureaucratic system governing the business environment and it requires a lot of money to get the business license. According to Mboniyane & Ladzani (2011) most micro and small-enterprises acknowledged that their businesses had not been licensed, although owners were reluctant to disclose this fact. The results also indicate that more than half of the micro-enterprises and about 4 per cent of the small businesses did not keep records.

Raw material problems: Raw material is a basic component for the existence of the MSEs since they create a backward linkage and demand for other sector products. The high cost is the key raw material problem for the growth of enterprises. Lack of standardization, raw material storages, and poor quality of raw materials are also major problems (Rahel & Paul, 2010). Strong forward and backward linkages between sectors of the economy in supply of raw materials facilitate market for the output goods and services (Eshetu & Mammo 2009).

The factors reviewed in this study are summarized in figure 4 below. From the factors analyzed in the literature of this study, year of establishment, favorability of the business environment, level of competition, access to raw material, access to tainting and management practice, quality of supporting institutions, financial factors, infrastructural factors, marketing factors, and rules and regulations related factors were tested to see their impact on the performance of MSEs.

Figure 4: Summary of the constraint facing MSEs

All constraints	Other countries	Ethiopia
Lack of access to finance and credit	Lack of access to finance and credit	Lack of access to finance and credit
Lack of clear and pragmatic national policy	Lack of clear and pragmatic national policy	Lack of clear and pragmatic national policy
Lack of institutional qualities:	Lack of institutional qualities:	Lack of institutional qualities:
Location and working space problems	Location and working space problems	Location and working space problems
Lack managerial skill and training:	Lack managerial skill and training:	Lack managerial skill and training:
Lack of sufficient marketing and high competition level	Lack of sufficient marketing and high competition level	Lack of sufficient marketing and high competition level
Lack of formal or informal linkages	Lack of formal or informal linkages	Lack of formal or informal linkages
Lack of good infrastructure facilitates	Lack of good infrastructure facilitates	Lack of good infrastructure facilitates
Previous business experience and service year	Previous business experience and service year	Previous business experience and service year
Record keeping	Record keeping	Raw material problems
Raw material problems		

Source: Compiled based on the reviewed literature

2.3. Conceptual Framework

The research addressed various types of business constraints such as conducive business environment, service year, rules/regulations related problems, inadequate access to finance, lack of infrastructure, institutional quality, access to productive resources, access to training, competition, marketing and management related factors.

The theoretical consideration on the link between business constraints and the growth potential or performance of MSEs can be viewed from different angles. Business constraints may, on the one hand, limit physical capital accumulation. On the other hand, they may constrain a firm's ability to undertake its daily operations since they may reduce its internal financing and its capacity to make proper business decisions. Moreover, they may interrupt a firm's business operations and therefore impede its performance.

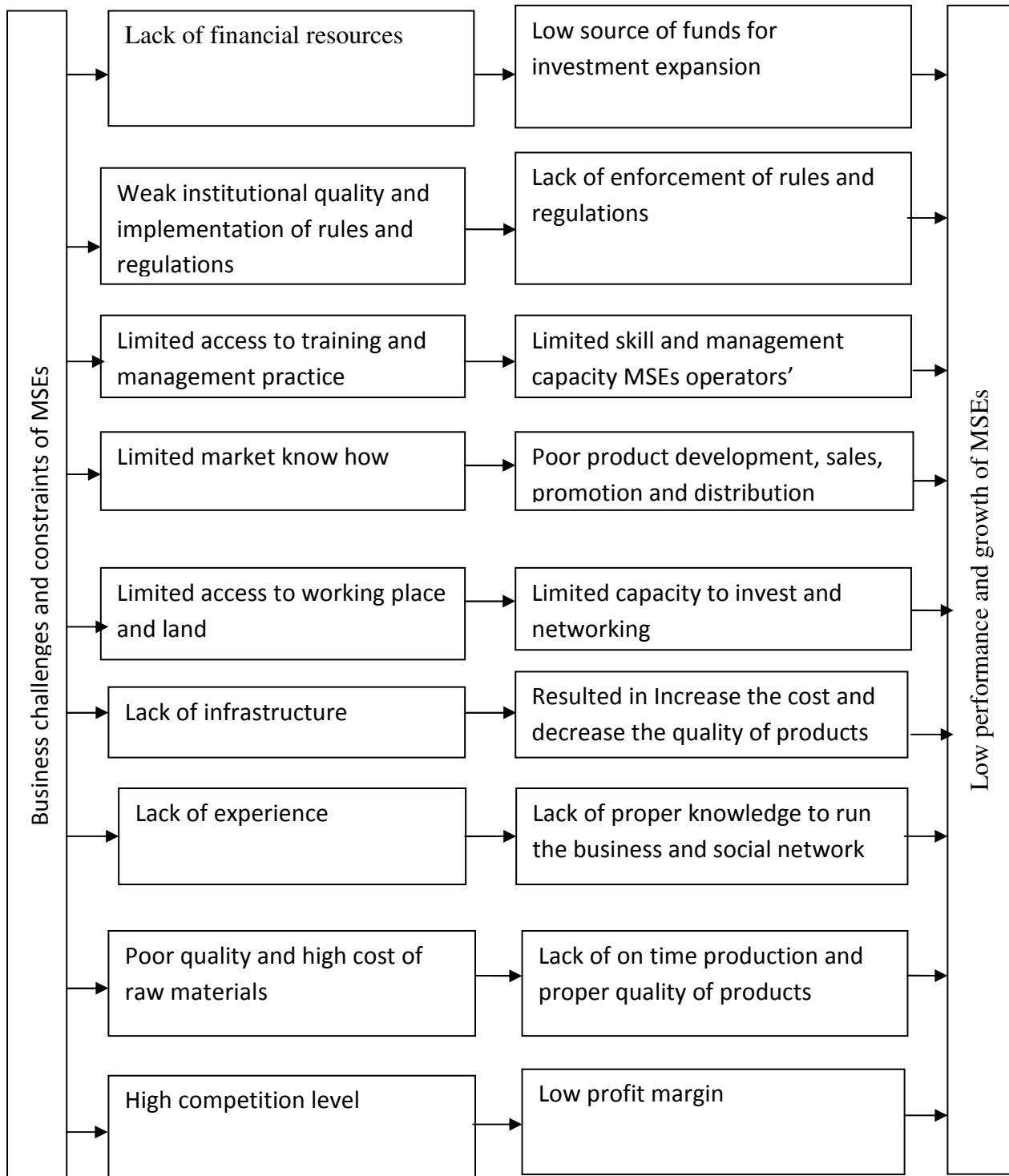
The business constraints under examination are expected to limit investment upgrading and therefore limit firms' growth potential and performance in several ways as indicated in Figure 5 below.

Majority of MSEs have limited access to external financing. As a result, they depend mainly on their internal resources to finance investment. High tax rates reduce firms' internal sources of finance. In some developing countries, it also discourages MSEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating. When MSEs have limited access to relatively differentiated markets, they are forced to operate in low-income market segments. This limits their levels of sales and profits since most of them

compete for the same customers. Access to business services (marketing information, networking, short-term training, and counseling and consultancy services) also hinder the growth potential of MSEs (Ishengoma & Kappel, 2008).

Besides the above stated obstacles, other factors which may cause MSEs to fail or to upgrade their performance are lack of infrastructure and weak institutional quality. Absence of infrastructure increases cost of production and results in lack of on time production and delivery. Due to poor quality of institutions that are established to support MSEs, rules and regulations will not be enforced and the enterprises will not get the intended support.

Figure 5: Conceptual framework



Source: Compiled based on the reviewed literature.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter focuses on research design, target population, sampling procedures, data collection and source of data, data analysis, and test of validity and reliability of instruments.

To conduct this study, the following major activities were performed. Planning the research, forecast the cost and time required to accomplish this study, review the appropriate literature, develop questionnaires and other relevant data collection methods, data collection, data analysis and write up the final research.

3.2. Research Design

Njana (2009) discusses three types of research design, namely; exploratory (this emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables), analytical (this is concerned with determining the cause and effect relationships). This study is analytical to establish the degree of relationships between some relevant factors and issues as well as to show the relative size or significance of each factor relative to the others. Descriptive analysis method was also used to business constraints that contribute towards MSEs performance. Attempts were also made to provide specific predictions about reasons of performance (causes of success or failure). This study used mainly a cross sectional study, which aims at analyzing and explain why MSEs are not performing well by taking a cross sectional of the sample at one time. The study is cross-sectional in the

sense that relevant data was collected at one point in time. The reason for preferring a cross-sectional study is that the researcher has dealt with events that have happened and has no control over the variables in terms of being able to control or manipulate them; it is an ex-post facto design.

3.3. Target Population

The population of this study is only MSEs in Addis Ababa. The population of this study does not include all MSEs in Ethiopia due to limitation of resources such as time and money. MSEs near Addis Ababa are also excluded for the same reason. According to Addis Ababa micro and small enterprises development bureau manual (2011), there are about 14,638 MSEs employing 166,805 people. The researcher selected Addis Ababa for the following reasons. Addis Ababa has the second largest unemployment rate (26.9 %) next to Dire Dawa (30.2) (CSA, 2010). This rate is above the Plan for Accelerated and Sustainable Development on which urban unemployment is planned to be reduced down to less than 20 % by the end of 2010 (NBE, 2009). The other reason is that there is better credit facility from MFIs in Addis Ababa than other regions, but shortage of credit is listed as one major problem of MSEs in Addis Ababa. According to annual report of NBE 2009/2010 Addis Ababa accounted for 33.3% of the total credit provided to MSEs in Ethiopia. But the percentage share of MSEs in Addis Ababa is 3.4%. Being the most populated city in Ethiopia, 2,980,000 (CSA, 2011) and its convenience to the researcher are also among the reasons to select Addis Ababa.

3.4. Sample Size and Sampling Procedure

The researcher used the following sample size determination formula developed at University Park by Watson (2001).

$$n = \frac{\left(\frac{P[1-P]}{\frac{A^2}{Z^2} + \frac{P[1-P]}{N}} \right)}{R}$$

(Watson, 2001)

Where:

n: sample size required-364

N: number of people on the population-3708

P: estimated variance in population - 50%

A: precision desired – 5%

Z: Based on confidence level – 95%

R: Estimated response rate- 98%

A list of MSEs was obtained from the Addis Ababa City Administration Micro and Small Enterprises Bureau which covers all of the ten Sub Cities. From the total of ten Sub Cities three Sub Cities (Kolfe keranio, kirkos, and Yeka sub cities) are selected for the study to take sample. These Sub Cities are selected due to the nature of the distribution of the seven types of MSEs (municipality, wood and metal works, textile and garment, food preparation and processing, cobble stone, construction, and urban agriculture) which are given primary priorities by the government. The selected three Sub Cities have better balanced distribution of all types of MSEs that are given higher priority. Therefore, the main reason to select these Sub Cities is the nature of the representativeness of their data. Because, the balanced distribution of the number all types of MSEs enables to provide equal chance to all types of the highly prioritized MSEs.

The researcher takes three Sub Cities only by considering the homogeneity nature of MSEs in Addis Ababa. Therefore, out of the total number of MSEs in the three Sub

Cities (3708); 1,289 in Kirkos, 673 in Kolfe keranio and 1,746 in Yeka Sub Cities 364 MSEs were taken as a sample based on the formula presented above. Stratified sampling method was used to give equal chance for the three sub cities and for all types of selected MSEs in the study area and to ensure that both the micro and the small businesses were proportionately represented in all the three Sub Cities.

After the Stratified sampling method is used to determine the number and type of MSEs in each Sub Cities to be selected, random sampling was used to select the final respondents which will give equal opportunity of selection for the population. Therefore, a sample of 126 from Kirkos, 66 from Kolfe keranio and 171 MSEs from Yeka Sub Cities were selected on proportion basis for types of business. The population of the three selected sub cities is presented in figure 6 below.

Figure 6: Number of enterprises in Kolfe, Kirkos, and Yeka sub cities

Sub City	Types of MSEs							
	Textile and Garment	Food	Constriction	Wood and metal works	Municipal	Urban A.	Cobble stone	Total
Kolfe Keranio	47	128	243	65	51	44	95	673
Yeka	83	311	478	270	139	215	250	1746
Kirkos	216	261	234	182	48	65	83	1289

Source: FMSEDA manual, 2011

3.5. Data Collection Methods and Source of Data

After attaining research permit from the Addis Ababa City Administration Micro and Small Enterprises Bureau and the three respective Sub Cities; primary data was collected from the sampled respondents in the MSEs through questionnaires (both structured and unstructured) and unstructured interviews. Secondary data was collected from files, pamphlets, office manuals, circulars, policy papers. Observations was also used to provide additional information where appropriate

3.6. Data Analysis Methods

Both primary and secondary sources of data were analyzed using both qualitative and quantitative methods. Data analysis was made through a combination of both descriptive and inferential statistics. Descriptive statistics was used to provide details of the various factors that affect the performance of MSEs. In this respect, frequency distribution was used. To evaluate the effects of various factors on the performance of MSEs, chi square, bivariate correlation, and binary logistic regression analysis were used. The statistical package for social sciences (SPSS) version19 and Excel were used for the data processing.

3.7. Reliability and Validity of the Instrument

Bless & Higson-Smith (1995) highlight that reliability is “concerned with the consistency of measures”, thus, the level of an instrument’s reliability is dependent on its ability to produce the same score when used repeatedly.

For the reliability of the questionnaire experienced academics will be used to review the questions and categories listed in the original questionnaire and interview. Moreover, the

questionnaire was distributed to 20 randomly selected small and micro enterprises around six killo and the Cronbach's Alpha was found above 0.7. According to Bryma & Bell (2003), the Cronbach's Alpha result of 0.7 and above implies acceptable level of internal reliability.

Validity on the other hand refers to whether an instrument actually measures what it is supposed to measure, given the context in which it is Applied (Bless & Higson-Smith, 1995). To assure validity, questionnaires were designed on the basis of previous studies' questionnaires and review of related literatures.

Furthermore, the questionnaire used in this study was given to independent experts in consultation with a statistician to evaluate it for content validity as well as for conceptual clarity and investigative bias.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

In this chapter, both descriptive and inferential data analysis and procedures are presented. The data analysis follows the phases discussed in chapter three (under research design and analysis methods). The first phase involves editing, coding and the tabulation of data. This assisted in identifying any anomalies in the responses and the assignment of numerical values to the responses in order to continue with the analysis. The data was then checked for possible erroneous entries and corrections made appropriately. The data were entered by using SPSS version 19. To facilitate ease in conducting the empirical analyses, the results of the descriptive analyses are presented first, followed by the inferential (statistical) analysis.

This study targeted 364 MSEs around Addis Ababa city. After coding and checking for accuracy in the data, 330 questionnaires were found useful for the study. This gave a response rate of 91%. The following results have been obtained from the respondents' response.

4.2. Respondents Business Profile

4.2.1. Number of member at start up and currently

Table 4.1 Trend of number of members at start up and currently

	N	minimum	maximum	Sum	Mean
Number of members at start	317	1	120	5689	17.95
Number of members currently	317	1	32	2968	9.36

Source: Developed for this research

The aim of this information is to determine whether the numbers of members are increased or decreased. As it can be observed from table 4.1, the numbers of members when the business is started are greater than the current numbers of members. That means the current numbers of members are decreased by 48% which is almost by half amount. The mean number of members at start up was 17.95 where as the mean number is 9.36 currently.

From table 4.1b below, it can be observed that high percentage of decrease in number of members is observed in cobblestone (71.80%), textile (49.09%), municipality (47.31%), food processing (46.33%) and urban agriculture (36.48%) respectively. Wood and metal works (21%) and construction (28.28%) have lower percentage of decrease in number of members in comparison to other types of MSEs in the study. Unstructured interview was conducted to identify the reason for the enterprises that have high percentage of decrease in members. For cobblestone the main reasons mentioned by the respondents were because of the nature of the work, rules and regulations of MFIs and the nature of the individuals who are engaged in the work. The nature of the work needs more commitment and energy. However, the individuals who are engaged in the work are from

urban who do not have the habit of hard working. Even though there are individuals who come from far rural areas the difficulty of withdrawal of the money saved in MFIs make them to leave the job.

The problems of enterprises in the textile and garment are related to absence of market place to sale their products. The enterprises get production place from the government at rent. As per the understanding of the researcher from the respondents answer the individuals prefer to produce a small amount of output at their home and hence leave their production site. The absence of the habit of working in group was also another factor. Factors that facilitate the decrease in number of members in municipality includes absence of societal knowledge in disposal of waste, absence of safety materials for the workers, absence of price arrangement in relation to the inflation, absence of government support and absence of space for removal and reuse of the waste materials. Enterprises in food preparation are facing problems related to shortage of infrastructures such as toilet and water and absence of attractive location which make them to leave their work. Enterprises in urban agriculture also face serious shortage of infrastructure especially there is great shortage of water which hinders their profitability. Unfavorable location was also major reason to stop their operation.

Table 4.1b Trend number of members at start up and currently by business type

Number of members		N	Min	Max	Sum	mean	% decrease
Municipality	At start time	23	2	67	446	19.39	47.31
	At this time	23	2	32	235	10.22	
Wood	At start time	55	1	16	519	9.44	21.00
	At this time	55	1	16	410	7.45	
Textile	At start time	29	1	25	277	9.55	49.09
	At this time	29	1	16	141	4.86	
Food	At start time	60	1	60	1254	20.90	46.33
	At this time	60	1	21	673	11.22	
Cobblestone	At start time	40	9	120	1695	42.38	71.80
	At this time	40	5	30	478	11.95	
Construction	At start time	78	1	30	969	12.42	28.28
	At this time	78	1	18	695	8.91	
Urban Agri.	At start time	32	3	26	529	16.53	36.48
	At this time	32	3	24	336	10.50	

Source: Developed for this research

4.2.2. Reason to start the business

The respondents were asked about their reasons that initiate them to operate as MSEs and provide the following responses.

Table 4.2 Reasons that initiate the respondents to start their business

	Frequency	Percent
Profitability	37	11.2
no alternative	178	54.1
good government support	102	31.0
previous experience	12	3.6
Total	329	100.0

Source: Developed for this research

The results in Table 4.2 above indicate that, more than half of the respondents (54.1%) join to micro and small enterprises due to lack of other alternatives. This was followed by expectation of good government support (31.9%), profitability (11.2%), and previous experience in the same business (3.6%) respectively.

This supports the findings of Halkias et al (2011). But there is a deviation between the findings of this research and the findings of Gebrehiwot & Wolday (2004). Gebrehiwot & Wolday (2004) found that the two primary reasons to join MSEs were thought of profitability (43.6%) and skill in the activity (38.4%).

4.2.3. Employment condition of respondents before they start their business

Table 4.3 Employment condition of respondents

Did you have an employment before this business?	Frequency	Percent
Yes	102	30.9
No	228	69.1
Total	330	100.0

Source: Developed for this research

From table 4.3, majority of the respondents (69.1%) did not have job before they start their business. On the contradictory, findings presented by Gebrehiwot & Wolday (2004) indicate that only 6.7% of the respondents were unemployed before they start their business.

4.2.4. Favorability of the business environment

Table 4.4 Favorability of business environment

Favorability of the business environment	Frequency	Percent
Very good	38	11.6
Good	91	27.7
Medium	156	47.4
Low	40	12.2
Very low	4	1.2
Total	329	100.0

Source: Developed for this research

The respondents were asked about the favorability of the business environment for MSEs and the responses were 11.6% very good, 27.7% good, 47.4% medium, 12.2% low, and 1.2 % very low.

4.2.5. Capital trend of respondents

From the table below, the current capital increased from the initial capital 5.6 times, and the capital that is expected to be sufficient to run the business is 1.7842 times the current capital. The table also reveals that most of the enterprises experienced shortage of capital to run their business.

Table 4.5 Capital trend of respondents (in Birr)

	N	Min	Max	Sum	Mean	%increase
Initial capital	283	17	200000	10,441,737	36896	-
Current capital	283	200	20000000	58,793,900	207752	82.22
Sufficient capital	283	700	20000000	104,898,100	370664	44.00
Sufficient capital		Frequency			percent	
	Yes	90			28	
	No	238			72	

Source: Developed for this research

4.2.6. Source of finance to start the business

Table 4.6 Source finance for MSEs

	Total	Frequency	percent
Own personal saving	330	121	36.7
Bank loans	330	0	0
Loan from relatives	330	39	11.8
MFIs loan	330	138	41.8
NGOs	330	77	23.3

Source: Developed for this research

Table 4.6 shows the principal sources of finance for the MSEs in the study. A large proportion (41.8%) of respondents started their business by borrowing money from microfinance institutions. This was followed by money obtained from own personal saving (36.7%), NGOs (23.3%), loan from relatives (11.8%). And none of the respondents got money from bank loans. Gebrehiwot & Wolday (2004) reported informal source of finance as the major source of finance for MSEs which accounts for about 87% where as the contribution of banks was insignificant (1.9%). From this we can observe

that the contribution of MFIs has increased where as the contribution of banks decreased from 1.9% to 0%.

4.2.7. License

Table 4.7 License related questions

Do you have license?		Frequency	Percent
Yes		279	84.5
No		51	15.5
Total		330	100.0
Reasons not to have license	high cost of license	1	2.0
	bureaucracy	4	8.0
	lack of awareness	3	6.0
	Not needed	42	84.0
	Total	50	100.0
Is there improvement in license procedure?	Yes	206	62.6
	No	65	19.8
	I do not know	58	17.6
	Total	329	100.0

Source: Developed for this research

From the above table, majority of the MSEs in the study (84.5%) have a license. The principal reason not to have a license was the enterprises were not required to have a license at the time (84%). This was followed by bureaucracy (8%), lack of awareness (6%), and high cost of license (2%). In relation to improvement of license, majority of the respondents (62.6%) replied that there is improvement. This finding is consistent with the finding Gebrehiwot & Wolday (2004) which reported majority of the MSEs have a license (67.7%) and there is an improvement in license procedure (80%).

4.2.8. Source of working place, attractiveness and amount of Birr paid per month

Table 4.8a Source of working place, attractiveness and amount of Birr paid per month

Source of working place	Frequency	Percent
Bought	2	.6
rented from private owners	4	1.2
Lease	12	3.6
rented from those who obtain it from government	16	4.8
from government	271	82.1
no working space	25	7.6
Total	330	100.0
Location attractiveness	Frequency	Percent
Yes	178	53.9
No	139	42.1
I do not have working place	13	3.9
Total	330	100.0
Space enough	Frequency	Percent
Yes	141	43.3
No	173	52.7
Total	328	100
Amount of Birr paid per month (mean)	532.22	

Source: Developed for this research

Table 4.18a above shows that most of the enterprises obtain working place from the government (82.1%). This was followed by no permanent working place (7.6%), rented from those who obtain it from the government (4.8%), lease (3.6%), rented from private owners (1.2%), and bought (.6%). Respondents were also asked about the favorability of their working place. That is the extent to which their location helps them to perform well. Only about 54% of the enterprises respond that their business is located in

attractive business area. Regarding the amount of space, more than half (52.7%) of the MSEs experienced shortage of working space.

Table 4.18b Attractiveness and amount of working place among the seven types of MSEs

Type of business	Attractive location	frequency	Percent	Enough space	frequency	Percent
Municipality	Yes	3	13	Yes	3	13
	No	7	30.5	No	6	26.1
	No place	13	56.5	No place	13	60.9
	Total	23	100	Total	22	100
Wood and metal	Yes	36	61	Yes	9	15.3 =6
	No	23	39	No	50	84.7
	Total	59	100	Total	59	100
Textile	Yes	8	24.2	Yes	9	28.1
	No	25	75.8	No	23	71.9
	Total	33	100	total	32	100
Food	Yes	26	43.3	Yes	43	72.9
	No	34	56.7	No	16	27.1
	Total	60	100	Total	59	100
Cobble stone	Yes	33	80.5	Yes	37	90.2
	No	8	19.5	No	4	9.8
	Total	41	100	Total	41	100
Construction	Yes	65	79.3	Yes	16	19.5
	No	17	20.7	No	66	80.5
	Total	82	100	Total	82	100
Urban agriculture	Yes	7	21.9	Yes	24	75
	No	25	78.1	No	8	25
	total	32	100	Total	32	100

Source: Developed for this research

In order to identify the types of enterprises that have shortage of space and that are located in unattractive area, data was collected from each type of enterprises in the study as shown in table 4.8b above. Accordingly, highest percentage of enterprises in urban agriculture is located in uncomfortable location (78.1%). This was followed by textile and garment (75.8%), food (56.7%), wood (39%), construction (20.7 %), and cobble stone (19.5%). The case of enterprises in municipality was different in which more than half of them do not have permanent working place. Regarding shortage of working space, high percentage of enterprises in wood and metal work faces shortage of working place (84.7%). This was followed by construction (80.5%), and textile (71.9%). In Comparison to other enterprises, enterprises in cobble stone, urban agriculture, and food preparation have lower percentage of shortage of working space which accounts 19.8%, 25%, and 27.1% respectively. The average monthly rent for working place is Birr 532. Gebrehiwot &Wolday (2004) reported that the average monthly rent was Birr 273. From this it can be observed that cost of working place has increased by 95%.

4.2.9. Problems faced in taking loans from formal financial institutions

Table 4.9 Problems faced in taking loan from formal financial institutions.

Source of finance		Problem faced						
		Long process	Collateral	bureaucracy	High interest rate	Lack of awareness	Small loan	I did not try
bank	frequency	3	40	18	3	13	6	256
	percent	.90	12.10	5.50	.90	3.90	1.80	77.80
MFIs	frequency	44	85	70	110	43	74	68
	percent	13.50	25.80	21.90	33.30	13.20	22.50	20.61

Source: Developed for this research

Enterprises were asked the types of problems they faced in taking loans from banks and MFIs. The problems faced by enterprises in taking loans from banks were collateral problems (12.10%), bureaucracy (5.50%), lack of awareness (3.90%), small loan size (1.8%), and long process (0.9%). And majority of MSEs do not apply to take loan from banks. Problems faced in taking loan from MFIs were high interest rate (33.30%), collateral (25.80%), lack of awareness (22.50%), bureaucracy (21.90%), long process (13.5%), and lack of awareness (13.20%). 20.61% of the enterprises do not try to take loan from MFIs. Mulu (2007) found that firms applied for credit from formal sector but was rejected or never applied for credit due to various reasons other than no need for credit or high credit cost (interest rate), and suggested that this implies that banks and MFIs do not seem to support MSEs expansion. There is some contradiction between the findings of the previous study and the current study. In the previous findings, high credit cost of MFIs was not major problem. But, it is the first problem according to the findings of the current research.

4.2.10. Major competitors of MSEs

Table 4.10 Major competitors of MSEs

major competitors of MSEs	Frequency	Percent
other MSEs	226	68.9
medium and large scale enterprises	98	29.9
importers and exporters	4	1.2
Total	328	100.0

Source: Developed for this research

Majority of the competitors of MSEs are other MSEs which accounts for about 69%. This is followed by competition from medium and large enterprises (29.9%), and importers and exporters (1.2%) respectively. This finding is supported by Assegedech (2004) who reported the competition between MSEs that are engaged in the same line of business is the main concern than competition from the big companies.

4.2.11. Improvements in solving business constraints in the past seven years

Table 4.11 Improvements in solving business constraints in the past seven years

	Frequency	Percent
there is good improvement	183	55.5
there is no change	88	26.7
decrease from time to time	59	17.8
Total	330	100.0

Source: Developed for this research

Regarding the improvement in solving business constraints, a Substantial proportion of the enterprises (55.5%) replied that there is good improvement from time to time while 26.7% and 17.8% replied there is no change and decrease from time to time respectively.

4.2.12. Trend in profit utilization

Table 4.12 Trend in profit utilization (multiple responses)

Profit used for	frequency	percent
Business expansion	85	50.30
House hold consumption	73	42.7
Saving	52	30.77
Debt payment	20	11.7

Source: Developed for this research

Table 4.12 above reveals that the profitable enterprises utilize their profit for business expansion (50.3%), household consumption (42.7%), saving (30.77%), and for debt payment (11.7%).

4.2.13. Satisfaction level of respondents from supporting institutions

Table 4.13 Satisfaction level of respondents from supporting organizations

Institutions	Frequency	Percent	Institutions	Frequency	percent
MSEDO			TIB		
Extremely satisfied	30	9.1	extremely satisfied	12	3.6
somewhat satisfied	74	22.4	somewhat satisfied	60	18.2
neither nor	104	31.5	neither nor	70	21.2
somewhat dissatisfied	67	20.3	somewhat dissatisfied	40	12.1
Extremely dissatisfied	50	15.2	extremely dissatisfied	40	12.1
I do not get service	5	1.5	I do not get service	108	32.7
Total	330	100.0	Total	330	100.0
MFIs			AADCB		
extremely satisfied	26	7.9	extremely satisfied	8	2.4
somewhat satisfied	67	20.3	somewhat satisfied	20	6.1
neither nor	61	18.5	neither nor	27	8.2
somewhat dissatisfied	62	18.8	somewhat dissatisfied	28	8.5
extremely dissatisfied	45	13.6	extremely dissatisfied	22	6.7
I do not get service	69	20.9	I do not get service	225	68.2
Total	330	100.0	Total	330	100.0
Institutions	Frequency	Percent	Institutions	Frequency	percent

TVET			AAHP		
extremely satisfied	17	5.2	extremely satisfied	5	1.5
somewhat satisfied	73	22.1	somewhat satisfied	18	5.5
neither nor	60	18.2	neither nor	24	7.3
somewhat dissatisfied	26	7.9	somewhat dissatisfied	33	10.0
extremely dissatisfied	35	10.6	extremely dissatisfied	64	19.4
I do not get service	119	36.1	I do not get service	186	56.4
Total	330	100.0	Total	330	100.0
AACB			NGO		
extremely satisfied	6	1.8	extremely satisfied	21	6.4
somewhat satisfied	26	7.9	somewhat satisfied	16	4.8
neither nor	24	7.3	neither nor	26	7.9
somewhat dissatisfied	16	4.9	somewhat dissatisfied	20	6.1
extremely dissatisfied	17	5.2	extremely dissatisfied	8	2.4
I do not get service	240	72.9	I do not get service	239	72.4
Total	329	100.0	Total	330	100.0

Source: Developed for this research

The respondents were asked about their level of satisfaction from supporting organizations including MSED0, MFIs, TVET, AACB, TIB, AADCB, AAHP AND NGOs, and the response were as follows. As it can be observed from table 4.13 above 9.1%, 7.9%, 5.2%, 1.8%, 3.6%, 2.4%, 1.5%, and 6.4% were extremely satisfied ; 22.4%, 20.3%, 22.1%, 7.9%, 18.2%, 6.1%, 5.5%, and 4.8% were somewhat satisfied; 31.5%, 18.5%, 18.2%, 7.3%, 21.2%, 8.2%, 7.3%, and 7,9% were neither satisfied nor

dissatisfied; 20.3%, 18.8%, 7.9%, 4.9%, 12.1%, 8.5%, 10.0%, and 6.1% were somewhat dissatisfied; 15.2%, 13.6%, 10.6%, 5.2%, 12.1%, 6.7%, 19.4%, and 2.4% were extremely dissatisfied; and 1.5%, 20.9%, 36.1%, 72.9%, 32.7%, 68.2%, 56.4%, and 72.4% did not get service from MSED0, MFIs, TVET, AACB, TIB, AADCB, AAHP, and NGOs respectively.

The supporting organizations that provide support to high percent of the enterprises are MSED0 (98.5%), MFIs (79.1%), TIB (67.3) and TVET (64.9%) respectively. The rest supporting organizations stated above however provide service for only less than 50% OF the MSEs under the study.

MSED0, MFIs, and TVET are stated in the new strategy of MSEs as major actors to execute the MSE development strategy.

4.3. Chi Square Testing

In this section, Chi square was used to estimate the degree of association between the dependent variable (performance) and independent variables which includes different parameters.

4.3.1. Year of establishment and profitability

Table 4.14 Year of establishment and profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.027	2	.598
N of Valid Cases	325		

Pearson Chi-square was used to test the relationship between years of establishment and profitability. The Chi-square statistic is 1.027, with a p-value of 0.598. From this result, it can be concluded that the year of establishment has no significant association with the profitability of the businesses.

4.3.2. Nature of business and profitability

Table 4.15 Nature of business and profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.414	2	.299
N of Valid Cases	329		

The results in table 4.15 show that the nature of the business has no significant association with the profitability of the businesses (MSEs).

4.3.3. Favorability of business environment and profitability

Table 4.16 Favorability of business environment and profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	34.187	4	.000
N of Valid Cases	329		

The Chi-square statistic is 34.130, with a p-value of .000. From this result, it can be concluded with 99% confidence that the profitability of the business differ significantly within the favorability of the business environment. Therefore, favorability of business environment has a significant positive association with the performance of MSEs.

4.3.4. Service satisfaction form support organizations

Table 4.17 Level of service satisfaction from supportive organizations

	Chi square	df	Asymp. Sig.
MSEDB	23.660	5	.000
MFIs	30.866	5	.000
TVET	11.544	5	.042
AACB	14.846	5	.011
AATIB	17.823	5	.003
AACDB	10.195	5	.070
AAHP	5.215	5	.390
NGOs	9.489	5	.091

The result of the Pearson chi square test above shows that there is strong association between performances of MSEs and the service quality of MSEDB, MFIs, TVET, AACB and AATIB with Pearson chi square of 26.66, 30.866, 11.544 and 17.823, and p-value of .000, .000, .042, .011 and .003 respectively. From this, it can be concluded with 95% certainty that there is strong association between the service qualities of MSEDB, MFIs, TVET, AACB and AATIB and performances of MSEs. But there is no strong association between the service quality of, AACDB, AAHP, ANDNGOs and the performances of MSEs.

4.3.5. Extent of dependency on support provider institutions and profitability

Table 4.18 Extent of dependency on support provider institutions and profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.997	4	.005
N of Valid Cases	329		

From the results in table 4.18, it can be conclude with 99% confidence level that there is significant association between level of dependency in institutions and profitability of MSEs.

4.3.6. Capital sufficiency and profitability of MSEs

Table 4.19 Capital sufficiency and profitability of MSEs

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.453	2	.000
N of Valid Cases	330		

The result in table 4.19 indicates that there exists a strong relationship between the sufficiency of capital and profitability of MSEs with a Pearson chi square value of 20.4535 at 1% significant level.

4.3.7. Separation household expenses from business expenses and profitability

Table 4.20 Separation household expenses from business expenses and profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.014	1	.083
N of Valid Cases	330		
No of valid cases			

The result of Pearson chi square indicates that, there is no strong association between separation of household expenses from business expenses and profitability of MSEs

4.3.8. License and profitability

Table 4.21 License and profitability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.049	1	.825

From the above result it can be conclude that license has no significant association with the performance of micro and small enterprises.

4.3.9. Location attractiveness and profitability

Table 4.22a attractiveness of Location for MSEs

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33.455	2	.000
N of Valid Cases	330		

From the above results, it can be concluded with 99% confidence level that there is significant association between good location and profitability of MSEs. But the association of good location and profitability actually varies among the types of enterprises.

Table 4.22b below summarizes the association between business types and good location. Accordingly good location has strong association with the performance of enterprises in the food, urban agriculture and textile industry. However, there is no strong association in coble stone, construction, wood and metal works, and municipality enterprises.

Table 4.22b Association between performance of business types and good location

	Type of business						
	municipality	Wood	textile	food	Cobble S.	Construction	Urban A.
Pearson Chi-Square	1.285	1.483	6.812	18.6 24	.150	2.909	10.469
Asymp. Sig. (2-sided)	.526	.223	.009	.000	.698	.088	.001

4.3.10. Business plan preparation and profitability

Table 4.23 Business plan preparation

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)
Pearson Chi-Square	16.893	3	.001	.000
N of Valid Cases	330			

Since there was a cell with the expected frequency less than 5, The Fisher's Exact Test was selected. And it yielded a value of 12.125 with p-value as 0.000, showing that there is strong association between having business plan and profitability of the enterprises.

4.3.11. Formal or informal association with other organizations

Table 4.24 Formal or informal association with other organizations

	Value	df	Exact Sig. (2-sided)
Pearson Chi-Square	16.893	3	.000
N of Valid Cases	330		

There was also a cell with expected frequency less than 5, Then, Fisher's Exact Test was selected. And it yielded a value of 1.893 with p-value as 0.000, showing that there is

strong association between formal or informal association and profitability of the enterprises.

4.3.12. Fairness of tax collectors and profitability

Table 2.25 Fairness of tax collectors

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.677	1	.411
N of Valid Cases	240		

From the above table it can be concluded that there is no association between fairness of tax collectors and performance of the enterprises under the study.

4.4. Pearson's Product Moment Correlation Coefficient

In this section, Pearson's Product moment correlation Coefficient was used to determine the relationship of finance, infrastructure and marketing related factors with the performance of MSEs.

4.4.1. Financial factors and performance

Table 4.26 Financial Factors and performance

	Performance							
	municipality	Wood	Textile	Food	cobble	construction	Urban A.	Total sample
failure to apply Pearson financial statement Correlation analysis Sig. (2-tailed)	.030	.251	-.262	-.017	.295	.024	-.383*	-.032
unplanned Pearson withdrawal of cash Correlation for personal use Sig. (2-tailed)	.030	.213	-.094	.422**	.103	.142	.130	.094
poor management of Pearson working capital Correlation Sig. (2-tailed)	.082	.127	.071	-.395**	.217	.045	.072	.057
shortage of finance Pearson Correlation Sig. (2-tailed)	.234	-.283*	-.336	.010	.058	-.235*	-.291	-.125*
N	23	59	33	60	41	82	32	330

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Source: Developed for this research

The findings in table 4.33 above show that, there is no significant correlation between financial factors and profitability of MSEs in municipality, textile and garment, and cobble stone firms.

Failure to apply financial statement analysis for business has a negative low significant correlation in urban agriculture firms.

Unplanned withdrawal has a significant negative medium correlation in food enterprises.

Poor management of working capital has a significant negative low correlation in food enterprises.

Shortage of finance has a significant negative low correlation in the wood and metal, and construction enterprises. Shortage of finance also has a significant negative low correlation in the overall sample.

4.4.2. Infrastructure related factors and performance

From the results in table 4.34 below, there is statistically significant and low positive correlation between quality of electricity and performance of MSEs in food enterprises.

Further, table 4.34 below shows that there is statistically significant positive medium correlation between accesses to water and enterprises in food preparation and urban agriculture.

Table 4.27 Infrastructure related factors

		Performance							Total sample
		municipality	Wood and metal	Textile	Food	Cobble stone	Construction	Urban A.	
quality of electricity	Pearson Correlation	.092	.137	.222	.331**	.236	-.150	.329	.089
	Sig. (2-tailed)	.677	.301	.214	.010	.137	.178	.066	.106
quality of water	Pearson Correlation	.264	.121	.159	.552**	.061	.091	.460**	.081
	Sig. (2-tailed)	.223	.360	.377	.000	.704	.418	.008	.142
quality telephone	Pearson Correlation	-.041	-.132	-.021	.247	.166	.119	-.079	.045
	Sig. (2-tailed)	.852	.317	.910	.057	.299	.286	.666	.415
quality of transport	Pearson Correlation	.037	.108	.026	.225	.142	-.171	-.201	-.008
	Sig. (2-tailed)	.867	.414	.888	.084	.377	.125	.271	.891
	N	23	59	33	60	41	82	32	330

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Developed for this research

4.4.3. Marketing factors and performance

Table 4.28 Marketing factors

		Performance							
		Municipality	Wood	Textile	Food	Cobble stone	Construction	Urban A.	Total sample
Price problem	Pearson	-.095	-.118	-.341	.027	.078	.339**	.048	-.125*
	Correlation Sig. (2-tailed)	.666	.373	.052	.812	.631	.008	.792	.024
poor location	Pearson	-.029	-.662**	-.627**	-.617**	-.294	-.071	-.547**	-.339**
	Correlation Sig. (2-tailed)	.895	.000	.000	.000	.062	.526	.001	.000
demand forecasting	Pearson	-.081	-.210	.064	-.110	.014	.004	.144	-.059
	Correlation Sig. (2-tailed)	.714	.110	.722	.401	.932	.974	.431	.287
poor customer handling	Pearson	.160	.002	-.090	-.265*	.111	.185	.196	.011
	Correlation Sig. (2-tailed)	.467	.991	.617	.040	.489	.096	.281	.844
lack of product diversity	Pearson	.395	.027	-.142	-.408**	.064	.039	-.073	-.056
	Correlation Sig. (2-tailed)	.062	.839	.432	.001	.689	.729	.690	.307
lack of sales skill	Pearson	.163	-.070	-.271	.043	.228	.107	.150	-.005
	Correlation Sig. (2-tailed)	.458	.599	.127	.744	.152	.337	.414	.935
Lack of promotion	Pearson	.158	-.193	-.606**	-.361**	-.075	.120	.344	-.180**
	Correlation Sig. (2-tailed)	.471	.143	.000	.005	.642	.281	.054	.001
lack of efficient distribution channel	Pearson	.149	-.259*	-.366*	-.372**	-.092	.069	-.445*	-.148**
	Correlation Sig. (2-tailed)	.496	.048	.036	.003	.567	.536	.011	.007
lack of networking	Pearson	.031	-.150	-.360*	-.258*	-.103	.087	.314	-.095
	Correlation Sig. (2-tailed)	.887	.258	.040	.047	.525	.435	.080	.084
	N	23	59	33	60	40	82	32	330

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Source: Developed for this research

Findings from the correlations in table 4.35 indicate the following results:

- There is significant negative low correlation between pricing problems and performance of MSEs in construction enterprises.
- There is a significant negative medium correlation between poor location and performance of enterprises in wood, textile, food, and urban agriculture.
- There is a significant negative low correlation between poor customer handling and performance of MSEs in food preparation.
- There is a significant negative low correlation between lack of product diversity and performance of MSEs in food preparation.
- There is a significant negative medium correlation between lack of promotion and performance of MSEs in textile.
- There is a significant negative low correlation between lack of promotion and performance of MSEs in food preparation.
- There is a significant negative low correlation between lack of distribution and performance of MSEs in wood, textile and food preparation.
- There is a significant negative medium correlation between lack of distribution and performance of MSEs in urban agriculture.
- There is a significant negative low correlation between lack of networking and performance of MSEs in textile, and food preparation.
- Pricing problem, poor location, lack of promotion and distribution have a significant negative low correlation with the overall performance of the MSEs

4.5. Binary Logistic Regression

A binary logistic regression model was developed to test the developed hypotheses so as to determine the significance of the impact of various factors affecting the performance of MSEs. This model incorporated the Factors (independent variables) to predict the performance of MSEs. The dependent variable was the profitability of the enterprises (increase/decrease in profitability) and the independent variables includes year of establishment, favorability of the business environment, level of competition, access to raw material, access to tainting, management practice, quality of supporting institutions, financial factors, infrastructural factors, marketing factors, and rules and regulations related factors.

The dependent variable of this study has two categories (0 and 1). The value 0 indicates that the profitability of the enterprise was increase, and the value 1 indicates that the profitability of the enterprise was decrease.

Results obtained from binary logistic regression analysis are shown in Table 4.36 below.

Table 4.29 Parameter Estimates Logistic Regression Model for performance of MSEs

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Year of establishment (a1)	.033	.155	.046	1	.830	1.034	.763	1.401
Favorability (a2)	1.058	.176	36.212	1	.000	2.879	2.040	4.064
Competition level (a3)	-.287	.133	4.681	1	.031	.751	.579	.973
Institutions quality (a4)	.244	.123	3.929	1	.047	1.277	1.003	1.626
Access to raw material (a5)	-.409	.119	11.856	1	.001	.664	.526	.838
Access to training (a6)	.001	.126	.000	1	.991	1.001	.782	1.283
Management (a7)	.021	.112	.037	1	.848	1.022	.821	1.272
Infrastructure (a8)	.051	.183	.078	1	.780	1.053	.735	1.508
Marketing (a9)	-.791	.213	13.781	1	.000	.454	.299	.689
Finance (a10)	-.042	.166	.063	1	.802	.959	.693	1.328
Rules/regulations (a11)	.327	.172	3.624	1	.057	1.386	.990	1.941
Constant	-.094	1.07	.008	1	.930	.911		

Source: Developed for this research

Table 4.36 represents the parameter estimates of the resulting logistic regression model:

Logit (π) = - .094 + .033(a1) + 1.058(a2) -.287(a3) + .244(a4) - .409 (a5) + .001(a6) +.02(a7) + .051 (a8) -.791(a9) -.042 (a10) + .327 (a11) where the explanatory variables in the model represents year of establishment (a1), favorability of the business environment (a2), competition level (a3), quality of supporting institutions (a4), access to raw materials (a5), access to training (a6), management factors (a7), infrastructure related

factors (a8), marketing factors(a9), finance factors(a10), and rules and regulations related factors respectively.

Each hypothesis was tested and interpreted from the above model as follows.

The Nagelkerke R Square was .307. This shows that 30.7 % of the increase or decrease in profit was explained by the independent (or predictor) variables in this model. The “Hosmer and Lemeshow” model fit test yielded a chi-square value of 11.292 with p-value of 0.186, suggesting the logistic model fits the data well.

Multicollinearity of independent variables was less than 70%. Statisticians have developed several tests for determining whether Multicollinearity is high enough to cause problems. According to the rule of thumb test, Multicollinearity is a potential problem if the absolute value of the sample correlation coefficient exceeds .7 for any two of the independent variables (Anderson et al, 2011).

In binary logistic regression analysis, influential predictor variables are characterized by odds ratios that are significantly different from 1, 95% confidence intervals of odds ratios that do not contain 1, and P-values that are smaller than 0.05, at the 5% level of significance (Eshetu & Mammo, 2009). Accordingly, favorability of business environment, competition level, institutional quail, access to raw material, and marketing are found to be highly influential at 5% level of significance. From the regression model presented above several deductions are made about the factors that affect the performance of MSEs.

Year of establishment: for year of establishment the value of Exp B = 1.034, and P value = .830. This shows that year of establishment does not have a significant relationship with the performance of MSEs. Hence, this research may fail to reject H_1 .

Favorability of business environment: for favorability of business environment the value of Exp B = 2.879, and P value = .000, it would mean that the odds (risk) of decreasing in profitability of MSEs that operate in unfavorable business environment is 2.879 times higher in comparison with MSEs that operate in favorable business environments. This shows that for favorability of business environment a significant contributor to performance of MSEs. Thus, the researcher may reject the null hypothesis (H_2). This finding is consistent with earlier study conducted by Eshetu & Mammo (2009) which found that favorability of business environment is the most influential factor for the performance of MSEs.

Competition level: The odds ratio of the variable “competition level” is .751. This indicates that the increase in profitability of MSEs who have high competition level is .751 times lower than those who have low competition level. The P-value is .031. This shows that high competition level has a significant negative impact on the performance of MSEs. Thus, researcher may reject the null hypothesis (H_3). This finding is consistent with the findings of Rahel & Paul (2010), Etumeahu (2009), Olawale & Garwe (2010), and Bowen et al (2009).

Institutions quality: The odds ratio of the variable “institutions quality” is 1.277, it would mean that the odds (risk) of decreasing in profitability of MSEs that get weak

support is 1.277 times higher in comparison with MSEs who get good institutional support. The P-value is .047. Thus, the researcher may reject the null hypothesis (H₄).

Access to raw material: The odds ratio of the variable “access to raw material” is .664. This indicates that the increase in profitability of MSEs who have shortage of raw material is .664 times lower than those who have better access to raw materials. The P-value is .001. This indicates that shortage of raw material is statistically significant factor that affects the performance of MSEs negatively. Thus, researcher may reject the null hypothesis (H₅).

As stated by the respondents, MSEs are facing serious problems of shortage and high cost of raw martial. This problem is too high in construction and cobble stone enterprises who sale their products to the government at fixed price. The enterprises in construction purchased some of their raw materials from the government, but there is no consistent and on time delivery. Such enterprises purchase most of their raw martial from private organizations at high cost. But the price paid by the government does not consider this increase in cost of raw materials. Most of the enterprises in cobble stone obtain the required raw material from the government, but there is no on time delivery. This forces most of the enterprises to produce for only less than half days of a month. The level price paid is not also satisfactory.

Enterprises In municipality do not have access to quality materials such as glove, boot and other safety materials and clothes. This exposes the individuals to various health related problems which hinders the smooth function of the enterprises. The absence of price arrangement by the government also affects the performance of such enterprises.

Other enterprises in urban agriculture, food processing, and wood and metal works also faced problems of access to raw materials. The finding of Rahel & Paul (2010) is consistent with the findings of this research.

Training and management factors: these two factors do not have significant relationship with the performance of MSEs. Hence, this research may fail to reject H₆, and H₇.

Infrastructure: according to the finding of this research infrastructure related problems do not have significant relationship with the performance of MSEs. Thus, this research may fail to reject H₈. This finding is consistent with the finding of Rahel & Paul (2010) in which access to infrastructure is not reported as a significant problem. But, this finding contradicts with the finding of Fatoki Olawale and David Garwe (2010).

Marketing management: The odds ratio of the variable “marketing management” is .454. This indicates that the increase in profitability of MSEs who did not practice good marketing management is .454 times lower than those who have good marketing management practices. The P-value is .000. Thus, researcher may reject the null hypothesis (H₉). The Pearson correlation in this research also shows that marketing factors such as poor pricing, poor location, absence of promotion, and lack of efficient distribution channel have a significant negative relationship with the performance of MSEs. The findings are also consistent with earlier studies conducted by Rahel & Paul (2010), Asegede (2004), and Eshetu & Mammo (2009) who found that various marketing factors negatively impact upon small business performance

Financial factors: Past researches conducted by Olawale & Garwe (2010), Rolfe et al (2010), and Eshetu & Mammo (2009) seem to suggest that financial factors have been a major and significant challenge to MSEs. This research however relegates financial factors as non significant factor though it has a negative impact. Thus, this research may fail to reject H_{10} . This research is consistent with the findings of CMI working paper (2006).

Rules and regulations: Past researches conducted by Eshetu & Mammo (2009), ECA (2001) seem to suggest that rules and regulation related factors have been a major and significant challenge to MSEs. This research however found that rules and regulation related factors are not significant for the performance of MSEs. Thus, this research may fail to reject H_{11} .

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Summary of Findings

This study aimed at investigating the key problems which affect the performance of MSEs based on the questionnaires consisting 364 randomly selected MSEs and unstructured interviews in three sub cities in Addis Ababa. The study covers enterprises from municipality, wood and metal works, textile and garment, food preparation and processing, cobble stone, construction, and urban agriculture which are the most prioritized and targeted areas of the strategy of MSEs in Ethiopia.

In the descriptive part of the analysis, this research examined the trend of number of members and it founds that the current number of members is decreased from the starting time in all types of the enterprises. The highest percentage of decrease in number of members is observed in cobble stone, where as the lowest percentage of decrease is shown in wood and metal works.

This research shows that the majority of the respondents join this business due to lack of other alternatives.

The current capital increase from the initial capital 5.6 times, and the capital that is expected to be sufficient to run the business is 1.7842 times the current capital. The majority of the enterprises have shortage of capital.

The most important sources of finance to start up MSEs are microfinance institutions (41.8%), own personal saving (36.7%) and NGOs (23.3. %). This shows that the contribution of MFIs has increased from the previous research findings. However, the contribution of banks has decreased. The main problem faced by MSEs in taking loans from banks was lack of collateral where as the major problems faced in taking loans from MFIs were high interest rate (33.30%), collateral (25.80%), small loan size (22.50%), bureaucracy (21.90%), long process (13.5%), and lack of awareness (13.20%). And majority of the enterprises do not try to take loan from banks.

Regarding the source, attractiveness and sufficiency of working place, most of the enterprises obtain working place from the government (82.1%). About 42% of the enterprises are located in unattractive business area, and more than half (52.7%) of them experienced shortage of working space. The average monthly rent per enterprise is Birr 532. More than half of enterprises in urban agriculture, textile and garment, and food preparation are located in uncomfortable location which accounts for 78.1%, 75.8%, and 56.7% respectively. The case of enterprises in municipality was different in which more than half of them do not have permanent working place. Regarding shortage of working space, more than half percent of enterprise in wood and metal work, construction, and textile and garment faces shortage of working place which accounts for 84.7%), 80.5%, and 71.9% respectively.

The Major competition comes from other MSEs that are engaged in the same line of business.

Regarding the improvement in solving business constraints, more than half of the enterprises replied that there is good improvement from time to time. More than 50% of the profitable enterprises utilize their profit for business expansion. The enterprises get better satisfaction from MSED, MFIs, TIB and TVET. Majority of the enterprises do not get service from AACB, AADC, AAHP and NGOs.

Chi square statistics was used to identify the relationship between various explanatory variables and the dependent variable (decrease or increase in profitability). Accordingly, there is significant relationship between performance of MSEs and favorability of the business environment, capital sufficiency, service qualities of MSED, MFIs, TVET, AACB and TIB, level of dependency on support provider institutions, good location, business plan preparation, and formal or informal association.

However, the relation between Year of establishment, Nature of business, license, separation of household expenses from business expenses, fairness of tax collectors, and service quality of AACDB, AAHP and NGOs, with the performances of micro and small enterprises is not significant.

The importance of good location for the performance of MSEs is different among the types of enterprises. Good location has significant association with the performance of the enterprises in the food, urban agriculture and textile enterprises. However, there is no significant association between performance of enterprises and good location in cobble stone, construction, wood and metal works, and municipality related enterprises.

Pearson's Product moment correlation Coefficient was also used to determine the relationship between factors related to finance, infrastructure and marketing with the performance of MSEs. The relationship between various financial, marketing and infrastructural factors with performance significantly varies among the different types of enterprises.

Shortage of finance (from financial factors), lack of access to water (from infrastructural factors), poor location and lack of efficient distribution (from marketing factors) have significant relationship with the performance of majority types of the enterprises under the study.

The logistic regression in this research tested the determinants of enterprises' performance by including a wide variety of factors that might affect business performance. This research considers broad categories of variables: year of establishment, favorability of the business environment, competition level, quality of supporting organizations, access to raw materials , access to training, management, infrastructure, marketing practice, finance, and rules and regulations related factors. On the basis of the results from the regression analysis, the researcher presents the following findings.

One of the major problems found to have been facing MSEs in Addis Ababa is lack implementing appropriate marketing practice. Lack of implementation of appropriate marketing practice has been a very serious setback to MSEs. The results from correlation analysis in this research also shows that marketing factors such as poor pricing, poor

location, absence of promotion, and lack of efficient distribution channel have a significant negative relationship with the performance of MSEs.

This study also reveals that lack of access to raw material is a major setback to the performance of MSEs in Addis Ababa. Lack of efficient and on time delivery of raw materials from the government, high cost and poor quality of raw materials from private suppliers has resulted in decrease in profitability or loss to the enterprises. The government does not adjust the prices of products of the enterprises for a long period of time, and there is restriction to go to the open market especially in the construction and cobble stone enterprises.

The study notes that various institutions are established to provide support to MSEs. However, most of the enterprises do not get service from such institutions. Most of the institutions are not seem to provide the intended support and follow up that can enhance the performance of the enterprises. The institutions are not in a position to communicate the problems encountered, and they take action without proper agreement and communication with the enterprises. The supports of such institutions are not also consistent and continuous. As a result, promised supports are stopped without meeting their target.

Another finding worthy of attention is the level of competition being faced to MSEs which is mostly from other MSEs operated in the same business line and large and medium enterprises. The Ethiopian markets are characterized by lack of product diversity in which similar products are overcrowded. The enterprises lack the skill to modify their products. These lead to stiff competition among enterprises and decrease in profitability.

Further problem facing MSEs in Addis Ababa is absence of favorable business environment. The absence of favorable business environment is among the major constraints that lead the enterprises either to decrease in profitability or to loss.

Year of establishment, access to training and management practice, financial factors, infrastructural factors, and rules and regulations related factors do not have significant impact on the performance of MSEs.

5.2. Conclusion

The main reason to join MSEs is lack of other employment alternatives.

Even if the current capital of the enterprises is not sufficient it has shown good improvement from its initial amount.

The government is the most important source of working place for MSEs.

MSEDO, MFIs, TIB and TVET provide better service to MSEs as compared to other support provider institution.

There is good improvement in solving business constraints from time to time.

There is significant relationship between performance of MSEs and favorability of the business environment, capital sufficiency, location attractiveness, Business plan preparation, and formal or informal association.

The number of members in all types of the enterprises is decreased almost by half amount. This was a serious problem particularly in cobble stone, textile and garment,

municipality, food processing and urban agriculture. The main factors that facilitated high dropout of members include weak institutional support, lack of commitment from the members, lack of market place, poor location, lack of appropriate raw materials, absence of price arrangement by the government and lack of infrastructure.

Substantial numbers of MSEs are located in unattractive area, and experienced shortage of working space.

Majority of the enterprises in urban agriculture, textile and garment, and food preparation faced a serious problem of poor location.

Enterprises in wood and metal works, construction, and textile and garment faced a great problem of shortage of working place.

The contribution of MFIs has shown an increase, however, there are still problems related to high interest rate, collateral problems, small loan size, bureaucracy, and lack of awareness. The contribution of banks has shown a decreased, and majority of the enterprises do not apply to take loans from banks.

The relationship between various financial, marketing and infrastructural factors with performance significantly varies among the different types of enterprises.

This research has identified the critical marketing management practices /strategies prevalent in the MSEs in Addis Ababa. It has further identified the relationships of each of the strategies/factors in each type of the enterprises. This research clearly noted that marketing factors such as poor pricing, poor location, absence of promotion, and lack of efficient distribution channel have a significant negative impact on the performance of

MSEs. The stiff competition among enterprises which results from lack of product diversity and absence of continuous improvement of the products is also a significant factor that hinders the development of MSEs in the city.

The availability and cost of raw material is also affecting the performance of MSEs negatively. Enterprises lack quality raw materials at fair market price that can produce profitable products. It further identifies that there is unreliable and inconsistent supply of raw materials which hinders the smooth and on time production process of the enterprises.

The availability of quality institutional support has a positive and significant contribution. However, this study clearly identifies that substantial number MSEs do not get service from the institutions that are established to provide support for such enterprises in various dimensions. It further indicates that most of the enterprises are not satisfied with the services of such institutions though they got the service.

In this study, the existence of Favorable business environment has a positive significant contribution to performance of MSEs. Enterprises in unfavorable environment are facing challenges and are not able to improve their performance.

Even if access to finance is not reported as a significant problem, lack of proper financial analysis, unplanned withdrawal for personal use, poor management of working capital and shortage of finance have negative effect on the performance of MSEs.

5.3. Recommendation

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

Enterprises should train by professionals how to develop business plan.

The culture of cooperation, and formal and informal should be improved by taking the work of successful enterprises as example.

The quality and accessibility of infrastructures should be considered in providing working space to the enterprises.

MSEs should enhance their marketing skills through proper training and experience sharing with other MSEs, and medium and large scale enterprises.

The stiff competition among MSEs and other medium and big enterprises must be also minimized by diversifying the products of the enterprises.

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.

Amendment of the fixed price in parallel with the increase in cost of raw materials may be also a good solution to improve the performance of enterprises.

Furthermore, government should offer favorable business environment in corporation with the society and other potential organizations.

The government and other concerned bodies should study the future condition and favorability of the business environment to arrange it in a way it can support the enterprises in continuous and permanent way.

The government should improve the quality and accessibility of the service of the supporting institutions by assigning employees that have proper knowledge in the specific business area and through continuous follow up of the implementation of the programs.

The MSED0 should undertake detailed study on the appropriateness of the working place to be given to each type of the enterprises.

The interest and nature of the individuals to be organized to each type of the enterprises should be also considered.

The government should develop comfortable source of finance for MSEs by organizing and supporting the performance of MFIs and other source of finance.

Social awareness and commitment of medium and large enterprises must be enhanced to support MSEs.

Different problems with different degree of perceived impact on MSEs 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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Appendices

Appendix – 1: Questionnaire for Primary Data Collection

This questionnaire is designed to collect data from both micro and small business operators in Addis Ababa: the case of enterprises in Kolfe, Kirkos and Yeka sub cities for comparative analysis of problems of Micro and Small Enterprises. Your cooperation in providing genuine answers to the following questions is highly important for the success of this study. Your responses will be kept confidential. It is only for academic purpose

Thank you for your cooperation!

Part One: General information

1. Age: 1. 18-30 2. 31-40 3. 41-50 4. 51-60 5. Above 60 years
2. Sex: 1. Male 2. Female
3. Marital status: 1. Unmarried 2. Married
4. What is your educational level? 1. Does not read and write 2. Read and write
3. Elementary School 4. Secondary School 5. TVET graduate
6. College diploma 7. First degree and above
5. Size of your business: 1. Micro 2. Small
6. Year of establishment of your business: _____EC
7. Number of members: 1. at start up----- 2. At this time-----
8. What is the nature of your business? 1. Proprietorship 2. Partnership
9. What are factors motivated you to involve in this business? (More than one answer is possible) 1. Profitability of the business 2. Lack of employment alternatives
3. Good government support 4. Previous experience
10. Did you have an employment before you join this business?
1. Yes 2. No

Part Two: Basic Business Information

11. How do you see the favorability of the business environment for MSEs?

1. Very good 2. Good 3. Medium 4. Low 5. very low

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

S/ N	Type of services	Extremely satisfied (1)	Somewhat satisfied (2)	Neither no(3)	Some what Dissatisfied (4)	Extremely dissatisfied(5)	I do not get service(6)
1	MSEs Development Bureau						
2	Micro Finance Institutions						
3	TVET Centers						
4	Addis Ababa Communication Bureau						
5	Trade & Industry Bureau						
6	Addis Ababa design & construction						
7	Addis Ababa Housing Project						
8	NGOs						

13. To what extent your business successes depend on the support provider institutions?

1. Very high 2. High 3. Medium 4. Low 5. Very low

14. Amount of your capital in Birr 1. At start up ----- 2. Now-----

15. Do you think the amount of your current capital is sufficient to run your business?

1. Yes 2. No

16. If your answer to question number 15 is “No”, how much money in Birr would be sufficient to run your business? -----

17. What was your source of finance when you start your business? (More than one answer is possible). 1. Own personal saving 2. Bank loans 3. from relatives

4. MFI loans 6. Other, specify -----

18. Do you separate the household and the business expenses? 1. Yes 2. No

19. Please indicate in the box below, the degree to which these finance related factors are affecting the performance of your business.

S/N	FINANCIAL FACTORS	Very high (1)	High (2)	Medium (3)	Low (4)	No effect (5)
1	Failure to apply financial statements analysis					
2	Unplanned withdrawal of cash for personal use					
3	Poor management of working capital					
4	Shortage of finance					

20. Do you have license for your business? 1. Yes 2. No

21. If your answer to question number 20 is "No", what is your reason?

1. High cost of license 2. Bureaucracy 3. Lack of awareness 4. Others-----

22. Is there an improvement in license procedures in the past years?

1. Yes 2. No 3. I do not know

23. How do you acquire the working space on which you operate your business?

1. Bought 2. Rented from private owners 3. Leased

4. Rented from those who obtained the land from the government

5. Given by the government 6. Others, specify-----

24. Do you think your location is in attractive business area? 1. Yes 2. No

25. Do you think this amount of space is enough for your day to day business operation?

1. Yes 2. No

26. What problems do you face in borrowing money from banks and MFI?

Source of credit	Problems faced						
	Long process (1)	Collateral requirement (2)	Bureaucracy (2)	High interest rate (3)	Lack of awareness (4)	Small loan size (5)	other
Banks							
MFI							

27. How do you see the level of competition with other business organizations?

1. Very high 2. High 3. Medium 4. Low 5. Very low

28. Who are your major competitors? (more than one(1) answer is possible)

1. Other MSEs 2. Medium and large enterprises 3. Importers and exporters

29. How do you evaluate the access and quality of the following infrastructures?

Sr. No.	Facility	Quality				
		Very high (1)	High (2)	Medium(3)	Low(4)	Very low(5)
1	Electricity					
2	Water					
3	Telephone					
4	Transport					

30. Does your company have a business plan? 1. Yes 2. No

31. Do you have formal or informal business association? 1. Yes 2. No

32. If your answer to question number 30 is “No”, why? -----

33. Please indicate the degree to which these marketing factors are affecting the performance of your business.

S/N	Marketing factors	Very high (1)	High (2)	Medium (3)	Low (4)	No effect (5)
1	Lack of skill to set competitive price					
2	Poor location					
3	Lack of demand forecasting					
4	Poor customer handling and relationship					
5	Lack of product diversity and inability to modify existing products					
6	sales skill staffs					
7	in ability to promote the products					
8	Lack of efficient distribution channel and					
9	networking					

34. Do you think that tax collectors are fair? 1. Yes 2. No

35. If the tax collectors are not fair, what problems did you observe? -----

36. How do you see the improvements in solving business constraints of MSEs in the last seven years? 1. There is good improvement 2 there is no change 3, decreasing

37. How do you see the profitability of your business? 1. Decreasing 2. increasing

38. If your answer for question number 36 is “decreasing”, what is the reason? -----

39. For what purpose do you use the profit of your business? 1. For business expansion
2. For household consumption 3. For saving 4. Others -----

40. Please indicate the degree to which the following factors are affecting the performance of your business.

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

41. What overall problems do you have in your business? -----

42. What do you think the solutions to these problems?-----

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

Appendix-2

የመጠይቅ ፎርም

እኔ ወልደገብርኤል መዝገበ የተባልኩ በአዲስ አበባ ዩኒቨርሲቲ የቢዝነስ አድሚኒስትሬሽን የሁለተኛ ዲግሪ ተማሪ ስሆን በጥቃቅንና አነስተኛ ድርጅቶች የሚያጋጥሙ ችግሮች ጥናታዊ ፅሁፍ እያካሄድኩ ነው። ስለሆነም በመጠይቁ የእርስዎ ትክክለኛ መልስ ችግሮችን ለይቶ ለማወቅ ጠቃሚ ነው። እርስዎ የሚሰጡት መልስ ሚስጢራዊነቱ የተጠበቀና ለጥናቱ ብቻ የምገለገልበት ስለሆነ ትክክለኛ የሚሉትን መልስ ለምርጫ ጥያቄዎች መልስዎ በማክበብ፣ በሰንጠረዥ ላሉት ጥያቄዎች ደግሞ የ(✓) ምልክት በማድረግ እንዲመልሱ በትህትና እጠይቃለሁ።

ለትብብርዎ በቅድሚያ አመሰግናለሁ!

ሀ. አጠቃላይ መረጃ

1. ዕድሜ ሀ. 18-30 ለ. 31-40 ሐ. 41-50 መ. 51-60 ረ. ከ 60 በላይ
2. ፆታ ሀ. ወንድ ለ. ሴት
3. የጋብቻ ሁኔታ ሀ. ያላገባ ለ. ያገባ
4. የትምህርት ደረጃ ሀ. ማንበብና መጻፍ አልችልም ለ. ማንበብና መጻፍ እችላለሁ ሐ.1ኛ ደረጃ መ. 2ኛ ደረጃ ሠ. ቴክኒክና ሙያ ምሩቅ ረ. ዲፕሎማ ሰ. ዲግሪና ከዛ በላይ
5. የድርጅትዎ ደረጃ ምን ላይ ይመደባል? ሀ. ጥቃቅን ሀ. አነስተኛ
6. ንግድዎ መቼ ዓ.ም ነው የጀመሩት? _____

7. የአባላት ብዛት ሀ. ስራው ስጀመር _____ ለ. በአሁኑ

ሰአት _____

8. የንግዱ ባለቤትነት ምን ይመስላል? ሀ. የግል ለ. የጋራ

9. ይህ ስራ ለመስራት ያነሳሳዎት ምንድን ነው? ሀ. የስራው ትርፋማነት ለ. ሌላ

የስራ አማራጭ ስለሌለኝ ሐ. የመንግስት ጥሩ ድጋፍ መ. ሌላ ካለ

10. ይህ ስራ ከመጀመርዎት በፊት ሌላ ስራ ነበርዎት? ሀ. አዎ ለ. አልነበረኝም

ለ. ዋና ጥያቄ

11. አሁን ያለ የጥቃቅንና አነስተኛ የስራ አመቺነት ሁኔታ ምን ይመስላል?

ሀ. በጣም ጥሩ ለ. ጥሩ ሐ. መካከለኛ መ. መጥፎ

ሠ. በጣም መጥፎ

12. ለጥቃቅንና አነስተኛ ድርጅቶች ድጋፍ በሚሰጡ ተቋሞች ያለዎት የእርካታ መጠን

ምን ይመስላል?

ተ. ቁ	የድጋፍ ሰጪ ተቋሙ ስም	ጣም እረካለ ሁ	እረካለ ሁ	ረክቻለሁ አልረካሁም አልልም	አልረካም	በጣም አልረካም	ግልጋሎት አላገኘሁም
1	ጥቃቅንና አነስተኛ ልማት ቢሮ						
2	የአነስተኛ ብድርና ቁጠባ ተቋም						
3	የቴክኒክና ሙያ ተቋም						
4	ኮሚኒኬሽን ቢሮ						
5	ንግድና ኢንዱስትሪ ቢሮ						

6	ዲዛይንና ግንባታ ቢሮ						
7	የቤቶች ልማት ፕሮጀክት						
8	መንግስታዊ ያልሆኑ ድርጅቶች						

13. የድርጅትዎ ስኬት ምን ያህል በድጋፍ ሰጪ ድርጅቶች የተመሰረተ ነው?

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

14. ያለዎት የገንዘብና የንብረት መጠን በብር ስንት ነው?

ሀ. ሥራው ሲጀመር----- ለ. በአሁኑ ሰዓት-----

15. ያለዎት የገንዘብና የንብረት መጠን ለስራዎ ክንውን በቂ ነው? ሀ. አዎ ለ. አይደለም

16. ለ15ኛ ጥያቄ መልስዎ “አይደለም” ከሆነ ስንት ይበቃል ብለው ይገምታሉ? -----

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17. ስራውን ሲጀምሩት የገንዘብ ምንጭ ኬት አገኙ? (ከአንድ በላይ መልስ ይቻላል)

ሀ. በራሴ ያጠራክምኩት ለ. ከባንክ ብድር ሐ . ከዘመድ ብድር

መ. ከአካላት ብድርና ቁጠባ ተቋም ሠ. ሌላ ካለ ይጠቀስ -----

18. ለቤትና ለንግድ ስራው ወጭን ለያይተው ይሰራሉ? ሀ. አዎ ለ. አልሰራም

19. የሚከተሉት የፋይናንስ ችግሮች ለስራዎ ስኬት ምን ያህል ተፅዕኖ አላቸው?

ተ. ቁ	የፋይናንስ(ገንዘብ) ችግሮች	በጣም ከፍተኛ	ከፍተኛ	መካከለኛ	ዝቅተኛ	ጫና የለውም
1	የብድር እጥረት					
2	የወለድ ክፍ ማለት					

3	የሂሳብ መዝገብ (financial statements) አለመጠቀም					
4	የአመዘጋብናመረጃ አያያዝ ችግር					
5	ያለ እቅድ ለቤተሰብ ወጪ ማድረግ					
6	□□□ □□□□(working capital) □□□□□ □□□□□					
7	የገንዘብ እጥረት					

20. የንግድ ፍቃድ አለዎት? ሀ. አዎ ለ. የለኝም
21. ለ20ኛው ጥያቄ መልስዎ (የለኝም) ከሆነ ችግሩ ምንድን ነው? ሀ. መወደዱ ለ. ውጣ ውረድ ስላለው ሐ. ግንዛቤ የለኝም መ. ሌላ ካለ ይጠቀስ -----
22. የንግድ ፈቃድ ሂደት እየተሻሻለ ነውን? ሀ. አዎ ለ. አይደለም
23. የስራ ቦታውን እንዴት ነው ያገኙት? ሀ. ገዢ ለ. ከግል ባለንብረት ክራይ ሐ. ሊዝ መ. መንግስት ከሰጣቸው ተከራይቼ ሠ.የመንግስት ረ. ሌላ -----
24. የስራ ቦታው አቀማመጥ አመቺ ነው ብለው ያምናሉ? ሀ. አዎ ለ. አይደለም
25. ለጥያቄ ቁጥር 24 መልስዎ "አይደለም" ከሆነ ችግሩ ምንድን ነው? -----
26. ከባንክ ወይም ከአነስተኛ ብድር ተቋማት ብድር ለመውሰድ ያጋጠመዎት ችግር ምንድን ነው?

የብድር ምንጭ	ያጋጠመዎት ችግር					
	ማስያዣ ስያሜ	ውጣ ውረድ	ከፍተኛ ወለድ	ግንዛቤ ማነስ	የብድር መጠን ማነስ	ሌላ ይጠቀስ
ባንክ						

ከአነስተኛ-በድር ተቋማት						
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27. ከሌሎች ድርጅቶች ጋር ያለው የውድድር (competition) ሁኔታ እንዴት ያይታል?

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

28. የእርስዎ ዋና ተፎካካሪዎች እነማን ናቸው? ሀ. ሌሎች ጥቃቅንና አነስተኛ ድርጅቶች

ለ. መካከለኛና ትላልቅ ድርጅቶች ሐ. አስመጪና ላኪዎች

29. ለሚከተሉት መሰረተ ልማት ጥራትና ተደራሽነት እንዴት ያይታል?

መሰረተ ልማት	በጣም ከፍተኛ	ከፍተኛ	መካከለኛ	ዝቅተኛ	በጣም ዝቅተኛ
መብራት፣					
ውሃ፣					
ስልክ፣					
መንገድ ትራንስፖርት					

30. ድርጅትዎ የስራ እቅድ (business plan) አለው? ሀ. አዎ ለ. የለውም

31. ከሌሎች ድርጅቶች ጋር የስራ ህብረት አለዎት? ሀ. አዎ ለ. የለኝም

32. ከሌለዎት ለምን?-----

33. የሚከተሉትን የግብይት (marketing) ሁኔታዎች ለስራዎ ምን ያህል ጫና

እንዳላቸው ያሳዩ።

ተ.ቁ	የግብይት ችግሮች	በጣም ከፍተኛ	ከፍተኛ	መካከለኛ	ዝቅተኛ	ጫና የለውም

1	ተወዳዳሪ ዋጋን የመተመን ብቃት ማነስ፡					
2	የስራ ቦታ አመቺ አለመሆን					
3	የገበያ ፍላጎት መጠን የመገመት ብቃት ማነስ፤					
4	ደንበኞች አይደዘኑ ችግር					
5	የተለያዩ ምርቶች የማምረት ልምድ አለመኖሩ					
6	የመሸጥ ችሎታ ማነስ					
7	ምርቶች የማስተዋወቅ አቅም ማነስ፤					
8	የምርት ስርጭት ችግር					
9	□□□□□□ መረብ ችግር					

34. ግብር ሰብሳቢዎች ፍትሐዊ ናቸው ብለው ያምናሉ? ሀ. አዎ ለ. አይደሉም

35. ፍትሐዊ ካልሆኑ ምን አይነት ችግሮች ይታይባቸዋል? -----

36. ካለፉት ሰባት ዓመታት የስራ ችግሮች/business constraints የመሻሻል ሁኔታ እንዴት ያዩታል?

ሀ. ጥሩ መሻሻል አለ ለ. ለውጥ የለውም ሐ. ከጊዜ ወደ ጊዜ እየቀነሰ ነው

37. የስራዎ ትርፋማነት ምን ይመስላል? ሀ. እየጨመረ ነው ለ. እየቀነሰ ነው

38. ለጥያቄ ቁጥር 37 መልስዎ "አይደለም" ከሆነ ምክንያቱን ይዘርዝሩ። -----

39. ትርፍዎ ለምንድ ነው የምያውሉት?

ሀ. ስራዎ ለማስፋፋት ለ. ለቤት ፍጆታ ሐ. ለቁጠባ መ. ሌላ ካለ-----

40. የሚከተሉት ችግሮች ለስራዎ ያላቸው የጫና መጠን ምን ይመስላል?

ተ.ቁ	ችግሮች	በጣም ከፍተኛ	ከፍተኛ	መካከለኛ	ዝቅተኛ	ችግር የለውም
1	የህግና ደንብ ትግበራ					
2	የስራ ቦታ አለማግኘት፣					
3	የብድር ማነስ					
4	የግብር መጠን ከፍ ማለት					
5	የግብር ፖሊሲ ተለዋዋጭነት					
6	የተቋሞች ብቃት ማነስ					
7	የጥሬ ዕቃ እጥረት					
8	የስልጠና ማነስ					
9	አስተዳደር(management)					

41. እንደ አጠቃላይ ለጥቃቅንና አነስተኛ ድርጅቶች ችግሮች ናቸው የሚሉትን ያብራሩ -

42. ለእነዚህ ችግሮች መፍትሄ በእርስዎ ሀሳብ ምንድነው ይላሉ?-----

Appendix-3: Multicollinearity of Dependent Variables

		Correlations					
		Year of establishment	Favorability of the business environment	how do you see level of competition	Institutions' quality	Access to raw materials	Access to training
Year of establishment	Pearson Correlation	1	.097	.182	.122	.045	
	Sig. (2-tailed)		.081	.001	.029	.424	
	N	325	324	325	320	317	
Favorability of the business environment	Pearson Correlation	.097	1	.047	-.116	-.163	
	Sig. (2-tailed)	.081		.399	.038	.003	
	N	324	329	329	324	321	
level of competition	Pearson Correlation	.182	.047	1	-.003	-.172	
	Sig. (2-tailed)	.001	.399		.950	.002	
	N	325	329	330	325	322	
Institutions' quality	Pearson Correlation	.122	-.116	-.003	1	.061	
	Sig. (2-tailed)	.029	.038	.950		.273	
	N	320	324	325	325	321	
Access to raw materials	Pearson Correlation	.045	-.163	-.172	.061	1	
	Sig. (2-tailed)	.424	.003	.002	.273		
	N	317	321	322	321	322	
Access to training	Pearson Correlation	.055	.034	-.017	.055	.141	
	Sig. (2-tailed)	.329	.545	.766	.323	.012	
	N	319	323	324	323	320	
management problems	Pearson Correlation	.106	.079	-.026	.078	.102	
	Sig. (2-tailed)	.060	.159	.639	.164	.068	
	N	317	321	322	322	319	
Infrastructure related problems	Pearson Correlation	.213	.166	.145	.055	-.136	
	Sig. (2-tailed)	.000	.002	.008	.322	.015	
	N	325	329	330	325	322	
Marketing related problems	Pearson Correlation	.082	.018	.175	.065	-.088	

	Sig. (2-tailed)	.139	.745	.001	.244	.113
	N	325	329	330	325	322
Finance related problems	Pearson Correlation	.047	-.111	.026	.011	.039
	Sig. (2-tailed)	.394	.044	.633	.848	.489
	N	325	329	330	325	322
Rules/regulations	Pearson Correlation	-.010	-.038	.033	-.119	.073
	Sig. (2-tailed)	.860	.496	.556	.032	.194
	N	325	329	330	325	322

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Appendix -4 Background Information of Respondents

Age distribution		18-30	31-40	41-50	51-60	>60	Total
	frequency	146	129	41	9	5	330
	percent	44.2	39.1	12.4	2.7	1.5	100.0
Educational level	Do not write & read	Can write & read	Primary	Secondary	TVE T	College diploma	1 st degree and above
	frequency	28	28	149	64	22	8
	Percent	8.6	8.6	45.6			
Sex distribution		Male			Female		total
	frequency	223			106		329
	percent	67.8			32.2		100.0
Marital status		un married			Married		Total
	frequency	126			204		330
	percent	38.2			61.8		100.0

Year of establishment		1997 EC and before	1998-2000	2001-2004	Total
	frequency	108	65	152	325
	percent	33.2	20.0	46.8	100
Size of the business		Micro		Small	Total
	frequency	201		129	330
	percent	60.9		39.1	100
Form of ownership		Proprietorship		Joint ownership	Total
	frequency	32		295	329
	percent	9.7		89.3	100

Source: Developed for this research