SCHOOL OF GRADUATE STUDIES

DETERMINANTS OF THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN ADDIS ABABA, THE CASE OF GULELE SUB-CITY TEXTILE MANUFACTURING ENTERPRISE

BY

MELKAM KIDANEMARIAM

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A THESIS SUBMITTED TO SCHOOL OF POST GRADUATE STUDIES (INSTITUTE OF AGRICULTURE AND BUSINESS STUDIES) IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE MASTER OF RURAL DEVELOPMENT(MRD)

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DECLARATION

I the undersigned, declare that this study entitled "Determinants of the Performance of Micro and Small Enterprises in Addis Ababa: the case of Gulele Sub-City" is my own work. I have gone through the research by myself with the guidance and support from my advisor. I confirm that this research has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for this study have been acknowledged properly.

Name: _____   Signature:_____

St. Mary University, Addis Ababa

April, 2018

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Name: Maru Shete (PhD and Assoc. Prof.)

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April, 2018

APPROVED BY BOARD OF EXAMINERS

As a membr of the board of examiner of the master thesis open defense examination, we certify that we ave read and evaluated the theis prepared by Melkam K/Mariam Tekeleyesus and examined the candidate. We recommended that this thesis be accepted as fulfiling the thesis requirement for the degreeof masters of Rural Development

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   Examiner   **Date**   **Signature**

Acknowledgement

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Acronyms

GFDRE	Government of Federal Democratic Republic of Ethiopia
MSE	Micro and Small Enterprise
FeMSEDA	Federal Micro and Small Enterprises Development Agency
ReMSEDA	Regional Micro and Small Enterprise Development Agencies
GTP	Growth and Transformation Plan
EMSEDS	Ethiopian Micro and Small Enterprises Development Strategy
UNIDO	United Nations Industrial Development Organization
GDP	Gross Domestic Product
ILO	International Labor organization
MoFED	Minister of Finance and Economic Development
HASIDA	Handicrafts and Small Scale Industries Development Agency
EPRDF	Ethiopian People Revolutionary Democratic Front
NGO	Non-Government organization
ADLI	agricultural development led industrialization
TVET	Technical Vocational Education and Training
MoUDHC	Ministry of Urban Development, Housing and Construction
MFIs	Micro Financial Institutes

Abstract

This study aimed at examining the determinants of the performance of Micro and Small Enterprises in Gulele Sub city in selected textile manufacturing enterprises. In the study both qualitative and quantitative research method was used. Primary data was obtained using questioner. Secondary data was also collected from government office manuals, past works, official research documents and internet. Stratified sampling was used to select proportional number of samples from the study area. On the basis of the findings, the major internal and external determinants of the performance of Micro and Small Enterprises in Addis Ababa, Gulele Sub-City are entrepreneurship, management, access to finance, access to market, access to training and technology support, access to industry extension, access to work space, capital, profit, saving and employment size..The result of the study revealed that most MSEs accessed finance mainly from informal sources that the formal financial institutions have not been able to meet the credit needs of the MSEs. The internal factors including entrepreneurship and management capability of business owners and supervisors were found to be medium. The external factors including access to market, access to training and technological support, and access to industry extension for MSEs sector development are not effectively implemented in line with their intended objectives. Enterprises are facing challenges concerning with supply of inputs and raw materials. Finding a stable market place to sell their product was also another challenges faced by those enterprise under this study. It is also found out that enterprises are lacking major skill training that is needed to boost their business. The finding emerged from investigation that there exists significant positive relationship between the dependent variable and independent variables. It is recommended that the sub city micro and small enterprise office and woredas office under different department should take the most part in Simplifying role by reviewing all difficulties faced by MSEs with respect to the factors analyzed under this study. These stakeholders should address issues raised by MSEs through an applicable policy and a continuous follow up that could promote the sector.

Key Words: Performance determinant, Micro and Small Enterprises, textile manufacturing enterprises

Chapter 1: INTRUDUCTION

1.1 Background of the Study

There is no universally agreed definition of Micro and Small Enterprises (MSEs). Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover, the capital invested and the total balance sheet (asset, liability and capital). In Ethiopia, the definition of MSEs is differs among various governmental organizations (e.g. Ministry of Tradeand Industry (MoTI). Central Statistics Agency (CSA),& Federal Micro and Small Enterprises Development Agency (FeMSEDA).Ministry of Trade and Industry (MoTI) uses capital investment, Therefore, according to MoTI, Micro enterprises are those businesses 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-tech establishments. On the other hand, the Central Statistical Authority (CSA) uses employment and favors capital intensive technologies as a yardstick. Hence, CSA defines MSE as an establishments employing less than ten persons and using motor operated equipment are considered as small scale manufacturing enterprises. In this definition, 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 ashousehold type establishments or activities, which are nonregistered companies and cooperatives operating with less than 10 persons. All enterprises employing ten or more workers are grossly considered as medium and large enterprises. The Federal Democratic Republic of Ethiopia, Micro and Small Enterprises Development Agency and establishment Council of Ministers Regulations No '33/1998 defines Micro and small enterprises as "Micro Enterprise" or "Small Enterprise" businesses engaged in commercial activities other than technological and consultancy –services, the criteria of which shall be determined in the directives to be issued by the ministry.

In light of the above definitions and taking into consideration the Ethiopian situation, micro and small enterprises (MSEs) may be defined in the following way:

➢ Micro enterprises are business activities that are independently owned and operated, have small of the market, are managed by the owner and employing five or less employees.

➢ Small businesses are those enterprises that employ 6 to 49 employees. They share the same characteristics with micro enterprises in other aspects.

➢ Medium scale enterprises are those enterprises which have a relatively higher share of the market, are independently or jointly owned or managed by the owner or by appointed executives and employ 50 to 99 persons.

➢ Those enterprises that employ more than 100 persons could be considered as large enterprises (Tiruneh, 2011. pp. 9).

The issue of MSEs Development ranked first among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation (Nugent, 2001). The United Nations Industrial Development Organization (UNIDO) estimates that MSEs represent over 90% of private business and contribute to more than 50% of employment and of gross domestic product (GDP) in most African countries (UNIDO, 1999). There is also an urgent need to create a strong competitive MSEs that is able to play a leading role in the development process. In this regard, growth of MSEs has been in the recent past of great concern to many government policy makers and researchers globally because of the recognition of their contributions to Gross Domestic Product (GDP) and economic growth. As such they are no longer viewed as "stepping stones" to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (ILO, 1986).

Ethiopia has given attention to the growth and development of Micro and Small Enterprises (MSEs)to generate the much needed employment and to build an industrial economy in particular, and to fuel its economic growth in general. To this end, in 1997 the government has designed a National MSEs development and promotion strategy which facilitates and paves the ground for the growth and development of the sector. The primary objective of the strategy was to create a favorable environment for MSEs so that MSEs could facilitate economic growth, create long-term jobs, strengthen cooperation between MSEs, provide the basis for medium and large scale enterprises and promote export. In the strategy, the government prioritized those enterprises that have the feature of manufacturing and processing, run by self-employed disabled and unemployed youth, and those owned by women. Following the 1997 MSEs Development Strategy, the Federal Micro and Small Enterprises Development Agency (FeMSEDA) was

established by the council of ministers' regulation number 33/1998 to lead and stir Ethiopia's MSE development. (Federal NegaritGazeta, 1998)The agency has been established as an autonomous government institution under the supervision of the Ministry of Urban Development and Construction. The primary goal of the Agency is to implement the strategies mentioned above. To implement the MSE policies and strategies, Regional Micro and Small Enterprise Development Agencies (ReMSEDAs) have been established.

Drafted in 2002, the Industrial Development Strategy (IDS) of Ethiopia hinges on principles that ultimately would deliver agriculture-led industrialization, export promotion and development and expansion of labor intensive industries, a large part of which is the MSE development. The strategy assigns an indispensable role to the private sector. The drivers of this whole process would be enterprises engaged in the manufacturing sector. Specifically, the MSE sector is envisaged as a priority sector for multifaceted government support. This is also clearly indicated in the GTP. The overall aim is not only to reduce poverty in urban areas through employment generation but also to make MSEs serve as the basis for the emergence of entrepreneurs and lay the foundation for industrial development.

Micro and small enterprise development hold a strategic place within Ethiopia's Industrial Development Strategy. '*MSEs are the key instruments of job creation in urban centers, whilst job creation is the centerpiece of the country's development plan'* **(**MoUDH, 2012, pp.3)**.**Therefore the need of policy and strategy related support to MSEs was realized; recognition of the strategic importance of MSEs and providing appropriate policy support to their growth constitute important first steps,it is imperative to take additional actions. It is necessary to identify the constraints faced by MSE development and design appropriate strategies to overcome them. The Ethiopian Micro and Small Enterprise development policy and strategy gave emphasis for the limitation observed in the internal factors affecting the performance of MSE i.e., rent seeking behavior that are believed to have negatively impacted their performance efforts to bring about attitudinal changes are also inseparable from day to day MSE development initiatives. As it says '*The efforts to improve the performance of MSE promotion institutions need to be synchronized with the drive to change attitudes among the* (MoUDH, 2012, pp. 3-5)

The promotion of MSEs is one of the strategic directions pursued by the government during the GTP implementation period (2010/11-2014/15), focusing on promoting the development and competitiveness of MSEs, hence, the performance of MSEs are measured based on the growth of MSEs, the number of MSE, employment rate, Credit to MSEs and repayments, and number of micro finance institutions (

Although improvements have been registered during the last few years, the performance of SMEs has fallen short of expectations due to various challenges. These include, problems related to finance, access to market and low competiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure. (EEA, 2015)

The study would like to focus on Textile manufacturing enterprises that are located predominantly in 5 woredas (Woreda 1, 3, 5, 6 and 8) in which the government constructed working premises/sheds for textile manufacturing enterprises engaged in spinning, weaving and final finishing(printing and dying).

This study therefore intends to identify the determinant factors affecting the performance of textile manufacturing enterprises in Addis Ababa, Gulele sub city predominantly located in woreda 1, 3, 5, 6 and 8.

1.2 Statement of the Problem

In today's globalization of world trade, a substantial role is being assigned to the private sectors in many developing nations. In line with this, there has been the emergence of micro and small enterprise (MSE) sector as a significant element for economic development and employment (ILO, 1998 cited by Richardson, Howarth&Finnegan, 2004). MSE Sector has seen as the engines of employment, alleviating poverty and upgrading the standard of living of citizens which is understood by both developed and developing nations.

As a result, country/regional leaders had begun allocation of a larger proportion of their economic development budgets in funding micro and small enterprise research and support service initiatives (Chaston, & Mangles, 2002).

In Ethiopia, MSEs sector is the second largest employment-generating sector following agriculture (CSA, 2005. pp. 34-35). A national survey conducted by Ethiopian Central Statistical

Authority (CSA) in 2005 in 48 major towns indicates that nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 laborforces. Accordingly, the whole labor force engaged in the micro enterprises and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large scale manufacturing industries (90,000 persons). This is a contribution of 3.4% to GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2005. pp.34-35).

The study conducted by CSA discloses that, the contribution of small enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006:13). However, their contribution is very low in compared with that of other countries due to financial problem, lack of qualified employees, lack of proper financial records, marketing problems, lack of working premises and raw materials. Lack of information about market opportunities and standards and regulations is one of the underlying factors that hinder their performance (Mulu, 2009. pp.10-13).

Despite contribution of MSEs, their operation and performance have been influenced by numerous internal and external factors. As a result, a number of MSEs in different parts of Ethiopia have collapsed and goes out of operation. According to the current data gathered from Gulele Sub City, Micro and Small Enterprise Development office, there are 60 textile manufacturing enterprises that terminated their agreement and returned back their license Within fifteen months (June 2016 up to November 2017).The most important external factors influencing growth of MSEs include access to finance, competition, limited production/market place, lack of market for the product or service; and other barriers to trade. On the other hand, the internal (firm-specific) factors that inhibit the growth of MSEs include management competency, 'lack of skilled labor, poor marketing strategies, innovation level and investments on technology, etc. In this respect, Evans (1987) depicted that firm growth decreases with firm size and age. Others contend that the smallest firms were most vulnerable and that those that grew were less likely to fail than those that did not (Stokes, 2000).

.According to Micro and Small Enterprises (MSEs) Development Strategy of Ethiopia, designed to ensure the sustainability of the development achieved in all economic sectors of the country, the main focus of the government is creating Job opportunities through MSEs development, to

reducing unemployment and alleviate poverty and enhancing MSEs to be base for industrial development in the country, (FeMSEDA)Therefore, MSEs are facing strong expectations for their role to be key players in the economic development of the country and contributes to GDP. Previous research has also widely investigated about the development of MSEs for economic growth. According to Mulhern (1995. pp. 2-92), MSEs exert a strong influence on the economies of all countries, particularly in the developing countries. He reported that the MSEs have been a major engine in the economic growth, innovation and technological progress. In addition, Carrier (2008. pp.11-23) stated that ''the MSEs are more fertile than their larger [enterprises] in terms of innovation and development. The MSE sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial.'' However, their performance was not determined or not even known

Although MSEs sector in Ethiopia is a key target but its current size, performance in terms of its contrition to GDP, employment and export and total manufacturing output is largely unknown. A number of MSEs every month get license from government office and start activity, and some of them grow and turn to medium enterprises, others destination is not well investigated(Arega, Muhammed& Daniel,2016**).** Hence, there is need for efforts in determining the performance of MSEs.The basis for this research therefore is that though the government has taken measures to enhance the operation of MSEs; formulated policies, and established many institutions to promote and follow up of effective functioning of SMEs. However, the sector is not performing as expected as it has been suffering from several problems. Therefore, the study aims at identifying the determinate of the performance of MSEs in Gulele Sub City in selected woredas engaged in textile manufacturing.

1.3 Research Objectives and Questions

1.3.1 General Objective
The objective of this research is to examine the determinants of the performance of Micro and Small Enterprises in Gulele Sub city in selected textile manufacturing enterprises.

1.3.2 Specific Objective
The following specific objectives guide discussion in this study:

- To identify external and internal determinant factors affecting the performance of MSEs
    - External Factors: financial, technology, marketing, and production factors
    - Internal (firm specific) Factors: management, entrepreneurship strategies, innovation level etc
- To describe the level of performance of MSEs examined as case studies

1.3.3 Research Questions:

More specifically, the research will answer the following questions

- What are the factors that determine the performance of Textile manufacturing enterprises in Gulele Sub-city, Addis Ababa?
- What are the possible performance enhancement schemes that can be design to improve their performance level?

1.4 Significance of the study

Principally, the findings of this study are expected to provide MSEs in Gulele sub-city an insight about the determinants of the performance of textile manufacturing enterprises, which will help relevant stakeholders to take appropriate measures. Both private investment and employment in manufacturing are on the rise. Therefore, the findings of this research will draw on the lessons learnt and pave the way for improving the contributions of this sector towards the country's economic development. More specifically, this research believes to provide some insight for possible capacity building and performance enhancement schemes that can contribute to the already designed development strategy in this sector.

1.5 Scope and Limitation of the study

The study focuses on the determinants of performance of MSEs in Gulele Sub City in selected textile manufacturing enterprises located in 5 woredas. The study covers only textile manufacturing enterprises located in Gulele Sub-City in selected 5 woreds. Examining the determinates of performance of enterprises in trade, service and manufacturing sector in Addis Ababa as a whole is beyond the scope of this study.

This study has few limitations in that most of the documents that are found in micro enterprises agencies are written in Amharic. To translate to the required instruction language (English) may

take longer period. The researcher faced lack of compiled time series data to measure the level of performance of MSEs. Another problem that occur while conducting an interview with the owners of the enterprise has to do with their unwillingness to cooperate due to suspicion that disclosing information may lead to loss of their business. Despite the fact that the study have some limitations, the researcher has make an effort to gather information needed to fulfill the study objectives and make sure that these limitations do not have any significant interference with the outcome of the study.

1.6 Definitions of Concepts and Terms

Clarifications and definitions of selected terms and concepts used in this research with brief looks into their equivalent usages in the policies and legal documents of the country are given.

An enterprise can be defined as an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level. An enterprise might be owned and operated by a single household, or by several households jointly on a partnership basis or by any institutional body. For example, shoe-making, bakery, textile, apparel and garment, shoe repairing, transports, health, education and legal services are potentially profitable undertakings where enterprises exist. **An enterprise** can be defined as **"Micro Enterprise"** when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is ≤ 100,000 ETB for industrial sector and ≤ 50,000 ETB for service sector. In a similar manner, an enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50, 0001—500,000 ETB for service sector is defined as "**Small Enterprise**".

Micro and Small Enterprises are MSEs engaged in production of goods and services in the sectors given priorities in the economic development of the country in most policy and strategy documents of the government (e.g., MoFED, GTP, 2010). The GTP identifies sectors like, construction, metal and woodworking, textile and garments, leather and foot wear, agro-processing, roads & other infrastructures as growth oriented sectors in which MSEs are also have considerable parts (MoFED, GTP, 2010).

1.7 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, research questions, objectives, 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 2: Review of Related Literature

2.1concepts and definitions of MSEs

The importance of the small enterprises sector is well recognized worldwide due to its significant contribution to gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. Recent empirical studies show that small enterprises contribute to over 55% of GDP and over 65% of total employment in high-income countries. Small enterprises and informal enterprises, account for over 60% of GDP and over 70% of total employment in low income countries, while they contribute over 95%of total employment and about 70% of GDP in middle-income countries. In the European Union countries, for example, there are some 25 million small businesses, constituting 99% of all businesses; they employ almost 95million people, providing 55% of total jobs in the private sector (Hidayet et al. 2010).

Small enterprises are important to almost all economies in the world, but especially to those in developing countries. There is considerable interest in Small enterprises in developing countries. There are probably two main reasons for this. One is the belief that small enterprises development may prove to be an effective antipoverty programme. The second is the belief that small enterprises development is one of the building blocks of innovation and sustainable growth. These two reasons are of course linked because most of the international evidence says that growth and real poverty reduction go hand in hand. If small enterprises development helps growth, more than likely it helps reduce poverty as well. In any country, the statistics show that even during the years of economic crisis and recession, the Small enterprises have ensured economic growth, productivity and employment (Hidayet, et al., 2010).

Some experts explain that 'a significant section of Small enterprises in developing countries remains in traditional activities generally with low levels of productivity, poor quality products, serving small, localized markets. There is little or no technological dynamism in this group, and few 'graduate' into large size or modern technologies. In many poor countries, there is also a large underclass of (formal and informal) micro enterprises that ekes out a bare survival (Lukács, 2005)

2.1.1 Definintion of Small and Micro Enterprise

Small and medium-sized enterprises (Small enterprises) are a very heterogeneous group of businesses usually operating in the service, trade, agri-business, and manufacturing sectors. They include a wide variety of firms such as village handicraft makers, small machine shops, and computer software firms that possess a wide range of sophistication and skills. Some are dynamic, innovative, and growth-oriented while others are satisfied to remain small and perhaps family owned. Small enterprises usually operate in the formal sector of the economy and employ mainly wage-earning workers. Small enterprises are often classified by the number of employees and/or by the value of their assets. The size classification varies within regions and across countries relative to the size of the economy and its endowments. It is important to note that there is a minimum as well as a maximum size for Small enterprises (Lukács, 2005).

2.1.2 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 whereas 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 Birr20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms andother 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 counties. 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 upcapital-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 or76,000 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).

2.2Factors affecting the performance of micro enterprises

There are two dimensions that influence microenterprise performance: the internal factors and external factors.

2.2.1 Internal Factors

Small business success studies are largely biased towards the macro aspects of factors such as structural, finances and enabling business environments than just dealing with entrepreneurial performance (Johnson, 1990). However, the growth of a firm is, to a certain extent, a matter of decisions made by individual operators. This is very much pronounced for microenterprises that are run by Owner-managers. Previous studies indicate that motivation, individual competencies and personal background are important factors for the success of micro and small enterprises (Baum et al., 2001; Shane et al., 2003).

    I.   Entrepreneurial factors

 Studies related to psychological factors of business success for developing country firms are very scarce (Nichter and Goldmark, 2009). Most of the macro based studies have tended to assume entrepreneurs with similar experiences and demographic characteristics. However, none of these factors alone can create a new venture or drive success (Baum et al., 2001). Accordingly, personality traits play a key role in driving ventures towards success. The 'big five' model advocated for by Johnson (1990) is widely used as a robust indicator of personality traits. These big five factors that are generally agreed as personality traits or characteristics include: extraversion, emotional stability, agreeableness, conscientiousness and openness to experience. Based on the big five model, researchers have further classified entrepreneurial personality traits in to five categories: need for achievement, locus of control, motivation, risk-taking propensity,

and self-efficacy. These traits are important psychological factors that would influence the success of microenterprises (Johnson, 1990).

II.   Management factors

Zeleke (2009) conducted a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises. Successful businesses are significantly associated with the ability to generate profit on a sustainable basis. Profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

The main reason for failure is inexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to run their businesses. In diagnosing the root causes of small firm failure it should not be surprising that this turns out to be the management inefficiency of owner-managers (Zeleke 2009). Managerial effectiveness influences every aspect of a business and is often believed to be the most important factor contributing to small business failure. The management skills and management concepts of business founders are deemed much more important than their technical skills and their concern about production which has resulted in an overall positive organizational performance (Lin and Yeh-Yun, 1998).

2.2.2 External Factors

Marketing Factors

The study of Lussier (1995), and Lussier and Pfeifer (2001) emphasizes on the importance of marketing skill of the business owners as one factor to the success and better performance of small businesses. Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that micro and small business enterprises should possess to be successful long term survival in the future. Temtime and Pansiri (2004) also reported in their study of Small Business Critical Success/Failure Factors in Developing Economies, in Botswana shows that; marketing activities such as product marketing, market research, and demand forecast and so forth have a greater impact on the success of small

businesses performance. In this study customer relationship also reported as one of the important success factors of the small business owners. From this study report one can understand the importance of marketing skills of the business owners to be successful in their competitive environment.

Pulendran, Speed and Widing (2002), suggest that the quality of marketing planning is associated with a higher level of market orientation. Perhaps one can argue that, better quality planning assists managers seeking to implement a market orientation to achieve their goal, or conversely, market orientation assists planning by providing a clear and unambiguous goal that serves to focus the planning effort. This study also indicates that managerial functions in small enterprises are limited to routine short term focused activities, and very little emphasis is given long term competitiveness which intern has an impact on the long-term success and profitability of the enterprises. Small enterprise growth could be influenced by factors that affect its supply and demand conditions because these factors have a direct implication on costs and benefits accruing to the business. Accordingly, factors such as location and sector of the business could have a direct influence on profitability, and performance of small entrepreneurs. Liedholm(2002) in a study of small firm dynamics in Africa found that businesses located in commercial districts and on roadsides were positive and statistically significant in influencing enterprise growth rates compared to enterprises located at home, the base category in his regression. McPherson (1995) also found similar results; but his success indicator was hazard rate. According to him, mobile MSEs, roadside locations and market locations were found to show a significant survival advantage compared to home based enterprises. McPherson (1996) also revealed similar findings but, this time, success was represented by employment growth. The author points to agglomeration externalities as factors explaining success related to location. Location of the enterprise affects demand conditions and degree of competition. Enterprises located at commercial districts may experience better demand but they could also face stiff competition. A positive relationship between location and success can be expected if enterprises produce complementary products and are located near final demand. However, if imitative products are located together, it will lead to a higher competition and hence very small market share leading to poor performance (Liedholm, 2002). Therefore, success related to location may depend on the net effect of both factors. However, following the above empirical studies, it can be hypothesized

that home-based enterprises may perform poorly compared to those in other locations, ceteris paribus.

Working place factors

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 startup 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. Mbonyane&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.

Technology

Choice of technology and innovative capacity is another important factor determining growth of MSEs.According to Albu(2001: 16) Moyi.E and Njiraini. P (2005), it is divided in to production, investment, and innovative/adaptive capability. Production capability is the static knowledge and skill required to use existing Technology development which is far less applicable to MSEs is the process of designing new machineries/ equipment/ Processes/ products. The appropriate technology paradigm assumes MSEs as beneficiaries and not as active participant of development and improvements of technology; technology as a resource that can only be adapted by MSEs for improving factor productivity and reducing unit costs. It also focuses on incremental choice and suitability of available technologies to the production and market

environment of MSEs operating in environment of unskilled and large labor market, low income consumer market, and low quality inputs. But appropriate technology paradigm is challenged for its limited impact and its failure to narrow gaps between MSEs and larger enterprises. The technical capability paradigm has emerged as a result of unsatisfactory result with appropriate technology paradigm and with an objective to raise capacities of MSEs in making use of innovated technologies as most innovated technologies is adopted from separate workshops. It needs institutional, technical and engineering skills to adapt these technologies to different climate, raw materials and market demand.

Financial factors

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)

Infrastructure

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. vi. Enabling business environment many studies emphasize enabling business environment as major factors determining small enterprise success in developing countries (e.g. Sethuraman, 1997; De Soto, 2001). The institutional, regulatory and legal frameworks are in these days the three important pillars shaping business environments (ILO, 2000). According to the ILO (2000) report,

institutional frameworks determine effectiveness and efficiency of key business infrastructures such as business development support (BDS), microfinance institutions, marketing and research and development. A good institutional framework enables access of these services to the needy with minimum cost. Poor institutions in general, lead to higher transaction costs. ILO (2002) indicates signs of poor/good institutions based on several checklists: the number of steps/ procedures to obtain a business license and the costs paid for it, enforcement of contracts and access to legal redress, ease of access to information about markets, access to credit facilities, ease of acquisition to land titles/ lease and tax costs to a business. In many developing countries, lack of enabling business environments has hampered the development of the MSE sector and kept entrepreneurs mired (Sethuraman, 1997). Therefore according to Sethuraman, poor enabling environments are growth barriers and hence negatively influence success. More recently, concepts such as inter-firm relations and flexible specialization, clustering and networking are being advocated in many parts of developing countries to boost the development of small and microenterprises (Van Dijk, 1996). Many East Asian economies have implemented and succeeded through this strategy. The idea is, clustering helps firms to reduce costs that they cannot shoulder if they stand alone. Exchange of information and technology diffusion can also take place within these clusters. This helps firms to specialize in technologies with which they are good at. The advantage is that every firm benefits from the formed mutual interactions.

2.3 Historical development of MSEs in Ethiopia

In most developing countries, MSEs by advantages of their size, location, capital investment and capacity to generate greater employment, became the main focused area. , the socialist regime which followed a centrally planned economic system since 1974 came to power and introduced socialist proclamations, excessive government interventions, burdensome rules and regulations, bureaucratic red-tape as well as excessive and costly administrative and legal requirements to obtain trading license. The regime also nationalized the private property and those actions had made the previously existing private sector almost came to an end and got crippled.

As Teshome (1994) noted, the Dergue regime had declared a new program of mixed economy development with two declarations in two successive years: the Small Scale Industry Development Special Decree No.9/1989 and Special Decree on Investment No.17/1990. The former decree allowed establishment of small-scale enterprises by business organizations,

cooperatives and individual entrepreneurs and replaced the restrictive Proclamation No.76/1975 and allowed participation by the Diaspora and raised the capital ceiling for small scale enterprises from birr 500,000 to between two and four million birr (MoTI, 1997). The Decree No.17/1990 had lifted the restriction of private sector participation to single license and allowed individuals to undertake investment in unlimited number of enterprises though the journey into mixed economy development was short lived due to various factors.

After the downfall of the Dergue regime, the Ethiopian People Revolutionary Democratic Front (EPRDF) had introduced public sector reform and private and market economy development. The licensing and supervision of micro financing institutions proclamation in 1996 and the Federal and Regional MSE's Strategy in 1997 were adopted to enhance the operation of MSE's. Besides, Federal and Regional MSE's Development Agencies were established with the main objectives of utilizing local raw material, creation of job, adoption of new and appropriate technologies, and enhancement of the development of MSE's (MUDC, 2013). The current Growth and Transformation Plan (2010 -2015) has also given priority to MSE's development, and has put MSE's as one of the seven growth pillars of the country (MoFED, 2011).

2.4 Ethiopian Micro and Small Enterprise (MSEs) Strategy

In contrast to many MSE related studies, the working definition of MSE in Ethiopia is based on capital. According to the Micro and Small Enterprises Development Strategy; Micro Enterprises: are those business enterprises with a paid-up capital of 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 above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high-tech establishments (FDRE Ministry of Trade and Industry 2007. pp. 5). Hence, in this case the definition is based on capital and the level of technical and technological capacities adopted. The information on MSE in Addis Ababa indicated that from all the total licensed enterprises,75.4% are micro enterprises, 20.9% are small enterprises and the remaining 3.7% are medium and large enterprises (Addis ReMSEDA 2009a). During the socialist regime (1974-1991) due to extensive nationalization of private sector, many of the former private sector firms ceased to exist. But after 1991, the current government adopted several policies and regulations aimed at supporting the informal sector. MSE serves as sources for sustainable job opportunities not only for developing countries like Ethiopia, but also for

developed countries like USA. Thus they are given prior attention as they are important and serve for sustainable source of job opportunities to our country. As a result, many important overall policy and institutional reforms have been undertaken including: safety net, decentralization, market economy, agricultural development led industrialization (ADLI), etc. Moreover, a number of sector specific policy reforms and restructuring of regulatory institutions may have contributed to the process of creation of micro and small enterprises. One of the frameworks was related to issuance of the National Micro and Small Enterprises Development Strategy in 1997 and the issuance of Proclamation No. 33/98 to provide for the establishment of the Federal Micro and Small Enterprises Development Agency (Addis ReMSEDA 2009a)

In the same way to promote MSE, the Addis Ababa Trade and Industry Development Bureau has two branches, one is for MSE which focuses on the development of enterprises and the other one is for trade and industry. Micro and Small Enterprises are one of the focal points on the development agenda of the municipal government of Addis Ababa. The MSE branch has three main departments namely; MSE Development, Marketing Research and Promotion Department, and the Cooperatives Promotion and Controlling Department. Similarly, the structure of the MSE is extended to all sub cities in Addis Ababa. There are MSE teams and teams for the promotion of cooperatives in each sub-city while at the '*kebele*' level it is handled by the MSE office under the '*kebele*' chief executive (Addis ReMSEDA 2009b). The MSE branch has been organizing people with different skills into individual business and cooperatives by creating job opportunities and providing various supportive services in coordination with NGOs to create a favorable environment for the growth of the sector (Addis ReMSEDA, 2009b). Organizing and licensing was done by the cooperative office and a working premise was provided by the sub-city administration, and other concerned housing and land agencies. Space was provided depending on the size of the available land by assigning four square meters per person for a monthly fee of Birr $1.00/m^2$ for the food processing sector and monthly fee Birr $2.00/m^2$ for the metal and woodworks sectors (Addis ReMSEDA 2009a).

In November 1997, the Ethiopian Ministry of Trade and Industry published the "Micro and Small Enterprises Development Strategy", which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MOTI, 1997). Elements of the program include measures with regard to creating an enabling legal framework and streamlining regulatory

conditions that hinder the establishment of new and expansion of existing MSEs. In addition, specific support programs also include measures related to providing working premises, facilitating access to finance, provision of incentives promotion of partnerships, business skill development training, access to appropriate technology, access to market, access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

2.5 Ethiopia's Micro and Small Enterprise (MSEs) Promotion Policy

The role of Micro and Small Enterprises (MSEs) is indispensable in poverty reduction through employment generation. Cognizant of this, a national MSEs Development Strategy was formulated in 1997. Ethiopia's MSE Policy envisages not only reducing poverty in urban areas but also nurturing entrepreneurship and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment and number of entrepreneurs and transition to medium size level (Addis ReMSEDA 2009a).

MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space. The government strongly believes that MSEs are the right solution to reduce urban unemployment and hence reduce poverty. This ambition is reflected in the GTP. For instance, it plans to create three million new jobs in the MSE sector in the five years' growth and transformation period. Therefore, MSE promotion and support is the vital strategy to fulfill this national plan of employment creation in the short-run and achieving industrialization in the long-run. Ethiopia adopts a layered policy support in which MSEs are categorized into start-ups, growing-middle and maturity. Start-up stage enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector. In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management,

entrepreneurship and production technique. Growing stage enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, enterprises at this stage also suffer from different challenges like financial constraint, lack of appropriate technology and technical skill, absence of sufficient working and sales premises and rent seeking behavior. To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, enterprises are considered to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FEMSEDA has a strategy that aims to strengthen enterprises in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to enterprises.

2.6 Ethiopia's Direct Policy Support to MSE Development

In addition to creating a conductive business environment for MSE growth, Ethiopia extends direct policy support to MSE operators. The direct policy support includes access to markets, access to finance, access to industrial extension, access to training and technological support.

1. Access to Market

One of the major challenges that hampers the growth and development of MSEs in Ethiopia is access to sufficient and sustainable market. From our consultation meetings with various stakeholders, we identified the following support packages that the government is implementing towards mitigating this challenge. The government tries to solve marketing problems in at least three ways: firstly, the government itself buys goods directly from MSEs. Federal Public Procurement Administration Agency has set a rule that enforces public institutions to source certain portion of their annual procurement from MSEs. That is, MSEs are given priority in government procurements. Secondly, the government tries to link MSEs with large and medium enterprises in the market in the form of subcontracting and input suppliers. The FEMSEDA has introduced a new directive on franchising, sub-contracting and out-growth linkage with large and medium enterprises. For instance, in condominium housing construction projects, 40% of the construction works mainly involving finishing such as sanitary, electric installation and other finishing works are given to MSEs. In addition, MSEs are involved in the national road

construction projects particularly in the construction of feeder roads. Moreover, MSEs are taking part in power generation program that is undertaken by the Ethiopian Power Corporation; and there are similar efforts to involve MSEs in the country's mining sector.

Apart from market linkage with government projects, large private enterprises such as Mesfin Industrial Engineering, Metal Engineering Corporation, Sugar Corporation, MAA Garment were noted as private market linkages that have significantly involved the sub-contracting of some of their works to MSEs. However, most of the market linkages created so far is government induced. Most of the government induced linkages create temporary employment opportunities. There is no strong market-driven linkage between MSEs and Medium and Large Enterprises. Thirdly, a number of bazaars and trade exhibition have been organized by MSEs development agencies to promote MSEs' products and to link them with large and medium enterprises and foreign buyers.

The main challenge with regards to market linkage is that MSEs depend to a great extent on the government to market their products. The government is the largest buyer and market linkage creator for their products. This has Made MSE operators to develop dependency and hence this kind of market linkage cannot be sustainable. MSEs need to gradually shift to market-driven market linkages on their own.

2. Access to Industry Extension

The other area of MSEs promotion and support is provision of industry extension service. This strategy is adapted from Ethiopia's experience in agricultural extension. The primary objectives of the national industry extension service are to make MSEs competent enough in the market, to enable them to generate sufficient and sustainable job opportunities thereby improving their income. The industry extension service elements consist of entrepreneurship, business development services, production technique, marketing management, supplies management, book keeping and continuous productivity improvement or kaizen. The mechanism of dissemination of the service is mainly through in-company training and consultation and through group discussions of enterprises that are engaged in the same sector. The beneficiaries of the industry extension service are selected based on interest, evaluation of individual demand and physical observation and evaluation of the enterprises' working premises. It is important that

MSE entrepreneurs have the relevant academic background and appropriate work experience for them to benefit from the industry extension service. Moreover, the trainees should be fully prepared to practically implement the skills that would possibly be gained from the extension service.

Industry extension is implemented by TVET agencies in Ethiopia. Except in Tigray, in all other regions TVET instructors are responsible for the implementation of the national industry extension program beside their official classroom teaching duty. However, in Tigray, the regional government formed industry extension agents under the supervision of the regional MSE development bureau. These industry extension agents work fulltime with entrepreneurs or manufacturers giving them on-site all rounded support. One industry agent supervises around 70 MSEs on average. In the rest of the regions, TVET teachers do both classroom teaching (theory) to regular students and on-site industry extension service to entrepreneurs. The effectiveness of the two approaches needs further investigation. Industry extension service is provided for free. But when enough demand is created, MSE will be required to share some of the costs.

3. Access to training and technological support

Skilled manpower and the use of appropriate technology are critical inputs to nurture micro and small enterprises. In this regard, the national MSE promotion and development strategy paid due attention to human resource and technological development. Pertinent to human resource development, the government intervenes in the sector through two mechanisms. On the one hand, the government directly provides various skill trainings to potential entrepreneurs of the sector.

Regarding technological development, the government has been prioritizing those MSEs that are engaged in the manufacturing, construction and mining sub-sectors. The technological development strategy focuses on facilitating appropriate technology and production materials to MSEs in the form of purchase and lease. To this end, the government has proclaimed a new machinery lease policy in 2013. The Lease Company is planned to provide rental machines that are expensive for MSEs to own on their own. The government has also established a system that motivates individuals and other institutional actors to supply technology with fair price. It is also planned to provide on sight maintenance to machinery and equipment that are owned by MSEs

through TVETs. The government also supports in the process of converting prototypes into commercially viable products.

4. Access to Finance

The other essential area of government intervention to promote MSEs is provision of financial support. In this regard, FEMSEDA has designed a national micro credit and saving directive that primarily focuses on alleviating the financial constraint of MSEs operating in the country. The priority areas of the national micro credit system include those MSEs that are engaged in import substitution, construction and export. This national micro credit and saving facility designed for MSEs has three different requirements. These are the credit requirement for start-up, growing and matured micro and small enterprises. First, MSEs at the start-up stage are required to save 20% of the loan within six months. For those who cannot afford saving 20% from their own sources or from their parents, the government provides them with job opportunities to raise seed money. Coble stone work is a good example. Second, similar to start-up enterprises, growing MSEs that are engaged in priority sectors are expected to save 20% of the credit within six months. However, growing enterprises that are involved in export activities are obliged to save only 15% of their credit demand. On the other hand, those growing MSEs that are neither engaged in export nor in priority sub-sectors are forced to save 25% of their credit need within six months.

The third category of the credit requirement is for MSEs which are at maturity stage. Under this category, those matured MSEs that are engaged in export are obliged to save 15% of the required credit in six months' period. Whereas those matured MSEs that are involved in priority areas are required to deposit 20% of the loan. Nevertheless, those MSEs at maturity stage and neither engaged in export activity nor in priority sub sectors are required to save 30% of their credit demand in six months' period. The incentive to work hard and use the loan appropriately increases when MSEs pool at least 20% as equity in the form of minimum saving requirement. Higher equity also lowers delinquency rate.

5. Access to Working Space

Another critical factor for MSE growth is working space. In response, although the government has massively built working spaces for MSEs in major cities and towns, working space still

remains a critical challenge. Rent is extremely high in major cities especially Addis Ababa. The supply of working spaces is small relative to demand. The problem is not only shortage, working spaces are built arbitrarily – for example, they are far from industrial zones. Market linkage may become easier if MSE are located near medium and large enterprises or industrial zones in general. MSEs can benefit from proximity to industrial zones.

2.7 Key Success Factors for MSE Growth

a) Higher equity

Empirical studies show that equity promotes diligence and commitment; and lower shirking and delinquency rates. Those who have larger share in the total invested amount tend to perform better. Those who have started fully on government rendered money tend to perform less. The implication is that entrepreneurs should contribute enough equity to the total investable amount – large enough that makes them exert maximum effort.

(b) Prior working experience in formal sector or spin-offs

Those who have worked as employees in factories in the formal sector tend to perform better. They utilize their accumulated experience and knowledge to lead their own business.

(c) Family business background

Those who have worked in family business tend to succeed more than those who have not.

(d) Taking advantage of government training and support

Those who have utilized all available government support did well in business. Government not only provides resources but it also gives skill upgrading and entrepreneurial training.

(e) Smaller group

There are large number of business associations and cooperatives organized to do business by pooling their resources and skills. When business is done in groups, a group with small number of people tends to do well in business than a group consisting of large number of people.

(f) Manufacturing MSE

MSE manufacturing (especially metal and wood working) and construction tend to be more successful than other sectors in the Ethiopian context. This might be related to skill and experience. MSE in wood and metal works and construction are usually experienced and skillful.

(g) Skilled manager and entrepreneurial ability

If the owner is a skilled manager or hires one, the likelihood of success is high. The same is true for those who have vision and entrepreneurial ability

2.8 Key Constraints to MSE Growth

(a) Access to Finance

Regarding access to finance, the problems are twofold. First, supply of credit is much smaller than demand. MFIs have only met about 50% of the demand for finance. Second, given that the prices of goods and services have been increasing, the real value of the loan is so small and does not provide MSEs much leverage. The Ministry of Urban Development, Housing and Construction (MoUDHC), which is responsible for overseeing the activities of MSEs in the country, conducted a national survey of over 3000 sample MSEs. In the survey, the MSEs were inquired to identify the major business constraints hampering their business. Access to finance tops the constraint list where 37.7% of the MSEs reported it as a key constraint.

The financial constraints facing MSEs is one of the critical bottlenecks for the growth of MSEs. Even though there are progresses made in the provision and service of loans, the sector is beset with a number of problems. Some of the more common problems facing MSEs include failing to get the loan they applied for and when they do, it is after a very long loan procedure. Repeated delays in loan delivery affect their business. The upper loan limit set by the MFIs falls short of the loan requisite of MSEs. Especially matured MSEs usually find it very hard to meet their loan requirements from MFIs. The MSEs feel that the interest rate and service charges are very high given the business environment MSEs faces. However, in a focus group discussion held with the management of Addis Saving and Credit Share Company, they said that interest rates are set in such a way that business and social roles of the company are met. They feel the interest charged is below the rate charged by other financial institutions. Lack of financial literacy on the part of MSEs and weak screening of MSEs, poor loan follows up mechanisms and inadequate branch networking and human capital related problems of MFIs have hampered the growth of the sector.

(b) Collateral Challenges

A proposed directive on loan provision for SMEs hinges on four main principles. The loan provided to MSEs shall primarily be sourced from savings. Savings/deposits constitute the major source, currently around 700 million birr followed by credit from commercial banks in special circumstances, and the city government of Addis Ababa makes financial injections. Second the micro finance institutes (MFIs) main credit targets are MSEs. MFIs serve as the financers of MSEs. Third loan disbursements shall be based on the growth stages of the MSEs. Accordingly, for startup enterprises working as individuals or cooperatives after securing 20% in compulsory savings, the balance is extended as loans for growth/matured enterprises engaged in the production of export products or in sectors deemed as priority, the compulsory saving is reduced to 15% of the loan. Finally, all loans in principle should be paid back in full.

The directive outlines the sectors which get priority in the provision of loans. Value adding enterprises with the potential to graduate to medium and large scale industries and firms engaged in the manufacturing sector which can serve as centers of new technologies are preferentially treated during loan application. It further entails that export producing enterprises and import substituting firms are served ahead of others. In order to encourage cluster formation, the directive prioritizes firms in an industrial cluster with good loan history which meet the criteria set by the lending micro finance institute.

According to article 626/2001 on the establishment of Micro Financial Institutes (MFIs), MFIs could lend to individual and cooperative borrowers. MFIs could disburse loans without collateral or using properties, dominant group guarantees or individual guarantees. Collaterals are crucial to ascertain that MSEs serve their debt on time. It also insures that MFIs will remain liquid and in business for a long time. Furthermore, since MFIs major source of loanable funds is their deposits raised from MSEs Collateral, indirectly debt serving is entwined with the very existence of the MFI. Finally, collaterals help ensure that the society in general and MSEs in particular develop the culture of timely settlements of debts.

In a focus group discussion with management of Addis Credit and Saving Company, they revealed that the company uses 13 alternative items as collateral based on the size of the loan and the type of business the MSE is involved in. Even though the size of the collateral should in

principle be twice the loan, MFIs relax this stringent condition depending on client character and type of business. Some of the items used as collateral include living and business buildings, post-dated cheques, fixed business and household equipment, salary guarantees, sales outlets etc.

In order to expedite the loan provision and solve the problem of collateral to MSEs, regional governments create a Credit Guarantee Fund by taking into account the loan requirements of the MSEs found in the region at the beginning of each year. The fund will be renewed every year. The Credit Guarantee Fund so established will be held in a closed account at the head quarter of the MFI. The MFI shall pay 5% interest on the amount deposited. Based on the loan requirement and growth stage of the MSE, the MSE development bureau shall write a letter to the MFI explaining that the MSE has been granted guarantee for the loan it applies for. The MFI shall cover 10% of the credit fund and beneficiary MSEs will be charged 1.5% of the loan to strengthen the financial capacity of the fund

(c) Marketing Challenges

A marketing manual prepared by FEMSEDA identifies three market opportunities for MSEs. These markets are classified based on the geographic outreach of MSEs. In the beginning, the manual suggests that MSEs should target their immediate local markets where the rural-urban linkages could be strengthened through identifying and meeting the demand of the market. Once the local market is served, MSEs could broaden their scope and get more competent to serve the regional markets. Finally, MSEs could target supplying national and export markets. FEMSEDA has designed detailed marketing support schemes through which the government could facilitate the creation of sustainable market linkages. First, the federal agency and its regional affiliates will identify and avail detailed information about market opportunities to MSEs. To help the MSEs augment their competitiveness in terms of price, quality and supply, the agency will provide financial and industrial extension support packages. Second, the agency shall organize MSEs into cooperatives and create special marketing and sales strategies. These include wholesales and sales to consumers' associations, exhibitions and bazaars, credit sales to government and private companies, taking part in governmental bids and creating subcontracting opportunities especially in the various governmental projects.

In this regard, during the construction of condominium houses MSEs are entitled to 30-50% of the total construction work. In a focus group discussion with the deputy head of the Addis Ababa micro and small enterprises development agency, we learnt that the city administration housing development has created significant market linkages with MSEs. Accordingly, 100% of the manufacturing of construction blocks and pre-cast beam and over 90% of the sanitary works is contracted out to MSEs. The housing project is the largest employer in the city. MSEs sub-contract in the different mega government projects like construction of feeder roads from the Ethiopian Roads Authority, power generating schemes undertaken by the Ethiopian Power Corporation, and the construction of new universities. The agency encourages the use of abundant local inputs to produce local brands well known by consumers. In this endeavor, the agency studies the value chain of the input, identify the role of MSEs in the value chain, increase the value addition through industrial extension programme and finally ascertain that quality and standards criteria are fulfilled. The agency and its regional bureaus shall prepare sales outlets for MSEs Products. Towards this end, the bureaus identify products based on the value chain studies, construct market centers and display areas and popularize, promote and advertise through available media outlets. Moreover, the agency supports import substituting MSEs. It studies products that are imported but could be produced locally by MSEs and classifies these products based on sector and prepares support packages in meeting the financial, skill and machinery gaps of MSEs. These are accomplished through the industrial extension support packages and campaigns to popularize and encourage the use of local products.

The agency has prepared a strategy to implement the marketing linkage programme. Firstly, database and data repository updated timely will be established at its different bureaus. Secondly, the technology support centers shall distribute new designs, patterns and standards to MSEs. Third, permanent display and sales centers dedicated to MSE products will be established. Finally, government procurement takes MSEs into account. The federal agency for the administration of government procurements have incorporated the percentage of government procurements which must be sourced from MSEs within the procurement contract. To further encourage participation of MSEs in governmental procurement, MSEs do not pay for bid documents and are not obliged to bring bid guarantees. They are exempted from advance and performance bond guarantees instead a letter by the regional bureau serves as a guarantee. Despite the efforts exerted to create market linkages there are a number of setbacks. Firstly,

many of the MSEs are not benefiting from the support schemes. And those who are beneficiaries expect governmental support all the time and lack personal initiatives to search for market by them. Due to failures to properly use the market linkage opportunities, MSEs have failed to serve their debts timely; their products could not be sold or are sold at loss. Rent seeking behaviors observed on both the MSEs and the bureau officials have exacerbated the market linkage problems. Most of the government induced linkages which target holidays and festivities create only temporary jobs. Furthermore, the lack of detailed support packages and their poor implementation coupled with poor access to market information are hampering the development of MSEs.

(d) (d)Working and Sales Space Constraints

Access to working and sales premises are also the other challenges to MSEs operating in the country. To this end, a national strategy was designed to construct appropriate working shades in different parts of the country. As a result, considerable number of manufacturing and service rendering premises have been built and offered to both MSEs that are working in the manufacturing and service sectors. For enterprises at a start-up stage, the government has set a generous rent arrangement. Accordingly, in the first year of operation, MSEs are expected to pay 25% of the monthly price of the rent, in the second year 50 %, in the third year 75% and at the fourth year they will be obliged to pay the full price of the monthly rent.

In a focus group discussion with the Tigray Regional Micro and Small Enterprises Development Bureau, officials indicated that the regional government has built five big industrial workshops in an attempt to create linkages with Mesfin Industrial Engineering (MIE). The workshops were equipped with state of the art machineries which are used to undertake sub contract works from MIE. Currently, the MSEs are only responsible for handling the labor contract while MIE does the installation of the machines, the design, and quality control of the final produces of the MSEs. According to the regional MSED bureau, they have ordered the purchase of machineries from abroad to be installed in the workshops so that the MSEs could further be linked with other industrial firms in the region. When the workshops are equipped with these machines, the MSEs are expected to independently design, produce and control their produces from beginning to end. The metal and engineering technology corporation of Ethiopia (METC) is building industrial workshops in a bid to strengthen its market linkages with MSEs. Accordingly, METC has built

several workshops in many regional cities which are financed and equipped with financial outlays budgeted by METC. The MSEs are benefited in two ways; first, the MSEs are provided with industrial working spaces and second, METC sub contracts a portion of its industrial undertakings especially in the manufacturing of automotive parts for its assembly lines. Furthermore, the MSEs will be trained on the job to meet the quality and production standards of METC.

Even though the government pays due attention on the construction and expansion of working shades, the implementation has its own drawback. The working premises that are constructed to the manufacturing MSEs are located far from large and medium enterprises' industry zones. This has created problem to integrate or network MSEs with large and medium manufacturing enterprises. Moreover, the size and quality of the constructed working premises are not suitable for production and technological advancement. Another critical bottleneck identified by graduating MSEs is that the MSEs are expected to leave their working spaces once they graduate to medium enterprises. Even though the regional government's investment bureau is supposed to provide the graduating MSEs with land in the industry zones, there has not been the case in many of our focused discussions both with the MSE operators and the ReMSEDA. Most of the industrial zones we visited were still under construction or in distant neighborhoods with poor infrastructure and are detached from the large enterprises which affects the market linkages that might have been created with MSEs. Many MSEs meeting the graduation criteria do not graduate for the mere fact that once they graduated, they will be forced to leave their current working space leaving the MSEs with no option but to remain small all the time. Many MSEs use their workshops as sales outlets as well. However, some MSEs are involved in businesses that require them to go out to the market and sale their produces. Many MSEs sale to retailers and Wholesalers reducing their profit margins which they could have garnered if they were to sell their produces. In order to solve the problem of sales outlets the regional MSEDAs are constructing buildings designated for MSEs. In a focus group discussion with the Addis Ababa MSDA, we have learnt that the bureau is finalizing the construction of G+4 buildings in prime business locations in the city administration to be let out to MSEs.

(e) Capital goods and Machinery challenges

The capital leasing business proclamation recently amended as proclamation number 807/13 addresses the shortage of capital goods and the collateral requirements of MSEs. Accordingly, a capital good is defined as any equipment or machine that may be used to produce goods or provide services and includes accessories. However, due to the lack of detailed directives, the proclamation has not yet been implemented. There are two types of leasing arrangements; financial lease and hire and purchase lease. Both types of lease are similar in that the lessee will periodically pay a certain amount of money to the Leasing Company. The lessee will have the right to use the capital good/machine. In case of financial lease, the title deed shall be transferred only when the lessee completes payment. However, for hire and purchase lease it is possible to transfer ownership based on the percentage of the total lease amount paid by the lessee.

Before granting the capital lease loan, the lessee (MSE) had to save a certain compulsory deposit that varies depending on the stage of growth of the MSE. Start-up firms have to save for six consecutive months. Growing and matured enterprises need to save for a whole year while priority sectors and firms engaged in the production of exportable products have to deposit 20% and 15% of the loan respectively. Some MFIs have started providing capital financing for MSEs in the construction sector. In a focus group discussion with the management of Addis Credit and saving company, it was indicated that the company has disbursed some loans for the purchase of machineries using the machine as collateral jointly with the housing development project office.

In a focus group discussion with the deputy head of the Addis Ababa Micro and Small Enterprises Bureau, it is believed that when the directive for the operation of capital leasing is issued by the National Bank of Ethiopia, it will solve both the capital goods requirement and the stringent collateral requirements of Banks. Without any additional collateral, the capital leasing also known as 40/60 scheme makes MSEs owners of the machineries by raising 40% of the cost of the machine in deposits. According to the amended capital leasing proclamation, micro-financing institutions licensed by the National Bank of Ethiopia may engage in capital goods and finance businesses without the need to obtain any additional license. This amendment will benefit MSEs. In recent news article by The Reporter dated September 23, 2013, it has been revealed that Addis Saving and Credit Company is in the process of establishing a capital leasing company with an initial capital of 500 million birr. The company shall focus on firms engaged in the manufacturing sector according to the newspaper.

(f) Licensing and registration challenges

In Ethiopia, all MSEs are formal, properly licensed and subject to paying taxes as per the tax proclamation of the country. According to Addis Ababa Micro and Small eEnterprise Development Bureau, there are as much if not more informal firms as are formal firms in Addis Ababa. Some of the reasons attributed to the informality are high transaction costs during licensing, contraband, illegal under invoicing of imports. The bureau has no support scheme for informal firms but recently informal firms are organized and being provided with working space and stringent government control of informal firms have forced some to go formal. In a focus group discussion with experts at the Federal Micro and Small Enterprises Development Agency, the main cause of informality is tax avoidance or fear of exorbitant taxation. Hence, arranging tax incentives, reducing transactions costs and creating Sunday markets in which MSEs are registered are suggested as solutions to bring informal firms to formality.

According to article 686/2002 on the registration and licensing of enterprises, anyone person/ company has to come up with a permanent business address to get a license. In a letter addressed to Addis Ababa Micro and Small Enterprises Development Bureau, the Ministry of Trade has relaxed this condition to MSEs. Accordingly, MSEs with no title deeds working at their places of residence or having no permanent address could get licensed on special conditions. The letter explains that in order to facilitate the roles MSEs play in creating employment and reducing poverty, the MSEs engaged in specific sectors could get licensed without permanent addresses. This is implemented in two ways. First when a letter of confirmation is provided from the Micro and Small Enterprises Development Bureau, MSEs could get licensed. Second, after confirming the existence of MSEs in a certain place and the fact that they are paying taxes and have settled payments for water and electricity services by the relevant woreda office; MSEs could get license and registration

(g) Attitudinal Challenges

There are two conflicting schools of thought on the expansion of MSEs. The first school acknowledges the positive role MSEs play in the creation of opportunities for many especially the disadvantaged. MSEs are central in creating massive employment opportunities while reducing poverty in an economy. On top of these, MSEs form the basis for a number of

developments in technology where new breakthroughs are made; MSEs serve as a spring board for the industrial aspiration of a country. Contrary to this the second school of thought considers the increase in the number of micro and small enterprises as a sign of failure of the economy to provide productive jobs; the sector is the last option which gives the bare minimum for subsistence support. People with no hope of finding formal employment are forced to engage in MSEs. It is considered as a place of last resort with little probability for improvement. Disfranchised people with less formal education are engaged in a one man or family run businesses with bleak hope for success. It is a sector characterized by poor productivity growth, informality and working on the margins where survival is the primary concern.

Even though there is a tendency for the former view to prevail over the later in recent years, there still remains a lot of hurdles in changing the attitudes of people on the role MSEs play. With the prioritization of MSEs given in the industrial drive of the country, designated bureaus are established with the sole role of facilitating the development of MSEs. Furthermore, participation of a large number of the society in the sector and success stories albeit few emanating from the sector have played a significant role in boosting the image of the sector. However, MSEs are yet to overcome the negative images they had over many years. The perception that MSEs are yet to produce quality products that can compete with similar products is the primary challenge. Even though efforts are underway to popularize usage of local products with many exhibitions, bazaars and advertisements like the "Buy Ethiopian", there still remains a great deal of sensitization of the public that MSEs are as good as any similar product. Since old habits are hard to change this might take years.

Attitudinal problems of the private sector towards MSEs are reflected more importantly in the way that MSEs are crowding out the private investors. This is more visible in the construction sector. MSEs undertake 30-50% of the construction works in the state sponsored housing development project. Massive government infrastructure development projects have targeted creating opportunities for MSEs. This has created the sense that MSEs are favored by the government leaving the private investors as bystanders. The various governmental support packages that prioritize MSEs have left the private investors to be more antagonistic towards MSEs. This hampers the development of market linkages that would have been created between MSEs and private investors.

(h) Institutional Coordination Problem

Ethiopia's MSE policy support is multi-agency. About 10 government agencies are involved in the implementation and follow-up of the MSE policy. Consequently, implementation coordination has been a challenge. The setting up of the MSE council consisting of relevant government agencies has eased the problem to a great extent but the coordination problem still exists. The Council has to be well-mandated and structured so that it addresses not only policy issues but also follow-up implementation issues on the ground; and for this, the council needs to have smaller units that can regularly monitor and follow-up implementation issues.

2.9 Empirical Evidence

Empirical evidence from the U.S. (Evans, 1987; Dunne *et al.*, 1989) and from the developing world (Chuta, 1989) has repeatedly supported the inverse relationship between firm growth and both firm age and size that is hypothesized by Jovanovic's theory. In addition to firm age and size, demand and supply factors, such as sector and location, enter into the growth decisions of individual firms, since they influence the product and input prices. The learning model assumes all firms produce a homogeneous product. Firms in different sectors face different product demands, as well as being different on the cost side (e.g., inputs are more or less costly to obtain; competition is more or less stiff). Therefore, if we intend to consider a group of heterogeneous MSEs, we must allow for differences in sector. Sectorial differences in growth rates have been shown by Phillips and Kirchoff (1988) for small firms in the U.S. and by Chuta (1989) for enterprises in Nigeria. With respect to location, a firm's proximity to demand sources and to concentrations of competition must influence its profitability. In addition, the work of Piore and Sabel (1984), Sengenberger(1991), Pyke (1990) and others highlights the importance of agglomeration externalities in firm growth. These externalities come from many small firms locating near each other and building reliable supplier and buyer relationships within the group. This literature suggests that firms grouped together in urban areas may be able to specialize in particular products and produce at lower cost than would otherwise be the case. Such firms, then, would be more likely to be in a position to expand. Finally, the location of the premises may imply differential costs regarding rent payments. For example, home-based enterprises (HBEs) may pay less in rental costs than a shop in the commercial district.

Moreover, the performance of a firm (including its growth) likely depends in part on the level of human capital embodied in its proprietor. For example, Bates (1990) finds that the educational level of the proprietor is positively and significantly related to small firm longevity (and thus, perhaps, firm growth). This finding echoes that of Douglass (1976). Evans and Leighton (1989) find that education, experience, and previous self-employment are important determinants of the probability of starting a small enterprise. Cortes *et al* (1987), argue that while older proprietors are likely to be more experienced than younger ones, they also may be less inclined or less able to make their firms grow. For metal working firms in Colombia, proprietor age and firm growth rates are inversely related. Other proprietor characteristics might also influence enterprise growth. Evans and Leighton (1989) provide evidence that the marital status of the proprietor is a significant determinant of the likelihood of starting a small business. A final example involves proprietor gender. Since, traditionally, female-generated funds are used to cover the family's basic needs female proprietors may avoid taking the risks involved with firm expansion.

From the literature, various determinants of micro enterprise performance have been proposed and identified. Okurut (2008) proposed that the returns in micro -enterprises are positively and significantly influenced by education level, experience and business assets but negatively influenced by being female-owned and rural-based. He argues that other than improving the level of education, the improvement of rural infrastructure is very crucial in enhancing the performance of rural-based micro enterprises. In Nigeria, Ajibefun and Daramola (2003) contended that the level of education of enterprise owners is highly significant in affecting the level of efficiency of the micro enterprises. This implies that education is an important policy variable to improve both technical and allocate efficiency. However, he also reveals that that rising age of enterprise owners has led to the decline in the mean efficiency, suggesting that more young entrepreneurs should be encouraged to put more efforts and therefore later would raise the level of efficiency.

A later study by Kirubi (2006) suggests that modem energy (such as access to electricity, markets roads, communication and school has contributed to the growth of micro enterprises in rural Kenya). Adekunle (2011) provides a different perspective by examining the business performance of those micro entrepreneurs who became a member of Cooperative Thrift and Credit Societies (CTCS). He suggests personal agency belief is a significant predictor of business

performance. The member's entrepreneurial ability is also improved by being the member of the group.

In Malaysia, Che Rose, Kumar and Lim (2006) contended that personal initiative as the major key to success in SMEs industry. They argue that entrepreneurs with high personal initiative will naturally overcome the disadvantages or weaknesses in them with their self-starting and proactive attitude. They also provided similar evidence to that of previous studies that level of education has also contributed to the business growth. Nurbaini*et al* (2010) argues that micro entrepreneurs in Malaysia are generally having financial difficulties particularly during the start up. Even access to financial credit scheme does not normally guarantee the success of these micro businesses.

In Ethiopia, MSEs Sector is the second largest employment-generating sector following agriculture (CSA, 2005). According to CSA (2005) the sectors contributes 3.4% of GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001. In spite of the enormous importance of the micro and small enterprise (MSE) sector to the national economy with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy. These challenges are lack of access to credit, insufficient loan size, time delay and collateral (Gebrehiwot and Wolday, 2006).

Analysis paper made in June 2011 for the success factors of MSEs in Addis Ababa shows there is no significant difference on the performance of MSEs operating in Addis Ababa in relation to the age difference of the principal owners, and in relation to education the research paper shows those MSE operators who have education of 10+3 and above shows higher performance and growth compared with the others (Tiruneh, 2011).

Eshetu and Zeleke (2008. pp.2-9) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSMEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical

skills, and ability to convert part of their profit to investment. This is so because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as Iqub3 was critically helpful for long-term survival of the enterprises. Businesses that did not participate in Iqub schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study. In their study, based on the survey covering 123 businesses units in four Kebeles of Nifas Silk- Lafto and Kirkossub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, Paul and Rahel (2010:89-92) found out that the studied enterprises registered 25% increment in the number of total employment they created since their establishment with an average annual employment rate of 11.72%. With regard to the sources of initial capital of the studied enterprises, the study indicated that, the main ones were loan from MFI (66.7%), personal savings/Iqub (17.5%), and loan from family/friends (17.1%). Moreover, the concrete problems that the targeted MSEs faced at their startup were lack of capital (52.8%), skills problem (17.9%) and lack of working space (17.1%). Moreover, Daniel (2007:49), identified that lack of raw material, stiff competition and shortage of working capital.

Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, Tegegne and Meheret's research (2010:40-72) was conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%).

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2006:34). The product line of MSE activities in Ethiopia is relatively similar (AssegedechWoldelul, 2004:1). Accordingly, she states that:

... Lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately.

According to Assegedech Woldelul (2004:7):

Shortage of funds discourages the smooth operation and development of MSEs. Even if there are credit facilities, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans when needed.

According to Assegedech Woldelul (2004:4), competition is also another problem that hinders the performance of MSE. She explained it:

As is mostly the case and common recognition, "Competition is Cruel", which implies that some larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities.

In his research, Dereje (2008. pp.47) studied the nature, characteristics, economic performance, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. The results of the study revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance, Workneh's (2007:51) research undertaken in Kolfe Keraneo sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MSEs. Similarly, Adil's (2007. pp.63) research carried out in Addis Ababa shows that inappropriate government intervention, shortage

of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct MSEs.

According to HLCLEP (2006. pp.17), there is lack of entrepreneurial and managerial skills, which in turn 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 equipment 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.

Mulugeta (2011.pp.72-77) has identified and categorized the critical problems of MSEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

2.10 Conceptual framework that determine performance of MSEs.

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

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. (woldegebriel, 2012. pp.34)

Chapter 3: Research Methodology

3.1 Research design and Approach

3.1.1 Research design

The research design that was adopted in this study is both descriptive and explanatory research. The researcher used descriptive research to describe the performance of MSEs in Gulele Sub City selected woredas. The study employs explanatory design to identify the determinants of performance of MSEs engaged in textile manufacturing business.

3.1.2 Research Approach

In this study both qualitative and quantitative methods are used simultaneously. This approach enables to triangulate variety of data sources.

3.1.3Data collection tools

A combination of primary and secondary data is used to collect qualitative and quantitative data for this study. To collect data from primary sources, a structured open and close ended questionnaire ware developed and used. Secondary data from government office manuals, circulars and policy papers are gathered to provide additional information where appropriate.

3.2 Description of Study Area

Gulele sub City is one of the sub-cities among the 10 sub cities in Addis Ababa City administration. The sub city has 10 woreds. According to the data gathered from Addis Ababa Micro and Small enterprises Agency, there are 3397 enterprises engaged in trade, service, manufacturing, construction and Urban farming activities. Manufacturing sector is one of the focus areas of the government of Ethiopia; Ethiopian government came up with the decision to develop industrial parks that nurture manufacturing industries. Textile manufacturing enterprises are among the enterprises that are given a priority. the In this sub city there are 611 enterprises engaged in this activity among which the study would like to focus on Textile manufacturing enterprises that are located predominantly in 5 woreds(Woreda 1, 3, 5, 6 and 8) in which the government constructed working premises/shed for textile manufacturing enterprises engaged in spinning, weaving, sewing and final finishing (printing and dying).

3.3 Study Population

According to Federal Micro & Small Development Agency of Ethiopia (2015), textile manufacturing enterprises operating in Gulele Sub City are 611. This study are conducted in Gulele Sub Cityin selected 5 woredas(woreda 1, 3, 5, 6 and 8)in which Textile manufacturing enterprises are predominantly located and engaged in spinning, weaving, sewing and printing and dying activities.

3.3.1 Sampling technique and sample size determination

In the 5 woredas, it was identified that about 611textile manufacturing enterprises are found. To select a sample from these MSEs, stratified random sampling method is applied by separating study populations in to groups or strata. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According to Janet (2006:94), this step increases the probability that the final sample will be representative in terms of the stratified groups.

In this study to select sample size, a list of the population formally registered MSEs until 2016by the Federal Micro and Small Enterprise Agency were obtained. The total population of the study is 611enterprises which include textile manufacturing enterprises engaged in spinning, weaving, sewing and printing and dying activities.The researcher recognized that it is necessary to focus on the selection of sample respondents to be manageable in size. Therefore, there are 123 enterprises in weaving, 482 in sawing and textile,5 in spinning and 1 in printing and dying industry. Thus sample size selected here is considered as representative of those enterprises categorized in textile manufacturing enterprises and also large enough to allow for precision, confidence and generalibility of the research findings. (Admasu)The following formula was used for the calculation of the sample size since it was relevant to studies where a probability sampling method was used (Watson, 2001:5).

$$ n = \frac{\dfrac{P\,[1\text{-}P]}{\dfrac{A^2}{Z^2} + \dfrac{P\,[1\text{-}P]}{N}}}{R} $$

Where,   n= sample size required = 237

N= number of population= 611

P= estimated variance in the population =50%

A= margin of error = 5%

Z= confidence level= 1.96 for 95% confidence

R= estimated response rate =96%

Accordingly, 237 respondents were selected from the total of 611 MSEs. These respondents were selected from weaving, sewing and textile, printing and dying and spinning on proportional basis. Therefore, [(123/611) x 237] = 48 weaving out of 123, [(482/611) x 237] =186 sewing and textile out of 482, [(5/611) x 237] =2 spinning out of 5 were selected and since there are only 1 enterprise engaged in this business, 1 dying and printing enterprises is selected.

3.4 Data Processing, Analysis and Presentation

Collection of primary data is followed by arrangement of data before analyzing or interpreting their implications. Before carrying out processing and analysis, the raw data is coded and arranged according to their respective themes. As pointed out earlier in the previous section, two sets of data are collected, namely qualitative and quantitative data.

In qualitative data analysis, inductive, interactive and the identification of categories, relations cross variation of tentative answers to descriptive, associational and casual questions; the analysis are discussed on the findings.

In quantitative data analysis, electronic tabulation using the SPSS 20.0 software programme for data entry and analysis were made. Analysis of data were undertaken to show important relationships of variables in the study. To this end, a regression analysis is used.

The various output produced from SPSS 20.0 in turn tabulated and summarized in a manner revealing their various linkages, interrelation and implications to the final results, which are presented in the "Result and Discussion" part of the study. And, descriptive tools like tables, graphs and maps are used with which the majority of the findings are conveyed.

3.4.1 Descriptive Analysis

Descriptive analysis was used to reduce the data in to a summery format by tabulation and measure of central tendency (mean and standard deviation). Moreover pie charts were used to describe the general characteristics of enterprises. The reason for using descriptive statistics was to compare the different factors. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy.

3.4.2 The Pearson Production Moment Correlation Coefficient

The Pearson Production Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationship between two variables when the relationship between the variables is linear and when the two variables correlation are continuous. To be certain whether a statistically significant relationship exists between entrepreneurship, management, access to finance, access to market, production, access to technological and training support, access to industry extension, access to working space factors with MSEs performance/capital, the Product Moment Correlation Coefficient was used.

According to Duncan C.and Dennis H.(2004:38-41), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship. The result of correlation coefficient may be interpreted as follows.

Correlation Coefficient	Interpretation	
(-1.00 to-0.8]	strong	
(-0.8 to -0.6]	substantial	Negative
(-0.6 to-0.4]	medium	
(-0.4 to-0.2]	Low	
(-0.2 to 0.2]	Very Low	

[0.2 to 0.4)	Low	
[0.4 to 0.6)	Medium	Positive
[0.6 to 0.8)	Substantial	
[0.8 to 1.00)	Strong	

N this study Pearson's Production Moment Correlation Coefficient was used to determine the following relationships.

➢ The relationship between entrepreneurship factors and performance of MSEs
➢ The relationship between management factors and performance of MSEs
➢ The relationship between access to finance factor and performance of MSEs
➢ The relationship between access to market factor and performance of MSEs
➢ The relationship between production factor and performance of MSEs
➢ The relationship between access to technological and training support factor and performance of MSEs
➢ The relationship between access to industry extension and performance of MSEs
➢ The relationship between access to working spaceand performance of MSEs

3.4.3 Linear Regression Analysis

Linear regression is a method of estimating or predicting a value on some dependent variable given the value of one or more independent variables. Like correlations, regression examines the association or relationship between variables. Unlike correlations, the primary purpose of regression is prediction (Geoffrey M 2005: 224-225). In this study, multiple regressions was employed. Multiple regression analysis takes in to account the correlation among the predictor scores (John Admas, 2007:198). They added multiple regression analysis, which means more than one predicator is jointly regressed against the criterion variables. This method is used to determine if the independent variables will explain the variance in dependent variable.

Regression Function

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable which is performance and the independent variables (entrepreneurship,

management, and access to finance, access to market, production, access to technological and training support, access to industry extension, access to working space)

Regress Performance on Selected Variables

$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + B5X5 + \beta 6X6 + \beta 7X7 + \beta 8X8$

Where:

Y is response or dependent variable –performance

X1= entrepreneurship, X2= management, X3=access to finance, X4=access to market, X5=production,X6=access to technological and training support, X7=access to industry extensionX8=access to working space are the explanatory variables.

β0 is the intercept term- constant which would be equal to the mean if all slop coefficients are 0

β1, β2, β3, β4, β5, β6, β7,and β8 are the coefficients associated with each independent variable which measure the change in the mean value of Y per unit change in their respective independent variables

Chapter 4: Data Presentation, Analysis and Interpretation

This section is organized in the following manner; first, the general information about MSEs were presented and analyzed. Second, data collected through questioners were analyzed respectively. More over the result of Correlation Coefficient and regressions were analyzed.

It is to be recalled that the sample selected for this study to represent the population was 237. However, due to unforeseen factors the study couldn't be able to gather data for 24 respondents. Some of the reasons were closing down of the business, unwillingness to participate in the questioner filling and absence of the business owners.

4.1 General Characteristics of the enterprise

4.1.1 Category of Business enterprises

As shown in figure and table below, the sample MSEs on Textile manufacturing were operating. Most of them are engaged in weaving (32.4%), sewing (27.7%) followed by textile (24.4%) and garment (15.5%). This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs.

Table 4.1.1sector of the business

variables	Frequency	Valid Percent	Cumulative Percent
Textile	52	24.4	24.4
Garment	33	15.5	39.9
Sawing and embroidery	59	27.7	67.6
Weaving	69	32.4	100.0
Total	213	100.0	

Source: Source: data generated from SPSS, 2017

4.1.2 Position in the business

As shown in the figure, from the given lists of positions at the enterprises, most of the business enterprises were run by managers (66%) followed by supervisor (28%)and business partner (4%). It is also noted that managers and supervisors also involved in the production process.

Table 4.1.2 Position at the enterprise

variables	Frequency	Valid Percent	Cumulative Percent
Manager	140	65.7	65.7
Supervisor	60	28.2	93.9
business partner	9	4.2	98.1
NA	4	1.9	100.0
Total	213	100.0	

Source: Source: data generated from SPSS, 2017

4.1.3 Level of education

As can be seen from the figure below, 28% of the respondents completed primary education. 63% of them were in secondary education. Very few(9%) joined and hold TVET diploma which is useful for some sectors such as sewing, embroidery and weaving.

Table 4.1.3 Year of School

Variables	Frequency	Valid Percent	Cumulative Percent
Primary education	60	28.2	28.2
Secondary education (Grade 9-12)	134	62.9	91.1
TVET diploma	19	8.9	100.0
Total	213	100.0	

Source: Source: data generated from SPSS, 2017

4.1.4 Main source of start up

It is known that starting one's business requires a startup capital. To capture information regarding the sources of income and the relevance of financial sectors to these enterprises, enterprises were asked about the sources of finance where they acquire their startup capital from the lists of financial sources. Figure 5 below shows the mains sources of capital.

Table 4.1.4 Startup capital

Variables	Frequency	Valid Percent	Cumulative Percent
Personal saving	65	30.8	30.8
Micro finance institutions	86	40.8	71.6
Bank	1	.5	72.0
family/friend	58	27.5	99.5
Equib	1	.5	100.0
Total	211	100.0	
Total	213		

Source: data generated from SPSS, 2017

As can be seen from the figure micro finance institutions (41%) are the most frequently used sources followed by personal saving (31%), family/friends (28%) and equip (5%) respectively. It can be drowning that formal financial institutions plays a vital role in the establishment of MSEs compared with the informal financial sources.

4.1.5 Business Records

According to the data acquired from the respondents, 76% of the enterprises keep records while 24% do not keep records. On the other hand, both enterprises who keep and don't keep business records failed to keep their financial records from the start of the business until present time. 99&of the respondent failed to provide their capital, profit, employment and saving records which makes the study very difficult to analyze trends. Figure 6 below shows enterprises who keep and don't keep records.

Table 4.1.5 business records

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	162	76.1	76.4	76.4
No	50	23.5	23.6	100.0
Total	212	99.5	100.0	

Source: data generated from SPSS, 2017

4.2. Descriptive statistics

In this part, descriptive statistics calculated on the basis of the determinants of the performance of MSEs will be discussed. The result for measuring the propensity and dispersion were obtained from 80 sample respondent from textile manufacturing enterprises. The reason for selecting 80 sample respondent was due to the fact that current capital was found for those 80 enterprises only. Although, entrepreneurship, management, access to finance, access to market, production, access to technology and training, access to industry extension and working space affects the performance of MSEs in the selected woreds, we can't conclude that all factors has an equal impact on the performance. Here we will see how each independent variable affects the dependent variable (performance).

Table 4.2 Descriptive Statistics

Descriptive Statistics

Variables	Mean	Std. Deviation
PERFORMANCE	15383.2500	31810.38075
ENTERPRENURSHIP	3.91	.482
MANAGMENT	2.50	.857
ACCESS_TO_FINANCE	2.85	.797
ACCESS_TO_MARKET	3.09	.599
PRODUCTION	3.28	.711
ACCESS_TO_TECHNOLOGY	2.65	.765
ACCESS_TO_INDUSTRY	2.04	.514
ACCESS_W_SPACE	4.75	.684

Source: survey result (2017)

As can be shown in the table above, the mean and standard deviation for the factors (entrepreneurship, management, access to finance, access to market, production, access to training and technological support, access to industry extension and access to working space) were calculated. The table depicts access to working space has a mean score of 4.75 with a standard deviation 0.68. Therefore, we can conclude that access to working space has shown a good opportunity for MSEs to perform their business well. Respondents were asked if working space were conducive to perform well in the business, as shown in the result, most of the respondents were very much secured with working space facilities. The second main factors that determine the performance of MSEs are entrepreneurship skills which have a mean score of 3.91 with a standard deviation 0.48. The owners of most of the business have the skill and capability to implement entrepreneurial activities in their products which shows that it has a great impact

on the performance of MSES. The third factor is production with the mean score of 3.28 with standard deviation 0.71 respectively. This result also shows that enterprises are satisfied with their production capacity both in quality and quantity. The table also shows that MSEs has facing challenges and their performance is decreasing due to lack of access to market, access to finance, management skill, access to training and technological support and access to industry

4.3 Determinates of the performance of MSEs (internal and external factors)

4.3.1Regression Analysis

Under this section, to determine the extent to which the independent variables explain the variance in the dependent variable, regression analysis was employed.

Table 4.3.1 The relationship between independent variable and performance

		Performance
Entrepreneurship	Pearson Correlation	.120
	P- Value	.000
	N	80
Management	Pearson Correlation	.259
	P- Value	.000
	N	80
Access to finance	Pearson Correlation	.013
	P- Value	.000
	N	80
Access to Market	Pearson Correlation	.166
	P- Value	.000
	N	.80
Production	Pearson Correlation	.074
	P- Value	.000
	N	80
Access to Training and Technological support	Pearson Correlation	.203
	P- Value	.000
	N	80
Access to industry	Pearson Correlation	.057
	P- Value	.000
	N	80
Access to working place	Pearson Correlation	.042
	P- Value	.000
	N	.80

Correlation is significant at 0.01 level (1 tailed) source: survey result 2017

Table 4.3.2 Model Summery

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.379ᵃ	.143	.047	31057.74736	.143	1.484	8	71	.178	2.136

a. Predictors: (Constant), ACCESS_W_SPACE, ACCESS_TO_INDUSTRY, MANAGMENT, ENTERPRENURSHIP, ACCESS_TO_FINANCE, PRODUCTION, ACCESS_TO_MARKET, ACCESS_TO_TECHNOLOGY

b. Dependent Variable: PERFORMANCE

Using the model summery and correlation matrix, the R square 0.14 depicts that the independent variables explained 14% of the variation in the dependent variable (performance). The ANOVA result (F value=38.1 and p<0.01) also showed that all the independent variables jointly and significantly explained the variation in the performance of MSE. As shown in table 4.7 the relationship between the independent variables and performance is stated. It is indicted that a strong positive relationship was found between management and performance (r= .259, p< 0.01), access to training and technological support (r=.203,p< 0.01), access to market and performance (r=.166, p<0.01), entrepreneurship and performance (r=.120, p<0.01) and so forth. These results are statistically significant at 95% confidence level and at 1% level of significance; the independent variables play a significance role in determining the performance of MSEs.

Moreover, the tables also reflect the association between the independent variables and performance of MSE for a sample of 80 business owners in selected woredas of Gulele sub city. The table also shows, there exists a positive correlation between the independent variable and performance. This implies that the more access to finance, the better performance, the more production capacity the better performance and so on.

Table 4.3.3Estimation results of multiple linear regressions

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Collinearity statistics	
	B	Std. Error	Beta		Tolerance	VIF
(Constant)	-17162.264	37856.542		-.453		
ENTERPRENURSHIP	818.027	8652.220	.012	.095	.701	1.427
MANAGMENT	10357.982	4510.004	.279	2.297	.818	1.223
ACCESS_TO_FINANCE	-10009.477	5487.506	-.251	-1.824	.638	1.567
ACCESS_TO_MARKET	4080.503	7691.420	.077	.531	.574	1.741
PRODUCTION	-3004.095	6027.187	-.067	-.498	.665	1.505
ACCESS_TO_TECHNOLOGY	11970.642	6049.683	.288	1.979	.570	1.753
ACCESS_TO_INDUSTRY	859.310	8465.176	.014	.102	.644	1.552
ACCESS_W_SPACE	-896.032	5559.146	-.019	-.161	.844	1.185

a. Dependent Variable: PERFORMANCE

Table 7 above sows the estimats of multiple regression of performance verses its variables for the sample of 213 operators.

It is accepted that, Ethiopia has been striving for MSE development and MSEs performance in selected woredas of the study area has been affected by factors stated under this study.

The table above shows that, the correlation between the dependent variable which is performance and the linear combination of independent variables (ACCESS_W_SPACE, ACCESS_TO_INDUSTRY, MANAGMENT, ACCESS_TO_MARKET ENTERPRENURSHIP, PRODUCTION, ACCESS_TO_FINANCE, ACCESS_TO_TECHNOLOGY) is 0.379. as indicated by multiple R, given the R square value of 0.143 and adjusted R square value to be 0.047. It can be said that 14 %of the variation in performance can be explained by the independent variables. The remaining 85.7% of the variance is explained by other variables not included in this study. The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression including all the predictor variables as indicated below.

Predicted Performance Score= -17162.2 + 818 (entrepreneurship) +10357.9(Management) +-10009.4 (access to finance)+ 4080.5(access to market) +-3004(production) + 11970.6(access to training and technological support) +859.3(access to industry) +-896(access to working space).

The above table further shows that, all the explanatory variables included in this study can significantly explains at 95% confidence level to the variation on the dependent variable. The standardize beta coefficient column shows that the change that an individual variable makes to the model: the beta weight is the avaerage amount the dependent variable increases when the independent variable increases by one standard devation(all other independent variables has been held constant). Thus the largest influence on theperformwnce of MSEs is access to technology(0.279) and the next one access to finance (0.251). on the other hand, access to working space(0.119) and access to industry extension(0.014) were found to be less indictor of the performance compaired with the other independent variables in this study.

The major constraints identified on this study are in relation to access to trainig and tecnological support. various studies on MSEs in Ethiopia are shwoing major challenges associated with market and finance problems. As Asegedech Woldu stated in her study(Asegedech Woldu 2004:1)*:*

Shortage of funds discourages the smooth operation and development of MSEs. Even if there are credit facilities, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans when needed.

However, for this study, financial access to start their business were found to be good; as most of the enterprises acquired their capital maily from micro finance institutions followed by personal savings, institutions such as Bank were not conducive for credit due to colateral requirement and complicated procedures. On the other hand, access to market is also a problem in this study as well; lack of market linkage, lack of support from relevant government body and high competition between similar enterprises lead their performance to decrease.

As also indicated in Asegedech woldus's study, she stated *"Competition is Cruel", which implies that some larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities.*

In addition, Daniel (2007:49), identified that lack of raw material, stiff competition and shortage of working capital as a major probelem that affects the performance of MSEs. This study also found out that shortage of raw materials were the major challeges that faces MSEs to performe; eventhough, government body promisies torovide conducive envrionment for supply of raw materilas, most enterpries stooped production and lead them to shut down their business because of that.

Chapter 5: Conclusions and Recommendations

5.1 Conclusion

This research was conducted in Gulele sub city selected woredas(Woreda 1, 3, 5, 6 and 8) in which the government constructed working premises/shed for textile manufacturing enterprises engaged in spinning, weaving, sewing and final finishing (printing and dying). More specifically the study tried to examine the internal and external factors that determine the performance of MSEs and recommend possible solution to tackle the obstacles facing MSE to perform well. Based on the study objectives and the findings, the following conclusion and recommendations are drowning.

Most MSEs engaged in weaving industry accessed finance from micro finance institutions mainly because the capital needed to start up the business is very high(between 10,000-70,000 birr) and acquiring such amount of money from personal or any other financial resources were not possible due to inadequate saving and complicated and high collateral requirements of the formal finical institutions other than micro finance institutions; the formal financial institutions have not been able to meet the credit needs of the MSEs. The internal factors including entrepreneurship and management capability of business owners and supervisors were found to be medium. As it can be drowning from the data, the majority of the managers and supervisors are engaged in the production process and has the capacity and capability to use their inborn entrepreneurship and managerial skills in the different phase of the production process. However, this inborn capacity was not supported by appropriate and concrete knowledge to run the business; there exist lack of knowledge to business planning strategy, creative thinking and so forth.

The external factors including access to market, access to training and technological support, and access to industry extension for MSEs sector development are not effectively implemented in line with their intended objectives. Although various governmental bodies such as federal micro and small enterprises as well as Gulele sub-city MSE bureau designed to promote MSEs, most of the programs were not given the appropriate support that could enhance the performance of MSE

hence the impact of the program could not establish the competiveness and good performance of MSE.

The production capacity of most MSEs was found to be in a good state. However, they are facing challenges in getting supply of inputs and raw materials as such producing in bulk could not be maintained. As far as working premises is concerned, provision of shade by the government has been seen as a good practice among several MSE as it avoids rental costs and unsecured working environment.

Access to supply of input was an important factor that was mentioned by MSEs under this study. Shortages of supply of inputs from government bodies made the production process very difficult and therefore lead MSEs to purchase materials from market with a double price.

Finding emerged from investigation that there exists significant positive relationship between the dependent variable and independent variables.

5.2 Recommendations

Based on the findings and conclusions of the study, the following recommendations are given.

First and for most strengthening of government bodies at different level such as Federal Micro and Small Enterprise Development ,Sub city Micro and Small Enterprise development bureau to Woreda level should be made so as they will be able to support MSE with full capacity.

Concerning access to finance, the sub city MSE development units should take part in facilitating financial sources through working hand in hand with formal financial institutions so that they can be able to provide a simplified system that enhances the capacity of MSEs to borrow money without complication and sophisticated lending procedures.

As far as management, entrepreneurship, marketing, production, technological and industry extension is concerned, the federal Micro and Small Enterprise development should conduct MSEs capacity assessment. They should leverage and exploit on the past and ongoing interventions of capacity building in MSEs and assess their experience in the areas and try to build on past and ongoing initiatives.

For the performance assessments, a project has to be designed to examine MSEs past and ongoing capacity experiences on the factors that determines their performance and try to create synergies in formulating performance solution packages. To the extent possible, liaise and coordinate with ongoing interventions to harmonize the efforts and create synergies. In order to achieve these interventions, the following activities are forwarded as part of the performance enhancement scheme:

➢ Develop scope of work for performance assessments
➢ Conducting performance assessments of MSEs
➢ Identify performance gaps
➢ Agreeing on areas to be targeted by the relevant government body for intervention
➢ Develop and implement performance solution
➢ Experience sharing and lesson learning sessions after the implementation of performance solution should be in effect.

Access to training and technological support and industrial extension are frequently indicated as a crucial factor that determines MSEs performance under this study. Therefore, an ongoing training based on their gap and a technological support has to be given. In addition mentoring and coaching of MSEs at their working premises while there are on the production process could enhance their ability to cop up with technological advancement as well as effective and efficient production capacity. This further will enhance their capacity to upgrade their business in to large scale manufacturing industry

Regarding marketing, the sub city MSEs Development unit has to establish a permanent market place so that MSEs will be able to sell their products in an ongoing manner. In addition, an effective linkage between MSEs and potential buyers and wholesalers has to be made; MSEs will be able to secure marketing opportunities and enhance the production capacity.

Supply of inputs were one of an essential issues raised by MSE under this study; access to supply of input with a reasonable price has to be in effect from the government to smooth the production process and assist in assigning proper pricing.

Finally, research and development department should be established on the government bodies at different level; result obtained from an ongoing research and development practices will add up

the MSE development effort in such a way that it will improve the policy and procedure that may need an adjustment for a new approach.

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APPENDIX1: QUESTIONNER

Appendix 1- Questionnaire for Primary Data Collection

Determinants of the performance of Micro and Small Enterprise in Addis Ababa

The case of Gulele Sub-City; a study on selected micro and Small Enterprises in selected woredas

St. Mary's University

Institute of Agriculture and Development Studies

Rural Development

Introduction

I am a graduate student in Rural Development from St. Mary's University. Currently, I am working on my dissertation entitled *'Determinants of the performance of Micro and Small Enterprise in Addis Ababa; The case of Gulele Sub-City; a study on selected micro and Small Enterprises in selected woredas'*. You are one of the respondents selected to participate on this study. I appreciate your assistance in giving correct and complete information to present a representative finding on my dissertation. Your participation is entirely voluntary and the questionnaire is completely anonymous.

I confirm you that the information you are giving will be kept confidential and only used for the academic purpose. You will not give your name therefore no individual's responses will be identified as such and the identity of persons responding will be anonymous. Thank you in advance for your cooperation and time.

Kind Regards

Melkam K/Mariam

Instructions

1. Please do not write your name

2. For multiple questions, indicate your answer by placing check mark (√) in the appropriate box, for statement type questions, write your answer on the plank space

General Information of the business enterprise

1. What is the sector of the business?

1. Textile, ☐   Garment 3. ☐   Sawing and embroidery ☐

2. Position at the enterprise

        1. Manager ☐   2, Supervisor ☐   3, business partner ☐

3. Year of School

    1. Primary education ☐

    2.   B, Secondary education (Grade 9-12) ☐

    3. C, TVET diploma ☐

    4.   D, first Degree and above ☐

4. Year of establishment _____

5. No. of Employees _____

6. Number of full time male employees(permanent)

7. Number of full time male employees (Temporary

8. Number of full time female employees (permanent)

9. Number of full time femaleemployees(temporary)

10. Do you keep business records   1, yes ☐ 2, NO ☐

11 Where do you get startup capital for your business activities?

1, Personal saving ☐   2, micro finance institutions ☐   3, Bank ☐

4, family/friend ☐ 5, equib ☐   6, others (specify) _____

12 How much was your startup capital_____?

Determinants of the performance of Micro and Small Enterprise:

Internal factors:

The major determinants of performance of micro and small enterprises are listed below. Please indicate to what extent the following factors affect the performance of your enterprise. Please read each of the determinants and evaluate them in relation to your business and put a tick mark on the box provided where:

5 = Very High
4= High
3=Medium
2=Low

1=Very Low

Entrepreneurship	5	4	3	2	1
Need for Achievement					
locus of control					
motivation					
risk-taking propensity					
self-efficiency					

Management	5	4	3	2	1
Managerial knowledge and skill and concept of business owner					
Management Experience					
Managerial efficiency					

External Factors:

Access to Finance	5	4	3	2	1
Access to finance (bank, microfinance institutions)					
saving					
working capital					
collateral requirements from lending institutions					
complicated Loan application procedure of the lending institutions					

Marketing (access to market)	5	4	3	2	1
access to market for product					
Lack of demand for the product					
Lack of support from relevant institutions to promote product					

High competition between similar enterprises					

Production	5	4	3	2	1
Provision of quality product to provide for the market					
provision of products in quantity					
proper pricing for product					
supply of inputs					

Access to training and technological support	5	4	3	2	1
Availability of sufficient skill man power in the business					
Availability of entrepreneurial skill development training from relevant institutions					
Availability of Business development skill training from relevant institutions					
Availability of production technique skill development training from relevant institutions					
Availability of marketing management skill development training from relevant institutions					
Availability of supplies management skill development training from relevant institutions					
Availability of book keeping and continuous productivity improvement or kaizen training					
Availability of appropriate technological support for the process of manufacturing					

Access to industry extension	5	4	3	2	1

Availability of production materials (machineries)?					
There is an assistance in raw material procurement					
Availability of trade and investment opportunities, international trading system					
possible market linkage					
access to or investment in innovation and new firm creation					
Rapid access to secondary markets.					
Availability of R&D policies in order to broaden the population of small and micro enterprises who can benefit from innovation programs.					

Access to Working Space	5	4	3	2	1
possible acquisition of working space from government					
the size of working space enough for your manufacturing process					
proximity of working space from industrial zone where u could sell your final products					

Performance of the business (10 years)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Capital										
Profit										
employment size										
Saving										

Summary of the performance

description	Increasing	Steady the same	Decreasing
Capital			
Profit			
employment size			
Saving			

መግቢያ

ሥሜሜመልካምይባላል።ቅድስተማርያምዩኒቨርስቲበገጠርላማትትምህርትዘርፍየማስተርስተመራቂ ተማሪነኝ።በመሆኑምበአዲስአበባጉለሌክፍለከተማውስጥየሚገኙኢንተርፕራይዞችንበቃትሊወስኑየሚችሉምክንያቶችበተመለ ከተየመመረቂያጥናትእየሰራሁእገኛለሁ።በመሆኑምእርሶምለዚህጥናትከተመረጡትድርጅቶችውስጥ አንዱበመሆንዎናትክክለኛውንናተማላእንዲሁምለጥናቱግብአትየሚሆንመረጃዎችንለመስጠትፍቃ ደኝነትበመግለፅዎምስጋናዬላናል።የእርስዎትብበርበፍቃዶኝነትላይየተመሰረተናእርስዎምሆነ የድርጅትዎስምበምንምአይነትእዚህመጠይቅውስጥምሆነበጥናትውስጥእንደማይካተትላረጋግጥልዎ ትእወዳለሁ።

ለጥናቱየሚሰጡትመረጃምበሚስጥርእንደሚያዝናለጥናቱብቻየሚውልመሆኑንላረጋግጥልዎትእወዳ ለሁ።ይህንንመጠይቅየሚሞላማንኛውምተሳታፊምሆነድርጅትስምበዚህቅፅላይስማይሞላየመላሹ ማንነትሚስጥራዊነትየተጠበቀነው።

ግዜዎትንስለሰዉእናስለተባበሩኝከወዲሁምስጋናዬላቀነው።

መልካምኪ/ማርያም

መመሪያ

1. የእርሶንምሆነየድርጅቶንስምእንዳይፅፉ

2. ለምርጫጥያቄዎች፣መልስዎትንይህንንምልክት(√)በተዘጋጀውሳጥንውስጥያስፍሩ

ለማብራሪያጥያቄዎች፣መልስዎትንበተዘጋጀውባዶቦታይፃፉ።

የድርጅቱጠቅላላመረጃ

1. ድርጅቱየተሰማራበትየስራመስክ

   1. ጨርቃጨርቅ ☐   2. ልብስ ☐   3. ጥልፍናስፌት ☐

  2   በድርጅቱያሉትየስራድርሻ

   1. ስራአስኪያጅ ☐   2. ተቆጣጣሪ ☐   3. የንግድኦጋር ☐

  3   የትምህርትደረጃ

   1. የመጀመሪያደረጃ ☐ 2. ሁለተኛደረጃ ☐.ፒሎምበቴክኒክናሙያስልጠና

4 የመጀመሪያዲግሪናከዛምበላይ   ☐

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4   ድርጅቱየተkቃመበትዓ.ም. ----------------------

   5. የሰራተኞችብዛት --------------

   6. የሙሉሰዓትkሚወንድሰራተኞችብዛት ---------

   7. የሙሉሰዓትግዜያዊወንድሰራተኞችብዛት----------

   8. የሙሉሰዓትkሚሴትሰራተኞችብዛት ---------

   9. የሙሉሰዓትግዜያዊሴትሰራተኞችብዛት----------

10   የሂሳብመዝገብትይዛላችሁ   1. አዎ   [~]   2.አይ   [~]

11. የስራማስጀመሪያካፒታልከየትአገኙ

      1. ከግልቁጠባ [~]   2፤ማይክሮፋይናንስተቋማት [~] 3. ባንክ [~]   4.ቤተሰብ/ጋደኛ [~]

      5. እቁብ [~]   6፤ ሌሎች --------------------

12.   የስራማስጀመሪያካፒታልስንትነበር-------------------------------

የጥቃቅንናአነስተኛ ተkማትአፈፃፀምየሚወስኑክንያቶች

የውስጥሁኔታዎች

ከዚህበታች   የጥቃቅንናአነስተኛ
ተkማትብቃትየሚወስኑክንያቶችተዘርግረዋል።እባክዎትንየተዘረዘሩትነገሮች
ለድርጅቶአፈፃፀምምንያህልተፅእኖእንደሚኖራቸውይጠቁሙ።እያንዳንዱንጥያቄዎችያንብቡናከንግ
ድዎጋርበተያያዘይገምግሙናበተሰጠውሳጥንውስጥከዚህበታችበተሰጠውመለኪያመሰረትምልክትያ
ድርጉ።

5- በጣምክፍተኛ

4- ክፍተኛ

3- መካከለኛ

2- ዝቅተኛ

1- በጣምዝቅተኛ

ስራፈጠራ	5	4	3	2	1
ለስኬትየሚያስፈልግነው					
አካባቢንመቆጣጠሪያዝንባሌ					
ተነሳሽነት					
አደጋንየመጋፈጥዝንባሌ					
የራስብቃት					

አስተዳደር	5	4	3	2	1
የንግዱባለቤትአስተዳደራዊእውቀት፣ክህሎትናዕንስሃሳብ					
የማስተዳደርልምድ					
የማስተዳደርብቃት					

ውጫዊሁኔታዎች

ፋናንስአቅርቦትየማግኘትአመቺሁኔታ	5	4	3	2	1
ፋይናንስአቅርቦትየማግኘት(ባንክ፣ማይክሮፋይናንስ ተኬማት) ሁኔታ					
ቁጠባየማግኘት ሁኔታ					

የመስሪያካፒታልየማግኘትሁኔታ					
ከአበዳሪ ተከማትየተጣሉየብድርመስፈርቶች					
የአበዳሪው ተከምየተወሳሰበየብድርአሰራርሂደት					

ገበያየማግኘትአመቺሁኔታ	5	4	3	2	1
ለምርቶችገበያየማግኘትሁኔታ					
ምርቱንለመግዛትያለውፍላጎት					
ምርትንለማስተዋወቅአግባብነትያላቸውተቋማትድጋፍማግኘትሁኔታ					
በንግድድርጅቶችመካከልያለውድድር					

ምርት	5	4	3	2	1
ለገበያየማቅረቡ ጥራትያላቸውምርቶችመስጠት					
የምርትአቅርቦትንበብዛትማሟላት					
ለምርቱተገቢዋጋአሰጣጥ					
የግብዓትአቅርቦቶች					

ስልጠናእናቴክኖሎጂድጋፍየማግኘትአመቺሁኔታ	5	4	3	2	1
በንግዱውስጥበቂችሎታየሰውሃይልማግኘትሁኔታ					
አግባብነትካላቸውተቋማትየስራፈጠራክህሎትሥልጠናማግኘትሁኔታ					

ከሚመለከታቸው ተቋማት የንግድ ልማት ክህሎት ስልጠና ማግኘት ሁኔታ				
ከሚመለከታቸው ተቋማት የማምረት ቴክኒክ ክህሎት ማዳበር ስልጠና ማግኘት				
ከሚመለከታቸው ተቋማት የገበያ አስተዳደር ክህሎት የማዳበር ስልጠና ማግኘት				
አግባብነት ካላቸው ተቋማት የዕቃ አቅርቦት አስተዳደር ክህሎት ማዳበርሥ ልጠና ማግኘት ሁኔታ				
የመዝገብ አያያዝ እና ቀጣይ ነት ያለው ምርታማነት ማሻሻል ወይም kaizen ስልጠና ማግኘት ሁኔታ				
□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□□				

ኢንዱስትሪ የማስፋፋት አመቺ ሁኔታ መኖር
የማምረቻ ቁሳቁሶች (ማሽኖች) መገኘት ሁኔታ
ጥሬ ዕቃ ግኝ ርድ ጋፍ መገኘት ሁኔታ
የንግድ እና የኢንቨስትመንት እድሎች እንዲሁም የአለም አቀፍ የንግድ ልው ው ጥ መኖር
የገበያ ት ስስር
ለ ኢንቨስትመንት ፈጠራ ና አዲስ አደረጃጀ ት ለመፍጠ ር አመቺ ሁኔታ የማግኘት
ፈጣን የሆነ የ ሁለተኛ ደረጃ ገበ ያ የማግኘት ሁኔታ
በፈጠራ ፕሮግራም ተጠቃሚ ሊሆኑ የሚ ችሉ የ ጥ ቃ ቅ ን ና እንተኛ ኢ ንተ ርፕ ራይዞች ብዛት ለ መ ጨመ ር የ ተዘ ጋ ጀ የ ጥ ና ት ና ም

የስራ ቦ ታ የማግኘት ሁኔታ	5	4	3	2	1
አመቺ የ ሆነ የስራ ቦ ታ ከ መንግ ስት የማግኘት ሁኔታ					
የስራ መስ ሪ ያ ቦ ታ ው መ ጠ ን ለ ማ ም ረ ት ሃ ደ ት በ ቂ ነው					

የስራመስሪያቦታውምርቶትንለሽያጭከሚያቀርቡበትየኢንዱስትሪዞንቅርበትአለው			

በ 10 ዐመትውስጥያለውየቢዝነስአፈጻጸም

	ዓመት 1	ዓመት 2	ዓመት 3	ዓመት 4	ዓመት 5	ዓመት 6	ዓመት 7	ዓመት 8	ዓመት 9	ዓመት 10
ካፒታል										
ትርፍ										
የሰራተኞችብዛት										
ቁጠባ										

የቢዝነስዓፈፃፀምግምገማ

	እየጨመረነው	በዛውእንዳለነው	እየቀነሰነው
ካፒታል			
ትርፍ			
የሰራተኞችብዛት			
ቁጠባ			

Appendix 2: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11454684865.073	8	1431835608.134	1.484	.178[b]
	Residual	68485440667.927	71	964583671.379		
	Total	79940125533.000	79			

a. Dependent Variable: PERFORMANCE

b. Predictors: (Constant), ACCESS_W_SPACE, ACCESS_TO_INDUSTRY, MANAGMENT, ENTERPRENURSHIP, ACCESS_TO_FINANCE, PRODUCTION, ACCESS_TO_MARKET, ACCESS_TO_TECHNOLOGY