



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**GROWTH DETERMINANTS OF SMALL SCALE HANDICRAFT  
MANUFACTURING ENTERPRISE'S: THE CASE OF ADDIS ABABA,  
ETHIOPIA**

**BY  
KASSAHUN ABATE**

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**Growth Determinants of Small Scale Handicraft Manufacturing  
Enterprise's: The Case of Addis Ababa, Ethiopia**

**By  
Kassahun Abate**

A thesis Submitted to Institute of Agriculture and Development Studies  
of St. Mary's University in Partial Fulfillment for the Masters of Arts in  
Development Economics

**June, 2018  
Addis Ababa, Ethiopia**

## DECLARATION

I, Kassahun Abate, declare that this thesis is my original work, prepared under the guidance of Sisay Debebe (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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## ADVISORS' THESIS SUBMISSION APPROVAL PAGE

This is to certify that Kassahun Abate has carried out this project work on the topic “*Growth Determinants of Small Scale Handicraft Manufacturing Enterprise's: The Case of Addis Ababa, Ethiopia*”. This work is original and suitable for the submission in partial fulfillment of the award of Master Degree in Development Economic

Sisay Debebe (PhD)

Research Advisor

\_\_\_\_\_  
Signature

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As a member of the board of examiner of the master thesis open defense examination, we certify that we have read and evaluated the thesis prepared by Kassahun Abate and examined the candidate. We recommended that this thesis be accepted as fulfilling the thesis requirement for the Degree of Masters of Art in Development Economics.

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**Dean, Graduate Studies**

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**Signature**

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**Advisor**

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**Signature**

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**External Examiner**

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**Signature**

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**Internal Examiner**

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**Signature**

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## LIST OF ACRONYMS

AACIB.....	Addis Ababa City Information Bureau
ADLI.....	Agricultural-Development Led Industrialization
ANRS.....	Amhara National Regional State
BDS.....	Business Development Services
CSA.....	Central Statistical Agency
ECCSA.....	Ethiopian Chamber of Commerce and Sectoral Associations
ETTC.....	Ethiopian Tourist Trading Enterprise
FeMSEDA.....	Federal Micro and Small Enterprise Development Agency
GDI.....	Gross Domestic Income
GDP.....	Gross Domestic Product
GTP.....	Growth and Transformation Plan
IFC.....	International Fund center
ILO.....	International Labor Organization
ITC.....	International Trade Center
MFI.....	Micro Finance Institution
MoCT.....	Ministry of Culture and tourism
MoFED.....	Ministry of Finance and Economic Development
MoTI.....	Ministry of Trade and Industry
MoWUD.....	Ministry of Works and Urban Development
MoUDHC.....	Ministry of Urban Development, Housing and Construction
MSE.....	Medium and Small Enterprise
MSEDS.....	Micro and Small Enterprises Development Strategy
MSME.....	Micro, Small and Medium Enterprise
NGO.....	Non-Governmental Organization
PASDEP.....	Plan for Accelerated and Sustained Development to End Poverty
SNNPRS.....	Southern Nations Nationalities and People Regional State
SSA.....	Sub-Saharan African
SSE.....	Small Scale Enterprises
TVET.....	Technical and Vocational Education Training

UNESCO.....United Nations Educational, Scientific and Cultural Organization  
UNIDO.....United Nations Industrial Development Organization  
USAID.....United State Agency for International Development

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## **ABSTRACT**

*The important role of small handicraft manufacturing enterprises as a source of income and employment to poor households is a widely acknowledged fact in many developing countries. The objective of this study is to identify factors that contribute to the growth of handicraft Production enterprises in Gulele Sub city of the Addis Ababa city administration. The study used survey methods on 101 handicraft production enterprises formally registered enterprises of the mentioned sub city. The Data analysis was done using multiple linear regression methods and the results show that handicraft production started with an average paid capital of Br 4,292 and 2 employees. The sources of finance for the startup of the business are personal saving and family assistance. Lack of finance was the most constraining factor. The econometric results show that age and start up size of enterprises are negatively related with growth of enterprises at 1% significance level. The extent of diversification of products and availability of infrastructural facilities were found to influence employment growth at 1% and 5 % significance level respectively. The availability of own premise and the availability of workers with a vocational formal training are positively related with growth of enterprises at 10% significance level. The findings of the study have important implications to the employment creation of handicraft enterprises. As a way out of financial constraints, group lending approaches, small and increasing credit, link of credit savings or micro financing institutions should be undertaken. The city government has to facilitate the growth of handicraft productions by accessing necessary infrastructural facilities and working premises.*

**Key words:** *Handicraft Production, small manufacturing enterprises, business startup, Gulele Sub city and Addis Ababa.*

# CHAPTER 1

## 1. INTRODUCTION

### 1.1. Background of the study

The important role of small manufacturing enterprises as a source of income and employment to poor households is a widely acknowledged fact in many developing countries. Detailed surveys in a number of these countries suggest that as many as a quarter of all people of working age are engaged in micro and small enterprise activities (Mead and Liedholm, 1998). In addition, small manufacturing enterprises are the basis for large industrial development. It is these small industries that developed to medium and large size factories in many of today's industrialized nations. Of particular interest is the process of growth of these enterprises from micro to small and later to medium size, as it is when they become medium sized, that growth-oriented small and medium enterprises make their most tangible contribution to economic growth and job creation (UNCTAD, 2010).

Nowadays, it is easy to observe that the issues of small manufacturing enterprises have stimulated so much interest among donor agencies, governments, NGOs, policy makers, development analysts, etc. to the extent that all are very much concerned with the promotion and development of the enterprises (Andualem, 2007).

Among these small scale manufacturing enterprises, employment in handicraft production expands through time. Handicraft serves as a cultural and socio-economic development tool particularly in developing countries. It is part of the culture of a nation or ethnic group and represent a key component of socio-economic life. The special nature of artisanal products derives from their distinctive features of aesthetic, artistic, creative, decorative, functional, traditional, religiously and cultural symbolic significance.

From this point of view, small-scale industry sector including the handicraft sector occupies a place of strategic importance in the economic structure and play key role in job creation and income generation. This is because the handicraft sector provide immediate large-scale employment compared to higher capital-intensive industry; they need lower investment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources, capital and skill.

Ethiopia is an ancient country with a remarkably rich cultural diversity, which includes a centuries old know-how in handicraft production. The country has great potential of handicrafts industries that has resulted from the diverse culture and traditions of its people.

In Ethiopian community, traditional handicraft production and marketing as an income generating activity facilitates the economic, cultural and social balance. The artisans have been producing the most vital utilities associated with the daily lives of both the rural and urban community. It is this sector, which supplies agricultural utilities such as ploughs and its accessories, cotton dresses of all sorts, and leather utilities (dresses, grain container and sleeping mats). The potters produce the Ethiopian traditional baking plate, cooking pots and water containers. The blacksmiths produce jeweler with traditional designs from gold, silver, brass, nickel and copper, both for religious and other decorative purposes. The handicraft is also considered as a living museum of a most diverse culture where the old co-exists with the new in everyday life of its people.

A national survey on small scale manufacturing industries conducted by Central Statistics Agency (CSA) in 2001/2002 reported that more than 750,000 people are engaged in informal sector and small manufacturing businesses. The small scale enterprises together with the micro enterprises account for 3.4% of Growth Domestic Product (GDP), 33% of the overall contribution of the industrial sector and 52% of the manufacturing sector to GDP (Ministry of Trade and Industry, 1997). The industry created job opportunity for 2.2 million people all over the country (CSA, 2006). Out of this total 64.4% is created in rural area and the remaining 35.4% is in urban areas. With regard to regions, 35% of the job was created in Oromia followed by Amhara (26%), Southern Nations Nationalities and People Regional State (SNNPRS) (15%), Addis Ababa 7%, Harrari 0.22% and the remaining 2.98% is from Benishangul Gumuz, Somalie, Afar and Gambella regions (Ministry of Culture and Tourism (MoCT), 2011).

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

Even though there is strong economic growth trends, unemployment in Ethiopia is by and large an urban phenomenon, particularly in Addis Ababa (World Bank, 2016). Addis Ababa faces significant development challenges. For example, unemployment and poverty levels in Addis Ababa remain high, estimated at 23.5% and 22% respectively. More than one in four households report are unemployed adult compared to one in 10 households in other urban areas (Enhancing Urban Resilience, Addis Ababa, Ethiopia, July 2015). By analyzing the demand for labor compares to the supply of labor in Addis Ababa,

it becomes clear that there are not enough job opportunities for those with primary and secondary education levels (World Bank, 2016).

Small enterprises together with micro enterprises have been recognized as a major contemporary source of employment and income in a number of developing countries though relatively little is known about the characteristics and patterns of change in these enterprises. Much less is known about the handicraft business attributes and environments that promote the growth of the enterprise. This is an important concern for policy makers, who in country after country are trying to implement policies that will foster enterprise start-up and growth.

According to the business owners, it is of great importance to understand the factors, characteristics and patterns of the changes that are taking place in the domain of the small enterprises, together with a vision of how things might develop better in the future in order to specify measures that might be taken to help bring about the desired outcome. An important part of this sorting out involves a better understanding of the determining factors of enterprise growth and the growth process-taking place among small enterprises. Despite the fact that the handicraft has paramount important role to support the livelihood of the artisans, produce the basic household equipment for the people and serves as a source of foreign exchange through tourism and eventually contribute its share to the economic development of the country, the sector has been characterized by a subsistent, isolated and inefficient business with multiple problems. As a result, the sector does not transfer itself to the next higher level (Medium and then to large enterprises). Rather, significant number of handicraft producers in different parts of the country have collapsed and goes out of operation (Arega et. Al, 2016).

That means the chance of further job creation and additional income generation to the artisans are stagnant and the economic livelihood/wellbeing of the artisans remain unchanged. This state of fact also confirms that it is difficult to the sector to play its role in supporting the on-going socio-economic development of the country. A number of studies have been conducted to identify factors that determine the growth of small scale enterprises. For instance, Endeshaw (2005) examined and identified affecting growth of employment in small enterprises in Bahir Dar town and Solomon (2004) identified factors that contribute to the growth of small manufacturing enterprises in Addis Ababa. However, with the best knowledge of



the researcher, no one tried to identify factors that are responsible for the growth of the handicraft production enterprise in any part of the country.

To this end, it is imperative to answer the question “which properties of the small enterprise particularly the handicraft production determine its growth and what promotes rapid growth”. Therefore, this study tries to identify some of the major causes that hinder the handicraft sector to grow and transfer to the next stage and also examine factors that may have positive influences on the growth of the handicraft production in Gulele Sub-city of Addis Ababa.

### **1.3. Objective of the study**

#### **1.3.1. General objective**

The general objective of the study is to identify factors affecting the growth of the handicraft industry in Gulelie Sub-City of the Addis Ababa City Administration.

#### **1.3.2. Specific objective**

- To assess the internal (firm specific) and external factors that influence the start-ups and growth of handicraft production;
- To recommend specific pragmatic measures that augment the emergence and sustenance of handicraft production in Gulele Sub-City of the Addis Ababa City Administration;

### **1.4. Significance of the study**

Handicraft plays an important role in generating local employment and are important area of job creation. It has been producing the most vital utilities associated with the daily lives of both the rural and urban community.

This study has significance to reveal the status of the handicraft sector in Addis Ababa and their growth factor. Therefore, the findings which will be obtained as a result of conducting this research have certain areas of significance: -

- To understand the growth factors of the handicraft factors by policy makers so as to reduce the problems and constraints.

- It will help for sharpening for the understanding of the financial sources of the enterprises so that policy makers and concerned bodies could be informed and better overcome the problems.
- It provides baseline information on the current conditions of small manufacturing enterprise with particular emphasis of the handicraft sector in aspects of how sectors' financial sources are obtained.
- It would serve as a spring board to other researchers for further investigation by incorporating broader scope about small manufacturing enterprises, if the need arises.

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

This study is limited to the assessment or investigation of factors affecting the growth of handicraft production enterprises in Gulele Sub-City, Addis Ababa City Administration.

### **1.6. Limitation of the Study**

From the experience of other similar studies, a common problem in all survey research is non-response, and this research is no exception. Thus, one of the biggest obstacles is simply obtaining the cooperation of the subjects: firm owners, or managers. The problem is exacerbated when the data collection requires detailed quantitative information on the financial history and employment performance of the enterprise. Data, which may be regarded as confidential, were hard to get frankly and honestly. Some of them refused to give data. One possible fear of giving the data is the perceived likelihood of subsequent increment in taxation by the Ministry of Revenues. What is more, some small business owners refused to give data on the ground that they are too busy to be interviewed and still some have stated that they saw no return from the data they gave to earlier enumerators. To minimize this limitation of the research, enumerators were trained properly in this Regards. Moreover, the researcher has participated in the data collection process.

### **1.7. Organization of the Study**

The thesis contains five chapters. Chapter one introduces the subject of the study, statement of the problem, the objective significance, delimitation and limitation of the Study. Chapter two presents theoretical background followed by a review of previous studies particularly empirical literature related to small and micro finance. The methodological framework of data collection, variables and their expected

signs, estimation techniques and survey design issues was described in detail in chapter three. Chapter four provide presentation and analysis of samples descriptive and the results. Finally, chapter five summarized the main findings of the study and discusses some important policy implications.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Theoretical Literature**

##### **2.2.1. Definition of Micro and Small Enterprises (MSEs)**

There is no single universally acceptable definition of MSEs as the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country depending on essentially on the country's level of development. The United Nations Industrial Development Organization (UNIDO) provides an alternative definition for developing countries, defining MSEs as business firms with between 5 and 19 employees (UNIDO 2002). Eshetu and Eleke (2000) define MSE based on their growth potential, level of capitalization, sales and employment.

The official definition of an enterprise's size in Malawi is based on the level of capital investment, the number of employees and its turnover (Kayanula and Quartey 2000) In Kenya, small enterprises are non-primary enterprises that employ between one and fifty people whether in the formal or informal sector, or more specifically that employ 20 to 50 Workers (Mulugeta 2011).

##### **2.2.2. Ethiopia's Definition of MSE**

As there is no uniform definition of MSE, Ethiopia has defined MSEs differently in two different times, 1998 and 2010/2011. Even though there are different definition of SMEs, the operational definition used for the purpose of this study is taken the one offered by the Ministry of Trade and Industry in Ethiopia.

###### **a) The 1998 definition of MSE**

The old (1998) definition of MSE was based on paid capital only (see table below). An enterprise is categorized as micro if its paid up capital is less than or equal to 20,000 ETB. Similarly, an enterprise is considered small when its paid up capital is less than or equal to 500,000 ETB.

Table 1; Old Definition of MSE in Ethiopia

Table 1: Old Definition of MSE in Ethiopia		
Sector	Manpower	Paid up capital
Micro enterprise	-----	≤ 20,000 ETB ( 1200 USD)
Small enterprise	-----	≤ 500,000 ETB ( 30000 USD)

Source: FeMSEDA

The limitation of this definition is that it does not provide information on job creation, and asset base. This is because employment and asset ownership were not part of the definition. Secondly, the definition does not differentiate between manufacturing (industry) and services.

### b) The New (2010/2011) Definition

Addressing the limitation of the 1998 definition of MSE, the new definition considers human capital and asset as the main measures (see table below). Minimum asset requirement for services and industry is different as shown in table 2 below.

Table 2: new (current) definition of MSE in Ethiopia

Table 2: New (Current) Definition of MSEs in Ethiopia			
Level of the enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	< 5	≤ 100000(\$6000 or E4500)
	Service	< 5	≤ 50,000(\$3000 or E2200)
Small enterprise	Industry	6-30	≤ birr 1.5 million (\$9000 or E70000)
	Service	6-30	≤ birr 500,000(\$30000 or E 23000)

The CSA conducts survey on small scale industries for the years 2001/2, 2005/6 and 2007/8. However, CSA adopts its own definition which is not well aligned with the MSE policy and the new definition of the country. Hence, the data it collected is less useful in terms of analyzing the MSE policy. CSA's definition is based on the size of employment and extent of automation. Hence, according to CSA,

- Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.
- Small and medium enterprises are establishments that engage less than 10 persons using power driven machinery.
- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labour and mostly manual rather than automated/mechanical machinery

The limitations of the CSA definition are, it ignores the size of capital and the sectors outside manufacturing. The CSA particularly defines handicraft from ownership and the type of labor involved in the production which in reality is a far cry experience. This is because, currently there are a number of handicraft producers where the employees are not family members and working in other's premises.

Another point worth mentioning is that, while Ethiopia targets MSEs while many other developing countries target SMEs.

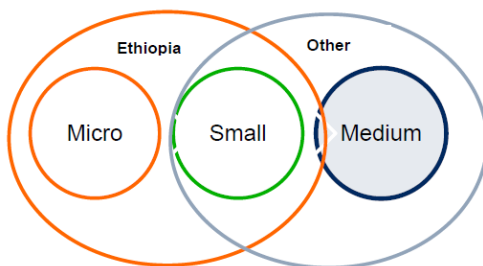
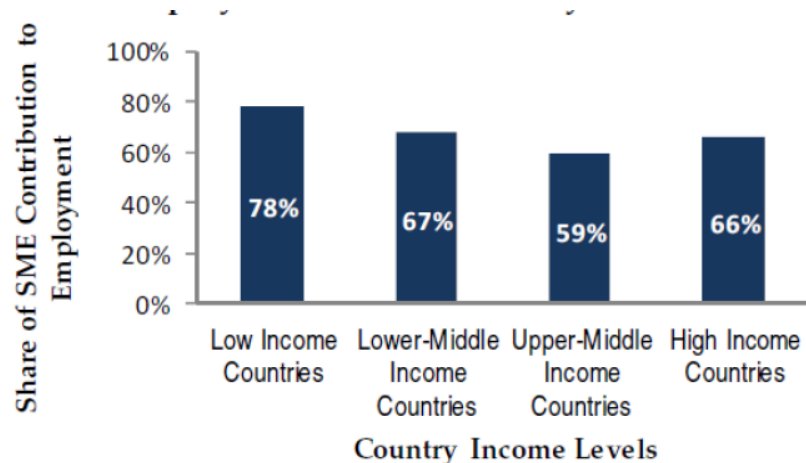


Figure 1; Structure of MSE in Ethiopia and other developing countries

### 2.2.3. Significance of Small Enterprises

Mead (1994) emphasized the different roles that small enterprises can play at different stages of development. As development takes place, household and artisan activities decline in importance, being replaced first by small factories, later by large factories. White (1999) strongly underscores the benefits of the small enterprise sector from the practical context of Thailand's economy by saying, "it is easy to dismiss or ignore the contribution of the MSE sub-sector. However, to do this, Thailand would be to overlook a large section of commercial activity". According to Assefa (1997) and Dondo (1998), small-

scale enterprises, being labor intensive and capital saving, have great potential to absorb the growing number of unemployed and under-employed population. Small-scale enterprises also have potential for mobilizing local resources and they are also desirable because unlike medium and large industries, they can be located in rural areas or small towns and villages there by assisting in curtailing undesirable rural-urban migration. Hence, the important role of micro and small-scale enterprises in economies like that of Ethiopia cannot be underestimated.



Source:- World Bank, 2011

Figure 2: Global Employment Contribution of MSEs

As indicated in the above table, MSEs have high contribution in job creation in low income countries than middle and high income countries. That means, the role of MSE in job creating and income generation in low income countries are paramount. To this end, the Ethiopian government has clearly understood this state of fact and has presently recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment using the skill and talent of the people particularly women and youth without demanding high-level training, much capital and sophisticated technology. A typical example of this recognition has been witnessed by the design of a Micro and Small Enterprises Development Strategy (MSEDS). There is, in fact, consensus on several points concerning the significance and role of small enterprises in many literatures written on the subject. Small-scale enterprises are justified for the following reasons.

All small enterprises, broadly defined, display a remarkable capacity to absorb labor thus contributing to easing the pressure of unemployment. Being labor-intensive and capital saving, small enterprises could help in solving many of the problems Ethiopia is faced with. Small enterprises have great potential to absorb the growing number of unemployed and under employed population. They generally employ workers with limited formal training.

They create substantial job opportunity. Citing the source from the FMSEDA, the Ethiopian Economic Association Research Brief noted that a total of seventy thousand five hundred (70500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806300) people across the country (Gebrehiwot, 2006).

The SME contributed value added of Birr 8.3 million in 1992/83 data, this figure constitutes about 3.4 percent of the GDP, 33 percent of the industrial sector's contribution and 52 percent of the manufacturing sectors contribution to the GDP of the same year (Gebrehiwot, 2006).

They are sources of income for many people. Because SSEs offer a remarkable capacity to absorb labor, there by relieving the problem of unemployment, they provide income-earning opportunities for a large portion of the population.

They offer potential for resource mobilization. Economic growth in Ethiopia is constrained, among other things, by shortage of capital. The country is in early stage of industrialization. Thus, much of the required investment for the industrial sector should come from domestic savings. There are, however, reserves of idle savings that could be drawn in to productive use if the owners had the choice to set up business by their will. Thus, one of the objectives of developing small-scale industries is to mobilize the unutilized and underutilized saving so as to make them productive.

The decentralization argument. Small Scale Enterprises (SSEs) are desirable because they can be located in rural areas or small towns or villages. Often large and medium industries are concentrated in few urban centers, which entails undesirable rural to urban migration. Such unwanted and unplanned flow of people from rural areas to urban areas could create social problems to the urban centers on the one hand and also



draw the productive labor force from the rural areas on the other hand. In general, they are loose foot and also convenient for geographical spread of industrialization. The decentralization process may help balance the disparity in economic growth between rural and urban areas. Hence, decentralized distribution of industries and the promotion of industrial growth in small towns and rural areas with potential resource base is very essential for the country.

They add to the variety of consumer goods. They produce relatively cheaper goods and services locally using labor-intensive methods satisfying the needs of particularly the poor people-hence contributing to the variety of consumer goods. Besides, they develop a pool of skilled and semi-skilled workers that will be a basis for future industrial expansion.

They facilitate forward and backward linkages. They promote subcontracting arrangements and acts as ancillaries to large-scale enterprises. They facilitate effective technology transfer as a result. In addition, they provide significant inter-sectoral linkages, integrating economic sectors through backward and forward linkages.

They serve as agents of rural transformation. In the rural areas, they constitute centers of innovation as well as of economic and social changes thus helping transform rural areas in to market economy through gradual magnetization (Andualem, 1997).

MSEs are seedbeds for entrepreneurial development and offer excellent opportunities for entrepreneurial and managerial talents to develop and mature, the critical shortage of which is often stressed as a major handicap to economic development of most developing countries.

They are flexible and adapt to market changes quickly. They also have great reliance on indigenous resources - raw materials. They generally show less need for developed and costly infrastructure.

To this end, the Ethiopian government has presently recognized and paid due attention to the promotion and development of micro and small enterprises for they are important vehicles to address the challenges of unemployment and economic growth in the country. A typical example of this recognition has been the design of a MSEDs.

In general, the small enterprise sector is seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche market, enhance productivity and technical change and as a result stimulate local as well as national economic development.

#### **2.2.4. Growth of Enterprises**

There are two important issues to be reviewed in line with enterprise growth. These are growth measurement and factors that influence growth. Below these are discussed after brief lead statements. Specifically, literature is reviewed to single out the influence of age, size, finance, demand, and product diversification, the enterprises human capital position, access to inputs, gender and micro and macro variables external to the firm.

According to United State Agency for International Development (USAID, 2002), the standard measure of growth used in studies of small firms is the change in the number of workers since start up. This variable is relatively easy for respondents to remember and does not need to be deflated. In addition, Liedholm and Mead (1999) contend that job creation is an important social goal and development objective and policies to support small enterprises are frequently justified on their supposed employment effects (Liedholm and Mead 1999, Voulgaris et al 2003). This study also emphasizes employment growth.

The definition of employment includes working owners (entrepreneurs) because of job creation for owners may be equally valuable as jobs created for others from a social welfare point of view. It also includes paid part-time and full time family members. Workers on contract bases are also included. On the other hand, unpaid family helpers and apprentices are excluded, because their relationship is more frequently part time and casual and because they cannot be reliably measured in all years (USAID 2002).

Some studies, however, show the biases that might arise from use of employment as an exclusive measure of growth instead of alternative indicators such as changes in sales, outputs, or assets (USAID 2002). This is because of the seasonal nature of much small enterprise employment, from the prevalence of part time work and from the extensive use of unpaid family labor including children as well as the slowly growing

nature of employment, which appears to increase with a lag after a sizeable growth in real sales (USAID 2001).

Some critics also raise the issue of job quality to the forgoing argument against using employment as a measure of growth. They contend that most small sector employment is presumed to bring less pay and fewer benefit.

Accordingly, Acs and Audretsch (1990) cited in Voulgaris et al (2003) define small firm growth as an average change in sales. However, according to Gupta (1996) cited in Voulgaris et al 2003, enterprise performance and profitability is not related to growth of sales, since some companies may be able to maintain high profits even with a declining growth rate.

Some analysts of the growth of small businesses suggest the need to define employment effects to the context and aspirations of the potential beneficiaries' .Poor jobs, which require few skills, and are short term, intermittent and lowly paid may still be better than nothing for the unemployed and underemployed. In addition, they can provide flexible options for individuals, such as women, who have extensive competing obligations. They may also provide opportunities for men to live with their families, rather than migrating for work.

Liedholm and Mead (1999), contend that the growth of employment remains to be a substantial measure of firm growth. If there is a need for an objective, neutral, and relatively easily applied definition for use in research, employee number is probably the best unit of measurement. Studies, which took employment as an indicator of enterprise growth, indicate that small firms are contributing to a greater degree for annual number of jobs created. In analyzing employment growth, some researchers choose to use annual compound growth rates or simple annual employment growth while others use the rate of the total number of employment change since start up. The compound annual growth is usually preferred. (Liedholm and Mead 1999, Liedholm 2001, Goedhuys 2002 and USAID 2001).

Some studies indicated that two key determinants of small enterprises growth are the age and initial size of the enterprise (Liedholm 2001). Many research findings support the hypothesis that there exists an

inverse relationship between these variables and enterprise growth.. Explanations for such relationships contend that smaller firm's turnout to be more flexible than larger ones. Smaller firms usually pay lower wages and occupy special product market niches. Those studies that discovered the negative relationship between firm size and annual growth rate in employment indicate that firms that started very small were more likely to grow rapidly than their counterparts that started vary large.

The fact that smaller firms grow faster can theoretically be explained by the existence of diminishing returns to scale. In this context, smaller firms can reap relatively more cost advantages than larger firms and, therefore, they grow faster. In a related line of reasoning, technological variables such as high capital requirements and large economy of scale increase the minimum efficient scale of operations (Stranova 2001, Liedholm 2001, Taye 1998, Yan Aw 2001, Stefano et al 2003 cited in Cunningham and Maloney 2001 and Goedhuys 2002).

The age of the firm appears to be a crucial determinant of firm dynamics in Liedholm and Mead (1999) study. They observed an inverse relationship between firm age and its growth rates in surveys conducted in small firms in India, Colombia, and Northern Nigeria. Younger firms tend to grow faster but their failure rates are also higher. This observation is theoretically explained by "models of learning" (Lucas 1978, Jovanic 1982, Pakes and Erickson 1990 all cited in Goedhuys 2002). Older firms therefore grow more slowly than younger ones and their growth rates are relatively stable. The same finding is also cited in Strulik 1999, Harabi 2003, and Taye 1998.

According to Beck and Cull, 2014 in Fredu Nega (PhD) and Edris Hussein (MSc), 2017, SMEs in Africa are less likely to take loans from financial institutions than in any other developing regions; but many of firms and country level covariates explaining access to finance remain the same inside and outside Africa. Bank loans devoted to SME in Africa average only 5.4 percent while in other developing countries, it amounted around 13.1 percent.

The availability external finance to start the business was associated with growth in Mexico's small manufacturing enterprises (Cunningham and Maloney 2001). The sources of funds according to the same researchers were formal credit markets (banks or saving banks), semi-formal credit markets (credit from

clients, credit from suppliers), and informal credit markets (loans from friends, relatives, private loans, and savings and severance payments). This is because according to Fredu Nega and Edris Hussein, 2017, banks pur collateral as a pre-requist to gove loan which is difficult for SMEs to fulfill this.

According to many studies, an increase in financial resources raises employment growth in small manufacturing firms. The results of detailed statistical analysis of the relationship of employment with financial variables while controlling for other factors, suggest that relaxing a firm's financial constraints through bigger loans tends to increase its growth (USAID 2002). Several empirical contributions support the hypothesis that there exists a link between small firm growth and availability of external finance exists (Becchetti and Trovato undated).

Though a number of findings prove the role of finance in the growth of small firms, the access to finance by small firms is found to be a serious challenge. According to Okoh and Song (2000), larger or more profitable firms are likely to have access to a larger pool of earnings that can easily be reinvested in the firm. On the other hand, small firms that are profitable can reinvest retained earnings but are less likely to get access to a broader set of credit instruments, especially from the formal financial market. Explanation for this goes to inadequate collateral, lack of a significant credit history and inadequate equity capital on their balance sheet, which is a serious barrier to accessing credit by small manufacturing firms that might have been indispensable for their growth and expansion (USAID 2003, Liedholm & Mead 1999, Liedholm 2001). In this vein, credit problems are normally listed high in reviews of obstacles to small enterprises growth .However, some analysts question the truth of this by seeing financial difficulties more as a symptom of management, marketing or resource problems elsewhere (Hunt 1987).

According to Hart and Mc Guinness (2000), another variable likely to affect the growth of enterprises is availability of demand for their products. They argued that complementary enterprises grouped close together or firms located close to the final demand sources grow more rapidly than their counterparts who are not. In line with this, Harabi (2003) argues that agglomeration effects (in the form of both regional concentration of a specific industry and regional concentration of several unrelated economic activities) can produce net positive externalities up to a threshold. Once a threshold is achieved, however, negative

net externalities can be expected because of high land prices, environmental problems and others (Harabi, 2003 Liedholm 2001, Cunningham, and Maloney 2001).

The variability of firm growth rates may also differ from sector to sector depending upon the nature of the product and the character of competition and so on. Johnson et al (1987) cited in Harabi (2003), find that firms' growth rates vary significantly among the different industries in the manufacturing sector in Morocco. They argue that growth rates of firms in growing sectors should be higher than those of firms in stagnating or declining sectors. Individual firms have therefore different growth potentials as determined by their sectors life cycle.

Product diversification also affects the growth process of manufacturing firms positively. It helps firms to cope with demand constraints on the specific product line and creates new opportunities for growth. (Taye 1998 Harabi 2003, Yonggui et al 2001). In general, according to Voulgaris et al (2003) factors found to influence rapid growth in small enterprises are strong marketing orientation, emphasis on quality and innovation, flexibility in production, reinvestments of profits in the enterprise and organizational flexibility, various socio-economic variables relating to the entrepreneur also influence firms' growth.

According to Pakes and Erickson (1998) human capital such as, increases in the experience or education of the entrepreneur lead to increases in enterprise growth. Some studies show that general secondary education of entrepreneurs is associated with higher growth, while university education has a much weaker effect. There is also some evidence that entrepreneurs whose prior work experience is related to the manufacturing industry are more successful at raising growth (Goedhuys 2002, Liedholm 2001, Taye 1998, Yonggui et al 2001, Cunningham and Maloney 2001).

Continuous training of entrepreneurs and workers and use of more external information and advice services is claimed to be one strong factor for firm's growth. Studies of small enterprises have highlighted the importance of managerial skills in the survival and growth of firms .As a consequence, the provision of training opportunities and various advisory services have sometimes been viewed as more important than credit, especially for firms which have survived the startup stage. According to Nelson (1987), entrepreneurs may accept training and extension services to increase chances to receive loans, and may

have little real interest in acquiring the promised new skills. These assertions do not challenge the need for extensive assistance packages, but rather suggest the need for broad perspectives which relate the individual entrepreneur to his or her context, and aim to highlight and deal with real obstacles to growth. There are still some critics of training and extension services who argue that such services are too sophisticated focusing on management training that they usually fail to bring the desired growth in the firm.

In addition, the gender of the entrepreneur has been cited to be an important determinant of enterprise growth. Liedholm and Mead (1999) posit that female entrepreneurs in Africa are more risk averse but are less likely to grow in comparison with their male counterparts. They further point out that female entrepreneurs with concerns for income stability and economic security may be more prone to avoid risks involved with firm growth. Women operators tend to devote their profit to minimize risk and increase security of the welfare of the household, while male operators are likely to invest into the growth of the enterprise.

Zewde and Associates point out factors attributed to impediments to the expansion of women entrepreneurs and their low representation in small scale manufacturing enterprises. “These include low level of education and lack of opportunities for training, heavy household chores that leave them less time to devote to their business ,lack of contact with and exposure to the business world ,and meager financial and human capital at the disposal of the women concerned” (Zewde and Associates 2002:5) .

The ability of firms to obtain access to major inputs such as access to qualified workers and managers, access to training influences their trend and pattern of their growth It is claimed that well-functioning labor markets and other production inputs have been slow to develop in developing countries. Educational systems designed to serve the pursuit of industrialization are poorly adapted to producing skills appropriate to market economy. These problems are particularly acute for small firms that would like to grow, (Hart and Mc Guinness 2000, USAID 2002). In line with this assertion, Wolday and Gebrehiot (2004) pointed out that Business Development Services (BDS) which refer to non-financial services such as labor and management training, extension, consultancy, counseling, marketing and information

services, technology development and diffusion, sub-contracting, and franchising influence the growth and expansion of small enterprises.

In addition to labor inputs, firm's access to industrial land and good infrastructure such as power, water, telecommunications, and so forth have been argued to be major factors in firm growth (Goedhuys 2002).

Other factors that influence the growth of firms are external to the firm and outside the control of the owner-manager. These factors mainly concern the macroeconomic environment. Liedholm (2001) contends that the two major sources of new jobs i.e. the creation of new businesses and the expansion of existing enterprises are highly influenced by the state of the macro economy. A panel study by Cabal (1995) in the Dominican Republic, Daniels (1994) and Mc Pherson (1998) in Zimbabwe (cited in Liedholm 2001) indicate that during periods of rapid economic growth, expanding employment from existing enterprises made a major contribution to overall employment growth for these countries, while the contribution to the overall employment from net firm creation was actually negative. By contrast, when the macro economy was languishing, the contribution of existing enterprises to overall employment growth declined substantially. Employment growth from net firm creation, however, switched from negative to positive and contributed more to overall employment than did the expansion of existing firms. Therefore, when an economy is buoyant, a significant number of new employment openings in SSEs come from an expansion of existing enterprises, resulting in jobs that produce better incomes for those working in the enterprises (Daniels 1994 and Mc Pherson 1998 cited in Liedholm 2001).

Social psychologists strongly associate measures of internality of an individual's locus (Julian B. Rotter in 1954) of control beliefs; self-esteem and confidence are determinant of an individual's success in business. Confident business operators take risks to succeed. Mc McClelland cited in (Liebert and Spiegler 1994 and Anduaem 1997) argues that successful entrepreneurs are characterized by a strong need for achievement and that this drives them to achieve. Several researchers have indicated that there is a relationship between such entrepreneurial spirit and business growth (Liebert and Spiegler 1994).

### **2.2.5. Handicraft industry**



The handicrafts industry is a cottage industry, the scale of which is much smaller than that of the medium and big industries. Despite its scale, it plays an important role in job creation and income generation in the urban and rural areas. The fact that the handicraft business can be started with a small investment and minimum skill is quite important for most of the population who do not have capital and specialized knowledge.

Handicraft production is a labor-intensive industry that can support a number of part-time and fulltime employees, both skilled and unskilled. The handicraft production, based on traditional skills and with low investment requirements, is one of the few possibilities which poor people have to help them increase their income. The handicrafts economy often rests on the traditional skills that women and men crafters possess Rogerson and Sithole, (2001).

As a means of livelihood, handicrafts provide an ideal avenue for creative, independent entrepreneurs. In addition, they offer opportunities for seasonal employment and small production runs, and the sector is often a default occupation for producers who have limited other options for employment.

The craft industry has substantial contribution for economic and social development worldwide. Its estimated size of the world trade is more than USD 75 Billion (MoCT, 2013). The global market for artisan crafts is significant and continues to expand: during the period from 2002–2008, world exports of artisan products rose from a value of \$17.5 billion in 2002 to \$32 billion in 2008, an increase of 8.7 percent (The Alliance for Artisan Enterprise).

Some industrialized countries grant significant importance to crafts. For example, in Italy, 24% of national enterprises belong to the crafts sector, which also employs 1/5 of the private sector workers, among whom 100,000 perform high quality production. Italian crafts exports represent 17% of the GDP ((UNESCO) 2007,)

### **2.2.6. Handicraft sector contribution to the GDP**

Handicraft's Economic contribution in terms of GDP percentage to Ethiopia stated neither by the Ministry of Finance and Economic Development (MoFED) nor any concerned body except mentioning the shallow

manufacturing contributions. This adds up the difficulty of knowing the exact contribution of MSEs to the GDP.

Moreover, detailed emphasis is not placed in the Industrial Development Strategic Plan as to how and how many handicraft enterprises will be graduated to the next level. As both of the MSEs Development Strategies are viewed in the first edition of Growth and Transformation Plan (GTP I), the Industrial Development Strategic Plan is assumed to be considered more in the second edition of GTP II of the country which extends from 2015/16 to 2019/20.

The different regional states of the country produce a large array of craft products, depending on the type of available raw material and the indigenous skills of the producers. In this regard, specific products have become largely associated with specific regional states.

Cognizant to this fact, the Ethiopian Government has put the inclusion of handicraft in all national development plans namely Plan for Accelerated and Sustained Development to End Poverty (PASDEP: 2005/06-2009/10) (GTP I and II) through strengthening SMEs.

Even though there is no uniform definition given for MSE across countries, from the definition given by Federal Micro and Small Enterprise Development Agency (FeMSDA), the handicraft sector is categorized under the 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).

SMEs are regarded as the engine of economic growth and equitable development in developing economies. Even if the emphasis is not as such, the imperial Government of Ethiopia, had enacted legislation to encourage business doings in the country in earlier times (Amare Abawa Esubalew, 2017)

Like other MSE, the handicraft sector is also recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty. It plays an important role in generating local employment opportunities and linking with other sectors and is an important area of

job creation in the informal sector and serves as an alternative job opportunity in an area where employment opportunities are few.

Similarly Tsegereda (2002) outlined the common characteristics of SME like small scale operation, labor intensive mode of production, low fixed cost, reliance on family labor, use personal and informal source of credit, and lack of wage employment. Furthermore, some of the major distinguishing differences between large and small enterprises are listed as follow.

The Ethiopian government has long recognized the important contribution that MSEs can make in poverty reduction, employment creation and private sector development. MSEs offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. These enterprises also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage earning opportunities for the poor, while raising national income (Minilik and Chinnan, 2012).

Developing economies have come to dominate the export market for handicrafts, accounting for 65 percent of world exports in this sector in 2008 with an increase from 53 percent in 2002 (The Alliance for Artisan Enterprise). In Colombia, total crafts production represents a yearly income of approximately US\$ 400 million and brings to the crafts workers a monthly income of US\$ 140 to 510. Crafts exports (excluding sales to tourists) amount to US\$ 40 million per year.

Tunisia is an example of a middle-sized country in terms of crafts production. It counts 300,000 craftspeople (11% of the active population) of which 2/3 work on a part-time basis (4 working hours a day). Their production accounts for an average of 3.8% of the Gross Domestic Income (GDI) and ensures an annual income of US\$ 2,400 per household (an average of 5 members) (UNESCO) 2007).

In Morocco, the volume of handicrafts production is measured by the Ministry of Tourism at 19% of GDP. The exports of handicrafts from Morocco are estimated at US\$ 63 million. The tourism industry represents approximately 6.5% of GDP (US\$ 2.1 billion) (UNESCO) 2007).

Trade of Ethiopian handicrafts started several years ago. The magnitude of the trade is, however, still very small. Even the transaction value of the biggest trader is still 2,000-3,000 US\$ per month according to MoTI, which is insignificant compared to other industries (The Embassy of Japan in Ethiopia, 2008)

According to FeMSEDA, the total transaction volume of handicrafts in Europe is 1.5billion US\$ most of which is captured by Indian, Pakistani and Turkish products. If the Ethiopian handicrafts could capture only a few percentage of the market, it would make a huge impact on the industry's economy (The Embassy of Japan in Ethiopia, 2008)

The International Fund center (IFC) reports for other African countries shows that for Mozambique, the IFC estimates the average spending per tourist, at a minimum, of US\$ 20; for Kenya and Tanzania handicraft purchases per tourist are estimated at US\$ 79 per tourist (IFC, 2006) (International Trade Center, (ITC), 2010).

In countries, like Ethiopia, plans to attract large number of international visitors, the tourism sector offers many opportunities for poor people to sell handicrafts, as tourists spend significant amounts of money on souvenirs and other craft products. The success or growth of the tourism industry also has an impact on the growth of craft markets.

### **2.2.7. Main Actors of the Craft Industry in Addis Ababa**

The key players and actors in the handicrafts sector in Addis Ababa are identified based on the four types of influence they may have in the development of the craft industry. They include institutions influencing at broad level or strategic level include the following;

Federal FeMSEDA, MoCT, Regional, Zonal and woreda Culture and Tourism Structures, Ministry of Works and Urban Development (MoWUD), Addis Ababa City Administration, Cooperatives promotion Agencies, Ethiopian Tourist Trading Enterprise (ETTC), NGOs, International development agencies. Embassies, Tourist Guides, Technical and Vocational Education Trainings (TVETs), Higher Education institutions, Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA), Addis Ababa

Municipality, Kebeles, Community based organizations, financial institutions, including banks and Micro Finance Institutions (MFIs).

Ethiopia has already created an enabling environment and a federal governance system that promotes a policy of cultural pluralism and an overall national strategy of social progress as indicated in its constitution. The different National Regional States within the federal governance system have their own Cultural and Tourism Bureaus with cultural policies and sector development plans to develop their cultural resources.

## **2.3. Empirical Literature**

### **2.3.1. International experience**

According to Voulgaris et al. (2001), impediments to growth of Small Enterprises have been found to be low access to financing and access to sources of information and technology, lack of technical and managerial skill, inadequate organizational adaptability and ability to acquire or use new technology. The authors argue that the lack of resources experienced by most small firms suggest that substantial benefits might be obtained through the development of strategic partnership with other small or even large- size firms. Ozcan (1995) also suggested the need for developing networks capable of delivering economies of scales and greater market penetration for successful enterprise growth performance.

Voulgaris et al (2001) relates successful growth of firms with entrepreneurial attributes. According to him many entrepreneurs choose not to grow because of fear of loss of personal control of the firm, fear of having to go in to debt or reluctance to pass the responsibility of running the business over to professional managers. Similar argument offered by Andreff and Redor (2001) in theoretical terms that the business creator is above all an "entrepreneur" whose individual characteristics are one of the determinants of new-business growth. According to Papadaki and Chami (2002), the entrepreneur has the willingness and superior ability to make decisions, raise capital and assume the risk of failure. They observe that firm's output is a function of managerial ability as well as capital and labour. These Authors drew many useful findings and conclusions from their empirical work on data obtained through survey of 1,337 small business establishments in Canada. They consider such variables as education level, age, gender, growth motivation and management know-how of the owner (manager) and other business practices as well as

age and size of the firm. Their findings reveal that level of education, informal net working, partnership, innovation and market focus have significant impact on small firm growth. They also conclude that age and size of the firm have significant impact on firm growth.

But, for Bager and Scott (2002), important growth determinants of private firms are not only the education, age and gender composition of the firm's owner-manager but also the staff and its level of income. They conclude that those entrepreneurs who make their firms grow are relatively young and that those who make their firms survive are more experienced and older. If education and income levels are understood as indicators of knowledge and financial assets, young age are seen as empirical indicators of entrepreneurial orientation. They also comment that these results support those who argue for an integration of resource-based theory and entrepreneurship theory in the growth field.

Person (2002) in her study on the survival and growth of new establishments also observed an important positive relation between educational and demographic factors, and survival and growth of firms. According to her study's results, although the probability of an establishment surviving is less, if the work force (including the owner) is very young, such establishments do grow faster provided they stay in business. New establishments dominated by workers with the lowest level of education exhibit a lower rate of growth.

### **2.3.2. Ethiopia's Experience**

Ephrem (2010) in his master's thesis studied the role of MSEs in poverty alleviation in Gulele sub city, Addis Ababa Ethiopia. using a mix of qualitative and quantitative tools. The study found out that micro and small enterprises has played positive role in income, creation of employment and improving the quality of life of the participants, either the managers/operators or other members of the enterprises of the MSEs in the study area. However, shortage of startup capital; high interest rates; lack of skilled personnel; inadequate support from Government/NGOs; unaffordable tax and/or rent and lack of production place are among the major constraints for the operation and growth of MSEs.

In his master's thesis, Berhanu (2015) studied the socio economic role of clustering and government constructed working premises/shed on 'traditional handloom weavers' the case of Gulele sub-ciy Woreda

one and six. The study tried to identify and analyze challenges and prospects of traditional handloom weavers working under government constructed working premises in comparison to those weavers operating in their own homes. The researcher employed different data collection techniques, including semi-structured questionnaires, interview, discussion, as well as secondary sources. The analyses showed that those operators that are working in the government constructed working premise have more access for the supports provided by government institutions and NGOs than household operators. Since household operators are scattered and operate individually from their home, they have very little access to supports provided both by government institutions and NGOs. Handloom weavers working under government constructed working promises have shown better performances.

Some of the benefits from government constructed working promises were process, product, and market development; and improved vertical and horizontal linkages as well as positive income change. Particularly, cooperatives in common workshop have benefited more from these advantages. There was also improved employment opportunity for people with less capacity to run own enterprise. However, some critical problems, such as lack of financial capacity and input supply accessibly, limited working space, continuous interruption of electric power, and sanitation problems of the working premises have not been addressed appropriately. Compared to working premise users, household operators have shown less business performance. Therefore, the paper concludes that the Government constructed working premises and supports provided to weavers operating in the category have positively impacted business performance of handloom enterprise. Then end up by pointing the need towards improvement on the way through which some services have been provided and the accessibility of individual handloom weavers operating form their home in order to gain the potential benefit from the support.

In 2015, Markos identified determinants of Microenterprises by Targeting Youth Group in Addis Ababa, Ethiopia. The main objective of this study was to determine the targeting youth group in microenterprises and assess the status, challenges and its prospects in the case of Addis Ababa, Ethiopia. A cross sectional survey of 120 micro enterprises which operated by youth groups in Addis Ababa was taken. The major micro and small enterprise activity identification was based on the available information from MSE packages and selected randomly. The sampling method was involved in ten sub-cities of Addis Ababa. Data analysis was made by using descriptive statistics. The result of the study was from the different

supports provided by youth targeting microenterprises, psychological and financial supports are the major supports to female operators. Moreover, majority of microenterprises were undertaking quality control and quality standards and most of these microenterprises were undertaking controls over production; however, absence of testing facilities, attitude of operators, lack of technical skills, and high cost were the major reasons for not undertaking quality control and quality standards. Based on his finding, he concluded that source of their initial capital to the majority of such enterprises were microfinance institutions, which are playing a great role in terms of poverty reduction, employment and growth of micro enterprises especially for youth targeting micro enterprises and it has to be strengthened.

Arega et al (2016) published a journal with title ‘Growth of MSEs in Addis Ababa City Administration: A Study on Selected Micro and Small Enterprise in Bole Sub City.’ The main objective of this study was to investigate the factors that affect growth of MSEs in Addis Ababa City. The study tested impact of availability of technical and business management training for owners, the size of initial investment, the output of MSEs as product versus rendering service, working in cooperatives versus working without cooperative on growth of MSEs in Bole Sub City of Addis Ababa City Administration. Primary data, through structured questionnaire, was collected from random samples of 165 MSEs.

Results revealed that MSEs whose owners attained training, started business with high initial investment, engaged on the service sector, and established in non-cooperative form have better growth than those whose owners/operators did not attend training, who started with low initial investment, those engaged on production sector, and those working in cooperatives respectively. Hence, the concerned government officials, nongovernmental organizations and other national economic development players have to work hand in hand in the area of training, availability of finance, formation and business sectors of MSEs in the country.

Berihu et al. (2014) published a research report titled ‘Identifying Key Success Factors and Constraints in Ethiopia’s MSE Development’ by sponsorship of Ethiopian Development Research Institute. Based on their findings they concluded that the key success factors tend to be personal qualities such as articulate vision or ambition and innate abilities, working experience in the formal sector as a factory employee or having worked in family businesses, managerial and entrepreneurial skills and higher equity in the



invested money. Except for personal traits and qualities, many of the stated success factors can be emulated through teaching and training. On the other hand, the key constraints include: shortage and small size of credit, shortage of working and sales spaces, lack of rental machinery and stringent licensing requirements.

In terms of policy, there seems no policy that covers those that graduate from MSE support. Technically, graduates are in between MSEs and investors, and, hence, there exists no policy addressing the problems of graduates. Finally, another point of concern is institutional coordination. Since Ethiopia's MSE policy implementation involves a lot of government agencies including MSEDAs, TVETs, MFIs, Ministry of Urban Development, Housing and Construction (MoUDHC) and other institutions, institutional coordination has been a challenge. To alleviate this, an MSE council consisting of relevant government agencies has been established but the council has limitations in what it can do in terms of its mandates and limited capacity to follow-up policy implementation. Finally, we would like to state that the observations and findings in this research report are preliminary aiming at understanding and exploring the MSE sector, which will serve as ground work to conduct a more analytic research work on Ethiopia's MSE development in subsequent studies.

According Yordanos (2006) 60% of the Addis Ababa dwellers are directly or indirectly benefits from MSEs. The average monthly income of half of the population of the city is around 340 birr while the vast majority 80% of Addis Ababa inhabitant subsists below poverty threshold. The employment crisis in Addis Ababa also is severing. More than one third of the workforce was seeking work (Wakjira, 2015).

According to Lois and Annette (2005) the average micro-enterprise has capital of Birr 3,528, a yearly production value of Birr 2,300 and an annual surplus of Birr 1,300. Although significantly more productive and profitable than micro-enterprises, small-scale industries are also very small, with an average of slightly more than three employees, Birr 18,934 in annual operating surplus, Capital of Birr 38,354, and production value of Birr 68,800.

Though there is considerable potential that can be maximized, the traditional handcraft industry in Ethiopia has failed to gather the momentum for its development and continues to struggle to realize that potential and establish itself as a viable and vibrant economic activity for prospective entrepreneurs.

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### **2.3.3. Challenges of the Small Enterprise Sector**

Many of the small enterprises in the country are commonly constrained by several factors but some attempts were made to alleviate them by the government. Even though, the degree of severity of each problem varies from enterprise to enterprise, some of the major problems that have inhibited the development of the sector include the following.

The most serious problem facing the small-scale and micro enterprises sector have been raising of investment capital and lack of credit access for buying machinery and equipment and for the day- to-day running of the business. In developing economies including Sub-Saharan African (SSA) countries, SMEs are typically more credit constrained than large firms, severely affecting their possibilities to grow as cited in Beck et al 2005); Beck and Demirguc-kunt, 2006; Beck et al, 2006; Ayyagari et al, 2008; Beck et al, 2008; Ayyagari et al 2012)

The financial institutions loan policies have not been conducive and attractive (Assefa, 1997). High collateral requirements, high interest rates, short repayment period are among the major problems that

make easy access to credit difficult. Banks are unfamiliar with small manufacturing enterprises because they consider them as involving high-risk factor, not dependable, and involve excessive administrative costs. Hence, they regard them as not eligible for provisions of bank services. Therefore, the sector is neglected by the financial institutions and this is one crucial area where attention is deemed critical.

According to Beck et al (2006) cited in El-Said et al (2013), small firms consistently report more financing obstacles than medium and large enterprises. The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39 percent compared to 36 percent for medium-sized firms and 32 percent for large firms. Small firms mainly borrow funds through the informal financial market while larger firms obtain funds from the formal market (Beck et al, 2006 cited in El-Said et al 2013).

Shortage of raw materials is another most important and pressing problem facing small manufacturing enterprises. The source and proximity to raw materials determine MSEs' viability. Hence, MSEs should be located in the areas where their resources originate or where sufficient supply of raw materials is secured. Shortages of raw materials are frequent problem to small manufacturing enterprises. According to Harper (1987), this problem may arise from a shortage of working capital, which effectively ties the enterprise to one high priced, unreliable or low-quality supplier.

Lack of premises and land is still one of the major challenges. It is common to see most small enterprises taking advantages of their residence areas as business premises. Small enterprises by their very nature are started in and around residence areas, which through time and growth require additional working space. They can rarely acquire suitable locations where they can get easy access to markets. In the CSA's 2002 survey result, it is reported that problem associated with working premises is mentioned by entrepreneurs as one major constraint hindering the smooth performance of small-scale enterprises in the region.

Among the major reasons why small manufacturing enterprises are concentrated in urban areas is because of the relative availability of infrastructure compared to rural areas. Water, electricity and market access and roads are vital inputs to small-scale industries. However, shortage of such infrastructure has been one

of the major constraints to the development of the sector in many urban areas of the country (Endeshaw, 2005).

Many researchers in the field argue that the inability of marketing their products effectively is one of the main bottlenecks that small entrepreneurs face all over the country. Marketing problem is a serious constraint that hinders small enterprises' growth and their product diversification. Liedholm and Mead (1999) emphasized that the inability to develop and introduce new product types can be seen as a problem of markets for the products SSEs do make. According to a study conducted on small manufacturing enterprises in Amhara Region, of 690 industries from which information was collected 22 percent reported that they are facing serious market problems (Amhara Region Trade, Industry and Urban development Bureau, 2004).

Lack of entrepreneurial and managerial skills. Various studies conducted on the sector revealed that there is a general lack of knowledge in entrepreneurial and managerial capacity. However, according to these studies there is a doubt whether these entrepreneurs themselves are aware of the need. Lack of adequate skills is one of the seven major problems confronted by entrepreneurs at the starting of operation as revealed by the result of the national survey on small scale manufacturing industries undertaken by CSA in 2002.

Lack of information and information system. For the success of MSEs the presence of strong institution that can provide reliable and timely information through efficient information system is vital. MSEs essentially require information related to market raw materials, utilities, technology, business opportunities and information about government policies and regulation.

Technological problem. Technological development is very low in the country. As a result, most of the small-scale enterprises use obsolete technologies of production. The technology used by small-scale enterprises is out dated, unhygienic and inflexible (Assefa, 1997). These technologies need to be consistent with local resources and conditions to make effective utilization of the relatively abundant resources. However, the issue of adopting appropriate technology has been a serious problem of small scale manufacturing enterprises in our country. 29 percent of the small scale manufacturing enterprises among

the entrepreneurs approached by the CSA survey (2002) on small scale manufacturing industries reported frequent machinery failure to be their major reason for not being fully operational.

Inadequate consultancy and advisory services. The concept paper for the formulation of private sector capacity building programmes developed for the Amhara National Regional State (ANRS) in 2004 identified inadequate consultancy and advisory services to be among the major problems that hindered growth of the SSEs.

Unfavorable legal and regulatory environment. The private sector in Ethiopia was suppressed under the command economy in the previous regime. Currently, nearly all business activities are open to domestic private enterprise except for a few areas kept as government monopoly. Presently, the policy related to private investment is very conducive for the development of the private sector though it has still there are some challenges. However there are still some regulatory problems affecting the sector. No strong private sector can exist in the absence of an adequate legal framework to resolve disputes, facilitate efficient transaction and to protect property rights. Various studies and discussions indicate that the following are some of the regulatory issues affecting the private sector in general and the small-enterprises development in particular in Ethiopia.

The CSA's survey result on small scale manufacturing industries (2002) revealed that of the total establishments approached, some owners reported that government regulations were obstacles for starting their business operations. Among those who replied that government rules and regulations were obstacle for their business operation, 41.5 percent and 32 percent reported that getting license and regulation on obtaining working premises, respectively, were their major problems to start operation in this sector, and 13.4 percent reported that tax regulations were their major problems.

- Responsibilities of the government and the private sector are not clearly put. There are governance weaknesses on the part of both government and the private sector.
- Dialogue between the private sector and government has not been strengthened which could have minimized the regulatory and governance weaknesses.
- Bureaucratic delays and administrative inefficiencies need to be avoided.

Finally, it is important to note that in view of such diverse and complex problems facing the sector, government is required to take measures that facilitate smooth and healthy functioning of small enterprises as clearly indicated by W. R. Simpson who is Director of an International Labor Organization (ILO) project in Thailand (In ILO and UNDP, 1999). He said that governments do have a vital role to play in ensuring that the policy environment is ‘enterprise friendly’. The path in to enterprise should be smooth, and entrepreneurs should be able to receive relevant advice and support (both financial and nonfinancial) in a highly effective manner from both government and private sector agencies. The needs of the micro and small enterprise sector should be clearly identified, and linked with a better understanding of the scale and scope of the enterprise sector and its role in national development.

## CHAPTER THREE

### 3. RESEARCH METHODOLOGY

Both qualitative and quantitative data, which are relevant for the analysis of the objectives of the assessment was gathered from primary and secondary sources. Moreover, the data collection approach and technique also guided by the methodological guide to the collection of data.

#### 3.1. General Overview of the Study Area

Addis Ababa is the capital city of Ethiopia. The City was founded in 1886 during the reign of Emperor Menilik II. It was first developed around the National Palace. Empress Taytu played a significant role in founding Addis Ababa. Since then, it has become the cultural, political, economic and service hub of the country. The city has a total area of 540 square kilometers. (Addis Ababa City Information Bureau (AACIB), 2006).

The largest city and capital of Ethiopia is Addis Ababa, which has an estimated population of 3.6 million in the city proper and a metro population of more than 4.6 million. The city has through recent years seen a strong annual growth rate, and population counts as of 2017 are growing closer to 4 million. Addis Ababa is a chartered city and as such, is considered both a city and a state. (<http://worldpopulationreview.com/world-cities/addis-ababa-population/>)

The population density of Addis Ababa is 5165 persons per square km. As of now, the population growth rate of the city is 3.8% and this rate has been consistent since quite a while. (<http://populationof2017.com/population-of-addis-ababa-2017.html>)

Approximately 82% of the population is of the Orthodox Christian religion. 12.7% of residents are Muslim, 3.9% Protestant, less than 1% Catholic, and a smaller percentage following other religions. Adult literacy in the capital city is the highest among all of the country's cities, at over 93% for males and almost 80% for females. The city has a lower rate of infant mortality than the nationwide average and over 98% of homes in the city have access to clean drinking water (<http://worldpopulationreview.com/world-cities/addis-ababa-population/>).

The city provides various economic activities ranged from large industry, commerce and business in the formal sector to petty-trading, retail trading, street vending, shoe shining services and other services in the informal sector, including MSEs. A report by Addis Ababa City Administration indicates that about 24percent of the city formal labor force is engaged in industry sector. Service and agricultural sectors contribute for 72.2 percent and 2.6percent respectively.

On the other hand; about 60 percent of the human resource of the city is engaged in informal sector and about 50percent of the population in the city lives on monthly income of less than 200 birr (CSA, 2004 & AACIB, 2006). The report also indicates that 32.1 percent of the population is unemployed. Basic social services like water supply, toilet facilities, sanitation, sewerage and lighting facilities are also in critical shortage.

According to the city administration report, from 2005-2009 on average 58,000 employments was created yearly (ACB, 2009:40). In this regard, Micro and Small Enterprise Development is one of the priority areas of Addis Ababa city Administration for creating jobs. In the city, there are 127,318 informal micro enterprises which employ 167,000 labors. In addition, there are 51,684 cottage and small industries employing 83,000 workers. There were 137,000 licensed micro enterprises up to 2006. The city Administration has an agency, which gives various services for this sector (AACIB, 2006).

Currently the administrative system of Addis Ababa is subdivided into ten Sub Cities and 116 (one hundred sixteen) Woredas. Gulele is one of the sub-cities of Addis Ababa, which is the main focus area of the study. The following subsection will provide the background information about Gulele sub city.

### **3.1.1. Gulele Sub-City**

Gulele sub-city is one of the ten newly organized sub cities in Addis Ababa. The sub-city is bordered by Oromia regional state in the North, Kolfe Keranio Sub city in the West, Yeka in the East and Arada and Addis Ketema sub cities in the south. (Addis Ababa, 2009:130). Gulele sub city has a population of 346,026 with household size of 4.2. The sub city has a total area of 3224.85 hectare (CSA, 2007). Topographically the sub city is mountainous. This mountain is covered with forest and it is part of the city's green area. The forest has both economic and environmental usage. Gulele sub city has cold



climatic condition than the other parts of the city. There are number of religious places. In terms of health, the sub city has two federal hospitals, one higher clinic, three health center, six health posts and about 28 private clinics. Concerning education, the sub city education bureau has managed to stop shift system. Student- class room ratio reached to 1:57 in elementary schools and 1:61 in secondary schools, student – book ratio has reached 2:3. (ACB, 2009:25).

The sub city is composed of self-employed household heads engaged in weaving activities; tailoring, collecting and selling firewood, trading readymade cloths; petty trading, and daily laborers are major actors in the study area, followed by government enterprises, private institutions and other members of the enterprises, and the unemployed household heads. According to the 2008 report, the sub city faces multidimensional social and economic problems. It includes, unemployment, homelessness, HIV/AIDS, street children, prostitution, and other social evils are flourishing at an alarming rate. Accordingly, the sub city has put in place the necessary regulatory and policy direction to encourage the poor to participate in economic and social development. Therefore, MSEs are taken as one of the basic means and bridge towards this ends (GSC, 2008). With regard to MSEs activities, the sub city in 2008/2009 in different sectors of MSEs create 7800 permanent and 16376 temporary employment opportunity (ACB, 2009:130).



Prepared by; Urban plan and information institute

Figure 3: Map of the Addis Ababa City Administration with marked Gulele Sub-City

### **3.1.2. Why Gulele Sub-City**

The writer of this paper has a chance to work with the MSEs particularly with the handicraft producers in the Gulelie Sub-City during which he has got a chance to see the challenges of the firm to grow and transform themselves to the next level. During these times, the writer has observed the challenges faced by the enterprises and also discussed with the owners and employees of the enterprise. This is the major reason to the writer to choose Gulelie Sub-City as a research area.

## **3.2. Research approach and design**

To achieve the objective of the study, the researcher used quantitative research approach because quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationships. Quantitative research is concerned with testing hypotheses derived from theory and/or being able to estimate the size of a phenomenon of interest. The researcher collect data on participant and situational characteristics in order to statistically control for their influence on the dependent, or outcome, variable. As the intent is to generalize from the research participants to a larger population, the researcher employed probability sampling to select participants. Therefore, the data was collected from primary sources.

As this study is to identify the determinants of growth of small manufacturing enterprises, causal research, also known as explanatory research, was employed in order to identify the extent and nature of cause-and-effect relationships. The causal design was selected because it focuses on an analysis of a situation or a specific problem to explain the patterns of relationships between variables.

According to Zikmund et al. (2012), Advantages of Causal Research (Explanatory Research) includes:

- i. Causal studies may play an instrumental role in terms of identifying reasons behind a wide range of processes, as well as, assessing the impacts of changes in existing norms, processes etc.
- ii. Causal studies usually offer the advantages of replication if the necessity arises
- iii. This type of studies are associated with greater levels of internal validity due to systematic selection of subjects

### **3.3. Data source**

This research paper used primary and secondary data sources. The data collected using the following data collection methods from individual artisans and handicraft producer associations or enterprises found in Gulele Sub-City of the Addis Ababa City Administration. The government authorities, policy makers and those who have role in the handicraft value chain also used as data source.

### **3.4. Sampling procedure and Sample size**

In this thesis work, simple random sampling technique was applied to conduct this survey on the site. The random sampling was utilized in order to acquire equal chances of selection to the targeted population. In this sampling technique, the interviewer randomly chose and picked respondents. It is much less complicated and less costly both in time and financially to collect data.

The size of a sample is an important element in determining the statistical precision with which population values can be estimated. In general, increased sample size is associated with decreased sampling error. The larger the sample, the more likely the results are to represent the population. However, the relationship between sampling error and the sample size is not simple proportional. Generally, determination of sample size depends upon a number of factors, namely size and variability of the target population, resource

constraints, the allowable margin of error between the samples mean, and the populations mean, and the level of confidence required (Martin 2004).

The level of precision, also known as the significance level, is the range (in percentage points) in which the actual population mean is to be estimated. In most cases, a 90 percent confidence level is used if the study is intended to identify marginal relationships, while the 99 percent confidence level is used where decisions from the study of interest are critical (Mendenhall and Sincich 1996). 10% level of precision ensures representative from the selected population because the generally accepted level of precision for representative samples was 10 or less percent (Fink 2003).

To select samples, the list of the population of formally registered manufacturing enterprises until June 2017 by the Addis Ababa City Administration Trade and Industry Bureau, which included 1476 enterprises is used. The selected enterprises account for 75% of the registered enterprises in Addis Ababa registered until 2002 by the Bureau.

According to the information obtained from Gulele Sub City of the Addis Ababa City administration, 1476 producers are the population of formally registered as handicraft production enterprise in June 2017. Based on this population, 90 percent confidence level and 10 percent desired level of precision; the sample size of the study is determined as;

$$n = \frac{N}{1+N(e^2)} = \frac{1476}{1+(1476*0.1^2)}$$

Where:

n = required sample size

N = Average visitor population size per annum

e = 10% level of precision

Based on the above equation, the sample size of the study was determined to be 94. Hence, assuming for about 5% increase to account for incomplete or missing questionnaires 101 producers were selected as a sample.

### **3.5. Data Collection Method**

The ideal target population for conducting onsite field survey of the site were all those active producers who are in operation. Therefore, the universal population of this research was all producers, and closed enterprises were not sampled.

To identify the determinants of growth of small manufacturing enterprises, primary data was collected through on-site face-to-face interviews using structured questionnaire from May 01/2018 to May 31/2018.

For collecting data, highly trained and experienced enumerator was employed. Semi-structured and pre-tested questionnaire were also used to collect information from 101 Producers. The questionnaire was composed of introduction, variables related to operators and firm characteristics (see Appendix 1). Before starting data collection, the main purpose of the study was explained to each and every respondent. By doing so, the respondents were expected to ensure confidentiality which allows the researcher to get unbiased information.

### **3.6. Data Analysis Method**

The data gathered analyzed in line with the study objectives already identified and the findings considered at each methodological level. The analysis carried out after the data were categorized and disaggregated into simple descriptive statistics such as frequency, percentage, tables and figures. Cross tabulations from the descriptive statistics for some key variables of the study constructed to supplement to the output obtained through the application of the model. Multiple Linear Regression was used to estimate the coefficients and analyze the determinants of enterprise/firm growth, which is the main theme of the study.

#### **3.6.1. Model Specification**

Analysis of data was undertaken to show important relationships of variables in the study. To this end, a linear regression model fitted. In the studies of firm growth, as broadly discussed in the literature review chapter, employment growth is defined in a number of ways. According to Liedholm and Mead (1999), there are three ways of defining employment growth. These are annual compound growth rate and average annual growth rates measured in percent and average annual growth in jobs since start up measured in number of jobs created.

The Compound Annual Growth Rate (CAGR) is a rate of growth that tells what an enterprise growth in employment over the years on an annually compounded basis is measured in percent. It is calculated as:

$$\left[ \left( \frac{\text{current employment}}{\text{initial employment}} \right)^{1/\text{firm age}} \right] - 1.$$

The Average Annual Growth Rate (AAGR), which is the average increase in the employment over the years since start up measured in percent, is calculated as:

$$\left[ \frac{(\text{Current Employment} - \text{Initial employment})}{\text{initial employment}} \right] / \text{firm age}$$

The average annual growth in jobs since startup which is measured in number of jobs created per firm is calculated as:

$$(\text{current employment} - \text{initial employment}) / \text{firm age}$$

The CAGRs are preferred than average growth rates or number of changes in employment since start up in several studies of employment growth. The use of compound annual growth rates permits a much more precise assessment of the timing of employment growth effects (Liedholm and Mead 1999). CAGR is also used in the study.

In the studies of firm growth, researchers often used three kinds of econometric models to estimate significant factors for growth.

The first groups of researchers treat the dependent variable, growth in employment, in more than two categories and use models like multinomial logit model. Here the dependent variable could be categorized as positive, constant and negative (Harabi 2003, Cunningham, and Maloney 2001).

The other group of researchers treat the dependent variable as dichotomous variable and use models like logistic or probit regression models (Yonggui et al 2000, Fantu 2001). For instance, Fantu (2001) defined growth as dichotomous variables 1 and 0, and used a logistic regression model where 1 refers the availability of growth and 0 not. Fantu defined growth to exist if the number of employees increased by more than 50% now from the start up time.

The third group of researchers use multiple linear regression models treating growth as a continuous variable (Liedholm and Mead 1999, Liedholm 2001, USAID 2002, Harding 2002, Voulgaris et al 2003, Hart and McGuinness 2000 and Hayat 1997).

In this analysis, a multiple linear regression analysis was used to test whether or not the key independent variables were related to the dependent variable. The multiple linear regression analysis was chosen because growth measure, annual compound growth of small manufacturing firms, used as the dependent variable takes a continuous measure. There is no strong reason to categorize the dependent variable into two categories like Fantu did. According to Fantu's categorization of the dependent variable in to two dichotomous variables, if a firm's employment rate grows less than 50 %. there is no growth while if it grows more than 50% there exists growth. Such categorizations of growth is a bit slippery and therefore difficult to capture the dynamism of change in employment resulting in a continuing enterprise growth momentum.

For the analysis of the growth of business firms in Addis Ababa, the multiple linear regression model is used to be estimated is formulated as follows:

*Growth in employment = f (Gender, Education, Experience, Firm age, Number of employees at start up, Initial capital, Availability of credit, Training for workers, Training of owners, Availability of qualified workers Demand, Diversification of products ,Availability of own premise and Availability of promotional activities)*

The general multiple linear regression model is then specified as:

$$Y_i = \alpha_0 + \sum \beta_i X_i + \varepsilon$$

Where  $Y_i$  is the growth of the firm

$\alpha_0$  is the intercept term

$\beta_i$  is the coefficient of  $x_i$

$x_i$  are the explanatory variables

$\varepsilon$  is the error term

Specifically, the estimated equation in the analysis of the determinants of growth in this study is as follows:

$$EGTH = \alpha_0 + \beta_1 (SEX) + \beta_2 (EDU) + \beta_3 (EXPR) + \beta_4 (AGE) + \beta_5 (SIZE) + \beta_6 (CAPT) + \beta_7 (CRED) + \beta_8 (PREM) + \beta_9 (WOR) + \beta_{10} (DIVR) + \beta_{11} (PROM) + \beta_{12} (INFR) + \beta_{13} (WORK) + \varepsilon$$

### *Statistical Hypothesis*

EGTH: Annual compound growth rate in employment for the  $i^{\text{th}}$  firm

SEX is the variable that represent gender of the entrepreneur. Female entrepreneurs are more risk averse and are less likely to grow in comparison with their male counterparts. (Dummy variable, 1 if the respondent is male and 0 if female)

EDUC is the level of formal education of the entrepreneur at the time of startup. It is expected that entrepreneurs with higher level of formal education at start up would be more likely to grow than those with lower levels of education at start up.

EXPR is the variable that represent the number of years of related work experience of the entrepreneur before start up. The higher of related work experience is positively related to firm's growth.



AGE is the age of the firm. Firm age is defined as the absolute number of years of existence since start-up. Younger firms grow faster than those that are relatively older ones. Thus, there prevails a negative relationship between the enterprise growth and its age.

SIZE is the variable that represent the initial size of the enterprise measured in the number of employed workers during start up. Smaller sized firms grow faster than their counterparts that are larger. Thus, there exists a negative relationship between the growth of enterprises and the initial size.

CAPT is the amount of paid up capital in Birr during start up. The amount of paid up capital to start the business is expected to have positive relationship with growth in small manufacturing enterprises.

CRED: Availability of credit from formal sources like micro financing institutions and banks. Those enterprises that have access to formal and informal credit are expected to grow than those that have not. (Dummy variable 1 if the respondent reports receiving external formal credit for the business and 0 if not).

PREM: Availability of own premise or industrial land. Firm's access to industrial land has been argued to be major factors in firm growth. (Dummy variable 1 for the availability of own premise and 0 for the otherwise).

TWOR: Technical training assistance for workers for the last five years at the time of the study. Continuous training of the workforce enhances the growth rate of firms. (Dummy variable 1 for the availability of continuous training for the work force from formal institutions for the last five years at the time of the study and 0 if continuous training is non-existent).

DIVR: Refers to diversification of the firm's Products and services measured in the number of types of products. Product diversification or production of various products is associated with the growth of manufacturing firms because it helps firms to cope with demand constraints.

PROM: Availability of promotional initiatives using fliers and notice boards, local newspapers, exhibitions, radio and /or television. Advertising intensity is one factor for growth in small enterprises because it creates new opportunities for the firm. (Indicator variable 1 if respondent reports using at least 1 mode of promotion, 0 otherwise)

INFR: Availability of infrastructural facilities like power, water, road, telecommunications, and so forth enhance growth of manufacturing enterprises. (Dummy variable 1 if respondent reports the availability of sufficient infrastructural facilities for the functions of the business and 0 if the respondent reports lack or problem of these facilities to the functions of the business).

WORK. Availability of one or more workers with related vocational training to the functions of the enterprise. It expected that firms with workers with vocational training are expected to grow faster than those who have not. (Dummy variable 1 if the business has employees who have had formal vocational training in formal non-formal education institutions and 0 if such a case is non- existent).

### 3.6.2. Summary of variables

Table 3: Definition of variables, measurement and expected hypothesis

<b>Variables</b>	<b>Definition of Variables</b>	<b>Expected Sign</b>
SEX	Gender of the entrepreneur	
EDUC	the level of formal education of the entrepreneur at the time of startup	+
EXPR	the variable that represent the number of years of related work experience of the entrepreneur before start up	+
AGE	the age of the firm	-
SIZE	the initial size of the enterprise measured in the number of employed workers during start up	-
CAPT	the amount of paid up capital in Birr during start up	+
CRED	Availability of credit from formal sources like micro financing institutions and banks.	+
PREM	Availability of own premise or industrial land	+
TWOR	Technical training assistance for workers for the last five years	+
DIVR	to diversification of the firm's Products and services measured in the number of types of products	+
PROM	Availability of promotional initiatives	+
INFR	Availability of infrastructural facilities	+
WORK	Availability of one or more workers with related vocational training to the functions of the enterprise.	+

## **CHAPTER FOUR**

### **4. RESULTS AND DISCUSSION**

#### **4.1. Results of Descriptive Statistics**

##### **4.1.1. Characteristics of Business Operators**

Among the samples included in the analysis, 76.6% of business operators were males and 23.4 % were females. At the time of business startup, the majority of male entrepreneurs (62%) and female entrepreneurs (33.3%) were beyond 6<sup>th</sup> Grade. The level of education attained by the respondent's at the time of the study show that about 44.2% have completed 10<sup>th</sup> Grade. With regard to the level of education attained by women operators, it is shown that about 33% are beyond 10<sup>th</sup> Grade, whereas men belonging to this range are nearly 63.5%. This indicates that women's participation in the education system particularly in higher levels is relatively lower. This is attributed mainly to the cultural norms and societal attitudes, which consider women as inferior, too much family responsibilities they have to bear and the legal factors, which do not recognize their rights (Zewde et al, 2013).

##### **4.1.2. Characteristics of the Enterprises**

The samples that are studied have a mean of 9.73 years in the business, Br 4,292 paid up capital at start up, and approximately 2 and 8 employees on average at start up and at the time of the study respectively. About 23% indicated that they owned the premises they are operating in while higher percentage of (77%) businesses operating in rented buildings. Only 7.5 and 9.5% of the total enterprises have received continuous training for the work force and for the entrepreneur respectively. The majority of firms produce two types of products with a mean of around 4 kind of products. And 92% do not use enterprises do not use any form of promotion.

##### **4.1.3. Constraints of Growth of Small Enterprises**

With the introduction of the new economic policy, which is designed along the line of a market economy and the implementation of the reform programs, more conducive business environment is being created. Cognizant of the vital role of the SME sector to social and economic endeavors of the country, the Federal Government of Ethiopia has issued a national strategy for the promotion and development of MSEs.

Implementing bodies of the strategy have been established in different regions including Addis Ababa. Even though, there is a general positive environment for the development of SME, since the strategies and support programs are not fully or adequately implemented, there are still problems that constrain the growth of the SME sector (Solomon, 2014). The major problems encountered by the Gulele sub city, Addis Ababa administration, Handicraft Production operators in the process of running and expanding their activities are presented as follow.

Table 4: Constraints of Growth of Handicraft Production Enterprises

<i>Constraints of Growth</i>	Frequency	Percentage
Lack of sufficient capital	27	27
Working premise or space	22	22
Poor technology of production	11	11
Lack of training for the work force	10	10
Access to raw materials	6	6
Problems related to government rules and regulations	6	6
Lack of demand	19	19
<b>Total</b>	101	101

*Source: This study survey data*

In the survey, the owner or the managers of the firm were asked to point out the most constraining factors to which they actually constitute an obstacle to the growth of his/her firm. The answers to the question were subjective but contribute to a better understanding of how certain types of growth obstacles are perceived.

In table above, it can be seen that lack of capital is perceived as the most constraining factor by 27% of the interviewed business operators in the Sub-City. Capital markets discriminate against individual entrepreneurs and entrepreneurial firms. Liquidity constraints are more pronounced and entrepreneurs have to finance their venture with own savings and informal loans. The common finding in studies of managerial opinions in small businesses is that managers feel the firm is capital constrained (Andualem

1997, Assefa 1997, USAID 2002, Liedholm and Mead, Liedholm 2001). The responses of operators in this study is quite consistent with this showing that financial factors rank highly in operator's opinions on constraints for small manufacturing enterprise growth in Addis Ababa.

The problem of access to credit facilities is due to the reluctance of the formal financial institutions to cater for the sector. Numerous studies have discussed that SMEs are financially more constrained than larger firms in both developed and developing countries. In developing economies including Sub-Saharan Africa, SMEs are typically more credit-constrained than large firms, severely affecting their possibilities to grow (Ayyagari et al, 2012).

One feature common to all formal financial institutions is that they are subject to varying degrees of central bank control. Such controls include interest rate and loan portfolio ceilings, cash reserve requirements, and selective credit policies and the existence of a banking system that lead to the phenomenon of financial repression, whereby the financial needs of the large established enterprises are well served but the small scale enterprise have limited access to formal credit and must depend on the informal financial markets. Small scale manufactures usually have no asset that are worth to be pledged for collateral requirements of the financial institutions. As the terms and conditions of the conventional financial bodies are not suitable to the SME operators and because there are no adequate special financial institutions to cater for the sector, the problem of credit gets so profound. Thus, SMEs depend mainly on internally generated funds. The evidence reported in table below justifies the situation.

Table 5: Source of Finance of Enterprises

<i>Largest Source of Finance at the Time of the Study</i>	<i>Frequency</i>	<i>Percentage</i>
personal saving	74	74
household assistance	19	19
borrowed from relatives/friends	2	2
borrowed from lenders	0	0
borrowed from formal Institutions	5	5
<i>Total</i>	101	100

*Source: This study survey data*

As indicated in table above, the majority of handicraft production enterprises do manage to finance the growth of their enterprises from their own savings (74% of sample firms) and household assistance (19%) followed by their respective importance. Only a few of small enterprises have had the access to formal credit schemes from banks. The extensive use of personal saving in the financing of Handicraft production is an indication of the reliance on internal sources of funds as a major source of capital for their investment.

This is attributed to the easy accessibility of informal financial markets to SMEs to enable them fill any capital gap in their financial system. Typically, transaction costs of the informal sector are low, essentially because of the informality of the activities. Usually, the lender has an intimate knowledge of the borrower and this facilitates rapid decision-making. Frequently the informal lender is one person and little formal documentation is used. Moreover, there are normally no restrictions on access to credit from the informal sector except that they are eventuated by poor repayment performance. Collateral requirements are minimal and usually the knowledge of the borrower on the part of the lender is all that is required. Informal operators normally do not place restrictions on how loan funds will be utilized. Because of these and other factors, small manufacturing enterprises rely more on informal financial markets as their sources of external finance for their fixed as well as working capital instead of formal ones for the reasons listed in table below.

**Table 6: Reason for Not Applying for Credit**

<i>Reason for not applying for credit</i>	<i>Frequency</i>	<i>Percentage</i>
High interest rate	19	19
High collateral requirement from banks	64	64
Loan application procedures too complicated	3	3
Didn't want to incur debt	12	12
Don't know where to get it	2	2
<b>Total</b>	101	100

*Source: This study survey data*

According to the respondents, the most important reason why they did not apply for credit in the formal financial markets is due to the high collateral requirement which is beyond they could afford (64%). A significant number of respondents attributed this for a high interest rate (19%) and 12% of them responded that they did not want to incur credit for any reason.

All these has boiled down to the situation that only few 5 out of 101 enterprises happen to succeed in securing credit from formal financial markets among the total enterprises in the study.

## **4.2. Econometric Results**

The multiple linear regression analysis was used to examine the relationship between the growth of handicraft industry in terms of employment using the compound annual employment growth rate as a measure and several explanatory variables such as gender, level of education of operators at the time start up, availability related work experience, firm age, number of employees at start up, initial capital, availability of credit, training for workers, availability of qualified workers, diversification of products, availability of own premise, infrastructure and availability of promotional activities. The result of the analysis is presented in table below.



In a survey data set, a researcher often encounters so many problems. The problem of multicollinearity is very common in cross section data. Multicollinearity means that there is linear relationship between explanatory variables which may cause the regression model biased. Therefore, the data should be cleared before it is used for the analysis purpose. If the explanatory variables are perfectly linearly correlated the parameters become indeterminate, (Gujarati, 2008). The fact that if VIF is significantly greater than 10 (i.e., the common rule of thumb value stated), would suggest that exhibits multicollinearity. In the above table results, it can be seen that there is no multicollinearity between the explanatory variables.

F- statistics which is statistically significant at 1% shows that the overall goodness of model result indicating that the model is well fit. In addition, R-squared shows that about 82% of the total variation of the dependent variable accounted by the explanatory variables.

Table 7: Results of the Econometric Analysis of the SMEs Employment Growth

Variables	Coefficients	Standard error	p-value
CONSTANT	1.365	.574	.0192**
EXPR	-0.306	.173	.246
PREM	0.452	.182	.071*
AGE	-0.066	.022	0.002***
SIZE	-0.116	.045	0.009***
PROM	-0.082	.078	0.832
TWOR	0.029	.384	0.86
WORK	0.327	.174	0.081*
INFR	0.592	.201	0.012**
DIVR	0.151	.051	0.008*
CRED	-0.010	.258	0.761
CAPT	-0.0001	.000	0.016**
EDUC	0.025	.046	0.544
SEX	0.257	.193	0.532
Log likelihood	32.28644		
F-statistics	149.15***		
R <sup>2</sup>	82.3466		
<i>Dependent Variable: Compound Annual Employment Growth Rate</i>			

Note: \*\*\*, \*\* and \* are statistically significant at 1%, 5% and 10% level of significance.

Source: Computed from the survey data

Enterprise age is negative and statistically significant at 1% significance level indicating a strong inverse relationship between firm age and growth. Thus, the younger the firms are the more likely they grow fast. This result is consistent with Jovanovic's (1982) (cited in Solomon 1998) model of passive learning model and competitive selection. The magnitude of marginal changes, other things remaining the same, an additional year in the firm age imply a reduction of employment growth rate by 0.066%. Similar findings are reported from Liedholm and Mead 1999, Liedholm 2001 and Taye 1998.

Initial size of a firm is negatively and statistically significant at 1% level revealing strong inverse relationship between initial size and growth. The decrement of the initial size of enterprises by one, increases the growth rate of enterprises by 0.116%. The smaller enterprises at start up thus register high growth rates than their larger counterparts. This is because younger firms need to rapidly achieve the minimum efficient size. Similar findings are reported by other researchers. (Liedholm and Mead 1999, Liedholm 2001). This finding contrasts the theoretical underpinning of Gibrat's law, which contends that firm growth is independent of firm size.

Initial capital is negative and statistically significant at 5% significance level. The association of low startup capital with growth suggests that growing firms are not capital intensive at least at the early years of their establishment.

In addition, small firm growth rates which have sufficient infrastructural facilities have shown significant growth estimated at 5% significance level. Those enterprises which have access to infrastructural facilities grow by 0.592% rate of employment than those which haven't. The importance of infrastructural facilities for the manufacturing sector is worth considering for policy makers as a positive knock on effect for small manufacturing enterprises.

There is also evidence that formal vocational training of the workforce does significantly affect enterprise growth at 10% significance level. This is a powerful finding for those concerned with employment creation in the Sub city. It is the only technical assistance, which systematically enhances growth. The importance of vocational training for workers is perhaps the most important finding for the manufacturing sector from this analysis, as it provides the opportunity for short-term and long-term impacts on the growth trajectories of small manufacturing firms. This result supports the Addis Ababa city administration effort to equip secondary schools with skill providing equipment and machinery and build new or strengthen existing high schools for the TVET program.

The diversity of products of the firm was found to exert a positive effect on small manufacturing firm growth at 1% significant level. It shows that as the firm's product diversity increases by one, its

employment growth rate will increase by 0.151%. This suggests that the higher the number of diversified products the higher the growth rate in the handicraft Production firms. The explanation for this positive relationship between the number of products and high growth probability is that diversification increases the capacity of firms to buffer any unfavorable influence emerging from lack of demand for a few products.

The availability of own premise is found to be a significant variable at 10% significance level. This shows that business operators that secure own working place and buildings are in a better position to plan with greater certainty and stand a better chance of accessing the needed infrastructure and in doing so will enhance the growth of such enterprises.

However, the availability of credit from formal financial markets especially from banks was found to be insignificant factor for employment growth in the sample firms for this study. This is mainly because; those enterprises which secured credit according to the descriptive result were small in proportion in the first place. In addition, according to Nelson (1987), simply credit availability will not result in a significant growth if the other factors necessary to encourage this growth are absent. Such factors include business development services (BDS), adequate infrastructure, availability of raw materials and other resources at competitive prices. When these factors are present at the appropriate levels, however, credit can serve as a powerful catalyst in hastening the rate of growth of manufacturing firms.

In addition, the availability of previous related experience that firm owners may have acquired prior to starting up their business does not seem to influence growth of enterprises, even though, other researchers have found evidence that entrepreneurs whose prior work experience is outside the firm's industry are more successful at raising growth (USAID, 2012).

The same applies to formal education completion at junior secondary as well as post-secondary levels. It is difficult to understand that managers or entrepreneurs with higher education level always have higher professional, technical skills and ability to operate their firms in a way that leads to a high growth of their enterprises. Instead, the difference in firm performance emanates out of the human capital related to the

workers. To this regard, the availability of qualified workers who had a vocational training significantly affects the growth of firms at 10% significant level.

Concerning human capital, the findings suggest that education at all levels is not associated with higher growth. The same is true for the sex of the entrepreneur, and the degree of promotion.

In summary, the multiple linear econometric analysis has revealed that several key variables are important determinants of the growth of the existing small enterprises in Gulele subcity, Addis Ababa city administration. Enterprise growth in most cases is inversely related to initial size and age and initial capital of the enterprise. In addition, variables such as availability of qualified workers, level of product diversification, availability of sufficient infrastructural facilities and own premise for the enterprise are shown to significantly influence the growth of handicraft Production in the subcity while growth is being measured by changes in firm's employment level.

## **CHAPTER FIVE**

### **5. CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Conclusion**

The interest for SMEs in developing countries stems largely from the widespread concern over unemployment. Governments in most developing countries are currently interested in the effects of the small enterprise sector on job creation. Practically all reports on SMEs in recent years appeal to the greater labor intensity of these enterprises and the importance of shifting a greater share of investment towards them. Before promoting structural shifts in investment, however, policy makers should know the factors that influence the startup, growth and closure of these enterprises.

The objective of this study was to identify factors that contribute to the startup, growth and closure of small manufacturing enterprises in Addis Ababa. To this end, the study used both a survey research methods. The survey method involved 101 handicraft manufacturing enterprises to come to a better understanding on the factors that influence the startup experience and growth of these enterprises. The sample frame was taken from formally registered handicraft manufacturing enterprises by the Gulele sub city Trade and Industry Bureau. In addition, a simple random sampling method was used to select samples from small metal and food manufacturing enterprises.

Analysis was done using both descriptive statistics and a multiple linear regression analysis to identify the socio economic determinants of employment growth of small enterprises.

The results show that majority of entrepreneurs used to work in another related enterprise before they started their businesses. The majority were motivated to become financially independent and to become their own bosses. The sources of finance for the startup of their business were personal saving and family assistance. Their constraints at the time of startup were lack of sufficient capital and working space.

The descriptive statistics also indicated that business operators perceive lack of finance to be the most constraining factor. For most small manufacturing enterprises, the formal financial markets are not accessible because of limited collateral and lack of business record of accomplishment.

The econometric results show that age, and start up size of enterprises are negatively and significantly related with growth of enterprises at 1% significance level. Moreover, the extent of diversification and availability of infrastructural facilities were found to influence employment growth of enterprises positively at 1 % and 5 % significance level respectively. The availability of own premise and the availability of workers who have had a vocational formal training are positively related with growth of enterprises in Addis Ababa at 10% significance level.

## **5.2. Recommendation**

The findings of this study have important implications for interventions designed to enhance the startup, growth and expansion of Handicraft Productions in Addis Ababa and in similar sister cities with in Ethiopia. Since the creation of new jobs depends on the new entry rates and growth of enterprises, a concerted attention should be given to those factors that influence start up and growth of enterprises. Such factors are identified and are reported in the results and discussion of the study.

The finding that relates to business experience is associated with new start-ups calls for the promotion of the culture of apprenticeship and intern experience sharing for the young as a possible area of intervention in employment generation schemes to minimize the extent of the current high unemployment rate.

As a way out, financial constraints of handicraft production a number of innovative mechanisms could be implemented. These include group lending approaches, small and (contingent on success) increasing credit, link of credit savings or micro financing institutions through NGOs. Lack of sufficient capital partly emanates from a knowledge gap and appropriate business promotion that can be supported with reliable and supportive credit scheme.

One can see from the econometric results that availability of infrastructural facilities, formal vocational training of workers, availability of own premise, extent of diversification significantly influence the growth of handicraft production.

Hence, policy makers and stakeholders could promote and facilitate the growth of handicraft Production by accessing necessary infrastructural facilities. This is also in line with the FDRE government GTPII strategy. As stated in the GTPII strategy the local government should take practical initiative to access

infrastructural facilities such as water, electric power, telecommunications and road networks. When properly planned NGOs, business associations, local communities etc. could be invited to co-finance such initiatives.

It is also necessary for Addis Ababa City Government in general and to Gulele Sub City in particular, to allocate working premises to handicraft production wherever possible. The study has indicated that serving businesses with industrial land or working space is one feasible area of intervention to sustain the growth of enterprises.

Small manufacturing enterprises require educated, well trained, and technologically skilled work force. Entrepreneurs should, therefore, attract educated personnel. They should tackle this problem by liaising with vocational training institutions. On the other hand, expanding vocational training institutions should be given an increased attention on the part of policy makers as a strategy of supporting businesses through a skilled labor supply. In this regard, the public private partnership should be strengthened the extent of business product diversification is related with the employment growth of enterprises. It is possible to create awareness of enterprises to follow a strategy of diversifying their products through training, mass media, or through experience sharing opportunities.

Armed with this information on the many common characteristics of growing firms, policy makers can now begin to identify from the large and heterogeneous population of small enterprises the important segment that is generating the expansion of jobs. Most of all, experience shows that people best help themselves. This is true for the SME sector. Rather than spoon-feeding them with outside intervention, they should be encouraged and enabled to organize themselves to demand the services and policies they need through active participation.

Finally, this study has identified the determinants of the growth of handicraft production enterprises in Gulele Sub city of the Addis Ababa city Administration. Future studies could benefit from identifying factors that affect the growth of handicraft production in Addis Ababa and even in Ethiopia.



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## Questionnaire

Date: \_\_\_\_\_

Respondent's Number/Code: \_\_\_\_\_

Interviewer's Name: \_\_\_\_\_

Thank you in advance for giving me your precious time. This is purely an academic research and has nothing to do with governmental or non- governmental organization. Your name will not be related to your answers and all your answers will be treated in strict confidence. This survey is aimed at obtaining information to find determinants of enterprise growth: the case of handicraft production in Gulele sub-city, Addis Ababa city administration and you are selected randomly. Please note that all the information that you provide us is the main body of thesis work for the partial fulfillment of M.A. Degree in Development Economics at St. Mary's University. Your genuine answer is essential for the accuracy of the study and there are no right or wrong answers. Thank you for taking part in the survey.

### Operator's characteristics

1. Sex: i) male \_\_\_\_\_ ii) Female \_\_\_\_\_
2. Age: \_\_\_\_\_
3. Marital status (please circle one among the choices)  
i) Married ii) Divorced iii) Widow (widower) iv) Bachelor
4. Level of education (in grade): \_\_\_\_\_
5. What other major training courses have you taken and when, if any?  
\_\_\_\_\_
6. What was your occupation before engaging yourself in this enterprise?  
\_\_\_\_\_
7. Have the experiences and skills acquired from previous employment contributed to your current career? i) Yes ii) No
8. Is there anyone in the family who was entrepreneur or owner of some related business activities?  
i) Yes ii) No
9. Have you ever lived abroad? i) Yes ii) No  
If yes, for how long and where? \_\_\_\_\_

- 10.** Why did you choose your current business? Because,
- i) I have got the experience      ii) I have enough money to run it  
 iii) I saw prospects for growth      iv) Other \_\_\_\_\_
- 11.** Who initialed and started the business?
- i) Myself alone                      ii) With the family  
 iii) With a friend/partner          iv) other (specify)
- 12.** How did you acquire the skill for running your enterprise?
- i) Through formal training      ii) From past experience  
 iii) From family                      iv) other (specify)
- 13.** What preparatory works did you undertake before starting the enterprise?
- i) Assessed the market (market survey)      ii) Got the project studied  
 iii) Taken formal training                      iv) Got the enterprise registered  
 v) No any
- 14.** Is the owner at the same time the manager of the establishment?      i) Yes      ii) No
- If No, or if the manager is different from the owner;
- What is his/her level of education? \_\_\_\_\_
  - What is his/her field of study (if he/she is a graduate) \_\_\_\_\_
  - What is the age of the Manager? \_\_\_\_\_
  - Sex of the manager: Male \_\_\_\_\_ Female \_\_\_\_\_
  - When was the manager hired? \_\_\_\_\_

**Firm Characteristics**

- 15.** When did the enterprise start operation? (Specify year) \_\_\_\_\_
- 16.** How much was the capital of the firm at the start up? \_\_\_\_\_
- 17.** What is the legal ownership status of the establishment?
- i) Sole ownership                      ii) Joint ownership  
 iii) Family business                      iv) Cooperative  
 v) Other (specify) \_\_\_\_\_
- 18.** Is the operational house owned by the enterprise owner?
- i) Yes                      ii) No



19. What were the main products of the enterprise at the beginning? \_\_\_\_\_
20. Are the current products different? i) Yes                      ii) No
- If yes, in what respects are the products different?
- i) Products diversified
  - ii) The quality of the products up graded
  - iii) The products (out puts) totally changed
  - iv) The method of production markedly changed
  - v) Other changes
  - vi) Variety reduced
21. Currently what are the main products of the enterprise? \_\_\_\_\_
22. What was the status of the machinery at the start-up?
- 1) Manual and old              2) Manual and new
  - 3) Mechanical and old      4) Mechanical and new
  - 5) Mixed type                      6) other (specify)\_\_\_\_\_
23. What number of employees did you start out with? \_\_\_\_\_
24. How many employees did your firm have in 2018? \_\_\_\_\_
25. Currently, how many permanent employees does the enterprise have? \_\_\_\_\_
26. Currently, do you have a family member employed in the enterprise?
- i) Not at all              ii) Yes, but without payment/salary
  - iii) Yes, with payment/salary      iv) Yes, but some are paid and some others are not
27. How many family members are employed?
- i) With payment \_\_\_\_\_
  - ii) Without payment \_\_\_\_\_
28. Sex composition of the present employees i) Male \_\_\_\_\_ ii)Female \_\_\_\_\_
29. What is the average age of the employees? \_\_\_\_\_
30. What is the average level of education of the employees (excluding the manager)? \_\_\_\_\_
31. Is employees getting technical assistance from formal inistitutions for the last five years?
- i) Yes                      ii) No
32. Is there any employee with related vocational training in formal and non-formal education institutions?
- i) Yes                      ii) No

**33.** What are the sources of initial capital at the start of the business?

- i) Own saving                      ii) Borrowing from relatives
- iii) Borrowing from bank    iv) Borrowing from credit and saving institutions
- v) Gift from relatives        vi) Joint investment with a partner
- vii) Other (specify)

**34.** Is the current operator the initiator of the firm? i) Yes    ii) No

**35.** Your fixed investments over the last 3 years have been,

- i) Rising                      ii) About the same
- iii) Declining              iv) No expenditure

**36.** Has your firm applied for a bank loan in the past three years? i) Yes    ii) No

➤ If yes,

- How many applications were made? \_\_\_\_\_
- How many applications were successful? \_\_\_\_\_

**37.** Have you applied for a credit from credit and saving institutions? i) Yes    ii) No

➤ If yes, have you been successful? i) Yes    ii) No

➤ If the answer for Question above is No, why you were not successful?

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**38.** What do you think of the rate of interest you were charged?

- i) Very high    ii) High
- iii) All right    iv) Low
- v) Very low

**39.** How easy is access to bank loan for investment?

- i) Very easy    ii) Easy
- iii) Difficult    iv) Very difficult
- v) I can't comment

**40.** Your profits over the last three years have been,

- i) Not changed                      ii) slightly decreasing
- iii) Significantly decreasing    iv) Slightly increasing
- v) Significantly increasing

**41.** Do you pay taxes to national authorities? i) Yes    ii) No

**42.** What do you think of the level of current business taxes?

- i) Low                      ii) Alright
- iii) High                  iv) Too high

**43.** Is the infrastructural facilities like power, water, road, telecommunications and so forth sufficiently available for the functions of the business?

- i) Yes            ii) No

**44.** What mode of promotion do you use? (you can choose one or more)

- i.        nothing
- ii.       Fliers
- iii.       Notice board
- iv.       Local newspaper
- v.        Exhibition
- vi.       Radio and/or television
- vii.      Other(specify)\_\_\_\_\_

**45.** What is your most significant obstacle to expand your investment? (Rank the

**46.** following according to their importance) (0= not at all, 1= minor problem, 2=

**47.** moderate problem, 3= major problem)

\_\_\_ i) Uncertainty about the economy (uncertainty about demand for the product, competition, etc)

\_\_\_ ii) Government attitude towards private investment

\_\_\_ iii) Too high level of taxes

\_\_\_ iv) Problem of getting credit

\_\_\_ v) Too high rate of interest

\_\_\_ vi) Lack of demand

\_\_\_ vii) Lack of raw materials

\_\_\_ viii) Infrastructure-related problems

\_\_\_ ix) Lack of competitive power

\_\_\_ x) Problem of working premises

\_\_\_ xi) Other (specify) \_\_\_\_\_

**48.** Is any form of uncertainty about the economy a constraint to expanding your business?

- i) Yes        ii) No

49. If yes, rank the following uncertainly problems to investment (0= not at all, 1= minor problem, 2= moderate, 3= major problem)

- \_\_\_\_\_ i) Demand uncertainly
- \_\_\_\_\_ ii) Uncertainty about taxes
- \_\_\_\_\_ iii) Political uncertainty
- \_\_\_\_\_ iv) Other (specify) \_\_\_\_\_

50. If you were starting up your business today as a new investor, what sort of obstacles would arise, and how serious would they be? (Rank as 0= no problem, 1= minor problem, 2= moderate problem, 3= major problem)

- \_\_\_\_\_ i) Getting registered
- \_\_\_\_\_ ii) Government attitude toward private investment
- \_\_\_\_\_ iii) Uncertainty about the economy
- \_\_\_\_\_ iv) Political instability
- \_\_\_\_\_ v) Getting credit
- \_\_\_\_\_ vi) Cost of credit
- \_\_\_\_\_ vii) Level of taxes
- \_\_\_\_\_ viii) Availability of electricity, water and other public utilities
- \_\_\_\_\_ ix) Availability of sufficient raw materials
- \_\_\_\_\_ x) Lack of working premises

51. What main problems have you had with such public utilities as electricity and water?

- i) None
- ii) Occasional interruption
- iii) Frequent, long or serious interruptions
- iv) Too expensive
- v) Other (specify)

52. What other major problem have you confronted with in your business (if any)?

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**I appreciate the efforts you have put in to completing this questionnaire.**

**Thank you**