

INDRA GANDHI NATIONAL OPEN UNIVERSTY
SCHOOL OF GRADUATE STUDIES IN ECNOMICS

PROJECT WORK

**CHALLENGES AND PROSPECTS OF MICRO AND SMALL ENTERPRISES (MSEs)
IN AWI ZONE: THE CASE OF DANGILA DISTRICT**

BY

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ENROLLMENT NO.ID1051070

APRIL, 2014

ADDIS ABABA, ETHIOPIA

PROJECT WORK

Programme Code;	MEC
Course Code;	MECP-001
Enrolment No;	I D 1 0 5 1 0 7 0
Study centre code;	8 1 0 5

Regional Centre -----

Challenges and Prospects of Micro and Small Enterprises in Awi Zone in the case Dangila District

Project work submitted to the **Indria Gandhi National Open University in partial fulfillment of the requirements for the award of the Degree-Master of Arts (Economics)**. I hereby declare that this work has been done by me and has not been submitted elsewhere.

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Acknowledgements

My heartfelt gratitude goes to my advisor Dr. Demmelash Habte, from the critical comments and suggestions he provided in my thesis work, I have gained ample knowledge and practical skills in academic advancement. This thesis would not have been possible without his wise counsel, helpful comments and constant encouragement. For all the contributions he provided me in thesis work and my academic advancement in general, I extend my sincere thanks to him. I also thank greatly Dr. B.S .Prakash Indira Gandhi National Open University School of Social Sciences Discipline of Economics, for his willingness to help me in my thesis work by tirelessly went whenever through the thesis and gives me his invaluable comments.

I would like to express my deepest gratitude to my friends, Tesfaye Tasew which made it possible for me to join the University and attend the programme. My deepest appreciation and thank also goes to the Dangila district micro and small enterprise development branch office and staff of the office for their cooperation in providing the office documents, which help me in my study.

Finally, I would like to thank my class mates with whom I enjoy talks while I feel tired, shared ideas and nice friendship. I also tanks Saint Marry University College post graduate staff workers support from the beginning up to now.

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Acronyms

AAGR	Average Annual Growth Rate
AG-	Annual Growth
ANRS	Amahara National Regional State
BDS	Business Development Services
BOFED	Bureau Finance and Economic Development
CAGR	Compound Annual Growth Rate
CBE	Commercial Bank of Ethiopia
CEFE	Competency based Economics through Formation of Enterprises
CSA	Central Stasticall Authority
E.C	Ethiopian Calendar
EDRI	Ethiopian Development Research Institute
EE	Enterprise Ethiopia
Eth. Birr	Ethiopian Birr
EU	European Union
FMSEDA	Federal Micro and Small Enterprises Development Agency
FGD	Focus Group Discussion
GDP	Growth Domestic Product
GTP	Growth and Transformation Plan
GTZ	Germany Technical Zone
HASIDA	Handicraft and Small Scale Industries Development Agency
ICT	Information and Communication Technology
ILO	International Labor Organization
KILS	Key Informant Interviews
LDCs	Less Developed Countries
LE	Large Enterprise
MFI	Micro Finance Institutions
MN	Mean
MoTI	Ministry of Trade and Industry
MoWUD	Ministry of Works and Urban Development
MSEs	Micro and Small Enterprises

FMSEDA	Micro and Small Enterprises Development Agencies
MSMEs	Micro, Small and Medium Enterprises
NGOs	Non Governmental Organizations
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
OECD	Organization for Economic Co-operation and Development
PRSs	Poverty Reduction Strategies
ReMSEDA	Regional Micro and Small Enterprise Development Agencies
R and D	Research and development
SD	Standard Deviation
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
SSEs	Small Scale Enterprise
UNIDO	United Nations Industrial Development Organization
USAID	United States AID

Abstract

This research aims to investigate challenges and prospects of MSEs in Awi zone in the case Dangila District. For the sake of achieving the objectives of this study, questionnaires were distributed, collected and analyzed using descriptive statistical analysis. Data was collected using questionnaire from a sample of 138 operators. Face-to-face interviews were also conducted with operators of MSEs. The respondent operators were selected using purposive and random sampling technique. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The study elicited four major challenges which seem to affect performance of MSEs in sub-cities which include: inadequate finance, lack of working premises, marketing problems, technological, and politico-legal problems including bureaucratic bottlenecks system. The government bodies, financial institutions' and owners/managers of enterprises triangular communication on the levels problems solved step by step. It includes government worked especially technological improvement and bureaucratic bottlenecks, financial institutions' revised their credit supports and cash management systems, and operators focused marketing systems, saving and business entrepreneurial.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The role of micro and small enterprises (MSEs) in income and employment generation is increasingly recognized, unlike to the previous pessimist notion that these are not linked to the modern and formal sector and would disappear once industrial development is achieved. In developing countries the informal sector, in which most of the MSEs lay, is a large source employment and livelihood of particularly the urban population. According to ILO (2002) estimations informal employment (outside of agriculture) defined as employment that comprised of both self-employment in informal enterprises (i.e. small and/or unregistered) and wage employment in informal jobs (i.e. without secure contracts, worker benefits, or social protection) represents nearly half or more of the total non-agricultural employment in all regions of the developing world. It ranges from 48% in North Africa, to 51% in Latin America, 65% in Asia and 72% in sub-Saharan Africa. The informal sector is also a larger source of employment for women than men in developing countries, for example in Sub-Saharan Africa 84% of women non-agricultural workers are informally employed compared to 63% of male non-agricultural workers (Mulu, 2007:2).

In the face of increasing pressure from globalization, the informal sector activity and employment tend to expand in both developed and developing countries in the last two decades (ILO, 2002). The emphasis of the policy makers and donors on MSEs is partly justified for their potential for enhancing pro-poor growth. Recently, a number of sub-Saharan Africa (SSA) countries adopted poverty reduction strategies that mainly emphasize promotion of MSEs as a major way to reduce poverty particularly among the Urban dwellers. Consequently, governments and the donor community increase their involvement with MSEs assistance programs that include; improving availability of credit, vocational training programs and short trainings to entrepreneurs and their workers, and Facilitating markets services among others (Mulu 2007:2).

In Ethiopia, a nationwide urban informal sector survey by the Central Statistical Agency (CSA) in 2003/4 indicates that the urban informal sector consisted of 584,911 micro enterprises that gave employment to 730,969 people. Another Survey by CSA in 2006/7 shows the urban informal sector employment increased to about 1.15 Million comprising about 50.6 percent of the

2.88 million total urban employments. Women Employment accounts for about 58% of the employment in the informal sector (CSA, 2007).

The Ethiopian government recognizes the significance of this sector and shows its dedication to promote the MSEs development by the Issuance of National Micro and Small Enterprises Strategy in 2004/5 and the Establishment of the Federal Micro and Small Enterprises Development Agency. Ethiopia's industrial development strategy issued in 2010/11 also singled out the promotion of MSEs development as one of the important instruments to create productive and dynamic private sector (*FMSEDA 2011: 5*).

Micro and small enterprise in Ethiopia are, however, confronted with several factors that affect the performance of MSE. The major factors affecting the performance of these enterprises are financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how (Werotew, 2010:226-37). Thus this study deals with external (contextual) and internal factors which are still affecting the very performance of MSEs.

1.2 STATEMENT OF THE PROBLEM

In most developing countries, MSEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fedahunsi, 1997:170-186). It is typical of MSEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004:29). This, according to World Bank, has created finance gap in most markets. The MSEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MSEs and medium and large enterprises has undermined the role of MSEs in the economic development in African countries (World Bank, 2004:29).

The study conducted by Ethiopian CSA discloses that, the contribution of small enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006:13). However, their contribution is very low in compared with that of other countries due to financial problem, lack of qualified employees, lack of proper financial records, marketing problems, lack

of working premises and raw materials. Lack of information about market opportunities and standards and regulations is one of the underlying factors that hinder their performance (Mulu 2009:10-13).

Lack of integration between the vocational curriculum taught at academic institutions and skills required at the workplace in small businesses and enterprises is a major obstacle to the growth and development of MSEs.

The same author continued stating:

[t]he performance of the MSE sector in Ethiopia is poor in comparison with similar sectors in other ... African countries such as South Africa, Kenya, Uganda and Tanzania. Small businesses and enterprises in Ethiopia are generally characterized by an acute shortage of finance, lack of technical skills, lack of training opportunities and raw materials, poor infrastructure and over-tax.

Identified that lack of access to finance is the most influential factor from among all adverse factors hindering the growth and development of the MSE sector in Ethiopia (Zelege 2009 :1-9).

According to the Dangila district Micro and Small Enterprises promoting office (2012) in the study area Dangila, MSEs have a problem of finance when establishing the business, Most individuals' sources of finance come from personal savings and loans acquired from relatives, friends and moneylenders with high amount of interests. After the business goes operational, the probability of becoming profitable and paying back debts along with accrued interest is less. Besides, MSEs do not conduct market research and develop/design a product or service as per the need of customers. For MSEs, lack of premises is unquestionably a serious problem in the city. Most informal operators do not get access to suitable locations where they can get easy access to markets. Further, the problem of technical procedures and appropriate technology used by the firm are another factor associated with high technology of equipments and use of new technologies.

Since these problems are not assessed by previous researches the study tries to fill the gap by addressing them through a comprehensive review of literature and empirical data. So that the performance of the area be belonged by the development of a theoretical framework for the initiation of policies and programmers for enterprise development. From the practical point of view, it serves not only to provide a self check to current enterprise sector, but also to increase the involvement in business activities through a better understanding of the determinants

of the performance of the enterprises. Such an understanding of the pre-requisites for *Dangila districts'* MSE to perform well in their businesses is of critical importance especially in today's competitive environment.

1.3. RESEARCH QUESTIONS

In view of the above problems, the central question of this study are:

- What are the various internal & contextual factors that impeded the performance of the MSEs?
- What measures should be taken to alleviate the problem?
- What was the contribution MSEs to alleviation poverty and bring economic development?

1.4. OBJECTIVES OF THE STUDY

1.4.1 General Objective

The main objective of the study is to identify the major challenges & prospects of MSEs in Dangila district.

1.4.2 Specific Objectives

- To examine the internal factors that affects the performance of MSEs.
- To assess external factors which limits the growth & development of MSEs in the study area.
- To analyze how & to what extent that the limits assesses to market, shortage of capital, working premises & policy inclusive limit the growth of MSEs in the area and
- To make possible recommendations that secures the problem of the study area.

1.5. RESEARCH HYPOTHESES

- **HO₁**: The business environments of Ethiopia aimed at MSE development do financial, market ,political and other challenge of the performance of MSEs in the study area, Dangila.
- **HO₂**: The business environments of Ethiopia aimed at MSE development do not challenge the performance of MSEs in the study area, Dangila.

1.6. SIGNIFICANCE OF STUDY

The findings of this study would be useful to the stakeholders including:

Academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical challenges that affect the performance of MSEs.

The findings of this study would also help MSEs in *Dangila district* and others, within an insight into the benefits of using different factors studied in this research to predict the factors that affect the performance of MSEs.

Furthermore the government can use the findings of this study to assist in policy formulation and development for a framework for critical finance, marketing, work premises and other factors that affect the performance of MSE. Moreover, the findings of this study will help the policy makers to understand the ways that the strategy is implemented at grass root level & challenges encountered. It also enables them to know what kind(s) of policies should be framed.

1.7. SCOPE AND LIMITATION OF THE STUDY

1.7.1 SCOPE OF THE STUDY

The study would identify the major challenges & prospects of MSEs in *Dangila district* particularly in *Dangila town Administration*. Although, there are different issues that can be researched in relation to MSEs, this study is delimited to the politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors. Besides, the study will cover all MSEs that are registered legally & functioning in the area.

1.7.2 LIMITATIONS OF THE STUDY

Even though large sample size is essential for in-depth understanding of the major challenges & prospects of MSEs, the study is limited to a sample size of 138 respondents, due to time and financial limitation. However; the study tried to enhance the quality of the project by conducting in-depth interview with relevant stockholders and determining the result of the survey and interview with secondary data sources. In addition, limited empirical information on the Micro and Small enterprises in the country has pause restriction in examining trend in the sector. However, although some supporting and complementary information are lacking, this did not affect the result of the research.

1.8 ORGANIZATION OF THE STUDY

The study will be structured as follow: the first chapter will present introduction which includes background of the study, statements of the problem, research questions, objectives, hypothesis, scope of the study, delimitation & limitations, and organization of the study, chapter two presents about the theoretical and empirical review of the industry, while chapter three provides research methodology. Chapter four outlines data presentation, analysis and interpretation and chapter five concludes and suggests some recommendations.

CHAPTER TWO

Literature review

2.1 Theoretical literature review

2.1.1 Definition of MSEs

MSE “Micro and Small Enterprise,” is all widely used in the literature. The statistical definition of enterprise size varies by country, and is usually based on the number of employees or the value of assets. The lower limit for small-scale enterprises is usually set at 5 to 10 workers and the upper limit at 50 to 100 workers. The upper limit for “medium-scale” enterprises is usually set between 100 and 250 employees. For example, Zandniapour et al. (2004) define MSE by employee number less than 10 for microenterprises and 10 to 100 for small enterprises. USAID (2006) limits its definition of microenterprise to an economic activity that employs ten or fewer workers, in which the owner/operator of the enterprise (the ‘micro entrepreneur’) is considered poor. More generally, according to Nichter and Goldmark (2005) USAID defines MSEs as firms with up to fifty workers, which are engaged in non-primary activities and sell at least 50 percent of output. This category includes both microenterprises, which have up to 10 workers, as well as small enterprises, which have between 11 and 50 workers. In the case of agriculture, a microenterprise can be dairy, horticulture, small livestock, or any crop or agribusiness that is commercialized.

The concept of firm size varies significantly within the different stages of economic development and structure, as well as the various issues that the authors intend to address (e.g. small business and job creations in the U.S. in Davis et al. (1993); and poverty alleviation in developing countries in Morduch and Haley, (2002). For instance, with regards to small and medium enterprises, countries with large economies like the U.S. and member states of the EU use cut-off points of fewer than 500 workers to describe SMEs. Yet, in developing countries where both market size and average firm size are much smaller, SME cut-off points are often fewer than 100 workers. Thus, it is very difficult to compare size distributions across countries. The lack of consistency in employment-based MSE definitions based on the number of employees and viewed in isolation from the size of markets or the economy may be misleading (Biggs, 2002). More importantly, enterprise behavioral characteristics do not correlate perfectly with employee-size Biggs, (2002); Hallberg, (2001). These characteristics include: the degree of “informality,” the form of ownership, the market power, and the level of technological sophistication, to name

just a few. Since small firms have a great overlap with the informal sector, the definition provided by Beck et al. (2003) might pose a serious problem for analysis, as they define small firms as formal enterprises and exclude informal enterprises.

MSEs are a very heterogeneous group. Hallberg (2001) distinguishes MSE from micro-enterprises and suggests that small- and medium-scale enterprises (SMEs) usually include a wide variety of firms – village handicraft makers, small machine shops, restaurants, and computer software firms – that possess a wide range of sophistication and skills, and operate in very different market and social environments. Their owners may or may not be poor. Some are dynamic, innovative, and growth-oriented; others are traditional “lifestyle” enterprises that are satisfied to remain small. In some countries, SME owners and workers are (or are perceived to be) dominated by members of particular ethnic groups.

Microenterprises are normally considered to be family businesses or self-employed persons operating in the semi-formal and informal sectors; most have little chance of growing into larger scale firms, accessing bank finance, or becoming internationally competitive. Serving them often requires distinct institutions and instruments, such as the group-based lending methodologies used by some microfinance institutions. In contrast, small and medium enterprises usually operate in the formal sector of the economy, employ mainly wage-earning workers, and participate more fully in organized markets. Small enterprises consider access to formal finance a desirable possibility, and are more likely than microenterprises to grow and become competitive in domestic and international markets.

A working definition for the purpose of this paper is one given by the Ethiopian federal MSEs development agency improved definition of 2011: Industrial sectors (manufacturing, construction and mining) ,It operates with 6-30 persons and/or with a paid up capital of total asset Eth.Birr 100,000(one hundred thousand) and not exceeding Eth.Birr 1.5 million. On the other hand Service sector (retailer, transport, hotel and Tourism, ICT and maintenance service), It operates with 6-30 persons or/and total asset, or a paid up capital is with Eth.Birr 50,001 and not exceeding Eth.Birr 500,000 (FMSEDA, 2011:30).

2.1.2 Related Theories

As to the motives for the new start up of the small enterprises in developing countries, not much is known about the central determinants driving enterprises new start-ups. However, Ozcan (1995) argued that indigenous entrepreneurship appears to be the single most important force behind the small enterprise development. Limited job opportunities in local markets and the search for wealth divert many youngsters to early employment in such enterprises. Potential entrants carry a hope of being their own bosses. Kawai and Urata (2001) indicate that the most popular motive, which was attributed for new start-ups by respondents, was to become independent.

In line with this, the growth of small enterprises in developing countries is determined by various factors. An empirical analysis from Morocco by Harabi (2003) indicated that the following are the principal determinants of enterprise growth: location in large urban centers; the presence of price competition; presence in markets with high demand; product diversification and market share expansion; and certain government policies such as labor regulations. As results of analysis of survey on small scale manufacturing enterprise in Sierra Leone, further substantiate the prime role of location to firms' success. It impediments to growth have been found to be low access to financing and to sources of information and technology. Lack of technical and managerial skill, inadequate organizational adaptability and ability to acquire or use new technology are considered also as impediments to growth. The writers 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 (Voulgaris , 2003).

Micro, small and medium enterprises are an integral element of the informal sector in most developing countries. In some cases, these enterprises are initially informal but gradually become formal businesses, thereby providing the foundation of modern private companies. Others remain in the informal sector and provide livelihoods for the poor who lack access to formal sector employment. In the poorest developing countries, on average, almost two thirds of workers are employed in enterprises with less than 5 employees (micro enterprises) while the majority work for small and medium-sized enterprises with less than 100 employees.

The informal sector provides jobs and self employment opportunities that are not taxed or subject to government regulations, in many cases jobs are low-paid and job security is poor.

Micro, small and medium enterprises can contribute to pro-poor economic growth by means of: Employment creation and income generation, Rural-Urban migration and remittances to the rural economy, Income diversification, Increasing women's economic activity and incomes Small enterprises as a seedbed for modernization (Deborah et al., 2011).

Despite their big potential for the growth of the economy, MSEs face serious problems that often unable to capture by themselves. Thus, this sector is explained as Small Businesses but Big Obstacles. For the purpose of illustrating, the findings of the study Ivy (1997), grouped problems of MSEs into five: finance, government, marketing, equipment and infrastructure, and labor, and finally found that finance was the most crucial problem. Poor banking services, with high interest rates, high cost of premises and tax, difficulty in obtaining loans for start-ups all were cited but stringent loan repayment terms was mentioned as jeopardizing the viability of MSEs. Monk (2000) also found that lack of working capital, poor market selection, and rapidly changing external market conditions the major reasons for failures in MSEs. ILO (2003) also revealed that for the growth-oriented women entrepreneurs in their study, the biggest obstacles faced in developing their businesses were: lack of working capital (30.5 percent); lack of management skills (15.6 percent); problems of finding work spaces and sales outlets (15.6 percent); and lack of confidence to take risks in business. The Ethiopian government identified premises, market and finance, related problems as major bottle necks to optimal performance of MSE sector towards its major goal.

The first is access to Finance a study by Peterson et al. (1983) concluded that whatever is their size or location of the micro and small enterprises, financial related factors are critical for the survival of MSEs. Boardman, Bartley and Ratliff (1981) reported financial distress as major problem of rapidly growing MSEs. 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 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. Not only banks but also formal financial institutions, NGOs, microfinance institutions (MFIs), local money lenders, equb etc are potential sources of finance for the sector. Despite the fact that there are many financial institutions to extend credit facilities, it is observed that small enterprises are still

generally short of credit. The lack of credit has been identified by many researchers as one of the major factors inhibiting the success of the enterprises (Abdullah and Baker, 2000).

Many smaller enterprises seldom approach financial institutions when they are short of funds because they are not confident of obtaining bank loans and credits. In addition, their limited experience with bank's officials has done little to change their perceptions of the difficulties and bureaucracies in obtaining credits. Commercial banks are usually reluctant to provide credit facilities to smaller firms because lending to them is less profitable as compared to larger firms. Lending to small firms also involves high credit administration costs and greater risks. This is especially true when many small firms are typically deficient in equity and acceptable collateral. They are generally considered as less credit worthy as their incomes are relatively unstable (Abdullah and Baker, 2000).

In most of developing countries, the majority of MSEs lack access to formal financial services. Researches in this area evidenced that the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor they start their business with very little startup capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions. They also faced a problem of capital for expansion at the time when they want to expand their businesses (Morrisson, (1995); Arimah, (2001)). Results of the (2005) CSA Survey showed that for about 50 percent of informal sector operators in Ethiopia, the first major difficulty when starting their operation was the lack of sufficient initial capital. According to their responses, this problem becomes more critical when they intend to expand their businesses.

The second, Business Development service (BDS) is defined as a wide variety of non-financial services that improve the performance of the enterprise such as labor and management training, extension, consultancy, and counseling, marketing and information services, technology development diffusion, and mechanisms which improve business linkage through sub-contracting, franchising, and business cluster (Donor Committee, 2001).

BDS is designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets. In this way, the sector can create and sustain productive, remunerative and good quality jobs, as well as reduce poverty, and contribute to the development of the local economies. However;

since informal enterprises do not comply with government regulations, the majority of them have no access to business services offered or coordinated by governments. Some of them are unaware that business services are offered while others are ignorant to its worth. Ishengoma and Kappel stated that BDS providers do not market their services to small and informal enterprises appropriately, assuming that these enterprises can not afford the services. In some cases the services offered are of low quality or irrelevant to MSEs (Ishengoma and Kappel, 2006).

The concept paper for the formulation of private sector capacity building programmes developed for the ANRS in (2004) identified inadequate consultancy and advisory services to be among the major problems that hindered growth of small enterprises. Besides, for the success of micro and small enterprises 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. One-week CEFE (Competency-based Economies through Formation of Enterprises) entrepreneurship training programmes were introduced by GTZ in the late 1990s. After delivery of a number of Train the Trainer workshops, partner organizations now deliver this training to MSEs in certain regions (Addis Ababa, Amhara, and Tigray).

GTZ is the primary provider of BDS in Ethiopia and a major donor in support of MSE development through its program called GTZ Micro and Small Enterprise Development Programme. Enterprise Ethiopia (EE) and United Nations Industrial Development Organization (UNIDO) are other training providers that promote the entrepreneurial capacity of MSEs through the provision of training, post-training seminars and business development services.

The third is Access to Market, It is widely accepted that market related problems in MSEs are numerous and complex. And thus not having free access to the market has no doubt adverse impact on the informal operators' performance in the market so that the objective of achieving competitive advantage experienced with a failure. For instance, in terms of poor location, the majority of informal enterprises are home based which limits market for their products and services, their expansion, interaction with other businesses, hence increased transaction costs and limited access to marketing information. The internal constraints and the external once which are considered as hindrance for the normal functioning of informal enterprises include are generally known as "Supply" constraints, because they limits in one

way or another the capability of the informal sector entrepreneurs to generate goods and services and hence generate income Sethuraman (1997). Apart from this most studies on the informal sector shows the existence of “demand” constraints which limits the opportunities for production. Studies on informal sector show that a substantial proportion of the units are faced with a stagnant or declining demand for their output; many also reported facing "too much competition" as explained by Sethuraman (1997) indicates the existence of limited opportunities. These findings are indicators of overcrowding of the market; by the same token they can be interpreted as failure of demand to grow, at least not as rapidly as the supply Sethuraman emphasized that development policies, if properly conceived and implemented, could ensure greater demand for informal sector output and thus open up new opportunities for participation. According to Andualem (1997), MSEs in Ethiopia, usually market constraints and the inability to sell their products and services are listed as one of the most serious obstacles to the starting of business and growth beyond mere subsistence level. The CSA (2003) report which is based on 31,863 small scale manufacturing industries all over the country, of which 19,996(62.75%) are located in urban and the remaining were in rural areas, showed that 48% of the total establishments have faced a problem of demand or access to market, weak or absence of appropriate marketing channels, open markets, exhibitions, trade fairs, displays centers etc are the rationales for the problem of demand.

The fourth Access to Working Premises and Services, the obstacles experienced by MSEs operators incorporate factors such as inadequate working premises, low access to appropriate technology and poor access to quality business infrastructures. In addition to the aforementioned major constraints considerations, for the effective and efficient performance of the sector, should also be given to minor but important barriers such as poor physical infrastructure. So that some informal enterprises operate in temporary physical structures in open spaces or in public space that are considered illegal or unauthorized, a situation that limits their access to public services: sanitation, water and electricity. In the CSA's 2002 survey result, it is reported that problem associated with working premises is mentioned by business operators as one major constraint hindering the smooth performance of small enterprises. Thus, the majority of informal enterprises lack a decent location for their businesses. Some of them are located in places with a limited supply or lack of public services and economic infrastructure (for example, water and electricity, transport systems, telecommunication systems, sanitation services). The major reason

why enterprises are concentrated in urban areas is because of the relative availability of infrastructure compared to rural areas. Water, electricity and market access or roads are vital inputs to small enterprises. 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 (Mulatu, 2005). Limited access to appropriate technology is one of the obstacles experienced by the business operators. Technology in most literatures refers to a combination of machinery, labour as well as the entire system of knowledge, skills, techniques, management, organization, etc. 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. According to Assefa (1997), Small scale enterprises (SSEs) have difficulties in gaining access to appropriate technologies and information on available techniques.

The last Government Policy and Legal Environment, as many countries have recognized the contribution of micro and small enterprises to national welfare, the issue of conducive policy environment for the enterprises has received increased attention. Unfortunately, the knowledge on the impact of the policy environment on small enterprises and on their performance is still very limited Berry (1995). Despite the MSEs promotion programs offered, most the enterprises never obtain the information on these programs. For example, in a survey among small enterprises in Bangladesh, Philippines and Nepal, more than 70 percent of the surveyed entrepreneurs did not know about any public agency in their country giving assistance to small enterprises (Meier and Pilgrim, 1994). Moreover, many countries have support programs for small enterprises while the overall economic policies are biased in favor of large enterprises. The analysis of the policy environment can be carried out either qualitatively or quantitatively in order to assess how conducive these policies are to small enterprise growth. Qualitative assessments of policy environments can be reflected through different areas of policies, which possibly constitute an obstacle to new business start-ups or the formalization of existing informal enterprises. These policies include trade policy, pricing policy, taxation policy and credit policy. Under trade policy, for example, import substitution

schemes, imported inputs have been licensed or directly allocated by governments. This favors large enterprises, which are more likely to gain access to import quota than smaller ones, often granted industrial investment incentives that enable them to import their capital goods duty-free for a certain time span (Berry, 1995; Haggblade, et al,1990).

Import tariffs (as opposed to import quota or other non-tariff barriers) as such do not have a differential impact on small versus large enterprises, as their application is uniform. Regarding with the quantitative assessment policy biases in favor and against small enterprises it have attempted to quantify policy-induced cost differentials between small and large enterprises in accessing resources such as labor and capital. The interpretation of such biases is often difficult because some policies may be biased against small enterprises, others may on the contrary favor small enterprises relative to larger ones. The study by Haggblade, et al, (1990) regarding to quantitative estimates of such differentials for labor and capital costs based on a sample of developing countries are as reveals the following: "Measuring policy-induced price differentials involves a lot of methodological difficulties. Not all price differentials are policy-induced; they may be due to quality differences (for labor or for finished products) or to differences in risks or administrative costs (for capital). Price differences may also arise from private-sector habits or strategies rather than policies."There are also complex and burdensome government rules regulations. In this regard there is a widespread perception that informal enterprises are avoiding regulation and taxation and, therefore, are operating under semi-legal or illegal conditions in the sense that they do not comply with one or more existing government regulations Sethuraman(1997).Regulations concerning to establishment and operation of business such as location, registration,and licensing, bookkeeping, hours of operation, holidays, and tax obligation. In addition to these there may be regulations which intervene in the purchase of inputs, use of power, transport and marketing of outputs. The consequences of not complying with these and other regulations are many for the informal operators. It could mean paying a penalty in the form of a lump-sum fee which resulted in a reduction in incomes. In extreme cases it could mean closure of business or confiscation of business property. The net result is to create uncertainty and discourage business investment.

2.1.3 THE ROLE OF MICRO AND SMALL ENTERPRISE IN POVERTY REDUCTION

Poverty in Ethiopia is widespread and remains a major challenge of sustainable development and stability Eshetu & Mammo (2009:2). By now, it is clear and agreeable that poverty, both in urban and/ or rural areas, is all about lack of basic needs, low or inadequate level of income and consumption, poor command over resources, and high level of social exclusion, inequality and vulnerability. The role played by MSEs, through the various socio-economic benefits emanating from the sector was found to be eminent in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the MSEs will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society Mukras (2003:58-69). Current international thinking is in tune with a view that acknowledges MSEs as a tool to fight poverty in the long run. The UNIDO approach to this is worth mentioning here: Poverty reduction is simply not going to happen by government fiat but only through private sector dynamism. The evidence directly linking MSEs and poverty reduction is considerably less robust than that linking them to economic vitality, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low skilled workers, increased skills development and broader social impacts. The movement to support MSE development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries places a more pronounced emphasis on the contribution that the private sector will have to make – compared to the over-reliance on the social agenda that characterized earlier PRSs (Perumal K. & Prasad V.,2012:2-29)).

In conformity with the above view advanced by UNIDO and as an organization concerned to the condition of labour, the ILO's approach to poverty reduction is through small enterprise development. This strategy focuses on the needs of poor people who are part of the MSE economy, as owners/operators and workers, as their dependants, as the unemployed who may benefit from job creation and as customers. While further strengthening the above shown approach, Vandenberg (2006:18) suggests that: the ILO's existing strategy for poverty reduction through small enterprises must emphasize the fact that small enterprises make a positive contribution to poverty reduction when they provide employment, adequate levels of job

quality, and low-cost goods and services used by the poor; entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through small enterprise development; and vibrant enterprises, competitive markets and affair globalization can make a significant impact on poverty reduction. Drawing on a study conducted in the urban centers of four Western African countries namely Benin, Burkina Faso, Niger and Togo to identify key factors shaping the micro enterprise sector, explores the needs, characteristics, motivations, and success factors for micro entrepreneurship in the region, together with some of the impediments to the growth and success of micro enterprise ventures (Roy and Wheeler, 2006:452-64). Roy and Wheeler indicated that MSE provide a substantial source of employment, thereby contributing to get rid of poverty to the urban poor. According to them, the main reason for the urban poor to be absorbed in the MSE is due to the fact that the formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason many have had to look for alternative means to generate a livelihood. Hence, participation in the informal sector is often the only option available as a source of income, and so the sector has absorbed many of the unemployed who have been neglected by the formal sector in the region. They pointed that the income generated from being engaged in MSEs primarily used to satisfy the poor's own physiological needs and those of their family, and then to provide a home and security for the household. They specifically claimed that MSEs help the urban poor by making them financially secure which in turn limits or reduces the misery, vulnerability and material and non-material hardships that come with poverty.

2.1.4 Micro and Small Enterprise for Economic Growth: 'Pro' and 'Contra' Arguments

There are two polarized thoughts, according to Agyapong, (2010:196-205); Anderson et al. (1994:129-133) and Staley & Morse (1965:31) the role and contribution of MSE to economic growth and poverty reduction: 'Pro' and 'Contra' Arguments. Their works often classified as the classical and modern theories on MSEs' development. The contra argument predict that advantages of MSEs will diminish over time and large enterprises (LEs) will eventually predominate in the course of economic development marked by the increase in income. In line with these shortcomings and pessimism Matambalya (2002:1-29), for instance, concluded that high level of technical inefficiency, which reduce their potential output levels significantly. Research carried out by Tegegne and Meheret, (2010:14) strongly question the role played by MSEs to minimize the incidence of high level poverty in most developing economies through

employment creation, income generation and multiplier effects on other sectors of the economy. While, the pro argument views based on experiences from many countries showing the 'contra' arguments seem to get less supports as many international aid agencies, including the World Bank (2004:41). The World Bank gives three core arguments in supporting MSEs in LDCs, which in line with the arguments of the 'modern' (pro) paradigm on the importance of MSEs in the economy (Tulus T., 2006:5).

First, MSEs enhance competition and entrepreneurship and hence have external benefits on economy wide efficiency, innovation and aggregate productivity growth.

Second, MSEs are generally more productive than LEs but financial market and other institutional failures and not conducive macroeconomic environment impede MSE development.

Third, MSEs expansion boosts employment more than LEs growth because MSEs are more labor intensive. In other words, the World Bank believes that direct government support for MSEs in LDCs help these countries exploit the social benefits from their greater competition and entrepreneurship, and their MSEs can boost economic growth and development.

The above arguments do not mean, however, that LEs are not important, or MSEs can fully substitute the role of LEs in the economy. Even, there are skeptical views from many authors about this World Bank's pro-MSE policy. Some authors stress the advantages of LEs and challenge the assumptions underlying this pro-MSE policy. Specifically, LEs may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R and D) with positive productivity effects (Tulus T., 2006:)

2.1.5 Micro and Small Enterprise Development Strategy

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and MSEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management (United Nations, 2002:101-103).

The Ethiopian government released the country's first MSEs development strategy in November 1997 E.C. The primary objective of the national strategy framework is to create an enabling environment for MSEs. In addition to his basic objective of the national MSE strategy framework, has developed a specific objective which includes, facilitating economic growth and bring about equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing the basis for medium and large scale enterprises, promoting

export, and balancing preferential treatment between MSEs and bigger enterprises (FMSEDA,1997:8-27).The strategy outlines the policy framework and the institutional environment for promoting and fostering the development of MSEs and stimulating the entrepreneurial drive in the country.

2.2 Empirical literature

2.2.1 MSEs in developing countries

In the 132 economies covered, there are 125 million formal MSMEs of which 89 million operate in emerging markets. These results are in line with a recent study published by IFC and McKinsey & Company in 2010, “Two Trillion and Counting,” which found that there are between 80 and 100 million formal MSMEs in emerging markets(Khrystyna et al. 2010).

Recent empirical studies show that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries, . SMEs and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries. The relative importance of SMEs and the informal sector (shadow economy) are inversely associated with economic development. In low-income countries,especially in the least developed economies, the contribution of SMEs to employment and GDP is less than that of the informal sector, where the great majority of the poorest of the poor make a subsistence level of living. Therefore, an important policy priority in developing countries is to reform the policies that divide the informal and formal sectors, so as to enable the poor to participate in markets and to engage in higher value added business activities (2nd OECD conference, 2004).

In middle-income countries, formal SMEs contribute about 20% more to employment and GDP than the informal enterprises. Thus, in these countries, eliminating factors that discourage informal enterprises from entering the formal SME sector would also bring about gains in economic terms. This is evidenced by the fact that SMEs contribute over 3 times as much as the informal sector in both total employment (65%) and GDP (55%) in high-income countries, and that these countries are also taking initiative to bring as many informal enterprises as possible into the formal sector. SMEs are an important source of export revenues in some developing economies. It provides information on the SME shares of manufactured exports in selected East Asia and African developing economies and OECD countries. An interesting observation is that SMEs contribute a larger share of manufactured exports in more industrialized East Asian

economies (56% in Chinese Taipei, more than 40% in China) and in India (31.5%) than the less industrialized African economies (<1% in Tanzania and Malawi). It also seems to support the intuitive understanding that medium-sized enterprises have higher export potential than small enterprises with up to 50 employees (SME definitions in Tanzania, Malawi and in comparison to those in other developing and OECD countries). These observations show that policies for the promotion of SME export potential and SME exports must be targeted (2nd OECD conference, 2004).

In Africa even these cut-offs often seem high. A recent compilation of evidence on SME characteristics based on World Bank enterprise surveys finds a median employment share of 77 per cent in firms of 250 workers or fewer in Africa, compared with 66 per cent in high-income countries. The median employment share is 39 percent in firms of less than 50 workers, compared to 29 per cent in richer countries, and the median share of worker the size category 5-19 is 10 percentage points higher in Africa than in high-income countries (Ayyagari, 2011).

The role of MSEs in the informal economy in all developing countries, self-employment comprises a greater share of informal employment than wage employment. Specifically, self-employment represents 70% of informal employment in Sub-Saharan Africa (if South Africa is excluded, the share is 81%), 62% in North Africa, 60% in Latin America and 59 percent in Asia. Consequently, informal wage employment in the developing world constitutes 30% to 40% of the informal employment outside of agriculture (USAID, 2006)

2.2.2. Researches in Ethiopia

The number of micro and small enterprise and their employment contribution is substantial as compared to medium and large. According to the survey data by CSA (2005) the number of MSEs was 587,644 which account 99.9% of the total industrial sector in Ethiopia. Large and medium enterprise, therefore, accounts only 0.1%. Consequently, 886,299 employment opportunities were created by MSEs. This also accounts 90.7% of the total industrial employment opportunity and the rest 9.3% is the employment in medium and large manufacturing industry. The fact that the majority of enterprises are micro and small indicates that established enterprises find it difficult to grow to the next higher level due to lack of an enabling environment for sustained growth. The overall unfavorable environment in the sector inhibits the enterprises from contributing much to the national GDP. The research conducted by Gebrehiwot, G. (2006) showed that informal sector and Small Manufacturing enterprise sector (SMEs) contributed value

added of Eth.Birr 8.3 million in 2003/4. Based on the 2000/1 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year (Gebrehiwot, G, 2006).

The five-year Growth and Transformation Plan (GTP) has given particular attention to the expansion and strengthening of micro and small-scale enterprises (MoWUD, 2007:17-28).

Table: 2.1 Numbers, Amount of Credit and Jobs Created through MSEs

	20008/09	2009/10	Percentage change
No. of MSEs	73,062	176,543	141.6
No. of total employment	530,417	666,192	25.6
Amount of credit (in millions of Eth.Birr)	662.7	814.1	22.8

Source: (MoWUD, 2007:17-28)

According to MoWUD (2007:17-28)

The sector is believed to be the major source of employment and income generation for a wider group of the society. The major objective of this program, which is creating and promoting MSEs in urban areas, envisages reducing urban unemployment rate. A total of 176,543 MSEs were established in 2009/10 employing 666,192 people. The number of established and total employment created went up 141.6 and 25.6 percent, respectively, compared to a year ago. The total amount of loan received from micro finance institutions was Eth.Birr 814.1 million under the review period, 22.8 % higher than last fiscal year.

In Ethiopia, MSEs are confronted with various problems, which are of structural, institutional and economic in nature (MOTI, 1997). Lack of capital, working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and many others, which therefore need proper attention and improvement. It is in this

context that the Ethiopian Micro and Small Enterprises Development Strategy was conceived and developed. (Hana, 2010 :50)

Particularly at regional level like in the ANRS, access to such data and information is often limited, as it is cumbersome and expensive to collect process and disseminate that information. Hence, Ethiopian entrepreneurs, in most cases, have not access to any reliable source of information on the line of activities with potential to growth (Amhara Region Trade, Industry and Urban Development Bureau, 2004). This paper work also identified inadequate consultancy and advisory services to be among the major problems that hindered growth of the small enterprises. As far as market and working premise problems are concerned, 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). 29 percent of enterprises among the entrepreneurs approached by the CSA survey (2002) on MSEs reported frequent machinery failure to be their major reason for not being fully operational which indicates lack of appropriate technology(Amhara Region Trade,Industry and Urban development Bureau, 2004).

CHAPTER THREE

Methodology of the Study

3.1 Description of the Study Area

The study is carried out in Dangila which is located in northwestern Ethiopia, Awi Administration Zone, Amhara Region, at 11°16'N 36°50'E latitudinal and 11°16'N 36°50'E longitudinal Coordinates with an elevation of 2137 meters above sea level. The area is mildly densely populated with 130 people per km². According to the projection made by the Amhara National Regional State Bureau of Finance & Economic Development (BoFED), in the year 2010 the aggregate population size of the area is grown to 168,375 (BoFED, 2009/2010: 21).

The area has 32 rural & 6 urban kebeles and in these kebeles dwellers that are participating in manufacturing, trade, hotel, restaurant activities, agriculture, community and personal services and transport activities and in the year 2012 the total number of MSEs that are registered legally & functioning in the area is grown to 1,003 (Dangila Micro and Small Enterprises Promoting Office, Annual Report, 2012). The area was selected since they have large numbers of people participated is that, a large number of micro and small entrepreneurs engaged in different entrepreneurship activities are located in this area

3.2. Data Types and Sources:

In the study both quantitative and qualitative types of data are used that are collected from both primary and secondary sources. The Primary data are collected through observation, structured questionnaires and semi-structured interviews using checklist of leading questions. Secondary data are also obtained from the following sources: which includes annual reports, statistical bulletins, research papers, official web sites, Federal Micro and Small Enterprise Agency, Amhara Micro and Small Enterprise Agency, Awi Zone Micro and Small Enterprise Agency, Dangila District MSE office, other financial reports & BoFED annual statistical bulletins, etc.

3.3. Method of Data Collection

3.3.1 Target population and sampling frame

This is the set of people or entities to which findings are generalized in analyzing both the internal and external factors which affects the growth of micro and small enterprises at district level. For the purpose of achieving stated objectives the total number of 1003 different MSEs which are nowadays registered legally & functioning in the study area are used as target population.

In order to perform non probability sampling, a sampling frame would be constructed basing in the study area. The list of enterprises' in the study areas are obtained from the office and the list of control groups were selected randomly.

The sampling procedures were involved the following steps: Obtained the total number of enterprises registered in Dangila Micro and Small Enterprise Office. Select enterprises to be studied. This however, would take into account residence aspects. The sample were include about 45 percent engaged trade, 23% engaged in services, 19% engaged in manufacturing, 12% engaged in agriculture and 1% engaged in construction.

3.3.2. Sample Size determination

The entire population $N= 1003$ selected as a target population is 10% of ($n=138$)

The desired sample of population is calculated as follows

$$n = z^2 p (1-p) / \epsilon^2$$

n = sample size

$Z=95\%$ confidence interval from z table value 1.95

ϵ =error term 0.05(5%)

P =population 10%

$$n = (1.96)^2 0.1(0.9) / 0.05^2$$

$$=138.29$$

3.3.3 Sampling technique

In conducting the study, both purposive and random two different sample types are used. First, the study is used purposive sampling which is a non probability sample that conforms to certain criteria for selecting enterprises. Purposive sampling was being very useful since it would help to reach targeted samples quickly and it would help to get easily the opinions of the targeted population. Specifically, the study is used a second type of purposive sampling which is Quota

Sampling. Quota sampling would be used since it improves the representativeness of the sample especially with other variables in the population which we have no control of them. Second, the study was used random sampling in choosing enterprises from each subsector. The Selection criteria were considering the following factors; time frame of the study, coverage of enterprises, and accuracy of information, reliability of information and precision of information

3.3.4. Data Collection Techniques

Data for this study is collected through the following ways:

Documentation: This would be involved collecting information and data from existing surveys, reports and documents.

Structured Questionnaires: This was collected information from enterprises. Questionnaires would be developed to obtain survey data that allows an understanding the challenges and prospects of micro and small enterprises. In the questionnaire method, questionnaire would be developed by taking in to account the experiences & performance of MSEs in English language and translated into Amharic (local language of the study area). For the purpose of achieving stated objectives special emphasis would be given by selecting & giving one day training for three local energetic data collectors.

Semi-Structured Questionnaires: This were be used to guide dialogue with a range of entrepreneurs and employees with the challenges and prospects of business environment.

Focus Group Discussion (FGD): was being done to compliment the field data. The main purpose of FGD would be to draw upon respondents' attitudes, feelings, beliefs, experiences and reactions. In particular FGD in this study was intended for exploring the experiences. Snowball sampling technique would be used to selects the participants. Two Focus Group Discussions for each of the selected area would be conducted with between 5 to 10 people in each group. All Focus Group Discussions were employed the funnel approach (This approach involves the use of broad questions followed gradually by more narrow questions) in collecting information.

Key Informants Interviews (KIIs): Key informants were be purposively selected because they are knowledgeable about various issues related to business environment and entrepreneurship. Key informants interview were be conducted with local government officials, religion leaders, employees and some of the heads of enterprises. Overall, three KIIs were be conducted in sampled areas. Trained interviewers were conducted interviews with the aid of question guides that elicit responses on various aspects affected the internal and external environment of

business. Interviewers were meeting the participant in a place convenient for them. The interviews are expected to last for about one hour. Attempts would be made to audiotape record all interviews. In cases where informants did not allow such recording, interviewers were made detailed notes of the responses of the informants.

Observation: Observation during the fieldwork were be used mainly to probe issues beyond those covered in the structured questionnaires and semi-structured questionnaires.

Research quality issues After data entry into computer a series of pretest would therefore be conducted the data was scanning and scrutiny techniques were being employed from available questionnaires from respondents to examine and validated the survey instrument so as to ensured content validity and reliability.

To ensured validity study would apply the triangulation technique by used interviews, questionnaires and secondary data analysis concurrently and these were be done through piloting of the data collection instruments used to collect data. The data collection instruments were be designed in such a way that they measured attitudes and opinions of respondents towards challenges of MSEs to the maximum degree possible. Issues developed from conceptual framework are being compared with issues obtained during interview and answers obtained from questionnaires so as to ensure construct validity, statistical analysis are used.

Data reliability was a cornerstone of made a successful and meaningful study. In order to collect reliable data, the researcher was designed the interviews and questionnaires through an elaborate procedure which involved a series of revisions under the guidance of the study supervisors to ensured that fieldwork was conducted by use of high quality data collection. Also quotes from interview and statement from questionnaires were be used as references to ensure reliability. Researcher used checklist of questions when making personal interviews with respondents so as to achieve data consistency and completeness.

3.4 Method of data Analysis

3.4.1. Data Analysis

In the study the collected data would be analyzed by using descriptive statistical methods of data analysis. In this section the characteristics of the variables are described in terms of the owner-managers' attributes and the enterprises' characteristics using the summary statistics and their financial status, job creation potential etc are analyzed by used simple statistical tools such as percentage, average, mean, median, mode, standard deviation, etc.

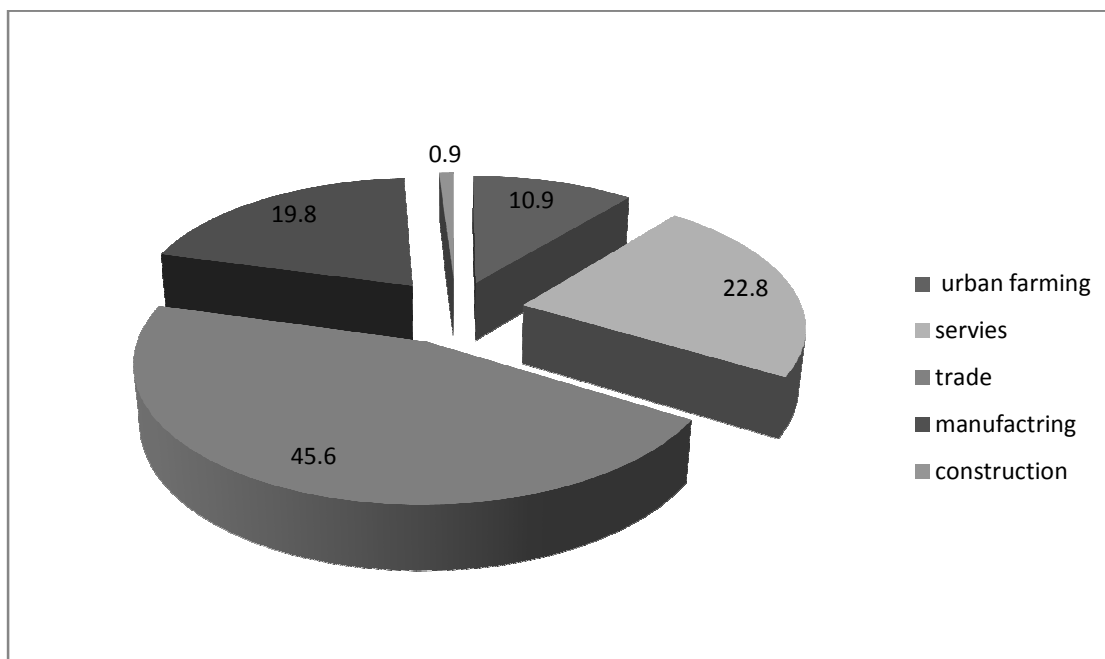
CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 GENERAL CHARACTERISTICS OF THE ENTERPRISES

4.1.1 Category of Responding Firms by Business sector

Figure 4.1 distributions of responding firms



Source: Field survey, 2013

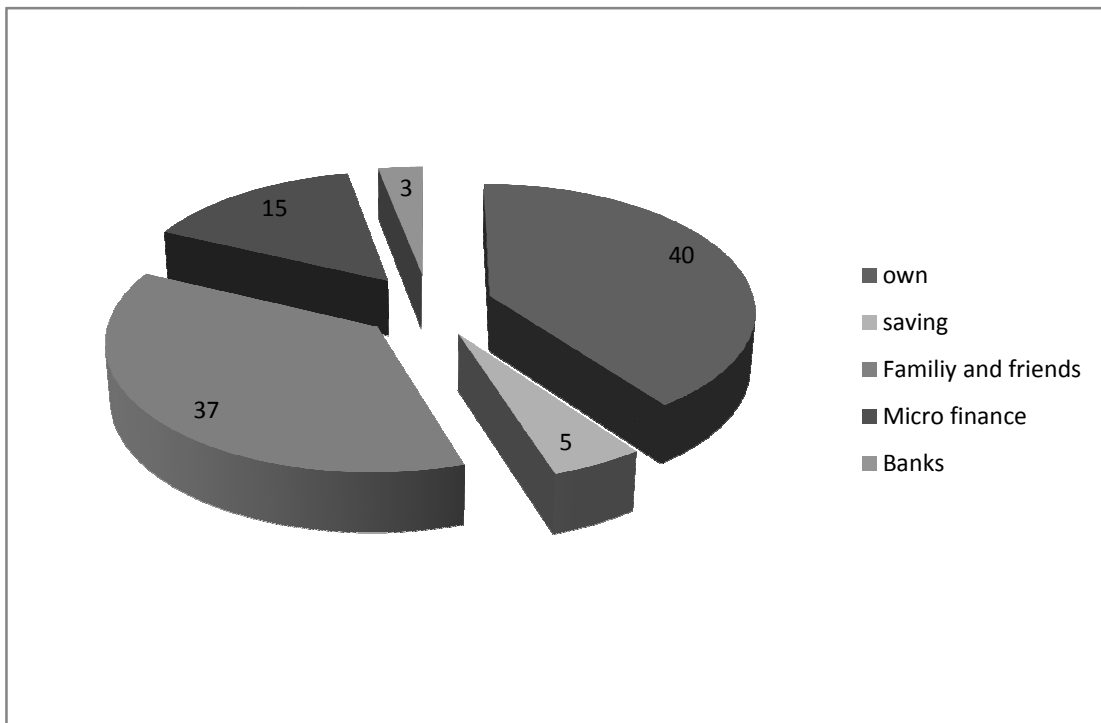
Figure 4.1 shows Sectors respondents engaged in different sectors, With regard to the activities practice 45.6% of the respondent enterprises are engaged in trade, 22.8% are engaged in services sub-sectors, 19.8% engaged in manufacturing sub-sectors while 10.9% are engaged in urban farming and 0.9% construction activities. The firms are operating in different sectors of the economy. Most of them are engaged in trade followed by services and manufacturing. This division of MSEs by sector type was believed to be helpful to study each sectors critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in trade may differ from the factors that are other sectors. From this it indicates that the dominant sectors trade and other services are less using technology less than that of manufacturing, construction and urban farming. It also takes low capital for starting and expansion the business.

The data set covers a wide variety of non-agricultural activities in trade, service and manufacturing. Manufacturing is also important component of the MSEs mainly covering production activities such as, wood and metal work, bakery and tailoring.

4.1.2 The Main Source for Start-up and Expansion Finance

Starting own business requires a starting capital rather than mere existence of ideas. To capture information regarding the relative importance of the various sources of finance, enterprises were asked whether they ever received credit from listed of sources of finance. The following figure shows the main sources funds.

Figure 4.2 distribution and source of finance



Source: Field survey, 2013

As can be seen from the figure (40%) of the source is own capital, followed by family and friends (37%), and microfinance (15%) in that order. And the remaining sources of finance come from personal saving (5%) and banks (3%). This shows that the main source of finance for MSEs is own capital. Traditional, source like family and friends/relatives plays the greatest role. In the district, informal sources play the greatest role in establishment of MSEs than the formal sources like microfinance and banks.

The formal banking sector is neither a source of finance for operation of these small businesses. This shows that friends and relative are the main source of finance not only for start-up capital but also for running the business. Trade credit (from suppliers) is not enough source of financing micro enterprises in the study area.

The result Group discussion shows that majority of MSEs in the study area uses informal sources. The formal financial institutions have not been able to meet the credit needs of the MSEs. According to the group discussion, the reason for emphasizing on informal sector is that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To wind up, such constraint of finance for MSE affects their performance directly or indirectly.

4.2 Characteristics of Enterprises' by Owner-managers'

Table 4.1 Owner- manager attributes of MSEs

Owner-manager attributes	Obs.*	Mean	Std. Dev.	Min.	Max.
Gender	138	0.81	0.82	0	1
Age	138	28.53	8.77	17	57
Marital status	138	0.43	0.26	0	1
Education	138	0.30	0.20	0	1
Experience	138	3.64	3.67	0	12
Family size	138	4.55	2.5	0	10
Position	138	0.10	0.50	0	1
Motivation	138	0.79	0.45	0	1
Preoccupation	138	0.54	0.27	0	1
Other investment	138	0.38	0.18	0	1

*Observation *Source: computed from own survey data, 2013*

This study focuses on the 138 enterprises that responded to all question. Regarding the owner managers' or operators' attributes, as shown in table 81.2% of sample enterprises were owned and/or managed by men and the rest 18.8% of enterprises were operated by women. This

indicates that women's participation in the business activities particularly in heading the enterprises is relatively lower. Majority of the women-headed businesses tend to concentrate on activities such as, retail trading, beauty salon, bars and restaurants, and local drink brewing. This may be attributed mainly to the cultural norms and societal attitudes, which consider women as inferior and too much family responsibilities they have to bear instead of engaging in businesses.

The owner-managers lowest age is 17 while highest age is 57, and thus the mean age is 28.53. This shows that since the sector absorbs more of the young labor force as one objective of the sector- creating employment opportunity mainly to the young is achieved. This shows that MSEs are favorable for young people engaged in these sectors.

Only 30.7% of the operators had at least primary school or no education and the majority either attended secondary education or have above certificate at all education (literate). Education affects the performances of MSEs with the adaptation of new business related to business development services, saving, technology, information, business plan, creation and innovation, competition and others. The education and training systems have the opportunity to influence the level of entrepreneurial activity in transition and developing economies, where new and innovative enterprise creation is a priority. Developing an appreciation of enterprise in the wider society is a long-term undertaking and it can best be achieved through the education and training system. While this is so, there are very few, if any, attempts for incorporating entrepreneurship training in school curricula. For instance, vocational and technical schools produce a graduate with vocational and technical skills that would enable him/her to take either one of two career paths: as an employee in a business or as an entrepreneur. In a significant number of transitions no provisions are made to enable these graduates to learn the basic entrepreneurship skills while at school. Entrepreneurship skills training seem to be available mostly as BDS for adults. A primary reason for this is the lack of appropriate linkages between SME policies and those of the education and training sector.

The mean value of experience of owner managers is about 3.64 years. The lowest and the highest years of experience of the owner-managers are 0 and 12 respectively. Among those who have experience, some of them had related experience and some others had experience in a different sector. Therefore from the studies it is clearly indicated that business opportunities are skewed towards younger, less educated, less experienced and male group operators. As shown in the

table above two-third of the owner-managers started their business because they wanted to be self-employed. 54.45% of them were student while the rest were either employed in various business or they were unemployed. 38% of owner-managers engaged in another business or investment, which shows that some operators own and/or manage more than one business activities.

Table 4.2 Enterprises characteristics of MSEs

Enterprises characteristics	Obs.*	Mean	Std. Dev.	Min.	Max.
Age	138	4.64	8.77	0	24
Form of ownership	138	0.94	0.22	0	1
Size-group	138	0.96	0.184	0	1
Source of finance	138	0.40	0.14	0	1

Source: computed from own survey data, 2013 Obs-Observation*

Based on above table 4.2 the enterprise characteristics, the sample enterprises in this study have a mean of 4.64 years in business. Of the sample enterprises, 94% were registered as sole proprietorship type of legal ownership and the rest 6% were registered as partnership and cooperative types of legal ownership. 40% of the capital of the enterprises comes from internal or own sources of finance, especially personal savings of owner-managers; the rest 60% comes from other sources such as financial assistance from their relatives and friends, financial assistance from NGOs and loan from formal and non formal financial institutions. With respect to the size-group of enterprises in the MSE sector, of the total sample enterprises 96% are micro enterprises and 4% are small-enterprises.

This shows that the majority of the enterprises in the sector are micro enterprises, which have lower potential both in terms of employment and capital acquisition compared to the small enterprises.

4.3 Growth of Enterprises

The summary statistics in table 4.3, therefore, discusses the growth and performance of sample enterprises in the study area by making a comparative analysis between the start-up time and the current time.

Table 4.3 Growth and performance of MSEs

Variables	Obs.*	Mean	Std. Dev.	Min.	Max.
Employment at start up	138	2.37	1.47	1	10
Employment currently	138	3	1.85	1	20
Capital at start up	138	2430.70	15936.33	30	100000
Capital currently	138	23747.50	249470.87	700	1500000
Average monthly sales at start up	138	336.23	2316.27	50	10000
Average monthly sales currently	138	839.60	2709.03	150	12000
Capital-labor ratio at start up	138	1027.20	930.38	5	7692.3
Capital labor ratio currently	138	7863.93	21370.98	100	125000

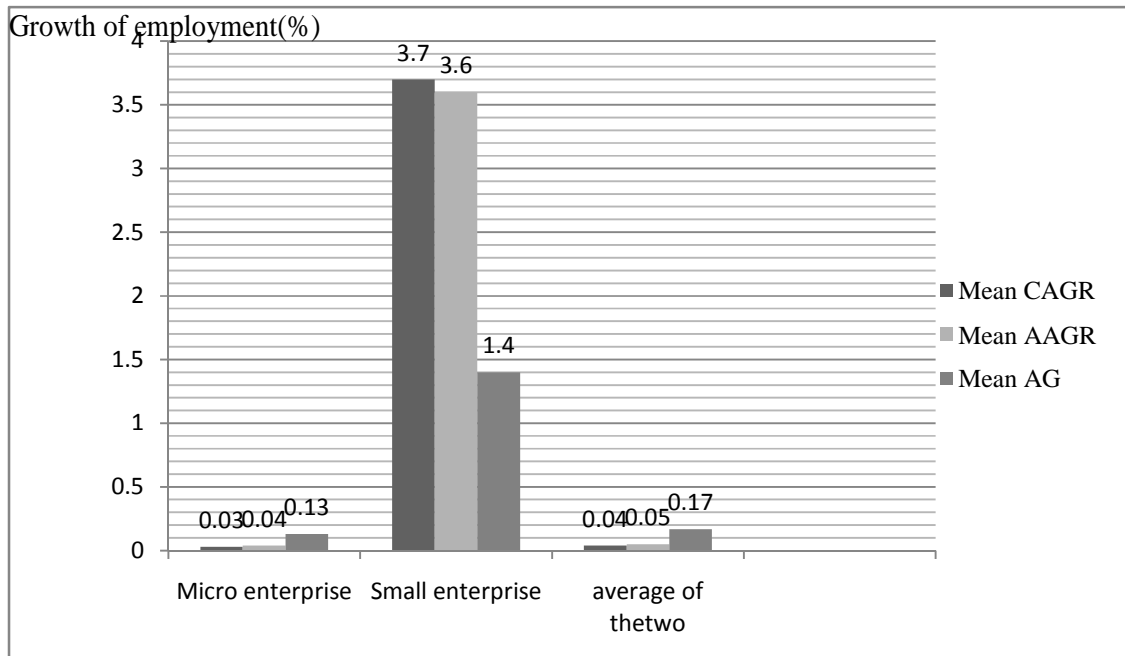
* Observation *Source: computed from own survey data, 2013*

The evidence in table 4.3 shows that the mean number of workers at start-up and current time for sample MSEs are 2.37 and 3 respectively; the range varies from 1 to 10 for start-up employment and from 1 to 20 for employment at current-time. This shows that the mean of the employment currently exceeds that of employment at start up only by 0.63 employees.

The mean capital of MSEs during their start-up was Eth.Birr2430.7 and the current average capital is Eth. Birr 23747.5. The average startup capital for small and micro enterprises is 53155.45 and 7431.00 Eth .Birr respectively. The summary statistics also indicates that the average amount of monthly sales attained by the sampled MSEs was Eth. Birr 336.23 (for start-up) and Eth. Birr 839.60 (for current time). The range also varies from as low as Eth. Birr 50 to maximum sales limit of Eth. Birr 10,000 (for start-up) and from as low as Eth. Birr 150 to maximum sales limit of Eth.Birr12, 000 (for current time). The mean capital-labor ratio for start-up is 1027.20 implying that on average Eth. Birr 1027.20 employed only one labor at the start up of enterprises. Similarly, the current mean capital-labor ratio of 7863.93 indicates that on average Eth. Birr 7863.93 employed only one labor currently. Intuitively, the capital-labor ratio

comparison between at start up and currently shows that capital grew faster than employment and hence the enterprises became more of capital intensive

Figure 4.3 Growth measure of enterprise by size group



Source: own compilation from survey data, 2013

The above figure 4.3 stated measurement tools are among the array of variables that might be employed to measure growth of enterprises, the one used most frequently is number of workers. Thus, as can be seen from figure the growth sampled enterprises in the study area is measured in three approaches: Compound Annual Growth Rate employment (CAGR), Annual Average Growth Rate in employment (AAGR) and Annual Growth in jobs (AG) by the size-group of the enterprises. In one hand, the growth performance varied between the two size-groups of enterprises: micro enterprises and small enterprises. On the other hand, it also varied across the sampled enterprises within a given size-group based upon the type of growth measures considered. To this regard, figure depicts that micro enterprises grew on a mean of 0.03% and 0.04 % annual compound growth rate and average annual growth rate respectively. Also small enterprises grew on a mean of 3.7% and 3.6% annual compound growth rates and average annual growth rates respectively. This shows that the small enterprises growth performance is relatively better than micro enterprises. However, in terms of annual jobs added, the small enterprises growth performance exceeds that of micro enterprise. Because, small

enterprises have increased 1.42 number of job per enterprise annually while micro enterprises have increased 0.13 number of job per enterprise annually.

On average both micro and small enterprises grew at a mean of 0.04%, 0.05%, and 0.17 annual compound growth rates, average annual growth rates and annual change of jobs per enterprise respectively. The maximum growth rate of both annual compound and average annual growth rates is 5 while their minimum growth rates are -0.81 and -0.42 respectively.

4.4 Mean Ratings of Challenges of Enterprise Growth

In the survey of this study, the owner and/or the manager of the enterprises were asked to point out the most constraining factors which actually constitute an obstacle to the growth of their enterprises.

4.4.1 Finance challenges

Tables 4.4 Mean Scores for Potential Financial Challenges of Enterprises

No	Finance challenges	Ob*	mean	std.de
1	Limited access to start up capital	138	3.38	1.16
2	Limited access to working capital	138	4.08	1.26
3	Limited access to saving	138	2.56	1.12
4	Limited access to business counseling & advise	138	3.23	1.21
5	Limited access to skill training	138	3.43	1.39
6	Lack collateral	138	3.21	1.47
7	Inadequacy of credit institutions	138	3.36	1.42
8	High collateral requirement from banks and other lending institutions	138	3.73	1.5
9	Lack of information access	138	3.57	1.33
10	High interest rate charged by banks and other lending institutions	138	3.92	1.43
11	Loan application procedures of banks and other lending institutions are too complicated	138	3.94	1.40
12	Lack of cash management skills	138	3.18	1.06
13	Limitation of business innovation	138	3.56	1.20
	Grand mean/st.dev	138	3.47	1.30

Source: own compilation from survey data, 2013 * Observation

The answers to the question were subjective but contribute to a better understanding of how certain types of growth obstacles are perceived. Thus, the sample respondents were asked to rank each of the 13 potential constraints on likert-type scales ranging from one (perceived not a constraint at all) to five (perceived severe constraint).

Table 4.4 shows the mean score for each potential constraint for the sample in general, and for the Dangilla of the study area in particular. It can be seen that limited access to capital for expansion, Loan application procedures of banks and other lending institutions are too complicated, high interest rate charged by banks and other lending institutions, high collateral requirement from banks and other lending institutions was ranked as the highest constraint for overall enterprise growth.

There are a number of challenges that affect performance of MSEs associated with different factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the performance of MSEs.

As it is indicated in table 4.4, the mean and standard deviation for the finance factors were calculated. The table shows the limited access to working capital has a mean score of 4.08 with standard deviation of 1.26, Loan application procedures of banks and other lending institutions are too complicated has a mean score of 3.94 with a standard deviation of 1.4 and High interest rate charged by banks and other lending institutions has a mean score of 3.92 with standard deviation of 1.4 the three leads challenges of MSEs. Therefore, it may be concluded that limited access to working capital is the main factor that affects the performance of all sectors. This is followed by average score of the respondent's response with regard to Loan application procedures of banks and other lending institutions are too complicated.

According to the table 4.4 above, High collateral requirement from banks and other lending institutions, lack of information access and Limitation of business innovation are other challenges to sustain the growth of MSEs with mean score of 3.73, 3.57 and 3.56 with standard deviation 1.5, 1.33, 1.2 respectively. The agreement on the non-reasonable finance challenges of the limited access to saving, lack of cash management skills and lack of collateral has a mean score of 2.56, 3.18 and 3.21 with the standard deviation 1.12, 1.06 and 1.47 respectively.

The agreement on the medium finance challenges of the limited access to skill training, limited access to startup capital and inadequacy of credit institutions has a mean score of 3.43, 3.38 and 3.36 with the standard deviation 1.39, 1.16 and 1.42 respectively.

The mean scores of 4.08 with standard deviation of 1.26 of the respondents in table shows that those operators engaged in all sector have faced the problem related to the limited access to working capital. Regarding inadequacy of credit institutions, the mean scores depicts that the respondents' of the all sectors agreement scale is more of undecided. The results show that the means ranged between 3.36. This shows that the respondents of the three sectors are in dilemma to say that the credit institutions are adequately available or not.

According to respondents financial issues are more salient in the areas due to the highly monetized nature of urban economies. Operators were interviewed to give their opinion on the nature of problem related to financial factors. It was found that, mainly ensuing from low market, the operators usually suffer of shortage of cash leading to their inability to cover their daily needs adequately. The other cause of this low cash presence at the disposal of the operators could be the increasing expense incurred by their respective MSEs in relation to purchase of raw materials and services such as transportation, in addition to cost of utilities consumed both at home and work place. The operators frequently mitigate this problem of cash shortage through borrowing and lending each other. The other mechanism of easing such cash shortage is through diversification of income generating activities.

The presence of affordable credit is essential for enterprise growth. With regard to credit access and availability, there are both formal and informal sources serving the operators in the studied area. The informal sources are consisted of loan from other fellow operators, family, relatives and friends. According to responses from the operators, the credit generated from such sources, along with a loan secured from micro finance institution (MFI) and own savings constitutes a portion of the start-up capital of the MSEs. Amhara MFI is the formal source of credit used by operators, though there are other financial service providers like state-owned and private commercial banks.

They are already established opinion on micro-finance that holds a view that micro-finance is a useful way of channeling finance to the poor and overcoming the difficulties they face in securing credit from formal financial institutions such as banks. It was reported that the terms of credit of Amhara MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate that is 18% in comparison with the interest rate of 9% charged by the banks. Majority of respondents indicated that, MFI

charges them totally 18% of the extended credit, of which 14% is paid as interest on the loan, 4% as service charge. This high loan cost puts the affordability of the loan of the MFI demanding by the users. Obviously, such high loan cost further damages the already low meager revenue of the enterprises. On the other hand, the group discussion' pointed that the short repayment period scheduled by the MFI put them in worrisome state as they face shortage of market resulting in their inability to repay the loan within the period stipulated by the MFI. Given the market problem of the MSEs, it is fair to suggest the MFI to effectuate a 'grace period policy'. Majority of interviewees widely outlined that, they are frequently use informal sources as a main sources. According to them, this is because of the view that the requirement of collateral and loan application procedures are relatively rare (completely none) in case of informal sources. Since such sources usually take place among parties with intimate knowledge and trust of each other, making the need for security (in the form of asset collateral/guarantee) low. The majority of MSEs in the district operate at under capacity due to lack of credit or over-regulation. This problem has been exacerbated by the demand for collateral by commercial banks as a prerequisite for the approval of loan applications.

The respondent firms stated that formal money lending institutions have so far failed to produce innovative, affordable and user friendly financial services with a particular view to assist the struggling MSE sector in Ethiopia. Respondents were also interviewed to give their opinion regarding saving, majority of them had a prior saving, though incomparable with their current level. The operators indicated that they have saving account opened at Amahara MFI and Commercial Bank of Ethiopia (CBE) in their own name. In addition to this form of saving, there is also a scheme called Iqub, where each member of it puts equal monthly contribution and the pooled amount is given to each contributor on rotational basis. The money accessed from Iqub sources is usually spent for undertaking other income generating activities by other family members such as gullit. Such informal indigenous rotating saving and credit schemes have a remarkable role in consolidating the enriched social life among the operators.

To wind up, the operators had better level of cash possession in comparison with the past but it is declining as time passes because of the inflation, increasing price of inputs, basic commodities and services such as transportation.

Finance is always a challenge to MSEs as the formal banking sector is hardly supporting them. In neither of the regressions the access to formal source credit such as, from banks and MFIs, is significant implying that banks and MFIs. Both the trade credit and other informal sources, however, affect firm growth positively and significantly. In the absence of formal source of credit informal networks appear more appealing for MSEs. Hence, supporting alternative channels (for example, trade credit and saving and credit associations) that do not involve collateral requirements and strange procedures might help businesses to grow.

4.4.2 Marketing and working premises challenges

Table 4.5 Mean scores for potential Marketing and working premises challenges of MSEs.

No	Marketing and working premises challenges	Obs	Mean	Std.d
1	Limitation of raw materials and expensive	138	4.16	1.20
2	Lack demand for my product	138	3.79	1.19
3	Inadequate operation space and selling outlet	138	4.36	1.40
4	Far from large market	138	4.27	1.43
5	Unable to compete with large enterprises	138	3.63	1.40
6	Lack of promotion to attract potential enterprises	138	3.21	1.33
7	Limitation of market innovation	138	3.61	1.24
8	Lack of market information	138	3.63	1.39
9	Absence of relationship with an organization potential buyers	138	3.61	1.32
10	Lack of access to physical infrastructure	138	3.42	1.87
11	Poor customer relationship and Handling	138	2.65	1.39
	Grand mean/std.dev		3.66	1.38

Source: own compilation from survey data, 2013

* Observation

From the above table 4.4, we see the marketing challenges that affect the performance of MSE. As shown in the table marketing factor is consisted of eleven items. From these factors inadequacy of market and Inadequate operation space and selling outlet, limitation of raw materials and expensive, far from large market and lack of demand for my product that conduct marketing research are critical factors that affect the performance of MSEs engaged in all sectors. In table it can be seen that, lack of demand forecasting is another marketing factor that affect the performance of MSEs. The arithmetic mean of 3.79 with standard deviation of 1.43 for

MSEs engaged in all sectors. Moreover, the table shows that lack of market information hinders businesses performance. The mean scores are 3.63 and standard deviations are 1.39 for business enterprises engaged in this sectors

On the other hand, the table above shows that respondents of all sectors are neither 'agreed' Similarly, majority of respondents agreed with they have no relationship with an organization and/association that conduct marketing research. This agreement is justified by the mean scores of 3.71 with standard deviation of 1.32 for an operator.

nor 'disagreed' with poor customer relationship and handling that affect their performance with mean of 2.65 and standard deviation of 1.39 for MSEs. Likewise, in relation to lack of promotion to attract potential users, the respondents of all sectors are do not like to decide on it. This is justified by the mean score of 3.21 with standard deviation of 1.33. In an interview conducted with an operator of the sectors, it was confirmed that absence of selling place has aggravated the already existing 'inadequacy and crowdedness' of the internal working space of the shades. The operators intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied MSEs. Absence of selling place obviously narrows the chance to access new customers. The recently price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The operators indicated that the continuously increasing price of inputs has been checked by the government action. They also indicated that the materialization of this ceiling has also saved them from being 'exploited' by illegal merchants, who always increase prices of basic commodities unreasonably. on the other hand, however, currently the owner managers attributed the sky rocketing price of commodities to the shortage or inadequacy of supply of commodities. Brilliantly enough, one respondent linked the issue with population increase. This is true since when there is an ample demand for a given goods or services, in this case higher population; it is likely that the price of that goods or services becomes high.

4.4.3 Government policy and legal environment challenges

As it is indicated in table 4.6 above, the mean and standard deviation for the politico-legal factors were calculated. The table shows the tax levied on my business is not reasonable has a mean score of 4.31 with a standard deviation of 1.07 for all sectors. Therefore, it may be concluded that the unreasonable tax levied on the business is the main factor that affects the performance of all sectors. This is followed by average score of the respondent's response with regard to high tax rate and related issues.

According to the table 4.6 above, enterprises engaged in this sector, the tax levied on their business is high. The agreement on the high tax amount is justified by the calculated means of 4.18 with standard deviation of 1.22. MSEs agree with the problem related to political intervention around their working areas.

Furthermore, the table indicates that weak linkage between MSEs and large enterprises is another problem that affects the performance of enterprises engaged in all sectors with a mean of 3.94 and standard deviation 1.26.

Table 4.6 Mean scores for potential Government policy challenges of the enterprises

No	Government policy challenges	Obs	Mean	Std.dev
1	Too many rules and regulations	138	3.85	1.31
2	Bureaucracy in trade licensing and registration	138	3.76	1.33
3	Lack of government support on government regulations that are relevant to my business	138	3.63	1.55
4	Weak linkage between MSEs & gov't institution	138	3.42	1.18
5	Weak linkage between MSEs & private institutions	138	3.72	1.28
6	Weak linkage between MSEs & large enterprises	138	3.94	1.26
7	The tax levied on my business is not reasonable	138	4.31	1.07
8	high tax rate levied	138	4.18	1.22
	Grand mean/st.dev		3.85	1.275

Source: own compilation from survey data, 2013 * Observation

Others government policy challenges that affect the performance and growth of MSEs according to the respondents too many and complex rules and regulations, bureaucracy in trade licensing

and registrations and weak linkage between MSEs and private institution has a mean score of 3.85, 3.76, and 3.72 with a standard deviation 1.31, 1.33, and 1.28 respectively.

Lastly, the table indicates that the owner managers engaged in all sectors are neither 'agreed' nor 'disagreed' with related to lack of government support on government regulations to my business and weak linkage between MSEs and government institutions. That is a mean score of 3.63 and 2.42 with the a standard deviations 1.55 and 1.18 respectively.

To conclude government policy on the growth and the performance of MSEs challenges and affect at the grand mean score of 3.85 and with grand standard deviation 1.275.

When the above responses compared with the interview and group discussion conducted with operators of MSEs, it was confirmed that there are problems related to government bodies at the woreda levels. The interviewees are pointed out the implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor MSEs. The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsible to the issues of the MSE operators.

Furthermore, the politico-legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises.

Even when opportunities have been created, MSEs have not been able to draw the full advantage due to absence of appropriate policy support. According to interviewees, there still exists an overly high tax rate, unreasonable tax levied and bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly. This includes a complex system, lengthy procedures and rules. For example, registration of a business, getting working places, payment of stamp duty among others. For enterprises found this poses a major challenge and cost as the owners of the business would need to close for days in order to travel to concerned governmental offices to access these services sometimes without success. Operators

believe that these requirements force enterprises to operate informally, which greatly limits their opportunities for growth, or to go out of business.

According to group discussion and interview high tax rate levied and the tax levied on my business is unreasonable not balance income and tax from mentioned from the enterprises owner the tax levied on the business not on basis real background or current income rather estimation. To addition from the operators ask to paid tax above their capital. To conclude that unfavorable government policy, rules and regulation challenges the growth and performance of Micro and Small enterprise in the District.

Thus clearly show that there are size-based policy biases against MSEs, and more so against smaller firms in the microeconomic environment. These biases cover all areas: legal and regulatory frameworks, governance issues, such as bureaucracy and corruption, access to finance and property rights

4.4.4 Technological challenges

Table 4.7 Mean scores for potential Technological challenges of the enterprises

No	Technological challenges	Obs*	Mean	St.dev
1	Lack of appropriate machinery and equipment	138	4.09	1.29
2	Lack of skills to handle new technology	138	3.73	1.35
3	Lack of money to acquire new technology	138	4.49	1.12
4	Unable to select proper technology	138	3.54	1.28
	Grand mean/st.dev	138	3.96	1.26

Source: own compilation from survey data, 2013

* Observation

As it can be seen in table above, lack of money to acquire new technology is the main problem of MSEs engaged in all sectors. The mean scores and standard deviations are 4.49 and 1.12 respectively. This is followed by lack of appropriate machinery and equipment. The mean score and standard deviation are 4.09 and 1.29 respectively. According to table 4.3, for operators engaged in all sectors lack of skills to handle new and proper technology other challenges of the enterprises the mean score and standard deviation of 3.73 and 1.35 respectively.

On the other hand, the mean and standard deviation for unable to select proper technology, the table above depicts that the respondents' agreement scale is more than undecided, indeed less than agreed. That is the mean and the standard deviation 3.64 and 1.28 respectively.

To conclude technological challenge the main problem of MSEs that affect the performance and growth at the grand mean score and standard deviation with 3.96 and 1.26 respectively.

The studied MSEs own a variety of working machines, equipments and tools, most of which were purchased. According to the interview with the operators, the loan to purchase equipments and materials were obtained from both formal and informal sources. Welding machine, singer, grinder, stove, drill machine, screw driver, hammer, chisel and clamps are some of the work related machines and equipments owned by the studied MSEs. The operators indicated that the presence of these machines, tools and equipments has allowed the operators to produce products. In contrast to this, according to some interviewees of food processing sector, they lack money to acquire new technology (equipment, machinery, tools, etc). Moreover, respondents replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

In developing economics, particularly the less developed ones, technical advisory and consultancy services are scarce due to low levels of investment in developing engineering skills. Sectoral business membership organizations are newly emerging and lack own finances to invest in technology upgrading services for MSEs. Many enterprises confront a multitude of challenges in dealing with technological requirements: they are unable to keep up with the "scientific" basis upon which these standards originate, they are unable to invest in the physical infrastructure to meet quality control, assurance and certification requirements, they are unable to invest in organizational, institutional and human resource development requirements in time with the changes, and at times.

4.5 Comparison of challenges

Even though, all the politico-legal, infrastructure, working premises, technology, marketing, financial, management and entrepreneurial factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above

Table 4.8 Comparison of Challenges of MSEs

<i>No</i>	<i>Challenges</i>	<i>Grand mean</i>	<i>Grand standard deviations</i>	<i>Rank of severity</i>
<i>1</i>	<i>Technological and related</i>	<i>3.96</i>	<i>1.26</i>	<i>1st</i>
<i>2</i>	<i>Political-legal and related</i>	<i>3.85</i>	<i>1.275</i>	<i>2nd</i>
<i>3</i>	<i>Marketing and related</i>	<i>3.66</i>	<i>1.38</i>	<i>3rd</i>
<i>4</i>	<i>Financial and related</i>	<i>3.47</i>	<i>1.30</i>	<i>4th</i>

Source: own compilation from survey data,2013

It can now be seen that technological factors has the biggest potential to contribute to the performance, followed by politico-legal, marketing and financial and working premises factors. In another words, the result shows that financial and working premises factors are the two topmost factors that affect the performance of MSE in the selected area. Therefore, it can be concluded that finance, technology, politico-legal and marketing challenges the growth and performance of MSEs.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

The summary statistics in the descriptive analysis showed that 81.2% of the sample enterprises were owned and/or managed by men and the rest 18.8% were owned and/or managed by women. In addition, only 30.7% of the owner-managers had primary school education or no education and two-third of the owner-managers started their business to become self employed. Regarding to the enterprise characteristics most MSEs in the Dangila district started with an average paid up capital of Eth.Br 2430.7 and with an average of 2 employees. At the time of the study, enterprises included in the study had an average of approximately Eth. Birr 23747 paid up capital and 3 employees. The capital-labor ratio comparison between at start up and currently shows that capital grew faster than employment and hence the enterprises became more of capital intensive. With respect to the size-group of enterprises, of the total sample enterprises 96% are micro enterprises and 4% are small enterprises.

- The main sources of startup and expansion finance or funds for most MSEs are own capital followed by obtained from family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. This shows that the studied operators accessed finance mainly from informal sources. One of the main contextual challenges identified are financial factors which include high collateral requirement from banks and other lending institutions, shortage of working capital, high interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions.
- Marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research. Infrastructural factors incorporate power interruptions, and lack of sufficient and quick transportation service that hinder the business performance of all sectors. The workings premises factors include absence of own premises and the rent of house is too high.

- Political legal challenges of various governmental bodies designed various programs aimed at developing MSEs sector. Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the performance and competitiveness of MSEs. This is mainly because of the fact that these programmes or policies are not effectively implemented in line with their intended objectives owing to various reasons. According to the findings, the reason ranges from lack of visible commitment of some governmental bodies to lack of regular integration between the MSEs operators and the concerned bodies of the government. Other main challenges related government polices and regulation the application is rate tax levied.
- The main most challenges identified were technology factors which include Lack of money to acquire new technology, Lack of appropriate machinery and equipment, Lack of skills to handle new technology, Unable to select proper technology or poor selection of associates in business.. It has been noted that the contextual factors are prevalent to the businesses such as technology, political-legal, marketing and financial had very high effects on the performance of MSEs compared to other factors in the research area.
- Other main internal challenges identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. Lastly, the major entrepreneurial factors include lack of persistence and courage to take responsibility for ones failure and absence of initiative to assess ones strengths and weakness.

5.2 RECOMMENDATIONS

- The Dangila district government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to lessen their requirements. This should be done so that MSEs can get enough access to finance for their business activities.
- The strengthening of government institutions at different levels would play a major role in positively influencing the development of MSEs, thus to reduce delays in processing legal requirements. The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blockings by laws, to address issues of getting a license or getting a premises on which to operate. A number of factors should be considered in designing all-encompassing policy for the promotion of the sectors.
- Marketing factors are frequently indicated as the explanatory factor for most problems faced by the studied MSEs. Providing selling and display places in areas close to working area, Linking the MSEs with other private institution working within or around dangila , changing the perception of the general public through extensive awareness creation mechanisms and private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run. Allowing those MSEs located and operating at Dangila believes to participate in biddings opened in other district, sub-cities of the region and the country.
- The operators of MSEs should form groups and make use of pooled negotiating power for borrowing purposes. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production. Through networking, MSEs of district can be able to exchange services such as advertising amongst themselves for free. This will enhance their competitiveness through a reduction in the cost of production. The benefit of sharing such service for the operators of MSEs is that it will strengthen the future survival, profitability and eventual growth of MSEs.
- To make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is

generally an imperative. Uninterrupted power supply and quick transportations are basic to effective performance of these enterprises.

- Investigating different technologies based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. The focus for this study was on the all sectors particularly the challenges and prospects of MSEs. It is the researcher's view that future research could therefore investigate the each sector like construction, manufacturing, services, trade, urban agriculture, and retail and come up with specific findings which will potentially contribute a lot in the development of the country in general. This study dealt with more of contextual and internal factors that affect the performance of MSEs. Further research could target the medium and larger firms that have dominated the markets having graduated from the MSEs. The field of MSEs is large and very diverse, so it is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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Appendix A

Survey Questionnaire

This is survey questionnaire to study ‘challenges and prospects of Micro and Small Enterprises in Awi Zone in the case of Dangila. Your response to this questionnaire will serve as source of information to the research paper to be done for thesis purpose. Any response you provide here is strictly confidential and will be used exclusively for the research purpose. Your honesty in responding the right answer is vital for the research outcome to be reliable.

General Guideline:

Please put a tick “Ö” mark for those questions that you think right.

Give your short and precise answers for those followed by blank spaces.

Your frank response is vital for the success of the study.

This research is designed to collect information only for academic purpose.

Part 1 Owner-managers’ Attributes

1.1 Demographic and Socioeconomic Characteristics

1. Gender

1. Male 2. Female

2. Age _____ years

3. Marital status

1. Single 2. Married 3. Divorced/windowed

4. Family size

Male _____ Female _____ total _____

5. Educational level 1. illetrate 2. primary school 3. secondary school 4. certificate or diploma
5. degree and above

6. Do you have previous working experience in the sector?

1. Yes 2. No

1.2 Basic Business Information

7. What is your position in the enterprises?

1. Owner 2. Manager 3. Both owner and manager

8. Who support you to start the business?

1. Government 2. NGO’s 1. No one

9. What motives initiated you to involve in this activity?

1. to be self employed- (self motivated) 2. Income generation
3. lack of alternative livelihood/for survival 4. Initiated by government and NGOs
5. Family business background 6. Specify, if any _____
10. What was your occupation before engaging yourself in this enterprise?
 1. Student 2. Jobless 3. Farming 4. Government employee
 5. Other private job

Part 2 Characteristics of the Enterprise

2.1 General Profile of the Enterprise

11. When was your enterprise established?

Month _____ Year _____
12. What is the formation of business undertaking/ The legal form of ownership
 1. Cooperative 2. Partnership 3. Sole proprietorship
13. Type of the sub-sector/line of business
 1. Urban farming 2. Services 3. Manufacturing
 4. Construction 5. Trade
14. Line of business in which the enterprise is engaged: _____
15. On which category of size-group does the enterprise exist?
 1. Micro enterprise 2. Small enterprise

2.2 Growth Potential and Economic Performance of the Enterprise

16. How many workers had the enterprise when it started its business?

Temporary _____ Permanent _____ Total _____
17. How many employed workers does the enterprise have at present?

Temporary _____ Permanent _____ Total _____
18. Out of the total number of employment given in Q. 20 above how many of them are paid workers? _____
19. Out of the total number of employment given in Q. 20 above how many of them have educational qualification of 12th grade and above? _____
20. How much was the capital of the enterprise at the start up? _____
Eth.Birr.
21. How much is the capital of the enterprise currently? _____
Eth.Birr.

22. What amount was the average monthly sales value of the enterprise in time when you start the business? _____ Eth.Birr.

23. What amount is the average monthly sale value of the enterprise currently? _____ Eth.Birr

24. What amount is the average monthly sales volume of the enterprise currently? _____

25. Could you indicate how the revenue (income) of the enterprise changed over the last years?

1. Increased 2. Decreased 3. Remained the same

26. What was your reason for your answer given in Q. 25 above?

27. What is your expectation in the future about your sales (income)?

1. Increase 2. Decreased 3. Remained the same

Part 3 Constraints and Problems of MSEs

3.1 Access to Productive Resources (Finance and BDS)

28. Did you obtain a credit facility when you start your business?

1. Yes 2. No

29. Have you got credit for expansion of you enterprise?

1. Yes 2. No

30. Where did you find this start-up credit (start-up and/or working)?

1. Personal/own saving 2. Loan from Micro finance institution (ACSI)

3. Borrowed/given from friends & relatives 4. loan from bank

5. Equb/Edir 6. NGOs

31. Have you got basic skill training when you start your business?

1. Yes 2. No

32. Does the enterprise get external support (training) at this time from the concerned body in the city administration (i.e the city administration Micro and Small Enterprise office) or other stakeholder?

1. Yes 2. No

33. In your opinion, what do you think are the main problems with the training offered?

1. Low outreach 2. Not customized

3. Lack of assistance in work place (to implement the training) 4. On-off nature: not regular

5. Others, specify _____

34. In the following table: How would you rate your access to finance and access to BDS based on the given degree of severity?

S. No.	Challenges	sever	major	Moderate	Minor	No
1	Limited access to start up capital					
2	Limited access to working capital					
3	Limited ability to saving					
4	Limited access to business counseling & advise					
5	Limited access to skill training					
6	Lack of collateral					
7	Inadequacy of credit institutions					
8	High collateral requirement from banks and other lending institutions					
9	Lack of information access					
10	High interest rate charged by banks and other lending institutions					
11	Loan application procedures of banks and other lending institutions are too complicated					
12	Lack of cash management skills					
13	Limitation of business innovation					

35. In your opinion what measures could improve the access to finance and BDS in MSEs in Ethiopia (region) in general and in your local area in particular.

3.2 Access to Market and Other Working Premises

36. Do you believe that the competitive power of your enterprise is in the good situation?

1. Yes 2. No

37. Did you get any assistance in market linkage?

1. Yes 2. No

38. Which type of access to adequate and affordable premises are/is lacked or absent in your enterprise? 1. Operation space 2. Operation space and selling outlet

3. Selling outlet 4. No problem at all

39. The premises to undertake your business is

1. Owner house 2. Rented house 3. From government 4. From relatives

40. In the following table: How would you rate your access to market premises based on the given degree of severity?

No.	Challenges	sever	major	Moderate	Minor	No
1	Limitation of raw materials and expensive					
2	Lack demand for my product					
3	Inadequate operation space and selling outlet					
4	Far from large market					
5	Unable to compete with large enterprises					
6	Lack of promotion to attract potential enterprises					
7	Limitation of market innovation					
8	Lack of market information					
9	Absence of relationship with an organization potential buyers					
10	Lack of access to physical infrastructure					
11	Poor customer relationship and Handling					

41. Have you undertaken any other investment?

1. Yes 2. No

42. If your answer on Q 44 above is 'Yes' what type of investment is it?

43. What type of commercial technology do you use in your enterprise for the production of Products or provision of services?

44. In what way would you like to get the working premises and market related problems addressed

3.3 Policy and Legal Environment and Institutional Linkage and Support

45. Is there any type of government policies, laws, rules and regulations regarding to this MSEs sector (Micro and Small Enterprise Development Strategy: MSEDs) that should be improved so as to make smoothening your business climate?

1. Yes 2. No

46. If your answer in Q.48 is 'Yes', please state the part(s) MSEDs that should be improved and the way how it will be resolved.

47. In the following table: How would you rate policy/legal environment and institutional linkage/support based on the given degree of severity?

S.No.	Government policy challenges	sever	major	Moderate	Minor	No
1	Too many rules and regulations					
2	Bureaucracyintradicensingandregistration					
3	Lack ofgovernment support on government regulations that are relevant to my business					
4	Weak linkage between MSEs & gov't institution					
5	Weak linkage between MSEs & private institutions					

6	Weak linkage between MSEs & large enterprises					
7	The tax levied on my business is not reasonable					
8	high tax rate levied					

48. In the following table: How would you rate Technological challenges based on the given degree of severity

No.	Technological challenges	sever	major	Moderate	Minor	No
1	Lackof appropriate machinery and equipment					
2	Lack of skills to handle new technology					
3	Lack of money to acquire new technology					
4	Unable to select proper technology					

Part Four: Overall Situation of Constraint and Problems

49. In your opinion what measures should be taken by the different bodies that are involved in growth and promotion of the MSE sector.

· By government executive agencies:

· By other stakeholders (i.e. private institutions)

· By the beneficiaries (i.e. the MSEs)

50. Any Additional comment?

APPENDIX B

Interview Questions

Interview questions with MSE operators

1. What problems did you face while running MSEs in relation to:

A. Contextual factors

Politico-legal factors [government policy, bureaucracies (in relation to company registration and licensing), taxation and like]

Premises factors

Technology factors

Infrastructure (power, transportation, water supply and like)

Marketing factors (relationship with suppliers, customers and others)

Financial factors (interest rates, collateral requirements, etc)

B. Internal factors

Management and related factors

Personal saving and related business development factors

2. What are other problem(s) did you faced regarding the overall functioning of your activity?

APPENDIX C

Group Discussion Questions

Group discussion questions with MSE operators and government employers

- I. Which are the main challenges of MSEs
- II. How was affect the above mentioned challenges growth and the performance of MSEs
- III. How explain the positive and negative impact of government, enterprises operters,NGOs and other stockholders on MSEs.