ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Factors Affecting the Development of Micro and Small scale Manufacturing Enterprises in Addis Ababa: The Case of Kirkos Sub-city

By

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SECTION B

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Abstract

This study was conducted to determine factors affecting the development of micro and small scale manufacturing enterprises in kirkos sub city, Addis Ababa. Data were collected from 65 operators of MSEs. The data were analysed using descriptive statics. lack of land/lack of operating or working space, lack of access to markets, lack of entrepreneurship skills and expertise, lack of equipment to carry out businesses and lack of credit for start-up capital or expanding are identified the main factor affecting of micro and small scale manufacturing enterprises development in the study area. The study result indicated that, most of MSEs are registered increase in employment and more than a fivefold increase in total capital or assets during the entire duration of their business. Similarly, most of MSEs failed to formulate and adopt deliberate business development strategies. Sex, education status and source of skill to start business are found internal factor and association with level of firm development. So that, providing adequate working and marketing premise, provision of capacity building trainings on business development, management, marketing skills to owners and targeted action to control the import of cheap counterfeits must be made. Furthermore, measures need to be taken to promote the consumption of domestic goods so as to build a tradition of consuming Ethiopian-made products and thus expand the market for local articles, equipment and the provision "lease financing" should be strengthened.

Key Words: ***MSEs, Manufacturing. Sector, Development***

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LIST OF ABBRIVATIONS

ADLI	Agricultural Development Led Industrialization
AFDB	African Development Bank
FMSEDA	Federal Micro and Small-scale Enterprises Development Agency
FMSES	Federal Micro and Small-scale Enterprises Strategy
GTP	Growth and Transformation Plan
IADB	Inter-American Development Bank
ILO	International Labor Organization
MIF	Multilateral Investment Fund
MOFED	Ministry of Finance and Economic Development
MOLSA	Ministry of Labor and Social Affairs
MOTI	Ministry of Trade and Industry
MOUDC	Ministry of Urban Development and Construction
MSEDA	Micro and Small Scale Enterprise Development Agency
MSES	Micro and Small-scale Enterprises
PC-GNI	Per Capital Gross National Income
RMSEDAS	Regional Micro and Small-Scale Enterprises Development Agencies
RMSES	Regional Micro and Small-scale Enterprises Strategies
SDPRP	Sustainable Development and Poverty Reduction Program
UNDP	United Nations Development program

CHAPTER ONE

Introduction

1.1 Background of the Study

Micro and small scale enterprises (MSEs) have been acknowledged as key sector that play an enormous contribution to the economy of a nation. It has pervasive functions in increasing employment, income generation, reducing poverty and creating opportunities to citizens. The development of the MSE sector long drew the attention of governments, policy makers and analysts, donors and other key development players.

Ethiopia adopted its first MSE development strategy in 2005and it emphasized on the poor and less skilled people to form cooperatives and create their own jobs. The second new MSE Strategy was develop in 2011 and the university graduates as MSE target groups. On top of providing job opportunities to the population beyond the owners, they are hoped to bring about the technological transfer and new corporate management skills to the nation. Small scale businesses in Ethiopia are divided into five sectors: these are the manufacturing sector, the service sector, construction sector, the urban agriculture sector and the retail sector. These sectors are expected to substitute imports or are categorized in the manufacturing sector (MoUDC 2013, MOFED 2010).

The Ethiopian Growth and Transformation Plan (GTP) recognize MSEs as ways to enhance wealth creation and expansion of employment opportunities. The plan stipulated the MSE subsector creates employment opportunities for the mass of the population and thereby contributes towards poverty reduction (MOFED, 2010). The development of MSEs is therefore the key components of Ethiopia's industrial policy direction that will contribute to the economic transformation in Ethiopia (MOFED, 2010).

1.2 Statement of the Problem

According to the new MSE Strategy (2011), MSEs in Ethiopia are divided into five sectors and are expected to import substitution and provide job opportunities to the population beyond the owners. They are also hoped to bring about the technological transfer and new corporate management skills to the nation.

Although the development of MSEs has been well recognized by the different policy documents their success rate in terms of creating job opportunities and serving as a link in technological transfer is still seriously problematic in Ethiopia. According to the Survey conducted by MoUDC (2013) on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia, the employment opportunities created in the sector were basically family based. It was observed that 34.4 % of the MSEs employed a single worker, followed by 33.8% and 24.1% employing 3-6 persons and 2 persons respectively.

According to the study report by Ministry of Urban Development and Construction (2013), small scale businesses are divided into five sectors: these are the manufacturing sector, the service sector, construction sector, the urban agriculture sector and the retail sector. However, a large proportion of MSEs were in the retail sector i.e. involved in the buying and selling of commodities. Despite the fact that the major national documents give emphasis to the manufacturing sector to produce essential commodities and create conducive environment in technological transfer, insignificant proportions of the MSEs have been involved in the manufacturing sector. The MSE in manufacturing sector are also characterized by low level of technological innovativeness which is supposed to be vital for the growth and development of MSEs.

The preliminary discussion with the sub-city MSE Office revealed that those MSEs particularly engaged in manufacturing sector are adversely affected by the frequent interruption electric power. During the period the power shortage had been serious, MSEs in manufacturing sector were completely cut off in power use and during the less serious periods, they were put in rationing of power. As result of the frequent and unplanned power interruption, manufacturing sector MSEs are forced to operate within their limited production capacity, reduced their operating hours, suffer from losing substantial raw materials in process, experience damage to machinery and equipment as well as incurred additional cost for fuel and transportation.

The manufacturing sector MSEs are generally characterized by low productivity and stagnation, capital, limited access to financial services, lack of business plan and strategy, lack of partnership and networking, absence of technical and business skills. To this is added the limited purchasing power of the local people, limited export and, poor business environment and networking.

The GTP emphasizes the need to provide comprehensive supports to MSEs in general and those involved in manufacturing sector towards unleashing their potential and enhance their contribution. Nevertheless, the survey by MoUDC showed the opinion of MSEs on the efforts made by the government to provide various support services, the majority of those under sole partnership, pointed out that they didn't receive supports like credit services, access to working premises and trainings compared to those organized under cooperatives (government initiated MSEs).

The scope of this assessment is limited to one sub-city and focus on manufacturing sector enterprises due to financial and time constraints. The study was to investigate problems encountering manufacturing enterprises as they are the key sector in transforming the economy and as serving as a missing link between the MSE and highly developed industries. The study was to analyse the specific experiences and problems which confront MSEs focusing on manufacturing sector.

1.3 Research Questions

In view of the problems, the study tried to address the following research questions:

1. What are the internal and external factors that mostly affect the development of manufacturing sector MSEs in Kirkos sub-city?
2. What has been done by the Government to support manufacturing sector MSEs and how can the problems of manufacturing sector MSEs in Kirkos sub-city be minimized?
3. That kind of support from the side of relevant stakeholders can be made to address these challenges?

1.4 Objectives of the Study

General Objective

The general objective of the study was to identify factors affecting the development of manufacturing sector MSEs and forward recommendations to enhance their roles and facilitating their development and success.

Specific Objectives

The specific objectives of the study were:

1. To identify factors that affect the development of manufacturing sector MSEs in Kirkos sub-city?
2. To identify gaps from the side of the government in supporting manufacturing sector MSEs and measure the contribution of the efforts of the Government in supporting their development.
3. To learn about the perception of manufacturing sector MSEs towards the support they have received (training, access to finance etc.)

1.5 Significance of the Study

The manufacturing sector MSEs expected to play instrumental role in addressing unemployment, poverty and technological transfer if and only if when the barriers facing entrepreneurs are identified and addressed. To this end, the overarching purpose of this study is to enhance our understanding of small scale manufacturing business performance. Analysis of the quantitative survey helps us look for the determinant factors affecting manufacturing sector MSE development. In addition to that, the study will have the following significance:

1. It can serve as an input to existing Entrepreneurs, potential entrepreneurs, Micro and Small Enterprise Development Agency to alleviate the bottlenecks facing manufacturing sector MSEs
2. The study indicated important areas for different actors in the field to address the challenges the manufacturing sector MSEs are facing
3. It also add to the existing literatures by identifying and documenting the challenges impeding the manufacturing sector SMEs development in Ethiopia.

1.6 Scope and Limitations of the Study

The study focuses on manufacturing sub-sector SMEs in Kirkos Sub-city. This study doesn't incorporate MSEs in other sub-sectors and in wider geographical coverage because of time and financial constraints. The study concentrates on manufacturing sector MSEs because they are at the fore front of the GTP priorities and focus. Although the study is restricted only to manufacturing sector MSEs, its findings are expected to somehow reflect some of the common

features of others sector MSEs since some of the challenges exhibited in manufacturing sector MSEs are also observed on others. Furthermore, the study is limited to one sub-city again due to time and financial constraint. However, since administration procedures is the same in the entire city, the result that is obtained taking case of this specific sub-city could reflect the situation of MSEs all over the city under normal circumstance. In addition to that, although, there are different issues that can be researched in relation to development of enterprises, this study is delimited to selected few issues influencing the development of MSEs.

1.7 Definitions of Terms

Cooperative: is a society established by individuals on voluntary basis to collectively solve their economic and social problems? It is also an enterprise owned by a group of persons who take full part in the activity of the enterprise by coordinating their knowledge and assets.

Current capital: is the part of enterprise's capital available during the survey. Current capital is understood as a current asset minus current liabilities.

Enterprise: It refers to an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level.

Factors: A factor is a contributory aspect such as politico-legal, working premises, technologies, infrastructures, marketing, financial, management and entrepreneurial influences that affect performance of micro and small enterprises.

Initial Capital: is defined here as "the original investment or money used to start the enterprise". These initial funds, or capital, may come from microfinance loan, city government grant, owner's personal savings, or any other relatives and family contributions.

Manufacture of food products: includes manufacture of vegetable, preparing '*baltina*' products and manufacture of bakery products.

Manufacture of metal products: are an enterprises sector engaged in manufacture of fabricated metal products, except machinery and equipment; manufacture of parts and accessories for motor vehicles and their engines.

Manufacture of textiles and garment: is an enterprise sector engaged in preparation and spinning of textile fibres, manufacture of carpets and rugs; manufacture of wearing apparel, dressing and dyeing of fur.

Manufacture of wood and wood products includes manufacturing of furniture, joinery and modern beehives.

Partnership: is defined as "an enterprise established by more than one person with legal status. The responsibility/liability is equal for all the partners irrespective of their share. Similarly,

Performance: in this paper performance defined in terms of profitability of the MSEs.

Respondent: respondents are those individuals who are owner managers or operators of an enterprise.

Share Company: is also an enterprise with legal status and has five or more members. A share could be transferred from one person to another.

1.8 Organization of the Report

The report is organized as follows: Chapter one is the introduction section of the report. Chapter two gives us a review of theoretical and empirical work done in relation to the development of MSEs. Chapter three deals research design and methodology. Chapter four focuses on presentation of the findings of the study. The fifth and last chapter deals with the conclusion and recommendations of the study.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter presents reviews of various literatures on MSEs. Different works on factors that affect the development of MSEs and measurements of MSE enterprises growth and development were reviewed to better understand both the theoretical and practical frameworks as well as aspects that contribute to development of SMEs in general and manufacturing sector MSEs in particular.

2.2 Definition of Micro and Small Enterprises

Globally there is no universally acceptable definition of MSEs. The define MSEs. Theory across space and time and across institutions. Countries in the world have wide range of approaches to define what exactly an 'MSE' is in their economy. It is logical to assume that the wealthier the economy of a country, as defined perhaps by per capita income, the larger the size of any business considered to be small or medium relative to other businesses in poor economy countries. However, Gibson and Vaart identified that the largest Vietnamese SMEs are, officially, three times the size of the largest Norwegian SMEs. And what is officially an SME in
Egypt may not exceed half the size of the upper limit in Ghana, despite the fact that Egypt's Per Capital Gross National Income (PC-GNI) is roughly three times as large.

An extremely large number of SMEs operate in Ethiopia. However, it is extremely difficult to precisely define what constitutes an SME in the Ethiopian economy due to their diversity lack of consistently and uniformly categorize them by the regulatory government body. Hence, the definition of an MSE varies in time and across institutions in Ethiopia as well. In Ethiopia, the classification of enterprises into small, medium and large scale depends on a number of variables such as level of employment, turnover, capital investment, production capacity, level of technology and subsector. Ministry of Trade and Industry (MoTI) and the Ethiopian Central Statistics Authority (CSA) have defined MSEs in varied ways. While the definition by MoTI uses capital investment, the CSA uses employment and favours capital intensive technologies as a yardstick.

For instance, the MSE development strategy in 1997 defined a micro enterprise as having a paid-up capital of less than 20,000 Birr (USD 2,105) while a small enterprise operates with a capital of between 20,000 and 500,000 Birr (USD 2,105–52,632). The definition excludes '…high tech. consultancy firms and other high tech. Establishments' (FDRE, 1997).The definitions also take into account the number of employees in an enterprise, which is in line with most of the international definitions of small and medium enterprises. The Ethiopian Central Statistical Authority (CSA) also adopts this definition but it was ambiguous over "medium" enterprises. CSA defined "small and medium" enterprises as establishments that engage less than 10 persons using power driven machinery and "large and medium" scale manufacturing enterprises as establishments with more than 10 employees using automated machinery. Hence, CSA's definition was slightly unclear by the conflicting entries on 'medium' enterprises CSA, 2004, CSA, 2005).
The definitions of an MSE in Ethiopia have gone through temporal variations. The regulation No. 201/201, defined "Micro enterprises" when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is ≤ 100,000 ETB for industrial sector and ≤ 50,000 ETB for service sector. In a similar manner, an enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50, 001—500,000 ETB for service sector is defined as "Small Enterprise" (Federal NegaritGazeta, 2011).

Similarly Different multilateral development institutions like the World Bank and the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB), the African Development Bank (AfDB) and UNDP have widely varied definitions of the MSE sector. Despite the fact that the World Bank focuses relatively poorer economies than countries targeted by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB), the World Bank's definition includes businesses three times larger by employees and five times larger by turnover or assets than the largest MSE under the MIF definition (Gibson and Vaart 2008). Whatever explains this disproportionality among the various definitions, it is unlikely to be a scientific distinction. Nor are explanations for these substantial differences articulated by these institutions and countries (Gibson and Vaart 2008). Hence, it is safe to conclude as the classification of business into small and large scale is a subjective judgment and vary both between countries based on their level of development. Even within the same country, the definitions of MSE change overtime due to changes in economic progresses, advances in technology or other

considerations. The absence of all-encompassing definition of MSEs has created difficulties. According to Tegegne and Meheret (2010/11) study argued that, the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact, making comparisons difficult across countries. Hence, such comparisons and drawing lessons from another country must be cautiously made.

2.3. Success measure of micro and small enterprise

Micro & small enterprise considered as a vital component of the socio –economic development of both developed and developing countries, usually some of these enterprise collapse with in the 1st few years of their start-up of those operating, some grow rapidly, while other grow slowly.so it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors & use for their future in the business. The success of a firm is motivated by external opportunities, such as promising demand prospects for the firm's produce, and /or internal inducements, such as a shift to a more efficient utilization of existing resources of the firm. On the other hand, eternal & internal factors may also function as obstacles to growth & success. As far as external success determinants are concerned, demand for the firm's products is the major factors. Second, the market actions of the competitors, the supply of production factors and the features of the local business environment are typically external to a small firm. Internal success determinants include the features of the firm itself and attributes of the business owners of the firm enterprises. In this research the internal success factors of the enterprises are under consideration. In the theory context of micro& small enterprises, empirical work has found several factors to determine the success of firms .But before going to review what other researchers have done on each of the success factors, it is more appropriate to define what successes mean and how it can be measured as small enterprises concerned.

Enterprises business success is usually measured interims of economic performance .As walker & Brown (2004), small business success can be measured by financial & non-financial criterial although the former has been given most attention in the literature. Traditional measures of business success have been based on either employee numbers or financial performance, such as profit, turnover or return on investment .Implicitly in these measures is an assumption of growth that presupposes all small business owners want or need to grow their businesses. In economic

terms this is seen as profit maximization. Economic measures of performance have generally been popular due to the ease with which they can be administered and applied since they are very much hard measures. Furthermore walker & Brown (2004) suggested, all business must be financially viable on some level in order to continue to exist. However, given that some business have no interest in growth, there by implying that Financial gain is not their primary or only motivation, then there must therefore, be other non-financial criteria that these small business owners use to measure their business success. In small entrepreneurial and independent firms, measures of success may have more complex dimension that just financial performance (Mohan-Neill 2009). Non-financial measures of successes used by business owners, such as autonomy, job satisfaction or the ability to balance work and family responsibilities (Walker & Brown, 2004; Mohan – Neill 2009) are subjective and personally defined and are consequently more difficult to quantify. The hard measures previously mentioned therefore, are easier to understand and can be used in a comparative way against existing data and as bench marks for future measures. It is measures based on criteria that are personally determined by the individual business owner although commonalities with in the partners of small business owners occur. It is measures presume that there is a given level of financial security already established; it may be that this with in the business, or that the small business owner does not require the business to be the primary source of income (Walker & Brown, 2004).

The selection of performance measures that reflect the true situation of small business with some degree of certainty & reliability is indeed crucial process .The lack of universally accepted standard performance measures left the door open to business organisations to decided and choose its performance measures might not truly reflect its performance (Alasadi & Abde/rahin, 2007). Such performance measures include but not limited to market share, sale volume, company reputation, return – on -investment (ROI), profitability, and established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small business. In this study the performance measures are not only monitor but also non-monetary factors like infrastructure, marketing and managerial skills. Which are the most affecting factors for performance in growth of the enterprises which are difficult to control.

The empirical evidence shows that small business owners do not come from a particular social back ground & education, rather their business experience is developed through opportunities provided by the social background, and family link in their locality (Liedholm2001). A study by Daniels (1995) cited in Liedholm 2001&stel et al 2002 indicates, the initial capital requirements & the level of regulation are found to be inversely related to the new start-up of business .potential entrant face various obstacles .According to kawi and Urata 2001, the three most obstacle are lack of finical resources, lack of human resources and difficulties in developing distribution network. financial resources, lack of human resources & difficulties in developing distribution network financial constraints on the star up of new ventures have received much attention in developing countries (USAID2002).The measures of financial constraints including the size, number & source of loans, the rate & amount of reinvested profit, the extent of access to fiscal facilities, lowering taxes & resources of the entrepreneur (USAID 2002)

2.4 MSE Policy Framework in Ethiopia

Immediately after assuming power the existing government proclaimed the Emergency Recovery and Reconstruction Program (ERRP) and started a program of private sector development. Furthermore, several other supporting proclamations were also issued such as Proclamation No.15/1992, i.e. the Encouragement, Expansion and Coordination of Investment Proclamation and Proclamation No.41/1993: Definition of Powers and Duties of the Central and Regional Executive Organs of the Transitional Government of Ethiopia provided for the establishments of Industry and Handicrafts Bureaus in the Regional Governments has replaced the HASIDA proclamation. The government later adopted the Agricultural Development Led Industrialization (ADLI) and private sector development strategy in 1995. An element of these strategies was focused on MSEs Development: Federal Micro and Small-Scale Enterprises Strategy (FMSES) and Regional Micro and Small-Scale Enterprises Strategies (RMSES) were formulated in 1997. Federal Micro and Small-Scale Enterprises Development Agency (FMSEDA) and Regional Micro and Small-scale Enterprises Development Agencies (RMSEDAs) were established by the Council of Ministers of Ethiopia Regulation No.33/1998, and supportive financial sector reforms were made. Among the principal objectives of the FMSES and RMSES are exploitation of local raw material, creation of

productive job opportunities, adoption of new and appropriate technologies, and enhancement of the development of MSEs which have wide-ranging backward and forward linkages.

In order to operationalize FMSEDA and RMSEDAs and address the major issues and problems constraining MSEs development, the government issued an Industrial Development Strategy in 2003，which was aimed at providing a package of material and technical government support to the MSEs including, inter alia, provision of utilities and infrastructure, raw materials, access to credits, etc. The government's five year development program the Sustainable Development and Poverty Reduction Program (SDPRP) was aimed at creating an enabling environment for accelerated development and attainment of improvements in the standard of living of the people. In the next five year plans (PASDEP I and II) identified the development of MSEs as a best venue for job creation and to mitigate the pervasive youth unemployment observed in the country. The Growth and Transformation Plan (GTP), which is the successor of PASDEP has also given a priority to MSEs development. The GTP has put the MSEs development as one of the seven identified growth pillars of the country. Various studies pointed out that MSEs have been on the forefront in employment creations, poverty reductions, proliferations of entrepreneurships and thus economic development (CSA, 1997; MoTI, 1997; Haftu, et al, 2009; GTP, 2010). Since 1997 the government introduced two MSE strategy documents. These are: the MSE Development Strategy of 1997 and the MSE Development Strategy of 2011. The first strategy clearly enlightens a systematic approach to alleviate the problems and promote growth of enterprises. The primary objective of this national MSE development strategy has been to create enabling environment for MSEs to operate. More specifically the 1997 strategy expected MSEs to facilitate economic growth and bring equitable development, create long term jobs; and provide the basis for medium and large scale enterprises just to mention but a few. The new MSE Strategy (2011) included fresh band of target groups, the graduates, (in addition to its classical emphasis on the poor and less skilled people) to form cooperatives and create their own jobs. On top of providing jobs to the people, the establishments are also hoped to bring about the technological transfer and new corporate management skills to the nation. The strategy grouped manufacturing sector MSEs into different set of areas i.e. the manufacturing sector, the service sector, construction sector, the urban agriculture sector and the retail sector. One of the important concepts raised in the new MSE

strategy is about the stage of growth of the MSEs. According to this strategy the supports these enterprises receive from the government is dependent up on their level of growth and is relatively a tailored one. The growth stages of the MSEs are three in number and they are: the start-up stage, the growth stage and the maturity stage.

2.5 Role of MSE Sector

Reviews of existing literatures provide a mixed insight on the role of MSEs in the economy. On the one hand some authors viewed MSEs as marginal and unproductive entities that were used as means to avoid taxes and had little potential for growth of the enhancement of entrepreneurial capacity. For instance, Liedholm, and Mead argued that an increase in the numbers of people engaged in the MSEs is a sign of failures of the economy to provide productive jobs so they are forced to take refuge in limited activities that are not beyond subsistence support (Liedholm, and Mead, 1999). On the other hand, MSEs are considered as an encouraging signs, because the proper functioning of the MSEs & the market help people get opportunities to take part in some gainful activities that can empower and nourish more families. Mukras argued that by generating larger volumes of employment as well as higher levels of income, the SMEs 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).

With regards to the role of MSEs to economic growth and poverty reduction, still there is no consensus among different writers. Still the two polarized thoughts are vividly seen in different literatures (Agyapong, 2010:196-205; Anderson et al., 1994:129-133 and Staley & Morse, 1965:31). One line of the 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. Similarly, Admassie and Matambalya (2002:1-29) study showed that, as a result of shortcoming and pessimism there is a high level of technical inefficiency, which reduce their potential output levels significantly. Research carried out by Biggs (2002 cited in 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.

But nowadays the contribution of micro and small enterprises (MSEs) to employment, growth and sustainable development is widely acknowledged. MSEs are recognized as important vehicles of economic diversification, income generation and distribution, and accelerating the economy of a country. They can also help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution. Furthermore, there is no doubt that MSEs have already become major features of the economic fabrics in most developing countries including Ethiopia. As a result, researchers, practitioners and policy makers are increasingly interested in MSEs as sources of labor intensive technologies and jobs and incomes for the urban poor. The global conference on world employment program in Kenya has raised the idea that informal sector is crucial and possess potential source of employment and economic growth in the face of rapid population growth (Josef Gugler: 2002). It was therefore, recommended that the promotion of labor intensive technologies and production processes as an appropriate policy instrument. Promotion of labor intensive technologies in production was one of the growth policies and strategies believed to address unemployment problems of both rural and urban residents and adopted by most developing countries. Promotion of micro and small enterprises (MSEs) has, thus, been one among those labor intensive endeavours adopted by countries (Ibid).

2.6 The Features of the MSE sector

Developing economies are typically characterized through large informal sectors, which hold a lot of necessity entrepreneurs and other forms of informally employed workers (OECD 2009). However, exact numbers of SMEs are difficult to decipher, since these economic activities are beyond official statistical nets. SMEs are very often too small and not in existence long enough to be accounted for. This, however, makes obtaining (panel) data on micro, small and medium enterprises in developing countries a challenging task. Although the exact number of small businesses is a matter of speculative estimation, research provides in-depth insights into the nature of informal micro and small businesses. Most SMEs enter traditional markets that have low access barriers, are usually quite saturated and characterized by fierce competition as well as decreasing profits and wage levels (Altenburg / Eckhardt 2006). However, it is widely acknowledged that the SME sector generates substantial employment in many countries. The sector's share of overall

employment tends to be higher in developing countries (Tybout 2000; Thurik 1995; Mead 1994; Mead / Morrisson 1996). Mead and Liedholm (1998) found that in the five African countries under study, the number of people engaged in micro and small enterprises was twice the level of those employed in the formal large-scale and public sectors. Moreover, they show that most of these enterprises were only one person undertakings. Hired workers, excluding unpaid family workers, were a rare case, and in most countries the %age of hired workers constituted only around 20 per cent of the MSE labour force (Mead / Liedholm 1998).

Zewde identified that the MSE sector is characterized by a number of highly diversified activities, which can create job opportunity for a large segment of the population. The characteristics of the informal sector (small and micro enterprises) have also been described as it is easy to enter, it is financed mainly from personal and family resources, it requires low starting capital, it uses labour-intensive techniques, and it relies on the non-formal school system such as apprenticeship and on-the-job training (Zewde 2002). In Ethiopia, most of the MSEs employed between 2-9 people. Despite obtaining accurate business capital is difficult in Ethiopia, over 90% operated with a capital of less than 50000 birr. Most of them are privately owned and employed labor from within the extended family as well as casual labor if and when needed. Abebe and others put that Ethiopian MSE's are usually characterized by one or more of the following features;

- They have simple marketing chains typically involving only 2 or 3 players
- They work with inadequate market information
- They produce crude ranges of products with limited value addition
- They are established with limited investment
- They lack access to credit and training
- They possess little or no business planning
- They have limited knowledge of their resource base

They have inadequate working spaces and sometimes mobile working arrangements Abebe Haile G/ Mariam et.al, 2009). A recent study shows that the majority of enterprises are engaged in trade and services sectors. While manufacturing sector engagement is low and most of the MSEs are very small (Mulu, 2007: 4).

2.7 Factors that Influence Growth, Development and Expansion of MSEs

Starting and operating a MSE business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. There are various factors influencing growth and expansion of MSEs. Different writers grouped these factors in a different ways. Schiebold proposes a framework of seven determinants; informality, institutional environment, entrepreneurial characteristics, socio-economic environment, financing, petty trading and infrastructure as critical factors influencing the growth and expansion of MSEs (Schiebold, 2011).

Some literatures asserted that external factors are the major factors affecting the development and growth of MSEs. The most frequently mentioned external/environmental factors are those related to capital shortage, taxation and regulations, infrastructure etc. Since the MSEs sector in most developing countries including Ethiopia operates in an environment with very poor infrastructure such as inability to access market, communication, power, water etc. which prevent development of micro and small scale enterprises (MSEs). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 1999).

Furthermore, lack of short, medium and long term capital, inadequate access to financial resources and credit facilities also affect the growth of micro and small scale enterprises (MSEs). MSEs have serious financial problems including securing funds in small amount at reasonable rates, building adequate financial reserves and securing long term equity capital. In addition to that, higher cost of capital that is compounded by raising inflation rate pose a serious challenge for MSEs. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, et al., 2006). Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko&Dondo, 1992; Kiiru, 1991).

Other writers focused on internal factors affecting MSEs growth. Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). In terms of human capital, literature suggests that the more skills and experience entrepreneurs bring into the enterprise the

more successful the business enterprise. Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998).

Other internal factors that affect the performance of business enterprises are gender, personal characteristics, family characteristics and business characteristics (Loscocco et al., 1991; Daniels and Mead, 1998; McPherson, 1996). The gender division of labour and the gender stereotypes tend to push women into low status and low income business activities (von Masson, 1999). Personal characteristics embody entrepreneurial traits including the degree of risk-taking behaviour and the motivation to achieve the highest levels. Loscocco et al. (1991) argue that small business owners may also benefit from intangible success from family members, although heavy family responsibilities may also have the negative effect of detracting the entrepreneur from the business activity. Business characteristics also play an important role in determining business performance. For example, the industry or the product market in which the enterprise operates may influence business outcomes. The other business characteristics that play an important role in determining performance are size, age and location of the business. Size is associated with economies of scale. McPherson (1996) argues that location of business (where located at home, at a market or industrial or commercial area) has strong influence on survival chances and growth of MSEs.

There are a numbers of theories trying to explain enterprise growth and development. One of the theories elaborated by Gibb and Davis (1990) appears more relevant to MSEs arguments. Gibb and Davis (1990) as indicated in Nogare, LD (2006), classified growth theories in to four approaches: personality dominated approaches, organizational development approaches, business management approaches and broader sector/ market led approaches in response to lack of consistency and relevancy of business researches to ground realities. A more comprehensive and elaborate explanation of the determinants of growth of business enterprises were made by Curran as indicated in Nogare, (2006). According to him, enterprise growth is more than array of factors and a need for broader perspective covering founders' characteristics, innovation, and complexity of business environment in which MSEs operate. Another relevant theory developed in the 1990s, is the social capital theory. Social capital theory believes the existence of social organizations where members are entitled to have access to resources and benefits based on the rules of the game.

Studies further show that social capital has been one of the essential inputs for the survival of many small enterprises. It has been indicated that closeness; trust-based relationships, acquaintances among members of small enterprises have been vital to largely reduce transaction costs and increase internal flexibility (Fafchamp, and Minton 1999; Fukuyama, 1995). It has been repeatedly indicated that social capital used to play significant roles in improving firms' performances by providing access to information and reducing transaction and search costs in situations where markets fail and transaction costs are high (Fafchamp, and Minton 2003). The concept of social capital can be viewed along three scopes or levels. The first is at the micro level such as network of individuals or households. The second is at the meso level, incorporating the vertical as well as horizontal associations and behaviour within and among other entities such as micro, small, medium and large firms. The third and most encompassing view of social capital, at the macro level, is incorporating the contribution of institutions and the broader political environment that shapes social structure and enables norms to develop (World Bank, 2002).

Choice of technology and innovative capacity is another important factor determining growth of MSEs. According to Moyi, E and Njiriani, P. in KIPPARA discussion paper No 51, (2005) production technology has passed through three paradigms: technological development, appropriate technology and technological capability paradigm. Technology development which is far less applicable to MSEs is the process of designing new machineries/ equipment/ Processes/ products. The appropriate technology paradigm assumes MSEs as beneficiaries and not as active participant of development and improvements of technology; technology as a resource that can only be adapted by MSEs for improving factor productivity and reducing unit costs. It also focuses on incremental choice and suitability of available technologies to the production and market environment of MSEs operating in environment of unskilled and large labor market, low income consumer market, and low quality inputs.

CHAPTER THREE
Research Design and Methodology

3.1 Introduction

This chapter provides an overview of the study's research approach which lays within the mixed methods strategies. The chapter discusses procedures and activities under taken, in terms of the study's research design, questionnaire design and data collection, sampling strategy, data processing and analysis and instrument development. Besides, the section deals with a discussion on the ethical issues and the study area profile.

3.2 Research design and Methods of data collection

This study was descriptive in its nature and employed both qualitative and quantitative approach. The study describes and critically assesses the problems encountering the manufacturing sector MSEs in study area.

Data Collection Methodology:

A Qualitative Methods

Secondary data relevant for this research work were collected from different national documents, strategic document, guidelines and other published and un-published documents prepared by different governmental and non-governmental organizations. Information extracted from this process provided an insight of the manufacturing sector MSEs and served as the basis in designing the study and data collection tools.

B Quantitative Method

About 65 sample heads were enterprise randomly selected the total of enterprise in the study area. Accordingly, to collect the quantities data diagnostic survey was undertaken using pre-tested structured interview schedule.

3.3 Procedures of Data Collection

All data collection tools (questionnaires and interview guides) were piloted before commencing the actual fieldwork. The testing helped to refine the tools and address unforeseen drawbacks. Based on the feedbacks for the piloting process, the tools were reviewed and revised. To avoid contamination, the pilots MSEs were excluded from the list of MSEs for the actual fieldwork. After the data collection is completed. In-depth interviews were transcribed and translated and organized under different themes. Statistical Package for Social Science (SPSS) version was used to manage quantitative data generated through the questionnaire.

Two stages random sampling technique was used for selecting the representative entrepreneurs. The first stage was randomly selecting 5 weredas from list of 11 weredas in the sub-city. The list of manufacturing MSEs was obtained from wereda MSE office and serve as sample frame. Accordingly, stratified random sampling was used to get information from 65 respondents randomly selected from the total of 215 manufacturing enterprise which is 30% of total population. Based on this 21 Food manufacturing with mean 32.30, 14 Clothing with mean 21.5,2 Leather product with mean 3.1, 3 Footwear product with mean 4.6,10 Wood Product with 15.40,8 Metal product with mean 12.3 ,7 Other manufacturing with mean 10.8 , it was believed to be representative.

3.4 Study Sites

The study was conducted in *Kirkos sub-city*. It is one of the ten sub-cities of Addis Ababa, Ethiopia. Kirkos sub-city is located at the centre of Addis Ababa. National sport and cultural facilities such as Addis Ababa stadium and Meskel square are located in the sub-city. The sub-city hosts international offices such as the office for Organization for African Union (OAU) and the United Nations Economic Commission for Africa (ECA). Kirkos sub-city covers a surface area of 1,472 ha and has a population size of about 220,991. The sub-city is one of the densely populated sub-cities in Addis Ababa with a population density of 150 persons per hectare.

3.5 Ethical consideration of the research

The research was based on certain important ethical principles. These are respect for persons, non-malfeasance (do not harm), beneficence (do well), informed consent, confidentiality, honesty and avoiding plagiarism. The researcher has taken great care not to transgress those ethical issues which are considered as bad, and maintained those ethical issues which are considered as good throughout the research process.

CHAPTER FOUR

Result and Discussion

4.1 Introduction

This chapter provides the presentation of the findings of the survey and interpretation. The study was conducted using both statistical models and descriptive analysis. Simple dispersion and central tendency measures were utilized to describe some points in the study. Data were collected from 65 operators or owner managers of MSEs found in Kirkos sub-city.

4.2 Background Characteristics of Respondents

Table 1 shows the percent distribution of respondents by their background characteristics. About one in every five respondents (21.5%) was under age 30. Beyond age 30, the proportion respondents in each age group increase until age 50. The mean age of survey participants was 37.2 years. The slight majority of survey respondents were male (55%) and nearly 45% were female.

Education is an important factor influencing an individual's attitudes and opportunities. Educational attainment among survey respondent MSE owners is high. Of the total 96, 83, 33 and 15.4 respondents had formal education, completed grade 10 level education, completed TEVT level certificate or diploma and graduates of university and college with Bachelor Degree respectively. Regarding to marital status of the respondents, of the total 53 and 41.4% of the respondents were married and single respectively. While only 5% of the respondents were divorced/separated, or widowed.

Table 1Background characteristics of Respondents

Parameter	Frequency	%
Age		
19-29	14	21.5
30-39	28	43.1
40-49	15	23.1
50-59	6	9.2
60+	2	3.1
Total	65	100.0
Mean Age	**37.2**	
Sex		
Male	36	55.4
Female	29	44.6
Total	65	100.0
Level of education		
Can't read and write	3	4.6
Grades1-4	4	6.2
Grades 5-8	4	6.2
Grades 10 complete	14	21.5
10+1 &10+2	8	12.3
10+3 /diploma	22	33.8
BA/BSC and above	10	15.4
Total	65	100.0
Marital status		
Single	27	41.5
Married	35	53.8
Divorced	1	1.5
Widowed/er	2	3.1
Total	65	100.0

Source: Field Survey

4.3 Firm Characteristics

4.3.1 Year of Establishment

Figure 1 showed that year of establishment of MSEs in the study area. The study result showed in Figure 1 of the total most (38.5) of surveyed MSEswere established within the year 2004 or latest. Nearly three out of every ten (29.2%) and a little bit more than 30% were established within the years 19996-1999 and 2000-2003 respectively.

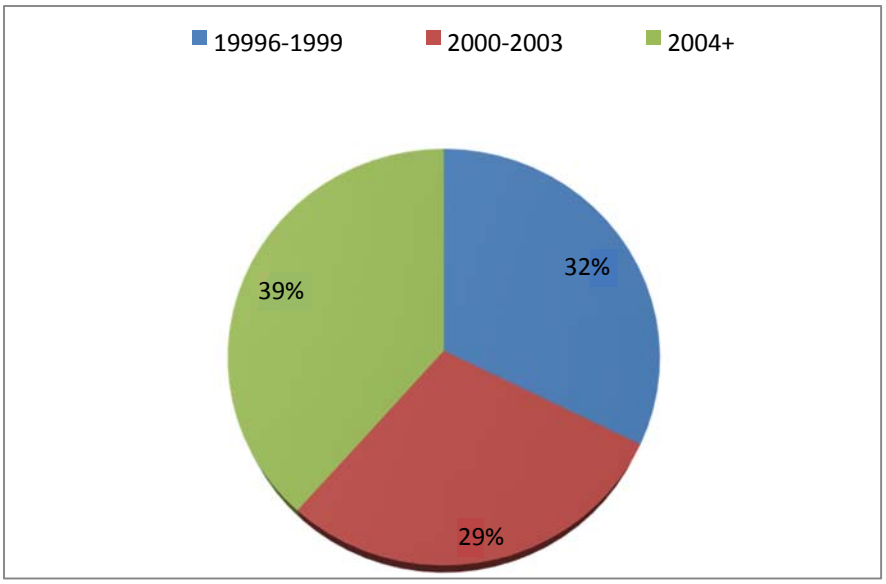

Figure 1Year of Establishment of the firms (Source: Field Survey)

4.3.2 Legal Status of the Firms

Enterprises are created having different legal ownership status such as sole owner ship, joint ownership, family business, Cooperative and others. Table 2 presents the legal ownership status of the firms. As can be seen from the table, most (47.7%) of the firms were solely owned, nearly three out of every ten (29.2%) were established in the form of cooperatives. One out of every five of the firms was jointly owned while the slightest 3.1% were family business.

Those respondents who owned the firm solely were asked as to why they prefer to start their own business. Nearly six out of every ten (58.1%) while 32.3% of the respondents believe that sole ownership “brings high income”. Only 6.5% of the respondents of the respondents mentioned “family tradition” as their reason to prefer sole ownership of the business.

Table 2 Legal status of ownership and reasons to prefer sole ownership status

	Frequency	%
What is the legal ownership of the business?		
Sole ownership	31	47.7
Joint ownership	13	20.0
Family business	2	3.1
Cooperative	19	29.2
Total	65	100.0
Reasons for sole ownership status		
Family tradition	2	6.5
To be self-employed	18	58.1
Brings high income	10	32.3
Other (specify	1	3.2
Total	31	100.0

Source: Field Survey

4.3.3 Who initialled and started the business

Respondents were asked who initialled and started the business. As clearly depicted in the Fig.2 below, most of the respondents (46%) start enterprises with their own initiation. Similarly, 41% of the respondents start businesses with their friend/partners. Only 8% of the entrepreneurs was establish the business with family members.

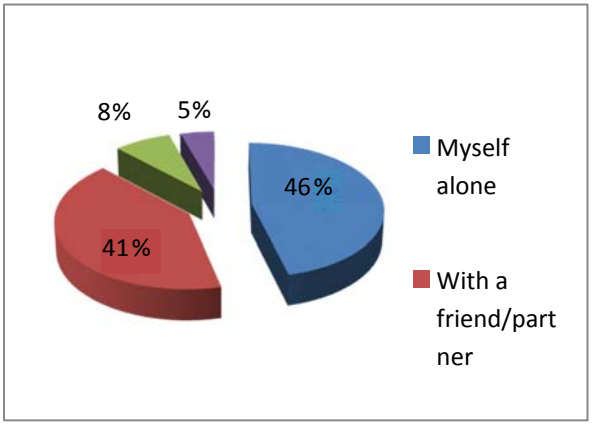

Figure 2 percentage Initiated and started the business (Source: Field Survey)

4.3.4 Source of skill for running your enterprise

In running any manufacturing MSEs, it is logical that the necessary skills are required. These skills can be acquired from different sources. Fig.3 presents the percentage distribution of respondents by source of skills to run their enterprises. More than 44% of the respondents replied they acquired the necessary skills through formal trainings while 29.2% said they acquired the skills necessary to start their business from their past experience. Nearly one out of every ten respondents reported that the skills for running their business acquired from family members.

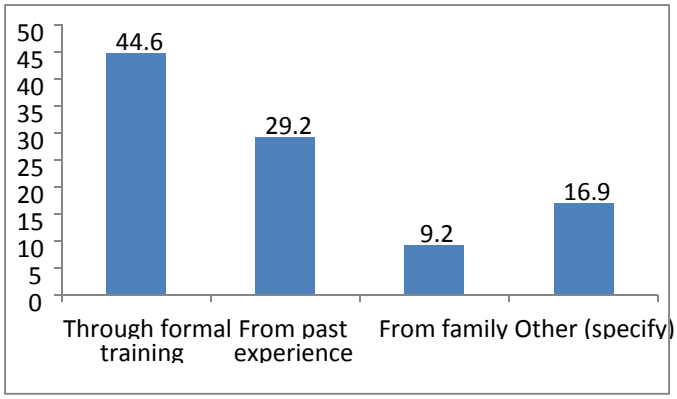

Figure 3 percentage of skills to run their enterprises (Source: Field Survey)

4.3.5 Amount of start-up capital and main source the start-up funding

Starting MSE business requires a starting capital rather the mere existence of ideas. Table 3 presents amount of start-up capital main sources of start-up fund. The majority (86.2%) of the respondents identified that their start-up capital was less than Birr 20,000. Only 13.8% of the respondents reported that their start-up capital ranges between Birr 20,000- 500,000. The mean of start-up capital was nearly Birr 12,000. With regards to sources of the start-up capital funding, nearly half (50.8%) of the respondents said that their personal saving was the source their finance to start-up capital. The second largest source of funding (36.9%) to start the business was obtained from micro finance institutions. Assistant from friends/relatives, assistant from NGO's and borrowed from relatives or friends/money lenders were cited by 6.2%, 4.6% and 1.5% as sources of their start-up funding respectively.

Table 3Amount of start-up capital and main source the start-up funding

	Frequency	%
Start-up capital		
<20000	56	86.2
20001-100000	9	13.8
Total	65	100.0
What was your main source of your start-up funding?		
Personal saving	33	50.8
Borrowed from relatives or friends/money lenders	1	1.5
Micro finance institution	24	36.9
Assistant from friends/relatives	4	6.2
Assistant from NGO's	3	4.6
Total	65	100.0

Source: Field Survey

4.3.6 Sub-Sectoral Distribution of MSEs

The respondents were asked what their main product. Table 4 presents the percentage distribution of MSE by subsectors/main products of the MSEs. Accordingly, one out of every three respondents were engaged in food product production, 21% of the MSEs were engaged in clothing subsector, 15.4% were engaged in wood and wood product or furniture subsector. Furthermore, 12.3%, 4.6% and 3.1% of the MSEs were reported that they were engaged in Metal products/ Furniture, Footwear and Leather and leather products in that order.

Table 3 percentage distribution of MSEs by subsector

What is your main product?	Frequency	%
Food	21	32.3
Clothing/Shemena	14	21.5
Leather and leather products	2	3.1
Footwear	3	4.6
Wood and wood products/Furniture	10	15.4
Metal products/ Furniture	8	12.3
Other manufacturing (bamboo, designing, Bio Gas)	7	10.8
Total	65	100.0

Source: Field Survey

4.3.7 Availability of Business Strategy

Respondents were asked whether they have formulated business development strategy. Accordingly, all (100%) of the respondents fail to formulate and adopt deliberate business growth strategies. The respondents have no awareness and skills of developing business growth strategies/ plans and limited exposure to formal business management skills. The discussion with the respondents revealed that, respondents depend on instinctive techniques actually different from deliberately designed long-term strategies& plans. Their actions are unplanned and accidental used to cope with the needs of the market, customers…etc.

4.4 Access to Infrastructure

Cognizant of the fact that one of the major barriers and constraints to MSE growth is lack of adequate infrastructure, the survey measured MSEs' access to various infrastructures. The term infrastructure also relates to adequate supply of electrical power, access to transport, water, land and business premises, and telecommunications. Good infrastructure has the effect of promoting MSEs by lowering the cost of doing business. The respondents were asked whether their firm obtain an electrical connection. All (100%) of the surveyed MSEs have access to electric connection. The respondents were also asked if they have experienced power outages. Two out of every three (66.2%) respondents confirmed that their firm experienced power outage.

The respondents were further asked whether their firm obtain a water connection. Nearly every seven out of ten of the respondents (73.8%) of the surveyed MSEs have access to water connection. Whereas nearly three of every ten of the respondents (27.7%) reported that they experienced insufficient water supply for production over 2006 E.C. Only 18.5% of the respondents believe that their establishment does not use water for production. The government efforts to expand mobile phone network and expansion of service have helped to improve telecommunications infrastructure. However, the use of modern technologies for communicating with clients or suppliers was low among the MSE sector. For instance, use email to communicate with clients or suppliers was reported only by only 10% of the respondents. Similarly only 3.1% of the firms have their own website.

Table 4 percentage distribution of by Access to infrastructure

	Frequency	%
Does your firm obtain an electrical connection?		
Yes	65	100.0
Did your firm experience power outages?		
Yes	43	66.2
No	22	33.8
Total	65	100.0
How long did these power outages last on average?		
Average duration of power outages in hours	22	33.8
Less than one hour	21	32.3
Don't know	22	33.8
Total	65	100.0
Does your firm obtain a water connection?		
Yes	48	73.8
No	17	26.2
Total	65	100.0
Over 2006 E.C did your firm experience insufficient water supply for production?		
Yes	18	27.7
No	35	53.8
The establishment does not use water for production	12	18.5
Total	65	100.0
At the present time, does your firm use e-mail to communicate with clients or suppliers?		
Yes	7	10.8
No	58	89.2
Total	65	100.0
At the present time, does your firm have its own website?		
Yes	2	3.1
No	63	96.9
Total	65	100.0

Source: Field Survey

Respondents were asked to level the degrees of accesses to infrastructures (Electricity, Water and Telecommunication) are obstacles to the current operations of their firms. As can be clearly seen from the Fig4 16.9%, 40% and 83.1% of the respondents reported that electricity, water and telecommunication services pose no obstacle to their current operations respectively. In addition to that, nearly half of the respondents (47.7%) reported that electricity power outage is one of their moderate obstacles to their firm operations while 18.5% of the respondents reported that water

access and insufficient water supply for production posed a moderate obstacle to their activities. One in every ten respondents cited inadequate supply of water service is a major obstacle of the surveyed firms' activities.

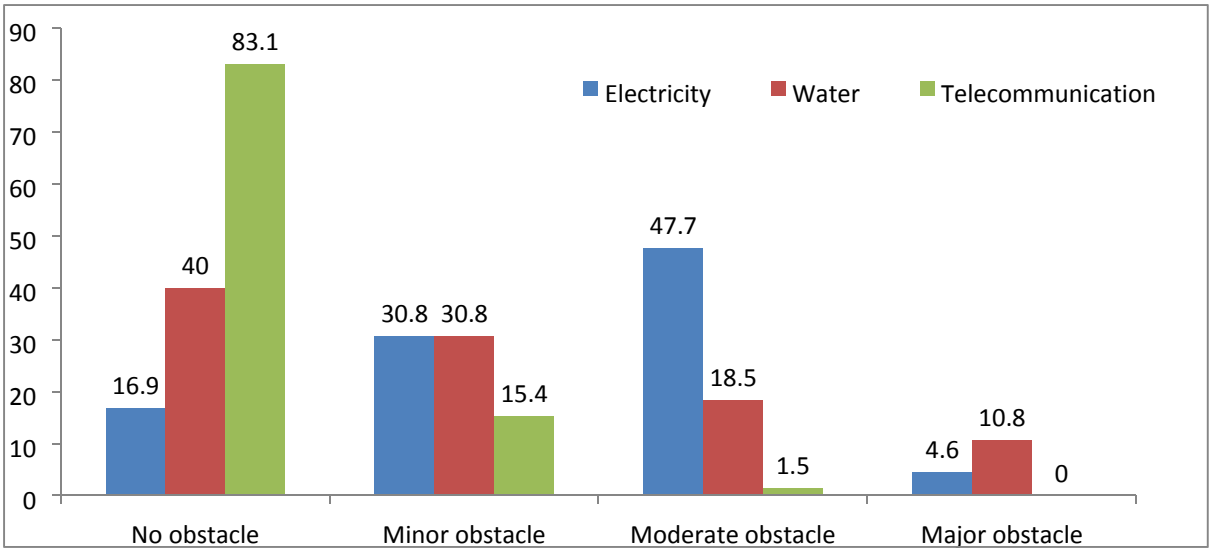

Figure 4percentage of respondents by Access to Infrastructure (Source: Field Survey)

4.5 Access to Land and Working Premise

As different literatures documented both here in Ethiopia and elsewhere one of the major factors which constrained the growth of MSEs is lack of access to land. To this end, the respondents were requested three questions about related to access to land and working premise, whether they did submitted an application to obtain a land for expansion and the level of degree access to Land is an obstacle to their current operations their firms. Nearly one in every three respondents (33.8%) affirmed that the land/working place occupied by their enterprises is rented, while the remaining 66.2% reported that the land or the working premise is owned by micro institutions. Furthermore, nearly nine out of every ten respondents (89.2%) reported that they have submitted an application to obtain a land for expansion of their business. On top of that, nearly nine out of every ten (87.7%) of the respondents reported that access to land posed either moderate or major obstacle to their operations.

Table 5 percentage Access to Land and Working Premise

Is the land/working place occupied by your firm owned or rented/leased?	Frequency	Percentage
Rented or leased by your firm	22	33.8
Micro institution	43	66.2
Total	65	100.0
Did your firm submit an application to obtain a land for expansion?		
Yes	58	89.2
No	6	9.2
Don't know	1	1.5
Total	65	100.0
To what degree is Access to Land an obstacle to the current operations of your firm? **Access to land**		
Minor obstacle	6	9.2
Moderate obstacle	27	41.5
Major obstacle	30	46.2
Don't know	2	3.1
Total	65	100.0

Source: Field Survey

4.6 Access to Finance

One of the greatest barriers facing MSE entrepreneurs in Ethiopia and in other places are access to finance. As Araya and others documented shortage of finance and lack of access to financial problem were the most impediments facing MSE operators not to run as the required and expand their work (Araya, 2014, MoUDC 2013). Respondents were asked to name sources of their finance to cover their working capital i.e. the funds available for day-to-day operations. Accordingly, nine out of every ten of the respondents (90.8%) said that internal funds or retained earnings as their source of fund to cover their firms' operations followed by (36.6%) borrowed from non-bank financial institutions i.e.-microfinance institutions. Purchase on credit from suppliers and borrowed from other money lenders as sources of their finance identified by 7.7% and 3.1% respectively.

Table 6 percentage Access to Finance

Parameter	Responses	
	No	%
Internal funds or retained earnings	59	90.8
Borrowed from non-bank financial institutions microfinance institutions,	24	36.9
Purchases on credit from suppliers	5	7.7
Other, moneylenders, friends, relatives, etc.	2	3.1

Source: Field Survey

Cognizant to the fact that finance has a positive contribution for enterprise growth, the respondents were requested to level the degree of access to finance is an obstacle to their current operations of their firms. As a result, only 3% of the respondents reported that access to finance is not an obstacle to their firms' operation. The remaining 97% of the respondent labelled access to finance pose either minor or moderate or major obstacle to their firms.

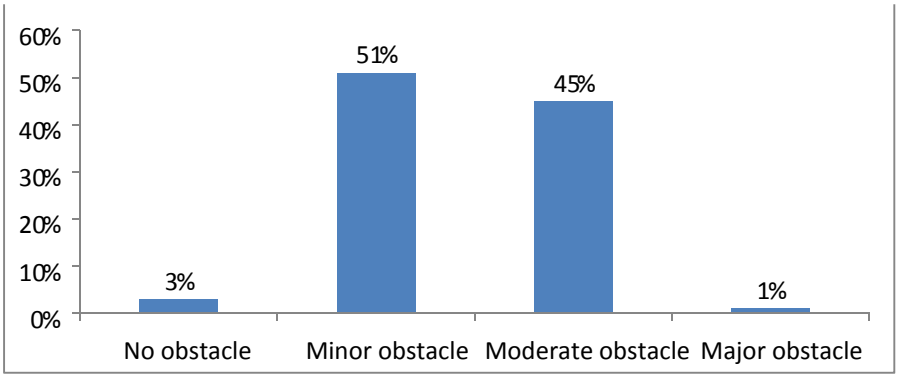

Figure 5 percentage finance problem in the study area (Source: Field Survey)

4.7 Degree of Competition

Different writers documented the fact that MSE enterprises are vulnerable to competition from counterparts who introduce new products or services, or improve their production processes, lacking the appropriate knowledge and resources to respond rapidly. Competition (markets) and information related factors are said to be major challenges facing MSEs' today. Competition can be seen as in form of the size of market share, availability of competitors with wide varieties of

products and services etc. in this regards, respondents were asked their main market in which their firms sold its main product. Nearly nine out of every ten of the respondents (89.2%) reported they sold their main product mostly in same sub-city where their firm is located. The remaining 10.8% reported that their main product is sold mostly across the country.

Table 7percentage degree of competition

During last year, which of the following was the main market in which this establishment sold its main product?	Frequency	%
Local – main product sold mostly in same sub-city where establishment is located	58	89.2
National – main product sold mostly across the country	7	10.8
Total	65	100.0

Source Field Survey

Respondents were also further asked to their perception about the practices of Competitors in the MSE Sector an obstacle to their current operations. Accordingly, only 13.8% of the respondents affirmed that competitors posed no obstacle to their firm operations. Furthermore, 24.6, 55.4 and 6.2% of the respondents believe that the degree of practice of competitors poses minor, moderate and major obstacles respectively.

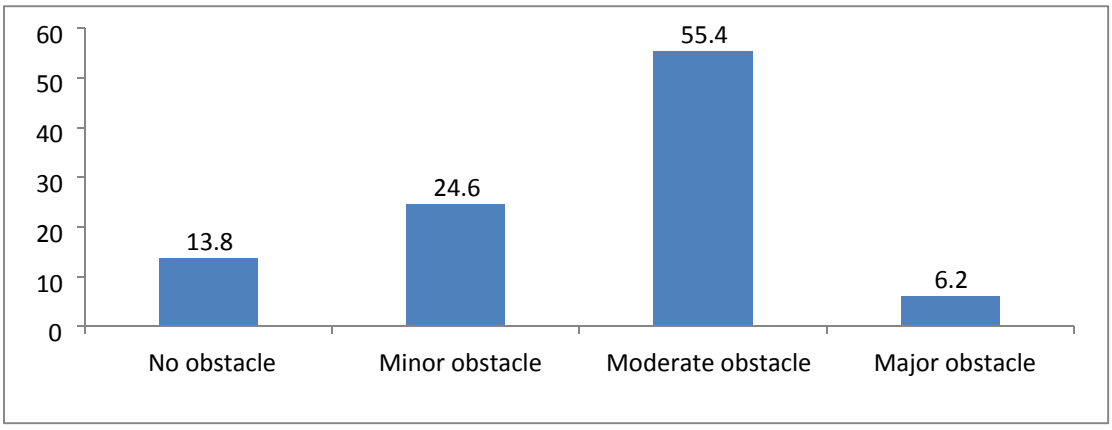

Figure 6 Percentage of competitor's in t MSE Sector obstacle. (Source: Field Survey)

4.8 Innovation

It has been well documented that creativity and innovation are elements essential for growth of MSEs. Innovation in developing new products or service for the market to fulfil market needs, method of manufacturing, mechanisms of logistic delivery distribution and marketing strategy are keys for firm growth. Hence attempts were made to measure degree of innovation of firms.
Respondents were asked to whether they introduced new or significantly improved products or services as well as whether they introduced any new or significantly improved methods of manufacturing products or offering services during recently. Slightly over nine out every ten respondents confirmed that they have introduced improved products, services as well as improved methods of products.

Nearly three out of every ten respondents replied affirmatively to a question whether they have introduced any new or significantly improved logistics, delivery, or distribution methods for inputs, products, or services. With regards to introducing improved supporting activities for your processes, such as maintenance systems or operations for purchasing, accounting or computing, only 6.2% of the respondent said "Yes". Furthermore, only 4.6% of the respondents reported that they have introduced improved organizational structure or management practices in their firms during last year.
In addition to that, to measure efforts of innovation, respondents were asked to whether or not they have introduced new or significantly improved marketing methods and whether their firms allow employees some time to develop or try out a new approach or new idea about products or services, business process, firm management, or marketing. For both question, over eight out of every ten respondents reported affirmatively.

Table 8 percentage of Innovation

	Frequency	%
During the last year, has your firm introduced new or significantly improved products or services?		
Yes	60	92.3
No	5	7.7
Total	65	100.0
During the last year, has your firm introduced any new or significantly improved methods of manufacturing products or offering services?		
Yes	60	92.3
No	5	7.7
Total	65	100.0
During the last year, has your firm introduced any new or significantly improved logistics, delivery, or distribution methods for inputs, products, or services?		
Yes	19	29.2
No	46	70.8
Total	65	100.0
During the last year, has your firm introduced any new or significantly improved supporting activities for your processes, such as maintenance systems or operations for purchasing, accounting, or computing?		
Yes	4	6.2
No	60	92.3
DON'T KNOW	1	1.5
Total	65	100.0
During the last year, has your firm introduced any new or significantly improved organizational structures or management practices?		
Yes	3	4.6
No	62	95.4
Total	65	100.0
During the last year, has your firm introduced new or significantly improved marketing methods?		
Yes	54	83.1
No	11	16.9
Total	65	100.0
During the last year, did your firm give employees some time to develop or try out a new approach or new idea about products or services, business process, firm management, or marketing?		
Yes	56	86.2
No	8	12.3
Don't know	1	1.5
Total	65	100.0

Source: Field Survey

4.9 Challenges in manufacturing Micro and Small Enterprises

The MSEs sector was not free of any challenges. Studies carried out with this respect have proved that their normal operation is influenced by financial and non-financial difficulties. In most cases these challenges hinder their growth in whatever terms we measure; be it in terms of capital, technology or employment. Some of these challenges are internal while others are external to the enterprise. The study collected data from the enterprises to measure challenges facing the manufacturing sub sector of the MSEs in the study area.

4.9.1 Challenge(s) in sales or other business activities

The data collected from the enterprises reveals that 36.9% of the MSE operators were facing competitors' growing market share (cost wise competition), followed by inflow of cheap imported goods into local markets (32.3%) and clients requesting lower prices (30.8%) as the major problems they are facing in sales or other business activities. Furthermore, competitors' growing market shares (quality-wise competition), decrease in sales prices due to oversupply and decrease in orders from clients identified by 7.7, 6.2 and 1.5% of the respondents in that order

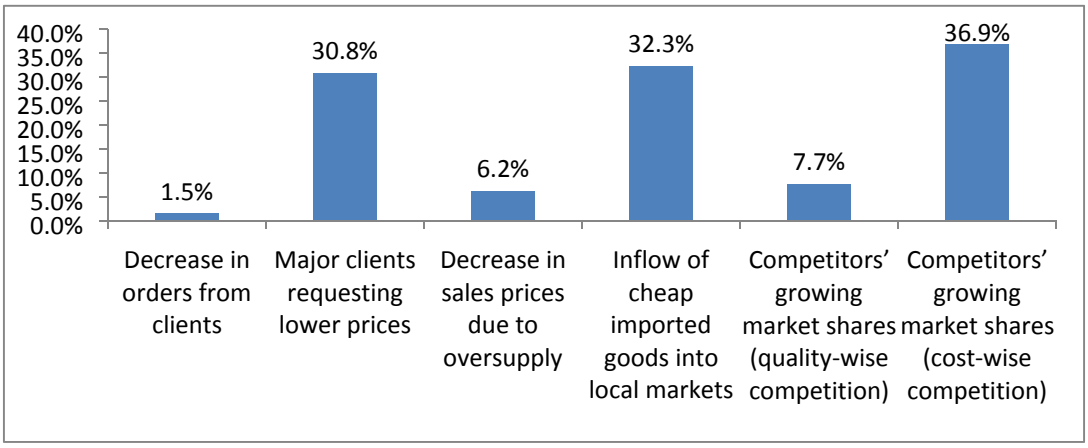

Figure 7 percentage of other Business activities (Source: Field Survey)

4.9.2Challenge(s) in financial affairs or financing

Respondents were also requested to identify problems they are facing in financial affairs or financing. Restrictions on loan was one of the most (41.5%) frequently mentioned financial problems facing the manufacturing sub-sector of the MSEs as the provision of finance is based on their savings amount and there was ceiling on the amount of loan. Furthermore, in most instances loan is provided or give priority to those firms organized under cooperatives than solely owned firms.

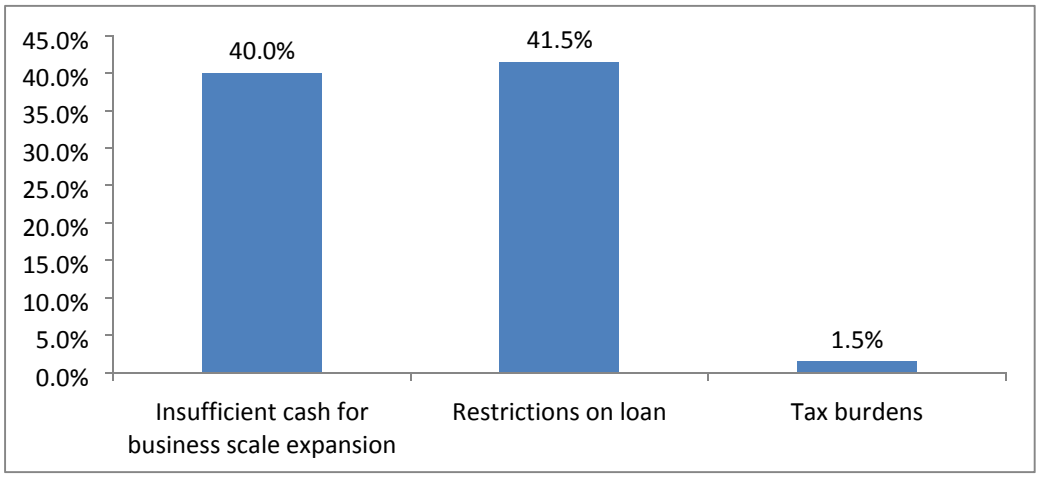

Figure 8 percentage distribution financing problem (Source: Field Survey)

4.9.3 Challenge(s) with labor or employment

This study investigates the challenges the manufacturing sub-sector of MSEs are facing with labor or employment. The finding show that increase in employee wage is identified by 41.5% of the respondents followed by low rate of workers retention (32.3%) and difficulty in recruiting highly professional workers (10.8%) like engineers and technicians which in turn negatively affected their ability to troubleshoot failures on machinery and/or equipment.

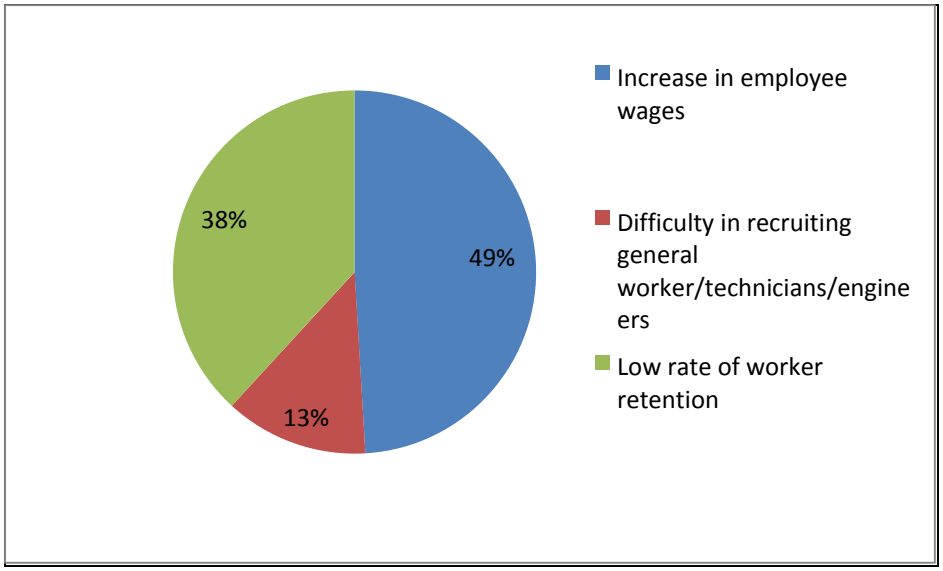

Figure 9percentage labor challenge(s) (Source: Field Survey)

4.9.4 Challenge(s) in production

The survey investigates the challenges the manufacturing sub-sector of MSEs in the study area are facing in the production processes. In this regards, the data revealed that over half (55.4%) of the respondents reported that increasing procurement cost (raw material, supplies and equipment) is the most frequently mentioned challenges facing the MSE sector. The second most frequent (27.7%) challenge facing MSEs is insufficient production capacity due to lack of facilities (land and working premises, adequate technologies and equipment). In addition to that difficulty in local procurement of spare parts and raw materials, difficulty in changeover of production items within a short timeframe and difficulty in quality control reported by 15.4%, 10.8% and 3.1% of the respondents respectively.

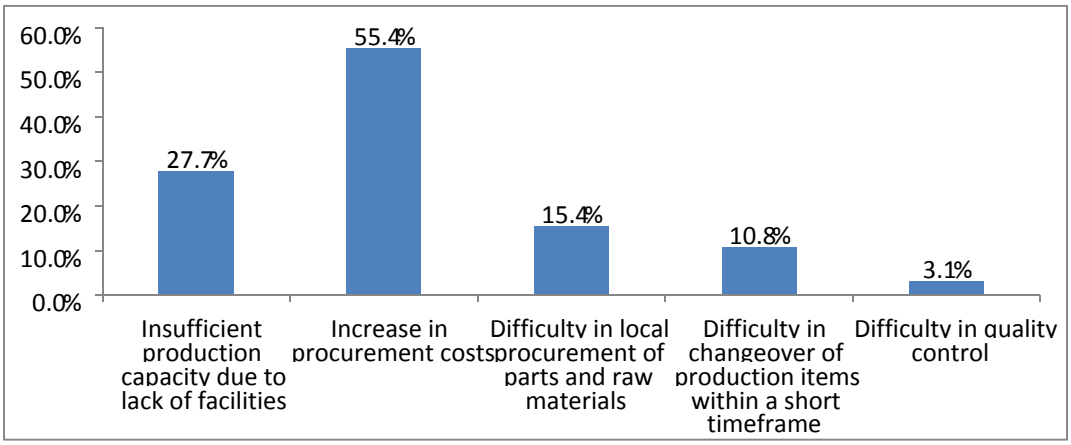

Figure 10production problem percentage (Source: Field Survey)

4.9.5 Other challenges

The study investigates how seriously utilities (electricity, water and telecommunication), transport, business licensing and permits, tax administration and tax rates pose obstacle to their firms' operation. As can be clearly seen form Fig.11 nearly four out every ten respondents feel that tax rate and tax administration did not pose any obstacle to their firms' operation. 30.8% of the respondents also believe that business licensing and permits did not pose any obstacle to their enterprises. Those who believe "No obstacle" as a result of transportation and utilities was much lower at 15.4 and 13.8% respectively. Transportation and utilities (electricity, water and telecommunication) pose major obstacle to the enterprises as reported by 30.8 and 7.7% of the respondents respectively. Of the total 6.2% of the MSEs labelled transportation is a very severe obstacle to their operation.

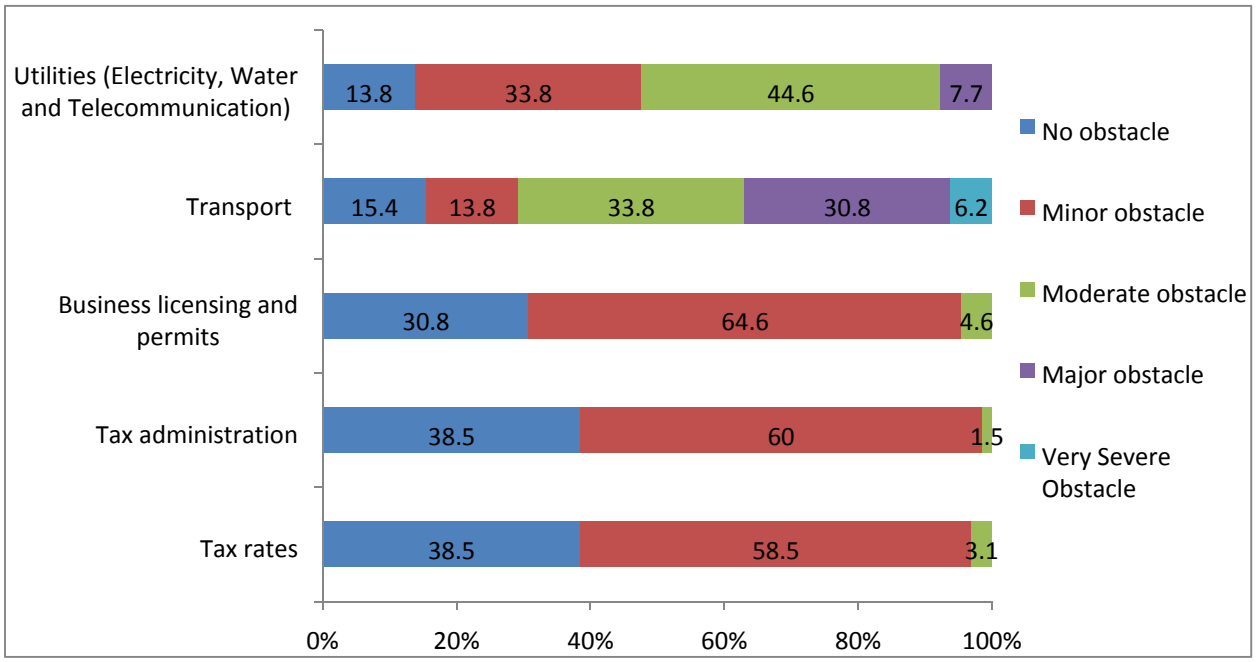

Figure 11other challenges percentage of MSE (Source: Field Survey)

Respondents were given a list of nine common obstacles/challenges to manufacturing sector MSEs and rank based on their priority. The table 10 below summarizes the ranks of the five common challenges. As a result, "Lack of land/Lack of operating or working space", "Lack of access to markets" and "Lack of entrepreneurship skills and expertise" are the three most common challenges ranked 1-3 respectively.

Table 9 the most frequent challenges facing MSEs

Common Challenges	**Rank**
Lack of land/Lack of operating or working space	1
Lack of access to markets	2
Lack of entrepreneurship skills and expertise	3
Lack of equipment to carry out businesses	4
Lack of credit for start-up capital or expanding	5

Source field survey

Consistent with the survey findings, in-depth interview with the owners of MSEs confirmed that lack of adequate market is the most severe problem mentioned frequently by the participants. Some of the operators indicated that, although they were promised to enjoy market linkage created with government projects and institutions, it was not adequate and satisfactory so far. In the view of the interviewed operators, the possible reason for this could be lack of commitment and unwillingness to abide the MSE-related policies and proclamations by government officials and employees. This poor market can be linked to poor promotional efforts by the operators themselves. As a way out of this poor market access, the government organizes bazaars and trade fairs at sub-city and city level is the widely held promotional and advertising strategy.

4.9.6 Government Support

Cognizant of the importance of MSE sector, the government of Ethiopia availed favourable policy environment and claim to provide financial and other non-financial support to MSE sector internal. The study has collected evidence from the respondents as to how they view government support to the manufacturing sector MSEs. As the pie chart clearly shows 55% of the respondents view positively vies government's effort to support MSEs. Nevertheless, over 40% of the respondents however believe that government's support inconsequential to the manufacturing sector MSEs, while 2% view government's support overall negatively.

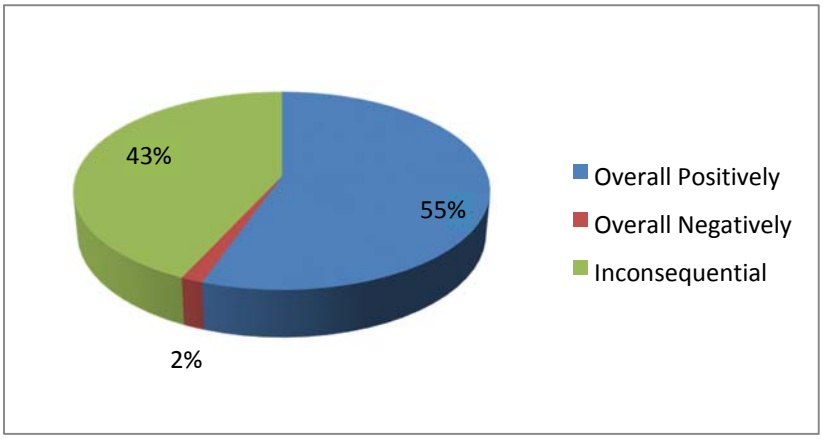

Figure 12 Government Support (Source: Field Survey)

Key informants from the sub city MSEs Development administration said that the sub city are not able to address all the request of the enterprises as *"the MSEs prefers to work by their own"i.e. they are unwilling and unable to cooperate. As a result, the sub city can not avail working space and shops to all requests".* According to the informants, the government is making efforts to support the MSEs through availing finance and credit service, provision of training; however the credit services were not adequate particular for those manufacturing subsector MSEs. As most of the trainings were provided by skilled person i.e. a person who has real manufacturing experience but they were not effective in skills to enhance the effectiveness of the enterprises because training period is very short to coup their capacity . In the future government should plan to adjust the training period and also training supported by practical linkage with manufacturing industries.

The woreda MSEs department administration informant said that the "government is providing market opportunities for the MSEs through the Housing Development Project which usually invites the MSEs in the manufacturing and supply of windows and doors for the massively constructed condominium houses". According to the key informants, the MSEDA (Micro and Small scale enterprise development Administration) agency, Sub city, Woreda and other government stakeholders should support the MSEs through awareness creation of the benefits of using local products, facilitating market linkages and loan and training provision to the organized MSEs. Furthermore, efforts must be made to address the needs of MSEs for working premises and shops as it is vital for their growth. On top of that, the government should facilitate experience sharing platforms for the MSEs and organize bazaars to promote the works of MSEs.

4.10 Factors affecting the development and performance of manufacturing MSEs

As discussed in the literature reviews there are arrays of factors affecting the development ofMSEs. The relative importance of these factors varies across time and places in the world in which MSEs operate. Among other things, choice of technology and innovative capacity (Moyi and Njiriani, 2005), factors including founders' characteristics, innovation and complexity of business environment (Nogare, 2006) are pertinent ones. Furthermore, different research documented factors, just to mention but a few such as knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary resources

and/or technologies; access to capital are among the factors influencing the development of the micro enterprise sector.

The study investigates the most important factors affecting the development of manufacturing sector MSEs in the study area. To this end respondents were asked about the important factors for the development and performance of manufacturing MSE enterprises. Over nine out of every ten respondents (90.8%) reported that access to the necessary inputs particularly to raw materials affected firms' development and performance. Similarly, 90.6% and 84.6% of the respondents singled out access to market for products and access to premise (land) to run business as the most important factors affecting development performance of MSEs. Access to information/necessary technology, access to different business trainings and managerial skills were ported by 75.4%, 55.4% and 55.4% of the respondents respectively. Only 25.4% of the respondents strongly agreed to financial access given by microfinance and other lending institutions as an important factor affecting firms' development and performance.

The mean values of scores show the relative importance of factors that affect the development of MSEs. The average value for each factor is computed, 5 being the maximum value. Accordingly, access to the necessary inputs (raw materials) is viewed market is viewed most important with the mean score 4.89 followed by access to market (mean score 4.88). The mean score for access to premises (land) to run the business is 4.72, closely followed by access to information and necessary technologies to exploit business opportunities with the mean value 4.71. The mean value for financial access given by micro finances and other lending institutions is 3.81 out of 5.

Table 10 percentage of important the factors for the development and performance of manufacturing

	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Mean	Std. Deviation
Financial access given by micro finances and other lending institutions.	6.3	6.3	12.7	49.2	25.4	3.81	1.090
Access to market for products			3.1	6.3	90.6	4.88	0.418
Access to different business trainings	6.2	1.5	6.2	30.8	55.4	4.28	1.083
Access to premises (land) to run my business	1.5	3.1	1.5	9.2	84.6	4.72	0.781
Access to information and necessary technologies to exploit business opportunities			4.6	20	75.4	4.71	0.551
Managerial skills			4.6	40	55.4	4.51	0.590
Access to necessary inputs(raw materials)			1.5	7.7	90.8	4.89	0.359

Source: Field Survey

In-depth interview participants also identified the major factors that are influencing the performance of MSEs performance in the sub city. The key informant at the MSE Development agency said that the manufacturing sub-sector MSEs is unique in a sense that they require prior skills, technology, huge capital, adequate working premises and shops and commitment from the side of the owners to be effective. In addition to that, the sub-sector requires time to mature and be productive Informant from Federal MSE Development Agency. The woreda level informants reported that the fact that there is lack of awareness in the community about the benefits of using the commodities and products of the MSEs. According to the informants this is a critical challenge facing the MSEs in the entire city.

The study investigates the changes in the development (in terms of increase and decrease) of number of employee, capital, production, sales, revenue, customer satisfaction, employee satisfaction. In all parameters, the MSEs have witnessed positive increments compared to the firm starting point. For instance two out of every three respondents witnessed increase in the number of employees. Furthermore, more than nine out of every ten respondents reported that their enterprises have witnessed an increment in capital, production increase in sales and revenue. On top of that, the survey investigates the MSEs' expectation for change in the next one year, almost all of the respondents (100%) were hopeful that their firms will grow in the next one year.

Table 11 Percentage of factors affecting MSE development

Parameters	Compared to past time (starting time)			Expectations for changes in the next one year		
	Increase	No change	Decrease	Increase	No change	Decrease
No. of employees	66.2	32.3	1.5	100.0		
Capital	98.5	1.5		100.0		
Production	93.8	4.6	1.5	100.0		
Growth in sales	93.8	6.2		100.0		
Gross revenues	93.8	6.2		100.0		
Customer satisfaction	89.2	10.8		100.0		
Employee satisfaction	73.8	23.1	3.1	98.5	1.5	

Source: Field Survey

The respondents were further asked what business strategies/ plans they will devise and implement to expand their firms. As a result, 76% of the respondents have a plan to expand their firms through additional investment and 58.5% of the respondents through the creation of new market (expanding business /sales net). Nearly three out of every ten respondents intends to increase in high value added products and services and diversification of products and service components.

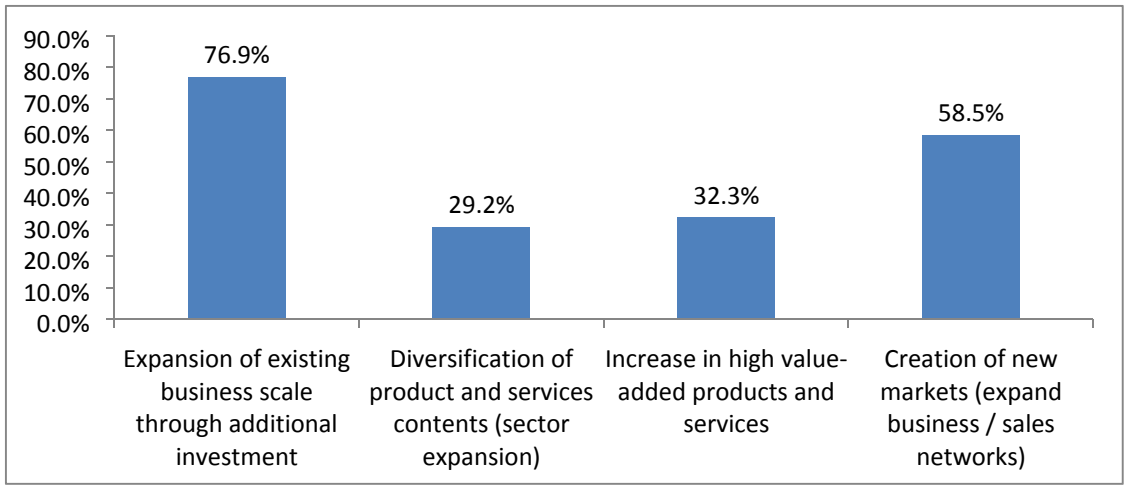

Figure 13 percentage by factors affecting the development of MSEs by value added (Source: Field Survey)

4.10.1 Factor Affecting the Performance of Manufacturing MSEs

Respondents were asked to level factors or managerial practices to achieve excellent performance on a scale raining 1-5. "1" being "strongly agree" and "5" being "strongly disagree. As a result,

nearly nine out of every ten respondents strongly agreed to capability to respond to customers changing need, flexibility to adapt new market trend, effective management of people and resources and understanding technological trends and catch changes.

Similarly, seven resource factors were presented to respondents to measure the relative importance of the factors to their firm's performance. Over 90% (mean value 4.89 & standard deviation 0.359) of the respondents strongly agreed to the importance of access to low cost distribution channels and expertise in marketing as important factor influencing their performance. Over 80% of the respondents strongly agreed to the five resource factor: "Access to overall low cost factors of production", "Expertise in product/service development", "Expertise in management" ,"Expertise in financial management" and "Availability of capital" as important factor influencing the performance of their firms (mean value 4.9). Three environmental factors were selected and presented to respondents to level on the scale. In this regard, 80.0% of the respondents strongly agreed the influence of segmenting customers and market and understanding and learning about customers' needs and anticipation were land and developing business opportunities as important environmental factors affecting their firms' performance. Similarly, slightly over 70% of the respondents agreed "government regulation" as an important factor affecting the performance of their firms.

The average value for each variable under a given managerial practice is computed to see the relative importance of the variable. As a result, the average value for the capability to response customers' needs swiftly scored 4.9 out of 5. The mean value of the capability for flexibility to adapt to new industry and market trends scored 4.86. The mean scores of the capability for effectively manage people and resources and deeply understand the technological trend and catch the changes were 4.78 and 4.74 relatively.

Seven variables were considered to construct "resource" as managerial practice on business performance. The mean scores for availability of capital is the highest with 4.94, followed by access to low cost distribution channels with the mean value of 4.89, while expertise in marketing scored 4.88 and expertise in financial management 4.84 out of the maximum value i.e.5. Among the "environment" parameters, the average value for the ability to understand and learn about customers, anticipate customer needs and develop business opportunities was 4.8. The mean values

for availability of clearly defined and selected customer groups and market segments and favorable government regulations were 4.75 out of five.

Table 12 percentage of Factors affecting the Performance of Manufacturing MSEs

Item	Agreement Scale						
	Strongly Disagree	**Disagree**	**Undecided**	**Agree**	**Strongly Agree**	**Mean**	**Std. Deviation**
Capability							
Response customers' needs swiftly				7.7	92.3	4.92	0.269
Effectively manage people and resources			3.1	15.4	81.5	4.78	0.484
Deeply understand the technological trend and catch the changes	1.5	1.5		16.9	80.0	4.74	0.644
Flexibility to adapt to new industry and market trends	1.5			7.7	90.8	4.86	0.556
Resource							
Availability of capital				6.2	93.8	4.94	0.242
Access to overall low cost factors of production		1.5		13.8	84.6	4.82	0.497
Expertise in product/service development	1.5			12.3	86.2	4.82	0.583
Expertise in marketing	1.5			6.2	92.3	4.88	0.545
Expertise in management	1.5			13.8	84.6	4.80	0.592
Expertise in financial management	1.5			10.8	87.7	4.83	0.575
Access to low cost distribution channels	1.5			7.7	90.8	4.89	0.359
Environment							
The company's customer groups and market segments are clearly defined and selected	1.5			18.5	80.0	4.75	0.613
Understanding and learning about customers, anticipating customer needs and developing business opportunities		3.0		16.9	80.0	4.80	0.536
Government regulation			3.0	24.6	72.3	4.75	0.560

Source: Field Survey

4.10.2 Factors Affecting development of Manufacturing MSEs

The development enterprise was measured in terms of increase in the number of employees and increase in the capital of the firms from the start up levels to the current.

Employment Generated in the Enterprises

72.3% of the sampled SMS had less than three employees at the beginning stage, while the remaining firms had 3-10 employees when they started business. None of the surveyed enterprises had more than ten employees at the start of the business. At the beginning stage, the surveyed firms created an employment for a total of 137 persons. At the time of the survey, only 33.8% of the surveyed firm had less than three employees, while the percentage of those firms having 3-10 employees increased from 27.7% to 56.9%. Furthermore, the percentage of enterprises having more than 10 employees increased from 0 at the time of the beginning to 9.2%. Currently, the total number of persons employed in the surveyed enterprises is 283.This is 48% of growth in employment for the entire duration in their businesses.

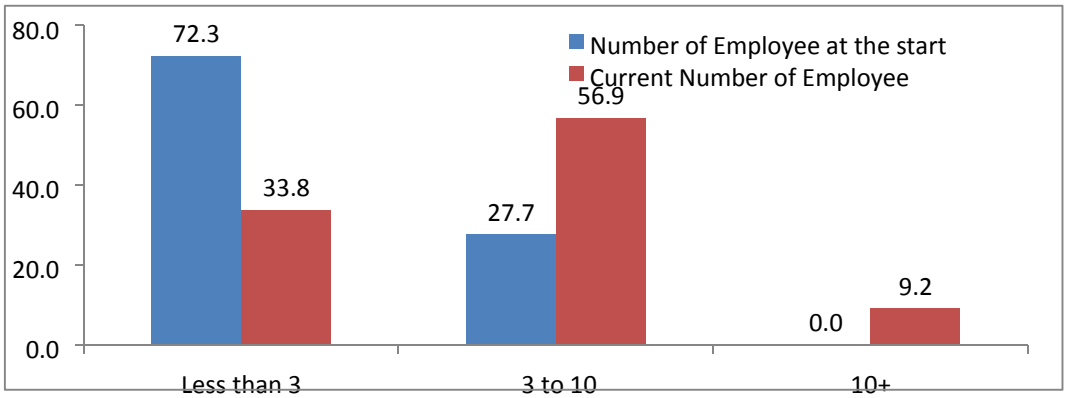

Figure 14 respondent's percentage on Employment Generated in the Enterprises *(Source: Field Survey)*

4.11 Enterprise size against start up and current assets

This study gathered start-up capital and current capital of the enterprises. 63.1% of the surveyed enterprises had less than 10,000 ETB at the beginning of operation. On top of that, 21.5% and 15.4% of the enterprises had 10,000-20,000 ETB and 20,000-100,000 ETB start-up capital. Currently the percentage of firms having less than 10,000 ETB dropped from 63.3% at the beginning to 20% and those having total asset amounting 10,000-20,000 decreased to 10.8%. Furthermore, the proportion of firms having capital ranging from 20,000-100,000 ETB increased

from 15.4% at the beginning of operation to 41.5% currently. Similarly, the proportion of enterprises having more than 100,000 ETB reached to 27.7% from 0 at the time of the beginning of operation of the enterprises. The total capital of all surveyed enterprises at the beginning of operation was 774,430 ETB. Currently, the total capital of the firms reached over 13,000,000 ETB. This more than a 5 fold increase during the entire duration of their business.

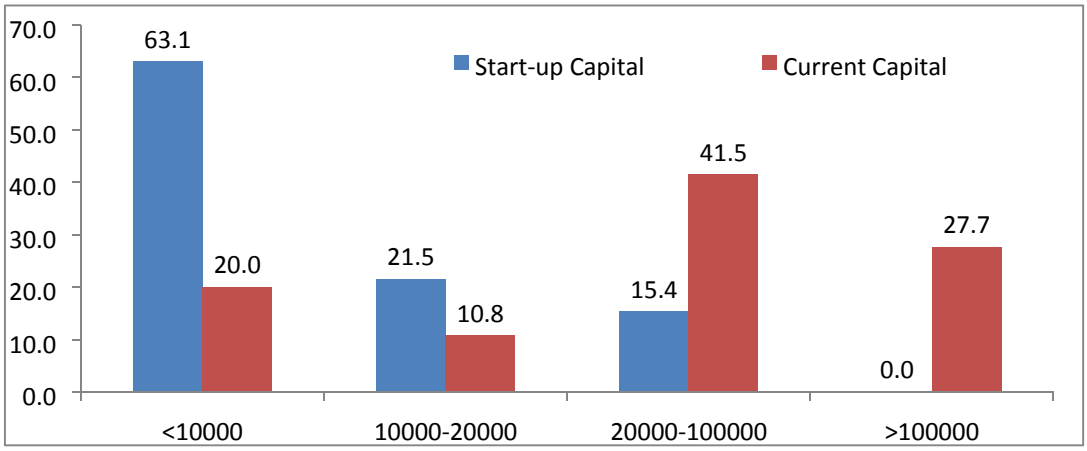

Figure 15percentage of start-up and current assets (Source: Field Survey)

4.12 Bivariate Analysis

The study employed Bivariate analysis with the aid of the Statistical Package for Social Sciences (SPSS).The *Cramer's V* Chi-square test of in depend encrusted to assess the relationship between selected explanatory variables and growth. The Chi-square coefficient tells the direction (positive vs negative) of association and magnitude, i.e. the strength of the relationship.

According to the Cramer's V test sex of respondents and level of enterprise development has statistical significant level of independency with Cramer's V value 0.302 at 95% confidence level. Hence, male owned SMEs are more likely grow faster compared to their counter parts which are owned by female. There is statistically significant relation between education status and level of firm growth with Cramer's V value0.278 at 90% level of confidence. It seems the tendency of firms owned by highly educated owners are more likely to grow fast than those owned persons having lower level of education. The Chi square test of independency was found statistically significant between source of skill acquired to start business and level of firm growth with *Cramer's V* value 0.280 significant at 90% confidence level. As can be clearly seen from the table respondents who

gained the skills from past experience more likely succeed than those gained the skills either through formal training or from family members.

Table 13 Result of Chi-Square test of independency

	Level of Enterprise Growth		***Number of Cases***	***Cramer's V – (X^2)***	***Sig.***
	Low Growth	***High Growth***			
Age					
19-29	78.6%	21.4%	14	0.201	0.268
30-39	64.3%	35.7%	28		
40+	52.2%	47.8%	23		
Total	63.1%	36.9%	65		
Sex					
Male	50.0%	50.0%	36	0.302	0.015*
Female	79.3%	20.7%	29		
Total	63.1%	36.9%	65		
Educational Status					
Grade 10 Complete or less	80.0%	20.0%	25	0.278	0.081**
10+1-Diploma	53.3%	46.7%	30		
BA/BSC+	50.0%	50.0%	10		
Total	63.1%	36.9%	65		
Marital Status					
Single	66.7%	33.3%	27	0.063	0.613
Ever Married	60.5%	39.5%	38		
Total	63.1%	36.9%	65		
Firm Age					
1-3 Years	72.0%	28.0%	25	0.164	0.415
4-7 Years	52.6%	47.4%	19		
8+ Years	61.9%	38.1%	21		
Total	63.1%	36.9%	65		
Legal ownership					
Sole ownership	58.1%	41.9%	31	0.142	0.519
Joint ownership and Family business	60.0%	40.0%	15		
Cooperative	73.7%	26.3%	19		
Total	63.1%	36.9%	65		
Sub-Sector					
Food	76.2%	23.8%	21	0.198	0.281
Clothing, Leather and Footwear	52.6%	47.4%	19		

Wood and metal products/Furniture	60.0%	40.0%	25		
Total	63.1%	36.9%	65		
Source of skills to start business					
Through formal training	72.4%	27.6%	29	0.280	0.079**
From past experience	42.1%	57.9%	19		
From family and others	70.6%	29.4%	17		
Total	63.1%	36.9%	65		
**** significant at 95% confidence level***					
***** significant at 90% confidence level***					

CHAPTER FIVE

Conclusion and Recommendations

5.1 Conclusion

This study was conducted to determine factors affecting the development of micro and small scale manufacturing enterprises in kikos sub city, in Addis Ababa. The study result revealed that the manufacturing MSEs were operated by the younger and educated youth. As stipulated in the national policy, the MSE sector is an important employment and livelihood options attracting college and TVET graduates. The survey noted that, manufacturing sector MSEs have also registered significant growth both in employment opportunities and capital during their business period. During the past few years, the MSE sector witnessed an increase and positive increments in the number of employees, capital, production, sales and revenue.

According to the study the performance of manufacturing MSE enterprises were influenced by interlinked factors. The most important ones include access to inputs particularly to raw materials, access to market for products and access to premise (land) to run business. On top of that, access to business training and financial access were also singled out as an important factor affecting firms' development and performance.

On the other hand, the support of Ethiopian government on small & micro enterprise create a good opportunity for MSEs through, facilitating credit facilities, constructing shades and providing assisting them to be organized in group to bring their knowledge and labour together for common benefit & try to develop the market network & occasional bazaars to sell their product is very encouraging.

However, the manufacturing MSEs were functioning with serious challenges. Lack of land/lack of operating or working space, lack of access to markets, lack of entrepreneurship skills and expertise, lack of equipment to carry out businesses and lack of credit or restriction of loan (availability of ceiling) for start-up capital or expanding are the most persistent challenges facing manufacturing MSEs. The manufacturing MSEs have failed to formulate and adopt deliberate

business development strategies. Their actions were unplanned and accidental used to cope with the needs of the market and customer.

Furthermore, lack of utilities particularly that of electric power shortage, increase cost of procurement /inflation of raw material and transportation were identified as a bottleneck problems of Small and micro enterprise in the study area. As a result, most of SMEs had faced difficulties to compete with others. The study underscored that, the major sales and business challenges facing the enterprises were competitors' growing market share (cost wise competition) and inflow of cheap imported goods into local markets and increase in employee wage and high turnover of staff/ low rate of workers retention was negatively affecting the development and performance of MSEs.

Recommendations

Based on the findings of the study, the following recommendations are made in order to enhance the manufacturing sub sector MSEs:

Since most of the manufacturing MSEs operators lack technical and managerial skills and skills to develop business strategies, the TVETs and other educational institutions should collaborate with national MSE agency to provide on job training and mentorship for the short term. And in the long run entrepreneurship courses must be mainstreamed into the TVET curriculums as appropriate.

The MSE Agency at different levels starting from the city to down the woreda levels should enhance the capacity and skill of the operators through trainings, experience sharing from successful enterprises, and provision of advice on how to develop promotion and developing marketing strategy

Manufacturing MSEs are value adding enterprises as opposed to retail and business MSEs. Hence, Federal MSE Agency and the City Government of Addis Ababa should work in a coordinated manner to alleviate their major challenges. In this regards, adequate working and marketing premise to the most strategic and growing enterprises should be given due emphasis. Furthermore, improving electricity and water supply as well as transportation services would help catalyse the growth of manufacturing sector MSEs:

- Because the MSEs are developing, their financial requirements are exceeding the ceiling provided by the microfinance institution. Therefore, other modalities of financing and best

practices from other countries like “lease financing” must be available to manufacturing MSEs for purchase of equipment that can expand production and productivity levels of firms. To this end, government must develop guidelines to institutionalize “lease financing” in Ethiopia

- Targeted action to control the import of cheap counterfeits should be put in place and measures need to be taken to promote the consumption of domestic goods so as to build a tradition of consuming Ethiopian-made products and thus expand the market for local articles. The Federal MSE Agency Changing the flawed attitude of the public towards MSE products has to be changed through extensive awareness creation efforts such as trainings, workshops, symposiums, frequent bazaars etc.

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APPENDICE

APPENDICE A

QUESTIONNAIRE

St. Mary's University School of Graduate Studies Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in Addis Ababa: The Case of Kirkos Sub-City

Owners Questionnaire

Introduction

Good morning/afternoon; my name is Martha Workineh. This questionnaire is designed to gather data on Assessing *Factors Affecting the development of Micro and Small Scale Manufacturing Enterprises*. The purpose of the study is to fulfil a thesis requirement for the Masters of Business Administration (MBA) at St. Mary's University. You are randomly selected to participate in this study. If you agree to take part in the interview, we will discuss about Factors Affecting the development of Micro & Small scale Manufacturing Enterprises in Kirkos Sub city. Your responses for the questions are extremely important for successful completion of my thesis. The information that you provide will be used only for the purpose of the study and will be kept strictly confidential. You do not need to write your name. I appreciate your cooperation for devoting your valuable time for my request.

General Instructions

- There is no need of writing your name
- In all cases where answer options are available please tick (√) in the appropriate box.
- For open ended questions, please enter your response on the space provided

Thank you for your cooperation!

Martha Workineh

Email: wmata150@gmail.com

I. DEMOGRAPHIC INFORMATION

1. Age _____ years

2. Level of education

1 Can'treadandwrite ☐ 4 Grades 7 and above ☐
10complete ☐ BA/BS ☐

2 Grades1-4 ☐ 5 10+1&10+2 ☐

3 Grades 5-8 6 10+3/diploma

3. Sex

1 Male ☐ 2 Female ☐

4. Marital status

1 Single ☐ 2 Married ☐

3 Divorced ☐ 4 Separated ☐

II. BUSINESS CHARACTERISTICS

5. Year of Establishment of the firm_____

6. What is the legal ownership of the business?

1 Sole ownership ☐ 3 Family business ☐

2 Joint ownership ☐ 4 Cooperative ☐

5 Other(specify) ☐

7. If your answer to Q6 is sole ownership, Why did you prefer to start your own business

☐

1 Family tradition ☐ 3 Brings high-income ☐ 5 Other(specify) ☐

2 Tobe self-employed ☐ 4Nootheralternativeforincomes

8. Who initialled and started the business?

1 11. 1. Self alone 3 Withthefamily ☐

2 2 2.Withfriend/partner 4.Other(specify) ☐

9. How did you acquire the skill for running your enterprise?

1 Throughformaltraining ☐ 3 Fromfamily ☐

2 Frompastexperience 4 ☐ Other(specify) ☐

10. What was the amount of your start-up capital (in Birr)_____

11. What was your main source of your start-up funding?

☐ Personalsaving

☐ Borrowed from relatives or friends/money lenders

☐ Micro finance institution

☐ Iqub

☐ Assistant from friends/relatives

☐ Borrowed from Bank

☐ Assistant from NGO's

☐ Others (specify) _____

12. What is your main product?

☐ Food

☐ Beverages

☐ Clothing

Leather ☐ and leather products

☐ Footwear

☐ Wood and wood products/Furniture

☐ Plastic products

☐ Metal products/ Furniture

☐ Other manufacturing (specify) _____

13. How many full-time employees did this firm employ when it started operations? Please include all employees and managers)_____

14. How many full-time employees does your firm employ currently? Please include all employees and managers)_____

15. Do your enterprise has a definite business strategy

1Yes ☐ 2 No ☐

16. If your answer to Question 15 is "Yes"

S/N		Yes	No
1	Strategies are based on target customers, markets, environment		
2	The strategy are developed, reviewed and updated periodically based on the information from customers, environment, and performance measurement		
3	Provide new products to exist market		

4	Provide established product to exist market (differentiation on price, quality and other values comparing competitors)		
5	Provide established products to new market		
6	Provide new product to new market		

III.INFRASTRUCTURE AND SERVICES

17. Does your firm obtain an electrical connection?

    1 Yes ☐ 2 No ☐

18. Did your firm experience power outages?

    1 Yes ☐ 2 No ☐

19. How long did these power outages last on average?

    1. Average duration of power outages in hours ☐
    2. Less than one hour ☐
    3. Don't know ☐

20. Please estimate the losses that resulted from power outages as %ages of total annual sale?

    _____

21. Does your firm obtain a water connection?

    1 Yes ☐ 2 No ☐

22. Over 2006 E.C did your firm experience insufficient water supply for production?

1 Yes ☐ 2 No ☐

3 The establishment does not use water for production ☐ 3 DON'T KNOW

23. At the present time, does your firm use e-mail to communicate with clients or suppliers?

1. Yes 2. No ☐ ☐

3. DON'T ☐ KNOW

24. At the present time, does your firm have its own website?

1. Yes ☐ 2. No ☐

3. DON'T KNOW ☐

25. To what degree is Electricity, Water and Telecommunication are obstacles to the current operations of your firm?

No obstacle		Minor obstacle	Moderate obstacle	Major obstacle	Very Severe Obstacle	DON'T KNOW	DOES NOT APPLY
Electricity	0	1	2	3	4	5	6
Water	0	1	2	3	4	5	6
Telecommunication	0	1	2	3	4	5	6

IV.DEGREE OF COMPETITION

26. During last year, which of the following was the main market in which this establishment sold its main product?

1. Local – main product sold mostly in same sub-city where establishment is located ☐

2.National – main product sold mostly across the country ☐

3. DON'T KNOW ☐

27. During last year, for the main market in which your firm sold its main product, how many competitors did your firm's main product face?

1 Number of competitors	☐
2 Too many to count	☐
3.DON'T KNOW	☐

28. To what degree are Practices of Competitors in the MSE Sector an obstacle to the current operations of your firm?

	No obstacle	Minor Obstacle	Moderate obstacle	Major Obstacle	Very Severe Obstacle	DON'T KNOW	DOES NOT APPLY
Practices of competitors in the MSE sector	0	1	2	3	4	5	6

V.INNOVATION

In this section "new" means new to the establishment but not necessarily new to the market.

29. During the last year, has your firm introduced new or significantly improved products or services?

1. Yes ☐ 2. No ☐

3. DON'T KNOW ☐

30. During the last year, has your firm introduced any new or significantly improved methods of manufacturing products or offering services?

1. Yes ☐ 2. No ☐

3. DON'T KNOW ☐

31. During the last year, has your firm introduced any new or significantly improved logistics, delivery, or distribution methods for inputs, products, or services?

1. Yes ☐ 2. No ☐

3. DON'T KNOW ☐

32. During the last year, has your firm introduced any new or significantly improved supporting activities for your processes, such as maintenance systems or operations for purchasing, accounting, or computing?

1. Yes ☐ 2. No ☐

3. DON'T KNOW ☐

33. During the last year, has your firm introduced any new or significantly improved organizational structures or management practices?

1.Yes ☐ 1. No ☐

3.DON'T KNOW ☐

34. During the last year, has your firm introduced new or significantly improved marketing methods?

1. Yes ☐ 2. No ☐

2.DON'T KNOW ☐

35. During the last year, did your firm give employees some time to develop or try out a new approach or new idea about products or services, business process, firm management, or marketing?

1.Yes ☐ 2. No ☐

3.DON'T KNOW ☐

VI. CAPACITY

36. In 2006 E.C what was your firm's output produced as a proportion of the maximum output possible if using all the resources available (capacity utilization)?

    1. Capacity utilization_____%
    2. DON'T KNOW ☐

37. In 2006 year, how many hours per week did your firm normally operate?

    1. Typical hours of operation in a week_____ hours
    2. DON'T KNOW ☐

VII. LAND AND PERMITS

38. Is the land/working place occupied by your firm owned or rented/leased?

    1. Owned by your firm ☐
    2. Rented or leased by your firm ☐
    3. Others (Specify) _____

39. Did your firm submit an application to obtain a land for expansion?

    1 Yes ☐

    2 No ☐

    3 DO NOT KNOW ☐

40. What is the status of your application for a construction-related permit (i.e. is the permit granted)?

    1.Land secured and wait for a construction-related permit ☐

2. Still in processes ☐

3.Application denied ☐

4.Do not know ☐

41. To what degree is Access to Land an obstacle to the current operations of your firm?

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very Severe Obstacle	DON'T KNOW	DOES NOT APPLY
Access to land	0	1	2	3	4	5	6

VIII.FINANCE

I would like to ask you a few questions about how you finance the operations of your firm.

42. In 2006, what %age, as a proportion of the value of total annual purchases of material inputs or services was purchased on credit?

    1. Purchased on credit _____%

43. In 2006, what %age of your firm's total annual sales of its goods or services was sold on credit?

    1 Sold on credit _____%

44. Over 2006, please estimate the proportion of your firm's working capital that is the funds available for day-to-day operations, that was financed from each of the following sources?

	%	Do not Know
Internal funds or retained earnings		

Borrowed from banks: private and state-owned		
Borrowed from non-bank financial institutions which include microfinance institutions, credit cooperatives, credit unions, or finance companies		
Purchases on credit from suppliers		
Other, moneylenders, friends, relatives, etc.		
	100%	

45. To what degree is Access to Finance an obstacle to the current operations of your firm?

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very Severe Obstacle	DON'T KNOW	DOES NOT APPLY
Access to Finance	0	1	2	3	4	5	6

46. How much is the amount of your current capital (value of assets after depreciation)? current capital (in Birr)_____

47. Please provide an answer about changes in the number of employees, capital and production compared to starting time and the forecast for the next one year.

	Compared to past time (starting time)			Expectations for changes in the next one year		
	Increase	No change	Decrease	Increase	No change	Decrease
No. of employees						
Capital						

Production						
Growth in sales						
Gross revenues						
Customer satisfaction						
Employee satisfaction						

XI. BUSINESS PROBLEMS

The following questions ask which issues in each of the following categories you perceive as particularly serious business problems for your firm. Please select all answers that apply for each category.

48. Problem(s) in sales or other business activities (Select all that apply)

☐ Decrease in orders from clients

☐ Major clients requesting lower prices

☐ Decrease in sales prices due to oversupply

☐ Inflow of cheap imported goods into local markets

☐ Competitors' growing market shares (quality-wise competition)

☐ Competitors' growing market shares (cost-wise competition)

☐ Other (specify)_____

49. Problem(s) in financial affairs or financing (Select all that apply)

☐ Insufficient cash for business scale expansion

☐ Difficulty in accessing funds/loans from financial institutions

☐ Restrictions on loan

☐ Tax burdens

☐ Rising interest rates

☐ Other (specify)_____

50. Problem(s) with labor or employment (Select all that apply)

☐ Increase in employee wages

☐ Difficulty in recruiting general worker/technicians/engineers

☐ Difficulty in recruiting management staff

☐ Low rate of worker retention

☐ Other (specify)_____

51. Problem(s) in production (Select all that apply)

☐ Insufficient production capacity due to lack of facilities

☐ Increase in procurement costs

☐ Difficulty in local procurement of parts and raw materials

☐ Difficulty in changeover of production items within a short timeframe

☐ Difficulty in quality control

☐ Other (specify)_____

52. If there are any other business problems, please describe them below.

_____
_____
_____

53. To what degree is/are [INSERT OPTION] an obstacle to the current operations of your firm?

	No Obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very Severe Obstacle	DON'T KNOW	DOES NOT APPLY

Tax rates	0	1	2	3	4	5	6
Tax administration	0	1	2	3	4	5	6
Business licensing and permits	0	1	2	3	4	5	6
Transport	0	1	2	3	4	5	6
Utilities(Electricity, water and telecommunication)	0	1	2	3	4	5	6

54. What is the most appropriate direction for your firm's businessgrowth over the next one year?

1.Expansion ☐ 3.Status quo ☐

2.Downsizing ☐ 4.Closing ☐

55. If you selected "Expansion" in Q54, please select the specific businessPlan. (Select all that apply)

☐ Expansion of existing business scale through additional investment

☐ Diversification of product and services contents (sector expansion)

☐ Increase in high value-added products and services

☐ Creation of new markets (expand business / sales networks)

X.FACTORS AFFECTING PERFORMANCE OF MANUFACTURING MSEs

56. How important do you believe the following factors for the growth and performance of manufacturing MSE enterprises?

5=strongly agree, 4=agree 3=undecided 2=disagree 1=strongly disagree

No.	Item	Agreement Scale					
		1	2	3	4	5	remark
56.1	Financial accessgivenby microfinances andotherlendinginstitutions.						
56.2	Access tomarketforproducts						
56.3	Access todifferentbusiness trainings						
56.4	Access to premises (land)torunmybusiness						
56.5	Access to information and necessary technologies to exploit business						
56.6	Managerial skills						
56.7	Access to necessary inputs(raw materials)						

57. How important do you believe the following factors or managerial practices for your enterprise are to achieving excellent performance?

5=strongly agree 4=agree 3=undecided 2=disagree 1=strongly disagree

No.	Item	Agreement Scale					
		1	2	3	4	5	remark
	Capability						
57.1	Response customers' needs swiftly						
57.2	Effectively manage people and resources						
57.3	Deeply understand the technological trend and catch the changes						

57.4	Flexibility to adapt to new industry and market trends						
	Resource						
57.5	Availability of capital						
57.6	Access to overall low cost factors of production						
57.7	Expertise in product/service development						
57.8	Expertise in marketing						
57.9	Expertise in management						
57.10	Expertise in financial management						
57.11	Access to low cost distribution channels						
57.12	Reputation						
	Environment						
57.13	The company's customer groups and market segments are clearly defined and selected						
57.14	Understanding the changes in technology						
57.15	Government regulation						

58. What are the challenges to manufacturing sector MSEs? Please rank based on your priority the following most common obstacles for manufacturing MSEs?

S/N		Rank
1	Lack of entrepreneurship skills and expertise	
2	Obtaining skilled labor	
3	Lack of credit for start-up capital or expanding	
4	Lack of land/Lack of operating or working space	
5	Lack of access to markets	

6	Complicated business taxation	
7	High cost of compliance with business regulations	
8	Lack of equipment to carry out businesses	
9	Lack of use in technology and modernization	

59. How do you see government support to manufacturingSMEs, qualify the effect 1.Overall Positively ☐

2.Overall Negatively ☐

3 Inconsequential ☐

60. What do you recommend to support the manufacturing MSE in the future?

_____

_____

Thank you very much for your cooperation!

APPENDICEB

In-Depth Interview questions

St. Mary's University

School of Graduate Studies

Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in Addis Ababa: The Case of Kirkos Sub-City

In-depth Interview Guide:

Introduction

Good morning/afternoon; my name is Martha Workineh. The overall objective of the study is to learn about ***Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises.*** The purpose of the study is to fulfil a thesis requirement for the Masters of Business Administration (MBA) at St. Mary's University. Your selection to participate in this study was purposive, since you are the key personnel in the Micro and Small Enterprise Development Agency. If you agree to take part in the interview, we will discuss about Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in Kirkos Sub-city. Your responses for the questions are extremely important for successful completion of my thesis. The information that you provide will be used only for the purpose of the study and will be kept strictly confidential. You do not need to write your name.

I appreciate your cooperation for devoting your valuable time for my request.

Thank you for your cooperation!

Martha Workineh

Email:--wmarta150@gmail.com

Tel:----------

Email: ----------

Identification

The Micro and Small Enterprise Development Agency	1. Federal level 2. Sub-city Level 3. Wereda Level
Wereda	
Educational qualification of Interviewee	
Position of interviewee	

1 From your agency's opinion, what are the key factors that influence MSEs Performance?

2 How does your office support micro and small scale manufacturing business? [Probe: training, access to credit, access to work place, market linkage, networking…]

3 What do you think are the factors affecting the performance and development of manufacturing MSEs? What are the common challenges of manufacturing sector MSEs? (Probe internal, sociocultural and Policy level constraints) What do you recommend to address these gaps and enhance the performance and growth of manufacturing MSEs?

4 How do you describe the adequacy and timeliness of resources provided to manufacturing MSEs from your office?

5 Is there any efforts made by your office to enhance manufacturing sector MSEs? What impact has these support had on the development and performance of manufacturing MSEs? What do you recommend so as to implement MSE strategy successfully particularly for manufacturing sector in the future?

6 What else would you like to share about the performance and development of manufacturing sector MSEs?