SCHOOL OF GRADUATE STUDIES

DETERMINANTS OF MICRO AND SMALL SCALE ENTERPRISES ADVANCEMENT INTO MEDIUM SCALE ENTERPRISES: THE CASE OF NIFAS SILK LAFTO SUB-CITY, ADDIS ABABA

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MBA PROGRAM

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DECLARATION

I, the under signed, declare that this thesis is my original work, prepared under the guidance of Dr. Maru Shete (Assoc. Professor). All sources of material used while working on this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any type of degree.

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Name   Signature

St. Mary's University,   Addis Ababa   **January, 2019**

ENDORSEMENT

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

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Advisor   Signature

St. Mary's University,   Addis Ababa   **January, 2019**

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ACKNOWLEDGMENT

LIST OF ABBREVIATIONS/ACRONYMS

CSA - Central Statistical Authority

CED   -   Committee of Economic development

FeMSEDA -   Federal Micro and Small Enterprises Development Agency

GDP - Gross Domestic product

IT - Information Technology

LDCs - Less Developed Countries

MoTI - Ministry of Trade and Industry

MIS -   Management Information System

MSEs-   Micro and small scale enterprises

NERFUND - National Economic and Reconstruction Fund

PLM - Passive Learning Model

SMEDAN - Small and Medium Enterprises Development Agency of Nigeria

SMEs -   Small and Medium enterprises

UNIDO - United Nations Industrial Development Organizations

USD   - United States Dollar

MFI   - Micro Finance Institution

VAT -   Value Added Tax

TIN -   Tax Identification Number

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ABSTRACT

The purpose of this study is to examine the determinants of micro and small scale enterprises advancement into medium scale enterprises. The study used explanatory research design and the total population of the study was 1180 MSEs. Stratified random sampling procedure was used for the selection of 299 MSEs from Nifas Silk Lafto Sub-city. Data were collected by using structured questionnaire from the selected respondents and analyzed by using regression technique. The study shows that the major source of finance for MSE is personal saving. The study shows most of the MSEs are legally sole proprietorship and majority of them complained for insufficient loan to run their businesses. The findings of the study further revealed that credit access; marketing and administrative factors affected positively the advancement of small scale microfinance to medium scale enterprises at 5% level of significance. Based on the findings the researcher recommends that locality based approach for solving problems of MSEs through prioritizing the challenges as per their severity; enhancing capacity of the MSE development agency through provision of skill and business training; improving local business environment through provision of sufficient work premises at appropriate location & facilitating access to credit from financial institutions are the major issues.

Keywords: *Micro and Small Enterprises, Advancement, Determinants, Nifas Silk Lafto Sub-city, Addis Ababa*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

From global point of view, Micro and small scale enterprises (MSEs) play a vital role in economic development, as they have been the primary sources of Job/employment creation, output growth and the central focus of the industrial development strategy, not only in less developed countries (LDCs) but also in developed countries. A study conducted by Syed and Mohammed (2009) showed that the MSEs play a vital role in the progress of the economy of the developed nation due to the fact that it reduces the unemployment problems by using lower capital per employment, avoid extra costs for development of industrial infrastructure, reducing the risk of the investments, check imbalance between different sections of the economy and maximize the use of locally available resources.

According to the study of Boaten (2012), the dynamic role of MSEs in developing countries as "necessary engines for achieving national development goals such as economic growth, poverty alleviation, employment and wealth creation, leading to a more equitable distribution of income and increased productivity is widely recognized." In an attempt to accelerate growth rates in low-income countries, particularly in Africa, many development partners and donors have made the promotion and development of MSEs a major concern. This shows that MSEs are seen as essential facilitator for economic growth, job creation, industrial development and poverty alleviation, equitable distribution of income both in developed and developing countries. Micro and small scale enterprises are the main source of employment in developed and developing countries comprising of over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006).

Micro and small scale enterprises are important both to the individual and to the nation. To the individual they provide employment and raise the standard of living of both employers and employees. To the nation, they complement large scale modern sector enterprises, they utilize agricultural and other raw materials that would have gone to serve limited or closed markets that warrant only small scale production, and they mobilize resources. Left out of the mainstream

formal mobilization channels and they provide the necessary plat form for take-off into large scale modern production (Bwisa, 2011). While the contributions of small businesses to development are generally acknowledged, Micro and small scale enterprises face many obstacles that limit their long term survival and development. Research on small business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2002). Past statistics indicate that three out of five businesses fail within the first few months of operation (National Statics Bureau of Ethiopia, 2007).

In Ethiopia until 1997, there were no organized policy and support systems catering to the development of the MSEs sector, so structural, institutional, and policy barriers were not being addressed. Premises, markets, finance, supply arrangements, regulatory barriers and legitimization of entrepreneurial activity are among the most urgent (ILO, 2005). Recognizing the significance of this sector, the Ethiopian Government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among Rural and urban dwellers.

The Micro and Small Enterprises Sectors contribute to the economy of nations" by creating employment opportunities, production of goods and services and other value added activities. The five year Growth and Transformation Plan envisages ensuring faster and sustained development of the industrial sector and enabling the sector to gradually play a key role in the economy. To this end, particular emphasis is given to the promotion of micro and small enterprises as well as supporting the development of medium and large scale industries. In Ethiopia, especially in Oromia Regional states, small businesses increasingly face competition not only from their peers but also from large corporations participating in niche markets once regarded as a preserve for small businesses (Ntakobajira, 2013). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Lack of planning, improper financing and poor management have been cited as the main causes of failure of small enterprises (Longenecker, 2006). The advancement of small scale to medium scale enterprises, changes over

time in their employment and output shares, market orientation and location are usually thought to be related to many factors, including the level of economic development, changes in real income per capita, population growth, and progress in technology. Given this thought, the most important question which to address in this paper would be assessing the determinant factors that limit the advancement of Small Scale to medium scale enterprise in Nifas Silk Lafto Sub-City.

1.2 Back ground of the organization

Historically, Addis Ababa was founded in 1887 by emperor Menilik II and Empress Taitu. Addis Ababa was chosen as the residence of the emperor because of its thermal spring at a spot known as *Filweha.* In terms of climate, its average elevation is 2,500 meters above sea level, and has a fairly favorable climate and moderate weather conditions. Geographically, the city is located between 8055' and 9005' north latitude and between 38040' and 38050' east longitude, while its total area is 54,000 hectares with a total population of more than 3 million. Besides, for political and administrative reasons, the city is made to be structured at three layers of government: city government at the top, 10 sub-cities administrations in the middle and 116 *woreda* level administrations at the bottom (AACMSEDA, 2011:42).

Specifically, the study area covers *nifas silk lafto* sub-city. The *nifas silk lafto* sub-city occupies a total area of 58.76 square kilometers with a total population of 316108 and percentage of the total city population 11.54. Currently, the sub-city has a total of 13 *woredas,* 128 *sub- woredas,* 397 *sefer,* and 1059 *blocks.* Population density (people/km^2 5379.344.The neighboring boring sub cities are Akaki-Kality, Bole, Kirkos, Lideta and Kolfe- Keranio (Addis Ababa city administration integrated land information center, 2014:6-10 first edition).

1.3 Statement of the problem

Starting a business is like bringing up a child. As a child needs proper nurture and nourish to grow, the same analogy is true in starting and growing a business. It's clear that in the initial stage the economic development of small scale business is very slow, as results of this entrepreneur tend to have less initiative and drive to the desired target. Gradually, in visualizing

the development pace they become more innovative and enthusiastic (Siva, 2012). Hence, developing a business requires ample trial time, strong commitment and awareness of the opportunity that the environment provides so as to achieve the intended goal. The Ethiopian government adopted the national Micro and Small Enterprise Development Strategy for the first time in November 1997 E.C. The policy identified a number of constraints hampering the development of MSEs. The policy serves as guideline to all stakeholders to stimulate the establishment of new enterprises and enabling the existing ones to grow and become more competitive. This policy identified un-favorable legal and regulatory frameworks, underdeveloped infrastructure, poor business development services, limited access to finance, ineffective and poorly coordinated institutional support as the key constraints that hinders the development of the sector (Federal Democratic Republic of MSEs Development Strategy, 1997).

In addition, the reviewed empirical studies with regard to the sector focused on socio-economic determining factors of MSEs Success and its major challenges and constraints (Solomon, 2004). Most studies, in academic and non-academic institution, focus on factors that hinder the growth of MSEs and the outcome of the program in aggregate forms. Regarding the role of micro and small enterprises in the process of industrial development, empirical studies fail to investigate the transitional development of small scale enterprise to medium scale enterprises. For instance, the research conducted by Solomon (2004) also tried to analyze growth determinants of MSEs and found that product diversification is a major determinant factor for the growth of small enterprises in Addis Ababa. The finding revealed that business experience is associated with new start-ups calls for the promotion of the culture of apprenticeship and intern experience sharing for the young as a possible area of intervention in employment generation schemes to minimize the extent of unemployment. The researcher holdup to see MSEs contribution in the development of medium scale enterprise by solving their challenges and using their opportunities. From the above mentioned studies, it is possible to learn that factors which determine advancement of Small Scale to medium scale enterprise which are not studied in depth. Therefore, this study tries to assess factors affecting advancement of Small Scale to medium scale enterprise in Nifas Silk Lafto Sub-City and also tries to identify challenges and prospects for the sector and come up with policy recommendations which will be relevant for MSEs advancement from small to medium scale enterprise.

1.4 Research Questions

On the bases of the above statements of the problem these researches attempt to address the following questions.

- What are the factors that affect the advancement of socioeconomic characteristics of small scale in to medium scale enterprises?
- What are the determinant factors that affect the advancement of small scale enterprises to medium scale enterprises?

1.5 Research Objectives

1.5.1 General objective

The main objective of the study is to investigate the determinant factors affecting the advancement of Micro and small scale to medium scale enterprise.

1.5.2 Specific Objectives

- To investigate factors that affects the advancement of socioeconomic characteristics of Micro in to Medium scale enterprises.
- To investigate MSEs specific determinant factors that affect their advancements.

1.6 Scope of the study

The row data for the study was collected from August 16 to September 16/2018, to assess the determinant of Micro and small scale enterprise advancement in to medium scale enterprise. For the sake of uniformity and due to their more familiarity to the investigator, only data that was obtained from Nifas Silk Lafto Sub-City was used in this study. The area was selected purposively by the researcher. This is because, the investigator of the study is the residence of the area by which the study was conducted, and through this the researcher can easily identify the needs and aspirations of MSEs in that area. Other sub cities in the city, out of the selected sub city were not get attention in this study. Moreover, the study focuses only on the determinants of

micro and small scale enterprise advancement in to medium scale enterprise in Nifas Silk Lafto Sub-City, with special focus to personal factors, institutional factors and other specific determinant factors which hinder MSEs advancement. It is also delimited to those MSEs who have been registered under the MSE development strategy of Ethiopian government and licensed by each centers of MSEs service center in the Sub-city. However, there are various private MSEs, the researcher i not included, in the study. The reason for excluding private MSEs is that, it is difficult to get their list which would help for sampling.

1.7 Significance of the study

The study was used to show the determinant factors for advancement of micro and small scale in to medium level, their problems in the study area and help the government and other actors to focus on MSEs as one of the intervention for the fight against poverty. The study could also assist the planners and practitioners to give emphasis on MSEs in their development programs and projects and to arrive at appropriate solutions to the problems on MSEs. Accordingly the finding of the study may help policy and strategy makers and practitioners in designing and implementing appropriate policies that would enhance the advancement of small scale enterprise to medium scale enterprise in Ethiopia. It made also helpful for Addis Ababa City Micro and Small Scale Enterprise to take corrective measures so as to overcome the challenges and search opportunities for their transitional development. Furthermore, the outcome of the study is given important insight for further studies. Most Small and Medium - scale Enterprises in Ethiopia are in a state of business uncertainty owing to different socio-economic conditions. The research tried to unfold the challenges of these business enterprises faced and provide remedial solutions to the problem.

1.8 Conceptual Definitions

Small and Micro Enterprises may be defined as businesses with a small number of employees. The legal definition of "Micro and Small" often varies by country and industry, but is generally under 100 employees in the United States while under 50 employees in the European Union. In

Ethiopia, the Ministry of Trade and Industry (2006) adopted official definition of Micro and Small enterprises as follows:

Micro enterprises: are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.

Small enterprises: those business enterprises with paid-up capital of above 20,000 and not exceeding birr 500,000 and excluding high technology consultancy firms and other high technology establishments.

Large and medium enterprises: by default, are those enterprises with more than birr 500, 000 in paid up capitals.

MSE's can also be distinguished using the number of people that work under them. Generally, micro-enterprise is one with fewer than 10 employees; a small enterprise is one with 11-50 employees; and large and medium enterprises are those with more than 50 employees (Stevenson and Onge, 2005).

1.9 Organization of the study

The thesis is arranged in five chapters. The first chapter deals with the introductory part of the study. Here, the background of the study, Statement of the problem, Research questions, Objective of the study, Significance of the study, Organization of the study, and Scope of the study are included. Discussion on the related literature is covered in chapter two. Here different theories applicable to the study, empirical review and theoretical framework are presented. In the third chapter, the research design and methodology is presented. Under this chapter the study setting, the research design, population and sampling procedures, sources of data, method of data collection, method of data analysis are discussed separately. Chapter four is deals with data presentation, discussion and analysis. Finally, summary of major findings, conclusion, limitation of the study and recommendation are presented in the last chapter – Chapter five.

Table 1.1 Classification of MSE in Ethiopia

Enterprise	Paid up capital	No of workers
Micro	< Birr 20,000	Under 10
Small	20,000- 500,000	11-50
Large and medium	> 500,000	Over 50

Source: 2011 Federal Democratic Republic of Ethiopia MSE development strategy

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical Review

2.1.1. The Concept of Micro and Small Enterprise

A consensus and universally accepted definitions of small scale enterprises have not been well documented in the literature. Perhaps, this could be due to the fact that the classification of businesses requires a subjective and quantitative judgment (Ekpenyong, 1992). Small scale enterprises as other concept in the field of economics and management has been relatively dynamic which largely depends on the unique roles the SMEs are expected to play in the growth and development process of their respective economies. These conceptual definitions also change overtime due to variations in some macroeconomics fundamentals such as price level as well as technological advancement. Some of the criteria often adopted in defining small scale include: the staff strength, the size of the business concern, capital requirement, and ownership structure (Oshaghemi, 1999).

In defining small and medium enterprises to suite a particular circumstance, individuals, institutions and governments have adopted several conceptual framework. Prior to 1992 in Nigeria, both the federal government and its agencies had adopted varying definitions at the one time or the other occasioned by the modification in their development strategy. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defines these enterprises as those whose total investment was between 100,000 naira and 2 million naira excluding land but including working capital. Similarly, the decree establishing the National Economic and Reconstruction Fund(NERFUND) in 1989 defined SMEs as those whose fixed assets excluding land but including cost of project do not exceed N10 million. However, in 1992, when the National Council on Industry unified these definitions, small scale enterprises (SSEs) are characterized as those business with fixed assets amounting to N1 million but not exceeding N10 million. In 1996, this definition was revised to reflect those enterprises with total cost of above N1 million but not exceeding N40 million naira inclusive of working capital but excluding cost of land. Apart from these definitions, SMEs are by nature identified by some or all of the following yardsticks:

- Separation of ownership from the management thus making policy decisions based on the management structure.
- Existence of formal relationship between employer and employees.
- Adoption of labor-intensive technique of production or fabricated technology.
- Limited access to financial capital which is a major factor that constraints expansion.
- Greater reliance on local resources hence their output have low import content either in capital or raw material inputs.
- They are widely dispersed in major sectors of the economy particularly in manufacturing transportation, communication etc.

Definition of micro, small and medium enterprises could be seen from several aspects. Small and medium enterprise sector plays an important role, especially when linked to the amount of labor that can be absorbed by SMEs. Besides having a strategic role for development, SMEs also serve as a means to distribute evenly results of the development that have been achieved. Tambunan (2010) asserts there are some definitions of micro and small enterprises. BPS using the approach of classifying the amount of labor in the business, namely: (a) Enterprises Households have 1-5 workers, (b) Small businesses have 6-19 workers, (c) medium businesses have 20- 99 labor, and (d) large businesses have more than 100 workers. Furthermore, micro-enterprises according to Decree of the Minister of Finance Number 40 / KMK.06 /2003 is a family-owned productive enterprises or individuals with the sale of a maximum of Rp 100 million per year, and the number of proposed credit maximum of Rp 50 million. Whereas small enterprise is an economic enterprise productive that stands alone, conducted by an individual or business entity that is not a subsidiary or not a branch of the company owned, controlled, or be a part either directly or indirectly from medium or large businesses that meet the criteria namely: (a) has a net asset more than fifty million rupiahs up to at most five hundred million rupiah not including land and buildings; or (b) has an annual sales turnover more than three hundred million rupiahs up to at most two billion five hundred million rupiahs.

SME has no standard definition. SMEs have been identified differently by various individuals and organizations, such that an enterprise that is considered small and medium in one country is viewed differently in another country. Some common indicators employed in the various

definitions include total assets, size of the labor force employed, and annual turnover and capital investments (Baenol, 1994). In addition, no single definition of SMEs exists among officials of multilateral development institutions. Micro enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments. Small enterprises those business enterprises with paid-up capital of above 20,000 and not exceeding birr 500,000 and excluding high technology consultancy firms and other high technology establishments. Large and medium enterprises by default are those enterprises with more than birr 500,000 in paid up capitals. MSE's can also be distinguished using the number of people that work under them. Generally, micro-enterprise is one with fewer than 10 employees; a small enterprise is one with 11-50 employees; and large and medium enterprises are those with more than 50 employees (Stevenson and Onge, 2005).

According to Gebreeyesus (2009 citied from Dababneh and Tukan, 2007), the characteristic of MSEs not only reflects the economic patterns of a country but also the social and cultural dimensions. These differing patterns are noticeably reflected within different definitions and criteria of MSEs adopted by different countries: whereas some refer to the number of employees as their distinctive criteria for MSEs, others use invested capital, and some other use a combination of the number of employees, invested capital, sales and industry type. Rigorously defining small business has always been difficult, even controversial. The term covers a variety of firms and most writers use it rather loosely based on their purpose of study. As Gebreeyesus (2009) adopted the definition of small business from Peterson et al. (1986) 'a small business is one which is independently owned and operated, and which is not dominant in its field of operation'. Researchers and other interested parties have used specific criteria to operationalize the small business as a construct: value added, value of assets, annual sales, and number of employees. The latter two criteria are most often used to delimit the category.

In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MoTI) uses capital investment, the Central Statistical Authority (CSA) uses employment and favors capital intensive technologies as a yardstick.

The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997 (MoTI, 1997:8-21). .According to MoTI:

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

On the other hand, CSA categorizes enterprises into different scales of operation on the size of employment and the nature of equipment (CSA, 2005:34-35).

According to CSA:

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

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

- Micro enterprises are business activities that are independently owned and operated, have small share of the market, are managed by the owner and employing five or less employees.
- Small businesses are those enterprises that employ 6 to 49 employees. They share the same characteristics with micro enterprises in other aspects.

- Medium scale enterprises are those enterprises which have a relatively higher share of the market, are independently or jointly owned or managed by the owner or by appointed executives and employ 50 to 99 persons.
- Those enterprises that employ more than 100 persons could be considered as large enterprises.

Nevertheless, there is lack of clarity, inconsistency, lack of organized information and consistent historical data is lacking in Ethiopia.

The features that distinguish MSEs from larger scale enterprises include greater owner influence, dominance of one person, more subjective decision due to centralization of decision making, close contact of the top management with employees at lower levels and greater concern with financial matters due to difficulty of attributable funds etc. (Gebreeyesus, 2009).Clusters under the umbrella of MSEs are numerous activities – street vendors, shop keepers, construction, wood and metal work, food processing, textile and garments, urban farm, municipality service , bars, shops, groceries, hairdressers, wholesale and retail traders, export-import traders and small scale industries etc. Most of these enterprises in the country are largely confined to trade and services and to small scale manufacturing and handicrafts, which constitute an important subset of small scale enterprises. The definition of small scale industries adopted by the Federal Micro and Small Enterprises Development Agency (FeMSEDA) in proclamation 124/97 is as follows:

A small scale manufacturing activity and engineering service establishment is a manufacturing establishment -except handicrafts- which has a fixed location within urban center; uses either manually operated machinery and equipment move power driven machinery and equipment and engaged in the mechanical-chemical transformation of substances into new products and in the fabrication, assembly, reconstruction, alteration and repair activity; employs at least one person other than the owner/owners, unpaid family workers and/or apprentices; and has fixed assets of value not exceeding Birr 200,000 excluding investments made on land and buildings.

MSEs are defined in a variety of ways using various factors. These factors include number of employees, volume of sales, and the capital value of the business (Zemenu& Mohammed, 2014). In Ethiopian, the MSE development strategy defines MSEs according to the number of

employees and capital (FeMSEDA, 2010).Micro Enterprise under the industry sector (manufacturing, construction and mining) is an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector(retailer, transport, hotel and Tourism, Information Communication Technology (ICT) and maintenance service)Micro enterprise are an enterprise operating with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Small Enterprises in the industrial sectors are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5million. Similarly, in the service sector, small enterprises are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 50,000 and not exceeding Birr 500,000 (FMSEDA, 2012).

United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2002:53). The United States of America, the Small Business Act issued in 1953 stated that, small business is one which is independently owned and operated and not dominant in its field of operation. The act also further stated that, number of employees and sales volume as guideline in defining small business (Majo &Radwan, 2010). In the same country, a committee for economic development (CED) has explained that small business is characterized by at least two of the key features: management is independent (usually the managers are owners), capital is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country). According to Kayanula and Quartey (2000:16) in Malawi, the official definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees and turnover. An enterprise is defined as small scale if it satisfies any two of the three criteria, that is, it has a capital investment of USD 2,000 - USD 55,000, employing 5-20 people and with a turnover of up to USD 110,000 (using 1992 official exchange rate).The same authors narrated that:

> *some of the key characteristics of small enterprises are mobilizing funds which otherwise would have been idle; being a seed-bed for indigenous entrepreneurship; their labor intensiveness; employing more labor per unit of capital than large enterprises; promoting indigenous technological know-how;*

using mainly local resources, thus have less foreign exchange requirements; catering for the needs of the poor and; adapting easily to customer requirements (flexible specialization).

2.1.2. Role of the MSE Sector

MSEs have been recognized as engines of growth and development throughout the world (Munyori & Ngugi, 2014). The MSE operations worldwide plays a pivotal role by adding value to the economy by creating jobs, enhancing income, lowering costs and adding business convenience (Fatoki, 2012; Katua, 2014). MSEs are now widely recognized as a major component in the growth and development of emerging economies. They are found to be one of the most reliable economic development and livelihood strategy, especially during economic turbulence (Kamoyo et al., 2014). The importance of MSEs in general and new businesses in particular makes a significant contributions in addressing socio economic problems such as unemployment, poverty, income inequalities, political stability and economic growth among others (Musara & Gwaindepi, 2014).In Ethiopia, the MSE has prioritized for economic growth, employment generation and building an industrial economy. The MSE sector serves as vehicle of development and broadens employment opportunities at urban center. The elements of the sector are taken as the major productive forces in the manufacturing sector and serve as incubation hubs for developmental investors. MSEs play great role in utilizing local resources and are labor intensive (FMSEDA, 2012). According to the Central Statistic Authority (2003), almost 50% jobs created in Ethiopia are attributable to MSE of which 974,676 micro and 31,863 are small enterprises, which accounts for99.40% and 0.46% respectively. In addition, micro enterprises and small enterprises provide employment opportunities to 89.75% and 0.91% respectively.

SMEs contribution in economy is extended as impact to other sectors, and hence SMEs serve as engine of economic growth. SMEs counter-balance the monopoly, and hence reduce the capacity of big companies controlling the market. SMEs generate to a greater extent the technical innovation applicable in the economy. The significance of SMEs in Kenya is reflected in the 2014 Economy Survey, which indicated that 83% of 800,000 jobs created in 2014 were in the informal sector that is dominated by SMEs(Thinji & Gichira, 2017).

2.1.3. Determinant Factors influencing growth of SMEs

In spite of the major role, the significance and contributions of the small-scale enterprises to the national economy, this set of enterprises are still battling with many problems and certain constraints that exist in promoting their development and growth. For instance, (International Labor Organization, 1994) study shows that inadequate entrepreneurial talent affects the development of small-scale manufacturing and processing industries. While large-scale industries are established with expatriate capital, small-scale industries need to have a domestic entrepreneurial and industrial base. Other problems that hinder the advancement of small-scale enterprises are the persistent low level of technology, the shortage inadequate entrepreneurial skills of operators and the absence of an effective management technique. Small-scale enterprises tend to concentrate on traditional industries where low entry barriers, low minimum production scales, and relatively large labor force are the potential advantages.

However, the traditional industries have not been immune to the recent technological revolution taking place in the field (Adubifa, 1990). Hanshom (1992) and McCormick (1998) stated that African small enterprises are found to be unorganized in production activities. Low capital investment on capital goods and lack of division of labor in production makes these enterprises remained week. It is a clear fact that many micro, small and medium-scale enterprises are dying out owing to lack of financial support from the government and other citizens. Mills (1990) stated that the major pre-occupation of all developing countries these days is simply how to improve social, economic and political status of the people. According to Uma (1974), it involves the improvement of the living standards of the mass of the low income population and making the process self-sustaining. Improving the living standard of the people involves the setting of priorities in the mobilization and the use of resources available. In some rural areas, the working and living conditions of women for instance, have not been able to be ameliorated by many recent programs designed to improve their economic status. Many writers have pointed out the detrimental effects on women of technological and socio-economic changes in the process of development (Dey, 1975; Zeidenstein, 1975; Palmer, 1978; Whitehead 1985; Stevens 1985). There has not been a total consideration and enough provisions for some rural entrepreneurs in the development process. Many of these entrepreneurs are left out in the provisions of the government toward the advancement of their enterprises.

SMEs globally face difficulty in accessing finance from conventional financial institution. However, International Finance Corporation and World Bank efforts at improving their financial problems reveal contextual finance problems requiring homegrown strategies to manage and overcome this predicament. Most SMEs have difficulty accessing loans from banks; most credit officers lack an in-depth understanding of SMEs business cycles, and are averse to lending to them (Du &Banwo, 2015).

Limited access to finance faced by SMEs has drawn considerable attention from both academics and practitioners for many decades. Literature on this subject suggests that better financial access for SMEs contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008). Small enterprises and most of the poor population in Sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 percent of the population has access to the banking sector (Basu, Blavy & Yulek, 2004)**.**Other studies have in developing economies have found funding as the major problem of SMEs. These studies have made varying recommendations, but SMEs continue to be constrained by funding as suggested by the empirical studies cited earlier on. Whereas some countries have set up small business equity markets to help raise equity capital, others have set up state grants and develop a list of business angels to assist small businesses. Park*et al*. (2008) further argued that SMEs face financing gaps probably because of a combination of reasons originating from both the supply and demand sides. The supply side refers to providers of finance (financial institutions and investors), while the demand side is composed of SMEs who require financing from financial institutions and other providers of finance. The financing gap for SMEs is most prominent in capital market financing. Most countries, including the developed ones, have problems in SME financing through capital markets (Park *et al*., 2008: 1).

Women face startup difficulties such as lack of a source of initial capital. Many women find their initial financing by way of borrowing from formal sources. However, the major difficulty for entrepreneurs, especially for women, is accessing credit due to collateral requirements of the banks. Even if they can access financial credit, the money borrowed is rarely sufficient to

address the financial gap or expand their businesses (Wasihun& Paul, 2010).Entrepreneurship is recognized as an important driver of economic growth, productivity, innovation, and employment. Entrepreneurship is related to the functional role of entrepreneurs and includes coordination, innovation, uncertainty bearing, capital supply, decision-making, ownership, and resource allocation in their organization (Munyori & Ngugi, 2014). Most of the prevalent areas in which MSE faces a problem are sales or marketing, human resource management, and general marketing research and training (Kefale & Chinnan, 2012).

Marketing problem has been widely acknowledged as being the most important of all activities and critical for the survival and growth of MSEs. However, many studies found owner/managers of MSEs as having a very limited understanding of the marketing concept generally to be little more than advertising and public relations and lacking adequate marketing skills. Specifically, MSEs frequently encountered problems in promotion and marketing research. These problems include the selection of promotional media, low purchasing power of customers, advertising, con-tent design and format of the promotional materials, market size, location and addresses of potential customers (Kefale & Chinnan, 2012).

According to Useem (2001: 297), it is essential to support and guide small business enterprises in the early stage of establishment by providing them with supervisory and skills-related support and supervision. White (2005: 41-42) has found that small and medium-sized enterprises often experience costly bureaucratic and administrative challenges. In South Africa, small and medium-sized enterprises are set up with minimal support and guidance from the national Government although the duty of the national Government is to create an enabling economic environment. The study was conducted against the background of the need to obtain vital information that explains why more than half of all newly established small and medium-sized enterprises fail in the first three years of their establishment.

The legal and regulatory system that calls for complex registration and licensing requirements demands tedious and costly reporting practices imposing heavy costs on MSEs and hence reduce their profitability of the business. Unpredictable government policies coupled with grand corruption, high taxation pose great threat to growth of MSEs. They are disincentive to

increasing the size of business operations (Nganwa, 2013). Many African countries do not have a legal and regulatory framework that supports growth of MSE sector. Unpredictable government policies coupled with grand corruption, high taxation pose great threat to growth of MSEs. They are disincentive to increasing the size of business operations. In the case of Uganda, an extensive number of outdated and cumbersome laws and regulations had increased the transaction costs of MSEs, thereby hampering their economic performance and growth. In Ethiopia, the complexity of the customs system and the many forms and declarations required had a negative impact on the general business climate, diverting entrepreneurs' efforts from more productive tasks (Nganwa, 2013).Small and micro enterprises face problems of policy and regulatory frameworks, and structural and institutional indiscretions, lack of smooth supply of raw materials and lack of working premises, lack of sufficient capital, and marketing problems. These problems call for government intervention by recognizing and paying due attention to the promotion and development of MSEs. It is also important to formulate strategies in a way to address the challenges of unemployment, economic growth and equity, and overall poverty in the country. Numerous studies have shown persistence of poverty and the unparalleled level of unemployment that characterizes Ethiopia in general and urban areas in particular.

2.2. Empirical Literature

Eshetu and Zeleke (2008) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small 25 enterprises by using a random sample of 500 MSEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long term survival of MSEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. The findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%).(ibid). According to the study of Mulugeta (2011) ,the critical problems of MSEs has recognized and classified in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to

executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products. In addition to the above study, Workeneh (2007) in his study entitled Constraints of Micro and Small Enterprise in addressing employment opportunity found that MSEs operators in Addis Ababa face lack of adequate training, unfavorable regulatory policy of the government institutions, problem of premise, and inadequate training in the area of marketing and bookkeeping affect the performance and contribution of the sector.

Abebe (2011) analyzed the relation between personal related success factors and business related factors on the performance of MSEs in Addis Ababa. This is with a view to identify these personal and business related factors that have a favorable relation to the performance of the enterprises business performance. Primary data, through structured questionnaire, were collected from the samples of 73 MSEs randomly selected from among those industries engaged in Food and Beverage; Textile and Garment, Wood and Metal, and Merchandise and Retail shop. Data were analyzed using descriptive and inferential statistics with the aid of Statistical Packages for Social Science (SPSS). Also, analysis of variance was carried out to examine the variation in the performance of enterprises related to the variation in each of the independent variables of the study. The ANOVA result indicates there is no significance variation on the performance of MSEs in relation to the variations to each of the eight independent variables of the study. But the descriptive statistics result shows better performance for enterprises owned by individuals with better education level, have prior management and industry experience. In addition it also shows better performance for those enterprises that uses planning and record keeping.

Goshu (2015)examined the determinants of MSE growth in terms of profitability of MSE business in Nekemte town. The total population of the study was 504 MSEs operating in five sectors which are used as a stratum. Proportional stratified sampling technique was used for the selection of 96 MSEs from the strata. The study shows that the major source of finance for MSE is personal saving. It is only less than one fourth of the respondents that are borrowed loan from

MFI. The study shows that MFI loan term is too short to run the business. Most of the respondents are characterized by low level educational status and lack work experience. Most of the MSEs that are operating in government shade complain for its sufficiency and suitability of the location for running business. The result of regression analysis shows that sources of finance for MSE operators, loan term that MSEs borrowed from MFI, previous business experience of the operators, marketing skill of members of the business, source of raw materials of the MSE, and major customers of the product or services of MSEs affects positively the growth of profitability of MSEs business significantly at 1% level of significance. Managerial skill of the respondents and suitability of the location of the business positively determine the growth of MSE in terms of the profitability of MSE business significantly at 5% level of significance. Also, educational status of MSE operator affects negatively the growth of MSE significantly at 5% level of significance in the study area. These findings corroborate the need for integrated approach towards the growth of MSE sector. Based on the findings the researcher recommends that locality based approach for solving problems of MSEs through prioritizing the challenges as per their severity; enhancing capacity of the MSE development agency through provision of skill and business training; improving local business environment through provision of sufficient work premises at appropriate location & facilitating access to credit from financial institutions are the major once.

Tefera et al. (2013) aimed to investigate the growth determinants of MSEs based on a survey covering 178 randomly selected MSEs from Mekelle city, Tigray regional state of Ethiopia through the test of four main hypotheses that are formulated concerning the role of gender of owner, initial investment on the firm, location and sector in which the firm operates as a main determinants of growth of an enterprise. Semi-structured questionnaire and interview were used to collect data, and the binary choice model which is logistic regression was used to identify factors that significantly affect the growth of MSEs using change in employment size since startup as a measure of firm growth in which about 76.4% of MSEs are found survival and the remaining 23.6% are growing. The binary choice logit model result shows that there is a significant gender difference on the growth of MSEs with male owner growing faster than those owned by female. In addition, the initial investment on the firm, the location and the sector in

which the MSEs operates matter a lot for the growth of these enterprises. Hence, government and non-government organizations that are concerned with unemployment reduction and poverty alleviation through the promotion and development of MSEs need to take these factors in to account to accomplish better result and increase the potential contribution of MSEs to the economic growth of the country.

Gebreeyesus (2007)investigated the key determinants of success and particularly employment expansion among micro-enterprises based on a survey covering 974 randomly selected businesses in six major towns in Ethiopia. Firm's initial size and age are inversely related with growth providing evidence that smaller and younger firms grow faster than larger and older firms and consistent with the learning hypothesis but contrary to the Gibrat's law. Entrepreneurs with some business experience and high school complete and with some college years grow faster. Firms in manufacturing and service sectors, located at traditional market and those male-headed grow rapidly than their counterparts. Firms with business license also grow faster than those operating without license. In the absence of formal source of credit, informal networks such as, trade credit and other informal sources enhance business expansion. Policies and support programs that aim at promoting MSEs, therefore, need to take account of the heterogeneity nature of these enterprises and entrepreneurs.

Alemayehu & Gecho (2016) find out factors that determine growth of Micro and Small Enterprises and to assess current status of Micro and Small Enterprises in terms of employment and capital growth. Out of 148 Micro and Small Enterprises in the study area, 100 Micro and Small Enterprises (MSEs) were selected as a sample using stratified and simple random sampling technique. They were stratified based on the sector they are operating. The data were analyzed using descriptive statistical tools including mean, percentage and standard deviation. The binary logit model was applied to identify determinants of MSEs growth. The study used employment and capital as growth indicators. Growth rate for the two indicators was computed by the change of natural logarithm of employment or capita over the life of enterprise. After calculating growth rate, Micro and Small Enterprises were grouped into two categories growing and non-growing. The finding of the study shows that out of the total sample 40% of Micro and

Small Enterprises are growing and 60% of Micro and Small Enterprises are non-growing in terms of employment. In terms of capital 69% of Micro and Small Enterprises are growing and 31% are non-growing. The model result indicated that out of 19 explanatory variables, 10 variables were found to be significant in determining Micro and Small Enterprises growth. Factors found to be significant for employment growth were: entrepreneurship training, location of enterprise, motivation of owner, market linkage, and access to finance, access to water. Factors found to be significantly influencing capital growth were: education level of owner, motivation of owner, number of owners, initial employment size, and social network. Hence, government and non-government organizations that are concerned with the promotion and development of MSEs need to take these factors in to account to accomplish better result and increase the potential contribution of MSEs to the economic growth.

Abera (2012)investigated factors affecting the performance of MSEs with a special emphasizes on textile and garment, food processing and wood and metal work sectors in Arada and Lideta sub-cities, Addis Ababa. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. The information gleaned through questionnaire from a sample of 237 operators and face-to-face interviews were conducted with 20 operators of MSEs. The empirical study elicited eight major challenges which seem to affect performance of MSEs in sub-cities which include: inadequate finance, lack of working premises, marketing problems, inadequate infrastructures, poor management practices, and technological, entrepreneurial and politico-legal problems including bureaucratic bottlenecks system. The findings further indicate that, there exists linear and positive significant ranging from substantial to strong relationship was found between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable at 1% level of significance. Based on findings, recommendations to government bodies, to operators of MSEs and suggestions for other researchers are forwarded.

Hamu (2017)identified factors determining the financial performance of MSEs with a special attention to manufacturing, service, construction and trade sectors in Asella Town. The information gleaned through the questionnaire from a sample of 134 operators and face-to-face

interviews were conducted with 12 operators of MSEs and 2 respondents from officers; i.e. process owner and another from expert working at the center of office of Asella Town Job Creation and Food Security. Furthermore the approach that was followed in this particular study was quantitative and qualitative. The technique applied was a standardized closed-ended questions and face-to-face interview. In addition, the data those were collected and analyzed using a statistical package for social sciences where tables were utilized for presentation of the results. The findings revealed that MSEs lacked financial support, technological, customer relationship and marketing skills in order for them to be competitive and well performed. The findings further revealed that the government was not doing enough in terms of the financial performance of SMEs in Asella town as most of the respondents were complaining about the stringency of the government support and regulations pertaining to MSEs. Hence the government bodies and other stake holders have to work in collaboration in order to solve problems of finance, working place, marketing and government support.

2.3. Conceptual Framework

The conceptual model focused on the credit and marketing factor challenges the enterprises, social factors and legal and administrative factors constrained the advancement of micro enterprises to medium enterprises. The frame work has an important basis for application to examine the nature of response by the enterprises. The variables in the framework included Independent and dependent variables.

Independent Variables The main independent variables in the study included credit and marketing factors, social factor and legal and administrative factor

Dependent Variable The dependent variable in the study is the advancement of micro and small enterprises towards medium scale.

| Credit Factor |
| Social Factors |
| Legal Factor | → | Advancement of the SMEs |
| Marketing Factors |
| Administration Factor |
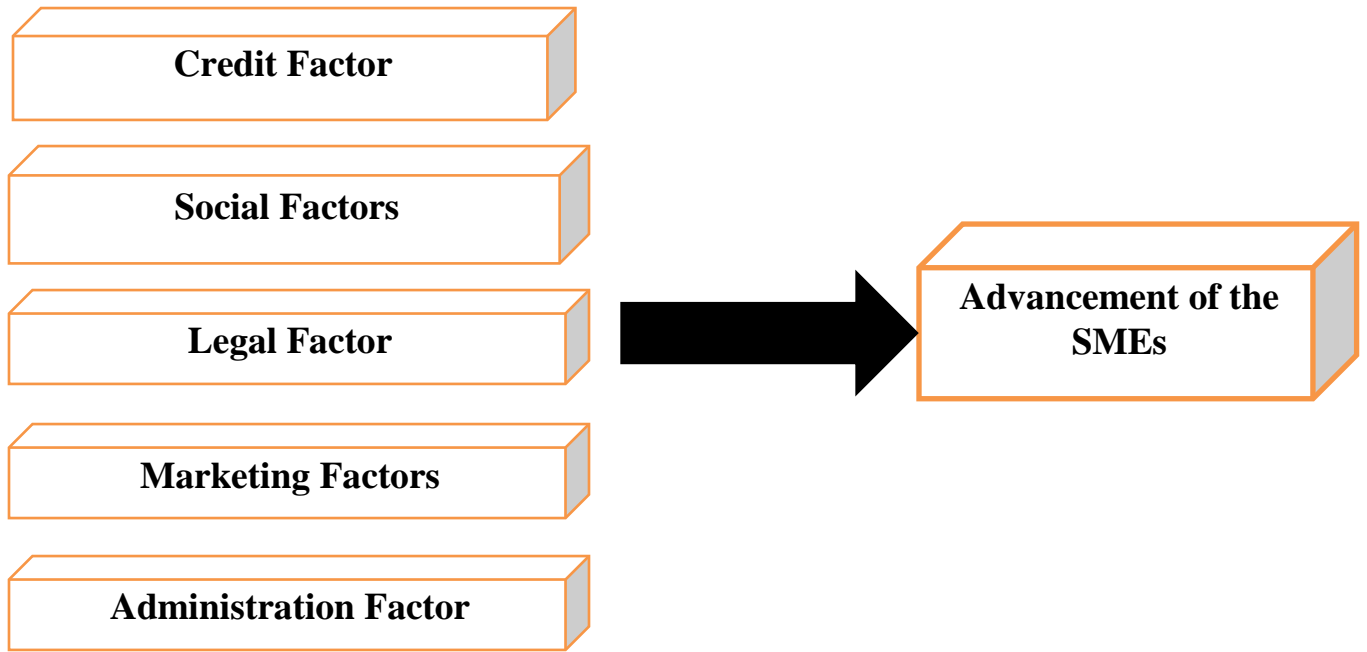
Source: Researchers own construction (2018)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Approach and Design

A mixed method approach is used to answer the research questions because this type of research design blends elements of qualitative and quantitative research approaches to provide a broader and/or deeper understanding of a central phenomenon. This process was accomplished by collecting and analyzing qualitative and quantitative data at specified phases within a single study. The core premise of this methodological design was that use of a combination of qualitative and quantitative approaches had resulted in a more complete understanding of the research topics understudy than either approach would in isolation (Creswell & Plano Clark, 2011; Greene et al., 1989). Furthermore, explanatory research design was employed to answer the stated research questions.

3.2. Source of Data

The study was conducted by collecting data from both primary and secondary sources. Primary data was collected from the respondents based on a structurally designed questionnaire. It was included both closed ended and open-ended questions. Secondary data was collected from different related literatures which are both written and unwritten. In order to get sufficient and reliable data that represents each micro and small scale enterprises in the town were collected from the staffs and also written documents of each MSEs were reviewed.

3.3. Data Collection Methods

In the data gathering operation, questionnaire was employed for selected enterprises. Most of the primary data were intended to be collected using structured questionnaires (with close-ended questions) giving out for the overwhelming majority workers in the enterprises. The structured interview is used to get information from officials and leaders in the enterprises. Therefore, the data collection instruments employed to this study was structured questionnaires.

The *Nifas silk Lafto* sub-city was purposely chosen among the 10 sub-cities of Addis Ababa, as a study area for this research. This is because it is claimed by the government of Ethiopia, that the

MSE sector is a prime strategy to economic development in urban areas. Second, the sub-city was selected based on their nearness and convenience to collect data in short time.

Although there are different sectors in which the MSE operators have been engaged in *Nifas silk Lafto* sub-city, the sectors selected for this research is MSEs such as manufacturing (metal work, wood work, pottery, and weavers), which is strata 1, construction, service (strata 2), urban agriculture (strata 3), and trade (strata 4) sector because of the following rationales. First, the sectors are selected because of largest concentration in number compared to other sectors in the sub-city. This made the sector more and easily accessible for the data collection. Second, it is difficult to reach the operators/or owners managers of some sectors like municipality service, parking and others.

3.4. Sampling Design and Procedure

The study was employ stratified random sampling method to select the intended institutions. This is because the population for the study does not have a homogenous group. Kothari (2004) pointed out; stratified random sampling is commonly used probability sampling method if the population from which a sample is to be drawn does not have a homogenous group. The population was stratified in to a number of non-overlapping sub population (strata) and sample items are selected from each stratum. With this technique the strata's are sectors of MSEs such as manufacturing (metal work, wood work, pottery, and weavers), which is strata 1, construction, service (strata 2), urban agriculture (strata 3), and trade (strata 4).

In this study to select the sample size, list of population were formally developed and registered MSEs until April 2017 by Nifas Silk Lafto Sub-City Micro and Small scale Enterprises Development office were obtained. The total population of the study constitutes 1180 from which (180) medium scale enterprises and (1000) micro and small scale enterprises. The sample size selected here was considered as representative of MSEs and SMEs and also large enough to allow for precision, confidence and generalibility of the research findings.

According to Yemane (1996) sample size determination formula, it is possible to determine the sample size, expressed as decimal 0.95 for 95 % confidence level and as decimal 0.05 for 5% precision levels.

$$n = N \ /1 + N \ (e)^2$$

Where: n is number of respondents =299

      N = population size =1180

      e = sampling error/level of precision = 0.05

The total sample size of respondents based on the above sample size determination is 299. This total sample size is proportionally distributed to each stratum. Accordingly, 299 respondents will selected from the total of 1180 MSEs and SMSs. These 299 respondents will selects on proportional basis. Therefore, [(180/1180) x 299] = 46 SMEs out of 180, [(1000/1180) x 299] =253 MSEs out of 1000 were selected.

3.5. Data Analysis

The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations) and logistic regression tools. To these effects, depending on the nature of basic research questions and data collected, descriptive statistics such as percentage, frequencies, mean and standard deviation and logistic regression were used to analyze the data collected through questionnaires.

3.5.1. Design Measurement Instruments

The instruments used in this study were designed based on the objectives of the study and research questions. A five point Likert scale (strongly agree, agree, undecided, disagree, strongly disagree), which is ranging from 1(Strongly disagree) to 5 (Strongly agree), questionnaire was developed according to the principles of questionnaires by making simple, clear, and short. Both the instruments were designed in such ways that can utilize the information to make this study feasible. As a result of this the questionnaires were developed both in English and Amharic languages. The main purpose of using Amharic language was addressing those respondents who cannot understand English language.

3.5.2. Model Specification

In this study MSEs are assumed to be either advanced or not advanced. Hence, the binary choice logistic regression model that assumes dichotomous dependent variable which takes either 1 or 0

value depending on Y*is used, The logit model based on cumulative logistic probability function is used in this study since it is believed to offer better explanation on underlying relationship between firm growth and the factors affecting on it. The dependent variable in this case is dummy variable since Micro and small scale enterprises are assumed to be either advanced or not. Hence the binary logistic regression model which helps to test the determinants of firm growth can mathematically be specified as follows:

$$Pi = E(Y=1|Xi = \beta 0 + \beta i Xi$$

Where Y=1 means growth of a firm

Xi is a vector of independent variables

βo is the constant and βi, i =1, 2…n are the coefficients of the independent variables to be estimated.

$$Pi = E(Y = 1/Xi = \frac{1}{1 + e^{-(\beta o + \beta i Xi)}}$$

$$Pi = \frac{1}{1 + e^{-Zi}} = \frac{e^{Zi}}{1 + e^{Z}}$$

Where $Zi = \beta 0 + \beta i Xi$

If Pi is the probability of being surviving and (1-Pi), the probability of growth of a firm

$$1 - Pi = \frac{1}{1 + e^{Zi}}$$

Therefore, we can write this equation as

$$\frac{Pi}{1-Pi} = \frac{1 + e^{Zi}}{1 + e^{-Zi}} = e^{Zi}$$

Later $\frac{Pi}{1-Pi}$ is the odds ratio of growth of enterprise with the ratio of the probability that a given firm grow to the probability that a firm grow. Then, if we take the natural logarithm of equation (e) we obtain

$$Li = Ln(\frac{P(i)}{1-P(i)}) = \ln(e^{\beta o} + \sum_{i=1}^{m} \beta i Xi) = Z_{(i)c}$$

If the disturbance term Ui is taken in to account the logit model becomes

$$Li = Z(i) = \beta o + \sum \beta i Xi + Ui$$

Consequently, Li, which is the log of odds ratio, is called logit or logit model (Gujarati, 2004). Hence, the above Logit Model is employed to estimate the effect of the hypothesized explanatory variables on advancement of enterprises.

3.6. Validity and Reliability

The researcher was checking the internal consistencies of the research questionnaires. The research instruments were pilot tested prior to the main study. The pilot study was conducted at Nifas Silk Lafto Sub-City MSEs after the supported letter of St. Mary's University. The reliability was tested using the Cronbach's alpha whereby for the judgment and for the instrument to be deemed reliable, the constructs must attain alpha equal to 0.95 or 95 %. In addition the researcher tried to generate exact data that was allowed making research, which reproduces the circumstances on the ground. The researcher also tried to determine and discover the validity and reliability of the data composed for analysis. In order to make the data collection process effective, the investigator of the study would have been given training for data collectors.

3.7. Ethical Considerations

In order to develop the confidences of the respondents first the purpose of the study was explained to the participants. All the data were acquired from the participants with their permission and consent. The participants were assured that the data sought from the employees were kept confidential and no information related to the participants were used other than that of the academic and empirical objectives; thus no breach of confidentiality was take place.

CHAPTER FOUR

RESULT AND DISCUSSION

4.1. Response Rate

In this chapter, data collected from sample respondents are presented and interpreted. To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the regression analysis. For the sake of convenience, related questions were treated together. Development office was incorporated to substantiate the data obtained using questionnaire. Two hundred ninety nine questionnaires were distributed across the SME and MSE sectors of the Nifas Silk Lafto Sub-City, out of which 280 were completed and collected, back successfully, representing 93.65% response rate.

4.2 Back ground Characteristics of Respondents

4.2.1 Age and Marital Status of Respondents

Three different age category was found, sequentially 19 to 30, 31 to 40 and above 40 years of age. 80 (28.57%) of the respondents fall in the first group, 40.36 percent of the respondents were belongs to the second group, and the rest 31.07 percent of the respondents goes to the third and age group respectively. Majority of the respondents are found in between age of 31-40 which indicates MSEs which organized by governments are found in the productive and young age. According to Woldle et al (2008:6), the influence of the age of the owner/manager advocates the younger owner/manager because the younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks, whereas the older owner/manager is likely to have reached his/her initial aspiration. Hence, younger owners/managers are more likely to sustain and grow their ventures than their older counterparts.

Furthermore, 61.07 percent of the respondents were married, 37.86 were single and the rest 1.07 were widowed (table 4.1).While, married respondents said that it is better to be "two" rather than "one" and strongly emphasized many factors like work potential and revenues. Either being married or single has its own advantages and disadvantages. This can be seen when evaluating this from different angles. For instance, from the point of economic value, it is obvious that

married couples can share expenses, such as rent and utilities, and use the savings to support a higher standard of living or to invest for the future.

Table 4.1 Age and marital status description

	Marital status				
Age	Married	Single	Widowed	Total	%
19-30	20	60	0	80	28.57
31-40	67	46	0	113	40.36
>40	84	0	3	87	31.07
Total	171	106	3	280	100
%	61.07	37.86	1.07	100	

Source: Own survey (2018)

4.2.2 Experience and Education Level

Under this sub-topic respondents were asked if what their maximum academic qualification was; accordingly, respondents replied based on their qualification. In line with this, out of the total respondents 14 of them had learned at least up to primary cycle (5-8), 58 respondents were completed grade 10th, 49 respondents were learn up to 10+1 and 10+2, and the rest 38 and 121 respondent were degree and diploma holders respectively. The result displays that majority of respondents are found at a satisfactory education levels. The bulk of respondents are university graduates, armed with diplomas, degrees and above qualifications. Educational background of owners/managers are widely believed to be a key source of innovative efforts because his/her attained education level is attributed to cognitive ability, capacity for information processing, tolerance for ambiguity and propensity or receptivity to innovation (Umidjon et al, 2014:13).

To underline the reason to have low educational background status was the basic economic problem by their families. They had decided to enter the workforce at an early age for the

survival of their family and themselves. The management of enterprises was promising but their educational backgrounds are still limited to vocational training and low level of education of the MSE operators may affect their ability to manage and market their enterprises effectively.

Any development practitioner or business person can attest that MSEs owners acquire a substantial amount of skills and knowledge while operating their firms. Among the factors, work experience proves to be highly important for developing capabilities within micro and small enterprises as entrepreneurs with more years of work experience typically have faster growing MSEs. A scholar like a Mincer argued that practical on the job training is nearly as important as educations (Mincer, 1962). For instances, for Kenyan, entrepreneurs with at least seven years of work experience expanded their firms more rapidly than those who do not (Mead &Liedholm, 1998). Regarding in Ethiopia, there is Technical and Vocational Education and Training (TVET) that provides trainees with the technical skills applicable to the particular trade.

Furthermore, 12.14 percent of the respondents had 1 to 5 years of experience, 63.57 percent of the respondents had 6 to 10 years of experience, and the rest 11.43 and 12.86 percent of the respondents had 11 to 15 and more than 15 years of experience respectively.

Table 4.2 Education level and Experience description of respondents

	Experience					
Level of education and	1-5	6-10	11-15	>15	**Total**	**%**
5-8	3	8	3	0	14	5
10	10	31	14	3	58	20.71
10+1-10+2	0	40	9	0	49	17.50
DIPL0MA	6	76	6	33	121	43.21
DEGREE & ABOV	15	23	0	0	38	13.57
Total	34	178	32	36	280	100
%	12.14	63.57	11.43	12.86	100	

Source: Survey data (2018)

4.2.3 The Association of Age, Experience and Education level with Microfinance Advancement

In the above sub-topic the researcher tries to describe what the existing situation of the micro finances' is. In this sub-topic whether there is any association between some important variable with the advancement of microfinance would be tested. Since the natures of the variables are categorical the appropriate test of association is chi-square test. Therefore, a chi-square test is used to test the association between the variables.

As shown in the table below majority of the respondents belongs to the age group of 31 to 40. Apparently, a chi-square test was performed to test whether there is association between microfinance advancement and age of the entrepreneurs, accordingly, the analysis shows that there is no a significant association between age and microfinance advancement.

Table 4.3 cross tab of advancement and age

	Advancement Value		Total
Age Cat	Small Scale	Medium Scale	Total
<18	65	15	80
19-30	64	11	75
31-40	112	13	125
Total	241	39	280
Pearson chi2(2) = 2.8835 Pr = 0.237			

The other variable which is tested was the association between experience and microfinance advancement. The performed chi-square test shows that a relationship was found between experience and microfinance advancement, $X2$ (3, $N = 280$) = 3.898, $p =0 .273$.

Table 4.4 cross tab of advancement and experience

	Advancement Value		Total
Experience	Small Scale	Medium Scale	Total
1-5	32	2	34
6-10	148	30	178
11-15	29	3	32
>15	32	4	36
Total	241	39	280
Pearson chi2(3) = 3.8985 Pr = 0.273			

A significant association test was also performed for the variable education and microfinance advancement. Accordingly, the performed chi-square test shows that there is no a significant a relationship between education level and microfinance advancement, $X2$ (3, $N = 280$) = 3.763, p = 0.439

Table 4.5 cross tab of advancement and level education

	Advancement Value		
Level of education and training	Small Scale	Medium Scale	Total
5-8	10	4	14
10	49	9	58
10+1-10+2	42	7	49
DIPL0MA	108	13	121
DEGREE & ABOV	32	6	38
Total	241	39	280
Pearson chi2(4) = 3.7647 Pr = 0.439			

4.2.4 Employment and Legal Ownership of the Enterprises

The legal ownership statuses of the establishment were classified in to five Sole ownership, Joint ownership, Family business and Cooperative. 44.29 percent of the enterprises were established as sole ownership, 17.14 of them were join ownership, and 29.64 percent of the sample enterprises were established as cooperative, 2.14 was established as family business. Overall the sampled enterprises were created a job opportunities for 2134 employees; likewise, 29.64 percent of the enterprises create a job opportunity for 1 to 5 employees, 57.5 percent of the enterprises create a job opportunity for 6 to 10 employees 10.71 percent of the enterprises create a job opportunity for 11 to 15 employees and the rest 2.14 percent of the enterprises were created a job opportunity for more than 15 individuals. In addition to these, out of the total enterprises 86.07 percent of them were small scale enterprises and the rest 13.93 were medium scale enterprises. Micro enterprise, according to the strategy in use, consist of employees (including the owner or family) not greater than 5 and while small scale enterprise is an enterprise which has 6-30 employees (Federal Democratic Republic of Ethiopia, 2011).

Initially, 52.86 percent of the respondents start their business with their own personal saving, 17.14 percent of them initially funded by family, 13.57 percent of the sample enterprises were funded by microfinance institutions; the rest were starts their business through borrowing from relatives and friend. The constraint of finance for MSE affects their advancement directly or indirectly. There are studies which support this finding. Lack of financial resources is often reported as the major obstacle and limiting factor that is experienced by SMEs in developing countries. Therefore, funding is a problem (Millicent & Reginald, 2014:61). Moreover financial institutions find it difficult to provide funding to SMEs because most small businesses do not have assets to secure collateral securities (Moaisi, 2005:18). However, according to Wiese (2014:37), the ultimate source of finance was gained through sole ownership, spouse/partner salary, income from another job, cooperative and family business contributions.

Table 4.6 Ownership Status and Employment opportunity

What is the legal ownership status of the establishment?	Employment opportunity				Total	%	Scale of the enterprise		
	1-5	6-10	11-15	>15					
Sole ownership	44	60	17	3	124	44.29	Small	241	86.07
Joint ownership	9	33	3	3	48	17.14			
Family business	6	0	0	0	6	2.14			
Cooperative	15	58	10	0	83	29.64	medium	39	13.93
Other (specify)	9	10	0	0	19	6.79			
Total	83	161	30	6	280	100			
%	29.64	57.50	10.71	2.14	100		Total	280	100

What was your main source of start-up funding?	Is your own premises (land) to run your business?			Total	%
	Private	Government	Rent		
Personal saving	0	117	31	148	52.86
Household	19	29	0	48	17.14
Borrowed from relatives	0	12	3	15	5.36
Micro-finance institutions	0	23	15	38	13.57
Assistant from friend	0	31	0	31	11.07
Total	19	212	49	280	100
%	6.79	75.71	17.50	100	

4.2.5 Business Preferences and Initiation

Respondents were also asked about why they preferred to start the business, as well as the one who initiate the business. Accordingly, majority (38.93%) of the respondents were replied that they didn't have other alternative for incomes, 27.50 percent of the them said that they start the business just to be self-employed, again 27.14 percent of the sampled respondents replied that

the start the business to generate higher income amount, whereas the rest 4.29 and 2.14 percent of the respondents confirmed that they start the business due to family tradition and it requires small investment respectively. Furthermore, 81.07 percent of the respondents start the business with their own initiation, 11.79 percent of them started the business together with their partner initiation and the rest starts the business with their family initiation. Similar to this finding supported by other study, most SMEs prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from micro financial institution and commercial banks due to strict requirements such as collateral security and high repayment costs Mbugua (2014:18).

In conformity with this finding, Currie (2009:87-122) stated that:

The majority of MSEs in countries such as Ethiopia operate at under capacity due to lack of credit or over-regulation. This problem has been exacerbated by the demand for collateral by commercial banks as a prerequisite for the approval of loan applications.

This is also consistent with previous findings. For instance, according to Woldehanna et al., (2008:177-201) stated that formal money lending institutions have so far failed to produce innovative, affordable and user friendly financial services with a particular view to assist the struggling MSE sector in Ethiopia. Apparently, 40.36 percent of the respondents acquire the skill for running their enterprise through formal training, while 51.79 percent of them got from past experience and the rest inherit the skill from family; this was supported by where 30.71 percent of the respondents had a family who engage on business. Other findings argue that managerial skills are very important growth of the MSEs. Woldie, et al., (2008:12) and Mbugua,et al., (2014:17) argue that SMEs owners or managers with more experience (managerial, sector or previous small businesses experience) tend to have more growth potential than with a lack of expected potential and also the higher the level of education attained by the owner/manager, the higher the likelihood of growth of the enterprise.

Table 4.7 Description of reason for business preferences

	Who initiated and started the business?					
Why did you prefer to start your own business?	Myself alone	With a friend/partner	With the family	other (specify)	Total	%
Family tradition	0	3	6	3	12	4.29
To be self-employed	71	6	0	0	77	27.50
Brings high income	60	10	6	0	76	27.14
Small investment is required	3	3	0	0	6	2.14
No other alternative for incomes	93	11	3	2	109	38.93
Total	227	33	15	5	280	100
%	81.07	11.79	5.36	1.79	100	

	Is there anyone in the family who was entrepreneur or owner of some related business?			
How did you acquire the skill for running your enterprise?	Yes	No	Total	%
Through formal training	15	98	113	40.36
From family	17	5	22	7.86
From past experience	54	91	145	51.79
Total	86	194	280	100
%	30.71	69.29	100	

4.3 Analysis of Data Factors Affecting the Determinants of Micro Enterprises Advancement into Medium Enterprises

4.3.1 Credit Factors

This factor concerns services delivered on the financial institutions. Accordingly, more than 48 percent of the respondents replied that they were not satisfied with the financial access given by Micro finances and other lending institutions; whereas 29 percent of them had positive response. More than half of the respondents also confirmed that the amount of loan size borrowed from

MFI& other lending institutions were not sufficient to operate their business, on the other hand around 17 percent of the respondents agreed that the loan was sufficient. In conformity with the finding, according to Terfasa et al., (2016:30) the problem of access to finance is more severe for MSEs as the loan requirement of microfinance institutions (MFIs) is complicated. A large proportion of both micro and small enterprises do not apply for a loan or credit due to cumbersome bureaucracy, limited working premises, and high collateral requirement.

To wind up, such constraint of finance for MSE affects their advancement directly or indirectly. There are studies which support this finding. Lack of financial resources is often reported as the major obstacle and limiting factor that is experienced by SMEs in developing countries. Therefore, funding is a problem (Millicent & Reginald, 2014:61). Moreover financial institutions find it difficult to provide funding to SMEs because most small businesses do not have assets to secure collateral securities (Moaisi, 2005:18).Likely, 66 percent of the sampled respondents said that they didn't have the opportunity to get machinery and equipment's. Three questions were used in order to evaluate the credit factors where 24.88 percent select "Strongly Disagree", 31.19 percent select "Disagree", 20.47 percent select "Undecided", 17.02 percent select "Agree" and 6.43 percent select "Strongly Agree". Furthermore, the mean score of this variable was 2.48 which approach to disagree level, which suggests that the enterprises are challenged by credit and loan related problems.

Table 4.8 Description Credit factors

List of Items	Measurement scale in %					Mean	St. deviation
	1	2	3	4	5		
I am satisfied with the financial access given by Micro finances and other lending institutions	19.29	28.21	22.86	24.64	5	2.67	1.1839
The amount of loan size borrowed from MFI& other lending institutions are sufficient	18.57	36.07	27.50	17.86	0	2.44	.9895
I have access to appropriate machinery and equipment	36.79	29.29	11.07	8.57	14.29	2.34	1.4130
Credit factors	24.88	31.19	20.47	17.02	6.43	2.48	1.1954
Where, 1= Strongly Disagree, 2= Disagree, 3=undecided, 4=Agree, 5=Strongly Agree							

4.3.2 Marketing Factors

More than 37 percent of the respondents also mentioned that they didn't have access to different business trainings about demand forecasting; however, around 54 percent of the respondents mentioned that they had access to different business trainings. Around 65 percent of the respondents also conclude that they didn't have an access to information to exploit business opportunities; on the other hand, 26 percent of the respondents confirmed that they had access to exploit business opportunities. More than 68 percent of the respondents also replied that there was not fair competitions in the market place where they engaged in; whereas, close to 30 percent of the respondents confirmed that they have observe fair competition in the market. Moreover, more than 66 percent of the respondents replied that there was no adequate infrastructure such as power and water supply which helps to operate their business; on the other hand close to 27 percent of the respondents feel that adequate infrastructure were there in their business surrounding. In addition to these, close to 46 percent of the respondents said that they didn't get the necessary inputs and raw materials which help them produce their product. Six questions were used in order to evaluate the marketing factors where 18.81 percent select "Strongly Disagree", 34.34 percent select "Disagree", 7.26 percent select "Undecided", 29.58 percent select "Agree" and 10 percent select "Strongly Agree". Furthermore, the mean score of this variable was 2.77 which approach to disagree level, which suggests that the enterprises are challenged by market and marketing related problems.

Table 4.9 Description marketing factors

List of Items	Measurement scale in %					Mean	St. deviation
	1	2	3	4	5		
I have access to promotion to attract potential users	11.79	25.36	15.36	33.21	14.29	3.12	1.2719
I have access to different business trainings about demand forecasting	12.86	24.29	8.57	38.21	16.07	3.20	1.3217
I have an access to information to exploit business opportunities	25.36	37.86	10.71	20	6.07	2.43	1.2339
There is fair competitions in the market place that I am engaged in	22.86	45.36	2.14	21.79	7.86	2.46	1.2723
Adequate infrastructures are available like power and water supply	25.71	40.71	5.71	23.21	4.64	2.40	1.2260
I have access to necessary inputs (raw materials)	14.29	32.50	1.07	41.07	11.07	3.02	1.3250
Marketing factors	**18.81**	**34.34**	**7.26**	**29.58**	**10**	**2.77**	**1.2751**
Where, 1= Strongly Disagree, 2= Disagree, 3=undecided, 4=Agree, 5=Strongly Agree							

4.3.3   Social Factors

Social factors concerns how the entrepreneurs are interacting with the society and community. Accordingly, only 20 percent of the respondents feel that they didn't have social acceptability, whereas, the rest majority (69%) feel that they are socially accepted entrepreneurs. Close to 57 percent of the respondents also mentioned that they had a better contacts and networks with outsiders, on the other hand around 36 percent of the respondents said that they didn't have good business networks. Almost all (93%) of the respondents replied that the attitude of the societies towards their products and services was positive. Likewise, close to 85 percent of the respondents confirmed that they had access to clear division of duties and responsibility among employees and also they had a positive relationship with the workforce. Six items were employed in order to evaluate the intention of social factors, and the social factor had a mean score of 3.97 with a standard deviation of 1.1333. The results of the mean score suggest that the businesses activities of the enterprises are accepted by the society, meaning that the communities are willing to buy and use their products.

MSEs had got a special focus by the government, it comprised the largest share of total enterprises and employment in this sectors. In recognition of the important role MSEs have to play in generating income and creating job opportunities and reducing poverty, the government drafted its first Micro and Small Enterprise Development Strategy in 1997.

Table 4.10 Description of Social factors

List of Items	Measurement scale in %						
	1	2	3	4	5	Mean	St. deviation
I have a better of social acceptability	5.36	15.36	10.36	34.29	34.64	3.775	1.2252
I have a better contacts(networks) with outsiders	3.21	32.86	7.14	24.29	32.50	3.5	1.3252
I have no prejudice or class biases	17.14	22.86	4.29	25	30	3.29	1.5216
The societies attitude towards my products/services is positive	0	7.14	1.07	29.29	62.50	4.47	.8376
I have access to clear division of duties and responsibility among employees	5.36	1.07	7.14	23.57	62.86	4.37	1.0431
I have a positive relationship with the workforce	3.21	1.07	1.07	39.64	55	4.42	.84724
Social factors	**5.71**	**13.39**	**5.17**	**29.34**	**46.25**	**3.97**	**1.1333**
Where, 1= Strongly Disagree, 2= Disagree, 3=undecided, 4=Agree, 5=Strongly Agree							

4.3.4   Legal Factors

Legal factors concerns about how the enterprises are connected with and supported by government.   More than 75 percent of the respondents confirmed that they have never encountered political intervention from regulatory bodies. Furthermore, around 78 percent of the respondents said that they had accessible information regarding government regulations that are relevant to their business, and also they were beneficiary of government incentives. In addition, half of the respondents comply that the tax levied on their business was not reasonable, whereas, 44 percent of them replied that the tax was reasonable and fair. Three questions were used to measure the legal and administrative factors. This variable has got a mean score of 3.44 which fall in the range of neutral and agree, however, it considered as agree since it is greater than 3.2. Hence, although considerable amount of respondents had reservation on legal; overall

respondents or entrepreneurs more or less are comfortable with the current legal services of government offices. For this study, it is not the direct intervention of political involvement but rather the politically relevant social capital, which means a particular social capital, is produced as the consequence of political expertise and information that is regularly communicated within individual network social relations. There is no doubt that there is a direct or indirect benefit of legitimate political participation (Huntington, 1968). Not only that, for the sake of the success of businesses, they must update with new policy and strategy made by both national and city administration government.

Table 4.11 Description of Legal Factors

List of Items	Measurement scale in %						
	1	2	3	4	5	Mean	St. deviation
I have never encountered political intervention	1.07	10.71	14.64	58.57	15	3.75	.8747
I have accessible information on government regulations that are relevant to my business	16.07	3.21	2.14	56.07	22.50	3.65	1.3076
Tax levied on my business is reasonable	20.71	30.71	3.93	24.64	20	2.92	1.4779
Legal factors	12.61	14.87	6.90	46.42	19.16	3.44	1.2200
Where, 1= Strongly Disagree, 2= Disagree, 3=undecided, 4=Agree, 5=Strongly Agree							

4.3.5 Administrative Factors

More than 55 percent of the respondents didn't agree that they had business assistants and supporters from government bodies; whereas, around 32 percent of the respondents agree with this concern. Around 44 percent of the respondents said that they had encountered bureaucracies and red tapes, while 56 percent of them disagreed. Furthermore, more than 75 percent of the respondents replied that they are a beneficiary of government incentives; and around 53 percent of the respondents feel that they have never faced unfavorable working place and uncomfortable environments; conversely, close to 46 percent of the respondents replied that they have faced unfavorable working place and uncomfortable environments.

Four questions were used in order to evaluate the administrative factors where 12.77 percent select "Strongly Disagree", 34.81 percent select "Disagree", 6.36 percent select "Undecided", 22.92 percent select "Agree" and 22.98 percent select "Strongly Agree". Furthermore, the mean score of this variable was 3.31which approach to disagree level, which suggests that the enterprises are not getting good administrative services.

Table 4.12 Description of Administrative Factors

List of Items	Measurement scale in %						
	1	2	3	4	5	Mean	St. deviation
I have business assistants and supporters from government bodies	30	16.43	12.14	15.17	25.71	3.33	1.4198
I have never encountered bureaucracies and red tapes	32.13	26.35	10.11	17.33	14.08	2.99	1.3593
I am beneficiary of government incentives	35.71	18.21	1.07	4.29	40.71	3.90	1.2362
I have never faced unfavorable working place and uncomfortable environments	41.43	30.71	2.14	14.29	11.43	3.05	1.3242
administrative factors	34.81	22.92	6.36	12.77	22.98	3.31	1.3348
Where, 1= Strongly Disagree, 2= Disagree, 3=undecided, 4=Agree, 5=Strongly Agree							

4.4 Factors Affecting Advancement of Micro Enterprises

4.4.1 Test of Important Assumption

4.4.1.1 Multicolliniarity test

Multicollinearity is a problem that happens when the explanatory variables have significant association. A VIF test was used to test the assumptions of multicollinearity. The result of the test indicates the highest VIF is 2.76 which indicate the model performed with no major multicollinearity problem among the explanatory variables (table 4.13).

Table 4.13 Multicollinearity Test

Variable	VIF	1/VIF
Admin	2.76	0.362583
Marketing	2.42	0.413708
Social	1.89	0.528365
Legal	1.33	0.749693
Credit	1.11	0.903129
Mean VIF	1.90	

4.4.1.2 Heteroskedasticity

The assumption of Heteroskedasticity states that the variance of each disturbance term $u_i$conditional on the chosen values of the explanatory variables should be some constant number (Gujarati 2003). In order to test the problem Breusch-Pagan test for was employed accordingly; the data is free from the problem of Heteroskedasticity since the p value is greater than 5%.

Table 4.14 HeteroskedasticityTest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of Advancement Value
chi2(1) = 4.47
Prob> chi2 = 0.344

4.4.2   Estimation Result

As projected in the theoretical sections, the key research question was to test how the anticipated variables affect the advancement of small scale enterprises to medium scale enterprises. Specifically, this study analyzes how credit and marketing factors, legal and administrative and social factors determine the advancement of small scale enterprises. Binary logistic regression model was used to estimate. The coefficient of determination (R^2) for the model was 0.5241 showing that the model explained 52.41% and the overall model is statistically significant.

The results of the econometric model estimation revealed that credit, marketing and administrative factors had significant effect on the advancement of small scale enterprises; whereas, social and legal factors didn't show significant relationship with dependent variable.

Accordingly, the variable credit had positively and significantly associated with the advancement of small to medium scale enterprises. Furthermore, given all the other variables in the model held constant, odds ratio greater than one suggested that, credit factor more likely contribute for the advancement of small scale enterprises to medium scale enterprises, which means increasing the access of credit for microenterprises and increases the probability of small scale enterprises advancement to medium scale enterprises. Since the odds ratio of this variable is greater than one it is the indication of this variable plays very significant role to advance microenterprises to medium scale. In line with this study Hadiyati (2010) also mentioned that related to the development of micro and small enterprises difficulties in marketing and the tight competition are the main challenges of their development. One can understand from the stated literatures the marketing and credit facilities are the critical factor for the success of micro and small enterprises.

The other significant variable that influences the advancement of microenterprises is the access of organized market. The analysis shows that, the marketing factor influences positively and significantly the advancement of microenterprises. Given all other variables constant, increasing the access of marketing for microenterprises increases the probability of microenterprise advancement; furthermore, odds ratio less than one indicated that even if the variable marketing influences the advancement of microenterprises however, the extent of the influence is small as related to credit facility. Munizu, (2016) also mentioned that marketing is the critical success factor of micro and small scale enterprises. Financial problems, lack of managerial skills, workplace and marketing problems are among the problems the development of small and micro enterprises face (Gebremariam, 2017).

In terms of administrative factors, the regression result revealed that this variable was also positively and significantly associated with small scale enterprises advancement. Given all the other variables in the model held constant, an odd ratio greater than one suggested that administrative factors are more likely determines the advancement of small scale enterprises to

medium scale enterprises. The other variables which were hypothesized are the social factor. On the other case all the other variables in the model held constant, an odd ratio less than one suggested that legal and social factors are less likely determines the advancement of small scale enterprises to medium scale enterprises. In line with this study Abeiy, (2017) concluded that business startup environment and registration process found to be simple and easy, but still there is confusion on the administrative issues among MSE operators regarding VAT registration, getting TIN identification number and Certification of competency application. Enterprises considered these issues as challenging tasks that makes business startup in the sector very tough. Majority of MSE operators rated infrastructure access has not been improved and hugely affecting their performance; getting working premises is still a time consuming and challenging task for them(Abeiy, 2017). The other two variables legal and social factors didn't show a significant association with microfinance advancement.

Table 4.15 logit model estimation result

Logistic regression				Number of obs = 280		
Log likelihood = -111.67358				LR chi2(5) = 2.71		
				Prob> chi2 = 0.0341		
				Pseudo R2 = 0.5241		
Advancement_Va~e	Coef.	Std. Err.	Z	P>z	[95% Conf. Interval]	Odds ratio
Credit	.0461263	.0803844	0.57	0.0366	.1114242	1.047207
Marketing	.0122321	.0631914	0.19	0.0478	.1116208	.9878424
Social	.0523702	.0547011	0.96	0.338	.054842	.9489775
Legal	.0670945	.0860898	0.78	0.436	.1016383	.9351068
Admin	.0454989	.0767411	0.59	0.0453	.1049109	1.04655
_cons	.6510554	.9853364	0.66	0.509	1.280169	.5214951

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Summary of Major Findings

The study used explanatory research design and the total population of the study was 1180 MSEs. Stratified random sampling procedure was used for the selection of 299 MSEs from Nifas Silk Lafto Sub-city. Data were collected by using structured questionnaire from the selected respondents and analyzed by using regression technique. The study shows that the major source of finance for MSE is personal saving. The study shows most of the MSEs are legally sole proprietorship and majority of them complained for insufficient loan to run their businesses. The findings of the study further revealed that credit access; marketing and administrative factors affected positively the advancement of small scale microfinance to medium scale enterprises at 5% level of significance. The enterprises create a job opportunity for more than 2000 employees.

5.2 Conclusion

This research was carried out to investigate the determinants of small scale enterprises advancement to medium scale enterprises. Explanatory research design and logistic regression was used to analyze the data. The descriptive analysis suggested that there was a problem of sufficient loan, business related trainings, fair competition in the market place and in adequate infrastructure such as power and water supply. Apparently, the enterprises are boarding from government offices bureaucratic services and unreasonable taxes. Furthermore, the regression analysis suggested that credit access; marketing and administrative factors are the main determinant factor for the advancement of micro and small enterprises to medium scale enterprises. On the other hand, results also reveal, MSEs that comes to business with higher initial investment shows better growth than those MSEs that started business with lower initial investment. Previous researches in the country made the same conclusion, finance as one of the main factors that affect starting, success, performance and growth of MSEs (Habtamu, 2007, Admasu, 2012, Berhane, 2011,Mulugeta, 2011).MSEs do not have enough access to loan to start and they need to have pre- credit compulsory saving before acquiring business loan. Supporting

this, the major source of startup finance and working capital is own saving, family and friends followed by microfinance and 'equb' (Selamawit, Aregawi & Nigus, 2014).

The finding shows that majority of MSEs operators in the study area do not have convenient working places. Because of this, the MSEs operators do not perform their business related activities effectively and efficiently. And also, the location of the working premises is not suitable for attracting new customers. This means the working places restricts access to market.

Finally, the research clearly illustrates that, even if the degree of those critical factors are not uniform across the enterprise, most of the factors are considerably common for all enterprise. It has been noted that the factors that are prevalent to the financial performance of businesses such as credit, administrative, and marketing factors had very high effect on the determinant of small scale enterprise advancement into medium scale enterprise in the research area.

5.3 Limitation of the study

The researcher had gotten the following limitation during the study process. The problem that was encountered during collection of primary data from operator due to suspicion that disclosing information leads to negative effect on their business. But also lack of well-organized secondary data such as attendance, unwillingness of respondents to provide genuine data was the limitations of the study. However the investigator of the paper would be given to attention for the challenges and it is very important to note that these limitations were not having any significant interference with the outcome of the study.

5.4 Recommendations

The nature of determinants of MSE advancement identified in the study varies in their complexity and severity. Majority of the problems can be solved by the collaborative effort of support institutions and other stakeholders. A major recommendation that the researcher suggest to minimize severity of determinant factors that affects the advancement of MSE is described as follows.

- MSE support program should have to be based on the identified critical factors. Major problems like insufficiency loan and financial access, access to different business trainings about demand forecasting, creating market access and value chain and relate and lack of working capital.

- MSE development agency and municipal services should undertake detailed study on the suitability of the location and the sufficiency of work premise size along with nature and type of business before constructing the premises for MSE.

- MFI institution are member of MSE support institution and has to provide credit service for organized MSE through adjusting loan term based on the nature of the business and its capacity of revenue generation.

- Sufficient managerial and marketing skill training has to be provided for MSE to change the traditional way of operating and marketing business in to the modern types of production and marketing.

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APPENDIX A

SCHOOL OF GRADUATE STUDIES

MBA IN BUSINESS ADMINISTRATION (MBA)

This questionnaire is designed "to investigate the determinant factors affecting the advancement of Micro small scale to medium scale enterprise in Nifas Silk Lafto Sub-City "The researcher kindly reminds the respondents that the response given by you will be used only as an input for the research work. In addition the researcher would like to be grateful to the respondents the sacrifices they paid in completing this questionnaire

PART 1: PERSONAL INFORMATION

1. Age……………… Years

2 Level of education and training

    1. Grades1-4
    2. Grades 5-8
    3. Grades 10 complete
    4. 10+1 &10+2
    5. 10+3 /diploma
    6. BA/BSC and above

3. Work experience……………years.

4. Marital status

    1. Married
    2. Single
    3. Divorced
    4. Widowed

  5. Number of employees in the enterprise? _____

  6. What is the legal ownership status of the establishment?

      1. Sole ownership

      2. Joint ownership

3. Family business

4. Cooperative

5. Other (specify) _____

7. Why did you prefer to start your own business?

    1. Family tradition   4. Small investment is required

    2. To be self-employed   5. No other alternative for incomes

    3. Brings high income   6. Others (Specify) ----------------

8. Who initialed and started the business?

    1. Myself alone   3. With the family

    2. With a friend/partner   4. other (specify)

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

    1. Through formal training   3. From past experience

    2. From family   4. other (specify)

. 10. Is there anyone in the family who was entrepreneur or owner of some related Business activities?

    1. Yes   2. No

11. If yes, what is your family relation with him/ her

1. Father 2. Mother   3. Brother   4. Sister   5. Grandfather

6. Grandmother   7.Household   8. Other (specify)……….

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

    1. Personal saving

    2. Household

    3. Borrowed from relatives or friends/money lenders

    4. Micro-finance institutions

    5. Assistant from friends/relatives

    6. Inheritance

    7. Borrowed from Bank

    8. Assistant from NGO's

    9. Others (specify) _____

13. Is your own premises (land) to run your business?

            1. Private   2. Government   3. Rent

PART 2: FACTORS AFFECTING THE ADVANCEMENT OF MICRO SMALL SCALE TO MEDIUM SCALE ENTERPRISE

The major factors that affect entrepreneurs' performance in MSEs are listed below. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below.

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

No.	Item	Agreement Scale					
		1	2	3	4	5	Remark
14	**Credit and Marketing factors**						
14.1	I am satisfied with the financial access given by Micro finances and other lending institutions.						
14.2	The amount of loan size borrowed from MFI& other lending institutions are sufficient						
14.3	I have access to promotion to attract potential users.						
14.4	I have access to different business trainings about demand forecasting.						
14.5	I have an access to information to exploit business opportunities						
14.6	I have access to appropriate machinery and equipment.						
14.7	There is fair competitions in the market place that I am engaged in.						
14.8	Adequate infrastructures are available like power and water supply.						
14.9	I have access to necessary inputs (raw materials)						

15.	**Social factors**						
15.1	I have a better of social acceptability						
15.2	I have a better contacts(networks) with outsiders						
15.3	I have no prejudice or class biases						
15.4	The societies attitude towards my products/services is positive						
15.5	I have access to clear division of duties and responsibility among employees.						
15.6	I have a positive relationship with the workforce						

No.	Item	Agreement Scale					
		1	2	3	4	5	Re mar k
16	**Legal and administrative factors**						
16.1	I have business assistants and supporters from government bodies						
16.2	I have never encountered political intervention						
16.3	I have accessible information on government regulations that are relevant to my business.						
16.4	I have never encountered bureaucracies and red tapes						
16.5	I am beneficiary of government incentives						
16.6	I have never faced unfavorable working place and uncomfortable environments						
16.7	Tax levied on my business is reasonable						

በቅድስት ማርያም ዩኒቨርሲቲ

የቢዝነስ አስተዳደር ድህረ ምረቃ ት/ቤት

የአጠቃላይ ቢዝነስ አስተዳደር ክፍል

መግቢያ፤

<u>ውድ የጥናቱ ተሳታፊዎች</u>

እኔ በቅድስት ማርያም ዩኒቨርሲቲ የቢዝነስ አተዳደር ትምህርት ክፍል የቢዝነስ አስተዳደር የድህረ ምረቃ ተመራቂ ተማሪ ስሆን በአሁኑ ሰዓት የመመረቂያ ፅሁፌን በማዘጋጀት ላይ እገኛለሁ የጥናቱ ርዕስም" በንፋስ ስልክ ላፍቶ ክፍል ከተማ የሚገኙ የጥቃቅንና አነስተኛ የንግድ ተቋማት ወደ መካከለኛ ኢንተርፕራይዝ ያደጉበት ተግዳራቶችን" ይመለከታል፡፡

እርስዎ በዚህ ጥናት እንዲሳተፉ ተመርጠዋል፡፡ ሆኖም እርስዎ የሚሰጡንን ትክክለኛውን መረጃ ለጥናት ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉ እየጠየቅሁ ተሳትፎዎ በእርሶ በጎ ፈቃደኝነት ላይ የተመሰረት ነው፡፡

በአጠቃላይ የሚሰጡትን መረጃ ሚስጥራዊነቱ የተጠበቀ እና ለዚህ ጥናት አላማ ብቻ እንደሚውል አረጋግጣለሁ፡፡ የማንኛውም መልስ ሰጭ ማንነት በማንኛውም መልኩ የማይታተምና የማይሰራጭ ይሆናል፡፡ ሁሉም መረጃዎች ለትምህርታዊ አላማ ብቻ ይውላሉ፡፡ በመጨረሻም ጊዜዎትን ሰውተው ለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ፡፡

አሸናፊ ክንፈ

ማሳሰቢያ፤- በመጠይቁ ላይ ስም መፃፍ አያስፈልግም፡፡

፤- የመልስዎትን ምርጫ በመክበብና ክፍት ቦታውን ይሙሉ፡፡

60

ክፍል አንድ፦ _ግለሰባዊ መረጃ_

1. እድሜ ------------- አመት

2. የትምህርት ደረጃ
   1. ከ1ኛ-4ኛ ክፍል
   2. ከ5ኛ-8ኛ ክፍል
   3. 10ኛ ክፍል ያጠናቀቀ
   4. 10+1 እና 10+2
   5. 10+3/ዲፕሎማ
   6. የመጀመሪያ ዲግሪ እና ከዛ በላይ

3. የስራ ልምድዎ ----- አመት

4. የትዳር ሁኔታ
   1. ያገባ   2. ያላገባ   3. የተፋታ   4. በሞት የተለየ

5. በድርጅትዎ ያለ ሰራተኛ ብዛት ---------------

6. የድርጅትዎ መመስረቻ ዋና ምንጮ
   1. በግሉ   2. በጥምር   3. ከቤተሰብ በተገኘ   4. በህ/ስራ

   5.ሌላ /ይግለፁ/ ---------------------

7. የራስዎን ግል ስራ ለመስራት የመረጡበት ምክንያት?
   1. ከቤተሰብ የመጣ   2. ተቀጥረው ስለሚሰሩ   3. ከፍተኛ ገቢ ለማግኘት

   4. አነስተኛ መዋዕለ ነዋይ ስለነበር   5. የገቢ ማስገኛ አማራጭ ስላላነበርዎ

   6. ሌላ ካለ ይግለፁ፦- ----------------------

8. በዚህ ስራ ውስጥ ለመሰማራት ተነሳሽነትን የፈጠረበዎት
   1. እራስዎ   2. ጓደኛዎ/አጋርዎ   3.ቤተሰብዎ   4.ሌላካለይግለፁ -----

9. ድርጅትዎን ውጤታማ ለማድረግ እውቀት ያገኙበት መንገድ
   1. መደበኛ በሆነ ስልጠና   2. ከቤተሰብ   3.በቆየልምድ   4.ሌላካለይግለፁ----

10. በተመሳሳይ የንግድ ስራ እንቅስቃሴ ውስጥ የተሰማራ ቤተሰብ አለዎት?
    1. አዎ   2. የለም

11. መልስዎ አዎ ከሆነ በዚህ ስራው ውስጥ የተሰማራው የቤተሰብ አካል
    1. አባት
    2. እናት
    3. ወንድም
    4. እህት
    5. የወንድ ቅድሚያ አያት
    6. የሴት ቅድሚያ አያት

7. ባለቤትም

8. ሌላ ካለ ይግለፁ---------

12. በዚህ ስራ ለመስራት መነሻ የሆነው የገንዘብ ምንጭ

1. የግል ቁጠባ

2. ከቤት ውስጥ

3. ከወዳጅ ዘመድ ብድር

4. ብድርና ቁጠባ ተቋም

5. ከንደኛና ዘመድ ድጋፍ

6. ውርስ

7. የባንክ ብድር

8. ከግብረ- ሰናይ ድርጅት

9. ሌላ ካለ ይግለፁ -------

13. ስራውን የሚያካሂዱበት ቦታ

1. የግል

2. የመንግስት

3. ኪራይ

ክፍል 2፡- ከጥቃቅንና አነስተኛ ወደ መካከለኛ ኢንተርፕራይዞች ለመሸጋገር ያጋጠሙ መሰረታዊ ተግዳሮቶች

ከዚህ በታች በጥቃቅንና አነስተኛ ወደ መካከለኛ ኢንተርፕራይዝ እንገት አፈጻጸም ሊሆኑ የሚችሉ ተግዳሮቶች ተዘርዝረዋል። በተዘረዘሩት ተግዳሮቶች ለኢንተርፕራይዙ ይበልጥ ተፅኖ የሚያሳድሩትን በደረጃ ያመላክቱ። ለእያንዳንዱ ጥያቄ ከአማራጮቹ አንድ ጊዜ የ ☐✓ ምልክት በማድረግ ምላሽ ይስጡ ።

5=እጅግ በጣም እስማማለሁ 4=እስማማለሁ 3=አላውቅም 2=አልስማማም 1=እጅግ በጣም አልስማማም

ተ.ቁ	ዝርዝር	የስምምነት ደረጃዎች					ምርመራ
14	የብድር እና ግብይት ጉዳዮች	1	2	3	4	5	
14.1	የቁጠባና ብድር እንዲሁም በሌሎች አበዳሪ ተቋማት በተፈጠረው ምቹ ሁኔታ ረክቻለሁ።						
14.2	ከቁጠባና ብድር እንዲሁም ከሌሎች አበዳሪ ተቋማት የሚሰጠው የብድር መጠን በቂ ነው።						
14.3	ምርቶቼን በአግባቡ ለማስተዋወቅ እድል አግኝቻለሁ።						
14.4	በተለያዩ የወደፊት የገበያ ፍላጎት ትንቢያ ስልጠና አግኝቻለሁ።						
14.5	በንግድ ዙሪያ ያሉ መረጃዎች ለማግኘት ጥሩ እድል ነበሩኝ						
14.6	ተገቢ የሆኑ ግብዓቶችንና ማሽኖችን አግኝቻለሁ።						
14.7	ፍትሃዊ የገበያ ተወዳዳሪ ለመሆን አስቸጋሪ ሁኔታ አልገጠመኝም።						
14.8	ያልተቆራረጠና በቂ የሆነ የመብራትና ውሃ አቅርቦት አግኝቻለሁ።						
14.9	መሰረታዊ ግብዓቶች /ጥሬ እቃዎች/ አግኝቻለሁ።						
15	ማህበራዊ ጉዳዮች						
15.1	በህ/ሰቡ ተቀባይነትን አግኝቻለሁ።						
15.2	ከውጭ ባለድርሻ አካላት ጋር ጥሩ ግንኙነት አለኝ።						

15.3	በስራዬ ላይ ተፅዕኖ ይሁን መድሎ አልተፈጸመብኝም፡፡						
15.4	ህብረተሰቡ በማቀርባቸው ምርቶች እና አገልግሎት ላይ ቀና አመለካከት አለው፡፡						
15.5	በሰራተኞች ላይ ግልጽ የሆነ ሀላፊነትና የስራ ክፍፍል አለ፡፡						
15.6	ከስራ ባልደረቦቼ ጋር መልካም ግንኙነት አለኝ፡፡						
16	**ህጋዊ እና አስተዳደራዊ ጉዳዮች**	1	2	3	4	5	
16.1	ከመንግስት አካላት የንግድ ድጋፍና ስልጠናዎችን አግኝቻለሁ						
16.2	ተገቢ ያልሆነ የፖለቲካ ጣልቃ ገብነት አላጋጠመኝም፡፡						
16.3	ከስራዬ ጋር ግኑኝነት ያላቸው ህጎችና ደንቦች ተደራሽ ናቸው፡፡						
16.4	ብልሹ አሰራሮችና ቢሮክራሲዎች አላጋጠመኝም፡፡						
16.5	ከመንግስት በሚሰጠው ማበረታቻ ተጠቃሚ ነኝ፡፡						
16.6	ምቹ የስራ ቦታና አካባቢ እየሰራሁ ነው፡፡						
16.7	የተጣለብኝ የግብር ክፍያ አሳማኝ ነው፡፡						