

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

**PRACTICES AND CHALLENGES OF MICRO  
AND SMALL SCALE ENTERPRISES IN THE  
CASE OF SELECTED DISTRICTS IN AKAKI-  
KALITY SUB-CITY**

BY

**MEKONNEN DERBIE**

**Advisor: Tilaye Kassahun (PhD)**

JUNE, 2014

ADDIS ABABA, ETHIOPIA

**PRACTICES AND CHALLENGES OF MICRO AND  
SMALL SCALE ENTERPRISES IN THE CASE OF  
SELECTED DISTRICTS IN AKAKI-KALITY SUB-CITY**

**BY**

**MEKONNEN DERBIE**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF GENERAL  
BUSINESS ADMINISTRATION**

**Advisor: Tilaye Kassahun (PhD)**

JUNE, 2014

ADDIS ABABA, ETHIOPIA

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

**PRACTICES AND CHALLENGES OF MICRO AND SMALL  
SCALE ENTERPRISES IN THE CASE OF SELECTED DISTRICTS  
IN AKAKI-KALITY SUB-CITY**

**BY**

**MEKONNEN DERBIE**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
Dean, graduate studies

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Advisor

\_\_\_\_\_  
Signature

\_\_\_\_\_  
External Examiner

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Internal Examiner

\_\_\_\_\_  
Signature

## TABLE OF CONTENTS

Table of Contents .....	I
Acknowledgements .....	IV
List of Abbreviations/Acronyms .....	V
List of Tables .....	VI
List of Figures .....	VII
Abstract .....	VIII
<b>CHAPTER ONE.....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1. Background of the Study.....	1
1.2. Statement of the Problem.....	2
1.3. Objectives of the Study.....	4
1.3.1. General Objectives.....	4
1.3.2. Specific Objectives.....	4
1.4. Significance of the Study.....	4
1.5. Delimitation of the Study.....	5
1.6. Definition of Terms.....	5
1.7. Organization of the Study.....	6
<b>CHAPTER TWO.....</b>	<b>7</b>
<b>REVIEW OF RELATED LITERATURE.....</b>	<b>7</b>
2.1. MSE's at the Global and Ethiopian Context.....	7
2.1.1. MSE's at the Global Context.....	8
2.1.2. MSE's at the Ethiopian Context.....	9
2.2. An Overview for the Development of MSE's in Ethiopia.....	10
2.3. Micro and Small Enterprises Contribution.....	12
2.4. Rationale for Emphasizing MSE's Development.....	15
2.5. The Role of MSE's Support Institutions.....	16
2.6. The Challenges on Micro and Small Enterprises.....	17
2.6.1. Lack of Adequate Finance.....	18
2.6.2. Lack of Working Premises.....	19
2.6.3. Lack of Managerial and Technical Skills.....	20

2.6.4. Lack of Adequate Market.....	20
2.6.5. Inadequacy of Infrastructure Facilities.....	21
2.6.6. Erratic Supply of Raw Materials.....	22
2.6.7. Regulatory Constraints.....	22
2.7. National Strategies for the Development of MSE's.....	22
<b>CHAPTER THREE.....</b>	<b>25</b>
<b>THE RESEARCH DESIGN AND METHODOLOGY.....</b>	<b>25</b>
3.1. The Research Procedures and Activities Undertaken.....	25
3.2. Research Design and Methodology.....	25
3.2.1. Sample and Sampling Techniques.....	25
3.2.2. Instruments of Data Gathering.....	27
3.2.3. Sources of Data.....	28
3.2.4. Method of Data Processing and Analysis.....	28
3.3. Reliability and Validity of Instruments.....	29
3.3.1. Reliability.....	29
3.3.2. Validity.....	29
3.4. Ethical Considerations.....	30
<b>CHAPTER FOUR.....</b>	<b>31</b>
<b>DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....</b>	<b>31</b>
4.1. Introduction.....	31
4.2. Characteristics of the subjects.....	31
4.2.1. Sex of the Respondents.....	32
4.2.2. Age of the Respondents.....	33
4.2.3. The Educational Level of the Respondents.....	33
4.2.4. Respondents on Category of Sectors.....	34
4.2.5. Experience of the Respondents.....	35
4.3. Startup and Working Capital and its Contribution.....	35
4.3.1. Responses on Employment Opportunity and Earnings.....	36
4.3.2. Responses on Startup and Working Capital and Its Sources.....	37
4.4. Challenges Related to MSE's Operations.....	38
4.5. Comparison of Major Challenges.....	53

<b>CHAPTER FIVE.....</b>	<b>55</b>
<b>SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>55</b>
5.1. Summary of Findings.....	55
5.2. Conclusions.....	57
5.3. Limitations of the Study.....	58
5.3. Recommendations.....	60
<b>REFERENCES</b>	
<b>Appendices (A to D)</b>	

## **ACKNOWLEDGEMENTS**

It is the forgiveness, help and kindness of the almighty God that made me still alive and achieve this success.

Despite many people who have supported me to achieve the completion of this study, it would have not been possible without the unreserved guidance and support of my thesis advisor Dr. Tilaye Kassahun. So, I would like to say thank you for his constructive comments, support and the realization of this thesis.

Next, I cannot afford to leave out the precious support of Col. Muez Abreha who showed much attention and support to the success of my study; and my staff members for their overall positive comments, supports and cooperation while doing this study.

I would like to warmly thank all the study participants in general and Akaki Kaliti Sub-city, and district one, four and seven MSE's offices officials and experts who provide their valuable time and effort in providing with relevant information and document in particular.

Last but not least, I would like to extend my thanks to my wife Yeshe Demere, my brother Yitref Derbie, my sister Getie Belay, and my children Mihret Mekonnen and Kaleab Mekonnen for their kind concern and encouragement to this study.

## **List of Abbreviations/Acronyms**

AACA	Addis Ababa City Administration
CLEP	Commission for Legal Empowerment of the Poor
FRMSEDA	Federal and Regional MSE's Development Agency
FRMSES	Federal and Regional Micro and Small Enterprise Strategy
GDP	Gross Domestic Product
GFDRE	Government of Federal Democratic Republic Ethiopia
Gov	Government
GNP	Gross National Product
GTP	Growth and Transformation Plan
ILO	International Labor Organization
ME	Micro Enterprise
MN	Mean
MSE	Micro & Small Enterprise
MoFED	Ministry of Finance and Economic Development
MSEDS	Micro and Small Enterprises Development Strategy
MUDC	Ministry of Urban Development & Construction
SD	Standard Deviation
SPSS	Statistical Packages for Social Sciences
UN	United Nations
UNIDO	United Nation International Development Organization
UNDP	United Nations Development Program

## LIST OF TABLES

Table 2.1 Employment Created By Regions and City Administrations (2003-2005).....	14
Table2.2. Support to MSE's provided by Akaki-Kality Sub-city (2004-2005).....	17
Table3.1. Population and Sample Size.....	27
Table4.2. Demographics of the Respondents.....	32
Table 4.3. Responses on Startup and working Capital Sources and its Contributions.....	36
Table4.4.1. Challenges Related to the Role of Support Institutions.....	38
Table4.4.2. Challenges Related to Finance.....	41
Table4.4.3. Challenges Related to Working Premises.....	43
Table4.4.4. Challenges Related to Marketing.....	44
Table4.4.5. Challenges Related to Managerial and Technical skills.....	47
Table4.4.6. Challenges Related to Infrastructure Facilities.....	49
Table4.4.7. Challenges Related to Raw Materials Supply.....	50
Table4.4.8. Challenges Related to Regulatory Issues.....	51
Table4.5.Comparison of Major Challenges.....	53

## **LIST OF FIGURES**

Figure1.	Sex of respondents.....	33
Figure2.	Educational Level the of Respondents.....	34
Figure3.	Category of MSE's by Sectors.....	35

## **Abstract**

*Micro and Small enterprises are driving force for economic growth, job creation and poverty reduction in developing countries. Ethiopia is one of the countries which have taken measures to enhance the operation of micro and small scale enterprises (MSEs). However, there are MSE's in the country that have deteriorating performance and have been experiencing near to cease with no significant graduation from one enterprise level to the next. This study was conducted in some selected districts of Akaki-Kality Sub-city with the purpose of analyzing the practices and challenges of MSE's operations. For achieving the objectives of this study, 89 questionnaires were distributed and 81 of them were successfully completed and analyzed using descriptive (percentages, mean and standard deviation) statistical analysis. The participants were selected using stratified and simple random sampling methods. In addition, face-to-face interview were conducted with 12 sub-city and district officials and experts; and 9 MSE's owners through semi-structured interview questions and the questions were analyzed using descriptive narrations through concurrent triangulation approach. The study identified inadequate infrastructure facilities, inadequate finance, poor managerial and technical skills and inadequate working premises as the major challenges of MSE's followed by marketing problems, low support from respective institutions, inadequate supply of raw materials, and regulatory issues. Hence, the study concluded that MSE's operation in the study area is influenced by the above identified variables. In line with the findings obtained recommendations to respective governmental bodies and MSE's owners/managers are forwarded. In addition, further investigation suggestions for other interested researchers have been forwarded. The study helps to create awareness to MSE's official and owners, and it will give chance for others who are interested on micro and small scale enterprises practices and challenges to make further studies and this may add something of value to the existing body of knowledge related to the issue of MSE's operation.*

**Key Words:** Enterprise, Micro Enterprises, Small Enterprises

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

It is generally recognized that Micro and Small Enterprises (MSE's) have vital contribution to the economic development and creation of wider employment opportunity in developing countries with large number of unemployed people. According to Olabisi, Olagbemi and Atere (2013), micro and small enterprises are driving force for economic growth, job creation and poverty reduction in developing countries. In addition, Habtamu, Aregawi and Nigusu (2013) revealed that MSE's is a means in bringing economic transition by using the skill and the talent of people without requiring high-level training, much capital and sophisticated technology. These make the sector more preferable to business entry, unemployment reduction, income generation and poverty alleviation.

Ethiopia is one of the developing countries which have taken measures to enhance the operation of micro and small scale enterprises (MSEs) by considering its contribution to the overall development, employment and poverty alleviation. In this regard, the licensing and supervision of micro financing institution proclamation No. 40/1996 aiming at to provide opportunity and security for the sector through enhancing legality and formalization, the Federal and Regional Micro and Small Enterprises Strategy (FRMSES) were formulated in 1997. Furthermore, the Federal and Regional Micro and Small Enterprises Development Agencies (FRMSEDA) were established by regulation No.33/1998 to utilize the local raw materials, creation of production, job opportunity and the enhancement of the development of MSE's are some of the efforts done by the government (MUDC (2013). Besides, UNDP (2012) indicated that the development of MSE's is the key component of Ethiopia's industrial policy direction that will contribute to the industrial development and economic transformation, and the growth and transformation plan (GTP) emphasizes the need to provide to micro and small-scale enterprises so as to utilize their potential to create wealth and jobs and to reduce poverty.

Based on these efforts the government has tried to promote the development of the sector through workable laws and regulations, facilitation of startup and working capitals, managerial and technical assistance, working premises and infrastructure, market- enterprises linkages. As studies revealed in the sector, many micro and small scale business enterprises that have been engaged by individuals, groups and associations; and have played their roles to employment creation, poverty alleviation, creation of entrepreneurship and country economic development (MoFED, (2010).

Akaki-kality Sub-city is one of the ten sub-cities in Addis Ababa which has nine districts. According to the Sub-city MSEs five year strategic plan (2005) its area is 6,149.4 hectares with a total population of about 200,000 people. Geographically, the sub-city is delineated from Bole Sub-city, Oromiya regional state, and Nefas-Silk Lafto Sub-city in Northern south, southern east, and Northern West Respectively. Among the population more than 10,400 are unemployed. Majority (60%) of the industries located in Addis Ababa is established in this sub-city; and it is the major industrial zone in the country. The main business activities engaged by the people are industrial and agricultural; and majority of the peoples have earned low income from such sectors. Currently, the sub-city and nine district level MSE's offices are structurally established to support MSE's development with strategic policies, Rules and regulations, and five years strategic plan 2006 to 2010, (Ibid).

Therefore, the purpose of this research is to analyze the practices and challenges of government initiated and organized Micro and Small Enterprises in Akaki Kality Sub-city of purposively selected districts.

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

Micro and Small scale enterprises are privately owned and managed by owners. As MUDC (2013) and Habtamu et al. (2013) found out these enterprises significantly contribute to the country's economic growth through employment creation, income generation and poverty alleviation. The facilitation and adjustment of the startup and working capital sources, working premises, raw material supply, managerial and technical skill training, market-enterprise linkage creation and management support for government initiated and organized enterprises

are shouldered on government officials. Thus, the responsibility requires tremendous efforts and integration between enterprise owners and government officials' at all hierarchical levels.

However, there are inherent problems which affect long term survival and business performance. Akabueze (2002) found out that MSE's failure in developing countries could be because of lack of financial resources, lack of management experience, poor location, laws and regulations, poor infrastructure, low demand for products or services, corruption and shortage of raw materials.

According to Hanna (2010) and MUDC (2013) though their extent varied across regions and cities, in Ethiopia irregular supply of raw materials, lack of working premises, insufficient startup and working capital, lack of access to market, lack of access to land especially in Addis and limited technical and managerial skills in efficiently managing MSEs are the major obstacles of the enterprises. In addition, owners of the enterprises and MSE's coordinators and experts in Addis Ababa raise critical problems facing in their day-to-day operations related to working premises, raw materials, management and financial adjustments.

Anecdotal evidences, quarterly and annual reports, and public meetings on MSE found in the sub-city also showed that there are MSE's that have deteriorating performance and have been experiencing near to cease with no significant graduation from one enterprise level to the next. Therefore, the purpose of the study is to analyze the practices and the challenges of MSE's based on the following basic research questions indicated here under.

- What are the major challenges of Micro and small scale enterprises operation in Akaki-Kality Sub City?
- Which have the greatest influencing factor in MSE operation in the sub-city?
- To what extent does the MSE's obtain useful support from the MSE support or developmental organizations towards the growth of the sector in the sub-city?

### **1.3. Objectives of the Study**

The study encompasses two objectives, i.e. general and specific objectives.

#### **1.3.1. General Objectives**

The overall objective of the study was to analyze the challenges of micro and small-scale enterprises which enable to forward possible measures that can bring successful and sustained MSE's in Akaki-Kality sub-city.

#### **1.3.2. Specific Objectives**

- To determine the major challenges and the greatest obstacles which influencing the proper operation of MSE's in the sub-city?
- To examine the contributions by MSE's support or development organizations towards Micro and small scale enterprises growth.
- To recommend appropriate solutions that can help improving the identified challenges of MSE's operation.

### **1.4. Significance of the Study**

The results of this research may have the contributions mentioned hereunder.

It enables to develop awareness for the city administration, sub-city, and district level government officials, owners and other concerned individuals about challenges of micro and small scale enterprises in Akaki-kality sub-city.

As far as the researcher's knowledge is concerned, there are no research works done in the sub-city focusing on micro and small scale enterprises. Therefore, this may give chance for others who are interested on micro and small scale enterprises practices and challenges to make further studies on the subject and this may add something of value to the existing body of knowledge related to the issue of MSE's management.

It suggests possible measures that help to alleviate the problems that inhibit the proper operation of MSE's in the sub-city.

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

This study is delimited in Akaki- kality sub-city which is one of the ten sub-cities in Addis Ababa. The sub-city has nine districts which has a total of 254 MSE's which constitute 1,730 owners. Among these the study is delimited within three districts namely district one, four and seven which contain 115 MSE's and 734 owners. The study employed descriptive survey method and questionnaires and interview methods were utilized to gather the research data. Among the population 30 MSE's which includes 89 owners/ managers were samples. In addition, 12 sub-city and districts coordinators and experts, and 9 MSE's owners have provided their responses based on interview methods. The reason for such delimitation is to tackle the problems facing the researcher related to shortage of time, finance and lack of research experience. The study variables are delimited to the role of support institutions, financial, working premises, marketing, managerial and technical skills, infrastructural facilities, raw materials supply, and regulatory issues.

## **1.6. Definition of Terms**

It is important to provide operational definitions of terms or concepts used as in this research to create better understanding about the usage of these terms and phrases. The definitions of enterprise, micro enterprise and small enterprise are taken from AACA (2011), and the survey report on MUDC (2013) as follows.

**An enterprise:** is an undertaking engaged in production and/or distribution of goods & services for commercial benefits, beyond subsistence (household) consumption at the household level. An enterprise might be owned and operated by a single household, or by several households jointly on a partnership basis or by any institutional body MUDC (2013).

**Micro Enterprise (MEs):** is an enterprise which contains the numbers of employees (including the owner or family) are not greater than 5 and with a total asset of less than 100,000 ETB for industrial sector and less than 50,000 ETB for service sector; and excluding high tech consultancy firms and other high tech establishments.

**Small Enterprise (SE):** is an enterprise which contains the numbers of employees (including the owner or family) between 6 and 30 and with a total asset from 100,001 to 1,500,000ETB for industrial sector and from 50,001 to 500,000 ETB for service sector; and excluding high tech consultancy firms and other high tech establishments.

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

Some writers may organize the final research report somehow differently. As Saunders et al. (2009) most writers agreed that the structure of the final research report includes abstract, introduction, literature review, methods, results, discussion, conclusions, references and appendices. Chapter one is the introductory part which contains background of the study, statement of the problem, basic research questions, objectives (general and specific objectives) of the study, significance of the study, delimitation and limitation of the study, and definition of terms. Chapter two focuses on review of related literature to set the study with in its wider context and to show the readers how the study supplements the work that has already been done on the topic, (Saunders et al. (2009). The research design, sample and sampling techniques, types and sources of data, data gathering instruments, the procedures of data collection and method of data analysis included in chapter three, whiles data analysis presented in chapter four. Finally, findings, conclusions and recommendations looked in chapter five.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

In doing any research activity it is important to review what has been conducted on the area of the topic to have more theoretical knowledge and understanding related to the problem. To this effect, major issues related to micro and small enterprises raised by different researchers will be reviewed. Thus, this chapter deals with definition of micro and small enterprises, overview on the development of MSE's, MSE's contribution and rationale for emphasizing MSE's. Then, the challenges and national strategies for the development of MSE are addressed.

#### **2.1. MSE's at the Global and Ethiopian Context**

There is no universally accepted definition of MSE's due to its base of the subjective judgment. As it is indicated on the MSE's development strategy of the Government of Federal Democratic Republic of Ethiopia (GFDRE, 2011), the policies and strategies designed to speed up MSE development should be based on national definition of enterprises as it helps to provide sustainable support and effectiveness of the sector. The definitions and objectives of MSE are mainly formulated based on:

- to have a framework that will be able to support MSE independently
- to have institution, that support MSE development, uniform baseline
- to have uniform baseline about MSE information
- to evaluate the impacts, to setup and implement reform frameworks and
- to harmonize the national definition of MSE with international definition (Ibid).

As it is described by Stephen and Wasiu (2013), found out that in defining Micro and small scale enterprises references are made to qualitative and quantitative measures based on the number of people employed in the enterprises, investment out lay, annual sales turnover or a combination of these measures. In light of this, the definition of Micro and small scale enterprises in the global and Ethiopian context are discussed as follows.

### **2.1.1. MSE's at the Global Context**

In a study carried out by ILO (2005) over 50 definitions were identified in 75 different countries. However, the references is usually made to some quantifiable measures such as number of people employed by the enterprises, investment outlay, the annual turnover (sales) and the asset value of the enterprises. According to GFDRE (2011) the international definition of MSE is in line with full timer employed manpower, total asset, net asset, paid up capital, and annual turnover; and their usage can be seen independently or in combination.

In this regard, Osotimehin, Jegede, Akinlabi and Olajide (2012) identified that in countries such as the United States of America, Britain and Canada defined micro and small businesses in terms of annual turnover and number of paid employees. In Britain, for instance, a small business is defined as that business with an annual turnover of €2 million or less with fewer than 200 paid employees. The Netherlands also defined micro and small enterprises based on number of employees and the manager among the owners performs all the functions of management without actually taking part in the production.

As Stanley and Morse (1965), stated that Japan defines small enterprises as one either having capital not exceeding Y50m or having not more than 300 employees in manufacturing industry and either having capital not greater than Y10m or having not more than 50 employees in commerce and service sectors. They further reported an Indonesia Agency as defining small enterprises to mean all enterprises, household or cottage, employing less than 10 full time workers and not using machinery. In addition, the Indian official defines small scale industry as comprising manufacturing enterprises with investment in plant and machinery not exceeding 750,000 Rupees (Ibid).

In a similar manner, the definitions of MSE are given by majority of African countries utilized similar criteria as discussed above. The Nigerian Government has used various definitions and criteria in identifying micro and small sized enterprises. At certain point in time, it used investment in machinery and equipment and working capital. At another time, the capital cost and turnover were used. Concerning this, Olabisi, et al. (2013) defined Small scale enterprises as an industry whose total project cost excluding cost of land and including working capital does not exceed N5m (i.e. US\$500,000). Furthermore, the National Council on Industry of

Nigeria (1996) at its 9th meeting adopted the report of its Sub-Committee on Classification of Industrial Enterprises in Nigeria and approved a new set of classifications and definitions of the cottage/micro and small scale enterprises. According to the Council, small scale enterprises is an industry whose total cost, including working capital but excluding cost of land, is over N1 million but not more than N40 million and a labor size of between 11 and 35 workers (Ibid).

As Daniel (2012) indicated that Micro and small enterprise is defined in Ghana by applying both the “fixed asset and number of employees” criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) and micro with employee less than five. However, due to the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated and new definitions were adopted based on an employment cut-off point of 30 employees and MSE’s classified into micro, very small, and small employing six, six to nine, and ten to twenty nine employees respectively (Ibid).

Furthermore, micro and small enterprises defined in Tanzania in terms of number of employees, license registration and business premises. It defines micro enterprise as a firm employing four or fewer people, local authority registered and mostly home-based whereas, small enterprise employing between 5 and 10 that are licensed and have business premises.

From these discussions someone can realize that countries whether developed or developing have common understanding and criteria on the definitions of MSE’s though they classified based on their economic levels and intentions.

### **2.1.2. MSE’s at the Ethiopian Context**

The Ethiopian Government has used two definitions in identifying micro and small sized enterprises since 1997. These definitions are based on the criteria with reference to the number of employees, paid up capital, total asset and the level of technology involved in the MSE’s. As MoTI (1997), micro enterprises are those enterprises with a paid-up capital of not exceeding Ethiopian Birr (ETB) 20,000, and excluding high tech consultancy firms and other high tech establishments. While small enterprises are those business enterprises with a paid-up capital of not exceeding ETB 500,000, and excluding high tech consultancy firms and other high tech

establishments. However, this definition is revised due to the devaluation of Birr (national currency) and inflationary trend in the economy (GFDRE, 2011).

According to the new (Micro and Small Enterprises Development Strategy of Ethiopia [MSEDSE], 2011) the working definition of MSEs is that “**Micro Enterprise**” which consist the numbers of its employees (including the owner or family) is not greater than 5 & total asset is less than 100,000 ETB for industrial sector and less 50,000 ETB for service sector.

In a similar manner, **Small Scale Enterprise** is an enterprise which has 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50, 0001—500,000 ETB for service sector.

To sum up, all definitions given by different countries whether developed or developing uses nearly similar criteria though their differences are related with the number of employees, assets, amount of paid up capital and annual turnover due to the economic levels and the social conditions of each country.

## **2.2. An Overview for the Development of MSE’s in Ethiopia**

In most developing countries, MSEs by advantages of their size, location, capital investment and their capacity to generate greater employment have proved their powerful influencing effect for rapid economic growth. Besides, (Commission for Legal Empowerment of the Poor [CLEP], 2006) found that the sector is known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology though the sector requires tremendous efforts and commitment from the government, the owners and other institutional involvement to support MSE’s development.

In relation to this, MUDC (2013) revealed that there was a government policy to lay the foundation of basic administrative and institutional infrastructure of the state during the 1940’s and 1950’s in order to consolidate the gains of reforms to accelerate the process of industrialization. Thus, several reforms related to the development of MSE’s such as the Business Enterprise Registration Proclamation No.184/1961 required business enterprises to register under the Ministry of Commerce and Industry, the Industrial Regulation Legal Notice

No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, the Investment Proclamation No. 242/1966 provided MSE's tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature were made during this period.

Although these attempts were made to support MSE's development in the country, the socialist regime which followed a centrally planned economic system since 1974 came to power and introduced socialist proclamations, excessive government interventions, Burdensome rules and regulations, bureaucratic red-tape as well as excessive and costly administrative and legal requirements to obtain trading license such as the Proclamation No.26/1975 ended up owning and controlling the means of production, and the Proclamation No.76/1975, acquisition of private businesses was restricted to a single license and capital ceiling set at 300,000 birr for wholesale trade, 200,000 for retail trade and 500,000 for industrial establishments.

In addition, the regime also nationalized the private property and these actions makes the previously existing private sector almost came to an end and crippled the private sector development in the country. In the late 1977, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established by Proclamation No. 124/1977 with the objective to give further improvement to the development of the public economy by encouraging cooperative development in the small scale sector by issued licenses to cooperatives, regulated their activities, and assisted in the provision of inputs and training (Ibid). However, the achievement was very little and few cooperatives were formed due to lack of imported inputs and the private investment in the sector nearly ceased.

According to Teshome (1994) in MUDC (2013), the Dergue declared a new program of mixed economy development with two declarations in succession: the Small Scale Industry Development Special Decree No.9/1989 and Special Decree on Investment No.17/1990. Decree No.9/1989 allowed establishment of small-scale enterprises by business organizations, cooperatives and individual entrepreneurs and this replaced the restrictive Proclamation No.76/1975. This proclamation allowed participation by the Diaspora and raised the capital ceiling for small scale enterprises from birr 500,000 to between two and four million birr (MoTI, 1997). Decree No.17/1990 lifted the restriction of private sector participation to single

license and allowed individuals to undertake investment in unlimited number of enterprises though the journey into mixed economy development was short lived because the Dergue was overthrown in 1991.

After the downfall of the Dergue, the Ethiopian People Revolutionary Democratic Front (EPRDF), introduced public sector reform and private and market economy development. The Proclamation No.41/1993: Definition of Powers and Duties of the Central and Regional Executive Organs of the Transitional Government of Ethiopia is provided for the establishments of Industry and Handicrafts Bureaus in the Regional Governments to enhance MSE's development in the country (Ibid, 1997).

Furthermore, Agricultural Development Led Industrialization (ADLI) and private sector development strategy in 1995, the licensing and supervision of micro financing institutions proclamation in 1996 and the Federal and Regional MSE's Strategy in 1997 were adopted to enhance the operation of MSE's. Besides, Federal and Regional MSE's Development Agencies were established with the main objectives of utilizing local raw material, creation of job opportunities, adoption of new and appropriate technologies, and enhancement of the development of MSE's (MUDC, 2013).

Currently, the Growth and Transformation Plan of Ethiopia (2010 -2015) has also given a priority to MSE's development and has put the MSE's development as one of the seven identified growth pillars of the country (MoFED, 2011).

### **2.3. Micro and Small Enterprises Contribution**

Economic development is a process of economic transition involving the structural transformation of an economy through industrialization, rising GDP, GNP and income per head; while economic growth contributes to the success of the economy by increasing investment, increase in labor force, efficient use of inputs to expand output (Ackah and Vuvor, 2011). In order to bring about the expected outcomes; micro and small scale enterprises has an important role and it is one of the priority areas of action among the Programs addressing African development (UN, 2008).

Furthermore, as it has been revealed Stephen and Wasiu (2013), MSE can be a means of achieving smooth transition from tradition to modern industrial sector; and has a huge contribution to the growth and development of the country in terms of employment generation. In addition, more than half of the industrial labor in developing countries engages in MSE and create more employment opportunity at a relative low capital cost since micro and small scale industries are fairly labor intensive, they are better coping with problem of unemployment and poverty (Ibid).

In light of this, GFDRE has recognized and paid due attention to the promotion and development of MSE's for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country and MSE development strategy was formulated and has been implemented since 1997 (MSEDS, 2011). Based on the first MSE's development strategy (1997 to 2002) more than 1.5million people were employed (Ibid). According to the Federal Micro and Small Enterprise Agency yearly statistical bulletin (2005), in the second MSE's development strategy (2003 to 2005); 2,681,367 people were employed in the sector which is more than 48% from the expected plan of the GTP (1,800,000).

**Table 2.1 Employment Created By Regions and City Administrations (2003-2005)**

No.	Region	2003			2004			2005			Total		
		Male	Female	total	Male	Female	Total	Male	Female	Total	Male	Female	Total
1	Addis Ababa	47,271	25,429	72,700	82,989	39,054	122,043	116,481	102,583	219,064	246,741	167,066	413,807
2	Dire Dawa	6,751	4,759	11,510	6,215	4,319	10,534	6,579	4,259	10,838	19,545	13,337	32,882
3	Oromia	147,578	170,293	317,871	166,391	115,628	282,019	357,621	238,414	596,035	671,590	524,335	1,195,925
4	Amhara	71,602	45,533	117,135	82,016	42,251	124,267	96,487	56,226	152,713	250,105	144,010	394,115
5	SNNP	32,914	25,706	58,620	100,937	54,351	155,288	52,004	41,200	93,204	185,855	121,257	307,112
6	Tigray	37,027	28,170	65,197	61,614	39,393	101,007	82,181	50,516	132,697	180,822	118,079	298,901
7	Harari	1,266	457	1,723	2,510	1,673	4,183	2,200	1,528	3,728	5,976	3,658	9,634
8	Benishangul Gumuz	1,021	293	1,314	654	580	1,234	2,350	1,450	3,800	4,025	2,323	6,348
9	Gambella			-	873	839	1,712	1,046	926	1,972	1,919	1,765	3,684
10	Afar	671	418	1,089			-	603	315	918	1,274	733	2,007
11	Somali	1,382	2,825	4,207	2,058	1,977	4,035	4,419	4,291	8,710	7,859	9,093	16,952
<b>Total</b>		<b>347,483</b>	<b>303,883</b>	<b>651,366</b>	<b>506,257</b>	<b>300,065</b>	<b>806,322</b>	<b>721,971</b>	<b>501,708</b>	<b>1,223,679</b>	<b>1,575,711</b>	<b>1,105,656</b>	<b>2,681,367</b>

**Source:** Federal Micro and Small Enterprises Agency Bulletin, 2005

As it is indicated in the table above even though the employment opportunities created in Addis Ababa, Amhara, Tigray and Gambella have an increasing trend, the other six regions and one city administration didn't show a consistent trend. With regard to sex, males have more employment opportunity than females in all regions and city administrations. Therefore, this has to be the focus area to maintain consistent employment opportunities in all regions and cities, and relatively to create equal employment opportunities for both sex.

Besides employment creation opportunity, the strategic direction of the GTP of Ethiopia has taken MSE's as a key of industrial development and envisaged structural transformation of the economy (MoFED, 2010). The annual Report of the Federal Micro and Small Enterprises Agency (2005) has shown that the years between 2003 to 2005 many or 1775 small enterprises were promoted to medium level; and the sector also contributes more than the expected plan of the sector i.e. 14 Billion and 864 million Birr from the local and foreign market respectively contributes to the development of the country economy.

#### **2.4. Rationale for Emphasizing MSE's Development**

Ethiopia is one of the least developed countries which have a population growth rate of 2.79%, the labor force (the employed and unemployed) has continued to grow faster than what the economy can gainfully and productively employ. The working age population stood at 54% of the population in 2004/05, and is growing by about 1.2 million people per year, and out of the 33,088,792 economically active populations 1,653,686 (5%) are unemployed (CLEP, 2006).

Hence this requires serious attention and the Ethiopian government have introduced MSE's development strategy in order to reduce unemployment. currently MSE's are the second largest employment generating sector by employing more than 1.3 million people all over the country (Habtamu et al. 2013; CSA, 2007). Therefore one of the major rationales focusing on MSE's is that they are large employers of the labor force and this makes them vital in handling with the problems of unemployment and poverty.

The second rationale focused on MSEs is that it helps to decentralize industries, to accelerate rural development, and to restrict urban immigration and the consequent problems of overcrowding in the cities. In line with this the Ethiopian government has developed and implementing Agriculture led Industrialization policy focusing mainly on MSE's as an

implementing strategy (MoFED, 2010). Therefore, micro and small enterprises play an intermediate role in the development of large scale enterprises and they enable to reduce regional disparities through the creation of employment opportunities in the rural areas and mobilize local resources more readily than large-scale industries (Osotimehin, et al. 2012).

The other rationale focusing on micro and small enterprises is that it has contribution to add value in the manufacturing sector and to the Gross Domestic Product (GDP) of the economy. In addition, Micro and small enterprises (MSEs) have been found to have locational flexibility. The study conducted by Uzor (2004) identified that MSE's could be more eagerly used to achieve industrial dispersal and regional balance in economic development, diversification of the industrial structure and the transformation of the rural economy.

## **2.5. The Role of MSE's Support Institutions**

Support institutions play key roles in creating the conditions for MSE'S development. As the (United Nations Development Program [UNDP], 2006) most of the responsibility to MSE's support relies on government organizations, associations and agencies which are found at all hierarchical levels and their commitment and degree of cooperation with the MSE's determines the success or failures of the enterprises.

Accordingly, the GFDRE (2011; 1997) has made institutional arrangement such as Ministry of Trade and Industry, Regional Bureau, Federal MSE Development Agency, Regional MSE Development Agencies, or other similar designated organs at the local levels, and Business Associations for MSE sector support programs and strict controls in the use of funds. These institutions have vital role for MSE's development.

The Ministry of Trade and Industry has roles for the formulation of the country's industrial and trade policies and strategies, defining the size of micro and small scale enterprises in order to identify the right target groups for the right type of promotional support, the provision of assistance to micro and small enterprises. The Regional Bureau also has the roles to develop and promote the MSE sector, set criteria for prioritization of MSEs for support, to create proper networking within business associations, regional chambers, and other stakeholders to strengthen the flow of information.

Besides, Micro and Small Enterprises Development Agency with its respective hierarchies has roles to provide human resource training and development, information and consultancy, facilitation, technical, marketing and promotional support services to MSE's owners/managers to equip their managerial, technical and business management skills. In order to solve the problems related to finance; government organized micro- finance institutions have roles in funding and providing technical financial support services (Ibid).

In this regard, the data obtained from the sub-city MSE's office five years strategic plan (2006 to 2010) shows that support institutions such as the sub-city MSE's, microfinance, land management, and technical and vocational education offices has tried to provide technical, managerial, financial, and working premises adjustment supports based on their respective roles indicated as follows.

**Table2.2. Support to MSE's provided by Akaki-Kality Sub-city (2004-2005)**

<b>Type of Support</b>	<b>Unit</b>	<b>Amount</b>
Financial accessibility/loan/	Br	107,632,687
Market linkages created with others	Br	158,527,164
Managerial training for MSE's managers	Trainees	1, 831
Technical and vocational training for owners	Trainees	5,963
Working premises/place preparation and distribution	Sheds	327

**Source:** *Akaki- Kality sub-city MSE's office five years (2006-2010) strategic plan*

Even though these efforts have been made based on their respective roles by designated institutions, performing their respective mandates with maximum effort and commitment is questionable. In relation to this, bureaucratic and inflexible work Procedures, lack of commitment and responsiveness, and unsuitable regulatory issues are some of the shortcomings associated with support institutions (Mulugeta, 2011).

## **2.6. The Challenges on Micro and Small Enterprises**

Even though micro and small enterprises have important roles in economic development, poverty alleviation, employment opportunity; the enterprises are critically challenged by certain impeding factors to sustain with in the sector. The research conducted by Bowen,

Morara and Mureithi (2009) identified that in Kenya three out of five micro and small businesses failed within the first few months of operation due to competition, managerial inefficiency, insecurity, debt collection, lack of working capital and power interruptions, political uncertainty, cost of materials, sellers, low demand and restrictive by-laws.

The problem confronting MSE's appears to be similar in least developed or developing countries. However, the extent of the problems varies from country to country and industry to industry; and it depends on firms' characteristics (Aremu and Adeyemi, 2011). Currently in Ethiopia, there are many internal and external challenges such as lack of finance, lack of working premise, lack of access to land, etc. face MSE's in their operations and hinder their growth (MUDC, 2013). These factors are reviewed as follows.

### **2.6.1. Lack of Adequate Finance**

Finance is one of the most important elements in every economic activity; and access to finance will provide start-up capital for the business as well as funds to meet operational costs and accelerated economic growth. Even though its importance, the financial constraints such as lack of adequate investment capital, lack of sufficient loan, inefficient financial market in terms of facilitating financial resources to the enterprises are the major obstacles in doing business, and most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions (CLEP, 2006).

In relation to this, many surveys revealed that access to finance has been identified as the most important factor which determines the growth and development of entrepreneurship, micro and small business in developing countries (Kula, O. et al., 2005).

According to Sacerdoti (2005) in Habtamu et al. (2013), financial institutions such as microfinance and the banking systems in Africa are not in a position in providing enough financial support to the expansion of micro and small businesses. MUDC (2013) also identified that Financing has become a principal challenge to micro and small scale enterprises in Ethiopia. Furthermore, Sacerdoti (2005) in Habtamu et al. (2013) found out those micro and small scale enterprises in developing world face challenges in securing finance due to the following major reasons.

One of the reasons is that there are problems of information asymmetry between financial institutions and MSE's. This has made it difficult for institutions to determine the real values of micro and small businesses. Thus, the involvement of financial institutions in promotion of micro and small enterprise through the provision of information, knowledge and skills play key roles in accessing finance to the enterprises, (Osinde, Iravo, Munene and Omayio, 2013).

The second reason is that entrepreneurs in developing countries have limited access to capital markets locally and internationally, partly due to the perception of high risk and high cost of intermediation for firms. Consequently, entrepreneurs often cannot obtain long-term finance in the form of debt and equity.

This leads micro and small businesses has resulted in relying on high costs of credit, relatively high bank charges and fees and high collateral requirements. According to MUDC (2013) except City administrations and regional microfinance institutions, their savings and family supports, banks in Ethiopia do not provide finance in the form of loan to micro and small business due to collateral obligations and other requirement. Therefore, the development and success of MSE's require finding the right means of accessing adequate finance from reliable financial institutions.

### **2.6.2. Lack of Working Premises**

The development of MSE's requires intensive efforts on the parts of government institutions. In this regard, working premises are needed to be addressed to facilitate the development of MSE's. While national policies play an important role in the development of MSEs, targeted interventions are much more effective to bring about a rapid change in the growth of MSE's support services at the firm level. According to the MSE's development strategies of Ethiopia MSE is one of the growth oriented sectors which requires maximum support from the government, and among these Working premises with least leasing price adjustment is the first requirement and taken as mandatory to the government (GFDRE, 1997 and 2011).

Accordingly, the three years performance report of FMSEA (2005) shows that the government has supplied 23,263,938 square kilometers land to buildings, sheds and displaying places to the existing MSE's. Although the efforts have taken by the government, working premise is

one of the factors which impede the full scale implementation and growth of micro and small scale enterprises (Habtam, et al., 2013).

Furthermore, the survey conducted by MUDC (2013) found out that lack of access to land is the second ranked challenges of regional towns and the major ones in Addis Ababa. Thus, the problem requires attention to gain MSE's expected benefit; and the government and other stakeholders should act on this factor to enhance the operation and growth of the MSE's at the national level in general and in Addis Ababa in particular.

### **2.6.3. Lack of Managerial and Technical Skills**

It is clear that micro and small scale enterprises are privately owned and managed by owners. The owners fail to realize the importance of managerial skills for the success of the enterprises may lead to failures of the enterprises. The problems of MSE's management arises from the limited knowledge and ability of the owner or shortage of competent staff to advise the owner on management policies (Stephen and Wasiu, 2013).

Decision-making skills, sound management and accounting practices are very low in developing countries MSE's operators (Aremu, and Adeyemi, 2011). In addition, the CLEP (2006) revealed that lack of managerial skills leads to problems in production due to lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration. Most MSE's owners/managers have limited education, and faced critical problems related to the practice of modern management techniques in their enterprises.

### **2.6.4. Lack of Adequate Market**

Marketing knowledge is important for the promotion, growth and development of Micro and small enterprises. MSE's operators require marketing knowledge such as accessing and acquiring information on business opportunities, advertising based on different media, and ways of creating marketing linkage with other enterprises. To this end, the sector needs attention and commitment of individual owners, government officials and experts, chambers and business associations.

In this regard, the Ethiopian government has formulated MSE's strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information center (MoTI, 1997).

However, market constraints and the inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting of business and further growth of the sector (MUDC, 2013; MoFED, 2011). Thus, factors related to marketing development and implementation may have negative effect on the success and growth of micro and small enterprises in the sub-city.

### **2.6.5. Inadequacy of Infrastructure Facilities**

Infrastructure facilities are mainly related to the provision of access roads, adequate water and sewerage, power, and telecommunications which helps to enhance and develop the full scale operation of MSE's. On the other hand, lacking such facilities leads to malfunction of MSE's operation. In this regard, a research conducted by Daniel (2012) stated that unfavorable roads, power interruption, shortage of water, and inaccessible telecommunications are the major challenges and without which primary, secondary and tertiary production cannot function. Therefore, Infrastructure facilities can be seen as both a final good providing services directly to consumers, and intermediate input that enter into the production function of other sectors and raises the productivity of the factors employed.

Furthermore, (Habtamu, et al. 2013), indicated that MSE's operating with available infrastructure facilities has higher probability of long live existence and growth as compared to those MSE's that are operating without adequate infrastructures. The researchers also added that electric power interruption and inadequate water supply in Ethiopia was highly affected the growth of the business.

The availability of infrastructure facilities is not only significant to the operation of existing firms but it also represents another constraint on both the choice of MSE's opportunities and the full scale operation of each respective enterprise. The production as well as distribution of MSE's products depends vitally on the availability as well as reliability of physical infrastructure (Awura, 2006). Therefore, emphasis should be given since the success or

failures of MSE's business growth and development depend on the availability and efficiency of infrastructure utilization.

#### **2.6.6. Erratic Supply of Raw Materials**

Supply problems of MSE's are issues related to unreasonable access to raw materials and quality services at affordable prices. Linking MSE's to input suppliers, improving suppliers' capacity and regular supply of quality information on input supply sources have positive effects on the success of MSE's (Siva, 2012). As MUDC (2013) one of the major issue and problems constraining to MSE's development was erratic supply of raw materials to the sector. Therefore, this requires attention to alleviate the problems related to raw materials availability and supply to the sector.

#### **2.6.7. Regulatory Constraints**

Regulatory issues such as registration and licensing, and unreasonable government official involvement and accessibility of rules and regulations have impacts on the success or failure of MSE's. According to Dlitso, K., and Peter Q., (2000), high start-up costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and unnecessary burdens on MSE's operations.

Even though registration and licensing helps MSE's to have legality rights, and to reduce the prevalence of informality in the economy, more than 12% of MSE's in Addis Ababa haven't registration license (MUDC, 2013). Therefore, regulatory issues require continuous follow up and monitoring activities to provide immediate solutions to regulatory constraints which affect the operations of MSE's in the study area.

### **2.7. National Strategies for the Development of MSE's**

Most micro and small scale enterprises in developing countries face critical constraints both at the operation and start up level due lack of adequate government intervention and support by setting appropriate strategies (UN, 2008). Therefore, government support in business development services is critical for the success of MSE's operation. By recognizing this and the contribution of MSE, the current Ethiopian government paid due attention to the

promotion and development of MSE's for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To realize this, the government has formulated a National MSE Development and Promotion Strategy in 1997 which guides a systematic approach to tackle the problems and promote the growth of MSEs (CLEP, 2006).

According to MoTI (1997), the primary objective of this national MSE development strategy has been to create enabling environment for MSE's. In addition to the primary objectives, the strategy also has the specific objectives which include:

- *Facilitate economic growth and bring equitable development,*
- *Create long term jobs;*
- *Strengthen cooperation between MSEs;*
- *Provide the basis for medium and large scale enterprises;*
- *Promote export and*
- *Balance preferential between MSEs and bigger enterprises.*

Although the national MSE's strategy was developed in 1997, the degree of recognition to the sector with regards to job creation and the alleviation of poverty were not sufficient, and there were no regional MSE's development agencies until 2005, and this impedes to make the strategy practical specially in delivering business development service for MSE operators (Konjit, 2011). By considering such problems faced by MSE's operators since 2004/2005 the government of Ethiopia established MSE's development agencies in all regions, and sub branch offices at sub city, zone/district levels. The MSE development strategy implemented all over the country until 2010 and the system helps to support a lot of MSE's and thereby to create job opportunity for the unemployed (Ibid).

The second and latest micro and small enterprises development strategy has developed in 2011 in line with the Growth and Transformation Plan (GTP) of the country. The Strategy included fresh group of target groups i.e. the university graduates to form cooperatives and create their own jobs, to bring about the technological transfer and new corporate management skills to the nation (GFDRE, 2011).

According to MUDC (2013) the newly developed strategy also identified the three stages of growth of micro and small enterprises, i.e., the start-up stage, the growth stage and the maturity stage. Besides, the strategy helps these enterprises to receive directional support services from government officials, professionals and other stakeholders. It also enables MSE operators and actors to analyze the kinds of problems MSE's Face in these three different growth stages in order to recommend solutions.

To conclude the review, MSE's in different countries categorized and defined based on similar criteria's with a slight differences related to the numbers of employees, the amount of investment and the financial turn over in the accounting year due to their level of economic environment. The sector has priority attention due to its role in employing large employers of the labor force to address the challenges of unemployment, economic growth and equity in the country with a mobility of some amount of investment, low skill manpower and minimum level technology requirements.

Although the MSE's has these opportunities, it has challenges related with financing during the initial and operation level, lack of working premises, infrastructure facilities, supply of raw materials, market , managerial and technical skills which affects the growth and the full scale operation of the sector.

Thus, the sector requires thorough attention and commitment by government officials and professionals, owners of the MSE's and other support institutions to play their respective roles and responsibilities with commitment and responsiveness in ensuring sustainable growth and development of the business.

## **CHAPTER THREE**

### **THE RESEARCH DESIGN AND METHODOLOGY**

In order to analyze the practices and challenges of MSE's this research had designed an appropriate research methodology. This chapter discusses procedures and activities undertaken, the study's research design, sampling strategy, questionnaire development and data collection, data processing and analysis and instrument development.

#### **3.1. The Research Procedures and Activities Undertaken**

The assessment and identification of challenges of MSEs from the three districts of Akaki - Kality Sub-city encompasses many activities such as proposal development, literature review, research design, questionnaire development, data collection, sampling procedures, visiting of relevant offices and MSE's enterprises, selection of participants, and test of validity and reliability of instruments, data collection and data analysis.

#### **3.2. Research Design and Methodology**

The research design enables the researcher to answer the basic research questions. According to Saunders, Lewis and Thornhill (2009) showed that the Choice of the research design depend on the objectives of the study, the available data sources, the cost of obtaining the data and the availability of time. The purpose of this research is making assessment on the challenges of MSE's to show the situation and to have a clear picture on phenomena by using quantitative and qualitative data. Therefore, the researcher has employed descriptive survey method because it fits to the purpose of the study, allows the collection of a large amount of data by using questionnaires in an economical way, and it is comparatively easy to explain and understand (Saunders et al, (2009). In addition, it facilitates the collection of a considerable amount of data quickly, efficiently and accurately (Oso and Onen, (2005).

##### **3.2.1. Sample and Sampling Techniques**

Akaki- Kality sub-city was purposively selected among the ten sub- cities of Addis Ababa as the study area for this research. The reason is that the researcher has lived in the sub-city since 1987 E.C and has a good exposure to the problems recurring in the sub-city; and its proximity

creates convenience to the researcher to get adequate information and to collect data within a short period of time.

The primary function of sampling strategy is to identify the target population of the study which enables to determine the sample size. The target population of this study was government initiated owners of MSE's operating within Akaki- Kality sub- city which are registered by the government. In addition, the local officials and experts working in MSE departments were considered as the target population. This population is large, their distributions across sectors have been diverse and their lists are not well organized. Thus, it was not easy for the researcher to involve all the target population in the study due to problems related to time, finance and management of the research.

As Zikmund, Babin, Carr and Girrifin; (2010) noted the researcher need not take the whole population because the results of a good and representative samples have the same characteristics as the population as a whole. Hence, the researcher has decided to conduct the research within three purposively selected districts namely District one, four and seven which have many MSE's compared with other districts found in the sub-city.

These districts have 115 MSE's which constitutes a population of 734 owners/managers in the construction (423), manufacturing (171) and service sectors (140). The researcher employed stratified and simple random sampling technique to determine the sample size of the study since this sampling technique helps the researcher to minimize sampling bias and creates relatively homogeneous samples when dealing with the population. Therefore, samples were taken from 30 MSE's of which 17 construction, 7 manufacturing and 6 service sectors. The samples were computed by using the sample formula of Nasiurma (2000) in Nyabwanga, R., and Ojera, P., (2012);  $n = \frac{NC}{c^2 + (N-1)e^2}$  Where,  $n$  = the sample size,  $N$  = the population,  $c$  = the coefficient Variation (0.5), and  $e$  = level of precision (0.05). Thus,  $n = \frac{734 * 0.5}{(0.5^2 + (734-1) 0.05^2)}$  which has a total of 89 sample respondents of managers/owners of MSE's. This sample was proportionally distributed to each stratum owners i.e. construction (51), manufacturing (21) and service (17) owners. These issues are summarized in tables as follows.

**Table3.1. Population and Sample Size**

No.	Sector	No. of MSE's	Population			Samples		
			Male	Female	Total	Male	Female	Total
1	Construction	59	330	93	423	38	13	51
2	Manufacturing	35	135	36	171	17	4	21
3	Service	21	78	62	140	9	8	17
Sum		115	543	191	734	64	25	89

Furthermore, interviews were administered on the sample of 9 MSE's owners/managers and 12 sub-city and districts MSE's officials and experts.

### **3.2.2. Instruments of Data Gathering**

The issues discussed in the review of literature and the research questions were used as a guideline for the development of in the questionnaire. In addition, some questions in the questionnaire were taken from other sources (Admasu, 2012).

The questionnaire that were designed, administered and used in the questionnaire are some open and more close ended (multiple choice and Likert scale type) questions. The type of scales used to measure the items on the questionnaire is continuous five scales ranging strongly agree to strongly disagree. This helps the researcher to gather quantitative data from owners/managers of MSE's.

The questionnaire were designed both in English and Amharic languages to MSE's owners/managers. This helps to create proper rapport and to gain better responses from the respondents of those who cannot clearly understand the English language. In addition, to enhance the willingness of the respondents to provide the information requested a pilot study was conducted to refine and make clear the questionnaire before administering. Besides, to make the study reliable and dependable semi- structured interview questions were designed only in English to MSE's owners/ managers, and local officials and experts. The discussion on the interview questions with purposefully selected owners/managers, and fully involved local officials and experts were administered in Amharic.

### **3.2.3. Sources of Data**

Use of two or more independent sources of data or data collection methods helps to substantiate the findings in the study (Saunders et al., (2009). Therefore the study employed both primary and secondary sources of data collection.

#### **I. Primary Sources**

In order to answer the basic research questions and to realize the intended objectives; the researcher gathered primary data from MSE's operators through questionnaire. Furthermore, face-to-face interviews with selected MSE's Operators, and fully involved local MSE's officials and experts were undertaken. The interview method of data collection provides an opportunity of getting reliable data from the respondent. It also provides a chance to the interviewer and interviewees in order to have better interaction, clarification of issues and getting details on the questions and answers.

#### **II. Secondary Sources**

The study employed secondary data from the Federal MSE's Agency and sub- city offices quarterly and yearly reports, rules and regulations, office manuals and MSE's strategies. Besides, books, journals, published and/or unpublished research papers, government plan documents were reviewed to make the research reliable and dependable.

### **3.2.4. Method of Data Processing and Analysis**

The study employed manual and computerized data processing techniques. The data processing activities such as editing, coding, classification and tabulation of the collected data were used. This helps to clean up and detect errors, omissions in responses and the questions are answered accurately and uniformly. Finally, the raw data were ready for further data analysis.

Data analysis is the application of reasoning to understand the data that have been gathered from respondents; and the appropriate analytical technique of the analysis mainly determined by the characteristics of the research design and the nature of the data gathered, (Saunders et al. (2009). In line with this, the data collected from primary sources were tallied,

systematically organized, tabulated and summarized in items based on tables, graphs or charts. The study also employed SPSS and Excel in analyzing the collected data. Descriptive statistics such as percentage, mean and standard deviation were the tools used to summarize and analyze the data gathered from the respondents based.

### **3.3. Reliability and Validity of Instruments**

Reducing the possibility of getting the answer wrong is possible by evaluating the reliability and validity of data gathering instruments employed in the study.

#### **3.3.1. Reliability**

Reliability is the extent to which data collection techniques or analysis procedures will yield consistent findings (Sunders, et.al, 2009). Ensuring the reliability of the instrument is possible through testing; and the reliability of a standardized test is expressed as coefficients which vary between -1 and +1 with the former reveal perfect negative reliability and the latter reveals perfect positive reliability. The Cronbach's alpha value of 0.67 and above is acceptable and taken as a good indication of reliability. In this research the likert scale questionnaires responded by MSE's owners/managers were tested with a sample of 30 MSE's operators and the Cronbach's alpha coefficient is 0.94. Hence, the instrument can be taken as highly reliable to achieve its purposes.

#### **3.3.2. Validity**

According to Sunders, et al., (2009), validity is the soundness or rationality; whether the findings are really about what they appear to be or the degree to which results obtained from the analysis of the data actually represents the phenomena under study. The validity of data gathering instrument is confirmed by the ability and willingness of the respondents to provide the information requested. In order to make the questionnaires valid, relevant and objective to the problem; it was properly commented by the advisor, and it also tested on available respondents, and based on the issues which were not properly clear by the respondents were corrected and refined.

Lastly, the improved questionnaires were printed, duplicated and dispatched. The designed questionnaires can help to identify the main challenges that affect the operation of MSE's. It also enables to address how these issues affect the operation of MSE's in the study area. Furthermore, the interviewed respondents can also confirm the validity of the questionnaires.

### **3.4. Ethical Considerations**

All the research participants included in the study were duly informed about the purpose of the study and their willingness and agreement was secured before the beginning of filling the questionnaire and conducting interview. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential and collective names such as 'the respondents,' the participants, the interviewees etc., were used in the study.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1. Introduction

This section discusses the results of the study based on the research tools presented in preceding sections of the report. The purpose of this study is to assess the practices and challenges of MSE's in Akaki Kality sub-city. Data were collected from the three districts namely district one, four and seven MSE's owners/managers based on questionnaires and interview. In addition, the sub- city and the districts MSE's officials and experts had provided their views through semi-structured interview and this has helped the researcher to discuss the issues concurrently.

For MSE's owners/managers eighty nine questionnaires were distributed across three districts; of which 85 were returned. After editing 81(91%) responses were successfully completed, tallied and analyzed. Besides, interviews were conducted with twelve sub-city and district officials and nine MSE's owners/ managers. The study has employed SPSS and Excel in analyzing the collected data. Percentages; mean and standard deviations have been used to analyze the raw data. In order to make the analysis visible by the reader and others tables and pie charts are included.

*For Likert Scale Questionnaire the Numbers from 1 to 5 are Rated As:*

*1 = Strongly Disagree*

*4 = Agree*

*2 = Disagree*

*5 = Strongly Agree*

*3 = Not Sure*

#### 4.2. Characteristics of the Subjects

Characteristics of the respondents mainly focus on the demographics of the respondents such as sex, age, education, business sector and experiences indicated as follows.

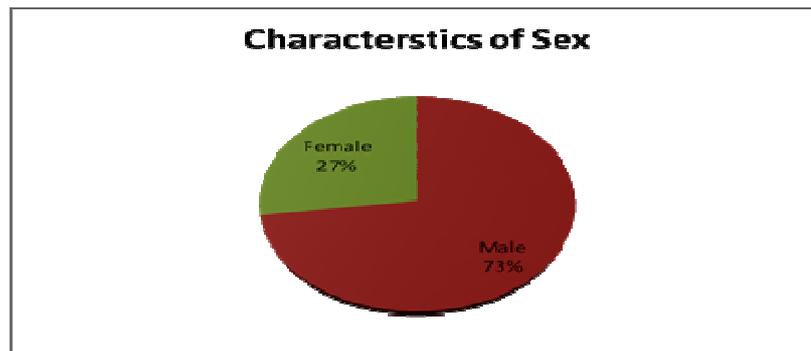
**Table4.2. Demographics of the Respondents**

No.	Item	Choices	Counted	%	Cumulative %
1	Sex	Male	59	72.8	72.8
		Female	22	27.2	<b>100</b>
		Total	<b>81</b>	<b>100</b>	
2	Age	25 years and below	12	14.8	14.8
		26 to 30years	21	25.9	40.7
		31 to 35 years	31	38.3	79.0
		Above 35 years	17	21.0	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
3	Education	Grades 8 and below	8	9.9	9.9
		Grade 9 to 12	23	28.4	38.3
		Tech and vocational, and Diploma	44	54.3	92.6
		First Degree and Above	6	7.4	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
4	Respondents based on sector	Construction	47	58.0	58.0
		Manufacturing	19	23.5	81.5
		Service	15	18.5	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
5	Experience	2 years and below	17	21.0	21.0
		3 to 5 years	22	27.1	48.1
		Above 5 years	42	51.9	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	

Source: Survey Questionnaire

#### 4.2.1. Sex of the Respondents

As it is observed in the above table item 1, among 81 respondents, 59 (72.8%) were male and 22 (27.2%) represent female. This reveals that in the sub city most of MSE's activities are carried out by men compared with its counterparts. This can also confirm by the 2005 E.C Federal Micro and small Enterprises Agency of Ethiopia three years bulletin report which indicates that 58.2% of MSE's operators in Addis Ababa and all other regions are male and the 41. 2% were female. Thus, balancing this gap and improving the participation of women in MSE's operation requires serious attention since they have indispensable roles in bringing the overall political, social and economic development of the society. The difference between male and female participants may be created by the cultural and social influence of the society.



**Figure 1: Sex of the Respondents (Source: Survey Questionnaire)**

#### **4.2.2. Age of the Respondents**

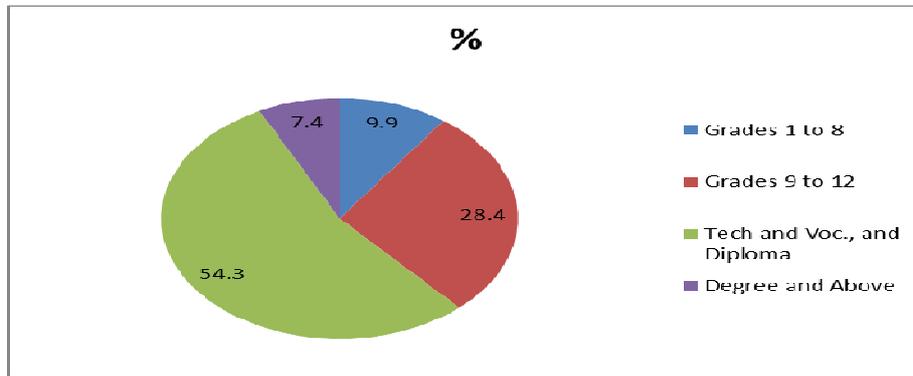
The same table above item 2 shows that 64 (79%) of the respondents fall within the ages of 35 years and below. This reveals that most youths have better participation within MSE's activities and this can give a bright future for the development of the sectors and can reduce the rate of youth unemployment if all the necessary support are given by respective support institutions; While the remaining 17 (21%) of the respondents falls within the age category of above 35 years of age. The study indicates that the enterprises found in the study area have diversified age group people; from this it is believed that micro and small enterprises and its owners in the study area has a good future and will help to reduce unemployment and poverty among the people in general and the youth in particular.

#### **4.2.3. Educational Level of the Respondents**

Education is one of the factors that impact positively on growth of MSE's and business men with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 2002). The analyses of educational background of the respondents are shown in items 3 above indicates that 9.9% and 28.4% have obtained grades eight and below, and nine to twelve respectively. The rest 54.3% and 7.4% of respondents has also technical and vocational and diploma, and first degree and above educational levels respectively.

Therefore, this helps MSE's owners to deal with plans that can lead to business growth like keeping proper books of records, prepares business plan, taking advocacy issues to support their businesses and to look for more training programs to improve their businesses. In

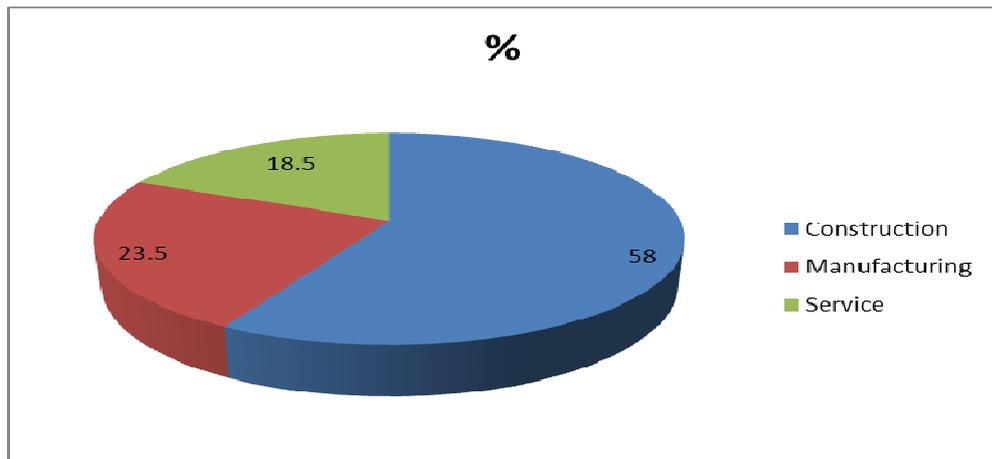
addition, 28.4% of the respondents those who have secondary education can manage their business and able to keep some level of records as well as making contact with other stakeholders by acquiring some financial and technical training. Therefore, their level of education may not be a factor of MSE's failure.



**Figure 2: Educational Level of the Respondents (Source: Survey Questionnaire)**

#### **4.2.4. Respondents on Category of Sectors**

As it is revealed in items 4 above, the sample firms were operating in three sectors. Most of them 47 (58%) are engaged in construction followed by manufacturing 19 (23.5%) and service 15 (18.5%). This division of MSEs by sector type was believed to be helpful to study the type of business ventures practiced in the study area and it also helps to have balanced information to study the challenges faced MSE's by creating homogeneity among sample respondents since firms in different sectors face different challenges.



**Figure3: Category of MSE's by Sectors (Source: Survey Questionnaire)**

#### **4.2.5. Experience of the Respondents**

Experiences related with funding finance and management, marketing, and management positively contributes to the succes of the overall MSE's operation, (Daniel, 2012). In this regard, the above table in item 5 shows that majority (51.9%) of the respondents have an experience of above five years. The rest 27.1% and 21% of the respondents have also an experience of 3 to 5 years, and 2 years and below respectively. From this data, someone can conclude that majority of MSE's owners have better expereince and this contributes for future sustainability, performance and expansion of the enterprises. In addition, those enterprises which have below five years experience requires obtainnig experiences from those who have acquired better experiences.

#### **4.3. Startup and Working Capital and Its Contribution**

MSE's obtain startup and working capital from different sources; and the capital also has contributions to MSE's owners and other employees in creating employment opportunity and poverty alleviation.

**Table 4.3. Responses on Startup and Working Capital Sources and its Contributions**

No.	Item	Choice	Counted	%	Cumulative %
1	Have you had job before this Business?	Yes	26	32.1	32.1
		No	55	67.9	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
2	Amount of Startup and working Capital	Less than 5000 Birr	22	27.2	27.2
		Between 5000 to10,000Birr	16	19.8	47.0
		Above 10,000Birr	43	53.0	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
3	Source of startup and working capital	Personal saving	13	16.1	16.1
		Family	10	12.3	27.0
		Banks	4	4.9	31.9
		Microfinance	54	66.7	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
4	Average monthly income of owners	Less than 1000Birr	21	25.9	25.9
		1000 to 2000Birr	22	27.2	53.1
		2001 to 3000Birr	24	29.6	82.7
		Above 3000Birr	14	17.3	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
5	Adequacy of the income to their life	Yes	41	50.6	50.6
		No	40	49.4	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	
6	Advantages to owners earned from this business	Able to learn	8	9.9	
		Able to help family	30	37.1	9.9
		Able to Save	4	4.9	47.0
		Able to cover costs	39	48.1	51.9
		<b>Total</b>	<b>81</b>	<b>100</b>	<b>100</b>
7	Number of owners and employees employed in sample sectors		659 owners and 229 employees		
8	Employees average monthly salary	Less than 1000 Birr	34	42.1	42.1
		1000 to 2000 Birr	18	22.2	64.3
		2001 to 3000	27	33.3	97.6
		Above 3000 Birr	2	2.4	<b>100</b>
		<b>Total</b>	<b>81</b>	<b>100</b>	

Source: Survey Questionnaire

#### 4.3.1. Responses on Employment Opportunity and Earnings

Micro and small enterprises have a huge contribution to the growth and development of developing countries in terms of employment opportunity generation at a relatively low capital cost (Stephen and Wasiu, 2013). The above table (4.3) item1 indicates that most (69.7%) of the respondents didn't have job before the involvement of this business due to different reasons such as absence of job, active in schools, etc. and this study confirms 659 MSE's sample owners and 229 employees have had an employment opportunity within this business.

Among this employment opportunity as observed in the same table in items 4, 25.9%, 56.8% and 17.3% MSE's owners have earned an average monthly salary of Birr below 1000, 1000 to 3000, and above 3000 respectively. Regarding the employees monthly income, the table reveals that 42.1%, 55.5% and 2.4% of employees' employed in the sector have earned an average monthly salary of Birr below 1000, 1000 to 3000, and above 3000 respectively.

In addition, the sub-city MSE's Office strategic plan document (2006 to 2010) confirms that the years from 2001 to 2005 the sector has created 45,491 (27,839 permanent and 17,652 temporary) employment opportunities.

As it is indicated in the same table items 5, 50.6% of the respondents' income is adequate to satisfy their needs. In the same table above, 48.1% of the subjects were able to cover their expenses, and 37.1% able to help their families respectively. A small amount, 9.9% and 4.9% of the respondents also can learn and save respectively.

The study reveals that MSE's in the study area have a green light and good contribution in employment opportunity creation and poverty alleviation. This means, if many people have accessed employment opportunity, leads to increase the income of participants, the per capita income of the citizens, and the GDP development of the country. Therefore, owners, support institutions and the society at large should provide serious attention based on the policy directives.

#### **4.3.2. Responses on Startup and Working Capital and Its Sources**

As it is obtained in the table above items 2, 53% of MSE's in the study area has started their business above Birr10, 000. The rest 27.2% and 19.8% of MSE's have also started their business below Birr 5000, and 5,000 to 10,000 respectively. Starting and doing own business requires startup and working capital which obtained from different sources. In this regard, majority (66.7%) of owners shows that the source of startup capital is obtained from government sponsored microfinance institution. The rest, 16.6%, 12.3% and 4.9% were financed from personal saving, family and banks respectively.

Besides, the result of interview also shows that MSE's in the study area uses informal sources such as Iqub and Idir due to the inability to satisfy the credit needs of MSE's by formal financial institutions, and if it is possible, most of the interviewees prefer informal sources due

to its relatively rare requirement of collateral since such sources take place among parties with intimate knowledge and trust of each other.

The study shows that MSE's opportunity in accessing startup finance is mainly dependent on a single source, i.e., microfinance institutions. As a result, the sector has shortage of finance to satisfy the credit needs which helps the expansion and growth of MSE's, engaging substantial number of employees and/or generating more financial resources. Therefore, accessing startup and working finance to MSE's requires serious attention in order to obtain significant contribution from the sector.

#### 4.4. Challenges Related to MSE's Operations

Respondents were asked different questions based on questionnaires and interview in line with the challenges that influence MSE's operation of MSEs are analyzed here under.

**Table4.4.1. Challenges Related to the Role of Support Institutions**

No.	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	Support institutions provide adequate assistance to MSE's with their respective roles	6	24	9	31	11	<b>81</b>	2.79	1.22
	%	7.4	29.6	11.1	38.3	13.6	<b>100</b>		
2	Gov. officials have consistent monitoring schedules to MSE's	6	19	1	36	19	<b>81</b>	2.46	1.28
	%	7.4	23.5	1.2	44.4	23.5	<b>100</b>		
3	Officials and experts search market for MSE's and they create market linkages	6	30	6	34	5	<b>81</b>	2.97	1.16
	%	7.4	37.0	7.4	42.0	6.2	<b>100</b>		
4	MSE's have got equal treatment of using incentives given by the Gov.	7	20	4	29	21	<b>81</b>	2.54	1.34
	%	8.7	24.7	4.9	35.8	25.9	<b>100</b>		
5	Microfinance institution have provided finance related technical/managerial support	3	16	5	48	9	<b>81</b>	2.45	1.04
	%	3.7	19.8	6.2	59.3	11.0	<b>100</b>		
6	Support institutions have adjusted continuous training and dev. Programs to MSE's	13	31	5	23	9	<b>81</b>	3.19	1.31
	%	16	38.3	6.2	28.4	11.1	<b>100</b>		
7	Experience sharing program is scheduled among MSE's.	4	14	3	36	24	<b>81</b>	2.23	1.19
	%	4.9	17.3	3.7	44.4	29.6	<b>100</b>		
<b>Total</b>							<b>2.66</b>	<b>1.22</b>	

**Source:** Survey Questionnaire

**Key:** MN = Mean    SD = Standard Deviation

According to MoTI, (1997), the government of FDRE with its respective support institutions has roles in promoting MSE's by facilitating infrastructure, marketing, financing, establishing monitoring and feedback systems, providing training etc. to realize the contribution of the sector. In relation to this in Table 4.4.1 item1, 51.9% (13.6% strongly disagree and 38.3% disagree) of the respondents shows that support institutions don't provide adequate assistance to MSE's based on their respective roles. On the other hand, 37% (7.4 strongly agree and 29.6% agree) positively acknowledged the support of the institutions, and the rest 11.1% neither agree nor disagree on the role played by support institutions. The 2.79 and 1.22 MN and SD respectively also reveal that the assistance given to MSE's is below the expected central average and coefficient variation of the distribution.

The interviews obtained from the sub-city and district officials and experts also strengthened the questionnaire responses that MSE's don't acquire adequate support due to shortage of skilled and professional experts at both the sub-city and district levels.

As the responses analyzed in the same table item2, majority 67.9% (23.5% strongly disagree and 44.4% disagree) of the respondents indicate that government officials don't have continuous monitoring schedules to MSE's. On the other hand, 30.9% of the respondents are positively acknowledged the existence of schedules set by government officials. The MN 2.46 and SD 1.28 also confirm that officials don't have consistent monitoring schedules to MSE's which helps to address immediate problems.

With regard to market search and linkage creation indicated in item 3, 48.2% (6.2 strongly disagree and 42% disagree) of the respondents reveals that Officials and experts couldn't search market and establish adequate market linkage with others. On the contrary, 44.4% (7.4 strongly agree and 37% agree) positively recognized effort in searching market and establishing linkages; and the rest 7.4% of the respondents neither agreed nor disagreed. Even though the 2.97 MN and 1.16 SD shows average efforts exerted by officials and experts in searching market and establishing market linkages, there is a deviation in satisfying the needs of MSE's.

Concerning incentives given by the government indicated in the above table item 4, 61.7% (25.9 strongly disagree and 35.8 disagree) of the responses show that MSE's don't get equal treatment of using incentives given by the government. On the other hand, 33.4% (8.7 strongly

agree and 24.7% agree) of the respondents reply that MSE's have received fair treatment, and only 4.9% provide their neutral response. The analysis of 2.54 and 1.34 MN and SD respectively reveals that majority of MSE's owners don't agree by the fairness of the incentives given by government officials. Hence, this requires attention in establishing fair treatment mechanism which ensures the fairness and reasonableness of the treatment.

In relation to finance related technical/managerial support to MSE's indicated in items 5, most (70.3%) which is 59.3% strongly disagree and 11% of the participants' response indicates that microfinance institution couldn't provide adequate support on finance related technical/managerial matters. The rest 23.5% and 6.2 % of the respondents provide their agreements and neutral responses respectively. The 2.45 MN and 1.04 SD also helps to conclude that the effort given by microfinance institution on finance related technical/managerial support to MSE's couldn't satisfy the expectation of MSE's owners. As a result, this could be one of the challenges which affect MSE's success.

With regard to support on providing training to owners/managers the sub-city has provided training for 5,963 owners during the years 2004 and 2005. As respondents confirmed that 54.3% (16% strongly agree and 38.3% agree) MSE's are obtained adequate training from support institutions. On the other hand, 39.5% (11.1% strongly disagree and 28.4% disagree) shows that MSE's didn't acquire adequate training from respective institutions. Even though the mean 3.19 shows the level of support above the central average and has a SD of 1.31, there is a gap which needs further improvement.

As it is observed in item7, 74 % (29.6% strongly disagree and 44.4% disagree) shows that support institutions don't have scheduled experience sharing program among MSE's. On the contrary, 22.2% (4.9 strongly agree and 17.3% agree) of the respondents acknowledged the existence of scheduled experience sharing program. The 2.23MN and 1.19 SD also show the gaps between the effort of support institutions and the expectation of owners in relation to experience sharing practices.

The above discussions related with support institutions reveal that the total 2.66 MN and 1.22 SD reveals that sample MSE's don't obtain adequate support from respective organizations. Thus, lacking proper experience sharing activities, technical and managerial support related

with financial matters, inability to solve immediate problems based on continuous monitoring activities and failure in providing fair treatment to MSE's could be the challenges which impedes the growth and expansion of MSE,s.

**Table4.4.2. Challenges Related to Finance**

No	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	Start up and working capital is easily accessible	7	12	2	41	19	<b>81</b>	<b>2.34</b>	<b>1.23</b>
	%	8.6	14.8	2.5	50.6	23.5	100		
2	The loan obtained from financial institution is adequate for my business operation	4	11	2	46	18	<b>81</b>	<b>2.22</b>	<b>1.09</b>
	%	4.9	13.6	2.5	56.8	22.2	100		
3	Borrowing money is possible without collateral	5	4	1	37	34	<b>81</b>	<b>1.87</b>	<b>1.08</b>
	%	6.2	4.9	1.2	45.7	42	100		
4	The amount of interest rate paid to lending institution is reasonable	10	14	5	37	15	<b>81</b>	<b>2.59</b>	<b>1.31</b>
	%	12.3	17.3	6.2	45.7	18.5	100		
5	The repayment period of loan is suitable to payback the debt	8	14	11	33	15	<b>81</b>	<b>2.59</b>	<b>1.25</b>
	%	9.9	17.3	13.6	40.7	18.5	<b>100</b>		
<b>Total</b>							<b>2.32</b>	<b>1.19</b>	

**Source:** Survey Questionnaire

Although access to finance is crucial to carry out MSE's business operation, expansion and growth of any nation's economy, problems related to finance dominate all other constraints (Ackah and Vuvor, 2011). Lack of finance, shortage of access to credit, and high interest rates of financial institutions lead to MSE's retarding their expansion and growth (Ibid).

In this regard, the sub-city microfinance institution has provided a loan of Br. 107,632, 687 in 2004 and 2005 years. Even though this amount of loan has been supplied by microfinance institution, majority (74.1%) of the respondents in table 4.4.2 in item 1 confirm the difficulty of obtaining startup and working capital to MSE's. Among the respondents, 23.4% (8.6% strongly agree and 14.8% agree) shows that startup and working capital is easily accessible to MSE's, and only 2.5% of the respondents neither agree nor disagree.

In addition, 2.34 MN and 1.23 SD reveal that MSE's have faced challenges to the inaccessibility of finance. As it is indicated in the same table the main source of finance was dependent on microfinance institution. Besides, the response of the questionnaire and interviews conducted from sub-city and district officials and experts, and MSE's owners confirm that obtaining adequate finance is difficult to MSE's in general and new entrants in particular due to the prior 20% compulsory saving requirement of the total loan size.

It is presented in item 2, 79% (22.2% strongly disagree and 56.8% disagree) of the responses indicate that the loan size given by microfinance is inadequate to run the business. Only 18.5% of the respondents show their positive agreements on its adequacy to run their business. In addition to the inadequacy of the loan, 87.7% of the respondents in items 3 which has 1.87 and 1.08 MN and SD respectively reveals loan is impossible without saving or asset collateral.

Regarding this issue, interviews were conducted from sub-city and district officials and experts, and MSE's owners; and their responses strengthened the challenges related with the loan that new entrants in to the sector should fulfill a compulsory saving of 20 % based on the total loan size, and this requirement hinders new entrants in general and the very poor people in particular.

Concerning interest rates, the majority (64.2%) of the responses shows the existence of unreasonable interest rate. On the other hand, 29.6 % (12.3% strongly agree and 17.3% agree) shows its reasonableness. The rest 6.2% of the respondents neither agree nor disagree. Furthermore, the interviews also shows that the current annual interest rate of loan taken from microfinance institution is 10.5%; which is more than 1.5% and 2% in comparison with commercial and development banks respectively.

In relation to the payback period of the debt, majority of the respondents which is 59.2 % (18.5% strongly disagree and 40.7% disagree) reveals the inconvenience of the payback period. On the contrary, some of (27.2%) and (13.6%) of the subjects provide their agreements and neutrality respectively.

As the study shows there are finance related challenges which severely hinders sample MSE's operation. Based on the mean of observed variables; collateral requirements (1.87),

inadequacy of loan (2.22), and the difficulty of accessing finance (2.34) are the major ranked challenges followed by inconvenience of loan repayment period and high interest rate.

**Table4.4.3. Challenges Related to Working Premises**

No	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	Working premises are adequate for operation	8	27	4	32	11	81	2.83	1.26
	%	8.6	33.3	4.9	39.5	13.6	100		
2	Premises are adjusted based on MSE's growth level.	5	12	3	47	14	81	2.34	1.11
	%	6.2	14.8	3.7	58.0	17.3	100		
3	Leasing cost is reasonable and affordable.	14	33	4	24	6	81	3.30	1.27
	%	17.4	40.7	4.9	29.6	7.4	100		
<b>Total</b>								2.82	1.21

**Source:** Survey Questionnaire

Working premise is one of the challenges which impede the full scale implementation and growth of micro and small enterprises, and it is the second ranked problem in regional towns and the major ones in Addis Ababa (MUDC, 2013). In relation to this study, the sub-city has provided 327 sheds which has approximately ranging from of 36 to 120 sq. meters based on the number of members and the nature of the enterprises. Although these sheds are available to the sector, majority (53.1%) which is (13.6 strongly disagree and 39.5% disagree) of the respondents and the mean and standard deviation of 2.83 and 1.26 respectively confirm that working premises are inadequate for their business operation. On the other side, 41.9% (8.6 strongly agree and 33.3% agree) of samples show the adequacy of the premises.

In relation to premises adjustment based on MSE's growth level, most (75.3%) of the participants, and the 2.34MN and 1.11SD indicated that premises aren't adjusted based on their growth levels. The interviews from MSE's owners and officials also found out that MSE's graduation from one level to the other has practiced without considering their premises, and this hinders the full scale operation and expansion of the enterprises. The interviewees added that due to shortage of premises currently the sub-city doesn't allow working premises for those new entrant groups of having less than ten members.

The same table above in items 3, majority (58%) of the participants and the 3.30 MN indicates the reasonableness of the leasing cost of the premises; and 37% and 4.9% expressed their disagreements and neutral responses respectively. As it is confirmed by interviews from owners and officials the maximum leasing cost which found in the study area is Birr 400 per month.

Hence, the inability to adjust premises based on the growth levels of MSE's and the inadequacy of working premises may hinders operators in utilizing the maximum resources and expansion of the existing businesses.

**Table4.4.4. Challenges Related to Marketing**

No.	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	MSE's had short and long term marketing plan.	7	23	4	36	11	<b>81</b>	<b>2.74</b>	<b>1.25</b>
	%	8.6	28.4	4.9	44.5	13.6			
2	Market linkages are created between MSE's and other institutions.	7	30	2	26	16	<b>81</b>	<b>2.82</b>	<b>1.34</b>
	%	8.6	37.0	2.5	32.1	19.8			
3	MSEs have market clearly defined market potential and customers.	4	17	5	40	15	<b>81</b>	<b>2.44</b>	<b>1.16</b>
	%	4.9	21.0	6.2	49.4	18.5			
4	MSE's products are easily accessible to customers.	9	21	6	36	9	<b>81</b>	<b>2.81</b>	<b>1.25</b>
	%	11.1	25.9	7.5	44.4	11.1			
5	There is no intense market competition among MSE's	20	32	18	9	2	<b>81</b>	<b>3.72</b>	<b>1.03</b>
	%	24.7	39.5	22.2	11.1	2.5			
6	Entry in the market is convenient to MSE's.	7	30	2	26	16	<b>81</b>	<b>2.40</b>	<b>1.14</b>
	%	8.6	37.0	2.5	32.1	19.8			
7	MSE's vary their products to satisfy and catch customers	6	10	6	51	8	<b>81</b>	<b>2.44</b>	<b>1.07</b>
	%	7.4	12.3	7.4	63.0	9.9			
<b>Total</b>							<b>2.76</b>	<b>1.17</b>	

**Source:** Survey Questionnaire

As it is observed item 1 above, 13.6% strongly disagree and 44.5% of disagree which is 58.1% of the disagreement and the 2.74 mean results obtained from the distribution shows that MSE's don't have short and long term marketing plan. The other 37% (8.6 % strongly agree and 28.4% agree) reveals the existence of marketing plan, and the rest 4.9% of the respondents

are not sure to provide their responses. In addition, this is also supported by MSE's owner's interviews that most of the enterprises don't have market plan due to lack of knowledge and skills related with managerial functions.

Regarding the created market linkages between MSE's and others, 51.9% the responses indicates that market linkages among MSE's and others aren't properly done. The other 45.6% (8.6% strongly and 37% agree) of participants expressed their agreements, and only, 2.5% of the participants couldn't provide their agreement's or disagreement's.

Even though majority of the questionnaire responses reveals the none existence of market linkages, the interview responses and secondary source documents of officials reveals that market linkages are created among MSE's. According to the strategic plan of the sub-city MSE's office, in the years 2004 and 2005 MSE's have got Birr 158,527,164 from the created market linkage. Despite managers/owners also confirm that MSE's related to construction sectors has tried to create market linkages with Addis Ababa City Administration Housing Development Agency, the diversification of the linkages, and attention to other sectors are questionable.

In relation to market potential and customer identification, 67% of the disagreements which encompasses 18.5% strongly disagree and 49.4% of disagree shows that MSE's don't have clearly identified market potential and customers. As it is confirmed by the interview except those the government has created the linkages, MSE's face challenges due to the doubtful attitudes of the community towards the quality of products. Some of the respondents (25.9%) acknowledged the availability of market potential and customers. The rest 6.2% couldn't forward their responses either positively or negatively.

As observed in item4, 55.5% of the respondents replied that MSE's products are inaccessible to their customers. On the other hand, 37% of the respondents agreed on the possibility of accessing the products to their customers, and only, 7.5% of the respondents provided their neutral responses.

Concerning market competition, 64.2% of the responses show the none-existence of intense market competition, and 22.2% of the respondents neither agree nor disagree. Only 13.6% of the respondents accept the existence of intense market competition. Interviews from MSE's

owners/ managers also ensure that competition is not as such a challenge which hinders their operation.

In the table above in item 6, 51.9% (19.8% strongly disagree and 32.1% disagree) of the responses confirm that market entry is not convenient to MSE's. On the other hand, 45.6 % of the respondents reveal the convenience of market entry, and only 2.5% shows their neutral responses. The interviews from MSE's owners, and sub-city and district officials and experts indicate that the difficulty to market entry is related with the negative attitude of the community towards the quality of products, the inaccessibility of market near to the production site and lack of product display areas or houses.

With regard to product differentiation, 73.9% of the answers show that the enterprises do not produce various products to satisfy and catch customers. Only 19.7% of the respondent's response indicates the effort of MSE's in producing differentiated products to satisfy and catch their customers. The interviewed individuals answered that even though some manufacturing enterprises those involved in metal and wood works have tried to apply differentiation, most enterprises found in the construction sector are guided by the interest of the government and hence differentiation were not the focus of such enterprises.

Marketing knowledge is important for the promotion, growth and development of Micro and small enterprises. However, market constraints and the inability to sell the products and services; lack of adequate marketing channels, lack of marketing skills and inability to create market linkages are the problems to the starting of business and further growth of the sector (MUDC, 2013; MoFED, 2011).

As the study discussed and the 2.76 MN and 1.17 SD confirm that most of micro and small enterprises don't have short and long term marketing plan, fully addressed market linkage's, clearly defined customers, means of product accessibility and differentiated products to make loyal to their customers. There is also a challenge to market entry related with the negative attitude of the community towards the quality of products. Therefore, such problems may have an impact on the proper development and operation of sample MSE's.

**Table4.4.5. Challenges Related to Managerial and Technical skills**

No.	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	MSE's managers/owners have managerial knowledge and skills.	7	18	3	43	10	<b>81</b>	<b>2.61</b>	<b>1.21</b>
	%	8.6	22.2	3.7	53.1	12.3	100		
2	Managers are designated based on their managerial skills.	4	15	8	41	13	<b>81</b>	<b>2.45</b>	<b>1.11</b>
	%	4.9	18.5	9.9	50.6	16	100		
3	MSE's have written work plan.	5	16	6	47	7	<b>81</b>	<b>2.56</b>	<b>1.09</b>
	%	6.2	19.8	7.4	58	8.6	100		
4	Monitoring and evaluation program is clearly scheduled and practiced.	5	28	2	38	8	<b>81</b>	<b>2.80</b>	<b>1.19</b>
	%	6.2	34.6	2.5	46.9	9.9	100		
5	MSE's managers/owners have access to get better managerial knowledge.	7	15	7	30	22	<b>81</b>	<b>2.44</b>	<b>1.30</b>
	%	8.6	18.5	8.6	37.0	27.2	<b>100</b>		
<b>Total</b>							<b>2.57</b>	<b>1.18</b>	

**Source:** Survey Questionnaire

According to CLEP (2006), lack of managerial skills such as lack of coordination of the production process, and inability to handle troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration.

In relation to managerial knowledge and technical skills of MSE's managers table4.4.5 in item 1, 65.4% (12.3% strongly disagree and 53.1% disagree) of the respondents express that managers/owners don't have adequate managerial knowledge and skills. This also confirmed by the interviews that most of MSE's failures and dropouts are related with the inability of managing the groups, financial matters, raw materials and other resources. According to the positive responses of 8.6 % strongly agree and 22.2% agree (30.8%), managers have managerial and technical skills in order to lead their business. only 3.7 % of the respondents were not sure to show their position.

As it is observed in the above table in item 2, 66.6% of the respondents show that managerial position of MSE's aren't assigned based on their managerial knowledge and skills. Interview

responses from officials and experts, and MSE's owners also confirm owners don't provide attention to their managers and other management members' assignment; and even the owners may not be well known each other. The other 23.4% (4.9% strongly agree and 18.5% agree) of the respondents reply that their managers assignment is based on their managerial knowledge and skills. Few (9.9%) of the respondents were not sure to provide their responses.

Concerning the existence of written work plan, 66.6% of the responses reveal that MSE's haven't written work plan. Furthermore, during the time of the enterprises visiting the researcher has tried to observe the offices of MSE's and asked them to show their work plan and other documents but except daily attendances of owners and employees no one of them can have a written work plan which placed in their premises. Although majority of the respondents and interviews confirm the none existence of written work plan, 35% of the respondents show the existence of their work plan, and the other 7.4% of the respondents provide their neutral responses.

With regard to monitoring and evaluation, 9.9% of strongly disagree and 46.9% disagree which is a majority (56.8%) of subjects reveal that the target group don't have clearly scheduled and applicable monitoring and evaluation program. Among the respondents, 40.8% (6.2% strongly agree and 34.6% of agree) indicates the existence of scheduled monitoring and evaluation programs. A few, 2.5% of respondents were neutral in providing their responses. Besides, the interview responses obtained from officials and experts, and MSE's owners show that managers don't have scheduled consistent follow up and evaluation practices to alleviate immediate observable problems.

As it is indicated in items 5, majority (64.2%) of the participants indicates that MSE's managers haven't access to get better managerial knowledge. On the other hand, 27.1% of the respondents confirm the existence of opportunities to obtain managerial knowledge and skills; and the rest 8.6% shows their neutral responses. However, secondary source documents confirm that support institutions which are found in the sub-city has provided managerial training for 1,831 MSE's owners to strengthen their managerial and technical skills.

Despite the efforts has made to improve the MSE's managerial knowledge and skills, Majority of the respondents percentages and the mean of each item, and the total mean of 2.57 shows that MSE's have problems in acquiring better managerial knowledge and skills,

managerial designations, and preparing their own work plan. Hence, such problems may have negative effect on the success and further expansion of MSE's.

**Table4.4.6. Challenges Related to Infrastructure Facilities**

No.	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	There is no continuous electric power interruptions	4	3	1	37	36	<b>81</b>	<b>1.79</b>	<b>1.00</b>
	%	4.9	3.7	1.2	45.7	44.5			
2	Sufficient water supply is available in your working premises	9	1	4	35	32	<b>81</b>	<b>2.01</b>	<b>1.22</b>
	%	11.1	1.2	4.9	43.3	39.5			
3	Sufficient and quick transportation is available.	6	13	3	32	27	<b>81</b>	<b>2.24</b>	<b>1.27</b>
	%	7.4	16.1	3.7	39.5	33.3			
4	Appropriate dry waste and sewerage system is available	3	4	2	30	42	<b>81</b>	<b>1.71</b>	<b>1.00</b>
	%	3.7	4.9	2.5	37.0	51.9			
<b>Total</b>							<b>1.93</b>	<b>1.12</b>	

**Source:** Survey Questionnaire

The result presented in the above table shows that unavailability of dry waste and sewerage system, power interruption, inadequate water supply, and inconvenience of working site for transportation access are the major challenges that face MSE's operation in the study area.

As it observed in item1, 90.2% (44.4% strongly disagree and 45.7% disagree) of the responses confirm that existence of electric power interruptions. Only 8.6% (4.9% strongly agree and 3.7% agree) of the subjects confirm the none-existence of electric power interruptions, and the rest 1.2% of the respondents provide neutral responses. In addition, the mean 1.79 and the standard deviation 1.0 reveal that most respondents of MSE's are influenced by electric power interruption next to unavailability of dry waste and sewerage system.

Regarding the sufficiency of adequate water supply in item 2, majority (82.8%) of the respondents shows that MSE's don't obtain adequate water supply. Among the respondents, only 12.3% and 4.3% responses confirm the availability of adequate water supply and neutral responses respectively. Besides, the mean 2.01 with the standard deviation of 1.22 reveals that majority of the respondents are agreed on the insufficiency of water supply in the study area.

In relation to transportation indicated in item3, 72.8% (33.3% strongly disagree and 39.5% disagree) of the participants reply that the working site is not convenient for accessing adequate and quick transportation. Among the respondents, 23.5% (7.4% strongly agree and 16.1% agree) MSE's indicates that the working site is convenient for transportation access, and 3.7% neither agree nor disagree.

Concerning the issues relate with dry waste and sewerage system, 51.9% strongly disagree and 37% disagree which is 88.9% of the disagreements shows that unavailability of dry waste and sewerage system is the first ranked challenge among the variables with infrastructure facilities.

In addition, the questionnaire responses are supported by the interviewees from MSE owners and the sub-city and district officials that unavailability of appropriate dry waste and sewerage system, power interruption, inadequate water supply, and poor transportation facility near the working site are the major impeding factors for the full scale implementation of MSE's.

From this discussion and the total mean 1.93 indicated in table above, poor infrastructure facility could be one of the major challenges which inhibits the existence and further expansion of MSE's.

**Table4.4.7. Challenges Related to Raw Materials Supply**

No.	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	Production raw materials are adequately available	5	35	5	24	12	<b>81</b>	<b>2.96</b>	<b>1.25</b>
	%	6.2	43.2	6.2	29.6	14.8	100		
2	MSE's and production input suppliers create Linkages.	5	28	7	26	15	<b>81</b>	<b>2.78</b>	<b>1.27</b>
	%	6.2	34.6	8.6	32.1	18.5	100		
3	The raw materials Supply don't have bureaucratic influence.	5	9	3	38	26	<b>81</b>	<b>2.12</b>	<b>1.16</b>
	%	6.2	11.1	3.7	46.9	32.1	100		
<b>Total</b>								<b>2.62</b>	<b>1.22</b>

**Source:** Survey Questionnaire

In relation to production raw materials availability, 49.4 % (6.2 strongly agree and 43.2% agree) agreements reveals that production raw materials is adequately available to MSE's. On the other hand, 44.4% (14.8% strongly disagree and 29.6% disagree) of the responses shows the inadequacy of production raw materials and the rest 6.2% haven't sure response. The mean 2.96 confirms that the

availability and adequacy of production raw materials to MSE's has deviation to the maximum value of the likert scale.

In the same table above in item2, majority (50.6%) of the respondents indicate that MSE's and production input suppliers couldn't make linkages. On the contrary, 40.8% indicates the existence of linkages, and the rest 8.6 % neither agree nor disagree.

Even though the interviewees of sub-city and district officials witnessed that production input suppliers and MSE's have proper linkages, owners/managers couldn't agree by the created linkages since the linkage is mainly created between the construction sector and the Addis Ababa city Administration Housing Development Agency in supplying cement. Owners/managers interviewees also show that their construction production capacity is highly dependent on the effectiveness of the agency, i.e. if the agency requires more production output, it supplies more cement to MSE's and have more production outputs; if not the result is vice versa. Besides, the interviewees added that MSE's which produce bricks couldn't produce and sale their production without the above government agency.

As it is observed in items 3, 79% of the respondents confirm the existence of bureaucratic influence in the area of supplying production inputs. Only 17.3% and 3.7% participants provide their positive and neutral responses respectively. Furthermore, the interviews from officials and MSE's owners show that bureaucratic influence related with supplying cement, taking the final product from the production site and payment adjustment can be taken as the challenges of MSE's.

Although some efforts have been made to create linkages between MSE's and production raw material suppliers, inability to creating linkages and serving all sectors, and bureaucratic influence seem to be the challenges which affects MSE's operation.

**Table4.4.8. Challenges Related to Regulatory Issues**

No.	Item	Agreement Level					Sum	MN	SD
		5	4	3	2	1			
1	The tax levied on my business is reasonable	13	30	6	22	10	81	3.17	1.33
	%	16.0	37.1	7.4	27.2	12.3	100		
2	Bureaucracy is not a bottleneck in registration and licensing	18	40	2	14	7	81	3.59	1.25
	%	22.2	49.4	2.5	17.3	8.6	100		
3	There is no unreasonable government officials involvement	15	40	6	13	7	81	3.53	1.21
	%	18.5	49.5	7.4	16.0	8.6	100		
4	Rules and regulations are easily accessible to MSE's.	22	32	3	13	11	81	3.50	1.39
	%	27.2	39.5	3.7	16.0	13.6	100		
<b>Total</b>							3.44	1.29	

**Source:** Survey Questionnaire

Regarding regulatory issues identified in table above in items 1, 53.1% of the respondents indicate that the reasonableness of the tax levied on MSE's, and 7.4% also neither agree nor disagree. On the other hand, 39.5 % ( 12.3% strongly disagree and 27.2% disagree) shows that unreasonable taxation could be a challenge to MSE's operation.

In relation to acquiring registration and licensing, among the respondents 71.6% (22.2% strongly agree and 49.4% agree) indicates bureaucracy is a challenge to register and acquire license which helps to start new business and promote the existing ones. On the contrary, some 25.9% (8.6% strongly disagree and 17.3% disagree) participants reply that bureaucracy is not a bottle neck to acquire a license, and the rest 2.5% neither disagree nor agree.

The interview results from officials and MSE's operators confirms that bureaucratic decisions such as 20% of compulsory saving prior to obtaining loan and a requirement having ten and above members to establish a group prior to registration and licensing is one of the main challenges to MSE's in general and new entrants in particular; and those who has less than ten members couldn't have the right to get premises.

Moreover, the interviewees agree that bureaucratic decision adversely impedes the policy objectives; creating employment opportunity, poverty reduction, and overall economic growth. In the same table items 3 indicated above, 68% (18.5% strongly agree and 49.5% agree) of the participants show that government officials involvement couldn't take as a challenge, and the other 7.4% also provides their neutral responses i.e. neither disagree nor agree. On the other hand, 24.6% (8.6 strongly disagree and 16% disagree) reveals the existence of unreasonable government officials involvement on MSE's operation.

The interview results obtained from government officials and experts, and MSE's owners indicate contradicting views on the involvement of government officials. MSE's owners show that government officials have unreasonable involvement on political and economic matters. On the other hand, officials and experts reveal that the involvement is mainly focus on strengthen MSE's and to play their roles in the economic agenda of the sectors. Hence, in order to confirm this contradicting ideas require further investigation and identification by those who have interest on this matter.

Concerning rules and regulations accessibility to MSE's, 66.7% of the respondents provide their agreement responses, and 3.7% neither agreed nor disagreed. The other 29.6% of the participants indicate inaccessibility of the materials and directives to respective MSE's.

Even though the above discussion and analysis on legality issues show somehow positive efforts have exhibited compared with the other issues discussed above, there are challenges related to preconditions to have registration and licensing, and unreasonable government official involvement which have impacts on the success of MSE's.

#### 4.5. Comparison of Major Challenges

Although all issues related to support institutions, financial, working premises, marketing, managerial and technical skills, infrastructure facilities, supply of raw materials and regularity have its own effect on the success or failure of MSE's; this does not necessarily mean that all issues have equal influence on MSE's operation. Thus, the table below ranks the level of influence of the major issues discussed before.

**Table4.5.Comparison of Major Challenges**

No.	Item	Agreement Level					Sum	MN	SD	Rank
		5	4	3	2	1				
1	Challenges related to support institutions	21	28	11	19	2	<b>81</b>	<b>3.58</b>	<b>1.18</b>	<b>6<sup>th</sup></b>
	%	25.8	34.6	13.6	23.5	2.5	100			
2	Challenges related to finance	29	32	4	11	5	<b>81</b>	<b>3.85</b>	<b>1.22</b>	<b>2<sup>nd</sup></b>
	%	35.8	39.5	4.9	13.6	6.2	100			
3	Challenges related to working premises	23	36	9	9	4	<b>81</b>	<b>3.80</b>	<b>1.12</b>	<b>4<sup>th</sup></b>
	%	28.4	44.4	11.1	11.1	4.9	100			
4	Challenges related to market	15	42	8	12	4	<b>81</b>	<b>3.64</b>	<b>1.09</b>	<b>5<sup>th</sup></b>
	%	18.5	51.9	9.9	14.8	4.9	100			
5	Challenges related to managerial and technical skills	33	21	6	20	1	<b>81</b>	<b>3.80</b>	<b>1.25</b>	<b>3<sup>th</sup></b>
	%	40.7	25.9	7.4	24.7	1.2	<b>100</b>			
6	Challenges related to infrastructure facilities	48	12	5	10	6	<b>81</b>	<b>4.06</b>	<b>1.35</b>	<b>1<sup>st</sup></b>
	%	59.3	14.8	6.2	12.3	7.4	100			
7	Challenges related to supply of raw materials	11	29	13	25	3	<b>81</b>	<b>3.24</b>	<b>1.14</b>	<b>7<sup>th</sup></b>
	%	13.6	35.8	16.0	30.9	3.7	100			
8	Challenges related to regularity	12	21	20	19	9	<b>81</b>	<b>3.10</b>	<b>1.24</b>	<b>8<sup>rd</sup></b>
	%	14.8	25.9	24.7	23.5	11.1	100			

**Source:** Survey Questionnaire

As it can be observed in the table above, the issues related to infrastructure facilities, financial, and managerial and technical skills have greatest influence on sample MSE's operation; followed by working premises, marketing, support institutions, supply of raw materials and regularity issues. This means problems related to infrastructure facilities, financial, and managerial and technical skills are ranked the three most challenges that affect MSE's operation. This finding is supported by MUDC (2013) and Habtamu et al. (2013) whose studies identified that inadequate finance, infrastructure facilities and working premises leveled as the main constraints of most MSE's.

Hence, infrastructure facilities, finance, managerial and technical skills and working premises may impede MSE's operation in the study area.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

In this chapter summary of the findings, conclusions and recommendations are presented. Based on the purpose of the study and findings conclusions and recommendations are made. The recommendations are mainly related with support institutions or government bodies, and MSE's owners.

#### **5.1. Summary of the Findings**

The main objective of the study was to analyze the challenges of micro and small-scale enterprises. In line with this, the study has identified the following findings.

Majority (72.8%) of MSE's owners and the activities in the sub city are carried out by men; and 79% of the study samples fall within the age's category of 35 years and below.

About 61.7% of the participants have an educational level of above technical and vocational, and 58% of MSE's owners have been engaged in the construction sector, and 51.9% of owners have above five years.experience.

Most (69.7%) of the MSE's owners didn't have job before of this business, and among the owners 56.8% have earned an average monthly salary of Birr 1000 to 3000.

Majority (53%) of MSE's are started their business above Birr10, 000; and 66.7% of owners obtained the startup capital from government sponsored microfinance institution.

As each item and the total 2.66 mean of the issues related with support institutions show that majority of MSE's lack obtaining proper experience sharing activities, technical and managerial support related with financial matters, ability to solve immediate problems based on continuous monitoring activities and equal treatment of using incentives given by the government.

As the individual, and total mean (2.32) reveals most MSE's faced by the major ranked finance related challenges such as collateral requirements (1.87MN), inadequacy of loan

(2.22MN), and the difficulty of accessing finance (2.34MN) followed by inconvenience of loan repayment period and high interest rate which severely hinders MSE's operation.

Most (75.3%) of MSE's owners reveal that MSE's graduation from one level to the other has implanted without considering their premises, and this hinders the full scale operation and expansion of the enterprises; working premises doesn't allow for those new entrant groups of having less than ten members.

Majority MSE's don't have short and long term marketing plan, fully addressed market linkage's, clearly defined customers, means of product accessibility and differentiated products to make loyal to their customers; and has entry challenges related with the negative attitude of the community towards the quality of products.

Majority of the respondents' percentages and the mean of each item, and the total mean of 2.57 shows that MSE's have faced challenges in acquiring better managerial knowledge and skills, managerial designations, and preparing their own work plan.

Almost all of the respondents show that unavailability of appropriate dry waste and sewerage system, power interruption, inadequate water supply, and poor transportation facility near the working site are the critical influencing factors for the full scale implementation of MSE's.

Majority (79%) of the respondents indicates existence of bureaucratic influence in supplying production inputs, and (50.6%) of the respondents indicate that MSE's and production input suppliers couldn't create linkages.

Majority of the respondents reveals that new entrants have faced challenges related with preconditions to have registration and licensing, and unreasonable government official involvement which influences on the success of MSE's.

As it is compared infrastructure facilities, financial, and managerial and technical skills are ranked the three most challenges that affect MSE's operation; followed by working premises, marketing, support institutions, supply of raw materials and regularity issues.

## 5.2. Conclusions

This study was carried in Akaki-Kality sub-city with the purpose of assessing the practices and challenges faced MSE's operators engaged in different activities. The study has tried to see the demographics of the study participants such as the sex composition, age category, level of education and experiences. Specifically, MSE's startup and working capital and its sources, contributions to owners and employees, and the challenges faced to MSE's operation.

As the samples revealed that the involvement of males in MSE's activities is more than females; and balancing this gap and improving the participation of women would have indispensable roles in benefiting women, bringing political, social and economic development of the society. Majority of the study participants were youths which give bright future for the development of the sectors and reduce youth unemployment. Most of the study group have technical and vocational, diploma, and first degree and above educational levels which enables MSE's in keeping proper books of records, prepares business plan, taking advocacy issues and to look for more training programs. MSE's in the study area provides employment opportunity to owners and employees, and helps them to increase their per capita income and able to help their families.

The main sources of startup capital for most sample MSE's happened to be microfinance institution followed by a few amount of personal savings and family. This single formal financial institution couldn't satisfy the credit needs of MSE's. Even though the sector has huge contributions to the community, finance related factors such as difficulty of accessing finance, high collateral requirements and inadequacy of loan are the major ranked challenges followed by inconvenience of loan payback period and high interest rate severely hinders most sample MSE's operation.

Despite governmental support institutions organized to provide adequate support to MSEs, the extent of support obtained from samples was found to be low compared with their respective roles. The institutions couldn't provide proper experience sharing activities, technical and managerial support related with financial matters, solve MSE's immediate problems based on continuous monitoring activities, and couldn't provide equal treatment of using incentives given by the government based on their respective roles due to lack of commitment, shortage of

skilled and professional experts at the sub-city and district levels. Inability to prepare and distribute working premises based on MSE's graduation from one level to the other, and failure to provide premise to new entrant groups of having less than ten members are the major problems related to working premises which hinders the full scale operation and expansion of Sample MSE's in the study area.

Marketing factors such as absence of short and long term marketing plan, fully addressed market linkages, clearly defined customers, inability to produce differentiated products, and the negative attitude of the community in line with products quality are the identified problems. The other main problems identified related to managerial and technical skills include lack of opportunity in acquiring better managerial knowledge and skills, providing poor attention for managerial designations, and failure to prepare their own work plan.

Among the deterring factors; Poor infrastructure facilities include unavailability of appropriate dry waste and sewerage system, continuous power interruption, inadequate water supply, and poor transportation facility near the working site are the major and first ranked impeding problems for the full scale implementation of sample MSE's in the study area. Besides, inability to create linkages between MSE's and production raw material suppliers and bureaucratic influence on production input supply are the problems observed in the sample area. Regulatory issues such as preconditions to have registration and licensing and unreasonable government officials' involvement also affects the success of sample MSE's.

Finally, the study has identified the extent of the influence of variables which highly influenced sample MSE's operation. Challenges related to infrastructure facilities, financial, managerial and technical skills and working premises were found to be largely pressing. Specifically, problems related to infrastructure facilities, financial, and managerial and technical skills, and working premises were ranked as the four most impeding factors that affect sample MSE's operation compared to other challenges.

### **5.3. Limitations of the Study**

This research has encountered certain limitations during the course of conducting the study. One of the difficulties encountered was the data inconsistency between what is reported by the MSE's owners and officials. The other difficulties faced, some respondents were reluctant to

spare their time to fill the necessary data, and due to disclosing information may lead to negative effect on their business. This limitation was, however, resolved in dealing with and developing friendly relationship with and gaining trust from MSE's owners.

It must be noted that the research only has covered the three selected districts namely district one, four and seven. Hence, care should be taken to generalize the findings of this study to MSE's operating in other districts and elsewhere.

## 5.4. Recommendations

Taking measures to alleviate the challenges faced MSE's operation is crucial. Thus, in line with the findings and conclusions of the study obtained from the samples, the recommendations are forwarded as follows.

1. The involvement of women in MSE's operation is low compared to men. So, emphasis should be given for women to have equal access in obtaining their own income and to contribute their roles to the economy at large.
2. As the study reveals government organized support institutions have indispensable roles to promote MSE's operation. Therefore, all support institutions should create integration by rules and regulations based on common board to provide uniform, fair and immediate managerial and technical support on financial, managerial, training and development and marketing matters. The common board also enables to oversee and provide immediate adjustment on the existing regulatory issues which tap MSE's operations. In addition, proper experience sharing activities should be set by the sub-city MSE's support institutions with the integration of MSE's operators; and this helps vulnerable MSE's to acquire better knowledge and experiences from the benchmarked MSE's.
3. In the current situation, accessing finance to MSE's by broadening formal financial sources requires the full scale attention of the top government officials. Thus, the Ababa city administration should communicate and integrate with the federal government to create linkages between the commercial banks and MSE's by setting reasonable collateral, interest rate and payback periods.
4. Infrastructure facilities are the critical and first ranked challenges which influence MSE's operation. Hence, the preparation and distribution of premises should be done with its appropriate waste and sewerage system, adequate water supply and better transportation facility. This should be done with strong commitment and accountability by the Addis Ababa city administration and their lower level political officials in collaboration with the city and sub-city water and sewerage, road transport and electric power offices.

5. Premises should be adequately prepared and considered before MSE's graduation from one level to the other and if necessary deliver it immediately. This should be done with prior planning, commitment and coordination of the sub-city and district land development management and MSE's offices.
6. MSE's managers' failure in acquiring better managerial knowledge and skills, and preparing their own work plan can be solved by MSE's themselves by creating collaboration with technical and vocational and other training provider institutions. MSE's owners should responsible and take strong actions to designate their managers. All these should have continuous follow up and monitoring by MSE's offices and political officials.
7. Absence of short and long term marketing plan, limited market linkages, inefficient customer identification, and negative attitudes of the community towards MSE's products are the identified marketing related challenges. These should be resolved by the effort of the MSE's offices and owners by:
  - 🚧 Identifying the products customers and creating fully addressed linkages the MSEs with other government and private organizations within or around the study area helps MSE's operators to access adequate market opportunity.
  - 🚧 Setting integrated awareness creation programs on the attitude of the community can be changed and those individuals could be loyal to MSE's products. This could be done through MSE's owners and MSE's officials and experts.
8. The sub-city MSE's offices and support institutions have to work with commitment in collaboration with MSE's owners to strengthen and broaden the linkages between the production input suppliers and MSE's this should be done based on continuous follow up and adjustments.
9. Making intensive research work based on the whole area coverage is crucial to obtain the right information and identify the challenges which influence MSE's operation, and which enables to provide broaden recommendations. The focus area for this study was on some selected districts of the sub-city. Hence, it is the researcher's view that future research work could focus on the other districts helps to come up with specific findings which will contribute a lot in MSE's overall development in general and alleviating immediate problems in particular.

## References

- Ackah, J., and Vuvor, S. (2011). The Challenges faced by Small & Medium Enterprises Obtaining Credit in Ghana. Unpublished Master's Thesis, Blekinge Tekniska Hogskola, School of Management.
- Addis Ababa City Administration, (2011). Micro and small scale Enterprises Growth Level Transition: Implementation rule No. 04/2011, June, 2011, Addis Ababa.
- Admasu Abera, (2012). Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta Sub-cities. Unpublished Master's Thesis, Addis Ababa University.
- Akabueze, B. (2002). Financing small and medium enterprises (SMEs): The Small and Medium Industries Equity Investment Scheme (SMIEIS) Option. Lagos, Nigeria.
- Akaki-Kality Sub-city MSE's Office, (2006 E.C). Five Years Strategic plan (2006 t0 2010 E.C). March, 2005, Addis Ababa.
- Aremu, M., A., and Adeyemi, S., L., (2011). Small and Medium Scale Enterprises as a Survival Strategy for Employment Generation. *Journal of Sustainable Development*, 4 (1), 200-206.
- Aruwa, A. S. (2006). Correlation between Expenditure on Infrastructural Development and Performance of Small and Medium Enterprises. University of Abuja, Nigeria.
- Bowen, M., Morara, M., and Mureithi, S. (2009). Management of Business Challenges Among Small and Micro Enterprises. *Kca Journal of Business Management*, 2(1), 16-31.
- CLEP, (2006). Entrepreneurship: Unpublished manuscript, Addis Ababa, Ethiopia.
- Dalitso, K. and Peter, Q., (2000). The Policy Environment for Promoting Small and Medium-Sized Enterprises in Ghana and Malawi, University of Manchester.
- Daniel, A., S., (2012). Micro, Small and Medium Scale Enterprises in Ghana: Challenges and Prospects: A Case Study of Sekondi-Takoradi Metropolis. Unpublished Master's, Thesis, Kwame Nkrumah University.
- David, B., E., and M., O., Nyong (1992). Small and Medium Scale Enterprises Development: Seminar Paper on Economic Policy Research for Policy Design and Management, Nigeria.
- FMSEA, (2013). Three years (2003-2005 E.C) Micro and Small Enterprises Performance Report. Addis Ababa. Ethiopia.

- GFDRE, (2011), Micro and Small Enterprise Development Strategy: provision framework and Methods of Implementation. Addis Ababa, Ethiopia.
- Habtamu, T., Aregawi, G. and Nigus, A. (2013). Growth Determinants of micro and Small Enterprises: Evidence from Northern Ethiopia. *Journal of Economics and Sustainable Development*, 4(9), 128-135.
- Hanna Ketsselemariam (2010). Success Factors in Micro and Small Scale Enterprises Cluster Development: Case of Gullele Clusters in Ethiopia. Unpublished master's Thesis, University of South Africa.
- ILO, (2005). Support for Growth Oriented Women Entrepreneurs in Uganda: International Labor Office; Geneva, Switzerland.
- King, K. and McGrath, S. (2002). Globalization, Enterprise and Knowledge: Educational Training and Development. *International Review of Education*. Vol.50 (1), 74-76(3).
- Konjit, (2011). Women in the Development of Micro and Small Enterprises to Ensure Sustainable Development and Food Security. Addis Ababa City Administration MSE's Development Bureau.
- Kula, O., Choudhary, V., and Batzdorff, L. (2005). Integrating Micro- And Small Scale Enterprises into Productive Markets. Micro Report #29, Washington, DC.
- MoFED, (2010). Growth and Transformation Plan 2010/11—2014/2015, Addis Ababa, Ethiopia.
- MoTI, (1997). Micro and Small Enterprises Development Strategy. Addis Ababa, Ethiopia.
- MUDC, (2013). Survey on Micro and Small Scale Enterprises in Selected Major cities of Ethiopia. Addis Ababa, Ethiopia.
- Mulugeta Yohanes Firasew, (2011). The Livelihoods Reality of Micro and Small Enterprise Operators: Evidences from Woreda One of Lideta Sub-city. Unpublished Master's, Thesis, Addis Ababa University.
- Nyabwanga, R., N., and Ojera, P., (2012). Inventory Management Practices and Business Performance for Small-Scale Enterprises. *KJBM*, 4(1), 11-28.
- Olabisi, S., Y., Olagbemi, A., A., and Atere, A., A. (2013). Factors Affecting Small- Scale Business Performance in Informal Economy: A Gendered Based Analysis, 1-13, Lagos Nigeria.
- Osinde, S. K., Iravo. M., Munene, C., and Omayio, D. (2013), Effect of Business

- Development Services on the Performance of Small Scale Entrepreneurs in Kenya: A Survey of Small Scale Enterprises. *Interdisciplinary Journal of Contemporary Research in Business*, 5(1), 292-300.
- Oso, W. and Onen, D. (2005). *A General Guide to Writing Research Proposal and Report: A Hand Book for Beginning Researchers*. 2<sup>nd</sup> Ed. Makerere University Press: Kampala, Uganda.
- Oso, W., Jegede, C. A., Akinlabi, B., H., and Olajide, O.T. (2012). Evaluation of the Challenges and Prospects of Micro and Small Scale Enterprises Development, *American International Journal of Contemporary Research*. 2(4), 174-185.
- Saunders M., Lewis P., and Thornhill, A. (2009). *Research Methods for Business Students*. 5<sup>th</sup> Ed. England: Prentice Hall.
- Siva, S., (2012). A Study on Problems Faced by Entrepreneurs of Small Scale Industries. *Asian Journal of Research in Social Science and Humanities*, 181-188.
- Stanley, E. and Morse, R. (1965). Modern Small-Scale Industry for Developing Countries: McGraw-Hill.
- Stephen, E., O., and Wasiu, A., B. (2013). The Contribution of Small Scale Industries to The National Economy. *Standard Research Journal of Business Management*, 1(2), 60-71.
- Teshome Mulat, (1994). "Institutional Reform, Macroeconomic Policy Change and the Development of Small Scale Industries in Ethiopia", Stockholm School of Economics, Working Paper No.23, Stockholm.
- UN (2008). *Small Scale Enterprise Development and Foreign Direct Investment in Africa: Challenges and Opportunities*, DC: Office of the Special Adviser on Africa.
- UNDP, (2012). *Entrepreneurship Development Programs in Ethiopia*. Addis Ababa, June, 2012.
- UNIDO, (2006). *Effective Policies for Small Business: a Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development*. © OECD Istanbul.
- Uzor, O.O. (2004). *Small and Medium Scale Enterprises Cluster Development in South-Eastern Region of Nigeria*, Institute for World Economics and International Management, pp. 5-15.
- Zikmund, G.W., Babin, J.B., Carr, C.J., and Griffin, M. (2009). *Business Research Methods*. 8<sup>th</sup> Ed. Cengage Learning: South Western Pub.

## APPENDIX-A

### St. Mary's University School of Graduate Studies

#### Questionnaires to be filled by MSE's owners/ Managers

**Dear respected Respondent,**

I am a graduate student at St. Mary's University. Currently I am conducting a research entitled 'The Practices and Challenges of MSE's in Akaki Kaliti Sub-City'. The study aims to analyze practices and challenges faced by MSE's. To this end, your kind and objective response will significantly contribute to find practical and possible solution to the problem. Therefore, your honest responsiveness is strongly required to make the research valuable and reliable. This is purely academic exercise, so any information given would not be disclosed to the 3<sup>rd</sup> party.

Thank you in advance for your kind cooperation and dedicating your time.

Mekonnen Derbie ([Email:mekoder@yahoo.com](mailto:mekoder@yahoo.com))

#### **Instructions**

- No need of writing your name
- For Likert scale type statements and multiple choice questions indicate your answers with a tick mark (✓) in the appropriate block.
- For blank spaces please write the correct Information

#### **I. Background Information**

1. Sex:  Male  Female

2. Age:  below 25 years  26-30years'  31-35 years  above35 years

3. Education:  grade 1-8  grade 9-12 TVT or Diploma 1<sup>st</sup> degree and above

4. Main Sector:

Construction (building and carpentry work, bricks production, electric installation, Coble)

Manufacturing (metal work, wood work, garment)

Service (Restaurant, Beauty salon, Photocopy))

5. Experience in this business:  2 years and below  3 to 5 years  above 5 Years.

## II. Questions Related to MSE' Contribution

1. Have you had job before this business?  Yes  No
2. The startup capital for your business in birr was:  <5000  between 5000- 10000  >10000
3. What was the source of startup capital?  
 Personal saving  family  banks  microfinance
4. . Size of members: \_\_\_\_\_
5. The owners average monthly income from this business in birr is:  
 <1000  1000- 2000  2001-3000  >3000
6. Is this income enough to your livelihood?  Yes  No
7. What advantages did you get engaging in this business?  
 able to learn  able to help my family  able to save  able to cover my expenses
8. How many employees are employed in this business? \_\_\_\_\_
9. These employees earn the average monthly salary of birr:  
 <1000  between 1000-2000  between 2001- 3000  > 3000

### III. Questions Related to Challenges to MSE's Operations and Success

The major challenges which influence the operation of MES's are listed below. Therefore, read thoroughly each of the influencing factors and evaluate them in relation to your business and then put tick mark (√) under the choices below.

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

No.	Item	Agreement Level				
		5	4	3	2	1
<b>1</b>	<b>Issues Related to the Role of Support Institutions</b>					
1.1	Support institutions provide adequate assistance to MSE's with their respective roles					
1.2	Gov. officials have consistent monitoring schedules to MSE's which helps to solve immediate problems					
1.3	Officials and experts search market for MSE's and they create market linkages with others					
1.4	MSE's have got equal treatment of using incentives given by the government.					
1.5	Microfinance institution have provided finance related technical/managerial support to MSE's					
1.6	Support institutions have adjusted continuous training and dev. Programs to MSE's owners					
1.7	Experience sharing program is scheduled among MSE's.					
<b>2</b>	<b>Issues Related to Access to Finance</b>	5	4	3	2	1
2.1	Access to finance to MSE's start up and working capital is easily accessible					
2.2	The loan obtained from financial institution is adequate for my business operation					
2.3	Borrowing money is possible without collateral					
2.4	The amount of interest rate paid to lending institution is reasonable					
2.5	The repayment period of loan is suitable to payback the debt					
<b>3</b>	<b>Issues Related to Working Premises</b>	5	4	3	2	1
3.1.	Working premises are adequate for operation					
3.2	Premises are adjusted based on MSE's growth level.					
3.3	Leasing cost is reasonable and affordable.					

<b>4</b>	<b>Issues related to Marketing</b>	5	4	3	2	1
4.1	MSE's had short and long term marketing plan.					
4.2	Market linkages are created between MSE's and other institutions.					
4.3	MSEs have market clearly defined market potential and customers.					
4.5	MSE's products are easily accessible to customers.					
4.6	There is no intense market competition among MSE's.					
4.7	Entry in the market is convenient to MSE's.					
4.8	MSE's vary their products to satisfy and catch customers					
<b>5</b>	<b>Issues Related to Managerial and Technical Skills</b>	5	4	3	2	1
5.1	MSE's managers/owners have managerial knowledge and skills.					
5.2	Managers are designated based on their managerial skills.					
5.3	MSE's have written work plan.					
5.4	Monitoring and evaluation program is clearly scheduled and practiced.					
5.5	MSE's managers/owners have access to get better managerial knowledge.					
<b>6</b>	<b>Issues related to Infrastructure Facilities</b>	5	4	3	2	1
6.1	There is no electric power interruptions					
6.2	Sufficient and adequate water supply is available					
6.3	Appropriate dry waste and sewerage system is available					
6.4	Sufficient and quick transportation is available.					
<b>7</b>	<b>Issues Related to Raw Materials Supply</b>	5	4	3	2	1
7.1	Production raw materials are adequately available					
7.2	MSE's and production input suppliers create Linkages.					
7.3	The raw materials Supply don't have bureaucratic influence.					

<b>8</b>	<b>Issues Related to Regulatory</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
8.1	The tax levied on my business is reasonable					
8.2	Bureaucracy is not a bottleneck in registration and licensing					
8.3	There is no unreasonable government officials involvement					
8.4	Rules and regulations are easily accessible					

**IV.** Please indicate the degree to which you agree with the following general challenge that have a direct influence on the performance of your business.

<b>No</b>	<b>General Factors</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	Challenges Related to Support Institutions					
2	Challenges Related to Finance					
3	Challenges Related to Working Premises					
4	Challenges Related to Managerial and Technical skills					
5	Challenges Related to Market					
6	Challenges Related to Infrastructure Facilities					
7	Challenges Related to Supply of Raw Materials					
8	Challenges Related to Regulatory Issues					

APPENDIX-B

**ቅድስት ማርያም ዩኒቨርሲቲ**

**የድህረ ምረቃ ት/ቤት**

**በጥቃቅንና አነስተኛ ተቋማት ባለቤቶች/አመራሮች የሚሞላ የፅሁፍ መጠይቅ**

**መግቢያ**

**ውድ የተከበሩ የጥናቱ ተሳታፊ:-**

እኔ በቅድስት ማርያም ዩኒቨርሲቲ የአጠቃላይ ቢዝነስ አስተዳደር የድህረ ምረቃ ተመራቂ ተማሪ ስሆን በአሁኑ ሰዓት የመመረቂያ ጽሁፌን በማዘጋጀት ላይ እገኛለሁ። የጥናቴ ርዕስም “በአቃቂ ቃሊቲ ክፍለ ከተማ በሚገኙ የጥቃቅንና አነስተኛ ተቋማት አተገባበርና በሰራው ላይ ሊኖሩ የሚችሉ ችግሮችን” ይመለከታል። እርስዎም የዚህ ጥናት ተሳታፊ እንደመሆንዎ የሚሰጡት ትክክለኛ መረጃ ለጥናቴ ስኬትና ለችግሩ መፍትሄ ለመስጠት ያለው አስተዋጽኦ የጎላ ነው።

ስለሆነም መጠይቁን በፈቃደኝነትና በእኔነት ስሜት በጥንቃቄ እንዲሞሉልኝ በአክብሮት እየጠየቅሁ የሚሰጡት መረጃ ለዚህ ጥናት ለትምህርታዊ ዓላማ ብቻ የሚውል፣ የመልስ ሰጪ ማንነት ለማንም የማይገለጽና ሚስጥራዊነቱ የተጠበቀ መሆኑን አረጋግጣለሁ።

**ጊዜዎን ሰውተው ለሚያደርጉት ትብብር በቅድሚያ አመሰግናለሁ።**

**መመሪያ**

- 1. ስም መፃፍ አያስፈልግም።
- 2. አማራጭ መልስዎን በሳጥኑ ውስጥ የእርማት ምልክት  ያስቀምጡ።
- 3. ምርጫ ለሌለው ጥያቄ ትክክለኛውን መረጃ ይጻፉ።

**ክፍል I:- አጠቃላይ መረጃ**

- 1. ፆታ:-  ወንድ  ሴት
- 2. እድሜ:  25ዓመትና በታች  ከ26-30 ዓመት  ከ31-35 ዓመት  ከ35 ዓመት በላይ

3. ትምህርት፡- ከ1- 8ኛ ክፍል  ከ9-12ኛ ክፍል  ቴክ/ሙያና ድኅሎማ  
 ድግሪና በላይ

4. የተሰማሩበት የስራ ዘርፍ፡-

ግንባታ /ግንባራ/ክፍለ-ሥራ/የግንባታ እቃ ማቅረብ/ኮንስትራክሽን  
ጠረጣ ወዘተ/

ማኒፋ-ክቸሪንግ/ብረታ ብረት፣ እንጨት ስራ፣ልብስ ወዘተ/

አገልግሎት/ምግብ፣ዝግጅት፣የቁንጅና ማህንፍታ/የጽህፈት ስራ፣ፎቶ ኮፒ ወዘተ/

5. በዚህ ዘርፍ ያለዎት የስራ ልምድ፡- 2 ዓመትና በታች  ከ3-5ዓመት  
ከ5 ዓመት በላይ

**ክፍል II. የጥቃቅንና አነስተኛ ኢንተርፕራይዝ አስተዋጽኦን በተመለከተ የቀረበ መጠይቅ**

1. ከዚህ ስራ በፊት ሌላ ስራ ነበረዎት?  አዎ  የለኝም

2. የስራው መጀመሪያ ገንዘብ ብር፡-  ከ5000 ያንሣል  ከ5000-10000  
ከ10000 በላይ

3. የስራ መጀመሪያውን ገንዘብ ከየት አገኙ?

ከግል ቁጠባ  ከቤተሰብ  ከባንክ  ከማይክሮ ፋይናንስ

4. ከዚህ ስራ አማካኝ የወር ገቢዎ ምን ያህል ነው?

ከ1000 ሺህ በታች  ከ1000-2000  ከ2001-3000  ከ3000በላይ

5. ገቢው ለኑሮዎ በቂ ነው ይላል?  አዎ  አይደለም

6. በዚህ የስራ ዘርፍ ውስጥ በመግባትዎ ምን ጥቅም አገኝተዋል?

መማር ችያለሁ  ቤተሰብ መርዳት ችያለሁ  መቆጠብ ችያለሁ  
 ወጪዎቼን ሸፍኛለሁ

7. በዚህ የስራ ዘርፍ ውስጥ ምን ያህል ሠራተኛ ቀጥራችኋል? .....

8. ሠራተኞቹ በአማካይ ምን ያህል ብር የወር ደመወዝ ያገኛሉ?

ከ1000 በታች  1000-2000  ከ2001-3000  ከ3000 በላይ

**ክፍል III. በጥቃቅንና አነስተኛ ተቋማት ትግበራ ላይ ሊኖሩ የሚችሉ ችግሮችን የሚዳስሱ ጉዳዮች ከዚህ በታች በዝርዝር ቀርቦዋል። ስለሆነም እያንዳንዱን ጉዳይ ከእርስዎ የስራ ዘርፍ አንፃር በመገምገም በአማራጮቹ ስር የ [ ] ምልክት ያድርጉ።**

የአማራጮቹ የነጥብ ደረጃ፡- 5 =በጣም እስማማለሁ 4 = እስማማለሁ 3 = አልወሰንኩም 2 =አልስማማም 1= በጣም አልስማማም

ተ. ቁ	ተጽእኖ ሊያሳድሩ የሚችሉ ዋና ዋና ጉዳዮች	የስምምነት ደረጃ				
		5	4	3	2	1
<b>1</b>	<b>ከደጋፍ ሰጪ ተቋማት ጋር የተያያዙ ጉዳዮች</b>					
1.1.	ደጋፍ ሰጪ ተቋማት እንደየኃላፊነታቸው ለጥቃቅን አነስተኛ ኢንተርፕራይዞች በቂ ደጋፍ ሰጥተዋል።					
1.2	የመንግስት ኃላፊዎችና ኤክስፐርቶች ቀጣይነት ያለው የክትትል ፕሮግራም ይዘው ወቅታዊ ችግሮችን ይፈታሉ።					
1.3	የመንግስት ኃላፊዎችና ኤክስፐርቶች ገበያ በማፈላለግ በቂ የገበያ ትስስር ፈጥረዋል።					
1.4	ለጥቃቅን አነስተኛ ኢንተርፕራይዞች መንግስት የሚሰጠውን ማበረታቻ በፍትሐዊነት ሰጥተዋል።					
1.5	የገንዘብ ተቋማት ከገንዘብ ጋር በተያያዘ በቂ የቴክኒክና የአመራር ደጋፍ ሰጥተዋል።					
1.6	ደጋፍ ሰጪ ተቋማት ተከታታይነት ያለው የስልጠና ፕሮግራም ለአመራሮች/ባለቤቶች አመቻችተዋል።					
1.7	በጥቃቅን አነስተኛ ኢንተርፕራይዞች መካከል የልምድ ልውውጥ ፕሮግራም ተዘጋጅቷል።					
<b>2</b>	<b>ከገንዘብ ማግኘት ጋር የተያያዙ ጉዳዮች</b>					
2.1	የስራ መጀመሪያና መስሪያ ገንዘብ በቀላሉ ማግኘት ይቻላል።					
2.2	ከገንዘብ ተቋማት የሚገኘው ብድር ለስራዎ በቂ ነው።					
2.3	ከገንዘብ ተቋማት ያለ በቂ ዋስትና ማስያዣ ገንዘብ መበደር ይቻላል።					
2.4	ለአበዳሪ ተቋማት የሚከፈለው ወለድ ተመጣጣኝ እና አሳማኝ ነው።					
2.5.	የብድር መመለሻ ጊዜ ብድሩን ለመመለስ ተስማሚ ነው።					

<b>3.</b>	<b>ከመስሪያ ቦታ ጋር የተያያዙ ጉዳዮች</b>	5	4	3	2	1
3.1.	ጥቃቅንና አነስተኛ ኢንተርፕራይዞች በቂ የመስሪያ ቦታ አላቸው፡፡					
3.2.	የተዘጋጀው የመስሪያ ቦታ በኢንተርፕራይዞች የእድገት ደረጃ ላይ ተመስርቶ ነው፡፡					
3.3.	ለሚሰሩበት ቦታ የሚከፈለው የሌዝ ዎጋ ተመጣጣኝና ምክንያታዊ ነው፡፡					
<b>4</b>	<b>ከግብይት ጋር የተያያዙ ጉዳዮች</b>					
4.1.	ጥቃቅንና አነስተኛ ኢንተርፕራይዞች የተዘጋጀ የአዎጭርና የረጅም ጊዜ የገበያ እቅድ አላቸው፡፡					
4.2.	የገበያ ትስስር በጥቃቅንና አነስተኛ ኢንተርፕራይዞች እና በሌሎች ተቋማት መካከል ተፈጥሯል፡፡					
4.3.	ጥቃቅንና አነስተኛ ኢንተርፕራይዞች በግልጽ የተለየ የገበያ እቅድ እና ደንበኛ አላቸው፡፡					
4.4.	የጥቃቅንና አነስተኛ ኢንተርፕራይዞች ምርት ለተጠቃሚው በቀላሉ ተደራሽ ነው፡፡					
4.5.	በጥቃቅንና አነስተኛ ተቋማት መካከል የጠነከረ የገበያ ፉክክር የለም፡፡					
4.6.	ጥቃቅንና አነስተኛ ኢንተርፕራይዞች ወደ ገበያ እንዲገቡ ያለው ሁኔታ አመቺ ነው፡፡					
4.7.	ጥቃቅንና አነስተኛ ኢንተርፕራይዞች ደንበኞቻቸውን ለማርካትና ለመያዝ ምርታቸውን ለያይተው ያቀርባሉ፡፡					
<b>5.</b>	<b>ከአመራርና ሙያዊ ክህሎት ጋር የተያያዙ ጉዳዮች</b>					
5.1.	የጥቃቅንና አነስተኛ አመራሮች/ባለቤቶች/ በቂ የአመራር እውቀትና ክህሎት አላቸው፡፡					
5.2.	የጥቃቅንና አነስተኛ መሪዎች የተመረጡት በአመራር ችሎታቸው ነው፡፡					
5.3.	ጥቃቅንና አነስተኛ ኢንተርፕራይዞች ስራቸውን የሚመሩበት የተዘጋጀ እቅድ አላቸው፡፡					
5.4.	የክትትልና ግምገማ ነገራዊም በግልፅ ተለይቶ ተግባራዊ ተደርጓል፡፡					
5.5.	የጥቃቅንና አነስተኛ አመራሮች/ባለቤቶች/የተሻለ የአመራር እውቀት የሚያገኙበት ሁኔታ አለ፡፡					

<b>6.</b>	<b>ከመሠረተ ልማት ፋስሊቲዎች ጋር የተያያዙ ጉዳዮች</b>	5	4	3	2	1
6.1.	በመስሪያ ቦታ ተከታታይነት ያለው የኤሌትሪክ ኃይል መቆራረጥ የለም።					
6.2.	በመስሪያ ቦታ በቂ የሆነ የውሃ አቅርቦት አለ።					
6.3.	በመስሪያ ቦታ አካባቢ በቂና ፈጣን የሆነ የትራንስፖርት አለ።					
6.4.	ተስማሚ የሆነ የደረቅ ቆሻሻና ፍሳሽ ማስወገጃ ስርዓት አለ።					
<b>7</b>	<b>ከጥሬ እቃ አቅርቦት ጋር የተያያዙ ጉዳዮች</b>					
7.1.	የምርት ጥሬ እቃ አቅርቦት በበቂ ሁኔታ አለ።					
7.2.	በጥቃቅንና አነስተኛ ኢንተርፕራይዞችና በምርት ግብአት አቅራቢዎች መካከል ትስስር ተፈጥሯል።					
7.3.	በጥሬ ዕቃ አቅርቦት ላይ ቢሮክራሲያዊ ጫና የለበትም።					
<b>8.</b>	<b>ከህጋዊነት ጋር የተያያዙ ጉዳዮች</b>					
8.1.	በእኔ ስራ ላይ የተጣለው የስራ ግብር ምክንያታዊ ነው።					
8.2.	ቢሮክራሲያዊ አሰራር በምዝገባና ንግድ ፈቃድ አሰጣጥ ላይ ማነቆ አይደለም።					
8.3.	ምክንያታዊ ያልሆነ የመንግስት ኃላፊዎች ጣልቃ ገብነት የለም።					
8.4.	ከስራው ጋር ተዛማጅ የሆኑ መመሪያዎችና ደንቦች ለጥቃቅንና አነስተኛ ኢንተርፕራይዞች በቀላሉ ይደርሳሉ።					

**ክፍል. IV. የሚከተሉት ጉዳዮች በጥቃቅንና አነስተኛ ተቋማት ትግበራ ላይ ተጽእኖ ሊያሳድሩ የሚችሉ ዋና ዋና ጉዳዮች ናቸው። ስለሆነም በእርስዎ ስራ ላይ ከሚያሳድሩት ተጽእኖ አኳያ በመገምገም ደረጃቸውን ያሳዩ።**

ተ.ቁ	ትግበራ ላይ ተጽእኖ ሊያሳድሩ የሚችሉ ዋና ዋና ጉዳዮች	የስምምነት ደረጃ				
		5	4	3	2	1
1.	ከድጋፍ ሰጪ ተቋማት ጋር የተያያዙ ጉዳዮች					
2	ከፋይናንስ ጋር የተያያዙ ጉዳዮች					
3	ከመስሪያ ቦታ ጋር የተያያዙ ጉዳዮች					
4	ከገበያ ጋር የተያያዙ ጉዳዮች					
5	ከአመራርና ሙያዊ ክህሎት ጋር የተያያዙ ጉዳዮች					
6	ከመሠረተ ልማት ፋስቲዎች ጋር የተያያዙ ጉዳዮች					
7	ከምርት ጥሬ ዕቃ አቅርቦት ጋር የተያያዙ ጉዳዮች					
8	ከህጋዊነት ጋር የተያያዙ ጉዳዮች					

## APPENDIX-C

### Interview questions to MSE owners/managers

1. What opportunities or advantages have you had after engaging in this business?
2. What problems did you face while running MSEs in relation to:
  - Support institutions ( micro finance, local MSE's officials and experts, other government institutions) and the like]
  - Working Premises (leasing cost, accessibility, fairness, etc.)
  - Infrastructure (power, transportation, water supply and like)
  - Marketing factors (relationship with customers, market linkages, product differentiation, and others)
  - Financial factors (interest rates, collateral requirements, debt payback period, etc.)
  - Supply of Raw Materials
  - Managerial and technical skills
3. Indicate the extent of its influence in your business experience starting from most sever to the least.
4. Please indicate the amount or size of support that your organization had received from the Sub-City or any other agency in the past against each support dimension indicated below:
  - Financial support: \_\_\_\_\_
  - Training/capacity building support: \_\_\_\_\_
  - Working premises support: \_\_\_\_\_
  - Market support: \_\_\_\_\_
  - Managerial and technical support: \_\_\_\_\_
  - Raw materials support: \_\_\_\_\_
5. What possible solutions would you recommend to solve the challenges?

## APPENDIX-D

### Interview Questions to Sub-City and District MSE's Officials and Experts

1. What problems did you observe in your locality? Please give your responses related to:
  - The role of support institutions ( micro finance, local MSE's officials and experts, other government institutions)
  - Working Premises (leasing cost, accessibility, fairness, etc.)
  - Infrastructure (power, transportation, water supply and like)
  - Marketing factors (related to customers, market linkages, product differentiation)
  - Financial factors (interest rates, collateral requirements, debt payback period, etc.)
  - Supply of Raw Materials
  - Managerial and technical skills
  - Regulatory issues
2. Based on your judgment, please indicate the level of influence of the above variables in MSE's operation in your locality starting from most sever to the least.
3. Please evaluate and indicate the amount or size of support that your organization had provided to MSE's in the past against each support dimension indicated below:
  - Financial support: \_\_\_\_\_
  - Training/capacity building support: \_\_\_\_\_
  - Working premises support: \_\_\_\_\_
  - Market support: \_\_\_\_\_
  - Managerial and technical support: \_\_\_\_\_
  - Raw materials support: \_\_\_\_\_
4. Please indicate the level of your organization support based on its respective roles?
5. What possible solutions would you recommend to solve the challenges?

## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of and support of the research advisor. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or full to any other higher learning institution for the purpose of earning any degree.

---

Name

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

---

Signature

**June, 2014**

## **ENDORSEMENT**

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

---

Advisor

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

---

Signature

**June, 2014**