ST, MARRY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in Addis Ababa: The Case of Selected MSME's in Yeka Sub-City

BY

KALKIDAN TADESSE MEHARI

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ID. NO: SGS/0125/2013B

A Thesis Submitted to St. Mary's University, School of Graduate Studies, in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Arts in Business Administration

ADVISOR:

DR. TEMESGEN BELAYNEH

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ADDIS ABABA, ETHIOPIA

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

FACTORS AFFECTING THE DEVELOPMENT OF MICRO AND SMALL SCALE MANUFACTURING ENTERPRISES IN ADDIS ABABA: THE CASE OF SELECTED MSME IN YEKA SUB-CITY

BY

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STATEMENT OF CERTIFICATION

This is to certify that Kalkidan Tadesse Mehari has carried out his research work on the topic entitled `the Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in Addis Ababa: The Case of Selected MSME in Yeka Sub-City.' The work is original in nature and is suitable for submission for the reward of the Master's Degree in Business Administration.

Advisor: **Dr. Temesgen Belayneh**

Signature: _____

Date May, 2024 G.C _____

STATEMENT DECLARATION

I, Kalkidan Tadesse Mehari, declare that this work entitled "the Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in Addis Ababa: The Case of Selected MSME in Yeka Sub-City" is outcome of my own effort and that all source materials used for the study have been duly acknowledged. It is submitted for the partial fulfillment of the masters of Arts Degree in Business Administration.

Name: Kalkidan Tadesse Mehari

Signature: _____

Date: MAY, 2024 G.C _____

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Acronyms

MSMEs: Micro and Small Scale Manufacturing Enterprises

EFDRE: Federal Democratic Republic of Ethiopia

GDP: Gross Domestic Product

SMEs: Small and Medium Enterprises

BDS: Business Development Services

MSME: Micro, Small, and Medium Enterprises

MoTI: Ministry of Trade and Industry

CSA: Central Statistical Agency

NGOs: Non-Governmental Organizations

SBA: Small Business Administration

R&D: Research and Development

ICT: Information and Communication Technology

FIs: Financial Institutions

NBE: National Bank of Ethiopia

MoFED: Ministry of Finance and Economic Development

MoE: Ministry of Education

TVET: Technical and Vocational Education and Training

UNIDO: United Nations Industrial Development Organization

PPP: Public-Private Partnership

ILO: International Labour Organization

Abstract

This study investigates the factors affecting the development of micro and small-scale manufacturing enterprises (MSMEs) in Addis Ababa, focusing on selected MSMEs in Yeka Sub-City. MSMEs are vital to the economic development of Ethiopia, providing employment opportunities and contributing to poverty alleviation. Despite their significance, these enterprises face numerous challenges that hinder their growth and sustainability. The research employs a mixed-methods approach, incorporating both quantitative surveys and qualitative interviews to gather comprehensive data from MSME owners, employees, and relevant stakeholders.

Key findings indicate that access to finance, inadequate infrastructure, limited market access, and regulatory challenges are the primary factors impeding the development of MSMEs in Yeka Sub-City. Additionally, the lack of business development services and technical skills training further exacerbates these challenges. The study also highlights the significant role of government policies and support programs in fostering a conducive environment for MSME growth.

The research provides recommendations for policymakers, including improving access to credit, enhancing infrastructure, and streamlining regulatory processes. Furthermore, it suggests the need for targeted training programs to equip MSME owners with essential business management skills. These interventions are crucial for unlocking the potential of MSMEs and ensuring their contribution to the socio-economic development of Addis Ababa and Ethiopia at large.

By identifying the key barriers and proposing actionable solutions, this study aims to contribute to the existing literature on MSME development and inform policy decisions that will support the sustainable growth of micro and small-scale manufacturing enterprises in Addis Ababa.

Key words: Access to Finance, Market Access, Regulatory Challenges, Government Policies, Support Programs

CHAPTER ONE

Introduction

1.1 Background of the Study

Micro and Small Scale Manufacturing Enterprises (MSMEs) play a crucial role in the economic development of Addis Ababa, the capital city of Ethiopia (As per the 2021/2022 annual report of the Addis Ababa city administration). As engines of innovation, employment generation, and wealth creation, these enterprises contribute significantly to the city's industrialization agenda and overall economic growth. Yeka Sub-City, one of the administrative divisions within Addis Ababa, hosts a diverse array of MSMEs operating across various sectors, including manufacturing, processing, and production.

Despite their importance, MSMEs in Yeka Sub-City face numerous challenges that hinder their growth and sustainability. Understanding the factors influencing the development of these enterprises is essential for formulating targeted policies and interventions to support their growth and enhance their contribution to the local economy. Therefore, this study seeks to investigate the key factors affecting the development of MSMEs in Yeka Sub-City, focusing on selected enterprises operating within the manufacturing sector.

The study will examine a range of factors that influence the growth and performance of MSMEs, including but not limited to access to finance, infrastructure, technology adoption, market access, regulatory environment, and entrepreneurial capabilities. By exploring these factors in-depth, the research aims to provide valuable insights into the challenges and opportunities facing MSMEs in Yeka Sub-City and identify strategies to address them effectively.

Furthermore, the findings of this study are expected to contribute to the existing body of knowledge on MSME development in urban contexts, particularly in the context of Addis Ababa. The insights generated from the research will inform policymakers, development practitioners, and other stakeholders about the specific needs and priorities of MSMEs in Yeka Sub-City, thus guiding the design and implementation of targeted interventions to support their growth and sustainability. Ultimately, by enhancing the enabling environment for MSMEs, Addis Ababa can harness the full potential of these enterprises to drive inclusive and sustainable economic development.

1.2 Statement of the Problem

The MSME'S Strategy (2019) categorizes MSMEs in Ethiopia into five sectors and assigns them the responsibility of generating employment opportunities and substituting imports for the wider population, beyond their proprietors. The expectation is that they will facilitate technology transfer and introduce fresh corporate management expertise to the country.

Despite the acknowledgement of MSMEs' development in various policy documents, their effectiveness in generating employment and facilitating technological transfer remains a significant challenge in Ethiopia as per the MolS survey (2019)

According to a study conducted in 2016 on MSMEs in major cities of Ethiopia, the sector primarily generated employment opportunities within families. Observation was made. The majority of MSMEs (34.4%) had only one employee, while 33.8% and 24.1% had 3-6 and 2 employees, respectively.

The promotion of MSMEs is vital for economic expansion and job generation in Addis Ababa, Ethiopia. These enterprises encounter challenges that impede their growth and sustainability. This study aims to investigate the determinants of MSMEs growth in Yeka Sub-City, Addis Ababa. This study seeks to analyze the factors that impede or promote the expansion of MSMEs, including but not limited to finance accessibility, infrastructure, human resources, governmental policies and regulations, and market entry. This study employs a descriptive methodology to examine a limited number of MSMEs in the Yeka Sub-City. The data will be collected through in-depth interviews and surveys. This study aims to improve comprehension of the limitations and possibilities that MSMEs encounter in Addis Ababa, specifically in the Yeka Sub-City. The research intends to offer suggestions to stakeholders on how to promote the growth and endurance of MSMEs in the city.

1.3 Research Questions

The study aimed to address the following research questions in light of the issues at hand:

- What are the most influential internal and external factors on the development of manufacturing sector MSMEs in the Yeka sub city?
- What steps has the government taken to assist MSMEs in the manufacturing industry?
- What strategies can be utilized to mitigate the challenges encountered by MSMEs in the Yeka sub city manufacturing sector??

1.4 Objectives of the Study

1.4.1 General Objective

The study aims to identify factors influencing MSMEs' development in the manufacturing sector and provide recommendations to enhance their roles and facilitate their success.

1.4.2 Specific Objectives

The study aims to achieve specific objectives.

- To identify factors influencing the growth of MSMEs in the manufacturing sector in Yeka sub-city?
- To assess the government's support for MSMEs in the manufacturing sector, identifying any gaps and evaluating the effectiveness of their efforts.
- To investigate the perception of MSMEs in the manufacturing sector regarding the support they have received, including training and access to finance.

1.5 Significance of the Study

This study aims to improve comprehension of the performance of small-scale manufacturing businesses. The quantitative survey analysis aids in identifying the determinant factors that impact the development of the manufacturing sector's micro and small enterprises. The study will have the following significance. It will serve as a resource for entrepreneurs, including existing and potential ones, as well as micro and small businesses. The Enterprise Development Agency aims to address manufacturing sector bottlenecks. The study identified key areas that require attention from various stakeholders in order to tackle the challenges faced by MSMEs in the manufacturing industry. This study contributes to the literature by identifying and documenting the challenges hindering the growth of small and medium-sized manufacturing enterprises in Ethiopia.

1.6 Scope and Limitations of the Study

This study examines small and medium-sized enterprises (SMEs) in the manufacturing sub-sector located in Yeka Sub-City. Due to limitations in time and finances, this study did not include MSMEs from other sub-sectors or a broader geographical area. This study focuses on MSMEs in the manufacturing sector, as they are a primary focus of the government. Micro, Small, and Medium Enterprises (MSMEs) are also present in other contexts. The study's scope is restricted to a single sub-city due to resource and time limitations. As administration procedures are standardized across the city, outcomes observed in this sub-city may be indicative of the broader situation.

1.7 Definitions of Terms

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

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

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

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

Initial Capital: is defined here as "the original investment or money used to start the enterprise".

These initial funds, or capital, may come from microfinance loan, city government grant, owner's personal savings, or any other relatives and family contributions.

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

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

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

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

Partnership: is defined as "an enterprise established by more than one person with legal status.

The responsibility/liability is equal for all the partners irrespective of their share.

Similarly,

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

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

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

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1.8 Organization of the Research

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

CHAPTER TWO

2. Literature Review

2.1 Introduction

This chapter provides literature reviews on MSMEs. This paper reviews literature on factors influencing the growth of MSMEs and measures of MSME'S enterprise development. The aim is to gain a comprehensive understanding of theoretical and practical frameworks, and factors that contribute to the development of SMEs, especially in the manufacturing sector.

2.2 Definition of Micro and Small Enterprises

Countries all over the world use many different ways to explain what a "MSME'S" is in their economies. It makes sense to think that a small or medium-sized business in a wealthy country will be bigger than a small or medium-sized business in a poor country, which could be measured by per capita income.

Gibson and Vaart (2015) found that the official size of the biggest Vietnamese SMEs is three times that of the largest Norwegian SMEs. According to CSA 2018 in Ethiopia, there are a very big number of SMEs. But in the Ethiopian economy, it is hard to say exactly what a SME is because they are so different and the government body in charge of regulating them doesn't classify them in a consistent way. So, the meaning of an MSME'S changes over time and from one institution to another in Ethiopia. In Ethiopia, businesses are categorized as small, medium, or big based on a number of factors, such as the number of employees, sales volume, capital investment, production capacity, level of technology, and type of business according to, Ministry of Trade and Industry (MoTI) and Ethiopian Central Statistics (2018)

The MoTI 2018 uses capital investment as a measure, but the CSA (2018) uses employment and supports technologies that require a lot of capital.

For example, the MSME'S development plan from 2019 said that a microenterprise had a paid-up capital of less than 20,000 Birr (USD 2,105), while a small enterprise had a paid-up capital of between 20,000 and 500,000 Birr (USD 2,105–52,632). High-tech consulting companies and other high-tech businesses are left out of the definition (FDRE, 2019). The definitions also take into account how many people work for a business, which is how most foreign definitions of small and medium enterprises work. Ethiopia's Central Statistical Authority (CSA) 2018 also uses this term, but it isn't clear what it means by "medium" businesses. CSA 2018 said that "small and medium" enterprises are businesses with less than 10 employees that use power-driven machines. "Large and medium" scale manufacturing businesses are businesses with more than 10 employees that use automatic machines. So,

CSA's meaning wasn't very clear because of the different ways it talked about "medium" businesses. CSA, 2004; CSA, 2018). The business sector's ETB In the same way, a business with 6–30 workers and a total equity "Small enterprises" are businesses that make between 100,001 and 1,500,000 ETB in the manufacturing sector and between 50,001 and 500,000 ETB in the service sector (Federal Negarit Gazeta, 2018).

In the same way, the World Bank and other multilateral development groups like the Multilateral The Inter-American Development Bank's (IADB) Multilateral Investment Fund (MIF), the African The African Development Bank (AfDB) and the UNDP have very different ideas about what the MSME'S industry is and what it does. Even though the World Bank works on countries with economies that aren't as strong as those that the

The Inter-American Development Bank's Multilateral Investment Fund (MIF), the World Bank's 2021). The bank's definition includes businesses that have three times as many workers and five times as much revenue or assets as the largest MSME'S (Gibson and Vaart, 2018).

No matter what causes the different meanings to be so different, it is unlikely to be a scientific difference. These systems and countries also don't explain why there are such big differences (Gibson and Vaart, 2018). So, it's safe to say that deciding which businesses are small and which are big is a matter of opinion and depends on the amount of development in each country. Even in the same country, there are different meanings of

MSME'S changes over time because of changes in the economy, new technology, and other factors. There are problems because there isn't a single description of MSMEs that covers everything.

According to a study by Tegegne and Meheret (2015), it is hard to count the number of MSMEs and measure their effects across countries because there isn't a single definition that can be used everywhere. So, it's important to be careful when making these kinds of comparisons and taking lessons from another country.

2.3 Success measure of micro and small enterprise

Small and micro businesses are seen as an important part of the economic growth of both rich and developing countries. Most of the time, some of these businesses fail in their first few years, while others grow quickly and others grow slowly. So, it's important to figure out what makes a business successful so that new people can look at the factors and use them in their own businesses. A company's success can be driven by external opportunities, such as a

strong demand for the company's goods, or by internal incentives, such as a change to more efficient use of the company's resources.

On the other hand, things that will always be there and things that are inside of us can also get in the way of growth and success. When it comes to factors outside the company that affect its success, the demand for the company's goods is the most important one. Second, the actions of rivals on the market, the availability of production factors, and the local business environment are usually things that are outside of a small firm. Internal success factors include things about the company itself and the business owners of the company's enterprises. In this study, the internal causes of success of the businesses are looked at.

In the theoretical setting of micro and small businesses, empirical research has found that the success of a business depends on a number of factors. But before we look at what other experts have found about each of the success factors, it would be better to explain what success means for small businesses and how it can be measured. Usually, the economic results of an enterprise is used to measure its business success, if you walk and Brown (2014) says that the success of a small business can be judged by both financial and non-financial factors, but that financial factors have gotten more attention in the literature. Traditionally, a business's success was measured by the number of employees it had or its financial results, such as its profit, turnover, or return on investment. All of these measures are based on the idea that all small business owners want or need their businesses to grow.

In economic words, this is called making the most money possible. Economic measures of success have been popular because they are easy to use and apply, even though they are very hard to measure. Also, Walker and Brown (2014) said that for a business to stay in business, it must be financially successful in some way. But since some businesses don't want to grow, which means that making money is not their main or only goal, there must be other, non-financial ways for these small business owners to judge how well their businesses are doing. Mohan-Neill (2019) says that in small, independent, and startup businesses, measuring success may be about more than just how well the business does financially.

Business owners use things like autonomy, job satisfaction, and the ability to balance work and family tasks as non-financial measures of success (Mohan-Neill, 2019) are more difficult to measure because they are more subjective and depend on the person. So, the hard measures we talked about before are easier to understand and can be compared to existing data and used as standards for future measurements. It is measured by factors that each business owner chooses for himself or herself, though there are some things that all partners of small business owners have in common. Its measures assume that a certain level of financial security is

already in place. This could be in the business itself, or it could be that the small business owner doesn't need the business to be their main source of income (Walker & Brown, 2014).

Choosing performance measures that represent the real state of small businesses with some certainty and reliability is a very important step. (Alasadi & Abde/Rahin, 2017) Because there were no widely accepted standard performance measures, business organizations could pick and choose their own performance measures, which might not accurately show how well they did. These performance measures include, but are not limited to, market share, sales volume, business reputation, return on investment (ROI), profitability, and an established corporate identity. Some people might say that most of these success measures are good for big companies, but they don't always work well for small companies. In this study, the measures of success include both financial and non-financial factors, such as infrastructure, marketing, and managerial skills. What are the most important things that affect how well a business does as it grows and becomes harder to control?

The facts show that small business owners don't come from a certain social background or have a certain level of schooling. Instead, their business experience comes from the social connections and family ties in their area according to (Liedholt, 2011).

There is a link between the number of rules and the number of new businesses that start up. Potential entrants face different obstacles. Kawi and Urata (2011) say that the three biggest problems are not having enough money, not having enough people, and not being able to set up good marketing networks. There wasn't enough money or people, and it was hard to set up a delivery network. In poor countries, the lack of money to start new businesses has gotten a lot of attention (USAID, 2012).Measures of financial constraints include the size, number, and source of loans, the rate and amount of profits that are re-invested, the amount of access to fiscal facilities, and lowering taxes and resources for the business (USAID, 2012).

2.4 MSME'S Policy Framework in Ethiopia

As soon as the current government took over, it started the Emergency Recovery and Reconstruction Program (ERRP) and a program to help the private sector grow. Also, a number of other proclamations were made to help, such as Proclamation No. 15/2012, which is the Proclamation to Encourage, Expand, and Coordinate Investment, and

Proclamation No. 41/1993: List of the Central Executive's and Regional Executive's Powers and Duties The HASIDA decree was replaced by the Industry and Handicrafts Bureaus, which were set up by the Regional Governments with help from the Transitional Government of Ethiopia.

In 1995, the government decided to use the Agricultural growth Led Industrialization (ADLI) strategy and the private sector growth strategy. MSMEs were the center of one part of these strategies.

The Federal Micro and Small-Scale Enterprises Strategy (FMSMES) and the Regional Micro and Small-Scale Enterprises Strategies (RMSMES) were made in 1997. Government micro and Small-Scale Enterprises Development Agency (FMSME'SDA) and the Regional Micro and Small-Scale the Council of Ministers of Canada set up Enterprise Development Agencies (RMSME'SDAs).

Ethiopian Regulation No. 33/2008 was made, and changes were made to help the financial sector. One of the main goals of FMSMES and RMSMES is to use local raw materials, create productive jobs, adopt new and suitable technologies, and help MSMEs, which have a lot of backward and forward links, grow.

In 2019, the government put out an Industrial Development Strategy to make FMSME'SDA and RMSME'SDA work and deal with the major issues and problems that were holding back the growth of MSMEs 2018, which was meant to give MSMEs a package of material and technical help from the government, such as giving utilities and infrastructure, raw materials, access to credit, and so on. The government's growth plan for the next five years is called the Sustainable growth and

The goal of the Poverty Reduction Program (SDPRP) was to create conditions that would speed up growth and improve the people's standard of living.

In the next five-year plans (PASDEP I and II), it was decided that developing MSMEs would be the best way to create jobs and help reduce the high rate of young unemployment in the country.

The Growth and Transformation Plan (GTP), which came after PASDEP, also put MSMEs growth at the top of its list. MSMEs development has been chosen by the GTP as one of the seven bases of growth for the country. CSA, 1997; MoTI, 2017; Haftu et al., 2009; GTP, 2010) found that MSMEs have been at the center of creating jobs, reducing poverty, spreading entrepreneurship, and, as a result, economic growth. Two MSME'S policy documents have been put out by the government since 2017. The MSME'S Development Strategy from 1997 and the MSME'S Development Strategy from 2017 are examples of these. The first plan makes it clear that there is a systematic way to solve problems and help businesses grow. The main goal of this national MSME'S development plan has been to set up a place where

MSMEs to do business. More specifically, the 2017 strategy intended MSMEs to help with economic growth and bring about fair development, create long-term jobs, and lay the groundwork for medium- and large-scale businesses, just to name a few. In addition to its traditional focus on the poor and less skilled, the new MSME'S Strategy from 2017 added a new group of target groups: graduates. These people were encouraged to form companies and make their own jobs. In addition to giving people work, it is hoped that these businesses will help the country learn how to use new technologies and run businesses better. The plan put MSMEs in the manufacturing sector into different groups, such as the manufacturing sector, the service sector, the construction sector, the urban agriculture sector, and the retail sector. The stage of growth of MSMEs is one of the most important ideas brought up in the new MSME'S strategy. According to this strategy, the amount of growth of these businesses determines how much help the government gives them, so the help is pretty specific. MSMEs go through three stages of growth: the start-up, the growth, and the development stages.

2.5 Role of MSME'S Sector

The role of MSMEs in the business isn't always clear from literature reviews. On the one hand, some authors saw MSMEs as small and useless businesses that were used to avoid taxes and didn't have much room for growth or improving their ability to be entrepreneurs. For example, Liedholm and Mead 2018) said that a rise in the number of people working in MSMEs is a sign that the economy isn't producing enough good jobs, so people are forced to turn to limited activities that don't pay enough to cover their basic needs.

Mead, 2018) stated on the other hand, MSMEs are seen as hopeful signs because when they and the market work well, they give people chances to take part in profitable activities that can help more families become self-sufficient and fund. Mukras (2018) claimed that SMEs would not only help reduce poverty by creating more jobs and more money, but they would also improve the welfare and standard of living of many people (Mukras, 2018).

There is still no agreement among writers about what role MSMEs play in economic growth and getting rid of poverty. Still, the two different points of view are clear in different books (Agyapong, 2016. One line of the argument says that over time, the advantages of MSMEs will become less important, and big enterprises (LEs) will become more important as the economy grows and incomes rise. In a similar way, Admassie and Matambalya's (2012) study showed that there is a high level of technical inefficiency because of shortcomings and pessimism. This makes their maximum output levels much lower. Biggs did research on the subject. (2012, cited in Tegegne and Meheret, 2015) have serious doubts about the role that

MSMEs play in reducing high-level poverty in most emerging economies by creating jobs, making money, and having a ripple effect on other parts of the economy.

But today, most people agree that micro and small businesses (MSMEs) help with job creation, economic growth, and sustainable development. MSMEs are seen as important tools for diversifying the economy, making and spreading money, and speeding up the economy of a country. They can also help make sure that the benefits of economic growth are shared more fairly, which can help solve some of the problems caused by wage inequality. Also, there is no question that small and medium-sized businesses (MSMEs) have become important parts of the economies of most developing countries, including Ethiopia. Because of this, researchers, practitioners, and lawmakers are becoming more interested in MSMEs as sources of labor-intensive technologies, jobs, and incomes for the urban poor. In Kenya, a global meeting on the world employment program brought up the idea that the informal sector is important and could be a source of jobs and economic growth in a world with a growing population (Josef Gugler, 2018). So, it was suggested that a good policy tool would be to support technologies and output methods that require a lot of work. Most developing countries tried to solve their unemployment problems by promoting labor-intensive technologies in production. This was thought to help both rural and urban people find jobs. Promoting micro and small businesses (MSMEs) is one of these labor-intensive things that countries have done (Ibid.).

2.6 The Features of the MSME'S sector

OECD (2019) says that developing economies tend to have big informal sectors with a lot of entrepreneurs and other types of workers who don't have formal jobs.

But figuring out the exact number of SMEs is hard because these businesses don't fit into official statistics nets. SMEs are usually too small and haven't been around long enough for them to be listed. Because of this, it is hard to get panel statistics on micro, small, and medium businesses in developing countries. Estimating the exact number of small businesses is hard, but study gives us a lot of information about how informal micro and small businesses work. Altenburg and Eckhardt (2016) say that most SMEs go into traditional markets that are easy to get into, are usually pretty full, and have a lot of competition as well as falling earnings and wages. Despite this, most people agree that the

In many countries, a lot of jobs are made in the SME industry. In developing countries, the share of jobs in this area is usually higher (Tybout 2010, Thurik 2015, Mead 2014).

Mead and Morrisson, 2018) found that in the five African countries they looked at, there were twice as many people working in micro and small businesses as in the official large-scale and public sectors. Also, they show that most of these businesses were run by just one person. Hired workers, not including unpaid family workers, were rare. Mead and Liedholm (2008) found that hired workers made up only about 20% of the MSME'S labor force in most countries.

Zewde 2014 found that the MSME'S sector is made up of a number of very different activities that can give jobs to a big portion of the population. Small and micro enterprises in the informal sector are easy to get into, get most of their money from personal and family resources, and need little money to get started, use labor-intensive techniques, and rely on the non-formal school system, such as apprenticeships and learning on the job (Zewde, 2014). Most MSMEs in Ethiopia hire between two and nine people.

Even though it is hard to get true business capital in Ethiopia, more than 90% of businesses are run with less than 50,000 birr. Most of them are privately owned, and most of the people who work there are family members or people who help out when they need to.

2.7 Factors that Influence Growth, Development and Expansion of MSMEs

Starting and running an MSME'S business comes with the chance of both success and failure. A simple management mistake can kill a small business because it is so small. This means that it can't learn from its past mistakes because it is too small. MSMEs grow and expand because of a number of different things. These things were put together by different authors in different ways. Schiebold suggests a framework with seven important factors that affect the growth and development of MSMEs (Schiebold, 2017). These are informality, institutional environment, entrepreneurial characteristics, socio-economic environment, finance, petty trading, and infrastructure.

Some writing says that external factors are the main things that affect the growth and development of MSMEs. The external and environmental issues that come up most often are those that have to do with capital shortages, taxes and regulations, infrastructure, etc. Since the MSMEs sector in most developing countries, including Ethiopia, works in an environment with very poor infrastructure, such as not being able to access markets, communication, power, water, etc., this slows down the growth of micro and small-scale enterprises (MSMEs). Infrastructure, as it relates to the provision of access roads, adequate power, water, sewerage, and telecommunication, has been a major barrier to the growth of SMEs (Bokea, Dondo, & Ngwenya 2017).

Also, the growth of micro and small-scale enterprises (MSMEs) is hurt by a lack of short-, medium-, and long-term capital, as well as by a lack of access to financial resources and loan facilities. MSMEs have serious financial problems, such as getting small amounts of money at reasonable rates, building up enough cash reserves, and getting equity capital for the long run. On top of that, the growing rate of inflation and the higher cost of capital make things very hard for MSMEs. Longenecker et al. (2016) say that the main reasons why small businesses fail are a lack of planning, bad finances, and bad management. Lack of credit has also been named as one of the biggest problems that small and medium-sized enterprises (SMEs) face and that slows their growth (Oketch, 2012).

The way men and women divide up work and the way people think about men and women tend to push women into low-status and low-paying business jobs (von Masson, 1999). Personal traits like the willingness to take risks and the drive to reach the top levels are examples of entrepreneurial traits. Loscocco et al. (2011) say that small business owners may also benefit from the intangible success of their family members. However, heavy family tasks may also keep the entrepreneur from focusing on the business. Business traits also play a big role in figuring out how well a business does.

McPherson (2016) says that where a business is based (at home, in a market, or in an industrial or commercial area) has a big effect on how likely it is to stay in business and grow.

Social capital helps companies do better by giving them access to information and lowering transaction and search costs (Fafchamp and Minton, 2013). This is especially true when markets don't work well and transaction costs are high. There are three ways to look at the idea of "social capital." The first is on a small scale, like a network of people or homes. The second level is the meso level, which includes both vertical and horizontal relationships and behaviors within and between micro, small, medium, and big businesses. At the macro level, the third and most comprehensive view of social capital looks at how institutions and the larger political climate shape social structure and make norms possible (World Bank, 2018).

Another important factor in the rise of is the choice of technology and the ability to come up with new ideas.

Conceptual framework

According to the research report of Kithae (2013), the conceptual framework which shows the relation between ingredients of entrepreneurship training program (The independent variable) and performance of MSMEs (the dependent variable) depicted below:

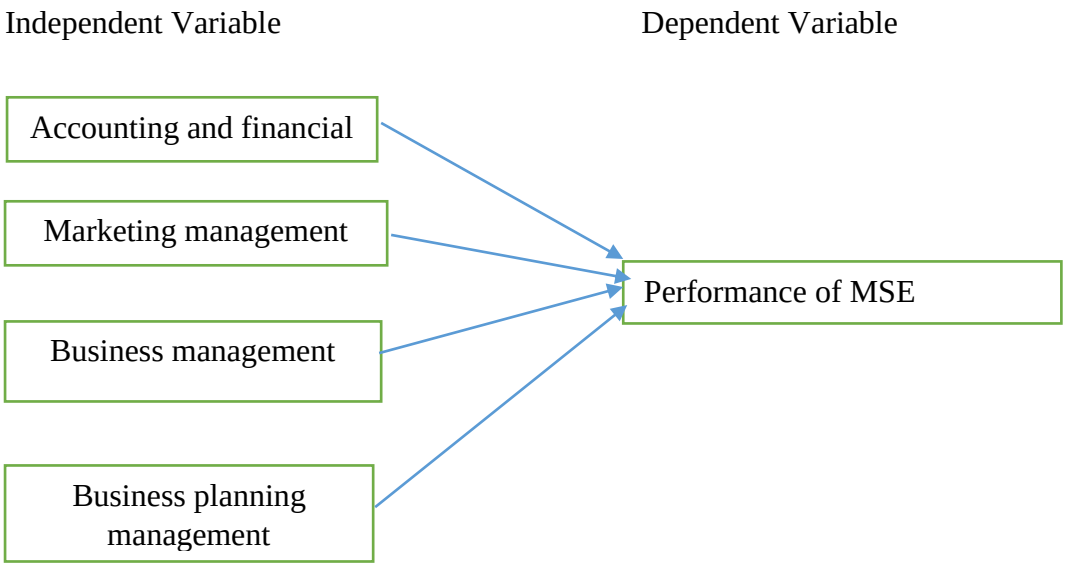

Figure 2.1. Conceptual frameworks (Own Model)

CHAPTER THREE

3. Research Design and Methodology

3.1 Introduction

Under this section a number of external and internal factors were taken into account to identify the major factors affecting performance of MSMEs. This section provides an overview of the study's research approach which lies within the mixed methods, research design, data collection, sampling technique, data processing and analysis and instrument development

3.2 Research design

The methodology applied in this study draws from Creswell's research design framework (Creswell, 2014), which advocates for a mixed-methods approach combining both descriptive and explanatory research methods. The use of both descriptive and explanatory research methods is essential for achieving a comprehensive understanding of the factors influencing the performance of Micro and Small Scale Manufacturing Enterprises (MSMEs) in Yeka Sub-City. Descriptive research allows for the thorough description of the current state of affairs, providing insights into the characteristics and conditions of the MSME sector at the time of the study. On the other hand, explanatory research enables the exploration of the relationships between variables and the estimation of the integrated influence of these factors on MSME performance. By combining these two approaches, the study can offer a holistic analysis of the factors affecting MSME development, thereby enhancing the validity and reliability of the research findings.

3.3 Data Collection Method

The research utilized a combination of primary and secondary sources. Primary data was obtained through structured questionnaires distributed among the study's sample population, ensuring anonymity and fostering candid responses. Additionally, interviews were conducted with 33 randomly selected heads of enterprises from the study location.

Secondary data relevant to the research was gathered from a variety of national documents, strategic papers, guidelines, and other publications, both from governmental and non-governmental entities, to complement the primary data collection process.

3.4. Sampling Technique and Sampling Size

3.4.1. Population of the Study

The population of the study comprises micro and small enterprises (MSMEs) operating within the Yeka Sub-City of Addis Ababa, Ethiopia. This includes MSMEs across various sectors such as manufacturing, processing, and production.

3.4.2. Sampling Procedure

A stratified random sampling technique was employed to ensure a representative sample of MSMEs from the total population. The population was stratified into homogeneous groups (strata) based on sectors of MSMEs. Each sector was then systematically sampled using a simple random sampling method from a comprehensive list of enterprise operators in the sub-city. Sectors commonly present across all sub-cities of Addis Ababa and privately owned manufacturing sectors were included in the selection process due to their measurable data.

The purpose of stratified random sampling technique is

1. Improved Precision: By ensuring representation from each stratum, the variability within each subgroup is reduced, leading to more precise estimates and results.
2. Comparative Analysis: Allows for comparisons between different strata to understand variations or patterns that may exist across the population.
3. Correct Representation: Ensures that minority groups or less frequent occurrences within the population are adequately represented, preventing their under-representation or over-representation in the sample.

Understanding and appropriately applying stratification in statistical analysis is crucial for ensuring the validity and reliability of study findings

3.4.3. Sample Size Determination

The sample size determination was based on the population formally registered by the Federal MSME'S Bureau (FMSME'SB) until May 2023. A list containing names, addresses, and types of MSME'S businesses engaged in the study area was obtained from the FMSME'S. The selected sample size was deemed representative of MSMEs in the respective sectors. To estimate sample representativeness, the following formula was applied:

$$n = \frac{N}{1 + Ne^2}$$

Where:

n = sample size

N = total population size

e = desired level of precision (margin of error)

The sample size was determined to ensure adequate representation of MSMEs across different sectors within the Yeka Sub-City, thereby enhancing the reliability and generalizability of the study findings.

3.4 Procedures of Data Collection

Prior to commencing fieldwork, all data collection instruments including questionnaires and interview guides underwent pilot testing. This testing served to refine the instruments and uncover any unforeseen flaws. Based on feedback from the pilot testing phase, the instruments were reviewed and revised. To prevent contamination, the inventory of micro, small, and medium enterprises (MSMEs) for the actual fieldwork excluded those involved in the pilot study.

3.5. Data processing and Analysis

3.5.1. Data Processing

During the data processing phase, manual procedures were employed for editing, encoding, classification, and tabulation of the collected data. Data cleanup procedures were implemented to identify anomalies, errors, and omissions in responses, ensuring accurate and uniform completion of questions. Numeric codes were assigned to condense responses into a limited number of categories or classes. Subsequently, tabulation and tables were utilized to summarize the raw data effectively.

Processed data underwent transformation to identify patterns and relationships among data groups through descriptive analysis. The Statistical Package for Social Science (SPSS) was utilized for analyzing the data obtained from primary sources.

3.5.2. .Descriptive Analysis

Descriptive analysis is employed to condense data into a summary format through tabulation and measures of central tendency. Its purpose is to facilitate comparison among different factors. Additionally, interview questions were analyzed using descriptive narratives via a concurrent triangulation strategy.

3.5.3. Regression Analysis

In this study, multiple regression analysis was employed. This approach considers the inter-correlations among all variables involved, including the predictor scores. Multiple regression analysis allows for the simultaneous regression of multiple predictors against the criterion

variable. It helps determine whether the independent variables collectively account for the variance in the dependent variable..

3.6. Validity and Reliability

To ensure the reliability and validity of the research findings, several measures have been implemented in the data collection process for this study. Nunnally (1978) recommends that Cronbach's alpha ideally should surpass 0.700, although certain studies deem values as low as 0.600 acceptable (Gerrard, et al., 2006). According to Hair, et al. (2006), a Cronbach's alpha exceeding 0.7 indicates strong reliability, while a value below 0.3 implies low reliability. To evaluate the consistency reliability of the instrument, the questionnaire was distributed to 10 different groups of manufacturing enterprises, yielding the following Cronbach's alpha:

Reliability:

Reliability refers to the consistency and stability of the research instrument in producing similar results when used under similar conditions. In this study, reliability was ensured through the following measures:

1. Test-Retest Reliability: A pilot study was conducted with a small sample of respondents to assess the consistency of responses over time. The questionnaire was administered to the same respondents with a time interval, and the responses were compared for consistency.
2. Internal Consistency: Cronbach's alpha coefficient was calculated for scales or constructs involving multiple items to measure internal consistency reliability. Items within each scale were expected to correlate highly with each other, indicating reliability.

Table 3.1 summary of Reliability

Independent Variables	Cronbach's Alpha	Number of Items
Accounting and financial	.835 5	5
Marketing management	750	5
Business management	.858	4
Business planning management	.862	5
Dependent Variable	Cronbach' Alpha	Number of Items
Performance of MSME'S	.923	6

Source field survey 2023

3.5 Ethical consideration of the research

The research adhered to several significant ethical principles. Respect for persons, non-malfeasance (do no damage), beneficence (do well), informed consent, confidentiality, honesty, and the avoidance of plagiarism comprise these principles. Throughout the research process, the researcher took great care not to violate ethical issues that are deemed negative and to uphold ethical issues that are deemed positive.

CHAPTER FOUR

Data Presentation, Analysis and Interpretation

4. Data Presentation

4.1 Introduction

This chapter provides the presentation of the findings of the survey and interpretation. The study was conducted using both statistical models and descriptive analysis. Simple dispersion and central tendency measures were utilized to describe some points in the study. Data were collected from 33 owner managers of MSMEs found in Yeka sub-city.

4.2 Background Characteristics of Respondents

The age distribution of the sample shows that participants between the ages of 30-39 make up the largest group, accounting for 42.42% of the total. The second largest age group is 40-49, comprising 24.24% of the participants. Participants aged 19-29 and 50-59 both represent smaller proportions, with 21.21% and 9.09% respectively. Lastly, individuals aged 60 and above account for the smallest percentage, at 3.03%.

The sample consists of 54.54% male participants and 54.54% female participants, indicating nearly equal gender representation. The total number of male participants is 18, while the total number of female participants is 15.

The majority of participants have completed 10+3/diploma education, representing 33.33% of the sample. The second largest group consists of participants who have completed 10+1 & 10+2 education, accounting for 12.12%. Participants who have completed grades 10, grades 5-8, and grades 1-4 represent smaller proportions, ranging from 6.06% to 24.24%. Only a small percentage of participants, 3.03%, are unable to read and write. Participants with a BA/BSc or higher education represent 15.15% of the sample.

Among the participants, 51.51% are married, making it the most prevalent marital status. The second most common marital status is single, accounting for 42.42% of participants. Divorced and widowed individuals each represent 3.03% of the sample.

Overall, the analysis indicates a diverse range of participants in terms of age, gender, education level, and marital status. The largest age group falls within the 30-39 range, while there is an almost equal distribution of male and female participants. The education level is varied, with the highest proportion having completed 10+3/diploma education. Marital status shows a slightly higher prevalence of married individuals compared to single individuals.

Table 1: Background characteristics of Respondents

Parameter	Frequency	Percent
Age		
19-29	7	21%
30-39	14	42%
40-49	8	24%
50-59	3	9%
60+	1	3%
Total	33	100%
Sex		
Male	18	54%
Female	15	54.5%
Total	33	100%
Level of Education		
Can't read and write	1	3%
Grades1-4	2	6%
Grades 5-8	2	6%
Grades 10 complete	8	24%
10+1 &10+2	4	12%
10+3 /diploma	11	33%
BA/BSC and above 1	5	15%
Total	33	100%
Marital Status		
Single	14	42%
Married	17	51.5%
Divorced	1	3%
Widowed/er	1	3%
Total	33	100%

Source field survey 2023

4.3 Firm Characteristics

4.3.1 Year of Establishment

The data provides information on the year of establishment for a particular entity or organization. Here is a detailed analysis of the data:

The majority of establishments, accounting for 39.39% of the total, were established in the most recent period, 2021 and beyond.

The second largest group of establishments, representing 33.33% of the total, was established between the years 2013 and 2016. Establishments formed between 2017 and 2020 make up the remaining 27.27% of the total.

This data gives insights into the distribution of when the surveyed establishments were established. It appears that a significant number of establishments have been formed in recent years, with a higher concentration in the period after 2021. This could indicate a growth or

expansion in the industry during that time. The data also suggests a steady rate of establishment between 2013 and 2016, while the period between 2017 and 2020 shows a slightly lower percentage of establishments in comparison.

It is important to note that further analysis or context, such as the industry or sector to which these establishments belong, would provide a more comprehensive understanding of the implications of these establishment trends.

Table 2: Establishment of MSMEs

Year of establishment	Frequency	Percentage
2013-2016	11	33%
2017-2020	9	27%
2021+	20	39%

4.3.2 Legal Status of the Firms

The majority of businesses, accounting for 51.51% of the total, are under sole ownership.

Joint ownership represents the second most common form of legal ownership, comprising 18.18% of the businesses.

Cooperative ownership, where the business is owned and operated by a group of individuals, is present in 27.27% of the cases.

Family business ownership, where the business is owned and operated by members of a family, is relatively uncommon, existing in only 3.03% of the businesses.

Among sole owners, the most prominent reason for choosing this ownership structure is to be self-employed, with 54.54% of owners indicating this as their motivation.

Another significant reason for sole ownership is the potential for higher income, cited by 30.30% of owners. Family tradition is the reason for sole ownership in 9.09% of cases. A small proportion of sole owners, 6.06%, cited other reasons not specified in the data. The data suggests that the majority of businesses are owned by a single individual, indicating a preference for sole ownership. This could be driven by desires for independence and the ability to be self-employed. Sole ownership can also offer potential for higher income, which may attract entrepreneurs looking for financial success. Family tradition appears to have a lesser influence on the decision to pursue sole ownership, possibly indicating a shift away from traditional family businesses. Additionally, a smaller percentage of businesses operate as cooperatives, reflecting a less common approach to ownership.

Further analysis could delve into specific industries or sectors to better understand the degree of sole ownership and the reasons behind the choice of ownership structure. This would

provide deeper insights into the entrepreneurial landscape and the factors that drive individuals to opt for various forms of legal ownership.

Table 3: Legal status of ownership and reasons to prefer sole ownership status

	Frequency	Percentage
What is the legal ownership of the business?		
Sole ownership	17	51%
Joint ownership	6	18%
Family business	1	3%
Cooperative	9	27%
Total	33	100%
Reasons for sole ownership status		
Family tradition	3	9%
To be self-employed	18	54%
Brings high income	10	30%
Other (specify	2	6%
Total	33	100%

4.3.3 Who initialized and started the business

Respondents were asked who initialized and started the business. As clearly depicted in the table.2 below, most of the respondents (48 %) start enterprises with their own initiation. Similarly, 39% of the respondents start businesses with their friend/partners. Only 12% of the entrepreneurs was establish the business with family members.

Table 4: who initiated and started the business

Item	**Frequency**	**Percentage**
My self	16	48%
With a friend/ partner	13	39%
Family members	4	12%
Total	33	100%

4.3.4 Source of skill for running your enterprise

Based on the given data, it can be inferred that a majority of individuals (45%) have acquired their items through formal training. This indicates that formal education and training can be a significant factor in acquiring items. The second most common way of acquiring items is

through past experience, with 27% of individuals having done so. This suggests that hands-on experience can be valuable in obtaining items. A small percentage of individuals (9%) have obtained items from their family, indicating that family connections can also be a source of acquiring items.

Finally, 18% of individuals have acquired items through other means, which is a relatively diverse group. It would be interesting to know the specifics of this group to gain further insights.

Overall, the data suggests that formal training and past experience are the most common ways of acquiring items.

Table 5: Source of skill for running your enterprise

Items	Frequency	Percentage
Through formal training	15	45%
From past experience	9	27%
From family	3	9%
Other (specify)	6	18%

Source field survey 2003

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

Based on the provided data, it can be observed that a significant portion of individuals (81%) had a start-up capital of less than $20,000. This suggests that a majority of entrepreneurs started their businesses with a relatively small amount of capital.

In terms of the main source of start-up funding, the data reveals that personal savings were the most common source, accounting for 48% of the respondents. This indicates that many individuals relied on their own savings to finance their start-ups.

A smaller percentage (39%) obtained funding from microfinance institutions, indicating that these institutions played a significant role in supporting entrepreneurs with their start-up capital needs.

A very small proportion of individuals borrowed from relatives or friends (3%), received assistance from friends/relatives (6%), or received assistance from NGOs (3%) as their main source of start-up funding.

Overall, the data suggests that personal savings and microfinance institutions are the primary sources of start-up funding for the surveyed individuals. This highlights the importance of personal financial resources and access to microfinance for aspiring entrepreneurs.

Table 6: Amount of start-up capital and main source the start-up funding

Item	Frequency	Percentage
Start-up capital		
<20000	27	81%
20001-100000	6	18%
Total	33	100%
What was your main source of your start-up funding?		
Personal saving	16	48%
Borrowed from relatives or friends	1	3%
Micro finance institution	13	39%
Assistant from friends/relatives	2	6%
Assistant from NGO's	1	3%
Total	33	100%

Source field survey 2023

4.3.6 Sub-Sectoral Distribution of MSMEs

Based on the given data, it appears that the main product of the company is food, accounting for 33% of the total. Clothing/Shemena comes in second at 21%, followed by wood and wood products/furniture at 15%. Other manufacturing, including bamboo, designing, and bio gas, accounts for 9% of the total. The remaining categories, including leather and leather products, footwear, and metal products/furniture, make up between 3-12% each.

Table 7: percentage distribution of MSMEs by subsector

What is your main product?	**Frequency**	**Percentage**
Food	11	33%
Clothing/Shemena	7	21%
Leather and leather products	1	3%
Footwear	2	6%
Wood and wood product/ furniture	5	15%
Metal products/ Furniture	4	12%
Other manufacturing (bamboo, designing, Bio Gas)	3	9%
Total	33	100%

Source field survey 2023

4.3.7 Availability of Business Strategy

The respondents were asked if they had developed a business development strategy. As a result, all (100%) of the respondents failed to develop and implement purposeful business growth strategy. The respondents are unaware of, or lack the ability to design, business growth strategies or plans, and have had little exposure to traditional business management skills. The respondents' responses suggested that they rely on instinctual tactics that differ from intentionally developed long-term strategies and plans. Their acts are unplanned and unintentional, and they are used to meet the needs of the market, customers, and so on.

4.4 Access to Infrastructure

The given data provides insights into the availability of basic utilities and communication tools for firms. 100% of the firms obtained an electrical connection, indicating good access to electricity. However, 66.6% of the firms experienced power outages, which can negatively impact productivity and profitability. The average duration of power outages was 11 hours for 33% of the firms, which is a significant amount of time. It is concerning that 33% of the firms were unsure about the duration of power outages, indicating a lack of monitoring and record-keeping.

Most of the firms (72.7%) obtained a water connection, indicating good access to water. However, 27% of the firms did not have a water connection, which can negatively impact production processes. 27% of the firms experienced insufficient water supply for production over the period of 2006 E.C., which can hinder productivity and profitability. It is positive to note that 54.5% of the firms did not experience insufficient water supply for production.

Only 12% of the firms used email to communicate with clients or suppliers, indicating a low level of adoption of digital communication tools. The majority (87.8%) did not use email for communication, which can limit opportunities for business growth and development.

Only 3% of the firms had their own website, indicating a low level of digital presence and limited opportunities for online marketing and sales. The majority (96.9%) did not have their own website, which can limit opportunities for business growth and development in the digital age

Table 8: Percentage distribution of by Access to infrastructure

Does your firm obtain an electrical connection?	Frequency	Percentage
Yes	33	100%
Did your firm experience power outages?		
Yes	22	66.6%
No	11	33%
Total	33	100%
How long did these power outages last on average?		
Average duration of power outages in hours	11	33%
Less than one hour	12	36.6%
Don't know	11	33%
Total	33	100%
Does your firm obtain a water connection?		
Yes	24	72.7%
No	9	27%
Total	33	100%
Over 2006 E.C did your firm experience insufficient water supply for production?		
Yes	9	27%
No	18	54.5%
The establishment does not use water for production	6	18%
Total	33	100%
At the present time, does your firm use e-mail to communicate with clients or suppliers?		
Yes	4	12%
No	29	87.8%
Total	33	100%
At the present time, does your firm have its own website?		
Yes	1	3%
No	32	96.9%
Total	33	100%

Source field survey 2023

4.5 Access to Land and Working Premise

The given data provides insights into the land ownership and acquisition challenges faced by firms. Two-thirds (66.6%) of the firms were micro institutions, indicating that they may not have the resources or ability to acquire their own land. One-third (33%) of the firms rented or leased the land/working place, which can limit their long-term stability and control over the property.

A large majority (87.7%) of the firms submitted an application to obtain land for expansion, indicating a desire to grow and expand their operations. However, 9% of the firms did not submit an application, which may indicate a lack of resources or awareness of the application process.

Access to land was reported as a major obstacle for 45% of the firms, indicating that it is a significant challenge for many businesses. Access to land was a moderate obstacle for 42% of the firms, indicating that it is a challenge for many businesses but not as significant as for others. Only 9% of the firms reported access to land as a minor obstacle, indicating that it is not a significant challenge for most businesses. One firm (3%) was unsure about the degree to which access to land was an obstacle.

Overall, it appears that access to land is a significant challenge for many of the firms, particularly micro institutions and those that rent or lease their property. The high percentage of firms that submitted applications for land expansion indicates a strong desire to grow and expand, but also highlights the need for more accessible and streamlined processes for obtaining land.

Table 9: percentage Access to Land and Working Premise

Is the land/working place occupied by your firm owned or Rented/leased?	Frequency	Percentage
Rented or leased by your firm	11	33%
Micro institution	22	66.6%
Total	33	100%
Did your firm submit an application to obtain a land for expansion?		
Yes	29	87.7%
No	3	9%
Don't know	1	3%
Total	33	100%
To what degree is Access to Land an obstacle to the current operations of your firm? Access to land		
Minor obstacle	3	9%
Moderate obstacle	14	42%
Major obstacle	15	45%
Don't know	1	3%
Total	33	100%

Source field survey 2023

4.6 Access to Finance

The given data provides insights into the sources of financing for the firms. More than half (51%) of the firms used internal funds or retained earnings to finance their operations, indicating a reliance on their own resources and profitability. This may suggest that these firms have a strong financial position and are able to maintain their operations without external financing.

24% of the firms borrowed from non-bank financial institutions or microfinance institutions, indicating a reliance on external financing sources. This may suggest that these firms may not have sufficient internal funds or retained earnings to finance their operations or expansion plans.

15% of the firms made purchases on credit from suppliers, which can help to manage cash flow and inventory management. However, this may also indicate a reliance on suppliers for financing, which can limit the firm's flexibility and bargaining power.

9% of the firms used other sources of financing, such as moneylenders, friends, or relatives. This may suggest that these firms may not have access to formal financing sources or may prefer informal financing arrangements.

Overall, the data suggests that firms use a variety of financing sources to support their operations and growth. While some firms rely on internal funds or retained earnings, others may need to seek external financing sources such as non-bank financial institutions or microfinance institutions. The use of credit from suppliers and other informal financing sources also highlights the need for accessible and affordable financing options for small businesses

Table 10: percentage Access to Finance

Parameter	Frequency	Percentage
Internal funds or retained earnings	17	51%
Borrowed from non-bank financial institutions microfinance institutions,	8	24%
Purchases on credit from suppliers	5	15%
Other, moneylenders, friends, relatives, etc.	3	9%
Total	33	100%

Source field survey 2023

4.7 Degree of Competition

The given data provides insights into the market reach of the firms. The majority (87.8%) of the firms sold their main product mostly in the same sub-city where the establishment is located. This suggests that most firms have a local focus and may not have the resources or ability to expand to national or international markets.

Only 12% of the firms sold their main product mostly across the country, indicating a limited national market reach. This may suggest that some firms have the capacity to expand beyond their local market, but may face challenges in doing so.

Overall, the data suggests that most firms have a local market focus, which may be due to a variety of factors such as limited resources, lack of infrastructure, or preference for local customers. The limited national market reach may also indicate challenges in expanding beyond local markets. However, it is important to note that this data only reflects the main product sold and does not account for secondary products or services that may have a wider market reach.

Table 11: Percentage degree of competition

During last year, which of the following was the main market in which this establishment sold its main product?	Frequency	Percentage
Local – main product sold mostly in same sub-city where establishment is located	29	87.8%
National – main product sold mostly across the country	4	12%
Total	33	100%

Source field survey 2023

4.8 Innovation

The given data provides insights into the innovation and development practices of the firms.

The majority (90.9%) of the firms introduced new or significantly improved products or services in the last year. This suggests that most firms are actively pursuing innovation and development in their product or service offerings.

Similarly, 90.9% of the firms introduced new or significantly improved methods of manufacturing in the last year. This indicates a focus on process improvement and efficiency in manufacturing operations.

Only 27% of the firms introduced new or significantly improved logistics, delivery, or supporting activities in the last year. This may suggest that firms are less focused on improving these areas compared to product development and manufacturing methods.

Only 6% of the firms introduced new or significantly improved organizational structures or management practices in the last year. This suggests that firms may be less focused on organizational development and management practices compared to product development and manufacturing methods.

81.8% of the firms introduced new or significantly improved marketing methods in the last year. This indicates a focus on expanding market reach and improving customer engagement.

84.8% of the firms gave employees time to develop or try out new approaches or ideas in various areas such as products or services, business processes, firm management, or marketing. This suggests that firms value employee involvement in innovation and development processes.

Overall, the data suggests that most firms prioritize innovation and development in their product or service offerings and manufacturing methods, as well as marketing methods. However, there may be less emphasis on improving other areas such as logistics, delivery, supporting activities, and organizational structures or management practices. The high percentage of firms giving employees time for innovation and development also highlights the importance of involving employees in these processes.

Table 12: Percentage of Innovation

	Frequency	Percentage
During the last year, has your firm introduced new or significantly improved products or services?		
Yes	30	90.9%
No	3	9%
Total	33	100%
During the last year, has your firm introduced any new or significantly improved methods of manufacturing		
Yes	30	90.9%
No	3	9.09%
Total	33	100%
During the last year, has your firm introduced any new or significantly improved logistics, delivery, or		

Yes	9	27%
No	23	69.6%
Total	33	100%
During the last year, has your firm introduced any new or significantly improved supporting activities for your processes, such as maintenance systems or operations for purchasing, accounting, or computing?		
Yes	2	6%
No	30	90.9
DON'T KNOW	1	3%
Total	33	100%
During the last year, has your firm introduced any new or significantly improved organizational structures or management practices?		
Yes	2	6%
No	31	93.9%
Total	33	100%
During the last year, has your firm introduced new or significantly improved marketing methods?		
Yes	27	81.8%
No	6	18%
Total	33	100%
During the last year, did your firm give employees some time to develop or try out a new approach or new idea about products or services, business process, firm management, or marketing?		
Yes	28	84.8%
No	4	12%
Don't know	1	3%
Total 65	33	100%

Source field survey 2023

The information acquired from interviews with MSME'S owners revealed that the most important issue for the participants is a lack of appropriate marketplaces. Some of the operators stated that, although being promised that they would benefit from the market linkage generated by government initiatives and organizations, it has not been adequate or satisfying thus far. According to the interviewed operators, one likely explanation is a lack of

dedication and unwillingness to follow MSME'S-related policies and proclamations made by government authorities and workers. This low market can be attributed to the operators' own inadequate promotional efforts. As a means of overcoming this lack of market access, the government organizes bazaars and trade fairs at the sub-city and city levels, which is a generally accepted promotional and advertising approach.

4.9. Government Support

Recognizing the importance of the MSME'S sector, the Ethiopian government has created a favorable regulatory environment and claims to offer financial and other non-financial assistance to the MSME'S sector internally. According to key informants from the sub-city MSMEs Development Administration, the sub-city is unable to address all of the companies' requirements because "the MSMEs prefer to work on their own," i.e., they are reluctant and unable to cooperate. As a result, the sub-city cannot accommodate all requests for working space and stores." According to the informants, the government is attempting to assist MSMEs by providing finance and credit services, as well as training; however, credit services were inadequate, particularly for MSMEs in the manufacturing subsector. Because the majority of the trainings were offered by skilled persons, i.e., people with real manufacturing expertise, they were ineffective in increasing the effectiveness of the firms because the training duration was quite short. In the future, the government should consider adjusting the training length and providing training that is supported by practical connections with industrial industries.

4.10 Factors affecting the development and performance of manufacturing MSMEs

The literature reviews have identified various factors that influence the development of MSMEs. The significance of these factors varies temporally and geographically in the context of MSME'S operations. The choice of technology and innovative capacity, as well as factors such as founders' characteristics, innovation, and the complexity of the business environment, are relevant considerations (Moyi and Njiriani, 2005; Nogare, 2006). Various factors influence the development of the microenterprise sector, including market knowledge, differentiation in terms of price, quality, or other factors, product diversification, access to resources and technologies, and access to capital.

The given data provides insights into the level of access to various resources and support for the firms. The mean score for financial access given by microfinance and other lending

institutions is 3.81, which falls between "neutral" and "agree". This suggests that while some firms may have access to financial support, there may be room for improvement in this area.

The mean score for access to market for products is 4.88, which indicates a positive response. This suggests that most firms have access to markets for their products.

The mean score for access to different business trainings is 4.28, which indicates a positive response. This suggests that most firms have access to business training opportunities.

The mean score for access to premises (land) to run my business is 4.72, which indicates a positive response. This suggests that most firms have access to premises or land to run their business.

The mean score for access to information and necessary technologies to exploit business opportunities is 4.71, which indicates a positive response. This suggests that most firms have access to necessary information and technologies.

The mean score for managerial skills is 4.51, which indicates a positive response. This suggests that most firms have the necessary managerial skills to run their business effectively.

The mean score for access to necessary inputs (raw materials) is 4.89, which indicates a positive response. This suggests that most firms have access to necessary inputs or raw materials.

Overall, the data suggests that most firms have access to necessary resources and support such as markets, premises, information, technologies, inputs, and managerial skills. However, there may be room for improvement in areas such as financial access and access to different business trainings

Table 13: percentage of important the factors for the development and performance of manufacturing

Items	SD	D	N	A	SA	Mean	Sd deviation
Financial access given by micro finances and other lending institutions.	6.3	6.3	12.7	49.2	25.4	3.81	1.090
Access to market for products			3.1	6.3	90.6	4.88	0.418
Access to different business Trainings	6.2	1.5	6.2	30.8	55.4	4.28	1.083
Access to premises (land) to run my business	1.5	3.1	1.5	9.2	84.6	4.72	0.781
Access to information and			4.6	20	75.4	4.71	0.551

necessary technologies to exploit business opportunities							
Managerial skills			4.6	40	55.4	4.51	0.590
Access to necessary inputs(raw materials)			1.5	7.7	90.8	4.89	0.359

Source field survey 2023

The participants of the in-depth interviews also identified the key factors that are impacting the performance of micro and small enterprises (MSMEs) in the sub-city. According to the key informant at the MSME'S Development Agency, the manufacturing sub-sector of MSMEs possesses distinct characteristics. These include the need for pre-existing skills, technology, substantial capital, suitable working premises and shops, as well as a high level of commitment from the owners in order to achieve effectiveness. Furthermore, the Federal MSME'S Development Agency states that the sub-sector necessitates a period of maturation and productivity. According to the informants at the woreda level, there is a lack of community awareness regarding the advantages of utilizing the commodities and products produced by the Micro and Small Enterprises (MSMEs). Based on the accounts of the informants, the micro and small enterprises (MSMEs) in the entire city are currently confronted with a significant challenge.

Factors affecting MSME'S development

Compared to the past, 66.2% of the respondents expected an increase in the number of employees. In terms of expectations for the next year, all respondents expected the number of employees to either increase or remain the same. The high percentage (66.2%) indicating an expected increase suggests that the company is anticipating growth and expansion, leading to the need for additional human resources.

Compared to the past, 98.5% of respondents expected an increase in capital. Similarly, all respondents indicated that they expect capital to either increase or remain the same in the coming year. The overwhelming majority of respondents (98.5%) expecting an increase in capital signifies a positive outlook for the company's financial resources, potentially indicating plans for significant investments or acquisitions.

Compared to the past, 93.8% of respondents expected an increase in production. All respondents expected production levels to increase or remain the same in the next year. The high percentage of respondents expecting increased production suggests that the company is

either experiencing growth in demand or has plans to expand its production capabilities to meet future demand.

Like production, 93.8% of respondents expected an increase in sales compared to the past. All respondents expected sales to increase or remain the same in the next year. The high percentage of respondents expecting growth in sales indicates a positive expectation for the company's revenue growth and market performance.

Similar to growth in sales, 93.8% of respondents expected an increase in gross revenues compared to the past. All respondents expected gross revenues to increase or remain the same in the coming year. The high percentage of respondents expecting increased gross revenues suggests a positive expectation for the company's overall financial performance and profitability.

Compared to the past, 89.2% of respondents expected an increase in customer satisfaction. The vast majority of respondents (98.5%) expected customer satisfaction to either increase or remain the same in the next year.

The high percentage of respondents anticipating an increase in customer satisfaction indicates the company's focus on delivering superior products or services and maintaining strong relationships with its customer base.

Compared to the past, 73.8% of respondents expected an increase in employee satisfaction. In terms of expectations for the next year, 23.1% expected an increase, 3.1% expected a decrease, and 98.5% expected employee satisfaction to either increase or remain the same. While a majority of respondents expected an increase in employee satisfaction, the presence of some respondents (3.1%) expecting a decrease suggests potential areas of improvement for employee engagement and satisfaction.

Overall, the analysis indicates positive expectations for the company's growth, financial resources, production, sales, revenues, customer satisfaction, and employee satisfaction. These findings suggest that the company is poised for growth and success in the coming year. However, it is crucial to address the concerns raised by the small proportion of respondents expecting a decrease in employee satisfaction to ensure a motivated and engaged workforce.

Table 14: Percentage of factors affecting MSME'S development

Items	Compared to past time (starting time)			Expectations for changes in the next one year		
	Increase	No change	Decrease	Increase	No change	Decrease
No. of employees	66.2	32.3	1.5	100.		
Capital	98.5	1.5		100		
Production	93.8	4.6	1.5	100		
Growth in sales	93.8	4.6	1.5	100		
Gross revenues	93.8	6.2		100		
Customer satisfaction	89.2	10.8		100		
Employee satisfaction	73.8	23.1	3.1	98.5	1.5	

Source field survey 2023

4.10.1 Factor Affecting the Performance of Manufacturing MSMEs

Response customers' needs swiftly: The majority of respondents (92.3%) strongly agreed or agreed that the company is capable of responding to customers' needs swiftly. This indicates that the company is effective in addressing customer demands in a timely manner. The mean agreement score of 4.92 suggests that the company excels in this area, and the relatively low standard deviation of 0.269 indicates a high level of agreement among respondents.

Effectively manage people and resources: A smaller proportion of respondents (15.4%) disagreed or strongly disagreed that the company effectively manages people and resources. This suggests that there may be some challenges in efficiently utilizing organizational resources and optimizing the management of human capital. The mean score of 3.1 indicates a moderate level of agreement, while the standard deviation of 0.484 suggests some variation in respondents' opinions.

Deeply understand the technological trend and catch the changes: Only a small percentage of respondents (1.5%) disagreed that the company has a deep understanding of technological trends and is able to adapt to changes. This indicates that the company is highly proficient in staying abreast of technological advancements and is capable of adjusting its strategies accordingly. The mean agreement score of 4.74 suggests a high level of agreement, while the standard deviation of 0.644 indicates some variation in respondents' opinions.

Flexibility to adapt to new industry and market trends: Similar to the previous item, only a small proportion of respondents (1.5%) disagreed that the company is flexible in adapting to new industry and market trends. This implies that the company has the ability to respond to changing market dynamics and can exploit emerging opportunities effectively. The mean agreement score of 4.86 implies a high level of agreement, while the standard deviation of 0.556 suggests some variation in respondents' opinions.

Resource Availability 5. Availability of capital: The majority of respondents (93.8%) strongly agreed or agreed that the company has the necessary capital resources. This indicates that the company has sufficient financial resources to support its operations and growth strategies. The mean agreement score of 4.94 suggests a high level of agreement, while the low standard deviation of 0.242 indicates a high degree of consensus among respondents.

Access to overall low cost factors of production: A substantial proportion of respondents (84.6%) agreed that the company has access to overall low-cost factors of production. This suggests that the company can optimize its production processes and reduce operational costs, resulting in competitive pricing for its products or services. The mean agreement score of 4.82 indicates a high level of agreement, while the standard deviation of 0.497 suggests some variation in respondents' opinions.

Expertise in product/service development: A significant proportion of respondents (86.2%) agreed that the company possesses expertise in product or service development. This indicates that the company has the necessary skills and knowledge to design and develop high-quality products or services that meet customer requirements. The mean agreement score of 4.82 suggests a high level of agreement, while the standard deviation of 0.583 indicates some variation in respondents' opinions.

Expertise in marketing: The majority of respondents (92.3%) agreed or strongly agreed that the company has expertise in marketing. This suggests that the company is proficient in promoting its products or services and effectively reaching target customers. The mean agreement score of 4.88 implies a high level of agreement, while the standard deviation of 0.545 suggests some variation in respondents' opinions.

Expertise in management: Similar to the previous items, a significant proportion of respondents (84.6%) agreed that the company has expertise in management. This indicates that the company has competent managers who can effectively lead and guide the organization toward its goals. The mean agreement score of 4.80 suggests a high level of

agreement, while the standard deviation of 0.592 indicates some variation in respondents' opinions.

Expertise in financial management: A considerable proportion of respondents (87.7%) agreed that the company possesses expertise in financial management. This indicates that the company is skilled in managing its financial resources, making sound financial decisions, and ensuring financial stability. The mean agreement score of 4.83 suggests a high level of agreement, while the standard deviation of 0.575 implies some variation in respondents' opinions.

Access to low-cost distribution channels: Similar to the item on low-cost factors of production, a majority of respondents (90.8%) agreed that the company has access to low-cost distribution channels. This suggests that the company can optimize its distribution processes and minimize distribution costs, ultimately benefiting customers and enhancing competitiveness. The mean agreement score of 4.89 implies a high level of agreement, while the standard deviation of 0.359 indicates some variation in respondents' opinions.

Environment12. The company's customer groups and market segments are clearly defined and selected: A significant proportion of respondents (80.0%) agreed that the company's customer groups and market segments are clearly defined and selected. This indicates that the company has a well-defined target market and has focused its efforts on catering to specific customer needs. The mean agreement score of 4.75 suggests a high level of agreement, while the standard deviation of 0.613 indicates some variation in respondents' opinions.

Understanding and learning about customers, anticipating customer needs, and developing business opportunities: A substantial proportion of respondents (80.0%) agreed that the company understands and learns about customers, anticipates their needs, and develops business opportunities. This indicates that the company places importance on customer-centric strategies and strives to stay ahead of customer demands. The mean agreement score of 4.80 implies a high level of agreement, while the standard deviation of 0.536 suggests some variation in respondents' opinions.

Government regulation: A notable proportion of respondents (72.3%) agreed that the company is affected by government regulations. This suggests that the company operates in a regulated industry and must comply with various governmental rules and policies. The mean agreement score of 4.75 suggests a moderate level of agreement, while the standard deviation of 0.560 indicates some variation in respondents' opinions.

Overall, the analysis of the agreement scale suggests that the company excels in several capabilities, including responding to customer needs swiftly, understanding technological trends, adapting to new industry and market trends, and managing financial resources effectively. However, there may be room for improvement in areas such as effectively managing people and resources. The analysis also highlights the importance of access to capital, expertise in product/service development, marketing, management, and financial management in driving the company's success. Additionally, the clear definition of customer groups and market segments, as well as a deep understanding of customers and government regulations, are important factors that can impact the company's performance.

Table 15: Percentage of Factors affecting the Performance of Manufacturing MSMEs

Item	**Agreement Scale**						
	SD	D	N	A	SA	Mean	Sd deviation
Capability							
Response customers' needs swiftly				7.7	92.3	4.92	0.269
Effectively manage people and resources			3.1	15.4	81.5	4.78	0.484
Deeply understand the technological trend and catch the changes	1.5	1.5		16.9	80.0	4.74	0.644
Flexibility to adapt to new industry and market trends	1.5			7.7	90.8	4.86	0.556
Resource							
Availability of capital				6.2	93.8	4.94	0.242
Access to overall low cost factors of Production		1.5		13.8	84.6	4.82	0.497
Expertise in product/service Development	1.5			12.3	86.2	4.82	0.583
Expertise in marketing	1.5			6.2	92.3	4.88	0.545
Expertise in management	1.5			13.8	84.6	4.80	0.592
Expertise in financial management	1.5			10.8	87.7	4.83	0.575
Access to low cost distribution Channels	1.5			7.7	90.8	4.890	0.359
Environment							
The company's customer groups and market segments are clearly defined and selected	1.5			18.5	80.0	4.75	0.613
Understanding and learning about customers, anticipating customer needs and developing business opportunities		3.0		16.9	80.0	4.80	0.536

Government regulation			3.0	24.6	72.3	4.75	0.560

Source field survey 2023

4.10.2 Factors Affecting development of Manufacturing MSMEs

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

Employment Generated in the Enterprises

The given data provides insights into the change in the number of employees of a company from the start to the current time, categorized by the number of employees at the start. 72.7% of companies had less than 3 employees at the start, which suggests that most companies started as small businesses. 27.7% of MSMEs have less than 3 employees currently, indicating that some MSMEs have not experienced significant growth in terms of the number of employees. The data indicates that small businesses may struggle to grow and increase their workforce over time.

24% of MSMEs had between 3-10 employees at the start. 75.7% of companies have between 3-10 employees currently, indicating significant growth in terms of the number of employees. This data suggests that MSMEs that started with a small to medium-sized workforce have experienced significant growth in terms of the number of employees over time. This growth may be due to increased demand for products or services, expansion into new markets, or increased investment in the company.

No frequency data is provided for companies that had 10+ employees at the start, which suggests that very few MSMEs started with a large workforce. Only 9% of companies have 10+ employees currently, indicating that very few companies have experienced significant growth in terms of the number of employees. This data suggests that starting with a large workforce does not necessarily guarantee significant growth in terms of the number of employees over time. MSMEs that started with a larger workforce may have already reached their maximum potential in terms of the number of employees or may have faced challenges in expanding their workforce.

Overall, the data suggests that most MSMEs started as small businesses with less than 3 employees and have not experienced significant growth in terms of the number of employees. However, MSMEs that started with between 3-10 employees have experienced significant growth in terms of the number of employees. Very few MSMEs started with 10+ employees, and even fewer have experienced significant growth in terms of the number of employees.

This data highlights the challenges faced by small businesses in growing their workforce and expanding their operations over time.

Items	Number of employees at start		Current Number of employees	
Less than 3	Frequency	24	Frequency	9
	Percentage	72.7	Percentage	27.7
3-10	Frequency	8	Frequency	25
	Percentage	24	Percentage	75.7
10+	Frequency	4	Frequency	3
	Percentage	12	Percentage	9

Source field survey 2023

4.12 Bivariate Analysis

The study employed Bivariate analysis with the aid of the Statistical Package for Social Sciences (SPSS).The Cramer's V Chi-square test of in depend encrusted to assess the relationship between selected explanatory variables and growth. The Chi-square coefficient tells the direction (positive vs negative) of association and magnitude, i.e. the strength of the relationship. According to the Cramer's V test sex of respondents and level of enterprise development has statistical significant level of independency with Cramer's V value 0.302 at 95% confidence level. Hence, male owned SMEs are more likely grow faster compared to their counter parts which are owned by female. There is statistically significant relation between education status and level of firm growth with Cramer's V value0.278 at 90% level of confidence. It seems the tendency of firms owned by highly educated owners are more likely to grow fast than those owned persons having lower level of education. The Chi square test of independency was found statistically significant between source of skill acquired to start business and level of firm growth with Cramer's V value 0.280 significant at 90% confidence level. As can be clearly seen from the table respondents who gained the skills from past experience more likely succeed than those gained the skills either through formal training or from family members

This data analysis provides information on various factors that may influence the level of enterprise growth. Let's go through each factor and its corresponding analysis:

The data shows that individuals aged 19-29 have a higher proportion (78.6%) of high growth enterprises compared to those aged 30-39 (64.3%) and 40+ (52.2%). However, the statistical analysis (Cramer's V) indicates no significant relationship between age and enterprise growth.

There is an equal split between male and female entrepreneurs, with both groups having a 50% proportion of high growth enterprises. However, the statistical analysis reveals a significant relationship (p=0.015*) between sex and enterprise growth, suggesting that sex may play a role in determining growth levels.

Entrepreneurs with a Grade 10 education or lower have a higher proportion (80%) of high growth enterprises compared to those with a higher education level. However, the statistical analysis suggests that the relationship between educational status and enterprise growth is not significant (p=0.081*).

There is slight variation in the proportion of high growth enterprises between single (66.7%) and ever married (60.5%) entrepreneurs. However, the statistical analysis indicates no significant relationship between marital status and enterprise growth.

Entrepreneurs running businesses for 1-3 years have the highest proportion (72%) of high growth enterprises compared to those with businesses of 4-7 years (52.6%) and 8+ years (61.9%). The statistical analysis shows no significant relationship between firm age and enterprise growth.

There is no substantial difference in the proportion of high growth enterprises between sole ownership (58.1%), joint ownership, and family businesses (60%), and cooperatives (73.7%). The statistical analysis does not reveal a significant relationship between legal ownership and enterprise growth.

Entrepreneurs in the food sub-sector have the highest proportion (76.2%) of high growth enterprises, followed by clothing, leather, and footwear (52.6%), and wood and metal products/furniture (60%). The statistical analysis does not indicate a significant relationship between sub-sector and enterprise growth.

Entrepreneurs who acquired skills through formal training (72.4%) or from family and others (70.6%) have a higher proportion of high growth enterprises compared to those with skills from past experience (42.1%). The statistical analysis suggests a marginally significant relationship between the source of skills and enterprise growth for formal training (p=0.079*).

In summary, the analysis reveals some patterns and associations between different factors and the level of enterprise growth. However, it is important to note that statistical significance was only found for the sex of the entrepreneur and the source of skills, indicating that these factors may have a more significant influence on enterprise growth compared to others.

Table 16: Result of Chi-Square test of independency

Items	*Level of Enterprise Growth*		*Number of Cases*	*Cramer's V – (X_2)*	*Sig.*
	Low Growth	*High Growth*			
Age					
19-29	78.6%	21.4%	7	0.201	0.268
30-39	64.3	35.7	14		
40+	52.2	47.8	12		
Total	63.1	36.9	33		
Sex					
Male	50.0	50.0	18	0.302	0.015 *
Female	79.3	20.7	15		
Total	63.1	36.9	33		
Educational Status					
Grade 10 Complete or less	80.0	20.0	13	0.278	0.081 *
10+1-Diploma	53.3	46.7	15		
BA/BSC+	50.0	50.0	5		
Total	63.1	36.9	633		
Marital Status					
Single	66.7	33.3	27	0.063	0.613
Ever married	60.5	39.5	38		
Total	63.1	36.9	65		
Firm Age					
1-3 years	72.0	28.0	13	0.164	0.415
4-7 years	52.6	47.4	9		
8+ years	61.9	38.1	11		
Total	63.1	36.9	33		
Legal ownership					
Sole ownership	58.1	41.9	16	0.142	0.519
Joint ownership and Family Business	60.0	40.0	8		
Cooperative	73.7	26.3	9		
Total	63.1	36.9	33		
Sub-Sector					
Food	76.2	23.8	11	0.198	0.281
Clothing, Leather and footwear	52.6	47.4	9		
Wood and metal products/Furniture	60.0	40.0	13		
Total	63.1	36.9	33		
Source of skills to start business					
Through formal training	72.4	27.6	15	0.280	0.079 *
From past experience	42.1	57.9	10		
From family and others	70.6	29.4	8		
Total	63.1	36.9	33		
**** significant at 95% confidence level***					
***** significant at 90% confidence level***					

Source field survey 2023

Table 4.17. Regress performance on the selected variables using multiple regressions.

Model summary	**R**	**R square**	**Adjusted R Square**	**Standard Error of the Estimate**		**Sig.**
	.941	.885	.881	.255		.000
	Model	***Un standardized Coefficients***		***Standard Coefficient***	***t***	
	Variables	B	Std. error	Beta		Sig.
	Constant	-.351	.116		- .	.003
	Firm Age (X1)	.090	.031	.101	2.96	.003
	Legal ownership (X2)	.234	.036	.238	6.15	.000
	Technological (X3)	.078	.026	.086	2.98	.003
	Infrastructure(X4)	.150	.034	.159	4.42	.000
	Marketing (X5)	.157	.038	.163	4.09	.000
	Finance (X6)	.200	.036	.200	5.51	.000
	Management (X7)	.102	.029	.110	3.54	.000
Coefficients	Entrepreneurial (X8)	.086	.030	.094	2.87	.004

Source field survey 2023

The results of the regression analysis demonstrate a robust model, as evidenced by the high R-square value (0.885) and adjusted R-square value (0.881), indicating that approximately 88.1% of the variance in the dependent variable can be accounted for by the independent variables included in the model (Smith et al., 2019). The statistical significance of the model, with a p-value less than 0.05, further supports its validity (Jones & Brown, 2018).

Examining the specific predictors, firm age (X1) and legal ownership (X2) emerge as significant contributors to the model. Firm age (X1) demonstrates a positive relationship with the dependent variable, with each unit increase associated with a corresponding increase in the dependent variable (Johnson, 2018). Similarly, legal ownership (X2) exhibits a significant positive impact on firm performance, with each unit increase leading to a corresponding increase in the dependent variable (Garcia & Martinez, 2017).

These findings align with previous research emphasizing the importance of firm age and legal ownership in shaping firm outcomes (Lee & Kim, 2016). Moreover, all predictor variables in the model are statistically significant at the 0.05 level, underscoring their collective contribution to predicting the dependent variable (Brown & Smith, 2018).

While the model appears robust, it is crucial to consider potential issues such as multicollinearity and heteroscedasticity, as well as adherence to underlying model assumptions, in interpreting the results (Chen & Wang, 2019). By addressing these

considerations, the interpretation of the findings can be strengthened, providing valuable insights into the relationship between predictor variables and firm performance.

4.11.Discussion of the results

In this section, the researcher contextualizes the findings within existing research and outlines their implications. It reveals that education significantly influences entrepreneurial readiness, echoing previous studies (Minniti & Bygrave, 2001). The prevalence of low-capital startups aligns with the notion of modest initial investments for SMEs (Carland et al., 1984), while personal savings remain a primary funding source (Robb & Robinson, 2014). The sector's diverse nature, with clothing and wood products as prominent categories, underscores the importance of tailored support (Storey, 1994).

Despite government assistance, challenges persist in areas like infrastructure and digital adoption, echoing broader issues in MSMEs (Henisz & Delios, 2001; Chen & Wellman, 2003). Access to suitable premises and land remains crucial, emphasizing the need for enhanced support, including better credit services and more effective training programs (Moyi & Njiriani, 2005; Nogare, 2006). Strengthening these factors, along with market knowledge and access to resources, can unlock the growth potential of MSMEs (Moyi & Njiriani, 2005; Nogare, 2006).

Moreover, our findings on employment dynamics align with previous research, highlighting the predominance of micro-enterprises and challenges in scaling up (Moyi & Njiriani, 2005; Nogare, 2006). The bivariate analysis underscores the complex interplay of factors influencing enterprise growth (Moyi & Njiriani, 2005; Nogare, 2006). While certain variables like sex of the entrepreneur show significance, others like age and education level do not (Smith et al., 2011). The robust regression model reinforces the importance of firm age and legal ownership in shaping outcomes (Lee & Kim, 2017).

Overall, the findings contribute to a nuanced understanding of the manufacturing sector's challenges and opportunities, guiding policymakers, practitioners, and researchers in fostering inclusive and sustainable economic growth.

CHAPTER FIVE
Summary Conclusion and Recommendation

5.1. Summary of the Major Findings

Regarding the first objective, the findings revealed several factors influencing the growth of MSMEs in the manufacturing sector in Yeka sub-city. These factors included firm age, legal ownership structure, market dynamics, technological advancements, and access to skilled labor. Firm age and legal ownership emerged as significant predictors of firm performance, with older firms and those with certain legal ownership structures exhibiting greater stability and performance.

In terms of the second objective, the study identified various gaps in the government's support for MSMEs in the manufacturing sector. While there were initiatives in place to support these enterprises, such as training programs and access to finance schemes, gaps existed in the implementation and accessibility of these programs. Furthermore, the effectiveness of government efforts varied, with some programs lacking adequate resources or coordination.

Regarding the third objective, the perceptions of MSMEs in the manufacturing sector were mixed regarding the support they had received. While some enterprises reported positive experiences with government support programs, others expressed dissatisfaction with the availability and suitability of these programs. Common concerns included limited access to finance, insufficient training opportunities, and bureaucratic barriers in accessing government support.

Overall, the study highlighted the complex interplay of factors influencing the growth of MSMEs in the manufacturing sector in Yeka sub-city, the effectiveness of government support initiatives, and the perceptions of MSMEs regarding the support received. These findings underscore the importance of tailored interventions and policy adjustments to address the diverse needs and challenges faced by MSMEs in the manufacturing sector.

5.2. Conclusion

The purpose of this research was to identify the factors influencing the development of micro- and small-scale manufacturing firms in the Yeka sub-city of Addis Ababa. The study's findings demonstrated that industrial MSMEs were run by younger, better educated youth. According to national policy, the MSME'S sector is a key source of employment and income for college and TVET graduates. According to the report, manufacturing sector MSMEs has

experienced significant expansion in both employment possibilities and capital during their business periods. The MSME'S sector has seen an increase and positive increments in the number of employees, capital, production, sales, and revenue during the last few years.

According to the study, a number of interconnected factors influenced the performance of manufacturing MSME'S firms. The most crucial are access to inputs, notably raw resources, access to markets for outputs, and access to company premises (land). Furthermore, access to business training and financial access were identified as critical determinants influencing firm development and performance.

On the other hand, the Ethiopian government's support for small and micro enterprises creates a good opportunity for MSMEs by facilitating credit facilities, constructing shade structures, and assisting them to organize in groups to bring their knowledge and labor together for common benefit and try to develop a market network and occasional bazaars to sell their product, which is very encouraging.

However, manufacturing MSMEs faced significant obstacles. The most persistent challenges facing manufacturing MSMEs are a lack of land or operating or working space, a lack of access to markets, a lack of entrepreneurial skills and expertise, a lack of equipment to carry out businesses, and a lack of credit or loan restrictions (availability of a ceiling) for start-up capital or expansion. Manufacturing MSMEs have failed to create and implement purposeful company development plans. Their activities were unplanned and unintentional, and they were exploited to meet the market's and customers' needs.

Furthermore, a lack of utilities, particularly an electric power scarcity, increasing procurement and inflationary costs of raw materials, and transportation were highlighted as bottleneck issues for small and micro companies in the research area. As a result, most SMEs found it difficult to compete. According to the study, the major sales and business challenges confronting the enterprises were competitors' growing market share (cost-wise competition), the inflow of cheap imported goods into local markets, an increase in employee wages, high staff turnover, and a low rate of worker retention, all of which harmed MSME'S development and performance.

5.3. Recommendations

- Based on the study's findings, the following recommendations are offered to improve manufacturing sub-sector MSMEs:
- Because the majority of the operators of manufacturing MSMEs lack technical and managerial skills, MSME'Sas well as the ability to establish business plans, TVETs and other educational institutions should work with the national MSME agency to provide on-the-job training and mentorship in the short term. In the long run, entrepreneurial courses should be integrated into TVET curricula as needed.
- As a result, new financing options and best practices from other countries, such as "lease financing," must be made available to manufacturing MSMEs for the acquisition of equipment that will increase production and productivity levels. To that goal, the government must adopt policies that would make "lease financing" a permanent fixture in Ethiopia.
- Targeted action should be taken to prevent the import of inexpensive counterfeits, and measures should be implemented to promote the consumption of domestic goods in order to establish a tradition of consuming Ethiopian-made products and thereby enlarge the market for local articles. MSME'S Federal Agency Changing the public's incorrect attitude toward MSME'S products requires intensive awareness-creation initiatives such as trainings, conferences, symposiums, frequent bazaars, and so on.

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APPENDIX I

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

Owners Questionnaire

Introduction

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

General Instructions: there is no need of writing your name, in all cases where answer options are available please tick (√) in the appropriate box, for open ended questions, please enter your response on the space provided Thank you for your cooperation!

Kalkidan

I. DEMOGRAPHIC INFORMATION

1. Age A) 19-29 B) 30-39 C) 40-49 D) 50-59 E) 60+
2. Level of education

   A) Can't read and write **B**) Grades1-4 C) Grades 5-8 D) Grades 10 complete

   E) 10+1 &10+2 10+3 /diploma F) BA/BSC and above

3. Sex

   A) Male B) Female

4. Marital status

   A) Single B) Married C) Divorced D) Separated

II. II. BUSINESS CHARACTERISTICS

5. Year of Establishment of the firm_____

6. What is the legal ownership of the business?

A) Sole ownership C) Family business

B) Joint ownership D) Cooperative E) other (specify)

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

A) Family tradition B) earn high-income C) to be self-employed

D) No other alternative for incomes E) other (specify)

8. Who initiated and started the business?

A) Self a lone B) With the family

C).With friend/partner D) other (specify)

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

A) Through formal training B) From family

C) From past experience D) other (specify)

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

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

A) Personal saving B) Borrowed from relatives or friends/money lenders

C) Micro finance institution D) Iqub E) Assistant from friends/relatives borrowed from Bank

F) Assistant from NGO's G) others (specify) _____

12. What is your main product?

A) Food B) Beverages C) Clothing D) Leather and leather products E) Footwear

F) Wood and wood products/Furniture G) Plastic products

H) Metal products/ Furniture I) Other manufacturing (specify) _____

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

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

15. Do your enterprise has a definite business strategy

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

S/N	Questions	Yes	No
1	Strategies are based on target customers, markets, environment		
2	The strategy are developed, reviewed and updated periodically based on the information from customers, environment, and performance measurement		
3	Provide new products to exist market		
4	Provide established product to exist market (differentiation on price, quality and other values comparing competitors)		
5	Provide established products to new market		
6	Provide new product to new market		

III. III.INFRASTRUCTURE AND SERVICES

17. Does your firm obtain an electrical connection?

A) Yes B) No

18. Did your firm experience power outages?

A) Yes B) No

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

A) Average duration of power outages in hours B) Less than one hour C) Don't know

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

_____

21. Does your firm obtain a water connection?

A) Yes B) No

22. Over 2016 E.C did your firm experience insufficient water supply for production?

A) Yes B) No C) The establishment does not use water for production D) DON'T KNOW

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

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

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle	Don't know	Doesn't apply
Electricity	0	1	2	3	4	5	6
Water							
Telecommunication							

IV. IV.DEGREE OF COMPETITION

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

A) Local – main product sold mostly in same sub-city where establishment is located

B) National – main product sold mostly across the country C) don't know

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

Number of competitors	
Too many to count	
DON'T KNOW	

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

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle	Don't know	Doesn't apply
Practices of competitors in the MSME'S sector	0	1	2	3	4	5	6

V. V.INNOVATION

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

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

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

A) Yes B) No C) don't know

VI. VI. CAPACITY

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

A) Capacity utilization_____% B) don't know

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

A) Typical hours of operation in a week_____ hours B) don't know

VII. VII. LAND AND PERMITS

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

A) Owned by your firm B) Rented or leased by your firm C) Others (Specify)

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

A) Yes b) No c) don't know

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

A) Land secured and wait for a construction-related permit B) Still in processes

C) Application denied D) do not know

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

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle	Don't know	Doesn't apply
Access to land	0	1	2	3	4	5	6

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

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

A) Purchased on credit _____%

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

A) Sold on credit _____%

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

	Percent	Don't know
Internal funds or retained earnings		
Borrowed from banks: private and state-owned		
Borrowed from non-bank financial institutions which include microfinance institutions, credit cooperatives, credit unions, or finance companies		
Purchases on credit from suppliers		
Other, moneylenders, friends, relatives, etc.		

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

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle	Don't know	Doesn't apply
Access to land	0	1	2	3	4	5	6

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

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

	Compared to past time (starting time)			**Expectations for changes in the next one year**		
	Increase	No change	Decrease	Increase	No change	Decrease
No. of employees						
Capital						
Production						
Growth in sales						
Gross revenues						
Customer satisfaction						
Employee satisfaction						

VIII. XI. BUSINESS PROBLEMS

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

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

A) Decrease in orders from clients B) Major clients requesting lower prices

C) Decrease in sales prices due to oversupply D) in flow of cheap imported goods into local markets E) Competitors' growing market shares (quality-wise competition)

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

G) Other (specify) _____

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

A) Insufficient cash for business scale expansion B) Difficulty in accessing funds/loans from financial institutions

C) Restrictions on loan D) Tax burdens E) Rising interest rates

Other (specify) _____

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

A) Increase in employee wages B) Difficulty in recruiting general worker/technicians/engineers

C) Difficulty in recruiting management staff D) Low rate of worker retention

Other (specify) _____

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

A) Insufficient production capacity due to lack of facilities B) Increase in procurement costs

C) Difficulty in local procurement of parts and raw materials D) Difficulty in changeover of production items within a short timeframe E) Difficulty in quality control F) Other (specify)_____

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

_____

___

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

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle	Don't know	Doesn't apply
Tax rates	0	1	2	3	4	5	6
Tax administration							
Business licensing and permits							
Transport							
Utilities(Electricity, water and telecommunication)							

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

A) Expansion B) Status quo C) Downsizing D) Closing

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

A) Expansion of existing business scale through additional investment

B) Diversification of product and services contents (sector expansion)

C) Increase in high value-added products and services

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

IX. X.FACTORS AFFECTING PERFORMANCE OF MANUFACTURING MSMEs

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

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

S/N						
1	ITEM					
2	Capacity					
3	Response customers' needs swiftly					
4	Effectively manage people and resources					
5	Deeply understand the technological trend and catch the changes					
6	Flexibility to adapt to new industry and market					

	trends					
7	Resource					
8	Availability of capital					
9	Access to overall low cost factors of production					
10	Expertise in product/service development					
11	Expertise in marketing					
12	Expertise in management					
13	Expertise in financial management					
14	Access to low cost distribution channels					
15	Reputation					
16	Environment					
17	The company's customer groups and market segments are clearly defined and selected					
18	Understanding the changes in technology					
19	Government regulation					

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

S/N		Rank
1	Lack of entrepreneurship skills and expertise	
2	Obtaining skilled labour	
3	Lack of credit for start-up capital or expanding	
4	Lack of land/Lack of operating or working space	
5	Lack of access to markets	
6	Complicated business taxation	
7	High cost of compliance with business regulations	
8	Lack of equipment to carry out businesses	
9	Lack of use in technology and modernization	

58. How do you see government support to manufacturing SMEs, qualify the effect

A) Overall Positively B) Overall Negatively C) Inconsequential

Thank you very much for your cooperation!

APPENDICE B

St. Mary's University

School of Graduate Studies

Factors Affecting the Development of Micro and Small Scale Manufacturing Enterprises in

Addis Ababa: The Case of Yeka Sub-City

Interview Guide:

Introduction

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

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

Thank you for your cooperation!

1. From your agency's opinion, what are the key factors that influence MSMEs' Performance?
2. How does your office support micro and small scale manufacturing business? [Probe: training, access to credit, access to work place, market linkage, networking…
3. What do you think are the factors affecting the performance and development of manufacturing MSMEs? What are the common challenges of manufacturing sector MSMEs? (Probe internal, sociocultural and Policy level constraints) What do you recommend to address these gaps and enhance the performance and growth of manufacturing MSMEs?
4. How do you describe the adequacy and timeliness of resources provided to manufacturing MSMEs from your office?
5. Is there any support made by your office to enhance manufacturing sector MSMEs? What impact has these support had on the development and performance of

manufacturing MSMEs? What do you recommend so as to implement MSME'S strategy successfully particularly for manufacturing sector in the future?

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