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**Assessing Factors Affecting the Performance of Micro and Small Enterprises in Addis Ababa (Ethiopia)**  
**The Case of Kirkos Sub-City Woreda 1**

Mémoire présenté par

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# CHAPTER 1

## BACKGROUND OF THE STUDY

### 1.1 INTRODUCTION

Micro and Small-scale Enterprises (MSEs) are regarded as the engine of economic growth in both developing and developed economies. These enterprises are seen as the key to improve the socioeconomic conditions, provide employment opportunities and foster competition (Phyllis, 2015; Yaregal, 2018). MSEs industries are also conceded as the breeding ground for indigenous entrepreneurial and innovation.

Unfortunately, due to political, financial and technological factors, the growth level of MSEs is different in developed, emerging and developing economies. MSEs in developing nations face several difficulties, such as political instability, poverty, lack of infrastructure, and bureaucratic bottlenecks. Because of this, African nations have the biggest number of new start-ups and one of the highest failure rates. Therefore, a robust policy to assist MSEs is required. Given MSEs potential for absorbing jobs and flexibility to adapt to local demands, more action is needed on all fronts.

**Figure 1.1** *Mitiku Shop (a micro enterprises owner in Kirkos sub-city woreda 1).*



### 1.2 IMPORTANCE OF MICRO AND SMALL ENTERPRISES (MSEs)

MSEs are responsible for over 70% of businesses. They employ almost 50% of workers and contribute to more than 50% of gross domestic product (GDP) worldwide (Vandenbergh, 2009).

According to WorldBank (2022) 600 million jobs will be needed by 2030 to accommodate the expanding global workforce. In this regard, micro and small-sized enterprises are anticipated to be the key. Additionally, MSEs are crucial in accomplishing the Sustainable Development Goals and the 2030 Agenda for Sustainable Development Goals (SDGs).

In the United States, above 90% of businesses are micro and small size businesses with fewer than 500 employees (Rowinski, 2022). Between 1995 and 2020, 62% of new jobs (12.7 million) were created by MSEs, as opposed to the 7.9 million that were created by large enterprises.

In 2008, 99.8% of non-financial businesses operating in the European Union were SMEs, with micro enterprises representing 9 out of 10 of these businesses (Deniss & Elīna , 2012). Furthermore, in a recently published report by Clark (2021) out of 22.6 million SMEs, 21.15 million were micro-sized businesses. The remaining businesses are classified as small and medium-sized enterprises. The report also indicted that, SMEs collectively employ over 83.8 million people and contribute 3.5 trillion euros in added value.

According to Ma (2021) in 2018, 99.8% of the businesses in China were SMEs. Approximately, 85.3% of businesses were micro companies, 13.2% were small businesses and 1.3% were medium-sized businesses. Hence, SMEs play an important role in the Chinese economy.

MSEs popularity in developing nations is evident from their large use of unskilled labor, whose supply is surplus in these nations and small capital requirement. Micro-enterprises use a majority of locally available resources. In contrast to large scale enterprises, which are frequently capital intensive (Amha, 2015).

According to Daniel F. Runde et al. ( 2021) 90% of private sector in Africa is MSEs. These enterprises are also responsible for creating 80% of jobs in the continent, making them drivers of economic growth. In the same report it was indicted that Sub-Saharan African countries such as Ethiopia, Tanzania, Uganda among others is home to over 40 million MSEs.

As Desta cited in Hailai Abera Weldeslassie et al. (2019) in Ethiopia, MSEs is the largest employment generating sector followed by the agriculture sector. Furthermore, MSEs are seen as a weapon against poverty alleviation and job creation. Hence, it is not surprising that the Ethiopian government is focusing on the micro and small enterprises (Shitaye, 2022).

Ethiopia as one of the poorest nations in the world hopes that MSEs will pave the path for socioeconomic progress, decrease poverty, create jobs, and raise societal living standards.

As seen in Table 1.1, there have been a substantial number of new businesses established and leading to numerous job opportunities. According to NBE (2021a), 608,875 MSEs were established between 2016 and 2021. These businesses contributed to the generation of 4,396,959 million new job opportunities across Ethiopia.

**Table 1.1** *Number of MSEs and job created from 2016 to 2021 in Ethiopia.*

<b>Year</b>	<b>Number of MSEs</b>	<b>Number of jobs created</b>
2016/2017	157,768	1,172,678
2017/2018	114,107	187,945
2018/2019	110,253	882,098
2019/2020	111,547	1,569,119
2020/2021	115,200	585,119

Source: (NBE, 2021).

### **1.3 MSEs SUCCESS FACTORS AND FAILURE FACTORS**

#### **1.3.1 MSEs SUCCESS FACTOR**

According to Aaker, as cited in Katwalo (2012), crucial success factor refers to a competitive advantage or a competency required to succeed in the market. Aaker argued that business that gain position in the short run through effective utilization of their competitive asset and competence could also succeed in the long run. Nevertheless, firms must adjust due to the shifting business climate. For example, businesses that were profitable at first may not continue to be profitable in long term. Such a scenario is common among MSEs in emerging nations, where businesses initially have positive returns but eventually may fail. The causes of their failure are attributed to their inability to adapt to change and the absence of long-term competitive advantages.

The ability of a company to identify, develop, access, make use of new resources and expand on them is essential to its survival (Yu & Ramanathan, 2016). Identifying the key success indicators, a company is able to measure and review its progress in reaching its strategic objectives (Rahimi Abidin et al., 2020).

Tiruneh (2011) cited a study carried out in 2010 by Lussier and Halabi. In this report, the authors compared the business success versus failure Prediction Model in three different

regions, including the United States, Europe and South America. The study used 15 variables that were thought to be predictors to the success and failures of firms. Among them, the following were identified

**Training:** businesses with trained employees have a better likelihood of success than those without.

**Record keeping and financial control:** businesses that maintain proper and up-to-date financial controls are more likely to succeed than those business who do not.

**Management skills:** businesses run by managers with management experience are more likely to succeed than those run by managers without such as experience.

**Strategic planning:** businesses with clear business strategies are more likely to succeed than those without one.

**Form of business ownership:** a company founded by one person has a higher likelihood of failing than one founded by multiple people.

Additionally, firms operating in environments that are conducive to business (meaning those with solid infrastructure, easy access to funding, MSE-friendly policy and regulation) have a better chance of success than those that do not have such environment. Furthermore, the success of MSEs is significantly influenced by customer service and the entrepreneur's experience (Hussain & Zafar , 2010).

### **1.3.2 MSEs FAILURE FACTORS**

Various studies have shown that while the success elements described above help MSEs to succeed, their absence can lead to MSE failure. Hussain & Zafar (2010) pointed that most pressing issues encountered by Pakistani small enterprises owners were a lack of financial resources and a lack of market for their goods and services. In addition, they cited a report by the European Commission in which MSEs of thirty European members identified similar problems.

Literature findings (Berihu Assefa et al., 2014; Arega Shumetie, 2019; Fasikaw , 2016; Asmamaw, 2014; Walelign, 2008), have indicated the following problems as the cause of failure:

- Lack of working premise
- Lack of management skills
- Inadequate infrastructure

## **1.4 PREVIOUS RESEARCH ON FACTORS AFFECTING THE PERFORMANCE OF MSEs AND SUGGESTION AS TO HOW THEY MAY BE OVERCOME**

The research presented below was carried out in various African capital cities. Kenya, South Africa, Nigeria, Somalia and Rwanda are just a few of these nations. The reason these countries were selected is as well as comprehend the elements that influence MSEs in the corresponding nation and learn from their experience.

Nyang'Ori (2010) indicated in his research that the entrepreneur training had an effect on the success of the businesses. According to the survey, entrepreneurs with secondary and tertiary education outperformed those with only elementary education. Competition, a shortage of operating capital, power outages, political volatility and complex regulatory procedures were also listed as the main challenges. Nyang Ori recommended that the relevant authority provide access to working spaces, organize training programs to enhance the performance of MSEs.

In another report, Jane Anne et al., (2014) identified interest rates and collateral requirements had a significant impact on MSE performance in Kangemi Harambee market (Nairobi, Kenya). Thus, she suggested financial institutions should have a simple guaranteed requirement and reduce their interest rates to attract MSEs to borrow from them.

Lawrence & Geoff (2016), noted that as a result of the high costs incurred by MSEs in the self-provision of infrastructure and distribution of finished goods, they hypothesized that the state of the infrastructure has a detrimental impact on the profitability and performance of enterprises. The study concluded that the operational costs of MSEs would increase as infrastructure continue to deteriorate. Similarly, MSEs operational cost decreases as the infrastructure improves. They recommended that the government improve the infrastructure to help businesses increase their profitability, productivity and capacity to create jobs.

A study by Jayeola Olakunle et al. (2018) shown a positive correlation between MSE performance and insufficient funding, inability to offer the warranty required by the banks, insufficient infrastructure and poor managerial skills. The report suggests that the government implement more MSE-friendly financing policies, raise money to improve infrastructure and facilitate for MSE owners and managers to improve their managerial abilities.

In 2013, a study carried out by Arthur & Hope showed that external constraints including high taxes, limited market access, expensive electricity supply and a lack of managerial skills impede MSEs' ability to grow and perform well. They urged for the government and other stakeholders to make sure that production's equipment is available on the local market and that MSEs could acquire it for a reasonable price.

Rurangirwa (2016) stressed that internal factor such as financing, continuous training, employees' motivation, and managerial skills had a positive influence for the MSEs performance. He insists access to training programs, cheaper energy, and tax breaks should be implemented to boost MSEs' performance. He further underlined the need for MSE to find ways to utilize their resources to increase production and promote networking within the sector.

According to research performed in KwaZulu-Natal (South Africa), both internal and external environmental factors had an impact on MSEs (Sharmilee & Muhammad , 2016). Internal factors like managerial skills, technological capabilities, and financial accessibility, as well as external factors like regulations, competition, inadequate infrastructure, and corruption, were identified to be serious obstacles for MSEs performance. The study also made the case that an improvement in both internal and external factors may improve the performance of a business. The researchers proposed an alliance between MSEs to exchange knowledge and technology resources to better take advantage of the market opportunities.

Msomi et al. (2021) established a relationship between enterprises ability to access financing and financial awareness. For example, a firm with financial awareness may know how to access funds thus the financial sustainability. The findings reveal how important financial knowledge is for a company's ability to remain financially sustainable.

A number of factors affected the performance of MSEs in Mogadishu (Somalia) including lack of financial access, inventiveness, managerial training, technological change, insufficient infrastructure and insufficient market information (Adan & Kising'u , 2018). The report suggested that MSE owners and managers should create training programs to improve women's participation and as well as teach financial management, entrepreneurial, communication, and marketing skills.

In research published by Abdulkadir (2020), the results demonstrated how problems with managerial skills, infrastructure, and legal and regulatory challenges significantly impacted the performance of MSEs in Mogadishu. The researcher recommended on the

local government to upgrade the infrastructure and collaborate with MSE entrepreneurs to find an approach to enhance MSEs' skills. In addition, a system of inclusive lending should be established by the government and banks to address the financial issues.

In three different reports was found that performance of MSEs in the area of Addis Ababa were affected by both internal and external factors (Ermias, 2011; Dereje , 2016; Habtamu Tezera, 2007). Among the external and internal variables identified in the study, the following are presented as example:

- Lack of working capital
- Technological changes
- Bureaucracy
- Lack of Marketing
- Lack of managerial skills
- Working premise unavailability

Their findings implied that enhancing those variables could boost the performance of MSE's. They also recommended the collaboration between financial institutions, regional and national governments, and Non-Governmental Organizations (NGOs) to make it easier for MSEs to get financing. Additionally, organizations that support MSEs should improve the ability and expertise of the operators through continuous learning. The report also recommended implementing supervision to make sure the resources granted to MSEs are used for the intended purpose and encouraging transparency in resource distribution to MSEs.

## **1.5 STATEMENT OF THE PROBLEM**

Although there is a positive progress, the economic contribution of micro and small enterprises to the Ethiopian economy remains limited. Furthermore, employment opportunity for young, especially women, continue to be a challenge. More than a hundred thousand recent graduates enter the employment market each year only to be frustrated. Despite the enormous potential of MSEs, there are still various challenges. These include the lack of entrepreneurial and managerial skills of business owners, lack of infrastructure and access to technology as well as access to finance among other problems.

Numerous studies on this subject have been identified throughout the literature search presented on this report. However, there is a need for further study. Moreover, the rate of failure varies country to country. For instance, MSEs have a 24% failure rate in Kenya, a 33% failure rate in Nigeria, a 42% in South Africa and a 75% failure rate in Ethiopia,

which is the highest percentage on the African continent (Saleh, 2022). While the factors affecting the performance of MSEs may seem inherent across the globe, generalizing might ignore economic, social and political aspects of a specific country.

Hence, this research was conducted to assess the factors that affect the performance of MSEs in Kirkos Sub-City Woreda 1 (a specific district of Addis Ababa). In this study potential ways to overcome their problem are also suggested.

Furthermore, why do some MSEs outperform and grow rapidly, while others stagnate? This research tries to understand and answer these questions while examining the relationship between selected success factors identified from literature with the performance of micro and small business Enterprises operating in Kirkos Sub-City Woreda 1 (Addis Ababa, Ethiopia).

## **1.6 OBJECTIVE OF THE STUDY**

The aim of the study is:

- a. To identify crucial factors that enhance or restrict micro and small-size businesses growth and performance in Kirkos Sub-City Woreda 1?
- b. To suggest ways to improve the performance of MSEs operating in Kirkos Sub-City Woreda 1 so that they contribute their share to the development of economy in the capital?

## **1.7 SIGNIFICANCE OF THE STUDY**

The research will provide relevant information to:

**Public policymakers:** the finding in the study can be used to assist policy maker and Local and International NGOs working on in policy formulation and development programs in Ethiopia.

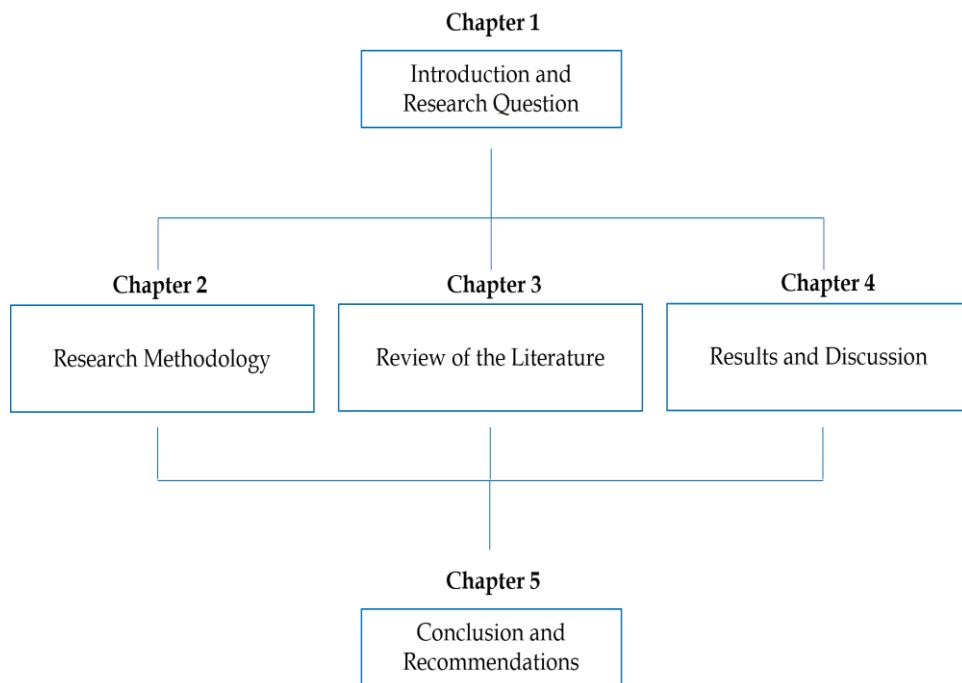
**Students:** who are interested in MSEs can use the finding as a base to further study the topic.

**Entrepreneurs:** that are interested in starting a business can learn about the elements needed to be considered in the process of starting a new business or operate existing business more effectively.

Additionally, the research will provide Kirkos Sub-City Job Creation and Enterprise Development Bureau with a piece of valuable information about MSEs in their district and help them understand the problem they are facing and ways to improve.

## **1.8 OUTLINE OF THE DISSERTATION AND PREVIEW OF SUBSEQUENT CHAPTERS**

**Figure 1.2** *Outline of the dissertation.*



The research paper described in this thesis is divided into five sections.

The first chapter gives an overview of MSEs, existing research on the topic under consideration, the problem statement, the research question, and who the research's findings will be of interest to.

The second chapter provides an overview of the research approach used in the study. This chapter includes information such as description of the study area, population of the study, research design, sources of data and data gathering tools, reliability and validity of instruments, sampling design, method of data collection and data analysis, ethical consideration Furthermore, chapter two also presents a result from an explanatory study.

The third chapter of this thesis provides definitions of micro and small enterprises from various national viewpoints. Additionally, this chapter includes literature on the subject of the variables affecting the performance of MSEs. This chapter also provides an

introduction to Ethiopia's MSEs policy and the efforts that the government has done to support MSEs in Ethiopia.

In chapter four the results and discussion of the findings of the research will be covered and in chapter five, conclusion and recommendation will be offered.

# CHAPTER 2

## RESEARCH METHODOLOGY

### 2.1 INTRODUCTION

The research methodology describes study area, population of the study, research design used, sources of data reliability and validity of instruments, sampling design, method of data collection and data analysis, ethical consideration and scope and limitation of the study.

Furthermore, the chapter also presents a result of an explanatory study conducted with selected Micro and Small Enterprises owners and the staff members of Kirkos Sub-City Enterprises Development Bureau.

### 2.2 DESCRIPTION OF THE STUDY AREA

Addis Ababa is the capital city of Ethiopia, located at a height of 2,355 m, making it the third highest capital city in the world. With 4.8 million residents, Addis Ababa is home to notable regional and international institutions. For instance, the African Union (AU) and the United Nations Economic Commission for Africa (UNECA). The Addis Ababa city is divided into ten sub-cities, and the sub-cities are further grouped into the smallest administrative entity known as Woreda (district).

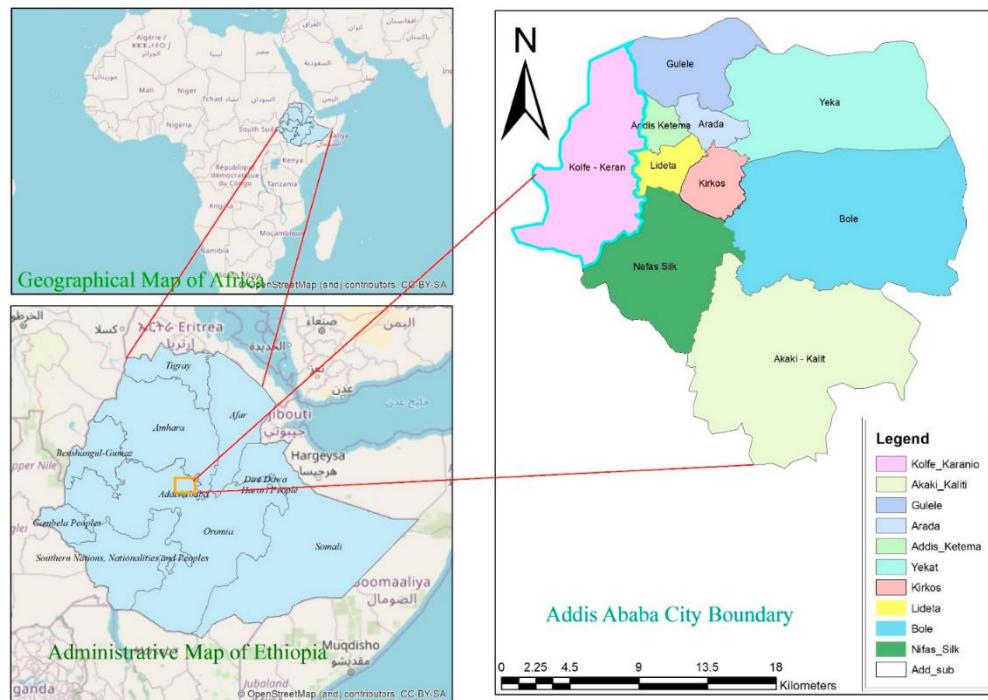
The study was conducted in Kirkos Sub-City Woreda 1 (Addis Ababa, Ethiopia) from June 7<sup>th</sup> of 2021 until August 20<sup>th</sup> of 2021. As it can be seen in the Figure 2.1 Kirkos sub-city is one of the ten sub-cities and is situated in the heart of Addis Ababa. Important domestic and foreign institutions, including the Ethiopian Ministry of Foreign Affairs, the Prime Minister's residence, the headquarters of the African Union, and the United Nations Economic Commission for Africa, are situated in the sub-city. As the Ethiopian Central Statistical Agency (ECSA) cited in Tesfazghi (2009) as of 2007 the sub-city has around 220,991 residents.

Kirkos Sub City was selected for this study because of two different reasons:

First of all, a recommendation from the Kirkos Sub-City Job Creation and Enterprise Development Bureau Supervisor.

Second of all, the geographical location of the Woreda 1 Job Creation and Enterprise Development Bureau. In the capital of Ethiopia, there is a clear transportation problem. Thus, the researcher found appropriate to find an Enterprise Development Bureau in proximity to his residence.

**Figure 2.1** Map of the sub-city boundaries of Addis Ababa.



Source: (Mohammed & Senadheera, 2022)

### **2.3 RESEARCH DESIGN**

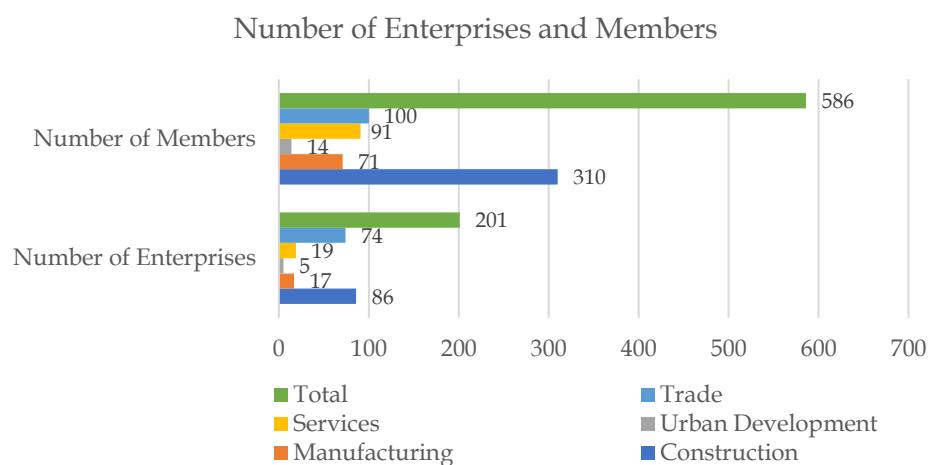
A research design is a way for integrating the many components of a study in a logical and coherent manner, ensuring that the research issue is adequately addressed (Vaus, 2006). A well-thought-out research design ensures that your procedures are appropriate for your research goals and that you employ the appropriate type of analysis for your data (McCombes, 2019). The research design used is influenced by the objectives of the study, the available data sources, data gathering expenses and time restrictions (Drbie & Tilaye , 2013).

In light of these considerations, descriptive research was used in this study. Descriptive research is an effective technique to find characteristics, frequencies and trends. Furthermore, it allows the observation and measurement of variables without any kind of restriction or manipulation (McCombes, 2019).

## **2.4 POPULATION OF THE STUDY**

A target population is a subset of the general population that has been defined as the intended audience of a research and from which the conclusion of the study was drawn (Cox, 2022). The target population of the study presented on this report are MSEs that are currently operating in Kirkos sub-city. Additionally, employees from the Job Creation and Enterprise Development Bureau of Kirkos Sub-City were also considered. Figure 2.2 illustrates MSEs that are currently operating in Kirkos sub-cities.

**Figure 2.2** *Population of the study.*



Source: Kirkos Sub-City Enterprise Support Bureau (2021).

As shown in Figure 2.2, there are 586 enterprise members working under 201 MSEs in woreda 1. The number of MSEs in the construction sector accounts for half of the MSEs in the research area, followed by trade, services and manufacturing and, lastly, urban development sector. The enterprises shown above are registered, licensed, and certified by Kirkos Sub-City Enterprise Support Bureau.

## **2.5 DATA SOURCE AND DATA GATHERING METHODS**

In this study, both primary and secondary sources of data were used.

### **2.5.1 PRIMARY DATA SOURCE**

The primary data was gathered from three different sources:

1. Staff members of MSEs via survey questionnaire
2. Focus group discussion with selected enterprises members and

### 3. Interview with MSEs supporting bureau employees

Each survey participant personally received their questionnaire sheet, which was collected later by the researcher. The reason why questionnaires are used as the main tool to gather information is because it offers both, quantitative and qualitative data collection techniques. Flores (2021) claimed that results that are more thorough can be produced by expressing the data acquired through questionnaires in numerical or descriptive terms. Additionally, using questionnaires as a research tool enables quick, effective and affordable data collection from sizable sample sizes.

The questionnaires used in the survey are extracted from literature discoveries and Organization for Economic Co-operation and Development (OCED) survey instrument (OCED, 2019).

Due to the language barrier the survey was designed in two different local languages namely Amharic and Oromic (official languages in Addis Ababa). Once the survey was completed by the respondents then it was translated into English language. Furthermore, semi-structured interview questions were devised to MSE owners and staff members of Kirkos Sub-City Enterprise Support Bureau.

The questionnaire contains open-ended and close-ended questions.

Most of the close-ended questions were constructed in a way that were measured on a five-point Likert Scale format. Likert scaling method allows degrees of opinion rather than yes/no for an answer (Likert, 1932). Hence, the anonymity on self-administered questionnaires should further reduce social pressure. The data gathered following such a method can also be quantitatively analyzed with relative easiness (N.A., 2019).

The survey was divided into three main components and several sub sections.

The first part asks about internal factors affecting the performance of MSEs. Within the internal factors demographic characteristics, enterprises business characteristics, enterprises participation in capacity building training programs and market competition were asked.

The second part asks questions about the external factors affecting the performance of MSEs. Likewise, infrastructural factors, financial factors, politico and legal factors, working premise, marketing related factors and technological factors.

The third part ask respondents' opinion on the challenges facing MSEs. Furthermore, this part also asks respondents about their opinion regarding the services provision they received from Kirkos sub-city enterprises development bureau.

### **2.5.2 SECONDARY DATA SOURCE**

The study employed documentary analysis of secondary data coming from the Kirkos sub-city enterprises development bureau. Moreover, books, journals, published and/or unpublished research papers were used.

## **2.6 SAMPLING DESIGN**

Dana & Hao (2020) defined Sampling as the process of choosing a portion of the target population for a research project. They further suggested that a conclusion about the entire population of interest can be derived from the subset of the population chosen for the sample. Moreover, the right sampling technique must be applied to ensure an adequate representation.

### **2.6.1 SAMPLING TECHNIQUE**

A combination of stratified random sampling and purposive sampling were employed to choose a sample of enterprises from the entire population of MSEs in the study area. With stratified random sampling, samples are drawn from a population that has been subdivided into smaller groups known as strata (Nickolas, 2022; McLeod, 2019). The sectors of construction, manufacturing, trade, services and urban farming are referred in this study as strata. This approach is favored due to two reasons:

First, the strata in the study sectors are homogeneous in many aspects.

Second, there is wide variations in the size of the study group. For instance, (see Figure 2.2) there are 14 MSEs members of the urban farming sector in Kirkos Sub City Woreda 1 compared to 310 members of the construction sector. As a result, the researcher determined to use purposive sampling to select the sample in relation to the population.

Purposive sampling is a non-probability sampling method where the researcher selects samples based on judgment. Using purposive sampling, the researcher can acquire a representative sample by using sound judgment, ultimately saving both time and money (Black, 2010). Consequently, based on the available information, 26 MSEs were selected

from construction, manufacturing, service, trade and urban farming sectors. The 26 MSEs that were selected represented by 60 enterprise members.

## **2.6.2 SAMPLING SIZE**

Table 2.1 demonstrates the sequence in which the 60 samples were chosen. There were 24 samples drawn from the construction industry, 14 from the service sector, 12 from the trade sector, 7 from the manufacturing sector and 3 samples from the urban farm sector. The discrepancy in the sample size is a result of the differing numbers of enterprise members in the various sectors.

**Table 2.1** Sample size selected from each sector.

<b>Sectors</b>	<b>Sample MSE</b>	<b>Sample size</b>
Trade	5	12
Construction	10	24
Manufacturing	3	7
Services	6	14
Urban farming	2	3
Total	26	60

Source: Survey (2021)

The researcher considered many questions when selecting the sample enterprise. Below is example of the questions used to determine the sample enterprises:

- Is the enterprise micro or small-size enterprise?
- How long has the enterprises been in the business?
- What is the location of the enterprises?

The researcher used these questions to ensure the representation different groups.

The researcher also conducted a focus group discussion with 5 business owners from trade, construction, manufacturing, trade and urban farming sectors. Below Table 2.2 shows the name of the business and the sectors they are operating. A transcript of the focus group discussion can be found at the end of this chapter. Out of the five focus group discussion participants three are selected as an example.

**Table 2.2** A list of names and business activities of focus group discussion participant.

Entrepreneur name	Sector	Enterprises name	Business activity
Melkamu	Manufacturing	Melkamu and Co. Metalwork	Metal doors and windows
Jambo	Manufacturing	Jambo and Co. Furniture work	Household and office furniture
Taye	Urban farming	Taye poultry farm	Poultry products
Mitiku	Trade	Mitiku Suke	Convenience store
Yaya	Construction	Yaya and Co. marble production	Suppling finished marble products

## **2.7 DATA ANALYSIS TOOL**

The study used both manual and electronic data processing approaches to analyze the data gathered. Visual graphs, charts and tabulation were used to present the results, followed by a descriptive analysis and interpretation of the finding.

## **2.8 RELIABILITY AND VALIDITY OF INSTRUMENTS**

The degree to which an instrument produces consistent results is referred as reliability whereas the degree to which an instrument accurately measures what it is intended to measure is referred as an instrument of validity (Li, 2019). The Likert scale questionnaires were used with a sample of 26 MSEs operators to ensure the consistency of the result.

Regarding questionnaires validity a pilot test was conducted with few selected MSEs operator. Based on the response gathered then the researcher deployed the survey sheet to 60 participants. Moreover, the questions in the survey had been also checked by the respective thesis advisor. Based on the feedback, issues which were suggested for improvement were rephrased and others were scrapped as suggested by the advisor.

## **2.9 ETHICAL CONSIDERATIONS**

All participants included in the study were duly informed about the purpose of the study. Their willingness and agreement were obtained before filling up the questionnaire and conducting the interview. The study also maintained the confidentiality of the identity of each participant.

## **2.10 EXPLANATORY STUDY**

There are a number of challenges faced by micro and small businesses that have an impact on their performance. These elements are universal, yet the degree to which they have an impact differs from one nation to the next. The researcher conducted a focus group discussion with entrepreneurs from Kirkos sub-city woreda 1. Participants in the focus group discussion recounted their experiences and the challenges they encountered along the way.

Furthermore, an interview was also conducted with Kirkos sub-city Woreda 1 enterprises development bureau staff. The following groups have participated in the interview:

- Managers
- Supervisor
- Team leader
- Experts

### **2.10.1 FOCUS GROUP DISCUSSION WITH ENTREPRENEURS**

The narrative serves to highlight the various factors that had an impact on young entrepreneurs' attempts to be successful in business. The outcome of the focus group discussion is shown below.

**Example 1<sup>1</sup>:** Melkamu and four of his friends graduated from Tegbared TVET<sup>2</sup> School with specialization in Metalwork in Addis Ababa. After their graduation, they applied to start a business in metalwork in Kirkos Sub-City Woreda 1 Addis Ababa, Ethiopia. After analyzing the proposal, Kirkos Sub-City Woreda 1 Enterprises Development Bureau agreed to provide the group initial funding for the start-up and technical support. For example, the bureau promised to provide them with market linkage for buyers and raw materials. As promised, the bureau gave the enterprise the funds needed to start the business.

With these in hands, the enterprise started operating. Fast forward, within one year of the start of their business, the group realized that it was not possible to continue the business. Even though the enterprise was able to produce the finished goods, they were not able to get the enough market to sell the products. Moreover, due to the business inability to sell

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<sup>1</sup> The photograph illustration shown in the study are Own work.

<sup>2</sup> Technical and Vocational Education and Training

enough they did not manage to repay back their debt. Consequently, they are operating in a survival mood.

**Figure 2.3** *Melkamu and Co. Metal work.*



**Example 2:** Jambo and his friends did start a business in the manufacturing sector. The enterprises make furniture for both home and office use. They had aimed to prosper in the industry when they first started, maybe even to open up work chances for others. However, because they lacked the working capital necessary to purchase new equipment, their dream of growing their company fell through, and they were forced to stay a micro-sized business when they could have become a small-size one.

**Figure 2.4** *Jambo and Co. furniture work.*



**Example 3:** Taye, a young entrepreneur, has focused on building a poultry farm. Due to the success of his firm, he had planned an expansion. As a result, he asked the enterprise development bureau for office space. Even though the bureau accepted his application, he waited more than six months to hear anything. Taye was unable to carry out the necessary expansion for the company. As a result, his expansion plan never materialized.

**Figure 2.5 Taye poultry farming.**



Like Melkamu, Jambo, Taye and their friends, hundreds of thousands of potential job seekers join the job market every year in Ethiopia. However, the country cannot create sustainable jobs for a rapidly growing population. While the government is taking steps to create more job opportunities, unemployment is not showing any slowdown. Additionally, the number of enterprises that dissolve their business keeps growing. Therefore, solving this issue requires a policy that creates sustainable job opportunities for the currently unemployed people as well as those who would soon join the job market.

#### **2.10.2 INTERVIEW WITH KIRKOS SUB-CITY ENTERPRISE DEVELOPMENT BUREAU STAFF MEMBERS**

Each sector has expertise assigned by Kirkos Sub-City Woreda 1. These experts oversee, among other things, counselling services. An interview (see appendices section 3) was therefore performed under the assumption that the proximity of the experts to the firm would enable them to have a general understanding of the difficulties faced by MSEs in the research area.

The main obstacle hindering the performance and development of MSEs in Woreda 1 was identified in response to the interview question. Among these, it can be mentioned: a lack of access to machinery, a lack of training programs, infrastructure problems, a lack of and a market linkage issue.

The employees claimed that one of the main obstacles keeping businesses from operating at full capacity was the difficulties in securing a loan from a microfinance or other financial institution.

The issue of having access to the machinery was also brought up by the workers. They noted that businesses, particularly those in the manufacturing and construction industries, frequently lack the potential to perform successfully and compete with other small and medium-sized businesses because of the high cost of machinery. Furthermore, most businesses that come to their bureau have no prior experience or understanding of the sector in which they want to participate. According to Zenu (an expert in the service sector), enterprises lack the training and skills necessary to run and manage their businesses. As a result, they make decisions without taking the risks into account. Additionally, despite the desire of the bureau to help, many businesses are reluctant to participate in training programs. Moreover, she further noted that some enterprise seek extra incentives to receive training.

Enterprises faced several challenges, prominent among them being infrastructure-related problems including water and energy outages. Mr. Benyas, a supervisor at Kirkos Sub-City Enterprise Development Bureau, stated that "*the power and water interruption problem are a common challenge affecting all sectors*". Businesses may have to utilize generators or other alternate sources of energy as a result of the power loss, which results in extra expenses.

The staff acknowledged the existence of marketing and marketing linkage issues, but the bureau was limited in its ability to assist due to logistical issues. Additionally, they emphasized that most businesses start out with the expectation of obtaining government marketing linkage aid, but that this assistance is often insufficient to fully address the issues that the businesses face.

According to Mr. Teferi, a team leader at the bureau, all MSEs in Woreda 1 have working premise problem. He said "*the issue with the workplace has a noticeable effect on how the business operates*". Enterprise must, however, wait a very long time for a response from the government, and even then, their issue may not be resolved. As a result, enterprises are unable to perform and grow as they should.

## **2.11 SCOPE AND LIMITATION OF THE STUDY**

It is possible that MSEs may have many problems that are not covered in this research. However, there is a time limitation to uncover all the issues. Therefore, the study focused on the most crucial factors that affect the performance of MSEs. While the study was conducted successfully, there were some difficulties encountered in the process of conducting the research.

The first drawback was that some respondents failed to submit their questionnaires before the deadline. The translation issue was the second but most significant hurdle. The Enterprise Development Bureau's historical records and reports were written in Amharic (one of the working languages in Ethiopia). The survey was also written in Amharic and Oromic, therefore it took the researcher a considerable time to translate both the reports and the questionnaires into English. Last but not least, the researcher had to visit the businesses with the assistance of someone from the business as he didn't know where they were located. As a result, several respondents were hesitant to fill out the survey out of worry that their staff might look over their answers.

# CHAPTER 3

## REVIEW OF RELATED LITERATURE

### 3.1 INTRODUCTION

This chapter aims to cover relevant literature reviews on MSEs and the working condition under which entrepreneurs operate. The chapter gives a definition of Micro and Small Enterprise from two perspectives, globally and from Ethiopia. This chapter also defines the measures used to categorize the sectors. Furthermore, the chapter tries to identify factors that affect the performance of Micro and Small Enterprises.

### 3.2 THEORETICAL FRAMEWORK

#### 3.2.1 DEFINITIONS AND CONCEPTS OF MICRO AND SMALL ENTERPRISES

Micro and Small Enterprises are business with revenues, assets and personnel fall below a particular number. Based on the economic advancement of a country and certain requirements, micro and small sized enterprises are defined differently in each country (Daniel, 2020). Similarly, the names and abbreviations differ per country. As Storey, D.J. (1994) described (cited by Tonge (2001), as far as the literature concerned there is no single, universally accepted definition of a small business. In practice, several definitions might be found that apply to varied situations. Because of the variety of the small enterprise sector, it is frequently required to adjust the many definitions developed according to the specific sectoral, geographic or other contexts.

Thus, for research purposes, researchers have persisted using their own definitions of small enterprises which are appropriate to their particular target group (Storey, 1994).

A definition was proposed by a number of sources, including the European Union and academic committees such as the Bolton Committee. In fact, the Bolton Committee's Report on Small Business (1971) is one of the most generally used references for small business definitions and an economical measure was used to define the term. According to these criteria, a firm needs to fulfil multiple conditions to be considered a small enterprise.

These conditions are described below:

- 1) The company only had a little part of the market.

- 2) Sole proprietorship or part-ownership in a personalized manner, rather than through the channel of a defined management structure.
- 3) The company is self-sustained.

In the past, the definitions used to define the terms of micro and small enterprises were unable to reflect the sector's actual economical contribution to the economy or the level of progress made by the business over time. However, Bolton's definition allowed for quantification of the firm's size and its economical contribution to the economy in the form of gross domestic product, as well as the creation of employment opportunities. As Alemu (2017) cited, Bolton's 1971 report manufacturing, construction and mining were defined in terms of the number of personnel employed by the company, whereas retail, services and wholesale were defined in terms of monetary turnover.

Even though Bolton Committee's definition of small business is one of the most used, it also received criticism. For example, one of the claims in the study refers to the comparison of small business-based number of employees and turnover globally. This claim lacks consistency and applicability across the globe as currency fluctuation of a different country, economical level, etc. are difficult to compare.

Hence, Storey (1994) indicated that when there is an issue with the definition, it would be better for researchers who are investigating micro and small businesses to customize or adjust the term to their research topic and area that they are studying.

Thus, the literature review in this study will try to look the definition from a general and from a specific country or organizations perspectives. For instance, international and regional organizations such as Organization for Economic Co-operation and Development (OECD) defines MSEs as having fewer than 10 employees for micro enterprises, 10 to 49 employees for small enterprises, 50 to 249 employees for medium-sized enterprises and more than 250 for large-sized enterprises (OECD, 2022).

### **3.2.2 DEFINITION OF MSEs IN DIFFERENT COUNTRIES**

#### **MSEs definition in Europe**

The European economy's core is thought to be made up primarily of micro and small businesses. According to the European Commission (2020a), micro and small firms represent more than 80% of all businesses in the euro zone. Furthermore, according to a study commissioned by the European Union, two out of every three jobs are created by

micro and small businesses. In addition to being crucial for employment development, they are a major source of entrepreneurship and innovation.

The European Commission user guide for SME, suggested to use three criteria to define micro and small enterprises. These criteria are highlighted below.

- Staff headcount
- Annual turnover
- Annual balance sheet total

Based on the above description, the European Commission (2020b) defines micro enterprise as having fewer than 10 employees and an annual turnover taken in a particular period below EUR 2 million. On the other hand, when an enterprise has a staff head count fewer than 50 and its annual turnover or balance sheet is below EUR 10 million it is considered as a small-sized enterprise.

### **MSEs definition in Belgium**

In emerging and developing nations, MSEs contributes roughly half of the total employment. However, the importance of MSEs is not limited to the emerging and developing nations, but also developed economies. In Belgium, MSEs provided more jobs than the medium and large sized enterprises combined. Between the year 2013–2017, MSEs in Belgium were responsible for employing more than 1.5 million people while adding 96 billion euro in value added (SBA, 2018). The table below shows the distribution of firms in Belgium for the year 2013, based on the number of employees employed by the MSEs and large enterprises.

**Table 3.1** Distribution of firms in Belgium, 2016.

Firm size (employees)	Nº of Enterprise	%
All firms	607,982	100
SMEs (1–249)	607,070	99,85
Micro (1–9)	575,915	94,73
Small (10–49)	26,990	4,44
Medium (50–249)	4,165	0,69
Large (> 250)	912	0,15

Source: (OCED, 2020)

Regarding the definition of MSEs in Belgium, according to OECD (2016), small-sized enterprises are defined as those that employs between 10-49 people, has a turnover of less than EUR 7.3 million (excl. VAT) and has a balance sheet total of less than EUR 3.6 million.

In this regard, micro-sized enterprises are those that has 1-9 employees, an annual turnover of 700,000 euros (excl. VAT) and a balance sheet total of 350,000 euros (National Bank of Belgium, 2022).

### MSEs definition in Ethiopia

According to Ministry of Urban Development and Housing MoUDH (2016a), the definition of micro and small enterprises in Ethiopia was first introduced in 2005 following the implementation of *'The Micro and Small Enterprises development Strategy'*. During this time, Ethiopia used paid capital as a single benchmark to determine the size of enterprises. However, the usage of a single criteria had its downsides. For instance, the definition does not consider the changes of the inflation rate and the changes of the volatile exchange rate in time.<sup>3</sup> Additionally, considering the role of MSEs as source for the creation of jobs, the definition given in 2005 does not offer a tool to analyze the change in number of job opportunity created. For this reason, the government introduced a revised definition that incorporates other aspects. Consequently, the following elements were considered to define MSEs:

- Headcount (number of employees)
- Total asset owned
- Inflation and exchange rate changes

Based on the above three considerations, MSEs are distinguished as follows:

**Table 3.2** *Micro and Small Enterprises definition in Ethiopia.*

Enterprise level	Sector	Nº of employees	Capital
Micro	Industry	<5	Birr 100,000 or \$2,500
	Service	<5	Birr 50,000 or \$1,250
Small	Industry	6-30	\$2051<\$30,300

<sup>3</sup> According to Exchange Rates UK, (2022), in January 2005, 1 US dollar was equivalent to 8.6006 Ethiopian birr, whereas the same time in 2022 1 US dollar was equivalent to close to 50 Ethiopian birr.

Service	6-30	\$1251<\$10,000
Source: (Luning & Daan, 2006)		

### **Micro Enterprise**

A micro enterprise is a business that starts with a little amount of money and employs a small number of individuals. Accordingly, a micro enterprise is one which operates with up to five people and the total assets do not exceed Birr 100,000 (approx. 2,500 US dollar).

Additionally, the amount of total asset used for micro sized enterprises varies based on the sector. To illustrate this, the total asset for manufacturing and construction sectors are set in the range of 2,500 US dollar, whereas the service sectors total assets are set around at 50,000 (approx. 1,250 US dollar).

### **Small Enterprise**

In Ethiopia, there are different definitions for small enterprises based on which institute defines them (MoUDH, 2016).

The Ministry of Trade and Industry uses Capital invested. In this regard, an enterprise is considered small if it has a paid-up capital of above 2,501 US dollar and not exceeding 30,000 US dollar. On the contrary, Central Statistical Authority (CSA) uses the number of individuals employed. Hence, an enterprise is considered a small size if its employees represent between 6 to 30 people.

Consequently, taking the two definitions given, we could describe small size enterprises as an enterprise that operates with a minimum of 6 and up to 30 people with a total asset above 2,500 US dollar but not exceeding 30,000 US dollar.

Likewise, micro enterprises and small enterprises are also further divided by sector. For instance, for the manufacturing and construction sector, the total asset is above 2,501 US dollar and not exceeding 30,000 US dollar. In the other hand, for the service sector, the total asset ranges from 1,251 to up to 10,000 US dollar. Even though, for both micro and small enterprises the total asset varies based on the sector, the number of employees indicated remains the same.

### **MSEs definition in Kenya**

MSEs are viewed as crucial contributors to economic growth and poverty alleviation in Kenya, as they are across the rest of the world. Micro, Small and Medium-Sized Enterprises (MSMEs) are responsible for about 15 million Kenyan jobs, or over 90% of the

country's total labor force (Mutuku, 2010). The number of employees, turnover, and capital are used in Kenya to define MSEs. Although the criteria are comparable to those of Ethiopia, which we have already examined, the thresholds are different. For instance, in Kenya, an enterprise must have fewer than 10 employees in order to be classified as a microbusiness, whereas in Ethiopia, an organization is only considered a microbusiness if it has five or fewer employees. The classification of businesses according to their size and level is shown in Table 3.3 below.

**Table 3.3 Micro and Small Enterprises definition in Kenya.**

Enterprise Level	Nº of Employees
Micro	Less than 10 employees
Small	10–49 employees

### MSEs definition in India

India has one of the largest bases of MSEs in the world. Melissa (2022) there are 63.05 million micro, 0.33 million small-size enterprises in India. These enterprises together employees 40% of the country's workforce (N.A., 2022).

When it comes defining MSEs unlike many countries India does not use the number of employees as criteria to determine enterprises size. For example, European Union and Ethiopia. Instead, India uses the total capital invested in plant and machinery and annual turnover as base to categorize Micro and Small Enterprise (Bhardwaji, 2018). Furthermore, there is no distinction between manufacturing and service sector in terms of threshold. The classification of MSEs in India is shown in Table 3.4.

**Table 3.4 Micro and Small enterprises classification in India.**

Enterprise level	Sector	Investment in plant and Machinery	Turnover trashhold
Micro	Manufacturing and Services	INR 10 million (EUR 123,647)	INR 50 million (EUR 618,235)
Small	Manufacturing and Services	INR 100 million (EUR 1,236,472)	INR 500 million (6,182,360)

Source: (Melissa , 2022)

Regardless of the differences in definition mentioned above, each country's definition for small and micro enterprises is tailored to its economic condition and overall level of

development. Countries see micro and small enterprises as a reliable source of employment opportunity for people with limited finances and investment capacity. They are seen as a key tool to help improve local society's living conditions, improve regional development, promote trade and industries and grow businesses into medium and even large-scale enterprises.

### **3.3 PERFORMANCE**

Academics continuously insist that no standardized or uniform definition exists to define performance due to its multidimensional concept. Thurik (1996), cited in Johan (1998), defined performance at the most general level, referring to the degree to which a society's resources are being used in efficiently manner to maximize the welfare of the individuals within that society. It was noted that performance as a level of goal achievement of an organization rather than of individuals (Samsonowa, 2012). The definition given by Samsonowa was built based on literature, such as:

**Hauber (2002):** the term "performance" describes the contribution of specific systems (organizational units of differing sizes, employees and processes) to attain and validate the goals of a company.

**Krause (2005):** performance refers to the degree of the achievement of objectives. Performance is principally specified through a multidimensional set of criteria. The source of the performance is the actions of players in the business processes.

Based on Samsonowa Chafik Okar et al. (2016) also defined Performance as the accomplishment of a goal by an organization rather than an individual while using the available resources. Zhou Guangguo et al. cited in Caiyun (2020) noted that performance is operating efficiency and performance of the company during a certain period of operation. They noted that enterprise profitability, debt repayment ability and development ability reflect the performance of the firms.

Adam (1994), as cited in (Omar & Zineb , 2019), described organizational performance as a deeply dependent on the quality of employees' performance. He emphasized that employee's exposer to up-to-date knowledge and skills are essential for a high-quality organizational performance. However, it is vital to remember that firms should concentrate not just on organizational microenvironmental aspects, but also on the macroenvironment as a whole, to increase their performance. This will enable MSEs to pinpoint the facilitating and impeding elements affecting their performance so they could develop a remedy.

### **3.3.1 PERFORMANCE MEASUREMENT**

Performance measurement is an important concept for an organization to pinpoint areas that need to be improved and harmonize its systems, workforce and business goals. It also helps companies be more efficient and productive in pursuing organizational objectives (Rightway, 2018). In recent years, numerous studies on the performance measurement of small businesses have been performed. However, these researchers employed various performance metrics. As a result, the answer to the question of which indicators are more appropriate depends on the individual's point of interest.

Some of the most used performance measurements are profitability, output in a given period, sales and headcount. It was argued that traditional performance indicators, like profitability, are the best way of assessing performance. However, as (Van de Ven, Hudson and Schroeder 1984), noted in Johan (1998), profitability is not appropriate for small businesses. They followed by suggesting that employment or sales growth would be better performance indicators. Johan also pointed out that profitable small enterprises do not always grow and that growing firms are not always successful in other regards.

Additionally, Simmons (2000), quoted in Sharun & Shadrack (2019), argued that while financial performance indicators, like profitability, may be a reliable indicator of the performance of a company, they may also be manipulated. Thus, finding the proper notion to measure performance is rather difficult.

Siti & Atikah (2014a) stated that it can be difficult to evaluate MSEs objectively as a result of their refusal to offer objective performance statistics (for instance, profit and sale). Numerous research conducted on MSEs performance in developing nations have found this to be the case. As a result, studies suggest using both subjective and objective metrics when appropriate. According to Wall et al. (2004) and Song et al. (2005), as cited in Siti & Atikah (2014b), subjective measures can be a useful technique to assess business success because they enable comparison across enterprises and circumstance. Numerous studies have suggested using either subjective or objective performance measures, or even both.

Nevertheless, for the purposes of this study, objective or financial measure of organizational performance was considered because of two factors:

- 1) MSEs in the research area appear to be primarily concerned with profitability.
- 2) MSEs in the study region are unfamiliar with various performance measurement instruments, such as 360-degree feedback and balanced score cards.

### **3.4 MSEs GROWTH**

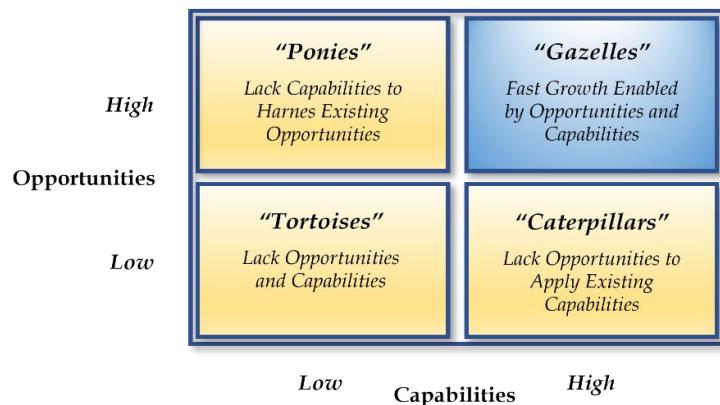
Business performance and growth are closely related. By measuring growth, businesses can evaluate their performance. However, a firm needs to have the essential resources and competencies in order to perform and grow.

The definition of growth varies from organization to organization to individual to individual. While for some having a large customer bases are a sign of growth, others might prioritize profitability instead. While some wants to grow exponentially, others might want to remain small. However, one fact is that each firm shines differently depending on the industry's growth trends, the product's lifecycle, and the owners' aspiration (Attract Capital , 2022). A growing firm, according to (Chen, 2021), is any business that generates considerable positive earnings and cash flows.

Growth is necessary for increasing profitability and achieving organizational objectives. However, for that to happen firms must possess the appropriate resources and capabilities.

Below Figure 3.1 shows, the growth typology presented in four profiles namely: Ponies, Tortoises, Gazelles and Caterpillars. Goldmark and Nicter (2005) growth typology shows how opportunities and capabilities can interact to shape the trajectories of MSE growth.

**Figure 3.1 MSEs Growth Typology.**



Source: adapted from (Goldmark, Lara; Nicter, Simeon; 2005).

**Ponies:** Ponies are businesses that experience an early period of rapid growth but are unable to continue this expansion because they are unable to seize available business opportunities. In Addis Ababa, for instance, Taye, an entrepreneur who owns a poultry

farm (see chapter 2 section 2.10.1, Example 3), originally saw a lot of demand for his poultry products in the market and intended to maintain development by extending his farm. However, he was impeded from achieving his objective by his inability to buy modern poultry equipment and the lack of a working space.

**Gazelles:** Gazelle are businesses that are expanding quickly. These businesses achieve profitability and growth by using the right capabilities and taking advantage of business possibilities Grant, (2021a). Gazelle businesses could be small start-ups or large corporations like Apple. Additionally, they considerably contribute to job generation. Grant, (2021b) the pace of employment creation by Gazelle companies surpassed that of the Fortune 500. Unfortunately, only a small percentage of MSE turn into Gazelles.

**Caterpillars:** are businesses that could possess capabilities but lack the opportunities to take advantage of them. For instance, Melkamu and Co. (see chapter 2 section 2.10.1, Example 1) operate a metal workshop. Despite having all the necessary equipment to make a range of things, they were unable to sell their goods due to the little market potential.

**Tortoises:** These companies lack the capabilities and profitable business opportunities. Most MSEs in developing nations fall under this group. As a result, the majority of MSEs in these nations are more concerned with surviving than with expanding.

### **3.5 THE MICRO AND MACRO ENVIRONMENTAL FACTORS**

Entrepreneurs confront a series of challenges while starting a new business, especially throughout the growth period of the organization's life cycle (Syed Fida Hussain Shah et al., 2013). These challenges are the result of the environment. An organization never operates in a vacuum instead, it acts in an environment (Philip, 2019). Businesses face both prospects and risks because of their surroundings. Environmental change has transformed some businesses while others have failed (Gerry, et al., 2017a).

There are two types of environments, macroenvironment and microenvironment.

Therefore, in the following part, we will see in detail what the two environments represent and discuss the environmental aspects in detail. We will also look at how they are related to this research and how they affect MSEs performance.

### **3.5.1 MICRO-ENVIRONMENT**

Micro-environment refers to the factors that are internal and known to an organization. These are factors that have a direct impact on organizations daily business operations and performance. Within the micro-environment, we can find the firm, customers, intermediaries, competitors and suppliers.

**The firm:** there are departments within the organization that are critical to the survival of a company. To ensure development or maintain its place in the market, a firm requires individuals with a diverse set of skills, such as human resources, marketing and finance. To do so, it must make use of existing internal resources. When it comes to micro and small businesses, departmental tasks are frequently delegated to the business. As a result, the skills and expertise that each team member brings to the table is critical to the success of the company.

**Customers:** they are an essential component of the microenvironment and the reason for the existence of a company. As Peter Dracker cited in Stern (2011) a business exists to perform a specific social function and to satisfy a specific requirement of a society. Thus, if a firm is to succeed, it must develop a relationship with customers based on a value proposition.

**Intermediaries:** the intermediary serves as a link between the company and the customer, ensuring that the goods and services are well received. For instance, in case of this study, Kirkos sub city enterprises development bureau helps MSEs both directly and indirectly to sell their goods and services through the bureau-facilitated link. In addition, the bureau conducts exhibitions and bazaars for businesses to showcase their goods and services. As a result, the Enterprise Development Bureau can be viewed as an intermediary.

**Competitors:** they refer to rivals in the same industry or sector. Through their products or services, micro and small businesses compete as well as with other medium and large businesses. As a result, for businesses to overcome the challenges given by their rivals, they must adapt to change and prosper to gain a competitive advantage by innovating and utilizing available resources.

**Suppliers:** they represent an important aspect of an organization's success. Companies benefit from deliberate backward integration with providers of raw materials and other critical inputs. Because suppliers are the backbone of a company's supply chain, choosing a supplier and establishing trust are critical aspects of the supplier-buyer relationship.

The relationship between suppliers and buyers is even more important for micro and small businesses, as they frequently require the backing of their suppliers.

The microenvironment factors above show that are relevant to day-to-day operation of a business. Furthermore, within these factors there are also a number of internal questions that need to be addressed by enterprises to grow. For example, the question of what skills do the entrepreneurs have and how enterprises stand against other competitors are among the main questions that needs to be addressed.

### **3.5.2 MACRO-ENVIRONMENT**

The macro-environment is an uncontrollable external phenomenon that can influence an organization's decision-making. The external environment might provide opportunities but it can also present threats (Gerry, et al., 2017b). External variables are frequently referred to as the PESTEL (Political, Economic, Technological, Environmental and Legal Factors).

**Political and Economic factors:** they affect whether a country's economic position is suitable for conducting business and whether the country is politically stable for pursuing a business opportunity. When a country is economically viable and politically stable, micro and small businesses can thrive alongside large corporations. When it is not the case, this business suffers severely. The following are some instances of economic and political considerations that may have an impact on an organization's decision-making and performance.

<ul style="list-style-type: none"><li><input type="checkbox"/> Inflation rate</li><li><input type="checkbox"/> Disposable income</li><li><input type="checkbox"/> Unemployment</li><li><input type="checkbox"/> Foreign exchange rate</li></ul>	<ul style="list-style-type: none"><li><input type="checkbox"/> Conflict</li><li><input type="checkbox"/> Taxation</li><li><input type="checkbox"/> Fiscal polices</li></ul>
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**Social factors:** such as demographics, customer purchasing patterns, culture and attitudes may have an impact on an industry (Lars , 2016). Lifestyle of a society, culture and attitude may have an impact on the likelihood of consuming goods and services. Especially, for MSEs who are most reliant on local market social factors has an impact on their performance.

**Technological factors:** elements that have a direct or indirect impact on an industry and they can be advantageous or disadvantageous. The impact of technology on an industry

is influenced by the degree to which the industry is reliant on it. As a result, not all industries will be affected in the same way by technological factors. When it comes to MSEs, technology can help increase productivity while optimizing manufacturing processes. Similarly, the lack of it could also have an impact the performance of MSEs. Technological factors include:

- Research and Development
- Automation
- Overall technological awareness

**Environmental factors:** are concerned with the physical environment as well as the general criteria for environmental protection. Environmental elements such as weather and climate have an impact on how businesses operate in order to offer goods and services. These variables may also influence the attractiveness of a county for certain investment considerations.

**Legal factors:** are present in both the micro and macro environments. These elements have to do with the legal issues of an organization or a country. Industry-specific rules, consumer protection laws and health and safety standards are among the legal considerations. An organization that operates under a set of rules must be aware of the legal environment in which it operates and comprehend how changes will affect its operations. In the case of MSEs, the legal environment in which they operate may either enhance or do the opposite to their performance.

The macroenvironment, like the microenvironment, is an important component that businesses must understand if they were to conduct a business either internationally or locally. MSEs like large corporations will face political, economic, social, technological, legal and environmental challenges. When there is a conducive macroenvironment, the journey of the firms will be smoother, and they will be able to contribute significantly.

### **3.6 FACTOR AFFECTING THE PERFORMANCE OF MSEs**

MSEs have been facing several factors that affect their performance and prevent them from using their full potential. Although the factors look similar across the globe, the extent in which they are affected could vary from country to country because of the different country's economical and development level. Some of the main factors identified by many studies includes financial problems, marketing and market linkage problems, lack of working premise, politico-legal, infrastructure and managerial factors.

## **Access to Finance**

Access to financial assistance is thought to be a key determinant in the growth of MSEs. Access to finance enables MSEs to overcome liquidity limitations and make investments, such as improving their operations, expanding and producing high-quality output, resulting in a rise in business competitiveness (Heidhues, 1995). However, as suggested by many researchers, the lack of access to finance hampers the performance and growth of MSEs. As described by Gilbert et al., (2006) cited in Allen & Gregory (1998a) most MSEs start with their own money, family and friends and local microcredit. The problem of finance in the micro and small business sector is mostly due to two factors:

- 1) The scarcity of capital in the country.
- 2) The enterprise's creditworthiness (Sinha, 2022).

Allen & Gregory (1998b) cited that micro and small-sized businesses have been shown to have less access to external capital and to be more limited in their operation and expansion in developing and developed nations. As mentioned by many related studies, one reason for MSEs limited access to finance is the inability of enterprises to provide substantial collateral warranty and established financial institutions hesitancy to do business with them. Moreover, very few meet the requirements to allow them to borrow from the formal financial and credit institutions. As reported by Sethuraman [(1997, also cited in Tekele (2019)], most MSEs in developing nations lack access to formal financial services.

Zeller (2001a) indicated the lack of access to financing may have negative effects for MSEs and the general welfare. While access to finance boosts MSEs risk-taking capabilities, the absence of it increases the vulnerability of enterprises by weakening the ability to withstand competition and utilize their full capacity.

## **Lack of Managerial skills**

Managerial competence can significantly impact the performance of a firm. The quality of management is essential to Micro and Small firms (MSEs) and must react swiftly to changing markets and conditions, although frequently have limited resources (OECD, 2002).

MSEs' managerial skills are essential for long-term survival and profitability. The importance of managerial skills in the development and performance of MSEs has been noted in numerous studies. On the other hand, most MSEs in developing economies rarely have one. A study by Panagiotakopoulos (2020) indicted a strong correlation between management training and the success of MSEs. Antonios opined that

management training in MSE had a beneficial impact on organizational performance. Those that completed formal training interventions claimed that their enterprises' performance had greatly improved. Additionally, as Baldwin et al. (1997) cited in OECD (2002), small firms typically fail as a result of poor management skills and a lack of customers for their products.

### **Access to Infrastructure**

Puentes (2015) cited that a strong economy is supported by its infrastructure. Infrastructure that is functional and accessible is a crucial prerequisite for the growth of the private sector (Government of Netherlands, 2022). While a good infrastructure may not necessarily guarantee success, as noted by Limi (2008), businesses functioning in an environment where access to infrastructure is available may profit from rising firm productivity, which will increase the economy's overall efficiency.

Several studies were undertaken to identify the factors that affect the performance of MSEs. One of the biggest bottlenecks identified is a lack of efficient, reliable and inexpensive infrastructure. Infrastructure plays an important role in the overall performance of MSEs. Infrastructure also holds the key to solving other performance hindering factors. i.e., when many studies discuss about solving the problem of lack of finance for MSE, microfinance is seen as the primary solution (Rhyne & Otero, 1992). While there are an infinite number of studies to support the arguments, there are, however, studies that argue that microfinance without the existence of proper infrastructure facility may not solve the problem.

In a study conducted in Malawi by Zeller (2001b), it was found that microfinance had no substantial impact on household income, implying that it has no impact on the development of MSEs. Because the infrastructure and market for MSE operations are not developed investing in them will have no influence on household income as far as the infrastructure is not improved.

### **Marketing and Market Linkage**

Anbu (2011) opined that a successful marketing strategy involves creating a strong marketing mix, which includes product, price, distribution and promotion. The effectiveness and growth of a business are significantly boosted by this marketing mix. Despite this reality, MSEs in most developing countries lack marketing orientation. Instead, they rely on intuition rather than market research when making decisions. (Gnanasambandan, 2014).

As Kotler cited in Oliveira & Dendasck (2020) marketing linkage with suppliers and competitors promotes cooperative interdependence among rival businesses. This is especially advantageous for small businesses and can present them with numerous opportunities. Most MSEs are unable to make their own purchases due to a lack of resources. However, if they cooperate, they can gain from the resources that others in the sector have. MSEs would also create synergy, allowing them to compete with medium and big corporations. However, due to a lack of understanding and other factors, MSEs place little to no focus on its significance. As a result, negligence has an impact on the long-term performance and viability of businesses.

As Temtime and Pansiri cited in Tiruneh (2011) marketing activities such as product marketing, market research, and demand forecasting have a stronger impact on the success of small enterprises. Customers' relationships, as well as marketing skills, were also mentioned as essential success elements.

### **Politico-Legal Factors**

The success of enterprises may be influenced by a stable political climate and a supportive legal system. Arega & Watabaji (2019) cited Carlsson (2006) in which he suggested that political systems that are open to innovation are more likely to be conducive to industrialization and to strongly encourage institutional and technological growth. Alkahtani et al. (2020) point out that government and political incentives are particularly important for the development of MSEs, especially in developing economies where they need support desperately.

As Beck (2004) cited in Simeon & Lara (2005) political and legal challenges including corruption and bureaucratic problems pose a barrier to MSEs in developing economies. Furthermore, political instability is barrier to innovation and general economic progress in poor nations (Arega & Watabaji, 2019).

Solomon Tarfasa et al. (2016) conducted research in Ethiopia to examine how MSEs potential was hampered by issues with business permits and licenses, tax administration, and corruption. He used a five-category reference i.e., no obstacle, minor difficulty, big obstacle, and very severe obstacle. His research showed that more than 50% of the respondents said that bureaucratic problems such tax administration, corruption, and other concerns were a big obstacle to their growth.

## **Working Premise**

Working premise is one of the most important components for an enterprise's successful and long-term growth since it facilitates access to resources and markets (Haftom et al., 2014). Their study found that MSEs with their own premises are positively correlated with an improved performance.

Similarly, Rahel Wasihun & Issac Paul (2010) highlighted the importance of working space to enhance effectiveness of enterprise's long-term growth. They also indicated that the problem of shortage of working space is one the main problems facing MSEs in developing countries.

## **Other factors affecting the performance of MSEs**

As study by Goldmark & Nicther (2009a) found that business owners education level, work experience and have a determinant factor on the performance of MSEs. These factors are also cited in other studies.

### **Education**

Education among MSE owners is associated with improved performance. Operators of MSEs may gain information through education that will help them better understand the business environment. MSE owners in developing nations typically have lower levels of education, which may have an impact on their enterprises' performance. Ricardo & Brijjal (2011) found a positive relationship between MSEs owners' level of education and increase in turnover. They further cited Storey (2004) he linked MSEs owner's education level and their ability to access resource.

### **Work experience**

MSE owners with professional backgrounds may grow more rapidly using their prior work experience, skills, and knowledge. Furthermore, business owner with experience may establish a social network with suppliers and buyers more easily. As Parker (1995) cited Goldmark & Nicther (2009b) his study found that businesses with at least seven years of expertise grow their operations more quickly than those without such as experience. Pellissier & Nenzhelele (2013) business owners with many years of experience are exposed to the business environment for a longer period of time; as a result, they are better prepared with the managerial skills necessary for their firm to succeed.

## Gender

In developing nations, women frequently confront obstacles that are more likely to obstruct their development than those faced by men. Businesses run by men often grow faster than those run by women. Women in Africa frequently shoulder significant domestic responsibilities; as a result, they dedicate less time to their businesses, which results in poor performance. Chirwa (2008) listed the following as contributing factors to women's limited performance compared to men: burdensome family responsibilities, rising loan costs, and unfavorable legal systems for women.

### **3.7 EMPIRICAL STUDIES**

The empirical evidence confirms that despite their importance to any country's economy, the lives of micro and small businesses have always been difficult. One of the most pressing issues noted is the lack of capital. Due to their small size, micro-enterprises are frequently overlooked by financial institutions such as banks. Despite a promising beginning, more than half of new starts fail within a relatively short period of time.

According to Njeru Anges et al., (2014) lack of access to credit and poor financial management are some of the main reasons for MSEs to fail. The study further reveals that micro and small enterprises cannot access funds due to the financial institutions demand for a high interest rate and requirements for collateral. For example, in a report by Capital Ethiopia (2021), the interest rate of Ethiopian banks is set between 14% for public banks and 21% for private ones. Furthermore, Mwobobia (2012) suggested that enterprises are unable to get access to finance due to collateral requirements.

As Harvie (2005), APO (2001) and Leopairote (1997) cited in Tekele (2019), SMEs have complexity in growing due to lacking collateral and for the incapability to deal with the complexity of formal financial institutions. A study by Gemechu & Teklemariam (2016) found that more than 93% of the MSE survey respondents claimed that they had been discouraged from applying for bank loans due to the perceived high collateral requirement, the difficulty of the loan application process and a lack of knowledge about how to do so.

Robert & Joel (.n.a.) in their study asserted that poor record-keeping could lead to poor relations with vendors, making it more difficult to source and acquire things. Furthermore, businesses that do not retain accurate and up-to-date records or apply proper financial controls are more likely to fail than those who do.

A study by Okpara & Kabongo, (2009), titled "*An empirical evaluation of impediments inhibiting the growth of Small and Medium Sized Enterprises (SMEs) in a developing economy*", suggested that access to decent infrastructure, including transportation, energy and water sanitation, is essential for a growing economy and is strongly related to the success of small businesses performance and growth. The study also showed that infrastructure-related elements like electricity supply, transportation and telecommunications had an impact on how well small-sized businesses performed economically. Infrastructure such as power, transportation and water were the three infrastructural problems reported. As Assefa (2021) cited, although infrastructure alone is not enough to solve MSEs problem, it is a foundation for development and the economy needs a solid infrastructure framework for advancement.

In developing markets, enterprises often begin by copying the business next door without conducting proper market research into demand and supply. They frequently rely on market connection provided by the district's enterprises supporting teams. Access to market, market insights and insufficient infrastructure are among the challenges facing micro and small businesses, according to Girme (2015), as referenced by Gebremariam., (2017).

In a survey by Kefale & K.P. M. (2012) which they held a focus group discussion to identify main barriers to small and micro-size business performance, they discovered that a shortage of working premise hampered business expansion and resulted in high leasing costs. Additionally, Ebabu (2021) cited an empirical study by Amwele (2013). According to the survey, small-size business face excessive leasing costs; hence, they are unable to grow financially. According to Mekonnen et al. (2013), who were quoted by Tomas Cherkos et al. (2017), a lack of proper working premises is one of the main obstacles to MSE expansion.

Arinaitwe (2006) as cited in Sharmilee & Muhammad (2016) technological capabilities or lack thereof is one of the primary reasons behind MSEs growth challenge in the developing countries. Sharmilee & Muhammad highlighted how technology is advancing globally however small businesses in growing economies are still hindered by their lack of technological implementation and the difficult for this business to compete or grow.

Adino & Tessema (2021) noted that the adoption of technology can help micro and small businesses (MSEs) develop, indicting the very low adoption of technology by MSEs in Ethiopia. They studied 337 MSEs to conduct a study on the determinants of technology adoption in Northwest Ethiopia. Their findings showed that MSEs in the region have a

significant need for access to technology if they are to enhance their performance. Gemedu & Teklemariam (2016) cited technological barriers, lack of access to funding and bureaucratic procedures as factors have an impact on MSEs performance.

Most small and micro-enterprises in developing countries are reliant on the support received from the government. Hence, increasing the chance of the enterprise's engagement with the government and other institutions. Frequently bureaucratic government systems and politico-legal issues result in unnecessary delays in compliance and are excessively costly both for enterprises owners and the government. Such a complex administrative system and lengthy procedures pose a significant challenge. The business owners would need to close for days to travel to concerned government offices to access these services, sometimes without success.

Evelyn (2016) indicated that there is a positive association between educational attainment, financial literacy and the performance of a firm. According to the researcher, the capacity of MSEs to effectively use banking services and maintain financial records is also impacted by the lack of financial literacy. The researcher discovered that high-scoring entrepreneurs had at least a certificate level of formal education, while people with limited school education showed lower levels of financial literacy. The researcher suggested that government organizations and microfinance institutions set up financial awareness campaigns and capacity-building programs for MSEs.

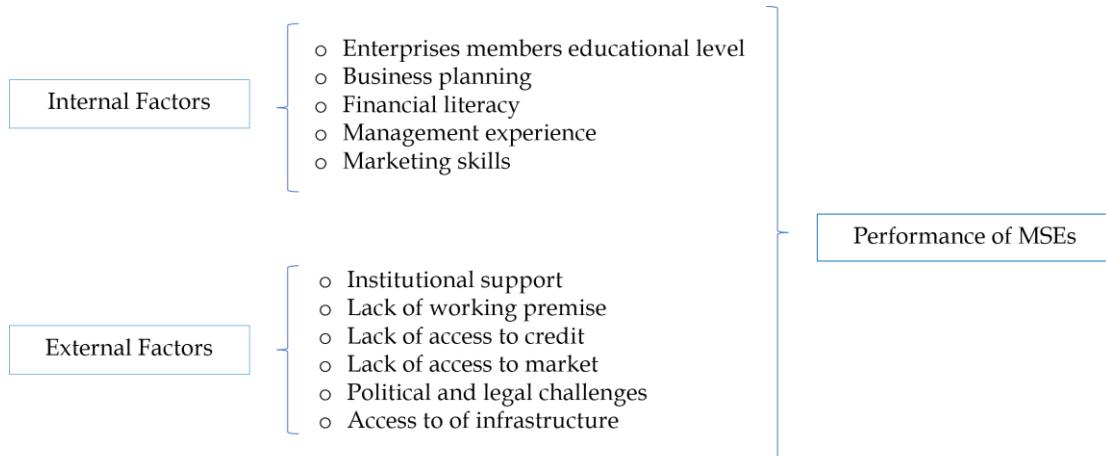
### **3.8 CONCEPTUAL FRAMEWORK**

On the factors influencing the growth and performance of MSEs, numerous studies in the literature and theories have been developed. Therefore, the conceptual framework that is shown below is based on these literature findings. The Figure 3.2 below summarizes the relationship between the performance of MSEs (the dependent variable) and the external and internal factors influencing that performance (independent variables).

Education level of staff, strategic business planning, financial literacy, managerial experience and market knowledge are just a few of the internal elements (dependent variables) that affect MSEs performance. The conceptual framework assumes that enterprises or entrepreneurs whose performance is positively correlated with these characteristics can perform better. Thus, the performance can be improved. However, a negative correlation with the dependent variables might also have a negative impact on the success of an enterprise.

When discussing the external factors or independent variables, the following elements are taken into account: institutional support, a lack of working space, a lack of access to credit, a lack of market access, politico-legal challenges, and a lack of access to infrastructure are all independent variables over which MSEs have no control but which can affect their overall performance.

**Figure 3.2** *Conceptual framework.*



### **3.9 MSEs POLICY AND STRATEGY IN ETHIOPIA**

Ethiopia's promotion of MSEs is a very recent development. The Derg regime<sup>4</sup> policies during the 1970 and 1980 were a little bit repressive. For instance, there was a cap on money<sup>5</sup>, a one man, one license restriction, and overall, it can be said that the public sector was given complete priority over the private sector. Operators of micro and small businesses were deterred by the regime's legislative constraints and cumbersome bureaucratic processes for obtaining company licenses (Anato & Hando, 2021).

Many of the drastic measures that were implemented to convert the command economy into a market-led economy after the regime change in 1992 had an effect on MSEs (Gebrehiwot & Wolday, 2001). The creation of private banks and microfinance institutions, as well as the privatization of governmental firms, are all aspects of market economic policy. The National Micro and Small Enterprises Strategy and the Federal Micro and Small Enterprises Development Agency are two actions geared toward MSEs.

Furthermore, Ethiopia made extensive structural changes that were required to accelerate the country's economic transition to middle-income status by 2025 (UNDP, 2013). Among

<sup>4</sup> Derg was a socialist government that ruled Ethiopia between 1974-1991.

<sup>5</sup> During the Derg regime individuals were not allowed to own more than 500,000 Ethiopian birr.

these changes, the Growth and Transformation Plan 2025 (GTP 2025<sup>6</sup>) was one of them. GTP 2025 was introduced to promote the domestic sector development and stimulate the rapid growth of MSMEs (Micro, Small and Medium-sized Enterprises) to create job opportunities (FDRE, 2016). Following the reform made, Ethiopia was able to register a double-digit economic growth between 2007 and 2018. This success is the result of appealing investment opportunities and a strong focus on micro and small enterprises. Therefore, MSEs are seen as essential sources of employment and innovation as well as a key ally into helping the country become middle income country before the end of 2030.

Although MSEs have made a positive impact on the economy, the Ethiopian government emphasizes that structural and institutional issues have limited the sector's ability to play a significant role and contribute to the national economy. As a result, its main goal is to establish conditions that are legal, institutional and supportive to the growth of MSEs (Ayele, 2018).

Therefore, the following government institutions are established to support MSEs:

**MSEs Development Bureau:** micro and small enterprises development bureau provide enterprises on the area of registration, counselling and business plan development, among others.

**Micro Finance Institution:** they are responsible for providing loans and financial education to enterprises.

**Technical Vocational Education and Training (TVET):** dedicated in providing the technical and theoretical skills needed for MSEs to run their business.

**Addis Ababa Design and Construction Bureau:** helps enterprises to get access to working premise.

Additionally, the institutions mentioned above supports MSEs in providing infrastructure and working premises (Assefa Barihu et al., 2014).

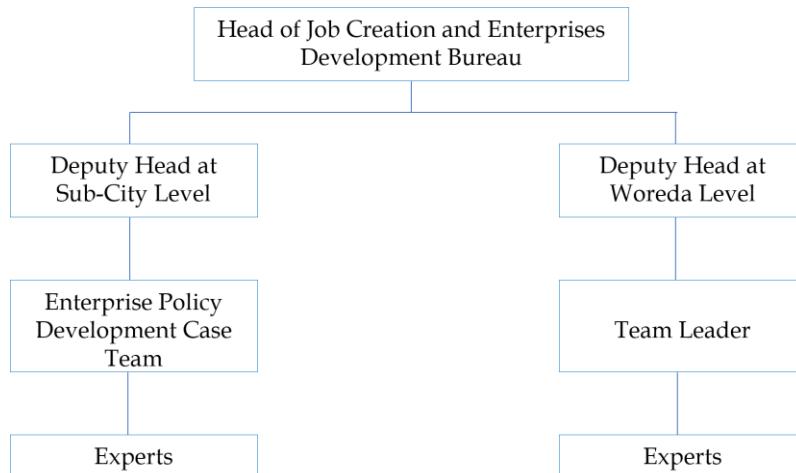
Enterprise supporting offices across the country are expected to provide a number of services as part of the strategy implementation. Likewise, Kirkos Sub-City Enterprises Development Bureau supports MSEs through an entrepreneurship training, business

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<sup>6</sup> Growth and Transformation Plan 2025 (GTP 2025) was to establish a conducive macroeconomic setting that would enable rapid, long-lasting, and broad economic growth. One of the objectives was to continue experiencing macroeconomic stability and double-digit economic growth.

management and marketing information. Figure 3.3 shows, the organizational chart of MSE development bureau.

**Figure 3.3** *Organizational chart of MSE development bureau.*



### **3.10 MSEs SECTORS IN ETHIOPIA**

The sectors of agriculture, manufacturing, construction and services represent most of the economy of Ethiopia. These sectors account for 99.7% of Ethiopia's GDP (gross domestic product).

#### **Manufacturing Sector**

According to the National Bank of Ethiopia (NBE, 2021b), between 2020 and 2021, the manufacturing sector was responsible for 29.0% of Ethiopia's GDP, earning the sectors a greater attention.

#### **Service Sector**

The service sector contributes 39.5% to the GDP, which is more than any other sector (NBE, 2021c). There are many different types of businesses that fall under the umbrella of the service sector. The following are listed as examples: bars and restaurants, cleaning services, security services, beauty salons, Internet cafés, maintenance services and tourism services.

#### **Agriculture sector**

Ethiopia's agriculture sector which accounts for 31.2 of the country's GDP, is characterized by a large number of small and micro farmers. Most of whom operate in a

century old traditional farming way. Coffee and Tea are Ethiopia's main agricultural commodities (Oduya, 2016).

A list of sub-sectors exists within the manufacturing, construction, and services sectors; as a result, Table 3, below lists these sub-sectors along with their respective business activities.

**Table 3.5** *The micro and small enterprises sectors and sub sectors in Ethiopia.*

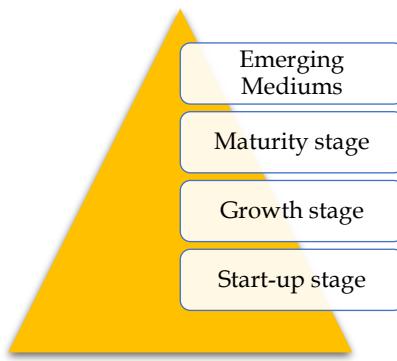
Services sector	Urban agriculture sector
<ul style="list-style-type: none"> <li>a. Cafeteria and restaurant</li> <li>b. Tourist services</li> <li>c. Transportation services</li> <li>d. Warehousing services</li> <li>e. Product design and development services</li> <li>f. Internet cafe</li> <li>g. Maintenance services</li> <li>h. Beauty saloons</li> <li>i. Security and cleaning services</li> </ul>	<ul style="list-style-type: none"> <li>a) Modern animal husbandry</li> <li>b) Beep keeping</li> <li>c) Poultry</li> <li>d) Fruit and vegetable production</li> <li>e) Animal feed processing</li> </ul>
Construction sector	Manufacturing sector
<ul style="list-style-type: none"> <li>a) Cobble stone works</li> <li>b) Contracting</li> <li>c) Sub-contracting</li> </ul>	<ul style="list-style-type: none"> <li>a) Leather and leather products</li> <li>b) Food processing</li> <li>c) Beverage</li> <li>d) Textile and garment</li> <li>e) Metal works</li> <li>f) Traditional Hand craft and jewelry</li> <li>g) Woodworks</li> <li>h) Construction material production</li> </ul>
Trade sector	
<ul style="list-style-type: none"> <li>a) Raw material supply</li> <li>b) Wholesale and retail of local products</li> </ul>	

Source: (MoUDH, 2012).

### **3.10.1 ENTERPRISE'S GROWTH STAGE IN ETHIOPIA**

The enterprise's growth stage can be explained using a pyramid scheme (Figure 3.4). The scheme shows the journey of enterprises from the inception of the business to the highest possible success that a business can achieve. As the pyramid scheme illustrates, the number of enterprises at the start-up stage is large. However, as the business grows and competitions intensifies, only those enterprises which can cope with competition climb the hierarchy. Hence, a small number enterprise remains at the top.

**Figure 3.4** Enterprises growth stage.



#### **Start- up Stage**

Start-up stage refers to enterprises that incorporate people who are interested to establish MSEs and those who are completed the required profession/skill from various institutions and are legally established either in the form of association or private. Enterprise under this stage is referred as micro level enterprises. Naturally, in this stage the number of enterprises is significantly large.

#### **Growth Stage**

An enterprise is said to be at growth stage when it became competent in price, quality and productivity. Manpower and total capital should be greater than the start-up stage. As the income and business activity increases, the enterprise is required to have a formal tax reporting system in place. This are small-sized enterprises.

## **Maturity Stage**

Maturity stage is a stage given to an enterprise when an enterprise is able to be profitable and invest further by fulfilling the definition given to the sector and using the support provided by the enterprises supporting team. This refers to enterprise stage upper small heading to become a medium sized enterprise.

## **Emerging mediums**

This category includes businesses that have fully and effectively utilized their capacity and are ready to scale up to become huge businesses that contribute significantly to the economy. The government pays special attention to businesses in the rising medium stage since they have the potential to grow into large businesses and contribute significantly to the economy. The number of businesses promoted to large scale enterprises is restricted and they are generally centered in the construction and manufacturing industries. The construction and manufacturing industries, for example, are given preferential status and tax breaks under the name of growth-oriented sectors.

### **How are growth-oriented sectors identified?**

Growth-oriented industries are chosen based on their product's market size, employment absorption capacity, return on investment, use of local raw materials, high role in poverty reduction and ability to be changed into medium and large-scale industry. Growth oriented sectors are seen as an essential part of the economy of the country due to their ability to boost the competitiveness of the country by improving export performance and attracting foreign direct investment. Furthermore, growth-oriented industries are considered critical to achieve Ethiopia's goal of becoming a lower middle-income country by 2025.

Thus, these industries are eligible for governmental incentives programs. For instance,

- Facilitates loan
- Cheaper working premise
- Access to trade show
- Technical support

### **Why are the growth-oriented sectors prioritized?**

Even though all MSEs are seen as important ingredients to balance the economy, some sectors are considered more important than others. This is due to the limited financial resources of the government and the potential of some sectors to sustainable growth.

Those MSEs that are essential to the economy are given special attention as growth-oriented industries. According to the Kirkos Sub-City Enterprise Development Bureau, these sectors are critical to achieve the goal of the country of becoming a lower middle-income country by 2025.

### **3.11 STRENGTH, WEAKNESS, OPPORTUNITY AND THREAT (SWOT) ANALYSIS OF MSEs SECTOR IN ETHIOPIA**

A SWOT analysis of the MSEs industry was conducted using data from prior studies, the Enterprise Development Bureau and focus group discussions. The purpose of the SWOT analysis was to take advantage of strengths, address weaknesses, take use of opportunities and overcome the threats (Manju, 2017).

**Table 3.6 SWOT analysis of MSE sector in Ethiopia.**

Strength	Weakness
<ul style="list-style-type: none"> <li>• Government support such as: infrastructure development, financing and access to market</li> <li>• Flexibility to adapt changes</li> <li>• Contribute to regional and local development</li> <li>• Employment absorption ability</li> </ul>	<ul style="list-style-type: none"> <li>• Low level of managerial skills</li> <li>• Inadequate working premise</li> <li>• Inadequate financial source</li> <li>• Limited access to funding</li> <li>• Low education level</li> <li>• Limited market access</li> <li>• Weak coordination of MSEs support institution</li> <li>• Weak linkages between small, medium and large enterprises</li> <li>• Limited R&amp;D capability</li> </ul>
Opportunity	Threat
<ul style="list-style-type: none"> <li>• Growing economy</li> <li>• Existence of marketing exhibition and promotion</li> <li>• Policy reforms</li> <li>• Expansion of educational institutes</li> </ul>	<ul style="list-style-type: none"> <li>• Internal political instability</li> <li>• Rapid changing technology</li> <li>• Lack of quality human resources</li> <li>• Emergency of substitute products (like from China)</li> <li>• Economic uncertainty</li> <li>• Bureaucracy</li> </ul>

#### **Strength**

Government supports MSEs through infrastructure development, facilitating access to finance and market. Therefore, MSEs can capitalize on that to build their own capability. In a rapid changing business environment, MSEs can adapt to these changes rapidly.

Additionally, MSEs are also an important alliance in supporting the regional development.

### **Weakness**

MSEs in Ethiopia are faced with many challenges as seen throughout this research. Among these challenges, limited R&D capacity, lack of synergy between the micro, small, medium and large enterprises and MSEs supporting institutes inability to coordinate are some of the weakness MSEs have in Ethiopia.

### **Opportunity**

Despite the uncertainty surrounding the world's economy, the Ethiopian economy is still growing at a reasonable rate. When there is a growing economy, it also brings positive changes to MSEs. There is a number of market fairs and exhibitions organized to promote MSEs.

### **Threat**

Ethiopia current political hostility has been a challenge for MSEs owners. Due to the ethnicity conflict ongoing in the country, there had been a targeted attacks on business from certain ethnicity groups. When it comes to the threat of technology, most MSEs in Ethiopia rely on the traditionally way of producing things. However, with the speed at which the technology evolves, this businesses will be obsolete unless they adapt. In relation to these, another challenge that MSEs are facing is related to the imported goods from China. For example, Ethiopian coffee pot that has been produced traditionally by handcraft men and women in Ethiopia now can be bought on Alibaba an online marketing platform.

# CHAPTER 4

## DATA ANALYSIS AND DISCUSSION

### 4.1 INTRODUCTION

In this chapter, a descriptive research design was used to undertake the analysis and discussion of the findings. As a result, the findings of the study are shown using bar graphs, pie charts and tables. The infographic includes information about the respondents' demographic characteristics and factors affecting the performance of MSEs.

**Note:** In order to maintain consistency and clarity, decimals were left out of the tables and figures in this chapter.

Additional references are not given because all the figures and tables included in the result and discussion chapter are taken directly from the survey.

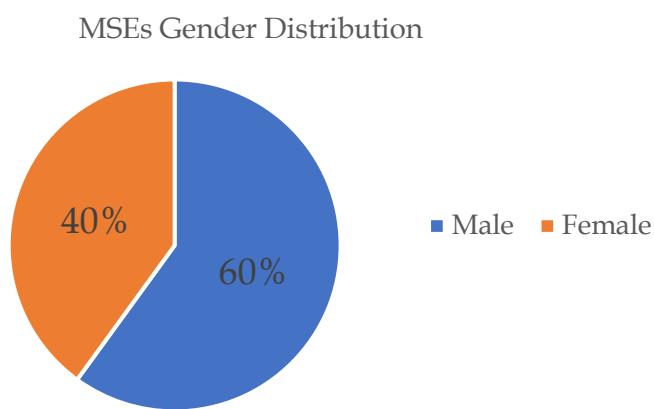
### 4.2 INTERNAL FACTORS AFFECTING THE PERFORMANCE OF MSEs

The internal factors in this study were those factors that are within the control of the MSEs. This factor includes characteristics of the entrepreneurs, strategic business planning and ability to exploit opportunities.

#### 4.2.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

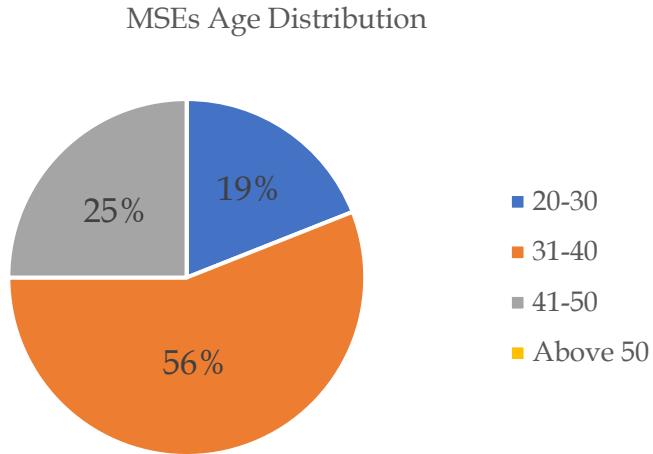
Respondents gender, age and education level are presented in the following consecutive figures.

**Figure 4.1** Respondents gender distribution.



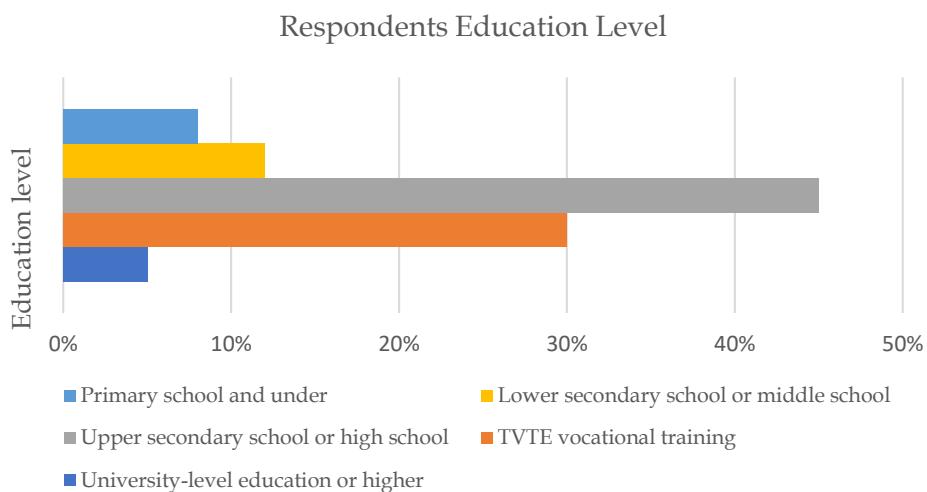
The survey was made up of 60% men and 40% women, as seen in Figure 4.1.

**Figure 4.2** Respondents age distribution.



As shown in Figure 4.2, 56% of the respondents were between 30 and 40 years old. The representation of this group indicates that this age group is the most engaged and involved in terms of creation of jobs and entrepreneurship. While there were no respondents above 50 years old, the age group between 41–50 years old accounts for 25% of all respondents. The age group between 20–30 years old, represents for 19% of the survey.

**Figure 4.3** Respondents education level.



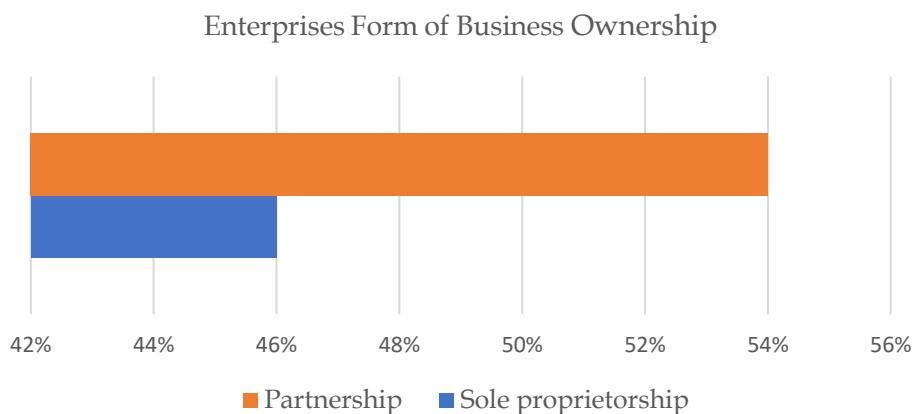
As illustrated in Figure 4.3, only 5% of the respondents held a university education or above while 30% of respondents claimed that they had attended a TVET program

(Technical and Vocational Education and Training). Furthermore, 45% had completed upper secondary or high school education, 12% had completed lower secondary or middle school education, and the remaining 8% of the respondents had completed elementary school education.

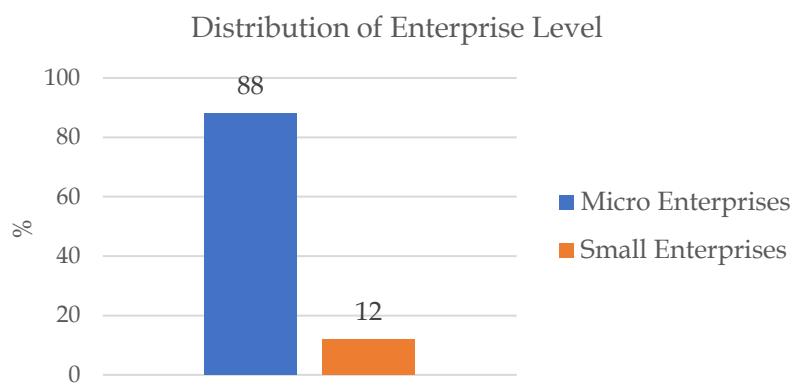
#### **4.2.2 ENTERPRISES BUSINESS CHARACTERISTICS**

Respondents were asked the types of business ownership their business have and they gave the following response. As shown in Figure 4.4, 46% of the enterprises were formed as sole proprietorships. The remaining 54% of the enterprises formed as partnership.

**Figure 4.4** Enterprises form of business ownership.



**Figure 4.5** Respondents enterprises level.



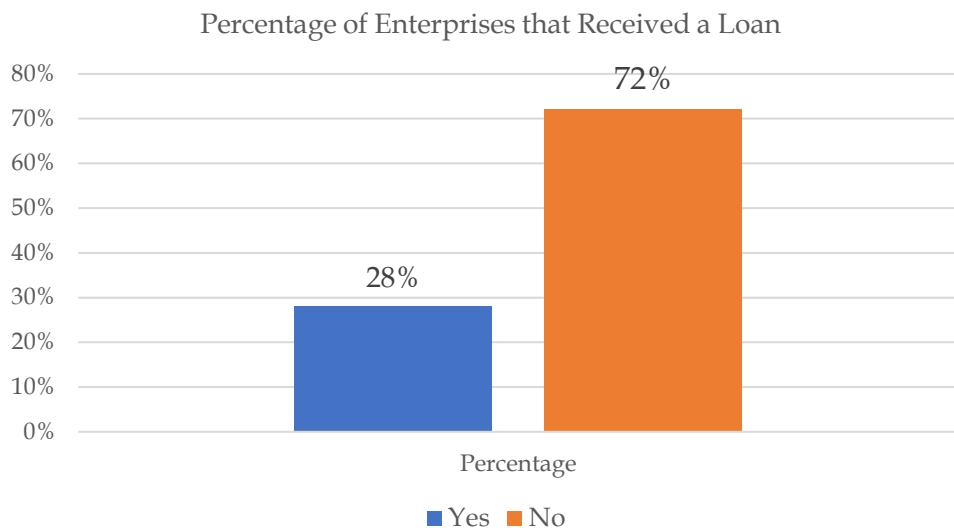
As seen in Figure 4.5, 88% of the enterprises are at micro enterprises level and the remaining 12% on the other hand, are small-size beginner enterprises.

**Table 4.1** Enterprises financial source.

Question	Response	%
	Own personal saving	50
<i>How do you finance your business?</i>	Bank loans	0
	Loan from relatives	7
	MFI's loan	28
	NGOs	5
	Iqub	10
<b>Total</b>		<b>100%</b>

As illustrated in Table 4.1, 50% of the respondents indicated to have used personal savings as the main source of financing. Likewise, respondents used loan from relatives, NGOs and Iqub<sup>7</sup> to set up their businesses with 7%, 5% and 10%, respectively. Micro finance institutions (MFI) were the second most used source of financing used by the enterprises with 28%. None of the respondents, according to the survey, obtained a loan from a bank.

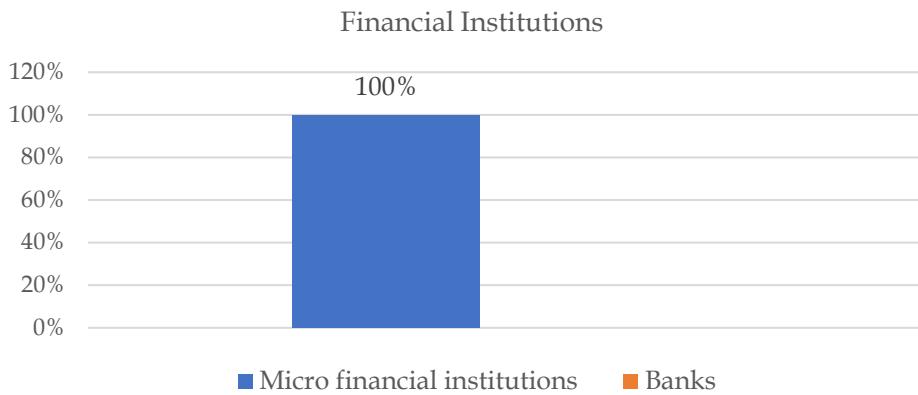
**Figure 4.6** Percentage of enterprises that received a loan from any kinds of financial institution.



<sup>7</sup> Iqub is a conventional method of saving that is practiced outside of the established banking system. Through a lottery system, participants who contribute a set amount of money on a weekly or biweekly basis are eligible to win money to support their needs or finance their businesses. Each person will eventually receive their part of contributions because the fund rotates.

As seen in Figure 4.6, participants were asked if they had taken a loan from financial institutions to support their operations. The response that was given was as follows: while only 28% of the respondents reported to have taken a loan from financial institutions, 72% of the respondents said that they did not take any sort of loan from financial institutions. The information regarding the reasons of the enterprises for not taking loans from financial institutions can be found on Table 4.2.

**Figure 4.7** Financial institutions used by the enterprises as a financing source.



Respondents who reported to have taken a loan from financial institutions were also asked from which financial institutions they received the loan. In total, 100% of the respondents reported to have taken a loan from MFIs.

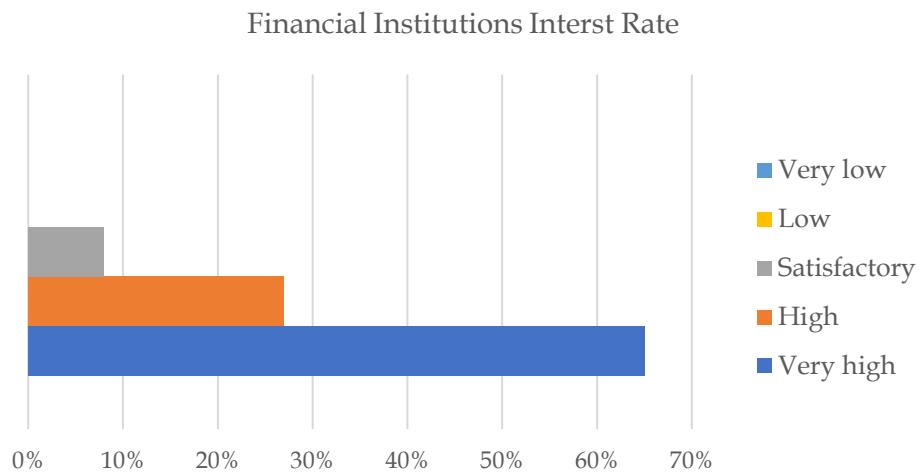
**Table 4.2** Enterprises reason for not taking a loan from financial institutions.

Question	Response	%
What was reason for not taking loan from financial institutions?	Sufficient Capital	5
	Application procedures were too complex	0
	An application for a loan was rejected	25
	Insufficient collateral or guarantee	57
	I did not think the loan would be approved	8
	I did not know how to apply	5
<b>Total</b>		<b>100%</b>

As shown in Table 4.2, 5% of the total respondents indicated that they had a sufficient capital to start their business whereas 25% of the respondents reported that their loan application was rejected. On the other hand, 57% of the respondents mentioned insufficient collateral as a reason for not taking a loan from the bank. Similarly, 8% of respondents did not take the loan due to the concern of their application being rejected.

The remaining 5% of the respondents answered said that they did not take a loan because of lack of awareness about the loan procedures used by the institutions.

**Figure 4.8** Financial institutions perceived interest rate.



As we can see in Figure 4.8, respondents were also asked how they assess the interest rate of financial institutions. A total of 65% of them rated the interest rate being very high. Further, 27% reported that the loan interest rate from banks was just high while the remaining 8% rated the interest rate on the average side.

**Table 4.3** Enterprises financial information keeping trend.

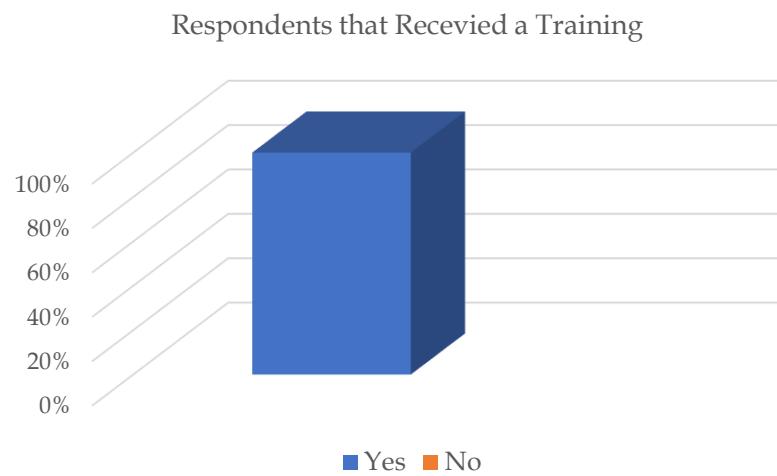
Question	Response	%
	In electronic format (e.g., MS Excel)	5
<i>How do you keep financial information of your business?</i>	In paper form	80
	I keep track of financial records using Recollection	12
	I use an accountant	3
	I do not usually keep track	0
<b>Total</b>		<b>100%</b>

As illustrated in Table 4.3, 80% of the respondents reported to have used a paper form to keep track of their sales. On the other hand, 12% used their recollection. Respondents also reported that they used Microsoft Excel and an accountant to handle their finance with 5% and 3%, respectively.

#### **4.2.3 ENTERPRISES PARTICIPATION IN CAPACITY BUILDING TRAINING PROGRAMS**

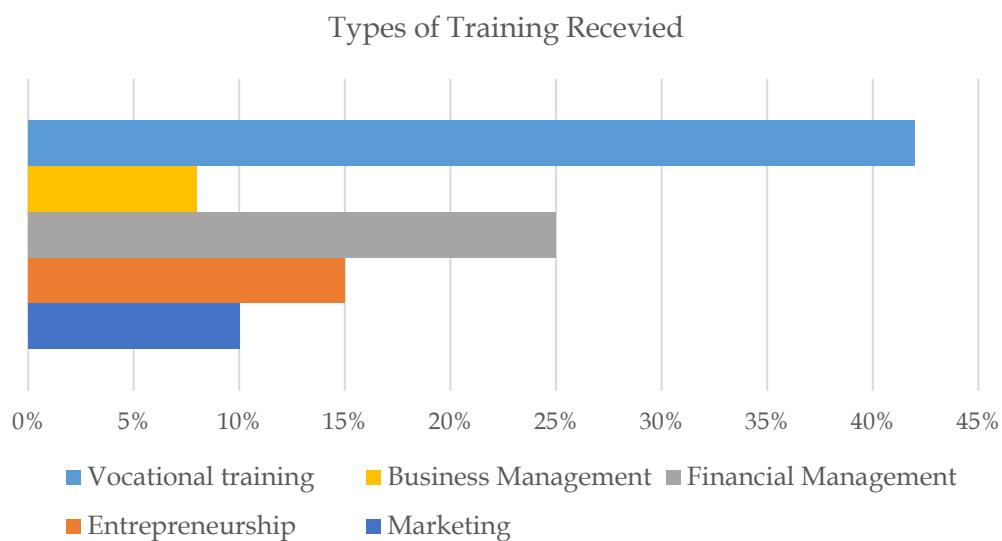
Respondents were asked about their participation in training programs of any kind, the areas covered, and the degree to which the training enhanced operational efficiency. They provided the following answers.

**Figure 4.9** Have you ever *participated in any kinds of training program?*



As shown in Figure 4.9, 100% of the respondents indicated to have participated in a training program.

**Figure 4.10** Types of training and percentage of respondents that participated.



As can be seen in Figure 4.10, 10% and 15% of the respondents received trainings about marketing and entrepreneurship, respectively. Likewise, 25% of the respondents reported to have taken some training on the area of financial management while 8% mentioned that they had training on business management. The remaining 42% of the respondents indicated that they had received a vocation training.

**Table 4.4** Respondents opinion on the training received and performance improvement.

Question	Response	%
<i>To what extent do you agree the training received improved your performance?</i>	Strongly agree	30
	Agree	55
	I do not know	0
	Disagree	15
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>

The perception of respondents on the connection between the training they received, and the enhancement of their performance is also revealed in (Table 4.4). In light of this, 30% of respondents strongly agreed and 55% agreed that the training program helped them improve their overall business performance.

On the contrary, 15% of the respondents reported that the training program they received from the enterprise development bureau did not improve their performance. As a result, they disagreed with the statement.

**Table 4.5** Percentage of respondents who have business plan.

Question	Response	%
<i>Do you prepare a business plan for your business?</i>	Yes	45
	No	55
<b>Total</b>		<b>100%</b>

As illustrated in Table 4.5, from the 60 respondents who participated in the study, 45% indicated to have a business plan in place to run their business, whereas 55% of them answered that they did not prepare a business plan.

**Table 4.6** The time span of enterprises business plan.

Question	Response	%
<i>What is the time span of your business plan?</i>	Below 1 year	56
	1 to 2 years	26
	3 to 5 years	7
	Above 5 years	11
<b>Total</b>		<b>100%</b>

Regarding the time span of the enterprise's business plan, as shown in Table 4.6, 56% of the enterprises have a business plan with a span of 12 months or less and 26% have a business plan lasting between one year and two years.

Furthermore, 7% indicated that they have a business plan with a time frame between three and five years. Lastly, the remaining 11% of the respondents specified to have a business plan with a time span of five years and more.

**Table 4.7** Enterprises response to business management related factor.

Question	Response	%
<i>Lack of strategic business planning</i>	Strongly agree	25
	Agree	53
	I do not know	7
	Disagree	15
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>

As it can be seen in Table 4.7, 78% of respondents agreed or disagreed that a lack of a strategic business plan affects enterprises performance, with 53% agreeing and 25% disagreeing, respectively. A lack of a business strategy, according to 15% of those surveyed, has no impact on how well a company performs. Additionally, 7% of those surveyed were undecided as to whether or not their performance will decrease from a lack of a business strategy.

**Table 4.8** Enterprises response to training facility related factor.

Question	Response	%
<i>Lack of accessible training facilities</i>	Strongly agree	30
	Agree	55
	I do not know	0
	Disagree	15
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>

Regarding inaccessible training facilities, as shown in Table 4.8, 55% and 30% of respondents agreed and strongly agreed, respectively, that there is a problem with access to training facilities. Meanwhile, roughly 15% of respondents disagreed that there is a lack of accessible training facilities.

#### **4.2.4 MARKET COMPETITION**

Respondents asked questions about competition in the area and they gave the following responses.

**Table 4.9** Percentage of enterprises that have market dominance in the area.

Question	Response	%
<i>Do your product or service have a market lead in your area?</i>	Yes	10
	No	85
	I do not know	5
<b>Total</b>		<b>100%</b>

Table 4.9 shows, that 85% of the respondents indicated that their enterprises do not have a market lead whereas 10% of the respondents claimed to be a market leader, enjoying a favorable monopoly for their service or product. The remaining 5% of the respondents said that they have no knowledge as to whether their product or service experiencing a market lead.

**Table 4.10** Types of product category, the enterprises' product compete with.

Question	Response	%
	Locally made goods	100
	Imported goods	0

Total	100%
-------	------

In regard to the competitiveness of enterprises, 100% of the respondents indicated that their competition is limited to locally produced goods and services (Figure 4.10).

**Table 4.11** Enterprises opinion on the level of competition.

Question	Response	%
<i>How do you see the level of competition with other enterprises?</i>	Very high	60
	High	23
	Medium	5
	Low	12
	Very low	0
<b>Total</b>		<b>100%</b>

Enterprises were also asked how they perceive the level of competition. As shown in Table 4.11, 60% of the respondents mentioned that there is a very high-level competition in comparison to the 23% of the respondents who indicated a high-level competition. On the other hand, 5% of the respondents reported a medium level of rivalry in the market, while 12% said there is a low degree of competition.

**Table 4.12** Enterprises main competitors.

Question	Response	%
<i>Who are your main competitors?</i>	Medium and large enterprises	5
	Other MSEs	95
<b>Total</b>		<b>100%</b>

Additionally, respondents were asked about their main competitors. As depicted in table 4.12, 95% of the competitors of MSEs correspond to other MSEs that operate in the district. Medium and large enterprises represent the remaining 5% of the competitors.

### **4.3 EXTERNAL FACTORS AFFECTING THE PERFORMANCE OF MESs**

The external variables studied in the research are finance, infrastructure, the market, technology, the working premise, political and legal factors. Respondents were asked to

what extent they agree or disagree that financial related factors and they gave the following response in (Table 4.13).

### **4.3.1 FINANCIAL RELATED FACTORS**

The following question was prepared to understand to what extent the financial related problem discussed in the literature section of this research resembles with enterprises from Kirkos sub-city woreda 1.

**Table 4.13** *Financial related factors.*

Question	Response	%
<i>Unavailability of credit institutions</i>	Strongly agree	17
	Agree	12
	I do not know	3
	Disagree	50
	Strongly Disagree	18
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>Shortage of working capital</i>	Strongly agree	25
	Agree	55
	I do not know	0
	Disagree	20
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>Lack of cash management skills</i>	Strongly agree	22
	Agree	54
	I do not know	0
	Disagree	16
	Strongly Disagree	8
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>High collateral requirement</i>	Strongly agree	58
	Agree	25
	I do not know	5
	Disagree	12

<b>Total</b>	Strongly Disagree	0
		<b>100%</b>

As it shown in Table 4.13, 17% and 12% of the respondents either strongly agreed or agreed, respectively. A small number of respondents (3%) responded that they did not know. On the other hand, 50% of the respondents disagreed to the shortage of financial institutions while the remaining 18% strongly disagreed to the same question.

Table 4.13 also shows the response of enterprises regarding shortage of working capital. Accordingly, 80% of the respondents agreed (55%) or strongly agreed (25%) that shortage of working capital was a factor affecting the performance of enterprises. The remaining 20% of the respondents responded that they were not affected by lack of working capital.

Regarding cash management skills, as seen in Table 4.13, 22% of the respondents strongly agreed to the effect of lack of cash management skills on their performance while 54% agreed to the issue. Moreover, 16% of them disagreed to the fact of lack of cash management affecting the performance of enterprises and the remaining 8% of the respondents strongly disagreed.

As indicated in Table 4.13, around 58% of respondents strongly agreed that the problem of collateral requirement existed. Likewise, 25% of respondents acknowledged that high collateral requirements affected their capacity to borrow. In contrast, 12% of respondents disagreed that collateral requirements were an issue, and 5% of respondents answered I do not know.

### **4.3.2 INFRASTRUCTURAL RELATED FACTORS**

Infrastructure availability or lack thereof is regarded as a key component in the growth of the economy. In a similar manner, infrastructure problems are among the major concerns cited in numerous academic publications as factors impeding business performance. Therefore, to gather further information, respondents were asked how much infrastructure-related issues, including power outages, unavailability of reliable transportation service, and interrupted water supply, affected the operation of micro and small businesses. The response they gave is shown in (Table 4.14).

**Table 4.14** *Infrastructure related factors.*

Question	Response	%
<i>Power outages</i>	Strongly agree	72
	Agree	20
	I do not know	8
	Disagree	0
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>Interrupted water supply</i>	Strongly agree	70
	Agree	25
	I do not know	5
	Disagree	0
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>Lack of reliable transportation infrastructure</i>	Strongly agree	20
	Agree	30
	I do not know	0
	Disagree	35
	Strongly Disagree	15
<b>Total</b>		<b>100%</b>

As table 4.14 shows, 72% of respondents strongly agreed to the issue of power outages affecting enterprises performance. Likewise, 20% of the respondents agreed while the remaining 8% of the respondents said that they did not know the impact of power outages on the business performance.

Additionally, in (Table 4.14) respondents were also asked their opinion about the impact of interrupted water supply has on the success of their business. Of the 60 respondents, 70% strongly agreed that frequent water supply interruptions had an impact on their performance. While 25% of the respondents said they agreed and 5% said it had no impact on their business.

Regarding the issue of unreliable transportation, as Table 4.14 shows, a total of 50% of respondents either strongly agreed (20%) or agreed (30%) to the lack of reliable

transportation infrastructure. On the contrary, 35% of the respondents disagreed to the same question while a further 15% strongly disagreed.

### **4.3.3 WORKING PREMISE RELATED FACTORS**

Many researchers have cited workplace accessibility difficulties as a key component in improving MSE performance. To find out how much the respondents agree or disagree with the problem, the following questions were created.

**Table 4.15** *Working premise related factors.*

Question	Response	%
<i>Absence of own working premises</i>	Strongly agree	75
	Agree	15
	I do not know	0
	Disagree	10
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>High rental cost</i>	Strongly agree	82
	Agree	18
	I do not know	0
	Disagree	0
	Strongly agree	0
<b>Total</b>		<b>100</b>
Question	Response	%
<i>Current working place is not convenient</i>	Strongly agree	38
	Agree	52
	I do not know	0
	Disagree	10
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>

As the result in Table 4.15, 75% of the respondents strongly agreed to the issue of absence of working premise. Additionally, 15% of the respondents agreed to the same problem and 10% of the respondents disagreed on the absence of their own working space.

As shown in Table 4.15, 82% of respondents strongly agreed that the expense of renting a working space was an issue, whereas 18% agreed.

As per the data in Table 4.15, 90% of the enterprises agreed (52%) or strongly agreed (38%) that their current working space was not convenient. On the other hand, the remaining 10% of the respondents disagreed on the existence of working place inconvenience.

#### **4.3.4 POLITICO AND LEGAL RELATED FACTORS**

Due to enterprises reliance of public bureau the intervention of government bodies on the matter of enterprises is inevitable. However, the intervention could have a negative or positive impact of enterprises performance. Therefore, it was with that intention that the following question was devised. Figure 4.11 gives a response about the extent of politico-legal and bureaucratic problems effect on the performance of MSEs.

**Figure 4.11** *Politico and legal related factors.*

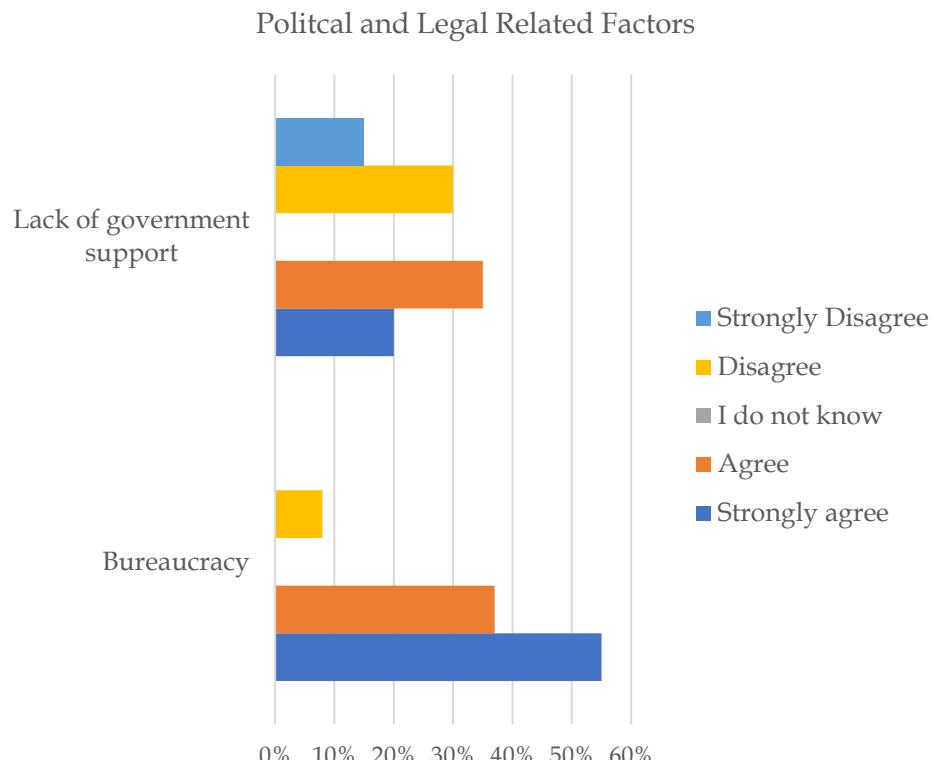


Figure 4.11, indicate that 92% agreed or strongly agreed with 37% and 55%, respectively, on the existence of bureaucracy-related issues during the establishment of new businesses and during ongoing operations. Only 8% disagreed.

As seen in Figure 4.11, 30% and 35% of the respondents strongly agreed and agreed to the problem of lack of government support, respectively. On the other hand, 20% of the

respondents disagreed about the lack of government support being a problem while the remaining 15% said that they strongly disagree to the factor.

#### **4.3.5 MARKETING RELATED FACTORS**

Numerous studies have identified marketing-related issues such as an insufficient market, a lack of market integration, and a lack of marketing information availability as factors affecting MSE performance; consequently, the following questions were created to determine whether respondents agree or disagree with these issues.

**Table 4.16** *Marketing related factors.*

Question	Response	%
<i>Inadequate market</i>	Strongly agree	45
	Agree	40
	I do not know	3
	Disagree	12
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>Market linkage problem</i>	Strongly agree	18
	Agree	48
	I do not know	0
	Disagree	22
	Strongly Disagree	12
<b>Total</b>		<b>100%</b>
Question	Response	%
<i>Lack of market information</i>	Strongly agree	58
	Agree	18
	I do not know	7
	Disagree	17
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>

As Table 4.16 shows, a total of 45% and 40% of respondents strongly agreed and agreed, respectively, that the market for their products and services was insufficient. On the other

hand, 15% of respondents said they did not perceive a lack of marketing to be a problem influencing their performance.

When it comes to marketing linkages problems, as Table 4.16 also shows, 48% of respondents agreed and 18% strongly agreed that businesses' incapacity to build market linkage had an impact on their performance. On the other hand, 22% disagreed and 12% strongly disagreed that lack of marketing linkages was a problem.

As Table 4.16 further shows, most respondents (72%) strongly agreed and 20% agreed that they lack demand forecasting ability while 8% were not sure what the consequences of lack of forecasting. The inability of the respondents to forecast demand can be linked with the lack of marketing training. For instance, as seen in Table 4.16, only 10% of the respondents said that they had taken a training on marketing.

In addition, Table 4.16 shows, the answers for the question regarding the potential impact of lack of marketing information. Accordingly, 58% strongly agreed, while 18% agreed that the lack of marketing information hampered the ability of the business to make informed decisions. Furthermore, 7% of the respondents were doubtful about the impact of lack of marketing knowledge and whereas 17% of them disagreed.

#### **4.3.6 TECHNOLOGICAL AND MACHINERY RELATED FACTORS**

Lack of machinery, lack of skill in using machineries and MSEs ability to buy machineries have all been identified as major challenges for MSEs in several studies. As a result, the following question was formulated to see if a lack of access to machinery had an impact on an enterprise's growth potential in the study area.

**Table 4.17** *Technological related factors.*

Question	Response	%
<i>Lack of appropriate machinery and equipment</i>	Strongly agree	15
	Agree	55
	I do not know	3
	Disagree	27
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>
Question	Response	%
	Strongly agree	17
	Agree	38

<i>Lack of skills to handle new technology</i>	I do not know	10
	Disagree	35
	Strongly Disagree	0
<b>Total</b>		<b>100%</b>

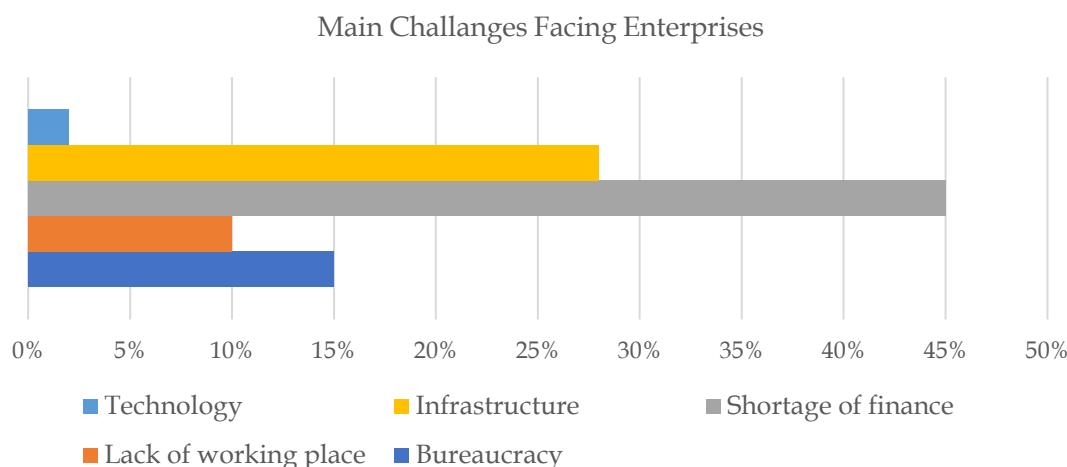
As shown in Table 4.17, 70% of the total respondents responded that a lack of access to machines had a negative impact on their performance. Among the 70%, 55% agreed and 15% strongly agreed. On the other hand, lack of access to machinery did not hamper the performance of 27% of respondents. Meanwhile, 3% did not know that a lack of access to machines has harmed their performance.

In addition, as shown in the Table 4.17, respondents were questioned if a lack of abilities to handle new technologies had an impact on their success of the company. The following responses were given by respondents: while 17% strongly agreed, 38% agreed that businesses' lack of ability to handle new technologies had hampered their ability to function at the level that they desired. Moreover, 35% disagreed about a lack of abilities to manage new and modern technology. On the contrary, 10% of respondents reported that they do not know if the ability to manage new technology had an impact on business success.

#### **4.4 RESPONDENTS' OPINION ON THE CHALLENGES FACING MSEs**

Participants in the poll were asked their opinion regarding the challenges facing MSE. Additionally, they were also asked their opinion on the service they received from Kirkos Sub-City Enterprises Development Bureau. Their response is presented as follows:

**Figure 4.12** Respondents opinion on the main challenges facing MSEs.



As shown Figure 4.12, financial and infrastructural issues were perceived as the main challenge by 45% and 28% of the respondents, respectively. Similarly, 15% indicated that bureaucracy was a problem, while 10% stated lack of working space. Only 2% reported technological issues, such as access to machine, as a problem.

**Table 4.18** Do you think the support provided by the Bureau is sufficient to run your business?

Question	Response	%
Do you think the support provided by the Bureau is sufficient to run your business?	Yes	30
	No	65
	I do not know	5
<b>Total</b>		<b>100%</b>

As it can be seen in Table 4.18, 65% of the respondents stated that the assistance they received from the enterprise development bureau was insufficient, while 30% thought it was adequate. However, the remaining 5% mentioned that they did not know if the assistance was adequate or not.

**Figure 4.13** To what extent is your business dependent on MSEs Development Bureau support?

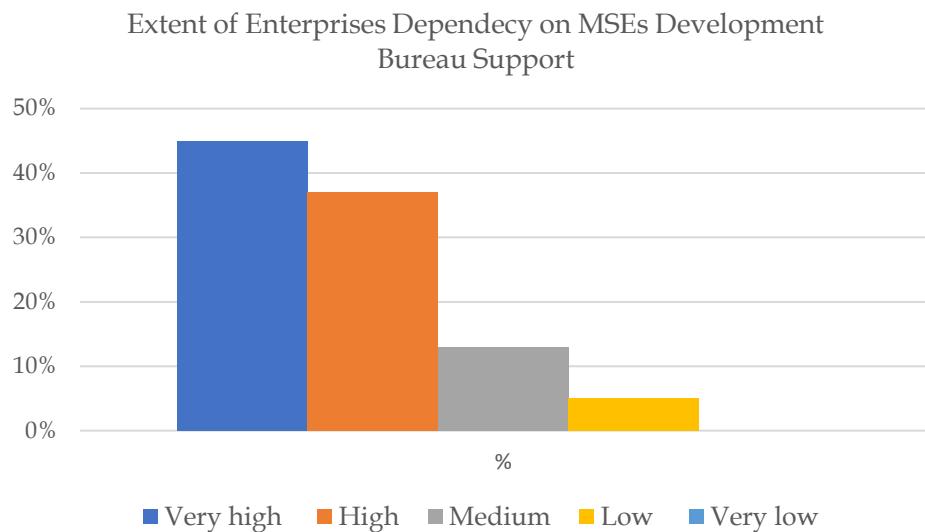


Figure 4.13 shows, 45% of the respondents said they had a very high degree of reliance on the bureau. Similarly, 37% respondents reported they have a high level of reliance and 13% indicated they have a medium level of reliance on the services of the bureau.

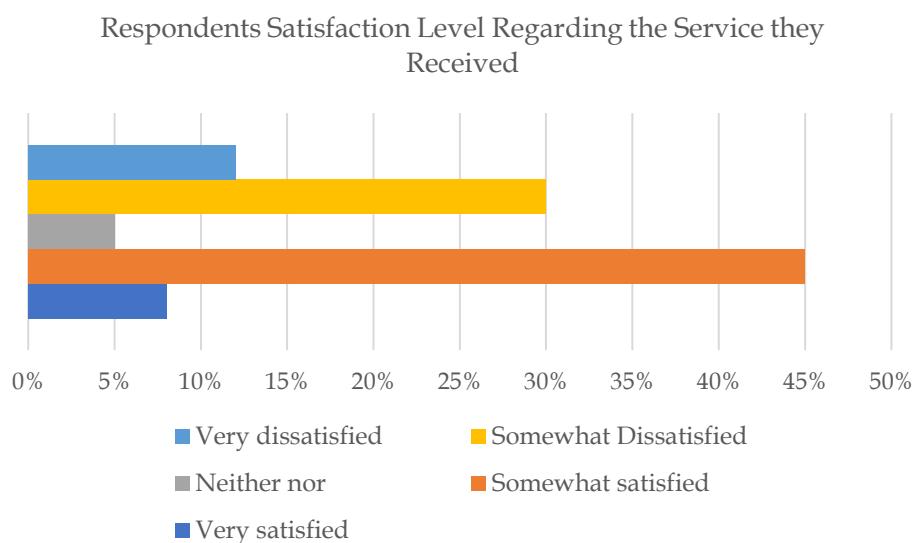
Opposite to the 95% respondents who indicated their reliance on the enterprise's development bureau, only 5% of the survey participants said that they have a low level of reliance.

**Table 4.19** Do you think there is an improvement in terms of services provided by the bureau in comparison to the past years?

Question	Response	%
Do you think there is an improvement in terms of services provided by the bureau in comparison to the past years?	Yes	75
	No	25
	I do not know	
<b>Total</b>		<b>100%</b>

As seen in Table 4.19, 75% of respondents stated that the service of the bureau has greatly improved, while 25% commented that the service has not improved. Table 4.19 also shows the level of satisfaction of the respondents regarding the service they have received from enterprises development bureau throughout the years.

**Figure 4.14** Compared to your expectations, how satisfied are you with the service provided by the MSEs Development Bureau?

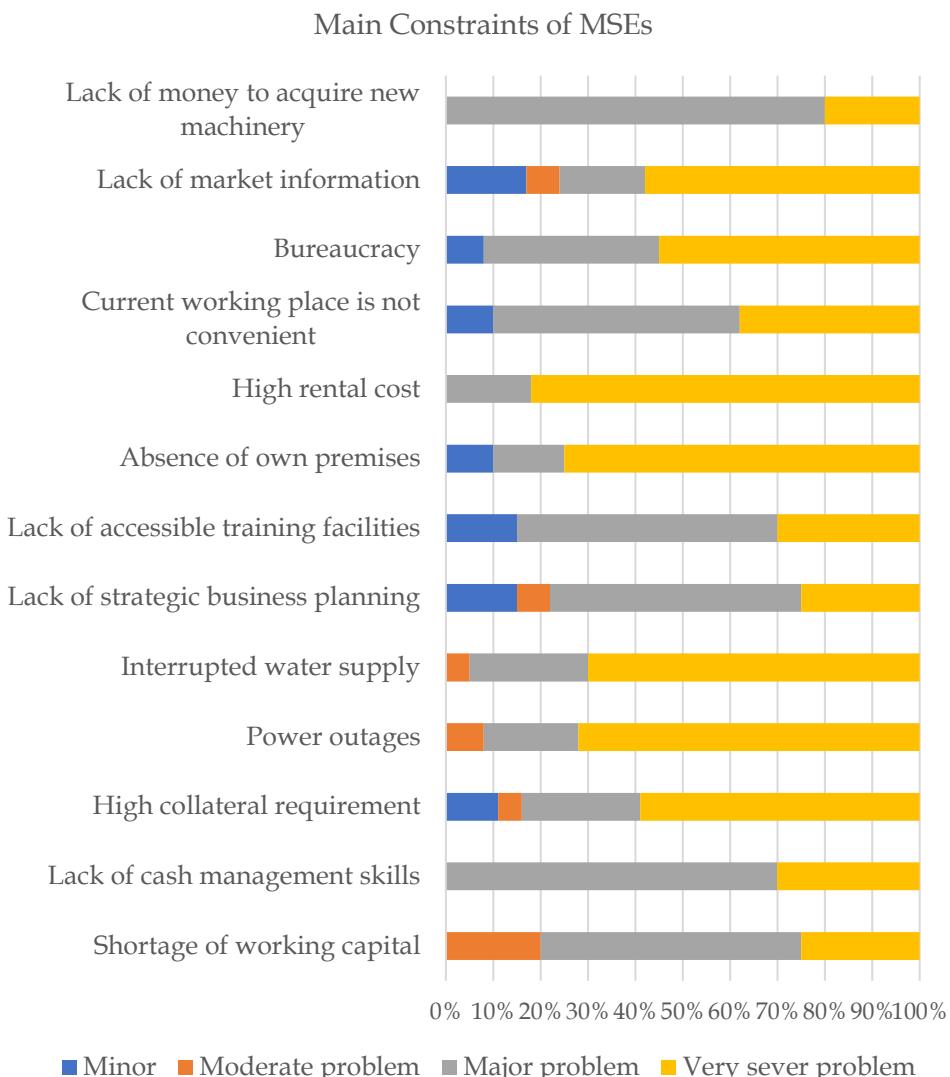


As shown in Figure 4.14, 8% of the respondents indicated that they are very satisfied and 45% answered they are somewhat satisfied. On the other hand, 30% reported that they are somewhat dissatisfied and another 12% said they are very dissatisfied. Another 5% of respondents were undecided as to whether they were satisfied or not.

## **4.5 MAIN CONSTRAINT OF MSE OPERATORS**

As seen from the result MSEs confront various problems. Nevertheless, some of the constraints found did not affect all businesses in the same way and some others had a significant impact on businesses. Therefore, in the following section (see Figure 4.15) the main constraint factors are presented.

**Figure 4.15** Main constraint of MSEs operators.



As shown in Figure 4.15, high rental cost and absence of own working premise was considered by over 80% of the respondents as a very severe problem. Infrastructure related challenges such as power outage and interrupted water supply was also seen by the majority of the respondents a very severe challenge.

Bureaucracy related issues were considered by 55% of the respondents as a very severe problem while 37% considered it a major problem. When it comes to lack of marketing information 58% and 37% of the respondents considered it as a very server and major problem respectively and 17% as minor problem.

Financial related factors such as lack working capital and cash management skills were rated by the respondents as having a major problem whereas over 50% percent of the respondents saw collateral requirements as a very severe problem.

Other problems considered by the respondents as major problem were the lack of strategic business planning, lack of accessible training facilities and working place inconvenience. Moreover, a significant majority of the respondents reported lack of money to buy machinery as a major hindering factor.

## **4.6 SURVEY RESULT SUMMARY**

- It was found that the majority of the MSEs operators are men. Two important aspects could be withdrawn from this: First, there is a clear underrepresentation of women in business. Second, although the number of female business owners are modest compared to men, it can still be considered reasonable considering that society has normally assigned several unsuitable traditionally vocations to women, like stay-at-home life partners (and being men the providers for the family).
- It was found that only 5% of the respondents hold a degree from a university or higher. Most of the respondents had completed at least a lower secondary or middle school education.
- It was found that one out of ten or 89% of the MSEs operating in Kirkos sub-city woreda 1 are at the micro beginner enterprises level and the remaining at small beginner enterprises level. The fact that most of the enterprises are at the micro beginner enterprises level could be linked to the challenges they have. However, it is also important to note that business also may decide to remain micro level enterprises despite their ability to grow.

- In regard to entrepreneurs age, it was found that the age range between 30 and 40 was the one with the highest level of entrepreneurship engagement. On the other hand, the age group between 20-30 was limited in business activities. Thus, there is a need for a policy focused on creating a sustainable job opportunity for this age group.
- In relation to business ownership, 54% of the MSEs were formed as partnership whereas 46% as sole proprietorship. The study did not establish a connection between the form of business ownership and the performance of enterprises. However, the researcher acknowledges that such a connection cannot be ignored.
- Regarding financial record keeping, the enterprises have a trend of keeping financial information on paper.
- In the infrastructure study, the researcher found that infrastructural problems such as power outage, interrupted water supply and an availability of reliable transportation facility are among the major concerns for MSEs in the study area.
- In regards to the source financing, it was found that more than half of the respondents used their own saving and money from family and relatives to support their business. Furthermore, MFIs were the main external financing source used by the MSEs.
- As for financial constraints, high collateral requirements, lack of knowhow on bank loan procedures, high interest rate and loan application rejection are the main issues affecting the ability of enterprises to get access to financing.
- The study found that the lack of strategic business planning and accessible training facilities affected MSE in the study area. This is evident for two reasons: 1) First, all the survey participants had received a training program in one or more area. However, businesses also reported encountering the same issue for which they had received training. Therefore, they have problems with the effectiveness of the training programs. 2) Second, regarding business planning, a substantial portion of respondents did not have a business plan in place. Furthermore, those enterprises who claim to have a business plan had a rather short-term business.

Therefore, MSEs in the study area have a clear need for an improved training programs and facilities.

- When it comes to marketing related problems, it was revealed that MSEs in the study area suffer from lack of marketing strategy. Furthermore, it was also found that inadequate market, lack of market information and lack of market linkage affected MSEs.
- Regarding technology related issues, it was revealed that MSEs inability to access the appropriate machinery affected them to a great extent. On the other hand, ability to handle new technology was found to be a less significant problem.
- As for working premise related problems, it was found that expensive rental cost and working premise inconvenience were a severe problem encountered by the MSEs in the study area.
- In relation to politico-legal matters, the study found that bureaucracy issues are a major concern.
- When it comes to the Kirkos sub-city Enterprises Development Bureau service, it was also found overall that MSEs are happy with the services they received from the bureau, but they suggested an improvement

# CHAPTER 5

## **CONCLUSION AND RECOMMENDATION**

### **5.1 INTRODUCTION**

This chapter provides the key conclusion and recommendation on the issues that were raised in this research paper, especially on the aspect of the factors that affect the performance of micro and small enterprises in Kirkos Sub City woreda 1.

### **5.2 CONCLUSION**

This research deals with the factors affecting the performance of MSEs in Kirkos sub-city woreda 1. In the process it tried to answer the following question: What are the factors that enhance or restrict micro and small-size enterprises performance in Kirkos sub-city Woreda 1? How can the challenges faced by MSEs in Kirkos sub-city woreda 1 could be overcome so that they contribute their share to the country's economy.

The study had revealed that MSEs operating in the study area have been confronted with several challenges. Among those challenges, lack of working premise, lack of access to financing, lack of infrastructure, lack of access to training facilities, bureaucracy hurdles and lack of marketing were major ones. MSEs in Kirkos sub-city are affected by these factors disproportionately resulting in lower performance and in some cases exit.

The Ethiopian government has adapted a number of polices and strategies to address the challenges faced by the MSEs in the country. While the policy adapted by the government has shown a visible progress there is a distance that needs to be traveled in order to address the challenges faced MSEs. Therefore, an enhanced and comprehensive policy framework centered on access to funding sources, bureaucracy, training programs, infrastructure and educational opportunities must be implemented for MSEs to play their part.

When there is a conducive and enhanced support system MSEs could play indispensable role in creating wide job opportunities, improving household income and well-being of the society. Consequently, contribute significantly to the county's Sustainable Development Goals.

### **5.3 RECOMMENDATION**

- The Kirkos sub-city MSE supporting bureau offices should work closely with the owners of MSEs to better understand the issues that the MSEs faced and offer a workable solution. Furthermore, the bureau should facilitate a stage in which MSEs in Kirkos sub-city and others come together and learn from each other's experience.
- Although most MSEs use their personal saving to start or support their business, as the finding from the study suggest that personal saving alone is not sufficient to sustain their business. Therefore, other alternatives should facilitate it. For example, Government, microfinance institutions or other financial institutions should work together to support MSEs. In this manner, MSEs may easily access funding sources.
- Furthermore, the collaboration could also be extended to solving the issue of high collateral requirement often requested by MFIs and other financial institution. For example, the collateral threshold should be reduced so that MSEs can match the demand.
- Additionally, solving the problem of access to finance should not be a role left for the government. MSEs should also be part of it so financial literacy should be encouraged among MSEs to promote saving.
- To give MSEs access to equipment that would otherwise be impossible for them to get on their own, a framework that permits leasing should be pushed.
- Bureaucracy bottleneck is one of the main issues. Therefore, MSE supporting organizations need to address the bureaucracy bottlenecks. A one-stop shop service should be encouraged so that businesses can access all the services that they require in one location.
- MSEs should be given access to government-funded training programs to improve their skills and performance. Furthermore, it is necessary to strengthen the current training programs to effectively assist MSEs in areas where their assistance is most sought. There are several areas where MSEs require improvement, including accounting, record-keeping, business management and business planning.

- Enterprises should not be only the source of the problem but also the solution. Thus, a common stage should be created for all parties to come face to face and discuss the problems to find a solution together. For MSEs to play their role in the country's economy, the government should improve the infrastructure facilities through investment. Furthermore, coordinated action should be taken to ensure that enterprises are using the resource allocated to them in the right manner. Moreover, the enterprise development bureau's capacity and other services proving institutions to the enterprise should be enhanced. In this way, these institutions may better support the MSEs.
- Finally, solving the MSEs challenges should not be limited to the government alone. The government could work with external parties such UNDP, individuals' investors and private organizations. These parties together could create together a conductive environment in which MSEs flourish and continue playing their vital role in the economic development of Ethiopia.

#### **5.4 FURTHER RESEARCH SUGGESTIONS**

- The researcher suggests a further study on the factors affecting the performance of MSEs with a larger samples size.
- The researcher recommends a broader geographic base including other woredas or sub-city as the research presented in this report was limited to woreda 1.
- A study could be conducted in relation to Covid-19 and its overall impact on the performance of MSEs in Addis Ababa.
- Another study could also be conducted the regarding the current instability and the impact on MSEs across Ethiopia.

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