

**CAPITAL GROWTH CONSTRAINTS OF MICRO AND SMALL
ENTERPRISES: THE CASE OF JIMMA TOWN**

**Thesis Submitted to the Department of Accounting and Finance in Partial
Fulfillment of the Requirements for Master of Science (MSc) Degree in
Accounting and Finance**

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**JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING & FINANCE**

June 2014

Jimma, Ethiopia

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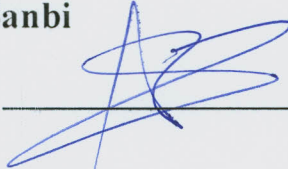
June 2014
Jimma, Ethiopia

Declaration

I, the undersigned, declare that this paper prepared for the partial fulfillment of the requirements for Msc Degree in Accounting and Finance entitled "Performance Constraints of Micro and Small Enterprises: The Case of Jimma Town" is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis have been duly acknowledged.

Declared by: Esmael Sanbi

Signature: _____

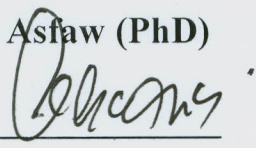


Data: June 2014

Place: Jimma, Ethiopia

Advisor: Arega Seyoum Asfaw (PhD)

Signature: _____



Date: 30 June 2014 .

June 2014

Jimma, Ethiopia

Abstract

The development of MSEs has been identified as one of the strategies for the country's industrialization, employment generation and poverty reduction. Despite the increased number of MSEs in Ethiopia, the rate of MSE failure is alarming. It is expected that MSEs possess distinct skills found to have greater effect on their performances for their development. The aim of this study was to investigate the major performance determinants of micro and small scale enterprises in Jimma town. To achieve this purpose, descriptive research method was designed in order to identify the internal and external factors that affect the capital growth of MSEs. Mixed approach was used for answering research questions. 244 MSEs owners were selected by using stratified random sampling from three sub-cities. In the process of answering the basic questions, structured questionnaire that include demographic profiles, characteristics of MSE owners and their enterprises, determinants that affect the performance of Micro and small entrepreneurs was designed in open-ended, closed ended and likert scales. In addition, semi-structured interviews were conducted with top officials of the TVET, MSED0, and OCSSCO) were included in the study. Descriptive statistics involved the use of frequencies and mean. Inferential statistics were used to observe the variation in the growth of capital among the different levels of each of the explanatory variables with the aid of SPSS. Multiple Regression Model is used to test the hypotheses stated in this study regarding the performance of enterprises in relation to each of the independent variables of the study. The R^2 result shows that there is a significant strong and linear relationship between the dependent variable growth of capital and the independent variables. Accordingly, result of the study indicates that access of credit has the biggest potential to contribute to the performance, followed by working premise, internal finance, infrastructural access, management skill, access of market, access of training, government policy and accounting and record keeping skill. The study also attempted to forward some possible recommendations. These among others include: MSE Owners; they have to develop their management, accounting, entrepreneurial and technical skill through training. ORMSEDA; should maintain special lending services to MSE. MSED0 Officers; should discuss with municipality manager and other administrative bodies to avoid the problem working premise and create market linkage, promotion and display places. OCSSCO should maintain individual lending systems and minimize the interest rates that they charge to MSEs. TVET Officers should facilitate both technical and entrepreneurial skill training.

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ACRONYMS AND ABBREVIATIONS

ADLI:	Agricultural Development Led Industrialization
CBS:	Central Bureau of Statistics
CSA:	Central Statistical Agency
ERRP:	Emergency Recovery and Reconstruction Program
FMSEDA:	Federal Micro and Small-Scale Enterprises Development Agency
GTP:	Growth and Transformation Plan
ILO:	International Labor Organization
MDGs:	Millennium Development Goals
MFI:	Micro Financial Institution
MoFED:	Ministry of Finance & Economic Development
MoTI:	Ministry of Trade & Industry
MSE:	Micro & Small Enterprise
MSEDO:	Micro and Small Enterprise Development Office
MUDC:	Ministry of Urban Development & Construction
OCSSCO:	Oromia Credit and Saving Share Company
ORMSEDA:	Oromia Regional Micro and Small Enterprise Agency
PASDEP:	Plan for Accelerated and Sustained Development to End Poverty
RMSEDA:	Regional Micro and Small-Scale Enterprises Development Agency
SDPRP:	Sustainable Development and Poverty Reduction Program
SPSS:	Statistical Package for the Social Sciences
TVET:	Technical and Vocational Education and Training
UNDP:	United Nations Development Program

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Micro and Small-scale enterprise sector plays a dominant role in the economic development of both developed and developing countries. In developing countries small-scale industries are especially important in context of employment opportunities, equitable distribution of national income, balanced regional growth and development of rural and semi urban areas. Small-scale enterprise provide immediate large-scale employment, offer a method of ensuring a more equitable distribution of the national income and facilitate effective mobilization of resources of capital and skill which might otherwise remain unutilized.

Micro and small enterprises (MSEs) are strong driving forces for their industrial growth and indeed, overall economic development. The smallest in this group of enterprises micro enterprises, are also advertized as an absolute tool for attaining the first goal, one of the eight millennium development goals of eradicating extreme poverty and hunger in the latter. The goal has two associated targets: reducing by half the proportion of people living in extreme poverty, defined as \$1 per day, and reducing by half the proportion of people who suffer from hunger by 2015. Poverty is caused by inadequate incomes and incomes result from employment which MSEs are widely known to provide (ILO, 2006).

In the modern economy, Micro and Small Scale Industries (MSIs) in the industrialization process have gained much prominence in developing countries. Their importance came into the attention in the late 1970s and early 1980s due to the economic recession which led to the decline of industrial growth and employment in many developing countries especially in Africa. Governments of such countries adopted a new policy approach towards the Small Scale Industries (SSIs) because of their promise to adapt flexibly to the unprecedented foreign exchange constraints. They were seen as providing a viable alternative to the large scale industries which were so dependent on foreign exchange. The contribution of MSEs to the national economy is potentially very large and is seen in the contribution to the Gross Domestic Product (GDP) (Basu, Blavy and Yulek, 2004).

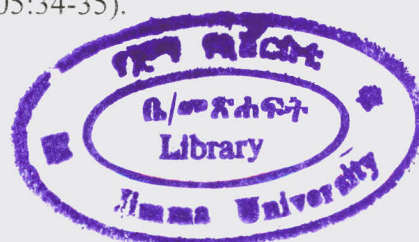
Evidences abound that in regions or economies where enterprises have been actively promoted and encouraged, their poverty rates have declined. This is especially true of Asia whereas in sub-Saharan Africa, more and more people have sunk deep into poverty. Their importance came into the attention in the late 1970s and early 1980s due to the economic recession which led to the decline of industrial growth and employment in many developing countries especially in Africa. India, for instance, illustrates a model of bottom-up, demand driven, grass root-led economy depending much on local entrepreneurial energy and less on foreign direct investment. Her economic growth projected to be among the fastest in region is expected to be achieved via a young confident population as it releases its creative entrepreneurial energies. It is thus believed that India through its young population has great raw potential for high economic growth. Ethiopia shares much in common with India in that they being endowed with a young vibrant population whose entrepreneurial growth. However, this will only become a reality if the necessary imperatives are in place to actively and consciously promote youth entrepreneurship using MSEs as the appropriate vehicles. Youth entrepreneurship has become more imperative now than ever before considering the high rate of youth unemployment situation in Ethiopia. The consequences of youth unemployment are too serious to be toyed with.

In Ethiopia poverty is widespread and remains a major challenge of sustainable development and stability. It is estimated that close to half of the population in urban and rural areas of the country live in absolute poverty due to lack of economic opportunities, governance crisis, inadequate basic household income and poor means of survival (Mammo, 2008; Serneels, 2004). Although, a growing number of researchers have suggested that the prospect of development in the agricultural sector tends to increase along with development in the micro and small enterprises (MSEs) sector, until recently, MSEs have not been a major area of focus in Ethiopia (Alemayehu, 2006) but the existing government has issued a national MSEs development strategy for the promotion of MSEs in 1997 and established a well concerned institution for the sector by the Council of Ministers of Ethiopian Regulation No 33/1998 on April 3, 1998. In developing countries, the informal sector that mainly constitutes micro enterprises is the major source of employment and income for the urban population.

The Ethiopian government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment creation and private sector development. Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. These enterprises also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage earning opportunities for the poor, while raising national income.

Due to the sever poverty and ever increasing unemployment in Ethiopia, the FDRE has undertaken different measures starting promulgation of laws to establishment of executives starting from federal to grass root level to enhance the strength and competence of MSEs and also different micro finance institutions are providing credit for these enterprises. The government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment creation and private sector development. Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. These enterprises also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage earning opportunities for the poor, while raising national income. Due to these reasons and based on the government strategy of capacity building in public and private sectors, donors as well as national governments have attempted to promote micro and small enterprises through support for financial and non-financial services appropriate for them (Solomon, 2007).

Micro and small scale enterprise is the second largest employment-generating sector following agriculture (CSA, 2005:34-35). A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2005 in 48 major towns indicates that nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labor forces. Accordingly, the whole labor force engaged in the micro enterprises and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large scale manufacturing industries (90,000 persons). This is a contribution of 3.4% to GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2005:34-35).



Therefore, the MES development is the strategic focus of the industrial development during the Growth and Transformation Plan (GTP) period. The expansion of MSEs in urban area will also result in large scale job creation and thereby poverty reduction. The development of MSEs is also critical for strengthening sustainable rural-urban and urban-to-urban functional and economic linkages (GTP, 2010).

Despite undisputable contribution of MESs to the overall economic development of the country, they are entangled in varied problems of varied degrees and complexity like those in other developing economies globally. Their problems include: access of finance, entrepreneurship Skills, Access to land, Tax administration, Skills of workers, managerial skills, and training opportunities and high cost of inputs and working capital, (Cook and Nixon, 2000). Hence, this study will show the major constraints that hold back the performance of MSEs in Jimma town.

1.2 Statement of the Problem

Poverty and unemployment are the deep rooted problem of many developing countries particularly in Ethiopia. The Ethiopian national economy is characterized by trick of problems which has constituted a sleepless night to developmental oriented governance. The most disturbing thing in the country is the poverty and endanger of unemployment. Rapid increase of the population in relation to the sluggish economic growth aggravated the intensity of poverty for many years, with a considerable difference in different parts of the country. Although urban Ethiopians generally enjoy a higher standard of living when compared to their rural counterparts, poverty and unemployment remains a problem in urban areas (Tadesse, 1999).

Micro and small enterprises (MSEs) have a tremendous potential to eradicate poverty and generate employment for the majority of the urban labor force. They are also important sources of income not only for those people who could not find employment in other sectors but also provide supplement to falling incomes of low wage earners. Hence in the study area, MSEs are operating in manufacturing, service, trade, construction, urban agriculture activities.

The government of Ethiopia has designed different strategies in order to reduce the mismatch between the large number of population-with high unemployment rate, and level of the economy to absorb labor. In the poverty reduction strategy micro and small enterprises are a special focus of the government, in view of the fact that, they create job opportunities for jobless people,

reduce disparities of income distribution and hence maintain fair economic growth. The five year GTP also gives priorities to MSEs for the deliberate revolution and development of the Ethiopian industrial sector. Since 2003, Ethiopia has been vigorously struggling to realize in favor of poor development through growth in the industrial sector. However, a knowledge gap exists regarding appropriate approaches for sector growth with respect to industrial development.

The internal and external constraints faces in their operations are hostile and this has had a negative impact on their development and also limited their potential to drive the national economy as expected. This is distressing for a developing economy without the requisite infrastructure and technology to attract big businesses in large numbers. In Ethiopia particularly Oromia Regional State, lack of clear and accurate MSEs's problems is a major stumbling block to offer more effective policies and support schemes to promote the development of MSE's. In order to develop effective interventions for the small business sector, it is important to have an understanding of the sector, the specific challenges faced by MSE owners and the capacity they have to deal with those challenges (FinScope, 2010:1).

Consequently this paper has an objective to investigate factors that affect the capital growth of MSEs which have a powerful effect for rapid economic growth of a country. Besides, unless the constraints are not known and solved the visions of the existing MSEs would questionable.

This study was deemed to identify the internal and external constraints that affect the MSEs' performance in case o Jimma town.

In light of this, the study attempts to answer the following basic questions:

1. What internal and the external constraints affect the capital growth of MSEs?
2. What strategies should be employed to minimize those constraints?

1.3 Objectives of the Study

1.3.1 General Objective

The overall objective of the survey was analyzing factors that affect the capital growth of MSEs found in Jimma town through sample survey.

1.3.2 Specific Objectives

Specifically the study attempted:

1. Find out internal constraints that hamper the capital growth of MSEs,
2. Find out external constraints that hamper the capital growth of MSEs and
3. Forward possible recommendations that would help MSE's capital growth.

1.4 Research Hypothesis

With the help of sufficient and appropriate empirical data on the independent variables and the dependent variable of the study the following hypotheses were developed and tested using multiple regression analysis technique.

Hypothesis 1:

There is no significant relationship between the performances of enterprise and management skill.

Hypothesis 2:

There is no significant relationship between performances of enterprise and access of internal finance.

Hypothesis 3:

There is no significant relationship between performances of enterprise and accounting and record keeping skill.

Hypothesis 4:

There is no significance relationship between performance of enterprise and access of training.

Hypothesis 5:

There is no significance relationship between performance of enterprises and marketing skill of MSE owners.

Hypothesis 6:

There is no significance relationship between performance of enterprise and the infrastructural access.

Hypothesis 7:

There is no significance relationship between performance of enterprise and the access of credit by financial institutions.

Hypothesis 8:

There is no significance relationship between performance of enterprise and the working premise.

Hypothesis 9:

There is no significance relationship between performance of the enterprise and government policy.

1.5 Significance of the Study

The rationale for selecting this study was based on an appreciation that the findings of a study which aims MSE sector which have meaningful results on the economic development, reducing poverty, minimizing unemployment rate and enabling the sustainable industrial development to the country economy. Secondly, the result will help Micro and Small Scale Development Office (MSEDO), Micro finance institutions, Jimma Town: Administration, Women and Children Affairs, Youth and Sport Affair, Technical and Vocational Education and Training (TVET), Trade and Market Development and other concerned bodies. Thirdly, this study will assist academicians in broadening the catalog with respect to capital growth constraints of MSEs. Fourthly, it will assist the government in policy formulation and development of framework for the internal and external constraints that affect the performance of MSE. Moreover, the findings of this study will help the policy makers as well as financial institutions in regulating rules and regulations that encourage the developments of MSE.

1.6 Scope of the Study

Scope of the study looked at from various perspectives which could be in terms of areas of coverage as related to the subject matter and viewpoints of geographical reach within a given time and budget limit allocated for the assignment. Accordingly, the study outlines its scope only to those MSEs, according to the definition of 2011 MSE strategy. Also it takes the sample of the study only from those MSEs operating in and those involving in five sectors. The survey covers three sub cities of the Jimma Town Administration with a total sample size of 244 MSEs operating in these areas. Though there are various issues that can be researched in relation to MSEs, the analysis was delimited to the internal and external environments which affect the MSEs capital growth. In addition, the scope of this study was spread across five manufacturing, construction, service trade and urban agriculture sectors.

1.7 Organization of the Thesis

The paper organized as follows: The first chapter is an introduction which consists of background of the study, statement of the problem, research questions, objectives, hypotheses, significance and scopes of the study. The second chapter presents the theoretical and empirical literature related to the study, while chapter three provides research methodology considerations of the study, including discussions around the conceptual framework, the approaches used for the sampling procedures and the data collection procedures used and data analysis techniques. Chapter four outlines data presentation, analysis and interpretation. Chapter five conclude and suggest some recommendations and drawing policy implications based on the study's findings.

1.8 Operational Definitions of Terms

It is necessary to have definitions of terms and concepts as used in this survey for better clarity and understandings. Hence clarifications and definitions of selected terms and concepts as used in this research with brief looks into their equivalent usages in the policies and legal documents of the country are given.

According to the terms and concepts given by MSE strategy of 2011:

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

Micro Enterprise: when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is $\leq 100,000$ ETB for industrial sector and $\leq 50,000$ ETB for service sector.

Small Enterprise: an enterprise with 6-30 employees & total asset 100,001 to 1,500,000 ETB for industrial sector and 50,001 to 500,000 ETB for service sector.

Growth oriented Micro and Small Enterprises (MSEs): are MSEs engaged in production of goods and services in the sectors given priorities in the economic development of the country in most policy and strategy documents of the government (e.g., MoFED, GTP, 2010). The GTP identifies sectors like, construction, metal and woodworking, textile and garments, leather and foot wear, agro-processing, roads & other infrastructures as growth oriented sectors in which MSEs are also have considerable parts (MoFED, GTP, 2010).

Retail trade is defined as the re-sale (sale without transformation) of new and used goods to the general public, for personal or household consumption or utilization.

Internal finance: the sources of finance that are generated by MSE owners from their own capital (personal saving, retained profit and sales of assets) source.

External finance: the sources of finance that are generated in from of debt from formal financial institutions like bank and micro finance institutions or from informal Iqub, Idir, family, Arata and other sources.

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



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

Constraints: both the internal and external factors that affect the capital growth of MSEs.

Micro finance: refers to the provision of financial services to low-income clients, including consumers and the self-employed (Ethiopia Ministry of Trade and Industry, 2003).

Growth of Capital: current capital minus initial capital.

Supports: training, machinery, financial, raw material and facility assistances that TVETs provide to MSEs.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

Several factors can influence the performance of MSE's. Recognizing and understanding the underlying concepts and definitions of the MSE sector is essential in order to state results and analyses. Hence chapter two serves as background for this study by describing concepts of MSE performance and factors that could influence MSE's performance. In light of this, the purpose of this chapter is to review the literatures related to MSE performance constraints'. The chapter has three sections. Section 2.1 covers theoretical literature review, section 2.2 cover reviews of prior empirical studies including Ethiopia and section 2.3 provides conclusion and knowledge gap.

2.1. Theoretical Literature Review

2.1.1 The Role of MSEs

In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful driving effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology. Moreover, they create job opportunities for a substantial segment of the population. Hence the sector is a quick remedy for unemployment problem. direct intervention and support of the government is crucial to facilitate the environment for new job seekers and ease self employment.

The Government of Ethiopia recognized the contribution of the MSE sector. It has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, it has formulated a National MSE Development and Promotion Strategy in 1997, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. The overall objective of the strategy is to create an enabling environment for MSEs, with

specific objectives to facilitate economic growth; bring equitable development; create long-term jobs; strengthen cooperation between MSEs; provide the basis for medium and large-scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises.

According to the survey conducted by CSA in 1997, sighted in CLEP, 2006) within the MSE sector, micro enterprises (handicraft and informal operators) account for 99.8% of total establishments, 99.6% of employment and 94.7% of gross value of production and 95.1% of the value added. Small scale manufacturing industries (SSMI) are mainly engaged in the manufacturing of food, fabricated metal, furniture and wearing apparels, which constitute more than 85% of the SSMI.

The 2009 National Employment Policy and Strategy of Ethiopia gave emphasis to promote small and micro enterprises is high on the agenda of the Ethiopian government in terms of its policy framework for private sector development. Despite encouraging improvements in a number of areas, policy innovations are still required to improve the business climate and address bureaucratic hurdles. A particular focus should be given to improving access to business land, simplifying and using the tax system to ensure competitiveness, enhancing access to credit, and improving infrastructure services. Improving the legal and administrative framework would accelerate private investment and thereby help generate more productive employment.

MSEs are important sector for majority people who have low capital and skill to work together in a form of cooperative and also the sector used as a linkage of different levels of sectors in which the access of job opportunity was facilitated. Also many operators have joined the MSE business to get job opportunity and income, and to develop their capacity in their area of living. The development of MSE sector directly or indirectly contributes to the reduction of poverty through improving the operators' socio-economic conditions, and consequently contributes to the development of the city. Though the MSE sector has these roles, in order to utilize these MSE potentials, it calls for high efforts the support of different institutions/organizations for the success of MSEs growths.

In developing economies like Ethiopia, where agriculture plays a predominant role in the economy and the demographic pressure, marked by high population growth, is manifesting a negative impact on the country's socio-economic development, the formal industrial sector

(public or Private) alone could not be capable of creating sustainable economic development, generate large employment opportunities and alleviate poverty problems. Firstly, micro and Small Enterprises are appropriate to the factor endowments of developing countries. They make use of domestic resources and labor-intensive technologies. Secondly, it fit to the limited size of the domestic market. Thirdly, it does not require much capital and foreign exchange, and they can easily be established and operated by nationals of Developing countries (Gebrehiwot, 2006).

2.1.2 Definitions and classification of MSEs in different countries

The value of the Micro and Small Scale Enterprise sector is characterized by highly diversified activities which create employment opportunities for a substantial segment of the population. The contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth. This implies that the sector is a quick remedy for unemployment and poverty problem.

However, there is no single and universally acceptable definition of a small enterprise. This is so because the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country depending essentially on the country's level of development. The definition and types of micro and small enterprises differ from country to country and there is no universally stated definition for micro and small enterprises. The absence of such uniform definition of MSEs has created a difficulty.

In line with this, Tegegne and Meheret (2010:11) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector. Hence, definitions which employ measures of size (e.g. number of employees, turnover, profitability and net worth) when applied to one sector might lead to all firms being classified as small, while the same size definition when applied to a different sector might lead to a different result. The definition of MSE is based on five main parameters; labor, capital, loan size, fixed asset and annual sales turnover. Organizations often use one criterion to define SMEs (Omobolanle, 2009).

2.1.2.1 Definition by European Union (EU) and Member States

Traditionally EU member countries have their own definition of what constitutes an SME, for example Germany had traditional definition a limit of 250 employees constitutes as MSE, while Belgium it could have been 100 employees. In the UK that same year, small business is said to employ between 1 - 99 employees and medium scale 100 - 499 employees in the manufacturing sector (Ekpenyong, 1997).

But now the EU has started to standardize the concept. From January 1, 2005 onwards the European Union has introduced a new definition of MSE to support and develop these businesses. SMEs are defined by three main criteria: the number of employees, annual turnover in millions of Euros and total value of assets in millions of Euros. Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro. Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro (Kushnir et al, 2010).

Table: 2.1 European Union divisions of SME's

Size	No. Of Employees	Year Turnover (EUR)	Total Value Of Assets
Medium	≤250	≤ £ 50 million	≤ £ 43 million
Small	≤50	≤ £ 10 million	≤ £ 10 million
Micro	≤10	≤ £ 2 million	≤ £ 2 million

Source: Oromia Region Micro and Small Enterprise Development Strategy (2011)

2.1.2.2 Definition by Asian countries

In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, those in wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees. In 1990, Japan level of employment in the small scale ranges between 20 and 49 and medium as 50 to 499 in the manufacturing sector (Ekpenyong, 1997).

In the New Industrialize Countries, the definition of MSEs also varied and is mostly based on the number of employees and the value of assets. In Taiwan, the small scale business was defined as a business with less than 5 employees and the medium as the business with between 10 and 499 employees in 1991 in the manufacturing sector. The South Korea defined small scale enterprise in 1988 as any business that employ 5 to 19 and medium scale enterprises as employing between 20 and 199 without sectoral specification. In Bangladesh a micro firm employed less than 20, while small firm employed from 20 to 99 in the manufacturing sector without mentioning of medium scale enterprises in 1986. In Indian context, micro and small enterprises as per the Micro, Small and Medium Enterprises (MSME) Development Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services. According to the MSME, recent ceilings on investment for enterprises to be classified as micro and small enterprises are presented in figure below.

Table: 2.2 Classification of MSME in some Asian countries

Country	Size	Sector	Employee	Paid-up Capital
Japan	Small	Retail Trade	≤ 50	≤\$0.54(million)/ 10 million yen
		Service Trade	≤ 50	≤\$0.54 (million)
	Medium	Manufacturing	≤ 300	≤ \$3.3 (million)/ 100 million yen
		Whole sale Trade	≤ 100	≤\$1(million)/ 30 million yen
India	Micro	Manufacturing	-	≤ US\$50,000
		Service	-	≤ US\$20,000
	Medium	Manufacturing		≤ US\$ 1 million
		Service		≤ US\$ 400,000
Taiwan	Small	manufacturing	≤5	
	Medium	manufacturing	≤499	
South Korea 1988	Small	Any Business	5 to 19	
	Medium	Any Business	20 to 199	
Bangladesh 1986	Micro	Manufacturing	≤20	
	Small	Manufacturing	20 to 99	
	Medium	Not mentioned		

Source: Oromia Region Micro and Small Enterprise Development Strategy (2011)

2.1.2.3 Definition by some African countries

In Nigeria, the definition of SMEs also varies from time to time and according to institutions. The Nigerian Government has used various definitions and criteria in identifying what is referred to as micro and small sized enterprises. A middle several definitions provided by the Government and its attendant agency, the National Council on Industry (1991) defined micro enterprises as an industry whose total project cost excluding cost of land but including working capital is not more than N500,000:00 (i.e. US\$50,000). Small scale enterprises on the other hand is defined by the council as an industry whose total project cost excluding cost of land and including working capital does not exceed N5million (i.e. US\$500,000) (Dasanayaka, 2009).

In Ghana, small-scale enterprises cut-off point of 30 employees and however, classified small-scale enterprises into three categories Osei et al (1993). These are:

- (i) Micro employing less than 6 people;
- (ii) Very small employing 6-9 people;
- (iii) Small between 10 and 29 employees.

Table: 2.3 Classification of MSE in some African countries

Country	Size	Employee	Paid-up Capital
Tanzania	Micro	1-4	≤\$3400
	Small	5-49	≤\$136,000
	Medium	50-99	≤\$544,000
Gahanna	Micro	≤6	≤\$10,000
	Very Small	6-9	≤\$100,000
	Small	6-29	≤\$100,000
	micro	1-4	≤\$15,000
	very Small	10-20	≤\$294,000
South Africa	Small	20-50	≤\$ 734,000
	Medium	≤200	≤\$2,800,000

Source: Oromia Region Micro and Small Enterprise Development Strategy (2011)

2.1.3 Overview of MSEs in Ethiopia

The EPRDF adopted Agricultural Development Led Industrialization (ADLI) and private sector development strategy in 1995. An element of these strategies was focused on MSEs development: Federal Micro and Small-Scale Enterprises Strategy (FMSES) and Regional Micro and Small-Scale Enterprises Strategies (RMSES) were formulated in 1997. Federal Micro and Small-Scale Enterprises Development Agency (FMSEDA) and Regional Micro and Small-Scale Enterprises Development Agencies (RMSEDAs) were established by the Council of Ministers of Ethiopia Regulation No.33/1998, and supportive financial sector reforms were made. Among the principal objectives of the FMSES and RMSES are exploitation of local raw material, creation of productive job opportunities, adoption of new and appropriate technologies, and enhancement of the development of MSEs which have wide-ranging backward and forward linkages.

FMSEDA and RMSEDAs address the major issues and problems constraining MSEs development, the government issued an Industrial Development Strategy in 2003, which was aimed at providing a package of material and technical government support to the MSEs including, inter alia, provision of utilities and infrastructure, raw materials, access to credits, etc.

At the early 2000's, the World Bank introduced poverty reduction strategy for Less Developed Countries which is in line with the Millennium Development Goals. For Ethiopia, the program has two phases: the Sustainable Development and Poverty Reduction Program (SDPRP) and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP).

SDPRP was aimed at creating an enabling environment for accelerated development and attainment of improvements in the standard of living of the people and it lasted from year 2000/01 to 2003/04. PASDEP is designed for the years 2005 to 2010 and identified development of MSEs as a best venue for job creation and to mitigate the pervasive youth unemployment observed in the country. According to PASDEP, MSEs would get extended basic trainings, upgraded business development services and enhanced market linkages with foreign importers through FMSEDA and RMSEDAs in the planned period.

GTP (Growth and Transformation Plan), which is the successor of PASDEP and the current development strategy of Ethiopia (2010 -2015), has also given a priority to MSEs development. The GTP has put the MSEs development as one of the seven identified growth pillars of the

country. The MSEs to be a development pillar, they have to be formal to get the necessary support.

The excursion made in the MSE strategy of Ethiopia in brief reveals the vastness of the role MSEs in the entire economy has been immense. Some studies in these areas rightly point out that MSEs have been on the forefront in employment creations, poverty reductions, proliferations of entrepreneurships and thus economic development concurrently (CSA, 1997; MoTI, 1997; Haftu, et al, 2009; GTP, 2010).

From this point of view, two MSE strategy documents could come into attention from most recent attempts the current government has been making. These are:

- MSE Development Strategy of 1997 and
- MSE Development Strategy of 2011

As indicated in the preceding parts, the MSE Development Strategy formulated in 1997 clearly enlightens a systematic approach to alleviate the problems and promote growth of enterprises. The primary objective of this national MSE development strategy has been to create enabling environment for MSEs to operate. Thus, it is expected that hundreds and thousands of MSE, will, themselves be responsible for the operation, growth and progress of their enterprises given such an enabling environment. The specific objectives of the 1997 strategy framework were to:

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

2.1.3.1 The MSE Development Strategy of 2011

The new MSE Strategy (2011) included fresh band of target groups, the graduates, (in addition to its classical emphasis on the poor and less skilled people) to form cooperatives and create their own job. On top of providing jobs to the people, the establishments are also hoped to bring about the technological transfer and new corporate management skills to the nation.

In this strategy also new set of areas are identified as requiring attention and priority from the government. These are the manufacturing sector that encompasses the majority of the previously identified areas, the service sector which is a relatively new one, though not completely new, construction sector (partly exists in the previous one), the urban agriculture sector (partly exists in the previous one), and the retail sector. These sectors got attention because they are expected to substitute imports or are categorized in the manufacturing sector.

The other new and important concept raised in the new MSE strategy is about the stage of growth of the MSEs. According to this strategy the supports these enterprises receive is dependent up on their level of growth and is relatively a tailored one. The growth stages of the MSEs are three in number and they are: the start-up stage, the growth stage and the maturity stage. The strategy further outlined the criteria which qualifies MSEs into any of these classifications. Following this, trials will be made to analyze the kinds of problems MSEs face in these three different growth stages and solutions will, independently, be recommended. This appears a very innovative way of dealing with the problems of MSEs unlike some of the policy instruments of the previous strategies.

2.1.4 The Concept of Performance

Global Entrepreneurship Monitor (GEM, 2004) defined performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operational and measured in different ways thus making cross-comparison difficult.

There is a little agreement in the existing literature on how to measure growth thus most previous studies have used a variety of different measures such as total assets, sales, employment size, profit, capital, and others (Berkham et al., 1996; Davidsson & Wiklund, 2000; Holmes & Zimmer, 1994). These measures are relatively uncontroversial, the data tend to be easily available and it increases the scope for cross study comparability (Freel & Robson, 2004). Moreover, growth has been measured in absolute or relative terms.

When we speak of performance, there is a consensus among researchers that it represented the accomplishment of their peoples or materials/equipments, plants or methods/techniques or organizations or products or their combinations. But, their differences lie on the issue of

determining whether these accomplishments are poor or good performances. However, attempts to address the broad scope of performance and trying for a universally accepted concept and definition for all contexts are too ambitious and disservice to the users. But generally, performance can be understood as a means to represent accomplishments through subject-object relationships and their descriptions (Gebrehiwot, 2006).

The financial or monetary measures of MSE include like profits before tax and turnover, costs, expenses, incomes or revenue, savings and value of assets held. While the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover, units of production, units of sales or percentage of market share and quantity of stock held. In terms of time measurement, it includes man-hours or machine-hours.

Performance of MSEs can also be measured in terms of capital employed typically expressed in financial terms as rate of return on investment or in terms of current ratio arrived by dividing current assets to current liabilities (Ivancevich, 1980). It is important to note that the key performance indicators will differ depending on the organization but whatever measurements are selected they must reflect the organizational objectives, they must be key to its success and they must be quantifiable (measurable).

W. Chirwa, (2004) several studies has analyzed the differential performance of MSEs in terms of profitability, employment growth and revealed qualitative growth in sales. Hence performance has broad scope; it is ambitious for a universally accepted concept and definition for all contexts are too and disservice to the users. But generally, performance can be understood as a means to represent accomplishments through subject-object relationships and their metaphors.

2.1.5 The Capital Growth Constraints of MSEs

A number of studies on the MSE sector particularly those in developing countries face a number of constraints which inhibit their performance and development. The greater variance in growth of capital, survival and profitability of MSEs compared to larger firms emerges from financial problem. MSEs generally tend to be confronted with higher interest rates, as well as credit rationing due to shortage of collateral. The issues that arise in financing differ considerably

between existing and new firms, as well as between those which grow slowly and those that grow rapidly.

While national policies of Ethiopia play an important role in the development of MSEs, targeted interventions are much more effective to bring about a rapid change in the growth of MSEs' support services at the firm level. Most MSEs face critical constraints both at the operation and start up level. The constraints are associated to structural problems in the sense of enabling environment like policies, legal and regulatory environments, access to information and markets including informal markets, access to capital for start-ups, regulatory burdens, as well as availability of basic infrastructural facilities on the one hand and operational problems like basic business skills and entrepreneurial competencies on the other hand.

Commission on Legal Empowerment of the Poor (CLEP, 2006) presented some of the MSE constraints as follow: financial constraints like lack of adequate investment capital, lack of sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs, excessive administrative costs and lack the experience in dealing with financial institutions and do not keeping track record of their business are the major obstacles in doing business, particularly in the MSE sector. Moreover, the interest rate by most micro finance institutes, which is higher than the lending rate of formal banks, controls the effectiveness in addressing the needs of micro enterprises.

Non financial constraints like inconvenient national policy to enhance the development of MSEs, lack of premise and land, lack of entrepreneurial, managerial and other skills, lack of sufficient marketing and promotional support, lack of skilled workforce, socio cultural constraints, arbitrary and subjective tax system and lack of formal or informal linkages or business cooperation amongst enterprises are also hinder the MSE's performance.

Eshetu et al., (2013) identifies factor that hinders growth and expansion MSEs include: financial service includes credit and saving scheme where as the business development services (BDS) include trainings, technology transfer, counseling, provision of working premises, legal framework and streamlining regulatory conditions and the likes.

According to the CSA survey reports of 2011, the major operational problems cited by MSEs were shortage of working capital and lack of market for product and services, lack of work premises, absence of credit facility and lack of raw materials.

According to the survey report of Association of Micro Finance Institutions (AMFI, 2009); lack of financial, lack of business development services, low economic condition, and regulatory environment heavily affect the operation of MSEs. Lack of appropriate and sustainable training has been the next critical component missing from the support services provided by MFIs and other stakeholders

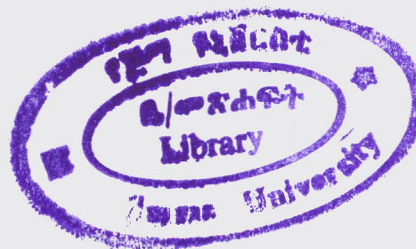
According to 2007 plan of Ministry of Works and Urban Development particular challenges that exist in the implementation of the program include: technology upgrading, marketing capability, extension services, training, MSE and TVET linkage and linking MSE development to secondary education are particular challenges that hinder MSE's implementation.

2.2 Empirical Evidence on the Constraints of MSE Capital Growth

This section is proposed to understand various factors that affect the MSE performance from literature. Probably factors influencing the performance of MSE in one country might be different from factors influencing the performance of MSEs in another country. Thus, the following section reviews the empirical evidence on factors affecting MSE's performance with a particular focus on those that have been conducted more recently, as far as they are best indicators of current situation.

2.2.1 Review of Previous Studies of in the different Countries

W. Chirwa (2004) analyzed the performance of enterprises owned by females relative to those owned by males using national survey data of enterprises owned by females relative to those owned by males during the period from 1992 to 2000. He found that gender specific characteristics, in particular with profit margins had no significant impact on MSE's performance. In terms of employment growth, female-owned enterprises grow at a faster rate than male-owned enterprises. Even if there are common factors that affect the performance of female-owned and male-owned enterprises, education is a critical factor that affects the performance of female-owned enterprises. The revealed decrease in sales for both female-owned



and male-owned enterprises relate to marketing, followed by competition in female-owned enterprises and finance in male-owned enterprises are the most important problem that affect MSE's probability.

Study in Ghana by Nkrumah (2009) by using random variables investigated the performance of MSE is affected by the non-financial method. As performance (profit efficiency) of MSE is measured on variables in the inefficiency model that have negative coefficients, meaning that as the Non-financial or BDS variables (educational level, farming experience, and household size) increase the profit efficiency of the farmer increases. The most important challenges identified are, working capital, Access to credit, and Cost of credit. The result also shows that there are a number of linkages that exists in micro and small agribusiness. These mostly take the form of cooperatives, associations and informal agreements. The results from the stochastic profit frontier analysis showed that their profit efficiency was positively influenced by age, educational level, farming experiences and household size.

In Malaysia, Abdulrazk et al. (2011) contended that owner's experience, those having limited liability and availability of external finance are the major determinants of MSE growth. They argue that entrepreneurs those with high experience have high chance to use the opportunities and can easily overcome problems. They also provided similar evidence to that of previous studies that level of education has also contributed to the business growth. Abdulrazak et al. (2011) argues that micro entrepreneurs in Malaysia are generally having financial difficulties particularly during the start up.

Kemunto et al. (2013) analyzed the effect of business development services on the performance of MSE in Kisii Town. The performance of MSE had influenced by business development services training, advice, counsel, marketing, advertisement, technical assistance services and other non-financial services to these small business operators. Kemunto et al. (2013) argue that the entrepreneurs who received business development services recorded an improvement in the growth of sales and growth in market shares on the various businesses they were operating.

In Tanzania, Nkonoki (2010) observed on his study determinant factors that limit the growth/and or success of small businesses through interview method from nine respondents (six small business owners and three officials representing three organizations). The author identified a

number of limiting factors to small firm growth are originated from two groups; those internal to the firm (Inadequate education and training, capital constraint, lack of needed talent, lack of proper record keeping, lack of or improper professional advice and consultation, theft/cheating and lack of trust in doing business, lack of a proper business plan/vision for the business, and lack of background and experience in the business. and so on) and those that are external to the firm (comprising things like corruption, government policy, bureaucratic processes, in access to finances/capital constraint, unfavorable economic conditions, community factor and etcetera) are key constraints which have emerged as the most influential in impacting the growth of small firms in Tanzania. The constraints to small firm growth are not only a problem to small firm owners, but this impacts the economy of the country as a whole. The author made recommendations; firstly a reform of the SME policy by the government, a search of an adequate business education by the small business community and trying to develop services and the maintenance of good relationships with small business owners by other stakeholders like the financial institutions.

Bowen et al (2009) analyzed how in Nairobi administer the challenges by employing stratified random sampling 198 businesses are selected, primary data was collected through questionnaires and interviews were analyze descriptively and presented through figures, tables and percentages. The findings indicate that SMEs face the following challenges; competition among themselves and from large firms, lack of access to credit, cheap imports, uncertainty and debt collection. The constraint of credit seems to be moderate when compared to previous researches. Relevant training or education is positively related to business success. The SMEs have the following strategies to overcome the challenges; fair pricing, discounts and special offers, offering a variety of services and products, superior customer service and continuously improving quality of service delivery. The research concludes that business success is a consequence of implementation a mix of strategies.

2.2.2 Review of Previous Studies related to the Ethiopian MSEs

Seyoum (2013) evaluated determinant factors that affect the growth of MSE in Addis Ababa 99 MSEs were randomly selected from Addis ketema and Areda sub city. Data were collected through structured questionnaire and analyzed using descriptive and inferential statistics with the help of SPSS and ANOVA was used for statistical t-test. In his study, two dependent variables

(asset growth and employment growth) were used to measure the growth of MSE's and the result shows different statistical result. In situation asset used to measure MSEs growth, different in growth among businesses happen due to: gender, work experience, family back ground, type of business, legal status/registration, record keeping, borrowing, competition level and availability of market for their product. That means the variation in those variables will result in the variation of growth if the measurement of growth is asset growth. In situation employment used to measure MSE's growth, different in growth among businesses happen due to: the deference in experience, family background, types of business, having, recording keeping practice, borrowing and availability of market for their product brings difference in growth. But ANOVA and t-test result shows there is no significant difference in growth with respect to the difference in education level, registration with MSE office and age of business whether it is measured asset or employment.

Eshetu et al. (2013) conducted a study to assess economic impact of MSE support service programs on enterprise sales, employment and capital asset formation by using cross sectional data collected randomly from four urban kebeles out of the nine urban kebeles in Dire Dawa Administration, Ethiopia. Data were collected from randomly selected samples using structured questionnaire and interviews which were undertaken in May, 2011. Four explanatory variables: years of schooling, prior business experience, enterprise age, and location of enterprise has significantly influence MSE which has great role in addressing the challenges of unemployment, economic growth and equity. The result revealed that the MSEs program resulted in average increment of monthly sales by 28%, employee level by 42%, and capital asset formation by 60% which has great economic contribution of the town. The qualitative analysis indicates that still there have been certain problems that impede the promotion and development of the sectors, particularly in terms of financial and business development services. Generally, both qualitative and econometric analysis concretely justified that MSE support service program intervention so far provided has brought positive impact on participant enterprises.

Shiferaw (2013) examined the contributions of MSEs to the socio economic of communities by randomly selected through stratification in each activity of the sector 82 organized/cooperated MSEs in Jimma city. The study used inferential and descriptive design, and results were analyzed and changed to tables, charts and bar-graphs, and some of them were tested using Chi

techniques. Result of the study indicates MSEs had 79.27% role in socio-economic contribution through employment creation, saving and income generation, developing entrepreneur's skills and knowledge, and gender empowering, changing social problem of peoples' and also ways of acquiring businesses and linking different levels of enterprises to which facilitate development. Even if the MSEs have such great roles in changing peoples' living conditions of the city, lack of financial capacity, lack of working and production places, rules and regulatory procedures, lack of capacity to compete, and insufficiency of business development services and socio-economic infrastructures are the major constrained factors that affect MSE activities.

Tefera et al. (2013) measured the effects of 4 internal and external variables determinants of growth of an enterprise, including the gender of owner, initial investment on the firm, location and sector in which the firm operates as main determinants of growth of MSE on a survey covering 178 randomly selected MSEs from Mekelle city. The effects of all variables are found to be significant, regardless of the potential contribution of MSEs to the economic growth of the country.

Abera (2012) assessed factors affecting the performance of textile and garment, food processing and wood and metal work sectors in Addis Ababa. The sample MSEs in their study are from Arada and Lideta sub-cities. Abera (2012) extract eight major challenges which seem to affect performance of MSEs in sub-cities which include: inadequate finance, lack of working premises, marketing problems, inadequate infrastructures, poor management practices, and technological, entrepreneurial and political and legal problems including bureaucratic bottlenecks system. Questionnaires and interviews were analyzed using statistical as descriptive and inferential method. The respondent operators were selected using stratified sampling technique. The findings further indicate that poor management practices, inaccessible training facilities and lack of working premises have there exists linear and positive significant ranging from substantial to strong relationship was found between independent variables and dependent variable.

Abebe (2011) assessed to identify personal and business related factors that have a positive relation to the MSE's performance in Addis. Arada and Gulele Sub City Administration based on their nearness and convenience to collect data in short time, among those industries engaged in MSE's 73 MSEs were randomly selected from Food and Beverage; Textile and Garment, Wood and Metal, and Merchandise and Retail shop. Primary data were collected through structured

questionnaire and analyzed using descriptive and inferential statistics using SPSS and ANOVA was used for statistical t-test. Eight independent variables (difference in age, education level, management experience, and prior industry experience, business plan, use record keeping and financial control system and ownership) were taken in this study to examine the variation in the MSE performance (the average capital growth of the enterprises) in response to each of the independent variables.

Chane (2010) assessed factors that affect the performance of MSEs women entrepreneurs in Dessie town with a sample of 203 women entrepreneurs engaged in 5 sectors using stratified and simple random sampling. Primary data was collected through questionnaire, likert scales and interviews were analyzed using simple statistical techniques (tables and percentages) and descriptive statistics (mean and standard deviations). The study indicated that economic factors; lack of own premises (land), financial access, stiff competition, inadequate access to training, access to technology and access to raw materials; social factors: conflicting gender roles and personal character of entrepreneurs, social acceptability and, network with outsiders; legal/administrative factors include access to policy makers, high amount of tax and interest, bureaucracies and red tapes, poor business related trainings and over all legal and regulatory environments. The study result shows those women entrepreneurs in MSEs of Dessie town need

Mulugeta (2008), undertook study on major causes toward failures of micro and small business in Addis Ababa, where MSEs in Addis ketema sub city were selected for case study as sample. Data was collected from primary and secondary sources; in-depth interview was used for to collect first hand data from owners of MSEs and authorities involved in the implementation. From survey report identified the causes of MSE failures as they were multidimensional and diverse which are internal and external factors and many of them are interrelated. The study recognized causes make MSE's toward failure: lacked business management skills, lack of capital, lack of business plans, tax burdens and arbitrary taxes, luck of land and premises, poor market, high rent charges, wrong pricing, legal framework proclamations like inter-linkage promotion law, chamber of industry and other important supporting proclamations are not yet passed, reform existing regulatory such as tax assessment and tender procedure are awaiting, the only effort done is simplifying of the registration and licensing of business.

CLEP (2006), the Commission on Legal Empowerment of the Poor of Ethiopia, reviewed factors that hinder the MSEs sector of the country as follows: access to land, premises, and working space; the instauration of a tax system that is less arbitrary and less subjective; adequate financial services; access to markets; access to private sector organizations as well as the establishment of formal or informal linkages and/or business cooperation amongst enterprises; the implementation of a clear and pragmatic national policy to enhance the development of the private sector and Micro and Small Enterprises; the development of entrepreneurial, managerial and other skills as well as the availability of skilled work force; the reduction of socio cultural constraints that hinder from taking private initiative; coordination among business development service providers; the reduction of bureaucratic red tape and other cumbersome regulations to enable easy entry and exit from the formal sector; the provision of adequate information about the procedures on becoming formal; and the betterment of the investment and private sector climate in Ethiopia in order to alleviate the overall mistrust between government, informal sector operators and private sector operators. The result shows MSE's operators (including women and youth) face problems of access to credit; complex business regulations or inefficient institutions.

2.3 Conclusions and Knowledge Gap

The review of the literature reveals the existence of many gaps of knowledge in respect of the factors affecting MSE performance, particularly in the context of Ethiopia. As per the review of the literature most of the empirical studies that have been conducted with the aim of identifying factors affecting MSE performance belong to European Union member countries; in the new industrialize countries (i.e. south Korea, Taiwan, Bangladesh and India); and some Africa countries; Nigeria, Gahanna, Tanzania, Kenya and south Africa. Moreover, scanty work has been done with the objective of identifying the determinants of performance and also exposes the existence of notorious conclusions that results from different studies in Sub Saharan Africa in general and Ethiopia in particular.

In the context of Ethiopia, a few related studies were conducted Addis Ababa. Accordingly, the findings of study may not necessarily apply to other MSEs operating in other parts of the country; therefore, the results may not be generalized to Jimma. Only one study by Shiferaw (2013) undertaken that analyze 'the contribution of Jmma MSEs to the socio-economic communities'. The study by Shiferaw (2013) was not identify factors that affect MSE's capital

growth hence the main focus of his assessment was the MSE contribution factor. The study fails to fill the knowledge gap that exists in the town i.e., did not identify dependent and independent variables; and considers to the extent that only very few external variables and overlooked internal variables that may significantly affect MSE growth of capital. In addition, the sample is very small representation of the entire MSEs business sector in Jimma town.

In general, the lack of sufficient research on the performance constraints of MSEs found in the area initiates to undertake this study.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

In order to analyze the potential impacts of factors on capital growth of MSEs, this study made use of a research methodology. This section provides an overview of the study's research approach which lays within the mixed methods strategies. The chapter discusses procedures and activities under taken, focusing on namely the study's research design, questionnaire design, data collection, sampling strategy, data processing and analysis and instrument development. Besides, the section deals with a discussion on the ethical issues and the study area profile.

3.2 Research Approaches

Quantitative and qualitative research design (Mixed) is appropriate for answering different kinds of questions. When we use mixed approach we learn more about the research problem (Leedy and Ormrod, 2005 cited in Semu 2010, p. 44). Further Creswell (2009) noted that mixed research is an approach that combines or associates both qualitative and quantitative research methods. Thus, it is more than simply collecting and analyzing both kinds of data, it also involves the use of both approaches in tandem so that the overall strength of a study is greater than either qualitative or quantitative research.

3.3 Research Design

The study adopted a descriptive survey research design. The design was intended to describe the respondents view and opinions on the variable of the study. The principal advantage of descriptive survey design is that it allows for collection of information on large groups of respondents, with minimum costs (Levy & Lemeshow, 1999). Through this design the study was able to establish how the internal and external hurts the growth of micro and small enterprises in Jimma Town.

3.4 Sampling Design

A sample design is a definite plan for obtaining a sample from the sampling frame. It refers to the technique or the procedure the researcher would adopt in selecting some sampling units from which inferences about the population is drawn.

3.4.1 Research Population

In Jimma town, from 2005 to 2013, there were 1,126 formally registered MSEs which consist of a total of 6,626 individual members who are engaged in manufacturing, construction, service, urban agriculture and trade sectors (JMSEDO, 2014). Among the six sub-city Administrations, sub city 1, 3 and 4 Administrations those have 668 registered MSEs were selected for study.

3.4.2 Sampling Technique

Stratified random sampling technique, a method which every homogeneous member of the population has an equal representative chance of being selected to represent the population and used to assist in minimizing bias when dealing with the population, relatively more precise and easier to apply than others, causes a relatively small sampling error and helps to control the systematic bias in a better way. The technique had the advantage of allowing all elements within the population to have equal chances of inclusion into the sample (Dillon and Hardaker, 1993). It also eliminated bias thus enabling errors to be estimated (Kothari, 2009). By this technique each unit in the population of 668 MSEs had an equal chance of being selected. Through the technique it was possible to generalize the findings and inferences were made based on the entire population.

3.4.3 Sample Size

Size of sample refers to the number of operators to be selected from the population to constitute a sample. Out of a population of 668 MSEs, a sample size of 244 MSEs was selected by using stratified random sampling technique. The sample size was within the lower limits of a normally distributed population as per Kothari (2002). The sample size for the study was determined using the statistical package, NEA Research Bulletin, Vol. 38 (1960: 99), "Sample Techniques," formula published by the research division of the National Education Association for determining sample size (W.Mogan, 1960:69).



$$S = \frac{[X^2NP(1-P)]}{[d^2(N-1) + X^2P(1-P)]}$$

Where,

S = required sample size, **244**

N = the population size = **668**

X = the table value at 95% confidence interval which is **1.96**,

P= population proportion (assumed to be 50% or **0.5**).

d = level of significance of test (α) equal to **5%**,

3.4.4 Sampling procedure

Owners were selected from each stratum follow the method of proportional allocation under which the sizes of the samples from the different strata are kept proportional to the sizes of the strata. Accordingly, the totals of 244 (sample size) respondents are targeted for responses from the each sub- cities. sub-city 1 [(200/668) x 244 = 67]; sub-city 3[(184/668) x 244 = 73]; sub-city 4 [(284/668) x 244 = 104]; and also the sample sizes for the five strata constitutes: Manufacturing about [(133/668) x 244 = 49]; Construction about [(89/668) x 244 = 33]; service about [(159/668) x 244 = 58]; Urban Agriculture about [(78/668) x 244 = 28]; and Trade about [(204/668) x 244 = 76]; will be selected.

Thus, using proportional allocation, the sample sizes for the three sub-cities was 67, 73 and 104 and for five sectors will be 49, 33, 58, 28 and 76 respectively.

3.5 Variables and Measures

The selection of capital growth measures that reflect the true situation of micro and small enterprises with some degree of certainty and reliability is indeed a crucial process (Alasadi and Abdelrahim, 2007). The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measures that might not truly reflect their performance.

Here sub-section 3.5.1 presents the dependent variable as representative for MSEs' capital growth. Then the independent variables categorized into internal and external were presented in subsection 3.5.2.

3.5.1 Dependent Variable

The financial performance measures such as profit, turnover or return on investment is not used for performance measurement of MSEs, because most MSEs' owners have poor record keeping even may not keep their account and proprietors are generally suspicious to disclose information related to revenue and profit and it was difficult to get response from respondents.

Thus, growth of capital of the enterprises was used as dependent variable of this study. Here the change in capital growth as ratio data was used to measure the dependent variable of the enterprises involved in the survey.

3.5.2 Independent Variables

This sub-section describes the independent variables that are used in the econometric model to estimate the dependent variable.

Commission on Legal Empowerment of the Poor, CLEP, (2006) presented some of the MSE constraints as follow: financial constraints like lack of adequate investment capital, and lack the experience in dealing with financial institutions and do not keeping track record of their business are the major obstacles in doing business, particularly in the MSE sector. Moreover, which is higher than the lending rate of formal banks, controls the effectiveness in addressing the needs of micro enterprises. Non financial constraints like are also hinder the MSE's performance.

(Kalleberg & Leicht, 1991; Keats & Bracker, 1988, sighted in Kanburi, 2009) independent variables that influence performance micro and small business can be classified into two main levels: that emanate from the firm's internal environment and the external environment. The internal factors, controllable for MSE's managers (i.e. lack of entrepreneurial, managerial skills, lack of adequate investment capital, excessive administrative costs, and poor record keeping). While the external factors, uncontrollable by MSE manager's and hence external (i.e. lack of sufficient loan, inefficient micro finance institutions, the interest rate, lack of working premise, lack of sufficient marketing, arbitrary and subjective tax system, inconvenient national policy, and lack of formal or informal linkages or business cooperation amongst enterprises).

To make each of the independent variables selected for this study more clear, the explanations are present here under as follows:

3.4.2.1 Internal Constraints

The internal constraints incorporate such as management skills, lack internal finance, accounting and record keeping skill and access of training.

3.4.2.1.1 Management Skills:

(Lussier, 1996; Murphy, Shleifer and Vishny 1996; Van Stel and Storey 2004; cited in Olusola, 2011) lack of managerial know-how spaces significant constraints on MSE development. Even though MSEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, inexperience in the field of business, particularly lack of entrepreneurial knowledge, inadequate managerial skills, and lack of monitoring, controlling resources, lack of planning and market skill as causes of small business failure.

3.4.2.1.2 Access of Internal Finance:

A business can use internal finance that is generated by MSE owners from their own capital (personal saving, retained profit and sales of assets). Working Capital is also known as revolving or circulating capital or short-term capital. MSEs that are started operation with higher initial investment are more likely to grow than their counter parts that are started operation with relatively smaller initial investment (Barney, 1991; Carroll, 1993). Poor management of working capital (e.g., cash, inventory, payables and receivables) is also a major problem of MSEs, who often misperceive profit with cash and personal expenses with business expenditures. Most micro and small enterprises are highly risky ventures involving excessive administrative and personal expenses. MSEs that are started with high operational expenses are more likely grow less than their counter parts that with relatively smaller operational expenses.

3.4.2.1.3 Accounting and Record keeping skill:

Accounting is basically an information system that provides economic information to decision makers. It is a financial information system that provides the guide and direction for business growth and development. Accounting skills are the totality of skills ranging from record keeping,

attention directing, financial management and reporting skills that are expected to promote effective decision, performance evaluation and business reporting of any business enterprise.

Although studies could not find record keeping skill as positive factor, financial management skill has been found to be contributory to business development (Carland and Carland 2009; Akande, 2010). Attention directing skill enables the owner manager to make vital decision on production and pricing issues while reporting skill describes the method and technique by which business information are reported to the stakeholders of the business.

3.4.2.1.4 Access of Training:

The most common form of acquiring skills in the MSEs sector is through apprenticeships. Though the formal education system prepares students for paid employment, there are very few vocational institutions that cater for developing skills. This inevitably leads to low level of innovation in almost all sectors of the economy, severe shortage of training opportunities for potential entrepreneurs. MSE operators have limited access to vocational and technical training skills can only be developed on a strong foundation of basic primary and secondary education. There is lack of formal education and training in MSEs operators. The most common form of acquiring skills in the MSEs sector is through apprenticeships. Though the formal education system prepares students for paid employment, there are very few vocational institutions that cater for developing skills. This inevitably leads to low level of innovation in almost all sectors of the economy and severe shortage of training opportunities for potential entrepreneurs (Gebrehiwot & Wolday, 2004). Mboniyane & Ladzani (2011) found that more than 50 percent of micro-enterprises lack training in proper business management.

3.4.2.2 External Constraints

The external constraints cover access of market, infrastructure, and credit by financial institution, working premises, legal and political conditions (government policy).

3.4.2.2.1 Marketing Access:

Sufficient institutional facilities are needed in order to cultivate the promotion, growth and development of MSEs. Marketing their products effectively as well as accessing and acquiring information on business opportunities are the major bottlenecks that small and micro entrepreneurs face all over the country uncompetitive. Even though marketing has been widely

accredited as one of the most important of all activities and critical for the survival and growth of MSEs'; many studies found owner/managers of MSEs as having a very limited understanding of the marketing concept generally to be little more than advertising and public relations and lacking adequate marketing skills. Specifically, problems in promotion and marketing linkages were frequently encountered by MSEs.

3.4.2.2.2 Infrastructural Access:

Though not directly linked, inadequacy of infrastructure (road, banking service, electricity, telecommunication and other public services), are serious impediments. Infrastructural access could have greatly facilitated the development of the formal sector and facilitated the transition from informal to formal sector activities. poor economic infrastructure and limited access to public services increases the operating costs of MSEs, limits their ability to meet quality standards (for example, hygiene standards in restaurants), hinders their participation in linkage relationships and reduces their market and customer base(Collier, 2002).

3.4.2.2.3 Access of Credit by Financial Institutions

Lack of sufficient loan, inefficient financial institutions in terms of facilitating financial resources to MSEs' are the major obstacles in doing business, particularly to those in the micro category. MSEs may also shy away from borrowing due to a poor collateral position. The collateral position is affected by assets, outstanding debt and opportunities for collateral substitutes such as legal status, firm age, ownership structure and links with financial institutions.

Most micro and small enterprises do not have access to micro finance institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The standard of loan appraisal, the long delay the banks takes to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100% of the loan amount, are the major obstacles that small scale enterprises are facing at present. Moreover, the interest rate by most micro finance institutes, which is higher than the lending rate of formal banks, inhibits the effectiveness in addressing the needs of micro enterprises.

3.4.2.2.4 Working Premise:

For MSEs, lack of access to land is unquestionably a serious problem. Most MSE operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained on incomes and productivity of MSEs. MSEs located at main road side exhibit higher growth compared to MSEs located out of town (Hasnu & Amjam, 2007; Gebreyesus, 2007; Parker, 1995). Moreover, the MSEs operating in commercial districts reveals strong tendency of growth than those which operate at distant areas (McPherson, 1996).

3.4.2.2.5 Government policy:

Despite the strategies such as the above mentioned and the unclear and unpractical government policies are inappropriate and impractical to enhance the development of MSEs. For instance, most government policies have a tendency to over regulate and limit the growth of private sector enterprises and they are over bureaucratized and unfriendly to support small businesses. In addition high taxes, complexity of national laws and bureaucratic and cumbersome regulations, escalating interest rates and inflation hinder the creation and sustenance of MSEs. Most MSEs, particularly the MSE operators, are subject to subjective tax system as most of them do not have a proper accounting system.

3.5 Data Sources, Gathering Instruments and Procedures

3.5.1 Sources of Data:

Primary and secondary sources of data were used for the study.

3.5.2 Data Collection techniques

The instruments were designed to strength the viability of the study. To obtain relevant data from different sources numerous data gathering techniques employed during data gathering stage.

3.5.2.1 The primary data source

The primary data formed the core of this study because it afforded the opportunity in obtaining at first hand, relevant responses. Primary source of data was collected through questionnaires and interview.

3.5.2.1.1 Questionnaires:

The questionnaire was the main instrument of the study; the research questionnaire was administered to 244 MSEs owners. To enhance the response rate, the questionnaires were delivered by hand to the enterprises randomly approached and convinced to participate on this study. The participants of this study fill up most of the questionnaires by themselves but when necessary the data collector (the researcher) gave assistance by elaborating and explaining the idea of the questions.

The first part of the questionnaire consist demographic profile of the respondents which was designed in a close ended question format. The second part covers the characteristics of MSE owners and their enterprises which is also prepared in a close ended and open-end question format. The third part use to identify the support given to MSEs by TVETs and other Institutions. The forth part use likert scale to identify key factors that affect the performance of MSEs. The Likert scale ranges from “strongly agree” to “strongly disagree” (5 = strongly agree, 4 = agree, 3= neither agree nor disagree, 2= disagree, 1=strongly disagree) so as to not limit the response of respondents to some limited ranges.

Questionnaires were designed both in Afan Oromo and Amharic languages. The purpose of translation from English to Afan Oromo and Amharic languages was to utilize those who cannot clearly understand English language so that respond easily.

3.5.2.1.2 Interviews:

Interviews were taken as an instrument to strength the investigation. The interview was structured to the MSED, TVET and OCSSCO officers. It was designed to understand the support given by different sectors. While the discussion with officials is in Afan Oromo, the interview questions are designed in English language.

3.5.2.2 Secondary data Sources

The primary data were supplemented by secondary data which include information that were gathered from various sources mainly by reviewing reports, bulletins, journals websites (www.google.com), literatures, variety of books, published and/or unpublished government documents, Central Statistical Agency (CSA), Ministry of Trade and Industry, Oromia Industry

and Urban Development Office, Oromia Micro and Small Enterprise Development Agency publications and official policy documents of government of Ethiopia which are relevant to the theme of the study to complement the survey-based analysis.

3.6 Research Quality Issues

Before data entry into computer a series of pretest was conducted the data scanning and scrutiny technique were employed from available questionnaires from respondents to examine and validate the survey instrument so as to ensure content validity and reliability.

3.6.1 Validity

To ensure validity study the triangulation technique by using interviews, questionnaires and secondary data analysis concurrently and done through piloting of the data collection instruments used to collect data. The data collection instruments designed in such a way that they measure attitudes and opinions of respondents towards the obstacles of MSEs to the maximum degree possible.

3.6.2 Reliability

Data reliability is a cornerstone of making a successful and meaningful study. The researcher designed the interviews and questionnaires through an elaborate procedure which involved a series of revisions under the guidance of the study supervisors to ensure the quality of data collected from the fieldwork.

3.7 Ethical Considerations

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent is secured before the commencement of distributing questionnaire and asking interview questions. Regarding the right to privacy of the respondents, the study was maintained the confidentiality of the identity of each participant. In all cases, names were kept confidential thus collective names ‘respondent’s sex’ was used.

3.8 Data Analysis Techniques

The data gathered edited for completeness then analyzed by using statistical package for social sciences (SPSS) version16 program which provides relevant analysis such as reliability analysis, frequency analysis, and regression analysis. Analysis of the study was done through descriptive statistics which measure used in the context of sampling analysis for comparing a variance. Regression is used to estimate the degree of association between the dependent variable (capital growth) and independent variables which includes the internal and external parameters.

3.9 Model Specification

The Ordinary least squares (OLS) regression with multiple explanatory variables model employed to determine the regression coefficients due to the continuous variable of the dependent variable.

The model specification test for this study explains the relationships between dependent variable (capital growth) and nine independent variables as follow.

$$y_i = \beta_0 + \beta_1 Mgrsk + \beta_2 Accintfin + \beta_3 Accrkd + \beta_4 Acctrain + \beta_5 Accmkt + \beta_6 Accinfra + \beta_7 AccrFIs + \beta_8 Wopre + \beta_9 Govpo + U_i$$

Where;

y_i = Growth of Capital (used as representative of performance).

$Mgrsk$ = Managerial skill,

$Accintfin$ = Access of internal finance,

$Accrkd$ = Accounting and record keeping skill,

$Acctrain$ = Access of training,

$Accmkt$ = Market access,

$Accinfra$ = Infrastructural access,

$AccrFfis$ = Access of Credit by the financial institutions,

Wopre = working premise,

Govpo = Government policy,

β_0 = Coefficient of intercept,

β_1 Mgrsk = Coefficient of managerial skills,

β_2 Accintfin = Coefficient of Access of finance,

β_4 Accrk = Coefficient of Accounting and record keeping skill,

β_5 Train = Coefficient of access of Training,

β_6 Accmkt = Coefficient of market access,

β_7 ScInfra = Coefficient infrastructural access,

β_8 AccrFIs = Coefficient of access of credit by Financial Institutions,

β_9 Wopre = Coefficient of working promise,

β_9 Govpo = Coefficient of Government policy,

Ui = the stochastic error term or extraneous variable: independent variables that are not related to the purpose of the study, but may affect the dependent variable are termed as extraneous variables.

3.10 The Study Area Profile

Jimma town is found in Jimma Zone of Oromia regional state. Historically, Jimma was founded in 1822 during the regime of emperor Aba Jifar I. It is located at 335 km by road southwest of Addis Ababa. Its geographical coordinates are approximately 7°41'N latitude and 36°50'E longitude. The town is found in an area of average altitude, of about 5400 ft (1780 m) above sea level. It lies in the climatic zone locally known as *Woyna Daga* which is considered best for agriculture as well as human settlement. The town bordered by Dedo Wereda in the South, Seka Wereda in the North-West, Kersa Wereda in the East, Manna Wereda in the North-West, and it possesses or covers a total area of 100.2 KM². The town is one of the 10 “grade A” towns found in Oromia National Regional State. Currently, the town comprises of 6 sub-cities (previously called Keftenyas) and 17 Kebeles which are 13 urban and 4 rural kebeles. Sub city is the second administrative level next to the municipal government while kebele is the least administrative level next to sub city. Ecologically, the town lies in wet land ecosystem, blundered by wet evergreen mountain forest. The mean daily temperature ranges from 12.1°C to 28°C; the annual rain fall ranges from 1450mm to 1800mm. The elevation of town ranges from 1720 meters above sea level of the airfield (kitto) to the highest 2010 meters above sea level of Jiren.

In terms of population size, the Jimma town population is estimated above 157,956 which 79,358 (50.2) are males and 78,598 (49.8) are females (CSA: 2010). According to JOFED, (2013) population has grown from 120,960 in 2007/2008 to 157,956 in 2013/2014 with the result that the number of poor people in the town increased. The number as well as rate of population is highly increasing from time to time i.e., there is high fertility rate and productive rate that migrate from rural to the town with the purpose of seek job. The town is home for people from various nations and nationalities that composed of different ethnic groups of the country. However, the dominant ethnic groups are Oromo, Amhara, Dawuro, Gurage, Kefficho, Yem, Silte and Tigre (CSA: 2007). Afan Oromo is the working language in government offices and also widely spoken in the town.

The town severs as commercial, political and economical center south-west part of the country for 184 years. Service and commercial trade are the dominant activities within the area of the town. It is also a place where many large scale wholesale and retail trades, hotels and big

businesses are conducting. Among the trades undertaken in the town, coffee is the dominant followed by vegetables, fruits and crops. There are more than 1,000; micro, small, and medium enterprises have been engaged in different sectors. No large scale industrial activities found in the town. The small scale and cottage industries includes grain mills, wood and metal workshops, coffee hullers, hollow block manufactures, bakeries and pastries. Wood works and grain mills account 70% of manufacturing sectors followed by coffee hullers and grain mills.

In terms of health service, there are 2 hospitals, 4 health centers, 17 health posts, 40 drug store, 4 drug distributors, 3 MCH clinic and 36 clinics, pharmacies. In the educational sector, the town has 38 kindergartens, 28 elementary schools, 2 preparatory school 6 secondary schools. Besides, 9 different colleges and 2 technical and vocational centers are found within the town.

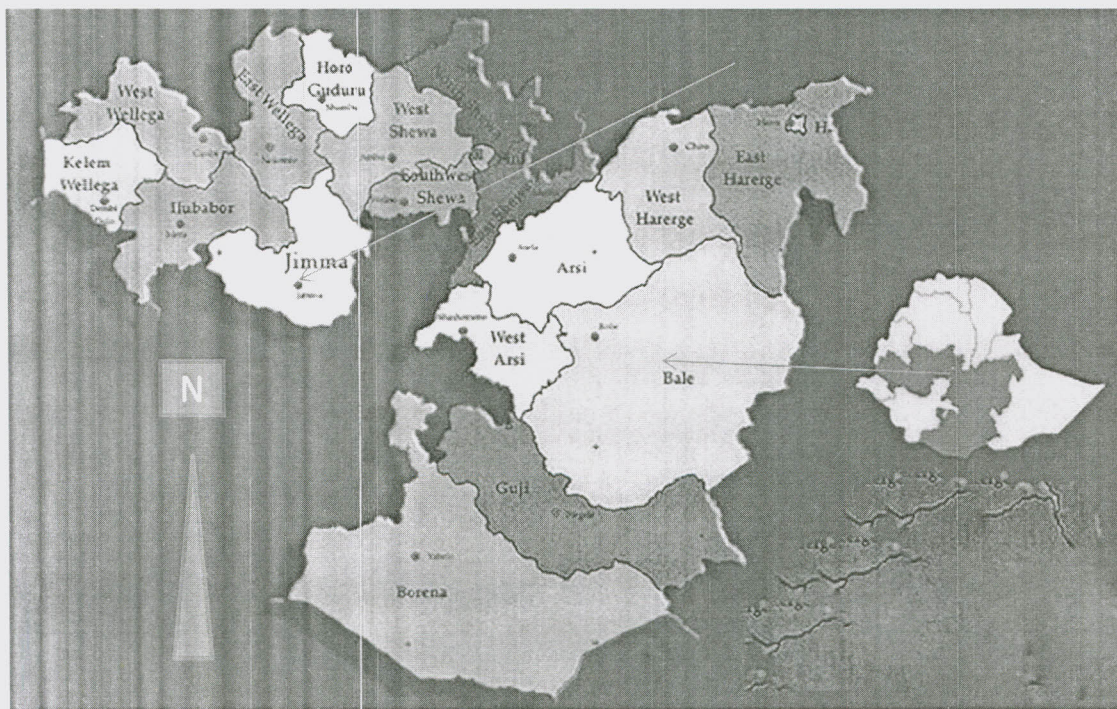


Figure 1: Location of study area – Jimma Town

3.11 Limitations of the Study

Due to time and resource constraints, the study covered only the MSEs located around the sub-city 1, 3 and 4 of Jimma town. The choice of sub-city 1, 3 and 4 is due to the fact that these sub-cities has large number of MSEs and well distributed of MSEs. The other limitation was the MSE reluctant to give their time to respond to the survey questionnaires for various reasons. So, repeated visits and attempts of clarifying objective of the visit were irritating and time taking. And also it makes to incur more cost in terms of money and time to collect and distributed questionnaire so as to maintain the predefined sample size. It was also observed from the interview that the OCSSCO interviewer was not respond on some issues related to quantitative variables.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

In the previous chapter, the overall methodology, which was focused on research approach, research strategy and the specific method of data collection and data analysis used in the study, has been presented. This chapter is dedicated to present the results and analysis of data collected via questionnaire, semi-structured interview and document analysis. Hence, the chapter was divided in to two main sub-sections. The first section presented and discussed descriptive statics results related with the demographic factors and the independent variables of the study and then followed by analysis of variance to examine in the variation on the performance MSEs in relation to the variables of the study.

Under the first section of this chapter participants' response to the open ended and closed ended item is presented as "yes" or "no" question to see factors affecting MSEs performance. Whereas, the Likert scale items dealing with internal and external challenges affecting the performance of MSE had a value where one represented "strongly disagree" to five "strongly agree" were analyzed.

Based on the sample for this study, a total of 244 questionnaires were distributed to 46 manufacturing, 33 construction, 60 service, 76 trade and 27 urban agriculture MSE operators. Out of the distributed questionnaires to manufacturing operators 46(95.8%), service operators 58(96.6%), trade operators 75(98.6%) were returned while the response rate of the construction and urban agriculture were 100%. Thus, the overall response rate of the five sectors was 239 (98%) and adequate to conduct the analysis on the basis of this response rate.

On the other hand, Jimma town MSED, OCSSCO and TVET coordinator were interviewed. Therefore, the data presentation and analysis hereafter are based on the final respondents' empirical data.

4.2 Data Presentation and Analysis

4.2.1 Demographic Profile of Respondents'

This section deals with the demographic profile of respondents by sex, age, educational level, and marital status. Its objective is to provide readers with a picture of the demographic composition of the respondents; it is not to compare their views across each characteristics. The major features are presented as follows.

Table: 4.1 Frequencies and Percentages Distribution of Respondents' Profile

1	Gender of Respondents'	Frequency	%	Cumulative percentage
	Male	163	68.2	68.2
	Female	76	31.8	100
	Total	239	100	
2	Age of Respondents'			
	18-25	111	46.4	46.4
	26-35	91	38.1	84.5
	36-45	37	15.5	100
	Total	239	100	
	Education Background of Respondents'			
	Illiterate	16	6.7	6.7
	Primary school complete	89	37.2	43.7
	High school graduate	91	38.1	82
	TVET graduate	20	8.4	90.8
	College diploma	13	5.4	95.8
	University degree	10	4.2	100
	Marital Status of respondents'			
	Single	140	58.6	58.6
	married	89	37.2	95.8
	Widowed	4	1.7	97.5
	Separated	6	2.5	100
	Total	239	100	

Source: Jimma MSE field survey, 2014

As shown in the table 4.1 the item 1, descriptive analysis shows that out of 239 MSE respondents, there were more male than female respondents. The results show that 163(68.2%) of the respondents are male and the remaining 76(31.8%) were female business owners. The majority of respondents, a total of 111(46.4%) were aged between 18 to 25 years old, 91(38.1%) were aged between 26 to 35 and 37(15.5%) were between 36 to 45 years old, which is believed to be at their younger and adult age. Thus they could be in a better position to work hard and improving their business growth. As far as the age of interview participants are concerned, except one officer whose age was between 26 to 36 years of old, two of them were found to be in the range of 36-45 years. When we see the educational level, most respondents were completed high school 91(38.1%) followed by those who completed primary level 89(37.2%), TVET 20(8.4%), illiterate 16(6.7%), diploma 13(5.4), first degree 10(4.2%). Concerning the educational level of the interviewees, 2(66%) of them were degree holders while 1(34%) diploma holder. Martial distribution of the respondents under item 4 indicates that the majority of MSE owners 140(58.6%) were single, 89(37.2%) 6(2.5%) and 4(1.7%) were married, separated and widowed respectively. All interviewees, 3(100%) of them were married.

4.2.2 General Characteristics of the Enterprises

4.2.2.1 Characteristics of Enterprises in Sector

The sectors in which respondents were engaged in is represented in the following table.

Table: 4.2 Sectors respondents engaged in

No	Enterprise Sector	Frequency	Percent	Cumulative percentage
1	Manufacturing	46	19.2	19.2
2	Construction	33	13.8	33
3	Service	58	24.3	57.3
4	Trade	75	31.4	88.7
5	Urban Agriculture	27	11.3	100
	Total	239	100	

Source: Jimma MSE Field survey, 2014

It is clearly seen from table above that the sample of respondents were operating in five sectors of the MSEs. Majority of the respondents 31.4% were engaged in the trade sector. The service sector accounts 24.3% of the respondents. The manufacturing, construction and urban agriculture take the remaining 19.2%, 13.8% and 11.3% respectively. This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems.

4.2.2.2 Enterprises and Respondents Profile

There are a number of distinct criteria that makes MSEs different from that other business ventures. The following table shows the characteristics MSEs by sectors.

Table: 4.3 Frequencies and Percentages Distribution of Enterprises by Sector

No	Item	Sector											
		Manu		Const		Service		Trade		U/Agr		Total	
1	Business Category												
	Micro Enterprise	38	15.9	28	11.7	51	21.3	72	30.1	23	9.6	212	88.7
	Small enterprise	8	3.3	5	2.1	7	2.9	3	1.3	4	1.7	27	11.3
	Total	46	19.2	33	13.8	58	24.3	75	31.4	27	11.3	239	100
2	Number of Employees												
	1-5 employees	22	9.2	21	8.8	49	20.5	71	29.7	23	9.6	186	77.8
	6-30 employees	24	10.0	12	5.0	9	3.8	4	1.7	4	1.7	53	22.2
	Total	46	19.2	33	13.8	58	24.3	75	31.4	27	11.3	239	100
3	Initial Capital												
	Below 25,000	-	-	23	9.6	33	13.8	59	24.7	27	11.3	142	59.4
	25,001– 50,000	43	18.0	10	4.2	12	5.0	15	6.3	-	-	80	33.5
	50,001– 75,000	3	1.3	-	-	13	5.4	1	.4	-	-	17	7.1
	Total	46	19.2	33	13.8	58	24.3	75	31.4	27	11.3	239	100
4	Current Capital												
	Below 50, 000	14	5.9	15	6.3	29	12.1	34	14.2	17	7.1	109	45.6
	50,001–75,000	14	5.9	10	4.2	26	10.9	26	10.9	5	2.1	81	33.9
	75,001– 100,000	11	4.6	4	1.7	1	.4	7	2.9	5	2.1	23	9.6
	100,001-125,000	7	2.9	4	1.7	2	.8	8	3.3	-	-	26	10.9
	Total	46	19.2	33	13.9	58	24.3	75	31.4	27	11.3	239	100
5	Source of finance												
	Personal saving	18	7.5	13	5.4	17	7.1	30	12.6	1	.4	79	33.1
	Support from Family	4	1.7	2	.8	15	6.3	12	5.0	2	.8	35	14.6
	Support from Gov't	5	2.1	5	2.1	-	-	-	-	-	-	10	4.2
	Borrowed from MFIs	16	6.7	3	1.3	7	2.9	6	2.5	-	-	32	13.4
	Borrowed from Friend	2	.8	6	2.5	13	5.4	15	6.3	10	4.2	46	19.2
	Iqub	1	.4	4	1.7	6	2.5	12	5.0	14	5.9	37	15.5
	Total	46	19.2	33	13.8	58	24.3	75	31.4	27	11.3	239	100

Source: Jimma MSE Field survey, 2014

As it is depicted in Table 4.3 majority of the enterprises 212(88.7%) were “Micro Enterprise” when the numbers of its employees (including the owner or family) are not greater than 5 & total asset is \leq 100,000 ETB for industrial sector and \leq 50,000 ETB for service sector while the rest of sample 27(11.3%) were small enterprises with 6-30 employees & total asset 100,001 to 1,500,000 ETB for industrial sector and 50, 0001 to 500,000 according to the classification scheme of MUDC.

Item 2 of the same table shows the MSEs number of employees. The result indicates the majority of the respondents 186(77.8%) of MSEs had employees less than 5 while 53(22.2%) had employees more than 6. This showed that most of the MSEs were under micro enterprise.

Item 3 of the same table shows the MSEs initial capital. The result indicates the majority of the respondents 142(59.4%) of MSEs initial capital was below Birr 25,000 whit the exception of manufacturing which its initial capital 43(18%) and 3(1.3%) initial capital was Birr 25,001to 50,000 and 50,001 to 75,000 respectively. This showed that most of the MSEs initial capital insufficient.

The result of table 4.3 item 4 also shows that majority of the study MSEs 109(45.6%) current capital was below Birr 50,000 and 81(33.9%) of MSE’s was between 50,000 to 75,000. Whereas, 23(9.6%) of MSEs and 26(38.5) MSES had between 75,001 to 100,000 and 100,001 to 125,000. the result shows that most of Jimma town MSEs are still under micro enterprise. Based on the policy of MUDC, Micro enterprises are expected to have capital enterprises with 6-30 employees & total asset 100,001 to 1,500,000 ETB for industrial sector and 50,001 to 500,000 to transform.

On the other hand, item 5 of the table above shows that majority of MSEs respondents 79(33.1%) use personal saving as main source of start-up funding in financing their enterprises. It is also clear that 46(19.2%) of the entrepreneurs borrowed from friends/relatives as their main source to start their enterprise. This shows that MSEs less source of finance from micro finance 32(13.4%), less support from government and no bank loans were used as source of financing their business.

4.3 Major Determents of Micro and Small Scale Enterprises Performance

In this sub section various challenges that affect the performance of MSEs discussed based on owners and stakeholders of Jimma town MSEs' responses. Accordingly, the responses of MSE owners for the questionnaires were presented in table 4.4 to 4.12 while data from the open ended items, interview and documents were used to substantiate the close ended items. The result of the correlation and regression for independent sample also used together with the data in the table to see if any statically significant differences found between the responses of MSEs owners at $\alpha = 0.05$.

4.3.1 Descriptive Statistics Result and Discussions of Variables

There are a number of challenges that affect performance of MSEs associated with different factors. The discussion here after is related to the descriptive statistics result of the nine independent variables i.e., four from internal and five from external that affect the performance of MSEs operating in Jimma town. The results for measures of central tendency and standard deviation were obtained from the sample of respondents of Manufacturing, Construction, Service, Trade and Urban Agriculture is shown in the following tables.

4.3.1.1 The Internal factor

4.3.1.1.1 Management skill

The first variable considered in this study managerial factor owner of the enterprises.

Table: 4.4 Management skills that affect the Growth of MSE Capital

Managerial related skill	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Lack of strategic business plan	4.2	.59	4.2	.71	3.3	.72	4.1	.66	3.1	.68	3.8	.8
Lack of management experience to run business	4.1	.66	4.1	.77	3.3	.71	3.9	.72	3.2	.77	3.7	.8
Total	4.2	.63	8.3	.74	3.3	.72	4	.69	3.2	.73	3.8	.8

Source: Jimma MSE Field survey, 2014

As shown in table 4.4 above, strategic business plan is the main problems that hinder the performance of Jimma town MSEs. It shows a mean score of 4.2 for both manufacturing and construction with standard deviation 0.59 and 0.71; and 4.1, 3.3, 3.1 with a standard deviation of

0.66, 0.72 and 0.68 for enterprise engaged in trade, service and urban agriculture respectively. Therefore, the average score of the respondents with regard to strategic plan indicates their agreement with little deviations among them.

Regards to management experience the mean scores are 4.1 for both manufacturing and construction with standard deviation 0.66 and 0.77; and 3.9, 3.3, 3.2 with a standard deviation of 0.72, 0.71 and 0.77 for enterprise engaged in trade, service and urban agriculture respectively. The likert scale result shows that 112(46.8%) of the respondents agreed that managerial skills lead to enterprise capital growth through improving business plan and relevant managerial skills in fields like finance and human resource, thus attracting many of the customers.

As interview, open and close ended items conducted with operators of MSEs, it was confirmed that MSEs has many management problems business plan and management experience to run their business. Accordingly, respondents were indicating the managerial problems faced by them as follows. Most of these enterprises 163(68.2%) operate without business plan while 76(31.8%) has plan less than one year. In line with interviewees commonly indicated that, 90% of micro finance institutions loan allowance for MSE owners relay on business plan. So MSEs do not get loan from micro finance institutions and fail before two years. Similarly, regarding management practice majority of MSE owners 187(78.2%) do not have prior business management experience while 37(15.5%) has manage experience.

To conclude, all these were by the respondents in this survey confirmed that management skill which constitute (business plan and managerial practice) is a factor that hinders the MSE's performance.

4.3.1.1.2 Access of Internal Finance

Starting own business requires finance. In order to get representative information regarding the relative importance of the financial factor, owners were asked their initial capital, source of finance, expenses and the way price product cost and whether they ever received credit from each of a given list of sources of finance. The following table 4.5 bellow depicts various challenges related MSEs finance.

Table: 4.5 Internal finance constraints that affect the Growth of MSE Capital

Financial Factor	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Poor sources of finance	4.1	.95	4.2	.68	3.72	.79	4.2	.7	4.1	.64	4.0	.78
Working capital Management	4.1	.64	4.2	.67	3.41	.75	3.9	.76	3.7	.72	3.9	.77
Unplanned withdrawal of cash for personal use	3.6	1.0	4.2	.77	2.16	.72	2.7	1.4	1.8	.58	2.8	1.3
Lack of knowledge to compute product cost	3.7	.75	2.7	.88	1.98	.66	3.1	1.2	1.7	.56	2.7	1.1
Total	3.8	.86	3.8	.75	2.8	.73	3.5	1	2.8	.63	3.4	.99

Source: Jimma MSE Field survey, 2014

As table 4.5 above shows a mean score of 4.2 for both trade and construction with a standard deviation of 0.7 and 0.68 respectively; 4.1 for both manufacturing and urban agriculture with standard deviation 0.95 and 0.64 respectively; and also 3.72 with standard deviation of 0.79 of service sectors have faced the problem of sources of finance. The frequency scores depicts that the respondents' of the five sectors agreement scale 126(52.7%) is agreed. Regarding deficient working capital management, a mean score of 4.2 with standard deviation 0.67 of construction; 4.1 with standard deviation 0.64 of manufacturing; 3.9, 3.7 and 3.41 with standard deviation of 0.76, 0.73 and 0.75 of trade, urban agriculture and service operators respectively. The likert scale result shows that 121(50.6%) of the respondents agreed that internal finance lead to enterprise capital growth through improving sources of finance, initial capital and working capital management, thus enhancing the MSE's performance.

The frequency score indicates that 142(59.4%) MSE's initial capital is below Birr 25,000 and 79(33.1%) MSE's source of finance was personal saving followed by 46(19.2%) borrowed from friends/relatives and 37(15.5%) Iqub. On the other hand, the interviewees' pointed that their enterprise capital is not grow due to the poor source of finance in the start-up stage, and less working capital management at the growth stages are the main bottlenecks of MSEs operators. Finally, from the frequency score 73(30.55) and 82(34.3%) of respondents are disagreed on unplanned withdrawal of cash for personal use and lack of knowledge to compute product cost affect their MSE.s performance with a mean score 2.8, 2.7 with standard deviation of 1.3 and 1.1 respectively.

To wind up, the MSE owners having better sources of finance, initial capital and working capital management has good growth of capital.

4.3.1.1.3 Accounting and Record keeping skill

Poor record keeping can also lead to stressed relationships with MSE owners which may result in difficulty in running their business operation. Lack of accounting and record keeping in addition to financial planning & forecasting skill has been referenced ever as causes of MSEs failure. The survey conducted by Survey on Micro and Small Enterprises (MSEs) in (2013) by The Federal Democratic Republic of Ethiopia Ministry of Urban Development and Construction (MUDC) supports this fact. The table hereunder presents the result of Jimma MSE survey as follows.

Table: 4.6 Accounting & record keeping factors that affect the Growth of MSE Capital

Accounting & Record keeping factors	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Lack of accounting and record keeping skill	4.1	.64	2.7	.89	3.4	.61	3.3	1.3	3.7	.76	3.4	1.0
Lack of financial planning & forecasting skill	4.1	.68	3.9	.83	3.3	.76	3.3	1.2	3.6	.79	3.6	.99
Total	4.1	.66	3.3	.9	3.4	.69	3.3	1.3	3.7	.78	3.5	1

Source: Jimma MSE Field survey, 2014

As can be observed in table 4.6, a mean score 4.1, 3.9, 3.6 with standard deviation of 0.68 0.83 and 0.79 of manufacturing, construction, urban agriculture and a mean score 3.3 for both service and trade sector with standard deviation of 0.76 and 1.2 respectively had lack of financial planning & forecasting skill. concerning lack of accounting and record keeping skill, a mean score of 4.1, 3.7, 3.4, 3.3, 2.7 with standard deviation 0.64, 0.76, 0.61, 1.3 and 0.89 of manufacturing, urban agriculture, service, trade and construction respectively.

From close ended data 73(30.5%) responded that they have no recording practice and 196(82%) do not have accounting and record keeping skill which in line with improper financial plan and forecasting skill. On the other hand only (3.8%) and 69(28.9%), of total sample enterprises have good record keeping practice, do record their transactions on continuous and irregularly basis respectively. Yet the quality of their record in providing clear sales and expenditure data, among others, and hence in mitigating risk is unknown.



In this regard in an interview conducted with the MSED0, OCSSCO and TVET, it was confirmed as MSE had problems which as poor record keeping and less quality in their record.

To summarize, Accounting and Record keeping practice is a determinant factor for the success and profitability of owners. From the survey, among the five sector operators manufacturing and service sectors have relatively better record keeping practice compared to those enterprises in construction, trade and urban agricultures which are found to have relatively bad record keeping practices.

4.3.1.1.4 Access of Training

Entrepreneurship and technical training enables individuals create to own businesses rather than seeking employment in any organization. The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy, entrepreneurial and technical awareness are seen as particularly important requirements to enable people to advance lower level activities into larger and better earning enterprises. The following table presents the Jimma MSE's survey result.

Table: 4.7 Training access that affect the Growth of MSE Capital

Training related Factor	Manuf		Cons		Service		Trade		UAG		Total	
	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>	<i>MN</i>	<i>SD</i>
Lack of entrepreneurial skill	4.3	.63	4.0	.87	3.4	.82	3.4	1.2	2.4	1.1	3.5	1.1
Lack of technical skill	4.2	.89	2.3	1.2	3.3	.90	3.6	1.2	2.4	1.1	3.3	1.2
Total	4.3	.76	3.2	1	3.4	.86	3.5	1.2	2.4	1.1	3.4	1.2

Source: Jimma MSE Field survey, 2014

From training related factors presented in table 4.7 above, lack of entrepreneurial skill is the first failure scores the highest mean as 4.3, 4.0, for manufacturing and construction sectors; 3.4 for both service and trade and and 2.4 for urban agriculture with standard deviation of 0.63, 0.84, 0.82, 1.2 and 1.1 respectively. Lack of technical skill also affects the performance of MSEs sectors. Their mean score of 4.2, 3.6, 3.3, 2.4 and 2.3 with standard deviation of 0.89, 1.2, 0.9, 1.1 and 1.2 for owners engaged in manufacturing, trade, service, urban-agriculture and construction sectors respectively.

The likert scale result show that the 98(41%) and 75(31.4%0 of sample MSEs agreed as owners have lack of entrepreneurial and technical skill respectively. Similarly, interviewees together indicated that, as MSE owners have entrepreneurial skills (record keeping, pricing and product inspection practices); and low technical skills that cause MSE failure.

To conclude, exposure to training increase owner’s knowledge in utilization beyond traditional approaches. Unequal accesses to entrepreneurial and technical capacity development training among MSE owners in the study areas also have contributed to performance.

4.3.1.2 External Factors

4.3.1.2.1 Access of Market

The ability to tap into new markets requires expertise, knowledge and contacts. Women often lack access to training and experience in on how to participate in the market place and are therefore unable to market goods and services strategically. MSEs usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. This assertion also holds true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector.

Table: 4.8 marketing accesses that affect the Growth of MSE Capital

Marketing related factor	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
lack of market for the product/service	2.6	1.4	1.9	.87	2.6	.99	2.7	1.1	4.2	.66	2.7	1.2
Inappropriate market linkage	3.1	1.1	2.0	.97	3.6	.77	3.8	.82	3.9	.7	3.4	1.1
Total	2.9	1.3	3.9	2	3.1	.88	3.3	.96	4.1	.68	3.1	1.2

Source: Jimma MSE Field survey, 2014

As the mean score 3.9, 3.8, 3.6, 3.1, and 2.0 with standard deviation 0.7, 0.8, 0.7, 1.1 and 0.97 of urban agriculture, trade, service, manufacturing and construction show the inappropriate market linkage of for their product respectively. Majority of respondents is almost undecided which means that they neither agree nor disagree on the market linkage of their products. To the contrary, grand mean scores 2.7 and standard deviations 1.2 clearly shows respondents disagreed on the lack of market for their product with almost little difference of sectors.

From open and close ended question 123(51.5%) MSEs lack of promotion to attract potential customer for their product or services. Likewise, 167(69.9%) sold their product/service in town boundary. This is justified by the mean score of 2.65 and 1.3 with standard deviation of 1.50 and 0.46 respectively. Similarly, majority of interviewees widely said that, there is no market problem for product and services. Otherwise, the quality of the product they produce and the service they rendered; lack of managerial, technical and entrepreneurial skill of owners made MSEs failure.

Therefore it is possible to conclude that, even though lack of promotion to attract potential customer and inadequate the market linkage for the MSE product or services, market is not serious obstacles to the starting of businesses and growth beyond mere subsistence level. Thus, market is not the constraints for MSE's performance.

4.3.1.2.2 Infrastructural Access

Infrastructure is one of the basic factors required to enhance the pace of industrialization in any country. Infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage systems, etc. are crucial infrastructural facilities and utilities which warrant the growth and expansion of business enterprises.

The mentioned physical infrastructure elements are not adequately developed and expanded to meet the growing demand of business activities in Ethiopia. The main factor for such underdevelopment is due to the obvious nature of infrastructural projects which entail huge investment cost outlays. Hence, most enterprises particularly the small and micro enterprises are facing serious problems in this regard.

Table: 4.9 Infrastructural accesses that affect the Growth of MSE Capital

Infrastructure Related Factor	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Disruption of electricity supply	3.1	1.1	2.0	.97	3.6	.77	3.8	.8	3.9	.7	3.4	1.1
Poor waste disposal system	3.9	.90	4.2	.90	3.4	.77	3.8	.6	4.2	.66	3.8	.82
Total	3.5	1	3.1	.94	3.5	.78	3.8	.7	4.1	.68	3.6	.96

Source: Jimma MSE Field survey, 2014

The result presented in table 4.9 shows that poor waste disposal system is the main problem followed by disturbance of electricity supply that hinders the business performance of all MSE sectors. The mean scores of poor waste disposal system are 4.2, for both construction and urban agriculture with standard deviations of 0.9 and 0.66 respectively; 3.9, 3.8, 3.4 with standard deviation of 0.9, 0.6 and 0.77 for manufacturing, trade and service sectors respectively. Of sample respondents 119(49.8%) agreed and 45(18.8%) strongly agreed. The mean scores of disruption of electricity supply are 3.9, 3.8, 3.6, 3.1 and 2.0 with the standard deviations of 0.7, 0.8, 0.7, 1.1 and 0.97 for urban agriculture, trade, service, manufacturing and construction sectors respectively. Of sample respondents 93(49.4%) agreed and 30(12.6%) strongly agreed.

In an interview conducted with sector officers, it was confirmed that absence, insufficient and interrupted water supply, and lack of appropriate dry waste and sewerage system are the main challenges that hinder the performance of business operators engaged in service and urban agriculture sectors. Disruption of electricity is also the main problem that hinders the manufacturing, service, urban agriculture, construction and trade sectors respectively. Shortage of telecom and internet service is the other problem to those in service sector.

To summarize, Shortage and lack of infrastructure such as adequate roads as well as, telecom and electricity facilities are all that prevent effective operation of MSE businesses. This fact results in MSEs being unlikely to sell to distant areas located far from their territory.

4.3.1.2.3 Access of Credit by Financial Institution

MSEs cite the lack of finance as the greatest constraint to their growth and development, whether they are formally registered or not. The financial needs of different types of micro and small enterprises vary widely, with access problems particularly severe for start-up enterprises. In this regard, the formal financial institutions are reluctant to avail credit facility to the sectors. Their standards of operation, the long waiting time they take to sanction loans, unfavorable disposition towards small loans due to high administrative costs involved in financing them and the stiff and limited collateral requirements are some of the problems that are found to be discouraging micro and small enterprises from approaching them. Thus, the portion of informal sector business operators with access to formal financial institutions is very low. Hence, one of the areas of intervention to ease the problem of MSEs in this regard is to facilitate accessibility to capital.

Table: 4.10 Access of credit Factor that affect the Growth of MSE Capital

Item	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Collateral requirement by lending institutions	3.9	.68	4.2	.71	3.7	.78	3.5	.92	4.1	.59	3.8	.81
high Interest rate	3.9	.90	4.2	.71	3.2	.89	3.9	.81	4.2	.74	3.9	.91
Complicated loan application procedures	3.7	1.0	3.9	1.0	3.6	.97	3.7	.74	3.7	.71	3.7	.9
Total	3.8	.86	4.1	.81	3.5		3.7	.82	4	.68	3.8	.87

Source: Jimma MSE Field survey, 2014

As it can be seen in table above, high Interest rate was the main problem of MSEs, the mean scores 4.2, with standard deviation of 0.74 and 0.71 for both urban agriculture and construction; 3.9 with standard deviation 0.81 and 0.9 for trade and manufacturing; and 3.2 with standard deviation of 0.89 respectively. Of sample respondents 108(45.2%) agreed and 61(25.5%) strongly agreed. Mean score of 4.2, 4.1, 3.9, 3.7 and 3.5 with standard deviation 0.71, 0.59, 0.68, 0.78 and 0.92 of respondents shows that Collateral requirement by lending institutions was second problem that hinder access to finance. Of sample respondents 118(49.4%) agreed and 43(18%) strongly agreed. In addition, the complicated loan application procedures by the FIS with little variation of mean score and standard deviation among MSE sectors.

According to them, this is Since such sources usually take place among parties with intimate knowledge and trust of each other, making the need for security (in the form of asset collateral/guarantee) low.

To conclude, because of the view that the requirement of collateral and loan application procedures MSEs are completely none in case of loan from banks, are not willing to provide credit service for MSEs. The credit facilities of MSEs have been only relied on microfinance and other traditional financial institutions such as Idir and Iqub. The access to credit facilities given by these institutions is not enough for all MSEs.

4.3.1.2.4 Working Premise

The development of business and industrial premises (shops, offices, factories, market stands, etc.). The establishment of commercial premises and other common facility centers is believed to ease the existing problems with regard to utility and other infrastructural facilities, through

sharing installation costs among beneficiaries and making efficient use of resources. Such services could be given to the needy and emergent enterprises at affordable rents. The implementation of such activities will be as follows:

Table: 4.11 working promises that affect the Growth of MSE Capital

Working promises related factor	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Absence of own premises (land) to run business	3.5	1.1	1.9	.91	3.31	.73	4.0	.77	4.2	.64	3.5	1.1
Inadequate working place for business operation	3.7	.98	2.2	1.3	3.16	.93	4.2	.58	4.3	.72	3.6	1.1
Total	3.6	1.1	2.1	1.1	3.2	0.8	4.1	.68	4.3	.68	3.6	1.1

Source: Jimma MSE Field survey, 2014

As it can be seen in table above, inadequate working place for business operation is the main problem of MSEs. The mean scores are 4.3, 4.2, 3.7 3.16 and 2.2 with and standard deviations 0.72, 0.58, 0.98, 3.16 and 1.3 for urban agriculture, trade, manufacturing, service and construction respectively. Of sample respondents 101(42.3%) agreed and 49(20.5%) strongly agreed. The mean and standard deviation of absence of own premises (land) to run business are 4.2, 4.0, 3.5, 3.31 and 1.9 with standard deviation 0.64, 0.77, 1.1, 0.73 and 0.91 for urban agriculture, trade, manufacturing, service and construction respectively. Of sample respondents 98(41%) agreed and 37(15.5%) strongly agreed.

According to the interview with the officials, the municipality in providing working premises (land), the OCSSCO providing loan and TVET provide training to MSEs. In contrast to this, according to some interviewees of MSEs operators, lack of working place is the major problem followed by absence of own premises (land) to run their business.

To conclude, though municipality providing working promises to MSEs, the number of MSEs and promises providing is not related. Thus, working promises related factor is the main constraints among factors.

4.3.1.2.5 Government Policy

Inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as critical constraints on micro and small enterprises access to market and as obstacles to their growth. Since the federal and regional governments are responsible for the legislative and regulatory framework and its ongoing adjustment, it is also their role to assure the appropriateness of these rules and regulations for the micro and small enterprise sector at all levels.

The government is committed towards appropriate regulations, which are the result of transparent, consultative processes, with all the interested groups having a chance to state their interests and concerns, and with national economic growth and job creation framework as its overriding objective.

Based on this approach the MSE strategy, in co-operation with the regional bureau, the Federal Agency and Regional MSE development and promotion agencies, or the designated organs will closely monitor and, where necessary, co-ordinate and assist the regulatory reform process, with particular emphasis on the following spheres:

Assessments by different Federal government ministries and Regional government bureau and consultations with relevant stakeholders about the appropriateness of existing and proposed legislation and regulations in the fields of tax assessment, registration and licensing, tendering procedures, and how they can be made more suitable for small enterprises.

The government, in this regard shall also establish a user-friendly environment for the simplification and standardization of documents. This includes: business registration and licensing; financial and loan applications; purchasing and sub-contracting (tender) document; export documentation and other commercial documents; registration of contracts with municipalities, authentication of contracts at notary public and simplified tax declaration forms for small businesses.

In this regard a task group will be appointed from among relevant government departments and concerned parties to study and make recommendations about the simplification of existing

systems and to suggest improvements. Progress in this area will also be documented in the annual MSE Review Report.

Table: 4.12 Government Policy that affect the Growth of MSE Capital

Government Policy Related Factor	Manuf		Cons		Service		Trade		UAG		Total	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Unreasonable tax levied of businesses	3.8	.95	4.0	.75	3.4	.75	4.0	.79	2.8	.62	3.7	.9
Bureaucracy in business registration and renewal of licenses	3.3	.97	4.1	.81	3.4	.70	3.7	.92	2.8	.58	3.5	.9
Total	3.5	.96	4.4	.8	3.4	.73	2.1	.86	2.8	1.2	3.6	.9

Source: Jimma MSE Field survey, 2014

As shown in table 4.11 above, unreasonable tax levied of the businesses is the main problems that hinder the performance of MSEs. It shows a mean score of 4.0 with standard deviation 0.79 and 0.75 for trade and construction respectively. Mean score 3.8, 3.4, 2.8 with standard deviation of 0.95, 0.75, and 0.62 for manufacturing, service and urban agriculture respectively. From the sample respondents engaged in five sector 107(44.8%) agreed and 41(17.2%) strongly agreed as the tax levied on their business is not reasonable.

The other problem relating to government policy is bureaucracy in business registration and renewal of licenses. Mean score of 4.1, 3.7, 3.4, 3.3 and 2.8 with standard deviation 0.81, 0.92, 0.97, 0.7 and 0.58 for construction, trade, service, construction and urban agriculture respectively. Of sample respondents 93(38.9%) agreed and 29(12.1%) strongly agreed.

The interview conducted with MSE officials confirmed that there are problems related to tax evade by MSE owners. In contrary, the interview conducted with TVET official confirmed out the as there is implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that help MSEs.

The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overloaded with other routine activities of their

respective offices, which resulted in abandoning or being irresponsible to the issues of the MSE operators.

Finally, the inconsistent impact of the government regulation taxation system, licensing and registration requirements, can impose excessive and unnecessary burdens on growth and survival of MSEs in Jimma town and might otherwise drive out some of these MSEs who make substantial contribution to the economy.

4.3.1.2.6 Comparison of Constraints that affect MSE’s performance

Even though, all factors affecting the performance of MSEs, this does not necessarily mean that all have equal impact. The following table clearly compares the overall impact of all the key factors discussed in detail above.

Table: 4.13 Comparison of the major constraints that affect the Growth of MSE Capital

No	Factors	Gr. Mean	Grand Sta. Deviation	Rank
10.1	Management skill	3.70	.81	5
10.2	Access of internal Finance	3.86	.853	3
10.3	Accounting and Record keeping	3.10	1.15	9
10.4	Access of Training	3.63	1.003	7
10.5	Access of Market	3.64	1.01	6
10.6	Infrastructural access	3.85	.882	4
10.7	Access of credit by Financial Institution	4.01	.85	1
10.8	Working promise	3.97	.840	2
10.9	Government Policy	3.32	.806	8
Grand mean/standard deviation		3.68	.912	

Source: Jimma town field survey, 2014

It can now be seen that financial institution related factors has the biggest potential to contribute to the performance, followed by and working premise, finance, infrastructural, management, marketing, training, government and recordkeeping factors. In another words, the result shows that financial institution and working premises factors are the two highest factors that affect the performance of MSE in the selected area.

4.3.2 Results of Inferential Statistics

In this section, the results of inferential statistics are presented. For the purpose of assessing the objectives of the study, Pearson's Correlation Coefficient and regression analyses were performed. With the aid of these statistical techniques, conclusions are drawn with regard to the sample and decisions are made with respect to the research hypothesis.

4.3.2.1 Pearson's Correlation Coefficient

In this study Pearson's Correlation Coefficient was used to determine whether there is significant relationship between management, internal finance, accounting and record keeping skill, access of training, access of market, infrastructural access, access of credit, working premises and government policy variable with performance. The following section presents the results of Pearson's Correlation on the relationship between independent variables and dependent variable. The table 4.14 below indicates that the correlation coefficients for the relationships between performance and its independent variables are linear and positive ranging from substantial to strong correlation coefficients.

Table: 4.14 Relationship between independent variables and performance

factor		Performance
Management skill	Pearson correlation	.743
	p- value	.002
Access of internal Finance	Pearson correlation	.816
	p- value	.000
Accounting and Record keeping	Pearson correlation	.510
	p- value	.004
Access of Training	Pearson correlation	.698
	p- value	.003
Access of Market	Pearson correlation	.725
	p- value	.002
Infrastructural access	Pearson correlation	.809
	p- value	.000
Access of credit by FIs	Pearson correlation	.836
	p- value	.000
Working premise	Pearson correlation	.822
	p- value	.000
Government Policy	Pearson correlation	.643
	p- value	.003
Correlation is significant at the 0.05 level (2-tailed)		

Source: Jimma MSE Field survey, 2014

Where; $Performance = \frac{\text{Total sum of squares}}{\text{the total Pearson correlation value of each independent variable column in correlation matrix}}$ is divided by the square root of the total column sums; Column sums of each independent variable 3.57, 3.93, 2.46, 3.36, 3.49, 3.89, 4.03, 3.96, 3.09; The total column square root of 23.08 = 4.8; p the value from correlation matrix

It is indicated in the above table 4.14, a strong positive relationship was found between access of credit by financial institution and performance ($r = .836$, $p = .0001$), working premise and performance ($r = .822$, $p = .0001$), access of internal finance and performance ($r = .816$, $p = .0001$), which are statistically significant at 95% confidence level. This implies that at a 5% level of significance it was discovered that the access of credit by financial institution, working premises and access of internal finance plays a significant role in determining the performance of MSEs in the selected sub-cities.

Furthermore, the table presents the relationship between the selected variables and performance of MSEs for a sample of 239 operators in sub-city 1, 3 and 4 of Jimma town. There is substantial, however statistically significant relationship between infrastructures and performance ($r = .909$, $p = .0001$), management and performance ($r = .743$, $p = .002$), marketing ($r = .725$, $p = .003$), training ($r = .698$, $p = .003$), government policy ($r = .643$, $p = .003$) and accounting and record keeping skill ($r = .510$, $p = .004$). This would imply that, the more access of infrastructures, management skill, market linkage, access of training, government policy application and accounting and record keeping of MSEs' the better performance of MSEs would be, otherwise MSEs performance poor. Thus the variables are statically significant at 95% confidence level.

4.3.2.2 Regressions Analysis

In order to determine the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed. The results of such analysis are narrated under table 4.15.

Table: 4.15 Regression Analysis Tables

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886 ^a	.785	.782	.227

a. Predictors: (Constant), Government Policy, Infrastructural access, Internal Finance, Access of Market, Access of Training, Access of credit by Financial Institutions, Working premise, Accounting and Record keeping skill, Management skill

Coefficients						
Model		Un-standardized Coefficients		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.395	.267		-3.519	.003
	Management skill	.220	.036	.244	7.375	.002
	Access of internal Finance	.255	.064	.268	6.656	.0001
	Acc. & Record keeping skill	.176	.059	.194	6.727	.004
	Access of Training	.188	.065	.212	6.228	.003
	Marketing access	.20	.059	.216	6.951	.002
	Infrastructural access	.248	.067	.263	7.314	.0001
	Access of credit by FIs	.332	.052	.338	9.253	.0001
	Working premise	.298	.055	.300	8.215	.0001
	Government Policy	.179	.070	.198	6.011	.003

Source: Field survey, 2014

For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed. The results of such analysis are narrated under.

Table: 4.15 above displays the estimates of the multiple regression of performance against its variables for the sample of 239 MSE owners. The hypothesis which states there is no significant relationship between the constraints and the performance (capital growth) of MSEs at a 5% level of significance. However, it was discovered that all the variables have a significant role in

determining the performance of MSEs'. Thus, the null hypothesis is rejected and it is accepted that, the internal and external business environment have significant relationship with the performance of MSEs in the study area, sub-city 1, 3 and 4 of Jimma town.

It also discovered that, the correlation between the observed value of performance and the optimal linear combination of the independent variables (management, finance, accounting and record keeping skill, access of training, Marketing, infrastructural access, access of finance by financial institution, working premise and government policy factors) is 0.886, as indicated by multiple R. Besides, given the R Square value of 0.785 and adjusted R square value of .782, it may be realized that 78.5% of the variation in performance can be explained by the independent variables. The remaining 21.5 % of the variance is explained by other variables not included in this study. The un-standardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

$$\begin{aligned} \text{Predicted performance score} = & -.395 + .220(\text{managerial}) + .255(\text{finance}) + \\ & .176(\text{Record keeping}) + .188(\text{training}) + .20(\text{marketing}) + .248(\text{infrastructural}) + \\ & .332(\text{access of credit by FI}) + .298 (\text{Working premise}) + .179(\text{Government Policy}). \end{aligned}$$

Table further shows that all the explanatory variables included in this study can significantly explain at 95% confidence level to the variation on the dependent variable.

The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized we can compare them. Thus, the largest influence on the performance of MSEs is from the access of credit (.332) working premises factor (.298) and the next is financial factor (0.255). On the other hand training with the beta value of .188, government policy with the beta value of .179 and accounting and record keeping with beta .176 have the poorest predictor of performance when it is compared with the other explanatory variables under study.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the final part of the thesis. In this chapter, the major findings are summarized; conclusions are drawn based on the findings and recommendations are forwarded for the concerned bodies. For clarity purpose, the conclusions are drawn based on the research objectives of the study. Based on the findings of the study recommendations are made to concerned government bodies, MSE operators and suggestion for other researchers.

5.1 Summary

This study was designed to assess the factors that affect the performance of MSEs owners in Jimma town. To this effect, the descriptive survey method was employed. In addition to this, from a total of 239 MSE respondents found in three sub cities those engaged in 5 sectors were participated in the study as sources of information using stratified random sampling. Questionnaire, semi-structured interview and document analysis were utilized as data collection instruments to get the appropriate information from the targeted respondents.

Questionnaire that include demographic profiles and factors that affect the performance of MSEs operators was designed in an open ended, closed ended and likert scales. Moreover, semi-structured interviews were held with top officials of MSEs, OCSSCO and TVET. The collected data were analyzed using simple statistical techniques (tables and percentages), descriptive statistics (mean and standard deviations) and statistical tests Regression analysis for the independent variable were used. While the qualitative data from open ended items and interview used to supplement the quantitative data. In doing so, the data collected from both quantitative and qualitative instruments addressed the following five basic research questions of the study:

The study was guided by the following basic research questions:

1. What are the constraints that affect the performance of MSEs in and how these constraints influence the MSEs performance?
2. What internal and the external environment affect the performance of MSEs?
3. What are the Government policies influence the performance of MSEs in Jimma town?
4. What strategies should be employed by concerned bodies to minimize the MSE performance constraints?
5. What are the recommendations (guiding principles) used to improve the MSes performance?

Based on 239 respondents and interview results acquired from the concerned officials, the major findings of this study are summarized as follows.

- It was confirmed that managerial skills were key to the MSEs and lack could lead to business failure. This shows that managerial skills have a strong, positive and significant influence on the growth of MSEs. The respondents clearly recognized the importance of managerial skills as critical to MSE capital growth.
- Incapability of internal financing which include (poor sources of finance, less initial capital and lack working capital management) an obstruction that hinders the capital growth of MSE.
- It was revealed that most MSE owners did not employ financial record; determines optimal financing planning, management and decisions that affect their performance.
- Unequal accesses to entrepreneurial and technical capacity development training among owners in the study areas also affect the MSE's performance.
- The inconsistent government regulation, taxation system, licensing and registration requirements, can impose excessive and unnecessary burdens on growth and survival of MSEs in Jimma town.

5.2 Conclusions

This research was conducted in the sub-city 1, 3, and 4 of Jimma town with the prime intent of evaluating the performance constraints of MSE owners engaged in manufacturing, construction, service, trade and urban agriculture. Specifically, the study attempted to examine the internal and external factors and recommend possible solution used to lessen the problem. Based on the objectives and findings of the study, the following conclusions are worth drawn.

The main internal or endogenous constraints that affect the performance of MSE owner's were access of internal finance which hinder MSEs performance which includes less source of initial capital i.e., the original investment or money used to start the enterprise is below 25,000 ETB. The main sources of startup and expansion finance or funds for most MSEs are personal savings followed by borrowed from friends/relative, Iqub. Lack of working capital management skill is the other problem. The second is management skill which includes lack of strategic business planning and lack of management experience to run their business. The third problem was lack of training which includes lack of technical and entrepreneurial skills. Informal training received by entrepreneurs and workers to improve their technical skills or business management is more practical than formal education. The fourth internal factor that affects the MSEs performance is accounting and record keeping skill of MSEs owners.

Thus those enterprise owners start their business with high initial capital; having management skill; having entrepreneurial and technical, accounting and record keeping skill through formal or informal training have better performance than those started their business with less initial capital and those do not have management, entrepreneurial and technical skill. MSE owners having accounting skill and employ record keeping system have better performance than those do not apply.

The main external factor that affect the growth of capital of MSE is that access of credit by the financial institutions followed by working premise, access of infrastructure, market access and government policy. The supply of credit from the informal institutions and the inability of many operators to meet formal financial institutions requirements like business plan were linked to less performance. The workings premises factors include absence of own premises (land), lack of enough working space and inappropriate working place for business operation.

Enterprises located at commercial district and road side grow faster than those outside. Creating commercial centers and sewerage system could improve the growth of MSEs. The external sources of finance by formal financial institutions have not been able to meet the credit needs of the MSEs. High interest rate, complicated loan application procedures and collateral requirement, most MSEs have been forced to use the informal institutions for credit.

According to the findings, the government policy implementation problem ranges from unreasonable tax levied of businesses, bureaucracy in registration and renewal of licenses and lack of commitment by some governmental bodies to implement MSE strategy was also the main problem that hinders the MSE's growth of capital.

Enterprises those have access of credit from micro finance; appropriate working promise, i.e., near to market, road, having production and marketing place; having good access of infrastructure i.e., power, water, Tele, internet and waste disposal system and those access of market linkage and promote their business have good performance than don not have such access.

Those enterprise found where the government policies are well implemented, have good opportunity of to grow capital than those found where the government policy is poorly applied which affect the performance of MSEs.

It is envisaged that this research will provide an explicit picture to both the academic and policy community in regards to the internal and external obstacles faced by owners of MSEs. It should assist the policy makers in designing and implementing specific and well targeted policies for the overall benefit of MSEs.

5.3 Recommendations

Suggestions for corrective and harmonizing measures to enhance the potential performance of MSEs are essential. Such recommendations demand a comprehensive analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of the study, the following recommendations are forwarded to ORMDSDA, MSEDOS, Micro Finances Institutes and TVET Institutions.

5.3.1 MSE Owners:

- To enhance their enterprise performance owners should gain the required management skills.
- MSE owners should capacitate their accounting skill in order to fill their gap in the areas of financial management and financial planning.
- should uphold cash flow and financial planning skill
- should minimize personal and administrative costs;

5.3.2 ORMDSDA:

Since MSEs have less the internal source of capital, initial capital, the use of external finance is found to have a positive contribution for enterprise growth. Therefore,

- .Should advocate adequate provision of finance to MSE development programs.
- Should specialized microfinance services that benefit MSE development.
- Initiating specialized lending services to MSE in the existing microfinance institutions i.e., OCSSCO must be required.
- Government sponsored programs for delivering credit and equity funds of MSEs.

5.3.3 MSEDOS Officers:

- MSEs Officers should design the way of discussion municipalities and other administrative bodies to improve and provide convenient work place with the necessary access (power supply and waste disposal system) for all MSEs.
- They should also arrange mechanisms through which MSE owners can easily access administrative bodies and OCSSCO so that they can be beneficiaries of different governmental incentives such as to minimize the unreasonable tax levied and to make sufficient loan.
- Improved business monitoring

- Ensuring that MSEs keep proper financial records.
- Providing market linkage and promotion and display places the MSE product/service in areas close to working area.

5.3.4 Micro finances Institutions:

- In view of the fact that group cannot have the same thinking level, attitude and commitment as there are personal differences, therefore institutes should allow individual lending systems.
- Should regulate the interest rate charged on MSE loan and simplifying loan application process
- Increase in amounts of loans
- Timely disbursement of the funds
- Should inspire and encourage MSE owners saving habits

5.3.5 TVET Officers:

- Should provide both technical and business trainings to MSEs so that these entrepreneurs can with stand competitions, develop entrepreneurial sprits, improve managerial skill in such a competitive world.
- Should be involved the recruitment and selection of candidates rather than making it as a sole responsibility of MSEs.
- Should implement targeted skills development training to promote the entrepreneurial skill (like accounting, marketing, and using record keeping mechanism) and technical skill of MSE operators.
- Should develop and equip youth with market-ready skills that will ensure the effective transition into employment, by understanding and identifying market opportunities in the areas in which they live.
-

Finally, a result of this the findings of study do not necessarily concern other MSEs operating in sub-city 2, 5 and 6 of Jimma town or other business organization than MSEs. Therefore, the results cannot be generalized to Micro and Small Enterprises that were not part of this study. Repeating of this study using larger samples size and a broader geographic base is suggested for cross-validation purposes. Another approach could be to conduct a longitudinal nationwide study in order to identify the factors that hinder the performance of MSEs.

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Appendix 1

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSC PROGRAM

Questionnaire to Be Filled By MSE Operators /Owners

Dear respondent,

I am a graduate student in the department of Accounting and Finance, Jimma University. Currently, I am undertaking a research entitled '*Performance Constraints of Micro and Small Scale Enterprises: The Case of Jimma Town*'. The aim of this study is to identify causes that affect the performance of Micro and Small Enterprise in Jimma town. *I would like to promise you that the information you provide will be used purely for academic purpose; no individual's responses will be identified as such and the identity of persons responding will not be released to anyone. So its confidentiality is highly guaranteed.* Your honest and thoughtful response is helpful as a great input to the quality of the research results. And, I believe that you will broaden your assistance by participating in the study. This questionnaire contains only three sections and will be expected to take approximately 15 to 25 minutes to complete. You are therefore kindly requested to provide accurate answer to assuring questions.

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

Sincerely,

Esmael Sanbi

Instructions:

- I. No need of writing your name
- II. For Open-ended questions indicate your answers by write the appropriate answer on the blank space provided in front of the question.
- III. For Close-ended questions indicate your answers by Circle one in the appropriate choice.
- IV. For Likert scale type statements indicate your answers with a check mark (√) in the appropriate block.
- V. If you have comments or if you want to provide further explanations, please use the space provided at the end of the questionnaire.

Part one: Demography

1. Your Gender category: Male Female
2. Your marital status: Single Married Widowed Separated
3. Your educational background
Illiterate Primary school High school TVET Diploma 1st Degree 2nd Degree
4. How old are you? 18-25 26-35 36-45 46-55 > 55

Part 2: General Information on Business Enterprises**A. Open-Ended Questions**

1. Your Business Category (micro, small) _____.
2. In what sector your enterprise operates? _____.
3. When did your business start? (Year) _____, your business experience? _____ years
4. The reason for starting your business is? _____
5. The principal owners of your enterprise are male _____ Female _____ Total _____
6. How many employees are working currently in the enterprise including the principal owner of your enterprise _____
7. What are the criteria for your business apply to pay members work in the business?
 - a. If payment is in regular payment per day amount paid (Birr) _____
 - b. If payment is in pieces of item produced/service rendered/ amount paid (Birr) _____
 - c. If other, specify _____
8. What is the average Expense of your business per annum? Birr _____.

9. What is the average Sale of your business per annum? Birr _____.
10. How much was your initial capital/working capital/ at the time your business start? Birr ____.
11. How much is the current capital of your enterprise? Birr _____

B. Close-Ended Questions

1. Do you have management skill to lead your enterprise?
 - A. Yes
 - B. No
2. If your response for question **1** is “**Yes**”, where have you got this skill?
 - A. Through Training
 - B. through Experience
 - C. through Education
 - D. Naturally gifted
 - E. If others specify _____
3. What was the source of fund when you start your business?
 - A. Personal saving
 - B. Support from family
 - C. Support from Government
 - D. Borrowed from Banks
 - E. Borrowed from Micro finances
 - F. Borrowed from Friends/ Relatives
 - G. Iqub
 - H. If other, specify_____
4. Did your business employ/use financial record keeping?
 - A. Yes
 - B. No
5. If your response for question **4** is “**Yes**”, what kind of record was employed?
 - A. Daily transaction record
 - B. Occasional base record
 - C. Income statement
 - D. Balance sheet
 - E. If others specify _____
6. Where is the market boundary for your products/services?
 - A. City boundary Market
 - B. In and out of city boundary
 - C. Outside the city boundary market
 - D. Others
7. Do you prepare plan for your business?
 - A. Yes
 - B. No
8. If your response for question **7** is “**Yes**”, what is the time span your business plan covers?
 - A. Below 1 year
 - B. 1 to 2 years
 - C. 3 to 5 years
 - D. Above 5 years
9. What is the type of promotion your business exercise?
 - A. Posters
 - B. Trade fair
 - C. Business card
 - D. No advertisement
 - E. Others (Specify) ____

Part Three: Factors that affect the performance of MSEs

The following table presents major factors that affect MSE's performance. Read each of the factors, evaluate them in relation to your business and then put a tick mark (✓) under the choices below.

Where,

5 = Strongly Agree, 4 = Agree, 3 = neither agree nor disagree, 2 = disagree, 1 = strongly disagree

S/N	Factors	Weight				
		5	4	3	2	1
1	Micro-level/ Internal Factors/					
1.1	Managerial skill					
	Lack of skill to prepare strategic business plan					
	Lack of management experience to run business					
1.2	Access of internal Financial					
	Poor sources of finance					
	Lack of working capital Management					
	Unplanned withdrawal of cash for personal use					
	Lack of awareness to estimate cost of production					
1.3	Accounting and Record Keeping skill					
	Lack of accounting and record keeping skill					
	Lack of financial planning and budget skill					
1.4	Access of Training					
	Lack of entrepreneurship training					
	Lack of technical related training					
2	Macro-level/ External factors/					
2.1	Access of Market					
	Lack of market for product					
	Inappropriate market linkage					
2.2	Infrastructural access					
	Disruption of electricity supply					
	Poor waste disposal system					
2.3	Access of Credit by Finance Financial Institutions					
	Collateral requirement by lending institutions					
	Elevated interest rate					
	Complicated loan application procedures					
2.4	Working premise					
	Absence of own premises (land) to run business					
	Inadequate working place for current business operation					
2.5	Government Policy					
	Unreasonable tax levied of businesses					
	Bureaucracy in business registration and renewal of licenses					

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

S/N	General Factors	Weight				
		5	4	3	2	1
1	Managerial skill					
2	Access of internal financial					
3	Accounting and Record keeping					
4	Access of Training					
5	Access of Market					
6	Infrastructural access					
7	Access of Credit by Financial Institutions					
8	Working premise					
9	Government Policy					

Appendix 2

INTERVIEW WITH MICRO AND SMALL ENTERPRISE OFFICE HEAD

The following Interview is part of a survey being conducted in partial fulfillment of a Masters in Accounting and Finance (MSc) degree from Jimma University on the topic '*Performance Constraints of Micro and Small Scale Enterprises: The Case of Jimma Town*'. This information is purely for academic purpose and therefore its confidentiality is highly guaranteed. You are therefore kindly requested to provide accurate answer to the promising questions. Your co-operation and support will be appreciated.

SECTION 1

1. Respondent's Gender A. Male B. Female
2. Age A. below 25 B. 25-35 C. 36 – 45 D. 46 -55 E. above 55
3. Place of Work _____
4. Position/Rank _____

SECTION 2

5. What role do your organization provided to promote MSE's?
 A. Training B. Advisory Services C. Material support
 D. Others Specify _____
6. List five major challenges that face SMSE's? Please specify in order of ranking.
 a. _____
 b. _____
7. Why do you see them as challenge? _____
8. In your view how can these challenges be solved _____
9. Does your organization have policies for MSE's?
 A. Yes B. No
10. If "Yes" state some of the policies _____
11. What do you think government should do to develop MSE's? Please specify _____

Appendix 3

INTERVIEW WITH MICRO FINANCE STAFF

The following Interview is part of a survey being conducted in partial fulfillment of a Masters in Accounting and Finance (MSc) degree from Jimma University on the topic '*Performance Constraints of Micro and Small Scale Enterprises: the Case of Jimma Town*'. This information is purely for academic purpose and therefore its confidentiality is highly guaranteed. You are therefore kindly requested to provide accurate answer to the promising questions. Your co-operation and support will be appreciated.

SECTION 1

1. Respondent's Gender A. Male B. Female
2. Age A. below 25 B. 25-35 C. 36 – 45 D. 46 -55 E. above 55
3. Place of Work _____
4. Position/Rank _____

SECTION 2

5. Does your organization have a special loan facility for MSE's? A. Yes B. No
6. If "Yes" state the facility? _____
7. What are the modalities under which MSE's can obtain credit from you? _____
8. If MSE's take loans from the bank are they able to pay back on time? A. Yes B. No
9. If "No" what are the reasons? _____
10. What policies do your organizations has put in place for MSE's in future? _____
11. From your point of view what are some of the challenges you have with MSEs' _____
12. What are some of the possible solutions to deal with the challenges? _____

Appendix 4

INTERVIEW WITH TECHNICAL AND VOCATIONAL EDUCATION TRAINING LEADER

Masters in Accounting and Finance (MSc) degree from Jimma University on the topic '*Performance Constraints of Micro and Small Scale Enterprises: The Case of Jimma Town*'. This information is purely for academic purpose and therefore its confidentiality is highly guaranteed. You are therefore kindly requested to provide accurate answer to the promising questions. Your co-operation and support will be appreciated.

SECTION 1

1. Respondent's Gender A. Male B. Female
2. Age A. 20-35 B. 36 – 49 C. 50 -65
3. Place of Work _____
4. Position/Rank _____

SECTION 2

5. How do you explain the relationship you have with MSED0? _____
6. Do you have regular meeting periods? _____
7. What are the areas of support you have to MSE's?
 - Training
 - Technology
 - Others
8. What problem did you face to work jointly with MSED0? _____
9. What measures did you take to solve the problems you faced? _____
10. How is your relationship with Micro finance and others? _____

Appendix 5
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886 ^a	.785	.782	.227

a. Predictors: (Constant), Government Policy, Infrastructural access, Internal Finance, Access of Market, Access of Training, Access of credit by Financial Institutions, Working premise, Accounting and Record keeping skill, Management skill

Coefficients

Model	Un-standardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.395	.267		-3.519	.003
Management Skill	.220	.036	.244	7.375	.002
Internal Finance r	.255	.064	.268	6.656	.0001
Accounting and Record keeping	.176	.059	.194	6.727	.004
Access of Training	.188	.065	.212	6.228	.003
Marketing access related factor	.20	.059	.216	6.951	.002
Infrastructural access factor	.248	.067	.263	7.314	.0001
Access of credit by FIs	.332	.052	.338	9.253	.0001
Working premise	.298	.055	.300	8.215	.0001
Government Policy	.179	.070	.198	6.011	.003

Source: Field survey, 2014

R is .886, which is a very high correlation. R square tells us what proportion of the variation in capital is explained by the nine predictors, a high .785.

Adjusted R-Square (.782) reduces the R^2 by taking into account the sample size and the number of independent variables in the regression model (It becomes smaller as we have fewer observations per independent variable).

Standard Error of the Estimate (.227) is measure of the accuracy of the regression predictions. It estimates the variation of the dependent variable values around the regression line.

The slope coefficient associated for management skill is .220, suggesting that growth of capital in associated with management has an increase of .220 units on average (after adjusting for other variables).

Appendix 6

Pearson Correlation Matrix

	performance	Management	Finance	Record keeping	Training	Marketing	Infrastructure	Acc. of cr. FIs	Working promise	Gover. Policy
Managerial factor	.743	1	.355**	.400**	.519**	.321**	.256**	.256**	.197**	.295**
Finance related factor	.816		1	.209**	.270**	.277**	.273**	.412**	.348**	.075
Record keeping factor	.510			1	.338**	.194**	.211**	.382**	.132*	.403**
Training related factor	.698				1	.260**	.158*	.105	.148*	.315**
Marketing factor	.725					1	.247**	.168**	.245**	-.130*
Infrastructural access	.809						1	.344**	.375**	.042
Financial Institution	.836							1	.385**	.137*
Working promise	.822								1	.175**
Government Policy	.643									1

*. Correlation is significant at the 0.05 level (2-tailed).

Note that:

Multicollinearity is the correlation among the independent variables.

Variance Inflation Factor (VIF) – measures how much the variance of the regression coefficients is inflated by multicollinearity problems.

If VIF equals 0, there is no correlation between the independent measures. A VIF measure of 1 is an indication of some association between predictor variables, but generally not enough to cause problems.

From the above correlation matrix, predictor variables can be correlated with each other below 0.5 or 50%, which indicates the absence of series problem of multicollinearity in the regression equation.



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