Determinants of Micro and Small Scale Enterprises Growth in terms of Employment in Hosanna Town, SNNPR, Ethiopia

A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Masters of Science in Development Economics

By:

TARIKU TUMIDADO

JIMMA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

MASTERS OF DEVELOPMENT ECONOMICS PROGRAM

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By:

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Under the Guidance of

Main Advisor: Leta Sera (PhD)

Co-Advisor: Endeg Tekalign (MSc)

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DECLARATION

I ***TARIKU TUMIDADO*** hereby declare that the thesis proposal entitled **" Determinants of Micro and Small Scale Enterprises Growth in Hosanna Town, Southern Ethiopia"** submitted by I for the award of masters of science degree on Development Economics in Jimma University. It is my own work and it has not been presented for the award of any degree, diploma or other similar purpose to any university or institution any work of other authors use is dully acknowledged.

Prepared by: - Signature Date

Tariku Tumidado _____ _____

APPROVAL BY ADVISORS

Main Advisor Signature Date

Leta Sera (PhD) _____ _____

Co- Advisor

Endeg Tekalign (MSc) _____ _____

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ABSTRACT

The study Determinants of Micro and Small Scale Enterprises Growth in terms of Employment was conducted in Hosanna Town, Hadiya zone, Southern Ethiopia. The main objective of the study is to find out the determinants of Micro and Small Enterprises growth in terms of employment growth. Out of 379 Micro and Small Enterprises in the study area, 194 Micro and Small Enterprises (MSEs) were selected as a sample using stratified and simple random sampling technique. They were stratified based on the sector they are operating. The data were analyzed using descriptive statistical tools such as mean, percentage and by using tables and charts. The binary logit model was applied to identify determinants of MSEs growth. The study used employment as growth indicators. Growth rate for the two indicators was computed by the change of natural logarithm of employment over the life of enterprise. After calculating growth rate, Micro and Small Enterprises were grouped into two categories growing and non growing. Micro and Small Enterprises which had growth rate ≤ 0 categorized into non growing and MSEs which had growth rate > 0 growing. The finding of the study shows that out of the total sample 42.8% of MSEs are growing and 57.2% of MSEs are non growing in terms of employment. The model result indicated that out of 16 explanatory variables, distance from raw materials and access to infrastructure are significant at 10% significance level. Also age of enterprise, education level of MSEs managers, access to market and government regulation factor are significant at 5% significance level and prior experience of MSEs managers is significant at 1% significance level. Therefore, government and non-government organizations that are concerned with the promotion and development of MSEs need to take these factors in to account to accomplish better result and increase the potential contribution of MSEs to the economic growth.

Keywords: Determinants, Growth, Small Enterprises, Micro Enterprises, Hosanna, Employment

LIST OF ACRONYMS

CSA - Central Statistical Agency

FDRE – Federal Democratic Republic of Ethiopia

GDP – Gross Domestic Product

GTP – Growth and Transformation Plan

HASIDA – Handcrafts and Small Scale Industrial Development Agency

ILO – International Labor Organization

IFC – International Financial Corporation

MFI – Microfinance Institution

MoFED – Ministry of Finance and Economic Development

MSEs – Micro and Small Scale Enterprises

MSEDA – Micro and Small Scale Enterprises Development Agency

PRSP – Poverty Reduction Strategy Paper

SPSS – Statistical Package for Social Science

SME – Small and Medium Enterprises

TVTE – Technical Vocational Training Education

WB – World Bank

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

In overall economic development, a critically important role is played by micro and small enterprises in the developing world. The majority of the countries rely on the dynamism, resourcefulness and risk-taking of private enterprises to which; most micro and small enterprises belong to sustain the process and form the base for private sector led economic growth. Expansion and development of the sector increases agricultural productivity through providing agricultural inputs and creating demand for agricultural outputs. Thus, micro and small enterprises play a key role in stimulating other sectors of the economy such as trade, construction, services and agriculture as well as in reducing unemployment (ILO, 2006), (Assefa, 2004).

In Ethiopia various development strategies were designed to pull country out of their problems of poverty and unemployment. One of the important strategies adopted was the micro and small enterprises development strategy. The Ethiopian government recognized the significance of this sector and showed its dedication to promote the micro and small enterprises development by the issuance of National Micro and Small Enterprises Strategy in 1997 and the establishment of the Federal Micro and Small Enterprises Development Agency. The promotion of this sector is justified on the grounds of enhancing growth with equity, creating long-term jobs, providing the basis for medium and large enterprises and promoting exports. The strategy puts a means to support the micro and small enterprises through the provision of infrastructure, financial facilities, supply of raw materials and training (Taye, 2008).

Micro enterprises pre-dominantly prevail in small towns while medium and large-scale enterprises dominate bigger towns and cities. The micro enterprise sector is particularly important for low-income, poor and women groups. In Ethiopia, like in any other developing countries, medium and large-scale manufacturing or service giving sectors due to state

bureaucracies could not create enough jobs to absorb the ever increasing labor force, especially in urban areas. In such situations, micro enterprises may be reported to be source of livelihood for unemployed people in both urban and rural areas (Fantahun, 2004). Consequently, many people have been forced into marginal activities in the informal sector as subsistence farmers, petty traders, and tiny handicraft producers with limited market scope. This conglomeration of informal and micro-enterprises is in need of significant upgrading if the Government of Ethiopia is to be successful in its efforts to reduce poverty and to strengthen the private sector as a creator of employment and economic growth (Adnan, Abdullah, and Ahmad, 2011).

Micro enterprises are a special focus of the government, given that they comprise the large share of employment and economic growth. Micro enterprises have a critical potential role in poverty reduction and economic recovery of the country. The efficacy of such interventions, however, depends on identifying the key problems and targeting the potentially successful entrepreneurs. The assessment of the performance of micro enterprises and determinant factors affecting the growth of micro enterprises is therefore essential. Ethiopia is implementing various strategies to reduce poverty and unemployment. One of the poverty reduction strategies in least developing countries is micro and small enterprises development strategy. Micro and small enterprises were components of plan for accelerated and sustained development to end poverty (MoFED, 2006). The current Growth and Transformation Plan (GTP 2) has also given due attention to enterprises and states that micro and small enterprise development is the key industrial policy direction contributing to envisaged structural transformation of the economy. Furthermore, GTP states that overall objective and key government policy direction for micro and small enterprises is to expand the quality and quantity of micro and small enterprises (MoFED, 2010). Micro and small scale enterprises are considered as driving force for ensuring economic growth, job creation, and poverty reduction both in developed and developing countries particularly in the latter. Coincided with this, they have been the means through which accelerated economic growth and rapid industrialization have been achieved. Moreover, micro and small scale enterprises have been recognized as a feeder service to large scale industries (Fabayo, 2009).

Based on the study conducted by (Boaten, 2012) the dynamic role of micro and small scale enterprises (MSEs) in developing countries is realized as "necessary engines for achieving national development goals particularly the macroeconomic goals such as economic growth,

poverty alleviation, employment and wealth creation, leading to a more equitable distribution of income and increased productivity is widely advocated impacts of the enterprises." Primarily, to accelerate growth rates in low-income earner countries, particularly in Africa, many development partners and donors have made the promotion and development of MSEs a major target. Consequently, this shows that MSEs are comprehended as essential forerunner for economic growth, job creation industrial development and poverty alleviation, equitable-distribution of income both in developed and developing countries.

The practice of micro and small scale enterprises influences the real macroeconomic variables like employment creation, economic growth, poverty reduction, and other means of benefit like sharing of international market for manufactured products and ensuring full employment in the world. As a result, currently by recognizing the comprehensive benefits of the micro and small scale enterprises both the government and non-government organizations have given huge emphasis in expanding such enterprises for ensuring the social welfare and stable economic growth. Empirically, the study reported by ILO (2002) revealed that, the micro and small scale enterprises sector is seen as an essential promoter for job creation unemployment reduction and social progress at large since it takes the lion share of fast growing labor force in the world particularly 48% in North Africa, 51% in Latin America, 65% in Asia and 72% in Sub-Saharan African Countries.

Further, as per, the study done by (Mead, and Liedholm, 1998) supported that people engaged in MSEs are nearly twice the level of employment in large scale enterprises and in the public sectors particularly in five countries of Eastern and Southern Africa; namely, Botswana, Kenya, Malawi, Swaziland and Zimbabwe. Thus, in all over the world the valuation of the micro and small scale enterprises is not underestimated, recently attention has been given to micro and small scale enterprises due to the high utilization of the domestic raw materials, an opportunity of creating high capital intensive productions, and designing of development strategies for ensuring large scale capital intensive economic operation.

In developing countries micro and small scale enterprises have many economic benefits especially they are very crucial in improving the living standard of the society as a whole. Cognizant this, the welfare improvement of the micro and small scale enterprises is highly

advocated by Asian tiger countries particularly Singapore, Taiwan and Hong Kong though it is not real in developing countries like most African countries especially Ethiopia due basic reasons like war, poverty, low educational status and low capital accumulation and natural shocks in the environment (Meseret, 2009).

1.2. Statement of the Problem

In Ethiopia, based on the survey of the Central Statistics Agency of (2003), the value added generated by micro and small scale enterprises accounts for around 2.6% of the national gross domestic product (GDP) and 24% of the industrial gross domestic product (GDP) during the survey period. The youth population in Ethiopia is rapidly growing, as it has more than doubled between 1990 and 2007, from 6 million to 13 million (CSA, 2007) and become more than 20 million in 2014.

The government of Ethiopia formulated National MSE Development and Promotion Strategy in 1997 and it has been implemented in the past years. The main objective of the strategy is creating industrialists who run the country's development by organizing the educated youth and the youth in general and providing job opportunities to those graduated from university and TVET by developing youth's skill and innovation, perception and improving their saving culture. Even though MSEs are contributing a lot for poverty alleviation, they are facing multidimensional problems both at start up and operational levels (Menda, 2015).

A large number of MSEs are unable to grow (expand in terms of employment) and remain to be survival (non-growing) type which cannot provide employment (Habtamu, Aregawi and Nigus , 2013). Out of 1000 MSEs in Ethiopia around 69% of them are found survival types (Gebreeyesus, 2009) and particularly in capital city Addis Ababa majority (75.6%) of the MSEs are unable to grow at all since start up and only 21.9% of the MSEs had added workers (Wasihun R and Paul, I, 2010). The same is true in the study area Hosanna town administration, there are many MSEs Established but most of them are non-growing or survival in terms of employment. Moreover, identifying the growth factors of MSEs is important as it establishes the base for preparing a policy framework and strategy that safeguards the success of MSE operators (Mammo, 2008). The existing knowledge-gap and the focus for the sector development motivated the researcher to analyze empirically factors associated with growth of MSEs in Hosanna Town administration. It designed to fill the research gap of MSEs existed at Hosanna

town and to find out factors specifically affecting growth of MSEs in micro and small scale level.

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of the study is to analyze the determinants of micro and small scale enterprises growth in terms of employment in Hosanna Town.

1.4.2. Specific Objectives

- To examine the growth status of MSEs in terms of employment
- To assess the challenges influencing the operation of micro and small scale enterprises
- To assess the job opportunity creation

1.5. Significance of the study

The study focused on the growth determinants of micro and small scale enterprises in Hosanna Town. Therefore, this study has a feasible significance for identifying the problems concerning MSEs growth and providing those problems to concerning body/organizations. Moreover, the study serves as an input for further study done by other scholars. Similarly, it serves for the nearest support of MSEs for ensuring the required economic values as a whole.

1.6. Scope and Limitation of the study

There are a lot of enterprises in Hosanna Town. Therefore, it is difficult to include all the enterprises in the study because it needs large amount of budget for transportation from one location to another because the enterprises are scattered in different locations of the town. But there are financial and time constraints. Therefore, the study is confined to focus only on 194 MSEs and in Hosanna town only. Consequently, the study is also limited to analyze the determinants of growth MSEs in terms of employment.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

2. 1. Theoretical Literature Review

2.1.1. Definition of MSEs

There is no identical and universally accepted definition for the MSE sector in the world. Since, different Institutions and countries define MSE differently. The definition of MSE is on the basis of number of people employ, annual turnover and total assets. In Pakistan, SME, sector is classified into micro enterprises, small enterprises and medium enterprises based on number of employees and capital formation.

A small scale enterprise, also called mom and pop store by some in the United States, is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales (Hashim M, 2005). Small business SMEs are normally privately owned corporations, partnerships, or sole proprietorships. In the United State and Canada SMEs generally include SMEs with less than 500 employees. The EU define as a medium size enterprises as one with 250 employees and small enterprises are one with less than 50 employees and micro as one with maximum 10 employees (Ganbold, 2008). At the same time, to qualify as one SME in the EU, a small must have annual turnover of Euro 40 million less and balance sheet valuation not exceeding Euro 27 million. In case of Japan SME defines as SMEs with employee 300 or less and capital size of 300 million yen or less. In manufacturing, SME with employee 100 or less and capital size of 100 million yen or less. In whole sale, SMEs with employee 50 to100 or less and capital size of 50 million yen (Ganbold, 2008). In case of Tanzania, micro enterprises are those engaging up to 4 people. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million.

2.1.2. Overview of MSEs in Ethiopia

The 1997 definition of MSE was on the basis of paid up capital, According to the Federal Micro and Small Enterprises Development Strategy (1997), Micro Enterprises are those business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high tech. consultancy enterprises and other high-technology establishments. Whereas Small enterprises are those business enterprises with paid up capital above Birr 20,000 and not exceeding Birr 500,000, and excluding high tech. consultancy enterprises and other high-technology establishment.

The Revised (2010/2011) Definition of MSE

The new or revised definition is on the basis of human capital and asset. The new definition addresses the limitations of the old definition. Minimum asset requirement for services and industry is different as shown below.

According to CSA (2003), The Ethiopian manufacturing sector classified on the basis of number people employed and use or on-use power driven machinery.

1. Large and medium scale manufacturing enterprises have been classified as establishments which employ more than l0 persons and using power driven machinery.
2. Small enterprises are those enterprises that employ less than 10 persons using power driven machinery.

3. Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labor and mostly manual rather driven machinery.

2.1.3. The growth of the MSE sector in Ethiopia

In Ethiopia the National development plan developed since 1950s during the imperial government plan of the three five year successive plan. The first five year plan (l 957-61) aimed at the development of strong infrastructure and acceleration of the agricultural development by promoting commercial Agriculture ventures. The second five year plan covering between1962-1967 with the objective of change Ethiopians' predominantly agricultural economy to agro industry and the 3rd five year plan aimed at raising the manufacturing and agro-industrial performance.

The post 1974 the Military government with the socialist ideology, the government nationalized almost all the large and medium scale Industries which were owned by foreigner and private before. The government established the Handcrafts and Small Scale industrial Development

Agency (HASIDA) in 1975 to develop the small scale industries. But HASIDA did not help much in achieving for the required pace of the growth in the small scale industrial sector due to the lack of institutional and other supportive measures that should have taken to boost the capacity and the efficiency of the small scale and handcrafts enterprises.

The Federal Democratic Republic of Ethiopia's (FDRE) government also has adopted different policies and strategies to develop the industrial sector. The MSE sector has a crucial role in employment creation, GDP contribution as well as poverty reduction. Urbanization increases in Ethiopia and job opportunities for the demand of the people also increase. FDRE has recognized that the important role of the MSE in the economy in job creation and GDP contribution. Government adopted the Micro and Small Enterprise Development Agency (MSEDA) in 1997 with the objective of creating conducive environment for MSE. Some achievements have been seen in the number of enterprises and new job creations. However, the sector has constraints that limit its growth. Lack of sufficient capital, lack of working premises, lack of infrastructure, marketing problems constrained the sector's development to expand their expertise (SA, 1997). Growth and Transformation Plan (GTP), the successor of PASDEP (2006) and the recent development strategy of Ethiopia (2010 -2015), has also given a priority to MSEs development (MoFED, 2010)

During the GTP period, the industrial sector has the following major development objectives:

1. Developing the micro and small-scale enterprises sector so that it contributes. To the development of the industrial sector as a whole serve as the basis, and contributes to the development of the agricultural sector and create employment opportunities.
2. Enabling all industries to utilize their full capacity in order to increase production and productivity.
3. Establishment and expansion of medium and large industries that use domestic raw material existing in the country and contribute to employment and foreign exchange earnings.
4. Strengthening private sector investment in order to ensure accelerated and sustainable development of the sector.
5. To create a strong foundation for the sector to take-up a leading position in the overall national economy by intensifying sector's contribution to employment generation, import substitution, foreign exchange earnings.
6. Strengthening sector's capacity by locally producing machineries.

The following are the MSE strategy of the government, these are:

1. MSE Development Strategy of 1997 and
2. MSE Development Strategy of 2011

The specific objectives of the 1997 strategy framework were to:

1. Facilitate economic growth and bring equitable development
2. Create long term jobs;
3. Strengthen cooperation between MSEs;
4. Provide the basis for medium and large scale enterprises;
5. Promote export and
6. Balance preferential between MSEs and bigger enterprises.

MSE development strategy of 2011

In this strategy also new set of areas are identified as requiring attention and priority from the government. These are the manufacturing sector, the service sector, construction sector, the urban agriculture sector and the retail sector. These sectors got attention because they are expected to substitute imports or are categorized in the manufacturing sector. (MSEs, 2011)

2.1.4. The Economic role of Micro and Small Enterprises

The MSE sector has played various roles for the people as a means of earning income thereby alleviate poverty. The sector also enhance for the growth and development of the country's economy. According to (Udyog, 2013-14) the Micro, Small and Medium enterprises have played a crucial role in Indian economy by creating huge employment creation with low startup capital than large industries. In addition, the sector helps in brining regional imbalances and equitable distribution of national income and wealth. Moreover, they are complementary to large an industry that provides very much contribution for the socio economic development of the country.

2. 1.5. Constraints of the MSE growth

There are various factors that constrained the growth of the MSE sector. Different studies conducted by different institutions, scholars to find the problems and to provide the possible remedies. (Evaliina, et.,al 2014) proposed that a research on small and medium enterprises SMEs factors influencing SMEs growth in Kosovo. The research reveals that there are a number of significant factors affecting Kosovo SMEs growth: lack of access to finance, competition,

management competence, lack of skilled labor, and low investment in innovation, technology and marketing.

The study conducted by (Anthony, et.,al 2012) on the access to credit and growth of small and medium scale enterprises in the Ho Municipality of Ghana. The researcher used Survey and econometric methods for the analysis of the data. By using variables; firm growth, access to credit, and education level. The results of the study showed that access to credit exerts a significant positive effect on growth of SMEs in the Ho-Municipality of Ghana.

The study conducted by (Endalkachew, 2008) in Addis Ketema sub-city on the underlying causes of Micro and Small business failure by taking into account the internal and external factors suggested that: lack of capital, lack of land and premise, poor market and market information, were the statistically significant factors that affect the success of MSEs business in the study area.

Another study conducted by (Zemenu, & Mohammed, 2014) in Mekelle city on the challenges that affect the MSE sector and the study revealed that inadequate credit facility, lack of business training, shortage of working capital, and lack of financial management skill and experience are the main challenges that facing MSE of Mekelle city.

The World Bank WB/International Financial Cooperation IFC group by using country identified15 obstacles of these: electricity, access to finance, practices of informal sector are the most commonly cited obstacles by firms (WB, 2010).

"According to the world economic forums Global competitiveness index of 2014 and 2015 indicates that, the top five problematic factors for doing Business in Ethiopia are: inefficient government bureaucracy, foreign currency regulations, and access to finance, corruption, and inadequate supply of infrastructures.

In 2014, according to the public-private dialogue identified for the binding constraints as: tax administration, access to finance, limited access to land, availability and quality of electricity and market and or unfair competition.

According to the (World Bank, 2014) MSE Finance in Ethiopia, tire young and small firms have more likely to be rejected for loan or line of credit than more established and large firms. The MSEs are also discouraged from financial institution high collateral requirements by the financial institution, especially banks.

2.1.6. Importance of Small and Medium Enterprises

It is estimated that about third of the GDP is originated from the SME sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consist of more than 1.7 million businesses engaging about 3 million people that were about 20% of the Tanzanian labour force. SMEs tend to be labour – intensive, they create employment at relatively low levels of investment per job created, tend to be more effective in the utilization of recourses using simple and affordable technology. SMEs play fundamental role in utilizing and adding value to local resources. The development of SMEs facilitates the distribution of economic activities within the economy and thus fosters equitable income distributions. Furthermore, SME technologies are easier to acquire, transfer and adopt. Also SMEs are better positioned to satisfy limited demands brought about small and localized market **(**SME, 2002).

Small and Medium Enterprises (SMEs) play crucial roles in employment creation and income generations. All over the world and Zanzibar in particular it is easy to establish SMEs since their requirements in terms of capital and managements are not as demanding as it is in the case for large enterprises (MoFEA, 2009).

Small and Medium Enterprises both urban and rural have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be archived. They are potential sources of employment and income in many developing countries. It is estimated that Small and Medium Enterprises (SMEs) employ 22% of the adult population in developing countries (Daniels, L and Ngwira A, 1993), (Fisseha Y, 1991).

Due to flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital cost associated with job creation. SMEs perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensives, they are more likely to succeed in smaller urban and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional and labor intensity, the argument goes; small scale production can promote a more equitable distribution of income

than large firms. They also improve the efficiency of domestic markets and make productive use of resources, thus facilitating long term economic growth (Mead, C. D. and Liedholm, C, 1998).

2.2. Empirical Literature Review

The growth of MSE is necessary to create new jobs for the people as well as to facilitate the economic growth of a country. However, different studies showed that the growth of MSE sector have been constrained by different factors.

Study conducted by (Francis, 2015) in Nairobi on factors influencing growth of MSE. The researcher used the SPSS to analyze the data and descriptive statistics to analyze the quantitative data, using tools like frequencies, percentages, and standard deviations and inferential statistics were used. Findings of the study revealed that the level of education positively influences the growth of MSEs and also age is an important factor to determine business growth. The study also revealed that mature firms have more experienced and superior financial position their business to perform than their less mature counterparts.

Similarly another study was done by (Admasu, 2012) on the factors affecting the performance of the MSE in Addis Ababa especially Lideta sub city. For data analysis the researcher used descriptive statistics tools and inferential analysis the SPSS version 20.The finding of the study revealed that working premises and performance, marketing and performance, finance and performance showed strong relationship. From the study working premises, marketing and finance play a significant role in determining the growth of MSE sector in the studied areas. A study was conducted by (Haftom, 2013) in Shire Endaselasie on the factors affecting the growth of the MSE. He was used descriptive statistics instruments and econometric analysis particularly the logistic regression model (binary) due to the discrete behavior of the dependent variable. The Econometric analysis of the findings revealed that educational status, access to credit, access to infrastructure and working premise have significant effect on the growth of the MSE. In contrast, firm age, initial employment size, and location had no effect on the MSE growth. However, accesses to credit from formal financial sources and growth of the MSEs having a negative relationship.

Another study conducted by (Brhane, T. 2014) in Debre Markos town in the access to finance for micro and small enterprises. The researcher used descriptive approaches, excel and SPSS. The study also identified that many of the MSEs have obtained their capital from different sources such as MFI, idir, iqub, their own saving, families and relatives than large banks. Moreover,

inadequate loan size, high interest rate, poor book keeping systems, information gap about finance fear of business failures, short loan duration, failure to disburse loans timely and the tendency of group collateral requirements have been hampering MSEs from access to finance. Working place and the place for sale of the product of the MSEs is necessary. Firms use different sources to perform their business. The working place may be by rented, own working place or may be from relatives. The study conducted by (Admasu, 2012, Haftom, 2013, (A. Berihu, et al,. 2014) revealed that working place is one of the factors that affect the growth of the MSE.

The Ethiopian development research institute research undertaken by (A. Berihu, et al,. 2014) on the title identifying key success and constraints to the MSE growth survey conducted over 3000 sample MSE. They used exploratory research method and the survey reveals that access to finance was the main constraints that limit the growth of the sector accounted for 37 .7 percent as a key constraint and also collateral challenges, market challenges, working and machinery constraints were identified as a key constraints. The study conducted by (Ababiya, Geta, and Lemecha, 2015) on the performance of Micro and Small Enterprises and its determinants in Hadiya zone by using descriptive analysis and regression analysis. The results of the regression analysis showed that age of enterprises, age of operators, education level, number of employees and access to training were statistically significant significance level and had positive relationship with the performance of enterprises.

(Solomon, et al., 2016) also conducted Study on the determinants of MSE in Ethiopia by using descriptive statistics and econometric methods including different factors access to credit, location, education and access to market. The study revealed that lack of access to finance, limited market facilities are the factors affecting the growth of the MSE. Moreover, enterprises which located in high business concentration areas grow faster than those located in low business concentration areas.

2.2.1. Factors affecting the growth of MSE

Education is a means of gaining knowledge and it has an important role in economic growth and development. Now it is a time of competition, education is needed to increase the innovative capacity. The enterprise manager or personnel with high level of education can enhance or facilitate improvement and competitiveness of their enterprise. The study investigated by Anastasias I (Magoutas, et al., 2012) suggested that human capital has a positive and significant

impact on growth rate of firms. The higher the level of education attained by the owner/manager, the higher the likelihood of growth is.

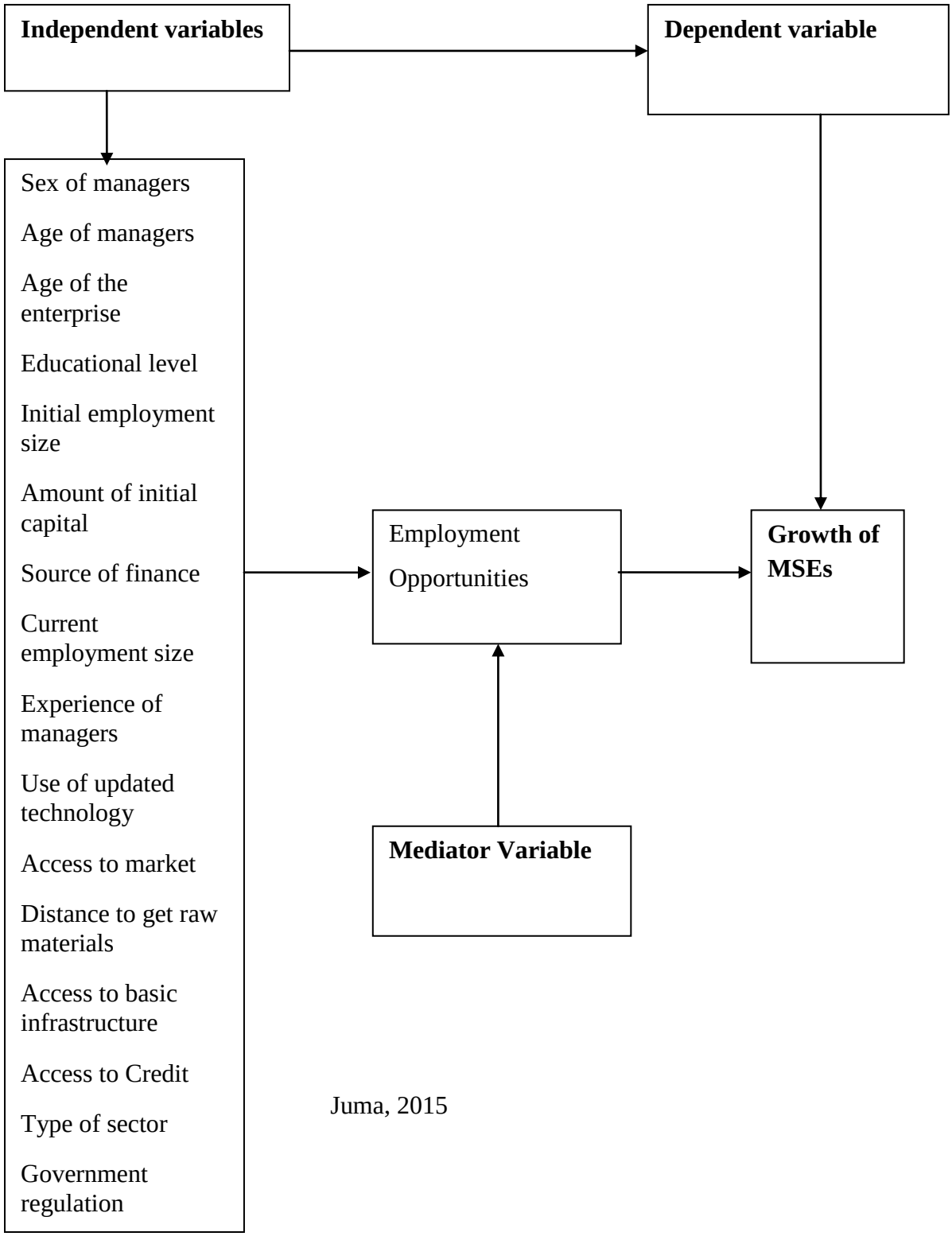
Firm age - it is measured by the number of years after it established. Different empirical studies investigated on the relation between firm age and firm growth. According to (Story, 1994) postulated that younger firms grow faster than older firms. However, the study conducted by (Atsede, et al., 2008) on the relation between firm age and growth of MSE showed that the age of the firm is an important factor influencing for the growth of MSE. The statistical test showed that firm age and firm growth have significant association. Larger and older firms have higher propensity for growth than smaller or newer firms.

Access to finance is necessary for firms to expand and increase their productivity. WB 2012 enterprises survey indicates that access to finance as the main obstacle for the enterprises in Ethiopia.

2.3. Conceptual Framework

The effective MSEs depend on various factors to play against poverty reduction. Key areas include policy, regulatory and legal environment that is simple, finance that is accessible at low cost and does not require the poor to provide physical collateral, access to affordable business development services, workers who are trained in appropriate skills and other facilities are needed to support the creation and expansion of enterprises which will enhance in poverty reduction. In this study, growth of MSEs act as a dependent variable which influenced by various independent variables. Education level of managers/operators, type of business sector, source of finance for the enterprise, initial employment size, distance to get raw materials, age of MSE (firm age), initial capital size, experience of managers/workers, use of updated technology, government regulation system, access to market and access to basic infrastructure may affect micro and small scale enterprises growth. The mediator variable of this study gives the relationship between dependent variable and independent variables on how poverty can be reduced in terms of employment growth. In the figure below, conceptual framework mediator variable act as a catalyst between dependent variable and independent variables in growth of MSEs (Juma, 2015)

Figure.2. 1 Conceptual framework



Juma, 2015

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1. Description of the study area

Hosanna (also spelled Hosaina or Hosa'ina (an older name is Wachamo) is a town and separate woreda in southern Ethiopia the administrative center of the Hadiya Zone, Located in the Southern Nations, Nationalities, and People's Region (SNNPR). Hosanna has a latitude and longitude of 7°33′N 37°51′E and 7°33′N 37°51′E with an elevation of 2177 meters above sea level. It is surrounded by Lemo woreda. It is 232 kilometers far from Addis Ababa, capital city of Ethiopia. Based on the 2007 Census conducted by the CSA, this town has a total population of 69,995, of whom 35,523 are men and 34,472 women. The town is divided into 3 sub-towns. Business activities and public sector employment are the dominant economic activities in the town.

3.2. Source of data

Primary and secondary source of data has been conducted for the study. Primary data was obtained from the selected samples of the micro and small scale enterprise operators using scheduled questionnaires for dependent and independent variables. Secondary data was obtained from published and unpublished documents and annual reports of micro and small enterprise office of Hosanna Town.

3.3. Sampling Technique and Sample Size

To deal with the study, random sampling technique has been conducted to select the sample respondents from the five different categories of enterprises; manufacturing, trade, service, construction and urban agriculture. This is because to give an equal chance to the respondents to be selected and sampled. Thus, total number of enterprise in all sectors in the town is 379 (Hosanna Town micro and small scale enterprise office report, 2011 E.C). So, to calculate the sample size, Yamane's (1967) formula was employed as,

$$n = \frac{N}{1+N(e)2} \quad \text{.....3.1}$$

Where, N = total number of operators, n =sample size, e = level of precision.

Therefore, $n = \frac{379}{1+379(0.05)2}$ =194

Table 3.1 proportional determination of sample size

Name of sectors	Number of MSEs enterprise	Proportionally allocated Sample
Manufacturing	73	37
Construction	204	104
Urban agriculture	52	26
Service	37	20
Trade	13	7
Total	379	194

Source: Own Survey, (2019)

In this study, proportional stratified sampling technique was used for the selection of 194 MSE members (one respondent from one MSE) from the five MSE sectors (manufacturing, construction, urban agriculture, trade and service) which is used as strata. Following this, within the selected MSE, purposive sampling method was used for the selection of one respondent that reports on behave of the selected MSE based on the position he/she have and the duration that respondent stayed in that enterprises. One respondent is taken from one MSE at a time to increase the chance of the involvement of different MSEs in the study. MSEs involved in the sample is the one that had a minimum of one year experience in the MSE sectors in which they are operating their business during data collecting period in the study area.

3.4. Method of Data Analysis

For addressing the specified objectives, the data was analyzed using both descriptive statistics and econometrics model. The data collected from respondents edited, coded and entered into computer software called statistical package for social science (SPSS). Then, descriptive statistics such as percentage and frequency distributions were used to analyze data obtained

through questionnaire regarding factors determining growth of MSE. The econometric analysis tool that is binary logistic regression model was used to identify the determinants of MSE growth. To determine the growth status of MSEs, information has to be collected and an appropriate measure of aggregate growth has to be used. As argued by Baum and others (Baum, Locke, and Smith, 2001) growth measure all depends upon the ease of availability of the data and good judgment of the researcher, as a result, from the available alternatives of aggregate growth measures (capital, sales, profit, employment and etc) (Holmes and Zimmer , 1994). This study used employment size as an objective measure of MSEs growth. Accordingly, MSEs growth rate was computed by taking the natural logarithm of change in employment size over the life of the firm following Evans model (Evans, 1987). Taking the calculated growth rate, the MSEs are classified into two broad categories i.e., growing (if growth rate > 0) and non growing (if growth rate ≤ 0) and represented in the model by 1 for the growing and 0 for survival MSEs (Cheng, 2006). The binary logistic regression model is selected due to the nature of dependent variable, if the dependent variable is categorical variable with only two categories (growing and non-growing valued as 1 and 0 respectively), binary logistic (logit) regression is appropriate.

3.5. Model Specification

In this study MSEs are assumed to be either growing or non-growing (survival or decaying). Hence the binary choice logistic regression model that assumes dichotomous dependent variable which takes either 1 or 0 value depending on Y*is used, this is specified as

$$Y = \{\frac{1\text{if } Y* > 0}{0 \text{ if } Y* \leq 0}\} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \; 3.2$$

In a qualitative response model, the probability that Y=1 is given by the sign of the latent variable that is the probability that the latent variable becomes positive (Cheng, 2006).

To address the objective of the study, with regard to looking the growth determinants of the micro and small enterprises the dependent variable is dummy/categorical and is considered by the effect of independent variables over the growth of MSE in terms of growth of employment of MSEs that will be used as dependent variable in the study area. Therefore, the binary logistic regression method was conducted to estimate the growth determinants of micro and small scale enterprises (Holmes and Zimmer, 1994).

3.6. Hypotheses of the study

Independent variables

Age of the enterprise (ageentr): Age of enterprises refers to the duration of time that the enterprises stay in the business. This study considers the enterprises age from the period of establishment up to the time when data collected. Long period attendance of the enterprises in the business builds the performance of enterprises to stay in the business. It is assumed in this study that the longer duration stays of the enterprises in the business result the good growth of the enterprises. The age of enterprise assumed to have positive influence on the values of growth of the enterprises. Therefore, the sign of the coefficient for the enterprises age will be expected to be positive.

Age of the manager (age): The age of managers refers to the length of time that the managers have existed. This study considers the particular stage in entrepreneurs life ranges from 15-65 years of working age. Thus, age of managers assumed to have positive influence on the growth of the enterprises. Therefore, the sign of the coefficient for the operators' age will expected to be positive.

Educational level (educ): The level of education attained by the operators of the enterprises is the attainment level of formal education .The level of education attained is likely to affect the levels of skills using which one may survive in the business. The level of education is therefore assumed to have positive influence on the values of profitability of the enterprises. Therefore, the sign of the coefficient for the education level attained by the operators of enterprise variable will expected to be positive.

Initial employment size (inemply): The number of employees associated in the enterprises is the total number of workers employed. The number of employees in the enterprises should be determined by the size of the enterprises. It is assumed in this study that the number of employees in the enterprises indicates size of the enterprises as micro and small enterprises are labor intensive. The number of employees comparable with the size of enterprises assumed to have positive influence on the values of growth of the enterprises. The sign of the coefficient of the variable for the number of employees will be therefore expected to be positive.

Amount of startup capital (strtupcptl): Amount of start-up capital is amount of initial capital owned from different sources for enterprises which is essential for enterprises to start their business. It is assumed in this study that the higher amount of initial capital of the enterprises, the

higher growth is likely to be. The amount of start-up capital of the business will expected to have positive influence on the values of growth of the enterprises. The sign of the coefficient of the variable for the amount of start-up finance will therefore be expected to be positive.

Prior experience of the manager (priorexpr): The prior experience of managers refers to the managers' knowledge or skill acquired over time before starting the business he/she has engaged now. When the managers have the experience of being able to lead, inspire and champion followers, the enterprises have good performance. Because of this reason the prior experience of managers assumed to have positive influence on the growth of the enterprises. Therefore, the sign of the coefficient for the experience of managers will be expected to be positive. It will be measured as a dummy variable taking a value of one if the enterprises have experienced managers and zero otherwise.

Market access problem (mrktprobl): Market access refers to the availability of market demand for the particular commodity or service. Enterprises create different market access for their products and services insure the existence of market alternatives for their product. The higher level of market access results the greater level of enterprises growth. Thus, the sign of the coefficient of the variable access of market is expected to be positive. It will be measured as a dummy variable taking a value of one if the enterprises have access to market and zero otherwise.

Distance to get raw materials (dstsrwm): it is a categorical variable which will be measured in kilometer or hour to get the raw materials. When the source of raw material for the enterprise is far to the site of enterprise, it increases cost to enterprise and decreases growth of the enterprise. Thus, the sign of the coefficient of the variable distance to get raw materials is expected to be negative.

Access to basic infrastructure (ifrprobl): it is a dummy variable that shows the availability of basic infrastructures around it including power, water supply, communication, road and transport. The more closely the infrastructure, the more growing the enterprise is. Thus, the sign of the coefficient of access to basic infrastructure is expected to be positive.

Access to Credit (crdtaccs): it is a dummy variable that shows the availability of formal financial institutions and their credit access to the operators of MSEs. Having more access to credit motivates enterprise operators to perform broad activities and thus increase growth of the enterprise. Therefore, the sign of the coefficient of access to credit is expected be positive.

Type of sector (typbuss): it is a categorical variable that will be categorized in to five sectors, which shows economic activities in which the MSEs engaged in. It is categorized as manufacturing, construction, urban agriculture, trade and service.

Table 3.2: Description of independent variables in the multivariate models

Variable	**Description**	**Expected Sign**
Age of the enterprise (ageentr)	Continuous	+
Age of the operators (age)	Continuous	+
Educational level (educ)	Ordinal (1=prim, 2=sec, 3=high school, 4=college & above	+
Initial employment size (inemply)	Categorical (l <=5, 2=6-10, 3=11-15, 4=16-30)	+
Gender/sex	Dummy, gender of operators : 1, male; 0, female	+/-
Amount of startup capital (strtupcptl)	Continuous	+
Using updated technology (usetchn)	Dummy (yes, 1 0, otherwise)	+
Prior experience of the manager (priorexpr)	Dummy (yes = 1, 0 otherwise)	+
Government regulation factor (govfactor)	Dummy (yes = 1, 0 otherwise)	+
Access to market (mrktprobl)	Dummy (yes = 1, 0 otherwise)	+
Distance to get raw materials (dstsrwm)	Contionuous	–
Access to basic infrastructure (infrprbl)	Dummy (1 for accessible, 0 otherwise)	+
Access to Credit (crdtaccs)	Dummy(yes = 1, 0 otherwise)	+
Types of sector (typbuss)	Categorical (manufacturing, construction, urban agriculture, trade and service)	+/-
Source of finance	Nominal (own saving, bank, microfinance institutions, family…	+/-

Source: Own Survey, 2019

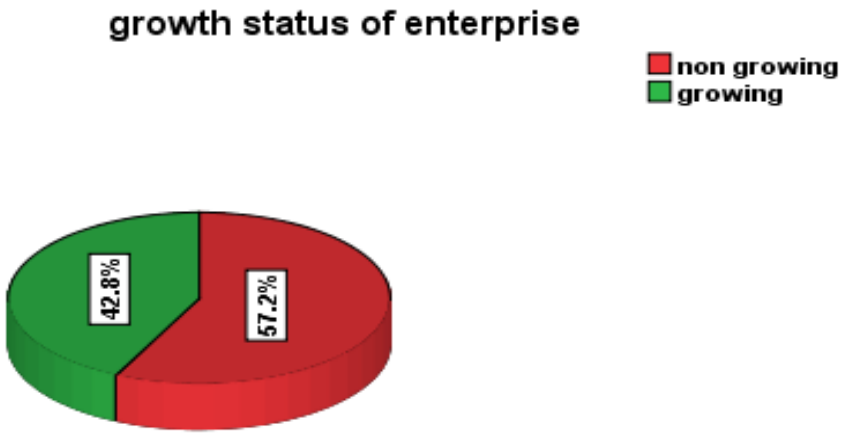
CHAPTER FOUR

RESULT AND DISCUSSION

This chapter presents data based on results of both descriptive and statistical information derived from questionnaires gathered from various micro and small scale enterprises. In this study, data collected from 194 MSEs operators operating in the study area was coded, entered in SPPS, presented, analyzed, and interpreted. First, it discusses the demographic characteristics of respondents; source of finance and related factors; external task environment and other critical factors that determine the growth of MSEs in terms of employment growth of MSEs was analyzed. Finally, the result of regression analysis was described under this section.

The study used employment as a growth measure of MSEs growth. Accordingly, MSEs growth rate is computed by taking the natural logarithm of change in employment size / the life of the firm by following (Evans, 1987) model. Taking the calculated growth rate, the MSEs are classified into two broad categories, i.e. growing if growth rate >0 and non growing or survival if growth rate ≤0 and represented in the model 1 for the growing and 0 for survival or non growing by following (Cheng, 2006). Out of the total sample, 111 (57.2%) of MSEs are found non growing and 83 (42.8%) of them are growing.

Figure 4.1 MSEs growth status in terms of employment



This result slightly supports the findings of (Gebreeyesus, 2009) who found 69% of MSEs are found non growing types and (Dagmawit Alemayehu and Yishak Gecho, 2016) findings who found that 60% of their total MSEs was non growing. That means the majority of MSEs in the study were non growing.

4.1. Demographic Characteristics of Respondents

The first part of the questionnaire was designed to gather information about MSE operator's characteristics. The table 4.1 reveals that, out of the total of 83 surveyed MSEs on growing, 49 were managed by male and out of 111 MSEs on non growing, 68 are managed by male.

Table 4.1sex categories of respondents

Variable		Growth status of enterprises		Total
Sex of respondent		Non growing	Growing	
Male	N	68	49	117
	%	58.1	41.9	100.0
Female	N	43	34	77
	%	55.8	44.2	100.0
Total	N	111	83	194
	%	57.2	42.8	100.0

Source: Own Survey, 2019

Table 4.2 shows that out of the total sample, on non growing, 40 respondents average age is from 15 – 25 years old and on growing, 30 respondents fall in the same age interval. The table also shows that among the non growing MSEs, 55 respondents are fall in age range of 26-35 and among the growing MSEs, 35 are on the similar age interval. The remaining respondents on both growing and non growing MSEs are from 36-65 age intervals.

Table 4.2 age categories of participants (operators)

Variable	Category		Growth status of enterprises		Total
			Non growing	Growing	
Participant age	15-25	N	40	30	70
		%	57.1	42.9	100.0
	26-35	N	55	35	90
		%	61.1	38.9	100.0
	36-45	N	15	14	29
		%	51.7	48.3	100.0
	46-55	N	1	3	4
		%	25	75	100.0
	56-65	N	0	1	1
		%	0	100.0	100.0
	Total	N	111	83	194
		%	57.2	42.8	100.0

Source: Own Survey, 2019

Most studies show that formal education has a positive impact on the effectiveness of MSEs. In this study out of the total sample, 78% of MSEs have managers who are under grade 12 and only 22% of MSEs have managers that completed college and above. From the growing MSEs, 36(85.7) MSE managers are completed college and above and from non growing, only 6(14.3) managers completed college and above. In other way, from 111 MSEs on non growing 105 MSEs managers have completed grade 12 and below. This is very large when compared from 83 MSEs on growing 47 managers have completed grade 12 and below. This shows that, most of

growing MSE's owners has high education level. The table also shows that from non growing MSEs, most (77.9 %) of the surveyed MSEs had no work experience before starting this business and from growing MSEs, most (71.6) of the surveyed MSEs managers have work experience before starting this business.

Table 4.3 education level and prior experience of respondents

Variables	Category	Growth status of enterprises				Total	
		Non growing		Growing			
		N	%	N	%	N	%
Educational level	Primary (1-4)	11	84.6	2	15.4	13	100.0
	Secondary (5-8)	56	81.2	13	18.8	69	100.0
	High school(9-12)	38	54.3	32	45.7	70	100.0
	College & above	6	14.3	36	85.7	42	100.0
	Total	111	57.2	83	42.8	194	100.0
Prior experience of manager	Yes	23	28.4	58	71.6	81	100.0
	No	88	77.9	25	22.1	113	100.0
	Total	111	57.2	83	42.8	194	100.0

Source: Own Survey, 2019

Table 4.4 indicates that out of 37 MSEs operated in manufacturing sector, only 16 MSEs (43.2%) are growing and the rest 21 MSEs (56.8%) are non growing. Among 104 MSEs operated in construction sector, 41.3% are growing and 58.7% are non growing. Out of 26 MSEs in urban agriculture sector, 13 MSEs (50%) are growing and 13(50%) MSEs are non growing. Out of 20 MSEs in service sector, only 8 MSEs (40%) are growing and 12(60%) MSEs are non growing. Only 3 MSEs in trade sector are growing, the rest 4 are non growing. With regard to MSEs age table 4.4 shows that from 111 MSEs on non growing, 59 of the surveyed MSEs have

found in business for greater than 11 years and from 83 growing MSEs, 62 MSEs are found in business for less than or equal to 10 years. In relation to its growth effect, MSEs that have been in operation less than or equal to 10 years registered the highest growth rate which declines with the increase in age of the enterprise. This shows that the number of years over which the MSEs exist in operation has a significant effect on their growth.

Table 4.4 Type of business sector * growth status of enterprise cross tabulation

Variables	Category	Growth status of enterprises				Total	
		Non growing		Growing			
		N	%	N	%	N	%
Type of business sector	Manufacturing	21	56.8	16	43.2	37	100.0
	Construction	61	58.7	43	41.3	104	100.0
	Urban agriculture	13	50.0	13	50.0	26	100.0
	Service	12	60.0	8	40.0	20	100.0
	Trade	4	57.1	3	42.9	7	100.0
	Total	111	57.2	83	42.8	194	100.0
Age of enterprises	<=5	27	44.3	34	55.7	61	100.0
	6-10	25	47.2	28	52.8	53	100.0
	11-15	30	65.2	16	34.8	46	100.0
	>15	29	85.3	5	14.7	34	100.0
	Total	111	57.2	83	42.8	194	100.0

Source: Own Survey, 2019

As shown in the table 4.5, from 111 non growing surveyed MSEs, only 33 MSEs are started their business with the amount of capital, greater than Birr 30,000 and from 83 growing MSEs, 42

MSEs are started their business with the amount of capital greater than 30,000. This shows that growth rate increases with increase in amount of initial capital.

Table 4.5 Startup capital * growth status of enterprise cross tabulation

			growth status of enterprise		Total
			non growing	Growing	
Startup capital	<=10000	Count	24	8	32
		% within startup capital	75.0%	25.0%	100.0%
	10001-20000	Count	31	16	47
		% within startup capital	66.0%	34.0%	100.0%
	20001-30000	Count	23	17	40
		% within startup capital	57.5%	42.5%	100.0%
	30001-50000	Count	14	18	32
		% within startup capital	43.8%	56.3%	100.0%
	>50000	Count	19	24	43
		% within startup capital	44.2%	55.8%	100.0%
Total		Count	111	83	194
		% within startup capital	57.2%	42.8%	100.0%

Source: Own survey, 2019

Finance is one of the major resources in any business. The result shows that 92 (47.5%) of the respondents reported their MSE is started business with loan borrowed from micro finance institutions (MFIs). Whereas 48 (24.7%) of the respondents reported that they are started business by personal saving which was not sufficient enough for expansion and growth of the business. The remaining 8 (27.8%) of the respondents reported that as they are running their business loan obtained from relatives and family due to lack of access to formal loan for their business.

Table 4.6 Source of finance * growth status of enterprise cross tabulation

			growth status of enterprise		Total
			non growing	Growing	
Source of finance	own saving	Count	36	23	59
		% within source of finance	61.0%	39.0%	100.0%
	Family	Count	42	23	65
		% within source of finance	64.6%	35.4%	100.0%
	micro finance institution	Count	33	37	70
		% within source of finance	47.1%	52.9%	100.0%
Total		Count	111	83	194
		% within source of finance	57.2%	42.8%	100.0%

Source: Own Survey, 2019

This indicates that MSE operators in the study area face difficulties in getting loan from MFI due to the collateral requirements and high interest rate charged by lending institutions. The result of the study that lack of access to financial resources hinders firms from growing to their optimal size.

Initial employment size is another variable in relation to firm's related factors. Table 4.7 shows that from 111 MSEs on non-growing, 20 MSEs started their business with less than or equal to 5 employees and 88 started their business with 6-15 employees. But from 83 growing MSEs, only 55 MSEs was started their business with 6-15 employees. This indicates that most of the MSEs started their business with large number of employees were non growing.

Table 4.7 initial and current employment size * growth status of enterprise cross tabulation

Variables	Category	Growth status of enterprises				Total	
		Non growing		Growing			
		N	%	N	%	N	%
Initial employment size	<=5	20	44.4	25	55.6	45	100.0
	6-10	55	57.3	41	42.7	96	100.0
	11-15	33	70.2	14	29.8	47	100.0
	15-30	3	50.0	3	50.0	6	100.0
	Total	111	57.2	83	42.8	194	100.0
	Min	Max		Mean		Sum	Std
	2	16		8.37		1,625	3.51
Current employment size	<=5	16	59.2	11	40.8	27	100.0
	6-10	63	78.8	17	21.2	80	100.0
	11-15	27	45.8	32	54.2	59	100.0
	16-30	5	17.9	23	82.1	28	100.0
	Total	111	57.2	83	42.8	194	100.0
	Min	Max		Mean		Sum	Std
	3	29		10.82		2,099	4.96

Source: Own Survey, (2019)

Current employment size is another variable in relation to firm's related factor. As we understand form Table 4.7, from 111 surveyed MSEs in non-growing, 16 enterprises were activating their business with less than or equal to 5 employees and only 5 MSEs were activating their business with 16-30 employees. From 83 MSEs in growing, 11 enterprises were operating their business with less than or equal to 5 employees and 23 enterprises operating their business

with 16-30 employees. The table also shows that out of 194 MSEs surveyed in the study area, 27 enterprises were at micro level these contain number of employees less than or equal to 5 and the rest 167 were at small level these contain number of employees 6-30. However, most of the MSEs in the study area were non growing, the total employment absorbed in the sample rose from 1,625 at the starting time to 2,099 employees/individuals currently with average annual growth rate of 3.73 percent at standard deviation of 0.059. This result is the very small when compared to previous studies in Ethiopia such as Mulu (2007) found 9 % growth rate, Kefale and Chinnan (2012) found 6.5 percent and Hailay Aregawi (2014) who found 5.3 % growth rate.

Distance from raw material was the other variable in relation to firm's related factor. Table 4.8 shows that from 111MSEs on non growing, 61MSEs travel more than 100 kilometers to get their raw materials and 83 MSEs on growing, only 18 MSEs travel more than 100 kilometers to get their raw materials the rest 65 MSEs are closer to their raw materials on growing. This reveals that MSEs that did not travel any distance to get/buy raw materials were grow faster than the other.

Table 4.8 Distance from raw materials * growth status of enterprise cross tabulation

			growth status of enterprise		Total
			non growing	growing	
Distance from raw materials	0	Count	50	65	115
		% within distance to get raw material	43.5%	56.5%	100.0%
	1-100	Count	10	9	19
		% within distance to get raw material	52.6%	47.4%	100.0%
	101-200	Count	24	6	30
		% within distance to get raw material	80.0%	20.0%	100.0%
	201-300	Count	27	3	30
		% within distance to get raw material	90.0%	10.0%	100.0%
Total		Count	111	83	194
		% within distance to get raw material	57.2%	42.8%	100.0%

Source: Own Survey, (2019)

4.2. MSEs Growth and external related factors

External factors are the other group of factors that can affect the growth of MSEs. In this study five external factors were identified to explain their effect on the growth of the surveyed MSEs. These include access to credit, infrastructure, market access, use of technology and political factors. As we understand from the table below, 60 out of 194 surveyed MSEs were not needed any credit from any lending institutions whereas the remaining 134 faced financial problem and applied for lending institutions. From these 134, 70MSEs get access to credit (39 growing and 31 non growing) the remaining 64 MSEs (47 non growing and 17 growing) did not get access to credit with reasons listed in the table below. Based on the study, the MSEs these got access to credit were growing faster than MSEs these did not have access to credit.

Table 4.9 Access to credit * growth status of enterprise cross tabulation

Variables	Category	Growth status of enterprises				Total	
		Non growing		Growing			
		N	%	N	%	N	%
Access to credit	Yes	31	44.3	39	55.7	70	100.0
	No	47	73.4	17	26.6	64	100.0
	Total	78	58.2	56	41.8	134	100.0

Reason not to get credit access		
	Frequency	Percent
Inadequate credit institutions	3	4.7
High interest rate charged by lending institution	30	46.9
High collateral requirement	22	34.4
Complicated loan application process	9	14.0
Total	64	100.0

Source: Own survey, (2019)

Table 4.9 reveals that High interest rate charged by lending institution is the foremost credit related factor affecting the growth of MSEs which followed by high collateral requirement from banks and other lending institutions and complicated loan application process of lending institutions. Concerning the technology, 102 out of 194 surveyed MSEs were using updated technology and the remaining 92 did not use updated technology with their business with different reasons listed in the table 4.10. From MSEs those used updated technology, 55.9% are growing and from MSEs those did not use updated technology, 71.7% are non growing. High cost of modern technology is the main problem for not using updated technology followed by

absence of access to modern technology and some respondents reported that their business did not require modern technology.

Table 4.10 use of updated technology * growth status of enterprise cross tabulation

Variables	Category	Growth status of enterprises				Total	
		Non growing		Growing			
		N	%	N	%	N	%
Use of updated technology	Yes	45	44.1	57	55.9	102	100.0
	No	66	71.7	26	28.3	92	100.0
	Total	111	57.2	83	42.8	194	100.0
Reason not to use updated technology			Frequency			Percent	
Absence of access to modern technology			15			33.3	
High cost of modern technology			30			66.7	
Total			45			100.0	

Source: Own Survey, (2019)

From 194 MSEs surveyed in the study area, ‘109 MSEs are affected by infrastructural problems. From these 74(67.9%) are non growing and 35 (32.1%) are growing. With respect to infrastructure factors, insufficient and interruption of power is the main problem followed by the problems of insufficient and interruption of water supply, insufficient and interruption of communication service, lack of sufficient and quick transportation and insufficient and inconvenient road.

Table 4.11 Infrastructural problem * growth status of enterprise cross tabulation

Variables	Category	Growth status of enterprises				Total	
		Non growing		Growing			
		N	%	N	%	N	%
Infrastructural problem	Yes	74	67.9	35	32.1	109	100.0
	No	37	43.5	48	56.5	85	100.0
	Total	111	57.2	83	42.8	194	100.0

Infrastructural factors	**Frequency**	**Percent**
Insufficient and interruption of power	35	28.5
Insufficient and interruption of water supply	29	23.6
Insufficient and interruption of communication service	23	18.7
Lack of sufficient and quick transportation	18	14.6
Insufficient and inconvenient road	18	14.6
Total	123	100.0

Source: Own Survey, (2019)

The table 4.12 shows that from 194 surveyed MSEs, 159 are affected by market problem. Out of 159 affected MSEs, about 60% are non growing the remaining 40% are growing. The study also shows that high competition is the most affecting market factor of MSEs growth which is followed by the factors shortage of supply of raw materials, inadequate market for product/service, Few marketing days and Poor customer relationships and handling.

Table 4.12 Market problem * growth status of enterprise cross tabulation

Variable	Category	Growth status of enterprises				Total	
		Non growing		Growing			
Market problem		N	%	N	%	N	%
	Yes	95	59.7	64	40.3	159	100.0
	No	16	45.7	19	54.3	35	100.0
	Total	111	57.2	83	42.8	194	100.0

Market access factors	**Frequency**	**Percent**
Inadequate market for product/service	41	25.8
Shortage of supply of raw materials	42	26.5
Few marketing days	15	9.4
Poor customer relationships and handling	5	3.1
High competition	56	35.2
Total	159	100.0

Source: Own Survey, (2019)

When we see the governmental factor, 101 out of the total surveyed MSEs faced government problem with their growth in different manner. From these, 66(65.3%) are non growing and the remaining 35(34.7%) are growing. Table 4.13 also shows that high tax levied on MSEs highly affect the growth of MSEs followed by inadequate government support and high bureaucracy in registration and licensing.

Table 4.13 Government regulation problem * growth status of enterprise cross tabulation

Variable	Category	Growth status of enterprises				Total	
		Non growing		Growing			
Government regulation problem		N	%	N	%	N	%
	Yes	66	65.3	35	34.7	101	100.0
	No	45	48.4	48	51.6	93	100.0
	Total	111	57.2	83	42.8	194	100.0

Governmental regulation factors	**Frequency**	**Percent**
The tax levied on my business is not reasonable	46	45.6
High bureaucracy in registration and licensing	16	15.8
Inadequate government support	39	38.6
Total	101	100.0

Source: Own Survey, (2019)

4.3. Econometric Results and Interpretations

Beside descriptive statistical analysis, binary logistic regression model was used to identify determinants of MSEs growth. This study was used employment size to measure the growth of MSES. Accordingly, MSEs growth rate was computed by taking the natural logarithm of change in employment size over the life of the firm. i. e. MSEsgr $=(lnSt' - lnSt)$/MSEsage. The conventional measure of goodness of fit, R^2, is not particularly meaningful in binary logistic regression models. But measures similar to R^2, called pseudo R^2 are available Gujarati, D. N. 2004. The higher the pseudo R-squared (R^2) statistics, the better the model fits our data, MSEs employment growth with less than 5% of significance level. These variables include age of enterprises (ageentr), education level of MSEs managers (educ), prior experience of MSEs

managers (priorexpr), access to market or market problem (mrktprobl) and government regulation factor (govfactor) (Table 4.14).

Table 4.14 Output of the model for employment growth

Variables	B	S.E.	Wald	Df	Sig.	Odds ratio (Exp(B))
Ageentr			8.416	3	.038**	
ageentr(1)	5.284	1.927	7.520	1	.006	197.068
ageentr(2)	2.563	1.535	2.789	1	.095	12.980
ageentr(3)	1.431	1.970	.527	1	.468	4.181
Educ			9.568	3	.023**	
educ(1)	-2.597	1.535	2.665	1	.103	.082
educ(2)	-4.257	2.710	2.878	1	.090	.010
educ(3)	-5.505	1.777	8.753	1	.003	.005
priorexpr(1)	4.087	1.199	11.624	1	.001***	59.571
Sorcfin			1.214	2	.545	
sorcfin(1)	.658	1.380	.227	1	.634	1.930
sorcfin(2)	1.425	1.297	1.208	1	.272	4.157
Dstsrwm			7.176	3	.066*	
dstsrwm(1)	2.946	1.685	3.057	1	.080	19.024
dstsrwm(2)	-.443	2.238	.039	1	.843	.642
dstsrwm(3)	-.556	2.280	.060	1	.807	.573
crdtaccs(1)	1.884	1.221	2.381	1	.123	6.580
usetchn(1)	1.612	1.018	2.506	1	.113	5.012
infrprbl(1)	-1.752	1.013	2.990	1	.084*	.174
mrktprobl(1)	-2.756	1.078	6.541	1	.011**	.064
Govfactor	2.284	1.044	4.789	1	.029**	9.815
Constant	-7.447	3.236	5.296	1	.021	.001
Pseudo R^2						.876
Chi-square						.664

Source: Own survey result, (2019). *, ** & *** indicates significant at 10% 5% & 1%.

As output of the binary logistic model indicates that from candidate explanatory variables, 5 explanatory variables are significantly affecting the probability of MSEs growth at less than 5% level of significance. Whereas the rest 5 of the 10 explanatory variables were found to have no significant influence on MSEs growth. The effect of these significant explanatory variables on MSEs growth in study area are discussed below.

Age of enterprise (ageentr) affects positively and significantly the growth of employment level at less than 5% significance level. Which shows that keeping the effect of other variables constant, the probability of growth of MSEs with age less than or equal to 5 years are 197 times higher than these MSEs with age greater than 15years. Also at ceteris paribus, the probability of growth of MSEs with age group from 6 -10 years are 12.9 times higher than these MSEs with age greater than 15years. And MSEs with age of 11-15 years grow 4.18 times higher than MSEs with age greater than 15years on average. This indicates that the growth of employment size of MSEs decrease as the age of enterprise on business increases. Therefore, we reject the hypothesis (Ho) 'the growth increase as the age of enterprise increases'.

Education level of MSEs managers (educ): Education was found positively and significantly influences the probability of MSEs growth at less than 5% significance level. Which indicate that keeping the effect of other factors constant; the probability of MSEs growth for MSEs which managers have education level of primary would grow by 82% lower than these MSEs which managers which have education level of college and above. Also ceteris paribus, growth of employment size of MSEs decrease by 10% and 5% for managers who have education level of secondary and high school respectively when compared to MSEs managers these completed college and above. Therefore, we accept the hypothesis 'Education levels of owners of MSEs and growth of MSEs have a positive relationship'.

Prior experience of managers (priorexpr) is also affects positively and significantly affecting the probability of growth of MSEs at less than 5% significance level. The odds ratio for the variable prior experience is 59.57. This indicates that keeping other variables constant, on average, the probability of growth of MSEs with managers who have prior experience grow 59.6 times higher than these MSEs managers who do not have prior experience. Therefore, we accept the null hypothesis "the prior experience of MSEs managers increase the growth of enterprises.

Distance from raw materials (dstsrwm) is significantly affecting the probability of growth of MSEs at less than 10% significance level. This shows that keeping other variables that affect growth of MSEs constant, when comparing enterprises these are closer to raw materials, their growth rate is 19.024 times faster than enterprises these travel greater than 200 kilometers to get their raw materials. Also enterprises these travel less than or equal to 100 kilometers and 101-

200 kilometers grow by 64.2% and 57.3% respectively when compared to enterprise these travel greater than 200 kilometers to get their raw materials at ceteris paribus. This indicates that as the distance from raw materials increases, the probability of growth of MSEs decrease.

Infrastructural problem (infrprbl) is found negatively and significantly affecting the probability of growth of MSEs at less than 10% significance level. The output of the model reveals that keeping other factors constant, MSEs these have infrastructural problems grow by 17.4% less when compared to MESs these have not infrastructural problems. These infrastructural problems are insufficient and interruption of power, insufficient and interruption of water supply, insufficient and interruption of communication service, lack of sufficient and quick transportation and insufficient and inconvenient road.

As the econometric result shows that market access problem (mrktprobl) affects the probability of growth of MSEs negatively and significantly at less than 5% significance level. The odds ratio for the variable market access problem is 0.064. This indicates that the market problem decreases the probability of growth of MSEs by 64% than MSEs which have not market problem the market related problems are High competition, Shortage of supply of raw materials, Inadequate market for product/service, Few marketing days and Poor customer relationships and handling.

Government regulation factor (govfactor) is found to be positively and significantly affecting the growth of MSEs at less than 5% significance level. The odds ratio for the variable government regulation factor is 9.8. This shows that keeping other variables constant; on average, MSEs which have not government regulation problem would grow 9.8 times higher than these MSEs which have government regulation factors. The government regulation factors are high tax levied on enterprises, low governmental support; like entrepreneurship training and information deliverance and high bureaucracy on registration and licensing.'

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

MSE is one of the institutions given recognition in Ethiopia's industry development plan and it considered as vehicles for employment opportunities at urban centres and as it support the economic development. MSE serves as sources for sustainable job opportunities for unemployed youth. Thus they should be given prior attention as they are important and provide sustainable source of job opportunities to our country. The promotion of MSEs is one of the strategic directions pursued by the government during the GTP implementation period (2010/11-2014/15), focusing on promoting the development and competitiveness of MSEs. This study tried to identify factors that influence the growth of MSEs. In this specific study, factors that affect employment growth were identified. Based on the findings the study concluded that majority of the enterprises in Hosanna town was non growing. In terms of their sector classification, most of the enterprises were involved in construction sector followed by manufacturing, urban agriculture, service sector and trade sectors with their descending order. As result shows that education level and prior experience of the managers have a positive and significant effect on MSEs growth. This gives the evidence that MSEs managed/operated by those who have higher education level and previous experience grow faster than their counterparty. Also both MSE's age and distance from raw materials have negative and significant effect on their growth. Thus, the younger MSEs in which its business near to the raw materials grow faster than their counterparty. With respect to external factors, MSEs with higher access to market, infrastructure, and low government regulation system grow faster than their counterparty. On the other hand, the logistic regression result shows that, types of sector, credit, initial capital, initial employment size, source of finance and updated technology were found insignificant in determining the growth of MSEs.

Micro and small scale enterprises are very important in absorbing labor as well as generating of huge revenues for the operators as well as a country. Therefore, in addition to the potential of

MSEs in transforming to medium and large scale enterprises, they could contribute for poverty reduction via helping the operators and users in creating job opportunity and physical capital.

5.2. Recommendation

Based on these results, the following recommendations are forwarded. Education level of MSE managers had significant influence on growth of MSEs. Therefore, at the establishment of MSEs education level should be given consideration. The prior experience of managers has a great role on growth of MSEs and it was found significant at less than 1%. Therefore experience of managers should be given priority in all sectors of MSEs. Also market access problem, infrastructural problem and government regulation problem are highly affecting the growth of MSEs. Therefore, Policies, strategies and support programs of governmental and non-governmental organizations should give multidimensional and great focus on MSEs because this sector is very important to create job opportunity for unemployed youth and to reduce poverty. Government in general and MSEs development agency in particular should motivate, help and advise the operators of MSEs; give training on business issues, forwarding the model MSE operators, arrange forum and exhibitions for experience sharing, and create association and cooperation with suppliers. In addition to this, Government in general and MSEs development agency in particular need to solve the credit, infrastructure, supply and market access problems in collaboration with MFI, banks, Ethiopian Electric Power Corporation, suppliers and other organizations.

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APPENDIX I

Survey Questionnaire

Jimma University

College of Business and Economics

Department of Economics

Graduate Studies

Research Title: - Determinants of Micro and Small Scale Enterprises Growth and its Role on Poverty Reduction in of Hosanna Town.

Dear Respondents,

My name is Tariku Tumidado, Master's student in the Department of Economics with the specialization of Development Economics at Jimma University. Currently, I am conducting a research with the aim of investigating the Determinants of MSEs Growth and its Role on Poverty Reduction in case of Hosanna Town. Fortunately, you are one of the respondents selected to participate and offer information on this study. I confirm you that the information that you share me is kept confidential and only used for the academic purpose. Thus, no individual's responses will be exposed to anyone unnecessarily. Indeed, your honest and thoughtful response is regarded as a great input to the quality of the research resul. Hence, I believe that you will enlarge your assistance by participating and providing accurate information in the study. Finally, if you have comments or further explanations, please use the space provided at the end of the questionnaire.

Thank you very much for your kind cooperation and dedicating your time.

General instruction

1. No need of writing your name
2. Your participation should be voluntary
3. Giving more than one response is allowed if necessary
4. Please simply tick on the appropriate box or give an explanation to open ended questions

Part one: Demographic characteristics of the owner/operator

1. Sex of the operator/manager 1. Male 2. Female
2. Age of the operators/manager _____ (years)
3. Age of your enterprise _____ (in years)

4. The level of education completed by the operators _____ (in years)

1, primary 2, secondary 3, high school 4, college and above

5. Do you have a related previous work experience before starting this business?

1. Yes 2. No

6. If your answer for question number 5 is yes, where did you work in?

1. Other MSEs 2. Other related business 3. Any unrelated activities

7. Based on your answer on question number 6, how many years of experience do you have? _____ (in years)

8. How many years have you worked in the business you are now involving? _____ (in years)

Part two: Characteristics of the firm/business enterprise

1. Type of business

1. Manufacturing 2. Construction 3. Urban agriculture, 4. Service, 5. Trade

2. What is your plan for the future?

1. To continue with this business 3. To shift to another business

2. To stop doing any type of business 4. I didn't plan

3. What was your total capital when starting this business? _____ (in birr)

4. Where did you obtain this capital from?

1. Own saving 4. NGOs 7. If other, specify_____

2. Relatives/friends 5. Family

3. Bank 6. MFI

5. How many capital/assets do you have now? _____ (in birr)

6. How many days per week does your business open:

To produce_____ days

To sale_____ days

7. How much do you produce per month? _____ (in g /kg/L/dozen)

8. How much you sale per month? _____ (in birr)

9. Where do you get the raw materials/inputs for your business from?

1. Inside the town 2. Outside the town

10. If your answer for question number 14 is outside the town, what is the average distance in Kilometers you travel to get the raw materials? _____ (in KM)

11. Where do you sale your products/services?

1. Inside the town 2.Outside the town

12. If your answer for question number 16 is outside the town, what is the average distance in kilometer you travel to sale your product? _____ (in KM)

13. How much your current balance is? _____

Part three: External factors of enterprise

1. Have you ever been face any financial problem?

1. Yes 2. No

2. If your answer for question number 1 is yes, have you ever been applied for banks and other lending institutions to obtain the required finance?

1. Yes 2. No

3. If your answer for question number 2 is yes, did you obtain any credit?

1. Yes 2. No

4. If your answer for question number 3 is no, please indicate the degree of the following one or more reasons why you are not able to obtain credit? Where, 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree, 1= strongly disagree.

No	Financial factors	5	4	3	2	1
1	Inadequacy of credit institutions that grants loan					
2	High interest rate charged by banks and other lending institutions					
3	High collateral requirement from banks and other lending institutions					
4	Complicated loan application procedures of lending institutions					
5	If other, specify					

5. Does your business require updated technology?

1. Yes 2. No

6. If your answer for question number 5 is yes, do you use modern technology in your overall business activities?

1. Yes 2. No

7. If your answer for question number 6 is no, please indicate the degree of the following one or more reasons why you are not able to use? Where, 5 =strongly agree, 4 = agree, 3 = undecided,2 =disagree, 1 =strongly disagree.

No	Modern technology factors	5	4	3	2	1
1	Absence of access to modern machinery and equipments					
2	High cost of modern technology					
3	Lack of skill to handle and manage new technology					
4	Inability to select proper technology					
5	If other, specify					

8. Do you have basic infrastructural facilities problem for your business?

1. Yes 2. No

9. If your answer for question number 8 is yes, please indicate the degree of the following one or more problems? Where, 5 =strongly agree, 4. = agree, 3 = undecided, 2 =disagree, 1 =strongly disagree

No	Basic infrastructural factor	5	4	3	2	1
1	Insufficient and interruption of power					
2	Insufficient and interruption of water supply					
3	Insufficient and interruption of communication services					
4	Lack of sufficient and quick transportation					
5	Insufficient and inconvenient road					
6	If other, specify					

10. Do you face any marketing problems?

1. Yes 2. No

11. If your answer for question number 10 is yes, please indicate the degree of the one or more

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

No	Marketing factor	5	4	3	2	1
1	Inadequate market (demand) for my product/service					
2	Shortage of supply of raw materials					
3	Few marketing days					
4	Poor customer relationships and handling					
5	High competition					
6	If other, specify					

12. Is your business affected by the political factors?

1. Yes 2. No

13. If your answer for question number 12 is yes, please indicate the degree of the following one or more factors? Where, 1 = strongly agree, 2 =agree, 3 =disagree, 4 =strongly disagree.

No	Politico-legal factors	1	2	3	4
1	The tax levied on my business is not reasonable				
2	High bureaucracy in my business registration and licensing				
3	Inadequate government support				
4	Delay in information access of government regulations which are relevant to my business				
5	If other, specify				

Part four: Measures of dependent variable (growth of MSEs)

l. Write the number of employees you had/have at the appropriate place in the below table?

Number of employees	When you begin your business	Now
Full time		
Part time		
Total		

2. What was your total asset: At the beginning_____ Now _____

3. What was your average sale per day: at the beginning_____ Now_____

APPENDIX II
Model output

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	Ageentr			8.416	3	.038			
	ageentr(1)	5.284	1.927	7.520	1	.006	197.068	4.515	8602.283
	ageentr(2)	2.563	1.535	2.789	1	.095	12.980	.641	262.921
	ageentr(3)	1.431	1.970	.527	1	.468	4.181	.088	198.631
	Educ			9.568	3	.023			
	educ(1)	-2.505	1.535	2.665	1	.103	.082	.004	1.653
	educ(2)	-4.597	2.710	2.878	1	.090	.010	.000	2.042
	educ(3)	-5.257	1.777	8.753	1	.003	.005	.000	.170
	priorexpr(1)	4.087	1.199	11.624	1	.001	59.571	5.683	624.406
	Sorcfin			1.214	2	.545			
	sorcfin(1)	.658	1.380	.227	1	.634	1.930	.129	28.874
	sorcfin(2)	1.425	1.297	1.208	1	.272	4.157	.327	52.778
	Dstsrwm			7.176	3	.066			
	dstsrwm(1)	2.946	1.685	3.057	1	.080	19.024	.700	516.918
	dstsrwm(2)	-.443	2.238	.039	1	.843	.642	.008	51.629
	dstsrwm(3)	-.556	2.280	.060	1	.807	.573	.007	50.049
	crdtaccs(1)	1.884	1.221	2.381	1	.123	6.580	.601	72.040
	usetchn(1)	1.612	1.018	2.506	1	.113	5.012	.681	36.874
	infrprbl(1)	-1.752	1.013	2.990	1	.084	.174	.024	1.263
	mrktprobl(1)	-2.756	1.078	6.541	1	.011	.064	.008	.525
	govfactor	2.284	1.044	4.789	1	.029	9.815	1.269	75.898
	Constant	-7.447	3.236	5.296	1	.021	.001		

a. Variable(s) entered on step 1: ageentr, educ, priorexpr, sorcfin, dstsrwm, crdtaccs, usetchn, infrprbl, mrktprobl, govfactor.

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	41.167[a]	.651	.876

a. Estimation terminated at iteration number 8 because parameter estimates changed by less than .001.

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	5.851	8	.664