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A GRADUATE THESIS ON: GROWTH AND DEVELOPMENT OPPORTUNITIES OF MICRO, SMALL AND MEDIUM ENTERPRISES: A CASE OF ABESHIGE WOREDA IN GURAGE ZONE, CENTRAL ETHIOPIA

BY: MOGES GELAGLEW

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BY: MOGES GELAGLEW

ADVISORS: ADMASU SHIBRU (PHD)

MAREG FIKADU (MA)

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DECLARATION

I declare that the thesis entitled **"Growth and Development Opportunities of Micro, Small and Medium Enterprises: A case of Abeshige Woreda in Gurage Zone, SNNPR"** is my original work, has not been submitted to any other university for achieving any academic degree or diploma awards and all source of materials used for the thesis have been duly acknowledged.

Declared by:

Name: Moges Gelaglew

Signature: _____

Date: _____

Wolkite University

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APPROVAL SHEET

We, hereby certify that we have read and evaluated this thesis tiled "Growth and Development Opportunities of Micro, Small and Medium Enterprises: A case of Abeshige Woreda in Gurage Zone" prepared under our guidance by Moges Gelaglew Mekonnen. We recommend that the thesis shall be submitted as fulfilling the requirements for the award of a MA degree in Development Studies.

Admasu Shibru (PhD)	_____	_____
Major -advisor	Signature	Date
Mareg Fikadu (MA)	_____	_____
Co-advisor	Signature	Date

As members of the board of examiners of the master of art thesis open defense examination-we have red and evaluated this thesis prepared by Moges Gelaglew Mekonnen and examined the candidate. We hereby certify that the Thesis is accepted for fulfilling the requirements for the award of the degree of Master of Art (MA) in development studies with specialization in Development Planning and Management.

Beserat Geberu (Assp)	_____	_____
Name of External Examiner	Signature	Date
Zelalem Dendir (Dr.)	_____	_____
Name of Internal Examiner	Signature	Date
Tigist Ewunete	_____	_____
Name of Chairman	Signature	Date

Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to School of Graduate Studies (SGS) through the Department/School Graduate Committee (DGC/SGC) of the candidate's department.

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ABSTRACT

The purpose of this study was to examine the growth and development opportunities of micro, small, and medium enterprises in the case of Abeshige Woreda in Gurage Zone, SNNPRS. The population of the study was all participants who are involved in enterprise at Abeshige Woreda, Guraghe Zone. The data has been collected through structured interviews,FGDs, observation and questionnaire methods. A total of 292 out of 298 samples, or 97.98% of the sample size, were filled out in this study to reflect the background characteristics of the respondents as well as variables affecting the growth and development opportunities of SMEs. Descriptive statistics such as frequencies, percentages, means, and pie charts were made. A multiple linear regression model (OLS) was implemented to analyze the influence of each component (independent variable) on the growth and development opportunities of SMEs. The findings revealed that the age of the business, the number of initial employees, the profitability of the enterprise, the challenges posed by shortages of market demand, technology constraints, and land, the initial and current vision, capacity development training, the status of training improving performance, the availability of sufficient financing, and manager (owner) education were demonstrated to have a significant effect on the growth and development opportunities for MSEs at a 5% level of significance. Based on the findings of this study, the concerned body should promote formal education for SMEs owners and managers, provide adequate access to finance, provide capacity-building training to improve SMEs, and so on. The study also recommends sustaining its profitability and eliminating the challenges faced by the enterprise.

Key words: Micro, Small and medium Enterprise, Growth, development

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ACRONYMS

BDS-business development services

CDASED-committee of donor agencies for small enterprises development

CSA-Central Statistical Agency

CXS-Characteristics

EDRI- Ethiopian Development Research Institute

EEA -Ethiopian Economic Association

EU- European commission

FDRE- Federal Democratic Republic of Ethiopia

FEMSEDA-Federal Micro and Small Enterprise Development Agency

GNI- Gross National Income

GTP- Growth and Transformation Plan

IDRC-international development research center

ILO- International Labor Organization

MoFED-Ministry of Finance and Economic Development

MoTI- Ministry of Trade and Industry

MSEDS-micro and small enterprises development strategy

OECD - Organization of Economic Cooperation and Development

NGO - Non-Governmental Organization

NI- National Income

REMSEDA-Regional Micro and Small-Scale Enterprises Development Agencies

SMEs - Small and Medium Enterprises

SNNPR: South Nation and Nationalities and People's Region

UNIDO -United Nation Industrial Development Organization

USAID -United States Aid for International Development

CHAPTER ONE

1. INTRODUCTION

For all intents and purposes, the contribution of micro, small, and medium enterprises (SMEs) to spurring the development of the world economy has become an established fact. Feeney and Riding (1997) concede that, by dint of their inherent potential to create jobs, unleash entrepreneurial spirits, and lay the foundational structures for industrialization, amongst many others, governments are increasingly motivated to channel their development momentum towards the promotion of SMEs at all levels (Hagos, Yared Haftay, 2012). Moreover, as the old economic structures of central planning give way to freer markets in developing and transition economies, SMES are by and large viewed as the bedrock upon which the goals of the free market can be realized. In contrast to the classical gains of multinational corporations, SMES are better suited to serve the developmental needs of poor countries than the former. Nowhere is this assertion more self-evident than in Africa, where a colossal sum of 90% of all private businesses fall within the bracket of SMEs; by this same estimate, their share of the employment strata also stands at 50%, with a correspondingly high contribution to the overall productivity output of most African economies (UNIDO, 1999), cited in Hagos and Yared Haftay (2012)

Ethiopia, in general, has been thriving to develop an industry-based pillar in addition to the agriculture sector. Agriculture has been dominating the socioeconomic and political basis of Ethiopia for many years. This is clearly reflected in a number of indicators. Among others, the agriculture sector provides the major source of employment for more than 80% of the Ethiopian population, is the dominant source of NI, and foreign exchange plays a dominant role in determining economic growth and development in the country.

Currently, the government of Ethiopia is in the middle of its growth and transformation plan (GTP), which is thought, at its end, to ensure a ground for industrial development. Industrial growth is considered to grow faster than the previous period and even more than that of the agricultural sector, so that it will lead to the future economy of the nation. The consideration of industrial development can be explained both due to the possible challenge of importing vital industrial products, as foreign exchange currency has been a critical constraint that has hampered

the economy in general, and the need to develop domestic industries to supply the locally demanded industrial products, in particular. On the other hand, due to the comparative advantages that Ethiopia has in terms of location being around many developing countries in Africa that demand too much of industrial products, in terms of the existing huge agricultural resource potential, labor, and a large population that demands huge consumables, among others.

The current globalization and market access for developing countries, such as Ethiopia, can be an opportunity. Among other things, as the industrial development in this country is in its early phase, the marginal return due to a unit investment could be high, as the relative concentration of capital is lower as compared to developed countries. The concentrations of most importable technologies are lower here, which is an indicator of local demand.

As clearly indicated in the GTP, long-term industrial development is assumed to be based on the development of micro, medium, and small enterprises (SME), although the existing few medium and large industries are again the subject of promotion. The government has implemented the development program of the SME cooperatives throughout the nation. The specific policy elements that govern this development, among others, include: the proclamation of the establishment of the federal, regional, zonal, and Wereda executive offices that implement development policies on SMEs; the establishment of institutions that support the SMEs at the federal and regional governments, including the establishment of financial institutions; the provision that was given to the SMEs to get credit with preferential advantages; and the establishment of workshops for SMEs in all regions.

The lack of appropriate policy, development strategy, and sector-oriented support agencies restrains the development and expansion of SMEs. A study by Eshetu and Mammo (2009), cited in Hagos and Yared Haftay (2012) stated that “Ethiopia has failed to benefit from the phenomenal growth in the SMEs sector." This emerges from the fact that the sector lacks appropriate policy, development strategy, and support services. This implies that Ethiopian SMEs operate in a difficult business environment due to the government's failure to address the above-mentioned overall problems. Among other things, the lack of sources and access to finance, an overregulated business environment, limited support services for innovation,

technology development, and marketing limit their contribution to economic development (Hagos, Yared Haftay, 2012).

Currently, MSEs in both developed and developing countries are seen as the most important alternative sector to facilitate socio-economic development. Particularly, they make a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty. Several studies show that MSEs in these countries are considered crucial in employment creation and generally contribute to economic growth as an engine of development and vehicle towards fulfilling development goals (Hawltu, 2017).

Despite a lot of effort made by the government to create job opportunities and build the economy, MSE operation and growth have been persistently challenged by numerous internal and external factors. Even a significant number of MSEs in different parts of the country are unable to grow to the next stage, and their contribution has declined (EEA, 2015, cited in Hawltu, 2017). So to provide assistance, it is necessary to identify the factors affecting their growth. These studies, therefore, aims to identify those internal (firm-specific) and external (business environment) factors affecting the growth and development of MSEs in Abeshge woreda, Gurage Zone.

1.2. Statement of the Problem

The importance of MSEs as an instrument of poverty alleviation through employment creation, sustainability of development, and supply of affordable products has been implicitly and explicitly accepted by many countries and international development organizations. Therefore, MSEs are considered to be a decisive input in initial broad-based economic growth and enhance employment creation, especially in developing countries that aspire to have sustainable economic growth (Hawltu, 2017). Firm growth is a central focus area in the strategies of many owners, entrepreneurs, governments, and organizations. In many African countries, MSE employment is nearly twice the level of total employment that is registered for large-scale enterprises and the public sector, confirming that micro, small, and medium-scale enterprises are a major source of revenue for a significant proportion of the population in these areas (Liedholm, 2001, cited in Hawltu, 2017).

In addition to the superficial economic benefits, micro, small, and medium enterprises development has been viewed by policymakers as a means to increase the incomes of the poor in the economy. MSE owners and workers do tend to be disproportionately poor, with the incidence of poverty in MSEs higher than in large firms. Growth that is broad-based by both its region and sector is more likely to be faster and provide greater opportunities for poor societies. Similarly, rapid growth in regions where the poor live and in sectors of the economy in which they work is likely to result in poverty reduction (OECD, 2006). Given the well-known importance of MSEs, the question is: why do only a few expand rapidly while others stagnate? These studies would show that in order to achieve the contributions made by MSEs and ensure their growth, it is required to overcome a series of challenges faced by MSEs (Okpara, 2011; cited in Hawltu, 2017). Micro, small, and medium enterprises operations and growth have been persistently challenged by numerous internal (firm-specific) and external (business environment) factors. Entrepreneurs in developing countries have to be twice as creative as their counterparts in wealthier nations if they are to overcome obstacles such as dysfunctional legal and financial systems, distorted markets, and unequal access to resources (Nichter et al., 2005; Hawltu, 2017). These factors hindering the potential growth and development of MSEs are higher in sub-Saharan African countries, and in Ethiopia specifically, MSEs have been confronted in the past by many of these problems, as existing research shows (Solomon et al., 2016; Arega et al., 2016) (Hawltu, 2017). In Ethiopia, support for MSEs has been considered a tool for employment creation and the foundation for long-term development objectives.

According to Haileyesus (2020), regarding the factors affecting micro and small enterprises growth, there are some studies (Alemu, 2015; Waleligne & Wendimu, 2010; Haftom et al., 2014; Fikite & Endrias, 2015; Antenane, 2017; Aregawi, 2015; Dagmawit and Yishaq, 2016; Hagos, 2012; Mulugeta, 2010; and Fekadu, 2015). However, these studies didn't consider important variables while investigating the factors affecting micro and small enterprises growth; for example, Alemu (2015) didn't consider education level, family size, source of funding, entrepreneurship training, business sector, business plan, and work experience among independent variables. Waleligne & Wendimu (2010) and Haftom et al. (2014) consider only three factors (access to credit, access to work premises, and access to infrastructure); other variables, for instance, age, sex, education level, training, business type, and work experience,

were not considered. But my thesis considered all variables that were mentioned in the above-mentioned previous studies.

Furthermore, in relation to the method of data analysis, Alemu (2015), Mulugeta (2010), Antenane (2017), and Hagos (2012) used only descriptive statistics that do not indicate how and to what extent the factors affect the growth of MSEs cited in Haileyesus (2020). But this study would use both descriptive and econometric analysis to deal with the details of factors and determine the extent of factors affecting the growth and development of MSEs. The study also considered the nature of government follow-up and support, the respective summary of value chains and market opportunities, inputs and raw material supply, and access to credit and saving, among others. Here, growth refers to the linear increase in the scale or capital of the enterprise, while development refers to the horizontal expansion or increase in the number of enterprises considered. These studies were conducted on the factors constraining the growth and development opportunities of micro, small, and medium enterprises in many specific and many regional areas of Ethiopia, but there is no research conducted in Abeshge woreda. In line with the preceding ideas, this study tried to examine the growth and development of micro, small, and medium enterprises (MSEs) in Abeshge woreda.

1.3. Objective of the Study

1.3.1 General objectives of the study

This study examined the growth and development of micro, small and medium enterprise (MSEs) in Abeshge woreda and recommend possible and verified innovative information.

1.3.2 Specific objectives

1. To analyze the profitability of the enterprises.
2. To analyze the vision and attitude of members for growth.
3. To analyze the availability, access and utilization of inputs and vital service.
4. To assess the enabling and hindering factors against the expected success of SMEs.

1.4. Research Questions

The key research questions of this study are:

- How is the profitability of the enterprise?

- Whether the SMEs have visionary plan?
- How is the attitude of the candidates in terms of their hope for growth?
- The presence of adequate capacity and commitment with business development services (BDS) providers?
- What are the enabling and hindering factors against the expected success of SME?

1.5. Significance of the Study

There are many MSEs in the country in general and the research area in particular that have the potential to create employment and generate income, which makes them crucial economic instruments. It provides relevant information to policymakers, local development planners, and governments at the woredas level, and that would stimulate innovation, encourage, and promote MSEs for unemployment and poverty alleviation through minimizing factors hindering their growth. Furthermore, the study would provide information about the factors that affect growth and development in the research area, prospective entrepreneurs, and business consulting firms. For MSEs, this study would offer alternative actions to counteract the problems that are identified.

1.6. Scope of the Study

It is clear that the issue of MSEs are currently interesting throughout the country, and there is the possibility of using various tools, wide geographical areas, and a large sample size. The study would concentrate on the growth and development opportunities of MSEs in some selected kebeles of Abeshge woreda.

1.7. Limitation of the study

It is obvious that any study has its own limitation. Therefore, the main limitation faced in this study cannot cover a large geographical area beyond Abeshge woroda. And also there is the limitation of financial and time.

1.8. Organization of the Study

The study was structured in the following chapters: The first chapter constitutes the introduction, which includes the background of the study, statement of the problem, objectives of the study, research questions, and significances of the study, scope of the study, area, and limitations of the study. The second chapter would have reviews of different literature related to the growth and development opportunities of medium, small, and micro enterprises. The third chapter consists of research methodology such as a description of the study, research design, the study population, sample size and sampling techniques, sources of data, instruments of data collection, methods of data analysis, and ethical considerations. The results and discussion have been presented in chapter four, and the conclusion and recommendation have been presented in chapter five.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Theoretical Definition of MSEs

There is no universally accepted definition of SMEs because in each economic system every country has its own classification according to their industrial regulation. The categorization of SMEs depends on qualitative judgment such as number of paid up employees, size of enterprise, and amount of capital employed. In Britain and USA small and medium scale industries classified based on yearly gross revenue and the number of workers they employ. In Britain small scale businesses classified based on paid up employees that do not exceed 200 and annual gross revenue of 2 million pound. Japan classifies SMEs as manufacturing enterprises with total capital not exceeding 100 million yen with 300 employees. In the whole sale trade the classification requires capital not exceeding 30 million yen and less than 100 employees. In retail and service trade SMEs classified based on total capital not exceeding 10 million yen and 50 employees respectively, Ekpenyong and Nyong (1992, p 4)cited in (Hagos, Yared Haftay, 2012). This indicates that the industrial regulation of different country treat and categorize SMEs in different ways. The Ethiopian Ministry of Trade and Industry (MoTI) defines SMEs as follows: Micro enterprises: are small businesses with total capital investment not exceeding Birr, 20,000 and excluding these enterprises with high technical consultancy and other high-tech establishment. Small enterprises: are businesses with a total investment between Birr, 20,000 up to Birr, 500,000 and do not include these enterprises with advanced technology and high technical consultancy. Medium enterprises: are these business enterprises with a total investment between Birr, 500,000 up to Birr 1 million and including those enterprises that have high technical consultancy and excluding other high-tech establishment. Therefore, MoTI classifies SMEs in Ethiopia based on capital investment and on the bases of establishment. This is important because the sector accounts for large businesses throughout the country so that proper definition and classification is of essence for policymakers in their dealings with in SMEs (Hagos, Yared Haftay, 2012).

The study provides a link between the degree of entrepreneurial activity and their growth performance. Even though the government has relied too much on the development and growth

of the SME and much has been invested on entrepreneurial services, much is not known empirically about the consequences of lagging behind in this process.

In the face of globalization, a country is expected to have strong sectors that can be competitive with respect to the global similar companies. Otherwise, the stay of these industries in this nation or the firms in them could be just temporary, which could be closed due to competition. When considering the advantages that the incumbents are having with the long years of experiences on top of the technological advancements and relative intensity of capital especially in developed World, the sectors in developing countries are subjected to more tense competition with full of constraints. Therefore, it is critical to assess their development, and monitor their operation, identify the problems and shape the operational and implementation strategies accordingly. In this regard, it has been promoted to create links towards global value chain from the SMEs at the grass root level and any giant actors on the glob

Both governmental and non-government agencies have long recognized the important contribution that small enterprises to poverty reduction, employment and private sector development. Associated to these expected outcomes, governments have attempted to promote the SME sector through support for financial and non-financial services.

The growth, development and sustainability of these SMEs is a function, among other, things on the availability, access and utilizations of different support services. The Business Development Services (BDS), i.e., the wide array of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of the SMEs.

A "new paradigm" for BDS was the shared recognition among the many international organizations in that

> "……. traditional interventions by governments and donors have failed to provide quality, affordable BDS to a large proportion of the target population of small enterprises. There was a general feeling that publicly-provided and publicly-funded services have not achieved the objectives of donors and governments: enterprise productivity and competitiveness, job creation, poverty alleviation, and social mobility. Moreover, good performance measurement was lacking to be able to evaluate and compare programs….." ((IDRC), 1995)

Although considerable efforts have been made to date, there is a need to continuously assess the performances of the SME, identify best practices, verify opportunities of improving productivities and innovations, optimize the values to be extracted with sustainable and fair governance structure through strengthening the partnership modalities of all the actors in the global chain linking the small-scaled ones, the giants, the service providers, the governmental and non-governmental actors and the consumers at large.

2.2. Theoretical Literature

In relation to business development in general and SMEs in particular, there are a number of theories taught and applied in different settings and levels, saying this some of those theories developed and forwarded by different writers and thinkers are stated under this title cited in (Haileyesus, 2020).

2.2.1. Economic Theory of Entrepreneurship

Mark Caisson‟s economic theory states that entrepreneurship is a result of favorable economic conditions which include tax policy, industrial policy, and strategy, easy access to products and services, easy availability of finance on favorable terms, access to information about market conditions, availability of technology and infrastructure. As this theory, entrepreneurship and economic development will take place in a particular situation where economic conditions are most encouraging. Entrepreneurship is therefore viewed as the fourth factor of production beside land, labor, and capital. Economic incentives include taxation policy, industrial policy and strategy, sources of credit and raw material, availability of infrastructure, investment, and marketing opportunities are viewed as the main motivators for commercial activities. Further, entrepreneurship and economic growth and development take place when the economic conditions are favorable. Economists view the supply of entrepreneurship as highly elastic (Muniory & Ngugi, 2014) cited in (Haileyesus, 2020).

2.2.2. Passive Learning Model

In the Passive Learning Model a firm enters a market without adequate orientation in knowing its own potential growth. It is only after engagement of the entrepreneur that, the firm starts to learn about the distribution of its own profitability based on information from actual gains. By continually updating such learning, the firm will make a decision to invest more or to exit from

the operation. This model states that, firms and their managers learn about their competence once they are established in the industry. As the enterprises age increase, the owner's evaluation of efficiency becomes more accurate decreasing the probability that the output will widely vary from one year to another. The implication of this model is that smaller and younger firms should have higher and more viable growth rates than the older ones (Afande, 2015).

2.2.3. Stochastic and deterministic approaches

The other growth theory of firms is the Stochastic and Deterministic Approaches. The stochastic view or model is also named as Gibrat's Law. It indicates that all changes and development in relation to size happen because of chance. Thus, the size and age of firms will not affect the growth of MSEs. The deterministic approach, on the other hand, states that differences in the rates of growth across enterprises depend on a set of observable industry and firm-specific uniqueness (Afande, 2015).

2.3. Empirical Literature Review

This part of the literature review deals with definitions, views and arguments forwarded with different scholars and other concerned bodies relater to factors affecting the growth of MSEs and it gives general concepts and insights about the issue under consideration.

The definition of micro and small enterprises around the globe vary from country to country and depend on the phase of economic development as well as their prevailing social conditions. The definition uses number of full time employee, total asset, net asset and paid capital, and annual turnover as criteria independently or in combination (Haily, 2007) cited in Haileyesus, 2020.According to Enock Nkonoki, (2010) cited in Hawltu, 2017, studied the factors limiting or affecting the success and growth of small businesses in Tanzania using the qualitative method of data analysis. His qualitative analysis result shows that corruption in different forms, theft , cheating, lack of a proper business plan, lack of trust in the process of doing business, access to finances which is known as the capital constraints, unfavorable economic conditions in the area, lack of the required talent by the operators of the small firm , lack of proper record keeping in the process of doing the business, lack of or improper professional advice and consultation, inadequate education and training for the operators of small enterprises, lack of prior experience in the business and the government policy in connection with small firms, are the major

constraints in which the researcher identify as the big challenges in affecting the growth of small firms in Tanzania. In the conclusion he also explained the issue of small firm growth is not only a problem to small firm owners, but it also affects the overall community and the economy of the country as a whole. This is so because if small businesses fail to grow with the appropriate way as required by the economy it accelerates unemployment, lowers productivity which results lowering savings and investment, and finally the government loses money that it would have made as tax revenue which lastly deteriorates national income of the country so the factor affecting the growth of small firms should be matter all stakeholders. An empirical Evidence from the study Africa and Latin America on small firm dynamics by C. Liedholm, 2001 (Ibid, 2017) revealed that several key variables are important determinants of the expansion of existing small enterprises. Thus proprietor gender, enterprise age, initial size, location (road side, traditional market, commercial market and mobile), country (different Latin and Africa countries) and sector are among major factors affect the growth of MSEs. Controlling the influence of other variables, Enterprise age is statistically significant a strong inverse relationship with enterprise growth. Thus, it is the younger firms that are more likely generate more expansion jobs per firm. The special and unique finding by Liedholm is that Initial size is statistically significant and negative or inverse relationship with growth. The smaller enterprises at startup thus add more expansion jobs per firm than their larger scale counterparts, a powerful finding for those concerned with employment creation. The sector in which an enterprise operates also affects the helps explains growth of enterprises. His result also reveals that the manufacturing and service sectors are more likely to experience higher rates of growth than those in the reference category trading. But at a more disaggregated level, the specific sectors that were likely to generate more MSE expansion varied from country to country (Liedholm, 2001) The study also proves that this socioeconomic variable like Gender of entrepreneur is a significant determinant of enterprise growth. Thus, male-run enterprises grow more rapidly than those run by females, even after controlling for the effects of all the other variables. In his study Human capital, although data limitations precluded the inclusion of human capital variables in the six country growth analysis, other recent growth studies provide some evidence that human capital does significantly affect enterprise growth. In addition that business with workers trained formally at vocational schools show statistically significantly higher growth than those businesses with untrained workers once all other variables are controlled (Hawltu, 2017). Arega

et.al. 2016, Hawltu, 2017 studied factors affecting growth determinants of Micro and Small Enterprises in Bole Sub City of Addis Ababa City Administration using the multiple regression method of analysis. Their research result shows that respondents who attended technical or business management training showed better growth than those who did not attend. In connection to this, they explained that training was provided to 2,174,290 business operators on the issues of business management and technical skills throughout the country which is 73% of the GTP target to enhance the growth of micro and small enterprises (GTP annual progress report, 2013)(Ibid, 2017). But they indicate that majority of the respondents believe they did not get sufficient access to training. On the other hand, their results also reveals that Micro and small enterprises that comes to business with higher initial investment (capital) shows better growth than those MSEs that started business with lower initial investment. Finance as one of the main factors that affect starting, success, performance and growth of MSE's. Thus those MSEs do not have enough access to loan to start and they need to have pre-credit compulsory saving before acquiring business loan. They also supporting this, in another finding that the major source of startup finance and working capital is own saving, family and friends followed by microfinance and 'equb. In addition, as per multivariate analysis of the study, MSEs engaged on the service sector are growing more than MSEs in the other sectors. Regarding, the ownership of MSEs i.e. in cooperative form or non- cooperative form, those in non- cooperative form shows better growth than those working in cooperative. Thus they confirms this particular result with the current government practice that MSEs in cooperatives form are encouraged to stay in business only until they acquire starting capital for their business, and then they are encouraged to establish the other types of MSEs which include, Sole proprietorship, PLC or partnership. Another finding by Solomon et.al, (2016), (Ibid, 2017) studied the determinants of growth of micro and small enterprises (MSEs) which is an empirical evidence from Ethiopia. They used OLS method of estimation and the result shows that Micro and small enterprises have limited linkages with other firms, and are less integrated with the external market, especially small enterprises have not benefited from linkages with larger firms. This implies that limited integration with the external market and larger firms means that Micro and small scale enterprises have not benefited from technology transfers and other useful business related exposure which in turn results reduction in their performance to grow. The result also indicates that access to finance appears to be a very severe or major obstacle as which is about 55% and

64% of micro and small scale enterprises respectively. In their comparison between micro and small enterprises the problem of access to finance is more severe for small enterprises compared with micro enterprise as the latter often have access to microfinance institutions (MFIs). A large proportion of both micro and small enterprises have not applied for a loan or credit due to lot of reasons such as cumbersome bureaucracy, limited working premises, and high collateral requirement in the study area. In their qualitative analysis the characteristics of both top managers or owners and firms do matters for the growth of micro and small enterprises. Among manager's or owner's characteristics, age, marital status and education were important factors affecting growth of both micro and small enterprises. Most importantly, human capital development targeting managers of MSEs can boost employment creation through the expansion of MSEs because an MSE manager having secondary school education and or technical and vocational education training is positively related with firms' growth. In addition, they explained that human capital development is also important for the workers of the enterprises hence businesses with larger proportion of skilled production workers shows statistically significantly higher growth than those businesses with less trained workers in the process. The finding of their study also reveals that the business environment influences the growth of firms. In particular, frequent power interruptions, lack of access to credit, and shortage of water is inversely correlated with growth of micro and small enterprises. In the result for micro and small scale enterprise, access to credit is the main problem because as the MSEs are too big for non-bank financial institutions at the same time they are too small for commercial banks in the country reflecting the missing middle financial intermediation. In addition start-up size or initial capital and growth of the MSEs are negatively related, which means that MSEs that start business larger in size in terms of employment grow slower than their counterparts, which is unique finding. Getachew Regassa (Dr.), (2014) (Ibid, 2017) studied the external factors affecting the growth of Small Scale manufacturing firms in Tigray Regional State of Ethiopia using Multinomial logistic regression model. The result indicates that the infrastructural development, competition among and within the enterprises, and access to market are positively and significantly affects the growth of small scale enterprises. On the contrary the result shows that the level of interest rate influences the growth of Small scale enterprises negatively and significantly. But in his analysis the effects of credit access and business development services are statistically insignificant to affect the growth of Small scale enterprises. Finally he concludes

that policy towards job creation and industrial development can take into consideration these external factors to promote the startup and growth of Small scale enterprises. Thus the above literature review shows that majority of studies concentrated on factors that constraints for the potential growth performance and success of micro and small enterprises at continent, country and other small geographical areas in Ethiopia. The potential internal factors including socio economic characteristics like sex, age, educational level, work experience and firm age are significant factors affecting the growth of Micro and small enterprises identified from the above empirical reviews. On the other hand external factors like access to finance, access to training sector enterprise engaged , initial capital , initial and current employment size, are also significant factors constrain the MSEs growth observed from the above empirical findings. Studies also used variety of method some Ordinary Least Square (OLS) and another used LPM (linear probability methods) for their estimation. In the empirical findings the significant effect of operators age, inverse relationship of initial size with growth of MSEs, the positive sign of ownership is in contradict with the result in this study. Given the above background this study employed multiple linear regressions, OLS (Ordinary Least Square) method to assess factors affecting the growth and development of MSEs in Abeshige woreda.

2.3.1. Measurement of MSEs Growth

Business growth is typically defined and measured, using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins (Delmar, 1997; cited in (Haileyesus, 2020),; Davidsson et al., 2005; McPherson, 1996; and Delmar et al., 2003). All measures possess particular advantages and disadvantages in understanding the phenomenon of growth (Delmar, 1997) but overall these variations render systematic knowledge accumulation and comparisons problematic. Although related, there is no necessary connection between the different growth measures (Delmar et al., 2003) (Ibid, 2020). Firm growth varies widely depending on business age, size and industry (Pasanen, 2003 and Pasanen & Laukkane, 2004) Ibid, 2020.

Enterprises success is predominantly measured in either increases in turnover or in increases in the number of people employed (Charara & Ibrahim, 2008; Papadaki & Chami, 2002; Holmes and Zimmer, 1994; ILO, 2003). Also, some studies measure enterprise growth as the average change in sales. Most other studies, particularly those in developing countries, measure

enterprise growth as a change in number of employees over the years since start up (Liedholm & Mead, 1999 and USAID, 2002). Although sales (output), value added, assets, and number of workers are among alternative measures of enterprise growth, the one used most frequently is the number of employees. This is because it is the indicator that is most easily and accurately remembered over time by respondents; and also does not be deflated. Consequently, a change in the number of workers is the primary measure especially in developing countries cited in (Haileyesus, 2020)

2.3.2. The National Micro and Small Enterprise Development Policy Framework

In recognition of the important role MSEs have to play in creating income and employment opportunities and reducing poverty, the government has given a special attention and hence the Ethiopian Ministry of Trade and Industry (MoTI) has published the Micro and Small Enterprise Development Strategy (MSEDS) in November, 1997 which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. For the sake of implementing structure, the Ministry of Trade and Industry was given the responsibility as the organ of the Federal Government for the formulation of policies and strategies to promote the expansion of enterprises and to facilitate the provision of assistance to MSE. To further ensure the proper institutional coordination for MSE support functions, the government created the new Federal Micro and Small Enterprises Development Agency (FeMSEDA) in 1998 (Proclamation 33/98). In 2000, the Regional Governments also provided for the establishment of Regional Micro and Small Enterprise Development Agencies (ReMSEDAs) to provide extension services to MSEs at the regional, zonal and woreda level cited in (Haileyesus, 2020)

The national MSEs strategy paper is issued in 1997. The primary objective of the national strategy framework is to create an enabling environment for small and micro enterprises. Given such an enabling environment, it is expected that hundreds and thousands of MSEs will themselves be responsible for the operation, growth and progress of their enterprises. Specifically, the strategy aimed to facilitate economic growth and bring about equitable development, create long-term jobs, strengthen cooperation between MSE's, provide the basis for medium and large-scale enterprises, promote export, and balance preferential treatment between MSE's and bigger enterprises.

The overall support that planned by the federal government for the Embellishment of MSEs, is establishing a user friendly environment for the simplification and standardization of documents Specifically, the federal government planned to facilitate access to finance, provide incentive schemes, encourage partnerships, improve access to appropriate technology, market, information and advice, and physical infrastructure.

As the MSE sector is highly diversified and characterized by an enormous number of problems of varied degree and complexity, it is not possible to address the whole range of MSE's operating in different sectors at the same time. The strategy, therefore, provided the following general principles for prioritizing beneficiaries, which might be adopted in every region and its urban centers depending on the specific conditions and potentials:

- MSE‟s which are based on local raw materials and/or labor-intensive, local resource based.
- MSE's which have greater intra and inter-spectral linkages.
- MSE's which are engaged in import substitution with a potential for export.
- MSE's engaged in activities that facilitate and promote tourism are among other things.
- MSEs engaged in activities, which does not affect but rehabilitate the environment.
- MSEs engaged in activities and having a potential of creativity in the process of production and providing services.

The specific objectives include: facilitating economic growth and equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing a basis for medium and large-scale enterprises and promoting export and balancing preferential treatment between MSEs and bigger enterprises

The regional agency is considered the key actor in the formulation, coordination and monitoring of national policies related to the MSE sector in the region. Other key actors in the region include the Bureau of Trade, Industry & Transport, NGOs, Chambers of Commerce and Industry, Trade and Industry Associations, the Private Sector; the latter in the provision of commercialized services, co-operation, partnership, subcontracting, etc. Having the prioritizing criteria for MSE for support program, the regional strategy paper has also identified and incorporated the focus

areas as follow: Construction sector, Metal and wood works, Textile and garment, Municipals activities, Food processing and urban agriculture cited in (Haileyesus, 2020)

2.3.3. MSE Growth and Development

Most proponents of MSEs growth argue that these enterprises play a crucial role in driving economic growth in both developing and developed countries (McPherson, 1996). In comparison with other countries, it is known that in all the successful economies, MSEs are seen as a springboard for growth, job creation and social progress at large (Tegegne & Mulat, 2004). It is well known fact that micro enterprises generally account for the bulk of the total enterprise population, irrespective of the level of development of a country. In many countries, especially those in Africa and Asia, the micro enterprise sector constitutes the majority of the working population. A few statistics illustrate this key role of the sector. Firms of five or fewer employees account for half of the non-farm workforce in Latin America and two-thirds of the non-farm workforce in Africa (Liedholm, 2001; Beck et al., 2005; and Vale, 2008) cited in (Haileyesus, 2020)

Like other countries MSEs a dominant place in the Ethiopian economy. It is the second largest source of employment next to agriculture, requiring relatively a limited amount of capital for start-up, employing labor using techniques, demanding low skills, addressing narrow domestic markets, and distributing all over the country without being highly vulnerable to inadequacy of infrastructural facilities (FeMSEDA, 2005) Ibid ,2020.The MSEs sub-sector in Ethiopia is known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology. The sub-sector is also described as the national home of entrepreneurship and used as an essential springboard for growth and social progress at large through creating substantial job opportunity, potential for resource mobilization; sources of income for many people; exploit niche markets; facilitating forward and backward linkages; etc.

Generally, development and growth of MSEs both in their size and number is quite necessary for the growth of the Ethiopian economy as we cannot deny the importance of large industrial and other enterprises. This is ascertained from the argument that micro and small enterprises play a complex and integrated role in development that is missed by the narrow conceptualization of the

role of MSEs in the current literature as contributing mainly to employment generation. MSEs Play unique role that goes beyond employment generation, related to issues of competition, human capital development, and creation of a financial system.

The growth of MSEs in developing countries is determined by various factors. Various empirical studies have found different factors depending on their study objective and country. The study made by McPherson (1996) cited in (Haileyesus, 2020) reported that the level of human capital, location, sector, and gender are important determinants of growth. In another study, Voulgaris et al. (2003), impediments to growth have been found to be low access to financing and to sources of information and technology. Lack of technical and managerial skill, inadequate organizational adaptability and ability to acquire or use new technology are considered also as impediments to growth. The writers argued that the lack of resources experienced by most smaller firms suggest that substantial benefits might be obtained through the development of strategic partnership with other small or even large- size firms. The same study suggested that people without any college education who start a business have a greater chance of failing than people with one or more years of college education. Kerlinger, (2006) asserts that, education helps owners to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization's performance. Okpara et al. (2007) Ibid, 2020 tried to determine the types of problems encountered by small businesses in Nigeria and why so many fail despite the programs established by the government and nongovernmental organizations. The studies result indicated that issues such as limited capital, corruption, low demand for products, poor infrastructure and accounting, and the inability to use or acquire technology were the major obstacles to small business development in Nigeria. Ishengoma and Kappel (2008) Ibid, 2020utilized data collected from 265 MSEs in Uganda to analyze the extent to which the growth of MSEs is associated with business constraints while controlling for owners‟ attributes and firms‟ characteristics. The results of study revealed that MSEs‟ growth potential is negatively affected by limited access to productive resources (finance and business services), by high taxes, and by lack of market access. Bari et al., (2005) Ibid ,2020 examined the key constraints faced by the SMEs sector in Pakistan, including lack of access to credit, excessive government regulation, an arbitrary and exploitative tax administration system, a weak technological base and the lack of business support services. There are several works on micro, small and medium

enterprises in Ethiopia. But here we have presented only some of the findings of the studies related to our topic.

Gender is an entrepreneur characteristic that may have an effect on MSEs growth. In relation to this, different writers and scholars have deferent outlook. Most researchers agree that, though gender by nature may not have direct relation with the growth of MSEs (Gemunu & Roel, 2014), (Hansen & Hamilton, 2011) Ibid, 2020. As it is observed in many countries in the world in general and in Ethiopia in particular cultural condition pose higher responsibility of family related issues on women, which will in turn have an effect on their performance and make them under perform as compared to their male counterparts, Aregawi, (2015) Ibid, 2020 come up with a finding that, women headed small enterprises had grown at 6.52 percent since start up against the 7.25 percent growth rate for male-headed counterparts. Younger owner/manager of MSEs is more likely to grow than the older counterparts (Dagmawit & Yishak, 2016) Ibid, 2020. Growth of MSEs improves with increasing in education (Ahiawodzi & Adabe, 2012; Mulu, et al., 2007) Ibid, 2020. On the other hand, limited studies revealed the effect of increasing educational level of the owner/operator on the growth of MSEs is to some level (Habtamu, 2012; Haftom, et al., 2013) Ibid, 2020.

Some studies Kokobe (2013) and Mulu (2007) Ibid ,2020 reported that a firm with more years of work experience and MSEs whose owners have entrepreneurship training typically have faster growing than their counterparty. On the other hand, Aregawi (2015) Ibid, 2020 he came up with a different result that, MSEs established by individuals without any prior work experience registered the highest employment growth rate. Beside Garoma (2012) Ibid, 2020 contending this idea disclosed a study result, stating that, these two variables (entrepreneurship training and MSEs growth) had an insignificant relationship.

Dereje (2008) and Alemu (2018) Ibid, 2020studied the nature, characteristics, economic performance, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. Entrepreneurial team work unity and rule of conduct in the group, the way the business is managed, the knowledge of the other members of the group before formation, the peer pressure within the group, the self-selection had a positive and statistically significant relationship with MSEs profitability. The results of the study revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack

of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance, Workneh (2007) Ibid, 2020 research undertaken in Kolfe Keraneo sub-city of Addis Ababa indicated that lack of capital, lack of market; unfavorable policy and inadequate Work Premises are among constraints faced by MSEs.

Likewise, Mulugeta (2011) Ibid ,2020 has also identified and categorized the critical problems of MSEs into market related problems, which are caused by poor market linkage and poor promotional efforts institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related short coming slick developing dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally, society-related problems such as its distorted attitude about the operators themselves and their products. With regard to the sector-growth relationship firms engaged in manufacturing and service sector grows faster than their counterparts (Haftom, 2013; Kokobe, et al., 2013); Ibid, 2020.

2.4 Factors affecting the Growth of Micro and Small Enterprises

In most developing countries small businesses face a wider range of constraints and they are unable to address the problems they face on their own, even in effectively functioning in market economies. Both the Theoretical framework and empirical findings discussed about some of the factors affecting the growth of micro and small enterprises these are including the business environment, the enterprises owner qualification (individual character), firms characteristics and the social mixtures which some of them are disused below. Key factors affecting MSEs (USAID, 2005) cited in (Hawltu, 2017).

Business Environments

The business environment plays a major role in determining the opportunities of MSEs especially in developing countries. The nature of the economy directly influences the availability and accessibility of profitable business opportunities, thus micro and small enterprises tend to

grow more quickly during periods of overall economic growth (Liedholm, 2002) cited in (Hawltu,2017) .There are some important outcomes in the relationship between micro and small enterprises growth and the overall business cycle in a certain economy: The MSEs sector expands during economic downturns due to an increase in survivalist-type activities, although individual MSEs may stagnate or contract. Further, during severe economic crises MSEs may be more resilient than their larger industries counterparts. The regulatory and institutional environment in developing countries is burdensome when compared with developed countries which are frequently constrained small enterprise growth. For instance, strict regulations and high taxes by the government may keep firms small and informal thereby contributing to increased transaction costs from problematic property rights protection and contract enforcement. It also determines Micro and small enterprises owners from making growth enabling investments over enterprises in the economy. For example, import duties on capital equipment (for example, sewing machines) may disproportionately hurt MSEs. On the contrary larger firms can bypass these duties by qualifying for investment promotions, and they may be preferred in allocations processes (Liedholm, 2001, World Bank, 2005) cited in (Hawltu, 2017)

Social Networks

Here the term social networks is used to refer to relationships between individuals, enterprises , owners or operators having an extensive and better relationships is a valuable asset, as it can help an entrepreneur obtain access to information example about profitable business opportunities and resources like credit. While social networks can enhance MSE growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, such as inordinately low levels of information and competition. Better social networks can play in helping entrepreneurs or operators of the enterprises overcome obstacles related to transaction costs, contract enforcement, and regulation. Entrepreneurs often take advantage of opportunities to invest in social networks when there is an apparent payoff in terms of Micro and small scale enterprises growth (USAID 2005; Portes & Landlot, 1996) cited in (Hawltu, 2017).

In a certain situations, social networks may be too expensive for or inaccessible to the poorest entrepreneurs, or systematically exclude or provide unequal access to resources for marginalized entrepreneurs such as women. In other cases, social networks are deeply embedded in social traditions that may run counter to free initiative or entrepreneurship. Other potential downsides

of social networks include requests for profit distributions, unequal access to resources, and a lack of stability. Last, the sustainability of social networks is also an issue. If a network grows, a greater number of participants offer increased resources, but the network's usefulness may decline as it becomes more inclusive hence the competition may become decline and their growth a little bit deepened on it (Nichter & Goldmark 2005) cited in (Hawltu ,2017).

Marketing Constraint

Market is big constraints for the growth of micro and small enterprises where largely on traditional practices and experiences, which MSEs in turn entirely dependent on the depth of experience and knowledge of owners/managers. Mostly due to lack of resources and expertise, many small firms do not conduct marketing research, keep customer records, make follow up on their customers and study customers' characteristics and preferences. The first few years of small firms require aggressive marketing of their products and services. But, lack of understanding the strategic importance of marketing in achieving competitive advantage, startup firms does not sufficiently market their products and services. The problems include the selection of promotional media, difficulty in getting customers to pay, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, location and addresses of potential customers (Trovato and Becchetti, (2002) cited in (Hawltu ,2017).

Firm Characteristics

Firm characteristics like: firm age, formality (or informality), and access to finance and technology, location, and sector that enterprise engaged may affect the growth of small and micro Enterprises, here are some of them.

Firm Age

Implies the relationship between firm age and growth in the MSE; Young MSEs grow substantially more rapidly on average than their older counterparts. Studies in both Africa and Latin America show that young MSEs are more likely to show high rates of growth compared with MSEs that have been in existence longer (Mead and Liedholm, 1998) cited in (Hawltu , 2017). Why might young MSEs grow more quickly than old MSEs? Learning model by Jovanic, 1982 in which firm owners discover their efficient sizes of operation gradually. This theory

predicts that a firm will expand quickly at first, and then taper off its growth as the firm approaches its optimal size. Notice that while growth slows, productivity is expected to increase as the firm ages and the owner comes to learn the company's optimal size of operations.

Formality (or Informality) it is another firm's characteristics that affects the growth of Micro and small enterprises. Here informality refers to businesses enterprises (MSEs) that are not registered yet derive income from the production of legal goods and services. Not only does informality in itself reduce the chances for growth, it is associated with several other characteristics that make growth difficult. It is commonly believed that informal firms frequently face growth-inhibiting disincentives and costs. Although small informal MSEs may be able to evade government regulations and taxation, as they grow risk becoming more visible, creating disincentives to expand beyond a certain size. Informal firms may therefore need to "keep their heads down," ruling out large size and rapid growth, as well as close relations with formal firm. Contracts with international or government buyers, for example, are off-limits for informal firms because they require legal documentation that these MSEs lack. And while formal MSEs in developing countries may have problems accessing financial and legal systems, informal enterprises face even greater difficulties in obtaining formal credit and assistance from law enforcement agencies and courts. For these and other reasons, informal MSEs appear to grow more slowly than do their formal counterparts (USAID 2005) cited in (Hawltu, 2017).

Financial Constraints; Financing is one of the crucial elements that determine the development of (MSEs) and necessary to help them to set up and expand their operations, develop new products, invest in new staff or production facilities and improve technology. But most MSE's have limited access to finance; it is much harder than larger businesses to obtain financing from banks, or other financial institutions. This is due to most banks do not operate a MSE financing window and low capability of borrower to prepare and present applications that meets bank's requirements. MSEs have also inability to fulfill the acceptable collateral requirements like fixed assets such as residential houses and vehicles. As a result of these and inability of small entrepreneurs to secure collateral requirements, the banking institutions became reluctant to provide them loans. Coupled with absence of other sources of finance other than traditional ones and informal sources, creation of new enterprises and the growth and survival of existing ones will be impeded. As a result, financial institutions face severe problems of adverse selection.

That is why access to formal finance is usually difficult for MSEs (ILO, 2008: EEA, 2015) cited in (Hawltu, 2017).

Individual Entrepreneur Characteristics

Most MSEs are one-person businesses that are supported by unpaid family members and have little or no hired staff (Liedholm, 2002; Reeg, 2013b; World Bank, 2013) cited in (Hawltu, 2017). This suggests that micro- and small entrepreneurs hold a high degree of control and oversight of business activities and performance. For that reason it is intuitive that the characteristics of the entrepreneur should have a strong impact on enterprise growth, the decision to hire additional workers, and the improvement of working conditions.

Human Capital: Higher levels of education, practical training as well as work exposure are considered to impact strongly on an entrepreneur's capability to seize market opportunities, cope with problems and increase a business' growth performance and employment potential. Education may provide entrepreneurs with a greater capacity to learn about new production processes and product designs, offer specific technical knowledge conducive to firm expansion, and increase owners' flexibility. Beyond formal schooling, the literature suggests that learning how to apply knowledge and skills within a relevant work and training environment is nearly as important (C. Reeg 2015); (Ibid, 2017). However, exploring the relationship between education and MSE growth in developing countries reveals greater complexity. Developing country MSE owners and workers are relatively less educated than the majority of the population. Not only do they operate in countries with relatively low overall educational attainment, but they also tend to have less-educated owners and workers than larger firms. This lower level of educational attainment among MSE owners and workers is remarkable when contrasted with developed countries, where those with higher education are more likely to be self-employed (Woodruff, 1999). One reason for this contrast is that the poor in developing countries often create survival-oriented MSE's due to a lack of alternative employment opportunities (Nichter & Goldmark 2005); (Ibid, 2017).

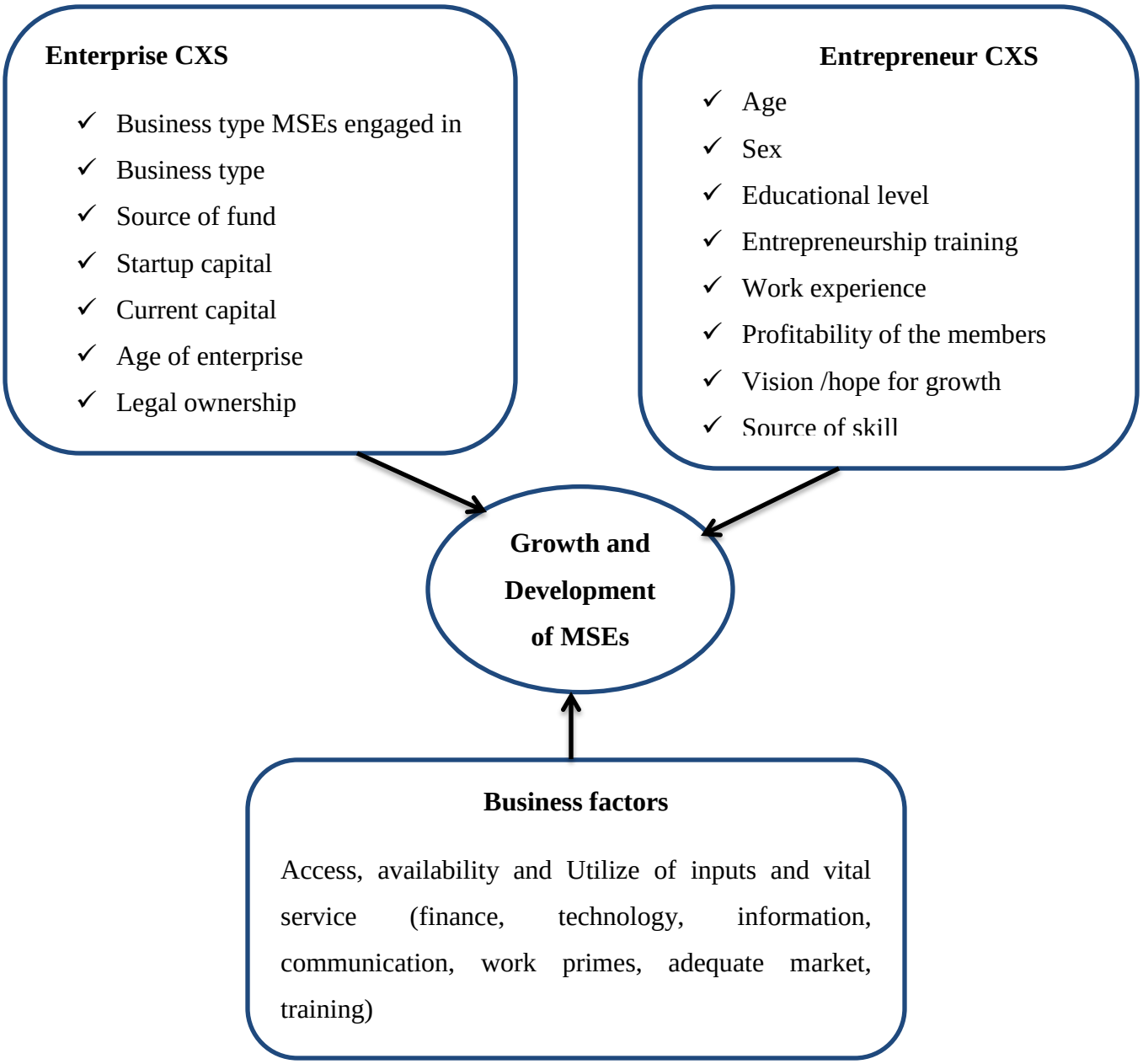
Work Experience; Any development practitioner or businessperson can attest that MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSE's as

entrepreneurs with more years of work experience typically have faster-growing MSE's. In addition, work experience has been found to enhance professional and social networks, which are helpful in accessing financial resources, management advice and identifying business opportunities as well as accessing skilled workers (Eifert et al., 2005; Hampel-Milagrosa et al., 2015 cited C. Reeg,2015), (Ibid,2017).

Gender

Sexual difference women own and operate the majority of MSEs in many developing countries in part because of the ease of entry and their limited access to alternate opportunities. But women face a number of difficult challenges that restrain the growth of their enterprises. In some cases, women choose not to grow their firms, for the reasons as they face different rights and obligations that are limiting their labor mobility and burdening them with disproportionate household responsibilities which importantly affect the growth of their firms. Women in some countries especially in developing countries they face greater problems with innumeracy, illiteracy, and a lack of business skills. In addition, women commonly have unequal access to markets including the market area and opportunities. Empirical evidence suggests that women's Micro and small enterprises tend to grow more slowly than those enterprises owned by men. One contributing factor to the slower growth of female-owned enterprises is that their firms have an especially high probability of being physically located within the household (ILO, 2004) (Hawltu, 2017)

2.5 The conceptual frame work of the study



CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Description of the Study area

Abeshige is one of the twenty four woreda which are found in Guraghe zone. In Gurage Zone, there are seventeen woredas and seven town administrations. The town of Abeshige woreda is Wolkite; it is 158 km away from the capital city of Ethiopia (Addis Ababa). These woreda are found at 1910-1935m above see levels with a climate of weyinadega. The total population 87177, of these, 46753 was males and 40426 are females. It is divided in to 29 kebeles, out of them 26 are rural kebeles and the rest of the three are under urban.

3.2 Research design

In this study both the descriptive (concerned with establishing the frequency with which an event occurs or relationship between variables) and the explanatory (concerned with establishing the cause-and-effect links) research approaches were used. Descriptive research is used to describe the current situation as it stands. The study then discusses and evaluates the variables influencing the potential for growth and development opportunity of MSEs in Abeshige woreda, Guraghe zone. In order to estimate the impact of the elements on the growth and development opportunity of SMEs, the study uses explanatory, which correlates a relationship between variables.

3.3. The research Approach

Both quantitative and qualitative methodologies were utilized to measure the effects of the growth and development opportunity for MSEs in order to meet the study's purpose.

3.4. The target population

The target population of the study was the owners/managers of micro, small and medium sized firms and the total population is that 1170 those were cooperates and register in Abeshge woreda.

3.5. Data Source and Type

In these research both qualitative and quantitative types of data was used. Regarding on sources of data, both primary and secondary sources would uses in generating valuable and relevant data. Following the research questions that are listed above, data were collected from each respondent in SME cooperatives; the members of the cooperation managing body; different level offices that

provide different services: Kebele, Woreda level offices; financial institutions; Trade & Industry enterprises related sectorial development offices, Administrative councils, etc.

3.6. Method of Data Collection

3.6.1. Primary source

Questionnaires: In order to collect the necessary primary data both closed and open ended questionnaire were develop to generate information and data that are uses both qualitative and quantitative analysis. Also Structured questionnaire were employs for Micro, Small and medium Enterprise Cooperative member sample respondents of the study area to identify their views, key factors that affect the growth of Mses. The questionnaire was addressed for all 298 respondents.

Interview checklist: For government experts the researcher would uses Key informant interview checklist. Reason for used these type of interview checklist would it enable to obtain additional information, which were related to study. The interviewees were senior expert, office leader and the owner of MSEs.

Focus group discussion: The owner of the SMEs, senior exporter, and governmental office leader and service provider worker are included on the focus group discussion and they were two groups.

Observation: under this method, the information would observe by way of investigators own direct observation without asking from the respondent. The main advantage of this method is that subjective bias is eliminate, the information obtains under this method relates to what is currently happening; it is not complicated by either the past behavior or future intentions or attitudes and also, this method is independent of respondent's willingness to respond and as such is relatively less demanding of active cooperation on the part of respondents as happens to be the case in the interview or the questionnaire method (Kothari, 2004).

3.6.2. Secondary Data

To extract reliable information, available documents dealing with the subject matter would reviews. Hence, Secondary quantitative and qualitative data was gather from the central and local governments publications; technical and trade journals; national strategy plans, previously done related research papers, other related books, reports and publications of various associations connected with business and industry, banks, reports prepared by research scholars, universities,

public records and statistics, diaries, letters, trade, labor bureaus and other public/private individuals and organizations as well as websites

Secondary data was collects through reviewing important literatures, articles, locally conducted researches, Brouchers & document from Abeshge woreda MSEs office. Structured Questionnaire and interview selected as the tools through which the data was collect from sample micro, small and medium enterprise owner and operator. The Questionnaires was collects from MSEscontain mostly close-ended and open-ended questions as the main instruments in assessing the growth and development opportunities of MSEs. In these study mostly the questionnaires was used because of its convenient and appropriate to get relatively uniform data regarding the research problem with the given resources. The questionnaires included different variables that enable to identify the challenges. The other method of data collection that was used in this study is interview in which key informants selects purposively and interviews to provide insights on the problem of MSEs from the sector.

3.7. Sample techniques and sample size determination

3.7.1. Sampling Technique and Sample Size

Corresponding to each source of data, the sampling methods are of multiple types. Both formal and informal surveys were made. The formal survey refers to that would have been conducted onto the populations of the SME members. The candidates were selected using random sampling method was used to select individual member respondent. Structured questionnaire was constructed to collect the data with the formal survey.

The informal survey was made to shape the formal survey. Moreover, it would consider for the qualitative design that aims to collect and analyze institutional related data. Those was specifically employ observations, key informants interview and group discussions. The institutional assessment, network analysis, and triangulation were made to help generalize on the development of vital hypotheses.

Moreover, case specific quantitative data will be collected at purposively selected vital enterprises to help assess the profitability of the enterprises at the small scale levels.

3.7.2. Sample size determination

The target population of the study was the MSEs owners and members those were registered in Abeshige woreda office in numbers 1170. Out of this the sample size of the study were be 298 those are represents the whole MSEs that are register in Abeshige woreda office and calculated based on Yamane's formula for sample size determination (Yamane, 1967) in order to determine the required sample size at 95% confidence level, degree of variability of= 0.5 and 5 % level of precession or sampling error, the range in which the true value of the population is estimated to be. Based on the Yamane's formula, thus out of the total population, 1170 MSEs in Abeshige woreda the sample size selected for this study calculated as:

$$n = \frac{N}{1+N(r^2)} = \frac{1170}{1+1170(0.05^2)} = 298$$

Where, n – Sample size, N – Total population, and r – Sample error

Table 3.7.1: Sample Size selection from the total population

Category	Total population with strata	Percentage of each stratum from the total population	Sample size from each strata
Trade	57	24	73
Manufacturing	19	8	24
Service	37	16	95
Construction	5	2	8
Agriculture	116	50	98
Grand total	234	100	298

Source: Abeshige woreda office (2023)

The target of the researcher was to collect a data from a sample of 298 owners/managers of micro and small sized firms of which 292 of them were responded. The response rate of all the questionnaires stood at 97.9% with only 8 respondents not returning the questionnaires.

3.8. Method of Data Analysis

The method of analyses was multiple in types. Each specific objective would address using specific methods. The data was analyzed by using both quantitative and qualitative approaches. More specifically, the quantitative data was analyzed by using descriptive and inferential statics whereas the qualitative data was narrated systematically using content analysis approach. More specifically,

1. Profitability analysis was made for each year to help make clear the trend through time, and age of the SME cooperatives.
2. Availability, access and utilization of vital services was analyzed using the vital service types, such as credit, training, business plan, monitoring, etc. Based on the relative importance of each service in the interest of the members, then the indicators of the variables was explained in terms of the accomplishment of the proportion of expected services for each candidate over variables of such as institutional, attributes of the service or personal characteristics of the members, among other things. Appropriate descriptive and inferential techniques were used based on the nature of the observations of the variable of interest.
3. The vision and attitude of members for growth was analyzed by describing how many of the members have structured and written growth strategy and vision, and by identifying factors that promote the attribute of visionary attribute in the mind of members using inferential technique.

   Thus the model, the cross-sectional estimation for the factors affecting the growth and development of MSEs will be conducted through the empirical model is specified as follows: $Y = \alpha_0 + \alpha_1 X_1 + \ldots \alpha_k X_k + Ui$ ……...…..…… (1)

   Where: X's are explanatory variables that determine MSE's growth and development,

   α_0 is the constant term and

   α's and β's are coefficients to be estimated ,'u' is the error

3.9. Ethical Considerations

The research participants was included appropriately informed about the purpose of the study and their willingness and consents were secured before starting distributing questionnaires and

administering interview and focus group questions. Privacy and secrecy of respondents kept confidential.

Operational Definitions

Dependent variable: growth and development of MSEs.

Independent Variables

Age of the operator (AGE): The age of operators refers to their age at the study year. This study considers the particular age of entrepreneurs life ranges from 18-and above 51 years of working age. According to Mohamed et al. (2016), there is feasible relationship between the age of operators and performance of the enterprises. Thus, age of operators assumed to have positive influence on the performance of the enterprises. Thus, the sign of the coefficient for the operators' age were expected to be positive.

Educational level (EDUCATION): 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 (Enock Nkonoki, 2010).

The level of education is therefore assumed to have positive influence on the values of benefit cost ratio of the enterprises. Therefore, the sign of the coefficient for the education level attained by the operators of enterprise variable were expected to be positive.

Experience of the Owner (EXPERIENCE): The experience of managers or owners refers to year of experience the business. This can explain the managers' knowledge or skill acquired over time. When the managers have the experience of being able to lead, inspire and champion followers, the enterprises have good performance (Mohamed et al, 2014). Because of this reason the experience of managers assumed to have positive influence on the performance of the enterprises. Therefore, the sign of the coefficient for the experience of managers was expected to be positive.

Enterprise Age (ENTAGE): 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 were data collected. Long period attendance of the enterprises in the business builds the performance of enterprises to stay in the business. Thus, in this study that the longer duration

stays of the enterprises in the business result the good performance of the enterprises. The age of enterprise assumes to have positive influence on the growth of micro and small enterprises. Thus, the sign of the coefficient for the enterprises age was expected to be positive.

Initial capital (INCAPITAL): The amount of start-up financial capital is amount of initial financial capital owned from different sources of initial capital for enterprises which is essential for enterprises to start the business (Arega et.al, 2016). It is assumed in this study that the higher amount of initial financial capital of the enterprises the higher the growth of small and micro enterprise likely to be. Thus amount of start-up financial capital inter into the business was expected to have positive influence on the growth of micro and small enterprises. The sign of the coefficient of the variable for the amount of start-up finance were expected to be positive.

Sex of owner (SEX): This socioeconomic variable refers the sex of enterprise owners. This variable affects the growth of micro and small enterprise hence there is lot of dilemma on the effect according to Liedholm (2001) male-run enterprises grow more rapidly than those run by females, even after controlling for the effects of all the other variables. This is due to that females are more risk averse than their male counterparts, they also could reflect the existence of some form of discrimination against female entrepreneurs; enterprises owned by men were expected to have better probability to grow.

Access to training: Access to training for enterprises refers to the facilitation of different trainings which assists the operators of the enterprises to perform in a suitable way. Capacity building trainings would better prepare enterprises to perform in the business they engaged (Enock Nkonoki, 2007). Therefore, enterprises which have sufficient access of training are expected to have good performance. The sign of the coefficient of the variable access of training was expected to be positive.

Access to Finance: This variable indicates that whether small and micro enterprise has access to finance from different financial institution or from their own source. According to Solomon et.al (2016) the majority of micro and small enterprises finance their businesses from their own source, which implies that the proportion of enterprises that finance their business

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

The purpose of this chapter is to analyze different factors that influence the growth and development opportunities of SMEs. The analysis is carried out in two parts. In the first part, results of descriptive statistics were presented; in the second part, factors that affect the growth and development opportunities of SMEs were examined using multiple linear regression analysis with the help of SPSS software version 23.

4.1 Socio-demographic characteristics of the respondents

In this study, an overall 292 out of 298 samples, or 97.98% of the sample size, were filled with the respondent's background characteristics as well as factors that affect the growth and development opportunities of SMEs. Out of which, the majority of the participants (59.2%) were male, 50% were between the ages of 29 and 39, 52.7% had secondary education, 53.8% followed an orthodox religion, 65.4% were married, 66.4% had no related work experience, 61% sourced their initial capital from personal savings, and 75% of the enterprise had 2-3 years (Table 4.1.1).

Out of the total participants, 24.7% ran trade businesses, 7.9% ran manufacturing businesses, 31.8% ran service businesses, 2.7% ran construction businesses, and the remaining 32.9% ran agriculture businesses (Table 4.1.1).

The model presented in table 4.2.3 showed that education level has a substantial impact on an enterprise's opportunity for growth and development ($p<0.05$). When the other model elements were maintained constant, an enterprise with elementary education had 115.7 times more opportunities for growth and development than an enterprise with no education. Similarly, when the other model elements were maintained constant, the mean growth and development opportunity of a firm with a secondary education grew by 129.89 percent compared to enterprises with no education. Also, when the other elements of the model were maintained constant, the mean growth and development opportunity of an enterprise with a certificate or above grew by 138.77 compared to an enterprise with no education (Table 4.2.3).

The OLS predictions presented in Table 4.2.3 also showed that the number of beginning employees in the enterprise significantly impacted the opportunities for growth and development of small and medium-sized businesses ($p<0.05$). When one employee is added to the enterprise at the establishment, the mean growth and development opportunity for small and medium enterprises improves by 10.02, while the other components of the model remain the same

Table 4.1.1: Socio-demographic characteristics of the respondents (Enterprises)

Variable	**Categories**	**Frequency**	**Percent %)**
Sex	Male	173	59.2
	Female	119	40.8
Age (in years)	18-28 years	120	41.1
	29-39 years	146	50
	40-50 years	23	7.9
	Above 50 years	3	1.0
Education level	No education	28	9.6
	Primary education	76	26.0
	Secondary education	154	52.7
	Certificate and above	34	11.6
Religion	Orthodox	157	53.8
	Muslim	87	29.8
	Protestant	33	11.3
	Orthodox	15	5.1
Marital status	Single	92	31.5
	Married	191	65.4
	Divorced	9	3.1
Business type of the enterprise	Trade	72	24.7
	Manufacturing	23	7.9
	Service	93	31.8
	Construction	8	2.7
	Agriculture	96	32.9
	Self	102	34.9

Source of skill	Family and Friends	118	40.4
	Training	53	18.2
	Education	19	6.5
Experience	Yes	98	33.6
	No	194	66.4
Source of initial capital	Personal saving	178	61.0
	Friends and relatives donate	70	24.0
	Financial institution	28	9.6
	Equb	16	5.5
Age of the Enterprise	2-3 years	219	75
	4-5 years	64	21.9
	More than 5 years	9	3.1

Source: Researcher's survey data, 2023

As shown in Figure 1, the most frequent sources of funding are personal savings (61.0%), followed by contributions from friends and family (24.0%). While banking institutions and Equb, respectively, provide 9.6% and 5.5% of the original capital.

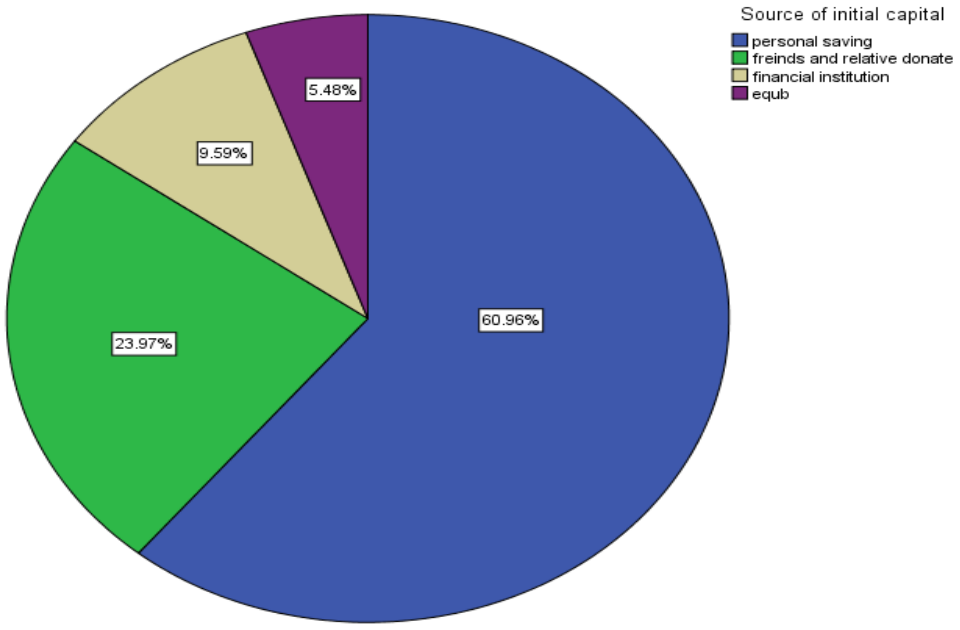


Figure 1: Pie chart of Source of initial capital

Summary results of continuous socio-demographic characteristics of the respondents

Table 4.1.2 revealed the mean, standard deviation, minimum, and maximum values of the corresponding continuous variables. Hence, the mean values of age of the business enterprise, number of employees in establishing the business, initial capital of the business, and current capital of the business in Abeshige woreda were 3, 5.43, 152739.73, and 370424.66, with standard deviations of 1.319, 1.319, 274380.328, and 503314.920, respectively.

Table 4.2.3 revealed that the age of business significantly affects the growth and development opportunities of small and medium enterprises ($p<0.05$). This showed that the mean growth and development opportunity of small and medium enterprises decreased by 22.42 when one year was added to the age of business enterprises while keeping the other variables (components) in the model constant.

Table 4.1.2: Summary results of continuous variables

	Minimum	Maximum	Mean	Std. Deviation
Age of Business Enterprise	2	11	3.00	1.319
Initial number of Employee	4	12	5.43	1.349
Initial capital of the Business	50000	1500000	152739.73	274380.328
Current capital of the Business	50000	1520000	370424.66	503314.920

Source: Researcher's survey data, 2023

4.2 Profitability of the enterprise

Table 4.2.1 revealed the profitability and growth dimensions of the enterprise. Among the total, the majority of the enterprises (61.3%) were profitable, 66.4% of the enterprises were growing with time, and 54.8% had a similar number of employees with respect to the establishment.

The majority of the growing dimensions of the enterprise **(**39.0%) were in terms of volume of assets and wealth; 32.2% of them were with respect to the number of employees; and 28.8% of them were in terms of profitability. The majority of not-growing dimensions of the enterprise

(44.9%) were in terms of profitability, 30.5% with respect to the number of employees, and 24.7% in terms of the volume of assets and wealth.

The OLS model presented in Table 4.2.3 reveals a substantial relationship between an enterprise's opportunity for growth and development and its profitability the enterprise ($p<0.05$). Therefore, when the other model variables were held constant, the mean growth and development opportunity of an enterprise improved by 62.06 percent for a profitable enterprise compared to an enterprise without a profit.

Table 4.2.1: Analysis of profitability and growing dimension of the enterprise

Variable	**Categories**	**Frequency**	**Percent %)**
Is your enterprise profitable	Yes	179	61.3
	No	113	38.7
Growth of the Enterprise	Yes	194	66.4
	No	98	33.6
Current number of employees respect to the establishment	Decreased	74	25.3
	Increased	58	19.9
	Similar	160	54.8
Growing dimensions of the enterprise	With respect to number of employees	94	32.2
	In terms of volume of assets and wealth	114	39.0
	Growth in terms of profitability	84	28.8
Not growing dimensions of the enterprise	With respect to number of employees	89	30.5
	In terms of volume of assets and wealth	72	24.7
	Not growing in terms of profitability	131	44.9

Source: Researcher's survey data, 2023

4.3 Vision and attitude for members for growth

Table 4.3.1 revealed that the majority of growth and vision-related characteristics and growth of Abeshige woreda enterprises. Out of the total, the majority of the enterprise (69.2%) had a business starting time vision, 64.0% had a current vision, 79.1% of the respondents conducted a

feasibility study before beginning the business, and 82.2% had strong hope of realizing their dreams. 61.6% had a strongly prepared business plan.

The OLS estimates presented in Table 4.2.3 revealed that initial time and current vision had a significant effect on the growth and development opportunity of an enterprise ($p<0.05$). Thus, the mean growth and development opportunity of an enterprise with an initial time vision such as the hope of realizing a dream and a prepared business plan increased by 253.63 compared to an enterprise without an initial vision when the other components in the model were held constant. Similarly, the mean growth and development opportunity of an enterprise with a current vision increased by 81.09 compared to an enterprise without a current vision when the other variables in the model remained constant (Table 4.2.3).

The finding shows that there is a substantial relationship between an enterprise's opportunity for growth and development and a feasibility study before commencing business ($p<0.05$). Therefore, when the other model variables were held constant, the mean growth and development opportunity of an enterprise with a feasibility study conducted before commencing the business improved by 91.33 compared to an enterprise without a feasibility study (Table 4.2.3.

Table 4.3.1: Analysis of the vision and attitude for the growth

Variable	**Categories**	**Frequency**	**Percent %)**
Had business starting time vision	Yes	202	69.2
	No	90	30.8
Have current vision	Yes	187	64.0
	No	105	36.0
Feasibility study before commencing business	Yes	231	79.1
	No	61	20.9
Hope of realizing dream	Agree	240	82.2
	Neutral	12	4.1
	Disagree	40	13.7
Performing prepared business plan	Agree	180	61.6
	Neutral	22	7.5
	Disagree	90	30.8

Source: Researcher's survey data, 2023

4.4 Availability, access and utilization of inputs and vital service

Table 4.4.1 showed that the major of access, availability and utilization of the Enterprises. According to the table, the majority of enterprises (83.6%) had strongly faced difficulty accessing support services; 56.2% did not get adequate information on the business opportunity; 61.3% did not get the required technologies to improve their business; 75.0% got training on capacity development; 84.2% believed that training improved their performance; and 87.7% did not get access to adequate finance.

The results of the linear regression model illustrated in Table 4.2.3 showed a significant relationship between an enterprise's potential for growth and development and its availability of sufficient financing ($p<0.05$). As a result, the mean growth and development opportunity of an organization with access to enough finance grew by 38.01 compared to an enterprise without access to adequate finance when the other model components were kept equal (Table 4.2.3).

The model also shows that getting training in capacity development has a significant effect on an enterprise's opportunity for growth and development ($p<0.05$). When the other elements of the model were maintained constant, the mean growth and development opportunity of an enterprise with capacity-building training grew by 87.47 compared to an enterprise without capacity-building training (Table 4.2.3).

Table 4.4.1: Analysis of availability, access and utilization of inputs and vital service

Variable	**Categories**	**Frequency**	**Percent %)**
Accessing service difficulty	Agree	244	83.6
	Neutral	8	2.7
	Disagree	40	13.7
Adequate information on business opportunity	Agree	102	34.9
	Neutral	26	8.9
	Disagree	164	56.2
Got the required technologies	Agree	102	34.9

	Neutral	11	3.8
	Disagree	179	61.3
Got training on capacity development	Yes	219	75.0
	No	73	25.0
Training improves performance	Yes	246	84.2
	No	46	15.8
Got access to adequate finance	Yes	36	12.3
	No	256	87.7
Reasons not to get access to adequate finance	Lack of collateral	123	42.1
	Inadequate amount	96	32.9
	Untimely supply of the loan	73	25.0

Source: Researcher's survey data, 2023

4.5 Enabling and hindering factors against the expected success of SMEs

Table 4.5.1 showed the challenges facing SMEs. Among the total, the majority of enterprises (79.5%) were challenged with the performance of their businesses, and 72.9% of the business sector faced a shortage of market demand. Similarly, the table also revealed that 23.6% of the participants succeeded in their enterprises with capital, 14.4% of the respondents succeeded in their enterprises with business advice, 19.2% of the respondents succeeded in their enterprises with business information, 26.4% of the participants succeeded in their enterprises with land, and 16.4% of the participants succeeded in their enterprises with skill or education. Furthermore, 33.2% of the enterprises had a credit shortage, 37.7% had technology constraints, 22.6% had constraints on training and extension, and 6.5% had constraints on a lack of market competition (Table 4.5.1).

The OLS estimations illustrated in Table 4.2.3 showed that challenges in the enterprise significantly affected its chances for growth and development ($p<0.05$). When the other model elements were maintained constant, the mean growth and development opportunity of an enterprise that was challenged through shortages of market demand, technology constraints, and land was decreased by 46.57 percent in comparison to an enterprise with no challenges (Table 4.2.3).

Table 4.5.1: Assessment of the enabling and hindering factors against the expected success of SMEs

Variable	Categories	Frequency	Percent %)
Business challenge of the Enterprise	Yes	232	79.5
	No	60	20.5
Factors for the success of the Enterprise	Capital	69	23.6
	Business advise	42	14.4
	Business information	56	19.2
	Land	77	26.4
	Education or skill	48	16.4
Shortage of Market demand	Agree	213	72.9
	Neutral	18	6.2
	Disagree	61	20.9
Constraints against realizing potential	Credit shortage	97	33.2
	Technology constraints	110	37.7
	Lack of training and extension	66	22.6
	Lack of Market competition	19	6.5

Source: Researcher's survey data, 2023

4.2 Inferential analysis

The outcomes of inferential statistics are presented in this section. Regression analyses were carried out in order to evaluate the study's objectives. These statistical methods enable conclusions to be established about the sample

4.2.1 Over all test of regression parameter

The test for significance of regression is a test to determine if there is a linear relationship between the response y and any of the explanatory variables. This procedure is often thought of as an overall or global test of model adequacy.

The appropriate hypothesis for this study is stated as:

$H_{o:}\ \beta_1=\beta_2=\ldots\ldots\ldots\ldots=\beta_4=0$ Vs $H_1: \beta_j \neq 0$, for at least one j

The test procedure is a generalization of the analysis of variance. The statistic for analysis of variance is the F statistic, which is the ratio of two independent χ^2 random variables, each

divided by their respective degrees of freedom. The analysis of variance (ANOVA) also tells us whether the model, overall results in a significant good degree of prediction of the outcome variable. In the ANOVA table below, SPSS output indicated the F-statistics and the associated significance value. The F-statistics is 42.547 with p-value 0=0.000. Hence the P-value is less than the significance level (5%), indicates that the model is well fitted. It also indicates that at least one predictor variable has a statistically significant impact on the opportunity for MSEs to grow and develop (Table 4.2.1).

Table 4.2.1: Analysis of Variance (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4219292.371	17	248193.669	42.547	.000
Residual	1598353.534	274	5833.407		
Total	5817645.905	291			

Goodness of fit statistics is used to test how well the sample regression function fits the data. The outputs demonstrated in the model summary below show that the r square value is 0.852, which revealed that the independent variables in this study can account for 72.5% of the variation in the response variable (growth and development of SMEs) (Table 4.2.2).

Table 4.2.2: Model Summary

R	R Square	Adjusted R Square
0.852	0.725	0.708

4.2.2 Diagnostic tests of multiple linear regression Assumptions (Model Specification Test)

First, verify the model's underlying assumptions before proceeding to fit the multiple linear regression analysis. A model is sufficient if all the underlying regression assumptions are true. The underlining assumptions are presented here:

Multicollinearity test: According to Gujarati (2004), variance inflation factor (VIF) and tolerance for explanatory variables are methods of testing data for multicollinearity. The collinearity statistics in Table 4.2.3 show that there is no multicollinearity problem. Since the tolerance and VIF values for each explanatory variable were less than 1 and 10, respectively.

Linearity test: According to Figure 2, a probability plot that is linear in shape is considered to be normal. The model was, therefore, linear.

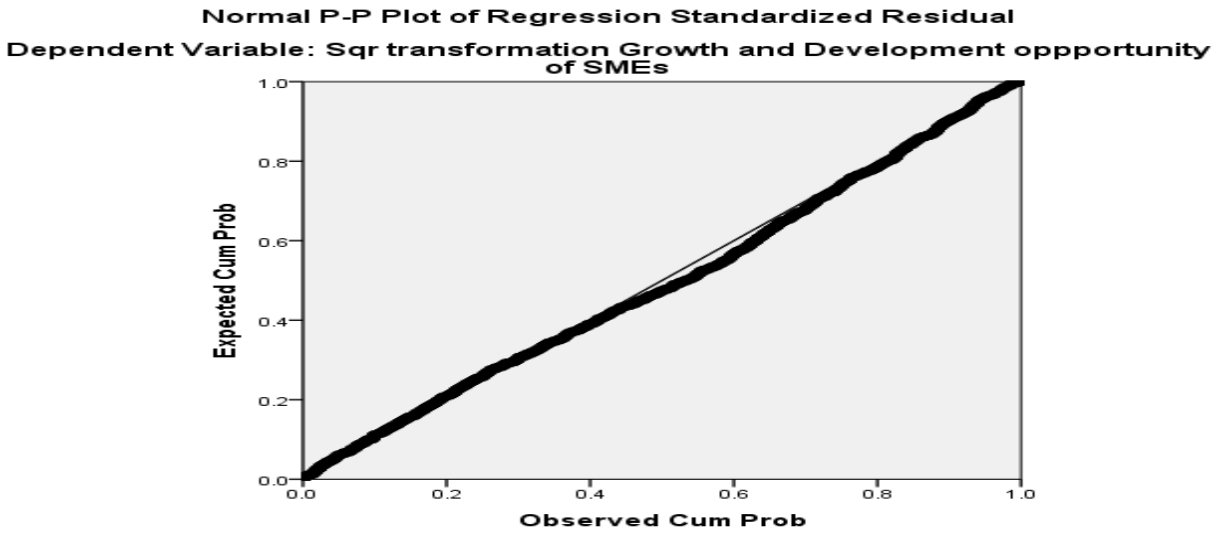


Figure 2: Normal probability plot of residuals

Normality Test: Another important diagnostic test conducted in this study is the normality assumption (i.e., the normally distributed errors). A normal distribution is not skewed and is defined to have a coefficient of kurtosis of 3. Skewness measures the extent to which a distribution is not symmetric about its mean value, and kurtosis measures how far the tails of the distribution are. If the residuals are normally distributed, the histogram should be bell-shaped. The residual scatter plots allow us to check whether the residuals should be normally distributed about the predicted dependent variable scores. The residuals are normally distributed with a mean of zero and a standard deviation of one. Results shown in Figure 3 are a histogram and p-p plot; the residuals seem normally distributed with a mean of 0 and a standard deviation of 1. Thus, the model fulfills the assumption of a normal test.

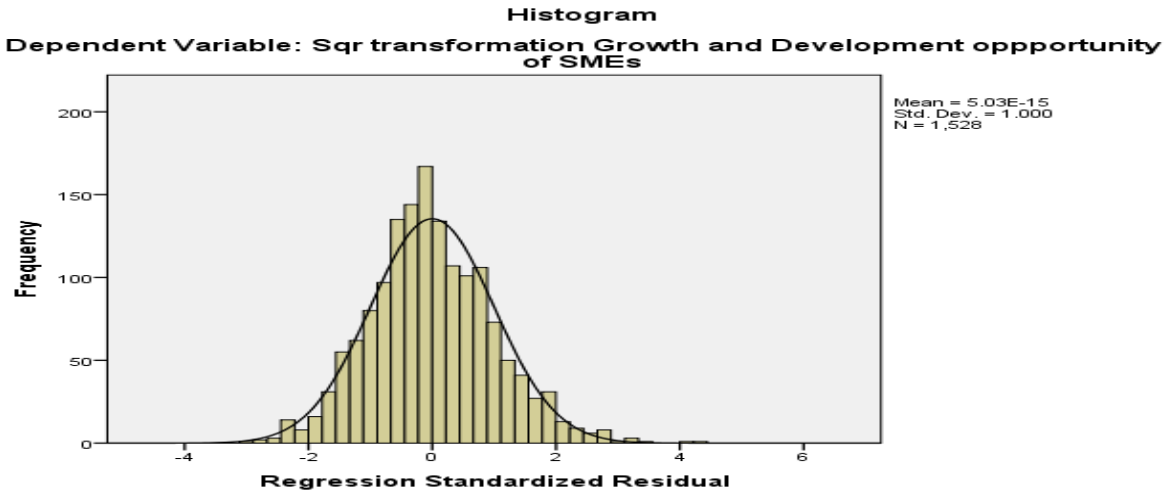


Figure 3: Histogram of Residuals

Homoscedasticity Test: In this assumption the variance of the residuals is homogeneous across levels of the predicted values. If the model is well fitted, there should be no pattern to the residuals plotted against the fitted values. If the errors do not have a constant variance, it is said to be heteroscedastic. As it can be seen from the scatter plot shown in figure 4, the error term seems normally distributed.

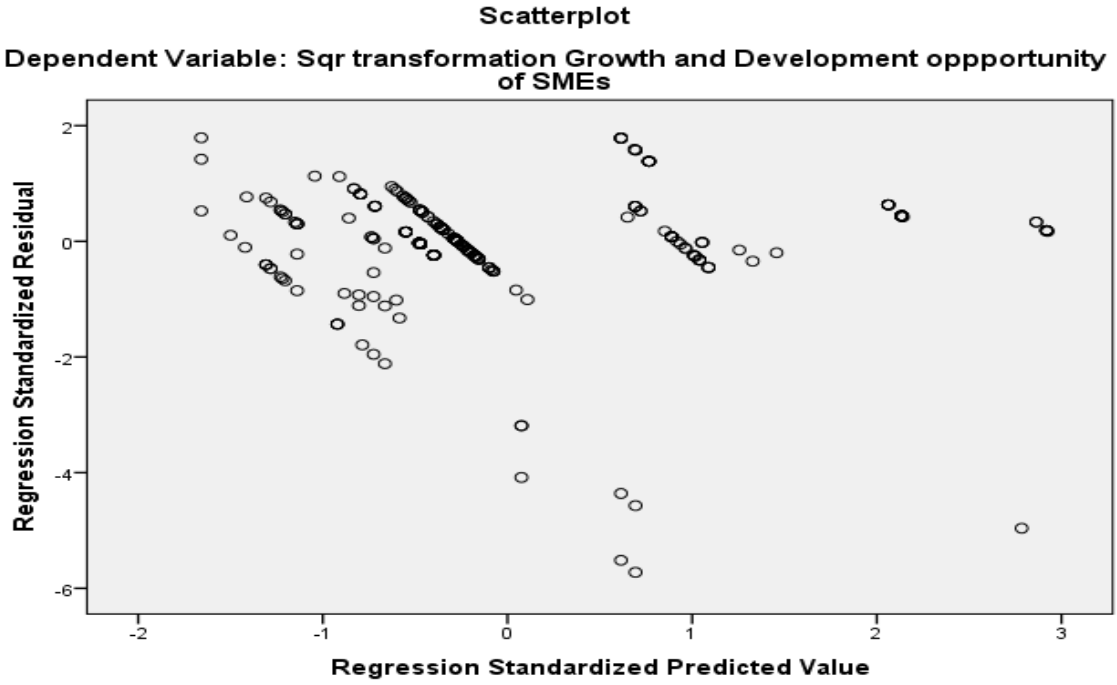


Figure 4: Scatter plot of residuals

4.2.3 Multiple linear regression (OLS) results

In the OLS regression model, 10 of the 13 independent variables, such as education, the age of the business, the number of initial employees, profitability of the enterprise, challenges in enterprise, the initial vision, the current vision, a feasibility study before commencing business, the availability of capacity-building training, and the availability of sufficient financing, were demonstrated to have a significant effect on the growth and development opportunities for MSEs at a 5% level of significance (Table 4.2.3).

Table 4.2.3: OLS results of factors that affect growth and development opportunity of MSEs

	Unstandardized Coefficients				95.0% Confidence Interval for B		Collinearity Statistics	
Variable	**B**	**Std. Error**	**t**	**Sig.**	**Lower Bound**	**Upper Bound**	**Tolerance**	**VIF**
(Constant)	-507.097	113.517	-4.467	.000	-730.573	-283.620		
Primary education	115.701	17.507	6.609	.000	81.235	150.166	.339	2.954
Secondary education	129.894	17.048	7.619	.000	96.333	163.455	.276	3.626
Certificate and above	138.776	22.071	6.288	.000	95.326	182.226	.399	2.509
Age of Business Enterprise	-22.421	5.812	-3.858	.000	-33.862	-10.980	.341	2.930
Number of Employee	10.021	4.418	2.268	.024	1.324	18.718	.564	1.772
Experienced manager (owner)	7.471	20.962	.356	.722	-33.796	48.739	.204	4.905
Profitability of the Enterprise	62.059	29.442	2.108	.036	4.097	120.020	.100	9.034
Trade business type	69.978	54.914	1.274	.204	-38.129	178.085	.036	9.043
Construction business type	-18.250	41.079	-.444	.657	-99.120	62.620	.163	6.129
Service business type	87.288	49.748	1.755	.080	-10.649	185.225	.037	9.890
Manufacturing business type	89.755	59.315	1.513	.131	-27.015	206.526	.213	4.693
Challenges in the enterprise	-46.569	21.628	-2.153	.032	-89.147	-3.991	.262	3.823
Initial time vision	253.632	37.768	6.716	.000	179.281	327.984	.066	9.224
Current Vision	81.099	36.168	2.242	.026	9.897	152.300	.066	9.079
Feasibility study before commencing business	91.329	30.868	2.959	.003	30.561	152.098	.127	7.882
Got capacity building training	87.472	30.104	2.906	.004	28.208	146.736	.118	8.505
Got access to adequate finance	38.012	18.079	2.103	.036	2.421	73.603	.540	1.852

4.3 Discussion

This study identified the growth and development of micro, small, and medium enterprises (MSEs) in Abeshige woreda. In which nine variables were determined to be significant after being assessed with the OLS regression model.

This study revealed that the education levels of the owners (enterprises) are significantly associated with the growth and development opportunities for MSEs. An enterprise with elementary, secondary, or certificate-level education had more opportunities for growth and development than an enterprise with no education. This result supports a study conducted by (Hawaltu, 2020; Solomon *et.al,* 2016) that revealed that entrepreneurs who are successful in running profitable businesses and employer-hired staff tend to be better educated and trained. This is because higher education levels are thought to have a significant impact on an entrepreneur's capacity to enhance market opportunities, identify and solve challenges, and improve the performance of a business' development and employment prospects. With improved academic achievement, it is anticipated that an entrepreneur's drive to succeed, skill sets including financial literacy, managerial and communication know-how, etc., self-confidence, and other creative capacities will all rise. An individual with more knowledge is also better equipped to comprehend and maintain accurate records of commercial transactions, which help a firm, develop.

The findings also revealed that the age of the business is significantly associated with the growth and development opportunities for MSEs. The development opportunity for small and medium enterprises decreased with the increasing age of business enterprises. This result is in line with a study conducted by Solomon *et al.*, 2016; Hawaltu, 2017; Liedholm, 2001) revealed that young MSEs are more likely to show high rates of growth compared with MSEs that have been in existence longer. The theory put forward by Jovanovic in 1982 offers a potential explanation for why young MSEs expand more quickly than older micro and small businesses. Because managers have honed their efficient size of operation over time or because larger firms have small values of the cost parameter, which means they are more efficient, older organizations develop more slowly. Given that information distribution has a lower bound, such firms have a decreasing amount of room for further growth. Younger businesses initially experience efficiency and funding challenges, which slow down expansion. However, these challenges are

expected to lessen when the company achieves minimum efficiency scaling and improves access to financing. The essential argument is that when an enterprise ages or gets older, it shows that it may increase in terms of turnover, earnings, and other firm performance indicators rather than personnel count. This implies that younger businesses tend to expand more through an increase in employment than older ones.

The study indicates that the number of beginning employees of the enterprise increases as growth and development opportunities for small and medium enterprises improve. This result could suggest that there is a positive correlation between the availability of growth and development opportunities for small and medium enterprises and the recruitment of new employees. Additionally, it implies that these opportunities play a crucial role in attracting individuals to join these enterprises in their early stages.

Similarly, the study indicates that the initial vision, such as the hope of realizing a dream and preparing a business plan, and the current vision of enterprise increase with the growth and development opportunities for small and medium enterprises. This finding could suggest that as small and medium enterprises progress, their vision expands beyond their initial goals and aspirations. As they encounter new opportunities and challenges, their vision evolves to encompass a broader scope of possibilities for the future of their enterprise.

The study also demonstrated that the growth and development opportunities of enterprises improved when profitability of the enterprise increases. This result might suggests that as an enterprise becomes more profitable, it is able to invest in various growth initiatives, such as expanding its product line, entering new markets, or acquiring other businesses. These opportunities for growth can further enhance the overall success and competitiveness of the enterprise in the long run. Additionally, it suggests that as profitability increases, enterprises are able to invest more in their employees and provide them with better training and career advancement opportunities.

Also, the finding show that the mean growth and development opportunity of an enterprise decreased when it was challenged by shortages of market demand, technological constraints, and land. These challenges hindered the enterprise's ability to expand its customer base, adopt new

technologies, and acquire sufficient space for operations. As a result, the enterprise faced limited prospects for growth and struggled to stay competitive in the market.

The finding showed that the growth and development opportunities of an enterprise increase if capacity-building training grows. Capacity-building training plays a crucial role in enhancing the skills and knowledge of employees, enabling them to adapt to changing market trends and technologies. This, in turn, leads to improved productivity and competitiveness for the enterprise. Additionally, the investment in capacity-building training demonstrates a commitment to employee development, which can boost morale and retention rates within the organization.

This result is in line with a study conducted by Hawaltu in 2017, which revealed that enterprises that have access to training perform better than enterprises without training. The potential reason could be that through training, operators can learn effective methods of developing their product's market and their ability to manage money and customers well. Training is crucial because it gives people the knowledge they need to launch a new business or enhance the management, administrative, and operational aspects of an already-existing one. Trainers are anticipated to boost business performance based on their newly acquired abilities, resulting in a rise in the demand for labor and the creation of more money and jobs. Thus, there are a variety of ways to give training in the studied area, but there are still many restrictions on how technical and managerial training can be provided, particularly on the government side. Similar findings from Arega et al. (2016), who examined the expansion of MSEs in Addis Ababa City, demonstrate that respondents who participated in technical or business management training had more growth than non-participants. Capacity-building training plays a crucial role in enhancing the skills and knowledge of employees, enabling them to adapt to changing market trends and technologies. This, in turn, leads to improved productivity and competitiveness for the enterprise. Additionally, the investment in capacity-building training demonstrates a commitment to employee development, which can boost morale and retention rates within the organization.

The findings of this study also revealed that the growth and development opportunities of an organization grow with increasing access to finance. This finding is consistent with a study done by (Hawaltu, 2017; Solomon *et.al*, 2016; Mohamed *et.al*, 2015; Ofunya Afande, 2015) tests the link between access to finance and firm growth or success rates and their result reveals that

reduced access to finance hinders the growth of micro and small scale enterprises. This finding could suggest that organizations with greater access to finance are more likely to expand their operations, invest in new technologies, and hire additional employees. Additionally, the study indicates that increased access to finance can also lead to improved research and development capabilities, allowing organizations to innovate and stay competitive in the market.

CHAPTER FIVE

5. CONCLUSIONS AND RECCOMENDATIONS

5.1 CONCLUSIONS

MSEs contribute significantly to the elimination of poverty by generating employment, identifying opportunities for engagement in economic activity, and introducing novel goods, processes, and markets that raise societal wealth and living standards. Despite their significance, a variety of problems have consistently hindered the functioning and growth of micro, small, and medium businesses. Therefore, one of Ethiopia's policy tasks is to increase employment possibilities in order to reduce the country's pervasive poverty and develop industries that are competitive on the global market.

This study examines a sample of 292 micro and small businesses in the Abeshige woreda, Guraghe zone to give empirical information on the factors influencing the growth and development opportunity of the businesses. To analyze the data, the study used both descriptive and OLS (multiple linear regression) methodologies.

An enterprise with elementary, secondary, or higher-level education had more opportunities for growth and development than an enterprise without education, according to the findings. As the opportunity for small and medium-sized businesses to grow and flourish improves as a result of having an early and current vision for the company, the number of new employees grows. The opportunity for an organization to grow and develop is closely related with profitability of the enterprise. The study also demonstrated that the growth and development opportunities of enterprises improved when profitability of the enterprise increases. The study also demonstrated that expanding capacity-building training boosts an enterprise's opportunity for growth and development. The opportunity for an organization to grow and develop is closely correlated with an increase in access to sufficient financing. However, challenged by shortages of market demand, technology constraints, and land, and as the age of enterprises increased, opportunities for micro, small, and medium enterprises to grow declined.

5.2. RECOMMENDATIONS

- ✓ The outcome of this study demonstrates that formal education has a positive impact on the expansion of SMEs. Therefore, it is advised that the government take the lead in promoting formal education for SME owners and managers. In the course of study, this should entail the creation of classes on entrepreneurship, creativity, and innovation.
- ✓ The decline in growth and development opportunities due to challenges such as shortages of market demand, technology constraints, and land not only hinders the expansion of micro, small, and medium enterprises but also poses a significant obstacle to overall economic progress. It is crucial for policymakers to address these challenges and provide the necessary support to ensure the sustainable growth of these enterprises.
- ✓ Due to the increased profitability of growth and development opportunities, the enterprise should invest more in their employees and provide them with better training and career advancement opportunities. This can lead to higher employee satisfaction and motivation, ultimately resulting in increased productivity and innovation within the organization. Additionally, improved profitability allows enterprises to allocate more resources towards research and development, enabling them to stay competitive in the market and potentially expand their product or service offerings.
- ✓ One of the key causes of MSE expansion is training; however, a substantial number of MSE operators lack adequate access to it. In order to provide technical and management training for MSE operators, government officials must therefore put a lot of effort into doing so and coordinating the resources from various stakeholders. It is advised that the training be supported by marketing principles, business science, and practical training. Operators can learn effective techniques for market development for their products, effective methods of financial management, and effective methods of client dealing through training.
- ✓ The majority of MSEs do not have any financial access at all, for a variety of reasons. Therefore, the Federal and Regional Governments can help in developing lines of credit and unique strategies for aiding the growth and performance of MSEs in order to address the problem of credits, as can financial institutions like banks and MFIs. This needs to be supported by offering unique lending and repayment terms. Additionally, the quantity of beginning cash has a good impact on the expansion of micro and small businesses, although

financing remains a significant barrier to their expansion. Therefore, it is crucial that the government, private companies, and financial institutions, such as commercial banks and MFIs, develop their policies and strategies to help meet the financial needs of MSEs, particularly when they are younger.

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Appendix: Questionnaires

Wolkite University

College of Social Science

Department of Governance and Development studies

Dear Respondent, My name is Moges Gelaglew. I am a student at Wolkite University undertaking the thesis in partial fulfillment of the requirements for the degree of Masters of Arts in Development studies entitled: Growth and Development Opportunities of Micro, Small and Medium Enterprises: A case of Abeshige Woreda. You have been selected to participate in this study to obtain your perceptions and views regarding various aspects of the micro and small enterprises sector. Your honest participation in answering the questions will assist in the growth and development opportunities of Micro, small and medium enterprises in Abeshige woreda. The information provided will be treated confidentially and your personal information will keep secret.

General direction: Put '√' mark in the box and write your responses for the discussion questions.

Thank you in advance!

Signature…….

Date……

Moges Gelaglew

M.Sc. student Wolkite University

<u>Part one</u>: Data about respondents

1. Sex: 1. Male 2. Female
2. Age: _____
3. Education level: ----------
4. Religion: 1 Christian 2. Muslim 3.Protestant 4.Catholic

5. Marital status? A. Married B. Single C. Divorced D. Widowed
6. What is the sector you are engaged? A) Construction B) Manufacturing C) Service D) Trade Other (specify) _____
7. For how long did your enterprise association stay in business since establishment_____
8. How many numbers of employees in your enterprise at its establishment?_____
9. What is the legal ownership status of the establishment? A. Sole ownership B. Joint ownership C. Family business D. Cooperative E. Other (specify)
10. Did your enterprise manager (owner) previously have experience related to your business? A) Yes B) No
11. Main Source of your business skill: A) Self B) Family and friends C) Training D) Education
12. What was your main source of initial capital for your enterprise?
    A) Own source (Personal saving) B) Donation (Friends & Relatives)
    C) Loan (bank Micro finance) D) Ikub

<u>Part Two</u>: Data about the characteristics of Micro and small enterprises

- **Profitability**

1 Capital, year started, and description for each enterprise

Business type	Year started	Property type 1. Sole 2. Cooperative 3. Family	Initial capital	Current capital	Staff size	Average monthly sales	Average monthly profit

1. Do you think that your enterprise is profitable? A) Yes B) No
2. If your answer is no for the above question number 2 is No, explain core reasons for the Inadequacy of your enterprise profitable?----------
3. Do you feel your business has grown? Growing [A] Not Growing [B]

4. If your answer is 'Growing', to question 4, in what dimensions your business is growing?
   A. Growth with respect to number of employees
   B. Growth in terms of volume of assets and wealth
   C. Growth in terms of profitability
   D. growth in terms of _____
5. If your answer is 'Not Growing', to question 4, in what dimensions your business is not growing?
   A. With respect to number of employees [A]
   B. In terms of volume of assets and wealth [B]
   C. In terms of profitability [C]
6. Current number of employees in your enterprise when compared to its establishment
   A) Increased C) Decreased B) Constant

❖ **Challenges of SMEs related questionnaires**

7. Does your enterprise experience any challenges which hinder the performance of your Business? A) Yes B) No
8. If yes for question number 8, discuss the main challenges that your enterprise faces? ----------
9. What are factors for success, considering the successful SMEs? a. Capital b. business advise c. business information d. land e. education or skill
10. Did you face shortage of market demand for your products? 1. Strongly agree 2.Agre 3. Indifferent 4.Disagree 5.Strongly disagree
11. What are constraints you faced against realizing their potential: a. credit shortage b. technology c. lack of Training and extension d. unfair or uncompetitive market competition

❖ **Visions related questionnaires**:

A. Where you having vision at your staring time? A yes b no
B. Do you have a vision now? A yes b. No
C. If yes, Length of years you foresee in your vision? __

12. Did you make feasibility study before commencing your business? A. yes B. no
13. Do you have hope of realizing your dream/vision?
    1.Strongly agree 2.Agree 3. Indifferent 4.Disagree 5.Strongly disagree
14. Have you been performing using a well prepared business plan?

1. Strongly agree 2.Agree 3. Indifferent 4.Disagree 5.Strongly disagree

- **Access, available and utilization related questionnaires**

15. It was difficult to accessing support/advice services

    1. Strongly agree 2.Agree 3. Indifferent 4.Disagree 5.Strongly disagree

16. You get adequate Information on Business opportunity searching or advice what to produce

    1. Strongly agree 2.Agree 3. Indifferent 4.Disagree 5.Strongly disagree

17. You have get required technologies

    1. Strongly agree 2.Agree 3. Indifferent 4.Disagree 5.Strongly disagree

18. You have got training on capacity development related to SME development? 1. Yes2. No
19. If your answer is 'yes' do you believe that training really improved the performance of your Enterprise? A) Yes B) No
20. Did your enterprise get access to adequate finance or loan from financial institutions?

    A) Yes B) No

21. If your answer is "No" for question number 23, what is the reason that you did not access Finance from banks, government or financial institution?: a. Because of lack of Collateral b. inadequate amount c. untimely supply of the loan

<u>Part two</u>: Key informants interview (SME development officials and Administrators or senior experts at Abeshige woreda; experienced SME member)

1. Do you know the policies and strategies on SME development?

2. What about strengths and weaknesses of Monitoring and Evaluation system (in terms of clear M and E plan and milestone, continuity, enforceability or accountability, rule of law,)

3. How much credit transferred to MSEs by year since the development of MSE in the woreda?

4. What support services do SMEs are given? Are these services being given properly to all the needy? What challenges you observed in providing these services? Compare and Judge on the Demand and Supply of these services)

5. Who are these service providers?

6. is there business opportunities Assessment studied?

7. Do you see scientific and feasible business plan prepared to SMEs?

8. Is there a clear plan and strategy of supporting each MSE starting from the start up to growth stage and get mature? Please show the documents and describe.

<u>Part three</u>: Focus group discussion guideline (for senior experts, experience owners of SMEs,

1. What are the main factors affecting the growth of MSEs
2. .Did you have a growth vision or not? A. yes B no
3. Do you have plan to realize your vision?

4. What is the basic support services provided to SME to adopt?

a. Working place with least leasing price? A. yes B no
b. Product display center with least leasing price? A. yes B no
c. Technical and business management training? A. yes B no
d. Counseling service or MES development extension service? A. yes B no
e. Loan provision? A. yes B no
f. Market linkage? A. yes B no
g. Exhibition, trade fair organization? A. yes B no
h. Access to technology? A. ye s B no

5. Description of those systems working effectively, and those systems that is non-working effectively in the SME environment:

a. Availability of the MSE development service/package? A. yes B no
b. Access for (information,) in line with the MSE development package? A. yes B no
c. Access for (communication and extension) in line with the MSE development package? A. yes B no
d. Access for (credit) in line with the MSE development package? A. yes B no
e. Access for (technology) in line with the MSE development package? A. yes B no

f. Do you Utilize (practicing, consuming, enjoying opportunities) of the MSE development package of information? A. yes B no
g. Do you Utilize (practicing, consuming, enjoying opportunities) of the MSE development package of communication and extension? A. yes B no

h. Do you Utilize (practicing, consuming, enjoying opportunities) of the MSE development package of credit? A. yes B no
i. Do you Utilize (practicing, consuming, enjoying opportunities) of the MSE development package of technology? A. yes B no