

# Growth of Micro and Small Enterprises in Addis Ababa City Administration: A Study on Selected Micro and Small Enterprise in Bole Sub City

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**Abstract-** The main objective of this study was to investigate the factors that affect growth of Micro and Small Enterprises (MSEs) in Addis Ababa City. The study tested impact of availability of technical and business management training for owners, the size of initial investment, the output of Micro and Small Enterprises (MSEs) as product versus rendering service, working in cooperatives versus working without cooperative on growth of Micro and Small Enterprises (MSEs) in Bole Sub City of Addis Ababa City Administration. Primary data, through structured questionnaire, was collected from random samples of 165 Micro and Small Enterprises (MSEs). Results revealed that Micro and Small Enterprises (MSEs) whose owners attained training, started business with high initial investment, engaged on the service sector, and established in non-cooperative form have better growth than those whose owners/operators did not attend training, who started with low initial investment, those engaged on production sector, and those working in cooperatives respectively. Hence, the concerned government officials, nongovernmental organizations and other national economic development players have to work hand in hand in the area of training, availability of finance, formation and business sectors of Micro and Small Enterprises (MSEs) in the country.

**Index Terms-** Addis Ababa City Administration, Bole Sub City, Growth, Micro and Small Enterprises

## I. INTRODUCTION

There is no universally agreed definition of Micro and Small Enterprises (MSEs). Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover, the capital invested and the total balance sheet (asset, liability and capital). According to the Ethiopian Micro and Small Enterprises Development Strategy (EMSEDS, 1997), MSEs are those business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high tech consultancy enterprises and other high-tech establishments, whereas small enterprises are those business enterprises with a paid up capital above Birr 20,000 and not exceeding Birr 500,000 and excluding high-tech consultancy enterprises and other high-tech establishments.

The issue of MSEs Development ranked first among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation (Nugent, 2001). For instance, according to some estimates, MSEs

contribute to 22% of the adult population employment in developing countries. The United Nations Industrial Development Organization (UNIDO) estimates that MSEs represent over 90% of private business and contribute to more than 50% of employment and of gross domestic product (GDP) in most African countries (UNIDO, 1999). There is also an urgent need to create a strong competitive MSEs Sector that is able to play a leading role in the development process.

In Ethiopia, a study undertaken by the Central Statistical Agency (CSA) disclosed that there were about 974,679 micro enterprises, generating a means of livelihood for about 1.3 million people (CSA, 2002). Another study conducted in 2003 by CSA also revealed that 1,863 SMEs had created employment opportunities for about 97,782 citizens (CSA, 2003). Study report of FEMSEDA of year 2014 shows there were 8593 Micro Enterprises and 10,061 Small Enterprises in Addis Ababa (FeMSEDA, 2014).

In this regard, growth of MSEs has been in the recent past of great concern to many government policy makers and researchers globally because of realization of their economic contribution to Gross Domestic Product (GDP) and economic growth. As such they are no longer viewed as "stepping stones" to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (ILO, 1986).

Despite having immense contribution in creating job opportunities and building the economy of developing countries, MSEs 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 have collapsed and goes out of operation. This research, therefore, aims to identify those internal (firm-specific) and external (macroeconomic) factors affecting the growth of MSEs in Bole Sub City of Addis Ababa City administration.

### 1.1 STATEMENT OF THE PROBLEM

The most important external factors influencing growth of MSEs include access to finance, competition, limited production/market place, lack of market for the product or service; and other barriers to trade. On the other hand, the internal (firm-specific) factors that inhibit the growth of MSEs include management competency, 'lack of skilled labor, poor marketing strategies, innovation level and investments on technology, etc. In this respect, Evans (1987) depicted that firm growth decreases with firm size and age. Others contend that the smallest firms were most vulnerable and that those that grew were less likely to fail than those that did not (Stokes, 2000).

In addition, Medias shows that, MSEs sector in Ethiopia is a key target but its current size, performance in terms of its contribution to GDP, employment and export and total manufacturing output is largely unknown. A number of MSEs every month get license from government office and start activity, and some of them grow and turn to medium enterprises, others destination is not well investigated. Hence, there is need for efforts in examining the factors affecting the growth of SMEs.

1.2 OBJECTIVES OF THE STUDY

The main objective of this study was to investigate internal and external factors affecting the growth of MSEs in Addis Ababa City administration. Specifically, the study attempts to address the following objectives;

1. To test the effect of attending technical and business management training on growth of MSEs in Bole Sub-city of Addis Ababa city Administration
2. To test the effect of the size of initial investment on growth of MSEs in Bole Sub-city of Addis Ababa city Administration
3. To test the effect of manufacturing a product or providing a service on growth of MSEs in Bole Sub-city of Addis Ababa city Administration
4. To test the effect of working in cooperatives on growth of MSEs in Bole Sub-city of Addis Ababa city Administration

1.3 RESEARCH HYPOTHESES

1. Attending technical and business management training positively affect the growth of MSEs in Bole Sub-city of Addis Ababa city Administration

2. Size of initial investment positively affects the growth of MSEs in Bole Sub-city of Addis Ababa city Administration
3. Manufacturing a product positively affect the growth of MSEs in Bole Sub-city of Addis Ababa city Administration
4. Establishing and working in cooperatives positively affect the growth of MSEs in Bole Sub-city of Addis Ababa city Administration

II. REVIEW OF RELATED LITERATURES

1.4 DEFINITION OF MICRO AND SMALL ENTERPRISES (MSEs)

In the past the definition of Micro and Small Enterprises was based on paid up capital only. An enterprise is categorized as micro if it's paid up capital is less than or equal to Birr 20,000. Similarly, an enterprise is considered small when its paid up capital is less than or equal to Birr 500,000. However, this does not provide information on the size of jobs or number of employees in the MSE. It also did not tell the size of the total asset for the MSE and did not differentiate between manufacturing (industry) and services. Current definition considers human capital and asset as the main measures of micro and small enterprise to addresses the limitations of the old definition.

**Table 1: The New MSE Definition (2011)**

Type of the Enterprise	Sector	Human Power	Total Asset
Micro enterprise	Industry	< 5	< 100,000(Birr)
Micro enterprise	Service	<5	<50,000(Birr)
Small enterprise	Industry	6-30	< 1.5 million (Birr)
Small enterprise	Service	6-30	<500,000(Birr)

Source: FeMSEDA, 2011

1.5 ROLE OF MICRO AND SMALL ENTERPRISE (MSEs)

The small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Small-Scale businesses are driving force for economic growth, job creation, and poverty reduction in developing countries. Further, small scale business has been recognized as a feeder service to large-scale industries (Fabayo, 2009).

In light of this, Micro and Small Enterprise Development Program in Ethiopia has been given due attention by government since 2004/2005. Until 2004/2005, the national strategy was implemented by Federal MSEs Development Agency organized only at national level. Because of this, it was very difficult to make the strategy practical specially in delivering business development service for MSE operators. Thus, by considering the critical role of the sector and the challenges faced by MSE operators since 2004/2005 the government of Ethiopia decided to establish MSEs coordinating body at the regional level.

1.6 MICRO AND SMALL ENTERPRISES (MSEs) AND THEIR GROWTH

What is growth in MSE? What is the yardstick to say one firm is growing while the other is stagnant? In this study, firm growth for MSEs is defined as an increase in the number of employees over time. MSE owners are typically able to remember their number of employees over time, even if they fail to maintain reliable written records. In addition, using the number of employees helps to avoid the need to deflate or otherwise adjust currency figures, which is necessary when using revenue and other monetary metrics. Employing other measures of growth may influence findings (Mead and Liedholm, 1998).

To date no theory specific to MSEs growth in developing countries has been stated. Traditional neoclassical economics hypothesize that workers are added until the value of the marginal product of the last worker is equal to the wage paid to that worker. This implies that firm growth will occur as a reaction to changes in technology, the wage rate, or the price of the product. As a result, if one is interested in why small firms in

developing countries grow, this simple theory suggests that one's attention must focus on the factors that have an impact on supply and demand for the product produced by the MSE.

The 'stochastic' models extended this simple static model by consideration is given to the evolution of firms over time. These models also introduced firm-specific costs. In this framework, firms draw each year's growth rate from a distribution. 'Lucky' firms repeatedly draw high rates and grow over time. These models were based on Gibrat's Law, the stylized fact that firm growth and firm size are independent. However, researchers began to find fault with the assumptions of the stochastic models, and empirical work demonstrated that Gibrat's Law does not hold.

This stochastic model was superseded in the theoretical literature by Jovanovic's (1982) 'learning model'. In this framework, efficient firms (that is, firms with able managers) grow over time, expanding each period when their managers observe that their guesses about their managerial efficiency turn out to have understated their true efficiency. Jovanovic's model, in its simplest form, predicts that the annual growth rate of a firm will be a function of the accuracy of the manager's predictions regarding their ability, as well as the price of the product.

The learning model also has implications about the relationships between growth rates and firm size and age. On average older firms grow more slowly than younger ones. With respect to firm size, bigger firms grow more slowly controlling for firm age. Bigger firm have small values of the cost parameter (that is, they are more efficient). Such firms have less and less room for further increases, given that the information distribution has a lower bound.

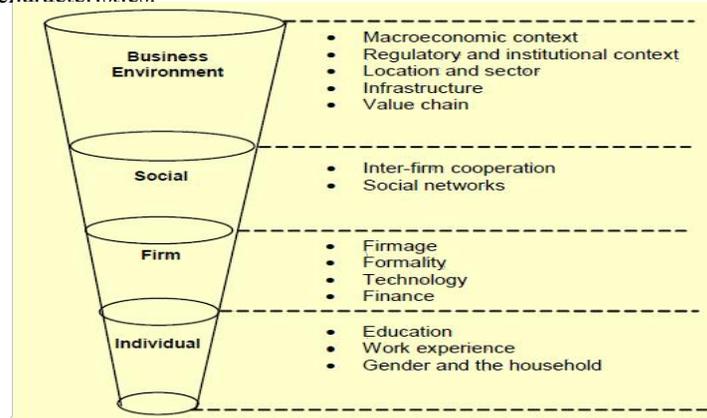
The Jovanovic model has been criticized for the immutability of the efficiency parameter. In that model, managers are born with an efficiency level, and while they learn what that level is over time, they cannot alter it. Pakes and Ericson (1987) extended the basic model to allow this parameter to be changed through human capital formation. Those firms with managers possessing greater stocks of human capital should be more efficient, and therefore should grow relatively faster.

Another aspect of the literature involves economies of scope at the firm level. Teece (1980), building on the work of Penrose (1959) and Williamson (1975), theorizes that when the market for proprietary know-how does not function efficiently, or when an input is specialized and indivisible, a firm may find it more sensible to expand (diversify) than to sell the know-how or input to another firm producing a different product. This approach emphasizes the internal dynamics of the administrative structure of each firm. While this aspect seems likely to offer some useful insights into the process of firm growth, such an analysis is beyond the scope of this paper.

### 1.7 CONDITIONS FOR MICRO AND SMALL ENTERPRISES (MSEs) GROWTH

Why do some MSEs expand rapidly, while others stagnate? What factors account for the wide variation observed in MSE growth course? Prior study on factors that affect MSE growth tells, range of factors play an important role in shaping the growth performance of a particular MSE, by influencing the opportunities available to owners and employees and their capabilities to take advantage of such opportunities. These factors can be summarized into four broad categories: contextual

factors related to the business environment, social or relational factors, firm characteristics, and individual entrepreneur characteristics.



Source: USAID Understanding Micro and Small Enterprise Growth, Report No 36, 2005

### 1.8 MEASURING MICRO AND SMALL ENTERPRISE (MSEs) GROWTH

There is a little agreement in the existing literature on how to measure growth of firms. Thus most previous studies have used a variety of different measures such as total assets, sales, employment size, profit, capital, and others (Berkhamet *al.*, 1996; Davidsson and Wiklund, 2000; Holmes & Zimmer, 1994). Moreover, growth has been measured in absolute or relative terms. For this study, the parameter used to measure the growth of MSEs was employment size.

The growth rate of the MSEs is computed following Evans (1987) model i.e.

$$gr = \frac{\ln St_0 - \ln St}{Entage} = Y^*$$

Where;

$\ln St_0$  = Natural logarithm of initial employment size,

$\ln St$  = Natural logarithm of current employment size

$Entage$  = Age of MSEs

$gr$  = Growth rate of the enterprises

### 1.9 ETHIOPIAN MICRO AND SMALL ENTERPRISE (MSEs) STRATEGY

In contrast to many MSE related studies, the working definition of MSE in Ethiopia is based on capital. According to the Micro and Small Enterprises Development Strategy; (1) Micro Enterprises: are those business enterprises with a paid-up capital of not exceeding Birr 20,000 and excluding high tech consultancy firms and other high-tech establishments; (2) Small Enterprises: are those business enterprises with a paid-up capital above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high-tech establishments (FDRE Ministry of Trade and Industry 2007: 5). Hence, in this case the definition is based on capital and the level of technical and technological capacities adopted. The information on MSE in Addis Ababa indicated that from all the total licensed

enterprises, 75.4% are micro enterprises, 20.9% are small enterprises and the remaining 3.7% are medium and large enterprises (Addis ReMSEDA 2009a).

During the socialist regime (1974-1991) due to extensive nationalization of private sector, many of the former private sector firms ceased to exist. But after 1991, the current government adopted several policies and regulations aimed at supporting the informal sector. MSE serves as sources for sustainable job opportunities not only for developing countries like Ethiopia, but also for developed countries like USA. Thus they are given prior attention as they are important and serve for sustainable source of job opportunities to our country. As a result many important overall policy and institutional reforms have been undertaken including: safety net, decentralization, market economy, agricultural development led industrialization (ADLI), etc. Moreover, a number of sector specific policy reforms and restructuring of regulatory institutions may have contributed to the process of creation of micro and small enterprises. One of the frameworks was related to issuance of the National Micro and Small Enterprises Development Strategy in 1997 and the issuance of Proclamation No. 33/98 to provide for the establishment of the Federal Micro and Small Enterprises Development Agency (Addis ReMSEDA 2009a).

In the same way to promote MSE, the Addis Ababa Trade and Industry Development Bureau has two branches, one is for MSE which focuses on the development of enterprises and the other one is for trade and industry. Micro and Small Enterprises are one of the focal points on the development agenda of the municipal government of Addis Ababa. The MSE branch has three main departments namely; MSE Development, Marketing Research and Promotion Department, and the Cooperatives Promotion and Controlling Department. Similarly, the structure of the MSE is extended to all sub cities in Addis Ababa. There are MSE teams and teams for the promotion of cooperatives in each sub-city while at the 'kebele' level it is handled by the MSE office under the 'kebele' chief executive (Addis ReMSEDA 2009b). The MSE branch has been organizing people with different skills into individual business and cooperatives by creating job opportunities and providing various supportive services in coordination with NGOs to create a favorable environment for the growth of the sector (Addis ReMSEDA, 2009b). Organizing and licensing was done by the cooperative office and a working premise was provided by the sub-city administration, and other concerned housing and land agencies. Space was provided depending on the size of the available land by assigning four square meters per person for a monthly fee of Birr 1.00/m<sup>2</sup> for the food processing sector and monthly fee Birr 2.00/m<sup>2</sup> for the metal and woodworks sectors (Addis ReMSEDA 2009a).

In November 1997, the Ethiopian Ministry of Trade and Industry published the "Micro and Small Enterprises Development Strategy", which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (MOTI, 1997). Elements of the program include measures with regard to creating an enabling legal framework and streamlining regulatory conditions that hinder the establishment of new and expansion of existing MSEs. In addition, specific support programs also include measures related to providing working premises, facilitating access to finance, provision of incentives,

promotion of partnerships, business skill development training, access to appropriate technology, access to market, access to information and advice, infrastructure and institutional strengthening of the private sector associations and chambers of commerce.

#### 1.10 ETHIOPIA'S MICRO AND SMALL ENTERPRISE (MSEs) PROMOTION POLICY

The role of Micro and Small Enterprises (MSEs) is indispensable in poverty reduction through employment generation. Cognizant of this, a national MSEs Development Strategy was formulated in 1997. Ethiopia's MSE Policy envisages not only reducing poverty in urban areas but also nurturing entrepreneurship and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment and number of entrepreneurs and transition to medium size level (Addis ReMSEDA 2009a).

MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space. The government strongly believes that MSEs are the right solution to reduce urban unemployment and hence reduce poverty. This ambition is reflected in the GTP. For instance, it plans to create three million new jobs in the MSE sector in the five years growth and transformation period. Therefore, MSE promotion and support is the vital strategy to fulfill this national plan of employment creation in the short-run and achieving industrialization in the long-run. Ethiopia adopts a layered policy support in which MSEs are categorized into start-ups, growing-middle and maturity. Start-up stage enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector. In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique.

Growing stage enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, enterprises at this stage also suffer from different challenges like financial constraint, lack of appropriate technology and technical skill, absence of sufficient working and sales premises and rent seeking behavior. To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, enterprises are considered to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FEMSEDA has a strategy that aims to strengthen enterprises in terms of productivity and product quality. Moreover, at this

stage, knowledge of international standards and better production technology are disseminated to enterprises.

### 1.11 CHALLENGES OF MICRO AND SMALL ENTERPRISE (MSEs) DEVELOPMENT IN ETHIOPIA

In Ethiopia, MSEs are confronted with various problems, which are of structural, institutional and economic in nature. Lack of capital, working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and many others, which therefore need proper attention and improvement. It is in this context that the Ethiopian Micro and Small Enterprises Development Strategy was conceived and developed (Ministry of Trade and Industry, 1997).

### 1.12 EMPIRICAL EVIDENCE

Empirical evidence from the U.S. (Evans, 1987; Dunne *et al.*, 1989) and from the developing world (Chuta, 1989) has repeatedly supported the inverse relationship between firm growth and both firm age and size that is hypothesized by Jovanovic's theory.

In addition to firm age and size, demand and supply factors, such as sector and location, enter into the growth decisions of individual firms, since they influence the product and input prices. The learning model assumes all firms produce a homogeneous product. Firms in different sectors face different product demands, as well as being different on the cost side (e.g., inputs are more or less costly to obtain; competition is more or less stiff). Therefore, if we intend to consider a group of heterogeneous MSEs, we must allow for differences in sector. Sectorial differences in growth rates have been shown by Phillips and Kirchoff (1988) for small firms in the U.S. and by Chuta (1989) for enterprises in Nigeria. With respect to location, a firm's proximity to demand sources and to concentrations of competition must influence its profitability. In addition, the work of Piore and Sabel (1984), Sengenberger (1991), Pyke (1990) and others highlights the importance of agglomeration externalities in firm growth. These externalities come from many small firms locating near each other and building reliable supplier and buyer relationships within the group. This literature suggests that firms

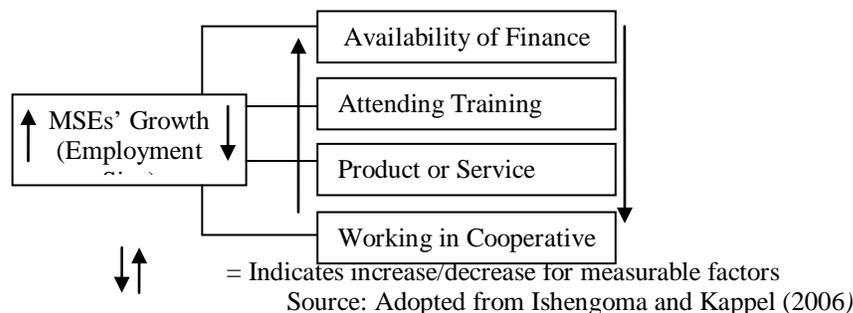
grouped together in urban areas may be able to specialize in particular products and produce at lower cost than would otherwise be the case. Such firms, then, would be more likely to be in a position to expand. Finally, the location of the premises may imply differential costs regarding rent payments. For example, home-based enterprises (HBEs) may pay less in rental costs than a shop in the commercial district.

Moreover, the performance of a firm (including its growth) likely depends in part on the level of human capital embodied in its proprietor. For example, Bates (1990) finds that the educational level of the proprietor is positively and significantly related to small firm longevity (and thus, perhaps, firm growth). This finding echoes that of Douglass (1976). Evans and Leighton (1989) find that education, experience, and previous self-employment are important determinants of the probability of starting a small enterprise. Cortes *et al* (1987), argue that while older proprietors are likely to be more experienced than younger ones, they also may be less inclined or less able to make their firms grow. For metal working firms in Colombia, proprietor age and firm growth rates are inversely related. Other proprietor characteristics might also influence enterprise growth. Evans and Leighton (1989) provide evidence that the marital status of the proprietor is a significant determinant of the likelihood of starting a small business. A final example involves proprietor gender. Since, traditionally, female-generated funds are used to cover the family's basic needs female proprietors may avoid taking the risks involved with firm expansion.

Analysis paper made in June 2011 for the success factors of MSEs in Addis Ababa shows there is no significant difference on the performance of MSEs operating in Addis Ababa in relation to the age difference of the principal owners, and in relation to education the research paper shows those MSE operators who have education of 10+3 and above shows higher performance and growth compared with the others. (Tiruneh, 2011)

In Ethiopia, MSEs Sector is the second largest employment-generating sector following agriculture (CSA, 2005). According to CSA (2005) the sectors contributes 3.4% of GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001. In spite of the enormous importance of the micro and small enterprise (MSE) sector to the national economy with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy. These challenges are lack of access to credit, insufficient loan size, time delay and collateral (Gebrehiwot and Wolday, 2006).

### 1.13 CONCEPTUAL MODEL



### III. RESEARCH METHODOLOGY

In this study both descriptive as well as exploratory research methods is employed. While searching for the general nature of the MSEs, exploratory research was conducted and secondary data was examined and also qualitative primary research was also conducted by taking in depth interview with the owners and employees of the selected SMEs. The descriptive design is applied to determine the effect of some of the determinants that influence the growth of Micro and Small Enterprises (MSEs) in Bole Sub-city of Addis Ababa city Administration.

Both primary and secondary sources of data have been used. To collect appropriate data structured questioner has been designed for MSE owners and operators to rank statements on contextual condition related to each growth factor faced by the respondents using 5-point likert scale anchored by strongly agree and strongly disagree. Interview questions were developed and in-depth interview has been conducted with owners and managers of MSEs in Bole Sub City of Addis Ababa city administration as well as representatives from different institutions cooperating with these MSEs. Bole Sub City is one of the ten sub cities of Addis Ababa City Administration. The population of interest for this survey was MSEs, 1650 in number on April, 2015 of Bole Bole Sub City. The total sample size was calculated using Slovin's sampling formula:

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

Where;

E=level of precision, i.e., 0.075

N=Population size

n= Sample size

$$n = \left[ \frac{1650}{1 + 1650 * (0.075)^2} \right] = 165$$

Before selecting a sample, first the list of those MSEs that are currently registered and who have license from government office and currently working in all Bole Sub City were identified as sampling frame. Samples were selected using stratified random sampling technique, where the entire population was divided in to subgroup (strata) of manufacturing, service giving, urban agriculture, retailing, and construction works. Then 10% of sample was drawn from each type using a 'lottery' method.

Multi regression model is applied to test the formulated hypotheses and to examine the four variables whether they are affecting the growth of MSE and the data was analyzed using descriptive data analysis and inferential analysis technique.

#### 1.14 MODEL SPECIFICATIONS

The growth of MSEs is subject to different set of interrelated factors (Baldwin, 1995). To investigate the factors that determine the growth status of MSEs, the binary logistic regression model has been used to examine the relation of each factor with growth of MSEs (number of employees). This model was selected due to the nature of dependent variable.

If the dependent variable is categorical variable with only two categories (growing & non-growing/ survival valued as 1 and 0 respectively), binary logistic (logit) regression is appropriate.

$$Y = \begin{cases} 1 & \text{if } Y^* > 0 \\ 0 & \text{if } Y^* \leq 0 \end{cases}$$

This is specified as;

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

$$\Pr(Y^* > 0) = \Pr(\beta'X + \varepsilon > 0) = \Pr(\varepsilon > -\beta'X) = \Pr(\varepsilon < \beta'X) = F(\beta'X)$$

The finally employed model becomes:

$$\Pr(Y=1) = \alpha + \beta_1(\text{InitInv}) + \beta_2(\text{ProdServ}) + \beta_3(\text{Trg}) + \beta_4(\text{Coopv}) + \varepsilon$$

Where;

**InitInv** = Size of the initial investment of the owners

**ProdServ** = Output of the SME is product or service

**Trg** = Owners/managers/ of SME attended business and technical training or not

**Coopv** = SMEs is working under cooperatives or not

$\varepsilon$  = Error term

The dependent variable represents the growth of MSE that is measured in terms of change in employment size. Taking the calculated growth in employment, MSEs are classified in to two categories i.e., growing (if gr > 0) and survival (if gr ≤ 0) following Cheng (2006) growth classification and represented in the model by 1 for the growing and 0 for survival MSEs.

The independent variables that are critically examined in this study are initial investment of the owners, the output of the SME as product or service, the effect of attending business or technical training and doing business in cooperatives and without cooperatives on SME growth. In this binary choice model, each observation is treated as Yes or No or it can be (available or not available) or 1 or 0.

### IV. RESULTS AND DISCUSSIONS

A total of 180 questionnaires were distributed to the MSEs principal owners of each of enterprise included in the sample, and 170 questionnaires returned, representing 94.3% percent response rate. From the 170 questionnaires returned, 5 questionnaires are not included in the analysis just because the responses received were incomplete and not relevant for the analysis purpose. The rest of the responses, representing 165 MSEs, were used in the study.

#### 1.15 DESCRIPTIVE ANALYSIS

Regarding demographic characteristics of the respondents, 65.45% of the respondents were male while 34.55% were female. According to this survey, male MSE owners are 1.89 times higher than the female owners. This indicates that the difference in gender is very significant, and it tells us most of the MSEs owners and operators are male. Also, 1.2% of the MSEs are owned by persons that are from 15 to 20 years old, and 10.9% of the MSEs are owned and operated by young people from 21 to 25 years old. 75% of the respondents are below the age of 35 which means majority of the MSE owners are of the young generation, and of them 1.2% are in their teen age.

In addition, 13.9% of the MSEs owners are at primary school level while 39.4% are secondary school level. On the other hand 20.6% of the MSEs owners attended school up to college level and the remaining 24.9 % of MSEs operators attended University level education. Only 1.2% did not go to school at all. Hence, level of uncertainty about obtaining relevant data from respondent is very low.

Further, results shows that, about 59% of the enterprises came to existence in the last three years, while 24.2% of them have been working between four to six years. 83% of SMEs included in the study have maximum of six years' experience. Regarding business sector, 54 (32.73%) of the MSEs in the sample have been engaged in construction sector. Another 48 (29.09%) of the respondents claimed that they are engaged in Manufacturing sector, while 37 (22.42%) of the respondents are

engaged on Service sector. 15 (9.09) and 11 (6.7%) of MSE operators indicated that their enterprises are engaged in retailing and urban agriculture respectively.

Concerning ownership form of MSEs, 47(28.5%) of the MSEs in the sample have been engaged in sole proprietorship type of business and 13(7.9%) of MSE were engaged in PLC type of business. While 21(12.7%) of the MSE were engaged in cooperative business and 84 (50.9%) of them were engaged in partnership type of business. In addition, 106 (64.2%) of the MSEs in the sample were Micro Enterprises and 34(20.6%) of the MSE in the sample were Small Scale Enterprises and the remaining 25(15.2%) of MSEs were turning from small to medium.

**Table 2: Growth of MSEs and Technical and Business Management Training**

		Frequency	Percentage	Mean	Standard Deviation
1.	Owners who attained Management and technical training are better profitable	129	78.18%	3.9182	1.05524
2.	Technical skill will increase profitability	136	82.4%	4.1420	.86955
3.	Business Management training increases profit	137	83%	4.1481	.79768
4.	Counseling on business management	132	80%	4.0000	.89301
5.	Do you believe majority of MSE have enough access to training	66	40%	2.4103	1.04648

Source: SPSS Output from Survey Data, 2015

As can be evidenced in table 2 above, regarding the effect of technical and business management training on MSEs growth, the majority, 78% of the respondents agree technical and management training of owners and managers significantly leads to profitability of MSEs. The management and technical training received by the owners and managers affect MSE growth with a mean score of 3.92 with a standard deviation of 1.05. The table also shows that 82.4% of the respondents believe technical and business management training improve growth of MSEs with mean score of 4.14 with standard deviation of .87. Then 83% of

the respondents agreed that business management will increase profit and it affects growth of MSE with mean score of 4.14 with standard deviation of .79. Related to, the effect of business management counseling, 80% of the respondents believe on the importance of counseling service for MSE growth with mean score of 4.00 and standard deviation of .89. The majority that is about 60% of the respondents believe that the owners and managers of MSEs do not have enough access to training, those who claimed that there is enough training was 40% and mean 2.41 and standard deviation of 1.04.

**Table 3: Growth of MSEs and Initial Investment**

		Frequency	Percentage	Mean	Standard Deviation
1	I agree if my initial investment was higher than what I invested, my business would grow better.	29	17.5%	0.882	.5443
2.	I agree MSE owners with high initial investment would grow better than MSE owners with low initial investment.	147	89.09%	4.4799	.4432
3	When I started business, if I had the opportunity to get loan, I would take all.	142	86.06%	4.3211	.4231
4	When I started business, if I had the opportunity to get 'Equib' or any other interest free financial service I would take all.	154	93.33%	4.643	.3845
5	I agree, it is easy to get enough loans for MSE when starting business.	148	89.69%	4.4848	.4223

Source: SPSS Output from Survey Data, 2015

The result of the survey on the effect of initial investment on the selected sample MSE owners of Bole Sub City shows 89.69% of the respondents agreed that their business would grow if they had invested higher than what they invested initially. It was supported by the great majority respondents with mean score of 4.4848 and standard deviation of 0.4223. Beside, 89.09% of the respondents believed, those MSE owners with higher initial investment grow better than the others with low initial investment. This was confirmed by the majority of respondents with mean score of 4.4799 and standard deviation of 0.4432. In light of this, 86.06% of the respondents agreed that they would

take the entire loan when starting business. This was evidenced by a significant number of respondents with mean score of 4.3211 and standard deviation of 0.4231 (Table 3). Further, for the question if they would take all interest free finance to start their business, 93.33% agreed that they would take any interest free finance. Finally, with respect to finance availability, 17.5% of the respondents agreed there are enough loans to start MSE business while 82.5% of the respondents believed that there are no enough loans to start MSE business. This was responded with a mean score of 0.882 and standard deviation of 0.5443.

**Table 4: Growth of MSEs and Production and Service Sector**

		Frequency	Percentage	Mean	Standard Deviation
1.	I agree MSEs engaged on Manufacturing sector get more support from government than those engaged on service sector	114	69.1%	3.4591	1.20517
2.	I agree starting MSE on service sector is easier than MSE on manufacturing sector.	102	61.8%	3.1013	1.12408
3.	I agree SME engaged on manufacturing of product have wider market than those engaged on service sector.	111	67.3%	3.3602	1.19139
4.	I agree MSE engaged on service sector are profitable than those engaged on manufacturing	87	52.7%	2.6563	1.08765
5.	I agree there are More regulation on MSE engaged on service sector than those engaged on manufacturing sector	107	64.8%	3.2390	1.14990
6.	I agree MSE on manufacturing sector are easily tracked by government and they need to be licensed to work than those engaged on the service sector	106	64.2%	3.2075	1.13670

**Source: SPSS Output from Survey Data, 2015**

Regarding whether or not producing product or rendering service has an effect on the growth of MSEs, table 4 shows about 69.1% of the respondents agreed that MSE engaged on the manufacturing sector get better support from the government side than those engaged on providing service. This was confirmed with a mean score of 3.4591 and standard deviation of 1.2.

On the other hand, 61.8% of the respondents agreed starting MSEs on service sector is easier than MSE on manufacturing sector. From the in-depth interview with different parties, the main reason for this include, the level of capital required to establish MSEs on production sector is bigger than those engaged on service sector. Since they do not need to rent a place for running their business many businesses engaged on service sector are currently working without taking license from government office. Most of these businesses are traditionally known as “*ayerbayer*”.

Moreover, 67.3% of the respondents agreed that MSEs engaged on manufacturing of product have wider market than

those engaged on service sector. The response rate was with mean of 3.36 and standard deviation of 1.19. While, 52.7 % of the respondents agreed that MSE engaged on service sector are profitable than those engaged on manufacturing sector. The response was made with mean of 2.656 and standard deviation of 1.08.

About regulations of MSEs, 64.8% of the respondents agreed that there are more regulations on MSEs engaged on manufacturing sector than those engaged on service sector. The response was made with mean score of 3.239 and standard deviation of 1.15. Similarly, 64.2% of the respondents agreed that MSEs on manufacturing sector are easily tracked by government and they need to be licensed to work than those engaged on the service sector. The response was made with a mean score of 3.2 and standard deviation of 1.13 (table 4).

**Table 5: Growth of MSE and MSEs in Cooperative and non-cooperative type**

	Description	Frequency	Percentage	Mean	Standard Deviation
1.	I agree MSE in Cooperatives have better access to credit than other type of MSE	110	67%	3.3354	1.11475
2.	I agree MSE in Cooperatives make better profit than other MSE types	97	58%	2.9634	1.09034
3.	I agree MSE in Cooperatives have better government support than other types of MSE	112	67%	3.3841	1.08192
4.	I agree joining or forming MSE in cooperative is difficult and time taking.	102	62%	3.0988	1.18589
5.	I agree MSEs in Cooperatives are not for profit but they are for job creation.	99	60%	3.008	1.23912

Source: SPSS Output from Survey Data, 2015

With respect to the effect of working in cooperatives for the growth of MSEs, 67% of the respondents agreed that MSEs in cooperatives have better access to credit than the others. The response was made with mean score of 3.33 and standard deviation of 1.11. Similarly, 58% of the respondents also agreed that MSEs in cooperatives make better profit than the others and the mean was 2.96 and standard deviation of 1.09. Similarly, 67% of the respondents agreed that MSEs in Cooperatives have better government support than other types of MSEs. The response was made with a mean score of 3.9 and standard deviation of 1.08. Additionally, 62 % of the respondents agreed

joining or forming MSE in cooperative is difficult and time taking and 60% of the respondents agreed MSEs in Cooperatives are not for profit but they are for job creation (Table 5).

### 1.16 BIVARIATE ANALYSIS

#### Chi-Square Test

There are different methods of assessing the association between two variables. Pearson Chi-square test is one way for examining a bivariate relationship. For training, initial investment, cooperatives, service and product were tested using the chi-square test.

**Table 6: Factors Associated with MSEs Growth (Chi-Square Test Result)**

Description	Yes Growth	No Growth	Total	P- Value
Training Attended				0.003***
Training (Yes)	69 (60%)	46 (40%)	115 (100%)	
Training (No)	14 (28%)	36 (72%)	50 (100%)	
Initial Investment (Birr)				0.002***
1-3000	20(42.5%)	27(57.5%)	47 (100%)	
3001-5000	11(42.4%)	15 (57.6%)	26 (100%)	
5001-10,000	6 (42.8%)	8 (57.2%)	14 (100%)	
10,001-20,000	8 (44.4%)	10 (55.6%)	18 (100%)	
20,001-50,000	13(61.9%)	8 (38.1%)	21 (100%)	
50,000+	25(64.1%)	14 (35.9%)	39 (100%)	
Service and Product				0.05*
Service	25(67.2%)	12(32.8%)	37(100%)	
Product	55(43.3%)	73 (56.7)	128 (100%)	
Cooperatives and Non Cooperatives				0.03**
Cooperatives	7 (33.3%)	14(66.7%)	21(100%)	
Non- Cooperatives	76(52.8%)	68(47.2)	144(100%)	

Source: SPSS Output from Survey Data, 2015

Table 6 shows that all the independent variable *p* values were less than 5% and all are accepted for farther analysis to test their effect on MSEs growth.

### 1.17 MULTIVARIATE ANALYSIS

Binary logistic regression model is the multivariate statistical tool used to analyze the relationship between the dependent variable (Growth of MSE ) and the predictor variables; namely availability of training, size of initial investment, Providing service or product, working in cooperatives or without cooperatives.

**Table 7: Determinants of MSE Growth (Multivariate Analysis)**

	Multivariate analysis on MSE growth	B	Std. Error	Sig.	Exp(B)
Training	Training attended Training not attended (RC)	.881	.484	.039	1.324
Initial investment	Initial investment ( 1- 3000 Birr)	-.256	.609	.036	1.747
	Initial investment (3001-5000 Birr)	-.292	.627	.048	1.658
	Initial investment (5001-10,000 Birr)	-.251	.728	.038	1.628
	Initial investment (10,001-20,000 Birr)	-.088	.786	.091	1.292
	Initial investment (20,001-50,000 Birr)	-.119	.695	.032	1.01
	Initial investment > 50,000 Birr (RC)				
Product Versus Service	Production Service [ RC]	-.157	.370	.15	1.245
Cooperatives Versus Non Cooperatives	Non- Cooperatives Cooperatives ( RC)	.982	.490	.045	1.581

**Source: SPSS Output from Survey Data, 2015**

The result from the multivariate regression analysis revealed that MSE owners who attended training were 1.32 times more likely grow than those who did not attend training (Table 7). Therefore, the null hypothesis which states that MSEs owners who attended technical and business management training grow their business better than those MSE owners who did not attended those trainings, can be accepted.

The effect of initial investment on MSE growth revealed that MSE owners who started their business with higher amount of initial investment are more likely to grow than those who invested lower amount. The analysis of this part is in comparison to those who invested initially Br 50,000 or more which is used as reference point. The result shows MSE owners who invested from 1 to 3,000 Birr were 1.747 times less likely to grow their business and those who invest from Birr 3001 to 5,000 were 1.658 times less likely grow their business than those MSE owners who invested initially birr 50, 000 or more, etc. The result of the study also revealed, MSEs that started business with higher initial investment grow better than those MSE who invested lesser and 86.42% of the respondents agreed they would take all the available loan when they started business if there was an opportunity, and 92.86% of the respondents agreed they would take all non-interest bearing financial resource when they started their business if there was an opportunity. 82.4% of MSE owners agreed that there were no enough loans for MSE during starting MSE business.

Regarding product and service rendering nature of MSEs, the result revealed that MSE owners who render service were grown 1.245 times than those who manufacture a product. Therefore the null hypothesis which states that MSEs that produce products grow better than those MSE that render services is not accepted. The government current report on the private sector of Ethiopia is also in agreement with this finding, that the service sector in Ethiopia is growing higher than the other sectors, but as the significance level is 15%, which is far more than 5%, it may not be enough to fully reject the hypothesis.

Further, result of multivariate analysis revealed that MSE owners who work without forming cooperatives were 1.58 times

more likely grow than those MSE who were doing their business in cooperatives. Therefore the null hypothesis which states that MSEs that work in Cooperatives grow better than those MSEs working without cooperatives is not accepted. The result of the study also revealed that MSE in cooperatives have better access to credit and they have better government support than the other MSEs working without forming cooperatives.

## V. CONCLUSION

The main objective of this study was to investigate growth determinants of Micro and Small Enterprises in Bole Sub City of Addis Ababa City Administration. The result shows that respondents who attended technical or business management training showed better growth than those who did not attend. In connection to this, training was provided to 2,174,290 business operators on 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). However, majority of the respondents believe they did not get sufficient access to training.

On the other hand, results also reveal, MSEs that comes to business with higher initial investment shows better growth than those MSEs that started business with lower initial investment. Previous researches in the country made the same conclusion, finance as one of the main factors that affect starting, success, performance and growth of MSEs (Habtamu, 2007, Admasu, 2012, Berhane, 2011, Mulugeta, 2011). MSEs do not have enough access to loan to start and they need to have pre- credit compulsory saving before acquiring business loan. Supporting this, the major source of startup finance and working capital is own saving, family and friends followed by microfinance and 'equb' (Selamawit, Aregawi & Nigus, 2014).

In addition, as per multivariate analysis of the study, MSEs engaged on the service sector are growing more than MSEs in the other sectors. In 2012/13 the respective shares of agriculture, industry and service sectors in the GDP stood at 43%, 12% and 45%. The share of the service sector to GDP increased from 38%

to 45% in the past 10 years while the share of agricultural declined from 52% to 43% in the same period (UNDP, 2014).

Regarding, MSEs in cooperative form or non-cooperative form, those in non-cooperative form shows better growth than those working in cooperative. This is in agreement 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.

## VI. RECOMMENDATIONS

Result of the study shows, training is one of the significant factors for MSE growth, and MSEs are of the major sources of income generation and means of living for many residents of Addis Ababa and a significant number of MSEs operators do not have enough access to training. Hence, government officials needs to exert much effort towards providing training and coordinating the resources from different stakeholders to work on providing technical and management trainings for MSE operators,

Beside, the size of initial investment directly affects the growth of MSEs and having appropriate understanding of these factors is important in order to solve financial needs of MSEs and help them prosper and achieve their objectives of profit, growth and employment opportunities and also alleviating poverty. Thus, it is important for the government and nongovernmental organizations together with financial institutions to formulate their policies and strategies that work towards meeting the financial needs of MSEs.

Despite the above facts, the study also paint red the non cooperative type MSEs showed better growth on employee size than the cooperatives. The current practice of the government that encourage MSEs to be established in non cooperative form needs to be encouraged and if government support to those MSEs in private ownership, PLC and partnership form is increased in its scale the MSEs in these ownership type would also serve as means of job creation like the cooperatives are doing currently.

Furthermore, Ethiopia's Growth and Transformation Plan (GTP) has aimed to transform the economy of the nation into an industrial one using MSEs as a vehicle for this change. The industrial policy has also clearly stated the vital role that MSEs play in the industrialization of the present agrarian economy. However, regardless of this policy direction a lot needs to be done to improve the growth of MSEs in the manufacturing sector such as creating local market for MSEs engaged on manufacturing sector, which may include providing incentives for local industries that uses inputs supplied by MSEs.

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