

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Determinants of Growth of Micro and Small Enterprise in Oromia, Ethiopia

Tadesse Yadete

Researcher, Oromia State University, Center of Research and Community Service, Oromia, Ethiopia

Abstract:

This study aimed at investigating determinants factors of MSE's growth and performance in Oromia. The key determinants of growth and particularly employment expansion among enterprises. The survey covers wide variety of activities trade, service, construction and manufacturing. The data was analysed descriptively and econometrically and presented through figures, tables and percentages. The data used for analysis was collected using structured questionnaires, interviews, and observation.

The descriptive analysis revealed that, the average annual growth rates since start up indicate that overall growth performance is less compared to other developing country experiences on the same growth measures. Most of the enterprises are stagnant. The multiple linear econometric analyses have revealed that firm age, firm size, initial capital, internal experience, high school education, manufacturing sector, working premise and access to infrastructure variables were found to be significant. Enterprise growth potential and performance in most cases is inversely related to initial size, infrastructure facility and availability of own working premises while firm age, internal experience, high school education, manufacturing sector and initial capital of the enterprise are positively related to firm growth and performance.

Keywords: *Micro enterprises, small enterprises, entrepreneurs, cooperative, constraints and employment growth*

1. Introduction

1.1. Background of the Study

Micro and Small-scale enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. Micro and Small-scale enterprises (MSEs) perform useful roles in ensuring income stability, growth and employment.

Due to their flexible nature, MSEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Liedholm & Mead, 1987; Schmitz, 1995). It is estimated that MSEs employ 22% of the adult population in developing countries (Gallagher & Robson, 1995). Since MSEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional dispersion and their labour intensity, it is argued that small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus, facilitating long term economic growth.

The MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production (Tybout, 2000). Studies in five African countries (Botswana, Kenya, Malawi, Swaziland, and Zimbabwe) found that MSEs generate nearly twice the level of employment that registered, large-scale enterprises and the public sector do (Mead & Liedholm, 1998). In many Latin American countries, micro and small enterprises employ over half the working population.

An ILO study (2003) examining firms with fewer than five workers found that they generated 58% of total employment in Paraguay, 54% in Mexico, and 53% in Bolivia. With respect to economic output, the contribution of the MSE sector varies considerably across countries. MSEs contribute approximately 31% of overall GDP in the Dominican Republic, 13% in Kenya, and 11% in Pakistan (Daniels, 1999; IDB, 1998) sited in Small, 2002. This is significant when compared to countries like Indonesia, India and Thailand, where SMEs contribute almost 40 percent of their GDP.

In Ethiopia, along with the overall policies and strategies of economic development especially with the adoption of a free market economic policy since 1991, small enterprise and business development has been recognized as a key element to promote the development of the country. The promotion of small enterprises and business development basically entails the facilitation of the start-ups, growth, and expansion of small scale enterprises (ILO 2003, Andualem 1997, MOTI 1997).

According to Andualem (1997), the most important part of the private sector in Ethiopia is to be found at the level of small scale enterprises (SSEs). In this respect the Micro and Small Enterprise Development Strategy paper by the Ministry of Trade and Industry (MOIT) indicates that "the whole labor force" engaged in the informal sector activities and small-scale manufacturing industries is more than eight-fold (739, 898 persons) to that of the medium and large-scale manufacturing industries (90,213 persons) (MOTI 1997). According to 1997 CSA estimates, although the sector as a whole accounted for over 95 percent of total employment in such establishments, its relative share in gross value of production and value added for the same year was only 30 and 34 percent respectively (Solomon, 2004).

1.2. Statement of the Problem

The high degree of poverty and unemployment has been of great concern to the various governments (federal and local) as well as the civil society in Ethiopia. Micro and small enterprises (MSEs) are generally recognized as a main factor of economic growth and equitable development. Their contribution to employment generation, poverty reduction and wider distribution of wealth and opportunities represents a major window of opportunity for most developing countries.

Considering the degree of unemployment as well as realizing the role of SMEs towards sustainable employment generation, the government shows its dedication to the organization and development of cooperative business enterprises. It was assumed that supporting environment will be facilitated in areas of legal framework, regulatory conditions, access to finance, access to market information, training, skills and management, appropriate technology as well as providing physical infrastructure (MOIT 2011).

The efficacy of such interventions, however, depends on the identification of determinants of enterprises growth and performances. An examination of the characteristics of the entrepreneurs and enterprises and other socio economic and institution factors with high potential to survive and grow is therefore essential. In this regard, the commonly cited studies in relation to MSEs in Africa (Liedholm and Mead, 1993; and McPherson, 1996 and related articles) provide some evidence on the characteristics of the fast-growing firms based on six countries most of them in the Southern Africa (Swaziland, Zimbabwe, Lesotho, Botswana, Malawi, and Kenya).

Empirical studies in Ethiopia also indicated that entrepreneurs with some business experience and high school complete and with some college years grew faster. Firms operating in manufacturing and service grow faster than those in trade (Gebreyesus 2007). According to Dasta (2010) analysis of medium and large-scale manufacturing enterprises in Tigray found that internal experience and firm size are highly influential for firm growth. These studies and others mostly rely on MSEs surveys that covered businesses with employment greater than 50. The empirical gap on determinants of firm growth is even more evident when it comes to micro enterprises.

Therefore, this research is designed to answer the following basic questions

- What are the major challenges that affect the growth of Micro and Small-Scale Enterprises in Oromia?
- Are the Micro and Small-Scale Enterprises in Oromia growing over time? Which sub sectors of the sector are growing and contribute most for employment creation in the region?
- Why most Micro and Small-Scale Enterprises not expand /grow? are the enterprise with problems and constraints likely to fail in the near future?
- How are enterprises performing with respect to their objectives and challenges?

1.3. Objectives of the Study

The general objective of this research is to examine the determinants of firm growth among Micro and Small-Scale Enterprises.

The specific objectives of this research are the following:

- To identify the major challenges that affects the growth of Micro and Small-Scale Enterprises in Oromia.
- To examine the entrepreneurs' and enterprises' characteristics that affect the growth of Micro and Small-Scale Enterprises in Oromia.
- To analyze the extent to which Micro and Small-Scale Enterprises contribute to employment creation and growth.
- To make appropriate recommendations for solving the identified problems and challenges of the Micro and Small-Scale Enterprises.

1.4. Significance of the Study

Recognizing the importance of the micro and small enterprises (MSE) sector in Government's development policies, the timing of this research is considered appropriate and highly relevant. The significant implications of the study to practice and policy lie in its capacity to provide a platform for local entrepreneurs and government to discuss and re-strategize their plans and programmes. This study was also enabled micro and small business owners to tackle failure of their business by suggesting some practical measures to be taken by these businesses in order to solve the number of problems faced. If

business operators understand the factors that can increase the growth of firms, he/she can use them appropriately. The reverse will also be true if the factors can harm the growth of a firm. For example, the results of the study indicate that internal experience is positively and highly correlated with firm growth. This knowledge can help owners to retain their firm managers as long as possible; otherwise, owners may understand from the thesis result that their firm growth may decline if there is high turnover of firm managers.

Finally, the study adds to the existing body of knowledge on the issue as it is tried to analysis determinant factors of firm growth and also provides directions for further research. This study will also used by NGOs and other national and international organization whose main concern is micro and small-scale enterprise development.

1.5. Limitations of the Study

The major points that can be cited as the critical limitations of this study are resistance of respondents, time and funds and materials.

1.5.1. Resistance of Respondents

Several micro and small-scale enterprises were not keeping proper records of their business transactions and disclose information on their operations, the challenges they face and related aspects of their businesses operation. This was exacerbated by the underlying fear that information obtained from interviews could end up being used for tax assessment purposes.

This thus limited the number of respondents involved in the study despite the researcher's efforts and approaches to them explaining the potential benefits of the study to them. It was because of these constraints that 265 valid responses were obtained in the survey against the planned 371 interviews, representing a very good response rate of 71%.

1.5.2. Time and Funds

Another limitation of this study relates to time, funds and logistics constraints, which limited the intensity of the spread or area of coverage of the study. Even though MSEs are spread throughout the length and breadth of Oromia with negligible concentrations in some Zones and less urban areas. Hence, this study covered 4 zones and 20 districts due to limited resources and time.

1.5.3. Materials

It was easier for the researcher to access data relating to the performer of MSEs in other parts of the world especially the Asian and Western Countries than those pertaining to MSEs in Ethiopia. There is no data on MSE contribution to employment, GDP and poverty reduction in Ethiopia. This factor thus limited the depth of discussions in the area of MSEs in our economic development and growth.

1.6. The Scope of the Study

This study was geographically limited to four pre-selected regions namely – East Showa zone, Oromia Special Zone Surrounding Finfine, West Arsi and East Wollega. The study combined both rural as well as urban entrepreneurs for comparison purposes. The four zones out of eighteen were chosen based on their strategic locations and their large population of entrepreneurs. The study areas are shown in the map of Ethiopia given as Annex5.

This research is conducted under the following scope/delimitations:

- To know whether or not a firm is micro/small, the researcher has used the paid-up capital amount and number of employees;
- To know whether or not the sector is growing, changes in the number of employees is used as unit of measurement;
- The emphasis of the researcher is on determinants Micro and Small-Scale Enterprises' growth and performance.

1.7. Organization of the Study

The paper contains five chapters. The first chapter presents the introduction; this investigates background of the study, statement of the study, objective of the study, significance and limitation of the study. The second chapter deals about related literature; in this part theoretical framework and empirical findings are presented. The third chapters present the research methodology; this includes sampling technique, data collection and analysis methods, etc. The fourth chapter covers about results and discussion. Finally, the last chapter concludes about the findings of the paper and present recommendations.

2. Literature Review

2.1. Theoretical Framework of Micro and Small Enterprise

2.1.1. Definitions of Micro and Small Enterprise

There is no fixed worldwide accepted definition of micro and small enterprises. Different countries define MSEs depending on the level of their socio-economic development. But most scholars agree to consider some factors in defining

MSEs. These factors include number of employees, fixed capital, yearly sales, management system, asset they have, level of technology used and the like. The different definitions by different countries and scholars are stated hereunder.

World Bank since 1976 - Firms with fixed assets (excluding land) less than US\$ 250,000 in value are Small Scale Enterprises, Grindle et al (1988).

UNIDO's Definition for Developing Countries: Large - firms with 100+ workers, Medium - firms with 20 - 99 workers Small - firms with 5 - 19 workers, Micro - firms with < 5 workers. UNIDO's Definition for Industrialized Countries: Large - firms with 500+ workers, Medium - firms with 100 - 499 workers, Small - firms with ≤99 workers (UNIDO and OECD, 2004).

The European Union makes a general distinction between self-employment, micro, small and medium sized businesses based on Number of employees: enterprise with 0 employee is classified as Self-employed, enterprise with 2-9 employees is classified as Micro business, enterprise with 10-49 employees is classified as Small business and enterprises with 50-249 employees is classified as Medium-size business. (UNIDO and OECD, 2004).

As defined in Wikipedia, the free Encyclopedia, A micro-enterprise (or microenterprise) is a type of small business, often unregistered, having five or fewer employees and requiring seed capital of not more than \$35,000. The term is often used in Australia to refer to a business with a single owner-operator, and no employees. The term microenterprise connotes different entities and sectors depending on the country. Generally speaking, in developed countries, microenterprises comprise the smallest end (by size) of the small business sector, whereas in developing countries, microenterprises comprise the vast majority of the small business sector -- a result of the relative lack of formal sector jobs available for the poor. (en.wikipedia.org/wiki/Micro-enterprise).

In Ethiopian context, MSE is defined considering capital they have, level of technology and employment size. However, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MoTI) uses capital investment, the Central Statistical Authority (CSA) uses employment and favors capital intensive technologies as a yardstick.

According to the new Small & Micro Enterprises Development Strategy of Ethiopia the working definition of MSEs (2011) is based on capital and Labor is as follows.

Type of Enterprise	Type of Sub Sector	Paid up Capital (Fixed Assets)	No. of Workers
Micro-Enterprise	Industry	Less Than Birr 100,000 \$6000.00 Or £4500.00*	Less Than 5
	Service	Less Than Birr 50,000.00 \$3000.00 Or £2200.00*	Less Than 5
Small Enterprise	Industry	Birr 100,000 – 1,500,000 \$90000.00 Or £70,000.00*	6-30
	Service	Birr 50,000 – 500,000 \$3000.00 Or £2200.00*	6-30

Table 1: MSE Definitions Employed in Ethiopia

Source: MOTI, 2011

*Current Exchange Rate #1= 17 Birr & 1£=27birr

On the other hand, the Central Statistical Authority (CSA) 2003, for the purposes of its survey attached various definitions to enterprises. The CSA based its definitions on the size of employment and extent of automation for small, medium and large-scale enterprises and used a combination of criteria for defining informal sector operators.

CSA categorizes enterprises into different scales of operation on the size of employment and the nature of equipment. According to CSA micro, small and medium enterprises (MSMEs) may be defined in the following way:

- Micro enterprises are business activities that are independently owned and operated, have small share of the market, are managed by the owner and employing 5 or less employees.
- Small businesses are those enterprises that employ 6 to 49 employees. They share the same characteristics with micro enterprises in other aspects.
- Medium scale enterprises are those enterprises which have a relatively higher share of the market, are independently or jointly owned or managed by the owner or by appointed executives and employ 50 to 99 persons.
- Those enterprises that employ more than 100 persons could be considered as large enterprises.

2.1.2. Micro and Small Enterprise (MSES) Development Strategy

Following the over through of the Derg regime policies were enacted by the Government of Ethiopia to transform the previously command economy to a free market-based economy and by so doing enhance the development of the private sector.

Recently the Federal Democratic Republic of Ethiopia has launched an industrial development strategy, which is the current blueprint of a long-term industrial development (FDRE 2002). The overriding objective of the strategy is to promote

development oriented private investment and industrialization in the country. There are major features that distinguish the strategy.

- Firstly, the emphasis on private investment as a promoter of industrial development is given due attention.
- Secondly, agriculture will take the leading role in the industrialization process.
- Thirdly, emphasis is given to labor intensive industries instead of those that are capital intensive.
- Fourthly, attention is given for facilitation of private investment through active involvement of both domestic and foreign investors.
- Fifth, the government will play strong economic governance as a strategy and lastly, promotion of active participation of the community in development is taken in to account.

To address the issue of the micro and small-scale enterprise sector under the overall development strategy of ADLI the Federal Government of Ethiopia has launched a Micro and Small Enterprises Development Strategy in 1997. The primary objective of this national strategy framework is to create an enabling legal, institutional, and other supportive environment for the growth and development of MSEs.

The specific objectives of the strategy include:

- Facilitation of economic growth,
- Bringing equitable development,
- Creating jobs,
- Strengthening cooperation between MSEs,
- Setting the basis for medium and large-scale enterprises,
- Promoting of export,
- Balancing preferential treatment between MSEs and bigger enterprises.

To achieve the objectives, it was assumed that supporting environment will be facilitated in areas of legal framework, regulatory conditions, access to finance in the formal banking system and other micro and small enterprises focused financing institutions, access to information, training, skills and management, appropriate technology, market as well as the physical infrastructure (MOIT 1997).

The Ministry of Trade and Industry was given 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 MSEs. Regional Bureaux of Trade and Industry were delegated to develop and promote the sector in their regions by coordinating regional activities and creating networks with business associations to strengthen the flow of information to MSEs.

To further ensure the proper institutional coordination for MSE support functions, the government created the new Federal Micro and Small Enterprises Development Agency. According to the Micro and Small Enterprises Development Strategy, the major organs to be involved in the implementation of the strategy are Ministry of Trade and Industry, regional trade and industry bureaus, Federal MSE Development Agency (FeMSEDA), Regional MSE development agencies (ReMSEDA), or the designated organs, NGOs and private sector organizations (MTI 1997). In addition, bilateral and donor assisted Programmes like the ILO and GTZ-MSE development programme are active stakeholders in the growth and expansion of the small enterprises in Ethiopia (Zewde and associates 2002).

2.1.3. Conceptual Frame Work

We adapted Ansoff's (1965) framework for classifying the types of decisions needed to start and maintain a successful business and analyze common problems faced by small-business owners. This framework categorized small-business problems as Unfavorable legal and regulatory environments, Lack of access to markets and business information, Lack of business premises (at affordable rent), Low ability to acquire skills and managerial expertise, Low access to finance, and Poor access to infrastructure as well as MSEs characteristics like firm size, firm age, sector and as firm's demographic characteristics such as age, education, gender and business experiences.

When MSEs have limited access to relatively differentiated markets, they are forced to operate in low-income market segments. This limits their levels of sales and profits since most of them compete for the same customers (Sengendo et al. 2001). Low sales and profit may discourage firms' future investments and therefore their growth. Thus, low profit may imply limited internal resources, which may in turn limit firms' capacities to upgrade their investments. High tax rates reduce firms' internal sources of finance. In some developing countries, including Ethiopia, they also discourage MSEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating (Ishengoma and Kappel 2007).

Another factors expected to hinder the growth potential of MSEs is their limited access to business development services (BSs) (marketing information, networking, short-term training, counseling and consultancy services) (Ishengoma and Kappel 2007). Access to marketing information is expected to increase MSEs' market knowledge about the behavior of their customers, price, and the best sources of inputs. Through counseling and consultancy services, MSEs can solve some of the technical problems they face. Their participation in networking activities may enable them to obtain more technical and marketing information about the behavior of their customers, in terms of honoring their debts; new customers; and business

partners. All of the above is expected to decrease MSEs' transaction costs, increase their internal sources of finance for upgrading their assets, and raise their sales levels and productivity – hence leading to growth.

There is also Macroeconomic context in the Implementation of these policy actions is done through various sector and district plans and programmes, many of which have relevance for MSE development. For example, under the macroeconomic context a set of actions, the Government has put in place supportive economic conditions including:

- A low and stable rate of inflation to boost private investor confidence in the economy
- A competitive exchange rate for exporters
- Low and stable interest rates for the private sector
- Steady growth in domestic savings.

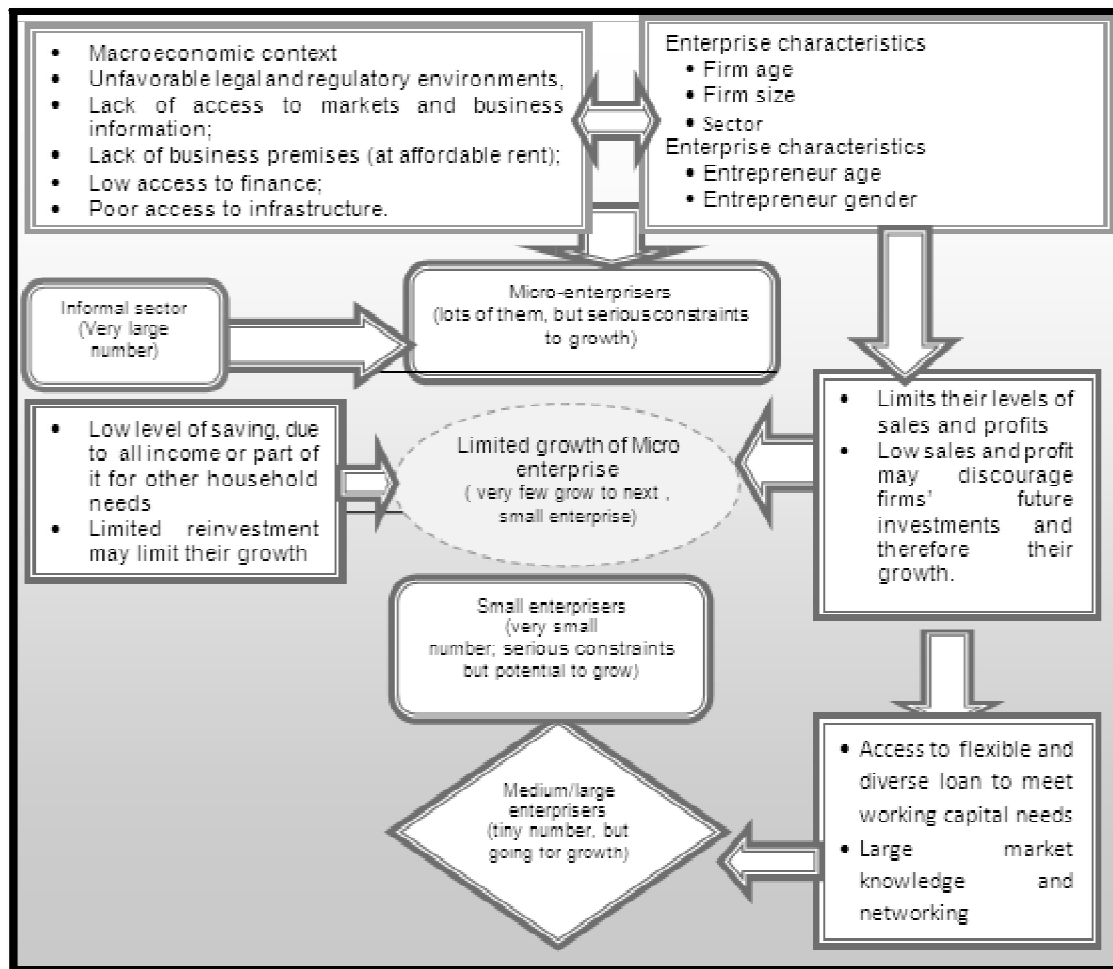


Figure 1: Conceptual Frame Work

2.1.4. Micro and Small Enterprises (MSE) Growth Theory

Farbman & Lessik (1989) classify enterprises into survival, micro and small enterprises. According to these authors, the survival category comprises persons commonly referred to as 'the poorest of the poor'. These people engage in economic activities to fulfil their basic needs due to lack of other alternative to employment. Others call them pre-entrepreneurial. These people are groups of societies often excluded from the economic mainstream and have different barriers which hinder to enter into micro enterprise or other more economically substantial sectors.

MSEs have important roles by creating jobs and means of incomes, and as an "engine of economic growth". But, scholars argue that the contribution of MSE and the policy interventions required may vary according to the level of enterprises. Various theoretical models have been developed which describe the growth of small businesses. One class of theoretical models focus on the learning process, either active or passive.

The standard neo-classical economics posits size is determined by the same factors that affect long-term average cost of firms, such as technology and market size. According to this model, which relies on perfect competitive market assumption, extra labor is added until the value of the marginal product of the last labor is equal to the wage paid to that worker. However, this static-cost theory doesn't have definite prediction on the size distribution of firms but impacts on supply and demand for

the product. The 'Law of the Proportionate Effect' or Gibrat's law which is based on a stochastic-theory then came to be a departure for analyses related to size distribution and growth of firms.

According to Gibrat's law firms grow each year following random drawing from a distribution of growth rates thus small and large firms have on average identical growth chances. Hence, growth is independent of current size. However, the growing empirical evidences show that there is significant negative relationship between firm growth and firm size, which is contrary to Gibrat's law (Dunne and Hughes, 1994).

Failure of the Gibrat's law gave a way to a 'learning theory' by Jovanovic (1982), which proposes managerial efficiency and learning by doing as key factors that determine firm growth. According to this model the potential entrants are assumed to know the mean and standard deviation of the costs of all firms but not of their own. Firms learn about their efficiency level after entry and update their prior expectations through experience. Those experiencing high cost decide to exit but those with better efficiency tend to survive and grow. The Jovanovic model also predicts that firm growth is inversely related to size and age. This is because as firm ages and grows becomes more confident about its costs then the variance and mean of its growth rate should decrease.

The Jovanovic model is referred as 'passive learning' model reflecting the criticism that it keeps the efficiency parameter ability of the manager fixed. Ericson and Pakes (1995) extend this learning model to accommodate capital formation as a way of altering the efficiency parameter. According to this 'active-learning' model firms invest on R&D and human and physical capital will be more efficient and grow faster than others. The implication for MSEs in developing countries is that the entrepreneurs' human capital such as, education and experience are important determinants of firm growth.

2.2. Empirical Analysis

Several empirical studies indicate that entrepreneur/firm characteristics might affect business expansion. Liedholm (2001) found that firm age and the growth of firms are inversely related. Gebreeyesus (2007:6 and 7) indicated an inverse relationship between firm age and growth while Liedholm (2001:13) found "...similar findings are reported from Parker's (1994) Kenyan study, Cabal's (1995) Dominican Republic study, as well as McPherson's (1992) study." Their findings suggest that younger firms grow faster than older ones.

Bigsten and Gebreeyesus (2008) found no linear relationship between the age of a firm and firm growth. At the early period, there is inverse relationship; in the middle, the relationship is constant [for most periods]; finally, the relationship turns to positive as the firm gets older. Moreover, Indarti et al. (2004) did not find significant relationship between firm age and its growth. Small sized enterprises have better opportunities to grow than initially large established firms (Gebreeyesus, 2007, Coad et al., 2008).

On the other hand, there are a number of researchers who find that the age of a firm and its growth rate are positively correlated. Indarti et al. (2004) found that the "...length time in operation may be associated learning curve. Old players most probably have learned much from their experiences than have done by new comers. Kristiansen, Furuholt, and Wahid (2003) found that length time in operation was significantly linked to business success."

Different authors argue that firm size is positively correlated to firm growth. Sleuwaegen and Goedhuys (2002) also found a positive relationship between age and size on Ivorian enterprises; they found that large sized firms grow better than the smaller ones. Moreover, Van Biesbek (2005) and McMahan (2001) have argued that firms initially established larger grow better than the smaller ones. Finally, Parker (1994) and McPherson (1992) found positive relationship between firm size and firm growth.

The growth of external finance user firms in Australia (McMahon, 2001) and Indonesia (Kristiansen, Furuholt, and Wahid, 2003), is better than the firms which do not use external financial resources. Moreover, based on his study in Brazil, Saeed (2009) indicated that access to external finance is an important element for growth, though the internal source of finance is also important. Finally, Gebreeyesus (2007) argues that firm growth is positively correlated with external source of finance (trade credit and other informal sources of finance).

Schiffer and Weder (2001) identify factors that constrain bank loans such as "high interest rates, collateral requirement, bank paper work, inadequate credit information to clients, and credit rationing." In the case of Ethiopia, the major loan problems for small scale manufacturing firms are satisfying collateral requirements, insufficient loan, and high interest rate (CSA, 2003). As a result, small firms in developing countries do not have enough access to credit from banks (Nichter et al. 2005; Nichter et al. 2009). The findings of Indarti et al. (2004) indicate that the growth of entrepreneurs whose sources of finance from families is better than those who obtain other sources of finance. Firms with sources of capital from family are better than any other (Indarti et al., 2004). This suggests the importance of external sources of capital for firm growth.

In Sub-Saharan Africa countries, firms owned by people who have completed secondary school grow better than of firms owned by people with lower education levels (McPherson 1999). This idea is supported by the findings of Indarti et al. (2004) from Indonesia, who found that the performance of firms owned by entrepreneurs with high school education level is better than of any other education level. But in Latin America, high school education level did not assist entrepreneurs to boost their business (Kantis, Angellini, and Koenig, 2004).

On the other hand, according to Pakes and Erickson (1998) human capital such as, increases in the experience or education of the entrepreneur lead to increases in enterprise growth. Some studies show that general secondary education of entrepreneurs is associated with higher growth, while university education has a much weaker effect. There is also some evidence that entrepreneurs whose prior work experience is related to the manufacturing industry are more successful at raising growth (Goedhuys 2002).

The growth of a firm owned by entrepreneurs who have related experience is better than the growth of firms owned by less experienced entrepreneurs (Nichter et al. 2009; Gebreeyesus, 2007). According to Mead and Liedholm (1998) and Parker (1995) the growth of firms owned by people who have pre-establishment experience was better than firms owned by entrepreneurs who had no pre-establishment experience. Moreover, on-the-job training within the same sector is crucial for the growth of a firm (Nichter et al. 2005). According to McPherson (1992) and Parker (1994) the growth of firms with trained owners is better than of untrained proprietors.

Parker (1994) notes that vocationally trained workers had better contribution to the growth of a firm growth than untrained workers. Moreover, Liedholm (2001) argues that the capacity gap of owners can be filled by having skilled workers. Gebreeyesus (2007) on the other hand found that vocational training was not a significant factor for a firm's growth in Ethiopia.

Similar to other factors, the relative age of an entrepreneur can influence the growth of their firms. Sinha (1996) has indicated that, firms owned by younger individuals were more successful in India, while studies in Indonesia and Ethiopia couldn't find a significant relationship between the age of an entrepreneur and a firm's level of growth (Indarti et al., 2004; Gebreeyesus, 2007).

MSEs operating in manufacturing and service grow faster than those in trade (Liedholm and Mead, 1993; Liedholm, 2002), but McPherson (1996) found no clear sectoral difference of growth in a more disaggregated sector.

3. Methodology

3.1. Research Methods and Approaches Used

The methodology employed in this research was both qualitative and quantitative methods. The research made use of primary and secondary sources data. The primary data for this study were thus collected using the questionnaires and personal interviews. There were three different sets of questionnaires: the first set for entrepreneurs and the second set for the providers of finance and the third set for Business services providers (BDS). To obtain primary data, both closed and open-ended questionnaires were developed. The open-endedness of some questions in the questionnaires provided ample opportunity and leverage for respondents who wished to elaborate or write at length on some pertinent issues relating to the MSEs. This further served as a means of validating some earlier answered questions and the respondent's consistency also. A few questions were also constructed in order to confirm the validity of the answers to some questions stated earlier in the questionnaire.

The personal interviews represented excellent media for close interaction and rapport between the researcher and the respondents, which enabled the former to elicit more pertinent information and data, which the questionnaire neither captured nor provided for. The personal interviews in addition provided a source of presenting the researcher to the search light of the respondents' personality, composure and psychology and vice versa. This interaction was deeply appreciated by many respondents who lamented that this type of study was long overdue as the government had most of the time paid lip service to the MSE sub-sector. It created a lot of excitement and interest in many of the respondents. The personal interviews also afforded the researcher the flexibility to cater for and appreciate the peculiarities and uniqueness of some of the respondents especially the non-operators of MSEs. The answers obtained from personal interviews also aided the researcher in validating responses. The primary data for this study were thus collected using the questionnaires and personal interviews.

The researcher also relied on secondary data, study of various books, magazines, journals, reports, newspapers and publications on the subject matter and related topics. These sources helped a great deal in providing relevant information and data regarding developments in the MSE sub-sector. The combination of the questionnaire and personal interviews complemented by desk research significantly contributed in ensuring that the researcher got to the root of the determinants of firm growth potential and performance in Oromia. There was however a few participants who though interested in the study confessed that they did not have the time to respond promptly. For this group the researcher invested his time and efforts to be able to collect back the completed questionnaires.

3.2. Sample Size and Sampling Techniques

The researcher adopted all the active MSEs registered with trade and industry whose membership have a regional spread and a strength as the underlying population for this study. In order to cater for those selected respondents who may for one reason or the other, fail to complete and return their questionnaires, from a total of three hundred and thirty 371 planned sample size, 265 valid sample sizes are used for this study. Hence, even though large sample size is essential for in-depth understanding of Micro and Small business growth constraints, the study tried to enhance the quality of the research by conducting in-depth interview and triangulating the result of the survey and interview with secondary data sources.

The sampling methods employed in this study was multi-stage sampling method with its own uniqueness at each level. In Stage one, 4 zones were selected from 18 zones based on the extent of micro and small enterprise activities, and regional representation. The selection of provinces was carried out by weighted probability regarding the number of enterprises in each Zone. In the second stage, 20 woredas and 4 towns from each Zone were selected. That is, from each zone five woredas selected. In this stage the number of enterprises from each category of activities were identified based on previous aforementioned MOTI classifications of micro and small enterprise activities for each woredas.

Finally, in the third stage, 265 respondents were randomly selected from each micro and small enterprise activities base on the stratum's share of the total population to come up with the sample in each stratum. The universe of enterprises covered in these surveys includes micro and small enterprises activities such as manufacturing, Service, Trade and construction. Among the manufacturing sectors, four types or sub sector were purposively chosen based on a combination of high proportionate share and economic importance. These are:

- Textile and Garment,
- Leather and Leather Product,
- Food Processing
- Wood and Metal Products.

No	Zone	Total No. of MSEs	No. of Sampled MSEs
1	East Wallega	937	54
2	Oromia Special Zone Surrounding Fifine	1083	128
3	West Arsi	848	30
4	East Showa	1281	53
	Total	5649	265

Table 2: Distribution of Smes by Area and Sample Size
Source: Oromia SME Agency

Zone	Type of Sub Sector				Total
	Manufacturing	Construction	Services	Trade	
Oromia special Zone	52	28	30	18	128
East Showa	25	12	3	13	53
West Arsi	15	4	3	8	30
East Wollega	17	14	9	14	54
Total	109	58	45	53	265

Table 3: Distribution of Sampled SMES by Area and Sector

3.3. Data Collection and Instruments/Tools Used

For this study, data collection was conducted from the middle of August to September 2010. The primary data was collected by means of a structured questionnaire, which was personally administered by a team of researchers from the unit of research, training and consultancy of public service college of Oromia (PSCO). The instruments used in the data collection include self administered questionnaires, personal interviews and Observation.

The MSEs questionnaire collected information relating to entrepreneur characteristics (age, gender, education, entrepreneurship training), enterprise characteristics (type of ownership, type of industry or sector, age of business, initial and current employment levels, sales and profits, qualitative measures of sales growth), major constraints and problems, source of start-up capital, access to credit facilities, major markets and location of business enterprise. Although the data also covers farm or agricultural enterprises, this study used only data for non-farm business enterprises.

To supplement the primary data, personal observations and informal discussions were also made. Each personal interview also provided an opportunity for the researcher to be exposed to some other perspectives and challenges of the MSEs in Oromia, which the questionnaires did not capture. The researcher believes that the responses, comments and remarks of the MSEs represented in the sample will therefore reflect the true position of all the MSEs in the region. In order to ensure the realization of this objective the researcher had to broaden the respondents in both number, depth of experience and strategic position in the industry through the MSEs and related parties, which he personally interviewed. In this wise, the researcher interviewed the leaders of the various MSE Agency's who were not captured in the sample. Secondary data were also obtained from relevant sources and line-offices working in the area.

3.4. Method of Data Analysis and Model

Based on the objectives of a given study and nature of data available, analysis to be made requires different approaches. There are objectives that require descriptive analysis and others may require econometric models that have

power to estimate relationships and allow verifying or refuting statement of the theory or hypothesis of the problem at hand (Cochran, 1977).

3.4.1. Descriptive Statistics

Descriptive statistics are important tools to prepare and present research results clearly and briefly. They help one to have a clear picture of the characteristics of sample units. By applying descriptive statistics such as mean, standard deviation, percentages, frequency, charts, and graphs, one can compare and contrast different categories of sample units with respect to the desired characters so as to draw some important conclusions. In this study, descriptive statistics were computed along with the econometric models, and organized in a way that allows one to swiftly understand their meanings using STATA tool.

3.4.2. Econometric Model Specification

The research deals with growth potential and identifying the determinant factors of firm's growth. To do this, there is no uniform measurement of growth; different authors use different parameters. Some of the parameters are: number of employees, sales volume, asset, profitability, return on investment, market share, etc. (Davidson et al. 2005).

Measuring firm size in terms of sales, profits or fixed asset other than employment might be appealing, but susceptible to measurement errors. The big challenge facing many MSE's is that the entrepreneurs do not properly keep business records related to their daily business operations due to ignorance, therefore obtaining financial details for sales and profit is uncertain.

Liedholm (2001) argues that using number of employees as unit of measurement for firm's growth is simple because the owners of the enterprises can easily recall the number of employees they had in each period. From the perspective of African countries, the use of employment as the measure of growth is very appropriate and socially relevant. In analyzing employment growth, some researchers choose to use annual compound growth rates or average annual employment growth while others use the rate of total the number of employment change since start up.

Based on a review of the literature pertinent to the measurement of performance, the present study used McPherson (1996) method in which growth in employment is defined as the ratio of the difference in the current employment and the initial employment to the age of business. Age is measured in years from the birth of the firm to the time of the survey. Firm Size is measured in terms of employment, representing the number of regular workers that include all working owners, paid workers, or unpaid workers in the business on a regular basis.

Following McPherson (1996) the firm growth equation that relates firm growth to its initial size and age, and other controls can be specified as:

$$\Delta Ys = \ln Ys_{tc} - \ln Ys_{ti}/Z = \alpha_1 + \beta_1 \ln Ys_{ti} + \beta_2 \ln Z_{Strat,j} + \sum \gamma_i X_i + \mu_i \quad (1)$$

where is YS_{tc} and YS_{ti} represent the firm's current and beginning size respectively, Z denotes age from start up, X indicates other control variables, and μ is the log-normally distributed errors term with mean zero and possibly a non-constant variance. The coefficients for size and age allow testing alternative theories of firm growth, where $\beta_1=0$ implies no dependence of growth on size and evidence for Gibrat's law, where as if $\beta_1 < 0$ and $\beta_2 < 0$ then smaller and younger firms grow faster thus supports the learning model prediction.

Hence, employment growth model based on the ordinary least square regression method is specified as follows:

$$EMPG = \alpha + \beta_1 Z + \beta_2 S + \beta_3 ECR + \beta_4 SEINT + \beta_5 SECT + \epsilon \quad (2)$$

where for enterprise

- EMPG is the performance indicator for enterprise employment growth,
- S represent firm's initial size,
- Z denotes age of the firm from start up,
- ECR is a vector of entrepreneur characteristics including age, gender, education, internal experience, and previous related business experience;
- SEINT is a vector of entrepreneurs' characteristics including start-up capital, access to credit facilities, access to markets, working premises and infrastructural conditions of business enterprise
- SECT is sub sectors such as manufacturing, Construction, service and Trade
- ϵ is the error term.

3.4.3. Description of Variables an Working Hypothesis

3.4.3.1. The Dependent Variables of the Model

The logarithm of Employment Growth (LEGRH): growth in employment is defined as the ratio of the difference in the logarithms of the current employment and the initial employment to the age of business. The average annual growth in jobs since start up which is measured in number of jobs created per firm. Employees in this study include working owners, paid workers, or unpaid workers, full and part-time workers in the business on a regular basis.

3.4.3.2. The Independent Variables of the Model

- The logarithm of the enterprise age (LNAGE): Firm age is defined as the absolute number of years of existence since start-up. We expect these variables to be inversely related with growth consistent with the recent theoretical literature on the size distribution. Younger firms grow faster than those that are relatively older ones.
- The logarithm of the number of persons engaged at start-up(LNSIZE): The initial size of the enterprise measured in the number of employed workers during start up. We expect a negative relationship between the growth of enterprises and the initial size. Smaller sized firms grow faster than their counterparts that are larger.
- Sex of the respondent (GENDER): sex of the respondents, a dummy variable taking the value one if the entrepreneur is male and 0 if female. Female entrepreneurs are more risk averse and are less likely to grow in comparison with their male counterparts
- Age of the respondent (AGE): age of the respondent is a continuous variable measured in years. It is expected that age of the respondent is negatively related to firm's growth
- Previous experience before start up (PREXP): Availability of related work experience of the entrepreneur before start up. The availability of related previous work experience is positively related to firm's growth.
- Internal experience (INEXP): The business experience of the entrepreneur is capture by number of years of internal business experience. The availability of internal work experience is positively related to firm's growth.
- Paid up capital (LCAPT): The amount of paid up capital in Birr during start up. The amount of paid up capital to start the business is positively related with growth of enterprises.
- Access to credit (CRED): Access to credit is captured by a dummy variable on whether credit was obtained to finance the activities of the business. Availability of credit from formal sources like Micro Financing Institutions and banks for the last years at the time of the study. Those enterprises that have access to formal credit are expected to grow than those that have not.
- Education (EDUi): The educational level variables are the human capital determinants. Education is represented by six dummies EDUi (i = 1, 2,3,4,5): no education (illiterate), completed primary education (1-8), completed high school (9-10), completed preparatory (11-12) and completed higher education (BA and above). By incorporating these variables into the model, we would like to test whether the education level of the entrepreneur has an impact on the growth of his/her enterprise. It is expected that human capital is positively relate to firm growth.
- Technical and Vocational Training (TVET): Availability of one or more workers with related vocational training to the functions of the enterprise. It expected that firms with workers with vocational training are expected to grow faster than those who have not.
- Sector (SCTR): The sector dummies manufacturing, construction, Service and Trade are included in the model in order to capture any possible effects on firm growth. Possible effects of operating in the services, construction, manufacturing or the trade sector compared
- Infrastructure (INFR): Availability of infrastructural facilities like power, water, road, telecommunications, and so forth enhance growth of enterprises. (Dummy variable 1 if respondent reports the availability of sufficient infrastructural facilities for the functions of the business and 0 if the respondent reports lack or problem of these facilities to the functions of the business)
- Access to Market (MRKT): access to market which takes value one in case of having any market access is added since access to market may have positive effects on growth in terms of business opportunities which could open up new markets or increase productivity by diversifying production

3.4.4. Description of Variables and Working Hypothesis

3.4.4.1. Dependent Variable: Employment Growth

Explanatory Variables	Variable Code	Mag. Influence/Hypothesis	Types of Variable
Entrepreneur characteristics			
Logarithm of age of the respondent	LNAGE	Positive	Continuous
Gender of the respondents	GNDR	Positive	Continuous
Education			
Illiterate	ILLT	Positive	dummy
Primary education	PRMY	Positive	dummy
High school	HSCL	Positive	dummy
Preparatory school	PREP	Positive	dummy
BA and above	DGRE	Positive	Dummy

Explanatory Variables	Variable Code	Mag. Influence/Hypothesis	Types of Variable
Logarithm of the number of Previous experience (before establishment)	PREXP	Positive	Continuous
Logarithm of the number of internal experience	LNINEXP	Positive	Continuous
Technical & Vocational training (TVET)	TVET	Positive	dummy
Business Characteristics			
Logarithm of firm's initial size	LNFRSZ	Negative	Continuous
Logarithm of the age of the firm	LNFRAGE	Negative	Continuous
Socio economic and institutional determinants			
Logarithm of Initial capital	ICAPL	Positive	Continuous
Access to formal credit	CRDT	Positive	dummy
Own working premise	PREM	Negative	dummy
Access to Infrastructure	BINFR	Negative	dummy
Access to Market	BMRKT	Negative	dummy
Sub sector			
Manufacturing	MNFT	Positive	dummy
Construction	CNST	Positive	dummy
Trade	TRAD	Positive	dummy
Service	SRVE	Positive	dummy

Table 4: Description of Independent Variables Included in the Model

4. Results and Discution

4.1. Characteristics of Entrepreneurs

4.1.1. Distribution of Business Operators by Gender

The share of men business operators is 77.4%, compared with 22.6% who were female. Contrary to the situation in other developing countries of Africa and Latin America where large numbers of MSEs are owned and operated by women, our results show that, very small business operators are women. This shows that female participation in business activity in Oromia was low. With regard to sub sector the share of female participation was high in trade sector (8.3%). The share of men entrepreneurs is proportionately higher in manufacturing and construction while female participation is high in-service sector. Accordingly, our findings show that there is a huge gender difference among the entrepreneurs of the MSEs in favour of men.

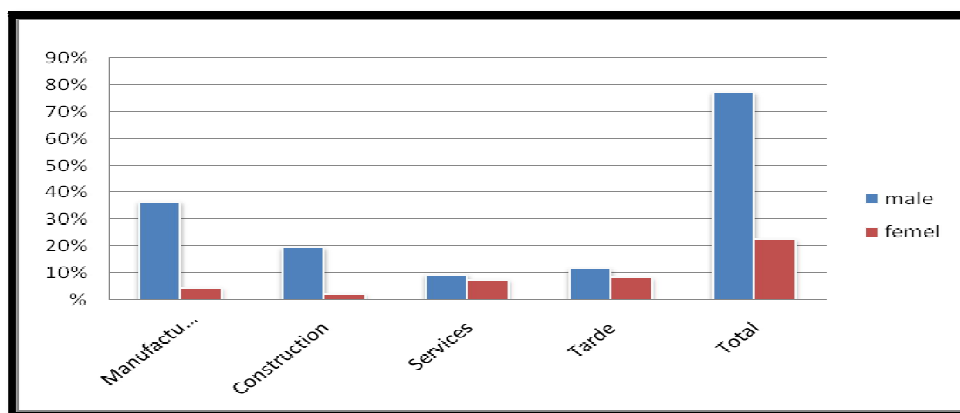


Figure 2: Distribution of Business Operators by Gender a Sub Sector

4.1.2. Age of the Business Operators

The distribution of the business operators in terms of age shows that the average age of a business operators/mangers is 29.2 years old. About 56.2% of the respondents is in the prime age group (15-29 years) (Figure 3). According to our findings, most of the business operators are potentially of an age where they are economically active. And also, likely to be involved in undertaking responsibilities. The predominance of business operators in the age group 15 to 29

could be due to a number of things: lack of alternative employment opportunities in the formal employment sectors; the need to generate income either as the primary earner for the household or in a supplementary role, or simply the wish to own their own business.

Our findings also show that business operators above the age of 60 years constitute only 1.5% of the total respondents. Low percentage of older workers hold for all economic sectors, only the manufacturing sector has a relatively older workforce (7.1%) compared to other sectors. Even though our observations on site indicated a relatively high rate of child labour, the results of the survey show that only 0.8% of the workforce is less than 15 years of age.

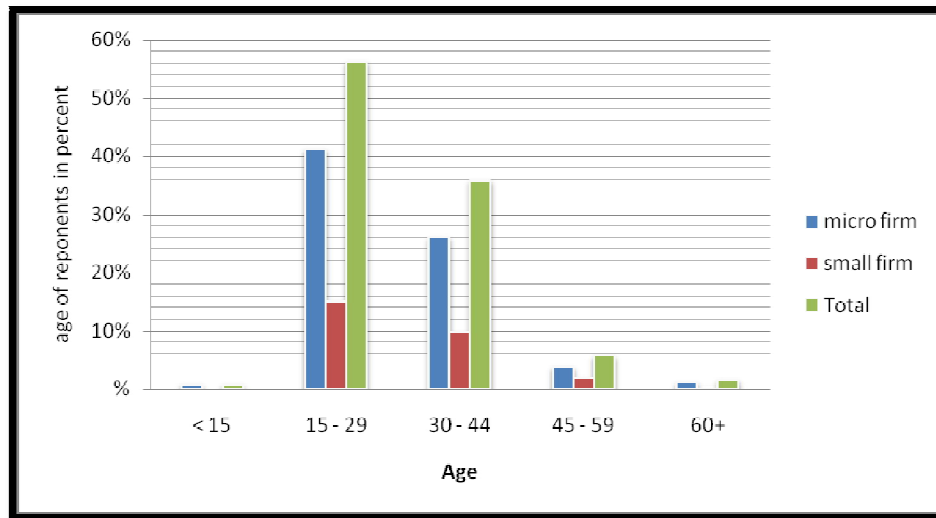


Figure 3: Distribution of Respondents by Age and Firm Size

4.1.3. Educational Level of Operators/Managers

The majority (33.7 per cent) of business operators were completed high school (9-10, of which that 9.9 per cent of microenterprise operators, and 23.8 per cent of small enterprise operators. Entrepreneurs of micro category are less educated than those of small enterprises. The result of the survey also showed business operators with 19.8 per cent and 23.8 per cent having received primary and preparatory education respectively. The rest (0.5 per cent) of the business operators were illiterate. Only 3.5 percent of business operators having receive BA and above qualification.

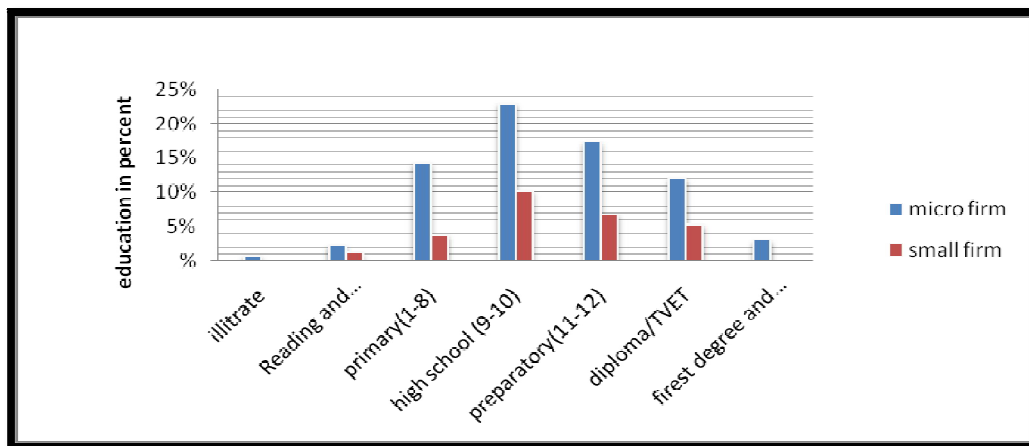


Figure 4: Education of the Entrepreneurs by Economic Activity and Size of the Enterprise

The entrepreneurs were also asked if they had one or more workers who received formal technical or vocational education relate to their current activity. According to our findings, only 15.9% operators had formal technical or vocational education. According to key informant interview some respondents considered professional training as very important for the performance of enterprise. They believe that their lack of professional training is a significant deficiency for their enterprises. The deficiencies of those employees were fulfilled through on-the-job training.

According to key informants, the need for on-the-job training is more expressed by the entrepreneurs in the manufacturing sector compared to the ones in the trade and service sectors. Some of the enterprises in the trade and service sectors stated that there is no need for qualified personnel in their branches of business. But nonetheless they believe that qualified personnel would be needed as the enterprise develop.

4.1.4. Entrepreneur Business Experience

The entrepreneurs were also asked if they had any prior work experience related to their business before starting it. The result of the study shows that 22 % of business operators had substantial work experience relating to their business prior to start-up while (78 per cent) the respondents 'just started' with no prior experience at all. The average years of experience relating to their business prior to start-up is 3 years. Those with experience had gained it from a number of different sources. Interestingly, the majority of the entrepreneur had gained experience from running other people's business and the rest gaining experience through involvement in a family business. Our finding shows that, most of the youth who are candidates to run the business have already started working business without any training prior to start up business.

4.2. Characteristics of MESS

4.2.1. MSEs Distribution by Size and Business Activity

As noted in the literature the sample of businesses operators was categorize as micro and small-sized businesses base on the MOTI definition indicate in the review literature. The survey result shows that 193 (72.8 per cent) running microenterprises (with 1-5 employees) while 72 (27.2per cent) running small enterprises (with more than 6 employees). Fig 5 shows that over (37%) of the sample MSEs are engaged in manufacturing activities, while 20% are involved in trading sector. The share of cafeteria/restaurants and other services are 7% and 10% respectively. While the share of the manufacturing sector increases with size, the share of the trade sector falls. Most of the enterprises engaged in the trade sector are small retail shops with customers from their closest neighborhoods. Trading businesses usually require the least capital and business know-how to start up, and therefore are attractive as "easy entry" and lower risk activities.

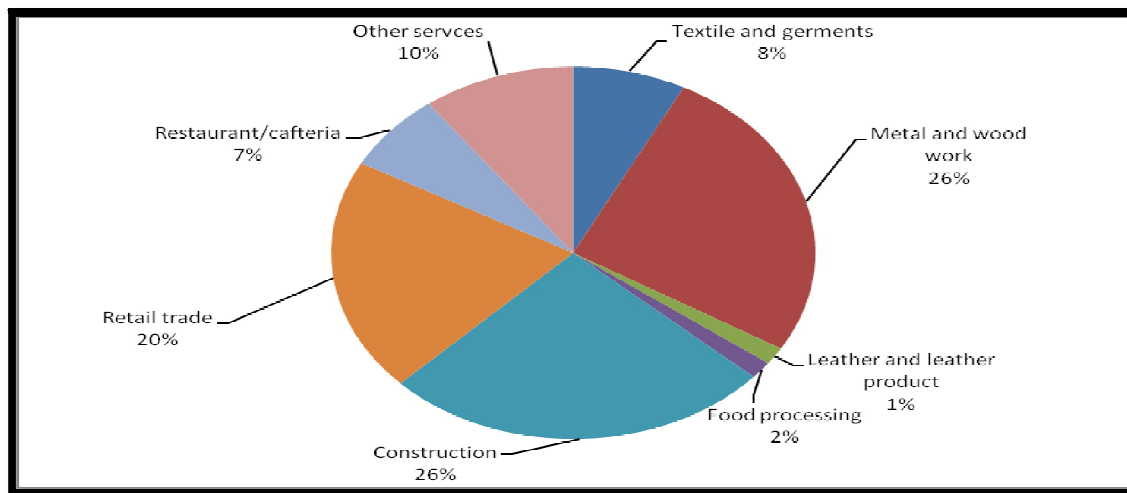


Figure 5: Distribution of Enterprise by Business Activity

4.2.2. Location and Ownership of Working Premise

Most enterprises do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, and small enterprises who aspire to start up businesses.

As noted in Figure 6, the majority of entrepreneurs do not own their own working premises. A large proportion of business operators (86.8%) carry out their activities in rented premises by paying very high rent. A further examination reveals that most entrepreneurs in microenterprises (30.6%) operate from rented premises, while entrepreneur in small enterprises operating from rented premises account for about 11.7% per cent.

The majority of working shade and lock-up "container" provide by government is for trade sector, followed by manufacturing sectors as cluster. Though the government provide working shade and containers for enterprises, the Issues such as rental levels, terms of the lease, physical conditions and location are all likely contribute to a range of premises-related constraints. This finding shows that although the business operators reported that the government are trying to find temporary solutions to the problem of working space, the issue of lack of working premise remains a constraint to many at start-up and as a factor inhibiting further growth.

In providing working premise or lock-up “containers” there were high corruption observed by government officials, in which the key market area premises are owned by officials. According to the key informants interview the government officials took government shade and containers by organizing their relatives and family’s and by organizing cooperatives of nonexistent and sold it to others or rented it. This was highly observed in Sebeta, Sheshamene and Adama town.

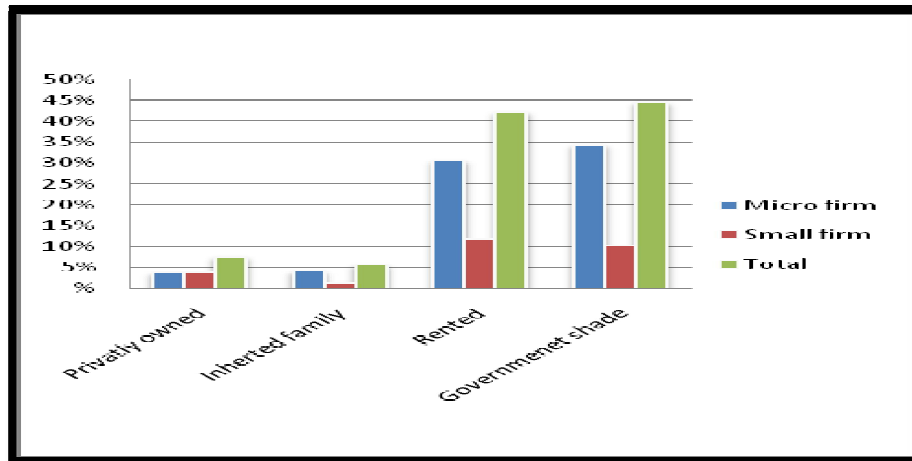


Figure 6: Location of the Businesses

4.2.3. Initial/Investment Capital

The entrepreneurs required a wide range of differing levels of capital to establish their businesses. About (67.2 %) of the entrepreneurs running businesses stated that they had required between birr 1000-37315 to set up their businesses, whereas about 24.5% of enterprises had invested between less than birr 1000 to start their activities. A very small number of both enterprise (0.8%) had invested over Birr 109,948 to set up their businesses.

Similarly, 49.4% of the entrepreneurs engaged in micro small-scale and (17.7%) small enterprise required between Birr1000-37315 to establish their enterprises, whereas a smaller number (about 18.1%) of micro enterprise had invested below Birr 1,000 to set up their businesses. The survey result also shows that the average startup capital of enterprises was birr 10109.5 and a maximum of birr146264.

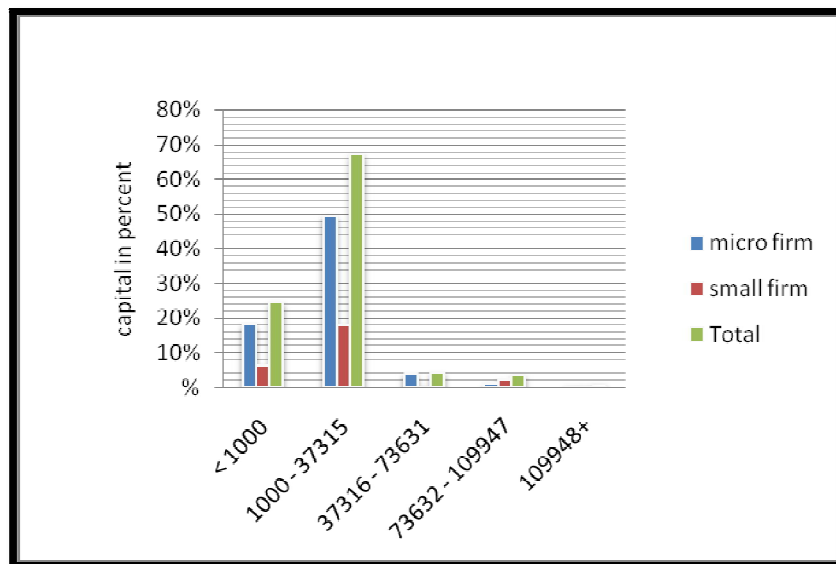


Figure 7: Costs of Establishing the Business in Ethiopian Birr

Looking at the relative amounts of investment in the different sectors within the survey, it is evident that higher capital outlays were required in the manufacturing activity and service compared to another sector. This is because manufacturing and service sector activities usually require more machinery, equipment, tools, materials and facilities, which imply larger investment outlays compared to trading activities.

4.2.4. Access to Credit

The main sources of start-up capital for entrepreneurs, as indicate in figure 7 in the survey included personal savings (53.6%), followed by friends and relatives (20.8). Only 15.5 percent of the business enterprise obtain loan from MFIs while very small (0.5 per cent) of the entrepreneurs surveyed micro category obtained bank loans to start their businesses. The rest 3.8% obtain startup capital from Non-Government Organizations (NGOs) as revolving Fund. When one considers the situation on the basis of the categories of micro and small enterprises, the same pattern appears to apply with only a slight difference in the percentages.

According to our finding most entrepreneurs reported that they did not consider MFIs relevant for their purposes, which is likely to be due to the smaller loan sizes offered by the MFIs. This is also corroborated by the findings of several reports reviewed in the secondary research phase, showing that entrepreneurs running small-scale enterprises were not keen to get loans from MFIs due to their low loan ceiling, lengthy loan procedures and high interest rate. According to Wole (2004) the high rate of interest which is higher than the lending rate of formal banks and the small size of the loan inhibit their effectiveness in addressing the financial needs of MSEs

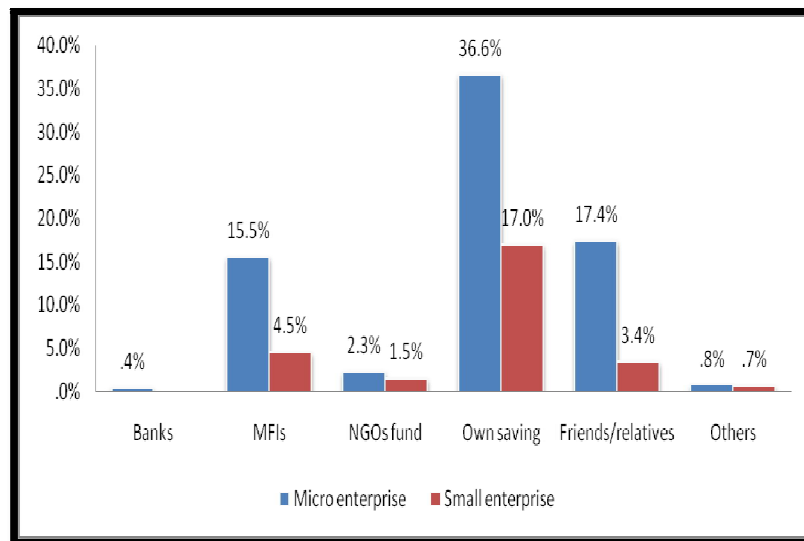


Figure 8: Source of Startup Capital by Firm Size

Access to institutional credit is also limited in Ethiopia although there is a vast demand for MSE financing. Start-up enterprises are often undercapitalized, which is a serious constraint to their further development and growth. Entrepreneurs often start a business with their own money or money borrowed from family and friends with limited access to other forms of credit. Therefore, the tendency is for them to start tiny and remain at that level.

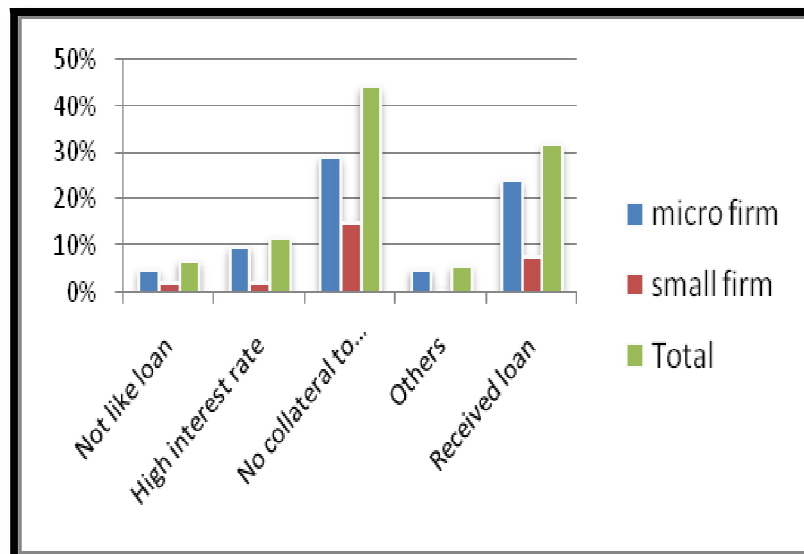


Figure 9 Reasons for Not Obtaining Credit

The survey result shows that enterprise ever applied to borrow money from bank/MFIs was 57%. The rest 43% did not apply to borrow many from bank/MFIs. According to the respondents, the most important reason why they did not apply for credit in the formal financial markets is due to the high collateral requirement which is beyond they could afford (44.2), high interest rate (11.7%) and 6.8% of them responded that they did not want to incur credit for any reason. Micro finances institutions such as Oromia Saving and Credit, Busa Gonofa MFI, Wasasa MFI and Gesha MFI were approached by the researcher and informal interviews were conducted with the appropriate officers about the provision of credit. The interview indicates that MFIs usually have similar kind of interest rates fixed by the National Bank of Ethiopia. For a given credit with a year repayment period it is 7.5%, for two years it is 8.0%, for three years it is 8.5%, for four years it is 9%, and for five years, it is 10%. However, some MFIs charge interest rate ranging from 10-25%.

The collateral required varies in response to the amount of credit one applies for. It commonly involves fixed assets like own living residence house within in the master plan, own working premises, warehouses, cars and availability of track record of business which promises business accomplishment. The major difficulty for entrepreneurs, especially for micro enterprise, is access to credit because of the collateral requirement by financial institutions. To solve this problem, MFIs gives microfinance services to enterprise through the established cooperatives without any collateral need.

This study also gathered data about how much money the firm borrowed in the last 12 months and is presented in Figure 10. Out of the total respondents, about 41.5% of enterprise borrowed money in the last 12 months. An average of 19,573 Ethiopian Birr (ETB) and a maximum of 175,000 ETB was borrowed. The total amount of money taken by the sampled respondents was 5,186,950 ETB.

The largest group of enterprise (19.5%) borrowed money up to 1000 ETB. This is the amount of money lent to the fourth level borrowers, according to the rule of cooperative. Enterprises who borrowed more than 100,000 ETB are 1.5% of the total sampled entrepreneurs. In order to get the upper limit of the money for each level, the enterprise have to be actively engaged in their enterprises, return the money they borrowed before the due date, and have enough money in their savings account. If they do not fulfill these criteria, the amount of money lent to them will be reduced

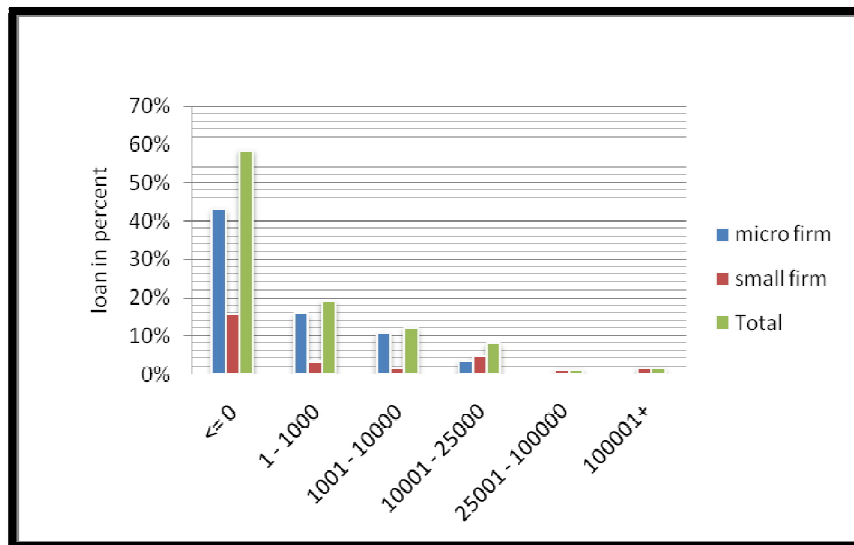


Figure 10: Amount Borrowed and Utilized Proportion by the Respondents

To better understand whether access to credit is based on enterprise need to grow their enterprises, the loan sanctioned to enterprises, according to their requirement as well as their loan utilization, was collected. From the total enterprise that borrowed money in the last 12 months, almost 70% of them used all the money they borrowed to expand or grow their businesses. In some cases, some of the enterprise used the money to solve personal problems. Many of the participants stated that in addition to the higher inflation rate in the country, the money they are allowed to borrow from the financial institutions is less than they requested, which is not enough for their enterprise growth.

In case of enough loan access, about 85.4% of the enterprise respond that the loan they received was not enough for the growth of their enterprises, since the money permitted by the cooperative is less than they requested. This is because of the amount of credit given to the enterprise is determined by the amount of money in their savings deposit they have in the financial institutions.

4.3. Challenges of Micro and Small Enterprises

Business operators were also asked to identify the most constraining problem that made entry and growth difficult. About 12 constraints were identified and ranked such as market constraints, finance constraints, raw material constraints,

tools/machineries constraints, government regulation, work premise constraints, infrastructure/utilities constraints, human resource constraints, transport constraints and competition.

As it is indicated in the table 5, the most constraining factors faced by operators include financial constraints 104 (39.2%), market constraints 80(30.2%), working premises constraints 28(10.6%), rules and regulatory constraints 10 (3.8%) followed by infrastructure constraints 9 (3.4%).

Type of Constraints	Frequency of Respondents	
	No.	%
Finance constraints	104	39.2
Market constraints	80	30.2
Raw material constraints	6	2.3
Tools/machineries constraints	8	3.0
Government regulation constraints	10	3.8
Location/premise problem	28	10.6
Infrastructure/utilities constraints	9	3.4
Human resources constraints	2	.8
Transport constraints	2	.8
Competition constraints	3	1.1
Management constraints	4	1.5
Technology constraints	7	2.8
Total	265	100.0

Table 5: Major Constraints Faced by Firms

4.4. MSEs' Contribution to Job Creation and Growth

4.4.1. Total Number of Employment Created Since Start Up

At the beginning of firm establishment, the surveyed enterprises created an employment for a total of 1856 persons. Out of this, about 1527(82.3%) of the job is created within the employment category of 3-5 persons. The other 206 (11.1%) of the jobs were created by enterprises in which each had created an employment between 6-30 persons. Currently, the total number of persons employed in the surveyed enterprises is 1873.

We next look at the dynamics of the establishments in terms of employment expansion. Table 6 reports the employment at start, current employment, and growth by different categories. In terms of the employment profile of the enterprises, the survey results show that the average employment size of enterprises is 3.5 persons. These figures are higher than those found in the two CSA surveys conducted on handicraft and manufacturing industries, and the study on the informal sector in all the major towns of the country. According to these surveys (CSA, 1997), "small enterprises" employ three persons on average.

Firm Size	Number of Firms	Employment at Start	Employment Now	Total Growth (%)	Annual Average Growth (%)
<3	14	25	36	11	4
3- 5	241	1527	1571	44	15
6-30	8	206	195	-11	-4
30+	2	98	71	-27	-9
Total	265	1856	1873	17	3.7

Table 6: Employment Growth by Size of Firm

The maximum total employment growth rate is 17% while that of the average annual growth rate since startup (which is obtained by dividing the growth of employment of each firm to the number of years in business) is 3.7%. The average annual growth rates since start up indicate that overall growth performance is less compared to other developing country experiences on the same growth measures. This growth rate is comparable to MSEs employment growth in four African countries, except Kenya and Malawi. The annual average growth of employment since the start for Botswana, Lesotho, Swaziland, and Zimbabwe were 8.4%, 5.9%, 6.6% and 7.4% respectively (Liedholm and Mead 1999).

Business Activity	Number of Firms	Employment at Start	Employment Now	Total Growth (%)	Average Growth (%)
Textile and garment	20	93	91	-2	-0.7
Metal and wood work	69	511	416	-95	-31.7
Leather and leather product	4	16	16	0	0
Food processing	4	52	52	0	0
Construction	69	622	804	82	60.7
Retail trade	54	274	276	2	0.7
Restaurant/cafeteria	18	140	100	-40	-13.3
other services	27	148	118	-30	-10
Total	265	1856	1873	17	3.7

Table 7: Employment Growth by Sub Sector

4.4.2. Transition of Enterprise from One to another Size Class

The next obvious question is that how many of the businesses are able to transit from one to another size class in either direction. Based on the initial size category when start business we calculated percentage of firms that able to transit to other size category at the end of the period. Of course, there is one limitation to this approach because of the fact that there is a difference in starting year among the firms in concern. Table 8 gives the transition of the establishments across size classes from start to the current period. The four categories are less than 3 worker, 3-5 workers, 6-30 and above 30 workers. In general, most of the firms, i.e. about 77.2%, did not change their size category in the given time period. However, a large number of worker less than 3 businesses have increased their size, i.e. about 4% of less than three-worker establishments at start grew to the next size class (3-5). About 1.7% of the micro-firms with 3-5 workers at start have also evolved to the small firm category with 6-30 workers at the end of the period. A downsizing of about 19.3% has been also observed among the small firms.

Size category at start	Size Category 2002				Total
	< 3 workers	3-5 workers	6 – 30 workers	30+ workers	
< 3 workers	12	2	0	0	14
	85.7%	14.3%	0%	0%	
3 - 5 workers	7	229	4	1	241
	2.9%	95%	1.7%	0.4%	
6 - 30 workers	0	3	3	2	8
	0%	37.5%	37.5%	25%	
30+ workers	0	0	1	1	2
	0%	0%	50%	50%	
Total	19	234	8	4	265
	7.2%	88.3%	3%	1.5%	

Table 8: Transition across Different Size Categories

A small number of MSEs fell into the category of "small" (with 6-30 employees); these small firms accounted for 3 % of total MSE employment. This comprises the "missing middle" of the MSE sector, both in terms of numbers of enterprises and their contribution to employment. The challenge for the Oromia government is to increase the proportion (in terms of percentage points) of MSEs that grow to the next employment size.

4.5. Econometric Results of MSE Growth Determinants

This part deals with identification of the growth determinant factors of firm growth in employment. The multiple linear regression analysis was used to examine the relationship between the growth of SMEs in terms of employment using the average annual employment growth rate as a measure and several explanatory variables such as gender, age of entrepreneur, level of education of operators, availability previous related work experience, age of firm, number of employees at start up, initial capital, availability of credit, formal vocational training, infrastructure facilities, rules and regulation, access to market, working premises an sector.

All the hypothesized explanatory variables were checked for the existence of Autocorrelation, Heteroscedasticity and Normality test and no problem observed. Once the decision is made about the variables to be included in the model, the data was entered and analyses were carried out using STATA by using the OLS method of estimation to derive the parameter estimates of the model. The result of OLS estimation is presented in table 4.15.

LNEMP	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
LNFRSZ	-0.3649924	0.0614849	-5.94	0.000***	-0.486698	-0.2432868
LNFACE	1.625209	0.1221315	13.31	0.000***	1.383457	1.866961
LNAGE	0.0987224	0.139604	0.71	0.481	-0.1776153	0.37506
CRDT	-0.056222	0.0791379	-0.71	0.479	-0.2128706	0.1004266
INFR	-0.1670599	0.0952378	-1.75	0.082*	-0.3555773	0.0214575
PRMS	-0.1436871	0.0836102	-1.72	0.028**	-0.3091883	0.0218142
MRKT	-0.0110447	0.0861742	-0.13	0.898	-0.1816212	0.1595318
ICPTL	0.0000589	0.0000135	4.37	0.000***	0.0000322	0.0000855
PREXP	-0.0927689	0.0928667	-1.00	0.320	-0.2765928	0.091055
LNINEXP	0.1355782	0.0794292	1.71	0.090*	-0.0216471	0.2928034
DGRE	0.3371872	0.3471937	0.97	0.333	-0.3500614	1.024436
PREP	0.1917876	0.2505698	0.77	0.445	-0.3042	0.6877753
HSCL	0.3364572	0.2504679	1.34	0.082*	-0.1593287	0.832243
PRMY	0.2855666	0.2594501	1.1	0.273	-0.2279989	0.7991321
ILLT	0.3209942	0.2882967	1.11	0.268	-0.2496715	0.8916599
TVET	0.1588691	0.2540959	0.63	0.533	-0.3440981	0.6618363
GNDR	0.0351821	0.1064017	0.33	0.741	-0.1754335	0.2457977
SERV	0.0862184	0.1331729	0.65	0.519	-0.1773892	0.349826
TRDE	0.0844538	0.1364049	0.62	0.537	-0.1855513	0.354459
MNFC	0.2074017	0.1098418	1.89	0.061*	-0.0100234	0.4248267
_cons	-1.946688	0.660593	-2.95	0.004	-3.254291	-0.6390845
F(23, 123)	= 11.24					
Prob > F	= 0.0000					
R-squared	= 0.6776					
Adj R-squared	= 0.6173					

Table 9: Results of the Employment Growth Using OLS Regression Model
Dependent Variable: Employment Growth Rate

* Significant at 1% Significance Level

** Significant at 5% Significance Level

*** Significant at 10% Significance Level

The result of the analysis presented in table 9 shows that firm age, firm size, initial capital, internal experience, high school education, manufacturing sector, working premise and access to infrastructure variables were found to be significant. The detail analysis of the variables is presented as follows.

4.5.1. Age of Firm

Age of firm is statistically significant at 1% significance level and positive, indicating a strong direct relationship between firm age and growth. Thus, the older the firms are the more likely they grow fast. This result was consistent with the work of Stager (2000) and found that a positive relationship between firm age and growth, older business was operate more economically and efficiently than recently established one. In case of Oromia, the result of the positive relationship is not as expected. However, older businesses tend to established good network, goo reputation in selected market and financial institutions. Moreover, older firms seem to be bigger in terms of numbers of employees and capital asset.

The study by Jovanovic's (1982) is not support this finding. Jovanovic proposes a learning model in which a firm expands quickly at first, and then tapers off its growth as it approaches its optimal size. Other studies suggest that the average growth rate of firms decreases with age (Burki & Terrell, 1998). In reality, a firm's growth rate is likely to fluctuate as it has both positive (learning-by-doing, increases in productivity) and negative (crises, decreases in productivity) experiences during its lifetime.

4.5.2. Initial Size of a Firm

Initial size of a firm is also found to be important in explaining growth. The variable is statistically significant at 1% level and negative, revealing strong inverse relationship between initial size and growth. The smaller enterprises at start up thus register high growth rates than their larger counterparts. This is because younger firms need to rapidly achieve the minimum efficient size. Similar findings are also reported by other researchers (Liedholm and Mead 1999, Liedholm 2001).

This finding contrasts the theoretical underpinning of Gibrat's law, which contends that firm growth is independent of firm size. This finding is also contrasts to Van Biesbek (2005) and McMahon (2001) who argue that there is positive relationship between firm growth rate and firm size.

4.5.3. Initial Capital

Our finding shows that initial capital is significant at 5% significance level and positive. The association of low startup capital with growth suggests that growing firms are not capital intensive at least at the early years of their establishment.

4.5.4. Technical Vocational Training

Formal vocational training of business operators did not significantly affect enterprise growth. This is consistent with Gebreyesus (2007) in which vocational training was not a significant factor for a firm's growth in Ethiopia. This is a powerful finding for those concerned with vocational training providers.

4.5.5. Previous Related Experience

The availability of previous related experience that firm owners may have acquired prior to starting up their business does not seem to influence growth of enterprises and negative, even though, other researchers have found evidence that entrepreneurs whose prior work experience is outside the firm's industry are more successful at raising growth (USAID 2002). According to Mead and Liedholm (1998) and Parker (1995) the growth of firms owned by people who have pre-establishment experience was better than firms owned by entrepreneurs who had no pre-establishment experience.

4.5.6. Internal Experience

Internal work experience of the business is significant at 1 % level and positive. Work experience may contribute to MSE growth in at least two ways: directly, by expanding the capabilities of MSE owners and employees through the acquisition of skills and knowledge; and indirectly, by expanding entrepreneurs' social networks. This finding shows that while the benefits of prior work experience are frequently mentioned, the importance of on-the-job experience may be even more helpful, especially if that experience occurred within the same sector.

4.5.7. Education

Education is not found influential to firm growth; but some education levels, high school education, were found to be significantly affect firm growth at 10% significant level. This finding is associate with internal experience of entrepreneurs. This finding is consistent with McPherson (1996) found that completion of high school positively affects MSEs growth in Zimbabwe and Botswana but not significant in Swaziland. Parker (1995) also found positive effect of high school completion on firm growth in Kenya. Small firms who owned by highly educated persons do not grow because the workers divert their attention to other attractive business opportunities like looking for paid jobs. This finding is loosely related to the findings of the authors Kantis, Angellini and Koeng (2004) who also argue that tertiary education is better in facilitating firm growth.

4.5.8. Sector

The growth of firms is also affected by the sector in which the business operates. Manufacturing sector is positively affect firm growth potential and performance at 10% significant level. Firms in manufacturing were growing faster than those in service and trade sector as it is growth-oriented sector

4.5.9. Gender and Age

Growth of firm were not differed systematically by the owner gender of the operators. The findings suggest that gender of the operators is not associated with firm's growth potential and performance. The same is true for entrepreneur age. Age of entrepreneur is not statistically significant. Age of entrepreneur didn't show any differences when investment decisions or undertaking risks are concerned.

4.5.10. Access to Credit

Access to formal source of credit such as, from banks and MFIs is no significant, implying that banks and MFIs do not seem to support MSEs expansion. This is mainly because; those enterprises which secured credit according to the descriptive result were very small in proportion in the first place. Secondly, among those who have secured credit, the majority reported that credit was insignificant. According to Nelson (1987), simply credit availability will not result in a significant growth if the other factors necessary to encourage this growth are absent. Such factors include business development services (BDS), adequate infrastructure and other resources at competitive prices.

4.5.11. Access to Infrastructure

In addition, small firm growth rates which have sufficient infrastructural facilities have shown significant at 5% significance level. The importance of infrastructural facilities for the manufacturing sector is worth considering for policy makers as a positive knock on effect for small manufacturing enterprises.

4.5.12. Availability of Own Premise

The availability of own premise is found to be a significant variable at 10% significance level. This shows that business operators that secure own working place and buildings are in a better position to plan with greater certainty and stand a better chance of accessing the needed infrastructure and in doing so will enhance the growth of such enterprises.

In summary, the multiple linear econometric analysis has revealed that several key variables are affect firm growth potential and performance in Oromia. Enterprise growth potential and performance in most cases is inversely related to initial size, infrastructure facility and availability of own working premises. In addition, other significant variables like firm age, internal experience, high school education, manufacturing sector and initial capital of the enterprise are positively related to firm growth potential and performance in Oromia while growth is being measured by changes in firm's employment level.

5. Summary, Conclusions and Recommendations

5.1 Summary and Conclusions

This study aimed at investigating determinants factors of MSEs growth potential and performance. The key determinants of growth and particularly employment expansion among enterprises., based on a survey consisting 265 randomly selected businesses in Oromia. The survey covers wide variety of activities trade, service, construction and manufacturing. Analysis was done using both descriptive statistics including tools such as frequency distribution and a multiple linear regression analysis to identify the socio economic and institutional determinants of employment growth of small enterprises.

The descriptive statistics the result indicated that business operators perceive lack of finance to be the most constraining factor. For most small enterprises, the formal financial markets are not accessible because of limited collateral and lack of business record of accomplishment. In addition to highly valued collateral, the interest rate charged to businesses is very high often ranging from 10% to 25%. The sources of finance for the start up of their business were personal saving and family assistance. Their constraints at the time of startup were lack of sufficient capital. Lack of sufficient capital partly emanates from a knowledge gap and appropriate business promotion that can be supported with reliable and supportive credit scheme.

In terms of the employment expansion of the enterprises, the survey results show that the average employment size of enterprises is 3.5 persons. The maximum total employment growth rate is 17% while that of the average annual growth rate since startup (which is obtained by dividing the growth of employment of each firm to the number of years in business) is 3.7%. The average annual growth rates since start up indicate that overall growth performance is less compared to other developing country experiences on the same growth measures.

We have also examined the mobility of firms across size groups, in four size classes. Most of the enterprises are stagnant, even if the average annual growth rate of the businesses is comparable to other developing country experiences. Only 21.9% of the MSEs added workers. The majority of the MSEs in the study did not grow at all since startup. it is not materially possible for them to save part of their meagre profits to re-invest in the business.

Hence, survivalist enterprises may take decades to add extra labour to their business, if they do that at all. In contrast, growth-oriented entrepreneurs with the potential to graduate create jobs already in the initial stages of the firm (Mead, 1994). Growth is not an aim that their owners are interested in and, in fact, when the businesses are successful enough to be able to grow, they still prefer to use the extra income for other household needs. They basically have not search or build a different market positioning and normally have restricted access to infrastructure and basic services such as training and credit.

The econometric results show that start up size of enterprises are negatively and significantly related with growth of enterprises at 1% significance level. The relationship between expansion and the age of the firm is also significant. At any given year, younger firms are like to show higher rates of growth than those that had been in existence for a longer period without expanding. In other words, the longer they stay in the market without growing, the lower the chances that they will ever grow. Moreover, the age of the firm was found to influence employment growth of enterprises positively at 1 % significance level.

The main factors that often influence access to finance are firm size - larger firms have greater access to finance and firm age – older firms are more likely to access bank financing than younger firms. This suggests that younger, smaller, locally owned firms with poor documentation would not easily have access to bank financing.

The availability of own premise is found to be a significant variable at 10% significance level. Most enterprises do not get access to suitable locations where they can get easy access to markets. Although the business operators reported that the government are trying to find temporary solutions to the problem of working space, the issue of lack of working premise remains a constraint to many at start-up and as a factor inhibiting further growth.

The extent of availability of infrastructural facilities were found to influence employment growth of enterprises positively at 5 % significance level. The availability of own premise and the availability of expensed workers who have had an internal experience are positively related with growth of enterprises in Oromia at 10% significance level.

In relation to education, high school educations are positively related with growth of enterprises in Oromia at 10% significance level. They usually had internal industry experience usually with micro enterprises and some essential technical knowledge.

In addition, the majority of the enterprises that supply higher earnings were owned by more educated managers (Mead, 1999). However, the evidence is not conclusive on whether providing basic training to all micro and small entrepreneurs necessarily improves the chances of graduation of their firms. The completion of primary school was unrelated to enterprise growth. That owners that had completed high school were better able to find a smoother growth path than those with less education.

Entrepreneurial attitudes are more difficult to measure and detect, but it is of a high relevance. According to key informants from MSE development agency It was found in grounded fieldwork that growth-oriented entrepreneurs sought new opportunities in high value areas. The more successful entrepreneurs not only hope for growth but design ways to achieve it, following a profit-oriented diversification strategy. Growth-oriented entrepreneurs no longer see security as the main goal but prefer to build on adding value.

5.2. Recommendations and Policy Implications

The findings of this study have important implications for interventions designed to enhance the growth and expansion of SMEs in Oromia and as well with in Ethiopia. Since the creation of new jobs depends on the growth of enterprises, a concerted attention should be given to those factors that influence growth of enterprises. Such factors are identified and are reported in the results and discussion of the study. There is the urgent and awful need for the government to restore the SME sector of the economy in order to redress the growing unemployment rate in the country, reduce poverty level, enhance standard of living and stimulate economic growth and development. One can see from the econometric and descriptive results that availability of infrastructural facilities, initial size, availability of own working premises, firm age, internal experience, high school education, manufacturing sector and initial capital significantly influence the growth of SMEs in Oromia.

Based on the findings of the research, the following recommendations are made:

- Even though gender variables in econometric analysis is not show any difference between male and female enterprises performance and growth, the descriptive analysis result indicate that female participation in business activity was low. Therefore, to reduce the gap, the government should encourage the participation of females in business activity through awareness creation means like training, access to credit facilities, access to information and access to working premises in order to insure economic benefits of females.
- Therefore, to reduce the gap, the government encourages the recruitment of females to the work force and a number of procedures have been brought forward by the government to reduce the gap between female and male employees. Affirmative action for female should be implemented to ensure equal access of job opportunity and enable female employee more decision maker.
- The reliability and affordability of electricity supply, state of the roads and coverage of communication services continue to pose challenges to MSEs in Oromia. Hence, policy makers and stakeholders should promote and facilitate the growth of SMEs by accessing necessary infrastructural facilities. This is also in line with the FDRE government recent industry development strategy. Therefore, the federal as well as the local government should take practical initiative to access infrastructural facilities such as water, electric power, telecommunications and road networks especially for manufacturing sector.
- Most enterprises do not get access to suitable working premises and locations where they can get easy access to markets. It is necessary for Oromia Regional Government to allocate working premises to SMEs wherever possible. The study has indicated that serving businesses with industrial land or working space is one feasible area of intervention to sustain the growth of enterprises.
- The government in partnership with the stockholder should also set up industrial clusters in appropriate locations, which have comparative advantages especially for manufacturing sector (that have comparative advantage) such as textile and garment, leather and leather product, food processing and wood and metal products. These clusters should have common sharing facilities for SMEs in the same or similar lines of business. Businesses working in clusters are better able to address supply and demand constraints and remove inefficiencies in the value chain.
- The government should provide business envelopment services for MSEs in order to play a role in employment creation, income distribution, poverty reduction and economic growth. The government should create an enabling environment that is appreciably devoid of corruption and bureaucracy, and at the same time, motivating and entrepreneurially friendly. Thus, the government should continue to vigorously tackle corruption and bribery and institutionalize transparency, accountability and due process in the conduct of government business.

- Micro and Small enterprises require educated, well trained, and technologically skilled work force. Some education levels, high school, were found to be significantly affect firm growth. This finding is associate with internal experience of entrepreneurs. Enterprises should tackle this problem by liaising with vocational training institutions. On the other hand; expanding vocational training institutions should be given and increased attention on the part of policy makers as a strategy of supporting businesses through a skilled labor supply and on job training
- For most small enterprises, the formal financial markets are not accessible because of limited collateral and lack of business record of accomplishment. In addition to highly valued collateral, the interest rate charged to businesses is very high often ranging from 10% to 13% as compared to the Prime Rate charged by the central bank. The interest rate charged by MFIs should be minimized to the level that covered Administrative costs. This will help to reduce the respective MSEs' cost and make them to grow.
- In case of the loan accessed by MSEs the amount received was not enough to expand their business, since the money permitted by the cooperative is less than they requested. Thus, the government should accelerate the pace of financial reforms to improve the range and availability of loans and other financial services for MSEs. The government should also mobilize saving from MSEs to make the loan size ceiling flexible.
- Access to reliable, up-to-date information to enable selection of target markets, product development, packaging, distribution and sales promotion is an important contributor to business success. Thus, the MSE Agency should provide managerial and technical advice, information and training services to existing and prospective entrepreneurs.
- Most of all, experience shows that people best help themselves. This is true for the SME sector. Rather than spoon-feeding them with outside intervention, they should be encouraged and enabled to organize themselves to demand the services and policies they need through active participation.
- Above all, the government and stakeholders should have the political will to effectively and efficiently implement the above recommended measures in order to achieve the desired results for as long as the status quo remains we cannot achieve or expect any improvement in the crucial SME sector. If we want a change in the status quo as it relates to our SMEs, we must change the way and manner we manage affairs relating to SMEs.

5.3. Recommendation for Further Research

Further work is, however, required to capture the effects of accessibility to credit and TVET conditions when examining the determinants of growth potential and performance of MSEs. On the non-financial measures of performance more detailed analysis should be done to compare the performance of micro and small enterprises.

6. References

- i. Andualem Tegegne (1997). *Small Scale Enterprise and Entrepreneurship Development in Ethiopia: Concepts Definitions and Major Issues*, Addis Ababa.
- ii. Ansoff, H. I. (1965). *Corporate strategy: An analytic approach to business policy for growth and expansion*. New York: McGraw-Hill.
- iii. Coad, A. & Tamvada, J. (2008) 'The growth and decline of small firms in developing countries' Max Planck Institute of Economics, Germany
- iv. CSA (2003) *Report on small scale manufacturing industries survey*. Addis Ababa
- v. Dunne, P., and A. Hughes (1994), "Age, size, growth and survival: UK companies in the 1980s" *The Journal of Industrial Economics*, 42, 115– 140.
- vi. Ericson, R., and A. Pakes, (1995), "Markov-perfect industry dynamics: a framework for empirical works" *Review of Economic Studies*, 62:1, 53-82.
- vii. Gebreyesus, M. (2007) 'Growth of Micro-Enterprises: Empirical evidence from Ethiopia' *Ethiopian Development Research Institute (EDRI)*
- viii. Goedhuys, Michelin (2002). *Employment Creation and Employment Quality in African Manufacturing Firms*. International Labor Organization, Geneva, International Labor office.
- ix. ILO (2003). *Profile of Employment and Poverty in Africa: Report on Ethiopia, Nigeria, Ghana, Tanzania, Kenya, and Uganda*. East Africa Multi – Disciplinary Advisory Team (EAMAT). ILO Publications, Geneva.
- x. Indarti, N. & Langenberg, M. (2004) 'Factors affecting business success among SMEs: Empirical evidences from Indonesia' <http://www.utwente.nl/nikos/archief/esu2004/papers/indartilangenberg.pdf> [accessed on Dec. 03/2011]
- xi. Ishengoma, E.K. / Lokina, R. (2007): *The Role of Linkages in Determining Informal and Small Firms' Performance: The Case of the Construction Industry in Tanzania*, Paper Prepared for the 12th REPOA Annual Conference, Dar es Salaam.
- xii. Jovanovic, B. (1982), "Selection and the evolution of industry" *Econometrica*, 50, 649– 670.
- xiii. Liedholm, C. (2001) 'Small Firm Dynamics: Evidence from Africa and Latin America' Liedholm, C. (2002), "Small firm dynamics: evidence from Africa and Latin America" *Small Business Economics* 18: 227-242.
- xiv. Liedholm, Carl (2001). *Small Firm Dynamics: Evidence from Africa and Latin America* the International Bank for Reconstruction and Development / The World Bank. The World Bank Institute, New York.

- xv. Liedholm, Carl, and Mead, C. Donald (1999). *Small Enterprises and Economic Development: The Dynamics of micro and small enterprises*, Rutledge Studies in Development Economics, New York.
- xvi. McPherson, M. (1996), "Growth of micro and small enterprises in southern Africa" *Journal of Development Economics*, Vol. 48, 253-277.
- xvii. Mead, D. and C. Liedholm (1998), "The dynamics of micro and small enterprises in developing countries" *World Development*, Vol. 26. No. 1 pp. 61-74.
- xviii. Mead D. 1994. The contribution of small enterprises to employment growth in Southern and Eastern Africa. *World Development* 22(12).
- xix. MOTI (1997) 'Micro and Small Enterprises Development Strategy' Addis Ababa, Ethiopia MoFED (2007) Annual Progress Report -2006/7. Addis Ababa, Ethiopia
- xx. Nichter, S., Goldmark, L. (2005) 'Understanding micro and small enterprise Growth', USAID, Micro REPORT
- xxi. Nichter, S., Goldmark, L. (2009) 'Small firm growth in developing countries'
- xxii. Oromia MSE Agency (2009): *Industry Development Strategy: Micro and Small Enterprises Development Program*, Addis Ababa
- xxiii. Parker, J. (1995). *Patterns of business growth: Micro and small enterprises in Kenya*. Unpublished doctoral dissertation, Michigan State University, Lansing, Michigan.
- xxiv. Saeed, A. (2009) 'Formality of financial sources and firm growth: empirical evidence from Brazilian SMEs 1999-2005' *Journal of Academic Research in Economics*. 1 (5) pp.131-143.
- xxv. Schmitz, H., 1995, .Collective efficiency: growth path for small-scale industry., *Journal of Development Studies*, Vol.31, No.4, pp.529-566
- xxvi. Schmitz, H. and Knorringa, P., 1999, 'Learning from Global Buyers', IDS Working Paper 100, Brighton, Institute of Development Studies, University of Sussex Sinha, S. (ed.), 1998, .Micro-credit: impact, targeting and sustainability., IDS Bulletin, Vol.29, No.4
- xxvii. Sleuwaegen, L., and Goedhuys M. (2002), "Growth of firms in developing countries, evidence from Cote d'Ivoire" *Journal of Development Economics*, 68 (June): 117-35.
- xxviii. Tybout, J. (2000): *Manufacturing Firms in Developing Countries. How Well do They do, and Why?*, in: *Journal of Economic Literature*, 38,1: 11-44.
- xxix. UNIDO and OECD (2004), *Effective Policies for Small Business: A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development: Istanbul, TICA*
- xxx. USAID (2003): *Audit of selected Micro and small enterprise development loan guarantees in the Philippines*, manila
- xxxi. Zewde and Associates (2002). *Women Entrepreneurs in Ethiopia, Jobs Gender, and Small Enterprises in Africa*. Women Entrepreneurs in Ethiopia ILO Office ,Addis