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Factors Affecting the Growth of Micro and Small Enterprises in Case Of Awi Zone, Amahara Region Ethiopia

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BY

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DECLARATION

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Table of Contents

LIST OF TABLES

Page

LIST OF FIGURES

Page

LIST OF APPENDICES

Page

ACRONYMS AND ABBREVATIONS

CSA	Central Statistics Authority
DASIH	Development Agency for Small Industries and Handicrafts
EEA	Ethiopian Economic Association
FeMSEDA	Federal Micro and Small Enterprise Development Agency
FDRE	Federal Democratic Republic of Ethiopia
GNI	Gross National Income
GTP	Growth and Transformation Plan
HASIDA	Handicrafts and Small Scale Industries Development Agency
ILO	International Labor Organization
LMIC	Low and Middle Income Countries
MCUD	Ministry of Construction and Urban Development
MFI	Micro Finance Institutions
MOTI	Ministry of Trade and Industry
MSE	Micro and Small Enterprise
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
PASDEP	Participatory Agricultural Sustainable Development to End Poverty
REMSEDA	Regional Micro and Small-Scale Enterprises Development Agencies
UN	United Nations
UNIDO	United Nation Industrial Development Organization
UNDP	United Nation Development Program
UN-OCHA	United Nation office for the Coordination of Human Affairs
USAID	United States Aid for International Development
WEBS	World Enterprise Business Survey

ABSTRACT

Eventhough Micro and Small Enterprises sector play great role in the economy through economic diversification, employment creation, generation and distribution of income and poverty alleviation, their current status of growth and development is insignificant because most MSEs are not growing and faced with the threat of failure due to many factors. In order to make the MSE sector the engine of economic growth and reduce the problem of unemployment, it is important to understand these factors determine growth of MSEs in different dimension. The main objective of this study is to assess the factors affecting the growth of micro and small enterprises (MSEs) in Awi zone of Amhara national Regional state. The study employed both descriptive statistics and econometric methods to analyze data collected from 356 sample operator or owner of Micro and small enterprises (MSEs). Under the descriptive statistics, frequency percentages, Mean and standard deviation and on the Econometrics side the Ordinary Least Square multiple linear regression model (OLS) are used. The findings of the study reveal that MSEs affected by lots of internal factors and external factors. From the internal factors the educational level of operators/owners, enterprise age and prior work experience of owner has significant effect on the growth of MSEs. The external factors including access to valuable training, access to finance, initial capital and the sector that enterprise engaged in has also significant effect on the growth of MSEs. Limited market access and facilities are also another important factor that affects the growth of MSEs in the study area. Thus, it is important that government bodies and NGOs together with financial institutions and development practitioner enact in line that promote the growth of MSEs through providing valuable and practical training, and sufficient financial support by providing better credit access.

Key Words : Micro and Small Enterprise, Growth, Factors

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

With over 97 million people, Ethiopia is the second most populous country in Africa, with a rapidly growing young population (growth rate of 2.45%). It is one of the world‘s least developed countries, ranking 173 out of 186 countries on the Human Development Index, Gross National Income (GNI) per capita is as low as US$ 550, and with the national poverty rate as percentage of the population was 29.6% (UNDP,2014). Despite a lot of economical, advantage like substantial agricultural potential, with different climate zones and relatively good availability of water, better mineral resource and good tourism attraction site etc. the country is still underdeveloped, least industrialized and food security is a major concern in which several million people are once again dependent on food aid (UN OCHA,2015)

In Ethiopia, the size of the labor force continues to grow more rapidly than the ability of the economy to offer new employment opportunities for the labor force. Unemployment, particularly urban unemployment is becoming one of the critical problems in the country. According to CSA (central statistics authority) in 2014 census result, 50 percent of urban men between ages 15-30 are unemployed, and the national unemployment rate in 2014 is 17.46. Thus, an effective government policy to reduce unemployment , poverty and to promote capital formation in the country should have to stimulate enterprises growth and expand new businesses. To this effect, policy formulation process requires identifying the determinants of firm growth especially micro and small enterprises, hence they are major source of employment opportunities and poverty alleviation in the economy is important (Liedholm and Mead, 1993).

Many countries in Africa face the problem of high rates of unemployment, under employment and low labor productivity. In addition, because of several demographic factors, including rapid population growth, a large number of people enter to the labor market each year that makes unemployment major or severe problem. Consequently, these countries have been promoting job

creation through a variety of policies which are targeting labor intensive manufacturing industries, promoting labor intensive infrastructure, wide expansion of micro and small scale enterprises (MSEs), and educational expansion including both the technical and vocational education and training (Liendholm, 2001).

Currently, MSEs in both developed and developing countries are seen as the most important alternative sector in facilitate socio-economic developments. Particularly, they make a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty exists. Several studies shows that MSEs in these countries are considered as crucial in employment creation and generally contribute to economic growth as an engine of development and vehicle towards fulfilling the Millennium Development Goals. Among these goals is the reduction of poverty through creating employment, wealth and improvement of living standards, because poverty and unemployment rate are considerably higher in these countries than developed countries (Robinson and Pharr, 1991).

On the other hand, MSEs play a great role in bringing innovative products, techniques and new markets, dynamism and flexibility which is another virtue of smallness with possibility of meeting that they believe behaviorally to respond to customers' changing demand so as not to lose them and to win new ones by supplying better products and services. Practically, they invest relatively small amount in technology, equipments, human resource etc. when compared with larger ones which invest large amount on expensive single purposed machines, hold large inventory and use costly technologies and tools. This allows them to change what they have been doing with less difficulty. In addition, MSEs Serve as an entrepreneurial training ground in which tomorrow’s business leaders can find success and gain valuable experiences (Liedholm and Mead, 1993; World Bank, 1993).

Although contributions of MSEs were acknowledged, many programs and policies were developed to support them; their journey in many instances is short-lived, with high rate of failure mostly in Africa due to several factors (ILO, 2000). These factors hinder growth of enterprises by affecting their opportunities and capabilities, directly or indirectly. The factors mostly related to the business environment, the social network between the enterprises, and the firms characteristics. The presence of such types of problem would significantly reduce the

number of MSEs that would be established in the economy and the likelihood of those established MSEs graduating into larger enterprises. These constraints with developing countries' especially experiences of Sub-Saharan countries where the situation is sever coupled to other fundamental economic problems, increases the failure of enterprises growth (Ibid; USAID, 2005)

Ethiopia is one of the countries with this condition and relying upon MSEs helping as an engine to drive to economic growth, elimination of unemployment and poverty. Having these important roles and other contribution of MSEs to the economy through several aspects, the government of Ethiopia establishes FeMSEDA (Federal Micro and Small Enterprise Development Agency) by the council of ministers of Ethiopia regulation No. 33/1998 on April 3/1998. It establish with the major objective of encourage, coordinate & assist institutions engaged in service provision to the development & expansion of Micro & Small Enterprises in the country at large Through creating job opportunity, bringing equal development, improving income of the society and poverty reduction (FeMSEDA, 2011) .

Despite a lot of effort made by the government having immense contribution in creating job opportunities and building the economy, MSEs operation and growth have been persistently challenged by numerous internal and external factors, even a significant number of MSEs in different parts of the country are unable to grow to the next stage and their contribution declined (EEA, 2015). So to provide assistance, it is necessary to identify the factors affecting their growth. This research, therefore, aims to identify those internal (firm-specific) and external (Business environment) factors affecting the growth of MSEs in Awi zone, Amhara regional state of Ethiopia.

1.2. Statement of the Problem

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

In addition to the superficial economic benefits, micro and small enterprises development has been viewed by policymakers as a means to increase incomes of the poor in the economy. MSE owners and workers do tend to be disproportionately poor, with the incidence of poverty within MSEs higher than in medium and large firms. Growth that is broad-based by both its region and sector is more likely to be faster and provide greater opportunities for the poor socities. Similarly, rapid growth in regions where the poor live and sectors of the economy in which they work is likely to result in poverty reduction (OECD, 2006).

Having the well known importance of MSEs the question is that why only few expand rapidly while the other stagnant? Research shows that in order to achieve the contributions made by MSEs and ensures them to grow it is required to overcome series challenges faced by MSEs (Okpara, 2011). Micro and Small enterprises operation and growth have been persistently challenged by numerous internal (firm specific) and external (business environment) factors. Developing country entrepreneurs have to be twice as creative as their counterparts in wealthier nations, if they are to overcome obstacles such as dysfunctional legal and financial systems, distorted markets, and unequal access to resources (Nichter *et.al*, 2005). These factors hindering the potential growth of MSEs are higher in sub-Saharan African countries and in Ethiopia specifically, MSEs have been confronted in the past by many of these problems as existing researches shows (Solomon *et.al*, 2016: Arega *et.al*, 2016).

In Ethiopia, support to MSEs has been considered as a tool to employment creation and foundation to long term development objectives. To this end the country incorporates MSEs growth strategy in different period of time like the Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2005-2010) and The Growth and Transformation Plan (GTP, 2010-2015) with the principal strategic direction of the plan on the promotion , expansion and development of MSEs through the creation of long term jobs, strengthening cooperation between MSEs, and inter industrial linkages, including linkages between MSEs and medium and large-size enterprises. Even though the government believes to be successful in utilizing the potentials in MSEs to achieve better economic development, the voyage of MSEs has not been an easy ride and still it is behind in exploiting these huge potentials to meet its development objectives (MOFED, 2015).

Though great emphasis is given to MSEs sector in Ethiopia so as to increase development of the industrial sector and the economy as a whole (GTP I, 2010) but its current size, performance in terms of its contribution or share to GDP, export and total manufacturing output is not significant. Micro and small enterprises have been currently performing below capacity expected to be and their growth has been highly affected by a number of factors (Gebreyesus, 2007 cited by Solomon *et.al,* 2016). Thus, job creation or better employment opportunities so as to alleviate the widespread poverty and create an internationally competitive industrial structure are among the policy challenges the Ethiopian government is currently facing. A number of micro and small scale enterprises every year, every month get license from respective government office and start business, and only some of them show little growth , but others and many of them destination is not well investigated. Hence, there is a need for efforts in examining the factors affecting the growth of MSEs (Solomon *et.al,* 2016; EEA, 2015).

Despite the importance of MSEs in the national economy, studies are not enough and no significant research have been conducted on the sector to explain the major factors affecting it. Growth of MSEs has a special importance in the economy that it is responsible for the major contribution to net new jobs in the country. In fact, as some researches reveal firm growth is a multidimensional phenomenon and there is substantial heterogeneity in a number of factors associated with micro and small enterprises growth (EEA, 2015; Abiyu, 2011).

Furthermore researches that have been conducted on the factors constraining the growth of Micro and Small Enterprises in many specific and many regional areas of Ethiopia but there is no well known research conducted in Awi zone. Thus, gaps exist with respect to understanding the problems facing MSEs in the research area. Therefore, the intent of this study is to identify the factors affecting the growth of MSEs which are related to internal, external, and financial and government support aspects. Given the significance of MSEs to a nation's development in different ways, this research, therefore, postulate that recognizing the factors affecting the growth of MSEs' in Awi zone is a critical aim of the study.

1.3. Objective of the Study

The general objective of this study is to assess the factors affecting the growth of micro and small enterprise (MSEs) in Awi zone. More specifically the study has the following objectives;

- To assess the internal factors related to Firms and entrepreneurs characteristics that constraints the growth of MSE's.
- To identify external aspects related to finance, business environment and governmental support that affect growth of MSEs in the study area.
- To identify the big challenges of Micro and Small enterprises in Awi Zone?
- To determine actions to be taken by concerned bodies to overcome such factors in order to make MSE's sustainability.

1.4. Research Questions

The key research questions of this study are:

1. What are the internal factors related to firms and entrepreneurs characteristics constraining or hindering the growth of MSEs in Awi zone?
2. What are external aspects related to finance, business environment and government support constraining the growth of these sectors?
3. What are the big challenges of micro and small enterprises in Awi zone?

1.5. Significance of the Study

There are many MSEs in overall the country in general and research area in particular which has potential to create employment and to generate income that makes them crucial economic instrument. So understanding the factors affecting the growth of these MSEs in Awi zone provides relevant information to policy makers and local development planners, governments (both federal, regional and zone), and other stakeholders to design targeted policies and programs that will stimulate innovation, encourage, and promote MSEs for unemployment and poverty alleviation through minimizing factors hindering their growth. Furthermore, the study also provides information about the factors affecting the growth of MSEs in the research area for interested researchers, prospective entrepreneurs, and business consulting firms. For MSEs, this study also offers alternative actions to counteract against to the problems that are identified.

1.6. Scope of the Study

It is clear that the issue of MSEs is currently hot and interesting throughout the country and there are possibility of using various tools, wide geographical areas and large sample size, this study is concentrated to the Factors affecting the growth of MSEs in some selected urban areas of Awi zone. The study focused only on four selected towns of Awi administrative zone and assessed using both descriptive and econometrics method of data analysis through questionnaire and interviews by considering the time, energy and financial resources required to accomplish the study.

1.7. Limitations of the Study

It is obvious that any study has its own limitations and thus this study is not an exception. In the process of data collection respondents or MSE's owner's awareness is not minor difficulty; most of them connect it with tax related issues and ignore to fill the questionnaire. The other limitation of this study is it covers small geographical area and small sample, only 356. As a result findings of this study can't necessarily represent MSEs in the country, because MSEs can be different in geography, environment and situations in the country. Therefore, the results cannot be taken as uniform to generalize for MSEs in the country hence sample is not from all parts of the country. Replication of this study using larger samples, broader geographic, national leve1 and different situations study is suggested for cross validation purposes.

1.8. Organization of the Study

This particular study constructed under five chapters, in the first chapter of the study, the introduction part, background of the study, statement of the problem, the general and specific objective of the study, the significant of the study, which shows some importance stakeholders and benefits from the study, the limitation and scope of the research are included. The second chapter, the literature part contain both theoretical and empirical literature review and the third chapter deals with brief description of the study area, research methodology and the haypotesis part. Results that are obtained in the study discussed in chapter four and finally under the last part of the research, chapter five conclusion and recommendations of the study are presented.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical Literature Review

2.1.1 General Overview of Micro and Small Enterprise

The history of small business has been one of the most controversial stories in economic growth and development in the world. It is not known that when micro and small enterprises start. The role of small business in an economy has frequently been undermined and misinterpreted this is because that many governments emphasize on the attraction and promotion of large enterprises by thinking that most of the economic development or income comes from large industries (Bereket, 2010). In any angle, there is no doubt that MSEs have already become major features of the economic landscapes in most developing countries. As a result, researchers, practitioners and policy makers are increasingly interested in MSEs as incubators of labor intensive technologies and as sources of jobs and incomes for the urban poor (Thorbeche, 2000).

2.1.2 Definition of Micro and Small Enterprise

Definition of Micro and Small Enterprises (MSEs) is one of the fundamental issues led to diverse definitions with unresolved debates. There is no universally agreed definition of MSE's. Due to this, the meaning of MSE is necessary arbitrary because peoples, countries and organizations adopt different standards for different purposes according to their own working definition. These individuals and organizations have been defining them in a variety of ways using different factors according to their country and organization perspectives (C. Reeg, 2015; Abiyu, 2011; Bereket, 2010).

Although there is no universal definition of Micro and small Enterprise, the most commonly referred criterion is its number of regular or permanent employees. Depending on data availability and the economic character of the country, or any other additional criteria, such as a business turnover or a firm's capital investments, are used in identifying the MSEs . In LMICs, the primary parameters the number of regular employees.

Clearly, size categories provide little information on the ownership profile, type of legal entity or general attribution of the company. Although enterprise size classes are defined in dependence on economic country profiles or based on relative measures of particular distributions within an industry, these thresholds across sectors and industries can generally be quite arbitrary (C. Reeg, 2015).

Enterprises that are identified as micro and small enterprises in many industrialized or developed countries may differ in other developing countries. In developed countries micro enterprises can be labeled as small or medium in developing countries. This is because the amount of capital invested and the number of people employed in operating and implementing MSEs and the level of technology vary from one country to another. In some countries Micro and small enterprises labeled based in the number of employees and others on capital invested. Most definitions of MSEs depend up on the policy makers (financiers, labor officers, traders and service personnel). The common criteria that are used by different countries are number of employees, asset employed, Sales turn over or Combination of the above three factors (Ibid, 2015).

The World Bank Enterprise Survey (WBES) classifies enterprises with 0-5 employees as micro, 5-19 employees as small and those with 20-99 as medium, while The World Bank Group in-house definition considers enterprises with 0-9 as micro-enterprises, 10-49 employees as small and 50-299 as medium-sized (Kushnir *et al*., 2010). The existence of different threshold lines suggests that these should not be understood as strict concepts. Rather, it implies that the qualitative nature of the firm and its operations do not change substantially between the micro and small size segment. While some countries make a distinction between a micro and a small enterprise, in many cases countries include micro enterprises within the small-enterprise definition. This is the case when small enterprises are lumped into wider umbrella terms, for instance in categories of micro and small-sized enterprises on the one side and micro, small and medium-sized enterprises on the other side (C. Reeg, 2015).

2.1.2.1 Definition of Micro and Small Enterprise in Ethiopia

Micro and small Enterprise MSEs in Ethiopian defined by different organization in same and different context at different time. Thus the Ministry of Trade and Industry (MOTI) in 1998 has been developed for formulating MSE Development Strategy in 1997/2005, defined micro enterprises are those business enterprises in the formal and informal sector, with a paid up capital of not exceeding birr 20,000 and excluding high tech. consultancy firms and other high technology. And small enterprises are those business with a paid up capital of above birr 20,000 and not exceeding birr 500,000 and excluding high tech consultancy firms and other high technology establishments.

Table 2.1. Old definition of MSE in Ethiopia

Sector	**Manpower**	**Paid up capital**
Micro enterprise	----------	≤ 20,000 ETB (1200 USD)
Small enterprise	----------	≤ 500,000 ETB (30000 USD)

But this definition is subject to different criticism and has many shortcomings like does not include higher technology and consultancy/advise/ services; it does not include classification between sectors, The transfer from micro to small and from small to middle was on the basis of total asset though the definition underlines a paid up capital(FeMSEDA, 2011)

Central Statistics Authority (CSA, 1995) for the purpose of compiling statistical information categorizes enterprises into different scales of operations on the size of employment and the nature of equipment. Enterprise established with employee of less than ten persons and using motor operated equipments were considered as small-scale manufacturing enterprises. Enterprises in the micro enterprise category were subdivided into informal sector operations and cottage industries cottage and handicraft industries are those establishments performing their activities by hand and using non-power driven machines. The informal sector is defined as household type establishments or activities, which are non-registered companies or cooperatives operating with less than 10 persons. This un uniform definition is also the current issue because there is a need to have agreed national definition not only for research purposes but also for consistency of legislation and for focusing discussions of policy makers as well as financial and

enterprise promotion agencies to assign appropriate measures to particular sectors (Zeleke, 2008 cited by Abiyu, 2011).

The current definition of MSEs in Ethiopia focused on the number of employees that the enterprises hire and size of the capital they own are mainly used as a measure to define MSEs and accordingly, each micro and small enterprise is categorized in to industry and service sectors as shown in table 2 below.

Table 2.2. Current Definition of MSEs in Ethiopia

Level of Enterprise	Sector	Human Power	Total Asset
Micro Enterprise	**Industry**	≤ 5	≤ 100000($6000 or E4500)
	Service	≤ 5	≤ 50,000($3000 or E2200)
Small Enterprise	**Industry**	**6-30**	≤ birr 1.5 million ($9000 or E70000)
	Service	**6-30**	≤ birr 500,000($30000 or E 23000)

Source, FeMSEDA, (2011)

2.1.3 The Role of Micro and Small Enterprises to Economic growth

Liedholm and Mead (1999) closely observed that there are two opposing views over MSEs, some of them against and some others in favor. Those who are against the MSEs argue that an increase in the number of people employed in this "marginal sector" of the economy is a sign of the economy's failure to provide productive jobs, people are compelled to take part in activities that supply only petty subsistence income. Specially the 1950s and 1960s micro enterprises were viewed as marginal and unproductive sectors that evade tax and with little potential for growth or entrepreneurial capacity. As a result, many people are likely to think that widespread micro entrepreneurship is simply a reflection of a low level of economic development.

Those who are in favor, on the other hand, argue that MSEs are promising, as their contribution to employment and income is increasing over time. This is promising since markets are functioning and many people are finding opportunities to participate in economic activities specially to the low level income group of socities. In the 1980s, micro-enterprises obtained

better attention from donors and different countries governments as sustainable ways of blending efficiency with equity in the long run. Micro enterprises may spur the local economy by increasing the overall demand and permit greater investment. Micro enterprises are particularly suitable to areas where it does not pay for medium and large firms, contribute to decentralized development and regionally balanced growth in the economy (Ibid, 1999).

In the 1970s, problems of unemployment, poverty and income inequality have gained wider attention in the academics and policy circles. The notion that aggregate growth is equal to economic and social development was brought under critical analysis. The launching of the World Employment Program by the ILO in 1969 redirected the primary objective of development to be raising the standard of living of the poor through increased employment opportunities. In increasing the living standard of the poor, creating income generating and productive opportunities were considered a basic policy instrument which can be performed and achieved through promoting the growth of micro and small enterprises (Thorbeche, 2000: 13).

In the late 1990s, the idea of growth and human welfare were reevaluated in more critical way. Inequality with growth and poverty were understood and explained as an inseparable process where inequality is inevitable where and when there is growth and poverty is inevitable where and when inequality exists. Growth considered as a necessary but not a sufficient condition for development to occur. But here initial income distribution pattern, the nature and structure of growth play a critical role in reducing poverty. If initial income and wealth distribution is uneven then both growth and the impact of a given aggregate GNP growth on poverty reduction will be smaller (Thorbeche, 2000).

Micro and small enterprises are the major feature of the economic landscape in all developing countries today. The contribution of these enterprises to the creation of jobs and to the alleviation of poverty has been recognized by many Third World (developing Country) governments. The policy relevance of Micro and small enterprises, particularly small industries, may come under two major points, one from their potential for employment creation and the other is MSEs competition with larger enterprises, and even in global markets, through different directions. Growing trends in decentralization strategies increasingly justify the proliferation and importance of small enterprises (Liedholm and Mead, 1999).

In most of fast developing countries, Micro and small enterprise through their growth in size, location, capital investment and their capacity to generate greater employment have proved their powerful and significant contribution for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level of training, much capital and sophisticated technology. The micro and small enterprise sector is also described as the national home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (Trovato and Becchetti, 2002).

In comparison with MSEs, Large scale enterprises are characterized by larger demand for heavy machineries with relatively advanced technologies, high investment and working capital, and more skilled manpower, which are all in limited supply in developing countries. Large industrial establishments are relatively advantageous in successfully reducing unit cost of production. Such establishments enjoy the benefits of economies of scale; and better labor productivity (through specialization). However, it is disadvantageous as it became difficult to absorb the less skilled unemployed labor in the economy (even though it depends on some environments) and the inherent capacity of most developing economies to have large number of heavy manufacturing industries is also limited. Most healthy economies exhibit an industrial pyramid where few heavier industries exist at the top followed by a larger number of medium scale enterprises which is gravely missing in developing economies, commonly known as “the missing link” and very large numbers of small and micro enterprises exist and even very larger number of informal engagement exists (MCUD, 2013)

Institutions and policies that can reduce trade-offs between growth and inequality and poverty were recommended as better policies and strategies. Similarly, human welfare was redefined to be more comprehensive and multi-dimensional as an ultimate goal of development as opposed to narrower concept of poverty reduction. Promotion of labor intensive technologies in production sector was one of the growth policies and strategies believed to address unemployment problems of both rural and urban residents and adopted by most developing countries. Promotion of micro and small enterprises (MSEs) has, thus, been one among those labor intensive endeavors adopted by these countries (Thorbeche, 2000:34).

Generally, the contribution of the sector to development of an economy as an essential springboard for growth, through its contribution to household income and welfare, employment creation through new business creation and expansion of existing enterprises, contribution to empowerment of the individual, contribution to social change and political stability, and contribution to developmental as well as distributional objectives. Moreover, MSEs provide new opportunities for the poor, women, and for those in rural and isolated or marginalized locations and people ; which enables more equitable income distribution, activate competition, exploit niche markets, enhance productivity and technical change and contributions in the area of demographic change for instance, through reduction in rural-urban migration finally MSEs enable the economy to grow. (Liedholm & Mead, 1999).

2.1.4 Theoretical models on the Growth of MSEs

To study the factor affecting the growth of enterprises, several scholars have suggested different theoretical frameworks. In this section, a brief review on the theories of enterprise growth discussed below.

I. The Stage Growth Models

The stages model, dominant explanatory framework, has evolved to represent the complicated and dynamic nature of growth phenomena. The small firm or enterprises growth understand as passing through a sequence of growth stages; the number of stages postulated varies from three stage of growth which is developed by Steinmetz, 1969; Velu, 1980,1988 to five stages developed by Churchill and Lewis (1983) cited by P N O'Farrell, D M W N Hitchens. In the stages model, a firm's characteristics, challenges, practices and attributes are mapped into separate successive stages, as in the work of Lawrence L. Steinmetz (1969), Greiner (1972), Churchill and Lewis (1983), Scott and Bruce (1987).

Greiner (1972) has done the foundational work on the theory of enterprise growth and development. Based on his theoretical review of the enterprise growth, there are five different stages of growth. Each phase or stage contains a relatively peaceful period of growth that ends with a management crisis. These five phases and crises of growth are creativity, direction, delegation, coordination, and collaboration. He suggests that an enterprise goes through evolution and revolution crises. These crises can be solved by introducing new structures, stages

and programs that will help employees to give a new lease of life to them. Greiner's phenomena of evolution and revolution became the basis of many studies on enterprise life cycle.

Figure2.1. Phases and crises of growth of MSEs (Masurel & Montfort, 2005 cited Gupta *et.al*, 2013)

The study of the growth of micro and small enterprises gained energy when Churchill and Lewis (1983) developed their famous model by extending the frameworks of Steinmetz (1969) and Greiner (1972) and sketched a five stage model in which MSEs progress through different stages of growth throughout the lifecycle of an organization which are depicted and described as follows:

Figure2.2 Stage of an enterprise growth Churchill and Lewis, 1983

Existence: it is the first of the stage of business enterprises in which the owners struggles to establish its processes and works without a formal structure in place. The owner takes close supervision of each and every business activity by him/herself. Many companies never gain sufficient customer acceptance or product capability to become viable. In these cases, the owners close the business when the start-up capital runs out and, if they're lucky, sell the business for its asset value. **At the second stage, survival**, the business grows and the entrepreneur needs to have additional capital to expand the business. Since the business activity is growing, they prefer to have additional individual as partners to expand the business. at this stage the enterprises has enough customers and satisfies them sufficiently with its products or services to keep them. The key problem thus shifts from mere existence to the relationship between revenues and expenses and the main aim of the enterprise is to reach the breakeven point (Ibid)

At the third stage, **stage of success**, the enterprise begins to earn profits. They have enough capital to either invest in further business opportunity or continue with the same process of growth. At this stage, the enterprise may take up team building and people development become some of their focus areas; however, these initiatives are driven by and depened on the personal

values and vision of the entrepreneur or business owner. At the **takeoff stage**, the focus is on further growth, expansion, and seeking new opportunities. The organization becomes more formal in nature, and work is properly defined and delegated. If the owner rises to the challenges of a growing company, both financially and managerially, it can become a big business. If not, it can usually be sold at a profit provided the owner recognizes his or her limitations soon enough (Ibid).

Finally, **the maturity stage**, the enterprise is no more called a small enterprise. Company gives more emphasis on quality control, financial control, and creating a position in the market. The greatest concern of a company is simply to consolidate and control the financial gains generated by rapid growth and, to retain the advantages of small size, including flexibility of response and the entrepreneurial spirit (Ibid).

The practicality of the Churchill and Lewis stage model resulted in its vast popularity among both entrepreneurs and academic researchers. Nevertheless, the model has been widely criticized for its many limitations. First, the model implicitly assumes that a small business will either grow and pass through all stages or fail in the attempt. Empirical evidence does not justify such an assumption. Consequently, the growth-or-fail hypothesis implicit in most stage models is unsatisfactory; an adequate theory of small-firm growth should be able to account both for the rarity of the process. Second, the models are aspatial and do not incorporate an explicit spatial dimension to take account of the range of advantages and disadvantages in various regional economies which may inhibit or facilitate small-firm growth (O'Farrell and Hitchens, 1988).

Third, the stage models and corporate life-cycle theory both tend to assume the validity of a stage or corporate life-cycle model rather than to prove it by rigorous evaluation of counterfactual evidence. Whereas the economic theories tend to assume that production is largely a black box, the stage theories tend to ignore the economic environment. Furthermore, only few have been applied in longitudinal studies, which are needed to clearly understand the process of growth and researches might be a source of bias because respondents are asked to recall events that happened long ago. Accordingly, some events might be omitted and others exaggerated according to respondents' point of view (Amr Faourk and Mohamed Salah, 2011).

Bridge et al. (2003) suggest that it is not necessary that an enterprise develops in discrete phases with clear boundaries between them. The authors argue that, while broad stages of development of an enterprise can be indicted, it is very difficult to say when the business moves from one stage to another. Enterprises do not necessarily follow the linear models. It is not possible for an enterprise to progress through each stage. They can grow, stagnate, and decline in any order also, these things can happen more than once and there is a possibility to reverse their steps. Authors suggest that the growth of an organization is a result of many discrete efforts. Growth may be achieved quickly, slowly, or not at all. It depends on the strength of the growth aspirations and growth-enabling factors of an enterprise.

II. Stochastic or Random Approaches

The stochastic or random approaches is the first attempts to understand growth of Micro and small enterprises resulted in stochastic models, which have evolved from the field of economics (Matthew Dobbs and R.T. Hamilton 2006) and developed from the "Law of proportionate effect" Gibrat‟s Law (1931), which is described as the process of random growth leading to a lognormal distribution and firm growth and firm size are independent.

Stochastic models assume that there are too many factors affecting growth and that no specific factors have a dominant effect that can be used to explain growth of micro and small enterprises. Accordingly, the growth of firms can be assumed to be perfectly random and cannot be predicted using any group of variables. In this framework, firms draw each year's growth rate from a distribution i.e Lucky firms repeatedly draw high rates and grow over time. By definition, this model assume that growth is independent of any other factors, a notion which has been disproven by various studies including the work of David S. Evans (1987) and Becchetti and Trovato empirical of the law has indicated that it only considers size and age as potential variables which may significantly affect firm growth by neglecting other explanatory variables which may significantly affect firm growth. The deterministic approach assumes, on the contrary, that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics (Becchetti and Trovato, 2002).The law is difficult to test and conflicting results have been produced by statistical analysis. The stochastic nature of the phenomenon of the law of proportionate effect suggests that many factors affect growth.

III. Learning Model

According to the Learning Model by (Jovanic, 1982) a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another.

In this model, ef ficient firms i.e firms with good managers grow over time, expanding each period when their managers observe that their guesses about their managerial efficiency turn out to have understated their true efficiency. Thus Jovanovic's model, in its simplest form, predicts that the annual growth rate of a firm will be a function of the accuracy of the manager's predictions regarding their ability, as well as the price of the product.

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

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

Another aspect of the literature involves Penrose (1959) suggested that Growth of an enterprise is determined by the rate at which experienced managerial staff can plan and implement this

plan. She has explained that the external environment of an enterprise is an image in the mind of the entrepreneur. Enterprise activities are governed by productive opportunities which are actually a dynamic interaction between the internal and the external environments. This interaction includes all the productive possibilities that the entrepreneur can see and take advantage of an enterprise. The author also mentioned that growth often is natural and normal, a process that will occur whenever conditions are favorable. The size of the enterprise is incidental to the growth process, and an enterprise is a coherent administrative unit that provides administration coordination and authoritative communication(Penrose 1959). She has also proposed that the growth of the enterprise is limited by the scope of managerial resources, specially the ability to coordinate capabilities and introduce new people into the enterprise.

2.1.5 Factors affecting the Growth of Micro and Small Enterprises

In most developing countries small businesses face a wider range of constraints and they are unable to address the problems they face on their own, even in effectively functioning in market economies. Both the Theoretical framework and emperical findings discussed about some of the factors affecting the growth of micro and small enterprises these are including the busieness enviroment, the enterprises owner qualification (individual character), firms characterstics and the social mixtures which some of them are disussed below.

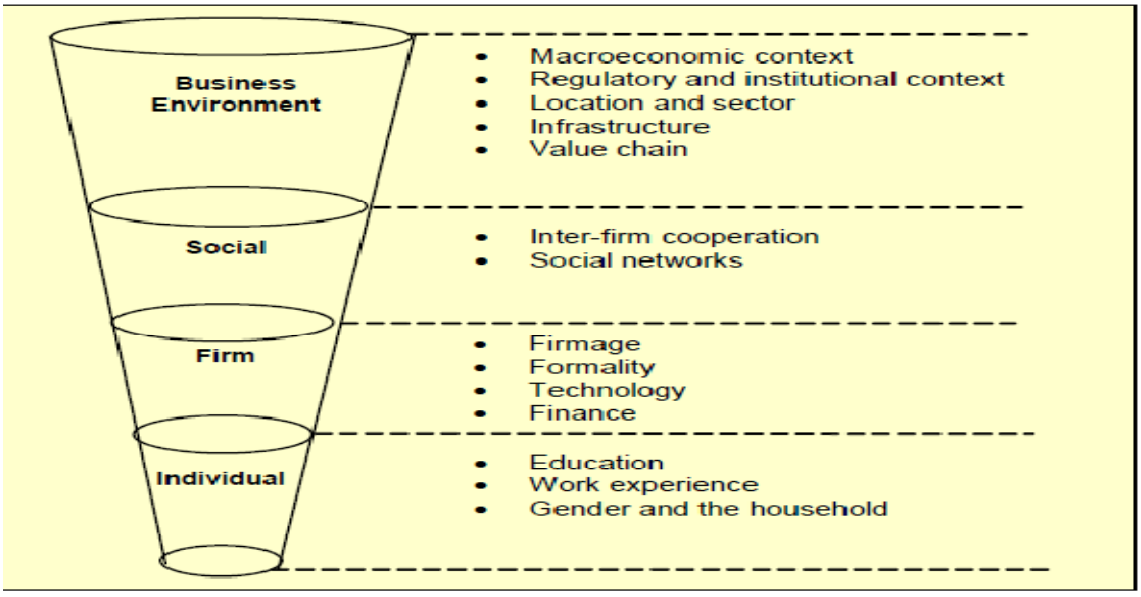


Figure2.3. Key factors affecting MSEs (USAID, 2005)

I. The Business Environments

The busiess enviroment play a major role in determining the opportunities of MSEs specially in developing countries. The nature of the economy directly influences the availability and accessability of profitable business opportunities, thus micro and small enterprisses tend to grow more quickly during periods of overall economic growth (Liedholm, 2002). There are some important outcomes in the relationship between micro and small enterprises growth and the overall business cycle in a certain economy: The MSEs sector expands during economic downturns due to an increase in survivalist-type activities, although individual MSEs may stagnate or contract. Further, during severe economic crises MSEs may be more resilient than their larger industries counterparts.

The regulatory and institutional environment in developing countries is burdensome when compared with developed countries which are frequently constrainted small enterprise growth. For instance, strict regulations and high taxes by the government may keep firms small and informal thereby contributing to increased transaction costs from problematic property rights protection and contract enforcement. It also determine Micro and small enterprisses owners from making growth enabling investments over enterprises in the economy. For example, import duties on capital equipment (for example, sewing machines) may disproportionately hurt MSEs. On the contrary larger firms can by pass these duties by qualifying for investment promotions, and they may be preferred in allocations processes (Liedholm, 2001, World Bank, 2005).

In addition, special subsidies and trade protection may offer greater benefits to larger firms, who are often more capable of lobbying. Smaller firms more frequently report government policies to be unpredictable, and this uncertainty may be yet another factor reducing growth enabling investments. Government policies that aim to benefit Micro and small enterprises may also suppress growth if they provide disincentives for employment expansion.

II. Social Networks

Here the term social networks is used to refer to relationships between individuals, enterprises , owners or opreators having an extensive and better relationships is a valuable asset, as it can help an entrepreneur obtain access to information example about profitable business opportunities and resources like credit. While social networks can enhance MSE

growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, such as inordinately low levels of information and competition. Better social networks can play in helping entrepreneurs or opreators of the enterprises overcome obstacles related to transaction costs, contract enforcement, and regulation. Entrepreneurs often take advantage of opportunities to invest in social networks when there is an apparent payoff in terms of Micro and small scale enterprises growth (USAID 2005 ; Portes & Landlot, 1996)

In a certain situations, social networks may be too expensive for or inaccessible to the poorest entrepreneurs, or systematically exclude or provide unequal access to resources for marginalized entrepreneurs such as women. In other cases, social networks are deeply embedded in social traditions that may run counter to free initiative or entrepreneurship. Other potential downsides of social networks include requests for profit distributions, unequal access to resources, and a lack of stability. Last, the sustainability of social networks is also an issue. If a network grows, a greater number of participants offer increased resources, but the network's usefulness may decline as it becomes more inclusive hence the competition may become decline and their growth a litle bit depened on it (Nichter & Goldmark 2005).

III. Marketing Constraint

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

Furthermore, certain MSEs lack the skill to modify their products and its designs. The other most important problem of MSE is lack of basic costing knowledge; overhead costs are mostly not calculated as expenses; the fact that salaries or wages of family members involved in production or sales are overlooked as cost product. Not knowing the exact earnings from sales separately during and at the end of the day, family members spend the money earned from sales without recording, manufacturers do not correctly know how much raw material and accessories are required to make one unit of a product (Mamubla,2002; Carpenter & Petersen, 2002)

Consequently, some of them sell at break-even or even below cost and do not know whether they actually making profit or not. They express their success only by accentuating the changes they make. While other MSEs tend to overprice their products, some under-pricing due to lack of costing skills as well as competition and the existence of larger enterprises, which sells similar products with reduced prices (Asikhia 2010).

IV. Firm Characteristics

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

Firm Age implies the relationship between firm age and growth in the MSE; Young MSEs grow substantially more rapidly on average than their older counterparts. Studies in both Africa and Latin America show that young MSEs are more likely to show high rates of growth compared with MSEs that have been in existence longer (Mead and Liedholm, 1998). Why might young MSEs grow more quickly than old MSEs? Learning model by Jovanic, 1982 in which firm owners discover their efficient sizes of operation gradually. This theory predicts that a firm will expand quickly at first, and then taper off its growth as the firm approaches its optimal size. Notice that while growth slows, productivity is expected to increase as the firm ages and the owner comes to learn the company's optimal size of operations.

Formality (or Informality) it is another firm's characteristics that affect the growth of Micro and small enterprises**.** Here informality refers to businesses enterprises (MSEs) that are not registered yet derive income from the production of legal goods and services. Not only does

informality in itself reduce the chances for growth, it is associated with several other characteristics that make growth difficult. It is commonly believed that informal firms frequently face growth-inhibiting disincentives and costs. Although small informal MSEs may be able to evade government regulations and taxation, as they grow risk becoming more visible, creating disincentives to expand beyond a certain size. Informal firms may therefore need to "keep their heads down," ruling out large size and rapid growth, as well as close relations with formal firm. Contracts with international or government buyers, for example, are off-limits for informal firms because they require legal documentation that these MSEs lack. And while formal MSEs in developing countries may have problems accessing financial and legal systems, informal enterprises face even greater difficulties in obtaining formal credit and assistance from law enforcement agencies and courts. For these and other reasons, informal MSEs appear to grow more slowly than do their formal counterparts (USAID 2005)

Financial Constraints; Financing is one of the crucial elements that determine the development of (MSEs) and necessary to help them to set up and expand their operations, develop new products, invest in new staff or production facilities and improve technology. But most MSE's have limited access to finance; it is much harder than larger businesses to obtain financing from banks, or other financial institutions. This is due to most banks do not operate a MSE financing window and low capability of borrower to prepare and present applications that meets bank's requirements. MSEs have also inability to fulfill the acceptable collateral requirements like fixed assets such as residential houses and vehicles. As a result of these and inability of small entrepreneurs to secure collateral requirements, the banking institutions became reluctant to provide them loans. Coupled with absence of other sources of finance other than traditional ones and informal sources, creation of new enterprises and the growth and survival of existing ones will be impeded. As a result, financial institutions face severe problems of adverse selection. That is why access to formal finance is usually difficult for MSEs (ILO, 2008: EEA, 2015).

V. Individual Entrepreneur Characteristics

Most MSEs are one-person businesses that are supported by unpaid family members and have little or no hired staff (Liedholm, 2002; Reeg, 2013b; World Bank, 2013). This suggests that micro- and small entrepreneurs hold a high degree of control and oversight of business activities and performance. For that reason it is intuitive that the characteristics of the entrepreneur should

have a strong impact on enterprise growth, the decision to hire additional workers, and the improvement of working conditions.

Human Capital: Higher levels of education, practical training as well as work exposure are considered to impact strongly on an entrepreneur's capability to seize market opportunities, cope with problems and increase a business' growth performance and employment potential. Education may provide entrepreneurs with a greater capacity to learn about new production processes and product designs, offer specific technical knowledge conducive to firm expansion, and increase owners' flexibility. Beyond formal schooling, the literature suggests that learning how to apply knowledge and skills within a relevant work and training environment is nearly as important (C. Reeg 2015).

However, exploring the relationship between education and MSE growth in developing countries reveals greater complexity. Developing country MSE owners and workers are relatively less educated than the majority of the population. Not only do they operate in countries with relatively low overall educational attainment, but they also tend to have less-educated owners and workers than larger firms. This lower level of educational attainment among MSE owners and workers is remarkable when contrasted with developed countries, where those with higher education are more likely to be self-employed (Woodruff, 1999). One reason for this contrast is that the poor in developing countries often create survival-oriented MSE's due to a lack of alternative employment opportunities (Nichter & Goldmark 2005).

Work Experience; Any development practitioner or businessperson can attest that MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSE's as entrepreneurs with more years of work experience typically have faster-growing MSE's. In addition, work experience has been found to enhance professional and social networks, which are helpful in accessing financial resources, management advice and identifying business opportunities as well as accessing skilled workers (Eifert *et al*., 2005; Hampel-Milagrosa *et al*., 2015 cited C. Reeg,2015).

Gender: sexual difference women own and operate the majority of MSEs in many developing countries in part because of the ease of entry and their limited access to alternate opportunities.

But women face a number of difficult challenges that restrain the growth of their enterprises. In some cases, women choose not to grow their firms, for the reasons as they face different rights and obligations that are limiting their labor mobility and burdening them with disproportionate household responsibilities which imortantly affects the growth of their firms. Women in some countries especially in developing countries they face greater problems with innumeracy, illiteracy, and a lack of business skills. In addition, women commonly have unequal access to markets including the market area and opportunities. Empirical evidence suggests that women's Micro and small enterprises tend to grow more slowly than those enterprises owned by men. One contributing factor to the slower growth of female-owned enterprises is that their firms have an especially high probability of being physically located within the household (ILO, 2004). Micro and small enterprises located in the household are not only significantly smaller on average, but also are less likely to grow than MSEs in any other locations(Mead and Liedholm, 1998; C.Reeg, 2015).

2.2. Development of Micro and Small Enterprise in Ethiopia

Examinations of attempts institutional involvement to support MSEs development in Ethiopia came late after 1950s. Teshome ,1994 cited by MUDC ,2011 points that the focus of government policy was to lay foundation of basic administrative and institutional infrastructure of the state during the 1940's and 1950's, in order to consolidate the gains of reforms to accelerate the process of industrialization. As a result, several reforms related to the development of MSEs were made during this period. The Business Enterprise Registration Proclamation No.184/1961 required business enterprises to register under the Ministry of Commerce and Industry. By the Industrial Regulation Legal Notice No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, if fully formed. The Investment Proclamation No. 242/1966 provided MSE's tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature (MUDC, 2011).

The period 1974 to 1991 started with socialist proclamations and nationalization of businesses and firms many of the former private sector firms ceased to exist throughout the country. By Proclamation No.26/1975 the government implemented these socialist proclamations and ended

up owning and controlling the means of production and “the commanding heights of the economy”.

The Public Enterprises Proclamation No.20/1975 (amended by Proclamation No.35/1975) further strengthened the Ministry of National Resources Development by mandating it to reorganize, consolidate and manage nationalized and new public enterprises. The marginalization of private sector development in the area of MSEs continued well into 1977: in late 1977, for example, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established by Proclamation No. 124/1977. The objective of HASIDA was to give further boost to the development of the public economy by encouraging cooperative development in the small scale sector. HASIDA issued licenses to cooperatives, regulated their activities, and assisted in the provision of inputs and training (MUDC, 2011; FeMSEDA, 2011).

The Federal Micro and Small Enterprises Development Agency (FeMSEDA) was established in 1998 - by the council of ministers, regulation No. 33/1998 issued on April 3/1998 - replacing the former Development Agency for Small Industries and Handicrafts (DASIH). In line with FeMSEDA,the Regional Micro and Small-Scale Enterprises Development Agencies (RMSEDAs) established with similar objectives to be operated under different regional states. Major objective of FeMSEDA is to encourage, coordinate and assist institutions engaged in service provision to the development and expansion of MSEs in the country at large. In order to promote MSEs, the agency is responsible for establishing a coordinated working relationship with regional government organs, regional agencies responsible for MSE development, NGOs and the private sector. The Agency is established to focus on training of trainers, dissemination of developed prototypes, information and consultancy, facilitation, marketing, technology database to be used by regional agencies or designated organs and other concerned institutions (FeMDESA, 2011; MOTI, 1997).

Thus, the government of Ethiopia incorporates the growth of MSEs under the national plans. Hence the growth of the micro and small scale enterprises play significant role in the national development activities, particularly, in the creation of employment opportunities and poverty reduction. According to government report (GTP II) the comprehensive support provided to micro and small enterprises has helped the enterprises to create employment opportunities for

about 4 million citizens. Since micro and small scale enterprises serve as spring boards for the development of a vibrant private sector, the implementation of the micro and small enterprises program will be vigorously consolidated over the coming years. Furthermore, micro and small enterprises need to be expanded focusing on manufacturing industries and on increasing their productivity and competitiveness (GTP II 2015/16; MUDC, 2011).

Despite heavy promotion activities in the implementation of GTP I (2010-2015), like various business and public development programs have been used to promote the development of MSEs and generate employment opportunities. The small scale has grown, on average, by 4.8 percent during the first three GTP implementation years which is lower than the average growth (6.0 percent) registered during preceding plan (PASDEP) period. The share of manufacturing MSEs in GDP has declined from about 1.6 % in 2004/05 to 1.3 % in 2012/13 (EEA, 2015).

The Growth and Transformation Plan (GTP) envisages creating a total of three million Micro and Small-Scale Enterprises (MSE's) at the end of the Plan period. According to the Federal Micro and Small Enterprise Development Agency (FMESDA), a total of 70.5 thousand new MSEs were established in 2011/12 employing 806.3 thousand people across the country. The performance is below the target set in GTP. In summary though some improvements have been registered during the last few years, the performance of MSEs has fallen short of expectations due to various challenges. These include, problems related to finance, access to market and low competiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure. (Ibid, 2015).

2.3. Empirical Literature Review

According to Enock Nkonoki, (2010) , studied the factors limiting or affecting the success and growth of small businesses in Tanzania using the qualitative method of data analysis. His qualitative analysis result shows that corruption in different forms, theft , cheating, lack of a proper business plan, lack of trust in the process of doing busienss, access to finances which is known as the capital constraints, unfavorable economic conditions in the area, lack of the required talent by the opreators of the small firm , lack of proper record keeping in the process of doing the business, lack of or improper professional advice and consultation, inadequate education and training for the opreators of small enterprises, lack of prior experience in the

business and the government policy in connection with small firms, are the major constraints in which the researcher identifiy as the big challenges in affecting the growth of small firms in Tanzania.

In the conclusion he also explained the issue of small firm growth is not only a problem to small firm owners, but it also affects the overall community and the economy of the country as a whole. This is so because if small businesses fail to grow with the appropriate way as required by the economy it accelerates unemployment, lowers productivity which results lowering savings and investment, and finally the government loses money that it would have made as tax revenue which lastly deteriorates national income of the country so the factor affecting the growth of small firms shoud be matter all stakeholders.

An empirical Evidence from the study Africa and Latin America on small firm dynamics by C. Liedholm, 2001 revealed that several key variables are important determinants of the expansion of existing small enterprises. Thus propritor gender, enterprise age, initial sie, location (road side, tradtional market, commercial market and mobile), country(different latin and africa countries) and sector are among major factors affect the growth of MSEs. Controlling the influence of other variables, Enterprise age is statistically significant a strong inverse relationship with enterprise growth. Thus, it is the younger firms that are more likely generate more expansion jobs per firm. The special and unique finding by Liedholm is that Initial size is statistically significant and negative or inverse relationship with growth. The smaller enterprises at startup thus add more expansion jobs per firm than their larger scale counterparts, a powerful finding for those concerned with employment creation. The sector in which an enterprise operates also affects the helps explain growth of enterprises. His result also reveals that the manufacturing and service sectors are more likely to experience higher rates of growth than those in the reference category trading. But at a more disaggregated level, the specific sectors that were likely to generate more MSE expansion varied from country to country (Liedholm, 2001).

The study also proves that this socioeconomic variable like Gender of entrepreneur is a significant determinant of enterprise growth. Thus, male-run enterprises grow more rapidly than those run by females, even after controlling for the effects of all the other variables. In his study Human capital, although data limitations precluded the inclusion of human capital variables in

the six country growth analysis, other recent growth studies provide some evidence that human capital does significantly affect enterprise growth. In addition that business with workers trained formally at vocational schools show statistically significantly higher growth than those businesses with untrained workers once all other variables are controlled (Ibid, 2001).

Arega *et.a*, (2016) studied factors affecting growth determinants of Micro and Small Enterprises in Bole Sub City of Addis Ababa City Administration using the multiple regression method of analysis. Their research result shows that respondents who attended technical or business management training showed better growth than those who did not attend. In connection to this, they explained that training was provided to 2,174,290 business operators on the issues of business management and technical skills throughout the country which is 73% of the GTP target to enhance the growth of micro and small enterprises (GTP annual progress report, 2013). But they indicate that majority of the respondents believe they did not get sufficient access to training.

On the other hand, their results also reveals that Micro and small enterprises that comes to business with higher initial investment (capital) shows better growth than those MSEs that started business with lower initial investment. Finance as one of the main factors that affect starting, success, performance and growth of MSE's. Thus those MSEs do not have enough access to loan to start and they need to have pre-credit compulsory saving before acquiring business loan. They also Supporting this, in another finding that the major source of startup finance and working capital is own saving, family and friends followed by microfinance and 'equb. In addition, as per multivariate analysis of the study, MSEs engaged on the service sector are growing more than MSEs in the other sectors. Regarding, the ownership of MSEs *i.e* in cooperative form or non- cooperative form, those in non- cooperative form shows better growth than those working in cooperative. Thus they confirms this particular result with the current government practice that MSEs in cooperatives form are encouraged to stay in business only until they acquire starting capital for their business, and then they are encouraged to establish the other types of MSEs which include, Sole proprietorship, PLC or partnership.

Another finding by Solomon *et.al*, (2016) studied the determinants of growth of micro and small enterprises (MSEs) which is an empirical evidence from Ethiopia. They used OLS method of

estimation and the result shows that Micro and small enterprises have limited linkages with other firms, and are less integrated with the external market, especially small enterprises have not benefited from linkages with larger firms. This implies that limited integration with the external market and larger firms means that Micro and small scale enterprises have not benefited from technology transfers and other useful business related exposure which in turn results reduction in their performance to grow.

The result also indicates that access to finance appears to be a very severe or major obstacle as which is about 55% and 64% of micro and small scale enterprises respectively. In their comparision between micro and small enterprises the problem of access to finance is more severe for small enterprises compared with micro enterprise as the latter often have access to microfinance institutions (MFIs). A large proportion of both micro and small enterprises have not applied for a loan or credit due to lot of resasons such as cumbersome bureaucracy, limited working premises, and high collateral requirement in the study area.

In their qualitative analysis the characteristics of both top managers or owners and firms do matters for the growth of micro and small enterprises. Among manager's or owner's characteristics, age, marital status and education were important factors affecting growth of both micro and small enterprises. Most importantly, human capital development targeting managers of MSEs can boost employment creation through the expansion of MSEs because an MSE manager having secondary school education and or technical and vocational education training is positively related with firms' growth. In addition, they explained that human capital development is also important for the workers of the enterprises hence businesses with larger proportion of skilled production workers shows statistically significantly higher growth than those businesses with less trained workers in the process.

The finding of their study also reveals that the business environment influences the growth of firms. In particular, frequent power interruptions, lack of access to credit, and shortage of water is inversely correlated with growth of micro and small enterprises. In the result for micro and small scale enterprise, access to credit is the main problem because as the MSEs are too big for non-bank financial institutions at the same time they are too small for commercial banks in the country reflecting the missing middle financial intermediation. In addition start-up size or initial

capital and growth of the MSEs are negatively related, which means that MSEs that start business larger in size in terms of employment grow slower than their counterparts, which is unique finding.

Mohammed *et.al,* (2014) studied constraints and growth Potential of micro and small enterprise at Mekele city using the OLS (Ordinary Least Square) and the LPM of logistic regression model. The empirical findings of their study revealed that sex of the operator, age negatively affects the employment growth potential of MSEs. Whereas, current capital, current employment, initial employment, motivation of the operator, experience, the existing of business counseling are significant factors that positively affecting the growth potential of micro and small-scale enterprises. Thus, they concludes that accesses to these constraints are important factors for the micro and small scale enterprises to perform better and to grow in order to achieve the growth and transformation plan of Ethiopia. Both approaches of enterprise growth measures and proves that accesses to finance constraints are strongly affects the growth potential and performance of micro and small-scale enterprise.

Getachew Regassa (Dr.), (2014) studied the external factors affecting the growth of Small Scale manufacturing firms in Tigray Regional State of Ethiopia using Multinomial logistic regression model. The result indicates that the infrastructural development, competition among and within the enterprises, and access to market are positively and significantly affects the growth of small scale enterprises. On the contrary the result shows that the level of interest rate influences the growth of Small scale enterprises negatively and significantly. But in his analysis the effects of credit access and business development services are statistically insignificant to affect the growth of Small scale enterprises. Finally he concludes that policy towards job creation and industrial development can take into consideration these external factors to promote the start up and growth of Small scale enterprises.

Thus the above litrature review shows that majority of studies concentrated on factors that constraints for the potential growth performance and success of micro and small enterprises at continet, country and other small geographical areas in ethiopia. The potential internal factors including socio economic characteristics like sex, age, educational level, work experience and firm age are significant factors affecting the growth of Micro and small enterprises identified

from the above empirical reviews. On the other hand external factors like access to finance, access to training sector enterprise engaged , initial capital , initial and current employment size, are also significant factors constrain the MSEs growth observed from the above empirical findings. Studies also used variety of method some Ordinary Least Square (OLS) and another used LPM (linear probability methods) for their estimation.

In the empirical findings the significant effect of operators age, inverse relationship of initial size with growth of MSEs, the positive sign of ownership is in contradict with the result in this study. Given the above background this study employed multiple linear regressions, OLS (Ordinary Least Square) method to assess factors affecting the growth of MSEs in Awi zone. The result reveals that age of operators is insignificant and sex of operators, educational level, work experience, sector MSEs engaged, initial capital, access to training and finance and ownership has significant effect on the growth of micro and small enterprises with positive sign. On the contrary the enterprise age and ownership has significant and negatively affect the growth of micro and small enterprises.

CHAPTER THREE

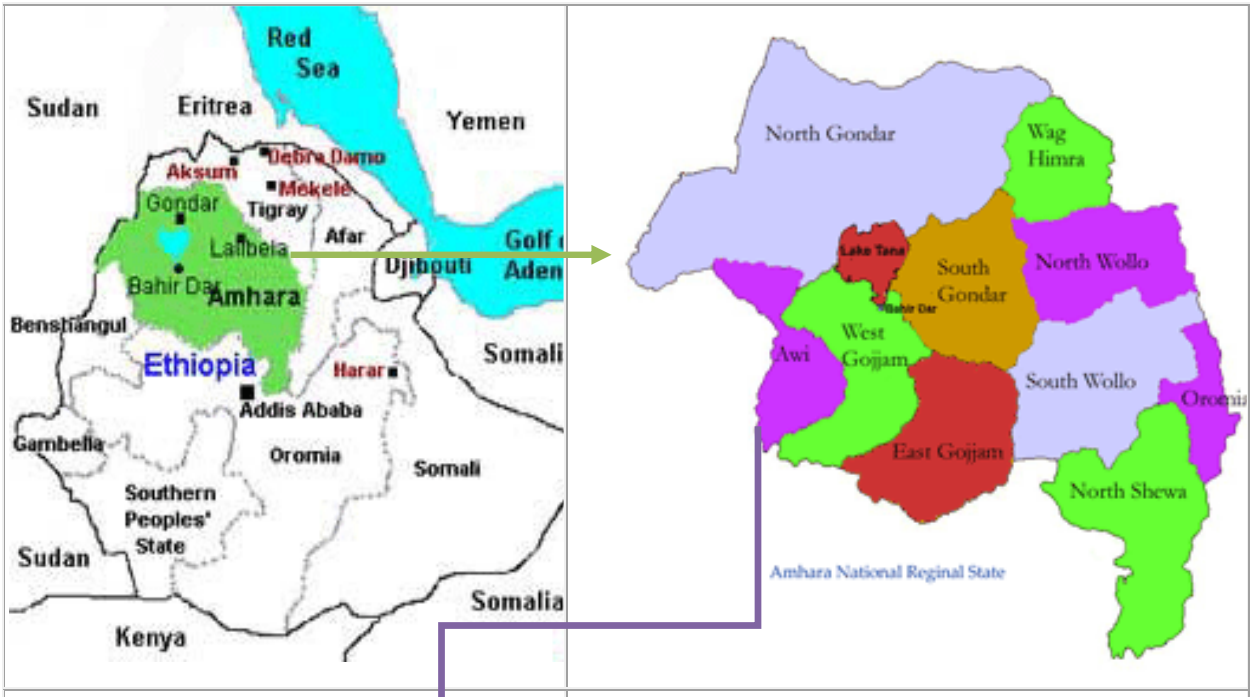
3. RESEARCH METHODOLOGY

3.1. Description of the Study area

Awi is one of 10 Zones in the Amhara region of Ethiopia. Awi is named for the Awi sub-group of the Agew people, some of whom live in this Zone. This zone is bordered on the west by Benishangul-Gumuz Region, on the north by Semien Gondar Zone and on the east by Mirab Gojjam. The administrative centre of Agew Awi is Injibara found North West of Addis Ababa at a distance of 456 km from Addis Ababa and 126 km from Bahir Dar (Source,wikilipidia).

The Awi zone covers an area of 8,584.9 sq. km and accounts for about 5.46% of the total area of the region. Awi Zone has eight weredas classified in 183 rural and 25 urban Kebeles, and the total population of the zone is about 1,198,747 of which 588,429 are male and 610,318 are female. Based on the 2007 national census conducted by the Central Statistical Agency of Ethiopia (CSA, 2007), Amharic language spoken as a first language by 53.38%, and 45.04% spoke Awngi; the remaining 1.58% spoke all other primary languages. The three largest ethnic groups reported in Agew Awi were (49.97%) a subgroup of the Agaw, the Amhara (48.6%), and the Gumuz (0.98%); all other ethnic groups made up 0.45% of the population.

According to World Bank, 2004 report, 6% of the inhabitants of Awi zone have access to electricity, this zone has a road density of 39.6 km per 1000 square km (compared to the national average of 30 km), the average rural household has 1.2 hectare of land (compared to the national average of 1.01 hectare of land and an average of 0.75 for the Amhara Region) and the equivalent of 0.5 heads of livestock. 13.6% of the population is in non-farm related jobs, compared to the national average of 25% and a Regional average of 21%. 72% of all eligible children are enrolled in primary school, and 16% in secondary schools. Though it is common that in many urban areas are known in business activities this zone is highly known for its better business concentrated activites. Currently in relation to the construction of Great Ethiopian Renascence Dam, Awi zone micro and small enterprises are emerged in many sectors of the economy.



Location of Amhara region | Amhara region and 11 zones

Fig. 3.1. Geographical map of Awi Zone

3.2. Data Source and Type

In this research both qualitative and quantitative types of data are used. Regarding on sources of data, both primary and secondary sources were used in generating valuable and relevant data. Primary data is collected through questionnaire. Information on the demographic characteristics, status of employment, income and other data was collected from the Micro and Small Enterprise (MSEs) owners, employees and from Awi zone Micro and small enterprise development office.

Secondary Data is collected from various sources like officially published and unpublished materials. Reports, statistical bulletins, brochures and other material has been used for other necessary information. In addition researches and international journal articles, papers conduct locally, important international books related to MSEs (Micro and Small Enterprise) newspapers, Federal Micro and small enterprise development packge manual also referred for further reading and to explore constraining factors of MSE.

3.3. Method of Data Collection

Secondary data was collected through reviewing important literatures, articles, locally conducted researches, Brouchers & document from Awi zone MSEs office and FeMSEDA manuals of different years, depending on the topic. Structured Questionnaire and interview selected as the tools through which the data was collected from sample micro and small enterprise owner and operator. The Questionnaires collected from MSEs conatained mostly close-ended and open-ended questions as the main instruments in assessing the factors affecting the growth of MSEs.

In this study mostly the questionnaires used because of its convenient and appropriate to get relatively uniform data regarding the research problem with the given resources. The questionnaires includes different variables that enables to identify the challenges. The other method of data collection that was used in this study is interview in which key informants selected purposively and interviewed to provide insights on the problem of MSEs from the sector.

3.4. Sampling Method and Sample Frame

In this study two stage simple random sampling technique was employed in selecting the sample from the total population of MSEs in urban areas of Awi zone. First, sample of urban areas Tilili, Enjibara, Addiskidam and Dangila were selected and in the second stage of sampling 356 micro and small enterprises samples were selected as representative of the total population, 3249 MSEs existed in urban areas of Awi zone. Finally questionnaires were distributed for a total selected sample of micro and small enterprises. The sample framework used in this study in the process of selecting the sample Micro and small enterprises shown below diagramatically.

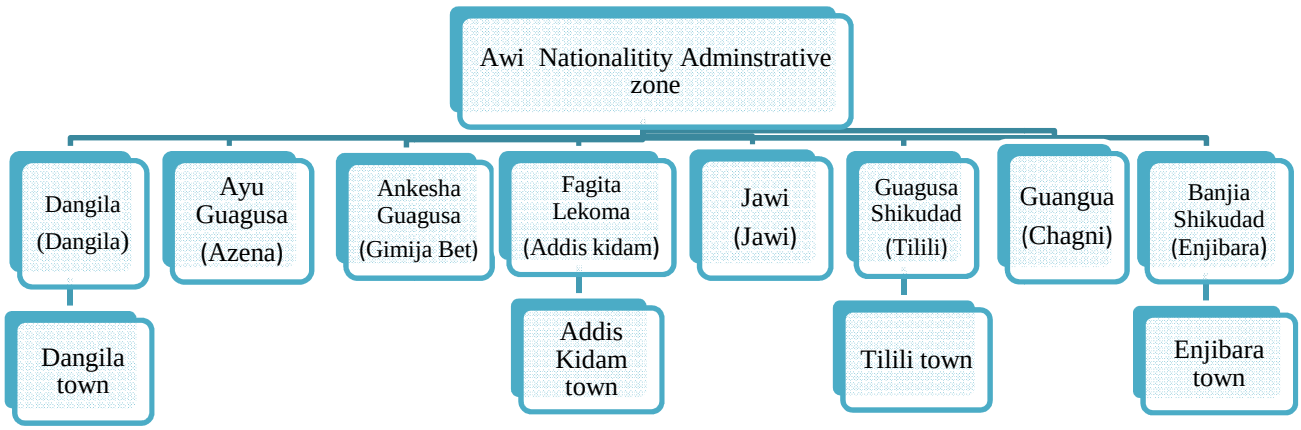


Fig 3.2. Sample framework for selected MSEs

As indicated in the diagram Awi nationality administrative zone has currently eight woredas and in this study four of them Dangila, Fagita Lekoma,guagusa Shikudad and Banja are selected and their respective town Dangila, Addiskidam Tilili and Enjibara are selected in order to distribute the questionnaire prepared to sample 356 micro and small enterprises.

3.5. Sample Size

There are several approaches which can be used to determine the sample size. These include using a census for small populations, imitating a sample size of similar studies, using published tables and applying formulas to calculate a sample size. This study applied a simplified formula provided by Yamane (1967) in order to determine the required sample size at 95% confidence level, degree of variability of= 0.5 and 5 % level of precession or sampling error, the range in which the true value of the population is estimated to be. Thus the formula is given as:

$$n=\frac{N}{1+N(e2)}$$

Thus out of the total population which is 3,249 MSEs in urban areas of Awi zone the sample selected calculated as,…… $n = \frac{3249}{1+3249(0.0025)}$ = **356**

3.6. Method of Data Analysis

In this study both quantitative and qualitative cross-sectional type of data analysis techniques employed to analyze the data that are collected from primary and secondary sources. The study also used statistical tools including descriptive statistics as well as econometric model for the analysis. Descriptive type of analysis used to analyze the data using such as percentage, average frequency, standard deviation and mean are used to make analysis organized in the form of tables.

In measuring the growth of micro and small enterprise, although theoretically alternative measurement tools such as growth rate of sales, profits or income could give precise results, in practice they are not as credible as the employment growth measure because of entrepreneurs' hesitation to report the true values of their sales and profits. This hesitation, which leads to measurement errors, makes the employment based measure preferable in studies considering enterprise growth. Moreover, in a relatively high inflationary economy, avoiding data in value terms is preferable, so using the employment growth rate as the measurement tool is beneficial (Mohamed *et.al,* 2014). In addition, taking employment as measure of enterprises growth needs to be consistent with the goal set for the sector. In this study, therefore, simple average employment (number of persons) growth rate in MSEs will be used as growth measure.

Now the critical issue here is how the dependent variable employment growth will define. According to Liedholm and Mead, 1999 firm growth is defined as the relative change in a firm's number of permanent employees over a period of time, a definition adopt for this study. More specifically the annual growth rate of firms in terms of number of permanent employees between establishment year and the time of the survey, in this study 2016. Following that the enterprises employment growth more specifically in this study measured through calculating the simple average employment growth rate over the enterprise age, which is shown as follows :

$$gr = [(CE - IE) / IE)/EA$$

Where,

gr = Simple average employment growth rates

CE = Current employment

IE= Initial employment

EA = Enterprise age.

In the regression model it is important to just finding the best linear approximation of one variable (the dependant) given a set of others (independent), in which relationships that are more generally valid than the sample they happen to have which inturn helps say something about things that are not observed (yet). To do this it is assumed that there is a general relationship that is valid for all possible observations from a well-defined population. (Gujirati, 2006)

An appropriate empirical model applied in the analysis of the factors affecting the growth of micro and small enterprise is Ordinary Least Square (OLS) as the dependent variable (simple average annual growth rate in this case) is a continuous variable . so, OLS provides an estimate of the best way linearly to combine the explanatory variables to predict the dependent variable and the estimator is the most basic estimation procedure in econometrics. Thus the model specified as:

$$Y* = \alpha 0 + \sum_{i=1}^{5} \alpha i Xi + \sum_{i=1}^{5} \beta i Di + Ui \quad \ldots\ldots (2)$$

$$Y^* = \alpha_0 + \alpha_1 X_1 \ldots . \alpha_5 X_5 + \beta_1 D_1 \ldots + \beta_5 D_5 + U_i \quad \ldots\ldots (3)$$

Where: X's and D's = are explanatory variables that determine MSE's Employment growth,

α_0 is the constant term and

α's and β's are coefficients to be estimated.

Now it is possible to formulate the MSE growth model. Thus, the cross-sectional estimation for the factors affecting the growth of MSEs will be conducted through the empirical model is specified as follows:

Enterprise growth= f (age of operator, education, experience, , enterprise age, initial capital, sex of operator, access to training , access to finance, ownership mode, sector)

In short expression,

$$(GROWTH) = \alpha_0 + \alpha_1 AGE + \alpha_2 EDUCATION + \alpha_3 EXPERIENCE + \beta_1 ENTAGE + \beta_2 INCAPITAL + \beta_3 SEX + \beta_4 ACCTRN + \beta_5 ACCFINA + \beta_6 OWNERSHIP + \beta_7 SECTOR + u_i \quad \ldots\ldots(4)$$

Where, β0 is constant

α's and β's are parameters to be estimated

'u' is the error

Table 3.1 Variables Type and Definitions

Variables Name	**Type**	**Definition**
Age (AGE)	Continuous	Age of owner or operators of micro and small enterprise
Education (EDUCATION)	Continuous	Level of formal education attained by the MSEs operators or owners
Experience (EXPERIENCE)	Continuous	Experience in which the MSEs operators have before the new business
Enterprise age (ENTAGE)	Continuous	Age of the operator of the MSEs
Initial Capital (INCAPITAL)	Continuous	Initial working financial capital of the MSEs
SEX	Discrete	Sex of the operator, it takes the value "1" if sex of the respondent is male "0" if female
Access to Training(ACCTRN)	Discrete	Training to the enterprise it takes the value "1" if MSEs access to finance "0" otherwise
Access to Finance (ACCFINA)	Discrete	Financial access of enterprise it takes the value "1" if MSEs access to finance "0" otherwise
Ownership Mode (OWNER)	Discrete	Ownership mode of enterprise if Cooperative take the value "1" and "0" otherwise
SECTOR	Discrete	It has three dummy variables representing Service, manufacturing and construction with trade as bench mark.

Definition of variables and Hypothesis

Dependant variable: in the model, enterprises growth determined by the simple average growth rate of employment over the enterprises age.

Independent Variables

Age of the operator (AGE): The age of operators refers to their age at the study year. This study considers the particular age of entrepreneurs life ranges from 18-65 years of working age. According to Mohamed *et al*. (2016), there is feasible relationship between the age of operators and performance of the enterprises. Thus, age of operators assumed to have positive influence on the performance of the enterprises. Thus, the sign of the coefficient for the operators' age were expected to be positive.

Educational level (EDUCATION): The level of education attained by the operators of the enterprises is the attainment level of formal education.The level of education attained is likely to affect the levels of skills using which one may survive in the business (Enock Nkonoki, 2010). The level of education is therefore assumed to have positive influence on the values of benefit cost ratio of the enterprises. Therefore, the sign of the coefficient for the education level attained by the operators of enterprise variable were expected to be positive.

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

Enterprise Age (ENTAGE): Age of enterprises refers to the duration of time that the enterprises stay in the business. This study considers the enterprises age from the period of establishment up to the time were data collected. Long period attendance of the enterprises in the business builds the performance of enterprises to stay in the business. Thus in this study that the

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

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

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

Access to training (ACCTRN): It will be measured as a dummy variable taking a value of one if the enterprises have access of training and zero otherwise. Access to training for enterprises refers to the facilitation of different trainings which assists the operators of the enterprises to perform in a suitable way. Capacity building trainings would better prepare enterprises to perform in the business they engaged (Enock Nkonoki, 2007). Therefore, enterprises which have sufficient access of training are expected to have good performance. The sign of the coefficient of the variable access of training was expected to be positive.

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

through borrowing from banks is found to be insignificant despite availability of financial institutions. In this study access to finance will be expected to affect growth of micro and small enterprise significantly and positively i.e. if micro and small enterprise have access to finance their growth will increase thus the variable was expected to have positive coefficient.

Enterprise Ownership mode (OWNERSHIP): This variable is determining whether the enterprise is ownership Cooperative or non cooperatives. Regarding, MSEs in cooperative form or non- cooperative form, will have greater and significant effect on the growth potential of micro and small enterprises. Thus under this particular study those enterprise operate with cooperative will likely to grow than those operate in private level. As a result the coefficient with this variable was expected to be positive.

SECTOR : The sector in which an enterprise engaged helps explain growth as well. It incorporates four sectors, trade (wholesale and retail trade), Service, manufacturing and construction . Here the trade sector used as bench mark and the variable has four catagories. In this study those MSEs enaged in service, manufacturing and construction expect to have higher probability to grow than the bench mark trade sector. Thus the coefficient with those three dummy variable was expected to have positive sign.

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

4.1. Overview of Analysis

This chapter deals with presentations, discussions and interpretations of the data collected through questionnaire and interview. The main objective of the study is assessing the factors affecting the growth of Micro and Small Enterprises (MSEs) in Awi zone. Questionnaires and interviews were the tools selected for the collection of data and STATA as the main softwer in the analysis of the data. To collect the data 356 questionnaires were distributed to MSEs and all 356 questionnaires were returned back with completely filled and significant responses.

The discussion and data analysis parts are divided into two sections, descriptive and econometric analysis. In the first section of descriptive analysis, the characteristics of micro and small scale owners, the enterprises characteristics and the business enviroment will be explained using the summary statistics. Then, determinants of employment growth of micro and small scale enterprises are analyzed based on the regression result obtained from the STATA in comparision with different economic models and researches. Data are collected from four selected towns of awi zone these are Enjibara (main town of awi Zone) Tilili, Addiskidam and Dangila.

4.2. Descriptive Analysis

As explained before the data were analyzed using both descriptive and econometrics methods. On the descriptive side the demographic characterstics like sex, age, socio economic characterstics like education , characterstics of micro and small scale enterprise and the business enviroment are analyzed using frequency, percentage, mean , standard deviation minimum and maximum value of the variable.

4.2.1. Demographic and Socio-Economic Charactersics of respondent

In this particular research the democraphic and socio economic attributes including sex,age and education of the randomly slected respondant are analyzed.

Table 4.1 Sex of the respondent

Sex	Numberof MSEs (Freq.)	Percentage (%)	Growth Status	
			Mean	SD
Male	230	64.6	0.31	0.32
Female	126	35.4	0.044	0.22
Total	356	100	0.22	0.22

(Source: own survey, 2016)

Just like any other economic activites both females and males are operating in MSEs at different positions as owners, managers or employees of enterprises. However the percentage of their involvement in such enterprises is not equal.

As we observed from the above table out of the total sample MSEs in the Awi zone 64.6% are opreated by the males and the rest 35.4 percent of sample of MSEs opreated by females. This implies that male owned and opreate most of micro and small scale enterprises in the study area and this percentage is relatively consistent with the MSEs business environment in Ethiopia in which 34 percent and 66 percent of Ethiopian MSEs beneficiaries are female and male, respectively as current Federal MSEs Development Package.

In addition, we can observed that difference in growth among enterprises owned by male and female indiviual, male owned enterprise has mean average growth of 0.31,which is greater than the mean growth of enterprises opreated by female.

Table 4.2 Age of the respondent

Variable	Obs.	Mean	SD	Min.	Max.
Age	**356**	**30.5**	**5.28**	**22**	**46**

Source: Own survey, (2016)

Diifferent individuals with different age groups can join different work enviroment. However, in some activities individuals can have or not equal chance to participate because of their age. Depending on the above result the mean value of age of opreator was found 30.5 year with minimum and maximum of 22 and 46, respectvely. Thus though there is significant gap in the

age of opreators and their mean value indicates that most of opreators are at their adult age which enable them to do lots of acitivity with different enviroment.

Table 4.3 Education level of the entrepreneur

Variable	Obs.	Mean	SD	Min.	Max.
Education	**356**	**8.3**	**5.17**	**0**	**17**

Source : own survey, (2016)

Education is an important instrument for the development of one country's economy due to the reason that it pass through different stage of industrilization. Hence for the industrilization of one cuntry requires the growth of micro and small enterprises to large company, thus these company requires well educated administrator, and employee.

Here the respondants were asked to fill the level of formal education they attened. Education as an important instrument to the growth of micro and small scale enterprise, thus as indicated in the above table, the opreatores of MSEs have maximum level of fromal education 12+5 and with minimum level of illitrate. But their mean value 8.3 indicates that majority of MSEs opreators are completed at least their primary school.

Table 4.4 Work Experience of Participants

Variable	Obs.	Mean	SD	Min.	Max.
Work Experience	356	1.03	1.46	0	6

Source : Own Survey, (2016)

Like any other characterstics individuals also differ in their work experience durations. This difference in their experience have important factor affecting the growth of micro and small enterprises. Thus an individual with better experience can able to perform the acitivity in better manner than their fresh counterpart.

Respondents were asked to indicate year of they participate in busin their work experience before their current engagment and the data collected accordingly. Depending on the above table most

of MSEs opreaters have no experience before their current business. This implies that for most of MSEs are established first for self employment as single and small enterprise so as to survive themsleves and to be employed.

4.2.2. Characteristics of Sample Micro and Small Scale Enterprises

In this particular section the ownership mode, major source their initial capital during their startup and the sector that the enterprises are engaged expalined.

Table 4.5 Ownership mode of the MSEs

Ownership Mode	**Freq. (No of MSEs)**	**Percentage (%)**
Coopreatives	81	22.75
Non-Coopreative	275	77.25
Total	356	100

Source: own survey, (2016)

Enterprises may established and opreated in sole propritership, partnership or coopreatives as it depends on different individuals interest. In the ownership mode of the enterprises they are asked to answer either the enterprises are owned and opreated in coopreative or not. Thus according to the above table majority of micro and small enterprises are opreated in non coopreative mode i.e out of total respondants 77.5% are in noncoopreative, either under sole propriterhip or partinership and 22.5 percent of respondants are under coopreative ownership mode.

Table 4.6 Major Source of Initial Capital of MSEs during Start-up

Source of Finance	**Freq. (Number of MSEs)**	**Percentage (%)**
Personal Saving	212	59.6
Gift (Family or Friends)	64	17.8
Loan (Bank or Microfinance)	33	9.3
Equb	47	13.3
Other	0	0
Total	356	100

Source: Own survey, (2016)

Individuals cannot join, start or establish businesses without any capital, they need to have some sources of finance that helps them to start the business. The sources of this finance can differ from one another depending on different factors. From the major possible financial sources of start-up of businesses in Ethiopia, informal sources were the highest in the past for different individuals operating as private. Also currently micro finances are one of the major sources of finance for individuals working in cooperative.

Respondants were asked to select their major source of finance while they started their business. As indicated in table 4.6 the major source of initial capital of these enterprises is personal saving which covers 59.6 percent of overall sample follwed by gift from family and friends cover 17.8 percent. Thus loan from bank or Micro financeas a source of initial capital for MSEs have the lowest share from the total sample enterprises which is only 9.3 percent. Equp as traditional way of saving in Ethiopia contributes for the establishment of micro and small enterpeerises as source of finance which is 13.3 percent of total sample respondents.

4.2.3. The Business Enviroment affect the growth of MSEs

In this section those factors affcting the growth of micro and small enterprises in their business enviroment are discussed based on the data collected form five selected town of awi zone. These are the financial access, Access to Training and the market access to their product are expalained.

Table 4.7 MSEs Access to Finance and their growth Performance

Access to Finance	**Frequency (Number of MSEs)**	**Percentage (%)**	**Growth status**	
			Mean	SD
Yes	103	28.9	0.53	0.24
No	253	71.1	0.09	0.23
Total	356	100	0.22	0.32

Source: own survey, (2016)

Finance an important instrument that enabled an enterprise to do their activity in well organized and accessable manner. Here the respondant in the questionnaire were asked to answer either

they have access to finance either from banks or other financial institutions or not since establishment. As we observed from the above table only 28.9 % of total repondants has access to finance and the rest and the majority 71.1 % of sample MSEs did not have access to finance.

When we observe the difference from their growth status those who have access to finance achive better growth status and performance compared to those who did not, with mean growth rate 0.97 which is higher than 0.19. This was happened basically due to that enterprise with financial access can have better investment and expansion in their business and employ more workers.

Table 4.8 MSEs Access to Market

Market access	Number of MSEs	Percentage(%)
Excellent	29	8.2
Very good	41	11.5
Good	88	24.7
Poor	198	55.6
Total	**356**	**100**

Source : Own survey, (2016)

Availability of market is one of the decisive for the growth and sustainability of MSEs. If there is no market access, the enterprises cannot have opportunity to sell their products and unable to get the benefit from the product.

Market access adds value by making goods and services available at convenient times and locations, by creating a better environment in terms of location, allowing multiple distribution, size and making them more responsive to customers needs. Accordingly, if the customers' demand for the product and supply of MSEs mismatched i.e if the market cannot be easily accessible for the products, then the products of the producers sit idle tying up the capital. This implies when there is lack of market access for the product, the movement of the produced product to the market come slow in which the possibility to get working capital for further expansion is contracted and make the business stagnant rather than actively contributing to their growth.

Depending on the survey presented on the above table 4.8 large percent of micro and small scale enterprise opreators are under the poor markest access covers 55.6 %, followed by good market access condition covers 24.8% of total sampled opreaters. And only 8.26 % of the total sample opreators are under excellent market access situations.

Table 4.9 MSEs Access to Training and their growth Status

Access to Training	Frequency (Number of MSEs)	Percentage (%)	Growth Status	
			Mean	SD
Yes	147	41.3	0.37	0.33
No	209	58.7	0.10	0.24
Total	356	100	0.22	0.32

Source: Own survey,(2016)

Trainng as an important support service is one of the determinants of MSEs growth. But, there are significant numbers of people who contend that these support services are not reaching all forms of MSEs in an equitable and well organized manner. The result in the above table shows the same fact and shows that the proportions of enterprise receiving the formal training out of total respondant were 41.3 % had access to training and the rest 58.7 percent had no access any technical or managerial trainings. With regard to their growth status there is significant difference between the two group. Those enterprise who have access to training has better employment growth which is 0.37 mean growth rate compared to those who did not access, with 0.10 mean employment growth rate

Table 4.10 Sector that MSEs engaged

Sectors	Number Of MSEs (Freq.)	Perccentage (%)
Service	109	30.6
Manufacturing	74	20.8
Construction	42	11.8
Trade	131	36.8
Total	**356**	**100**

Source: Own survey, (2016)

Enterprises engaged in variety of sector as they demand. As we can observe from the above table majority of enterprises are engaged in the trade sector (whole sale and retail trade) which is 36.8 percent of total sample enterprises followed by service sector (including hotel, barber,car washing, consulting, e.t.c) which is 30.6% of the total respondants. MSEs that are engaged in manufacturing sector (mostly bakery, producion of bamboo furnitures, e.t.c), has better growth than any other sector as indicated in the regression result though its number is small. Thus it was observed in the process of data collection most of individuals are engaged in trade sector which might be due to the fact that the habit of enjoying new sector is not adopted.

4.2.4 Growth Status of MSEs

It is clear that every business starts to obtain income i.e with the intention of profit generation and some may achieve their goal the other may not. This is basically due to different factors affecting the growth of business. In this particular study factors affecting the growth of MSEs are identified, here in the table below the growth status of total respondants are clearly stated.

Table 4.11 Growth status of MSEs

Growth Category of MSEs	Number of MSEs (freq.)	Percentage (%)
Growing	173	48.6
Stagnant	161	45.2
Declining	22	6.2
Total	356	100

Source: Own survey, (2016)

As indicated in the above table significant numbers of enterprises are not growing i.e either declining or stagnant. Thus out of total respondent 45.2 % are stagnant and 6.2% are declining. Table 4.11 shows that 48.6 % are growing which are even below half of the total sample micro and small enterprises.

4.3. Econometrics Results and Discussions

In this section econometrics result of the model are analyzed in order to assess the factors affecting the growth of micro and small enterprise in the study area. The growth of micro and small enterprise has been affected by numerous variables that were tested in many of previous empirical work on the topic. Similarly, in this study the selection and incorporation of explanatory variables including internal and external factors was guided by review of related literature. A due consideration was given to include variables that are possibly determine the growth of micro and small enterprise particularly in the study area and could be tested in the current national and regional context.

The OLS multiple linear regression model used to estimate the potential effect of each explanatory variable on the dependent variable (growth of micro and small enterprises). Before applying the model, various diagnostic including the multicolinarity and hetroscedasticity tests were used to see the fitness of the model.

As indicated in the Table 4.12, from the main variables included in the regression model, age was found statistically insignificant and the rest sex of enterprise opreatores or owner formal education level,prior work xperience of opreators, enterprise age . initial capital, access to finance access to training ownership mode and sector that enterprise engaged are significant factors affecting the growth of micro and small enterprises. The results of this particular analysis are summarized in Table 4.12 shows variables that are found to be important determinants of enterprises.

Table 4.12; The factors affecting the growth of micro and small enterprise: Robust Growth regression result case from Awi zone.

Variables dependant ; Growth	**Coefficients**	**Robust Std. Err.**	**T**	**P>t**
AGE	-.0031218	.0021306	-1.47	0.144
EDUCATION (Formal Educational level attained)	.0052667**	.0021681	2.43	0.016
EXPERIENCE (Prior Work Experience)	.0464559*	.0123819	3.75	0.000
ENTAGE (Enterprise Age)	-.0275212*	.0059067	-4.66	0.000
LnINCAPITAL (Initial Capital in Log)	.123964*	.0184234	6.73	0.000
SEX (dummy; 1 if Male)	.0521833**	.0216484	2.41	0.016
ACCTRN (Access to Training dummy; 1 if Yes)	.0713336**	.0242389	2.94	0.003
ACCFINA(Access to Finance dummy; 1 if Yes)	.1213711*	.041939	2.89	0.004
OWNERSHIP (Ownership Mode dummy; 1 if Cooperative)	-.0930015*	.0326652	-2.85	0.005
SECTOR (Dummies Base: TRADE)				
SERVICE	.063351**	.0265946	2.38	0.018
MANUFA (Manufacturing)	.1120559*	.0291098	3.85	0.000
CONSTRUCTION	.070525**	.0347721	2.03	0.043
_cons	-1.093287	.1692516	-6.46	0.000

* Significant at 1 % level , ** Significant at 5% level

Regression Statistics, Number of obs (n)= 356, R-squared = 0.6441

Table 4.12 indicates the factors affecing the growth of micro and small scale enterprises. Thus the regression result of emperical model i.e the dependant growth and the respective independent variables presented as follows:

Growth = -1.09 + 0.0053education + 0.046experience – 0.028entage + 0.123lnincapital + 0.052sex + 0.07acctrn + 0.121accfina - 0.093ownership + 0.063service + 0.112manufac + 0.0705construction

4.2.1. Interpretation of the Model Result

1.Education : it is level of formal education attened by the enterprise opreators. Thus education is statiisticaly significant at 5% level of significant and affect the growth of MSEs positively. This indicates that there is direct and positive relationship between the formal education level attained by the MSEs opreators and the growth of Micro and small enterprises.

Thus, other things remain constant one additional year increase in level of formal education attended by the opreator of SMEs results 0.53% increase in the growth of micro and small scale enterprises. Therefore, the research haypothesis that the increase in level of formal education increases the growth of micro and small scale enterprises is accepted.

Higher levels of formal education attained by the enterprises operator facilitate growth of enterprises by enhancing their capabilities. For example, formal education may provide entrepreneurs with a greater capacity to learn about new production processes and product designs, offer specific technical knowledge conducive to firm expansion, and increase owners' flexibility with different situations. And these managers or owners with higher level of formal education results higher productivity in the enterprise.

Higher levels of education considered to have impact strongly on an entrepreneur's capability to increase market opportunities, identify and solve problems and increase a business growth performance and employment potential. An entrepreneur's motivation to grow, skill like financial literacy, managerial and communication know-how, etc., self-confidence and other creative capacities are expected to increase with better educational performance. An individual with better educational qualification can also able to understand and perform proper record keeping of transaction in the business which facilitates the growth of an enterprise.

Studies suggest that entrepreneurs who are successful in running a profitable business and employer hired staff tend to be better educated and trained (Fafchamps & Woodruff, 2012 cited by Carl Rogee, 2015). Similar findings are also obtained by Solomon Terfasa *et.al*, (2016).

2.Work Experience (EXPERIENCE) : In this particular study Work Experience of the MSEs opreator has significant factor affecting the growth of micro and small enterprises. The result shows that work experience is positively or directly related to the growth of MSEs. Thus as indicated in the above result table, other things remain constant, one additional year increase in work experience of MSEs opreator result 4.64% increase in the growth of micro and small enterprises. Therfore the resarch haypotesis 'there is postive and significant relationship between work experience and the growth of MSEs' is accepted.

Work experience of the owner or opreator contributes to the growth of micro and small enterprises in different ways,first it increases the abilities of MSE owners and employees through the adoption of skills and knowledge and then it expand the social networks among the enterprise owners. Thus any development practitioner or business person can assure that owners or opreators of the enterprise can able to acquire a substantial amount of skills and knowledge while operating their firms. Thus an individual opreater with more years of work experience typically have faster growing MSEs.

The importance of prior work experience may be even more helpful, especially if that experience came within the same sector that the particular business engagned in. Opreators and owners provides insights about the importance of skills and business contacts gained during their past employment enable them enterprise to grow faster than enterprise with opreator who have no any experiance. Because work experience has been found to enhance professional and social networks they can identify business opportunities, obtain financing and other resources, and alleviating management challenges as well as accessing skilled and similar workers with them which is important for the growth of micro and small enterprises.

Thus, this particular research shows entrepreneurs. opreators or owner of MSEs who had previously worked in another business specialy in similar business with current work showed significantly higher growth than those who had previously been unemployed or indvidual without experience. Perhaps owners are able to overcome their own technical mangerial shortcomings by hiring such workers. This finding is just similar with a study by Solomon *et.al,* 2016, Parker, (1995), cited in USAID (2005: 15) in Kenya shows prior experience in similar business activities have had a paramount importance for the growth and success of enterprises.

3.Enterprise Age : In this paricular study enterprise age has significant and negative effect on the growth of MSEs. Thus it is statisticaly significant at 1% levele of significance and enterprise age has inversly related with the growth of micro and small enterprise. Thus additional one year increase in the enterprise age results 2.75% decrease in the growth of MSEs. In another words the younger enterprise that are more likely generate more expansion jobs per enterprise.Here the research haypothesis ‘ there is postive and significant relationship between the enterprise age and the growth of MSEs’ is rejected. But as the result reveals that those micro and small scale enterprises in their earlier age has likely to Experience better growth than their counterpart hence as their capital and productivity grow faster than older firms their ability to hire new employee also increase.

A theory by Jovanovic (1982) provides possible explanation over the reason that young MSEs grow more quickly than old Micro and small enterprises. The reason is that older enterprises grow more slowly because managers have learnt their efficient size of operation over time or bigger firm have small values of the cost parameter i.e they are more efficient. Such firms have less and less room for further increases, given that the information distribution has a lower bound. Younger enterprises face efficiency and financing constraints at the beginning of their operations, which result in slower growth at the beginning but these constraints are said to decrease once the business achieves minimum efficiency scales and gains better access to financing. Here the main point is that, with increasing age or when an enterprise becomes older, indicating that they may grow with regard to turnover, profits and other indicators of firm performance rather than number of employee. That means that younger firms tend to grow through the expansion in employment more than older enterprises.

Thus this study finding is similar with emperical findings in Africa and Latin America which show that young MSEs are more likely to show high rates of growth compared with MSEs that have been in existence longer (Liedholm, 2001). Other studies have shown that the average employment growth rate of enterprises decreases with age Evans, (1987). Study on the determinants of micro and small enterprises in Ethiopia by Solomon *et.al*, (2016) also reveals similar result.

4. Initial capital : This variable is also statistically significant and postive effect, revealing a direct relationship between initial capital and growth of micro and smale enterprise. Thus as indicated in the table above as one percent change in initial capital results 12.4% increase in the growth of micro and small enterprise.Therfore the research haypotesis 'initial capital has posititve and significant effect on the growthof micro and small enterprise is accepted.

One of the most common problems hindering the growth of MSEs is related with limited and insufficient working capital. It is one of the most highly required resources for both start and expansion purpose. Many owner or operator of MSEs start business primarily through their own savings because of limited access to startup capital. Even after MSEs overcome the start-up capital problem, a lack of capital in their operation frequently hinders their growth especially during the first years, because younger firms tend find financing even more difficult than older firms (Schiffer and Weder, 2001). Over the life of the firm, growth also can be hindered by capital constraints that curb investment to maintain or improve technology. The descriptive analysis in this study also reveals that large amount of MSEs start their business by their own saving.

With these all difficulties the micro and small enterprises at better startup capital thus add more expansion jobs than those MSEs start with small amount of capital, especially for those MSEs concerned with employment creation in the study area. Finding have been reported by other researchers a positive relationship between initial size and growth. Arega *et.al,* 2016 , Zemenu *et.al*, (2014) studied the determinants for the growth of MSEs finds significant and positive effect of initial capital to micro and small enterprise growth.

5. Sex of the Enterprise Opreator: it is one of those socio economic variables that affect the growth of MSEs. As indicated in the regression result sex has significant effect on the growth of micro and small scale enterprises. It is statistically significant at 5% level of significance with Positive coefficent of 0.0521 implies that other things remain constant those small and micro enterprises owned and run or opreated by male has grow more rapidly by 5.21 % as compared to their counter part (female opreated MSEs). Threfore the research haypothesis ' those MSEs opreated by male has better probabilty to grow as compared to MSEs by female opreator' is accepted.

Mostly women encounter different challenges that hold back the growth of their enterprises as compared to their men counterpart. Downing and Daniels, (1992) cited by Liedholm, (2001) explain that females are more risk averse than their male counterparts, in addition they also faces some form of discrimination. This discrimination include that the bounded with unbalanced rights and obligations limiting their labor mobility and burdening them with top-heavy household responsibilities. they face time constraints which results temporal discontinuities in women's ability to work frequently in their enterprise which results a loss of economic skills, and at times even lowers career and educational aspirations which is also observed in the study area.

In addition, women normally have unequal access to markets this because men travel to different of areas of markets than women to buy inputs, which enabling them to enjoy lower prices and higher quality of products with lots of choices. Men also sell in multiple markets more frequently than women, allowing them additional and better selling price of their products and facilitate the growth opportunities. As a result of such factors, women frequently focus their MSEs on a relatively lower level than men.

Another important contributing factor to the slower growth of female owned or operated micro and small enterprises is that their enterprises have an especially high probability of being physically located within the household resident. MSEs located in the household are not only significantly smaller on average, but also are less likely to grow than other MSEs (Mead and Liedholm, 1998). Enterprise within the household may benefit from resources such as family labor and electricity, but they may also reinvest few profits as funds are expended for daily household needs. This particular finding is Similar with result is obtained by Carl Liedholm, (2001) and Mohamed *et.al* (2014): ILO, (2004).

6.Access to Training : Training is another significant factor affect the growth of micro and small enterprises. Thus those enterprises who have access to training perform better growth than enterprise without training. In this study regression result the variable training is significant at 1% level of significance. And an enterprise that access to training grow rapidly by 7.13% than their counterpart (MSEs did not access to training) in the study area. Thus the haypothesis in this study that enterprise with better access to training can grow rapidly than enterprises without training access' is accepted.

The reason is that through training operators can develop good financial management skills, good customer handling skills and different ways of market development to their product. Training is important hence it enables to be aware about the skills to start a new enterprise or to improve the opreation, management and administrative functions of existing enterprises. Based on their newly acquired skills, trainers are expected to improve the performance of their enterprises, leading to an increased demand for labour and additional income and employment generation. Thus in the study area Training is delivered through different manner but still there is lots of limitation to provide technical and mangerial trainings especially with the government side. Similar result obtained by Arega *et.al,* (2016) studied the growth of MSEs in Addis ababa city, shows that respondents who attended technical or business management training showed better growth than those who did not attend.

7. Access to Finance : This variable affect the growth of MSEs postive and significantly. It is statistically sinificant at 1% level of significance. Thus the result revales that those MSEs opretaors who has been access to finance form different financial institution has better growth than those who don't. Emperically MSEs opreators has to grow by 12.13 % more than thos who did not access it, cetries paribus. Therefore the research haypotesis that ' access to finanace has significant and positive effect on the growth of micro and small enterprise' is acccepted.

In the data collected form MSEs most of the newly opened businesses have no much saving that helps them to expand their businesses as a result their financial access from banks, micro finance or any other financial institutions is one of important factor that determine the development of MSEs and necessary to help them set up, expand and facilitate their operations, develop new products, and invest in new employment and production of technology.

Despite the importance of access to finance and establishment of government MSE offices and agencies focused on the expansion and survival and growth of MSEs different reasons like lack of collateral to secure loan by small enterprises inhibits them to get credit access. As a result of these financial institutions became unwilling to provide loans even though financing is one of the crucial elements that determine the development of Micro and Small Enterprises in the study area.

The problem with financial institutions is that they focus on evaluating income streams flowing of MSEs i.e. financial and income statement from an investment project that MSEs will have and value the availability of collateral in the event of financial distress but this creates a problem for micro and small enterprises in that they often do not have significant fixed assets to secure in their early years of establishment. This shows that absence of financial institutions that enable them to access finance is the major obstacle for expansion of their business though there is some improvement especially the expansion of Amhara Credit and Saving Institution (ACSI) in many towns as mentioned by MSEs in the study area.

Under this most pressing obstacle entreprise those who have access to finance either from the bank , other financial institutions or themselves experienced better growth than those MSEs that did not access finance. Few emperical studies like Mohamed *et.al*, 2015 : Ofunya Afande, 2014: Solomon *et.al*, 2016 tests the link between access to finance and firm growth or success rates and their result reveals that reduced access to finance hinders the growth of micro and small scale enterprises.

8. Ownership Mode : This variable indicates ownership style of the enterperise, thus those enterprises that works under coopreative has less likely to grow as compared to those enterprise works in non-coopreative. The variable is statistically significant at 1%level of significance and have negative sign. Other things remain constant those enterprises that works under coopreative less likely to grow or less rapidly grow as compared to those enterprise works in non-coopreative by 9.3%.Therefore the haypotesis i.e those enterprise works in coopreative grow rapidly than enterprise works in non coopreative is rejected.

To show ownership effect on the growth of MSEs, ownership variables included in the model and sample MSEs opreators are asked whether or not an MSE is opreated under coopreative or not. Thus as we can observed from the regression result that MSEs owned and opreated in coopreative less likely to grow as compared with those MSEs owned and opreated in non coopreative mode.

Basically With respect to the effect of working in cooperatives for the growth of MSEs, MSEs in cooperatives are mostly promoted by the weaker sections of the socities. Therefore the funds available with the co-operatives are limited and mostly depend on government funds, in which

the amount of funds that would be released by the government are uncertain. As a result They cannot expand their activities and not able to raise their own resources beyond a particular level because of this limited financial resources. In addition The scope that enterprise enaged is limited to only certain areas of business which increase in computation and make them out of market or become liquidate.

Cooperative enterprises are based on the principles of co-operation and therefore harmony among members is important. But in practice, there might be internal differences of opinions, ideas and quarrels etc. among members which may lead to disputes. Such disputes affect the functioning and growth of the cooperative enterprises. Members also lack motivation to put in their whole hearted efforts for the success of the enterprises. The result obtained is similar with the finding by Arega *et.al* 2016, in their Multivaraite analysis the enterprise opreate in non coopreative has better growth than enterprise opreate in coopreative.

9. Sector : as indicated in the above regression result, table 4.12 the variable sector in which the enterprise operates is dummy and classifed in to four sectors ; Trade, service, manufacturing and construction sector. Service and Manufacturing sectors are statistically significant at 1% level of significance and Construction sector is also significant at 5% level that affect on the growth of micro and small enterprises (having Trade sector as base or bench mark sector). Thus other things remain constant those enterprises engaged in Service sector grow by 0.0633 or 6.33% more than enterprise engaged in trade sector. Those MSEs opreates in manufacturing sector grow by 0.112rate or 11.2% as copmared to MSEs opreates in trade sector. The other sector included in the regression analysis construction sector also grow by 0.0705 rate or 7.05% as compared to the trade sector.

Generally as it appear in the regresion result, enterprises in the service, manufacturing and construction sectors are more likely to experience higher rates of growth than those in the reference category trade sector . Yet, at a more disaggregated level, the specific sectors that were likely to generate more MSE expansion significantly different with other sector. Depending on the above regressin result enterprises in manufacturing sector grow more than enterprise engaged in service and construction sector , on the other hand the enterprises in construction sector grow more than enterprise in service sector as both copmared with the base “trade sector”

The reason that sectors in which an enterprise operates significantly affect the growth of MSEs is that they faces diverse conditions on the cost side in other words, inputs are more or less costly to obtain, technological intensity and sophistication, levels of competition as well as varying market demand in certain sectors and industries (C. Reeg, 2015). Another factor for growth of MSEs in a sector show better growth than the other enterprise depends on favorability to entry in the sector, the country's economic structure and economic opportunities that a firm has against wider structural changes within and between sectors and industries. The result in this particular study supported by the national economical growth, in the sense that the growth rate and share from the total GDP of the country construction and service sector has show significant improvement currently.

Similar emperical finidgs by Liedholm (2001), discribes that enterprises in the manufacturing and service sectors are experience higher rates of growth than those in the trade sector. Parker (1994) cited by Liedholm (2001) also found that sectoral differences were significant in Kenya, with all sectors growing more rapidly than trading. As for the sector of operation, the finding for his pooled model indicates that firms engaged in the manufacturing and construction sectors grow faster compared with those in service sector. Empirical evidence suggests that MSEs involved in trading or retailing, which are classical service sectors, are less likely to grow in wage employment as compared to businesses involved in manufacturing and modern service sectors (Mead & Liedholm, 1998).

In summary, this analysis has revealed that several key factors are affecting the growth of micro and small enterprises. Controlling for the influence of other variables, enterprise growth in most cases is inversely related to age of the enterprise and ownership of MSEs has also negative sign i.e MSEs working in coopreative is less likely to grow compared to non-coopretaives. In addition, variables such as the sex of owners, educational level, prior work experience, initial capital and sector that enterprise engaged affects the growth of MSEs significantly and with postive sign.

4.2.2. Model Specification Test

Test for Multi-collinearity: The test for multicollinearity is test whether or not perfect linear relationships among the explanatory variables. However, multi-collinearity problem is the existence of a "perfect," or exact, linear relationship among some or all explanatory variables of a regression model (Gujarati, 2004). In order to test the existence of multicollinearity problem, VIF (Variance Inflation Factor) is utilized. According to the rule of thumb for multicollinearity, test of the model states a variable whose values are greater than 10 or whose 1/VIF value is less than 0.1 indicates possible problem of multi-collinearity.

Thus, in this study there is no value greater than 10, all value of the Variance Inflation Factors are less than 2.63 with the Mean VIF, 1.61 or all values of 1/VIF are greater than 0.84. Therefore, the VIF and 1/VIF, test revealed that there is no multicollinearity problem in the model used in this study.

Test for Heteroskedasticity: The test for heteroskedasticity is test measuring whether the disturbance term μ**i** appearing in the regression function is homoskedastic (equal variance). Test of heteroskedasticity says the null hypothesis that the variance of the residuals is homogeneous. If p value is very small, i.e., Pr < 0.05 (at 95% confidence), the null hypothesis will be rejected and accept the alternative hypothesis that the variance is not homogenous (Gujarati, 2004).

The null hypothesis (i.e., Ho: Constant variance) was rejected because the test result showed Prob > chi2 = 0.000, which is less than the significance level (5 percent). Therefore, there was problem of heteroskedasticity in the process of model specification and in order to make the model fit or to make the estimators BLUE the White's heteroscedasticity-corrected standard errors are also known as robust standard errors or robust regression is used in the analysis.

CHAPTER FIVE

5. CONCLUSIONS AND RECCOMENDATIONS

5.1. CONCLUSIONS

MSEs play a great role in reduction of poverty through creating employment and finding opportunities to participate in economic activities bringing innovative products, techniques and new markets , which result the improvement of wealth and of living standards of the society**.** Despite their importance Micro and Small enterprises operation and growth have been persistently challenged by numerous internal (firm specific) and external (business environment) factors. Thus, increasing employment opportunities to alleviate the widespread poverty and create competitive industries in the international market are among the policy challenges in Ethiopian . In order to make the micro and small enterprises sector the engine of economic growth and reduce the problem of unemployment, it is important to understand factors affecting the growth of MSEs. This study provide empirical evidence on the factors affecting the growth of Micro and small enterprises based on a sample 356 micro and small enterprises in Awi zone. The study employed both descriptive and econometric methods to analyze the data.

The result in this particular study shows that weather or not the characteristics of MSEs operator (owners) do matter for the growth of MSEs. Among manager's or owner's characteristics, gender, education and their prior work experience were important factors affecting growth of both micro and small enterprises. Importantly, most of MSEs (64.6%) are owned and operated by male and those enterprises under operation of male show better growth than their female counter part. Human capital development (both formal education and training) on operators of MSEs can boost employment creation through the growth and expansion of MSEs as reflected by the result that an MSE manager with better level of formal education is positively related with firms' growth. Besides, working Experience of the operators is also important and shows statistically significant and positive effect on the growth of micro and small enterprises in Awi Zone.

The analysis also indicates that the specific Charactersics of micro and small enterprises have also significant effect on the their employment growth. Among these age of enterprise has significant and negative effect on the growth of MSEs, hence with their age MSEs reduce their capacity to creat additional job opprtunities. Ownership style of the enterprise has also significant effect on the growth of MSEs . Thus those enterprise under coopreative ownership has less likely to grow as compared those enterprises in non coopreative side.This is due to that those enterprise under coopreative ownership engaged in identical sectors result high competition, disagreement among the members result lack of motivation in their work. Sector the enterprise engaged in has also important effect on enterprises growth. Thus those enterprises participate in service, manfacturing and construction sector has better performance than the bench mark sector "trade". Particularly the manufacturing sector show better employment growth than the service and construction sectors.

The finding of this study also reveals that business environment influences the growth of firms. In particular, access to finance and access to training are affect the growth of MSEs. For small and micro enterprise, access to finance appears to be important factor in which those enterprises with better financial access show improvement in their employment growth than those do not. But access to finance appears to be a major obstacle to the growth of majority of the enterprises, in which 71.1**%** of micro and small scale enterprises does not have access to finance from banks or any other financial institutions. The problem to access finance by MSEs is particularly due to that the requirement by financial institution to have asked to have high collateral or guarantee. Access to training by the MSEs is also statistically significant and positive effect on the growth of MSEs. In this case those enterprises access to training have better growth performance than their counter part.

Another major finding of this study is that start-up size or initial capital of the enterprises has positive and significant effect on growth of the MSEs, which means that as MSEs starts business larger in capital size their employment capacity also grow. Generally the finding suggest that policies to improve the share of micro and small enterprises in the economy in order to make them engines of economic growth by creating more jobs the development of human capital through providing training, encouraging experience sharing among enterprises, improving financial access and taking account of sectors that enterprises engaged are very important

5.2. RECOMMENDATIONS

To improve the performance of micro and small enterprises through their growth so as to generating employment opportunities for the rapidly growing work force, the following specific interventions and measurement shall need to undertake:

- The analysis clearly indicated that there is a gender gap in the ownership and operation of MSEs. This shows that the concerned bodies like the governmental MSE Development Offices, female and Social Affairs office should join their hands so as to promote enterprises under the ownership and operation of women.

- The result in this study shows that level of formal education positively affects the growth of the SMEs. It is therefore recommended that the government plays a leading role in supporting formal education for the owners and managers of SME. This should include the development of courses related to entrepreneurship, creativity, and innovation in the educational curriculum.

- Training is one of the significant factors for MSE growth, but significant number of MSEs operators do not have enough access to training. Hence, government officials needs to exert much effort towards providing training and coordinating the resources from different stakeholders to work on providing technical and management trainings for MSE operators, is it recommended that the training supported and guided by marketing principles and business science and practical trainings. Through training operators can develop good financial management skill, good customer handling skill and different methods of market development to their product.

- Regarding the financial access of MSEs, most of them do not have access at all due to number of reasons. Thus, in order to address the problem of credits, financial institutions like Banks and MFIs, the Federal and Regional Governments can assist in creating lines of credit and special methods for assisting growth and performance of MSEs. This include has to be supported by providing special lending and repayment arrangements. Moreover the amount of initial capital positively affects the growth of micro and small enterprises, but finance is major problem for their growth. Thus, it is important for the

government and nongovernmental organizations together with financial institutions including commercial Banks and MFIs to formulate their policies and strategies that work towards meeting the financial needs of MSEs especially at their younger age.

- The study reveals non cooperative micro and small enterprises showed better growth and performance than the cooperative enterprises. Thus government that encourage MSEs to be established in non cooperative form needs to be encouraged or problems of enterprises in cooperative including the above recommendations like better financial access, good education and training facilities which enables them to continue to serve as means of job creation should have to fulfill.

- The governments should identify the sectors that employ more people and distribute more of the resources to them. Hence based on findings in this study the service, manufacturing and construction sector has better employment growth than the trade sector. However, regardless of this specific direction a lot needs to be done to improve the growth of MSEs in the manufacturing and construction sector , which may include providing incentives for local enterprises that uses inputs supplied by MSEs . Hence,This does not mean that other sectors should be neglected rather priorities should be given to such sectors that employ more people per the same investment.

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APPENDICES

Appendix I

Questionnaires

Dear Respondent, My name is Hawltu Getachew. I am a student at Bahir Dar University undertaking the thesis in partial fulfillment of the requirements for the degree in Masters of Science in Developmental Economics entitled: **Factors Affecting the Growth of Micro Enterprise and Small Enterprises: The Case of Awi Nationality Administration zone.** You have been selected to participate in this study to obtain your perceptions and views regarding various aspects of the micro and small enterprises sector. Your honest participation in answering the questions will assist in assessing the factors affecting the growth of Micro and small enterprises in the Zone. The information provided will be treated confidentially and your personal information will keep secret.

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

Thank you in advance!

Signature…….

Dates……

Hawltu Getachew Yigrem

M.Sc. student Bahir Dar University

Survey Questionnaire

Part I: Identification

Zone: Awi Zone

Town_____

Kebele_____

Part II: Data about the Respondent

1. Sex (A) Male ☐ (B) Female ☐

2. Age: _____

3. Marital status:

A) Single ☐ B) Married ☐

C) Divorced ☐ D) widowed ☐

4. The highest level of formal education you attained so far? _____

5. Did your enterprise manager (owner) previously have experience related to your business?

A) Yes ☐ B) No ☐

6. If 'yes' how many years of experience in other enterprise before this new enterprise?_____

7. Main Source of your business skill:

A) Self ☐ B) Family and friends ☐

C) Training ☐ D) Education ☐

Part III: Data about the characteristics of Micro and small enterprises

1. For how long did your enterprise association stay in business since establishment _____

2. How many numbers of employees in your enterprise at its establishment?_____

3. Currently how many numbers of employees in your enterprise? _____

4. What kind of output your Enterprise produce/ render?

A) Service ☐ B) Product ☐

5. What is the sector you are engaged?

A) Construction ☐ B) Manufacturing ☐

C) Service ☐ D) Trade ☐

6. Did your enterprise have access of technical or managerial training in the last year?

A) Yes ☐ B) No ☐

7. If your answer is 'yes' do you believe that training really improve the performance of your enterprise?

A) Yes ☐ B) No ☐

8. What was your main source of initial capital for your enterprise?

A) Own source (Personal saving) ☐ B) Donation (Friends & Relatives) ☐

C) Loan (bank Micro finance) ☐ D) Ikub ☐

9. What was the amount of start-up finance of your enterprise? _____

10. Did your enterprise have access to finance in the form of government support or loan from financial institution?

A) Yes ☐ B) No ☐

11.If your answer is "No" for question number 10, what is the reason that you did not access financefrombanks,governmentorfinancialinstitution?.....

.....

.....

11. Current number of employees in your enterprise when compared to its establishment?

A) Increased ☐ C) Decreased ☐ B) Constant ☐

12. How Do you rate the enterprise products and services have market access /customers?

A) Excellent ☐ C) Good ☐

B) Very good ☐ D) Poor ☐

13. If your answer is no for the above question number 12, discuss basic causes for insufficient market access to your enterprise product or service?

……

……

14. Do you think that your enterprise job creation is adequate?

A) Yes ☐ B) No ☐

15. If your answer is no for the above question number 14, explain core reasons for the inadequacy of your enterprise job creation?

……

……

……

16. Does your enterprise experience any challenges which hinder the performance of your business?

A) Yes ☐ B) No ☐

17. If yes for question number 16, discuss the main challenges that your enterprise faces?

……

……

……

18. Do you have any idea which uses to improve the performance of enterprise?

A) Yes ☐ B) No ☐

19. If your answer is yes for the above question number 18, list some of them.

……

……

……

20. In what type ownership modality did your enterprise doing business?

A) Cooperative ☐ B) Private (non-cooperative) ☐

21. What is the total amount of sales of your enterprise in the last year? _____

22. Do you have legal license from the respective government body to your business?

A) Yes ☐ B) No ☐

Thank you again!

Appendix II

```
. regress GROWTH AGE EDUCATION  EXPERIENCE ENTAGE lnINCAPITAL SEX ACCTRN ACCFINA OWNERSHIP SERVICE MANUFA CONSTRUCTION
```

Source	SS	df	MS		
Model	22.9419917	12	1.91183264	Number of obs =	356
Residual	12.6747622	343	.036952659	F(12, 343) =	51.74
				Prob > F =	0.0000
Total	35.6167538	355	.100328884	R-squared =	0.6441
				Adj R-squared =	0.6317
				Root MSE =	.19223

GROWTH	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
AGE	-.0031218	.0021787	-1.43	0.153	-.007407	.0011634
EDUCATION	.0052667	.0022851	2.30	0.022	.0007722	.0097612
EXPERIENCE	.0464559	.0097846	4.75	0.000	.0272105	.0657013
ENTAGE	-.0275212	.0055865	-4.93	0.000	-.0385093	-.0165331
lnINCAPITAL	.123964	.0174397	7.11	0.000	.0896618	.1582662
SEX	.0521833	.0241804	2.16	0.032	.0046227	.0997438
ACCTRN	.0713336	.024249	2.94	0.003	.023638	.1190291
ACCFINA	.1213711	.0328348	3.70	0.000	.0567882	.1859541
OWNERSHIP	-.0930015	.0302777	-3.07	0.002	-.1525549	-.0334481
SERVICE	.063351	.0269182	2.35	0.019	.0104056	.1162964
MANUFA	.1120559	.0297858	3.76	0.000	.05347	.1706417
CONSTRUCTION	.070525	.0414701	1.70	0.090	-.0110427	.1520928
_cons	-1.093287	.1721408	-6.35	0.000	-1.431872	-.7547025

```
. regress GROWTH AGE EDUCATION  EXPERIENCE ENTAGE lnINCAPITAL SEX ACCTRN ACCFINA OWNERSHIP SERVICE MANUFA CONSTRUCTION,robust
```

```
Linear regression                               Number of obs =     356
                                                F( 12,   343) =   53.94
                                                Prob > F      =  0.0000
                                                R-squared     =  0.6441
                                                Root MSE      =  .19223
```

GROWTH	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
AGE	-.0031218	.0021306	-1.47	0.144	-.0073124	.0010688
EDUCATION	.0052667	.0021681	2.43	0.016	.0010022	.0095312
EXPERIENCE	.0464559	.0123819	3.75	0.000	.0221018	.07081
ENTAGE	-.0275212	.0059067	-4.66	0.000	-.0391391	-.0159034
lnINCAPITAL	.123964	.0184234	6.73	0.000	.0877268	.1602012
SEX	.0521833	.0216484	2.41	0.016	.0096029	.0947636
ACCTRN	.0713336	.0242389	2.94	0.003	.023658	.1190091
ACCFINA	.1213711	.041939	2.89	0.004	.0388811	.2038611
OWNERSHIP	-.0930015	.0326652	-2.85	0.005	-.1572508	-.0287522
SERVICE	.063351	.0265946	2.38	0.018	.011042	.1156599
MANUFA	.1120559	.0291098	3.85	0.000	.0547996	.1693121
CONSTRUCTION	.070525	.0347721	2.03	0.043	.0021317	.1389184
_cons	-1.093287	.1692516	-6.46	0.000	-1.426189	-.7603853

Multicolinarity and Hetroscdasticity test

```
. vif
```

Variable	VIF	1/VIF
lnIncapital	2.63	0.379751
Accfina	2.14	0.468240
Experience	1.96	0.510104
Constru	1.72	0.580025
Ownership	1.55	0.644217
Service	1.48	0.674344
Manufa	1.41	0.710552
Acctrn	1.37	0.728187
Education	1.33	0.752079
Sex	1.29	0.776372
Age	1.27	0.785212
Entage	1.18	0.848394
Mean VIF	1.61	

```
. estat hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of Growth

         chi2(1)      =    40.23
         Prob > chi2  =   0.0000
```