



THE ROLE OF MICRO AND SMALL ENTERPRISES IN CREATING EMPLOYMENT OPPORTUNITIES IN HAWASSA CITY

M.A THESIS

ENDALKACHEW ADEM MUSSA

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THE ROLE OF MICRO AND SMALL ENTERPRISES IN CREATING EMPLOYMENT OPPORTUNITIES IN HAWASSA CITY

ENDALKACHEW ADEM MUSSA

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This is to certify that the thesis entitled “**The Role of Micro and Small Enterprises in Creating Employment Opportunity in Hawassa City**” submitted in partial fulfillment of the requirements for the degree of **Master of Art in Economics** with specialization in **Development Economics**, the Graduate Program of the **Department of Economics**, and has been carried out by **Endalkachew Adem** Id. No **PGDEW 008/04**, under our supervision. Therefore we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

_____	_____	_____
Name of major advisor	Signature	Date
_____	_____	_____
Name of co-advisor	Signature	Date

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HAWASSA UNIVERSITY
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We, the undersigned, members of the Board of Examiners of the final open defense by **Endalkachew Adem** have read and evaluated his thesis entitled “**The Role of Micro and Small Enterprises in Creating Employment Opportunity in Hawassa City**”, and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree of **Master of Art in Economics** with specialization in **Development Economics**.

_____	_____	_____
Name of the Chairperson	Signature	Date
_____	_____	_____
Name of Major Advisor	Signature	Date
_____	_____	_____
Name of Internal Examiner	Signature	Date
_____	_____	_____
Name of External examiner	Signature	Date
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SGS Approval	Signature	Date

Declaration

I hereby declare that this M.A thesis is my original work and has not been presented for a degree in any other university, and all sources of material used for this thesis have been duly acknowledged.

Name: _____

Signature: _____

This M.A thesis has been submitted for examination with my approval as Thesis advisor.

Name: _____

Signature: _____

Place and Date of Submission: _____

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Acronyms

MSE(s) - Micro and Small Enterprise(s)

ILO - International Labour Organization

MOTI - Ministry Of Trade and Industry

CSA -Central Statistical Authority

MFI -Micro Finance Institutions

USA - United State of America

OECD – Organization for Economic Cooperation and Development

EU – European Union

GDP – Gross Domestic Product

ETB - Ethiopian Birr

Abstract

Developing countries like Ethiopia suffered by the prevalence of the problems of poverty and unemployment in most of urban areas of the country due to the expansion of urban population and low level of economic development. Overcoming unemployment and poverty can be possible through establishing MSEs which is one of the strategies adopted in all over the country. MSEs are very essential to create employment opportunities, increase income of households, and absorb large labor force, easily adopted, require less capital and flexible and others. However, beside the expected contribution of the sector made to employment generating and to the economic development process of the nation, there is limitation of study conducted to analyze the actual potential contribution of implemented national MSEs development strategies to employment creation in most of the urban areas. Therefore, this study entitled to the role of micro and small business enterprises in creating employment opportunity is conducted with an objective of analyzing/determining the potential role of the sector to create employment opportunity in the city. In this regard, this study conducted by employing 123 MSEs and 486 individual operators as sample size for the study and the required data collected by using structured questioner format. Both qualitative and quantitative methodology is applied in the study for demonstrating the characteristics and effects of qualitative and quantitative data collected from sample MSEs and individual operators using questionnaire. The study variable, that support the objective of the study is the employment creation role of MSEs, this is determined on the basis of the view of operators towards MSEs employment creation or on the basis of believe of MSEs operators whether employment opportunity is created or not for them by the business enterprise they are currently operating. The variables that are identified and expected to determine the study variable are age, sex, education, experience and average monthly income of operators. As such, the study variable is qualitative response of operators, the appropriate economics model applied to demonstrate the problem of this study is binomial logit. This logit regression model determines the probability of the MSEs sector to create employment opportunity by considering the effects of determining variables and its value ranges between 0 and 1. Thus, the regression output for the logit model identifies the value probability equals to 0.77, this implies that the MSEs sector in the study area create employment opportunity for 77% of operators or in other word 77% of operators believed as employment opportunity is created for them by the MSEs. In addition this study analyze the MSEs with regards to their age, current capital, performance on capital, production, sales, profit and saving aspects, and problems of MSEs. With regard to performance majority of MSEs exhibits improvement in all variables, the problems of MSEs identified in this study are : lack of capital and credit, lack production and selling space, lack of market for their products, etc. finally, In order to support potential role of the sector and also to minimize and alleviate the existed problems, some policy implications are recommended.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The major problems that the current world faces are unemployment, inequality, and poverty.

Developing countries in general and African countries in particular have been experiencing high unemployment rate paralleled by increasing urban poverty. As such problem, micro and small enterprises make a significant contribution in the reduction of unemployment and poverty in the developing world.

Micro and Small Enterprises (MSEs) sector is described as the important contributor to the development process of a developing nation. MSEs have the potential to provide the ideal environment for enabling most developing countries to achieve local economic development. In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress. A Study conducted by Endalkachew, (2008) shows that the small business sector is an important force to generate employment and more equitable income distribution, activate competition, enhance productivity, and brings technical change through the combination of all of these measures, to stimulate local economic development.

Furthermore, the MSEs sector is playing a significant role in promoting local development through the creation of employment opportunities and utilization of local resources. In recent years, when the economies of most industrialized countries have shown various signs of stagnation and structural decline, MSEs are being recognized as generators of new growth, primary sources of technological changes and job creation, as one of the major factors in maintaining socio-economic stability (Munira, 2012).

As a result, in most developing countries, MSEs by virtue of their size, location, capital investment and the capacity to generate greater employment have proved the powerful propellant effect 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 training, much capital and sophisticated technology. Moreover, they create job opportunities for a substantial segment of the population. Hence, since the sector is a quick remedy for unemployment problem, direct intervention and support of the government is crucial to facilitate the environment for new job seekers and ease of self employment.

In developing countries, where there is prevalence of extreme poverty and unemployment coupled with the growing urban population, the modern and formal sector of the economy could not absorb the multitudes of unemployed people who are more of unskilled. Therefore, the development of micro- and small businesses has been playing a pivotal role in terms of economic growth, employment generation and industrialization.

As the development strategy option that a country is going to adopt depends on the level of economic development and technological progress, MSEs are more advocated to developing countries. This is due to the fact that MSEs need low capital but give rise to greater opportunities for direct or indirect employment, poverty reduction and enhancing local economic development. In a favorable environment, MSEs offer sustainable business solutions that simultaneously fight poverty and accelerate economic growth (Amir M, 2012). Although the role of MSEs is different at different stages of economic development, their role is particularly important for Developing countries.

In Ethiopia, although MSEs exist for longer periods, they have got the attention of policy makers, academicians, and researchers very recently. The work of Andualem (2004) indicated

that MSEs in Ethiopia have been neglected for long period until shift was made to market- led economic system. However, since 1991 the government has been giving attention to the sector. Accordingly, recognizing the important role of MSEs in creating employment opportunities, generating income to the poor in order to reduce the existing urban unemployment and poverty as well as the development of the local economy to a certain level, the Ethiopian government has been designing and implementing Micro and Small Enterprise Development Strategy since 1997. The Ethiopian government understood that the micro and small enterprise sector has the potential to provide a livelihood, particularly they are considered to be the sphere of the poor. In this regard, actions in order to alleviate unemployment problems, the Hawassa City, in line with the Development Strategy of the country has been undertaking the implementation of MSEs Development Strategy. These strategies therefore, recognize the contribution of MSEs in employment generation, increasing income of the poor and improve the quality of life in the city.

1.2 Statement of the Problem

Every country, both developed and developing design development policy and strategy to implement for the purpose of achieving the proposed economic development objective or to solve economic problems facing a country. The kind of development options that country willing to adopt at national level depends on the level of economic development and technological advancement. Due to the prevalence of vicious circle of poverty and unemployment, most development strategy in developing countries designed to overcome such problems.

In recent years Ethiopia, as one of developing countries, effectively registered better economic growth performance for consecutive years than it was any time. On the other hand, this economic growth is accompanied by problem of poverty and unemployment as size of urban areas and the population within it expands. Consequently, the country needs effective economic policy to

tackle the poverty and unemployment problems in the urban area while maintaining improvement registered in economic growth. As a result, the federal government of Ethiopia for the first time designed the national micro and small business enterprise in 1997 and redesign in 2003 by considering the potential benefits and limitation experienced in the 1997 development strategy. These strategies have an immediate or short run objective of solving problems of poverty and unemployment that prevailed in almost all urban areas and also long run objective to achieve economic development through structural transformation of the economy and technological advancement as this micro and small business sectors are the means for future establishment of large scale industry and to bring entire social progress.

MSEs are an important source of job creation and employment in most countries and, in particular in developing countries. Increase access to low-cost domestic sources of finance for productive investment. Governments have an important role to play by encouraging credit flows either through regulatory frameworks or keeping bank lending rates low – toward strategically important sectors and activities.

The governments of the country therefore setup the responsible organizational structure at federal regional level and provide the necessary resources and facility support for the strategy to be implemented in order to achieve employment and income opportunity creation and poverty reduction objective. For this matter, Hawassa city as part of national micro and small enterprise development strategy undertake various activities in order to solve the cities unemployment and poverty problems.

However, as this MSEs sector are considered as important tools for solving unemployment problems, there is insufficient study or reports on the role played by this sectors and the magnitude of employment opportunity generated by this sectors. There is also no study or reports

on MSEs in general and employment creation of MSEs in particular in the case of Hawassa city. Therefore, this situation becomes driving force behind the researcher interest to conduct study by considering the implemented MSEs development strategy and the potential employment created in Hawassa City.

1.3 Objective of the Study

The general objective of the study is to analyze the role of micro and small enterprises in creating employment opportunities. Therefore, the study concerned with the role and performance of implemented MSEs development strategy as part of national MSEs development objective in creating employment opportunity for the operators of the business enterprises. However, the specific objectives are:

- To identify the characteristics of sample individual operators in relation to the employment condition under the MSEs
- To identify the source of initial capital for startup the business and the current capital size of the enterprises.
- To examine the trends of saving, production, sales and profit of MSEs with in the life time of the business enterprise.
- To identify problems challenges facing the MSEs and the potential role of the sector to create employment opportunity.

1.4 Significance of the Study

The findings of this study are expected to indicate the current picture of MSEs in relation to their potential role of creating employment opportunity to the poor in the study area.

In addition, the study is significant for the following purposes:

1. It provides useful information to the concerned governmental and donor organizations working in the area of unemployment and poverty, about the potential employment opportunity generated by the MSEs the study area,
2. It helps policy makers to develop better strategies that assist the MSEs to strengthen their capacity of employment creation and income generation to the poor in Hawassa city,
3. It would encourage other researchers to conduct further research on this subject.

1.5 Scope of the Study

The study conducted by considering the sample micro and small business enterprise in Hawassa city that are being established and operating within the period of 1997 to 2005 and supported by the MSEs development objective of the government. For studying the employment role of the sector, the sample operators under the stated MSEs are taken in to consideration.

1.6 Organization of the Study

The study has four chapters with many sub components within each chapter. Chapter one is the introduction body of the study and consists background, statements of problem, objective of the study, significance of the study and organization of the study. Under chapter two, which is the review of literature body, consists the theoretical and empirical literature, as well as the research gap. Chapter three, the research methodology has the data source and type, sampling technique and method of data analysis. Chapter four which is the major part of the study consists of characteristics of sample individual operators and MSEs, and the econometrics framework used in the study as well as analysis and interpretation of the regression output. Finally chapter five, the conclusions and recommendation part of the study, which consist the summery of the finding of the study and the police implication forwarded.

CHAPTR TWO

REVIEW OF LITERATURE

2.1 Theoretical Literature

2.1.1 Definition and Concepts

Universally there is no common definition that countries used to categorize and distinguish the common feature of micro and small business enterprises. Different countries use different words and numerical based definition on the conditions of MSEs and countries economy. Therefore, the statistical definition suggested to determine the size of the enterprises varies from country to country, and it is usually made based on the criteria such as number of employees, assets, employed capital, sales turn over, or combination of the above factors.

According to Organization for Economic Cooperation and Development (OECD, 2004), the EU and a large number of OECDs, transition and developing countries set the upper limit of number of employees in the MSEs between 200 and 250, with a few exceptions such as Japan (300 employees) and the USA (500 employees). At the lower end of the MSEs sector, a large number of countries define a group, which is a mixture of the self-employed and “micro” enterprises, with less than 10 employees.

In Ethiopia, the country wide used definition of MSEs is based on level of paid-up capital/fixed asset and size of employment. This categorization is important for functional and promotional purposes to achieve the desired levels of development. In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSEs sector. However, the definition used by Ministry of Trade and Industry (MoTI) on the basic criteria of capital investment and size of employment presented as follow:

“Micro enterprises are those small business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high-tech consultancy firms and other high-tech establishments and Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 50,000, and excluding high-tech consultancy firms and high-tech establishments.

Recently, the revised MSEs strategy (2011) of the Ministry of Trade and Industry of Ethiopia divides MSEs in terms of product and service defined in the following ways:

An enterprise can be defined as “Micro Enterprise” when the numbers of its employees are not greater than 5 & total asset is $\leq 100,000$ ETB for industrial sector and $\leq 50,000$ ETB for service sector. In a similar manner, an enterprise with 6-30 employees & total asset 100,001—1,500,000 ETB for industrial sector and 50, 001—500,000 ETB for service sector is defined as “Small Enterprise”.

Table 2.1 Man Power and Capital Asset for Industry and Service Type of MSEs

Category	Enterprise	Man power	Capital
Micro Enterprise	Industry	≤ 5	$\leq 100,000$
	service	≤ 5	$\leq 50,000$
Small Enterprise	Industry	6 – 30	100,001 – 1,500,000
	service	6 – 30	50,001 – 500, 000

Source: National MSEs Development Strategy of Ethiopia, 2011.

In Ethiopia, the micro and small business enterprises are classified in to five categories, these are manufacturing, construction, trading, service and urban agriculture. The manufacturing category includes textile and garment, leather and leather product, metal and wood work and others. The construction involves contractors, sub contractors, building row material supplier and coble stone producers. Trading involves whole sellers and retailers. Service involves transportation service, cafe and restaurant, wear housing, packaging and others. The urban agriculture involves animal bearing, beef farming, fruit and vegetable farming, poultry and others.

Whatever the definition that is made with regard to employment and capital asset, micro and small enterprises play key role in the economic wellbeing of developing countries. They have been identified to play key roles in a society including contributing to jobs through innovations and creativity as well as aiding human resources development.

In this regard, most governments in developing countries give especial attention to the sector under their economic development strategies. Macroeconomic policies should be pursued with an objective of stability and growth geared toward productive employment and inclusion of the poor. Incorporating employment targets and objectives into macroeconomic policy and national development strategies is critical to making the necessary shifts in income distribution to reduce inequality and poverty (Stephen. P. Selim J, 2012).

2.1.2 The Role of Micro and Small Enterprises

The micro and small enterprises have been defining in money development theories for importantly contributing to the development process of a nation in the form of employment creation and poverty reduction. Thus, most literatures in the area define the multiple role and importance of the MSEs sectors especially for developing countries. Their contribution to the generation of employment varies from country to country but, overall, these enterprises generate

the majority of jobs, creating opportunities for people to apply their skills and talents and to improve their well-being. Enterprises provide the goods and services needed by everyone, from consumer goods through to health care, food and shelter. Enterprises are a major – often the main – source of tax revenues and therefore typically constitute the foundation on which the public provision of health, education and other services rests. Enterprises are important to all societies whether they are seeking to develop from low-income status, in transition or seeking to compete as diversified modern economies in highly innovative globalized markets (International Labour Conference, 2007, Report VI).

As stated in Edmore Mahembe, The democratically elected Government of South Africa realized as early as 1995 the importance of MSEs to the economy. Trevor Manuel, then Minister of Trade and Industry, clearly articulated these issues when he said:

“With millions of South Africans unemployed and underemployed, the Government has no option but to give its full attention to the task of job creation, and generating sustainable and equitable growth. Small, medium and micro-enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. We believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all we can to help create an environment in which businesses can get on with their job”.

In addition, According to statements of International Journal of Business and Social Science, 2011, MSEs are the starting point of development in the economies towards industrialization. However, MSEs have their significant effect on the income distribution, tax revenue, and employment, efficient utilization of resources and stability of family income. MSEs have a propensity to employ more labor-intensive production processes than large enterprises.

Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty. MSEs Play significant contribution in the transition of agriculture-led economies to industrial ones, furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process.

Similarly, Fan (2003) emphasizes the importance of MSEs as the engine of growth, essential for a competitive and efficient market and provides of new employment by creating new jobs in many countries. The author further argued that they are major source of technological and new products innovation. This makes critical for poverty reduction in most developing countries.

A study, from the perspective of developing countries (Fasika and Daniel 1997; Andualem 2004), MSEs has a number of advantages that makes them attractive in accelerating economic growth. *First, because MSEs are fairly labor intensive, employment opportunities are generated with a relatively low capital cost, a factor with limited supply in many developing nations. Secondly, they utilize raw materials and labor-intensive technology that are domestically available. Thirdly, policies and programs can be put in place to encourage the development of these industries in different parts of the country thereby reducing concentration of enterprises in certain areas and promoting balanced economic growth. Fourthly, manageable production capacity and their flexibility make them suitable to respond to current national demand and the limited size of the market in many developing nations* (Forum for Social Studies, 2011).

2.1.3 Problems of Micro and Small Enterprises

As most literatures suggest MSEs face many critical problems such as lack of infrastructure, inadequate or lack of training in entrepreneurial management skills, lack of information in business opportunities, social and cultural impacts, lack of different entrepreneurial cultures, lack of development of appropriate regulatory frame works, government reforms and excessive corruption.

Concerning these problems of micro and small enterprises (Amir, 2012) states the following critical problems which are experienced in developing countries.

i. Lack of Sufficient Capital

MEs require different types of financial supports, such as ‘startup capital’ to cover preliminary expenses, ‘working capital’ to cover running expenses, ‘reserve capital’ to meet the expenses not only for unexpected contingencies, but also for personal and family maintenance. In most cases, these enterprises receive ‘working capital’ from the FIs, but ‘startup capital’, which is crucial, is often not supported by FIs.

ii. Poor Physical Infrastructure

Poor physical infrastructure increases the cost of production and reduces the competitiveness of ME products. Major problems related to infrastructure include frequent power failures and poor transport facilities, which seriously hamper the smooth production and delivery of products.

iii. Lack of Skilled Manpower

In order to enhance productivity and manufacture high end products, entrepreneurs often demand an adequate supply of skilled workers. An upgrade of technologies, important for manufacturing better products, always requires skilled workers. Huge public investment is necessary to develop

human resources. A number of public and private initiatives were undertaken in order to upgrade worker's skill.

iv. Absence of a Favorable Enterprise Culture

The concept of enterprise culture and entrepreneurship is not native to every culture or society. Starting a business requires courage: the courage to assume the risks of putting money into ideas and the courage to take a leap into an unknown future.

v. Lack of Entrepreneurship and Management Skills

Many owner-managers and entrepreneurs often lack wider managerial skills, which hinder their long-term success. Strategic planning, medium to long-term vision, marketing, commitment to quality, knowledge of quality systems, communicating in foreign languages, cash-flow management, and information technology are a few critical elements of management required to meet the challenges of the market economy, especially in the global market environment.

vi. Inefficient Marketing Practices

Majority of MEs do not have resources to invest in marketing. Moreover, export-oriented MEs have also very little marketing activities and most of them try to survive by linking up with multinational buyers or setting up subcontracting relationships with them. In the domestic market, MEs are confronted with cheap imports and are hard pressed to hold on to their market share. Lack of resources and skills make it difficult for MEs to take advantage of market promotional activities.

vii. Poor Institutional Support

Specific institutional support for MSEs, particularly training and research and development is absent in developing countries. Governments as well as other organizations have different types

of training programmers, but these are found unable to meet the current needs of the MSEs sector.

viii. Absence of Innovation and Technology Development Policy

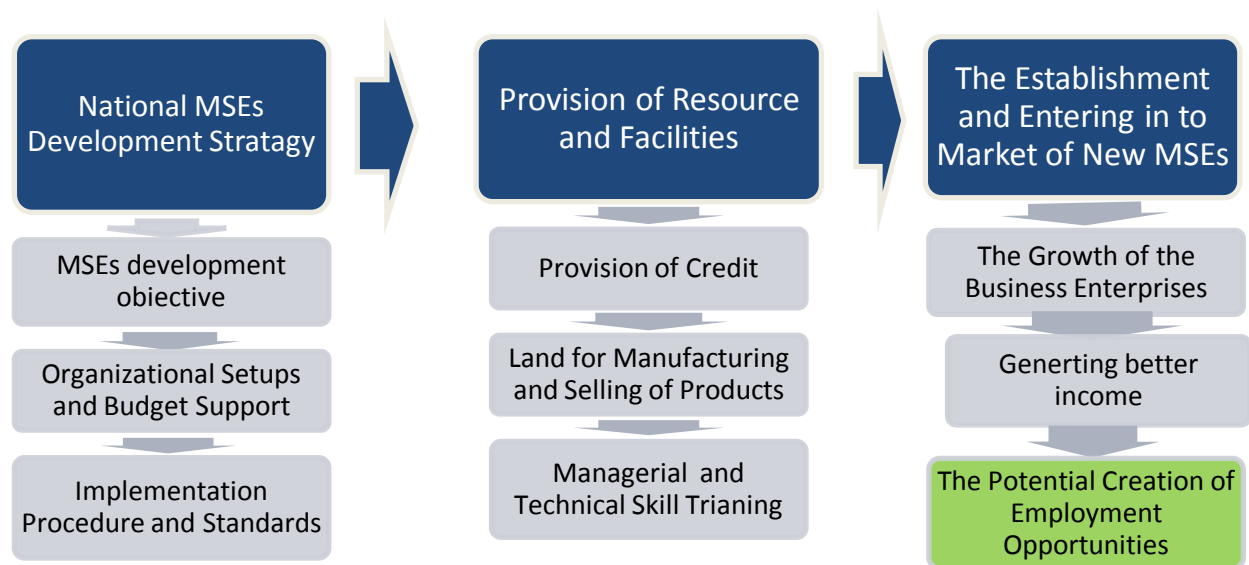
A full technology development policy is absent in developing country. Fragmented approach in this regard may not work properly. The institutional structure for innovation and the development of technology also requires reform, which can focus on dynamism and cope with the latest technological development.

2.1.4. Conceptual Framework

Countries use different development strategy for developing the local economy to a certain level. The development strategy that support the achievement of local economic development through the utilization of Local resource and overcomes the problems of poverty and unemployment in the developing countries are the micro and small business enterprises.

Micro and small enterprises comprise immense potential in the course of national economic development in general and local economic development in the form of employment creation and income generation in particular. Therefore, the countries potential to overcoming the problems of poverty and unemployment and achieving economic development determined by the formulations of effective MSEs development strategies, better implementation and provision of support and facilities to the establishment and expansion of micro and small enterprises. The conceptual framework for the role of MSEs that are supported by the MSEs development objective of the country to creation of employment opportunities presented in the figure below.

Figure 2.1: The Conceptual Framework



The countries performance to achieve economic development determined by the ability of the nation to design effective development strategies for purpose of developing the economy to a certain level or to solve the specific economic problems. In this regard, the Country should have appropriate MSEs development strategies in order to overcome poverty and unemployment problems facing its citizen. In Ethiopia, the government had designed the MSEs development strategy in 1997 for the first time and latterly redesign and implement throughout the country to solve the problems of poverty and unemployment in most urban area of the country. This MSEs development strategy have an objective of creating wide range of income and employment opportunity and this expected to have significant contribution to the development process of the nation.

Beside designing appropriate MSEs development strategy, there should be establishment of responsible organizational body, implementation Procedure and Standards, and budgetary support for the achievement of employment creation objective through the development of MSE sector.

The responsible government body provides support and facilities to the establishment and growth of the sector. These support mechanisms are provision of credit for the startup and expansion of the business, granting land permits that the enterprises use for manufacturing and selling their product, improving the operators' capacity by the provision of managerial and technical training and overall follow up and support of MSEs. This MSEs sector, having continuous support and facility provision, attains the potential to rise their productivity and market demand for the products and services. The improvement in the productivity, efficiency and marketing performance enables the enterprises to generate better income that contributes to the expansion and growth of the MSEs and finally to the potential creation of employment opportunity for the operators of the business. Generally, the conceptual framework to create potential employment opportunity through the MSEs development can be considered as the total of regulation, supervision, support and incentive mechanisms provided for the MSEs.

2.2 Empirical literature

2.2.1 Research Done in Other Countries

Micro and small enterprises play a vital role in the development of the countries in employment creation, increase income of individuals or improve standard of living of citizens and on the contrary many challenges have come across with the sector. In many countries, there is now a wide recognition of the contribution of micro- and small enterprises (MSEs) to economic growth. In a cross-section of both developed and emerging economies, the contribution of the MSE sector to total employment, entrepreneurship and innovation cannot be underestimated. For example, this sector generates about 6.2 percent of the aggregate employment in the United States, 22.3 percent in China, about 80 percent in India, 67 percent in Japan and about 70 percent in EU countries (Carter and Jones, 2004). To further underscore the social and economic

importance of micro- and small enterprises, one UN study indicated that the sector represented 99 percent of all enterprises and provided around 65 million jobs in EU countries (UNCTAD 2005, cited in forum for social science).

MSE sector is seen as an essential catalyst for job creation, unemployment reduction and social progress at large since it takes the lion share of fast growing labor force in the world particularly 48% in North Africa, 51% in Latin America, 65% in Asia, and 72% in Sub-Saharan African Countries (ILO, 2002). The study made in five countries of Eastern and Southern Africa (Botswana, Kenya, Malawi, Swaziland & Zimbabwe) by Mead and Liedholm (1998) shows that people engaged in MSEs are nearly twice the level of employment in large scale enterprises and in the public sectors (Habtamu , Aregawi and Nigus, 2013).

Similarly, as Ray (2010) conducted a research in Kenya explored the contribution of Micro enterprises to the African countries GDP ranges from 15-70% and they can diversify goods and services, and significance proportion of households earns some or all of their income from micro and small enterprises. A recent study conducted in 2005 in Kenya shows that micro and small enterprises sector contributed by creating new jobs to citizens which accounts over 50 percent (Cited in Demis, 2011).

2.2.2 Research Done in Ethiopia

Most of studies conducted at the national level and at specific areas in Ethiopia revealed the contribution of MSEs sector with various limitations hindering the role played by this sectors. The contribution of MSEs in the employment creation plays a significant role by providing goods and services for a fast growing population in Ethiopia.

The study made on the employment contribution of MSEs in four selected kebeles of Gondar reveled that, a very large proportion of MSEs operators responded that the MSEs sectors have

been creating job opportunities to several citizens. Operators who were unemployed before joining the MSEs sector reported that they have got job opportunities and 48 (87.27%) of them were students while 58 (94.8%) were daily labourers before joining the sector (Demis, 2011). This shows that the majority of the MSEs operators did not have jobs prior to their participation in the sector and this implies the MSEs played a significant role in creating job opportunities.

In addition, Munira (2011) indicated in the case of Gulele subcity only 32% of the respondents had permanent employment before they joined the MSEs, and the rest 68% had no permanent employment. After joining the MSEs 89.3% of the respondents reported to be permanently employed, while 10.7% of them remain not to have permanent employment. This shows that 57.25% of the respondents who were not permanently employed before they joined MSEs have got permanent employment after they started to participate in MSEs. Four respondents (3.05%) who did not have permanent employment before MSEs, but currently permanently employed, got the employment opportunity in institutions other than the one created through MSEs. This indicates that MSEs have created employment opportunity for 54.2% of the respondents in the study area.

2.2.3 Research Gap

Many studies regarding the micro and small business sectors both in developing and developed countries have been conducted by large numbers of individual researchers and developmental organizations established for the purpose of supporting the developing countries micro and small business development strategies as a means contributing to entire economic development. Even though, in recent period's many developing countries experienced a remarkable growth and improvement of the economy, they cannot cop up out of the problems related with urban unemployment and poverty that arise due to the extreme expansion of population in the urban

areas. As a result, development organizations such as world labor organization, World Bank, European Union, and others that are established with objectives of overcoming problems of unemployment and poverty in developing countries underlines the micro and small business sector development as one of their program. In doing so, this development organizations conduct research with an intention to assess the significant economic contribution made by the MSEs which are under their development support program.

As such most of the empirical literatures from the developmental organizations reviewed for the purpose of this study presented their report on the contribution of micro and small enterprises in many aspect of development process with regard to more at regional or continental level and less at country and specific area within a country. Though, the micro and small enterprises considered as the important force for creating employment opportunity, there are limitations in most organizational and personal research studies to consider the employment aspect of the micro and small enterprises as major or general objectives of the study instead supplementing the aspect in a different objective study. In addition to this even if there is somewhat statements of the problems and challenges faced by the micro and small enterprise sectors, there is also limitations of determining the problems specific to each country to each category of the MSEs sector, as the social, political and economic condition differ among countries, the potential environment created in favor or against the micro and small enterprises development is also different. Furthermore, there is a gap in most studies to consider separately the employment contribution of the micro and small business enterprises rather more consideration on medium size and studying by combining the micro, small and medium enterprises. In defining the significance of micro and small business development strategy gap is sought in explaining the important facility and the

mechanisms by which this sector get support and becomes beneficiary from the development program.

In Ethiopia, there are some research studies on the micro and small business enterprise conducted by researchers for achieving specific purpose. However, the employment contribution of this sector do not considered as the standing purpose in most study. For instance, Tiruneh, 2011, in his masters study on “Analysis of the Success Factors of Micro and Small Business Enterprises in Addis Ababa” and identifying variables such as education planning, marketing, managerial skill and experience are the major factors contribute to the success of the enterprises. In addition Abiyu (2011) studied on “factors constraining the growth and survival of micro and small enterprises in Buraylu” found training; capital or access to finance and the infrastructure development are important factors in addition to those defined in Tiruneh, (2011). Therefore, this and other study mainly focused on the success, failure and growth determining factors of micro and small enterprises but limited information on the employment generating role of such business.

In addition there is no empirical study concerning the micro and small enterprises in the study area in a general term and their role to employment in particular. As Hawassa is one of the urban cities in Ethiopia with rapidly growing and expansion of its population, faced by unemployment and poverty problems. As such, the government has been implementing the MSEs sectors development strategy with an objective of creating wide range of income and employment opportunity in order to overcome the existing unemployment and poverty problems in the city. However, there is no much data or study conducted on the potential effectiveness of the implementing MSEs development strategy to creating employment opportunity for the individual operators or limited study made on the basis of view of operators towards their

believe/feeling whether employment opportunity is created or not for them by the MSEs. Thus, this study by considering the existing gaps attempt to provide basic empirical evidence on the role of MSEs in creating employment opportunity in Hawassa by focusing the view of operators towards their employment under the MSEs.

CHAPTER THREE

DATA AND METHODOLOGY OF THE STUDY

3.1 Description of the Study Area

Hawassa city, which is the center for Southern Nation Nationality and people regional State was established in 1952 E.C. and found in Southern part of Ethiopia at 275 km away from Addis Ababa. The geographical location of the city found in the Great East African Rift Valley and its location lies between 07⁰ 05' north latitude and 38⁰ 35' East longitudes and at 1697 meter above sea level. The city covers an area of 47.66 KM square and the temperature on average is 945 mm for rainy season and 19.50 c for dry season. The population of the city expected to be 300,000 and this rapid increment observed in the recent years. The expansion of political, social, administrative, manufacturing and service institutions are stated as the cause for the rise of the population size of the city (Annual Socio Economic Magazine, 2011).

The residents of the city face social, economic and political problems like any other city of the country. Thus, among many other problems the city faces problems related unemployment and poverty resulting from the expansion of the city and increment of the population size. However, in order to reduce poverty and unemployment problems, the Hawassa city Trade and Industry Department, as part of the national development strategies, implemented micro and small business enterprise development activities since 1997, in the area of manufacturing, construction, trade, service and urban agriculture.

3.2 Data Type and Source

The study is made by focusing on the primary data. The primary data collected from the sample Micro and small business enterprises and from sample individual operators in the city by using a structured questionnaire. The questionnaire for collecting primary data prepared in ways that can

bring appropriate and sufficient information with regards to the business enterprise and individual operators. However, the secondary data is used for purpose of determining the sample size of micro and small enterprises and individual operators for the study.

3.3 Sampling Technique

The source of information for determining the sample size of the study is the total micro and small scale enterprises that are established and operating from the year 1997 to 2005 E.c and once the sample size of MSEs is identified, the total number of individual operators under the sample business enterprises are used for determining the sample size of individual operators. Therefore, based on the total size of MSEs and operators information obtained from Hawassa city trade and industry department, the sample size is determined to be 10 percent for both the enterprises and individual operators.

$$\begin{aligned}\text{Size of Sample enterprise} &= 1230 \times 10\% \\ &= 123\end{aligned}$$

$$\begin{aligned}\text{Size of Sample individual operators} &= 7369 \times 10\% \\ &= 737\end{aligned}$$

The table below defines the total and sample size of MSEs and individual operators in each category of the business enterprises.

Table 3.1 The Total and Sample Size of MSEs and Individual Operators.

The Enterprise Category	Total Size in the Study Area		Sample Size of the Study	
	Enterprise	Individual Operator	Enterprise	Individual Operator
Manufacturing	264	1391	27	139
Construction	273	2110	27	211
Service	303	2596	30	260
Trading	298	954	30	95
Urban agriculture	92	318	9	32
Total	1230	7369	123	737

Source: Hawassa city Trade and Industry Department, 2005.

3.4 Method of Data Analysis

In this study, both descriptive analysis and econometric approach will be used in data analysis. Accordingly, the researcher uses descriptive analytical tools such as mean, median, standard deviation, variance, and percentages to describe qualitative data. Statistical technique also used for analyzing the quantitative variables such as employment, income, capital, enterprise size, saving and others that are considered in this study. The data analyzed by using the Stata package software.

Defining the functional relationship between the dependent and independent variables is important aspect to be considered in econometric analysis. Hence, in this study the dependent variable is the role of micro and small enterprises in creating employment opportunities that is determined based on the view of individual operator whether the MSEs create employment opportunity or not. Since the dependent variable is qualitative, value assigned for the occurrence of the variable in constructing the model. The independent variables that are supposed to be

determining the dependent variable are sex, age, education, experience and average monthly income of individual.

Regarding the model the appropriate model that is identified for the case of qualitative response is the logit regression model. Since the expected outcome is binary the model measures the probability of occurrence of the desired result, means the probability that the MSEs sector creates employment opportunity. In other word, the probability, that the individual operator to believe as employment opportunity is created by the sector or not.

As stated in Gugrati, 2004, the appropriate logistic model for analyzing the effects of the Explanatory variable to the probability of the dependent variable in this study expressed as:

$$p = F(Z) = \frac{1}{1 + e^{-Z}}$$

$$Z = \beta_0 + \beta_1 \text{sex} + \beta_2 \text{age} + \beta_3 \text{edu} + \beta_4 \text{exp} + \beta_5 \text{inc}$$

Where, p stands for the probability of employment opportunity to be created given ($Y=1/X_i$). This means the probability of the MSEs to create employment ($Y=1$) given X_i is a log function of the independent variables. Z is linear function of explanatory variables that are expected to determine the potential employment opportunity created for the MSEs operators. These variables are the sex, age, level of education, experience in the business and average monthly income of the sample operators of micro and small enterprises as the believes of operators towards MSEs employment differ for different size or characteristics of the variables.

The odds—or in other words, the ratio of probabilities that the MSEs operators believe as employment opportunity is created to the probability that employment opportunity is not created can be expressed as:

$$\text{Odds} = \frac{\text{pr}(y=1/xi)}{1-\text{pr}(y=1/xi)} = \frac{e^z}{1+e^{-z}} = e^z$$

The log of Odd function equals to: $Li = \ln \frac{Pi}{1 - Pi} = zi = \beta_0 + \beta_1 xi$

Therefore, Z explains the log of the odds or the log of the ratio of probability that the desired outcome (employment opportunity) to be created to the probability of non occurrence of desired outcome.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter deals with presentation and analysis of the data which have been obtained through questionnaire that involves demographic and socio-economic characteristics of the respondents, Data for the analysis in this study were collected from 123 micro and small business enterprises out of a sample size of 1230 MSEs located in Hawassa city. This selected enterprise is for the purpose of analyzing the characteristics of the enterprise. However, for studying the characteristics of MSEs operators and the employment condition of the operators 737 sample size is determined out of 7369 MSEs operators in the city. Then appropriately designed questionnaire is randomly distributed to 737 individual operators under the 123 enterprise. But out of 737 only 486 questioners are completed and returned the questionnaire, where as the remaining 167 questionnaire are not returned and 94 returned incomplete. Therefore, this study comprises sample 123 micro and small enterprises and 486 sample individual operators for the purpose of studying the general condition of the enterprises and operators in order to support the objective of this study.

4.1. Characteristics of the Respondents

As main source of information, the respondent of this study were MSE operators who have been involved in samples MSEs. The sizes of operators that can provide information are 486 out of total sample size of 737. Their characters such as sex, marital status, age, educational status, and their family size (number of dependents) and combinations of these variables have been analyzed.

4.1.1 Sex Composition of the Respondents

Since sex is one of the characteristics, respondents were asked about their sex. The following table shows the sex structure of the respondents

Table 4.1: The Sex Composition of the Respondents

Sex	Frequency	Percentage
Male	350	72%
Female	136	28%
Total	486	100%

Source: own current study, 2014

As it has indicated in the table 3.1 above, majority, 350 (72 %) of the respondents are males. The remaining 136 (28%) of the respondents are females. This provides information that the number of male operators under the micro and small enterprise are more than that of female operators.

4.1.2 Age Composition of the Respondents

With regard to age composition, the age group has been categorized into four. This categories are 15-24, 25-35, 36-45 and above 45. Based on this category of the age composition of the respondents, majority respondents are found in the working age group. Table 3.2 below shows the age structure of the respondents. As shown in table 3.2, majority, 303(62.35%) of the respondents are found in the age group of 25-35 years. Others, 108 (22.22%) and followed by of the respondents are found in the age group of 15-24, the remaining 67(13.78%) and 8(1.65%) of the respondent found in age group of 36-45 and above 45 years respectively.

Table 4.2: The Age Composition of the Respondents

Age category	Frequency	Percentage (%)
15-24	108	22.22%
25-35	303	62.35%
36-45	67	13.78%
Above 45	8	1.65%
Total	486	100%

Source: own current study, 2014

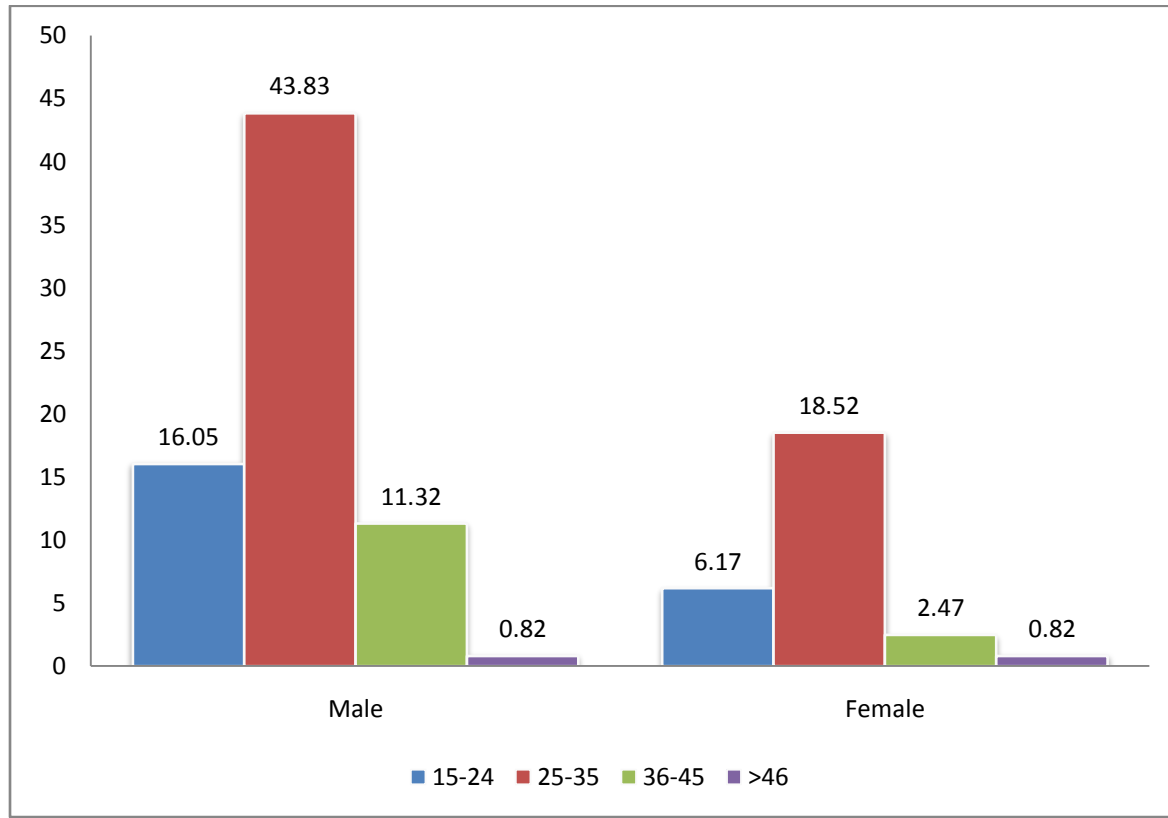
Hence, it can be concluded from table 4.2 that the majority MSEs operators are found in the economically active age category. This further implies that the existence of such economically active age groups is very important to enhance economic development in the study area

4.1.3 Cross Representations of Age and Sex

Those age groups who have distributed from 15-24 years of age are 22.22% and out of which 72.22% are males and 27.78% are females. From the age group 25 to 35 are 62.35% which consists of 70.30% males and the remaining 28.70% females, 36 to 45 years of age account 13.79% with 69.62% male and 20.38% females. Those who are above 45 years account only 1.65% with equal distribution of males and females. When we see the aggregate number of operators in the sector, 25-35 aged operators have the highest proportion as compared to the others age operators, and also under such age groups the proportions of male are larger than the share it has in any age group. The case of females is the same, highly distributed in the 25-35 age group and they have relatively smaller share compared with the males in any age group. From

the given analysis, we can generalize that most of the MSE operators are found in economically active working category i.e., they are within the four age groups (Figure 4.1).

Figure 4.1: Cross Representation of Age and Sex



Source own current study, 2014

4.1.4 Marital Status of the Respondents

In the questionnaire, respondents were asked their marital status. The following table shows the marital status of the respondents.

Table 4.3: Marital Status of the Respondents

Marital Status	Frequency	Percentage (%)
Single	287	59.05%
Married	199	40.95%
Total	486	100%

Source: own current study, 2014.

As it has shown in the table 3.3 above, 199(40.95 %) of the respondents are found to be married. The remaining 287(59.05 %) respondent are single. There is no respondent found separated or divorced marital status condition. Therefore, this data shows that significant number of respondents (about 40% of the total sample population) has families and they obliged/forced to provide any support to their respective family members.

4.1.5 Cross Tabulation of Sex and Marital Status

Sex and marital status of respondents are one of the indicators of demographic characteristics of the respondent. As presented in the cross tabulation below, among the total respondents who were supposed to provide response incorporates both male and female operators who are married, single, widowed and divorced, the number of single male operators comprises the highest number which is 44.85% and the number of single females is 14.20%. The number of married male equals to 132 (27.15%) and married female is 67(13.80%) and no response is found for widowed and divorced marital status of the MSEs operators. From survey result, we can understand that the majority of the MSE operators are single with considerable number of married operators. However, we can say that married households are more responsible in order to generate income for their livelihood. As a result, micro and small business enterprises have an

implication in the creating of job and income opportunities to the responsible householders and family leaders (See Table below).

Table 4.4: Sex vs. Marital Status of Respondents

Sex of Respondent	Count or Percentage	Marital Status		Total
		Single	Married	
Male	Count	218	132	350
	%	44.85%	27.15%	72%
Female	Count	69	67	136
	%	14.20%	13.80%	28%
Total	Count	287	199	486
	%	59.05%	40.95%	100%

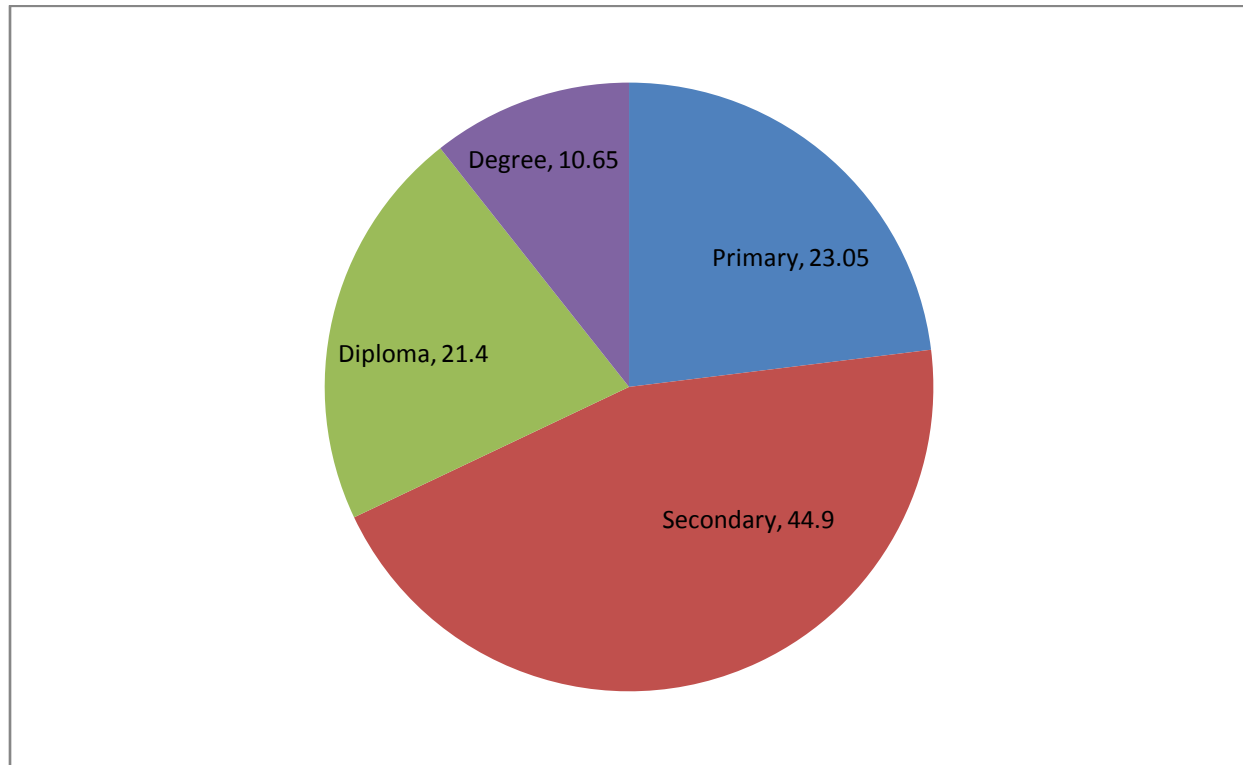
Source own current study, 2014

4.1.6 Respondents Educational Status

The educational background of the MSEs operators is one of the factors determining business success and survivability. More educated owners seem to have a better chance for business success than younger and less educated people. With regard to this issue respondents were asked whether they educated or not. When we look the educational status of operators in the figure below, 23.05 % of respondents have completed primary education (grade 1-8) and 44.90% of them have completed secondary education (grades 9-12). Those individuals' respondents who certified with diploma account 21.40%. And those respondents who are degree holder account 10.65%. When we see their overall distribution, there is relatively large numbers of respondents having completed secondary education (grades 9-12), and followed by proportion of the respondents completed primary education. In addition, from the least proportion the respondents

who are degree holders become the first and then followed by respondents of certified with diploma (See figure 4.2).

Figure 4.2: Operators Level of Education.



Source own current study, 2014

In general, the above table tells us that more than 65% of the respondents are below secondary (high school) education. The education level of the respondents is important to cope with new business ideas, new technologies, and to increase the productivity of operators and enterprises as well as the income level.

4.1.7 The Dependency of the Respondent/Family Size/

The respondent is asked to provide information whether he/she is family leader or not and if so to state the number of dependency that are supported by the respondent income earned from operating under the micro and small enterprise. This information is required to identify the size

of dependents that are supported by the MSEs operators. The table below presented the dependency within some interval point to sample respondent.

Table 4.5: Frequency Distribution of Respondents by Number of Dependents

No of dependents	Frequency	Percentage
None	264	54.32%
1-3	143	29.42%
4-6	63	12.96%
Above 6	16	3.29%
Total	486	100%

Source own current study, 2014

As shown in the above table the total number of operators having at least one dependent are about 45.68 percent, this might be the size of the operator's family or parents that are supported by the operators in different ways. This result shows that the micro and small business enterprises in the study area potentially enabled significant numbers of operators to support at least one dependent or family member. Therefore, operating under the micro and small business enterprise is important source of income for the operators to support individual as well as family living condition.

4.1.8 Earlier Occupation of the Respondents

It is clear that a related work experience gives a person the required skills necessary for starting and running the same activity efficiently. With regard to the earlier work experience of the respondents, they were asked about the type of activities they were doing before engaged (joined) in their respective current enterprises.

The table below illustrates the previous occupation (job) of the respondents before they engaged in the sector of micro and small enterprises.

Table 4.6: Previous Occupation/Job of the Respondents

Previous Occupation/job	Frequency	Percentage (%)
Employed	108	22.22%
Unemployed	160	32.92%
Student	218	44.86%
Total	486	100%

Source: own current study, 2014.

In the table 4.6, it can be observed that 160 (32.92%) and 218 (44.86%) of the respondents were unemployed and students respectively before they have joined enterprises (the sector of MSE). And 108 (22.22%) of the respondents were employed in other organizations before they start operating under the current business. The above result implies that new employment opportunity is created by these micro and small business enterprises for 77.78 percent and an alternative employment opportunity is created for 22.22 percent of the total respondents. Thus, the total size of new employment opportunity created by this micro and small enterprise exceeds the total number of alternative employment opportunity.

Hence, micro and small business enterprises have potential for creating employment opportunity especially more for those who were student and unemployed previously. That is why the government MSEs Development strategy have been intended with an objectives of creating new employment opportunity for the unemployed in most of urban areas.

4.1.9 Respondents View Towards MSE Job Creation Capacity vs Earlier Occupation

The operators under the MSEs sectors have different previous employment backgrounds, those previous employment history of the respondent identified in this study are employed, unemployed and students. As such this MSEs operators have different believes and attitude towards their employment condition under the micro and small business enterprise, some are towards the attitude/opinion as employment opportunity is created by the enterprise within they are operating and the others are against. However, the respondent provides information regarding whether they are believed that the micro and small enterprise potentially created employment opportunity or they do not believes or fills as they are employed. In the table below the information on respondent opinion are categorized with respects to their previous employment background before the MSEs sector.

Table 4.7: Respondents View towards MSE Job Creation Capacity vs Earlier Occupation

Do you think that MSEs are created job Opportunities to You	Earlier Occupation of operators before MSEs							
	Employed		Unemployed		Student		Total	
	F	%	F	%	F	%	F	%
Yes	82	16.87	129	26.54	181	37.24	392	80.66
No	26	5.35	31	6.38	37	7.61	94	19.34
Total	108	22.22	160	32.92	218	44.86	486	100

Source own current study, 2014

On the bases of respondents opinion whether they believes employment opportunity is created or not by the micro and small business enterprise under which they are operating, 80.66 percent are believed they are employed and employment opportunity is created for them and able to sustain

his/her or their family lives by the incomes earned from working in this business. However, the remaining 19.34 percent do not believe that an employment opportunity is created for them and the income they earn is not sufficient to support individual or family lives. Specific to operates employment background and their opinion towards the current employment condition, those who believed employment opportunity is created by the MSEs sectors are 16.87%, 26.54%, and 37.24% for the operators who were previously employed, unemployed and student respectively. As based on the proportion of respondent opinion and believes of the employment opportunity, one can say micro and small business enterprise are effective police instrument for creating employment opportunity and overcoming poverty in most urban areas. As a result this study based on the collected data identified that micro and small enterprises considered as the potential source of employment for 80.66 percent operators under the business enterprises.

4.1.11. The Experience of the Respondent.

Experience is very essential to develop individual's competence as well as to increase the enterprises success. In this study respondents are asked whether they have enough experience in the business or not. The previous background of the operators might be employed, unemployed and student, however, this part considered the operators having enough experience or not. If the operators were previously unemployed or student it does not mean that they have no experience because they are operating under the enterprise for a considerable period after they have joined this business. The result for the respondent experience is as in the table below.

Table 4.8: Respondent Experience in the Business.

Operators experience	Count	Percent
Have experience	328	67.4
Have not experience	158	32.6
Total	486	100

Source own current study, 2014

As the table above, 67.4 percent of the MSEs operators have an experience in relation to the business they operate currently. The rest 32.6 percent do not have any experience in the business.

4.1.12 Income Levels of the Respondent

The income the operators earned from the MSEs sector is one of the important factor that determines the survival and sustainably working under the sector. In addition it the income level received by individual that makes the operators to fill as being employed and the MSEs sectors to be considered as one of employment opportunity generating sector. The respondents in this study asked their average monthly income level received as the monthly income varies across months the data is collected in average income condition. The following table presented the average monthly income of MSEs operators by classifying in to some interval levels.

Table 4.9: Average Monthly Income of Respondent.

Monthly Average Income of the MSEs Operators	Frequency	Percentage
Below 500 birr	72	14.81%
From 501 to 1000	235	48.35%
From 1001- 2000	104	21.40%
From 2001- 3000	48	9.88%
Above 3000	27	5.56%
Total	486	100%

Source own current study, 2014

Income is one of the major determinants of the enterprise to serve as means of employment for the individual operators. The table shows that the majority of the respondent about 48.35 percent earned an average monthly income level between 500 and 1000. The least income level is below 500 and there are 14.81% of respondents under this income category, the maximum level of income are above 3000 for this level of income 5.56 percent of respondent is identified. The income level earned from operating in a given occupation is considered as the major determining factor for the potential employment creation capacity of the occupation.

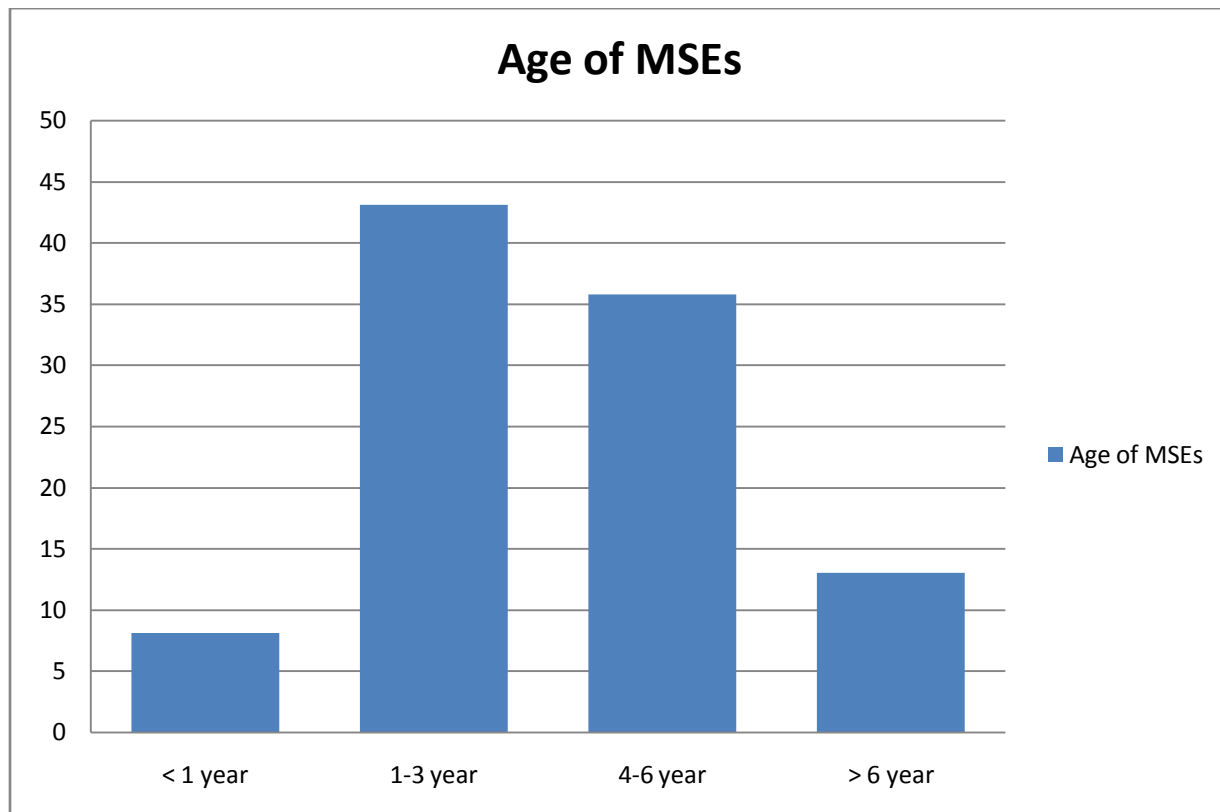
4.2. Characteristics of the Enterprises

Under this category the characteristics of enterprises such as their year of establishment, initial and current capital, and problems faced by the enterprises and others aspects of MSEs are explained.

4.2.1. Age of Micro and Small Enterprises

Based on the data collected by sample enterprises, the age of the enterprise is presented in the chart below.

Figure 4.3: Ages of MSEs



From the respondents of micro and small enterprise operators, it was possible to indentify that the age of MSEs in the study area. The majority (43.09%) of the enterprise replied that they started their enterprise or the age of the enterprise is in between1 and 3 years. This indicates there was good incitation during this period. The incitation was both from the jobless individuals

and the government coordinators of MSEs. Moreover, many MSEs were late started. Similarly, 35.77% of MSEs have been operating for the period in between 4 to 6 years. Other 13.01% of MSEs have stayed more than six years in the businesses environment, and remaining 8.13 % have an age of less than one year from their startup.

Generally, more than 50 percent of the enterprises are established within the last five years and this is expected to be due to the presence of conducive environment for the past five years that enabled the establishment and entering to the market of new micro and small business enterprise.

4.2.2. Source of Initial Capital of the Enterprises

It is clear to that enterprises need finance to established and expand their business. In addition the survival of the enterprise, the income level and the size of employment of the business enterprise significantly depends on the capital of the enterprise that can be attained from various possible sources. MSEs could have various sources of initial capital to start their business activity. Personal savings, loans from micro finance institutions, family, and friends are the major sources of initial capital for MSEs to start business activities. However, the sources of initial or startup capital for MSEs in the study area which is identified from the response of sample enterprise stated that the major sources of initial/startup capital for MSEs are their personal savings, followed by the combined personal contribution and loan from micro finance institution, and other sources such as donation. Besides, MSES do not use banks since banks require high collateral for their loans. In this study, the result for the source of initial capital is summarized in the table below.

Table 4.10: The Source of Initial Capital for the MSEs

Source of Initial Capital	Frequency	Percentage
Members Personal Saving or Contribution.	47	38.21%
Combining Source from Personal Saving and Loan from Micro Finance Institutions	36	29.27%
Loan from Micro Finance Institution	27	21.95%
Other Source	13	10.57%
Total	123	100%

Source own current study, 2014

The study result stated that, out of the total sample enterprises, 47(38.21%) have got their initial capita from personal savings (members" contribution), 36(29.27) have got the startup capital from personal savings plus loan from micro finance institution (MFI), 27(21.95%) enterprises which were included in the survey have got their initial capital from micro finance institution (MFI) and the remaining 12(10.57%) have got their capital from other sources such as donation from nongovernmental development organizations and others.

Generally, the survey result for the study area shows that own (personal) saving was the major dominant source of initial capital/ finance for majority MSEs while establishing the enterprise. .

4.2.3 The Capital level of the MSEs

In the above section the source of initial capital for startup the business enterprise has analyzed based of the information provided by the sample micro and small enterprises. In the same manner this part is concerned with the current level of capital owned by these enterprises. Capital is the most determining factor for undertaking active business activities and achieving better performance of the enterprise. Capital determines the level of production, the volume of sale, the size of employment, etc aspects of the business enterprise. The size of capital for defined interval level is summarized in the table below.

Table 4.11: Capital Levels of MSEs

Capital of MSEs in birr	Frequency	Percentage
Below 50000	30	24.38%
50001 – 100000	56	45.53%
100001 – 200000	19	15.45%
200001-300000	10	8.13%
300001 – 500000	5	4.07%
Above 500000	3	2.44%
Total	123	100%

Source own current study, 2014

As stated in the above table, 30(24.38%) of the enterprise have capital below 50000 birr, 56(45.53%) enterprises have capital limited to the interval from 50001 to 100000 birr, 19 enterprises have capital level between 100001 and 200000 birr, 10(8.13%) of enterprise have

capital endowment between 200001 and 300000 birr, the last two interval groups 5(4.07%) and 3(2.44%) enterprise have capital levels between 300001 to 500000 and above 500000 birr. However more than half of sample business enterprise which is about 69.92 percent of the enterprise has capital that is amounted below 100000 birr. And 29 enterprise which is 23.58% of the total sample micro and small enterprises that can achieve the capital of the business from 100001 to 300000 birr and the remaining 8(6.51%) have capital that is above 300000 birr.

In general, most of the enterprises are below 100,000 birr for their business capital and small proportion of the enterprise can achieve capital of above 500000 birr. As stated above capital is the major factor to determine the size of the enterprises and the process of transition of this micro and small enterprises to a medium and large scale industries, the current capital status of the sample enterprise suggested that most enterprises have small amount of capital and this will take many years for the enterprise to grow its capital and upgrading the business to the medium and large scale enterprises.

4.2.4 The Performance of the MSEs Starting from Establishment

Evaluating the change and improvement achieved by the micro and small scale enterprise is important task for determining the future economic implications of the business enterprises and to identify the problems hindering the growth and potential role played by these sectors. In this study a question is provided for the sample micro and small enterprises to explain the condition of the enterprise since startup with regards to some important aspects, this are the capital, the product produced or rendered service, the sale, profit and saving conditions of the business from the establishment to the current time. The following table explains the trends of stated variables within the life time of the business enterprises.

Table 4.12: Performance of MSEs

Variables	Increasing		Decreasing		Stagnant		Difficult to Determine	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Capital in birr	87	70.73	22	17.89	3	2.44	11	8.94
Product/service	77	62.60	19	15.45	3	2.44	14	11.38
Sales in birr	78	63.41	20	16.26	11	8.94	14	11.38
Profit in birr	86	69.92	17	13.82	11	8.94	9	7.32
Saving in birr	84	68.28	15	12.20	15	12.20	9	7.32

Source own current study, 2014

Based on the above information the capital condition of the business enterprises shows improvement from time to time within the life periods. The counted response implies that 87 (70.73%) enterprises achieved increasing the capital of the business, 22(17.89%) scored declining capital, 3(2.44%) stagnant and the remaining 11(8.94%) respond that it is difficult to determine their capital status. For the trends of the volume of production and rendered services, 77(62.60%) achieve increasing trend, 19 (15.45%) declining, 3(2.44%) stagnant and 14(11.38%) difficult to determine for the enterprise output production and provision of services. The sales condition of the enterprise shows increasing for 78(63.41%), declining for 20(16.26%), stagnant for 11(8.94%) and difficult to determine for 14(11.38%) business enterprises. The profit earned by this micro and small business enterprises shows trends of increasing for 86(69.92%), declining for 17(13.82%), stagnant or stayed the same for 11(8.94%) and difficult to determine

by 9(7.32%) enterprises. The saving variable in the same manner shows 84(68.28) increasing, 15(12.20%) declining, 15(12.20%) stagnant and 9(7.32%) difficult to determining trends since the establishment of the business enterprise.

In general the majority of the enterprises achieve improvement for the variables capital, output and service, sale, profit and saving throughout the life time of the enterprise, and this followed by the declining , stagnant and difficulty to estimate situational trend of the micro and small enterprises

4.2.5 Problems of MSEs

Many micro and small enterprises faces problems that hinder the growth of the enterprise and the role played as means of employment generating opportunity for the significant numbers of urban poor and unemployed. This problem of MSEs are related with shortage of capital for vast undertaking of business activity, limited access to credit facilities from concerned micro finance institution, lack of provision of land premise for manufacturing and sailing of their product, limited share of market demand for their product and sever competition, insufficient technical and managerial skill of the operators to run the business process, shortage of row material used in the production process and government administrative regulation that are related with legalization of the enterprise, giving the chance to organized prior to those who are unemployed, do not letting more enterprise to enter in the same area of business and more others related with enterprise access to get service and nearby support and providing immediate solution to their problem. The enterprise problems and challenges identified in this study are summarized in the table below.

Table4.13: Problems of MSEs

Problem/challenges of MSEs	Frequency	Percentage
Lack of Capital	34	27.64%
Lack of Land Premises for Manufacturing and Selling of Products	26	21.14%
Limited Access to Credit Facilities	20	16.26%
Limited Market Demand and Marketing Problems.	16	13.01%
Inconvenience Government Administrative Regulations	11	8.97%
Limited Skill of Operators	9	7.34%
Shortage And Expensiveness of Raw Material	7	5.64%
Total	123	100%

Source own current survey, 2014

The above table summarized depending on the frequency of the problems that respondent stated in the questionnaire. Therefore, the identified result for the problems of micro and small enterprise are lack of capital for 27.64% enterprises, absence of land premise used for manufacturing and displaying their product for sale by 21.14% enterprises, limited access to credit facilities from financial institutions for 16.26% enterprises, limited marked demand for their product and problems related with marketing for 13.01% enterprises.

In addition problems accounted below 10 percents are, 8.97% faced by problems of inconvenience government regulation, 7.34% operators limited technical and managerial skill

effectively and efficiently undertake business activities and finally 5.64% face shortage and problems of nearby access of raw materials for production.

Based on this information, the top three problems facing the MSEs and the overall role played by this sector in the process of local economic development in the form of income and employment generating, structural transformation of the economy and laying base for future industrial development are shortage of capital to expand the business, limited access and provision of land premise for efficient production as well as selling of the product and limited access of micro and small enterprises to credit facilities or limited credit market access to the MSEs.

4.3 The Econometric Framework of the Study

For the analysis of determinant the role of MSEs in creating employment opportunity a regression analysis was conducted to identify which variables are significant for the model. The analysis was made based on the econometric model developed below.

4.3.1 Econometric Model Used in Determining the Employment Creating Role MSEs

Regression models in which the regress evokes a yes or no or present or absent response are known as dichotomous or dummy dependent variable regression model. They are applicable in a wide variety of fields and are used in survey or census-type of data. Among the methods that are used to estimate such models, as indicated by Gujarati, (2004) are the linear probability model (LPM), the logit model, and the probit model. The LPM is the simplest of the three models to use but has several limitations, namely, non-normality of the error term, and the possibility of the estimated probability lying outside the 0-1 bounds. Even if these problems are resolved, the LPM

is not a very attractive model in that it assumes that the conditional probability increases linearly with the values of the explanatory variables.

Therefore what is needed is a probability model that has the s-shaped of the cumulative distribution function (CDF). Both logit and probit models guarantee that the estimated probabilities lie in the 0-1 range and that they are non-linearly related to the explanatory variables. Of the two, the logit model is slightly less involved because by taking the logarithm of the odds ratio what appears to be a highly non-linear model becomes a linear (in the parameter) model that can be estimated with in standard ordinary least square (OLS) framework. In the probit model, one is required to invert the normal CDF, leading to errors of approximation (Gujarati, 2004).

The dependent variable in this study is a variable, which takes a value of zero or one depending on whether the respondents view of employment opportunity under the MSEs sector. Gujarati (2004) indicated that most commonly used qualitative response models are the logit model, which corresponds to the logistic distribution function, and the probit model, which assumes an underlying normal distribution. These models specify a functional relationship between the probability of qualitative dichotomous variables and various explanatory variables. The general expression of the dependent and explanatory variables is specified.

$$Y = f(X_{11}, X_{22}, X_{33} \dots X_{ij})$$

Where Y is the dependent dummy variable, that identify respondent believes whether employment opportunity is created or not by the MSEs. X_{ij} is j's explanatory variables to i's individuals

Therefore, the explanatory variables determining the employment creation role of MSEs can be expressed using both qualitative and quantitative variables. Where the dependent variable is

dichotomous, many studies suggested that probit and logit model are appropriate. These models specify a functional relationship between the probabilities of the qualitative dichotomous variable and various explanatory variables.

However, this study employs the logit model due to its simplicity in identifying subject matter of study. Therefore, following Gujarati (2004) the logistic distribution function for the determinant factors of micro and small enterprise employment condition can be specified as:

$$P_i = E(Y = 1/X_i) = \frac{1}{1 + e^{-Z}}$$

$$Z = B_0 + B_i X_i$$

$$P_i = E(Y = 1/X_i) = \frac{1}{1 + e^{-(\beta_1 + \beta_i x_i)}}$$

For ease of exposition this can be written as

$$P_i = 1 / (1 + e^{-Z_i}) = e^Z / (1 + e^Z)$$

Where P_i = is the probability that the respondent believes as employment opportunity is created by the MSEs or not i.e. the probability of the individual operator under the MSEs to fill as being employment opportunity is created or not. It ranges between 0 and 1 and it is nonlinearly related to Z_i (i.e., X_i) e^{Z_i} standards for irrational number e to power of z_i

Z_i : is the linear function of n -explanatory variables (X_i) which is also expressed as:

$$Z_i = B_0 + B_1 X_{1i} + B_2 + \dots + B_n X_{ni}$$

Where, $X_1 X_2 \dots, X_n$ = explanatory variables

B_0 Is the intercept

$B_1, B_2 \dots B_n$ - The logit parameters (slops) of the equation.

If P_i is the Probability of the respondent believes being employed or employment opportunity is created by the MSEs sector under which the respondent is operating. $(1-P_i)$, the probability of being the respondent believes as employment opportunity is not created.

This can be written as:

$$1-P_i = 1/(1 + e^z)$$

The ratio of the probability of the desired out come to be happened to the probability of the desired out come not to happen therefore can be written as

$$P_i/1-P_i = 1+e^z/1+e^{-z} = e^z$$

Hence, taking the natural log of equation, we can get the following result:

$$Li = \ln[P_i/1-P_i] = zi = \beta_0 + \beta_1 x_i$$

Where Li , is log of the odds ratio, which is not only linear in X_i but also linear in the parameters.

Thus, if the stochastic disturbance term (U_i) is introduced and the logit model becomes:

$$Z_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_n X_{ni} + U_i$$

The final binary logistic probability equation of the study fitted as follows by considering the potential determinant of MSEs employment creation role in the study area.

$$P_i = E(Y = 1/X_i) = \frac{1}{1 + e^{-Z}}$$

$$Z = \beta_0 + \beta_1 \text{sex} + \beta_2 \text{age} + \beta_3 \text{edu} + \beta_4 \text{exp} + \beta_5 \text{inc} + U_i$$

The maximum likelihood estimation is used to estimate the relationship between dependent and independent variables that are fitted by the logit model.

Statements of the Logit Model

There is a special characteristic of the logit model that provides information on the working condition in the process of explaining the effects of explanatory variables to the explained variables. The statements on the working of the logit as stated in Gujarati, 2004 are defined as follows

1. As P goes from 0 to 1 (i.e., as Z varies from $-\infty$ to $+\infty$), the logit L goes from $-\infty$ to $+\infty$. That is, although the probabilities (of necessity) lie between 0 and 1, the logits are not so bounded.
2. Although L is linear in X , the probabilities themselves are not. This property is in contrast with the LPM model where the probabilities increase linearly with X .
3. Although we have included only a single X variable, or regressor, in the preceding model, one can add as many regressors as may be dictated by the underlying theory.
4. If L , the logit, is positive, it means that when the value of the regressor(s) increases, the odds that the regressand equals 1 (meaning some event of interest happens) increases. If L is negative, the odds that the regressand equals 1 decrease as the value of X increases. To put it differently, the logit becomes negative and increasingly large in magnitude as the odds ratio decreases from 1 to 0 and becomes increasingly large and positive as the odds ratio increases from 1 to infinity.
5. More formally, the interpretation of the logit model is given as follows: β_2 , the slope, measures the change in L for a unit change in X , that is, it tells how the log-odds in favor of owning a house change as income changes by a unit. The intercept β_1 is the value of the logodds in favor of the desired outcome to be happening if all explanatory variables are zero. Like most interpretations of intercepts, this interpretation may not have any physical meaning.
6. The LPM assumes that P_i is linearly related to X_i , the logit model assumes that the log of the odds ratio is linearly related to X_i .

4.3.2. Definition of the Variables Used in the Logit Equation

Sex (dummy variable where 1= male and 0= female) in the logit equation it is assumed that male has high probability to fill employed than female because male have better experience in the sector and better business information and network.

Age (continuous variable): in the logit equation it is assumed that the age of the respondent will have a significant positive coefficient. This is because as the age of young people increases they will have better work experience and skill and to fill better employment condition under the MSEs.

Education (an ordinal variable with values 1 = primary level (1-8), 2 = secondary level (9-12), 3= diploma, 4 =degree.): in the logit equation it is assumed that level of education will have a significant negative coefficient. This is because MSEs absorb the less educated and less skilled labour.

Experience – it is expected to have positive coefficient, the level of experience attained by the respondent or having experience in the business contribute to the productivity and also viewing the enterprise as major source of employment opportunity.

Average Monthly Income – this also expected to have positive coefficient, the income level determines the view of respondent towards the employment generating of MSEs sector. As the good the average monthly income of the respondent the more he/she fills as employment opportunity created by the enterprises

4.3.3 The STATA Result for Logistic Regression and its Interpretations

Based on the value label to each variable a regression is used to identify the possible effects of the independent variables to the employment of MSEs which is identified as one if respondent

viewed the sector as it can create employment opportunity for them, otherwise takes the value equals to zero.

The STATA provides regression output for the dependent variable employment of MSEs in terms of the corresponding explanatory variables for the 486 sample observations.

```
. logit employment sex age education expriance income
```

```
Iteration 0:  log likelihood = -238.69304
Iteration 1:  log likelihood = -217.22333
Iteration 2:  log likelihood = -203.2187
Iteration 3:  log likelihood = -202.39389
Iteration 4:  log likelihood = -202.39302
Iteration 5:  log likelihood = -202.39302
```

Logistic regression	Number of obs	=	486
	LR chi2(5)	=	72.60
	Prob > chi2	=	0.0000
Log likelihood = -202.39302	Pseudo R2	=	0.1521

employment	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
sex	.2950179	.2672292	1.10	0.270	-.2287416	.8187774
age	.044143	.0199654	2.21	0.027	.0050115	.0832744
education	-.4707607	.1680596	-2.80	0.005	-.8001514	-.1413699
expriance	.5104736	.2576585	1.98	0.048	.0054722	1.015475
income	.0032383	.0005388	6.01	0.000	.0021822	.0042944
_cons	-2.021015	.7649927	-2.64	0.008	-3.520374	-.5216573

The Number of obs = 486 – is the total sample size entered in the stata regression in order to identify the effects of explanatory variables on the dependent or employment of the MSEs variable.

LR chi2(5) - This is the Likelihood Ratio (LR) Chi-Square test that at least one of the predictors' regression coefficient is not equal to zero in the model. The number in the parenthesis indicates the degrees of freedom of the Chi-Square distribution used to test the LR Chi-Square statistic and is defined by the number of predictors in the model. In this study the value of LR chi2 (5) is equals to 72.60, defines the condition that one of the explanatory variables to not be not equals to zero.

Prob> chi2 - This is the probability of getting a LR test statistic as extreme as, or more so, than the observed under the null hypothesis; the null hypothesis is that all of the regression coefficients in the model are equal to zero. In other words, this is the probability of obtaining this chi-square statistic if there is in fact no effect of the predictor variables. In this study non regression coefficient is zero as a result the Prob> chi2 is equals to 0.000 that means none of the regression coefficient for the five explanatory variables is equals to zero. Therefore the possibility of committing type one error – the explanatory variable do not affect the dependent variable is zero.

Pseudo R2 - This is McFadden's pseudo R-squared. Since this has different meaning from the goodness of fit measure of the OLS regression no suggestion is made based on it.

P>|z| - These are the test statistics and p-value, respectively, for the null hypothesis that an individual predictor's regression coefficient is zero given that the rest of the predictors are in the model. The test statistic **z** is the ratio of the **Coefficient** to the **Std. Err** of the respective predictor. The **z** value follows a standard normal distribution which is used to test against a two-sided alternative hypothesis that the Coefficient is not equal to zero. The probability that a particular **z** test statistic is as extreme as, or more so, than what has been observed under the null hypothesis is defined by **P>|z|**.

The **P>|z|** for the regression coefficient of the study is:

- Sex = 0.27 this is the possibility of the sex coefficient of the model to be equals to zero.
- Age = 0.027 the possibility willingness to accept null hypothesis for age of the respondent or the coefficient of age variable to be zero is 2.7 percent.
- Education = 0.005, the possibility of accepting null hypothesis that education do not affect the employment of the MSEs is 0.5 percent.

- Experience = 0.048 only 4.8 percent possibility for accepting the hypothesis that experience does not determine employment.
- Income = 0.000, this is the average monthly income of the observed individual. There is no possibility to reach at conclusion of zero coefficient of income variable or the insignificance of the income of individual to the employment.

Since the model is a binary logistic no direct interpretation of the coefficient variable is made for purpose of analyzing the effect of independent variables of the study to the dependent which is the employment role of micro and small enterprise. In other word the effect of the coefficient explained the effects of variation of these variables to the value of Z not directly to the probability function that either support the employment under the MSEs. Therefore, the coefficient of the variables in the above regression output implies the proportion of the variation in Z resulted from a unit increment in the value of the variable. As such, it is the log function of the variation in Z that determines the probability of the respondent to view MSEs as created employment opportunity for them. The coefficients of the Z function do not have any direct intuitive interpretation. The probability of the logistic model becomes:

$$p = F(Z) = \frac{1}{1 + e^{-Z}}$$

The Z function is the relationship between Z and the explanatory variables

$$Z = \beta_0 + \beta_1 \text{sex} + \beta_2 \text{age} + \beta_3 \text{edu} + \beta_4 \text{exp} + \beta_5 \text{inc} + U_i$$

Since p is a function of Z , and Z is a function of the X variables, the marginal effect of X_i on p can be written as the product of the marginal effect of Z on p and the marginal effect of X_i on Z . However, we can use them to quantify the marginal effect of a change in *sex, age, education, experience and average monthly income* on the probability of graduating.

We will do this theoretically for the general case where Z is a function of several explanatory variables. We have already derived an expression for dp/dZ . The marginal effect of X_i on Z is given by its b coefficient.

Having explained the coefficients and their relative effect to the Z function, then the effects of the value of Z to the probability that $Y=1$ happens can be determined by using probability function.

The probabilities function of the model.

$$p = F(Z) = \frac{1}{1 + e^{-Z}}$$

$$\frac{1}{1 + e^{-(B_0 + B_1 \text{sex} + B_2 \text{age} + B_3 \text{edu} + B_4 \text{exp} + B_5 \text{inc})}}$$

However, the probability function of the model can be estimated by using the mean value of each explanatory variable. These mean values determined by using stata tool and generate the following result.

```
. summarize employment sex age education expriance income
```

variable	Obs	Mean	Std. Dev.	Min	Max
employment	486	.8065844	.395383	0	1
sex	486	.7160494	.4513778	0	1
age	486	29.56996	6.320499	18	47
education	486	2.197531	.9138533	1	4
expriance	486	.6831276	.4788337	0	3
income	486	1016.872	772.5665	150	7000

The effects of each variable to the Z value and this Z value to the probability that the MSEs create employment opportunity can be calculated as follows:

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Given the above formula we can calculate the effects by taking the mean value of all variables that is multiplied by the coefficient.

$$Z = \beta_0 + \beta_i \bar{X}_i$$

$$Z = -2.02 + 0.29 \times 0.72 + 0.04 \times 29.57 - 0.47 \times 2.20 + 0.51 \times 0.68 + 0.03 \times 1016.87$$

Then $Z = 29.20$

The probability of the desired out come to be happened (Y=1) or the probability of MSEs sector to create employment opportunity given the determinant variable in the study area is simply calculated by using calculator for the formula below.

$$p(y = 1 / x_i) = F(Z) = \frac{1}{1 + e^{-Z}}$$

$P = 0.77$

Interpretation – The interpretation for p=0.77 then becomes the probability of the micro and small business enterprises for creation employment opportunity is 77%. This finding of the study based on the collected data leads to the conclusion that the micro and small business enterprise in Hawass city create significantly employment opportunity for 77 percent of operators. This probability result is identified for the operators that are currently working under the enterprises and the value of the probability is calculated at the mean value of all variables.

However, the marginal effect of Z, that measures the change in the probability of the MSEs to create employment opportunity for the operators of the business as a result of a unit increment in the value of Z calculated as

$$f(Z) = \frac{e^{-Z}}{(1 + e^{-Z})^2}$$

By placing the value of Z equals to 29.20 in the above formula we can get marginal effect of Z, $f(Z)=0.18$ Thus, the result for $f(Z)=0.18$ this interpreted as the change in the probability of outcome or employment opportunity to be created (Y=1) for a unit increases in the Z value is 0.18. In other word the marginal effects of a one unit increase in Z leads to 0.18 increments to the probability of employment opportunity to be created.

In addition, after identifying the general effect of the variation of Z value to the probability of the stated outcome, the effects of each explanatory variable which is the marginal effect is calculated by using partial regression. Given the result of probability, the determination of marginal effect of Z and the independent variables to the probability of occurrence for the dependent variable (Y=1/xi) is calculated by using the formula:

$$\frac{\partial p}{\partial X_i} = \frac{dp}{dZ} \frac{\partial Z}{\partial X_i} = f(Z)\beta_i = \frac{e^{-Z}}{(1 + e^{-Z})^2} \beta_i$$

The variation/change in the probability of employment variable that is due to explanatory variable Xi is the product of effects of change in probability for Y=1, as a result of change in Z and the change in Z that is caused by change in the variable Xi. The general marginal effect of all variables are summarized in the table below

Table 4.14: **Logit: Marginal Effects**

Variable	Coefficient	Mean	product	Marginal effect $f(Z)$	Marginal effect of variables $bf(z)$
Sex	0.29	0.72	0.21	0.18	0.05
Age	0.04	29.57	1.18	0.18	0.007
Education	-0.47	2.20	-1.03	0.18	-0.008
Experience	0.68	0.51	0.35	0.18	0.12
Income	0.03	1016.87	30.51	0.18	5.49
Constant	-2.02				

The estimated marginal effects are $f(Z)$ multiplied by the respective coefficients.

Source own current study, 2014

Interpretation of Marginal Effects of Variables

$B1f(Z) = 0.05$, The marginal effect of sex (the change in sex from female to male) to the probability equals to 0.05 and this interpreted as at the sample mean, a one-point increase in sex or change in sex from female to male increases the probability of the MSEs sector to create employment opportunity by 5 percent. This is a very small amount and the reason is that, for those with the Mean sex, the estimated probability of the MSEs sector is lower and one of the sex distribution is small at the mean value.

$B2f(Z) = 0.007$, the estimated marginal effect for variable age. We can see that the marginal effect of age on the probability is 0.007. This means, as one year increase in the age of the MSEs

operator the marginal effect to the employment creation increases by 0.007. This result is estimated at sample mean, there is high distribution of age at the mean value.

B3f (Z) =-0.008. The marginal value for education is negative 0.008 that means a one grade increase in the level of education of the MSEs operator leads a 0.008 decrease in the probability of MSEs to create employment opportunity. This finding identified negative marginal effect to education variable and this support the assumption that the micro and small enterprise requires low skill.

B4f (Z) =0.12, Marginal effect for experience is 0.12. That interpreted as a one unit increase in the experience of the operators increases the employment creation potential of the MSEs sector by 0.12 percent.

B5f (Z) =5.49, this is the marginal effects of income variable. The interpretation then becomes, one unit increment in the average income of the operator resulted in a 5.49 increment to the probability of employment opportunity created for the MSEs operators.

The Odd Ratio of the Logit Model

This is the ratio of the probability of occurrence of an event to the probability of it not occurring. The odd is the ratio of the probability that something is true divided by the probability that it is not true. Thus, in the Logit case:

$$\text{Odds}(X) = \text{Pr}[Y_i = 1|X_i] / \text{Pr}[Y_i = 0|x_i]$$

$P_i/(1 - P_i)$ is simply the odds ratio in favor of employment opportunity to be created by the MSEs- ratio of the probability that individual operator fills as employment opportunity is created to the probability that employment opportunity is not created.

This can be determined by using the log model for the probability of specific outcome to be happened or not. For the odd ratio of the variables the following stata result is identified.

. logistic employment sex age education expriance income

Logistic regression	Number of obs	=	486
	LR chi2(5)	=	72.60
	Prob > chi2	=	0.0000
Log likelihood = -202.39302	Pseudo R2	=	0.1521

employment	Odds Ratio	Std. Err.	z	P> z	[95% Conf. Interval]	
sex	1.34315	.358929	1.10	0.270	.7955341	2.267726
age	1.045132	.0208665	2.21	0.027	1.005024	1.08684
education	.624527	.1049578	-2.80	0.005	.4492609	.8681681
expriance	1.66608	.4292797	1.98	0.048	1.005487	2.760674
income	1.003244	.0005406	6.01	0.000	1.002185	1.004304

Odds Interpretation

Odds ratio for sex =1.34, this is the odds ratio for sex on the probability of employment opportunity to be created by the MSE given that the other variables in the model are held constant. Controlling for other variables, on average, males are 1.34 times, or 34%, more likely than females to get the employment opportunity created by the MSEs.

The odds ratio for age = 1.04 that is defined by controlling others variable, on average the odds in favor of employment is 1.04. This means a unit increase on the age of operators leads to an average increase in odds in favor of employment opportunity to be created by 1.04 times larger or 4% more .

Odds of education = 0.62. Since the coefficient for education is negative, holding other variable, on average, a unit increase in the level of education leads to on average odds decrease by 0.38 or 38% $[(1 - 0.62) \times 100]\%$. This means, at mean value holding other variable constant a unit increase in the education level leads to odds ratio in favor of employment opportunity to be created by the MSEs decrease by 38 percent.

Odds of experience = 1.67 In the same manner, holding other variables constant, on average level, having experience, weighted odds in favor of MSEs to create employment is 1.67 times larger or 67 % more.

Odds ratio of average monthly income = 1.003. The Interpretation becomes, Controlling for other variables, on average, unit increase in the income level resulted average odds increment in favor of the employment opportunity is 1.003 larger or 0.3% more.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The main focus of this study is to investigate the potential role and contribution of micro and small enterprises to employment generating opportunity for the poor and unemployed in Hawassa city. Therefore, throughout the study efforts have been made to explore the major role of MSEs and the characteristics of operators and the business enterprise with respects to basic aspects required for this study. Moreover, the study has tried to find out the characteristics/nature of the respondent and the enterprises, the problems faced by the enterprises.

With regard to the characteristics of the respondents, majority, 350 (72 %) of them are found to be males and the remaining 136(28%) are females; this indicated that the participation of females is low and MSEs are more attracted by males. Based on the category of age variable the majority of the respondent found in the economically active age group. Thus the micro and small enterprise in the study area provides employment opportunity for those that are unemployed and can effectively contribute in the local economic development of the study area as they are within economically active age group.

With regard to earlier occupation of the respondents, majority of them were found to be unemployed are (32.92%) and students (44.86% %) before they were joined these micro and small enterprises; and the remaining 22.22% were employed before the join the MSEs. As such, the majority of the job is created for those who were unemployed and student that of those who were previously employed. Thus this result of the study implies that the micro and small business enterprise are more effective for the majority in creating new employment opportunity as well as served as means of alternative employment for some others.

Concerning the respondent educational status, four categories are identified, these are the primary, secondary, diploma and degree and the corresponding proportion of the respondents are 23.05%, 44.90%, 21.4% and 10.65% respectively. The result of the study also showed that the educational status or level of majority respondents is low; limited to primary and secondary level. This is due to the fact that the micro and small enterprise requires less skill to operate under the business.

Experience is the important factor that improves the operator's production capacity and efficiency in the specific area of the business. In this study the MSEs operators are asked whether they have experience in the business or not. The corresponding result shows that out of the total sample operators 67.4 have experience in the business area where they operating, whereas, 32.6 percent do not have experience.

One of the factor that determines the MSEs sector to be a means of employment for its member operators is the amount of income that the enterprise able to pay to each operators mostly on monthly basis as wage or salary for the labor they provide in the production of the business. In this regards, operators are asked the average monthly income levels paid as wage, and based on the respondents feedback the summarized average monthly income of the MSEs operators implies that, the majority of the respond earn an average monthly income level from 500 to 1000. In addition a small number of respondents earned income level above 3000. Therefore, the majority about 63 percent earned an average monthly income below 1000.

With regard to the nature and characteristics of the enterprises, all the enterprises included in the survey are aged smaller years and most of them established in the last five years. For the initial start up of the business contribution from their personal saving is the major source of initial capital for majority (68.75 %) enterprises to start their business activity; followed by the

combined combination of personal saving and loan from micro finance institution, and loan the entire capital from micro finance institution. This outcome of the study provides information that there is limited access of credit for majority of the enterprise in the process of establishment and expanding the business. Thus, the limited access of credit is one of the problems facing the MSEs sector and their potential contribution to the local economy in the form of employment creation.

With regard to the economic contribution of the sector with respects to employment opportunity, out of the total 486 respondents included in the study, 392 (80.66%) of them believed that employment opportunity is created by the MSEs sector under which they operates and the rest 19.34% do not believe as they are being employed or employment opportunity is not created for them by the MSEs sectors. However, as the majority believes as they are being employed; micro and small enterprise can be considered as significant source of employment opportunity for the most of unemployed in the study area.

The size of family or dependence of the MSEs operators implies that a 46.53% of the respondent have number of dependence have respondent of above one. Hence, the micro and small enterprises are the source of income for the operators used to support the livings of the family or dependents.

The study made on the performance of micro and small business enterprises starting from their establishment with respects to improvement in capital, sales, and profit and saving conditions of the enterprise, the majority of the sample enterprise are found in achieving improvement in these variables, and followed by those enterprises with decreasing and stagnant status respectively.

Even though, the micro and small business enterprise can crate income and employment opportunity for the economically poor and unemployed in the urban areas, there are various

problem challenges facing the business that hinders the potential of the sector to be the source of employment opportunity and the overall contribution made to the local economic development. As stated in many MSEs studies lack of finance, lack of working space, lack of market and raw material inputs, absence of display centers/shops, unfair treatment among enterprises by the government are major problems that hinder the potential growth and operation of the enterprises. The identified problems of MSEs Sector in the study area comprises, shortage of capital used for operating and expanding the enterprise, problems related to lack of land premise for manufacturing and displaying their product, limited access to or provision of credit facilities, marketing problems such as limited market demand, unfair competition and others, and problem related with government regulation, limited skills of the operators and shortage of row material. The conduct analysis on the role of MSEs in creating employment opportunity in the study area, made by using the logit econometrics model for determine the probability of employment opportunity to be created on the basis of operators view towards MSEs employment. The regression result for the probability is 0.77, implying the MSEs sector in the study area creates employment opportunity for 77% of operators. In other word 77% of the MSEs operators believed as employment opportunity is created for them by the MSEs. As a result, the MSEs create employment opportunity for the majority of operators and this can be concluded as the country MSEs development strategy potentially create employment opportunity and significantly contribute to the economic development process of the nation.

5.2. Recommendations

Based on the major findings, which are discussed in the previous section, a number of recommendations have been drawn, with the view to solve major problems of the sector and to

improve the role of MSEs' contribution to local employment opportunities. The following points are some of the recommendations forwarded in this study.

As we have seen in the previous section, lack of finance or capital is one of the major constraints for MSEs to expand their activities as well as employ more labor. In addition to this, the study findings indicated that members' contribution from their personal saving was the major source of initial capital for majority of sample enterprises to start their business activity. In other words, majority enterprises have not got loan from financial institution. Therefore, in order to the MSEs sector create and serve as source of employment lenders like micro finance institutions in the city has to improve its service delivery systems in terms of widening the range of collaterals, make longer grace periods, increase the amount of loan provided for MSEs, and increase the period to return loans. In addition the trade and industry department of the city must understand and provide solution for the MSEs sector to have enough credit access. Besides to this alternative, the local government has to promote the establishment of other alternative micro finance institutions so as to improve access to credit service for MSEs. The second problem facing the MSEs and their entire contribution which identified in this study is lack of working place or premises for production and sailing their product. The local responsible organization must provide the required land for the enterprises as this enterprise have limited capital to get the land in another mechanism i.e by renting or buying.

To solve the marketing problems of the MSEs sector of the city such as absence of market demand, limited marketing strategy and unfair competition, the government must provide the enterprises with efficient marketing knowledge. In addition, government must find mechanisms for the MSEs sector to advertise their product and also giving them priority in most government bids for purchase of product and service.

The MSEs sector development is one of the development objective the government especially intended with the short run objective of overcoming urban poverty and unemployment and long run objectives of laying the base for future industrial development of the country. However, beside the stated fact most micro and small enterprise suffered by the administrative regulation problem of local government body. The finding of this study showed that some of sample enterprises included in the survey identified that they face regulation and administrative problems during their time of establishment and operating process. This problem includes corruption, not giving the priority to organize for those who are unemployed, taking too much periods and bureaucracy to legalizing the enterprise, and also limitation in nearby follow up and support and providing immediate solution when the enterprise face challenges. The possible recommendation provided for this situation is that the government or its responsible body must understand the prior focus given to the MSEs sectors for providing income and employment opportunity as well as the contribution made to local economic development must improves the service and support facility provided to the sector and also avoid administrative regulation that is against the MSEs sector growth and development. Besides, the government should provide different work related supports to MSEs operators so as to increase the productivity of both operators and enterprises. Furthermore, awareness creation about different supports also needed for enterprises'' operators so as to know more the important of various supporting mechanisms. For those enterprises, facing problems related to lack raw material input and expensive price this raw material this might be because MSEs purchase raw materials from merchants, the government provide mechanism to solve this problem and also must tries to link MSEs with related raw material suppliers.

The MSEs sector potentially create employment opportunity or considered as source of employment by the majority of operators of the business. Therefore, the government or its responsible body in the study area should give due attention for the development of this sector and work intensively for solving the problems of the sector.

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The Questionnaire Distributed for Collecting Data.

DEPARTMENT ECONOMICS

Questionnaires for MSEs operators

PUTA TICK MARK $\left[\sqrt{\quad}\right]$ or WRITE WHERE NECESSARY

c. Primary (Grade 1-8) ----- []

d. High school (Grade9-12) ----- []

f. Higher education Certificate----- []

Diploma ----- [] BSC/BA ----- [] MSC/MA and above ----- []

Others, specify_____

6. Marital status

Single----- [] Married----- [] Divorced----- [] Widow----- []

7. Do you have experience related with the currently business?

8. How many years of work experience you have in the business? _____

Part Two: Questions related to the facts about Business enterprise

1. Where is the location of the business enterprise?

City/ ketema/ _____ Sub-city_____ Kebele_____

5. When did this enterprise established? -----

2. What is the business category (area) of the enterprise?

A. Manufacturing ----- [] B. Constriction ----- []

C, Trading ----- [] D. Service..... []

E. Urban agriculture []

3. What is the special area of the business under the above category?

4. What are the products or services produced by the business enterprise?

-----, -----, -----, -----, -----

Part Three: Questions related to employment, income and living condition of the respondent

1. Are you currently a permanently work in this enterprise? a. Yes ----- [] b. No--- []

2. How many employees does the enterprise have at initial and current time?

No	Working condition	Initially (beginning)		Currently	
		Male	Female	Male	Female
1	Temporary				
2	Permanent				

3. Where did you work before you engage in the current job?

1. Unemployed---- [] 2. Seasonal unemployed----- [] 3. Informal sector operator---[]
 4. Government organization ---- [] 5. Non-governmental organization--- []
 6. Student ----- [] 7. Other, specify -----

4. When did you join this business enterprise? -----

5. What is your position in the enterprise? -----

6. How much is your wage or salary? _____

7. How is your income condition after you start the business?

1. Increased----- [] 2. Decreased ----- [] 3. Stayed the same ----- []

8. For what do you use your income most importantly?

1. Household consumption ----- [] 2. For health and education ----- []
 3. For ceremonial ----- [] 4. Debt payment -----[] 5. Other, specify ----- []

9. Do you save from what you earn per day/week/month?

- a. Yes ----- [] b. No ----- []

10. Do you have other source of income?

a. Yes ----- [] b. No ----- []

11. How much did/does your household save per month? Before MSEs: _____ after MSEs: _____

12. Are you a family leader? Yes ----- [] No ----- []

13. Do you have children? Yes ----- [] No ----- []

14. How many family members do you have? _____

15. Do you believe that the income that you get from this job allow you to finance all Costs of the house hold?

1. Yes, most of the time---- [] 2. Sometimes ----[] 3. Rarely----- [] 4.No----- []

19. How much is the minimum wage or salary that you accept to stay operating under the business? -----

19. Do you have any assets that you owned after you employed in this business?

a. Yes ----- [] b. No ----- []

21. Have you received any vocational/technical training? Yes ----- [] No ---- []

22. If your answer is “yes” for the above question, in what type of profession?

1. Woodwork --- [] 2.Electricity ---- [] 3.Metal work- [] 4.Auto mechanical work- []

4. Food processing ---- [] 5.Masonry --- [] 6.Marketing ----- [] 7.Tailoring----- []

8. If other specify -----

23. If your answer is “No” for the above question, how did you acquire the skill you are Applying in your job?

24. Do you believe that you have got employment opportunity? Yes----- [] No ----- []

25. Do you believe that the MSEs have a Potential of creating employment opportunity?

Yes ----- [] No ----- []

26. In your opinion, what are the factors that hinder the existing MSEs from serving as means of employment and creating additional employment opportunity for the Unemployed ones?

27. In your opinion, what are the factors that hinder the establishment of new MSEs and he creating of employment opportunity for the Unemployed ones?

Part Four: Information on Capital, Production, Sales and expenditure of the enterprise

1. How much was the initial capital of your enterprise? -----birr

2. How much is your current Capital? -----birr

3. How much is your working Capital? -----birr

4. What was the major source of this capital?

1. Own saving---- [] 2.Borrowing from MFI --- []

3. Borrowing from MFI & own saving -- []

4. Donation----- [] 5.Inheritance----- [] 6.Borrowing from Bank ----- []

7. Borrowing from friends ----- [] 8. Others/specify-----

5. Does the enterprise have enough capital to run the business?

Yes ----- [] No ----- []

7. How is the capital condition of the business since start up?

1. Increased----- [] 2.Decreased ----- [] 3. Stayed the same ----- []

8. Do you think the capital condition of the business determines the stability and increment possibility of the employments?

a. Yes ----- [] b. No ----- []

9. If your answer is “yes” for the above question, how did it determine?

10. How much are you currently producing quantity? -----

11. How is the production condition of the business since start up?

1. Increased----- [] 2.Decreased ----- [] 3. Stayed the same ----- []

12. How much is your production capacity? -----

13. If you are not producing with full capacity what hinders you to do that?

1. Lack of premises/spaces--- [] 2.Lack of raw materials nearby ---- []

3. High price of raw material ----- [] 5.Pressure from government regulations----- []

6. In adequate skills----- [] 7.Shortage of market--- [] 8.Lack of sufficient capital-[]

9. Lack of credit facilities----- [] 10. Other specify-----

14. What is the sales volume of the enterprise in birr?

A. current time ----- B. average -----

C. maximum ----- D. minimum-----

15. How was the tendency of your sales during the life time of the business?

1. Increased---- [] 2.Decreased -- [] 3. Stayed the same ----- []

4. Difficult to forecast - []

16. If the answer for question 15 is “1”, what are the reasons?

1. Access to working place-- [☐] 2. Access to rented building [☐] 3. Assist marketing-[☐]
4. Access to bank loans---- [☐] 5. Favorable rules and regulations ----- [☐]
6. Better access to raw materials----- [☐] 7. Technical training to the operator----- [☐]
8. Training on balance sheet and accounting----- [☐]
9. Other/specify-----

17. If the answer for question no 15 is “2”, what are the reasons?

1. Inadequate managerial skill----- [☐] 2. Problems with workers----- [☐]
3. Government regulations----- [☐] 4. Too much corruption in the enterprise----- [☐]
5. Unable to cope with social responsibility--- [☐] 6. Shortage of working capital----- [☐]
7. Limited capacity to produce trade or give service----- [☐] 8. Lack of raw market--- [☐]
9. Lack working place ----- [☐] 10. Lack of raw material----- [☐]
11. Other/specify-----

18. How much is the enterprise monthly expense in birr?

- A. average ----- [☐] b. maximum----- [☐] c. minimum----- [☐]

19. How is the trend of the enterprise monthly expense?

1. Increased---- [☐] 2. Decreased -- [☐] 3. Stayed the same ----- [☐]
4. Difficult to forecast - [☐]

20. What is the amount monthly profit earned? -----

- A. average ----- [☐] b. maximum----- c. minimum-----

22. How is the trend of the enterprise monthly profit?

1. Increased----- [☐] 2. Decreased ----- [☐] 3. Stayed the same ----- [☐]

23. Do you save out of the profit the enterprise generated? a. Yes ----- [☐]

- b. No ----- [☐]

24. How much does the enterprise saved?

A. current time ----- B. average -----

C. maximum ----- D. minimum-----

25. Does the level of saving directly contribute to the capital the business currently owned?

a. Yes ----- [] b. No ----- []

Part six: Open ended questions related to the MSEs problems/challenges.

1. What are the challenges, related with the external environments that negatively influence the process of establishment/start up of the business enterprise? (Put the problems according to ascending orders of their severity, highest to lowest).

A. -----

B. -----

C. -----

D. -----

E. -----

2. What are the challenges, related with the external environments that negatively influence business enterprise operating process, survival and growth after establishment? (Put the problems according to ascending orders of their severity, highest to lowest).

- A. -----
- B. -----
- C. -----
- D. -----
- E. -----

3. What are the problems, related with the internal environments that negatively influence the operating process, survival and growth of the business enterprise? (Put the problems according to ascending orders of their severity, highest to lowest).

- A. -----
- B. -----
- C. -----
- D. -----
- E. -----