Analysis on Factors Affecting the Growth of Micro and Small Enterprises: The Case of Gulele Sub-City, Addis Ababa, Ethiopia

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Article Info	*Abstract*

Micro and small enterprises are the integral parts of industrial development and considered as the cornerstones of a vibrant entrepreneurial economy and social transformation especially in developing countries. The government of Ethiopia has given sizable recognition and credit for the expansion of these enterprises. However, due to various socioeconomic and political factors including cumbersome bureaucratic procedures, they have been subjected to undergrowth, stagnation, and disappearance. This study, thus, aims to examine factors affecting the growth of micro and small enterprise in Addis Ababa city particularly in Gulele Sub-city, Woreda 03. The study used mixed research approach. The data for this study were collected using survey questionnaire from 120 enterprise leaders/owners/ who were selected via random stratified sampling method. Descriptive statistics, growth rate method, and multiple linear regression model were applied for quantitative data analysis. The analysis reveals that enterprises grew with the rate of 0.20, but growth rate had no similar trends among different sectors: service, trade, manufacturing, urban agriculture, and construction. Moreover, the regression analysis shows that out of eleven explanatory variables, age, gender, and work experience of leaders or owners jointly with age of enterprise, number of total employees, suitability of working place, marketing problem, and government's policies had significant contribution on the growth of micro and small enterprises in the study site. In conclusion, the growth of the enterprises was affected by various socioeconomic, demographic, environmental, and policy related factors. Therefore, all stakeholders should work jointly to overcome the existing problems, create workable environment, and develop practicable strategies to increase the performance and harness the tremendous contributions of the sector for job opportunity and economic transformation.

Keywords: Micro and Small Enterprise; determinant; Growth, Addis Ababa

Introduction

Micro and small enterprises (hereafter MSEs) undoubtedly have immense contribution for the socio-economic development of developing countries (Aremu & Adeyemi, 2011; ILO, 2003). They, therefore, have taken the attention and focus of leaders and people at large in many countries as the result of their multiple contributions: livelihood diversification, income generation, job creation for the poorest of poor, and saving of foreign currency via import substitution and exporting of products and services. They are also the basis for industrial development and cornerstones for vibrant entrepreneurial economy (Arimah, 2001; Nasrullah,2012).

Empirical studies have assured that MSEs have pivotal contributions particularly in developing countries including Ethiopia through utilization of natural resources, huge human capital, and indigenous knowledge and technologies (Mekonnen & Tilaye, 2013). Similarly, the report of OECD (2004) and Ekpenyong (1997) showed that MSEs play a key role in transformation of economy of developing countries. They account for more than 90% of all forms production outside the agricultural sector, constitute a major source of employment, generate significant domestic and export earnings, and their development is considered one of the vital instruments for poverty reduction efforts (Nusrullah, 2012). However, associated with insufficient capital, low level of technology, cumbersome bureaucratic procedures, weak network among the actors and inadequate infrastructures; many developing countries have not yet achieved the intended and desired goals of MSEs unlike developed countries (Arimah, 2001; OECD, 2004).

Cognizant of the pragmatic role for economic growth, technology transformation, numerous employment opportunity, and considerable role for alleviating poverty and income inequality among the citizens, MSEs have been recognized by the current government as the mainstay of the national economic growth and transformation (Dagmawit & Yishak, 2016). These enterprises are assumed one of the efforts for out-pacing the sustainable growth and development of the manufacturing and service sectors of the country. Since the last two decades, the Ethiopian government, therefore, has perceived MSEs as the agents of economic transformation from traditional rain-fed agriculture oriented to modern manufacturing and service oriented. In this regard, MSEs have been seen as catalysts for industrialization and development of the country (Wakjira, 2015).

Therefore, to challenge the challenges and reap the multifold merits of the enterprises, the Ethiopian government issued the first MSEs Development Strategy in 1997 with the main objectives of job creation, income raising, and poverty reduction (Dagmawit & Yishak, 2016; Dereje, 2012), and the second MSEs development strategy was designed in 2011 by alleviating the limitations and gaps of the first strategy (Ababiya *et al.*, 2015; Amare &Raghurama, 2017).

Likewise, for financial services the government has established different financial institutions and encouraged the private investors to participate in the financial services provision for MSEs ranging from Kebele[1] to national level (Diriba, 2015). Additionally, to make the MSEs sustainable and successful, the government has provided consultancy services, technology adaptation, and market access for their products (Bizusew, 2015; Dereje, 2012; Gedam, 2010 cited in Alemtsehay, 2016). As a result, the establishment and roles of MSEs have shown significant progress. For example, 584,913 informal sectors and 2,731 small scale manufacturing industries were established with employed of about 739,898 labor force (CSA, 1997). Again, at the beginning period of the second MSEs Strategy (2011) a total of 176,543 MSEs were established and created jobs for 666,192 people, and at the end of the strategic period (2014/15), a total of 271,519 new MSEs were established that employed about 2.8 million people (NBE, 2015 cited in Amare & Rahurama, 2017).

Despite government devotion for expanding and growing of MSEs and striving to create enabling environment for sustainability, MSEs in Ethiopia persistently suffer from multi-dimensional challenges and problems that subdue their growth, productivity, and sustainability. Some of the problems are associated with inadequate start-up capital, weak technology adaptation, and utilization, shortage of infrastructures services, poor managerial skills of business owners, lack of appropriate work and market place, awareness problem, and inconsistency in follow up and monitoring activities (Dawit & Yisahak, 2016; Makonnen& Tilaye, 2013). Furthermore, negative attitude towards MSEs and entrepreneurial behaviors: lack of innovativeness, skill, ability, and willingness to take risks are some of the problems negatively affecting the progress and successfulness of MSEs in Ethiopia (Tsega, 2014 cited in Alemtsehay, 2016).

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[1] Kebele refers the smallest administrative unit in Ethiopian context

Like other parts of the country, ever-increasing unemployment, income inequality, and continuous decline of living standard of the majority of people (especially the low income) became the characteristic of Addis Ababa city administration. Due to this, the city administration has been working intensively on the growth and development of MSEs by recognizing its role in the reduction of unemployment rate and betterment of the living conditions of the dwellers. The city administration had started MSEs development program by 2004 with the core objectives of reduction of poverty and creation of job opportunities for unemployed (particularly for youths, TVT graduates and women) (Micro and Small Enterprise Development Program, 2015). According to the MSEs Development Bureau's report (n.d)), individuals job opportunity was created by MSEs for 686,083 from 2003 to 2010, of which 36% were female and resulted in reduction of the unemployment rate from 37% in 2003 to 25.8% in 2010. Moreover, the contribution of the sector to socio-economic development, reduction wealth inequality, technological advancement and adaptation has been very observable in the city (MUDC, 2014).

Even though there is a progress in number and contribution to socio-economic development and technology transformation in Addis Ababa, large number of MSEs were closed up as the result of daunting internal and external factors. Still, there are also stagnant and under growing MSEs that are unable to meet the intended objective for which they were established. Therefore, it is significantly important to examine the factors that determine the progress of the enterprises and provide workable solutions using empirical studies in different geographical scales. In this regard there are some previously conducted studies (e.g., Alemtsehay, 2016; Dereje, 2012; Wakjira, 2015; Fikrite, 2013). However, these studies manly focused on the qualitative analysis of the opportunities and challenges of MSEs in the city. The growth rate and important determinants have not yet been examined quantitatively through application of appropriate statistical tools and models. Thus, this study is designed to examine the determinants of growth of Micro and Small Enterprises in Woreda[2] 03 of Gulele sub-city, Addis Ababa city administration.

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[2] Woreda is the administrative unit next to Kebele in the Ethiopia context; which is equivalent to district

Methods and Materials

Study area Description

This study was carried out in Addis Ababa City Administration, Gulele Sub-City, Woreda 03. It is located in the Northern part of Addis Ababa with geographical ranges of 472983, 1001885-meter North to 473028, 999713-meter South and 472898, 1001743 West to 473835- and 1000943-meter East. It covers an area of about 90.9 hectares. The basic rationales to select Woreda 03 of Gulele sub-city purposively for this study are the presence of large number of Micro and Small Enterprises in different sectors and the presence of large numbers of dead and stagnant enterprises of the city in the Woreda (discussion with coordinator of MSE of Gulele sub-city).
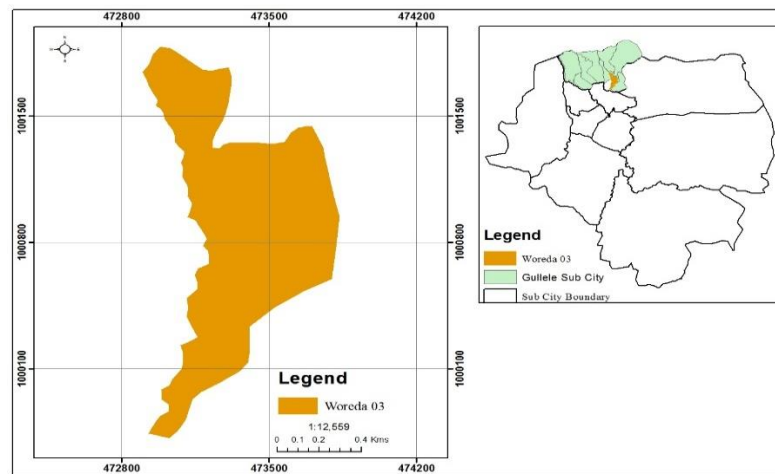

Figure 1 Map of the Study Area

Data Source and Type

In this study a cross-sectional research design with qualitative and quantitative approaches is employed. Regarding data sources, both primary and secondary data sources were utilized. The primary data were collected from leaders/owners/ and concerned officials in Addis Ababa City Administration particularly in Gulele Sub-City, Woreda 03. The survey data were collected using questionnaire and semi-structured interview. The secondary data were gathered from all important professional published and unpublished literature: books, research papers, articles, government reports, policy documents and others.

Sampling Techniques and Sample Size Determination

The population of this study included the leaders / owner/ of MSEs in the Woreda and concerned officials from Gulele sub-city and Addis Ababa city administration. Since the population was homogenous for this study and taking in to consideration other sample determinant factors, the researchers decided and took 120 MSEs/their leaders/ via random stratified sampling method. As a sample frame, the list of total MSEs was taken from the Woreda's MSEs office and the representative samples were proportionally selected from all available sectors (Services, agriculture, trade, construction, and manufacturing) in the Woreda (see Table 1).

Table 1 Sample Size of the Study

N$\underline{o}$	Sector of Enterprises	No. of Enterprises (N_i)	Sample Size(n_i)
1	Services	11	3
2	Trade	50	14
3	Construction	71	20
4	Manufacturing	286	80
5	Urban Agriculture	11	3
	Total	429	120

Source: Gulele sub-city, Woreda 03 MSE office, 2018

Data Collection and Analysis Tools

Questionnaire was the main instrument to collect the quantitative data. It was designed based on logical and psychometric approaches. The initially drafted questionnaire was provided to five experts who have research experiences related with MSEs. Based on the comments and suggestions given; modification was made on some items of the questionnaire. Afterward, to increase the reliability and validity of the questionnaire, pilot test was also made using some non-sampled leaders of MSEs in the study site.

Lastly, the final version of questionnaire was distributed to 120 respondents by going to the location of the respective enterprises using well trained data collectors and assistant supervisors; however, the analysis was done using 118 questionnaires because two erroneously answered questionnaires from

construction sector were removed. Additionally, to substantiate and cross-check the data collected via survey questionnaire, interviews were conducted with purposively selected fifteen officials from the study Woreda, Gulele Sub-city, and Addis Ababa city administration based on their administrative position and information and knowledge capacity about MSEs.

Following the data collection, screening, and organization, the data analysis was done qualitatively using key event approach and quantitatively with application of descriptive statistics: frequency, percentage and growth rate method, and Econometrics model (multiple linear regression)]. STATA (version_14) software package was applied for organizing and analyzing the quantitative data of the study.

Since the dependent variable (growth of MSEs) is continuous type, multiple linear regression model is assumed highly appropriate and opted for in this study to examine the determinants of MSEs growth in this study site. This model is helpful in providing an estimate of the best way to combine the explanatory variables in order to predict the continuous dependent variable significantly (Hayashi, 2000). Researchers have used different indicators to examine the growth and performance of of business enterprises such as number of employees, capital accumulation, debt burden, technology adoption in different studies. For this study we opted for the size of employees, which is the most commonly used (Dagmawit & Yishak, 2016) as indicator of MSEs growth in the study site. We measured the dependent variable (MSE growth) using average growth in jobs; (change in number of employees) over the years since start-up which is measured in the number of jobs created as ln(current employment) – ln(initial employment)/enterprise age (Evans, 1987). The independent variables included socio-economic, demographic, environmental, and policy related factors which were identified after in-depth reviewing of empirical literature and discussions with concerned officials in the study site. The detail description of these variables is presented in table 2. To establish the relationship between the dependent variable and the explanatory variables the linear regression model is precisely specified as follows in equation 1

GROWTHMSEs (Y_i) = f(AGEOWNER, GENDEOWN, AGEENTERP, PREVWOREXP, BUSIPLAN, STARTUPMEMSIZ, PLACESUITABL, TRAINING, MARKPROB, CREDIT and GOVTPOLICY)

$$Yi = \alpha + \beta_1 \text{ (AGEOWNER)} + \beta_2 \text{ (GENDEOWNER)} + \beta_3 \text{ (AGEENTERP)} + \beta_4 \text{ (PREVEXP)} +$$
$$\beta_5 \text{ (BUSIPLAN)} + \beta_6 \text{ (STARTUPMEMSIZ,)} + \beta_7 \text{ (PLACESUITABL)} + \beta_8 \text{ (TRAINING)} + \beta_9$$
$$\text{(MARKPROB)} + \beta_{10} \text{ (CREDIT)} + \beta_{11} \text{ (GOVTPOLICY)} + \varepsilon \ldots\ldots\text{(equ.1)}$$

Table 2 Description of the variables, measurement, and suggested hypothesis

Variable	Variable Description	Measurement	Expected Sign
AGEOWNER	Age of MSE's leader	Continuous: Completed years	+/-
GENDEROWNER	Sex of respondent	Dummy: male= 1, Otherwise = 0	+/-
AGEENTERP	Age of the enterprise	Continuous: in year	+/-
STARTUPMEMSIZ	Total initial employment including members	Continuous: in number	-
PREVWOREXP	Total years of work experiences of leader/owner	Continuous: in year	+
BUSIPLAN	Have business plan	Dummy: Yes = 1; Otherwise = 0	+
PLACESUITABL	Suitability of marketplace	Dummy: Yes = 1; Otherwise = 0	+
MARKPROB	Marketing	Dummy: Yes = 1; Otherwise = 0	-
TRAINING	Access of training	Dummy: Yes = 1; Otherwise = 0	+
LACKCREDIT	Access to credit	Dummy: Yes= 1; Otherwise = 0	+
GOVTPOLICY	policies related problems	Dummy: yes= 1 Otherwise = 0	+/-

Results and Discussion

Socio-Demographic Characteristics of Respondents

The basic socio-economic characteristics of the respondents are summarized and displayed in table 3. The analysis reveals that majority (71%) of participants are male and approximately 68% of them

found in age ranges of 30-64 years. Of the total respondents about 61% were married and the remaining 39% were unmarried (single, divorced or widowed). In addition, nearly half of respondents had primary (grade 1-8) education and 22% had secondary (grade 9-12) education level. The rest had completed their tertiary education (diploma, TVT and BA degree).

Table 3 Summary of respondents' socio-economic profile

Variable	N	%
Age		
19-29	38	32
30-64	80	68
Sex		
Male	84	71
Female	34	29
Marital Status		
Married	72	61
Unmarried	46	39
Educational Level		
Primary	59	50
Secondary	26	22
Tertiary	33	28
Family Size		
1-3	40	34
4-6	57	48
7-9	21	18

Source: Field Survey,2018

Growth of Micro and Small Enterprises

There are different criteria and parameters to measure the aggregate growth of enterprises. Capital accumulation, profitability, employment growth rate, poverty reduction capacity, and utilization of technology are some of the criteria that were used to determine growth of MSEs (Arega*et al*., 2016). In Ethiopia, MSE is one of the economic sectors given a critical emphasis to alleviate poverty and create employment opportunity for the poor people and youths especially at urban and semi-urban areas (Dagmawit and Yishak, 2016). Therefore, in the current study, employment size (employment growth rate) was taken as an indicator to measure the growth of MSEs. Table 4 illustrates the total size of workers in sample MSEs at start up time and current time (April, 2018).

Table 4: Employment Growth of Sample MSEs

Sector of MSEs	Size of workers* at start up time	Size of Workers at current time	Growth rate
Service	8	14	0.75
Urban Agriculture	18	13	-0.27
Trade	46	58	0.26
Manufacturig	938	1095	0.17
Construction	95	143	0.51
Total	**1105**	**1323**	**0.20**

Source: Field Survey, 2018

*Total size of workers includes both the members/owners/ of enterprise and hired employees

The data analysis shows that the total number of employees in all sectors had increasing trend except in urban agriculture. As it can be seen in table 4 the total employment size in all sample MSEs grew with the rate of 0.20 (20%). The employment size in service, trade, manufacturing, and construction sector was increased by 75%, 26%, 17%, and 5%, respectively. Therefore, it is possible to conclude that there is growth of MSEs in terms of creation of job opportunity in the study area; but the growth is not uniform among different sectors of enterprises (*see* Table 4). The research done by Dagmawit and Yishak (2016) is consistent with the findings of this study.

Factors Affecting the Growth of Micro and Small Enterprises

Empirical studies attested that MSEs have fundamental role in economic development, employment opportunity, improvement and utilization of indigenous knowledge and innovations in Ethiopia (Hailu, 2010; Mekonnen & Tilaye, 2013). However, it is a fact that the growth and contributions of most of established MSEs in country is facing multiple difficulties from multi-dimensions. Thus, this study in table 5 presents the econometrics analysis about factors that determine the growth of MSEs in the study area.

As usual, before application of the regression model, the basic assumptions were checked, and the results indicate there is no problem using the model for analyzing the data of the study. For example, Variance Inflation Factor (VIF) was used to test the presence of multi-collinearity. As a rule of thumb, if the VIF of a variable exceeds 10, there is a multi-collinearity problem. In this study, the analysis confirms that all the explanatory variables of the study had VIF values between 1.33 and 1.10(<10) with 1.20 mean values; which assured that multicollinearity is not a problem to use the model for this study. The model result also shows that the independent variables correctly explain 56% of the growth of the numbers of jobs created by the MSEs in the study area as represented by the R^2. To examine the determinants of the growth of MSEs, eleven explanatory variables were included in the regression model and nine of them i.e., age of leader, gender of leader, age of enterprise, start-up membership size, and previous work experience, suitability (location) of the working place, marketing problem and government policy were found to be significant (positively and negatively) in determining the growth of the number of employees in the MSEs at 1 and 5 percent level.

Table 5 Multiple Linear Regression Estimate

AVEGROEMP	Coeff.	Std. Err.	T	P>t	[95% Conf. Interval]
AGE OWNER	-.0317957	.0095687	-3.32	0.001***	-.0507946 to -.0127969
GENDER OWNER	.2643489	.123209	2.15	0.034**	.0197145 to .5089832
AGE ENTERP	.1309162	0255829	5.12	0.000***	.0801207 to .1817117
START UP MEMSIZ	.0380736	.007842	4.86	0.000***	.0225032 to .053644

AVEGROEMP	Coeff.	Std. Err.	T	P>t	[95% Conf. Interval]
PREV EXP	.0845557	0442738	1.91	0.050**	-.0033511 to .1724624
BUSIPLAN	.0227317	.106155	0.21	0.831	-.1880415 to .2335049
PLACESUITABL	.4178817	.1163698	3.59	0.001***	.1868268 to .6489366
MARKPROB	-.3508737	.1352285	2.59	0.011**	.0823743 to .6193731
TRAINING	.1683293	.1793274	0.94	0.350	-.1877294 to .524388
LACKCREDIT	-.2400469	.1272488	-1.89	0.062*	-.4927024 to .0126087
GOVTPOLICY	-.3034304	.115948	-2.62	0.010***	-.533648 to -.0732128
_cons	.9534560	.4003886	2.38	0.019**	.158475 to 1.748437

Prob > F = 0.0000

R-squared = 0.5614

Adj.R-squared = 0.51101

Root MSE = 0.50593

Source: Field Survey (2018)**&***: significant at 5 and 1 percent, respectively

The regression result revealed that age of the leader affects the growth of the MSEs significantly but negatively at 1 percent significance level. This implies that for every unit increase in the age of leader, a 3.2 percent decrease in employment growth was predicted, holding other variables constant. These arguments are based on the belief that younger enterprise leader have the necessary inspiration, energy, and commitment to work and are more likely to take risks. According to Evangelia and Bassima (2002) younger individuals may be more willing to assume risks and grow their business than their older counterparts. That means a younger individual may have a higher need for additional income. Hence, the younger the individuals were, the more the motivation to expand their business and hire additional labour. This finding is also in line with the findings of (Fikirte, 2013; Hailay et al., 2014) on the negative relationship between age of the leader and the growth of employment of MSEs suggesting that MSE led by younger leaders tend to have higher growth potential than their counterparts.

As the study result shows, other variables being constant, the gender of a leader was a positively significant factor affecting the growth of employee at (p<0.05). This implies that enterprises led by

male are more likely to grow and hire more workers than their counterparts. The reason for less performance of female led enterprises might be due to gender bias, women's double duties, limited access to finance, and stringent collateral requirements. However, according to Aspray and Cohoon (2007), the impact of owners' gender on the growth of MSE is inconclusive. Some studies revealed that women owned MSEs perform less in terms of different growth measures such as hiring more labour while other studies found that there is hardly any difference between men and women owned MSEs. The finding of this study is consistent with the finding of (Hyytinen & Pekka, 2007; Belay, 2012; Ermias *et al.*, 2017) that male managed enterprise exhibit higher growth rates by hiring more employees than female managed firms, showing a significant relationship.

Besides, age of the enterprise plays an important role in the creation of employment. In this regard, the regression result confirmed that the age of enterprise was statistically significant to the growth of MSEs at 1 percent level of significance with its coefficient value .1309162. This means that for every one-year increase in the age of enterprise, there is a 13 percent increase in MSE employment growth rate. As some researchers have argued, younger enterprises grow faster than older ones because of the willingness of their leaders to take risks (Hyytinen & Pekka, 2007). Similarly, others explained that older enterprises may not show significant growth because the leaders have achieved optimal combinations of resources that allow them to maximize their levels of efficiency (Moreno & Cassilas, 2007). Thus, the present study's finding is consistent with the study of Hailay *et al.* (2014) and inconsistent with the research finding of Solomon (2004).

The initial (start-up) employment size of the enterprise is positive and significant at 1 percent level; that means there is relationship between total start-up employee size and enterprise growth; i.e., the growth of employment. The coefficient of this variable .0380736 indicates that a one-member increase in the start-up member size leads to an increase in the number of jobs created by 3.8 percent. This implies that MSEs with smaller number of initial employees were smaller in growth and progress. The present research findings have consistency with the findings of this research regarding the linkage between initial total employees size and growth rate. For example, the empirical studies done by Mohammed (2014); Dagmawit and Yishak (2016) and Ermias, *et al.* (2017) reported that enterprises that had relatively large number of employees at starting time had high growth and performance.

Similarly, other variables being constant, the previous work experience of the owner/leaders/ affected the growth of MSEs positively at 5 percent level of significance. The coefficient of this variable is given as .2313985, indicating that there is a strong positive relationship between previous work experience and employment growth of MSEs. This implies that a one-year increase in previous work experience leads to growth of employee in the MSEs by 23.1%. The possible reason for this is that previous work experience may be helpful in identifying business opportunities, being ready for any sudden challenges and failure, obtaining financing and other resources, and alleviating management challenges (Kantis *et al*., 2004). This finding is consistent with previous findings of (Belay, 2012; Fikirte, 2013; Hailay et al., 2014 & Bereket, 2017) that argues possession of relevant experience prior to the start-up in similar activities might be helpful in ensuring the survival and growth of an enterprise in its future performance.

Conducive market environment is crucial for the success growth and profitability of the MSEs, which includes ease of accessibility the market place, adequacy of the market place to operate the business, and its suitability for transport and customer (Dagmawit & Yishak, 2016; Liedholm, 2002; Tassew *et al.*, 2015). However, lack of access to appropriate market place is the main problem of MSEs in Ethiopia (Bizusew, 2015; Dereje, 2012). More than half of the participants of this study reported that their market place is not suitable to perform their business activities. Likewise, the result of econometric analysis shows that location of the enterprise has a significant at ($p<0.01$) and positive relationship to the growth of employee in the MSEs.

In relation to market place adequacy and suitability, the interview participants have also agreed that in the study area some enterprises had no enough suitable market place. The location of the MSEs had impacts on their performance; for example, those enterprises that had not enough space and poor location may not have the opportunity of growth and better performance. The research carried out by Dagmawit & Yishak (2016) and Liedlholm (2002) came up with similar findings with the present research and they argued that location is one of the determinants of the growth of MSEs. They reported that the average growth rate for MSEs located far from infrastructures is lower than those that operate with access to infrastructures and customers.

Another factor that has been identified as constraint for the growth of MSE is marketing problem. It is the core problem for the expansion of enterprises in all categories (Lesvitsky, 1983); due to their size they tend to have limited market outreach. Majority of the respondents reported that lack of market place to sell products, declining of the price of product, increasing of the price of inputs, lack of sufficient consumers of products, unfair market competition and broker related problems were the main marketing problems that hurt the growth of their business enterprises. The regression result also revealed that marketing problem has statistically significant relationship with the growth of MSE at (p<0.01). Regarding the marketing problems, discussions were also undertaken with interviewees. They assured that MSEs in the study area had multiple marketing problems, especially access to customers and market linkage. In line with the result of the present study the empirical finding of Dagmawit & Yishak (2016), shows that one of the major challenges that hinder the growth of MSEs is linked with problems of marketing. Moreover, Dockel & Ligthelm (2005) found out similar results with those of the current study.

Above all, the natures of government policies and governance that have relation with MSEs have considerable impact on the sustainability and growth of MSEs. In many developing countries the bylaws are found to be the top challenges for MSEs to operate their business (IFC, 2013 and OECD, 2004). Similarly, more than half (53.7%) of the respondents of this study noted that government policy and governance related problems were one of the constraints for their enterprises' operation and related activities. The model result also shows that government policy is the other variable that significantly (p<0.01) and negatively affects the growth of MSEs, ceteris paribus. The coefficient of this variable is given as -.3034304. This indicated that bylaws and governance related problems lead to decline the employment creation by the MSEs by 30.3%.

The interview result has also shown that the government policies, rules, and regulations were assumed as supporters of and pro-MSEs. According to all interviewees the government regulatory systems aimed to create favorable environment for the MSEs and other business sectors. However, they did not want to disclose the presence complaints from MSEs related with government policies and governance systems. Unfair and high tax burden, limited support and follow-up, lack of commitment for implementation of policies, cumbersome bureaucracy, corruption and rent seeking, and over exercising

of power were some of the reported government policy and governance related factors that impact the growth of MSEs in the study area. Similar to this study Admasu (2012) has also found that lack of proper implementation of regulatory systems and supports of government were the problems that affect the performance of MSEs in his study area. The finding has also consistency with the study of CSA (2002). Therefore, from the above analysis, it is possible to say that MSEs in Gulele sub-city, Woreda 03 have challenges from the government policies and regulatory activities, and this may have negative effect on the operation and growth of MSEs in the future.

Conclusions and Recommendations

In Ethiopia, micro and small enterprises have sizeable contribution in livelihood diversification, job creation, and tackling of poverty. Even though, many MSEs have been established in the study area, the growth and success of most of the enterprises are under considerable difficulty. The study shows that the MSEs in trade, service, construction, and manufacturing sectors had positive growth whereas in agriculture sector they had negative growth rate. The study also indicates that the enterprises' growth was significantly subjective to various socioeconomic, environmental, and policy related factors. For example, personal profile (age, sex and work experience of leaders) business plan, suitability of working place, and government policies had significant contribution on the growth of MSEs in the study area. In conclusion, it is assumed that avoiding constraints and improving the growth of MSEs are the precondition to harness their potential socio-economic benefits in the study area. Therefore, all stakeholders must work jointly to create workable environment and practicable measures that enhance the growth and performance of MSEs and mitigate the existing constraints and challenges.

Acknowledgements

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