

WALLAGA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THE ROLE OF MICRO AND SMALL ENTERPRISES IN EMPLOYMENT CREATION AND INCOME GENERATION IN URBAN ETHIOPIA IN THE CASE OF YOUTHS IN AYIRA TOWN, WEST WALLAGA, OROMIA, ETHIOPIA

BY: TOLERA TAFARA DISASA

JANUARY, 2025

NEKEMTE, ETHIOPIA



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The Role Of Micro And Small Enterprises In Employment Creation And Income Generation In Urban Ethiopia In Case of Youths In Ayira Town, West Wallaga, Oromia, Ethiopia

A Thesis Submitted To the School of Graduate Studies of Wallaga University in Partial Fulfillment of the Requirements for the Award of Masters of Art in Economics

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JANUARY, 2025

NEKEMTE, ETHIOPIA

DECLARATION

I hereby declare that this thesis entitled **"The Role of Micro and Small Enterprises in Employment Creation and Income Generation in urban Ethiopia in the Case of Youths in Ayira Town, West Wallaga, Oromia, Ethiopia",**in partial fulfillment of the requirement of the Masters of Art in Economicshasbeen carried out by me under the guidance and supervision of my advisor Gemechu Mulatu (PhD). The thesis is my original work and has not been submitted for the award of any degree or diploma to any university or institutions.

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As members of the Board of Examining of the final M. A. thesis open defense, we certify that we have read and evaluated the thesis prepared by **Tolera Tafara Disasa** under the title **"The Role of Micro and Small Enterprises in Employment Creation and Income Generation in urban Ethiopia in the Case of Youths in Ayira Town, West Wallaga, Oromia, Ethiopia"** and we recommend that the thesis be accepted as in partial fulfillment of requirements for the award the Degree of Master of Art in Economics.

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ACKNOWLEDGEMENT

First, I would like to express my great thanks to the Almighty God for His love, hope, encouragement, forgiveness, and generosity expressed to me in my life.

Secondly, I am sincerely and heartily grateful to my advisor Gemechu Mulatu (PhD) for his support and scientific guidance he showed me throughout my thesis writing. I am sure it would have not been possible without his unreserved help and encouragement.

Next, I would have great thanks to my family especially my beloved brother Lamessa Tafara (MSc) for his support in encouraging me by contributing the essential ideas and motivation in the completion of this work.

Furthermore, I wish to give thank for the Ayira town micro and small enterprises office bureau for their cooperation and kindness in providing access to information and to Ayira town Micro and Small Enterprise operators and employees for giving their time to respond questionnaires.

Finally, I would like to express my deepest gratitude to all those who gave me the possibility to complete this work directly and indirectly by giving some valuable information.

ABBREVIATIONS AND ACRONYMS

CSA	Central Statistical Agency
EEA	Ethiopian Economic Association
EMSEDS	Ethiopian Micro and Small Enterprises Development Strategy
ETB	Ethiopian Birr
FeMSEDA	Federal Micro and Small Scale Development Agency
FeUDPE	Federal Urban Development Package of Ethiopia
FeUJCFSA	Federal Urban Job Creation and Food Security Agency
GTP	Growth and Transformation Plan
ILO	International Labor Organization
LDCs	Least Developed Countries
LFS	Labor Force Survey
MDGs	Millennium Development Goals
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MFIs	Micro Finance Institutions
MSEs	Micro and Small Enterprises
MUDC	Ministry of Urban Development and Construction
MUDH	Ministry of Urban Development and Housing
NBE	National Bank of Ethiopia
NGO	Non-Government Organization
NPC	National Planning Commission
OMSEA	Oromia Micro and Small Enterprise Agency
USD	United State Dollar
TVET	Technical and Vocational Education Training
WB	World Bank

LISTS OF TABLE

Table 2.1 Definition of MSEs bydifferent countries.....9

Table 2.2 The revised definition of MSEs in ethiopia.....11

Table 3.1 Kinds and number of MSEs sector in the ayira town.....39

Table 3.2 Major sectors and sample size distribution for each MSEs in the town.....41

Table 3.3: Type, definition, measurement, and hypothesis of variables.....43

Table 4.1:Gender and marital status distribution of MSEs ownerss.....48

Table 4.2: Distribution of sample MSEs owners by agegroup.....48

Table 4.3: MSEs ownership (legal status).....52

Table 4.4: Initial capital of the enterprises.....54

Table 4.5: Current capital of theenterprises.....55

Table 4.6: Status of previousoccupation.....57

Table 4.7: Total number of employees by enterprise.....58

Table 4.8: Types of jobs created on average number of persons perMSEs.....60

Table 4.9: Five years annual averageincomeof owners fromMSEs bysector 62

Table 4.10: Use of income gained from business by owners of MSEs.....65

Table 4.11: Use of income gained from business by owners of MSEs.....67

Table 4.12: Logistic regression resultsof the effects of predictorvariables.....69

LISTS OF FIGURE

Figure 2.1 Conceptual framework.....32

Figure 4.1 Distribution of marital status.....47

Figure 4.2 Gender Distribution of MSE Owners.....47

Table of contents

Content **Page**

DECLARATION III
STATEMENT OF CERTIFICATION IV
APPROVAL SHEET FOR SUBMITTING FINAL THESIS V
ACKNOWLEDGEMENT VI
ABBREVIATIONS AND ACRONYMS VII
LISTS OF TABLE VIII
LISTS OF FIGURE IX
Table of contents X
CHAPTER ONE 1
1. INTRODUCTION 1
1.1 Background of the study 1
1.2 Statement of the problem 3
1.3 Research Questions 4
1.4 Objectives of the Study 4
1.5 Significance of the Study 5
1.6 Scope (Delimitation) of the Study 5
1.7 Limitation of the Study 6
1.8 Organization of the Study 6
CHAPTER TWO 7
2. Review of Related Literature 7
2.1 Definitions and basic concepts 7
2.1.1 Definition of terms 7
2.2. The growth stages of Micro and Small-scale Enterprises in Ethiopia 16
2.3. The role of Micro and Small-scale Enterprises 18
2.4. The role of MSEs and challenges faced by MSEs in urban Ethiopia and Ayira town 22
2.5. Empirical evidence on the role of MSEs in Employment creation and Income generation in international and Ethiopia context 25
2.6. The major problems restricting growth of Micro and Small Enterprises 30
2.6.1. Internal factors 31
2.6.2 External factors 31
2.7. Conceptual framework 32

2.8. Research Gap Analysis 33
CHAPTER THREE 34
3. Research Methodology 34
3.1. Description of the Study Area 34
3.1.1 Location 34
3.1.2 Climate 34
3.1.3 Population 35
3.2. Research Design 37
3.3. Research Approach 37
3.4. Research Methods 38
3.4.1. Methods of data collection 38
3.4.2. Data sources 38
3.4.2.1. Primary data sources 38
3.4.2.2. Secondary data sources 38
3.5. Target Population 38
3.6. Sample and sampling design 39
3.6.1. Sampling Design 39
3.6.2. Sample Size and Sampling determination technique 40
3.7. Model Development and Specification 41
3.7.1 Model specification 41
3.8. Validity and Reliability 43
3.8.1. Validity 43
3.8.2. Reliability *44*
3.9. Ethical Consideration 44
CHAPTER FOUR 45
4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION 45
4.1 Results and Discussions 45
4.1. 1Gender and Marital Status 45
4.1.2. Distribution of Sample MSE Owners by Age Group 48
4.1.3 Status of Legal MSEs 50
4.1.4 Initial Capital versus Current Capital of the Enterprises 52
4.1.5 Employment creation 55
4.1.6 Income generation 61
4.1.7 Differential Socio-economic of growth of MSEs (Bi-Variate Analysis) 65

4.1.8 Determinants of growth of MSEs (Logistic Regression Analysis result) 68
4.2. Econometric Analysis result 72
4.2.1 Post-Estimation Diagnostic Test 72
4.2.1.1 Multicollinearity test result 72
4.2.1.2. Hosmer–Lemeshow Test result 72
CHAPTER FIVE 73
5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 73
5.1 Summary of Major Findings 73
5.2 Conclusions 73
5.3 Recommendations 74
5.4 Limitations and Suggestions for Future Research 75
REFERENCES 76
APPENDIX A: QUESTIONNAIRE (ENGLISH VERSION) 79
APPENDIX B: GAAFANNOO (AFAAN OROMOO) 84
APPENDIX C: MULTI- COLLINEARITY TEST RESULT 89

ABSTRACT

Developing countries such as Ethiopia are characterized by persistent challenges including low economic growth, rapid population expansion, high unemployment rates particularly among the youth and widespread poverty. In this context, Micro and Small Enterprises (MSEs) have emerged as vital instruments for economic transformation, especially in urban areas. They contribute significantly to employment creation, income generation, and the effective utilization of local resources, thereby fostering inclusive economic development. This study investigates the role of MSEs in employment creation and income generation among youth in Ayira town, Ethiopia. To achieve this objective, the study employed a mixed-methods approach using both primary and secondary data. A total population of 142 MSEs operating in the town was identified, from wh
ich a sample of 66 respondents was selected using a stratified sampling technique. Primary data were collected through questionnaires, interviews, and focus group discussions, while secondary data were sourced from government offices, published and unpublished documents, and online resources. Descriptive statistical tools such as frequency distributions and percentages were used to analyze the data, and a logistic regression model was employed to examine the factors influencing the growth of MSEs, with employment creation and income generation as dependent variables. The findings revealed that MSEs have significantly contributed to job creation and income generation in Ayira town. However, the study also identified several internal and external challenges facing MSEs, particularly during the start-up and operational phases which include limited access to finance, lack of market linkages, inadequate infrastructure, and managerial capacity constraints.
The study concludes that MSEs play a crucial role in reducing youth unemployment and improving livelihoods in urban Ethiopia. Based on these findings, the study recommends the implementation of supportive policies aimed at improving access to finance, strengthening institutional support, enhancing entrepreneurial skills, and creating a more conducive environment for MSE development. These measures are essential for harnessing the full potential of MSEs as engines of employment and economic growth in Ethiopia.

Keywords*: MSEs, employment creation, income generation, urban, youths*

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Micro and Small Enterprises (MSEs) were once perceived as marginal and unproductive, with limited contributions to national economic growth, employment, and job creation. Their significance to gross job flows and total employment was often underestimated (Demis, 2011; Li & Rama, 2015; Endris & Kassegn, 2022). However, in recent decades, MSEs have garnered increasing attention for their vital role in job creation, income generation, and poverty reduction, particularly in developing economies. Policymakers now recognize the sector as a key driver of inclusive economic development (Muluken, 2022). For example, in Nigeria, MSEs have contributed substantially to economic growth and employment creation (Matthew et al., 2020), while in Ethiopia, micro-enterprises alone account for approximately 97% of employment in the manufacturing sector (Li & Rama, 2015; Endris & Kassegn, 2022).

Globally, MSEs are recognized for their critical role in supporting the world economy (Addis, 2019; Teka, 2022; Abate & Sheferaw, 2023). As noted by Abate and Sheferaw (2023), their capacity to generate employment, wealth, and income has become a strong engine for global economic growth. The contribution of MSEs to employment creation, income generation, and sustainable development is now widely acknowledged, especially in urban settings where they are instrumental in addressing youth unemployment (Hurgessa, 2022).

In developing countries, MSEs offer numerous advantages that make them attractive tools for accelerating economic growth and ensuring equitable development (Tegegne & Meheret, 2010; Hurgessa, 2022). First, they are labor-intensive and can generate employment with relatively low capital requirements. Second, they often use domestically available raw materials and labor-intensive technologies. Third, they offer opportunities for regional economic diversification by reducing urban concentration and promoting balanced development. Fourth, due to their small and manageable scale, they are flexible and adaptable to limited local market conditions (Fasika & Daniel, 1997; Andualem, 2004; Tegegne & Meheret, 2010).

In many developing countries including Ethiopia, MSEs serve as the major source of employment and income, especially for urban dwellers, youth, and low-income groups (Gebrehiwot & Wolday, 2006; Bereket, 2010; Abebe, 2021; Ayalu et al., 2022). They contribute more efficiently to national economies by

creating jobs and improving household income. Despite their potential, however, many developing countries have not fully benefited from the growth of the MSE sector due to persistent institutional and policy constraints. These include complex legal and regulatory environments, inadequate business development services, poor access to finance and markets, limited entrepreneurial skills, and lack of appropriate technologies (Tegegne & Meheret, 2010).

In Ethiopia, MSEs are the second largest employment-generating sector after agriculture (Habtamu et al., 2013; Yaregal, 2018; Abbagisa, 2021; Muluken, 2022). The sector plays a central role in job creation, income generation, and poverty alleviation. For instance, MSEs contribute about 3.4% to the national GDP, 33% to the industrial sector, and 52% to the manufacturing output (Shimels, 2021). Nevertheless, the sector remains underdeveloped and under-supported. Many MSEs operate merely at a survival level and fail to expand or transition into medium or large enterprises. They face critical constraints such as lack of credit access, infrastructure limitations, weak policy support, and low market competitiveness (Ghebremeskel, 2018; Teka, 2022).

Despite the rise in MSEs start-ups in Ethiopia, a significant portion fails within a few years. Only a small fraction manages to grow into larger, more sustainable businesses (Ethiopia's MSED Policy & Strategy, 2016; Amare, 2020). Studies confirm that the failure rate of MSEs in Ethiopia and other developing countries is higher than in developed nations, due to a range of internal and external challenges (Rahel, 2018; Teka, 2022). These challenges impact not only their day-to-day operations but also their long-term growth and contribution to national development.

According to the 2023 National Bank of Ethiopia (NBE) annual report, 208,667 new MSEs were established nationwide, creating employment opportunities for approximately 4.5 million people. These enterprises secured over 10.6 billion Birr in loans from financial institutions. In terms of regional distribution, Oromia accounted for 74.9% of the newly established MSEs, followed by Addis Ababa (9.9%), SNNPR (7.3%), Somali (2.9%), Sidama (2.6%), and others (2.5%). Similarly, 79% of the jobs created were in Oromia, followed by Addis Ababa (8.5%), SNNPR (4.8%), and Somali (3.2%) (FeUJCFSA, 2023).

Now a days, the Federal Government of Ethiopia has given due attention for MSEs sector, by understanding that MSEs are important attention to address problems like unemployment and low income level. Although Ethiopia has witnessed expansion in MSE activities aimed at job creation, income generation, and poverty reduction, research on the sector particularly its role in addressing youth

unemployment in specific urban areas like Ayira town remains limited. Previous studies have focused on regions such as Tigray (Bereket, 2010), Gondar (Demis, 2011), and Nekemte (Abebe, 2021), but a few have investigated the sector's impact on urban youth. Hence, this study was initiated to fill this research gap by examining the role of MSEs in improving the livelihoods of poor urban youth in Ayira town, and to identify the key factors influencing their performance and growth.

1.2 Statement of the problem

In many developing countries, including Ethiopia, the challenges of high youth unemployment, widespread poverty, and slow economic growth remain persistent and deeply entrenched.Low income level and high unemployment rate is one of the multidimensional problems facing many developing countries. Similar to other developing countries, Ethiopia faces many problems including high unemployment, high population growth and low income level, low economic growth and high urban youth unemployment (EEA, 2023).

Ethiopia is the second most populous country in Africa next to Nigeria in size of its population and ranking 12th among the world countries (World meter, 2023; Dadi et al., 2024). The country has been experiencing a rapid urbanization process coupled with tremendous population growth (CSA, 2016; Ministry Urban Development Housing and Construction, 2016; Dadi et al., 2024). While Micro and Small Enterprises (MSEs) have increasingly been recognized as vital engines for employment creation, income generation, and local economic development, their actual potential has not been fully realized. Despite their significant contribution to national economies especially in terms of job creation and industrial output MSEs continue to face numerous internal and external constraints that hinder their sustainability and growth.

In Ethiopia, MSEs are the second-largest employment-generating sector after agriculture, contributing substantially to GDP, industrial development, and poverty alleviation (Habtamu et al., 2013; Yaregal, 2018; Abbagisa, 2021; Muluken, 2022). For instance, recent reports indicate that newly established MSEs created over 4.5 million jobs in 2023 alone. Yet, many MSEs operate at a subsistence level, struggle to grow, and fail to transform into medium or large enterprises due to challenges such as lack of access to finance, limited market opportunities, weak infrastructure, inadequate entrepreneurial skills, and insufficient institutional support. As a result, the sector has not effectively addressed the growing problem of youth unemployment in urban areas.

Although several studies have examined the role of MSEs in different parts of Ethiopia such as Tigray (Bereket, 2010), Gondar (Demis, 2011), and Nekemte (Abebe, 2021) there remains a notable gap in understanding how MSEs impact youth employment and income generation at the local level, particularly in towns like Ayira. Furthermore, many of the existing studies have not focused specifically on urban youth, who are among the most economically vulnerable groups in the country. In Ayira town, despite visible efforts in promoting MSE activities, there is limited empirical evidence on the extent to which these enterprises contribute to improving the livelihoods of young people.

Given this context, it is essential to assess the role of MSEs in addressing youth unemployment and income insecurity in Ayira town. Moreover, understanding the key factors that affect the growth and sustainability of these enterprises is critical for informing policy interventions and support mechanisms. Therefore, this study aims to fill the existing knowledge gap by investigating the contribution of MSEs to employment creation and income generation for urban youth in Ayira town, and by identifying the major challenges hindering their performance and long-term viability.

1.3 Research Questions

This study seeks to address the following key research questions:

1. To what extent do Micro and Small Enterprises (MSEs) contribute to employment creation in the study area?
2. How does participation in MSEs influence income generation for individuals in the study area?
3. What are the major factors affecting the growth and sustainability of MSEs in the study area?

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of this study is to investigate the role of Micro and Small-scale Enterprises (MSEs) in employment creation and income generation in Ayira town.

1.4.2 Specific Objectives

In line with the general objective, the study aims to achieve the following specific objectives:

1. To assess the contribution of MSEs to employment creation in the study area;
2. To examine the role of MSEs in income generation among participants in the study area;

3. To identify the major internal and external factors affecting the growth and sustainability of Micro and Small-scale Enterprises in the study area.

1.5 Significance of the Study

Micro and Small-scale Enterprises (MSEs) have significant potential to create employment opportunities and generate income, making them a crucial economic instrument for reducing unemployment, improving household income, and alleviating poverty. Recognizing this importance, the present study investigates the role of MSEs in employment creation and income generation in Ayira town.

The findings of this study are expected to contribute valuable insights into the actual contributions of MSEs in the study area. They will be useful to a range of stakeholders, including researchers, prospective entrepreneurs, business development service providers, and development practitioners. For researchers, the study adds to the existing body of knowledge and may serve as a foundation for further investigation. For aspiring entrepreneurs, the findings can offer guidance and awareness of the opportunities and challenges in the MSE sector.

Moreover, the study's findings may inform government officials, policymakers, and other stakeholders at local and regional levels by highlighting the key challenges faced by MSEs and identifying areas that require targeted support. This can facilitate the formulation of more effective policies, programs, and strategies aimed at fostering a conducive environment for the growth and sustainability of MSEs.

In summary, the results of this research are expected to provide relevant and practical information to those involved in policy formulation, local economic development, and the promotion of inclusive and sustainable livelihoods through the MSE sector.

1.6 Scope (Delimitation) of the Study

Due to constraints related to finance, time, and logistical resources, this study was geographically limited to Ayira town and did not include the entire region or zone. The research focused solely on registered Micro and Small-scale Enterprises (MSEs), both those established through government intervention and those privately initiated, as recognized by the Ayira Town Trade and Industry Development Office.

While acknowledging the existence of numerous informal and self-initiated MSEs Many of which employ a significant portion of the urban poor these were not included in the study due to their unregistered status

and lack of a fixed working location. As a result, the findings may not fully represent the informal segment of the MSE sector.

1.7 Limitation of the Study

This study was confined to MSEs operating within Ayira town and does not account for enterprises in other towns or regions. Several limitations were encountered during the research process. These included difficulty in obtaining accurate and complete responses from participants, as some respondents were reluctant to share information due to concerns about confidentiality or the potential negative impact on their businesses.

Additionally, the reliability of data collected through structured questionnaires may be affected by variations in respondents' understanding, truthfulness, and interpretation of the questions. These factors may have influenced the precision and generalizability of the study's findings.

1.8 Organization of the Study

This study is structured into five chapters:

Chapter One: Introduction presents the background of the study, statement of the problem, research questions, objectives, significance, scope (delimitation), and limitations.

Chapter Two: Review of Related Literature covers both theoretical and empirical literature relevant to the study.

Chapter Three: Research Methodology explains the research design, data sources, sampling methods, data collection instruments, and analysis techniques.

Chapter Four: Data Analysis and Discussion presents and interprets the findings based on data collected from the field.

Chapter Five: Summary, Conclusions, and Recommendations summarizes the major findings, draws conclusions, and provides practical recommendations for policy and future research.

CHAPTER TWO

2. Review of Related Literature

This section attempts to explain and review some global findings as well as research works related to the role of MSEs in employment creation and income generation in Ethiopia by referring different theoretical literature and empirical studies in the areas of the contribution of MSEs in Ethiopia and elsewhere.

2.1 Definitions and basic concepts

2.1.1 Definition of terms

1. Enterprises: are undertakings engaged in production and distribution of goods and services for commercial benefits, beyond subsistence or household consumption at the household level. An enterprise might be owned and operated by a single household, or by several households jointly on a partnership basis or by any institutional body (MoUDC, 2013).

2. Micro Enterprises

- **Under industry:** an enterprise that operates with 5 persons including the owner and with paid up capital of total asset is not exceeding Birr 100,000 and
- **Under service:** an enterprise that operates with 5 persons including the owner and with paid up capital of total asset is not exceeding Birr 50,000 (EMSEDS, 2011)

3. Small Enterprises

- **Under industry:** an enterprise operates with 6-30 persons and with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million and
- **Under service:** an enterprise operates with 6-30 persons and with a paid up capital of total asset not exceeding 500,000 Birr (EMSEDS, 2011).

4. Income: Are a general indicator of enterprise stability or growth and an important indicator of household welfare and poverty status. Income can be defined as the monetized value of the flow of goods and services (Demis, 2011).

5. Employment: work, especially when it is done to earn money; the state of being employed (Oxford dictionary of English).

6. Youths: several studies in the Ethiopia define youths as those persons between the ages of 15 and 29 years and are characterized by unique physical, psychological, social, and emotional changes that put their life at high risk. In this study, the definition provided by ministry of youth, sports and culture in 2004 policy was used. The policy defines youth as individuals between 15-29 years old.

7. urban: in Ethiopia, an area is generally considered urban if it has a minimum population of 2000 people and areas with a population density greater than 150 people per km^2 and located within one-hour travel time from a city of at least 50,000 people**.**

2.1.2 Definition of MSEs in the different countries and in the Ethiopia

There is no single and universally accepted definition of MSEs. Different countries have defined enterprises based on different conditions. Among the criteria used to define enterprises, the most common and widely used ones include the number of employees by the sector, the amount of paid-up capital, total assets, volume of sales, and value added or net worth (Bereket, 2010; Admasu, 2012; Berihu et al, 2014; Mehari, 2016; Berihu, 2017).

Definition of MSEs may vary from country to country, year to year, from period to period because of the classification of businesses into large scale, medium scale or small scale is highly subjective (Ekpeyong and Nyong 1992, Egbuogu 2003, Rajan 2013). A definition of MSEs in the industrialized world would differ from how MSEs are defined in the emerging economies. For instance, an enterprise categorized as micro enterprise in USA may be treated as medium enterprise in Africa or somewhere in Asia for the fact that the definition of MSE is relative to economic development. The annual turnover figures also differ from country to country, depending among other factors on population size and stage of economic development.

From this we can learn that there is no common definition of MSEs and that the definitions may vary from country to country depending largely on the size of the economy, the levels of development, culture and population size of a country involved (Enock, 2010; Bizusew, 2015).

Definition of MSEs in the different countries

MSEs are defined in several countries within their different purposes and intention. Different countries use different points of criteria to distinguish MSEs from other economic entities within their national boundary. The major criteria use in the definitions according to Carpenter (2003) could include various combinations of the following: Number of employees, financial strength, sales value, relative size, initial capital outlay and types of industry.

Thus, definitions depend on the government policies. There are different MSEs, which have different technological advancement or know how, the nature of the raw materials uses and the market they have for their product.

Table 2.1 Definition of MSEs by*Table 1* different countries

Country	**Category Of Industry**	**Criteria**
Ethiopia	Micro Enterprises	capital paid up not exceeding Birr 20000
	Small and Medium Enterprises	capital paid up birr 20000-50000
France	MSEs	<500 employees
USA	Very Small Enterprises	10-499 employees
Indonesia	Micro Enterprises	<20 employees
	Small Enterprises	20-99 employees
	Medium Enterprises	100-499 enterprises
Ghana	Micro Enterprises	1-4 employees
	Small Enterprises	5-29 employees
	Medium Enterprises	30-140 employees
Tanzania	Micro Enterprises	1-4 employees
	Small Enterprises	5 – 49 employees
	Medium Enterprise	50 – 99 employees
Kenya	Micro Enterprises	Up to 10 employees
	Small Enterprises	10 – 50 employees
	Medium Enterprise	50 – 100 employees

Source: Tanzania MSE policy, (2002); Bereket, (2010); Berihu, (2017)).

These different classes of enterprises in different countries seen in the above are different with their developmental advantages and with respect to their impact of policy and policy change. Thus, it makes problematic to speak or define MSEs in universally accepted way (Ephrem 2005 cited in Bereket, 2010).

Definition of Micro and Small Enterprises in Ethiopia

In Ethiopia, until 2011, there was lack of uniform definition at the national level to have a common understanding of MSEs sector. While the definition by the ministry of trade and industry (MoTI) use capital investment as yardstick, CSA uses employment as yardstick.

According to the MoTI, Micro enterprises are those business enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000.

According to CSA, enterprises in the micro enterprise category are subdivided in to informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non-power driven machines. Whereas informal sector is defined as household type establishments or activities, which are non-registered companies and cooperatives operating with less than 10 persons. All enterprises employing ten or more workers are grossly considered as medium and large enterprises.

The definition of MSEs in 1997

The definition given in the 1997 strategy document was based only on paid capital or capital investment as most businesses were confined to family man-power and lack of availability of manpower information of the sector. An enterprise is categorized as micro if it's paid up capital is less than or equal to 20,000 ETB. Similarly, an enterprise is considered small when its paid up capital is less than or equal to 500,000 ETB. First, the limitation of this definition is that it does not provide information on job creation, size and asset base. This is because employment and asset ownership are not part of the definition. Second, the definition does not differentiate between manufacturing (industry) and services. This gap prompted the government to revise the definition of MSE in the 2011 of the sector's development.

The revised definition of MSEs in 2011

After identifying the limitations of the existing definition and reviewing international experience, the definition of MSEs is revised. A new set of definitions is provided that takes into consideration: the number of employed workers, total assets and two broad sectoral classifications (industry and service) as well as taking into account inflation and exchange rate related changes that might occur over the next five years. India and Japan were the two main sources of best practice information. It was possible to share directly the

experience of MSE development policy making and policy implementation institutions so that ideas identified could be adapted to the local context. In addition, useful lessons were learned from the experiences of Malaysia, the European Union, and South Africa (MUDH, 2016).

The revised definition of 2011 considers human capital and asset as the main measures. It addresses the limitations of the 1997 definition and specifies minimum asset requirement for services and industry differently. Both micro and small-scale enterprises are categorized in to industrial sector and service sector. Under industry sector, (manufacturing, construction and mining) micro enterprises are defined as an enterprise that operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service) micro enterprises are defined as an enterprise that operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Under the industry sector, (manufacturing, construction and mining) small enterprises are defined as an enterprise operates with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Under service sector, small enterprises are defined as an enterprise operates with 6-30 persons and/or with a paid up capital of total asset not exceeding 500,000 Birr.

According to the MSEs Development Strategy of Ethiopia (published 2011), the working definition of MSEs is based on capital and Labor (Konjit, 2012; Addis, 2019; Abbagisa, 2021).

Table 2.2 The revised definition of*Table 2* MSEs in Ethiopia.

№	Enterprise level	Sector	Hired labor	Total asset (ETB)	Total asset (USD)
1	Micro	Industry	≤ 5	≤ Birr 100,000.00	≤ 4,630
		Service	≤5	≤ Birr 50,000.00	≤ 2,310
2	Small	Industry	6-30	≤Birr 1,500,000.00	4,630 - 69,500
		Service	6-30	≤ Birr 500,000.00	2,310 - 23,150

Source: EMSEDS (2011); MUDH (2016)

In case of ambiguities regarding the use of total assets or the number of employment, total assets shall serve as the main criteria.

2.1.3 Common Characteristics of MSEs

There are assumptions that are common characteristics of MSEs. These common characteristics are; they have a few employees, give low income, not experience much growth and do not produce for markets outside their local environment (Eversole, 2003; Bereket, 2010). MSEs have also been described as it is easy to enter, it is financed mainly from personal and family resources, it requires low starting capital, it uses labor-intensive techniques, and it relies on the non-formal school system such as apprenticeship and on-the-job training (Aboagye and Gozo, 1986 cited in, Demis, 2011).

Donald (1999) identified the following distinguishing features, namely more labor intensive, more efficient, more equitable in distributing the income they generated, geographically more widely diversified, and more nurturing of entrepreneurs. Zewde and Associates (2002) also identified that the MSE sector is characterized by a number of highly diversified activities, which can create job opportunity for a large segment of the population.

Micro and small enterprises are also characterized by lower levels of productivity, lower levels of labor and managerial quality, limited access to financing and use of obsolete technology. Accordingly, these characteristics are aggravated problems which are mainly the result of policy issues which favored large enterprises (Mesfin, 2015).

2.1.4 Micro and Small-scale Enterprises Development Strategy in Ethiopia

In recognition of the important role that MSEs can play in creating income, an employment opportunities and in reducing poverty, the government of Ethiopia has given special attention to these enterprises for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country; the Ethiopian Ministry of Trade and Industry (MoTI) published the MSEs Development Strategy (MSEDS) in November 1997, which takes a systematic approach to addressing the difficulties and promoting the growth and expansion of the sector (Abraham, 2013; Mesfin, 2015).The primary objective of national strategy framework was to create an enabling environment for MSEs.

According to MUDC (2013), NPC (2015), and MUDH (2016), several strategic documents have shaped the development of Micro and Small Enterprises (MSEs) in Ethiopia. These include the MSE Development Strategy of 1997, which laid the foundation for MSE promotion; the revised MSE Development Strategy of 2011, which provided updated directions aligned with emerging challenges and opportunities; the Growth

and Transformation Plans (GTP I and II), which integrated MSEs into the broader national development agenda; and the Sustainable Development Goals (SDGs), which emphasize inclusive economic growth and employment creation, further reinforcing the importance of MSEs in national and global development frameworks.

The Micro and Small Enterprises development strategy of 1997

The MSE Development Strategy formulated in 1997 clearly enlightens a systematic approach to alleviate the problems and promote growth of enterprises. The primary objective of this national MSE development strategy was to create conducive environment for MSEs to operate effectively.

Thus, it is expected that hundreds of thousands of Micro and Small Enterprises (MSEs) will be responsible for the operation, growth, and progress of their enterprises, provided that a conducive environment is created. The 1997 strategy framework outlined several specific objectives to support this vision. These objectives include facilitating economic growth and promoting equitable development, creating long-term employment opportunities, and strengthening cooperation among MSEs. Additionally, the strategy aimed to lay a foundation for the emergence of medium and large-scale enterprises, promote exports, and ensure a balanced preferential treatment between MSEs and larger enterprises.

The MSE Development Strategy of 2011

Understanding the role of MSEs, the Ethiopian government amended MSEs strategy in 2011 with the objective of alleviating poverty & reducing unemployment and helps the sector to play its pivotal role as a base to medium and large-scale industry. In amending the strategy, many experiences had taken from different countries especially from India, Japan and Malaysia. The revised MSE strategy focus on enhancing the competitiveness of MSEs, ensuring continued rural development through sustainable growth of MSEs, and making the subsector a foundation for industrial development (FeMSEDA, 2011).

The revised MSE strategy has two major dimensions of MSE development stages. The first is the transition of an enterprise from Micro to Small and from Small to Medium Enterprise level. The second is the process whereby MSEs maintain and strengthen their competitiveness within their own category of MSE. MSE development being one of the key focus areas of the country's development strategy, receives massive

support from the government in the form of access to finance, market, technology, training and working space (MUDH, 2016).

The new MSEs strategy (2011) included fresh band of target groups, the graduates in addition to the poor and less skilled people to form cooperatives and create their own jobs to bring about the technological transfer and new corporate management skills to the nation. The other new and important concept raised in the MSEs strategy was about the stage of growth of the MSEs. The growth stages of the MSEs are three in number and they are: the start-up stage, the growth stage and the maturity stage. The strategy further outlined the criteria which qualifies MSEs into any of these classifications. Following this, trials are made to analyze the kinds of problems MSEs' face in these three different growth stages and solutions to be independently recommended. This appears a very innovative way of dealing with the problems of MSEs unlike some of the policy instruments of the previous strategies.

The first Growth and Transformation Plan (GTP I) 2010/11 – 2014/15)

Creating favorable conditions for industry to play key role in the economy was one of the pillars of GTP I. Accordingly the primary focus has been on promoting the development of MSEs and to promote the existing ones into medium-scale enterprises. In order to build the entrepreneurship and technical capacity of the enterprises, business and vocational training and counseling have been provided to promoters of MSEs.

To solve problems related to capital and equipment of the enterprises, credit services and production and marketing facilities have been provided. The comprehensive support provided to MSEs has helped the enterprises to create employment opportunities for about 4 million citizens. During this period, construction sector was largest over other sector which accounts about 36.2%, followed by services with 20.8%, trade with 15.2%, manufacturing with 14.7% and urban agriculture accounts 13.1% employment through MSEs (EEA, 2015). MSEs serve as spring boards for the development of a vibrant private sector. The implementation of the MSEs program will be vigorously consolidated over the coming years (GTP II). Furthermore, MSEs need to be expanded focusing on manufacturing industries and on increasing their productivity and competitiveness (NPC, 2015).

The Second Growth and Transformation Plan (GTP II) 2015/16 – 2019/20

Due to the weakness of the first plan (GTP I) which do not consider the Medium and Large enterprises, the second Plan was formulated. In GTP II, an emphasis is given to nurture the flourishing of MSEs, support for their transition to medium and large-scale enterprises, ensure that investment goes to productive sectors; and supportive measure will be taken to encourage trade and service enterprises to invest in the manufacturing sector for sustained growth and economic structural transformation. The intention is to create and broaden the base for the emergence of capable, productive and competitive domestic private sector in manufacturing (NPC, 2015).

GTP II is Ethiopia's blueprint for national development over the five-year period from 2015 to 2020. It is set within the context of Ethiopia's long-term vision of becoming a lower middle-income country by National Level Implications of Sustainable Development Goals Implementation in Ethiopia in 2025. It also incorporates a range of development priorities, including national and sectorial policies and strategies, the 2030 Agenda for Sustainable Development, and Africa's Agenda of 2063. It draws on lessons which are learned from implementing the MDGs and GTP I and the international and regional economic conditions such as the market price fluctuation of products, inputs and outputs of the country and the regional trade and economic integration prospects (NPC, 2015; MUDH, 2016).

The plan has tried to project the contribution of Micro and Small; and Medium and Large enterprises to GDP. From this projection the share of Micro and Small Enterprises in GDP under base scenario in percent is stated as 1.1 in 2014/15 to 1.8 in 2019/20 and for Medium and Large scale enterprises (MLEs) as 3.7 in 2014/15 to 5.9 in 2019/20. The plan has tried to project the contribution of MSEs and MLEs to GDP (Amare and Raghurama, 2017).

Sustainable Development Goals (2015-2030)

Ethiopia is among the countries that are working towards the achievement of Sustainable Development Goals. The 2030 Agenda for Sustainable Development, adopted by all United Nations member states in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

The first goal of sustainable development targets is to eradicate abject poverty and hunger by halving the population living on less than a dollar per day and the population suffering from hunger. In this regard that the five-year GTP has broad aims to create a very large number of job opportunities and ensure fair wealth distribution through, among other measures, expansion of MSEs, small, medium and large industries. The MSEs Development Policy & Strategy supports all aspects of urban development and housing through job creation and Ethiopia's transformation into an industrialized economy with middle income country status in 2025. The MSEs Development Policy and Strategy can make a substantial contribution to sustainable development goals. The issue of job creation and employment receives due attention in the Sustainable Development Goals and the national and Ministerial GTP II documents and has close linkages with MSEs Development Policy and Strategy (MUDH, 2016).

2.2. The growth stages of Micro and Small-scale Enterprises in Ethiopia

Ethiopia formulated strategy support in which MSEs are categorized into three stages namely; start-up, growing, and maturity stages. The strategy further outlined the criteria which qualify MSEs into any of these classifications and analyze the kinds of problems MSEs faced in these three different growth stages and solutions to be independently recommended (MUDH, 2016).

Start-up MSEs stage

The startup level refers to individuals who intend to establish businesses, including graduates of higher education institutions who are organizing themselves into cooperatives or operating under relevant business licensing and registration frameworks. At this stage, enterprises are in the process of securing legal recognition and have not yet begun producing goods or services. However, these startups face several critical challenges. Chief among them is the lack of initial capital required to launch their businesses. Additionally, the available startup options often follow open market principles, offering limited flexibility in choosing preferred forms of business organization. Most individuals at this level also lack prior experience in basic accounting and business management, making it difficult for them to run their enterprises effectively. Furthermore, they commonly lack the necessary entrepreneurial, managerial, and technical skills related to their specific business areas. To address these issues, strategic support is planned, including facilitating access to startup capital, encouraging parents of TVET and university graduates to contribute to their children's savings efforts for business formation, enabling enterprises to obtain legal

status, and building their capacity through training in business management, entrepreneurship, financial management, and technical skills.

2. Growing MSEs stage

Definition

According to MUDH (2016), the MSEs growth stage refers to the situation where an enterprise that is receiving enterprise development support services, demonstrates its competitiveness in the market in terms of price, quality and productivity as well as offers credible evidence as to its long term profitability. A successful enterprise at this stage is expected to achieve significant increases in the number of its employed workers and total assets. In addition, the enterprise shall have already established a standard financial record keeping system.

At the growth stage, Micro and Small Enterprises (MSEs) face a range of challenges that hinder their development and sustainability. These include a lack of collateral and continuity, as well as limited access to financial services, which restrict their ability to expand operations. Additionally, there is an absence of integrated, continuous, and sustained support in terms of skills development and technology adoption. Enterprises also encounter difficulties in securing suitable production and sales premises, while rent-seeking behaviors and non-compliance with laws and regulations governing market competition further complicate their growth. To address these challenges, targeted support measures are proposed. These include facilitating access to financial services, providing sustained skills and technological support, expanding access to appropriate production and marketing spaces, and promoting the formalization of enterprises to ensure their full operation within the framework of national business laws and regulations.

3. Maturity MSEs stage

Definition

The maturity stage of MSEs arrives when an enterprise receiving support becomes competitive and profitable in the market, makes additional investment to increase its market share, and meets the definition of and criteria for transformation into a medium level enterprise. An enterprise operating as a micro or

small enterprise level that maintains its market competitiveness and profitability can also be considered to have reached maturity (MUDH, 2016).

At the maturity level, enterprises encounter several challenges that can hinder their sustained growth and competitiveness. One of the major issues is their inability to maintain and improve product quality, which limits their market competitiveness. Additionally, many enterprises lack adequate awareness of international standards related to product quality and operational management, which affects their ability to meet global market demands. Their limited capacity to adopt new technologies and modern production machinery further restricts their potential to penetrate broader markets and remain competitive. To address these challenges, a range of solutions has been proposed. These include creating a supportive environment for building competitive enterprises, assisting them in accessing capital equipment through leasing systems based on their specific equipment needs, and providing targeted support to those enterprises that have received certification for transitioning into growth-oriented medium-sized businesses (MUDC, 2013; NPC, 2015; MUDH, 2016).

2.3. The role of Micro and Small-scale Enterprises

2.3.1. MSEs Contribution to economic and social benefits

The contribution of MSEs varies considerably across countries. MSEs are described as a key driving force of economic and social development all over the world. They are critical to a country's economic and industrial growth. They contribute significantly to a country's economic and social growth by stimulating large scale-jobs, investment, the promotion of entrepreneurship and innovativeness, increasing exports, and building an industrial base at different scales (Debela, 2014, Shimels, 2021).

MSEs, by virtue of their size, location and capacity to generate greater employment, can be seen as an essential springboard for growth, job creation, social progress and economic growth. The economic impact of MSEs can be reflected by their contribution to output, employment, income investments, exports and some other economic indicators. In addition, the smallest firms in developing countries often provide essential sustenance for their owners and workers, and they provide an important social safety net, offering temporal employment to vulnerable segments of the population (Esubalew, 2006). 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 (Abera, 2007).

Micro and Small Enterprises (MSEs) make significant economic and social contributions, playing a vital role in national development. According to MoTI (1997), Coulter (2003), Teshome (2011), and Muluken (2022), MSEs enhance the efficient utilization of resources and help identify new business opportunities and markets. They contribute to the conservation of natural resources and serve as a critical source of entrepreneurial activity. MSEs are instrumental in creating employment and promoting income distribution, while also contributing to the development of better business policies, procedures, and production methods. Furthermore, they generate positive externalities, offer jobs at relatively low capital costs, and significantly contribute to the country's GDP through the goods and services they produce. MSEs provide a platform to broaden the entrepreneurial base and demonstrate flexibility in adapting to market changes. They stimulate economic growth by introducing innovative technologies, products, and services, and often enter market niches that are unattractive to larger enterprises. Additionally, MSEs play a role in dismantling monopolies, enhancing competition, and promoting the empowerment of poor women, thereby reinforcing their crucial role in both economic and social transformation.

2.3.2. The role of MSEs in Employment creation

In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth (Abera, 2007). Available evidence suggests that micro enterprise do not show growth in terms of number of people employed (Mead, and Liedlholm, 2000). While small firms experience both high job creation and destruction rates, it appears that job destruction during recession is lower in small enterprise than in large enterprises perhaps due to greater wage flexibility in small firms (Snodgrass & Biggs 1998). In contrast, large firms offer better in terms of wages, fringe benefits, good working conditions, opportunities for skill enhancement and job security (Snodgrass & Biggs 1998).

MSEs inherently have the capacity to extend large employment opportunities to unskilled and semi-skilled labor force that are excessively abundant in most developing countries. Studies in five African countries (Bostwana, Kenya, Malawi, Swaziland, and Zimbabwe) found that MSEs generate nearly twice the level of employment as registered, large-scale enterprises and the public sector in many Latin American countries, MSEs employ over half the working population. An ILO study examining firms with fewer than 10 workers found that they generated 58 percent of total employment in Paraguay, 54 percent in Mexico, and 53 percent in Bolivia (ILO, 2005).

By increasing employment opportunities for the active working force, MSEs provide livelihood to a large proportion of people both in developing and developed countries. All small enterprises display a remarkable capacity to absorb labor, thus contributing to easing the pressure of unemployment, thus technologies that require more labor per unit of output should be favored than those which need less labor. Being labor intensive and capital saving, MSEs could help in solving many of the problems Ethiopia is facing. They also generally employ workers with limited formal training (Regan, 2021).

2.3.3. MSEs Contribution to the income source for the low-income level

MSEs are key players in developing countries' economy in providing significant benefits and employment opportunities to the poor societies and also providing essential goods and services to the poorer communities (Berihu, 2006). MSEs' development is seen by some policy makers as a means to increase incomes of the poor. Tefera (2013) demonstrated that a dynamic and growing sector of MSEs can contribute to the realization of a wide range of development objectives the attainment of income distribution and poverty reduction, employment generation, mobilization of savings and production of goods and services that satisfy the basic needs of the poor.

MSEs are favorable to the vast majority of the population whose income is very low. Given this low income level and the associated effective demand, MSEs become ideal to satisfy the demands of narrow domestic markets. Furthermore, lesser capital and skill requirements of MSEs, implies that they can be easily established and operated by the nations of least developed countries (Simeon and Lara, 2008).

In Ethiopia, given the capital scarcity, heavy unemployment, and low level of industrialization, technology and productivity, micro, small and medium-sized enterprises are of great importance in the national economy by their contribution to GDP. Moreover, they are considered to lay the foundation for and promote accelerated and integrated development of the small scale industrial sub-sector.

2.3.4. The Role of Micro and Small Enterprises in Poverty Reduction

The important role of MSEs in developing countries' economy is increasingly being recognized. By now it is clear and agreeable that poverty, both in urban or rural areas, is all about lack of basic needs, health care, clean water, sanitation, education and low or inadequate level of income and consumption, and poor command over resources. Poverty reduction can be correlated with job creation and income generation. As a result, different study shows that MSEs are important means in poverty alleviation through employment

creation and income generation for low-income groups with limited opportunities. They do have the capacity to increase the level of income of individuals and to improve the living standards of the larger poor because they need low startup capital and their potential to absorb the huge proportion of the uneducated or the low educated work force, which is the reality in the poor countries like Ethiopia (Regan, 2021).

The work of Kayode and Afred (2014) also advocates to the role of MSEs to poverty reduction and stated as the fight against unemployment has been one of the key challenges facing the African continent in general and since independence. Hence, MSEs have been recognized as a tool of poverty reduction by governments at various levels to promote the development of MSEs in order to reduce poverty; stimulate employment; mobilize local resources; reduce migration from rural to urban area and disperse industrial enterprise more evenly across the country.

Government of less developed countries have been supporting for MSEs through various programs such as credit schemes, entrepreneurship training, technology support and etc. (Zaid and Torben, 2003 cited in Bereket, 2010). Regarding the role of MSEs in poverty alleviation and employment creation, Todaro (2000) as cited in (Bereket, 2010) has also justified MSEs contributions to employment creation and income generation on global based researches and the informal sector was found to be a major provider of urban jobs in many Asian countries. Among individual countries for which statistics available, the figure reaches 50 % in India, 45% in Indonesia, 35 % in Malaysia and 60% in Pakistan. In the case of Latin American countries 61% in Bolivia, 55 % in Argentina, 56 % in Brazil, and 69 % in Paraguay.

Micro & Small Enterprise Development Program in Ethiopia meaningfully has been given due attention by government since 2004/2005.Thus, by considering the critical role of the sector and the constrained faced by MSEs operators, since 2004/2005 the government of Ethiopia decide to establish MSEs coordinating body at regional level. Accordingly, MSEs development agencies are set up in all regions even sub branch offices at zone/Woreda level. The system helps to support a lot of MSEs and thereby to create job opportunity for unemployed youth and women. As a result, MSEs are increasingly recognized as an important engine for employment creation, economic growth thereby poverty reduction.

2.3.5. Micro and Small-scale Enterprises' role in Economic Development

From the modern theories perspective, MSEs have two important roles to play simultaneously: to accelerate economic growth through the growth of their output contributions to gross domestic product (GDP), and to reduce poverty through employment creation and income generation effects of their generated output growth (Tulus, 2006). Additionally, considering MSEs' contribution to economic development, the World Bank (2004) as cited in Tulus (2006) argued that direct government support for MSEs in LDCs help these countries exploit the social benefits from their greater competition and entrepreneurship because MSEs can boost economic growth and development.

Francis and Dedan (2015) have also noted the contribution of MSEs to the economic growth through employment creation, income generation, and improved food security is widely recognized. Moreover, they are considered to lay the foundation for and promote accelerated and integrated development of the small scale industrial sub-sector.

Thus, MSEs can be seen as an important force to provide more equitable income distribution, activate competition, exploit niche markets, enhance productivity and technological change, and to stimulate economic development (Adil 2007; Regan, 2021).

2.4. The role of MSEs and challenges faced by MSEs in urban Ethiopia and Ayira town

2.4.1. The role of MSEs and challenges faced by MSEs in urban Ethiopia

MSEs play a crucial role in urban Ethiopia in the socio-economic development by creating employment, generating income and contributing the overall economic growth. They also seen as a means to alleviate poverty and promote private sector development. The key roles of MSEs in urban Ethiopia summarized as follows:

Employment creation: MSEs are the major source of employment particularly low income individuals and youths. They are more labour intensive and require a fewer technical skill than large enterprises and making them a suitable option for those seeking employment.

Income generation: MSEs provide income for owners and employees, contributing to household income and improving living standards. Several studies have shown that the sector have significantly contributed to income generation for the local community.

Poverty alleviation: MSEs contribute to poverty reduction in urban areas by providing employment and income opportunities for socially affected especially women and youths**.**

Private sector development: MSEs are considered a crucial part of the private sector and contribute to its overall growth and development.

Support for Medium and Large Enterprises: MSEs Play intermediary role in the development of larger enterprises and diversification of the industrial structure.

Value addition and contribution to GDP: MSEs have the potential to add value in the manufacturing sector and contribute to countries economic empowerment of women: MSEs can contribute to the economic empowerment of women by providing them with opportunities for income generation and business ownership.

Micro and Small Enterprises (MSEs) in urban Ethiopia face numerous challenges that hinder their growth and sustainability. These challenges include inadequate access to finance, lack of essential infrastructure, poor management practices, institutional bureaucracy, and limited market access due to intense competition. Despite these obstacles, MSEs continue to play a crucial role in Ethiopia's economic development. They are widely recognized as a key driver for achieving the country's development goals by promoting employment, fostering innovation, and supporting inclusive economic growth.

2.4.2. The role of MSEs and challenges faced by MSEs in the Ayira town

In Ayira town, MSEs play a vital role in the local economy by contributing to income generation, employment creation, reducing unemployment and overall economic growth. They provide crucial livelihood opportunities, especially for vulnerable populations like women and youth and also help to diversify income sources for money households.

1. **In Economic Empowerment and Livelihood Improvement**

The more details of their significance stated as follows:

Income generation: MSEs are a primary source for many individuals and families in Ayira town and improve living standard of residents significantly.

Employment creation: They provide job opportunities for both owners and employees and contributing in reducing unemployment especially youths' employment.

Poverty alleviation: MSEs can alleviate poverty by providing income generation, employment creation and improving living standards within the community.

Diversification of income: MSEs enable households to diversify their income sources, making them less vulnerable to economic shocks.

2. **Contribution to local economy:**

Micro and Small Enterprises (MSEs) in Ayira town play a vital role in boosting the local economy through various contributions. They help increase economic growth, effectively utilize locally available resources, and provide essential support to medium and large enterprises. Beyond their economic contributions, MSEs also bring significant social impacts, such as promoting women's economic empowerment, encouraging youth entrepreneurship, and improving access to basic services within the town. Despite their importance, MSEs in Ayira face several challenges, including inadequate financial resources, poor infrastructure, limited market access, lack of skills and training, and insufficient business support services. To enhance their performance and sustainability, several recommendations have been proposed. These include improving access to finance, investing in infrastructure development, providing skills training, creating market linkages for local products, ensuring the availability of adequate business support services, and implementing supportive policies to foster a conducive business environment. By addressing these challenges and implementing the recommended support measures, MSEs in Ayira town can continue to contribute significantly to local economic growth and the improvement of residents' livelihoods.

2.5. Empirical evidence on the role of MSEs in Employment creation and Income generation in international and Ethiopia context

2.5.1 International Experience

The role of MSEs in general and new business in particular make a significant contribution in addressing socio-economic problems like unemployment, poverty, income inequalities, political stability (CSA, 2003, Abebe, 2021).

Government of less developed countries have been supporting for MSEs through various programs such as credit schemes, entrepreneurship training, technology support etc. (Zaid and Torben, 2003, Bereket, 2010). The MSEs sector is a major provider of urban jobs in many Asian countries. Among individual countries for which statistics available, the figure reaches 50 % in India, 45 % in Indonesia, 35 % in Malaysia and 60 % in Pakistan. In the case of Latin American countries 61 % in Bolivia, 55 % in Argentina, 56 % in Brazil, and 69 % in Paraguay. Besides, ILO (1998) survey report of 17 African countries found that the informal sector contributes on average 20 % of GDP and 61percent of the sub-Saharan labour force employment. For instance, in the years between 1980 and 1985 the employment share of MSEs for Kenya and Ghana was around 40 % and 80 % respectively, out of the total urban employment (Todaro, 2000; Bereket, 2010).

In the United States, according to Staley and Morse (1992), 81 % of the manufacturing establishments in 1980 had small enterprises with less than 100 employees. These establishments employed 25 % of all manufacturing employees and produce 23 % of the total value added by manufacturers. The relative importance of small enterprises in West Germany and United Kingdom was also greater, 27 % and 26 % of all manufacturing employees respectively. The percentages of small enterprises employment are even higher like in New Zealand 62 %, Argentina 52 % and Japan 56 % (Staley and Morse, 1992). Hence, this shows that MSEs are contributing significantly even in developed countries.

According to Demis (2011), in Bangladesh, the MSEs have high labour intensity, depends on indigenous skills and technology, contribution to entrepreneurship, development, innovativeness and the base to link the growth of industry. The MSEs, undoubtedly a predominant in the industrial structure of Bangladesh, comprised over 90% of all industrial units. The various categories of small and medium enterprises

contributed between 80 and 85 percent of the industrial employment (Ahmed, 2001 cited in Syed and Mohammed, 2009). Their contribution in the country's GDP reaches 20-25 percent of the economy (Daniels, 2003 cited in Syed and Mohammed). However, the sector had severe problems in regulatory aspects, finance; contradict government policies and protection in investment incentives. In addition, problem of raw materials, power, land marketing, transport and technical facilities and finance was the other constraints in Bangladesh (Ranjit and Rashid, 1996, cited in Syed and Mohammed, 2009).

In Namibia, according to Amwele (2013) conducted study on the elements affecting the overall role of MSEs in the retail quarter in Windhoek, Namibia revealed that rent or lease a place for their commercial enterprise in Windhoek has prevented their performance. He discovered that it was once pricey to hire working vicinity for business use in their present day locations. Thus, most MSEs are unable to grow financially as the massive element of the income goes in the rental expenses. Access to land for business use in Windhoek used to be one additionally that hinders business performance

In Kenya, according to Ministry of Industrialization, Trade and Enterprise Development (2020) and Kenya MSEs Policy for Promoting MSEs for Wealth and Employment Creation,the large proportion of the labour force derive their livelihood from the MSEs sector. In recognition of the sector's potential, the government and other stakeholders have over the years introduced policy measures designed for the growth and development of MSEs sector. This policy builds on the gains of the previous policy initiatives while seeking to address the weaknesses, policy gaps, persistent and emerging challenges facing the sector. The MSEs account for a larger share of private sector enterprises across various sectors of the economy. The sector accounts for 24% of GDP, over 90% of private sector enterprises and 93% of total labour force in the economy. Development of this sector is therefore central to realization of national development goals anchored in the Kenya Vision 2030. The sector is particularly important for providing job and income opportunities for economically excluded segments of the population including youth, women, persons with disabilities and low-skilled persons, who experience disproportionately high unemployment.

The 2019 Kenya Population and Housing Census reveals persons below 35 years of age account for 76% of the population, an indication of a rising demand for job opportunities. The Census further reveals that youth in the age bracket of 15 to 34 years represents 36% of the population. On labour force 2.6 million of the economically active population is seeking work, of which youth represent 68%. The youth are therefore disproportionately affected by unemployment. Additionally, 2% of the population lives with disabilities of

various forms including visual, hearing, communication, cognition, mobility and self-care. Among the Persons with Disabilities (PWDs), 55% reported facing difficulties in engaging in economic activities.

In Tanzania according to UNCTAD (2005), the income contribution of the MSEs sector was about 20-30 percent of the GDP, and they consist of more than 1 million enterprises engaging three-four million persons, that are about 20-30 percent of the labour force of the country. Munyori and Ngugi (2014) conducted study on the "factors affecting the growth of MSEs", the MSEs have been recognized as engines of growth and development in the world and operations worldwide plays a pivotal role in the economy by creating jobs, enhance income, lowering costs and adding business convenience. The MSEs contribution to economic growth in Tanzania was 20-30 % and they consist of more than 1 million enterprises engaging 3-4 million persons and that are shows about 20-30 % of the labour force of the country.

In Egypt also according to (Demis, 2011), there were empirical studies conducted from 1998-2007 in Egypt under the issue of 'micro and small finance and employment creation in Egypt in 2009' in the University of Cairo. According to the study, there were constraints encountered in the study area, like minimum outreach of the MSF due to much number of enterprises existed i.e., more than 3.5 million enterprises existed there, the number of NGOs dealing with MSF were low in number, low capacity of management and marketing skill etc are among the many constraints.

In Burkina Faso, based on the 1990 survey on MSEs, there were 90,000 established MSEs. Between 1985 and 1982, the sector is estimated to have contributed 30 percent of the GNP which exceeded agriculture (20-45 %) and the modern secondary sector (23-86 %) in the same period. Moreover, the MSEs sector employs 77 percent of the non-agricultural population and 8.6 percent of the total active population of Burkina Faso (UNCTAD, 2005).

According to Wick ware 1998; cited in Loop, 2000), MSEs have a significant contribution in creating employment opportunities for the poor in urban areas. Accordingly, he estimates the percentage of people engage in such sectors in some sub-Saharan cities during the 1900s as; Accra 70 percent; Addis Ababa 61 percent; Dare Salaam 56 percent; Kampala 46 percent; and Harare 17 percent. Hence, MSEs have important employment share in the economy of those cities.

2.5.2 Ethiopian Experience

MSEs have prioritized employment creation, income generation, building an industrial economy and serve as vehicle of development and broaden employment opportunities at urban center and play great role in utilizing local resources and labour- intensive techniques (FeMSEDA, 2012).

MSEs are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the nonagricultural sectors (Abebe, 2021). In recognition of the important role MSEs have to play in creating income and employment opportunities and reducing poverty, the Ethiopian government drafted its first micro and small enterprise development strategy in 1997(Bereket, 2010; MUDH, 2016).

According study conducted by Regan (2021) on "The Effect of Small and Medium Enterprises in Employment Creation and Income Generation in a case of Kebridahar Town: Qorahe Zone, Somali Region State, Ethiopia." Owners and employees get income from MSEs and use for different purposes. Most of the MSEowners (44.6 percent) annual average income of five years is between 30,001-60,000 birr and 50.6 percent of the employees get annual average income of five years from 7,201-8,400 birr. Most of the owners use income for creating new businesses. However, the employees use income primarily for household needs and this is because income of employees is very low to save or create new business. Regarding sustainability of the business, majority of MSEs are sustainable because of they are supported by the society, do not affect the environment and get demand for their product. Obstacles or constraints are faced during the operation of MSEs in a majority of the respondents, while majority of the MSEs during startup do not faces constraints. The major constraints are financial problems and shortage of work premises work premises as mentioned by majority of respondents.

As study conducted by (Bereket, 2010) on the role of MSEs in Employment Creation and Income Generation a Survey Study of Mekelle City, MSEs created employment for 17.9 % of students in high school, college and university. Those employed in MSEs also gain direct and indirect positive effect by being employee of MSEs. Accordingly, with regard to growth rate of MSEs, majority of the MSEs owners have shown a growth and 68.9 % of the MSEs owners measure their growth rate in terms of income. The research paper has seen a five-year trend of Mekelle city, and there is consecutive growth in number of establishment in MSEs with different growth rates. And the average growth rate in number of establishment in five consecutive years is 19.8 %.

In employment creation, MSEs created jobs for many individuals. The average employee of MSEs is 7.05 per MSEs in Mekelle city. Based on this average employee of MSEs, those 23,834 MSEs exist in Mekelle employee 168,029 persons. There is an increase in average employees of MSEs from year to year. The dominant type of employment in these MSEs is full time self-business for owners of MSEs and full time recruited for employees of MSEs. From this it can be concluded that most of MSEs has a great role in reducing unemployment of the city (Bereket, 2010).

Owners and employees get income from MSEs and use for different purposes. Most of the MSEs owners (44.6 percent) annual average income of five years is between 30,001-60,000 birr and 42.2 percent of the employees get annual average income of five years from 7,201-8,400 birr. Most of the owners use income for creating new businesses. However, the employees use income primarily for household needs and this is because income of employees is very low to save or create new business. Regarding sustainability of the business, majority of MSEs are sustainable because of they are supported by the society, do not affect the environment and get demand for their product. Obstacles or constraints are faced during the operation of MSEs in a majority of the respondents, while majority of the MSEs during startup do not faces constraints. The major constraints are financial problems and shortage of work premises as mentioned by majority of respondents.

According to (Demis, 2011), the study conducted by Endalie (2007) found that the income of individuals can grow progressively and thereby their living condition can be improved. Increase in income of individuals working in MSEs can improve income distribution and increase the capacity of individuals to afford the payment for food, clothing, housing facility, medication, schooling and cultural ceremony. His study also shows the constraints or problems encountered by MSEs. The problems were high interest rate, inadequate markets for their products, absence of market for their products and market linkages problems, inadequate training and business development services, bureaucracies in licensing and credit, strict regulatory requirements during business startups, inadequate production and shortage of places and the like. The government of Ethiopia has recognized and pay due attention on the development of micro and small enterprises because they are important vehicles to address the challenges of unemployment, economic growth and equity within the country (Demis, 2011).

The study conducted in Kolfie-Keranio by Matewous (2009) shows that MSEs have not much in improving the standard of living of the members. In his study, he has shown that the major problem encountered was

during formation of associations. The top three problems are: inability to sell for other customers which accounts (72.7%), high money reservation by Housing Development Agency which consists 56.8% and being under the influence of the government (34.1%).

According to (Tesfaye, 2014) conduct a study on the role of MSEs in reducing youth unemployment, negative social and cultural attitude towards self-employment, lack of access to start up finance, lack of business assistance and support, mismatch between jobs available and larger number of new graduates, low economic capacity of the country to absorb the graduates, lack of guidance and counseling service, unfavorable conditions from MSE facilitators, weak tie among TVET, MFI and MSE development head office were indicated as the major problems.

As interview and focus group discussion made in the Ayira town, majority of peoples motivated to engage in MSEs due to the expectation of better income and MSEs require low startup capital. From this one can conclude that experience or skill that were gained by working in MSEs helps to start their own business and to earn better income from the sector. The predominant use of income among MSEs owners is for household expenses, with 76.5% of manufacturing respondents allocating their income to this category. The service sector follows closely with 78.6%, indicating that business income is essential for covering basic living costs. Agriculture reflects 45.8%, while trade has 54.5% of owners using their income for household expenses. This trend underscores the fundamental role that MSEs play in providing not just economic opportunities but also in supporting the basic needs of their owners and families. The overall average across all sectors shows 62% of owners prioritizing household expenses, highlighting the necessity of income for daily survival.

In conclusion, the analysis of income utilization among MSEs owners illustrates the significant role that MSEs income plays in meeting basic household needs, with limited investment directed towards business growth, medical expenses, and education. However, reliance on immediate income for survival raises important questions about the sustainability and growth potential of MSEs.

2.6. The major problems restricting growth of Micro and Small Enterprises

MSEs face a number of challenges in the process of performing their activities. Various literature such as Lidholm and Mead (1999) and Dendena (2004) describe the challenges faced more or less in a similar manner. Despite the contribution to employment creation, income generation, poverty reduction and

economic growth this day, most MSEs face critical constraints both at the operation and startup level. According to research report of Commission on Legal Empowerment of the Poor (2006), some of these constraints include lack of access to finance, lack of access to premise, inadequate infrastructure, lack of training in entrepreneurial and management skills, lack of information on business opportunities, social and cultural facts, in particular deficient entrepreneurial culture and excessive corruption (Alemu, 2017).

Furthermore, as it is justified by a number of researchers and authors like Endalkachew (2008), Tiruneh (2011), and Mohammed et.al (2013), Berihu et al (2014), Bizusew (2015), Mesfin (2015), and Berihu (2017) reported, the problems identified as key internal and external factors of MSEs. The type and degree of the problems are differently reflected in different countries and societies, which have different levels of socio-economic developments and socio cultural backgrounds. Most of the reviewed literatures on constraining factors affecting the growth and performance of micro and small enterprises report financial problem, working space problem, marketing problem, skill gap in entrepreneurship, infrastructure, and input supply problem as the most binding constraint inhibiting the performance of MSEs (Tariku, 2021).Under this study, the major problems are categorized as internal and external factors as follows:

2.6.1. Internal factors

The growth of Micro and Small Enterprises (MSEs) is influenced by a range of internal and external factors. Among the internal factors, key challenges include the age of the enterprise, the education level of the operator, the absence of a well-prepared business plan, the lack of skilled management, and interpersonal conflicts or disagreements among business partners. These internal issues often hinder strategic planning, operational efficiency, and decision-making capacity.

2.6.2 External factors

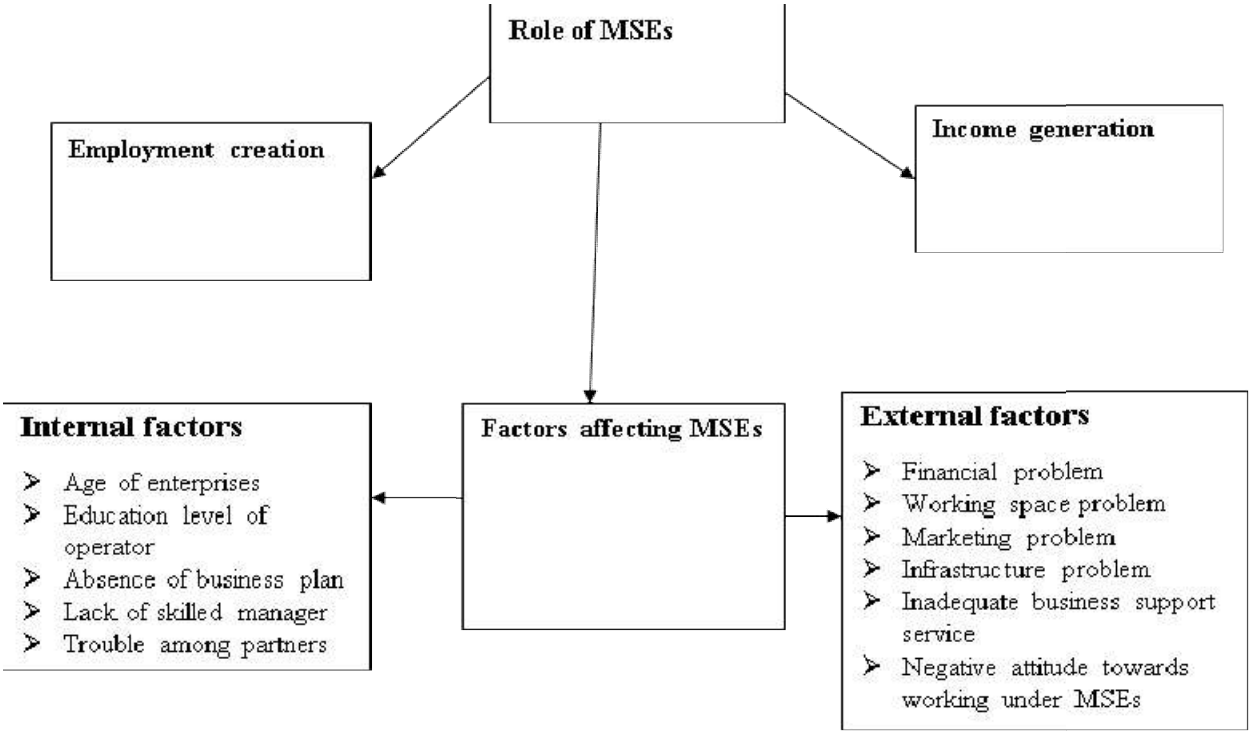
On the other hand, external factors also play a significant role in limiting MSE growth. These include financial constraints, lack of adequate working space, marketing difficulties, poor infrastructure, insufficient access to business support services, and a prevailing negative societal attitude towards employment and entrepreneurship within the MSE sector. Together, these internal and external challenges form significant barriers to the sustainable development of MSEs (MUDC, 2013; NPC, 2015; MUDH, 2016

2.7. Conceptual framework

According to Mugenda (2003), Conceptual framework refers to how a researcher conceptualizes relationship between variables in a study and shows them graphically or diagrammatically. It shows independent variables and dependent variables and how they are related or influences one another.

In this section, after reviewing the literature, the researcher attempted to formulate conceptual framework for the study. Variables that the study focused on are major factors that affect the growth of MSEs in Ayira town: Age of enterprise, education level of operator, absence of business plan, lack of skilled manager, trouble among partners, financial problem, working space problem, marketing problem, infrastructure problem, inadequate business support services, and negative attitude towards working under MSEs sector. To align the conceptual framework with the research objectives, the growth of MSEs is a dependent variable whereas major factors that affect the growth of MSEs (internal and external factors) are independent variables and the relationship is shown in the following figure.

Figure 2.1 conceptual framework



Source: constructed from (Bereket, 2010) and (Berihu, 2017)

2.8. Research Gap Analysis

Most of the empirical studies tries to find out the role of MSEs in employment creation, income generation, poverty reduction and factors that constraint the role and growth of the sector. However, they did not pay attention on the role of Micro and Small Enterprises urban area which is full of unemployment especially youths unemployment The major factors that are restricting the growth of MSEs in the study area were identified as internal and external factors. The internal factors identified were age of the enterprise, education level of the operator, absence of business plan, lack of skilled manager, and trouble among partners. The external factors identified were financial problem, working space problem, marketing problem, infrastructure problem, inadequate business support services, and negative attitude towards working under MSEs sector. So, the current study focus on the role of micro and small enterprises in employment creation and income generation in case of youths to fill the above knowledge gap. Therefore, the researcher wants to conduct this study in hoping to fill the existing gap in the previous studies and to negotiate the conflicting results of different research.

CHAPTER THREE

3. Research Methodology

3.1. Description of the Study Area

3.1.1 Location

The study investigated the role of MSEs in employment creation and income generation in urban Ethiopia (the case of youths in Ayira town). Ayira town was located in the West Wallaga Zone, Oromia Region. It was separated from former Ayira Guliso woreda in November 1999. It was bounded by Guliso Woreda in the north, Yubdo Woreda in the southeast andLalo Kile woreda in the south and west. It was located at the distance of 505 kilometers away from the capital city of Ethiopia; Addis Ababa. Ayira town was one of the old towns in Ethiopia, established in the mid 19thcentury. Now a day's Ayira was a woreda town established as separate administration town in western Ethiopia. Emergence of modern systems in education, health and other urban services can be considered as tangible evidence. Furthermore, expansion of modern school, health facilities, construction of stone paved roads, introduction of telecommunication and transport service in the first half of the 20th century laid important foundation for Ayira town growth.

3.1.2 Climate

Ten years' temperature & rainfall data for this study area was obtained from National Meteorological Service Agency (NMSA, 2022).

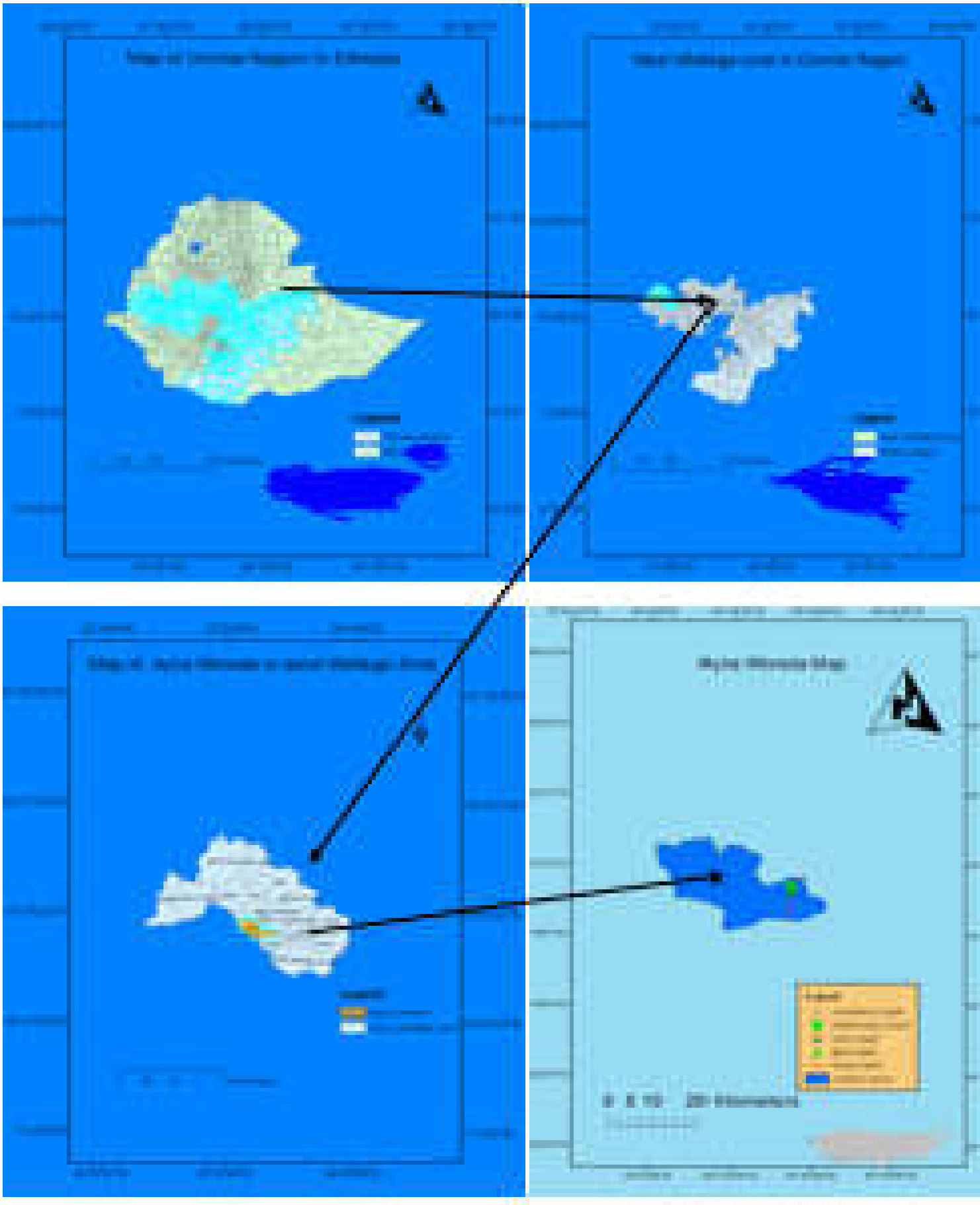
The town was characterized by unimodal rainfall pattern with prolonged wet season extending from March to November. The dry period was from October to the end of February. Based on the recent 10 years' data, the mean annual rainfall in the study area was 1745 mm. The mean annual temperature is about 21.3 °C, with mean minimum & maximum temperature of 13.1 °C & 31.4 °C, respectively. The hottest months were from December to May & the maximum temperature recorded was about 32.9 °C (in March) & the coldest months were from June to September with the mean minimum temperature 11.8 ° in July (NMSA, 2022). It has 9^{o} 6' 0'' North latitude, 350 24'0'' East longitude an elevation of the 1619m above sea level.

3.1.3 Population

According to the 2007 national census, Ayira's total population comprised 47,537 households. Of these, 23,470 were men and 24,067 were women. Urban dwellers constituted 12.79% of the population, totaling 6,079 individuals. The majority of residents (88.37%) identified as Protestant, while 6.96% adhered to Ethiopian Orthodox Christianity and 4.42% were Muslim.

In addition, the total population of Ayira town was 8753 of which male population and female population was 5957 and 2796 respectively. As the population data source of the town indicates, 1093 was male youths, while 900 female youths which was about 1993 total youths (Ayira town municipality, 2015 E.C).

Map of Ayira town



3.2. Research Design

According to Kothari (2004), research design is the arrangement of conditions for collection and analysis of data to combine relevance to the research purpose with economy in procedure. In fact, it is the conceptual structure within which research is conducted and it constitutes the blueprint for the collection, measurement and analysis of data. As Ranjit K. (2011) research design is also defined as a framework of methods and techniques chosen by a researcher to combine various components of research in a reasonably logical manner so that the research problem is efficiently handled.

The research design employ under this study was descriptive and explanatory. The reason for using descriptive research design is to describe the state of affairs as it exists at present and to provide the perceptions and views of the respondents about the phenomenon studied whereas Explanatory research design is better to connect ideas to understand the cause and effect of the variables (Kothari, 2004).

For the purpose of this study, the researcher was use cross sectional study design where data was collected at one particular point in time. The reason for preferring a cross-sectional study is due to limitation of time and obtaining information from a cross-section of a population at a single point in time is a reasonable strategy for pursuing many descriptive researches (Admasu, 2012). The cross sectional survey approach was used in gathering the data for the purpose of meeting the research objectives.

3.3. Research Approach

To answer the proposed research questions in this study, a combination of both qualitative and quantitative approaches of doing research was employed, which has been recommended by Creswell (2009:203-216). According to Mark et al. (2009:101) mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. Quantitative approach is based on the measurement of quantity or amount whereas qualitative approach is concerned with qualitative phenomenon, which means phenomenon, relating to quality or kind. The needed data was collected using questionnaire schedule, interview and focus group discussions with owner and working members of the MSEs in the town under study. A questionnaire includes both closed and open-ended questions which consisting of all relevant variables important to address research questions and to achieve objective of the study developed.

3.4. Research Methods

3.4.1. Methods of data collection

To achieve the objectives of the study, the researcher was used quantitative and qualitative research methods through interview, focus group discussion and questionnaires to cover target groups of MSEs. The adopted structure questionnaires were included both open and close ended questions. It was prepared in the English language and translated into Afan Oromo language to facilitate the response.

3.4.2. Data sources

Both primary and secondary sources of data were employed to achieve the intended objectives of the study.

3.4.2.1. Primary data sources

The primary data sources include questionnaires (both close-ended and open-ended questions), interview and focus group discussions will design and administer for the selected sample of MSEs respondents.

3.4.2.2. Secondary data sources

This study was used secondary data from different published and unpublished sources such as MSEs bureaus, related literature review, research reports, books, internet, journal and other material that have been used for necessary information.

3.5. Target Population

Population refers to all elements (individuals, objects, and events) that meet the sample criterion for inclusion in a report.

The target population for the study is functional MSEs operating in Ayira town during specific time period. They are agriculture, manufacturing, service and trade which were totally 142 in number.

Table 3.1Kinds and number of MSEs sector in the Ayira town

№	MSEs sectors	Number of MSEs (population)
1	Agriculture	84
2	Manufacturing	11
3	Service	31
4	Trade	16
	Total	142

Source: Ayira town MSEs Office, 2022

3.6. Sample and sampling design

3.6.1. Sampling Design

Sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. In general, there are two types of sampling: probability sampling and non-probability sampling. According to Kothari (2004, p. 55-68) probability sampling is also known as random sampling or chance Sampling. Under this type, every item of the universe has an equal chance of inclusion in the sample. Non-probability sampling is sampling procedure, which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. In other words, under non-probability sampling the organizers of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one will be typical or representative of the whole.

Stratified sampling is probability sampling in which the researcher divides the entire target population into different sub-groups, or strata, and then randomly selects the final subjects proportionally from the different strata. This type of sampling is used when the researcher wants to highlight specific subgroups within the population Kothari (2004, p.62). Hence to select a sample, first the lists of those MSEs that are currently registered and operating in Ayira town were identified as sampling frame by a researcher. Samples were selected using stratified random sampling technique, where the entire population was divided in to subgroup (strata) of manufacturing, agriculture, service and trade. Then the sample will be drawn based on population proportion.

3.6.2. Sample Size and Sampling determination technique

The sampling technique used in this study was stratified random sampling to get information from different sizes of the MSEs in Ayira town. Stratified random sampling is good for this research since ensured the presence of key subgroups within the sample. Stratified random sampling technique allows the population to be stratified into a number of non-overlapping sub-populations or strata and sample items at tactical and operational level is selected from each stratum (department). With this technique, the sampling frame was organized into relatively homogeneous groups (strata). Here four sectors of MSEs are taken. These are: agriculture, manufacturing, service and trade before selecting elements from the sample. The samples were selected based on population proportion.

There are several approaches to determine the sample size. These include using a census for small populations, imitating a sample size of similar studies, using published tables and applying formulas to calculate a sample size. This study applied a simplified formula provided by Yamane Taro (1967) in order to determine the required sample size at 91% confidence level, degree of variability of= 0.09%.

Assumptions: N=142, confidence level=91% and e = ±9%

By applying the formula: $\mathbf{n} = \frac{N}{1+N(e)2}$ Where: **n** = the sample size

N = the population size

e = the level of precision (Sampling error)

$$\mathbf{n} = \frac{\mathbf{N}}{\mathbf{1+N(e)2}} = \frac{\mathbf{142}}{\mathbf{1+142(0.09)2}} = \frac{\mathbf{142}}{\mathbf{2.15}} = \mathbf{66}$$

n =66

According to the above formula, the sample size was a minimum of 66 and this study paper was distributed questionnaire to 66 respondents.

Table 3.2 Major sectors and Sample size distribution for each MSE in the town

№	MSEs sectors	Number of MSEs(population)	Sample size	Percentage
1	Agriculture	84	39	59
2	Manufacturing	11	5	8
3	Service	31	14	21
4	Trade	16	8	12
Total		142	66	100

Source: own data, 2025

3.7. Model Development and Specification

Logistic regression is a popular modeling approach when the dependent variable is dichotomous or polychromous. This model allows one to predict the log odds of outcomes of a dependent variable from a set of variables that may be continuous, discrete, categorical, or a mix of any of these. Hosmer and Lemeshow (2000) have described logistic regression focusing on its theoretical and applied aspect. Often the outcome variable in social data is in general not continuous, instead is binary. In such a case, binary logistic regression is a useful way of describing the relationship between one or more independent variables and a binary outcome variable that has only two possible values. Indeed, a generalized linear model is used for binary logistic regression. The most attractive feature of a logistic regression model is that it neither assumes linearity in the relationship between the covariates and the outcome variable nor does it require normally distributed variables. It also does not assume homoscedasticity and in general has less stringent requirements than linear regression models. Thus, logistic regression is used in a wide range of applications leading to binary dependent data analysis (Hilbe, 2009; Agresti, 2002). Logistic model, as compared to its competitor, the probit model, is less sensitive to outliers and easy to correct a bias. In instances where the independent variables are categorical or a mix of continuous, logistic analysis is preferred to discriminant analysis (Agresti, 2007).

3.7.1 Model specification

To identify key determinants of role of MSEs we first compute a dichotomous variable indicating whether the organization create job and generate income or not. So, the dependent variable is employment creation and income generation status which is dichotomous. If the i^{th} individual create job, the response variable (Yi) takes the value 1 otherwise, it takes the value 0.

Yi = $\begin{cases} 1, if \text{ the } i^{th} \text{ individual create job and generate income in MSEs} \\ 0, if \text{ not} \end{cases}$

Following Gujarati (2004) the logistic model would be written in terms of the odds ratio and log of odds ratio, which enable one to understand the interpretation of the coefficients. In this study, the odds ratio is the ratio of the probability that the individual created job (Pi) to the probability that he/she not create job (1-Pi).

Therefore, the equation of regression used in this study is generally indicates the relationship of the dependent variable (the role of MSEs**)** on the eleven independent variables stated in terms of job creation.

Pi = f (Zi) = f (α+βixi) $= \frac{1}{1+1e^{-(\alpha+\varepsilon\beta ixi)}}$…………………......................................1

Since, Zi =$\alpha + \beta$ixi, the above formula can be rewrite as shown below for easily understanding.

1-pi = $\frac{1}{1+e^{zi}}$…………………………………………………………………….2

$\left(\frac{pi}{1-pi}\right) = \frac{1+e^{zi}}{1+e^{-zi}} = e^{zi}$………………………………………………………………..3

Therefore,$\left(\frac{pi}{1-pi}\right) = \frac{1+e^{zi}}{1+e^{-zi}} = e^{(\alpha+\varepsilon\beta ixi)}$………..4

By taking the natural logarithm of equation (4)

Yi=ln$\left(\frac{pi}{1-pi}\right)$=α+$\sum_{i=1}^{k} \beta ixi + \mu i + \varepsilon$i,=Y=β0+β1AE+β2EDOP+β3ABSBPL+ β4LKMNG + β5TBLPRT+ β6FNC+β7WRKSP + β8MRKT +β9INFSTCR +β10IEDBSS + β11NEGALT ………………..………………………………………………………………….5

Where: K= the number of explanatory variables; Xi (AE= age of enterprise, EDOP= education level of operator, ABSBPL= absence of business plan, LKMNG=lack of skilled manager, TBLPRT=trouble among partners, FNC=financial problem, WRKSP= working space problem, MRKT= marketing problem, INFRSTCR= infrastructure problem, INEDBSS= inadequate business support services, and NEGALT= negative attitude towards working under MSEs sectors.

Table 3.3: Type, Definition, Measurement, and Hypothesis of Variables

Variable	Definition	Type	Measurement	Expected relation
RMSEs	Role of MSEs (employment creation & income generation)	Dummy	1=created,0=not created	
AE	Age of enterprise	Continuous	Year	
EDOP	Education level of operator	Dummy	1=literate,0= illiterate	Positive
ABSBPL	Absence of business plan	Dummy	1=use, 0= not used	+/_
LKMNG	Lack of skilled manager	Dummy	1= has, 0= has not	+/_
TBLPRT	Trouble among partners	Dummy	1= exist,0= not exist	+/_
FNC	Financial problem	Dummy	1= has, 0= not exist	+/_
WRKSP	Working space problem	Dummy	1=exist,0= not exist	+/_
MRKT	Marketing problem	Dummy	1=exist,0= not exist	+/_
INFSTCR	Infrastructure problem	Dummy	1=exist,0= not exist	+/_
IEDBSS	Inadequate business support services	Dummy	1=exist,0= not exist	+/_
NEGALT	Negative attitude towards working in MSEs sector	Dummy	1=exist,0= not exist	+/_

Source: own data, 2025

3.8. Validity and Reliability

While doing research, we may get no response or inaccurate response because of respondents' error, ambiguous of both questions and answers or errors in formulating questionnaires. In order to reduce the possibility of getting higher errors, attention was given. Hence, validity and reliability tests, which help to detect the presence or absence of those errors, have taken place to reduce the problems. These two factors are further discussed below:

3.8.1. Validity

Validity is the extent to which collection methods accurately measure what they were intended to measure and concerned whether the findings are really about what they appear to be about (Widersheim & Eriksson, 1997). The questionnaire was carefully designed based on the regression model. It was also reviewed, commented upon, modified, and finally approved by the advisor and experts having experience with in the research area.

3.8.2. Reliability

Reliability is concerned whether the procedures of data collection and analysis will generate the same results on other occasions or will other observers make similar observations and arrive at same conclusions from the raw data (chisnall, 2003)

In order to measure the consistency of the questionnaire and the overall reliability of constructs that it is measuring, the reliability test was carried out based on Cronbach's Alpha coefficient. Cronbach's Alpha can be interpreted like a correlation coefficient. Its coefficient range lay on the value from 0 to 1. A reliability coefficient (alpha) higher than or equal to 0.7 is considered as acceptable. That means the targeted questions raised in the questionnaires are capable to meet the objective of the study.

3.9. Ethical Consideration

The primary objective of research ethics is to ensure that no participant is harmed or suffers any adverse consequences as a result of the research activities. The study was conducted with utmost respect for the privacy and dignity of all individuals involved, avoiding any form of defamation, abuse, or unauthorized disclosure of sensitive information. To uphold these ethical standards, an official letter requesting permission was obtained from Wallaga University, School of Graduate Studies, and submitted to the relevant agencies and enterprises from which data were to be collected. Prior to data collection, the researcher thoroughly explained the purpose and significance of the study to the respondents and obtained their informed consent. Participation was entirely voluntary, and respondents were assured of their right to refuse participation or withdraw at any stage without any negative consequences. To protect anonymity and confidentiality, respondents were not required to provide their names on the questionnaires, and their responses were kept strictly confidential and not linked to their identities in any way.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Results and Discussions

In the previous sections, the study explored the overview of the research (introduction), Literature review and methodology of the study respectively. This section presents data Presentation, analysis, and interpretation of the raw data obtained through primary data collected means that were gathered from the MSEs found within Ayira town. The findings are based on the responses of the owners and employees of the sample MSEs collected with the help of a structured questionnaire, focus group discussion and in depth interviews conducted with selected owners of MSE and the MSEs support office officials as well. A total of 66 questionnaires were distributed, all were properly filled out and collected. This represents 100 % of the total number of people who responded. Since this is sufficient enough to make the analysis and all the discussions below are made on these groups of respondents. The data obtained from these respondents were presented in tables and figures and discussed by using frequency and percentage. The collected data were analyzed by using the SPSS version 24 to answer the research questions.

4.1. 1Gender and Marital Status

Different studies show that the demographic characteristics of an individual have a significant role in his/her entrepreneurial behavior and performance of the business enterprise he/she runs. Proper management of business organizations often depends on the educational background of the individuals in charge. Taking this into consideration, therefore, owners' level of education, age, gender, and marital status of the respondents are how to indicate the general demographic conditions of the respondents under the sector.

According to the survey made by the researcher table 4.1 and figure 4.1 and figure 4.2 below, the data presents the gender distribution among MSE owners across four business types: manufacturing, agriculture, trade, and service. Among the 17 respondents, 41% are male (7 individuals) and 59% are female (10 individuals), indicating a slight female majority in manufacturing sector. In Agriculture sector, there is a significant male dominance, with 71% male (17 individuals) and only 29% female (7 individuals), where in Trade sector, males account for 64% (7 individuals), while females represent 36% (4 individuals), showing

a similar male majority. The service sector also shows a male majority, with 71% male (10 individuals) and 29% female (4 individuals).

Overall, 62% of the total respondents (41 individuals) are male, compared to 38% female (25 individuals). This highlights a general trend of male predominance across most sectors, with agriculture being the exception.

The marital status of respondents is categorized as single, married, and divorced/widowed, across the same four business types. The largest group is found in the trade sector, where 91% (10 individuals) are single, followed by agriculture with 50% (12 individuals), manufacturing at 41% (7 individuals), and service at 71% (10 individuals). Overall, 59% (39 individuals) of all respondents are single. The manufacturing sector has the highest percentage of married owners at 53% (9 individuals), followed by agriculture at 42% (10 individuals). In contrast, the trade sector has only 9% (1 individual) married, and the service sector has 14% (2 individuals). In total, 33% (22 individuals) of respondents are married. The service sector shows the highest representation of divorced or widowed individuals at 14% (2 individuals), while manufacturing and agriculture each have 6% (1 individual) and 8% (2 individuals), respectively. Overall, this group constitutes 8% (5 individuals) of the total respondents.

In summary, the data indicates a gender disparity among MSE owners, with males dominating most sectors except for manufacturing, where females slightly outnumber males. Regarding marital status, a majority of respondents are single, with married individuals primarily found in manufacturing and agriculture sectors. The findings suggest that the demographic factors of gender and marital status may influence entrepreneurial activity and performance within these MSEs, pointing to a complex interplay of social dynamics in the business environment.

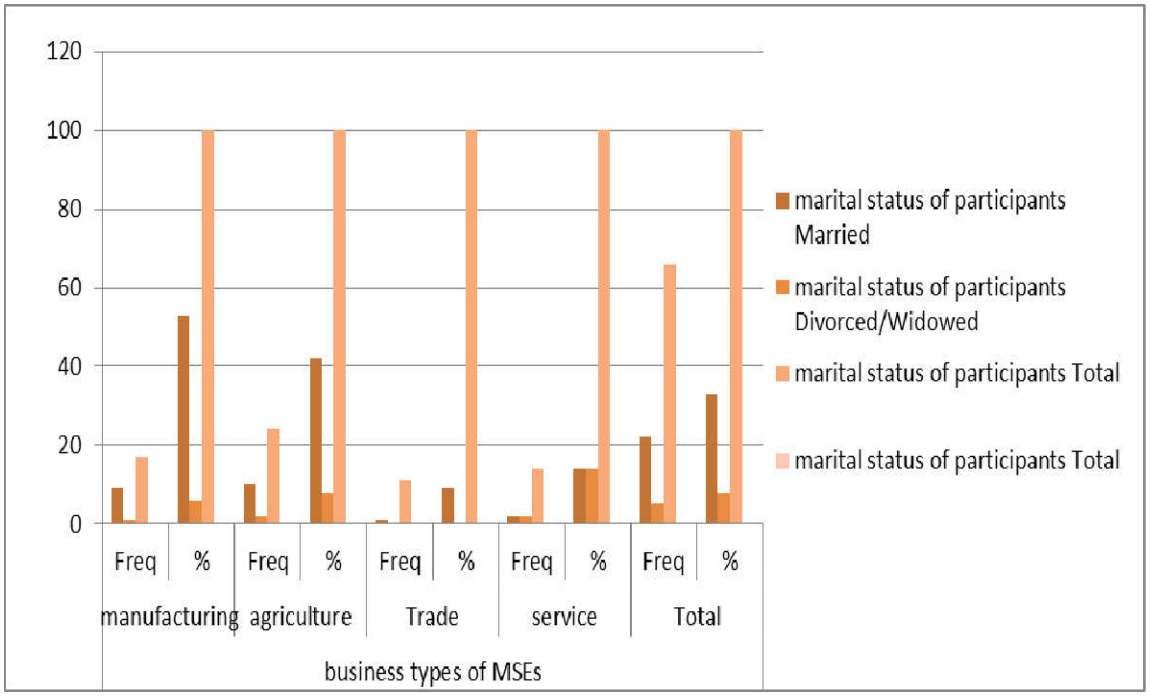


Figure 4.1 Distribution of Figure 1Marital Table 3Figure

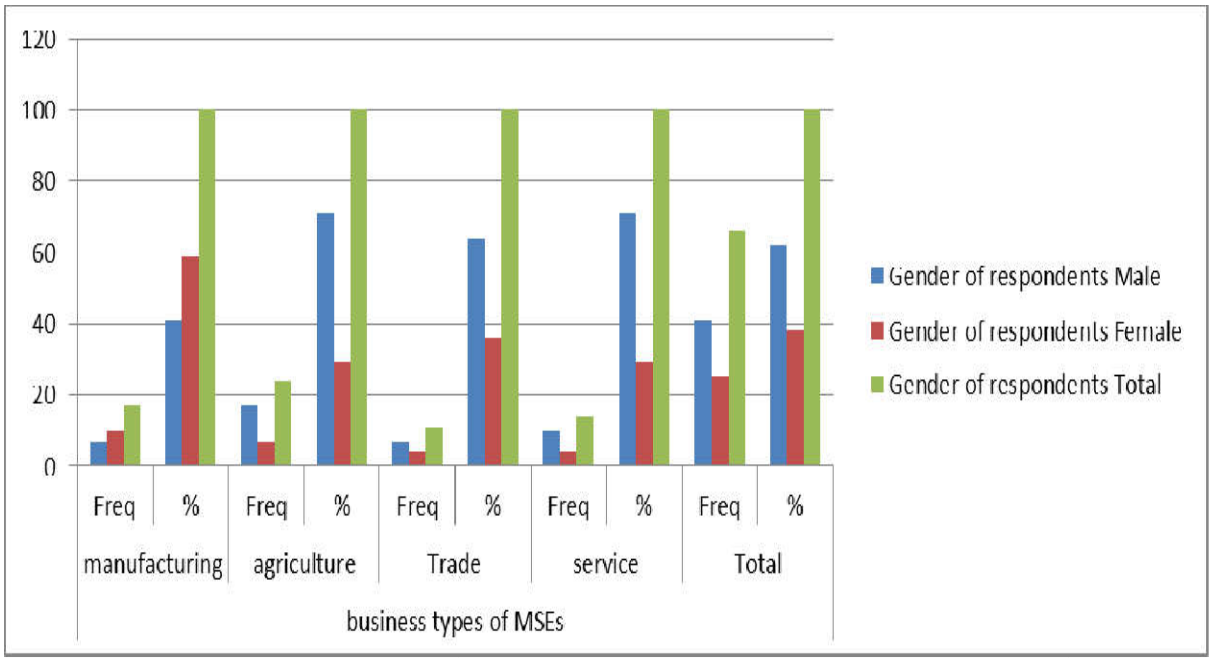


Figure 4.2 Gender Distribution of MSE Table 4Figure 2Owners

Table 4.1: Gender and Marital Status Distribution of MSEOwners

Variables		business types of MSEs									
		Manufacturing		agriculture		Trade		Service		Total	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Gender of respondents	Male	7	41	17	71	7	64	10	71	41	62
	Female	10	59	7	29	4	36	4	29	25	38
	Total	17	100	24	100	11	100	14	100	66	100
marital status of participants	Single	7	41	12	50	10	91	10	71	39	59
	Married	9	53	10	42	1	9	2	14	22	33
	Divorced/Widowed	1	6	2	8	0	0	2	14	5	8
	Total	17	100	24	100	11	100	14	100	66	100

Source: own data, 2025

4.1.2. Distribution of Sample MSE Owners by Age Group

Table 4.2: Distribution of Sample MSE Owners by Age Group

				Business types of MSEs							
				Manufacturing		Agriculture		Trade		service	
				Freq.	%	Freq.	%	Freq.	%	Freq.	%
position of responders	Employee	age of responders	under 20	0	0.0	4	25.0	0	0.0	0	0.0
			21-30	5	55.6	9	56.3	2	66.7	5	55.6
			31-40	4	44.4	3	18.8	1	33.3	4	44.4
			Total	9	100.0	16	100.0	3	100.0	9	100.0
	owner manager	age of responders	under 20	0	0.0	1	20.0	0	0.0	1	50.0
			21-30	3	100.0	3	60.0	4	80.0	1	50.0
			31-40	0	0.0	1	20.0	1	20.0	0	0.0
			Total	3	100.0	5	100.0	5	100.0	2	100.0

	manager only	age of responders	under 20	0	0.0	1	50.0	0	0.0	0	0.0
			21-30	1	33.3	0	0.0	0	0.0	2	100.0
			31-40	2	66.7	1	50.0	1	100.0	0	0.0
			Total	3	100.0	2	100.0	1	100.0	2	100.0
	Other	age of responders	under 20	0	0.0	0	0.0	1	50.0	0	0.0
			21-30	2	100.0	0	0.0	1	50.0	1	100.0
			31-40	0	0.0	1	100.0	0	0.0	0	0.0
			Total	2	100.0	1	100.0	2	100.0	1	100.0

Source: own data, 2025

Table 4.2 presents the age distribution of respondents and shows that the majority falls within the working-age group. A productive workforce is often, considered a driving force for overall national development. However, a workforce dominated by the working-age group alone may not be sufficient for significant economic development. Other factors such as capital, land, skills, and natural resources also play crucial roles. Therefore, while the majority of MSE owners are young, which can offer advantages like energy and speed; additional factors are necessary for achieving desired economic development.

It also provides a detailed breakdown of the age distribution of respondents across four business sectors: manufacturing, agriculture, trade, and service. The Respondents are categorized into four positions: employee, owner/manager, manager only, and other.

There are no employees under 20 in manufacturing or trade, while 25% (4 individuals) are in agriculture. The majority of employees are aged 21-30, with 55.6% in manufacturing, 56.3% in agriculture, 66.7% in trade, and 55.6% in service. The 31-40 age group accounts for 44.4% in manufacturing, 18.8% in agriculture, 33.3% in trade, and 44.4% in service. Overall, the data indicates a youthful workforce, particularly in the 21-30 age range, across all sectors.

A few owners/managers are under 20, with only 20% in agriculture and 50% in service. The 21-30 age groups dominate owner/managers, with 100% in manufacturing, 60% in agriculture, 80% in trade, and 50%

in service. The 31-40 age groups have limited representation, with 20% in both agriculture and trade, and none in manufacturing and service. This suggests that a significant proportion of owner/managers are in their 20s, indicating a trend of young entrepreneurship.

The majority of managers in the 31-40 age groups are in manufacturing and agriculture, while there are limited managers under 20. Younger managers aged 21-30 are represented in manufacturing and service. This indicates a blend of youthful and slightly older managers, with a notable concentration of those aged 31-40 in manufacturing.

All individuals in agriculture fall within the 31-40 age range, with no representation in other sectors. There is no representation in manufacturing and agriculture for those under 20, while 50% in trade are under 20. All individuals in manufacturing and service are in the 21-30 age range, with 50% in trade. Overall, the data shows a strong representation of younger individuals in various roles within MSEs, particularly in owner/manager and employee positions. The prevalence of respondents aged 21-30 across all sectors suggests a vibrant, youthful entrepreneurial landscape, while the presence of individuals in the 31-40 age range indicates that some experienced individuals also participate in MSE leadership. This age distribution can influence business dynamics, innovation, and the approach to challenges within the MSE sector.

4.1.3 Status of Legal MSEs

Table 4.3 provides an overview of the legal status of micro and small enterprises (MSEs) across different sectors manufacturing, agriculture, trade, and service. Understanding the legal forms of ownership helps shed light on the operational dynamics, risks, and potential growth strategies for these enterprises.

The predominant form of ownership among MSEs is sole proprietorship, with 58.8% in manufacturing, 41.7% in agriculture, 63.6% in trade, and 64.3% in service. This indicates a strong preference for sole proprietorship across all sectors, totaling 55% overall. The high prevalence of sole proprietorship suggests that many entrepreneurs prefer to maintain full control over their businesses and are likely motivated by the simplicity and directness of this structure. However, this also indicates potential vulnerabilities, such as increased personal risk and limited access to capital or shared resources.

The second most common ownership type is partnership, accounting for 29.4% in manufacturing and 41.7% in agriculture. In trade, it represents 36.4%, while the service sector has a lower proportion at

14.3%. The overall average for partnerships is 32%, which highlights a significant interest in collaborative business structures that allow for shared responsibilities and resources. This might reflect a strategic choice to combine expertise and capital, particularly in agriculture and manufacturing, where cooperative efforts can lead to more effective production and distribution.

The corporate structure is less common, comprising 11.8% in manufacturing, 16.7% in agriculture, and 21.4% in service, with no representation in the trade sector. The overall percentage for corporations is 14%. The higher percentage in the service sector may indicate a trend toward more formalized business structures in sectors that might require more complex operational frameworks or risk management strategies. However, the low overall numbers suggest that the majority of MSEs do not engage in the more formal corporate structure, which can offer limited liability and easier access to investment. Interestingly, there are no MSEs classified under "other" legal forms of ownership. This indicates a clear preference for the three mentioned structures, reinforcing the idea that entrepreneurs are choosing traditional forms of ownership that are well understood within the local context.

The distribution of ownership structures has several implications for the MSEs landscape. The dominance of sole proprietorships indicates a high degree of individual entrepreneurship, but it also suggests that many owners may face challenges related to financial sustainability and growth potential. Sole proprietors may struggle with limited access to financing and may be more vulnerable to economic fluctuations since their personal and business finances are often intertwined. The presence of partnerships suggests that some entrepreneurs recognize the benefits of collaboration, particularly in sectors like agriculture and manufacturing, where pooling resources can enhance productivity and resilience. However, the relatively lower representation of partnerships in the service sector could indicate that businesses in this area may operate more independently, potentially limiting opportunities for innovation through collaboration.

The limited number of corporations within the MSE sector may reflect barriers to entry for more formal business structures, such as regulatory requirements or the complexities involved in establishing and maintaining a corporation. While corporations can provide benefits like limited liability, the preference for simpler structures indicates a focus on immediate operational needs over long-term strategic planning.

In conclusion, the legal status of MSEs indicates a strong inclination towards sole proprietorships and partnerships, with a notable absence of alternative forms. This ownership distribution shows important

insights into the entrepreneurial landscape, including the challenges and opportunities facing MSE owners. Policymakers and support organizations can leverage this information to design targeted interventions that enhance access to resources, provide education on business structures, and promote collaboration among MSEs. By addressing the unique needs of each ownership type, stakeholders can foster a more resilient and dynamic MSE sector, ultimately contributing to broader economic development.

Table 4.3: MSEs ownership (Legal Status)

	Business types of MSEs									
legal form of enterprise	Manufacturing		Agriculture		Trade		Service		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
sole proprietorship	10	58.80 %	10	41.70 %	7	63.60%	9	64.30 %	36	55%
Partnership	5	29.40 %	10	41.70 %	4	36.40%	2	14.30 %	21	32%
Corporation	2	11.80 %	4	16.70 %	0	0.00%	3	21.40 %	9	14%
Other	0	0.00 %	0	0.00 %	0	0.00%	0	0.00%	0	0%
Total	17	100.0 0%	24	100.0 0%	11	100.00%	14	100.0 0%	66	100 %

Source: own data, 2025

4.1.4 Initial Capital versus Current Capital of the Enterprises

Tables 4.4 and 4.5 present the initial and current capital of enterprises across different MSES types.

An examination of initial capital across various micro and small enterprises (MSEs) shows distinct financial profiles that reflect the unique characteristics and requirements of each sector. In the manufacturing sector, a striking 52.9% of respondents indicated that their initial capital fell within the 3000-6000 birr range. This significant percentage underscores the prevalent trend of low entry barriers for manufacturing businesses, suggesting that many entrepreneurs begin their operations with minimal financial resources. The ability to start with such low capital may point to the relatively low overhead costs associated with many manufacturing activities, particularly small-scale or artisanal production.

Conversely, the agricultural sector displays a different initial capital distribution, with 58.3% of enterprises starting with 6001-10000 birr. This higher capital requirement may be indicative of the additional investments needed in equipment, land, or inputs such as seeds and fertilizers, which are essential for agricultural operations. The increased initial capital in agriculture might also reflect the sector's reliance on certain regulatory and environmental factors that necessitate higher starting investments to ensure viability and productivity.

In the trade sector, the initial capital distribution is more balanced. Here, 45.5% of respondents reported starting with capital in the 3000-6000 birr range, while an equal proportion of 27.3% falls into the higher brackets of 10001-20000 birr. This suggests that while many traders begin with modest investments, there exists a notable subset that is willing to invest significantly more from the outset, perhaps to stock inventory or secure advantageous locations. The service sector, characterized by its diverse offerings, exhibits the highest percentage of initial capital in the 3000-6000 birr range, with 64.3% of enterprises starting there. This prevalence indicates that many service-oriented businesses such as small retail shops, food vendors, and personal service providers can operate effectively with relatively low initial capital, relying more on skills and labor than on significant financial investment.

When transitioning to current capital, the data shows a more nuanced financial landscape among the various sectors. In manufacturing, 41.2% of enterprises report their current capital in the 30000-50000 birr range, indicating substantial growth compared to their initial capital. This increase reflects the potential for manufacturing businesses to scale up their operations, enhance their productivity, and invest in more machinery that is sophisticated or technology over time. Similarly, the agricultural sector also shows a robust presence in the 30000-50000 birr range, with 41.7% of enterprises reporting their current capital there. This growth attributed to improved agricultural practices, access to better resources, and perhaps a shift towards value-added products that can generate higher returns.

In stark contrast, the trade sector indicates a significant shift toward higher capital investments. A notable 36.4% of trade enterprises report current capital in the 200001-500000 birr range, reflecting an ability to scale operations dramatically. This shift suggests that businesses in the trade sector are not only expanding their inventory and service offerings but may also be investing in infrastructure, such as warehouses or distribution networks, which are critical for success in a competitive market.

The service sector presents a diverse picture in terms of current capital. A significant 28.6% of enterprises report their current capital in both the 80001-200000 birr and 200001-500000 birr ranges. This dual presence indicates that while some service providers have managed to expand significantly, others remain in a mid-level growth stage. The diversity within the service sector could be attributed to varying business models some may focus on high-value services that command better pricing, while others may still operate within lower margins but have managed to expand their clientele.

The comparative analysis between initial and current capital demonstrates a pronounced trajectory of growth across all sectors. While many enterprises began with minimal financial investments, a significant portion has successfully transitioned to higher levels of capital. The growth patterns observed in the manufacturing and agriculture sectors signal an upward trend, with businesses capitalizing on economies of scale, technological advancements, and better market access. The trade sector, particularly, highlights a robust evolution toward higher capital requirements, indicating that many businesses have not only survived but thrived in competitive environments, allowing for increased investment in operations and infrastructure.

The service sector, despite starting with lower initial capital, shows considerable potential for growth, suggesting that these businesses can achieve greater financial stability and profitability over time. This adaptability within the service sector is crucial, as it often serves as a significant employment generator in many economies.

Table 4.4: Initial Capital of the Enterprises

	Business types of MSEs							
	Manufacturing		Agriculture		Trade		Service	
Initial Capital	Freq	%	Freq	%	Freq	%	Freq	%
3000-6000	9	52.9%	7	29.2%	5	45.5%	9	64.3%
6001-10000	6	35.3%	14	58.3%	3	27.3%	2	14.3%
10001-20000	2	11.8%	3	12.5%	3	27.3%	3	21.4%
Total	17	100.0%	24	100.0%	11	100.0%	14	100.0%

Table 4.5: Current Capital of theEnterprises

Current capital of enterprise	Business types of MSEs							
	Manufacturing		Agriculture		Trade		Service	
	Freq	%	Freq	%	Freq	%	Freq	%
30000-50000	7	41.2%	10	41.7 %	2	18.2%	5	35.7%
50001-80000	1	5.9%	5	20.8 %	2	18.2%	1	7.1%
80001-200000	4	23.5%	2	8.3%	3	27.3%	4	28.6%
200001-500000	5	29.4%	7	29.2 %	4	36.4%	4	28.6%

Source: own data, 2025

4.1.5 Employment creation

The data presented in Table 4.6 regarding the status of previous occupations of individuals involved in various types of MSEs provides valuable insights into employment creation and the entrepreneurial landscape across different sectors.

The findings indicate that a significant proportion of MSE owners, 74% in total, have not held any previous occupation before starting their current businesses. This trend is particularly pronounced in the agricultural sector, where 79.2% of respondents reported having no prior employment experience. This may suggest that many individuals in agriculture are entering entrepreneurship directly, possibly due to limited job opportunities in the formal employment sector or a strong inclination towards self-employment in rural areas.

In the manufacturing sector, 70.6% of respondents also reported no previous occupations, indicating that many entrepreneurs are emerging from a background that does not include formal employment. This could

reflect a desire to capitalize on personal skills or local resources to establish a business. Conversely, the trade sector has the highest percentage of respondents with previous occupations, at 18.2%, indicating that a portion of these entrepreneurs may have experience in related fields, which could contribute to their business acumen.

The service sector presents a notable contrast, with 35.7% of respondents indicating that they had previous occupations before venturing into entrepreneurship. This suggests that individuals in the service sector may be leveraging their prior work experiences to enhance their business capabilities, thereby possibly leading to more successful ventures. The high percentage of individuals without prior occupations entering the MSE sector signifies a substantial opportunity for employment creation. As these new entrepreneurs establish their businesses, they are likely to generate jobs not only for themselves but also for others within their communities. The entrepreneurial spirit displayed by those with no prior employment experience highlights a vital avenue for economic development, especially in regions where formal employment opportunities are scarce. Moreover, the differences observed between sectors suggest that various industries may require distinct support mechanisms. For instance, those entering agriculture may benefit from targeted training programs that enhance skills in production and marketing, while service sector entrepreneurs might gain from mentorship and networking opportunities to leverage their prior work experiences effectively.

Overall, the data reveals a dynamic landscape of employment creation within the MSE sector, characterized by a significant number of individuals transitioning directly from unemployment to entrepreneurship. The trends noted across sectors underline the importance of tailored support systems that can foster skills development and sustainability among new businesses. This, in turn, can enhance job creation and contribute positively to local economies. Understanding these dynamics is crucial for policymakers and stakeholders aiming to strengthen the entrepreneurial ecosystem and facilitate broader economic growth.

Table 4.6: Status of PreviousOccupation

Previous Occupation	Business types of MSEs									
	Manufacturing		Agriculture		Trade		Service		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
No	12	70.6%	19	79.2%	9	81.8%	9	64.3%	49	74%
Yes	5	29.4%	5	20.8%	2	18.2%	5	35.7%	17	26%
Total	17	100.0%	24	100.0%	11	100.0%	14	100.0%	66	100%

Source: own data, 2025

Numbers of Job Created

The data presented in Table 4.7 provides an insightful overview of job creation across different business types of MSEs over three distinct times: 2012-2013 E.C, 2014-2015, and 2016 E.C. Analyzing the number of employees in relation to enterprise type reveals important trends in employment generation and the varying capacity for job creation across sectors.

In 2012-2013 E.C times, the job creation numbers are notably low across the board, particularly in manufacturing, where no employees reported. The agricultural sector accounts for 33.3% of enterprises employing 1-3 individuals, while trade and service sectors show a similar pattern with 100% of their reported jobs in the same range. This indicates that during the initial phase, businesses were primarily small-scale, employing very few workers, which is common in the nascent stages of entrepreneurship.

The 2014-2015 E.C time period, shows a marked increase in job creation, particularly in the manufacturing sector, where 66.7% of businesses employed 6-10 individuals. The agricultural sector also sees a more balanced distribution, with 44.4% employing 4-5 workers and 33.3% employing 1-3 individuals. In the trade sector, there is a noticeable shift, with 50% of businesses employing 4-5 individuals, reflecting a growth in capacity. The service sector also shows a significant increase, with 66.7% of enterprises employing 4-5 individuals. This suggests that by 2014-2015 E.C, MSEs were beginning to expand and hire more employees, possibly due to increased demand for their products and services.

The trend of job creation continues to grow in the 2016 E.C period, particularly in the manufacturing sector, where 75% of businesses reported employing 1-3 individuals, but also showing a healthy representation in the 6-10 range with 25% of businesses. The agricultural sector maintains a steady employment level, with 25% of enterprises employing 1-3 workers and 50% employing 4-5. In the trade sector, 37.5% of businesses employed 6-10 individuals, indicating a robust capacity for job creation. The service sector reflects similar trends, with 42.9% employing 1-3 and 28.6% employing 4-5 individuals, implying that the sector has maintained its growth.

The increasing numbers of employees over time reflect the growing capacity of MSEs to create jobs as they mature and expand. The data suggests that businesses are not only surviving but are also beginning to thrive, leading to increased hiring. The growth in job numbers across all sectors highlights the critical role that MSEs play in local economies, contributing to employment and economic stability. The varying capacity for job creation between sectors also suggests that different industries may require distinct approaches for support and development. For instance, the manufacturing sector appears to have significant potential for scaling operations and creating jobs, while the trade and service sectors, which showed steady growth, may benefit from enhanced access to markets and training programs to further improve their business capabilities.

In summary, the analysis of job creation across different MSEs sectors over time demonstrates a clear upward trend in employment numbers, indicating that as these businesses evolve, they contribute significantly to local economies. Understanding these dynamics is essential for policymakers and stakeholders aiming to foster sustainable economic growth and employment opportunities. By providing targeted support to sectors showing strong potential for job creation, stakeholders can enhance the overall impact of MSEs on economic development and job stability within communities.

Table 4.7: Total Number of Employees by Enterprise

Employees per year in E.C		Business types of MSEs							
		Manufacturing		Agriculture		Trade		Service	
		Freq	%	Freq	%	Freq	%	Freq	%
2012-2013	1-3	0	0.00	1	33.30	1	100.00	1	100.00
	4-5	0	0.00	2	66.70	0	0.00	0	0.00
	6-10	0	0.00	0	0.00	0	0.00	0	0.00
	Total	0	0.00	3	100.00	1	100.00	1	100.00

2014-2015	1-3	3	33.30	3	33.30	1	50.00	2	33.30
	4-5	0	0.00	4	44.40	1	50.00	4	66.70
	6-10	6	66.70	2	22.20	0	0.00	0	0.00
	Total	9	100.00	9	100.00	2	100.00	6	100.00
2016	1-3	6	75.00	3	25.00	3	37.50	3	42.90
	4-5	0	0.00	6	50.00	2	25.00	2	28.60
	6-10	2	25.00	3	25.00	3	37.50	2	28.60
	Total	8	100.00	12	100.00	8	100.00	7	100.00

Source: own data, 2025

Types of Jobs Created

The data presented in Table 4.8 provides an insightful overview of job creation across different business types of micro and small enterprises (MSEs) over three distinct time periods: 2012-2013, E.C, 2014-2015 E.C, and 2016 E.C. Analyzing the number of employees in relation to enterprise type reveals important trends in employment generation and the varying capacity for job creation across sectors.

In the early period 2012-2013 E.C, job creation numbers were notably low across the board, particularly in manufacturing, where no employees were reported. The agricultural sector accounted for 33.3% of enterprises employing 1-3 individuals, while trade and service sectors showed a similar pattern with 100% of their reported jobs in the same range. This indicates that during the initial phase, businesses were primarily small-scale, employing very few workers, which is common in the nascent stages of entrepreneurship.

The period, 2014-2015 E.C shows a marked increase in job creation, particularly in the manufacturing sector, where 66.7% of businesses employed 6-10 individuals. The agricultural sector also saw a more balanced distribution, with 44.4% employing 4-5 workers and 33.3% employing 1-3 individuals. In the trade sector, there is a noticeable shift, with 50% of businesses employing 4-5 individuals, reflecting a growth in capacity. The service sector also shows a significant increase, with 66.7% of enterprises employing 4-5 individuals. This suggests that by 2012-2013, MSEs were beginning to expand and hire more employees, possibly due to increased demand for their products and services.

The trend of job creation continues to grow in 2016 E.C period, particularly in the manufacturing sector, where 75% of businesses reported employing 1-3 individuals, but also showing a healthy representation in

the 6-10range with 25% of businesses. The agricultural sector maintains a steady employment level, with 25% of enterprises employing 1-3 workers and 50% employing 4-5. In the trade sector, 37.5% of businesses employed 6-10 individuals, indicating a robust capacity for job creation. The service sector reflects similar trends, with 42.9% employing 1-3 and 28.6% employing 4-5 individuals, suggesting that the sector has maintained its growth trajectory.

The increasing numbers of employees over time reflect the growing capacity of MSEs to create jobs as they mature and expand. The data suggests that businesses are not only surviving but are also beginning to thrive, leading to increased hiring. The growth in job numbers across all sectors highlights the critical role that MSEs play in local economies, contributing to employment and economic stability. The varying capacity for job creation between sectors also suggests that different industries may require distinct approaches for support and development. For instance, the manufacturing sector appears to have significant potential for scaling operations and creating jobs, while the trade and service sectors, which showed steady growth, may benefit from enhanced access to markets and training programs to further improve their business capabilities.

In summary, the analysis of job creation across different MSE sectors over time demonstrates a clear upward trend in employment numbers, indicating that as these businesses evolve, they contribute significantly to local economies. Understanding these dynamics is essential for policymakers and stakeholders aiming to foster sustainable economic growth and employment opportunities. By providing targeted support to sectors showing strong potential for job creation, stakeholders can enhance the overall impact of MSEs on economic development and job stability within communities.

Table 4.8: Types of Jobs Created on Average Number of Persons per MSE*s*

Type of job created	business types of MSEs							
	Manufacturing		Agriculture		Trade		Service	
	Freq	%	Freq	%	Freq	%	Freq	%
permanent	4	23.5%	7	29.2%	3	27.3%	2	14.3%
Temporary	11	64.7%	7	29.2%	6	54.5%	6	42.9%
part time	2	11.8%	10	41.7%	2	18.2%	6	42.9%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	17	100.0%	24	100.0%	11	100.0%	14	100.0%

Source: own data, 2025

4.1.6 Income generation

The Table 4.9 below, presents a comprehensive overview of the annual average income of owners from micro and small enterprises (MSEs) categorized by sector (manufacturing, agriculture, trade, and service) and form of ownership (individual and cooperative). The income data is segmented into various brackets, providing insights into income distribution and economic viability within these sectors.

Income below 5,000 Birr: The service sector exhibits the highest percentage of owners earning below 5,000 birr annually, with 44.4% of cooperative owners falling into this category. This high percentage suggests that a significant portion of service sector businesses may be struggling to generate sufficient income, potentially reflecting the challenges of competition, pricing, or operational scale. In contrast, manufacturing shows 24.8% for individual owners and 14.2% for cooperative owners earning below this threshold, indicating better income generation compared to the service sector. The agriculture sector presents a moderate figure of 19.5%, highlighting that a considerable number of agricultural enterprises are also operating on very low income levels.

Income between 5,001 and 30,000 Birr: In this income bracket, the agriculture sector stands out, with 36% of individual owners earning within this range, indicating a reliance on agricultural productivity to support livelihood. The trade sector also shows notable figures, with 30.4% of individual owners earning between 5,001 and 30,000 birr. The manufacturing sector reflects a lower percentage of 12.6% for individual owners and 6.4% for cooperative owners, suggesting that manufacturing businesses may achieve higher income levels more quickly due to potential economies of scale or value-added products.

Income between 30,001 and 60,000 Birr: This income range reveals that the manufacturing sector has the highest proportion of individuals earning between 30,001 and 60,000 birr, with 33.5% of individual owners. Agriculture and trade sectors follow closely, each with 36%, indicating a relatively strong performance in income generation across these sectors. The service sector shows a lower percentage of 25.6%, suggesting that while some service providers may achieve moderate income levels, many still fall behind compared to other sectors.

Higher Income Brackets: In higher income categories, such as 60,001 to 84,000 birr and above, the numbers are notably sparse, indicating that a small proportion of MSE owners achieve higher income levels. For instance, the agriculture sector sees 10% of cooperative owners earning between 60,001 and

84,000 birr, while manufacturing has 15% for cooperatives in this range. However, there are no entries in the 84,001 to 108,000 birr category for individual owners in trade or service, suggesting that reaching these income levels is particularly challenging for them.

Overall Income Distribution: The data reveals a concerning trend in the income distribution across MSE sectors. While some owners do reach moderate income levels, a significant percentage of owners, particularly in the service sector, continue to earn below the 5,000 birr threshold. This raises important questions about the sustainability and viability of these enterprises, as low income can hinder growth and limit the ability to reinvest in the business.

The income data highlights the challenges faced by many MSE owners, particularly in sectors like service and agriculture, where a substantial number of individuals earn low incomes. This suggests the need for enhanced support mechanisms, such as access to training, microfinance, and market development initiatives, to help these enterprises increase their earning potential. Moreover, the higher earning potential observed in the manufacturing sector indicates that there may be opportunities for growth and job creation if additional resources and support can be directed toward this area. Policymakers and stakeholders must consider tailored strategies to foster a conducive environment for MSEs across different sectors, focusing on enabling sustainable income growth and enhancing overall economic resilience.

In conclusion, the annual average income data of MSE owners highlights significant disparities across sectors and ownership types. The prevalence of low-income earners, especially in the service sector, underscores the need for targeted interventions to improve economic outcomes for these businesses. By understanding the income dynamics within MSEs, stakeholders can develop effective policies and programs to support entrepreneurs, ultimately enhancing income stability and fostering economic development in local communities.

Table 4.9: Five Years Annual AverageIncomeof Owners from MSEs by Sector

Income category in birr	manufacturing		Agriculture		Trade		Service	
	Ind.	Cop.	Ind.	Cop.	Ind.	Cop.	Ind.	Cop.
	%	%	%	%	%	%	%	%
Below 5000	24.8	14.2	12	19.5	16	-	42	44.4
5001-30,000	12.6	6.4	36	24.2	12	30.4	22	30
30,001-60,000	33.5	32.1	36	39	36	43	36	25.6

60001-84000	9	15	8	10	12	26.6		
84001-10800	3.5	0	3	-	2	-		
108001-132000	4	10.1	-		4	-		
132001-156000	-	17.2	-	6.3	4	-		
156001-240000	12.6	5	5	1	4	-		
Total	100	100	100	100	100	100	100	100

Source: own data, 2025

Use of Income Gained

Table 4.10 below presents an analysis of how owners of micro and small enterprises (MSEs) utilize their income across various sectors: manufacturing, agriculture, trade, and service. The data highlights the primary purposes for which income allocated is providing insights into the economic priorities and challenges faced by these entrepreneurs.

The predominant use of income among MSEsowners is for household expenses, with 76.5% of manufacturing respondents allocating their income to this category. The service sector follows closely with 78.6%, indicating that business income is essential for covering basic living costs. Agriculture reflects 45.8%, while trade has 54.5% of owners using their income for household expenses. This trend underscores the fundamental role that MSEs play in providing not just economic opportunities but also in supporting the basic needs of their owners and families. The overall average across all sectors shows 62% of owners prioritizing household expenses, highlighting the necessity of income for daily survival.

The second most common use of income is to reinvest in creating new businesses, with 33.3% of agricultural respondents indicating this intention. Manufacturing follows with 11.8%, while trade shows 9.1%. Notably, there are no respondents in the service sector using their income for business creation. This indicates that while some MSEs owners aim to expand their entrepreneurial activities, the overwhelming need for immediate household support may limit their capacity to reinvest profits into new ventures. The overall average of 17% indicates a limited focus on business expansion across the board.

Medical expenses account for a smaller portion of income utilization, with 11.8% in manufacturing and 27.3% in trade, reflecting that health-related costs are a significant concern for many owners. The service sector sees 14.3% of owners allocating funds for medical needs. The overall average of 14% indicates that health is a critical area of expenditure, especially in contexts where access to healthcare may be limited or

costly. The allocation of income towards children's education is relatively low, with 12.5% of agricultural respondents and 9.1% from trade indicating this priority. The service sector has 7.1%, while there are no manufacturing respondents directing funds to education. This suggests that while education is recognized as important, it may often take a backseat to more immediate household needs, reflecting the financial pressures faced by these entrepreneurs. The overall average of 8% reinforces this point, indicating that educational investments are minimal.

Notably, there are no respondents across all sectors using income for savings. This lack of saving behavior is a significant concern, as it suggests that MSEs owners are living paycheck to paycheck, with no financial buffer for emergencies or future investments. This absence of savings can hinder long-term financial stability and business growth. The data reveals that the primary focus of MSEs owners is on immediate household needs, which reflects the economic pressures they face. While there is some inclination towards reinvesting in new businesses, the necessity of addressing daily expenses often takes precedence. This reliance on business income for basic living expenses indicates a potential vulnerability in economic stability for these owners, as any fluctuations in business performance could directly impact their livelihoods. The low percentages for medical and educational expenses suggest that while these areas are recognized as important, they may not be prioritized in the face of immediate financial pressures. The complete absence of savings highlights a critical gap in financial security and planning, which could lead to challenges in times of crisis.

In conclusion, the analysis of income utilization among MSEs owners illustrates the significant role that business income plays in meeting basic household needs, with limited investment directed towards business growth, medical expenses, and education. This reliance on immediate income for survival raises important questions about the sustainability and growth potential of MSEs. For stakeholders and policymakers, understanding these spending patterns is essential for developing targeted support programs that can enhance financial literacy, improve access to healthcare, and promote savings strategies, ultimately fostering a more resilient entrepreneurial environment. By addressing these challenges, there is potential to improve not just the financial health of MSEs owners, but also the broader economic landscape in which they operate.

Table 4.10: Use of Income Gained from Business by Owners of MSEs

Use of Income by owners of MSEs	business types of MSEs									
	Manufacturing		Agriculture		Trade		Service		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
household expense	13	76.5%	11	45.8%	6	54.5 %	11	78.6 %	41	62%
create business	2	11.8%	8	33.3%	1	9.1%	0	0.0%	11	17%
medical expense	2	11.8%	2	8.3%	3	27.3 %	2	14.3 %	9	14%
children's education	0	0.0%	3	12.5%	1	9.1%	1	7.1%	5	8%
for saving	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0%
Total	17	100.0%	24	100.0 %	11	100.0 %	14	100. 0%	66	100 %

Source: own data, 2025

4.1.7 *Differential Socio-economic of growth of MSEs (Bi-Variate Analysis)*

The bivariate analysis shows significant relationships between several socio-economic factors and employment creation in MSEs.

Educational Status of operator: Educational status of the operator plays a crucial role, with literate operators showing a significantly higher employment creation rate and income generation (83%) compared to illiterate operators (17%) chi^2 = 48.42, (p = 0.0021).

Absence of business plan: The presence of a business plan positively influences employment creation, with 85% of MSEs with a business plan creating employment and generating income, compared to only 15% without one chi^2 = 41.449, (p = 0.034).

Lack of skilled manager: Similarly, MSEs without a lack of skilled managers exhibit higher employment creation and income generation (72%), while those suffering from a lack of skilled managers show lower rates chi^2 = 21.411, (p = 0.035).

Trouble among partners: Trouble among partners is another factor that negatively impacts employment creation, with MSEs without partner issues showing 83% employment creation and income generation compared to 17% for those with partner troubles chi^2 = 30.707, (p = 0.012).

Financial problems: Financial stability correlates with higher employment rates. Thus, Financial problems are significantly associated with lower employment creation and income generation with 74% of MSEs without financial problems creating employment and income generation compared to 26% of those with financial issues at chi^2 = 50.217, (p = 0.0456).

Marketing problems: Marketing problems, on the other hand, have a significant negative effect, with 83% of MSEs without marketing issues creating employment and generating income compared to 17% of those with marketing problem at chi^2 = 39.79, (p = 0.001).

Infrastructure problems: Infrastructure problems also show a strong negative association with employment creation, as 87% of MSEs without infrastructure problems create employment and generate income while only 13% of those with such problems do chi^2 = 52.27, (p = 0.00021).

Inadequate business support services: Furthermore, inadequate business support services hinder employment creation and income generation with MSEs without such issues showing an 80% employment creation and income generation compared to 20% for those lacking support chi^2 = 34.471, (p = 0.045).

Negative attitude towards working in the MSE sector: Finally, a negative attitude towards working in the MSE sector is significantly associated with lower employment creation and income generation with only 30% of those with a negative attitude creating jobs, compared to 70% of those without such an attitude chi^2 = 48.92, (p = 0.0022). These results highlight the importance of addressing socio-economic factors such as education, business planning, management skills, and infrastructure to foster employment creation and income generation in MSEs.

Overall, the findings from this analysis provide valuable insights into the multifaceted nature of employment creation and income generation within micro and small enterprises. Addressing the various factors identified such as educational attainment, business planning, management skills, partnership dynamics, financial stability, infrastructure, and public perception could significantly enhance job creation and income generation in this vital sector. By developing targeted interventions and supportive programs

that address these areas, stakeholders can ultimately foster a more conducive environment for the growth of micro and small enterprises, thereby driving sustainable employment opportunities and income generates.

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Table 4.11: Use of Income Gained from Business by Owners of MSEs

Variables	Categories	Employment creation and income generation status						chi-square	p-value
		Created		Not Created		Total			
		Freq	%	Freq	%	Freq	%		
Educational Status of Operator	Illiterate	8	17	15	75	23	35		
	Literate	38	83	5	25	43	65		
	Total	46	100	20	100	66	100	48.42[a]	0.0021
Absence of Business Plan	Not Exist	39	85	6	30	45	68		
	Exist	7	15	14	70	21	32		
	Total	46	100	20	100	66	100	41.449	0.034
Lack of Skilled Manager	Not Exist	33	72	7	35	40	61		
	Exist	13	28	13	65	26	39		
	Total	46	100	20	100	66	100	21.411	0.035
Trouble Among Partners	Not Exist	38	83	6	30	44	67		
	Exist	8	17	14	70	22	33		
	Total	46	100	20	100	66	100	30.707	0.012
Financial	Not Exist	34	74	10	50	44	67	50.217	0.0456

Problem	Exist	12	26	10	50	22	33		
	Total	46	100	20	100	66	100		
Working Space Problem	Not Exist	42	91	9	45	51	77		
	Exist	6	13	11	55	17	26		
	Total	40	87	20	100	60	91	41.465	0.88
Marketing Problem	Not Exist	38	83	5	25	43	65		
	Exist	8	17	15	75	23	35		
	Total	46	100	20	100	66	100	39.79[a]	0.001
Infrastructure Problem	Not Exist	40	87	7	35	47	71		
	Exist	6	13	13	65	19	29		
	Total	46	100	20	100	66	100	52.27	0.00021
Inadequate Business Support Service	Not Exist	37	80	8	40	45	68		
	Exist	9	20	12	60	21	32		
	Total	46	100	20	100	66	100	34.471	0.045
Negative Attitude towards Working in MSE Sector	No	32	70	7	35	39	59		
	Yes	14	30	13	65	27	41		
	Total	46	100	20	100	66	100	48.92	0.0022

Source: own data, 2025

4.1.8 Determinants of growth of MSEs (Logistic Regression Analysis result)

In this section, attempts have been made in explaining the main determinants of growth of MSEs measured by employment creation and income generation. As mentioned earlier, logit model was selected to identify the determinants of growth of MSEs measured by employment creation in the study area and income generation. The estimated logit model is presented below in table 4.12, in which the dependent variable being employment creation and income generation status regressed on different socioeconomic variables, which are expected to affect employment creation and income generation status in the study area.

Table 4.12: Logistic Regression Resultsof the Effects of Predictor Variables

Dependent variable: role of MSEs (Employment creation and income generation status)								
Variables		Category	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1	Educational Status of Operator (1)	illiterate (RC)						
		Literate	19.832	28370.518	0.000	1	.0213***	40.85
	Age Of Enterprises	Continuous	.355	.278	1.916	1	0.26	.389
	Absence of business plan	Not exist(RC)						
		Exist	-1.064	40746.390	0.000	1	.0413***	0.345
	Lack of Skilled Manager	Not exist(RC)						
		Exist	-21.653	53172.887	0.000	1	.0268***	25.918
	Trouble Among Partners	Not exist(RC)						
		Exist	-0.120	1.476	0.007	1	0.985	0.887
	Financial Problem	Not exist(RC)						
		Exist	21.686	20349.744	0.000	1	0.032***	26.365
	Working Space Problem	Not exist(RC)						
		Exist	-62.371	57813.368	0.000	1	0.361	0.000
	Marketing Problem	Not exist(RC)						
		Exist	-20.013	44987.599	0.000	1	.035***	49.482
	Infrastructure Problem	Not exist(RC)						
		Exist	-0.485	36457.763	0.000	1	0.571	0.616
	In adequate Business	Not exist(RC)						
		Exist	20.522	46080.244	0.000	1	0.009***	81.147

	support service							
	Negative attitude towards Working in MSE sector	No(RC)						
		Yes	-20.327	23052.176	0.000	1	.037***	0.025
	Constant		22.332	6692.584	0.000	1	0.997	49.798

****indicates 5 % significance level*, RC-reference category

Source: own data, 2025

A negative sign in column labeled Coefficients indicates an inverse relationship of explanatory variable with the log odds of the dependent variable. In contrast, a positive coefficient column labeled Coefficients indicates a positive relationship to the log odds of the dependent variable. The logistic regression analysis presented in Table 4.12 evaluates how various predictor variables influence the employment creation and income generation status of micro and small enterprises (MSEs), of which, absence of business plan, Lack of skilled manager, marketing problem and Negative attitude towards working in MSEs affects growth of MSEs negatively. However educational level of operator, Financial Problem and in adequate Business support service affects growth of MSEs positively.

A more appealing way to interpret the regression coefficient in logistic model is using odds ratio.

The odds ratio indicates the effect of each explanatory variable directly on the odds of being unemployed rather than on log (odds). Estimates of odds greater than 1.0 indicate that the risk of unemployment is greater than that for the reference category. Estimates less than 1.0 indicate that the risk of unemployment is less than that for the reference category of each variable. So, the final model presented in Table 4.12 is interpreted in terms of odds ratio as follows:

Depending on the logistic regression analysis, one of the key findings is that the educational status of the operator has a significant positive effect on employment creation and income generation. The coefficient of 19.832, with a p-value of 0.0213, indicates that MSEs operated by individuals with a particular educational status (literates) are a significantly higher likelihood of creating jobs and generating income compared to those operated by illiterate individuals. The odds ratio of 40.85 indicates that literate operators are approximately 40 times more likely to create employment and generate income compared to their illiterate counterparts, underscoring the vital role of education in fostering job creation and income generation.

Additionally, the absence of a business plan significantly reduces the chances of employment creation, with a coefficient of -1.064 and an odds ratio of 0.345, indicating that MSEs without a business plan was 0.5% times lower than MSE sector that had no absence of business plan at 5% significant level (Table 4.12). This finding is consistent with previous study conducted by Weldegbriel (2012)

On the other hand, the absence of lack of a skilled manager is crucial for enhancing job creation and income generation potential. The coefficient of -21.653, combined with an odds ratio of 25.918, suggests that enterprises with skilled management are nearly 26 times more likely to create jobs. This finding emphasizes the necessity for training and development programs aimed at improving management skills within MSEs which is consistent with the finding of Fikadu (2015).

Interestingly, the absence of marketing problems also displays a Negative relationship with employment creation, with a coefficient of -20.013 and a significant p-value of 0.035 and odds ratio of 49.482, indicating that enterprises facing marketing issues are nearly 50 times less likely to create jobs and generate income. The findings of this study thus showed uniformity with the finding of other scholars (FEDR, 2013). The presence of inadequate business support services has a substantial negative effect, with a coefficient of 20.522 and an odds ratio of 81.147 with a p-value of 0.009, suggesting that poor support services can severely limit job creation opportunities and income generation.

Lastly, the analysis shows that negative attitudes toward working in the MSEs sector have a substantial negative impact on job creation and income generation. The coefficient of -20.327 and an odds ratio of 0.025 imply that the likelihood of being employment creation for those respondents who had Negative attitude towards working in MSEs was 0.025 times less likely than as those who had no Negative attitude

towards working in MSEs. And, also the level of association was statistically insignificant at 5% level significance.

4.2. Econometric Analysis result

4.2.1 Post-Estimation Diagnostic Test

4.2.1.1 Multicollinearity test result

Before estimating the chance of the event using binary logistic regression model, goodness of fit of the model and multicollinearity diagnoses test was made. In this regard, we employed the Contingency Coefficient (CC) method for categorical repressors. These test results were presented in **Appendix C**. According to Gujarati (2004), Contingency Coefficient (CC) test uses a correlation coefficient of 0.75 as its tolerable critical value in which CC value more than 0.75 indicates collinearity problem. Therefore, the result showed that there is no multi-collinearity problem between each explanatory variable included in the model.

4.2.1.2. Hosmer–Lemeshow Test result

One of the techniques used to assess the goodness of fit of a model is Hosmer and Lemeshow test. The test is used to accept or reject the alternative hypothesis "the model adequately describes the data". If the significance level of the test is less than 0.05, it indicates that the, alternative hypothesis is rejected and the null hypothesis which states the inadequacy of the model to describe the data is accepted. The test hypothesis is given by:

H0: The model fits the data Vs. H1: The model does not fit the model.

In the case of this study, the significance level of the test was found to be 0. 916 is larger than 0.05, we do not reject the null hypothesis is which states that the model is adequate to describe the data was accepted and we conclude that the model is a good fit (see Appendix C).

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Findings

This study explored the role of Micro and Small Enterprises (MSEs) in employment creation and income generation across four subsectors: manufacturing, agriculture, service, and trade. From a total population of 142 MSEs, 66 respondents were selected for the survey to provide a representative sample. The findings revealed significant demographic patterns among MSE owners and employees. Males accounted for 62% of ownership, with a majority of owners being single, especially in the trade sector. The workforce is predominantly young, primarily between the ages of 21 and 30. While most employees possess basic education, advanced degrees such as master's and above are notably scarce. The legal structure of these enterprises is mainly sole proprietorship, which provides owners with control but also exposes them to vulnerabilities.

Analysis of employment and income generation showed a clear upward trend in the number of jobs created over time, indicating the growing economic contribution of MSEs. The income generated by owners was mainly used to cover household expenses, with averages across sectors showing that about 62% of owners prioritize income for daily survival. Although many MSEs demonstrated capital growth, concerns remain regarding their long-term sustainability. Logistic regression analysis highlighted that higher educational attainment significantly increases the likelihood of job creation and income generation, whereas the absence of business plans and skilled management limits these outcomes. Furthermore, challenges such as marketing difficulties, inadequate support services, and negative societal perceptions about MSE employment continue to hinder growth. These findings emphasize the need for targeted interventions in education, management training, and support services to enhance the sector's potential.

5.2 Conclusions

In many developing countries, including Ethiopia, reducing unemployment, increasing income levels, alleviating poverty, and achieving sustainable development depend heavily on the establishment and growth of MSEs. Historical evidence from Asian countries like Taiwan and Singapore demonstrates how micro and small enterprises can serve as foundational drivers of economic development. This study’s

analysis reveals that young people are actively engaged in MSEs, creating a dynamic environment conducive to innovation. However, ongoing mentorship and training are crucial to help these entrepreneurs navigate the complexities of running successful businesses.

The findings also underscore the critical role of education in improving employment opportunities and income generation. While many workers have attained at least a first degree, the lack of advanced education calls for enhanced training programs in management and strategic planning. Capital accumulation, particularly in trade and agriculture sectors, indicates some successful scaling efforts. Nonetheless, challenges such as inadequate access to credit, startup finance, skilled manpower, high borrowing costs, and limited market access remain major barriers to MSE expansion. Addressing these issues is vital to strengthening the sector's role in job creation, income generation and poverty reduction.

5.3 Recommendations

For Policymakers:

Policymakers should prioritize improving access to financing and resources that facilitate capital accumulation for MSEs. They need to promote alternative business structures and encourage collaboration within the sector to enhance resilience. Tailored support strategies addressing the specific capital needs of different subsectors can foster sustainable growth and innovation. Additionally, improving the capacity of institutions that provide support services to MSEs and regularly evaluating policy implementation are essential steps.

For the Government:

The government should create an enabling environment by addressing financial constraints through accessible loans and reduced interest rates. Market access can be improved via promotional activities such as bazaars, exhibitions, and media campaigns. Infrastructure development including roads, electricity, communications, and adequate working spaces is critical. Strengthening business development services and human resource centers will support sustainable growth. Simplifying regulatory procedures and enhancing transparency will reduce operational barriers, while strict measures against corruption and fostering inter-institutional cooperation will improve service delivery effectiveness.

For MSE Development Offices:

MSE development offices should conduct detailed assessments to match working spaces with enterprise types and address challenges negatively impacting MSE growth. Licensing procedures must be simplified to encourage business formation. They should adopt flexible problem-solving approaches depending on resource availability and local contexts, and foster urban-rural market linkages to broaden enterprise growth opportunities.

For MSEs Operators:

Operators need to improve their marketing skills through training and knowledge exchange with other businesses. They should actively seek to increase their financial resources independently rather than relying solely on external support. Forming supply chain collaborations can help mitigate raw material shortages. Producing competitive, export-standard products and conducting internal research to resolve partnership or management issues are also essential steps for growth.

For Other Stakeholders (MFIs, TVET, NGOs, and Private Sector):

These stakeholders should intensify efforts to provide financial support, workspace, marketing linkages, and training especially targeting youth entrepreneurs. They should encourage youth participation in MSEs, fostering self-reliance instead of dependency on government employment. Supporting youth to become innovative entrepreneurs will facilitate the country's transition from an agriculture-based to an industrial economy.

5.4 Limitations and Suggestions for Future Research

This study was limited to four sectors: manufacturing, trade, service, and agriculture. Future research should include other sectors such as mining, construction, wholesale, and retail to provide a more comprehensive view of MSE contributions. The study employed eleven independent variables and a sample size of 66 respondents; increasing these in future research could improve reliability. The role of MSEs was measured only by employment creation and income generation, whereas additional dimensions could be explored in subsequent studies. Finally, the cross-sectional design limits the ability to make causal inferences; longitudinal research would provide deeper insights into the sector's evolution over time.

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APPENDIX A: QUESTIONNAIRE (ENGLISH VERSION)

WALLAGA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

Dear respondents

I am student in masters of art (MA) in economics at Wallaga University. Currently, I am under taking research on the topic **"The role of Micro and Small Enterprises in employment creation and income generation in urban Ethiopia in the case of Youths in Ayira Town."** The aim of the study is only for academic purpose and gives solution idea for problems but not to accuse or defame the enterprises or MSE agency. In addition, the research results could be used as an input for those MSEs owners, managers, government agencies and other interest bodies. The response you will be provide kept securely and not to expose to others. Thus, I kindly request you pay attention through all questions and respond the reliable and fact answer regarding each issue.

Thank you in advance for your cooperation.

For further information, you can contact: Tolera Tafara Disasa

Phone №: +251922956004/+251908989761

General guideline:

- No need of writing your name.
- For close-ended questions (multiple choice), circle your appropriate answer.
- For open-ended questions (writing questions), write your answer briefly on the space provided.

Part I: Demographic profile of respondents

1. Gender: A. male B. female
2. Age: A. under 20 years B. 21-30 years C. 31-40 years
3. Marital status: A. single B. married C. divorced/ widowed

4. Educational status: A. illiterate B. 1-4 C. 5-8 D. 9-12 E. diploma F. degree and above

5. Work experience: A. 0-5 years B. 6-10 years C. 11-15 years D. 16-20 years E. 21 and above

6. Family background: A. farmer B. private business C. government employee D) other

7. What was your previous occupation?

A. student B. daily worker C. government employee D. private business

8. Your position in the enterprise: A. employee B. owner manager C. manager only D. other

Part II: Information related to enterprise (MSEs).

1. When was your enterprise established? (Age of MSEs):

Month _____Year _____

2. What are your business types? A. manufacturing B. agriculture C. trade D. service

3. What is the legal form of your enterprise?

A. sole proprietorship B. partnership C. corporation D. other

4. Have you developed your business plan before getting into the business? A. yes B. no

5. Which advertising media you have for your product/service?

A. TV and radio B. social media C. poster D. bazaar E. other

6. What is the major reason to engage in this business?

A. unemployment B. expectation of good income C. requires low start-up capital D. other

7. What the principal source fund to start business?

A. family B. loan from private person C. loan from government D. loan from banks loan from micro finance

8. How much your capital when you were start-up your business? Put it in birr _____

9. What is your capital at this time? Put it in birr_____

10. Did you get any support from government for your enterprise? A. yes B. no

11. If your answer for question number 10 above is yes, what kind of support you have got?

A. credit facilities B. market linkage C. managerial training D. infrastructure facilities E. technical training

Part III: Measurement of growth rate level of enterprises

1. Does your enterprise showing growth? A. yes B. no

2. If your answer for 1 is yes, what is measurement of growth level for your enterprise?

A. employment creation B. income generation C. opening other branch D. other

3. Could you explain the status of enterprises' growth rate over the previous years?

A. increased B. decreased C. constant D. other

Part IV: Information related to employment creation and income generation of enterprises

1. Employment creation

1.1. Did you have previous occupation? A. yes B. no

1.2. If your response is yes for question 1.1 above, what was your previous occupation?

A. student B. farmer C. daily worker D. private business E. government employee

1.3. How many employees your enterprises have including the principal owner?

1.3.1. at start-up: Male_____ Female_____Total_____

1.3.2. at current: Male _____Female _____Total_____

1.4. What is the term of employment of your enterprise?

A. permanent B. temporary C. part time D. other

1.5. Do your MSEs have contribution in reducing unemployment in the area? A. yes B. no

1.6. If your answer is yes for 1.5, could you mention the contribution of your enterprise?

_____

_____

_____.

2. Income generation by enterprises

2.1. Does your enterprise generate income for youths in the area? A. yes B. no

2.2. If your answer for question 2.1 is yes, could you put income generated by enterprise in birr?

A. in a day_____ B. in a month _____ C. in a year _____

2.3. How do you use the income that gained from enterprise?

A. household expense B. create business C. medical expenses D. children's education

E. for saving

2.4. Fill in the table given below for income generated by enterprises in the area in Birr.

Types of job in MSEs	Income before you start MSEs	Average income from MSEs in year (2012-2016 E.C).					Total
		2012	2013	2014	2015	2016	
Manufacturing							
Agriculture							
Trade							

Service						
Other						

Part V: **Information related to factors affecting the growth of Micro and Small Enterprises**

1. Age of Enterprise_____
2. Education level of operator Literate _____ Illiterate_____
3. Absence of business plan Exist_____ Not exist_____
4. Lack of skilled manager Exist_____ Not exist_____
5. Trouble among partners Exist_____ Not exist_____
6. Financial problem Exist_____ Not exist_____
7. Working space problem Exist_____ Not exist_____
8. Marketing problem Exist_____ Not exist_____
9. Infrastructure problem Exist_____ Not exist_____
10. Inadequate business support services Exist_____ Not exist_____
11. Negative attitude towards working under MSEs sector Has_____ Has Not _____

Interview questionnaire and Focus Group Discussion with government office of Micro and Small Enterprises (MSEs) and MSEs operators in the Ayira town.

A. With government office of MSEs

1. What type of business development service does your organization offer to MSEs?
2. Do MSEs have contribution to employment in the area? If yes, for what age group
3. Do MSEs are reducing youth unemployment in the area? If yes, mention it.
4. What are the roles of MSEs in generating income in the area?
5. What are the obstacles that hinder the growth of MSEs?
6. In your opinion what measures should be taken by different bodies in operation of MSEs?
   - By government agencies
   - By private institution and beneficiaries

B. With MSEs operators

1. What problems did you face while running MSEs in relation the following factors?
   a) Age of enterprise
   b) Education level
   c) Lack of skilled manager

d) Absence of business plan
e) Trouble amongpartners
f) Financial problem
g) Working space problem
h) Market problem
i) Infrastructure problem
j) Lack of business development service
k) Negative attitude towards working under MSEs sector

APPENDIX B: GAAFANNOO (AFAAN OROMOO)

YUUNIVARSIITII WALLAGGAA

KOLLEEJJII DALDALAA FI DINAGDEE

MUUMMEE DINAGDEE

Kabajamtoota deebii kennitootaa:

Ani Yuunivarsiitii wallaggaatti muummee dinagdeetiin barataa digirii lammaffaati. Yeroo ammaa kana qorannoo mata dureen **"Gahee Intarpiraayisii Maayikiroofi Xixiqqaan (IMX) carraa hojii uumuu fi galii argamsiisuu magaalaa itiyoophiyaa keessatti qabu dargaggoota Aanaa Aayiraa irratti kan geggeefamuu"** jedhu irrattiAanaa Aayiraa keessatti qorannoo geggeessaan jira. Kaayyoon qorannoo kanaas waldaalee IMXs ta'e waajjiraalee ol'aanoo isaaniin to'atan kallattii hinmalleen ibsuuf osoo hintaane, gahee IMX'n qabuufi rakkoolee isaanii qorannoo qabatamaadhaan adda baasuun yaada furmaataa kaa'uu fi kaayyoo barnootaa qofaaf kan ooluudha. Dabalataanis bu'aan qorannichaa abbootii qabeenyaa, bulchitoota isaa, qaama mootummaafi qaamman biroo waldaalee kana waliin hidhata qabaniifis galtee ta'uu kan danda'uudha. Deebiin isin kennitan iccitiin kan qabamuufi qaama biraaf haala kamiin iyyuu darbee hinkennamu; dhimma qorannoo kanaan ala tajaajila biroofis hin oolu. Kanaafuu xiyyeeffannoo guddaa itti kennuun deebii qabatamaa fi dhugaa ta'e akka nuuf kennitan kabajaan isin gaafanna.

Deeggarsa nuuf gootaniif dursinee isin galateeffanna.

- Odeeffannoo dabalataaf **Toleeraa TafarraaDisaasaa** quunnamuu ni dandeessu.

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Qajeelfama ittiin deebiin kennamu:

- Maqaa barreessuun hinbarbaachisu.
- Gaaffilee cufaa ta'aniif (gaaffilee filannoodhaaf) deebii sirrii ta'eetti maraa.
- Gaaffilee banaa ta'aniif (gaaffilee barreeffamaaf) bakka duwwaa kenname irratti guutaa.

I. Haala dhuunfaa deebii kennitootaa

1. Saala: A) dhiira B) dhalaa
2. Umurii: A) 20 gadi B) 21-30 C) 31-40
3. Haala gaa'ilaa: A) kan hinfuune/hinheerumne B) kan fuudhe/heerumte C) kan hiike/hiikte

4. Sadarkaa barnootaa: A) kan hinbaranne B) 1-4 C) 5-8 D) 9-12 E) diploomaa
F) digirii jalqabaafi isaa oli

5. Muuxannoo hojii: A) 0-5 B) 6-10 C) 11-20 D) 21-30 E) 21fi isaa ol

6. Seenaa maatii: A) qonnaan bulaa B) biizinasii dhuunfaa C) hojjetaa mootummaa D) kan biroo

7. Hojiin keessan duraan maal turee? A) Barataa/ttuu B)hojjetaa/ttuu guyya-guyyaa
C) hojjetaa/ttuu mootummaa E) biizinasii dhuunfaa

8. IMX kana keessatti gaheen keessan maali?
A) hojjetaa/ttuu B) kan isaa/ishee kan hoogganuu/tuu C) hoogganaa/tuu qofa D) kan biroo

II: Odeeffannoo waldaalee (IMX) kanaan walqabatee jiru

1. Waldaan keessan yoom hundaa'e? (umurii IMX) Ji'a_____ Waggaa_____

2. Sectarri waldaa keessanii isa kami? A) Manufacturing B) qonna C) daldala
D) tajaajila

3. Waldaan keessan haalli ijaarsa isaa maali?
A) nama tokko qofaan ijaarame B) namoota 2fi isaa oliin C) gamtaan kan socho'uu

4. Waldaan keessan hojiitti osoo hingaliin karoora hojii qopheeffateeraa? A) eeyyee B) lakkii

5. Oomisha ykn tajaajila keessaniif miidiyaa beeksisaa kam gargaaramtu?
A) TV fi raadiyoo B) miidiyaa hawaasaa C) poostarii D) baazaarii D) kan biroo

6. Hojii kana keessa akka seentaniif sababni guddaan maali?
A) hojii dhabaa ta'uu B) galii gaariitu argama jedhee yaaduu
C) jalqabbiif qarshii xiqqaa barbaada D) kan biroo (ibsaa)

7. Hojii jalqabuuf maddi maallaqaa ijoon keessan maal ture?
A) maatii B) liqii nama dhuunfaa C) liqii mootummaa D) liqii baankii
E) liqii micro-finance F) kan biroo (ibsa)

8. Yeroo hojii jalqabdan kaappitaalli keessaan meeqa? Qarshii_____

9. Yeroo ammaa kaappitaalli keessan maal irra jira? Qarshii_____

10. dhaabbata keessaniif deggarsa mootummaa irraa argattaniittuu? A) eeyyee B) lakkii

11. lakk. 10f deebiin keessan eeyyee yoo ta'e, deggarsa akkamii argattan?
A) liqii B) walitti hidhamiinsa gabaa C) leenjii hooggansaa
D) bu'uuraalee misoomaa E) leenjii teeknikaa

III. Safartuu haala guddina sadarkaa waldaalee IMX

1. Waldaan keessan guddina agarsiisaa jiraa? A) eeyyee B) lakkii

2. Gaaffii lakk. 1f deebiin keessan eeyyee yoo ta'e, safartuun sadarkaa guddinaa maali?

A) carraa hojii uumuu B) galii argamsiisuu C) dame biraa banuu D) kan biroo

3. Haala guddina waldaa keessanii kan waggoota darbanii ibsuu ni dandeessuu?

A) guddateera B) gadi bu'ee C) hinjijjiiramne D) kan biroo (ibsaa)

IV. Odeeffannoo carraa hojii uumuu fi galii argamsiisuu waldaalee IMX

1. Odeeffannoo carraa hojii uumameen walqabatee jiru

1.1. Kanaan dura hojii hojjechaa turtan qabduu? A) eeyyee B) lakkii

1.2. Gaaffii lakk. 1.1f deebiin keessan eeyyee yoo ta'e, hojiin keessan maal ture?

A) barataa B)qonnaan bulaa C) hojjettaa guyya-guyyaa D)dhuunfaa E)hojjetaa mootummaa

1.3. Waldaan keessan abbaa qabeenyaa dabalatee hojjetaa meeqa qaba?

1.3.1. yeroo jalqabaa: dhiira _____dhalaa_____dimshaasha _____

1.3.2. yeroo ammaa: dhiira_____dhalaa_____dimshaasha_____

1.4. Haalli ramaddii hojjetaa waldaa keessanii maali?

A) dhaabbataa B) dhaabbataa kan hintaane C) sa'a murtaa'eef D) kan biroo

1.5. Waldaan keessan hojii dhabdummaa naannoo keessan jiru hir'isuu keessatti gahee qabaa?

A) eeyyee B) lakkii

1.6. Gaaffii lakk.1.5f deebiin keessan eeyyee yoo ta'e, gahee jiru tarreessuu ni dandeessuu?

_____

_____

_____.

2. Odeeffannoo galii waldaaleen argamuun walqabatee jiru

2.1. Waldaan keessan dargaggoota Aanaa kanaaf galii argamsiisaa jiraa? A) eeyyee B)lakkii

2.2. Gaaffii lakk. 2.1f deebiin keessan eeyyee yoo ta'e, galii argame qarshiin kaa'aa.

A) guyyaatti_____B) ji'a keessatti _____ C) waggaatti_____

2.3. Galii waldaalee kana irraa argame akkamitti fayyadamtuu?

A) baasii maatiif B) hojii uumuuf C) baasii fayyaaf D) barnoota ijoolleef

E) qusannoof

2.4. Galii argamee ibsuuf gabatee armaan gadii keessatti guutaa.

Gosa hojii waldaalee	IMX'n dura galii jiru	Galii IMX irraa argame (2012-2016 A.L.I)	Dimshaasha

		2012	2013	2014	2016	2016	
Manufacturing							
Qonna							
Daldala							
Tajaajila							

V. Odeeffannoo hudhaalee guddina IMX waliin walqabatan

1. Umurii IMX
2. Sadarkaa barnootaa hoji-adeemsisaa: rakkoon jira_____hinjiru_____
3. Hanqina hoogganaa ogeessaa: rakkoon jira_____hinjiru_____
4. Karoorri hojii dhabamuu: rakkoon jira_____hinjiru_____
5. Walitti bu'iinsa Waayillan hojii gidduu jiru: rakkoon jira_____hinjiru_____
6. Rakkoo maallaqaa: rakkoon jira_____hinjiru_____
7. Rakkoo bakka hojii: rakkoon jira_____hinjiru_____
8. Rakkoo gabaa: rakkoon jira_____hinjiru_____
9. Rakkoo bu'uuraalee misoomaa: rakkoon jira_____hinjiru_____
10. Tajaajilli deggarsaa waldaaleef kennamu gahaa ta'uu dhabuu: rakkoon jira_____hinjiru_____
11. Ilaalcha badaa waldaalee IMX jalatti hojjechuu irratti jiru: rakkoon jira_____hinjiru_____

Gaaffii afaaniifi marii garee warren waldaalee IMX geggeessaniifi biiroo mootummaa waldaalee IMX Aanaa Aayiraaf qophaa'e.

A. Biiroo mootummaa waldaalee IMXf

1. Biiroon keessan tajaajila akkamii waldaalee IMXf kenna?
2. Waldaaleen IMX carraa hojii uumuu keessatti gumaacha qabuu? Deebiin keessan eeyyee yoo ta'e, warreen umurii kam keessa jiraniif?
3. Waldaaleen IMX hoji-dhabdummaa dargaggootaa aanaa Aayiraa keessatti hir'isaa jiraa? deebiin keessan eeyyee yoo ta'ee mala kamiin hir'isaa jiraa ?
4. Gaheen waldaalee IMX galii argamsiisuu keessatti qabu maali?
5. Rakkooleen guddina waldaalee IMX quunnaman jiruu? Deebiin keessan eeyyee yoo tahe, rakkooleen guddina waldaalee kanatti gufuu ta'an maal fa'i?
6. Akka yaada keessaniitti tarkaanfii akkamiitu rakkoolee kanneen furuuf fudhatamuu qaba?
    - qaama mootummaatiin,

- dhaabbata dhuunfaafi
- warreen waldaa kana irraa fayyadamaniin

B. Waldaalee IMX kanneen geggeessaniif

1. Yeroo waldaalee kanneen geggeessitan rakkooleen kanneen armaan gadiin walqabatee isin quunnaman maal fa'i?
    a) Umurii IMX
    b) Sadarkaa barnootaa hoji-adeemsisaa
    c) Hanqina hoogganaa ogeessaa
    d) Karoorri hojii dhabamuu
    e) Walitti bu'iinsa Waayillan hojii gidduu jiru
    f) Rakkoo maallaqaa
    g) Rakkoo bakka hojii
    h) Rakkoo gabaa
    i) Rakkoo bu'uuraalee misoomaa
    j) Tajaajilli deggarsaa waldaaleef kennamu gahaa ta'uu dhabuu
    k) Ilaalcha badaa waldaalee IMX jalatti hojjechuu irratti jiru

APPENDIX C: MULTI- COLLINEARITY TEST RESULT

Variables	EDOP	ABSBPL	LKMNG	TBLPRT	FNC	WRKSP	MRKT	INFSTCR	IEDBSS	NEGALT
EDOP	1	0.123	0.158	0.2	0.015	0.03	0.249	0.207	0.121	0.122
ABSBPL		1	0.089	0.225	0.067	0.134	0.243	0.039	0.225	0.162
LKMNG			1	0.229	0.092	0.131	.0.118	0.154	0.046	0.219
TBLPRT				1	0.023	0.116	0.494	0.038	0.034	0.257
FNC					1	0.336	0.118	0.016	0.099	0.208
WRKSP						1	0.06	0.111	0.0.006	0.101
MRKT							1	0.145	0.156	0.178
INFSTCR								1	0.144	0.086
IEDBSS									1	0.031
NEGALT										1

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	23.393	.571	.817

89