

**DETERMINANTS OF MICRO AND SMALL ENTERPRISES'
PARTICIPATION IN BUSINESS DEVELOPMENT SERVICES: THE
CASE OF JIGJIGA CITY COUNCIL, SOMALI REGIONAL STATE,
ETHIOPIA**

MSc THESIS

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**NOVEMBER, 2017
HARAMAYA UNIVERSITY, HARAMAYA**

**Determinants of Micro and Small Enterprises' Participation in Business
Development Services: The Case of Jigjiga City Council, Somali Regional
State, Ethiopia**

**A Thesis Submitted to School of Agricultural Economics and Agribusiness
Postgraduate Program Directorate
HARAMAYA UNIVERSITY**

**In Partial Fulfilment of the Requirements for the Degree of
MASTER OF SCIENCE IN AGRICULTURE
(AGRICULTURAL ECONOMICS)**

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**November, 2017
Haramaya University, Haramaya**

HARAMAYA UNIVERSITY
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As Thesis research advisor, we hereby certify that we have read and evaluated this thesis entitled, **Determinants of Micro and Small Enterprises' Participation in Business Development Services: The Case of Jigjiga City Council, Somali Regional State, Ethiopia**, prepared under our guidance, by Mubarak Ahmed, we have recommended that it can be submitted as fulfilment of the thesis requirement.

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DEDICATION

I dedicate this thesis manuscript to my wife Fartun Aden for nursing me with affection and love and for their dedicated partnership in the success of my whole life and for their affection and love.

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STATEMENT OF THE AUTHOR

First, I declare that this thesis is my genuine work and that all sources of the materials used for this thesis have been properly acknowledged. This thesis has been submitted in partial fulfillment of the requirements for an advanced M.Sc. degree in Agricultural Economics to Haramaya University and is deposited at the University Library to be made available to users or borrowers under the rules of the Library. I confidentially declare that this thesis has not been submitted to any other institution anywhere for the award of any academic degree, diploma, or certificate.

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BIOGRAPHICAL SKETCH

The author was born in Wardher district of Dollo zone of Somali Regional State of Ethiopia in 1974. As a descendant of a pastoral family, he was closely linked to his pastoralist life, where from time to time during his school vacations his parents used to take him to rural areas so as to adapt the pastoral way of life and enjoy the fresh nature in rural areas.

After completing his elementary and secondary schools education, the author attended continuing education programme of Open University Worldwide, U.K sponsored by Addis Ababa University - College of Commerce and graduated with Professional Certificate in Management in 2001. He later completed the courses of B751 'Managing Development and Change' and course B752 'Managing Recourses for Market' in 2005 and was awarded with Professional Diploma in Management. The author then continued with his higher education by joining Jigjiga University and was awarded Bachelor of Arts (B.A) degree in Economics in 2010. In 2012, he joined the School of Graduate Studies of Haramaya University to study his Masters of Science (M.Sc) degree in Agricultural Economics.

The author served in different key positions from civil servant to managerial posts during his career development with the Ethiopia's Somali Regional State at different level, i.e. from Zonal to Regional Bureau Head.

ACKNOWLEDGMENTS

All Praises are due the Almighty and Merciful Allah (S.W), who gave me the opportunity to undertake the whole educational career development to the level of accomplishing this thesis. I would also like to extend my thanks to Ethiopian Somali Regional State (ESRS) government, particularly Capacity Building and Civil Service Bureau who stood up for the career development of its citizen. I would again say thanks for investing in ESRS's youth.

This thesis is the result of the inspirations and support of many individuals and organizations. To commence with, I would like to extend my deepest gratitude to my major advisor Dr. Jema Haji for his relentless efforts, insights and inspirations, constructive advises and recommendations, and his academic guidance in general. Successful accomplishment of this study would have been difficult without his sacrifice and devotion from the early inception of designing the research proposal to the final write up of the thesis. Thus, I am indebted to him for his kind and relentless support that enabled me to finalize the study.

Likewise, I would like to extend my utmost and heartfelt gratitude and thanks to my best friends Abdikadir Mohammed, Heis Harbi and Abdimalik Abdullahi Farah for their relentless support and technical assistance in the form of editing, proofing and IT technicality during the study design and field research work. Moreover, I would like to express my heartfelt thanks to my colleagues and friends who strongly believed and stood by me throughout my studies: Gemal Farah, Abdihalim Ahmed and all others who supported me in one way or another. I am also indebted to Micro and small scale (MSE) enterprises respondents who willingly responded to all our questions with patience and gave necessary information required for this study. I am also thankful to Jigjiga City Council Micro and Small Enterprises Development Agency Office for their support in providing us with relevant secondary information and facilitating the fieldwork.

Eventually, I would like to express my gratitude to my beloved wife Fartun Aden and my children, my brothers, my sisters and other members of my family for their tolerance, high moral and material support and continuing encouragement and endless love not only in my educational career but also throughout my life. I wish all of them long, healthy and prosperous life, so that they will enjoy the fruits of their effort.

LIST OF ACRONYMS AND ABBREVIATIONS

BoFED	Bureau of Finance and Economic Development
BDS	Business Development Service
CSA	Central Statistical Authority
CED	Committee for Economic Development
ECA	Economic Commission of Africa
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small Enterprises Development Agency
FGD	Focus Group Discussions
GDP	Gross Domestic Product
ILO	International Labor Organization
LEs	Large Enterprises
MSEs	Micro and Small enterprises
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MoWUD	Ministry of Works and Urban Development
MSEDA	Micro and Small Enterprises Development Agencies
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
OSS	One-Stop-Service
PRs	Poverty Reduction Strategies
UNIDO	United Nations Industrial Development Organizations

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Determinants of Micro and Small Enterprises' Participation in Business Development Services: The Case of Jigjiga City Council, Somali Regional State, Ethiopia

ABSTRACT

In developing countries, micro and small enterprises are recognized as important vehicles of economic growth, employment creation, income generation and poverty reduction. This study aimed at identifying the determinants of micro and small enterprises participation in business development services in Jigjiga city of Somali region. Random selection of 127 micro and small enterprises from the city was chosen to collect primary data, although only 123 Enterprises responded. Data were analyzed using descriptive statistics and binary logit model. Descriptive statistics results showed that out of the total sampled MSEs respondents, only 41 (33.33%) were participants of business development services (BDSs) while the remaining 82 (66.67%) were non-participants. Descriptive statistics results also showed that there are significant differences between participants and non-participants. On the other hand, results of the econometric model indicated that out of a total of eleven explanatory variables included in the model, eight variables were significant in determining MSEs' participation in business development service programs in the study area. Accordingly, sex and educational status of MSEs manager, firm age, access to market, access to finance, amount of start-up capital, MSE business organization and access to vertical linkages were found to have positive and significant influence on MSEs participation in business development service. In addition, the challenges and opportunities of the MSE sector in study area were explored. Finally, based on the findings of the study, important recommendations were made to MSE sector leaders and policy makers of the study area, in order to increase MSEs' participation in BDSs and solve constraints faced by MSEs in the study area.

Key words: Jigjiga City Council Administration, Participation in business development programs, Logit model, MSEs.

1. INTRODUCTION

1.1. Background of the Study

The micro and small business sector is recognized as an integral component of economic development and crucial element in the effort to lift countries out of poverty (Wolfenson, 2003). The dynamic role of micro and small enterprises (MSEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that MSEs employ 22% of the adult population in developing countries (Fisseha, 2014).

In developing countries, MSEs by virtue of their size, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (ILO, 2012). Similarly, Lara and Simeon (2013) found that the MSE sector generate substantial employment and economic output in many countries. The MSE sector's share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production.

In Ethiopia, the MSE sector is the second largest employment-generating sector following agriculture (CSA, 2007). The same source indicates that 48 major towns nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labor forces. Accordingly, the whole labor force engaged in the micro enterprises and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large scale manufacturing industries (90,000 persons). This is a contribution of 3.4% to the national GDP, as well as 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2007).

Assistance and support to strengthen these enterprises can lead to higher profits and employment levels which in turn can contribute to a bottom-up transition out of poverty for entrepreneurs and workers (Sievers and Vandenberg, 2007). According to Mead and Liedholm (2010), the MSE activities can contribute to increasing tax-incomes for the government and enable the government in the long run to invest the money. In order to strengthen the position of MSEs, the access to financial and non-financial services plays a pivotal role in the performance and expansion of these enterprises. The strengthening and the expansion of the existing MSEs and the support of new enterprises can contribute to fulfill social objectives, attract considerable foreign reserves into a country and have a clear importance in providing employment, meaning they are the backbone of the private sectors in developing countries.

MSEs in Ethiopia have limitations such as access to finance, managerial skill, education, and bureaucracy that make business start-up difficult and government support programs need to include financial support, business skill trainings, and managerial skill trainings to enhance MSEs' entrepreneurial capabilities (Thurik and Wennekers, 2004). The aim of MSE development services is to enable the MSEs to take advantage of market opportunities and improve access to skill development opportunities that strengthen entrepreneurial capabilities (UNIDO, 2012).

Results of many studies show that MSEs can be supported by both financial and non-financial services the latter currently known as business development services (BDS). BDSs are a wide array of non-financial services designed to help micro, small, and medium enterprises and cooperatives to overcome barriers and to increase profitability by improving their productivity and access to high value markets. Additionally it is explained that, the field of BDS is undergoing a paradigmatic shift from a focus on the supply of subsidized services to a limited population, to a focus on the development of a vibrant BDS market for large numbers of MSEs (Mcvay, 2001). These services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services (Miehlbradt and Mcvay, 2003).

BDS can be delivered by a wide range of actors including individuals, private business, NGOs, national or sub-national government agencies and business and cooperative associations. Accordingly, the government of Ethiopia designed a MSE Development Strategy in 1997, and set up the Federal Micro and Small Enterprise Development Agency (FMSEDA). Similarly, the regional states also developed MSE promotion strategies based on their context, and in line with the federal MSE development strategy. The Federal Democratic Republic of Ethiopia (FDRE) Ministry of Trade and Industry has also launched the implementation of MSEs' development by promoting all-round support (FDRE Ministry of Trade and Industry, 1997).

In the Somali Regional State, MSEs are confronted with several factors that affect the performance of MSEs. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, the environmental factors which affect the business which includes social, economic, cultural, political, legal and technological factors (FREMSIDA, 2015). There are also personal attitudes or internal factors that affect the performance of MSEs, which are related to the person's individual attitude, training and technical know-how (Werotaw, 2010). Therefore, there are external and internal factors which highly affect the growth and performance of MSEs and should be considered in any MSE development strategy and participation.

1.2. Statements of the Problem

In most developing countries, MSEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% due to lack of skills and access to capital. It is typical of MSEs in Africa to be lacking business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2010). MSEs in Ethiopia obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MSEs has undermined the role of MSEs in the economic development in African countries (World Bank, 2010).

In the Ethiopian Somali Regional State, like other regions of Ethiopia, MSEs after the business goes operational, the probability of becoming profitable is limited. In fact, the Ethiopian Somali regional policy had been mainly focusing on regional security issues for recent decades rather than the development issues and poverty reduction endeavors, such security priorities overlooked the potential economic, social and developmental roles including the MSEs promotional and developmental activities in the region. However, for the last seven years the regional insecurity issues had been completely stabilized and the regional leadership mainly had been prioritizing the promotion and support of poverty reduction strategies, whereas MSEs' support has been emphasized to be the tool for job creation and poverty reduction. Hence, as the researcher had been for the last six years one of the top regional TVET and MSEs sectors managers, he had found that Ethiopian MSEs business development service programs participation, employment creation as well as MSEs livelihood contribution had been relatively small.

Therefore, the current established major council cities in the Somali region, which include the regional capital city of Jigjiga council emerged to appear improvements and better economic growth characters, whereas currently 1623 MSE operators (participants and non-participants in BDS) showed fast growth and better performance, particularly the pro-poor groups, by operating their business under the focus MSE areas, which had been organized under the five one-stop-service centres (OSS) in Jigjiga city administration. Despite the recognition of the significances of MSEs, the availability of reliable and timely data on the sectors' involvement in business has been inadequate. As a matter of fact, comparatively little is known about the participation of MSEs in the BDS programs. Therefore, inadequacy of data on MSEs characteristics, constraints, opportunities, the involvement in the varied MSEs sectors and participation in business development service supports to MSEs growth appears to have slowed down stakeholders from pulling resources to facilitate further development of the sector. Therefore, the availability of MSEs data (BDS participants and non-participants) would improve the understanding of the MSE sector by the state and the obstacles that hold the sector back. Reassuringly, the Bureau of Urban Development & Construction (MUDC) has recognized this gap and, hence, has forwarded to conduct researches concerning MSEs in urban areas, in order to fill the knowledge gap that exists between practitioners and policy makers. From this perspective, the main purpose of the survey is to gather reliable information on the Participation of *Micro and Small Enterprises (MSEs) in the BDSs*, with the aim of shedding light on their overall

characteristics in the economy and to understand how market and non-market forces interact in the MSEs sector.

Therefore, the participation gap of MSEs in the business development service had been obvious for the two major MSE sectors of industry and service. However, the researcher has chosen this research gap topic to be the relevant socio-economic study, which its works shall emphasize on the determinants of MSEs participation in MSE business development programs, as well as, the factors affecting MSEs participation and non-participation for governmental support packages and the significance of these factors. Moreover, The research gap was also identified by the regional micro and small enterprises development agency (REMSEDA. 2016) in the study area, as they also asked for the study of the factors that contribute to the low participation of MSEs in BDSs which might have led to failure and poor performance of MSEs business activities in Jigjiga city council. The research gap was also identified by the regional micro and small enterprises development agency (REMSEDA. 2016) in the study area, as they also asked for the study of the factors that contribute to the low participation of MSEs in BDSs which might have led to failure and poor performance of MSEs business activities in Jigjiga city council. In addition, as per the knowledge of the researcher there are no earlier studies on factors affecting MSEs' participation in business development services conducted in the Somali region of Ethiopia. So, given the importance of development of MSEs and the lower participation of MSEs in BDSs, identifying the significant factors that hinder MSEs' participation in BDSs seems very crucial.

However, this study was conducted to answer the important question of why a few MSEs participate to the BDSs support package. So that, this work shall contribute to fill the research gap of MSEs participation in BDS and factors affecting. The study aims to guide the concerned MSEs stakeholders, NGOs and GOs as well as policy makers for a better and thoughtful decision for the promotion and appropriate MSEs support in the participation of BDS in the study area. The study also assesses the challenges and opportunities of MSEs' business in Jigjiga city administration. Certainly, from the practical point of view, such study serves not only to provide a self check to current enterprises sector participation in BDS, but also to increase the involvement in MSEs business development activities through a better understanding of the determinants of participation of the MSEs in business development services. Such understanding of the pre-requisites for increasing participation of MSEs in

BDS packages seems of critical importance especially in today's competitive business environment.

1.3. Research Questions

This study has tried to answer the following research questions:

- On which business types, MSEs in Jigjiga city council are involved in?
- What is the rate of participation of MSEs in business development services?
- What are the main factors that affect MSEs' participation in business development services in Jigjiga city council?
- What are the challenges and opportunities that MSEs face in Jigjiga city council?

1.4. Objectives of the Study

The general objective of the study was to analyze MSEs' participation in business development services in Jigjiga city council.

The specific objectives of the study were:

- To assess the different business types that MSEs in Jigjiga city council are involved in;
- To identify factors affecting MSEs' participation in business development services in the study area;
- To identify the challenges and opportunities of MSEs in the study area.

1.5. Significance of the Study

In countries like Ethiopia, the MSEs have enormous importance including economic, employment opportunity creation, sector linkages and transformation are important engines of industrialization. Despite of this, as compared to the other African countries, due to various economical, technical and sets of complex policy related factors, still the MSEs are not performing and growing to bring significant contribution to the improvement of household livelihoods and national economies as well. Therefore, the findings of study were

expected to feed the policy makers, entrepreneurs and development agents towards sustainable MSEs' investment and promotion so as to make objectively articulated policy decisions, investment emphasis and interventions towards the development of MSEs in the region and in the study area. Beyond this, it will better inform the government and development agents about what supports, facilities and interventions are required to growth and transformation of the MSEs in the way to achieve the GTP-II development goals and indeed to maximize the socio-economic returns of MSEs in the study area in particular and in the region in general.

1.6. Scope and Limitations of the Study

The study analyzed factors determining MSEs' participation in business development services and the opportunities and challenges of MSEs in the study area. Although, there are different issues that can be researched in relation to MSEs, this study was limited to the politico-legal, working premises, technological, infrastructural, marketing, financial, institutional, managerial, entrepreneurial and production factors. In addition, due to budget and time constraints, this study was limited to the use of cross-sectional data and only Jigjiga city that did not capture the inter-temporal and spatial dynamism of the determinates of participation in a certain program.

1.7. Organization of the Thesis

This thesis is organized as follows. Chapter one has already introduced the study. Chapter two presents review of the theoretical and empirical literature on participation of MSEs in development services. The third chapter deals with the methodology used to address the objectives of the study. Chapters four is concerned with presenting the findings of the study and discuss them in comparison with the results of similar studies. The last chapter summarizes the results of the study followed by conclusion and policy implications.

2. LITERATURE REVIEW

This chapter reviews works related to MSEs in Ethiopia and other countries in general and Jigjiga in particular, an empirical studies on the determinants of participation of SMEs in business development programs are reviewed. This is of help to understand the state of MSEs and its participation determinants in BDS. This chapter comprises of five sections. These are definitions of MSEs, the role of MSEs in poverty reduction, the MSE sector in Ethiopia, empirical studies and the conceptual framework of the study.

2.1. Definitions and Concepts of Micro and Small Enterprises

The MSE sector everywhere is characterized by highly diversified activities which can create employment opportunities for a substantial segment of the population. This implies that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders (Mulugeta, 2011). Hence, in order to channel all necessary support and facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

This means, the definitions and objectives of MSEs are mainly formulated based on following five basic components:

- a) To have a framework that enable strategy implementers to support MSEs independently.
- b) To have institution that supports MSEs' development, uniform baseline
- c) To have uniform baseline about MSEs' information.
- d) To evaluate the impacts, to setup and implement reform frameworks based on the supports given to MSEs.
- e) To harmonize the national definition of MSEs with international definition.

However, the definition of MSEs generally consists of three basic criteria as seen from other countries experience (FMSEDA, 2015). These are:

- a) Full timer employed manpower /head count staff.
- b) Total asset, net asset and paid capital, and

c) Annual turnover. And they use these criteria independently or in combination.

2.2. Definition of Business Development Services (BDS)

Business Development Service (BDS) is non financial service provided to MSEs on formal or informal basis. According to Washington *et al.* (2014), BDS are services that provided to enterprises so as to improve their performance. BDS address market problem by providing information, facilitating the provision of consultancy services, encouraging skills, improve equity by engaging in technology transfer and development, and providing access to infrastructure and financial services.

The Committee of Donor Agencies for Small Enterprise Development (2001) defines BDS as services that improve the performance of the enterprise by providing access to markets and ability to compete. The definition includes: training, consultancy, marketing, information, technology development and transfer, business linkage promotion both at strategic and operational level. Similarly, The International Finance Corporation (2006) defines BDS as those non financial services and products offered to entrepreneurs at various stages of their business needs. According to Esim (2001), BDS can help micro and small enterprise solve their problems by: facilitating access to market, introducing new technology, improve availability of quality input, improve technical and management skills, eliminating policy problems, and helping enterprise access appropriate finance mechanism.

2.3. MSE definition from the Ethiopian context

The CSA definition uses employment and favors capital intensive technologies as yardstick. These definitions given by CSA, however consisted of the following shortcomings.

- a) It focuses on manufacturing ignoring other sectors
- b) Failure in using size of capital.

Based on the gathered experience, by identifying the gaps of the existing definition of MSE, ignoring the size of employee and by taking total asset as criteria and by dividing it into industry and service sector; and considering the coming five years inflation and fluctuation/irregularity of currency the improved definition divides the MSE sector into two

different sectors (industry and service sectors). This definition comes from the federal Micro and Small Enterprises Agency and defines the micro and small enterprises as follows:

The second definition of micro and small enterprise by the FMSEDA is based on the definition of national MSE strategy, the micro industry sector (manufacturing, construction and mining) includes the enterprises that operate with 5 people including the owner and/or their total asset is not exceeding Birr 100,000 (one hundred thousand); whereas the small industry sector includes the enterprises that operate with 6-30 employees and their total asset is not exceeding 1.5 million Birr. On the other hand, under micro service sector (retailer, transport, hotel and Tourism, ICT and maintenance service) comes all enterprises that operate with five persons including the owner of the enterprise and/or the values of their total asset is not exceeding Birr 50,000, whereas small service sector operate with 6-30 employees and their total asset is not exceeding 500,000 Birr (FMSEDA, 2015). When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick.

In line with this, Tegegne and Meheret (2010) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector.

United Nations Industrial Development Organizations (UNIDO, 2012) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2012).

Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The absence of such uniform definition of MSEs has created a difficulty.

2.4. The Micro and Small Enterprises Development strategy in Ethiopia

Believing that MSEs are vehicles for job creation, incubation of developmental investor and basis for industry development, the sector designed various support plans for all micro and small enterprises officially registered by the MSEs' development Agency. The main objectives for such kind of support are:

- a) To create direction that enables to provide industrial extension service by focusing on the basis of interest and result, and in areas that have key role to the sector.
- b) To enabled MSE competent in the market so as to ensure their development.
- c) To supply credit on fair interest base through one center service and credit and saving institutions by enhancing saving mechanism, proper utilization of money, and expanding credit warranty services.
- d) Developing technology, production development and distribution by enabling TVET centers for MSE incubation and incoming and out coming of technology.
- e) Enabling production and sales centers to serve for producing models and for growth and transition of enterprises, and supplying the provisions given in the centers in the form of packages.
- f) Devising a method through which strong extension service is provided based on the direction of industrial development strategy.
- g) Expanding a strong one center service that enables to be effective.

These programs may include the following projects (FREMSEA, 2012):

- Human resource development by developing attitudinal change and initiation.
- Continuous and appropriate TVET system that help MSE to enhance production/sales.
- MSE technology development and growth.
- Facilitation of necessary/unaffordable input supply for MSEs and MLEs.
- Extension service of industry.
- Marketing supply system development and construction of market centers.
- Strengthening system of sub-contracting, out sourcing and franchising.
- Provide finance and credit service support systems
- Capacitating the main MSE strategy implementers (TVET, MSEs and private Agencies).

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and MSEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management (United Nations, 2012).

The Ethiopian government released the country's first MSEs development strategy in November 1997 E.C. The primary objective of the national strategy framework is to create an enabling environment for MSEs. In addition to this basic objective of the national MSE strategy framework, the MoTI has developed a specific objective which includes, facilitating economic growth and bring about equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing the basis for medium and large scale enterprises, promoting export, and balancing preferential treatment between MSEs and bigger enterprises (MoTI, 2005). The strategy outlines the policy framework and the institutional environment for promoting and fostering the development of MSEs and stimulating the entrepreneurial drive in the country.

The two most important institutions that are directly involved in the promotion of MSEs are MoTI and the newly established MSEDA. The latter is envisaged to operate the federal and regional level of government (MoTI, 2005).

The ministry of trade and industry has responsibility, as the organ of the federal government for the formulation of policies and strategies to promote the expansion of enterprises and to facilitate the provision of assistance to MSEs. The other duties given to the ministry is to support and create conducive environment for the development of private promotional institutions. Regional bureau of trade and industry were delegated to develop and promote the sector in their regions by coordinating regional activities and creating networks with business associations to strengthen the flow of information to MSEs (MoTI, 2005).

To further ensure the proper institutional coordination for MSE support functions, the government created the new Federal Micro and Small Enterprises Development Agency (FMSEDA) in 1998. In addressing above objectives, FMSEDA is expected to provide support to the Regional Micro and Small Enterprises Development Agencies (RMSEDA).

The FMSEDA (2015) provided capacity building leadership programs by delivering ‘training the trainers’ programs to equip regional agencies, business associations, and other professionals to deliver entrepreneurship training and facilitation services and BDS to MSEs; studying the problem of identifying viable markets for MSEs and addressing product quality issues; disseminating information to MSEs; and advising government on MSE policies and strategies. FMSEDA also operates skills and technology training facilities, much like incubators, where training is offered in woodworking, metalworking, garments making and handicrafts. It also provides a marketing outlet for MSE products in its sales and display centre and organizes MSE product exhibitions at national and local trade fairs.

The FMSEDA has been established as an autonomous government institution having its own legal identity and run by a board of management which includes representatives of the private sector. Private sector participation in the management of enterprise promotion agency is a new approach in Ethiopia. The FMSEDA is directly accountable to the MoTI. In 2000, the regional governments also provided for the establishment of RMSEDAs to provide extension services to MSEs at the regional, zonal and Woreda level. The MoTI through FMSEDA provides institutional support to MSEs.

2.5. Theoretical Approaches to Micro and Small Enterprises

Contributions of MSEs in employment generation in the reduction of poverty have long been recognized. According to Carl Liedholm, and Donald C. Mead, (1999), this is an encouraging sign for some, while it is a symptom of failures of the economy for others. It has been an encouraging sign, because the proper functioning of the MSEs and market linkages help people get opportunities to take part in some gainful activities (particularly, those who are disadvantaged and poor, who have limited alternatives). Nevertheless, it is discouraging for other observers that the increase in the numbers of people engaged in the MSEs is a sign of failures of the economy to provide productive jobs—so they are forced to take refuge in limited activities that are not beyond subsistence support. In any angle, there is no doubt that MSEs have already become major features of the economic landscapes in most developing countries. As a result, researchers, practitioners and policy makers are increasingly interested in MSEs as incubators of labor intensive technologies and as sources of jobs and incomes for the urban poor (Thorbeche, 2000). The literature in this area could be grouped into various

categories for analytical purposes. For instance, some write about MSEs from the view of economic growth, while others from institutional aspects and technological point of views and many more views in which MSEs involvement in the economies have been analyzed. The following part attempts to present some of these literatures.

2.5.1. MSEs and Economic Growth Theories

The writers of these theories argue reducing unemployment and hence enabling citizens to enjoy better standard of living has remained one of the top agendas of governments, politicians, donors, lending institutions, and researchers over the last four or five decades. With this theoretical explanation, policies and strategies like industrialization through import substitution and export promotion strategies and regional integration were commonly acknowledged and implemented.

Another conceptual outbreak during the 1970s was sympathy for informal sector as a source of employment opportunities following the rigorous empirical studies by the ILO and report at global conference on world employment program in Kenya (Josef Gugler: 2002). In the late 1990s, notions of growth and human welfare were re-evaluated in more critical way. Growth (inequality) and poverty (inequality) were understood and explained as an inseparable process, because inequality is inevitable where and when there is growth; and poverty is inevitable where and when inequality exists, so that growth is a necessary but not a sufficient condition for development to occur (Thorbeche, 2000). Institutions and policies that can reduce trade-offs between growth and inequality/poverty were recommended as better policies and strategies. Similarly, human welfare was redefined to be more comprehensive and multi-dimensional as an ultimate goal of development as opposed to narrower concept of poverty reduction. Therefore, MSE business development services (BDS) including the Promotion of labor intensive technologies in production was one of the growth policies and strategies believed to address unemployment problems of both rural and urban residents and adopted by most developing countries. Promotion of micro and small enterprises thus, has been one of those labor intensive endeavors adopted by developing countries (Ibid: 34). Therefore, realizing the contribution of MSEs, most governments in both less developed countries (LDCs) and developed countries (DCs) have been supporting MSEs business development services extensively. The World Bank, UNIDO, the Asian Development Bank and a number of donors have been supporting MSE promotion policies.

According to Tulus T. 2016, the World Bank rationalizes its support for MSEs BDS for three reasons. First, MSEs enhance competition and entrepreneurship through its external effects of economic efficiency, innovation and aggregate productivity growth. Second, MSEs are more productive than its counterpart larger enterprises. Third, expansion of MSEs boosts employment opportunities as compared to its larger enterprises.

2.5.2. Institutions and MSEs Development theory

Another theoretical explanation, new institutional economics, proponed by Doglous North (1970s), at the beginning of 1990s it was fully acknowledged that market is imperfect and individuals have opportunistic behavior. The theory changed focus of policy decision to strategic behavior of individuals and organized groups. In other words, appropriate institutions and rules of the game have paramount importance in enabling the market mechanism and hence reduction in transaction cost.

Development thinkers and practitioners continued to search for sets of institutions believed to accelerate the process of social and economic improvements. One institution that may emerge to neutralize market failures associated with high transaction costs and information asymmetry prevalent along the product value chain and sub-contracting practices are industrial clusters. Due to geographical proximity, supply of parts and components among MSEs would be facilitated as who wants what can easily be known. Further, opportunistic behaviors, such as hold-up and moral hazard problems, are preempted as the result of long term relationships that is often established between traders, suppliers and assemblers.

In the 1990s, following the experience of rapidly industrializing economies of East Asian countries such as South Korea, the role of the state in accelerating development was brought back to the forefront of the discussion on economic development and structural transformation. And, the role of the state was further explained by proponents of new institutional economics and pubic choice school (Thorbeche, 2000).

Putnam, (1995) for instance, defines social capital as “features of social life –networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives”. According to the World Bank, social capital can also take various forms that produce a stream of benefits, or the channels through which it affects development, such as

information sharing, collective action, decision making and reduction of opportunistic behavior (World Bank, 2002).

Hence, a growing body of literature conducted on MSEs involvement indicates that social capital has been one of the other essential input for the survival of the small enterprises. Close acquaintances, trust-based relationships, good friendships and networking have been among vital factors for the development of small entrepreneurs as well as in reducing transaction costs and increase internal flexibility (Fafchamp, and Minton 1999; Fukuyama, 1995).

2.5.3 Enterprise Development Theory

Gibb and Davis (1990) classified growth theories in to four approaches: personality dominated approaches, organizational development approaches, business management approaches and broader sector/ market led approaches in response to lack of consistency and relevancy of business researches to ground realities. They justified that small business owners/ managers fail to formulate and adopt deliberate business growth strategies, they often formulate survival rather than growth strategies because of the following three reasons. First, most owners/ managers of small business enterprises have no awareness and skills of developing business growth strategies/ plans. Second, owners/ managers are not obliged to show a proof of long-term business growth strategies/ plans as small business enterprises have no or very few shareholders. Finally, most small business owners/ managers have limited exposure to formal business management skill trainings and such business growth strategies are adopted largely to minimize effects of external factors and most small business managers feel unrealistic as they often operate in risky business environment with little room of influence to minimize such risks.

Instead, most MSE business owners depend on instinctive flexible management techniques actually different from deliberately designed long-term business strategies & plans. Often unplanned and accidental strategies are used by micro and small business owners to cope with unexpected outcomes as strict adherence to original strategies/ plans entails losing business advantages or incurring substantial loss.

2.5.4 Technology and MSEs Business Development theory

Choice of technology and innovative capacity is another important factor determining growth of MSEs. According to Moyi and Njirani (2005) production technology has passed through three paradigms: technological development, appropriate technology and technological capability paradigm. Technology development which is far less applicable to MSEs is the process of designing new machineries/equipments/processes/products. The appropriate technology paradigm assumes MSEs as beneficiaries and not as active participant of development and improvements of technology; technology as a resource that can only be adapted by MSEs for improving factor productivity and reducing unit costs. It also focuses on incremental choice and suitability of available technologies to the production and market environment of MSEs operating in environment of unskilled and large labor market, low income consumer market, and low quality inputs. But appropriate technology paradigm is challenged for its limited impact and its failure to narrow gaps between MSEs and larger enterprises.

The technical capability paradigm has emerged as a result of unsatisfactory result with appropriate technology paradigm and with an objective to raise capacities of MSEs in making use of innovated technologies as most innovated technologies is adopted from separate workshops. It needs institutional, technical and engineering skills to adapt these technologies to different climate, raw materials and market demand.

According to Albu (2001) cited in Moyi and Njirani (2005), it is divided into production, investment, and innovative/adaptive capability. Production capability is the static knowledge and skill required to use existing machine and investment capability is the capacity to identify, select and acquire new technologies or processes while innovative/ adaptive capabilities are knowledge and skills to imitate, replace and modify existing production processes.

2.5.5. Linkage and MSEs Growth and Development Theory

This later theory is based on the analysis of linkage an MSE should have to raw materials input be it industrial or local, market, necessary technology such as training institutions, etc. Principally, the “Linkage and MSE Growth and Development” model assumes proper value

chain analysis, clustering, sub-contracting, vertical and horizontal integration could contribute to the development of the MSEs in its further competitive environment.

2.6. Review of Empirical Studies on Micro and Small Enterprises

A study by Hall (2012) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to business operations of micro enterprises (Fjeldstad *et al.*, 2003; Mulugeta, 2013). The result of logit analysis shows that access of finance, previous business experience of the operators, marketing skill of members of the business, and major customers of the product or services of MSEs affects positively the participation of MSEs in BDSs significantly at 1% level of significance. Managerial skill of the respondents and suitability of the location of the business positively determine the growth of MSE in terms of the profitability of MSE business significantly at 5% level of significance. However, they suggested that: The issue of causation is clarified somewhat by classifying causes as endogenous (internal to the firm and presumably within its control) and exogenous (external to the firm and beyond its control). Such a classification has the merit of providing a somewhat better policy handle since if causes are endogenous, appropriate policy helps MSEs help themselves'; if exogenous, appropriate policy may seek to change the economic environment.

Eshetu and Zeleke (2008) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSMEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. This is so because the findings of the study revealed that business that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to

investment (46%). The study further indicated that participation in social capital and networking schemes such as *Iqub3* was critically helpful for long-term survival of the enterprises. Business that did not participate in *Iqub* schemes regularly were found to be 3.25 times more likely to fail in comparison with business that did, according to the study.

In their study, based on the survey covering 123 business units in four *Kebeles* of *Nifas Silk-Lafto* and *Kirkos* sub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, Paul and Rahel (2010) found out that the studied enterprises registered 25% increment in the number of total employment they created since their establishment with an average annual employment rate of 11.72%. With regard to the sources of initial capital of the studied enterprises, the study indicated that, the main ones were loan from MFI (66.7%), personal savings/*Iqub* (17.5%), and loan from family/friends (17.1%). Moreover, the concrete problems that the targeted MSEs faced at their startup were lack of capital (52.8%), skills problem (17.9%) and lack of working space (17.1%). Moreover, Daniel (2007), identified that lack of raw material, stiff competition and shortage of working capital.

Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, Tegegne and Meheret (2010) conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%).

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2010). The product line of MSE activities in Ethiopia is relatively similar (Assegedech, 2004). According to her, lack of product diversity, however, is prevalent and as a result similar products are over-crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further

micro enterprises start off in the same business and this causes the selling price to fall immediately.

Mulugeta (2011) has identified and categorized the critical problems of MSEs into market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up. Operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators. Moreover, MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

2.7. Determinants of MSEs' Participation in BDSs

At the beginning of 1990s it was fully acknowledged that market is imperfect and individuals have opportunistic behavior. The theory changed focus of policy decision to strategic behavior of individuals and organized groups. In other words, appropriate institutions and rules of the game have paramount importance in enabling the market mechanism and hence reduction in transaction cost. The new institutional economics provided a rationale for existence/ arrangements of efficient non-market exchanges especially for rural transaction in the same value chain often known as agrarian institutions. Later this practice is adopted by development practitioners to encourage exchange among firms in the same value chain called industrial zoning in the large scale industries and sub-contracting and clustering in micro and small enterprises. Development thinkers and practitioners continued to search for sets of institutions believed to accelerate the process of social and economic improvements. One institution that may emerge to neutralize market failures associated with high transaction costs and information asymmetry prevalent along the product value chain and sub-contracting practices are industrial clusters. Due to geographical proximity, supply of parts and components among MSEs would be facilitated as who wants what can easily be known. Further, opportunistic behaviors, such as hold-up and moral hazard problems, are preempted as the result of long term relationships that is often established between traders, suppliers and assembler. Due to strong forms of penalties for those who renege on promised amount,

quality and timing of supply, there would be limited incentive to cheat on contracts as entrepreneurs who do so would be ostracized, jeopardizing their stream of future revenues.

Nogare (2006) argues that a more comprehensive and elaborate explanation of the determinants of growth of business enterprises were made by Curran (1996). He presented a notion that growth is more than array of factors and a need for broader perspective covering founders' characteristics, innovation, and complexity of business environment in which MSEs operate. He also justified that small business owners/ managers fail to formulate and adopt deliberate business growth strategies (they often formulate survival rather than growth strategies) because of the following three reasons.

First, most owners/managers of small business enterprises have no awareness and skills of developing business growth strategies/plans. Second, owners/managers are not obliged to show a proof of long-term business growth strategies/plans as small business enterprises have no or very few shareholders. Finally, most small business owners/managers have limited exposure to formal business management skill trainings and such business growth strategies are adopted largely to minimize effects of external factors and most small business managers feel unrealistic as they often operate in risky business environment with little room of influence to minimize such risks. Instead, most small business owners depend on instinctive flexible management techniques actually different from deliberately designed long-term business strategies & plans. Often unplanned and accidental strategies are used by small business owners to cope with unexpected outcomes as strict adherence to original strategies/plans entails losing business advantages or incurring substantial loss. The econometric results of MSEs BDS participation and growth showed that age of owners/managers, and work experience were statistically significant at 5% significant level and enterprises which were managed or owned by young individuals had high growing ambition than those which were led by aged owners or managers. Experience gained on the job or through prior employment was a critical participation and growth factor. Firm characteristics related to sector type, access to market, access to working and selling premises, access to finance and amount of initial capital are the statistically factors affecting MSEs business growth and development. Access to market, access to working and selling premises, and the amount of initial capital to start the business also positively and significantly affected MSEs growth and development at less than 1% significance level. Social networks can help entrepreneurs identify business opportunities as well as overcome a number of obstacles related to transaction costs, contract

enforcement, and regulation and it was significant at 5% significant level. Vertical linkage with buyers and suppliers through contractual agreement are directly related to improvements in capacity of MSEs in Dire Dawa and they were statistically significant at 1% significance level.

Choice of technology and innovative capacity is another important factor determining growth of MSEs. According to Moyi and Njiriani (2005) production technology has passed through three paradigms: technological development, appropriate technology and technological capability paradigm. Technology development which is far less applicable to MSEs is the process of designing new machineries/equipments/processes/products. The appropriate technology paradigm assumes MSEs as beneficiaries and not as active participant of development and improvements of technology; technology as a resource that can only be adapted by MSEs for improving factor productivity and reducing unit costs. It also focuses on incremental choice and suitability of available technologies to the production and market environment of MSEs operating in environment of unskilled and large labor market, low income consumer market, and low quality inputs. But appropriate technology paradigm is challenged for its limited impact and its failure to narrow gaps between MSEs and larger enterprises.

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According to Albu (2001) cited in Moyi and Njiraini (2005), it is divided into production, investment, and innovative/adaptive capability. Production capability is the static knowledge and skill required to use existing machine and investment capability is the capacity to identify, select and acquire new technologies or processes while innovative/ adaptive capabilities are knowledge and skills to imitate, replace and modify existing production processes.

This later theory is based on the analysis of linkage an MSE should have to raw materials input be it industrial or local, market, necessary technology such as training institutions, etc.

Principally, the “Linkage and MSE Growth” model assumes proper value chain analysis, clustering, sub-contracting, vertical and horizontal integration could contribute to the development of the MSEs in its further competitive environment.

Clearly, the lack of awareness of the existence of these programmes will affect access. So, for example, even if the financing is available, it will not be accessed by those who might need it. A study by Chimucheka and Rungani (2011) found that 28% of SMEs surveyed had never applied for financing from a bank. The main reasons given were not knowing the procedures for applying for a loan (53%), not knowing about the sources of finance available from the banks (23%) and the high interest rates (7%). About 17% indicated that they had enough capital to start and run their own businesses.

Magboul and Hassan (2016) used Heckman two-step selection model to analyze influences of household, business, and lender-related factors on the decision to participate and level of participation in formal microcredit using data from a survey of MSEs in Sudan. Their results show that household attributes such as awareness and flow of information on microcredit procedures in general, were the important determinants of the choice to participate, even though most did not seem to have statistically significant influences on intensity. Conversely a number of key business-related characteristics such as maintaining accounting records and value of assets appear to significantly affect intensity of participation in formal microcredit measured by the amount of microcredit applied for.

Most of earlier MSE studies in developing countries pointed out the importance and contribution of MSEs participation in BDS which transforms MSEs from traditional informal business enterprises to formal rapidly growing business entities. However, earlier national or global researchers indicted that determinants of MSEs participation in BDS are dynamic factors that might affect MSE business growth and performance. The determinants that earlier studies prioritized are legal factors, access to finance, sector type, location, human capital development and formality of the firm in addition to initial size and age of the firm.

2.8. Conceptual Framework of the Study

Conceptual frameworks were used to explain the MSEs research problems by earlier studies, since micro and small enterprises growth due to participation in MSEs are influenced by both internal and contextual factors, and therefore operators need to understand what influences MSEs to reach peak performances. The contextual factors include demographic, socio-economic and institutional factors. The influence of these factors to the MSEs business development participation status are very important but it is noteworthy that the management has little control over them (Mulugeta, 2011). Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the external environment. The internal factors that influence the MSEs BDS participation can be classified as management and entrepreneurial factors. To align the conceptual framework with the research objectives, business development services participation is the dependent variable whereas demographic, socio-economic and institutional factors are all independent variables.

The relationship can be expressed and shown in Figure 1.

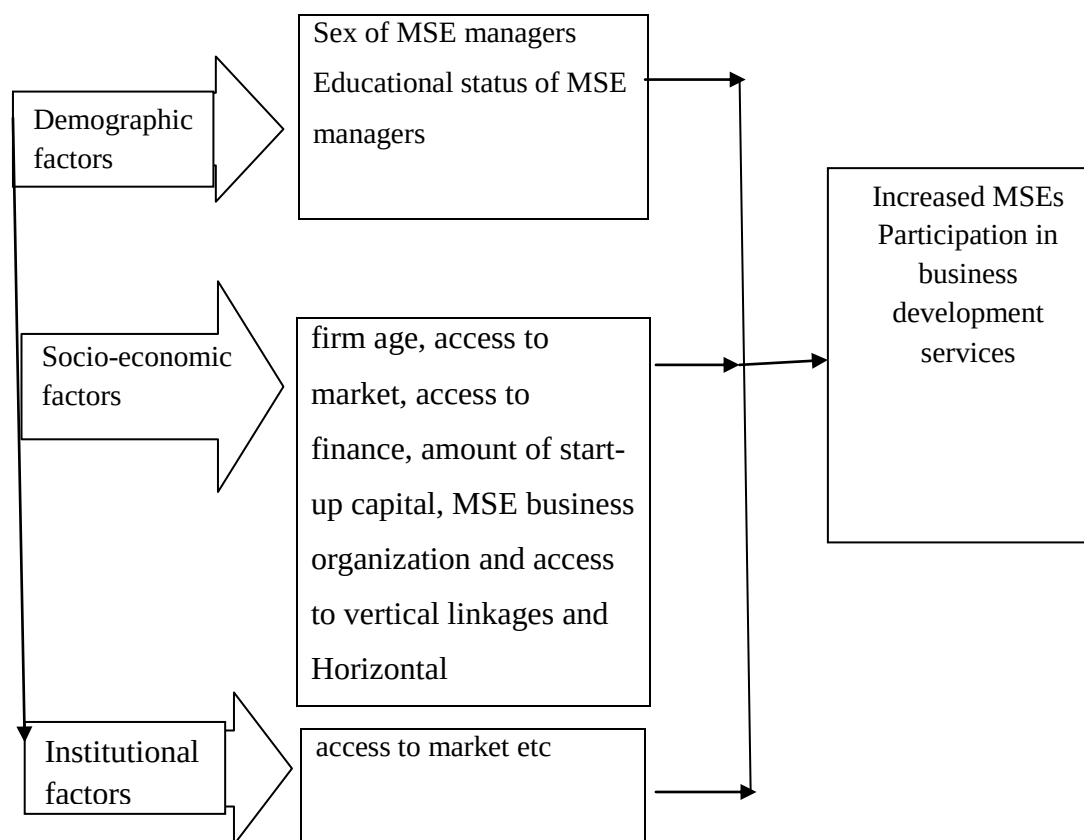


Figure 1: Conceptual framework

Source: Adopted from World Bank (2010)

The BDS package was adopted to measure the maturity and graduation of MSEs from lower level to higher level (i.e From Micro to Small or from Small to Medium) due to MSEs' participation in BDS and implementation. This is mainly because of the following three reasons. First, as the study clearly indicates, Institutional capacity building of MSEs is necessary condition for maturity of MSEs rather than other modes of performance measures. Second, MSEs shall apply the balanced score card to measure the overall performances after participation of BDS package. Third, as recommended by Rami and Ahmed (2007), BDS Package has been widely adopted by most researchers and practitioners as the tool for micro and small business growth, development and participation in BDS.

3. RESEARCH METHODOLOGY

In this chapter, description of the study area, types, sources and methods of data collection, sampling design and sample size, and methods of data analysis are presented.

3.1. Description of the Study Area

Somali Regional State is one of the nine regions of Ethiopia as it is also the second largest region in the country after Oromia and covers a total area of 350,000 km². It is located in the east and southeast of the country and lies between 4 and 11 degrees north latitude and 40 and 48 degrees east longitude. The Region has 11 administrative zones consisting of 93 districts and 6 town councils (BoFED, 2016) as per the newly structure approved in 2016 by the regional parliament. These 93 districts consist of 786 *kebeles*. The region shares borders with Somalia to the east and southeast, Kenya to the south and Djibouti to the north. To the northwest and west the region borders with Afar and Oromia Regions respectively. Climate is arid in most parts of the region and weather is therefore hot in most parts of the year, with mean temperatures ranging from 18 to 45C°. Temperature is cooler in areas of high altitudes like Fafan zone and parts of Afder zone (e.g. Elkare) and hotter in areas around the main rivers of the region. Annual rainfall ranges from 150mm in the low-lying areas of the region to 660mm received in high altitude areas (BoFED, 2014). The vast majority of the population of the region is pastoralists and agro-pastoralists who are dependent on livestock and farming for their survival. (BoFED, 2014).

Jig-jiga city administration is the one of the current existing six council towns of the Ethio-Somali region. Jig-jiga is also the regional capital city of the Ethio-Somali region for the last two decades that is after the establishment of the Federal Democratic Republic of Ethiopia. Jig-jiga city town is located at the east of Harar town, near the border of Somalia (i.e about 70 Km). The town is divided into 24-Kebbeles after being a council before five years. Jig-jiga town population totals 125,876, the male equals 67,128 and female equals 58,748. The dominant ethnic group living in the town was Somali (99.0%), the next 3 largest groups were the Amhara (0.25%), the Oromo (0.44%), and the Debub (0.30%); all other ethnic groups made up 0.08% of the population. This city is the largest settlement in Somali Region due to

internal movement of the region major town and rural as well seeking more easily of their livelihood(CSA, 2007) .

Within the period of being a council administration the town has been constructed very much by the Diaspora as well as the regional local investors although there has been an encouragement from both of regional and national policy to enforce the construction and investment of urban towns. However, the Urban MSEs promotion and support is one component of the national and regional strategy to expand towns. Therefore, Jig-jiga city council has five MSEs one-stop-services centres which have been established to provide the required support services at one place, these centers have various professional experts that guide and advice business enterprises and provide all government services in one place, these centres have minimised costs such as time cost, transaction costs, and costs related to business development plans and provide counselling and training related to business growth.

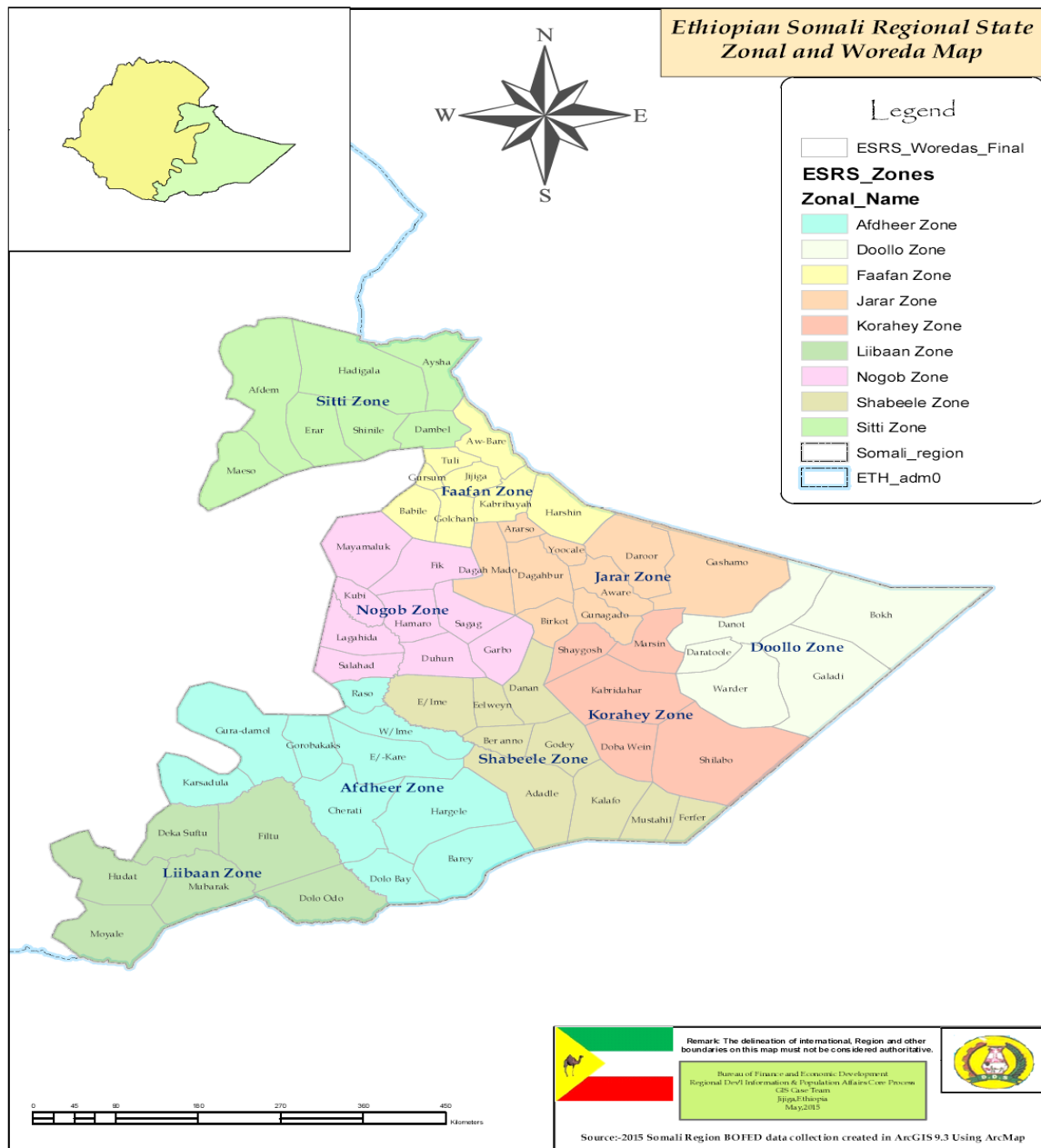


Figure 2: Location of the study area

Sources: SRS BoFED (2015).

3.2. Types, Sources and Methods of Data Collection

In this study, both primary and secondary data types had been used by collecting both qualitative and quantitative data. The main approach that was employed for data collection was the survey method which had mainly depended on primary data by using structured-

questionnaire. This questionnaire has been used to gather information from MSEs business operators and entities and why they didn't choose to become formal MSEs. On the other hand, the questionnaire was also used to collect data on MSEs' participation in BDS alongside a host of other information related to MSEs' services, production and sale of MSEs products. In addition to this, the data collected also included MSEs various supply and demand markets or networks, size of MSEs' job creation as well as the analysis of improvement of MSEs' participants' livelihoods and profit growth. For the data collection, five college graduate enumerators who speak the local language fluently were recruited from the study area and they have been trained. During the data collection phase the researcher has supervised the enumerators. The filled-in questionnaire was thoroughly checked every day for the completeness and for possible re-interview if deemed necessary. Furthermore, the required primary data of this study was gathered through employing field surveying, key informant interviews, focus group discussions and experts' consultations.

In order to conduct field survey, semi-structured questionnaire was developed on the way to capture characteristics, socio-economic and demographics of the respondents and determinants in participation of MSEs in BDS. The key informant interviews and FGDs were also carried out via using interviews, discussion and check lists. These are mostly the methods to gather qualitative information and lastly the overall work was articulated by the use of literatures and policy reviews. The general information of the area, current situation of participation, capital growth, employment creation, product/market diversification of MSEs and other relevant information had been collected from the MSEs' office in the study area.

In addition to primary data, relevant secondary data was collected from Jigjiga city MSEs office, regional MSEs agency, Jigjiga city administration office and Somali Regional State line bureaus and agencies, NGOs operating in the city. Moreover, Published and unpublished documents had extensively been reviewed to secure pertinent secondary information.

3.3. Sampling Procedure and Sample Size Determination

3.3.1. Sampling Techniques

The sample units were drawn from 1,623 MSEs that included 541(33%) MSEs participating in business development programs and 1082 (67%) non-participants from Jigjiga city, since Jigjiga had been an area where the largest MSEs of the region exist. In the process of selecting the sample MSEs, a two-stage random sampling method was applied. In the 1st stage, three OSS centres were randomly selected from the five OSS centres of the city. These three OSS centres have a total of 1,034 MSEs which include 395 and 639 participants and non-participants of MSEs business development service respectively. In the 2nd stage, using stratified random sample of 127 MSEs (45 participants and 82 non-participants) were selected randomly based on probability proportional to size (PPS).

Table 1: Sampled MSEs classification by sector, size and business type

Prioritized Five MSEs Sectors		Participants	Non-Participants	Total
Construction	No	12	8	20
	%	60%	40%	
Manufacturing	No	7	10	17
	%	41%	59%	
Service	No	12	28	38
	%	32%	68%	
Trade	No	10	41	47
	%	21%	79%	
Urban agriculture	No	3	2	5
	%	60%	40%	
Total Five Sectors	No	45	82	127
	%	35%	65%	100%

Source: Own survey, 2017

Following the identification of the sample size, informal survey and pre-survey visit were conducted in the sample areas. This enabled collection of wide range of information by visiting the business areas, concerned officials and making dialogue with key informants and community focus group discussions. Based on the information obtained and learnt experience from the informal survey, questionnaire that was used in the formal survey has been drafted and structured. Moreover, the questionnaire was pre-tested for its appropriateness and has been improved before it is used.

3.3.2. Sample Size Determination

As per the existing literature debates and the issue of successful selection and meaningful sample-size becomes important, determining sample size varies for various types of research designs and there are several approaches in practice. However, sample size determination is an important element in any research, the sample size for this study was drawn based on Yamane's simplified formula to calculate sample size (Yamane, 1967):

$$n = \frac{N}{1 + N(e)^2} \quad (1)$$

Where

n - is the sample size,

N - is the MSEs population size, and

e - is the level of precision

According to ESRS MSEs Agency (2016), there were 1623 MSEs that included participants and non-participants in BDS. Therefore, to determine the required sample size at 91% confidence level and 9% level of precision had been inserted into the formula.

$$n = \frac{1623}{1 + 1623(0.09)^2} = 115 + 12 = 127$$

(2)

Then according to the Yamane (1967) formula a total of 123 MSEs were selected randomly and interviewed. This sample size was assumed to enable us to gather rich data with regard to

demographic, business related factors and others. After having the total number of MSEs participants and non-participants in each of the three one-stop-centers, then stratified random sample was employed to select the sample from BDS participants and non-participants of MSEs business operators. Accordingly, formal and officially registered 127 sampled MSEs were considered as the MSE representatives in the study area, but responsive MSEs were 123 with 4 uncompleted questionnaire. However; the selected responsive 123 sample MSE entities were interviewed by using structured and semi-structured survey questionnaires. These MSEs consisted of 41 and 82 MSEs participants and non-participants of BDS under the following MSEs strata of construction, manufacturing, trade, service and urban agriculture sectors as registered by the sampled OSS centres described below.

Table 2: Sampled MSEs distribution from participants

Sampled OSS centers	Number of MSEs	Proportion	Sampled MSEs
Central OSS center	201	0.51	23
Eastern OSS center	135	0.34	15
Western OSS center	59	0.15	7
Total	395	1.00	45

Source: Own computational result, 2017.

Table 3: Sampled MSEs distribution from non-participants

Sampled OSS centers	Number of MSEs	Proportion	Sampled MSEs
Central OSS center	352	0.55	20
Eastern OSS center	186	0.29	14
Western OSS center	101	0.16	7
Total	639	1.00	82

Source: Own computational result, 2017.

3.4. Methods of Data Analysis

The required primary data that was collected from business men/women survey, key informants interview and Focus group discussions with MSEs development participants and

non-participants were analyzed by using both descriptive and econometric analysis. The primary information was further supplemented by relevant secondary data. Secondary data sources of the study were related literatures, journal articles, published and unpublished documents, reports, archives of the Jigjiga city administration offices, regional/federal line bureaus and regional/federal MSEs Agencies.

3.4.1. Descriptive statistical analysis

Both qualitative and quantitative analysis were used for analyzing the data. The qualitative data obtained from key informant interviews, FGDs and personal observations has been analyzed through descriptive and narrative ways using words. On the other hand, the quantitative data was analyzed by using descriptive and inferential statistics such as percentages, frequencies, mean, variance, standard deviation, chi-square, f-tests and t-tests.

3.4.2. Econometric model

To analyze the determinants of participation of MSEs in BDS, Logit model was used. The reason that Logit model preferred from OLS was that the logit model is mathematical model that describes the relationship between one or more independent variables and a categorical variable. The logistic regression model is simply a non linear transformation of the linear regression model the logarithmic transformation in this model stabilizes the variance if the standard deviation in the original scale varies directly as the mean, instead of the t-statistic, the model chi-square will be used to determine the overall model fit.

The dependent variable in the regression model is participation in BDS. This variable categorized sample MSEs into participants and non-participants in BDS. The dependent variable in this case was dummy variable which take the value of one or zero.

$$Y = \begin{cases} 1 & \text{if a given MSE is participant in BDS} \\ 0 & \text{otherwise} \end{cases}$$

The Logit model can be mathematically described as:

$$P_i = E(Y=1|X_i) = \beta_0 + \beta_i X_i \quad (3)$$

Where $Y=1$ means a given MSE is participant in BDS.

β_0 is the constant and β_i , $i = 1, 2 \dots n$ are the coefficients of the independent variables to be estimated.

$$P_i = E(Y=1|X_i) = \frac{1}{1 + e^{-(\beta_0 + \beta_i X_i)}} \quad (4)$$

$$P_i = \frac{1}{1 + e^{-Z_i}} = \frac{e^{Z_i}}{1 + e^{Z_i}} \quad (5)$$

$$\text{Where } Z_i = \beta_0 + \beta_i X_i$$

If P_i is the probability of being participant in BDS, then $(1-P_i)$, the probability of being non participant is:

$$1-P_i = \frac{1}{1 + e^{Z_i}} \quad (6)$$

Then, we can write this equation as:

$$\frac{P_i}{1-P_i} = \frac{1 + e^{Z_i}}{1 + e^{-Z_i}} = e^{Z_i} \quad (7)$$

So, $\frac{P_i}{1-P_i}$, is the odds ratio in favour of participation in BDS. In other words, it is the ratio of the probability that a given MSE is participant in BDS to the probability that the MSE is not participant in BDS. Then if we take the natural logarithm of equation (5) we obtain:

$$L_i = \ln \left[\frac{P_i}{1-P_i} \right] = \ln [e^{\beta_0 + \sum_{i=1}^m \beta_i X_i}] = Z_i \quad (8)$$

If the disturbance term U_i is taken into account the logit model becomes:

$$L_i = Z_{(i)} = \beta_0 + \sum \beta_i X_i + U_i \quad (9)$$

The variable L_i , is the log of odds ratio, is called Logit or Logit Model (Gujarati, 2004). Hence, the above Logit model was employed to estimate the effect of the hypothesized explanatory variables on micro and small enterprises participation in BDS.

To make the model use unbiased estimator, existence of multicollinearity and association between explanatory variables were checked by employing Variance of Inflation Factor (VIF) test (Gujarati, 2004). Variance Inflation Factor (VIF) was calculated as:

$$VIF_j = 1/(1-R_j^2) \quad (10)$$

Where R^2_j = R-squared the multiple correlation coefficient (Auxiliary Regression).

3.5. Variables Definition and Working Hypotheses

Once the analytical procedure and its requirements are known, it is necessary to identify the potential explanatory variables affecting participation in MSEs' development programs, describe their measurements and hypothesize their effects. The major variables that were expected to have influence on MSEs' participation in business development programs are presented and explained below.

3.5.1. Dependent Variable

MSEs' participation in business development programs (MSEsPARSDEC): MSE's' participation in business development programs occurs when skilled MSE owners decide and register their business as MSE entities and become a participant of MSE's business development services. This dependent variable for the logit analysis is a dichotomous variable representing the decision of MSE to participate in business development services. It is represented in the model by 1 for participants and 0 for non-participants.

3.5.2. Independent variables

The independent variables that have been expected (hypothesized) to have association with MSE's participation in business development program were selected based on available literature and scientific researches done earlier.

The hypotheses of the study with respect to each regressor are also proposed below.

Sex of the manager (SEX): Sex is a binary independent variable that takes 1 for Male and 0 for female. Welter (2001) found a significant difference between the decision of the MSEs business owners to participate in BDS among male and female entrepreneurs. Therefore, it was hypothesized that male business managers are more likely to participate MSEs support services than female managers.

Manager/Owner education (EDU): Education was considered as a dichotomous variable measured in terms of literate or illiterate. The variable is a binary independent variable that takes 1 for literate and 0 otherwise (illiterate). It was hypothesized that literate managers/owners participate in business development services more than others. This hypothesis was supported by Grimm (2014).

Firm Age (F-AGE): This variable was a continuous variable measured in terms of MSE business work experience. Delmar and Shane (2006) found that founders' entrepreneurial experience and experience with related industry does matter to MSEs business development participation. It was hypothesized that as the experience increases, the probability of MSEs participation in business development program. Previous entrepreneurial experience provides tacit knowledge of organizational routines and skills by which they know how to find required resources and how these resources can be appropriately utilized for current business growth (Delmar and Shane, 2006).

MSE business type (MSEBUS-TYPE): This is binary variable which depends on the nature and type of MSE business sector. It is a dummy variable measured in terms of MSE type, it takes 1 if the MSE is in the industry sector and 0 if it is in the service sector. The Ethiopian MSE strategy prioritized MSEs participating in the industry sector during the implementation of the national growth and transformation plan (i.e manufacturing, construction, urban agriculture sub-sectors). It was hypothesized that the nature and business type have effect on MSEs participation in business development programs. Division of MSEs by sector type was believed to be helpful to study each sector's critical factors that affect the performance of the relative MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in manufacturing sector may differ from the factors that are critical to trade and service sector (Admasu, 2012).

Access to market (AC-MKT): This is a dummy variable that takes a value of 1 when access to appropriate market place exists and 0 otherwise. It refers to availability of appropriate market place to the products/services of MSEs. Esther (2008), showed that access to market plays a significant role in participation and promotion of MSEs. In this study, access to appropriate market was expected to positively affect to MSEs participation in business development services.

Access to finance (AC-FIN): This is dummy variable that takes 1 for access to finance and 0 otherwise. For various reasons ranging from a lack of collateral to bias against small firms, MSEs tend to face greater financial constraints than do larger firms. MSEs in developing countries apply for and receive formal bank loans relatively infrequently; they thus typically rely on other types of credit such as trade credit, overdrafts, and informal loans. Microfinance institutions are also important sources of financing for MSEs, but their outreach is typically more limited than that of traders who frequently provide working capital in cash or kind, especially in rural areas (Swierczek and Ha, 2005). It was hypothesized that access to finance (own or through credit) will have positive effect on MSEs' participation in business development program.

Amount of Start capital (AM-CAP): It is a continuous variable measured by the owner equity/capital which relates to financial service and/or the amount of paid up capital in Birr during start-up. This has positive relationship with MSEs participation in development programs. So, larger or more profitable firms are more likely to have access to a larger pool of earnings that can easily be reinvested in the firm. On the other hand, small firms that are profitable can get retained earnings and also financial support and to reinvest, especially from the formal financial market. Explanation for this goes to inadequate collateral, lack of a significant credit history and inadequate equity capital on their balance sheet, which is a serious barrier to accessing credit by small business firms that might have been indispensable for their growth and expansion (Okoh and Song, 2000).

MSE business organization (MSEBUSORG): This is a dummy variable measured in terms of MSE business type. It takes 1 if the MSE is cooperative otherwise 0 such as; sole business, or partnership. Earlier literature shows that MSE type significantly affects the MSEs' participation in business development services. It was hypothesized that, since the national MSE strategy prioritized the support of cooperatives and there are privileges that trade regulations give them, cooperatives are more likely to participate in BDS compared to others (Solomon, 2004).

Social networks (S-NET): It is a dummy variable measured by the social networks of the MSEs such as the relatives, colleagues, civil society organizations (CSO) or any other bodies that may support the MSE or can be a coping mechanism. It was hypothesized that social networks increase MSE's participation in BDS. It takes a value of 1 if the MSE has social

business network and 0 otherwise. Having an extensive social network is a valuable asset that can help an entrepreneur to obtain information (e.g., leads to profitable business opportunities) as well as resources (e.g., credit). Social network can be critical to firms' growth prospects in environments with pervasive market failures (Solomon, 2004). The literature points to the role that social networks can play in helping entrepreneurs overcome obstacles related to transaction costs, contract enforcement and regulation. It was hypothesized that social networks increases the probability of MSE's participation in BDSs.

Vertical linkages (V-LNK): It is dummy variable that can exist when individual firms establish their own value chain or form vertical linkages with their potential buyers and suppliers from production to the end user of their product or services. Vertical linkages can facilitate MSE participation in BDSs by expanding a firm's set of viable business opportunities and by improving firm capabilities such as when corporate buyers assist with quality, maintenance, and technical issues (Berry *et al.*, 2002) or when input suppliers offer training or information related to the use of improved technologies. It was hypothesized that the more that business is vertically linked, the higher is the probability of participation in BDSs.

Horizontal linkages (H-LNK): Similar firms may group themselves or be organized by an outside party to work together referred to us horizontal linkages. It is a dummy variable which takes a value of 1 when the MSE is horizontally linked with other MSEs and 0 otherwise. Horizontal linkages can help MSEs overcome many of the disadvantages of being not profitable, providing a way to consolidate production, improve their negotiating position with buyers or suppliers, access market information or services, or lobby for political or regulatory changes (Goldmark and Barber, 2005; Steen *et al.*, 2005). It was hypothesized that that MSEs horizontally linked with similar business entities are more likely to participate in BDSs compared to others.

Table 4: Summary of the dependent and independent variables used in the model

Variable code	Description of variables	Type	Measurement	Expected sign
MSEDEVPar	MSE-Development Participation	Dummy	0=No 1=Yes	
H-LNK	Horizontal Linkages	Dummy	0=No ,1=Yes	(+)
V-LINK	Vertical Linkages	Dummy	0=No ,1=Yes	(+)
S-NET	Social Networks	Dummy	0=No ,1=Yes	(+)
MSEBUSORG	MSE business organization	Dummy	1=MSE-Coop. 0=Other wise	(+)
AM-CAP	Amount of capital	Continuous	Birr	(+)
AC-FIN	Access to finance	Dummy	0=No, 1 =Yes	(+)
AC-MKT	Access to market	Dummy	0=No, 1=Yes	(+)
SEX	Sex of manager	Dummy	1=Male, 0=Female	(+)
EDU	Manager education	Dummy	1=Literate 0=illiterate	(+)
F-Age	Firm Age	Continuous	Years	(+)
MSEBUS- TYPE	MSE business type	Dummy	1=Industry, 0=Otherwise	(+)

Source: Own construction, 2017.

4. RESULTS AND DISCUSSION

This chapter presents the findings of the study from descriptive statistical analysis and econometric model and discusses it in comparison with the results of other similar studies.

4.1. Descriptive Statistical Analysis

4.1.1. Business types

There are different types of MSEs in different areas. In the study area, five types of MSE sectors are documented by micro and small enterprise development agency as prioritized MSEs by the national strategy. These are construction, manufacturing, service, trade and urban agriculture. The sampled 123 MSEs can be classified according to their size, sector and business type as shown in the flowing table.

Table 5: Sampled MSEs classification by sector, size and business type

Prioritized MSEs Sectors		Cooperative MSEs			Non-Cooperative MSEs			Total
		Micro	Small	Total	Micro	Small	Total	
Construction	No	9	3	12	7	1	8	20
	%	45%	15%	60%	35%	5%	40%	100%
Manufacturing	No	1	4	5	5	3	10	15
	%	7%	27%	33%	33%	20%	67%	100%
Service	No	5	3	9	20	8	28	37
	%	14%	8%	24%	54%	22%	76%	100%
Trade	No	6	0	6	37	4	41	47
	%	13%	0%	13%	79%	9%	87%	100%
Urban agriculture	No	2	1	3	0	0	1	4
	%	50%	25%	75%	0%	0%	25%	100%
	No	24	11	35	70	18	88	123
Total	%	20%	9%	28%	57%	15%	72%	100%

Source: Own survey, 2017

The study result presented in Table 5 indicates that larger proportions (71.54%) of the sampled MSEs are non-cooperatives (Sole proprietorship and partnership) and only 28.46% are cooperative MSEs. Results also show that the five prioritized MSEs vary across sectors, the micro cooperatives of the five sectors in the sampled MSEs are only 19.51%, whereas the non-cooperative micro enterprises dominate (56.91%). In addition to this, the small non-cooperative enterprises are also larger in number compared to the cooperative small enterprises. This finding indicates that larger proportions of MSEs (85.36%) are involved in the micro enterprises or the start-up stage and only (14.64%) are involved in small enterprises or growing stage. The study also indicates that most of sampled MSEs are not participants of MSEs BDS packages. The finding also shows that trade takes highest share (38.21%) followed by services(30.08%). Construction, Manufacturing and urban Agriculture take 16.26%; 12.20% 3.25% respectively.

Table 6: Sample MSE business development services participants and non-participants

Prioritized MSEs Sectors		BDS Participants	BDS Non-Participants	Total
Construction	No	12	8	20
	%	60%	40%	
Manufacturing	No	5	10	15
	%	33%	67%	
Service	No	11	28	37
	%	30%	70%	
Trade	No	10	41	47
	%	21%	79%	
Urban agriculture	No	2	2	4
	%	50%	50%	
Total	No	41	82	123
	%	33.33%	67.67%	100%

Source: Own survey, 2017

In this study, among the 123 sample MSEs 41 (33.33%) were participants of BDSs and 82 (66.67%) were non-participants. Descriptive statistics of the socio-economic, demographic

and institutional characteristics of the sample MSE managers which are hypothesized to affect participation of MSEs in BDS are presented and discussed below.

4.1.2. Demographic Characteristics of the Respondents

The demographic characteristics of the sample respondents such as age, sex and educational status of MSE's manager are critical and important factors affecting MSEs' participation in BDS. Descriptive results of these variables are presented as follows:

Sex of MSE's manager

Sex of the MSE manager was hypothesized to influence MSE's participation in BDSs in such a way that male MSE managers are more likely to participate in business development programs than female managers. The proportions of female business managers were higher within non-participants (35.77%) than within the participants (9.76%). On the other hand, out of the total female business managers the majority (76%) were non-participants. Moreover, the result of chi-square test revealed significant differences between the two groups in terms of participation in BDS at 10% probability level ($\chi^2 = 3.30$, $P = 0.069$) (Table 7). Thus, it can be interpreted as male owners involvement in BDS and otherwise was higher than their counterparts.

Table 7: Descriptive statistics of MSE manager's sex, educational status and participation in BDSs

Variable name		Status of MSEs development participation		Total	χ^2 -value	p-value
		Non participants	Participants			
		N = (82)	N = (41)			
Sex	Male	44	29	73	3.30*	0.069
	Female	38	12	50		
Educational status	Literate	26	25	51	9.65***	0.002
	Illiterate	56	16	72		

Source: Own computation, 2017,

*** and *, significant at less than 1% and 10% probability level respectively.

Educational status of the MSE manager

Various literatures have indicated that educational status of the business manager is one of the potential explanatory variable that influence MSEs participation in BDSs by improving information processing capability of the business and continuously providing entrepreneurial services including customer satisfaction services. Formal or informal education (Adult education, literacy etc) of MSEs manager were hypothesized to influence the MSE entity to participate BDSs (MSE survey in Ethiopia, 2015). Results of descriptive analysis (Table 7) show that 58.54% of the MSE managers were illiterate and the rest 41.46 % were literate. The proportions of illiterate MSE managers were higher within the non-participants of BDS (77.78%) than within the participants (22.22%). Moreover, the result of chi-square test revealed significant differences between participants and non-participants of BDS in terms of educational status of the manager ($\chi^2 = 9.65$, $p = 0.002$) (Table 7). Thus, generally according descriptive statistical findings, illiterates are higher in the case of non-participants and literate in the case of participants.

4.1.2. Socio-economic characteristics of MSEs

The study identified basic socio-economic characteristics of MSEs in running and operating of their business including business work experience, amount of capital, MSE sector type, MSE business type, social networks, vertical linkages and horizontal linkages in relation with MSEs' participation in development services. Descriptive statistics of the socio-economic variables of MSEs in the study area were discussed one by one as follows.

Table 8: Descriptive statistics of start-up capital, firm age and MSEs Participation status

Variable name		MSEs participation status		Total	t-value	p-value
		Non-participants N = (82)	Participants N = (41)			
Start-up capital	Mean	67560.98	136475.60	103865.90	2.52	0.0129**
	St. Dev.	11538.80	15615.40	22055.90		*
Firm-Age	Mean	6.21	6.54	6.32	0.59	0.59

St.	2.90	3	2.92
Dev.			

Source: Own computation, 2017, *** significant at less than 1% probability level.

Start-up capital of MSE

The mean start-up capital of businesses in the study area was birr 103,865.90 with standard deviation of 22055.90. The minimum start-up capital of MSEs was birr 5,000.00 whereas the maximum was birr 1,500,000. According to the survey result, MSEs' participating in BDSs have higher start-up capital compared to non-participants as the mean start-up capital of participants was birr 136,475.60 and that of non-participants was birr 67,560.98 with standard deviations of 15615.40 and 11538.80, respectively. According to the results illustrated in Table 9, there is significant mean difference between participants and non-participants with regard to start-up capital ($t = 2.52$, $P = 0.013$) at 5% significance level. This suggests that MSEs with higher start-up capital are higher participant than with lower start-up capital.

MSE firm age

The mean business work experiences of MSEs in the study area were 6.32 years with a standard deviation of 2.92. The minimum business work experience was 2 years whereas the maximum was 14 years. According to the survey result, the mean business work experience of participants was 6.54 years and that of non-participants was 6.21 years with standard deviations of 3 and 2.90, respectively. Results presented in Table 9 show that there is no significant mean difference between participants and non-participants with regard to business work experience ($t = 0.59$, $P = 0.56$). This suggests that newly established MSEs and higher work experiences MSEs don't have difference in terms of business development services participation status. This may relate to awareness of the MSEs Owner and perception toward the program.

MSE business type

According to the national MSE policy document (FeMSEA, 2015), the MSEs are categorized into two major sectors, the industry sector (construction, manufacturing, urban agriculture), and

the service sector (trade, transport and other services). Therefore, in the analysis of this study, the major two sectors analyses are applied. MSE business type of the industry sector was hypothesized to influence MSE's participation in BDSs. That means, it was hypothesized that the MSEs belonging to industry sector are given policy priority that are most likely to participate in BDSs in comparison with service sector MSEs businesses. As depicted in Table 10, among the total respondents of MSEs belonging to industry sector were 33.33% and the rest 66.67% were belong to the service sector. The proportions of MSEs' belonging to the industry sector were higher within the MSEs development participants (17.89%) than within MSEs non-participants (15.45%). Moreover, the result of chi-square test revealed significant differences between the two groups in terms of MSEs business type/category ($\chi^2 = 4.68$, $P = 0.030$) (Table 10). Thus, the policy privilege may result, in long run, marginalization of non-industry sectors MSEs in term of business development services participation status.

Business organization

There are different varieties of MSE in different places. In the study area, two business organization of MSEs are documented by the regional micro and small enterprise promotion agency. These are cooperative MSEs and non-cooperative MSEs. It was hypothesized that since the national MSE development strategy prioritizes the support of youth cooperative MSEs and there are privileges that trade regulations give to cooperative businesses, the cooperative MSEs are more likely to have positive effect on the MSEs business participation decision of development. Therefore, in the study area, the proportions of cooperative MSEs were higher within the MSEs development participants (21.95%) than within non-MSEs development participants (6.5%). On the other hand, out of the total non-cooperative MSEs respondents the majority (84.10%) were non-participants of MSEs development. Moreover, the result of chi-square test revealed significant relationship of MSEs Business type with MSEs development participation status ($\chi^2 = 11.071$, $P = 0.001$) (Table 10). Thus, this may undermine individual entrepreneurs and sole proprietors emergences in MSEs sectors.

Vertical linkages

Nowadays, in the contemporary business environments internal and external relationship of the enterprises are the most important thing for any type of organization irrespective of their

size (large, medium, micro or small) to have close relationship with buyers/suppliers, find input, access market information, distribute output, get training and professional advices, compete, cooperate with other enterprises and/or establish branches or outlets. Vertical linkages can expand business opportunities and enhance firm capabilities at the same time. The proportions of vertically linked MSEs were higher within the participants of MSEs development programs (31.71%) than within non-participants (18.70%). On the other hand, out of the MSEs respondents that have vertical linkage, the majority (62.90%) were participants of MSEs development programs. Moreover, the result of chi-square test revealed significant difference between participants and non-participants in terms of vertical linkage ($\chi^2 = 5.29$, $P = 0.021$) (Table 10). Thus, this suggests that MSEs with strong vertical linkage will benefit from the business development services in study area.

Horizontal linkages

Horizontal linkages and connections to supporting markets, offer many tangible, crucial advantages to MSEs. These advantages include increased production capacity and ways to consolidate production, increased efficiencies, and mechanisms to spread both costs and risks, increased bargaining power for inputs or raw materials, and channels to obtain information about and improve techniques used for production, marketing, transportation, and technology utilization. The proportions of horizontally linked MSEs were higher within the participants (24.39%) than within non-participants (8.9%). On the other hand, out of the horizontally linked MSEs respondents the majority (58.82%) were BDS participants. Moreover, the result of chi-square test revealed significant difference between the two groups in terms of horizontal linkage at 1% probability level ($\chi^2 = 9.65$, $P = 0.002$) (Table 10). Thus, this suggests that MSEs with strong horizontal linkage by minimizing competition with other stakeholders will benefit from the business development services in study area. In long run, this may result emerges of monopoly kind of MSEs in the economy.

Table 9: MSE business type, business organization, social networks, vertical/horizontal linkages and participation decision

Variable name			MSEs participation status		Total	χ^2 -value	p-value
			Non participants N = (82)	Participants N = (41)			
MSE type	Business	Industry sector	19	22	41	4.68**	0.030
		Service sector	63	19	82		
MSE organization	Business	Cooperative	8	27	35	11.07***	0.001
		Non-cooper.	74	14	88		
Vertical linkage		Have	23	39	62	5.29***	0.021
		Have not	59	2	61		
Horizontal linkage		Have	21	30	51	9.65***	0.002
		Have not	61	11	72		
Social networks		Access	9	32	41	7.32***	0.007
		Not access	73	9	82		
Access to finance	to	Access	18	21	39	10.81***	0.001
		Not access	64	20	84		

Note: *** and **, significant at less than 1% and 5% probability level respectively.

Source: Own computation, 2017.

Social networks

Social networks can help entrepreneurs identify business opportunities as well as overcome a number of obstacles related to transaction costs, contract enforcement, and regulation. The proportion of MSEs with social networks was higher within the participants (26.02%) than within non-participants (7.32%). On the other hand, out of the MSEs with social network the majority (78.05%) were participants. Moreover, the result of chi-square test revealed significant difference between the two groups in terms of horizontal linkage at 1% significance level ($\chi^2 = 7.32$, $P = 0.007$) (Table 10). Thus, use of social network may encourage the MSEs in participating business development services through awareness creation and interaction with stakeholders.

Access to finance

Access to finance was one of the crucial factors that determine the growth of MSEs. The proportion of MSEs' having access to finance were higher within the participants (17.07%) than within the non-participants (14.63%). On the other hand, out of the MSEs having access to finance, the majority (53.85%) were participants. Moreover, the result of chi-square test revealed significant difference between the two groups in terms of access to finance at 1% probability level ($\chi^2 = 10.81$, $P = 0.001$) (Table 10). Thus, this may encourage business owners more participation in business development services due to need to benefit from the potential opportunities available in study area.

4.1.3. Institutional Characteristics of MSEs

Institutional developments are expected to have significant influence on the performance of MSEs. Institutional structure entrusted with the task of providing the necessary institutional support to MSEs has crucial effect on the expansion and growth of MSEs. The study identified access to market as institutional factor that have influence on their participation in BDSs.

Access to market of MSEs

The ability to tap into new markets requires expertise, knowledge and contacts and access to markets and inputs are frequently considered by MSE operators. The proportions of MSEs who have access to market were higher within the participants (25.20%) than within non-participants (17.07%). On the other hand, out of the MSEs with market access the majority (59.62%) were participants. Moreover, the result of chi-square test revealed significant difference between participants and non-participants in terms of access to market ($\chi^2 = 2.02$, $P = 0.100$) (Table 11). Thus, this may encourage more production and sales volume by boosting business and as business growth to need to benefit from the BDS may rise.

Table 10: Relationship between access to market and MSEs BDS participation status

Variable name			MSEs participation status		Total	χ^2 -value	p-value
			Non participants N = (82)	Participants N = (41)			
Access to market	Yes		21	31	52	2.02*	0.100
	No		61	10	71		

Source: Own computation, 2017, *** and *, significant at less than 1% and 10% probability level respectively.

4.2. Econometric Model Results

Identification of factors affecting participation of MSEs' in BDSs was made using binary logistic regression model. In this section, this model was used to see the relative influence of demographic, socio-economic and institutional variables on MSEs' participation status.

4.2.1. Determinants of MSEs' Participation in BDSs

This section presents and discusses empirical findings of econometric model analysis. The model estimates of the parameters of the variables expected to determine MSEs' participation decision in BDS are presented in Table 13. The goodness-of-fit was tested using the Log likelihood ratio (LR) test. The result shows that model was statistically significant with the chi-square of 52.66 with 11 df and p-value of zero. The Pseudo- R^2 of the model is also 33.63%. This verifies that the model has a good fit to the data and explained significantly at most the explanatory factors influencing MSEs' participation in business development services.

Among the total of eleven explanatory variables included in the model, eight variables were found to be statistically significant in influencing MSEs' participation decision in BDS at the conventional level of significance (*i.e.* $P < 0.1$). Among the factors which had significant influence on MSEs participation decision include, MSE manager educational status and MSE business organization were statistically significant at 1% probability level; sex of MSEs manager, access to finance and access to vertical linkages were statistically significant at 5%

probability level; firm age, access to market and amount of start-up capital were significant at 10% probability level.

Table 11: Logit model estimates of determinants of MSEs' participation decision

Variable	Coefficients	Standard . Error	z- value	P>z	Marginal effect
Sex of MSE manager	1.22	0.61	2.00	0.045	0.208**
Educational status	1.69	0.55	3.07	0.002	0.322***
Firm-age	0.19	0.11	1.75	0.080	0.035*
MSE business type	0.88	0.63	1.38	0.166	0.150
Access to market	1.02	0.63	1.71	0.100	0.051*
Access to finance	1.10	0.57	1.92	0.055	0.220**
Amount of start-up capital	3.08	2.20	1.75	0.081	0.002*
MSE business organization	1.42	0.66	2.16	0.011	0.310***
Access to social network	0.80	0.63	1.27	0.204	0.138
Vertical linkages	1.18	0.59	2.01	0.045	0.203**
Horizontal linkages	0.40	0.60	0.68	0.497	0.076
Constant	-3.40	0.98	-3.48	0.000	-
Number of observations			123		
LR chi2(11)			52.66		
Prob > chi2			0.000		
Log likelihood			-51.959324		
Pseudo-R ²			0.3363		

Note: ***, ** and * significant at 1%, 5% and 10%, respectively.

Source: Logit Model output, 2017

Sex of MSE's manager: This variable was found to be positive and significant at 5 percent probability level. This means that, the male managed MSEs businesses are more likely to have the likelihood of the MSE's business development services participation. The marginal effect for the male manager implies that, other things being constant, the probability of MSE's participation in business development services program increases by 0.040 if MSE is managed by male. The reason might be a higher awareness level and willingness of risk taking entrepreneurs to test their abilities as compared to their counterparts (Welter, 2015),

and as such, the national MSEs development strategy encourages to promote, train and support the unemployed youth to organize MSEs cooperatives for employment creations.

Educational status of the MSE manager: This variable was found to be positive and significant at 1 percent probability level. This means that, education increases the likelihood of the MSE's participation in business development programs. The marginal effect for educational status of the manager implies that, other things being constant, the probability MSE's participation in BDS increases by 0.322 for literate business managers compared to illiterate ones. The possible explanation is that education increases information access, customer satisfaction and resource utilization such as time, knowhow (Grimm, 2014).

Firm Age: This variable was found to be positive and significant at 10 percent probability level. This means that, an increase in the MSE business related firm age increases the likelihood of the MSE's participation in business development packages. This indicates positive relationship between firm age and MSE's participation in business development packages. Thus, MSEs with higher firm age are more likely to join business development programs compared to others. The marginal effect for related MSE firm age implies that, other things being constant, the probability of MSE's participation in business development programs increases by 0.035 as firm age increases by one year. The possible explanations are that MSE related firm age may enable MSEs to have acquired entrepreneurship, technology and knowhow which may improve the MSE business quality management circle including employees' competencies (Delmar and Shane, 2006).

Access to market: This variable was found to be positive and significant at 10 percent probability level. This means that, access to market increases the likelihood of the MSEs participation in BDSs. The marginal effect for access to market of business implies that, other things being constant, the probability MSE's participation in BDS increases by 0.051 for MSEs having access to market (Esther, 2008).

Access to finance: This variable was found to be positive and significant at 5 percent probability level. This means that, MSEs' having access to finance have higher likelihood of participating in BDPs compared to those do not have it. The marginal effect for MSE access to finance implies that, other things being constant, the probability MSEs' participation in

BDPs increases by 0.220 for the MSE having access to finance. The possible explanations may be the MSEs access finance will get more finance to invest and boost its businesses (Swierczek and Ha, 2005; Success Factors of MSEs, 2015).

Amount of start-up capital: This variable was found to be positive and significant at 10 percent probability level. This means that, an increase in the amount of start-up capital of the business increases the likelihood of the MSEs' participation in BDSs. This reveals that increment of the start-up capital of businesses increases the probability of being participant of BDSs. The marginal effect for amount of start-up capital implies that, other things being constant, the probability MSEs' participation increases by 0.002 if the amount of start-up capital increases by one birr. The possible explanations are that MSEs' with large amount of start-up capital have better position to choosing than their counterparts (Okoh and Song, 2000).

MSE Business organization: This variable was found to be positive and significant at 1percent probability level. This means that, MSEs' belonging to the cooperative MSEs have higher likelihood of participating in BDPs compared to those in non-cooperative MSEs. The marginal effect for MSE business organization implies that, other things being constant, the probability MSEs' participation in BDPs increases by 0.310 if the MSE belongs to cooperative MSEs. The possible explanations are the MSEs business organization belonging to the cooperative MSEs have policy related privileges according to federal MSEs strategy documents (Solomon, 2004).

Vertical linkages: This variable was found to be positive and significant at 1 percent probability level. This means that, being vertically linked business increases the likelihood of MSE's participation in business development services. The marginal effect for vertically linked businesses implies that, other things being constant, the probability of MSE's participation increases by 0.303 for vertically linked businesses compared to others. The possible explanations are vertical linkages can facilitate MSE growth by expanding a firm's set of viable business opportunities and by improving firm capabilities such as when corporate buyers assist with quality, maintenance, and technical issues (Berry *et al.*, 2002) or when input suppliers offer training or information related to the use of improved technologies

4.3. Jigjiga City Council MSE Sector Opportunities

There are opportunities to engage and expand MSE business in the study area. The main opportunities explained by the industry focus group are as follows:

Employment opportunity: This is a job creation for the youth and deprived group of people. Consequently, the job created by micro and small enterprise will generate significant income to the operators of MSE and their families. According to some of the key informants' interview, there is high level of unemployment in the study area. From one of the measures taken to reduce unemployment is intensifying MSE BDS to be acquired by micro and small enterprises businesses.

Credit facility without collateral: In accordance to the law of the state, formal MSE doesn't require to have collateral in order to get credit from micro finance institution. This opportunity augments engaging in micro and small enterprise by the poor section of communities. During the focus group discussion, participants explained the negative implication of lack of credit utilization by MSE operators.

Start-up training: Start-up training is the key element in micro and small enterprises operation. The discussants explained that they obtain the start up training conduct by the MSE promotion office with the collaboration of NGOs, gave them a clue and for some of them technical skill to start their business.

Growing demand: The growing demand for construction industries and other sectors which can create job opportunity for MSEs is seen as a good opportunity to enter in MSE business.

National policy: Recently MSEs support and development is getting a critical national policy attention. The implication of giving a focus for MSEs support as one of the important building block for economic development corridor was considered as good opportunity to enter and continue in the micro and small enterprises business.

4.4. Challenges that MSEs' Encounter in Jigjiga Council

There are many challenges mentioned by the focus group discussion that MSE are encountering in the study area. These challenges are more of personal, situational and Institutional factors. The pressing challenges MSEs are identified and discussed below.

Lack of working capital: Micro and small enterprise members are claiming, lack of capital is the imminent challenge they are encountering while running in these business. The implications of lack of capital in the development MSE include exit from the business, barrier for new entry, challenge for expansion of the business and etc.

Lack of credit and problem of credit utilization: According to the focus group discussions, limited credit facility is among the challenges that MSEs are currently facing. Lack of credit utilization has wide range of implication on the performance and expansion of MSE in the study area. It will discourage actors on expanding the business, creating new product or venture, create shortage of working capital and generally limits the operation of the business.

Lack of business and financial management skills: Most of the MSEs in the study area have no financial record and have weak business managerial skill. According to the key informants interviews result, there is need for business management capacity building for MSE actors in strategic development interventions.

Abnormal competition by investors and some government employees: Investors and some government employees are buying training certificate from certified MSE members and they became rival for the available work contract for MSEs, which resulted in undesired consequences. According to the key informant interview respondents, they are highly discouraged by these scandalous competitions by these people.

Lack of creativity by MSE members: Most of the members of MSE in the study area not creative and innovative. Most of the time, micro and small enterprises are in anticipation of offer for work contract by GOs or NGOs. As one of the key informant comment, poor innovation skill of micro and small enterprises leave them with less profit out of the business.

Inadequate training: During the focus group discussion, one of the major challenges identified by the MSE industry sector managers had been an inadequate technical training of machineries and poor institutional implementation capacity due to lack of quality training that can be applicable. The resultant effect of the insufficiency of these trainings given to MSE actors were observed on the low quality of output on their work.

Lack or inadequate working place and working machinery: The other most important challenge MSEs encountering are lack of or inadequate working place and working machinery. According to key MSE informants, unless this problem is addressed by the relevant stakeholders, contraction of micro and small enterprises in the study area is certain.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary and Conclusion

This research was conducted in Jigjiga city administration council of Somali Regional State with the general objective of identifying the determinants of MSEs' participation in business development programs. Towards this end, the study examined relevant literature, the country's development policies, Micro and Small Businesses Enterprises Development Strategies, Jigjiga city administration council MSEs' development programs and conducted sample survey by making interviews and observation.

Two-stage sampling procedure was used to determine the required sample size. First, the researcher selected Jigjiga city administration council of Somali Regional state of Ethiopia, since Jigjiga is the town that has greatest MSE entities in the region. Secondly, MSEs were categorized into participants and non-participants of business development services and then a total of 127 sample MSEs (45 participants and 82 non-participants) were drawn from each stratum based on probability proportionate to size. The results of descriptive statistics and binary logit model indicated that most of the hypothesized variables that influence MSEs participation decisions were significantly related with MSEs participation decisions in business development services.

Results of descriptive statistics showed that sex and educational status of the managers were found to be in favor of MSE participants in terms of sex and educational status of the managers through better technical capacity.

With regard to the MSEs socio-economic variables, participants have relatively larger amount start-up capital and Firm age than non-participants. In addition, participants belong to industry sector, are members of cooperative businesses, have more access to social networks, are vertically and horizontally linked compared to non-participants.

Concerning the institutional factors, MSEs' participating in business development services have more access to market compared to non-participants. This confirms that most non-participant MSEs reside far from market centers.

Business experience (Firm Age) is the most important factor which increases the MSEs participation in BDS since experienced managers are eager to grow more. So MSE sector coordination and cooperation had been seen to be crucial in the related literature, by creating link between sectors, such as MSEs, micro finance, TVET, line bureaus and NGOs for providing BDS including continuous business development training and capacity building of MSEs based on the performance and growth level of the MSEs.

On the other hand, results of the econometric model indicated that from a total of eleven explanatory variables included in the model, eight variables had shown significant relationship with MSEs participation. Accordingly, sex and educational status of MSE manager, firm age, access to market, access to finance, amount of start-up capital, MSE business organization and access to vertical linkages were found to have positive and significant influence on MSEs business development services participation status. In addition, the challenges and opportunities of MSEs sector in the study area were identified. Results from focus group discussion and key informants interview show that the major opportunities for MSEs' development in the study area include: Employment opportunity, credit facility without collateral, start-up training, growing demand and national policy in this order. Results show that the major challenges that MSEs in the study area are facing include: Lack of working capital, lack of credit and problem of credit utilization, lack of business and financial management skills, abnormal competition by investors and some government employees, lack of creativity by MSE members, inadequate training and lack or inadequate working place and working machinery in this order.

5.2. Recommendations

Since MSEs are believed to have a vital role in poverty reduction, employment generation as well as economic development in poor countries like Ethiopia, a special attention should be given to those factors that influence MSEs business participation in development services. In addition to this, the study summarized and presents the following recommendations that focus the key operational constraints and entry barriers to the policy makers and other concerned bodies in the study area:

Administrative bodies should give high emphasis to prepare BDSs along with business environment conducive for the emergence of new MSEs and support that increase the productivity of existing MSEs both formal and non-formal by Focusing on skills development which is vital for increasing firm productivity. The availability of cash and-cash start-up factor shall also significantly attract MSEs to participate BDSs and become formal MSEs. Experience sharing (National and international) with other sectors and within Jigjiga city and other cities is also crucial for MSEs establishment and increasing BDS participation of MSEs.

Preparation of different market exhibitions which help enterprises to get market access and market linkages for their products and services as well as share good habits of work among them that leads enterprises to sustain in the business is essential.

Access to finance was one of the crucial factors that determine the MSEs' participation in BDSs. Therefore, the Jigjiga city council should provide affordable alternative sources of finance including non-interest Islamic financial support for MSEs in the study area. This can be done by communicating with the banks and other credit institutions to revise their requirements. It is important to create awareness and develop employees skills and education as adults through continuous in-job trainings, including entrepreneurial trainings given by financial institutions and NGOs to save and manage finance properly, in order to enable MSEs to get enough access to finance for their business activities. Gender is also an important factor in MSEs' participation in BDSs. Business that are owned/managed by female entrepreneur face dual challenges, one is structural problems (problems common to all MSE owners) and the other is women-specific problems such as gender biased practices,

socio-cultural factors, unbalanced household responsibilities, unequal access to markets, illiteracy and lack of business skills. Therefore, local and regional government agencies, universities and TVET, financial institutions, private service business providers should give special attention and support for MSEs that are owned/managed by female.

The owners/managers of MSEs should form groups (cooperatives) and make use of pooled negotiating power for borrowing purposes or support and communicate with each other any valuable market information. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production. Through increased and improved vertical market linkages, MSEs of Jigjiga city will increase their participation to BDS, which shall enable MSEs to exchange services such as urgent input delivery, advertising amongst themselves for free, work with exporters and large firms through accepting order and subcontracting work and use common display centers. This will also enhance their competitiveness through a reduction of the cost of production. The benefit of sharing such service for the owners/managers of MSEs is that it will strengthen the future survival, profitability and eventual growth of MSEs and external relationship of enterprises with individual, government body and different institutions are created.

In view of the above, this study recommends the following points that appear to be considered for the participation of MSEs in business development services in the study area. These are:

- Capacitate and support both formal and non-formal MSE operators, since both types contribute to the national economic growth and poverty reduction.
- Identify business areas where MSEs can successfully participate as supplier, intermediate producer or distributor.
- Promote research projects that can successfully narrow down information gap in areas of MSEs business development and contribution to the economy.
- Improve business management/ entrepreneurial skills like record keeping, customer satisfaction, and product inspection practices.
- Copy technologies and adapt technology transfer to enable having adequate knowledge, competence and skill of using machineries.
- Enhance linkage among MSEs and with productive modern sectors.

- Strengthen and facilitate the provision of credit and financial support
- Provide adequate marketing premises and market linkages.
- Improve or maintain administrative efficiency.
- Organize adult education programs for increasing MSEs operators' basic knowledge

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APPENDICES

APPENDIX-I

Multicollinearity test using VIF test

Variable	VIF	1/VIF
MSE business organization	1.25	0.80
Access to finance	1.48	0.68
Horizontal linkages	1.50	0.66
Educational status	1.33	0.75
MSE business type	1.47	0.68
Amount of start-up capital	1.43	0.70
Firm Age	1.41	0.71
Sex of MSE manager	1.24	0.81
Access to market	1.16	0.86
Access to social network	1.23	0.81
Vertical linkage	1.21	0.83
Mean VIF	1.34	

Source: own computational result, 2017.

APPENDIX -II

Survey Questionnaire

OSS Serial No. _____

MSE Serial No. _____

Introduction.

“Good morning/afternoon. Thank you for allowing time to speak with us. My Name is We are conducting a survey to assess the **Determinants of Micro and Small Enterprises (MSEs) Participation** in the Somali Regional State of Ethiopia, particularly, the Jigjiga city council in order to collect a necessary information for finalizing MSC research paper of **Mr. Mubarak Ahmed Mohamed** who is postgraduate student in HARAMAYA UNIVERSITY. The purpose of the survey is to examine the MSEs performance and identify factors affecting MSEs development participation and challenges. The survey will help the regional government in general and the concerned MSEs development stakeholders in particular, such as the regional MSEs policy designers and implementers.

However, my dear respondent, this questionnaire has been prepared so as to conduct a research paper which is partial fulfillment for the Masters of Science Degree (MSC) in Agricultural Economics. My dear, your participation in filling this questionnaire is voluntary, whereas the information of your business will be handled and stored with the highest order of confidentiality, and will be kept anonymous at all times.

Research Title: - “Determinants of MSEs Development participation in the Somali Regional State of Ethiopia;

the case of Jigjiga city council Administration.”

Researcher: - Mubarak Ahmed Mohamed.

There are 10 sections in the survey. We are going to ask you questions about your business, such as its size, sector, challenges, kind of business assistance you have received from government and other organizations and whether the support is useful and etc. At the end, we will leave some time for you to share other relevant experiences and views that we may have Not covered in the survey.

You can contact us at: **+251-915744458** if you have any issues or comments. Also if you would like

to access the results of this survey, the final result and recommendations will be made available to you

in May 2016, and you may request for a copy. Do we have your consent to continue? Yes or NO.

Thanks for your cooperation in advance.

Section Zero: Summary Information.

For Supervisors Only.

0.1 Survey staff information.

No.	Survey Staff	Name	Code	Date (Eth. Cl.)		
				Day	Month	Year
	Enumerator					
	Supervisor					

0.2 Questionnaire Status: Please circle the option which suits the status of each questionnaire after data collection:

One: Fully Responded1

Two: Partially Responded2

Three: Not Responded at all / Refused 3

1.2	MSE Sectors Classifications	Code
	For Industry Sector 1= micro 0=small	
	For service sector 1=Micro 0= Small	

FEMSEDA MSEs (Micro & Small enterprises) Classification details.

Level of the enterprise	Sector	Staff / Workers	Total Asset/Capital
Micro enterprise	Industry	<=5	<=100,000

	Service	<=5	<=50,000
Small enterprise	Industry	6-30	From 100,001 and <birr 1.5 Million
	Service	6-30	From 50,001 and <birr 500,000

Section One: Company Background

Q1	Classify business type based on their relative sub-sectors?	Code
	1=manufacturing 2=construction 3= Urban agriculture 4= Trade 5= Service 6= Other Industry sub-sector Specify _____ 7= Other service sub-sector Specify _____	

	Is the Ownership Of the Enterprise Sole proprietorship or Different (1=Sole Prop. 0=Different)	Code
	If different from Sole Proprietorship What is the other ownership form of the enterprise?	
	1= Partnership; 2= MSE Cooperative 3= other, please specify _____	
	Please write below the information of owner/s of the enterprise currently?	
	Marital status: (1=Male 0=Female)	
	Religion: (Muslim=1, Christian=0) 2=Others specify_____	
	Is the Manager of the MSE Married or Not (1=Yes, 0=No)	
	Is the Manager of the MSE graduated from TVET? (1= yes 0= No)	
	Is the Manager of the MSE Certified by the C.o.C as competent? (1= yes 0= No)	

	If yes to the above Q. which level (1=For Level-one-or-Two) 0=For Level-3 or above)	
	Is the Owner of the MSE the Manager or Not? (1=yes, 0=No)	
	If yes to the above question does he/she have another source of Income (1=yes. 0=No)	

Q4. Please give detailed profile of owners/ Managers as per the following Table

Owners (A)	Sex (B)	Age (C)	Education level (D)	Percentage of ownership (E)	Position in the company (F)
	Code 1.7.B		Code 1.7.D		Code 1.7.F
Owner - Manager					
Manager Not Owner					
Owner 2					
Owner 3					
Owner 4					
Owner 5					
Owner 6					
Owner 7					
Owner 8					

Owner 9					
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Answers Codes

Code 1.7.B (sex)	Code 1.7.D (education)	Code 1.7.F Position in the company (F)
1= male	1= Illiterate	1= general manager
2= female	2= Literate but No formal education	2= finance manager
	3= primary / Intermediate level (1-8)	3= accountant
	5= high school level (9-12)	5= communications
	6= TVET graduate (Level-I up to IV)	6= marketing
	7= Non-vocational diploma	7= others
	8= university/ college first degree and above	8= Not Employee in the Enterprise

Section 2: Enterprise Employees

	Questions	Establishment year (E.c. _____)			End of 2008 E.c.	
		M	F	Total	M	F
Q5.	How much workers do you have including managers					

Section 3: Business Capital / Marketing.

Q6	Please state the initial capital and changes in total capital /Asset starting Business and end of 2008	Establishment Year.	At the End of 2008 E.C
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	E.C.		
	Start-up Capital (ETB)		
	Amount of Working Capital (Production & Operational Costs)		
	estimated capital growth (%)		

	Please write the Sales revenue, of your enterprise?	End Of establishment year E. c	2008 E. c.
	Estimated annual revenue (ETB)		
	What was the profit earnings (ETB)		

Q8	<i>Have you registered to receive support from any of the following organizations? (1=Yes, 0=No)</i> <i>If yes to above Q. Please state the Organization that registered your Enterprise ?</i>	Code
	1= Regional MSE Agency	
	2=TVET	
	3= One Stop service Shops Of the City council	
	4=Others... Specify _____	
	5==I have Not received support from any organization	
Q9	If yes to Q8 How would you rank each business registration process? (1= Simple 0=Difficult)	

Working and business premises

Q10	Is the ownership of working business premise yours ? (1=yes 0=No)	Code

	<p>If the above question is No what is the other form of ownership?</p> <p>1=Rented</p> <p>2= Government-owned</p> <p>3= family gift</p> <p>4= others, specify_____</p>	
Q11	<p>What is the most important advantage of your Enterprise location?</p> <p>1= Near customers / Markets</p> <p>2= near infrastructure</p> <p>3= near to my home</p> <p>4= My location is Not very advantageous</p> <p>5= Others (please specify)_____</p>	
Q12	Are you looking for other places? (1=Yes 0=No)	
	<p>If yes to the above question is it because the current place is:</p> <p>1= too expensive</p> <p>2= too far from customers or market./acess</p> <p>3= Far from Infrastructure</p> <p>4=others, specify _____</p>	

Q13	does your enterprise have only one shopping center in Jigjiga City (1=yes 0=No I have more than 1)	
Q14	If No to above Q. Please tell us the markets of your enterprise?	Code
	<p>1=Jigjiga plus Other regional Markets</p> <p>2=Jigjiga plus Other regional and National Markets</p> <p>3=Jigjiga plus National / international Markets</p>	

Section 4: Business Entrepreneurship (Ask Owner-Manager Only)

Questions	Code
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Q15	Had you any job before establishing this enterprise (1=yes 0=No)	
	If yes to the above Q. What was your job before you establish/joined this enterprise?	
	1 = housewife 2= student 3= operating similar business (own) 4= civil servant (government employee) 5= private sector /NGOs worker 6= others (Specify _____)	
Q16	Is your business growing and successful for the last years ? (1=yes, 0=No)	
	If yes To the Q16. Who helped you make your business successful? (check all that apply)	
	1= No One 2 = My partners 3= government support 4= private/NGOs training providers 5= financial institutions 6= my immediate family 7= other factors, specify_____	
Q17	What is the most important thing you have done to make your business successful? 1= committed my full time, attention and hard work 2= secured revenue for my business 3= others, specify _____	
Q18	What personal specific skills do you have to make your business successful? (Choose the most important 3-skills)	

	1= technical skills 2= business leadership and communication 3= Entrepreneurial mind set 4= Hard work 5= finance 6= marketing 7= None 8= others, specify _____	
Q19	<p>If you have business partners what skill do they have contributed to make your business successful? Multiple options are possible taking in consideration of all partners.</p> 1= technical skills 2= business leadership and communication 3= Entrepreneurial mind set 4= Hard work 5= finance 6= marketing 7= None 8= others, specify _____	
Q20	Why did you prefer to engage in this type of enterprise? Please select the three most important factors and rank them from one to three.	
	- family tradition	
	- Not enough money to start the business I wanted	
	- similar to my past experience	
	- high income in the future	
	- take the advantage of available package	
	- No other employment opportunity	

	- other reason (Specify)_____	
Q21	Evaluating your business status, is your business plan for the future to continue? (1=yes, 0=No)	
	<p>If yes to above Q. write the detail of your plan.</p> <p>1= continue with the same business</p> <p>2= continue, but with different business type</p> <p>3= continue and expand</p> <p>5= uncertain or Not sure</p> <p>6=other Specify _____</p>	
	Did any co-owner or founder-members leave this enterprise since establishment?(1= Yes, 0=No)	
Q22	If Yes, how many left the enterprise? Male : _____ Female _____	
	<p>What were the reasons for departure? (more than one answer is allowed)</p> <p>1= employment (better salary)</p> <p>2= start operating individually</p> <p>3= frustrated by the growth of this business</p> <p>4=lower profit than expected</p> <p>5= disagreement with management</p> <p>6= lack of (inadequate) external support</p> <p>7= don't know</p> <p>8= Other reasons, List _____</p>	
Q23	Are you searching for a different job? (1=Yes 0=No)	
Q24	<p>If you were offered a job somewhere else, what would be your decision?</p> <p>1= never leave my business</p> <p>2= It depends on the size of salary</p>	

	3= cannot decide Now 4= Other Specify _____	
Q25	Did any of the following has positively supported your decision to start a business? 1= family 2= friends 3= Government 4= Nobody 5= others, specify	
Q26	What kind of support do you receive from family and friends? Choose the most important? you may choose more than one option. 1= financing 2= market linkage 3= others, specify _____ 4= I do not receive any support	
Q27	What distinguishes your business from your competitors to give you a competitive advantage (multiple response is limited to 3 responses) 1= No such a difference 2= access to better location 3= unique technology of product 4= lower price 5= higher quality 6= better customer service and support 7= I do not know	
Q28		

	Other Specify _____	
	If Yes, do you own adequate collateral for credit (1=yes. 0=No)	
	Do you know the existence of Islamic Credit/Loan for your business Investment (1=yes 0=No)	
	<p>If yes to the above Q. have you taken any credit (1=yes 0=No)</p> <p>If No to the above Q. why don't you take the loan/credit?</p>	
	<p>1=I have no Collateral</p> <p>2=My collateral cannot fulfill the conditions required by the creditor</p> <p>3=There is complicated, Long procedures</p> <p>4=Other Specify _____</p>	
	Are there challenges in accessing loan? (1=yes 0=No)	
	<p>What are the top 3 challenges in accessing loan?</p> <p>1= high collateral requirement</p> <p>2= long bureaucracy to secure loans</p> <p>3= short time for repayment</p> <p>4=pressure from lender if family, friends and lenders</p> <p>5=high interest rate</p> <p>6=developing business plan and feasibility analysis</p> <p>7= insufficient loan ceiling</p> <p>8=don't know where to ask</p> <p>9=There is Interest Rate Criteria that My religion Prohibits</p> <p>10= None</p> <p>11= others, specify _____</p>	
	Have any of the above challenges been solved during the last 2 years specific for each selected challenges (1=Yes, 0=No)	
	- high collateral requirement	
	- long bureaucracy to secure loans	
	- short time for repayment	
	- pressure from lender if family, friends and lenders	
	- high interest rate	
	- developing business plan and feasibility analysis	
	- insufficient loan ceiling	
	- don't know where to ask	
	- None	
	- others, specify _____	
	Business financing from Grant Fund	

	Have you ever received any grant fund ? (1=Yes, 0=No)	
	If yes. Which Institution have you received the Grant? 1= microfinance 2=debt from family 3= debt associations (iqub) 4= saving and credit cooperatives (SACCO) 5= Individual renders 6= regular bank 7= others, specify	

Section 6: Training

6.1	Have you ever been given any training from the TVET Institutions (1= Yes 0=No)	
6.2	If you have been trained by another Institution rather than TVET which institutions have you been trained? 1=Non-government Institution 2=MSE Agency 3=Women Empowerment Development Program 3= One stop services centers 4= Others, Please Specify_____	
6.3	How was the quality of services, parameters being: 1= Excellent 2= Good 3= Poor 4= Very Poor 5= Don't Know	

6.5	What kind of training have you taken? (you can answer more than one) a. technical training. Example: <ul style="list-style-type: none"> . new product development and innovation . quality assurance/control . production efficient and competitiveness 				
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	<i>b. business skills training. Example:</i> . financial management and tax administration . communication, marketing, and market linkages . leadership and motivational skills . business skills or Strategic plan preparation . linkage creation . Other, specify _____				
	Were any of these trainings helpful? 1= helpful 2= Not helpful				
	What is the major reason that is holding you back from taking more training? 1= do Not have enough time 2=do Not know where to get training 3=do Not have enough money to pay for the training I want 4= others, specify _____				

Section 7: Business development Services (BDS).

		In establishing your business	After starting
7.1	Did you receive business development services from any government or other institutions? (1= Yes 0=No)		
7.3	If yes to the above Q. Which services did you receive? 1=business planning and financial services 2=entrepreneurship training 3=marketing 4= government loan package/credit guarantee 5=advisory services on legal matters and taxation		

	6=Kaizen 7=Others Specify _____		
	If yes for above question, from which institution? 1= REMSEDA 2=TVET 3= OSS 4= others, specify_____		
	what is the level of satisfaction for each of the services you received? 1= highly satisfied 2= fairly satisfied 3= satisfied 4= Not satisfied 5= Don't know)		

Section 8: One-Stop-Service (OSS)

8.1	Questions	At establishing Business	After Establishment year
	Is your enterprise registered for One-Stop-Service(OSS) ? (1=yes 0=No)		
	If yes to above Q. Have you started to use the services (1=Yes 0=No)		
	If yes , to the above which service /s are you using Now? you may choose more than one option. 1= advise and technical support in business plan preparation 2= registration of business 3=bookkeeping and audit service 4=credit and saving Service 5=Market linkages among enterprises		

	6=Experience sharing with successful enterprises 7= physical infrastructure (Communication like phone, internet; Working space; utilities) 8= Other specify _____		
	Rank the quality of service you received? 1= Excellent 2=Good 3=poor 4=very poor		
	If your enterprise is Not registered for OSS, why? 1= Do Not know about the services 2= Do Not think I need the services 3= The location is Not convenient 4= The service is Not relevant for my type of business 5= Not required 4= other reason, specify _____		

Section 9. Challenges / Problems

9.1	Pr	Pleas encircle the following problems in the order of degree that problems affect on your business activity. (0=Not at all, 1= minor, 2=moderate and 3=major).	Order			
			0	1	2	3
	k	Lack of adequate working capital				
	M	Market demand problem				
		Absence of weekly local market				
		Financial problem				
		Unfair Competition from greater/other enterprises				
		Poor Studied business start up				
		High Rental cost				
	In	Inappropriate location of business area				
		High Taxation				
		Inadequate supply of inputs				

	R	Regulation that affect starting operating, getting license, expanding business and obtain working premises				
		Infrastructure problem (water, telecommunication and electricity)				
	Ec	Technology problem				
		Skilled labour				
		Lack of Managerial Skill				
	A	Lack of confidence to take risk				
		Problem of mobility a result of house hold chores				
		Lack of support from the rest of house hold member				
		Customers / Market				
		Working and sales space				
		Government support				
		International market opportunities				
		Others Specify				

9.2 What kind of measures should be taken to improve the existing situation of your enterprises ?

Section 10. Is there anything you would like to comment on _____

Focus group discussion (FDG)

Session for FGD with key informants and MSEs Business Owners

1. What is the condition of your MSEs in terms of BDS participation?

2. How is the participation status of MSE your in business?
3. What are the main reasons that make you to engage in MES business?
4. What constraints your MSE is facing since establishment?
5. What are the opportunities in Jigjiga to engage in MSE? (Policy environment, infrastructure, human resource, training etc.)
6. Prioritizing factors affecting MSEs business participation (By pair wise ranking they prioritize the problem and the most frequent problem in terms of
 - Working capital
 - Training for the business
 - Level of innovation
 - Credit utilization
 - Infrastructure
 - Entrepreneurial skill
 - Managerial Incompetence
7. What is the intensity of linkage of your MSEs business with other MSEs and stakeholders?
8. In your opinion, what factors that might affect participation of MSE?
9. Please express your general Opinion

Interview guide for Officials and Experts

Interview will be conducted with the Jigjiga City MSE Office head and Jigjiga City trade and Transport office head and team leaders/experts of micro and small enterprise development departments at Regional and Council levels based on the following guidelines. You are kindly requested to participate in this study .Primarily, the study will be carried out for academic purpose and through it will help to identify the factors that affect the Participation of Micro and Small Enterprises in Jigjiga town.

1.Job Position

.....

2. Education level

.....

3. Age.....

4. Sex:

1. What are the factors that contribute to the MSEs participation in Jigjiga Council.
2. How much do you see the marketing performance of MSEs enterprises in Jigjiga.

A) Industry Micro Enterprises.

.....

B) Industry Small Enterprises.:

C) Service Micro Enterprises:

D) Service Small Enterprises:

3. What are the society's attitude towards MSEs ?
4. What are the types of services provided to MSEs by government or Donors?
5. What are the pre-requisites of MSEs are asked for supporting MSEs in the Town?
6. What are the challenges and Opportunities of MSEs participation in the Town?
7. What Measures are taken by your office to tackle the problems?