ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

THE IMPACT OF BUSINESS DEVELOPMENT SERVICE ON THE GROWTH POTENTIAL OF MICRO AND SMALL ENTERPRISES IN ADDIS ABABA, THE CASE OF NIFAS SILK LAFTO SUB CITY WOREDA 01

BY

WONDIMAGEGN TADESSE

MARCH, 2022

ADDIS ABABA, ETHIOPIA

THE IMPACT OF BUSINESS DEVELOPMENT SERVICE ON THE GROWTH POTENTIAL OF MICRO AND SMALL ENTERPRISES IN ADDIS ABABA, THE CASE OF NIFAS SILK LAFTO SUB CITY WOREDA 01

A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF ARTS DEGREE IN DEVELOPMENT MANAGEMENT

BY

WONDIMAGEGN TADESSE

ADVISOR

ADVISOR: MARU SHETE (PHD)

MARCH, 2022

ADDIS ABABA, ETHIOPIA

THE BOARD OF EXAMINERS

As members of the examining board of the final M.Sc. thesis open defense, we certify that we have read and evaluated the thesis prepared Wondimagegn Tadesse entitled: " The Impact Of Business Development Service On The Growth Potential Of Micro And Small Enterprises In Addis Ababa, The Case Of Nifas Silk Lafto Sub City Woreda 01" and recommend that it to be accepted as fulfilling the thesis requirement for Master of Art degree in Development Management.

APPROVED BY BOARD OF EXAMINERS;

Dean: _____ Signature _____Date_____

Examiner (External):_____Signature_____Date_____

Examiner (Internal):_____Signature_____Date_____

Advisor: _____Signature_____ Date_____

DECLARATION

I hereby declare that this thesis entitled "The Impact Of Business Development Service On The Growth Potential Of Micro And Small Enterprises In Addis Ababa, The Case Of Nifas Silk Lafto Sub City Woreda 01" is my original work, has not been presented for degrees in any other University and all sources of materials used for the thesis have been duly acknowledged.

WONDIMAGEGN TADESSE

SIGNATURE_____

MARCH, 2022

ADDIS ABABA, ETHIOPIA

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Maru Shete (PHD) _____

Advisor Signature

St. Mary's University, Addis Ababa

March, 2022

Table of Content

Contents

ACRONYMS

BDS..... Business Development Services

CAGR..... Compound Annual Growth Rate

FDRE..... Federal Democratic Republic of Ethiopia

FeMSEDA.....Federal Micro and Small Enterprises Development Agency

GoFDRE..... Government of the Federal Democratic Republic of Ethiopia

ILO..... International Labor Organization

MSE..... Micro and Small Enterprises

MSEDP.....Micro and Small Enterprise Development Program

NBE.....National Bank of Ethiopia

NGO..... Non Government Organizations

USAID.....United State Agency for International Development

OLS..... Ordinary Least Square

VIF .....Variance Inflation Factor

ACKNOWLEDGMENT

First of all, I thank Almighty God and Mother of Jesus Christ St. Marry for helping me to succeed throughout my life and for giving me the strength and patience. I would like to thanks my Advisor Maru Shete (PhD) for his unwavering support, constructive feedback and he has been kind enough to devote his time to follow up each of my paper. Next my sincere thanks go to the employees of the Nifas Silk Lafto Sub city Woreda 01 all departments. My Special thanks go to my mom Aster Bacha and my dad Tadesse Work my Brothers Bini, Dani and Bekisha deserves my appreciations for their love, care, moral and financial support. Finally, I would like to acknowledge my love Mekdes Abera for her unlimited support.

ABSTRACT

Micro and small enterprises (MSEs) are believed to have a vital role in poverty reduction, employment generation as well as economic development in less developed countries like Ethiopia. However, the growth potential of MSEs has been challenged by lack of support in terms of business development services (BDS). Thus, this study examines the effects of Business Development Service (BDS) support on the growth potential of Micro and Small Enterprises (MSE) in Addis Ababa City Nifas Silk Lafto Sub City woreda 01. The data for the study were collected from 144 randomly sampled Medium and Small Enterprises (MSE) operating Nifas Silk Lafto Sub City woreda 01 and the data was collected via self administered questioners. To achieve objectives of the study, both descriptive and inferential statistical method of analysis was used to analyze the collected data. The Business Development Service (BDS) factors were included as predictor's variables. Statistical models that handle the complexities of the predictors' variables and continues response variable were employed. Econometrics model specifically multiple regression was used to investigate the impact of predictors variable on the response variable. The result of the regression model showed that BDS have a significant impact on the performance of MSE and it plays a significant role to boost the performance of MSE in terms of both its employment and sales volume growth. Specifically, BSD factors such as market linkage and received entrepreneur and technical training statistically significant and positively associated the employment and sales volume growth MSE. Hence, to promote of growth of MSEs in the as well as to attract domestic investors in MSEs sectors in the study place, the researcher recommend priority should be given to address the identified BDS factors is required.

Keywords: BDS, Medium and Small Enterprises, Growth of MSE, Multiple Regression Model

CHAPTER ONE

INTRODUCTION

1.1. Backgrounds of the Study

Micro and small enterprises (MSEs) are the best solutions for the country's gross domestic development, reduction of unemployment, and creating smooth economic environments. In fast-growing countries, MSEs create more jobs for young graduates, because these enterprises do not require, space/size, training, capital, and sophisticated technologies (Saleem, 2017).

Micro and Small Enterprises (MSEs) have been accepted worldwide as one instrument of economic growth and development (Churchill et al., 2014). MSE play an important economic role in many countries and are recognized as important vehicles of economic diversification, employment creation, income generation and poverty alleviation. Moreover, MSEs in both developed and developing countries are seen as one of the most important alternative sector in fostering socio economic developments because of their high contributions to employment and poverty reduction, particularly in many developing countries where there is a challenge of unemployment and poverty (Abiyu, 2011).

In November 1997, the Ethiopian Ministry of Trade and Industry (MoTI) published the "Micro and Small Enterprises Development Strategy: MSEDS", which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. Following the publication of MSE development strategic document, the government of Ethiopia set up Federal Micro and Small Enterprise Development Agency (FeMSEDA). The regional states also developed MSE promotion strategies based on their context and in tandem with the federal MSEDS so that the states structured Regional Micro and Small Enterprises Development Agencies (ReMSEDAs) to

facilitate implementation of the strategies (MoTI 1997). This strategy is helpful to have a legal framework, institutionalize, and create supportive environments (Degefu, 2018). In Ethiopia, these enterprises absorbed more manpower in the system, need less startup cost, and produce inputs or raw materials for large industries (Saleem, 2017). However, the growth of micro and small enterprises are exposed to different challenges in Ethiopia such as lack of access to markets, finance, low ability to acquire skills and managerial expertise, high mortality rate, low access to appropriate technology, bureaucratic and administrative challenges, lack of entrepreneurial skills, and poor access to quality business infrastructure. These challenges also become similar in Cape coasts and other countries (Abebaw et al., 2018; Gbadeyan et al., 2017; Ndege & Park, 2015).

As most of the developed and developing countries, Ethiopia also gives recognition to micro and small enterprise. According to Ethiopia's industrial development strategic plan, (2013-2015) Ethiopia emphasizes the role of MSE in the Ethiopian economy. As per this strategic plan, MSEs stimulate economic growth, create employment opportunities and reduce poverty. Besides the above strategic plan due to its large presence in the current share of employment in Ethiopia, economy the importance of MSE in the Ethiopian economy is magnificent. To strengthen this fact the Central Statics Authority (CSA, 2005) survey report revealed that the operators who engaged in MSE in 48 major towns of Ethiopia nearly 588,000 which employ 740,000 people.

According to MSEDA (2011) strategic plan, MSE has been given recognition in the industry development plan and serves as a vehicle for employment opportunities. However, this strategic document explicitly stated that the core problems in the process of developing MSE. These include technology, skill, capital, market linkage, and backward attitude in teamwork.

1.2. Statement of the Problem

Micro and Small Enterprise (MSE) have a very crucial place in the Ethiopian industrialization plan (FeMSEDA, 2015). This is because the central point of Ethiopia's economic development plan is to create job opportunities and MSEs are the most important means of job creations, especially in towns. In so doing, MSE has been given a great emphasis by the government of Ethiopia and different organizations and they are playing their roles to bring youth to Small-scale business.

The MSE sector is characterized by highly diversified activities, which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for the unemployment problem and in fact, it is a vital sector in creating job opportunities and development of the economy (Melkam, 2018, FMSEDA, 2006). In addition, FeMSEDA (2015) stated that micro and small enterprises play an important role in poverty reduction, employment creation, and private sector development. Moreover, there is a great role of micro and small enterprises in improving the living standards of the entrepreneurial households, enabling them to increase basic needs such as food, education, and health facilities, as well as production, investment, and income (Tariku, 2018). According to this, the strategic plan of FeMSEDA (2015) committed to creating three million jobs during the plan period throughout the country mainly via small and micro-enterprises. To attain its objectives, the agency promises to provide BDS support to the enterprises of the MSEs, with the plan of providing BDS to 245,610 enterprises (FeMSEDA, 2015).

However, the MSEs especially in developing countries lack the awareness, readiness, and even flexibility to accept emerging technologies, improved working modalities, raising funds from

saving and credit associations and other financial companies, and modern marketing and promotion strategies (Bizusew, 2015). Not only this, ILO (2015) indicated that different institutional policy, operational, financial, and non-financial constraints, lack of innovation, lack of use of appropriate technology are some of MSE to be blamed for the dearth of their success.

The problems encountered by MSEs are both at the start-up and establishment phases. The majority of MSEs are survival-driven; strive to secure the basic needs of an entrepreneur, with a lack of capital, skill, and knowledge to manage their business. All these forced enterprises to produce poor quality products and have lower productivity; these situations led to poor performance, stagnant growth. Moreover, most of the MSEs are dropout or stagnant at the same level for more than 10 years and goes out of operation and they cannot solve their business development issues by utilizing their capacity (DOTE, 2014).

According to the current data gathered from Nifas Silk Lafto Sub City, Micro and Small Enterprise Development office, there are 27 MSE that terminated their agreement and returned their license within 13 Months (June 2019 up to July 2020) due to the shortage of BDS from the government and non-governmental organization(NGO). The most important external factors influencing the growth of MSEs include access to finance, competition, and limited production/marketplace, lack of market for the product or service; and other trade barriers.

The above evidence shows that unless the MSEs are supported by business development services and motivated, the promotion and appreciation of the development through MSEs cannot bring the dreamed result. Accordingly, this can be a clear indication of how much these MSE are starving for external support, as the challenges are not resolved through their effort only. As a result, the importance of business development service is undoubtedly for the development of MSE to cultivate the intended fruit of MSEs.

Even though there is considerable, attention has given to the supply of BDS to MSEs, demand for measuring the impact of BDS on MSEs Performance has been given relatively less focus. As per the knowledge of the researcher, there is a scarcity of studies on business development service and its impact in the study area. In addition, the studies conducted previously not comprehensive including all MSE sectors rather it focuses only on one or two MSE sectors. For instance (Antenane, 2017 and Addisu, 2016) and the literatures had gaps that all of them share in common such as they failed to consider all MSE sectors focus only on training in terms of BDS type, manufacturing sector in terms of MSE sectors, government providers in terms of BDS providers. Moreover, most of them are focused on MSE'S financial constraints and challenges rather than business development services (non-financial aspects).

So as to fill these research gaps, this paper aims to study the effects of business development service (BDS) (non-financial services) support on the growth of micro and small enterprises (MSE) in Addis Ababa, Nifas Silk Lafto woreal 01 administration through conducting both governmental and nongovernmental organization provided BDS with the entire five sectors MSEs and incorporating most prominent BDS types. Therefore, this paper provided to these five dimensions of sectors to be in need of BDS at which earlier researches overlooked to do so.

1.3. Research Questions

This research emphasized on the impact of BDS on growth potential and MSEs in Nifas Silk Lafto Sub City woreda 01of Addis Ababa and the study attempted to answer the following questions.

i. How does Business Development Services (BDS) affect the growth MSE in sales volume of the enterprise?

ii. How does Business Development Services (BDS) affect the growth MSE in employment growth the enterprise?

1.4. Objectives of the Study

The General Objective

The general objective of this study is to examine the effects of Business Development Service (BDS) support on the growth potential of Micro and Small Enterprises (MSE) in Addis Ababa City Nifas Silk Lafto Sub City woreda 01.

The Specific Objectives of the study are to

i. Examine the effect of Business Training supports on the growth potencial of Micro and Small Enterprises (MSE).
ii. Examine the effect of working premises on the growth of the Micro and Small Enterprises (MSE)
iii. Examine the effect of Market linkage on the growth of the Micro and Small Enterprises (MSE)

1.5. Significance of the Study

Understanding the determinants of firm growth and constraints of MSEs are very essential to policy makers, government actors, NGOs and other stakeholders to support, encourage, and promote the sector through minimizing the factors obstructing the growth of enterprises. Therefore, this study will helps government actors, policy makers, NGOs and other stakeholders to address the determinants of MSE growth potential and their constraints in order to reduce unemployment and poverty problems.

In addition, the findings of this study will also offer alternative actions just to focus on the most powerful constraints to enhance the growth potential of MSE sector in Nifas Silk Lafto Sub City Woreda 01 of Addis Ababa City Administration as well as in Ethiopia.

1.6. Scope and Delimitation of the Study

The scope of this study is limited to address the objectives stated in this research and focused on MSE sectors that are grouped into manufacturing, construction, service, trade and urban agriculture. Geographically, this study was confined to Nifas Silk Lafto Cub City of Addis Ababa City Administration Woreda 01. The potential limitations of this research were time and financial constraints.

1.7. Organization of the Paper

The rest of the paper is organized as follows. Chapter two contains both theoretical and empirical literature reviews. Chapter three describes the methodological issues of the study and chapter four will gives the results and interpretations. Finally, discussions conclusions and policy implication of the study are presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

This section deals with a theoretical and empirical literature review of the concept of this specific study. The section commences with the definition of business development service (BDS), micro and small enterprise (MSE), and their importance for the development of a country. The theoretical aspect of the literature will forward the concept of BDS and MSE. In its empirical literature, the review part also assesses previous studies conducted by researchers regarding MSE and BDS.

2.1 Theoretical Literature Review

2.1.1. Introduction

MSEs are defined in a range of ways using different factors like; the number of employees, volume of sales, and the capital value of the business (Bizusew, 2015). Although there is no generally accepted definition of MSE, agencies and institutions have defined MSEs differently to suit their concept and operations.

The definition given for MSE differs from country to country, depending on the stage of economic development and population. For instance, a developed country such as the USA and Europe defined MSE on the basis of the number of employment and turnover. (Habtamu, 2010). In developing countries including Ethiopia, the definition of MSE mainly relies on employment, capital investment, production capacity, level of technology, and subsector (World Bank, 2010).From this, we can learn that there is no common definition of MSEs and that the definitions vary from country to country depending largely on the size of the economy, the levels of development, culture, and population size of a country involved.

In Ethiopia, the definition of MSE was based on different criteria by different institutions. For instance, Ministry of trade and industry defined MSEs based on paid-up capital only. Based on the definition of MoTI (1997) "Microenterprises are small business enterprises with a paid-up capital of not exceeding birr 20,000 whereas, small enterprises are those business enterprises with a paid-up capital of above 20,000 and less than or equal to birr 500,000". In addition to these, the above two definitions given to both microenterprise and small enterprises exclude high technology consultancy firms and other high technology establishments from their criteria to be MSE. As we observed from the above definition of MoTI, it does not provide information on the number of employees and did not differentiate between the manufacturing and service sector.

According to Central Statics Agency, the definition MSEs is based on employment and favours capital-intensive technologies as criteria. Additionally, CSA defined small-scale enterprises as establishments employing less than ten persons and using motor equipment. The definition of MSE by CSA overlooked the size of the total assets of MSEs and focused on the only manufacturing sector. The definition focused only on manufacturing by ignoring other sectors and failed to use the size of the capital in the definition. However, the current definition given by MSEDA (2011) takes into consideration human capital and assets as measures of micro and small enterprises to fill the gaps of the old definition.

Table 2.1 The Scale Micro and Small Enterprises

Level of Enterprise	Sector	Human Power	Total Asset ETB	Total Asset ETB
Micro-Enterprise	Industry	≤ 5	≤ 100,000	≤ 4,630
	Service	≤5	≤ 50,000	≤2,310
Small Enterprise	Industry	6-30	101,000-1.5 M	4,630-69,500
	Service	6-30	50,0001 -500 K	2,310-23,150

Source: MSEDA, 2011; the revised definition of MSE in Ethiopia

The 2011 Micro and Small Enterprises development Strategy of Ethiopia incorporated fresh band of target groups, the graduates in addition to the poor and less skilled citizen to create their own jobs through cooperatives. In this strategy document, the government identified and given priority, attention to five key Micro and Small Enterprises sectors believed to substitute import and engage in manufacturing. The sectors, which were given priority attention, are the manufacturing, the service, construction, urban agriculture and the trade sector.

Table 2.2 MSEs Sectors and Their Basic Business Activities

No.	MSEs Sectors	Basic Business Activities
1	Manufacturing	Textile, Garment, Leather Production, Food & Beverage processing, Metal works, Metal Engineering, Wood works, Agro Processing.
2	Construction	Sub-contracting, Building material provision, traditional mining, cobblestone & Infrastructure subcontracting.
3	Urban Agriculture	Beekeeping, Poultry, Modern Irrigation & Production of vegetables & fruits.
4	Service	Rural transport, Café, Storage, Tourism, Managerial Advisory, Beauty salon, Electronics, Software development and Internet café.

Source: Adopted from FeMSEDA Strategy (2011)

2.1.2 Theories of Performance of Small – Scale Business

There are a number of theories that strive to explain the performance of firms. This study is based on four theories: signalling theory, resource based view theory, the pecking order theory, and the balanced scorecard (BSC). These theories are explained in detail below with empirical evidences:

2.1.2.1 Signaling Theory

This theory assumes interpreting and an attempt of sharing information at hand towards a medium and small business enterprises in relation with the market economy or capital market and putting a claim in using of the upcoming perceptions by the conditions at which finances made available to a business enterprise. In another way, flows of capital between a business enterprises and the existing capital market are based on a mutual information flow among them (Beck et al, 2008).

According to Keasey and Baker (2000), views the potential made by business enterprises to signal its importance to a possibly available investors in terms of signalling a disclosure of an earnings being expected were assured to be positively important to an enterprise value in relation with: percentage value of equity claimed or retained by owners, the net proceeds uphold or raised by an equity issue, the practice of choosing financial advisor to an issues (assuming that a well-known reputable banker, auditor and a professional accountant may yield for a higher level of trust to happen which is best suit for greater level of projections for outshining in the business environment) and finally the degree of under-pricing of an issue.

2.1.2.2 Resource Based View Theory (RBV)

Wernefelt (1984) discovers the idea of resource based view theory or model to understand the notion that a strategy made by a firm be a function of a complementary advantage of a resource

at hand by enterprises. The basic premise of this theory is a relatively competitive advantage would be created in due process when resources are owned solely by a business enterprise, which is used for establishing independent competencies. This opportunity last long because of the difficulty of other firms to substitute and imitate to compute. The available resources a firm holds would determines the way that it functions business activities with relaying various collections of tangible and intangible resource assets, hence according to the theory no two firms contain exactly the type and amount of resources. A business enterprises would be successful depending on the availability of greater level of resources owned by them, which is important for its business operations and strategy, especially the hold of valuable resources by some forms results a competitive advantage to happen and helpful for the company to undertake its activities better than any other potential competitors yields an improvement to its performance.

Additionally Miller and Shamsie (1996) argued that resources should have a function of generating profit and avoiding loss at the same time, could be aligned with the ideas of resource based view model across understanding the dominants of medium and small-scale business enterprises.

2.1.2.3 The Pecking Order Theory

As far as this theory by Norton (1991) is concerned management decisions specifying financial matters follow a peculiar form of hierarchical order starting from retained earnings which is the net income after a finance is paid for all dividends as a stakeholders, attention for debt issues, different forms of finance like convertible loans and finally externally issued aspects of equity like bankruptcy costs, costs by agency and mal-information or information asymmetries which can affect the firm's capital operation strategy.

Additionally a study by Cassar and Holmes (2003) indicated that pecking order theory is mostly related with medium and small business enterprises or sectors because these businesses are characterized by own self-managed ones by the owner so that they don't avoid any problems of ownership criterion in every aspect of their business functioning. These type of own operating and managing businesses are interested in choosing retained profits for their aspirations of keeping control of their assets and business functionalities.

2.1.2.4 The Balanced Scorecard (BSC)

Upon the point of view of Kaplan and Norton (1996), balanced sore card (BSC) underlines the issues managers take in to considerations for creating a desired influence to a business includes four perspectives as: financial perspectives, dimensions of customer perspective, innovation and learning perspective and finally internal organizational perspectives. On the basis of this BSC incorporates both financial and non-financial aspects into a single measurement unit. In this sense, the organization's vision and strategy would be used for driving its BSC objectives and standards. Balanced score card permits business managers to have an overall framework that could change a company's prior vision and strategy into a measurable performance unit.

According to Kaplan and Norton (1996), BSC isn't delimited itself under the scope of monitoring the present existing performance of a firm but extends to gain an information which is opted for understanding the future performance scheme or position that a company may likely have. Practically BSC helps companies to accomplish the following important management processes in translating as well as clarifying vision and strategy, communicating and linking strategic objectives with measurement, plans, setting targets, aligning strategic initiatives, enhancing strategic feedback and creating a medium for strategic learning.

2.1.3 Definition of Business Development Service (BDS)

It is widely accepted that the development and growth of MSE can play for a country's economy in terms of job creation and economic welfare. Nevertheless, the growth and development of MSE siege by different problems. Moreover, starting a business is a risky venture, and warn that the chances of small-business owners making it past the five-year mark are very slim. They should therefore develop both short- and long-term strategies to guard against failure (Sauser, 2005). Due to this fact, the support of MSE has become a burning issue. As a result, in the 1990s the term BDS was coined by the Committee of Donor Agencies for Small Enterprise

According to (CDASED, 2001) BDS is a service that improves the performance of the enterprise, its access to markets, and its ability to compete. The definition of 'business development service'… includes an array of business services [such as training, consultancy, marketing, information, technology development, and transfer, business linkage promotion, etc.], both strategic [medium to long-term issues that improve performance] and operational [day-to-day issues]. BDS is designed to serve individual businesses, as opposed to the larger business community. Business Development Service is a non-financial service provided to MSEs on a formal or informal basis (Belay, 2016).

The provision of business development services includes assistance with market access, input supply, technology and product development, training and technical assistance, infrastructure, policy or advocacy, and alternative financing mechanisms (Miehlbradt and McVay, 2001).

Based on CDASED (2001), classification BDS is divided into two "operational" and "strategic" business services operational services refer to those services needed for day-to-day operations, such as information and communications, management of accounts and tax records, and other services. Whereas, strategic services are those services used by enterprises to address medium- and long-term issues in order to improve business performance, market access, and

competitiveness. In any case, financial services are not included in BDS. These services are primarily aimed at skills transfer or business advice.

Table 2.3 Types of Business Development Service (BDS)

S.N	Types of BDS	Packages of BDS	
1	Market Access	Market Information	Advertising
		Trade Fairs	Packaging
		Market Research	Marketing tips and Meeting
		Product Exhibitions	Sub-contracting and outsourcing
2	Infrastructure	Storage and Warehousing	Internet Access
		Transport and Delivery	Electric Power
		Business Incubators	Production Area
		Telecommunications	Selling Premises
3	Policy Advocacy	Training in policy Advocacy	Sponsorship of Conference
		Analysis of policy constraints & opportunities.	Policy Studies
4	Input Supply	Linking MSEs to input suppliers	Direct Advocacy for MSEs
		Improving suppliers capacity to deliver quality inputs	Information on input supply
5	Training & Technical Assistance	Mentoring	Legal Services
		Feasibility Studies	Documentation Services
		Business Plans	Accountability & Bookkeeping
		Franchising	Technical Training
		Counselling / Advisory Services	Management , HRM , Inventory
6	Technology & Product Development	Technology transfer commercialization	Facilitating technology procurement
		Linking MSEs Technology Suppliers	Quality Assurance

			programmes
			Design Services etc.
7	Alternative Financing	Factoring Companies provide capital	Facilitating suppliers credit (MFI)
		Equity Financing	Equipment leasing & Rental , etc.

Source: ILO, 2003

2.1.4 Classification of Business Development Services (BDS)

As Bizusew (2015) discussed BDS can be categorized into two categories; Those intended to help the enterprise owner to get new ideas on how to improve their productivity, reducing costs, accessing markets, etc and also include those required for establishment and operation of the enterprise such as registration, procurement, equipment or assistance for subcontracting arrangements.

2.1.5 Mode of Business Development Services (BDS) delivery

BDS can be offered informally and formally (Sec, 2001). Informal BDS are those offered by relatives, friends, and employees. These services are usually accessed free of changes and are mainly used by MSE. Whereas, formal BDS are offered on a commercial or institutional basis, private consultants and consulting firms, by public or private sector organizations through special binding deals or contacts.

Sometimes formal BDS may offer free of charge or for a fee covering the full or part of the total service costs. MSEs do not use these services because they cannot offer them (Bizusew, 2015). These services are demand-driven and customer satisfaction plays an important role regarding the growth and profitability of BDS providers (Sec, 2001).

2.1.6 Business Development Services (BDS) Providers

BDS can be offered by different institutional arrangements and conditions. As Sec (2001) stated that BDS offered on an institutional basis are available through private sector organizations, government organizations and institutions, an association of MSEs and NGOs under different circumstances. The services provided by these organizations are usually offered without charging a fee or a subsidized fee. It is mainly offered for non-profit motives because of organizations' mandate to promote and support the MSE sector. The services may or may not be classified as demand drive. Because there are, no pressures on the BDS providers to achieve any kind of sustainability and they usually do not pay specific attention to issues of demand (Com, 1998).

2.1.7 The role of Business Development Services (BDS) for Growth of MSE

The relationship between BDS and the performance of MSE has however been a subject of debate for several decades now. This debate has led to calls for studies to establish the nature and form of this relationship (Brijlal, 2008). These calls have mainly focused on the need to determine the impacts of different aspects of business development services on micro and small enterprises. According to Namusonge (2010) market access, infrastructure facility, input supply, training, and technical assistance service impacts positively on the growth of firms and constantly changing business environments. Helping enterprises to develop their business activities, particularly at important turning points over the course of their life cycle, is the central task of business support organizations. (Belay, 2016)

Generally, According to DFID (2000), BDS seeks to raise the profitability and enhance the growth and competitiveness of enterprises, which in turn raises their income. Business Development Service delivered to Micro and Small Enterprises can lead to employment generation thus absorbing excess labour, innovation and adding value to goods and services,

flexibility in responding to dynamic and volatile markets, and fiscal contributions to hard-pressed governments.

2.2 Empirical Literature Review

Empirical study shows that the role of MSEs in reducing unemployment and generating income has become highly recognized around the world (Liendholm, 2001). MSEs are notably the engines that drive economic development and the sector accounts about 90 percent of businesses in both developed and developing economies through job creations, employment, tax provision and contribution to Growth Domestic Product. However, in many African countries, MSEs face different challenges such as lack of capital, shortage of power supply, poor management skills, lack of competency and capability, negative perception, inadequate information, government support and corruption (Samuel, 2017).

In Ethiopia, MSEs are expected to play an important role for sustainable national growth and development particularly in reducing unemployment, income generation, poverty reduction and related social problems. A study conducted in Lideta sub city of Addis Ababa city administration by Diro S. and Berihanu D. (2021) revealed that initial capital, current employment, source of finance, gender and education are found to be significant factors that affect MSE growth positively and statistically significant. The findings also showed that startup employment and experience are statistically significant and negatively associated with the growth of enterprises by employment**.**

Addisu M. (2016) conducted a study on Growth Potential and Business Constraints of Micro and Small Enterprises using three sets of models, which includes principal component analysis, the multiple regression analysis and the logistic regression analysis. The findings of his study

revealed that MSE growth in employment influenced by constraints like insufficient finance sources, inadequate access to market and lack of working premises.

Fikite and Endrias (2015) conducted a study on Determinants of Growth and Diversification of Micro and Small Enterprises in Dire Dawa using compound annual growth rate to analysis employment growth of MSE. Multiple linear regression analysis had used for data analysis since annual compound growth rate of MSEs by employment used as the response variable takes a continuous measure in their study. The findings their study illustrated that the constraints of enterprises growth were insufficient capital, marketing and place of work.

Adil's (2007) research carried out in Addis Ababa shows that unsuitable government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that impede growth in employment of MSEs.

According to Anton (2004) BDS offered on an institutional basis are available through private sector organizations, government organizations and institutions, associations of MSEs and NGOs, under different arrangements and conditions. The services are usually offered without charging a fee or at a subsidized fee, for non-profit motives, mainly as a part of an organization's mandate to promote and support MSE sector. The services may or may not be classified as demand-driven, because there are no pressures on the providers to achieve any kind of sustainability, and they usually do not pay specific attention to issue of demand.

The study Conducted in Ethiopia by Belay (2016) found that market access, infrastructure facility, input supply, training and technical assistance affect the performance of micro and small enterprise in east Amhara.

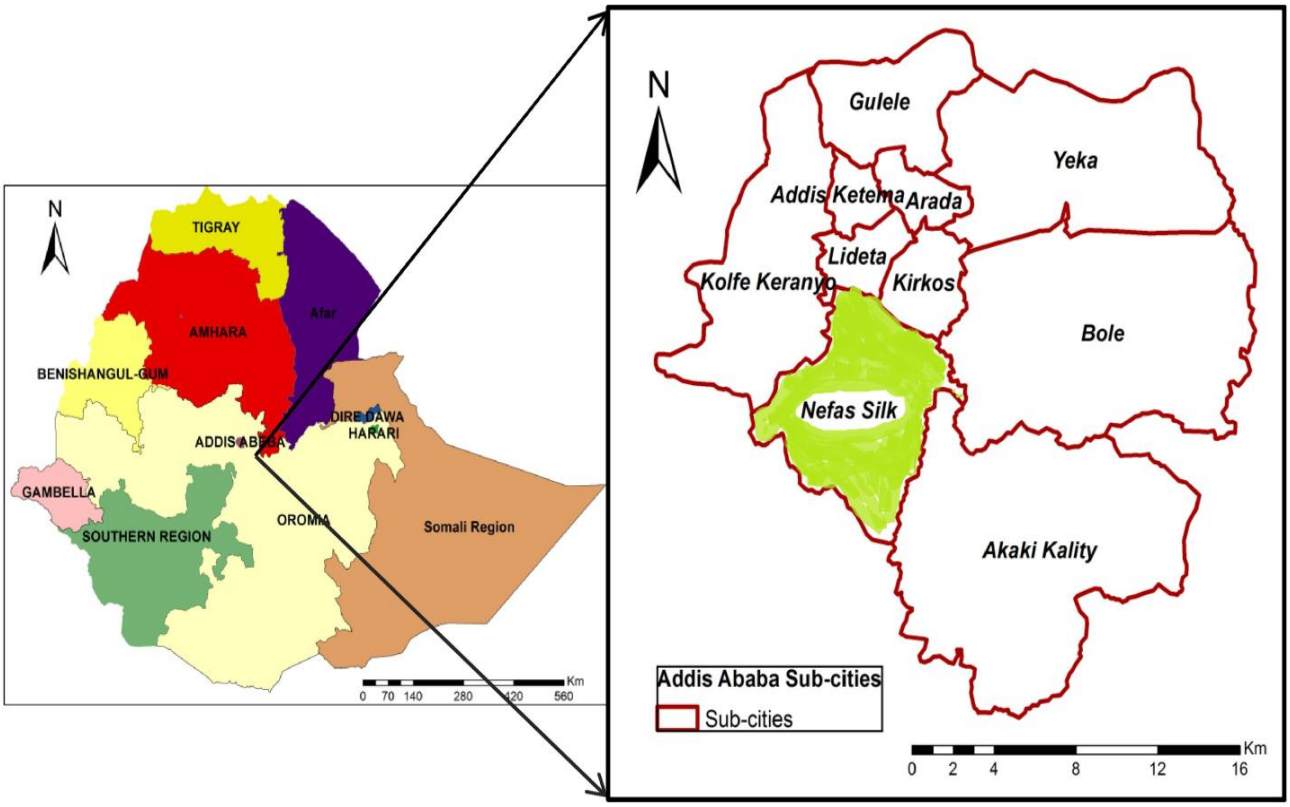
CHAPTER THREE

DATA AND METHODOLOGY

3.1 Description of the Study Area

Nifas Silk Lafto sub city is one of the 11 sub cities in Addis Ababa City Administration. It covers an area of 5876.02 hectares. It situated in the South Western part of Addis Ababa, bounded from the South by Oromia Special Zone, from the North West by Kolfe Keranio, from the East by Bole and Akaki Kality and from North by Lideta and Kirkos. At present, the sub city is divided in to 12 woredas 128 sub woredas, 397 sefers, and 1059 blocks. Among the 12 Woredas in Nifs Silk Lafto, the lager area is covered by Woreda 01 with 2592.83 hectares that is 44.12 % of the sub city land area and Woreda 08 covered the smallest land area of 10.84 % of the sub city land area. The densely populated Woreda in the sub city is Woreda 04 with population density of 168.02 people/ hectare and the least densely Woreda is Woreda 01 with population density of 15.24 people/ hectare. On average of 48.58 people live in each hectare area of the sub city which makes Nifa Silk Lafto the 7th densely populated sub city in Addis Ababa (FEDBPACS, 2009). In terms of absolute location the sub city lays at Latitude: 8°56'55.28" north and Longitude: 38°43'59.52" east (AACAILIC, 2014). Based on the national population census conducted in 2007, Nifas Silk Lafto has a total population of 316,283 from which, 148, 984 are males and 167,299 females (CSA, 2007).

Figure 1: Map of Study Area



Source (Sisay and Till, 2021)

3.2 Target Population

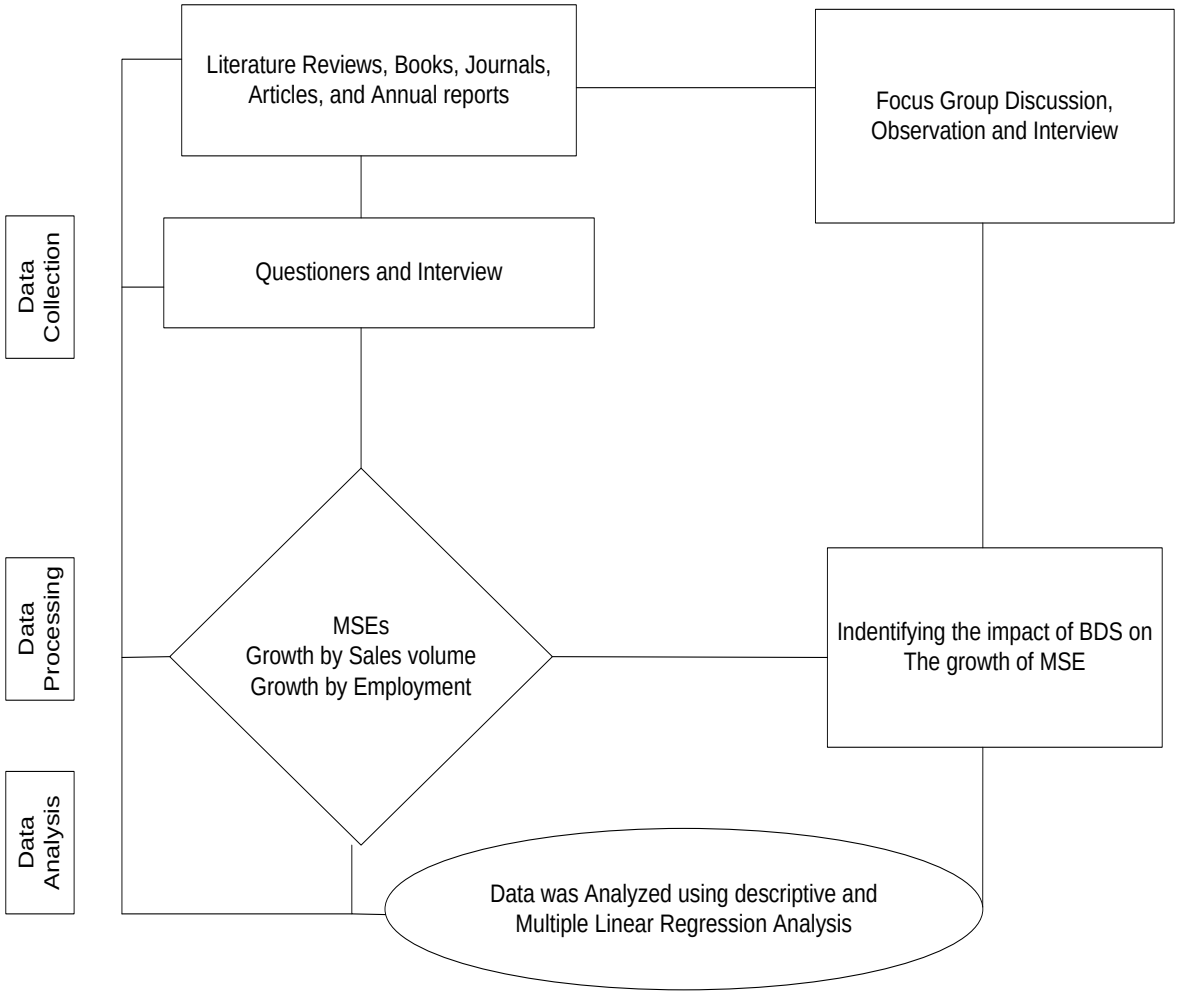
The target population for this study was all MSEs operating in woreda 01 of Nifas Silk Sub city. In the targeted Woreda, there are 225 start-ups and existing MSEs under five government priority sectors such as manufacturing 72 MSEs, Construction 8 MSEs, urban agriculture 10 MSEs, Service 66 MSEs, and Trade 69 MSEs (Woreda Information, 2021). In this Woreda, one non-governmental and governmental organization had been provided BDS services (Nifas Silk Lafto Sub City Micro and Small Enterprises Development office, 2021).

3.3 Research Approach

Being a descriptive and explanatory design, this research used a quantitative research approaches in order to achieve the intended objective of this study.

3.4 Research Design

Kothari (2004) stated that research design is developed to collect and value gathered facts in order to increase understanding of a specific topic. It is the method of building decisions before a situation arises in which the decision has to be carried out. This employed both descriptive and explanatory research design of cross sectional data collected through proportional stratified random sampling method from the samples of MSEs that are grouped into manufacturing, construction, trade, service and urban agriculture.



(Source: Researcher own design, 2021)

Figure 3.1: Research methodological frame work

3.5 Source of Data

The primary sources of data was undertaken through survey of BDS user MSEs in which data was be collect through self-administered questioner assisted by researcher who provided orientation to perform the data collection activity effectively. The secondary data was included the information that obtained mainly from government and non-government reports of service providers/facilitators, and websites that believed as reliable, suitable, and relevant to the theme of the study. Sampling Techniques and Sample Size

3.6 Sample size

There are several methods for determine the sample size of respondents from the finite population. Since the study population is finite, the sample size of the study was determined based on Yamane's (1967). Such method is the most appropriate way of sample size determination for finite population. This is presented as follow:-

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

Where, N = total population

n = desired sample size

e = precision level valid for 95% confidence level (0.05)

Thus,

$$n = \frac{225}{1 + 225(0.05)^2} = 144$$

Then, the samples contained 144 MSEs were selected using proportionate stratified random sampling from each stratum, where the entire population is divided into subgroup or strata of manufacturing, service, trade, construction and urban agriculture sectors. From each sector or stratum, the samples can be taken using the formula

$n_i = \frac{n \times N_i}{N}$ (Kothari, 1999 and Cochran, W.G., 1997)

Where

N - Total Population size = 225

n - Sample size = 144

N_i -The size of i^{th} stratum

n_i - The number of participants selected from the i^{th} stratum and i = 1,2,...,5

Hence, the distribution of samples taken from different sectors of enterprises, which includes manufacturing, construction, service, trade and urban agriculture, were given as follows

Table 3.1 Sample Distribution

S.No.	Sectors	Number of Enterprises	Proportion of the sample
1	Manufacturing	72	46
2	Service	66	42
3	Trade	69	44
4	Construction	8	5
5	Urban Agriculture	10	6
	Total	225	144

3.7 Study Variables

3.3.1 Outcome Variable

The study has two response variables. The first response variable is sales volume of MSE and the second response variable is employee growth of MSE. And each response variables is measured by using both the controlling variables such as sex, marital status ,age, education level, year of doing business, types of business and number of member of the enterprise and external business environment such working premises, market linkage, loan entrepreneurship & Technical Training.

Table 3.2: Summary of Response Variables

No	Outcome variables	Measurement Type	Expected sign
1	Sales Volume	Continuous	Positive or Negative
2	The Growth of Employees in the MSEs	Continuous	Positive or Negative

3.3.2 Explanatory Variables

A predictor variable is a variable used in regression to predict the response variable. It provides information on an associated dependent variable regarding a particular outcome. Accordingly, the definitions and description of predictive variables included in the model for this study are given as follows.

Table 3.2: Description and Measurement types of explanatory Variables

No	Explanatory variables	Measurement Type	Predictors Types
1	Sex of the owner	Dummy(0 = Female 1= Male	
2	Marital Status of the owner	Dummy(0= Single 1=Married)	
3	Age of the owner	Continuous	
4	Education level of the owner	Categorical 0=Primary School 1= Secondary School 2= TVET 3= Degree 4= Masters and Above	Socio Economics
5	Year of MSE doing Business	Continuous	
6	Number of members in MSE	Continuous	
8	Types of Business	Categorical 1= Manufacturing 2= Trade 3= Construction 4= Urban Agriculture 5=Service	
7	Access to Loan	Dummy (0= No 1= Yes)	
8	Working Premises	Dummy (0= No 1= Yes)	
9	Market Linkage	Dummy (0= No 1= Yes)	
10	Entrepreneurship & Technical Training	Dummy (0= No 1= Yes)	BDS

3.8 Method of Data Analysis

This study employed descriptive and multiple linear regression analysis to assess the growth potential of MSE growth measured by employment and sales volume to identify the most

influential BDS factors. For the purpose of data analysis, the latest version of Statistical Package for Social Science (SPSS) Version 23 software package as well as Stata was be used.

3.8.1 Descriptive Data Analysis

Descriptive analysis refers to the conversion of raw data into a form that would provide information to describe a set of factors in a situation that will make them easy to understand and interpret (Kassim N., 2001; Sekaran U., 2003; Zikmund W.G., 2000). This analysis in this study will give a meaning to data through frequency distribution, mean and standard deviation.

3.8.2 Correlation Analysis

The correlation between variables can be measured with the use of different indices (Hauke J. & Kossowski T, 2011). The three most popular correlation analysis are Pearson's coefficient (r), Spearman's rho coefficient, and Kendall's tau coefficient (τ). Kendall's tau, introduced by (Kendall, 1938), is a correlation coefficient that can be used as an alternative to Spearman's rho for data in the form of ranks. To apply the Pearson correlation analysis the study should meet linearity assumption, interval or ratio data and finally the assumptions of normality. In the study correlation analysis will be used to examine the association of the predictor and response variables.

3.8.3 Multiple Linear Regression Model

Regression allows us to investigate the effect between variables (Fabozzi et al, 2014). It also aims to bring out relationships between variables, especially between variables whose relationship is subject to chance variation and to the influence of unforeseen events. The researcher was employed multiple linear regression analysis to investigate the effects of predictor

variables on the response variables. Since this study has two response variable, two model were employed

Model-1: For response variable Sales volume

$$Y_k = \beta_0 + \beta_1 X_{1k} + \cdots + \beta_z X_{zk} + \varepsilon_k \quad \text{..... (1)}$$

Where

Y_k = Sales Volume

β_0 = Constant term

$x_{1k}, \ldots\ldots, X_{zk}$ = predictor (Explanatory) variables

ε_k = Error terms

Model -2: For response variable Growth of number of employment

To accurately estimate the growth of employment of MSE, the Compound Annual Growth Rate (CAGR) was used as measurement tool in this research. It is the most widely used and it provides a much more accurate assessment of the timing of employment growth effects (Liedholm and Mead, 1999). CAGR is a rate of growth that tells the growth of enterprise in employment over the years on annually compounded basis and measured in percent. Its formula is presented as:

$\left[\left(\frac{CE}{IE}\right)^{\frac{1}{AE}} - 1\right]$ Where, CE, IE and AE represent current employment, initial employment and age of enterprises respectively. Thus, the growth of MSEs measured by employment is defined as a function of constraints and control variables.

$$\left[\left(\frac{CE}{IE}\right)^{\frac{1}{AE}} - 1\right] = \beta_0 + \beta_1 X_{1j} + \beta_2 X_{2j} + \beta_3 X_{3j} + \beta_4 X_{4j} + \beta_5 X_{5j} + \cdots + \beta_K X_{kj} + \varepsilon_j$$

Where $\left[\left(\frac{CE}{IE}\right)^{\frac{1}{AE}} - 1\right]$ = Enterprise growth measured by employment

β_0 = Constant term

$x_{1j}, \ldots\ldots, X_{Kj}$ = predictor variables

ε_j = Error terms

CHAPTER FOUR

RESULTS AND DISCUSSION

This chapter presents the results and discussion of descriptive and regression analysis. In descriptive analysis, the nature and structure of MSEs were explained using summary statistics such as percentages, means and frequency. The determinants of growth potential and constraints of enterprise growth in employment and sales volume were analyzed using Ordinary least square (OLS) technique of linear regression model.

4.1 Descriptive Analysis of Owners Characteristics

The descriptive design applied here is to explore the Effect of BDS on the performance of MSE in Nifas Silk Lafto sub city of Addis Ababa city Administration.

4.1.1. Gender of Participants (Owner)

Table 4.1 Gender Owners

		Frequency	Percent
Valid	Male	97	67.4
	Female	47	32.6
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

Table 4.1 shows that 67.4 percent of total samples owners were males and the rest 32.6 percent of total samples were females. This shows that the gender difference is appearing and most of the owners or operators of MSEs were found to be males and the taking part of the females in the sector seems to be limited.

4.1.2 The Martial Status of Participants(Owner)

When we see the respondent's marital status, Table 4.2 below shows that 54.2 percent of them are married and the rest 54.2 of them are single. This indicates that majority of the MSEs owners are married one which have a high family responsibility.

Table 4.2 Marital Status

		Frequency	Percent
Valid	Single	66	45.8
	Married	78	54.2
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

4.1.3 The Age of Participant (Owners)

Most of the operators or owners of MSEs are relatively young people in their age as we can see from the table 4.2 below in area of the study.

Table 4.3 Age of Participants

	N	Minimum	Maximum	Mean	Std. Deviation
Age of Respondents	144	19	58	32.46	6.659
Valid N (listwise)	144				

(Source: Researcher Own Survey, 2021)

As indicated in the table 4.3 above, the average age of owners or operators of MSEs is 32.46 years. This shows that the participation of young people should be encouraged and need to be given due attention for their engagement in MSEs as they are the backbone of our economy.

4.1.4. Educational Status of Participants (Owner)

According to Global Business School Network (2013) education contributes to the overall economic growth by improving the efficiency of the work force and leading to higher rates of

individual productivity, which in turn lead to a higher demand for qualified workers. Education can provide individuals with the necessary market skills to be relevant in the economy.

Table 4.4 Educational Status of Participants (Owner)

		Frequency	Percent
Valid	Primary School	18	12.5
	Secondary School	66	45.8
	TVET	43	29.9
	Degree	17	11.8
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

Regarding to education, table 4.4 above indicates that of the total respondents, 11.8 percent of them were educated at degree level, 29.9 percent of them have TVET level educational qualification and the remaining 45.8 and 12.5 percent of them have secondary and primary school level respectively. This result indicates that most operators of enterprises are educated individuals i.e. educated secondary a school and above.

4.1.5. Experience of Respondents (Owner)

The table 4.5 below illustrates that the average experiences of participants in MSEs is 2.893 years with a maximum of 3 years and minimum of 2.1 years

Table 4.5 Experience of Respondents

	N	Minimum	Maximum	Mean	Std. Deviation
Experiences	144	2.1	3.0	2.893	.2607
Valid N (listwise)	144				

(Source: Researcher Own Survey, 2021)

4.2 Descriptive Analysis of the Characteristics of Enterprises

This section presents the results and discussion of descriptive analysis of the characteristics of the enterprises.

4.2.1. Type of Business

Table 4.6 below demonstrated that of the total sample of 141 MSEs, 32.6 percent of them were involved in manufacturing sector followed by trade 30.6 percent and Service sector 28.5 percent. The remaining 4.9 and 3.5 of there were from urban agriculture and construction sectors respectively. This shows that majority of enterprises were engaged in manufacturing main sector

Table 4.6 Types of Business Sector

		Frequency	Percent
Valid	Manufacturing	47	32.6
	Trade	44	30.6
	Construction	5	3.5
	Urban Agriculture	7	4.9
	Service	41	28.5
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

4.2.2. Number of Employees in MSE

Table 4.6 below shows that the average number of job created for employees by MSEs is 4.78 employees with a maximum of 9 employees and minimum of 2 employees. This indicates that the MSE created the job opportunity for the average of 5 employees.

Table 4.6 Number of Members in MSE

	N	Minimum	Maximum	Mean	Std. Deviation
Number of members in MSE	144	2	9	4.78	1.137
Valid N (listwise)	144				

(Source: Researcher Own Survey, 2021)

4.2.3. Initial and Current Employment of Enterprises

Regarding to employment size, it appears that the average number of workers employed in enterprises at the time of initial (start-up) business was 4.78 in area of the study. The minimum and maximum of initial (start-up) employees are 2 and 9 respectively. Furthermore, table 4.7 below also indicates that the average number of current workers employed in MSEs is relatively 5 in the area. The minimum and maximum of current employees are 1 and 11. This result implies that employment size of MSEs increased on average from the time of startup enterprises.

Table 4.7 Initial and Current Employment of Enterprises

	N	Minimum	Maximum	Mean	Std. Deviation
Initial Employment	144	2	9	4.78	1.137
Current Employment	144	1.00	11.00	5.6806	2.16989
Valid N (listwise)	144				

(Source: Researcher Own Survey, 2021)

4.2.4 Annual Sales Volume of the MSE

The table 4.8 shows that the average annual sales revenue of MSEs is 19,286.8 in birr. The minimum and maximum of current capital of MSEs are found to be birr 1,000.00 and 90,000.00 respectively.

Table 4.8 Descriptive Statistics of Annual Sales volume of the MSE

	N	Minimum	Maximum	Mean	Std. Deviation
Annual Sales Revenue	144	1000.00	90000.00	19286.8125	11939.08739
Valid N (listwise)	144				

(Source: Researcher Own Survey, 2021)

4.2.5 Working Premises of Enterprises

From total enterprises included in the study 57.6% of them have opportunity of using government shade which has the ability to create freedom on working. Likewise, about 11% and

5% of the enterprises use private own and families working premises respectively. On the other hand, 31.3% of the enterprises rented their working premises.

Table 4.9 Working Premises of Enterprises

		Frequency	Percent
Valid	Rented	45	31.3
	Government Shade	83	57.6
	Private(Own)	11	7.6
	Family	5	3.5
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

4.2.6 Market Linkage

Regarding market linkage, table 4.10 shows that 75.0% of respondent replied that there was market access for their enterprises products and service, whereas the remaining 25.0% of respondents reflect that there was no sufficient market for their enterprises products and services.

Table 4.10 Market Linkage of Enterprises

		Frequency	Percent
Valid	No	36	25.0
	Yes	108	75.0
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

4.2.7 Entrepreneurship and Technical Training

Regarding use of training, Table 4.11 shows that 75.7 % of respondent replay that there is access to training on entrepreneurship and technical training. Whereas the remaining 24.3% of respondents reflect that there is no sufficient training for themselves, products and services.

Table 4.11 Received Entrepreneurship and Technical Training

		Frequency	Percent
Valid	No	35	24.3
	Yes	109	75.7
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

4.2.8 Enterprises Loan

Table 4.12 below revealed that about 70.1% of the enterprises get loan whereas the remaining 29.9% of the enterprises do not get the load. This implies that the owner of the MSEs can expand their business with the help of enterprises loan.

Table 4.12 The Enterprises Loan

		Frequency	Percent
Valid	No	43	29.9
	Yes	101	70.1
	Total	144	100.0

(Source: Researcher Own Survey, 2021)

4.4 Results of Correlation Analyses

As our dependent variable is continues and independent variable are ordinal data, we used Spearman rank correlation to measure the association between the dependent and independent variables. Based on the result of the spearman correlation analyst in Table 4.13, sales volume of the enterprises is significantly correlated with working premises, market linkage and received entrepreneurs and technical training and predictor variables

Table 4.13 Spearman Correlation Analysis of Sales volume and predictor variables

	LnSales Volume	Working Premises	Market Linkage	Received Business Training
LnSales Volume	1	0.4822*	0.4401*	0.7353*
Working Premises	0.4822*	1	0.2142*	0.5201*
Market Linkage	0.4401*	0.2142*	1	0.4504*
Received Business Training	0.7353*	0.5201*	0.4504*	1

(Source: Researcher Own Survey, 2021)

Likewise, the output in Table 4.14 shows that MSE growth in employment was found to be significantly correlated all the three BSD indicator variables.

Table 4.14 Spearman Correlation Analysis of Sales volume and predictor variables

	Growth in employment	Working Premises	Market Linkage	Received Business Training
Growth in employment	1	0.3462*	0.4401*	0.7055*
Working Premises	0.3462*	1	0.2142*	0.5201*
Market Linkage	0.4265*	0.2142*	1	0.4504*
Received Business Training	0.7055*	0.5201*	0.4504*	1

(Source: Researcher Own Survey, 2021)

4.4 Multiple Linear Regression Analysis Results

Diagnostic tests for classical linear regression model assumptions were carried out first before starting the discussion on the Ordinary Least Square regression output to identify the constraints influencing the growth of Enterprise.

4.4.1. Normality Assumption

Normality assumption is the first requirement in classical linear regression model. In order to have valid hypothesis tests about the model parameters, efforts have been made to assure the normality assumption. The values of each ε_i are normally distributed, which means that random term $\varepsilon_i \sim N(0, \sigma^2)$. The outputs in (Anex 1A and Anex 1B) show the standardized normal probability plot (P-P plot) of the residuals of the model. The plots indicate that no violation of the assumption of normality in the both model as all points lie approximately on the 45^0 line.

4.4.2. Multicollinearity Test

Multicollinearity is unacceptable high level of inter correlation among the independents variables, such that the effects of the independents cannot be separated (Jacob, 1969). Under multicollinearity, estimates are unbiased, but assessments of the relative strength of the explanatory variables and their joint effect are unreliable. So that beta weights and R-squares cannot be interpreted reliably even though predicted values are still the best estimates using the given independents (Boneau C.A. 1960). In this study, the multicollinearity of the independent variables was assessed based on, tolerance and variance inflation factor (VIF) index. Tolerance is expressed as $1-R^2$, where R^2 is the multiple R of a given independent regressed on all other explanatory variables. If the tolerance value is less than some cut off value, usually 0.2, the independent should be dropped from the analysis due to multicollienarity (Menard S., 1995). The VIF is the reciprocal of tolerance and when the values of VIF >10, then there is a problem of multicollinearity. As showed in (Annex 1C and Annex 1D) the tolerance value for all variables is above the cut off points and the VIF value for all independent variables below 10.

4.4.3 Homoscedasticity Assumption

The assumption of homoscedasticity literally means that same variance and it is central to linear regression models. Homoscedasticity describes a situation in which the error term that is the "noise" or random disturbance in the relationship between the independent variables and the dependent variable is the same across all values of the independent variables (Menard S., 1995). The violation of this assumption called heteroscedasticity. Hence, this assumption is verified by conducting the Breusch-Pagan/CookWeisberg test for heteroskedasticity, which states the null hypothesis as Ho: Constant variance. The estimated result shows in (Anex 1C and Anex 1D) the P-value = 0.001 for model-1 which is less than 0.05

and P-value = 0.3771 for model-2 which is greater than 0.05 level of significance. This result indicates that there exists a constant variance of error terms, implies the absence of heteroscedasticity problem in model-2 and however in model-1 there is a presence of heteroscedasticity. The researcher used a robust standard error a technique as a remedial measure for heteroscedasticity problem. According to Stock and Watson (2003), and Greene (2003), robust standard error a technique used as a remedial measure for obtain unbiased standard errors of OLS coefficients under heteroscedasticity

4.4.4. Results of Multiple Linear Regression Analysis for Model -1

The estimation results of multiple regression analysis for model-1 are given in table below. Table 4.13 below shows the coefficient of determination (R^2), the overall significances of the model and the significances of independent variables were assessed. The R^2 measures the percentage of variation in the dependent variable explained by the independent variables employed in the regression. (Fabozzi et al, 2014). As table 4.13 below shows, the R^2 value of model-1 is 0.7954. The value of this R^2 shows that, 79.54% changes of MSE growth in employment are explained by the explanatory variables of the model which are working premises, market linkage and received entrepreneurs and technical training and the remaining 20.46% of the changes of the dependent variable explained by variables which are not included in the model. The second diagnosis analysis is to test whether the entire model is significant or not. The null hypothesis (H_0): states that all regression coefficients are equal to zero, which means none of the independent variables play any role verses the alternative hypothesis (H_1): states that at least one coefficient is different from zero. The F-statistics result was examined.

As we have from the above output F = (3, 140) = 115.76, and P=0.000, this revealed that the model is statistically significant at 1% because $p<0.01$ and it also depicts that the all explanatory

variables explained the dependent variable. Therefore, the null hypothesis H_0 of all regression coefficients are equal to zero model was rejected. The final test of diagnosis analysis is the test of the significances of each independent variable.

Table 4.13 below shows that market linkage and received entrepreneur and technical training are statistically significant effect on the sales volumes of the MSE at 5% level of significant however; working premises do not have any significant effect on the sales volume.

Table 4.13 Parameter Estimate of Multiple Linear Regression Model-1

LnSales Volume	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
Working premises	.0750675	.0509111	1.47	0.143	-.0255685	.1757215
Market linkage	.1448065	.0730612	1.98	0.049	.0003607	.2892524
Received Business Training	1.698718	.102717	16.54	0.000	1.495641	1.901795
_cons	8.071911	.1219733	66.18	0.000	7.830764	8.313059

(Source: Researcher Own Survey, 2021)

4.4.5. Results of Multiple Linear Regression Analysis for Model -2

As table 4.14 below shows, the R^2 of model-2 is 0.6281. The value of R^2 shows that, 62.81% changes of MSE growth in employment are explained by the explanatory variables of the model which are working premises, market linkage and received entrepreneurs and technical training and the remaining 37.9% of the changes of the dependent variable explained by variables which are not included in the model.

As we have from the above output F = (3, 40) = 75.70, and P<0.01, this revealed that the model is statistically significant at 1% because p<0.01 and it also depicts that the all explanatory variables explained the dependent variable. Therefore, the null hypothesis H_0 of all regression

coefficients are equal to zero model was rejected. The final test of diagnosis analysis is the test of the significances of each independent variable.

Based on the result of the regression analyst in Table 4.14 below demonstrate that all the BDS indicator variables namely market linkage and received entrepreneurs and technical training variables are statistically significant at 5% significance level nevertheless working premises do not have any significant effect on the employment growth the MSE.

Table 4.14 Parameter Estimate for Multiple Linear Regression Model-2

Growth of employees	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
Working premises	-.0033337	.0149111	-0.22	0.823	-.0328138	.0261463
Market linkage	.0433378	.0179042	2.42	0.017	.0079403	.0787353
Received Business Training	.2293304	.0219446	10.45	0.000	.1859447	.2727161
_cons	-.1473177	.0214479	-6.87	0.000	-.1897214	-.104914

(Source: Researcher Own Survey, 2021)

4.5 Discussions of Results

Accordingly the individual variables that were statistically significant in the two models to predict the performance of MSE are discussed as follows.

Market linkage

Table 4.13 above shows that market linkage has coefficients 0.1448 and its p-value is 0.048. With the other factors in the model being held constant, an increase in one unit in market linkage leads to a 14.48% increase sales volume of the enterprises. Similarly the result in Tab 4.14 reveals that market linkage has coefficients 0.4333 and its p-value is 0.017. This signify a unit in market linkage enhance the growth of employment of the MSE by 43.33% at 5% level of

significance. This finding is consistent with Amentie et al. (2016) which states that market linkage and enterprises 'growth have positive relationship.

Training

Receiving entrepreneurship and technical training has positive effect on the performance of the MSE in terms of sales volume and growth of employment. Table 4.13 shows that Receiving entrepreneurship and technical training has a coefficient value of 1.69 and p-value = 0.000. From this we can generalize that a unit increase in receiving entrepreneurship and technical training by the enterprises will cause a 169 % increases in its sales volume. Table 4.14 also shows that the coefficient values of receiving entrepreneurship and technical training is 0.2293 with p-value of 0.000. Holding all other factors constant, a one unit increase in receiving entrepreneurship and technical training will cause to a 22.93% increase in growth of employment of the MSE at 1% significance level. The result of this study is consistent with the research by Benjamin and Bonno, (2007) which stated that capacity building trainings would better prepare enterprises to perform in the business they engaged. In the same manner, UNECE (2004) found that the existence of sufficient training access in building the capacity of enterprises provides them with high opportunity to have good performance.

Working Premises

The two models fit results showed that working premises do not have a statistical significance effect on the performance of MSE both in terms of sales volume and growth of employment. In other word in the study area of this research there is no significance difference between in growth of MSE who worked in Government shade, rented , privately owned and family own working premise unless they have market linkage and received entrepreneurship and technical training.

CHAPTER FIVE

CONCLUSION AND POLICY IMPLICATION

5.1 Conclusion

This paper attempted to assess the effect of BDS on the performance of MSE in Nifas Silk Lafto Sub city woreda 01 using a standard multiple linear regression model. A primary level data that were collected from 144 Medium and Small Enterprises (MSE) were used to examine the effect of BDS factor on the performance of MSE measured in terms of both sales volume and employment growth. The main objective was to examine the effects of Business Development Service (BDS) on the performance of Micro and Small Enterprises (MSE). The spearman correlation analysis identified that all the BDS factors have positive and statistically significant relationship with sales volume and employment growth at 5% level of significance. The result of the regression model confirms that BDS have a significant impact on the performance of MSE and it plays a significant role to boost the performance of MSE in terms of its employment growth. The model fit results indicated that the performance of the MSE measured in terms of sales volume and employment growth is influenced by significant factors such as market linkage and received entrepreneur and technical training.

In general, the results of this study it can be concluded that the performance of the MSE is positively influenced the two BDS indicators variables namely market linkage and received entrepreneur and technical training.

5.2 Policy Implication

Based on the analysis made, results obtained and conclusions drawn, the following recommendations are forwarded to the policy makers, firms, concerned government actors and other stakeholder.

i. The government, concerned institutions and other involved stakeholders should consider the identified major factors while designing policy that will impact profitability of micro and small scale manufacturing enterprises the most.

ii. This study identified that the performance of the MSE in terms of employment growth is influenced by market linkage and receiving entrepreneur and technical training so the government and cornered body should support the MSE in terms of these factors in order to create the employment opportunities to the youth.

iii. It is also recommend that helping micro and small manufacturing enterprises in terms access to market linkage, and access to training related to entrepreneur and technical training will secure their sustenance for in the future

iv. Finally this study has used cross sectional data collected from 144 firms of enterprises and the outcomes may not be able to make generalization for other firms over a period of time. Therefore, the researcher recommends conducting further studies to explore other BDS and socioeconomic factors affecting the performance of MSE not identified or covered in this study as well as investigating the dynamics of MSE performance overtime.

REFERENCES

Abay, H. H., Tessema, F. G., & Gebreegziabher, A. H. (2014). External factors affecting the growth of micro and small enterprises (MSEs) in Ethiopia: A Case Study in Shire Indasselassie Town, Tigray. European Journal of Business and Management, 6(34), 134–145.

Abebaw, W. K., Mulate, S., & Nigussie, L. (2018). Factors affecting the performance of micro and small scale enterprises: Experience from North Shewa Zone, Ethiopia. Journal of Investment and Management, 7(2), 70–76.

Addisu, M.(2016). Growth Potential and Business Constraints of Micro and Small Enterprises in South Wollo Zone, Amhara Region, Ethiopia: Ethiopian Journal of Economics Vol. XXV No.1

Adil Yassin. *(*2007). Challenges and Constraints of Micro and Small Scale Enterprises in Addis Ababa: The case of 2 Sub-cities' Industrial Zones. MA thesis in Regional and Local Development Studies, RLDS, Addis Ababa University.

Amentie, Negash, & Kumera. (2016). Barriers to growth of medium and small enterprises in developing country: case study Ethiopia. Journal of Entrepreneurship & Organization Management.

Anton Florijan Barisic.(2004). Business Development Services As an Institutional Support to Local Economic Development.University of Toronto publisher.

Belay Mengstie (2016). Impact of Business Development Services on Performance of Micro and Small Enterprises in East Amhara Region of Ethiopia, European Journal of Business and Management ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol.8, No.4, 2016

Benjamin, K. and M. Bonno., (2007). Factors contributing to the performance of small business enterprises in Botswana: a case study of Gaborone and Environs. Journal of Business Venturing, 22: 59-61.

Boneau, C. A. (1960). The effects of violations of assumptions underlying the t test. *Psychological Bulletin, 57*(1), 49–64. https://doi.org/10.1037/h0041412

Cochran, W.G. (1997). Sampling techniques, 3rd. New York: pp, 23-26.

Diro Soboka and Berhanu Denu (2021) Determinants of Growth Potential and Constraints of Micro and Small Enterprises in Lideta Sub City of Addis Ababa City Administration, Ethiopia. A thesis submited to Addis Ababa University(Unpublished)

Fabozzi. F., Focardi. S., Rachev. S., & Arshanaqalli. B. (2014). The basics of Financial Econometrics :Tools, concepts and asset management applications.

Fikite, W. and Endrias, G.(2015). Determinants of Growth and Diversification of Micro andSmall Enterprises: The Case of Dire Dawa, Ethiopia: Developing Country Studies, Vol.5,No.1.

Gbadeyan, R. A., Oppong, N. Y., & Oduro, S. (2017). Effects of socio-economic factors on entrepreneurship activities in Cape Coast, Ghana. Journal of Entrepreneurship and Business, 5(1), 39–51.

Global Business School Network (2013) Education, Employment and Entrepreneurship: A Snapshot of the Global Jobs Challenge

Greene, W.H. (2003) Econometric analysis. Englewood Cliffs (New Jersey): Prentice Hall.

Hauke J., Kossowski T. (2011) Comparison of values of Pearson's and Spearman's correlation coefficient on the same sets of data. DOI 10.2478/v10117-011-0021-1, ISBN 978-83-62662-62-3, ISSN 0137-477X.

Hogan, T. P., & Agnello, J. (2004). An empirical study of reporting practices concerning measurement validity. Educational and Psychological Measurement, 64,802–812.

Jacob. C. (1969). Statistical Power analysis for the behavioral sciences. NY: Academic press .

Liedholm, C. and Mead, D. (1999). Small enterprises and development: The dynamic role of MSEs, London, Rutledge

Kassim. N. (2001). Determinants of customer satisfaction and retention in the cellular phone market of Malaysia. Phd thesis .

Kendall, M. (1938). A New Measure of Rank Correlation. Biometrika, 30(1/2), 81-93. doi:10.2307/2332226

Kothari C .R. 1999. Research Methodology 2nd edition, new age international publisher, pp:3- 17& 95-117.

Liedholm, C. and Mead, D. (1999). Small enterprises and development: The dynamic role of MSEs, London, Rutledge

Leza, T., Rajan, S., & Kuma, B. (2016). Determinants of employment growth of micro and small enterprises in Wolaita Zone,Ethiopia. International Journal of Current Research, 8(12), 43177–4318

Menard, S. (1995). Applied logistic regression analysis. Thousand Oaks: Sage University paper series on quantitative applications in the social sciences, 07-106.

Ndege, M., & Park, B. (2015). Factors that affect the growth and development of small, micro and medium-sized business enterprises in the Vaal Triangle Region of Gauteng province in South Africa. European Journal of Business, Economics and Accountancy, 3(3), 73–100.

Samuel, M. (2017). African small and medium enterprises contributions, challenges and solutions

Stock, J.H. & M.W. Watson (2003) Introduction to Econometrics. Boston: Addison-Wesley.

Sekaran, U. (2006). Research Methods for Business: A Skill Building Approach. (4ed.). NewDelhi: Sharda of Sett Press.

Tegegne (2011). Challenges and opportunities of small and medium scale Enterprises (SMES) in Addis Ababa (The case of Arada Sub-City). A project submitted to the school of graduate studies of Addis Ababa University in partial Fulfillment of the requirements for the masters of business administration, Addis Ababa University, Ethiopia. Unpublished.

Zikmund, W. G. (2000). Business Research Methods (6th edition). USA: Harcourt.

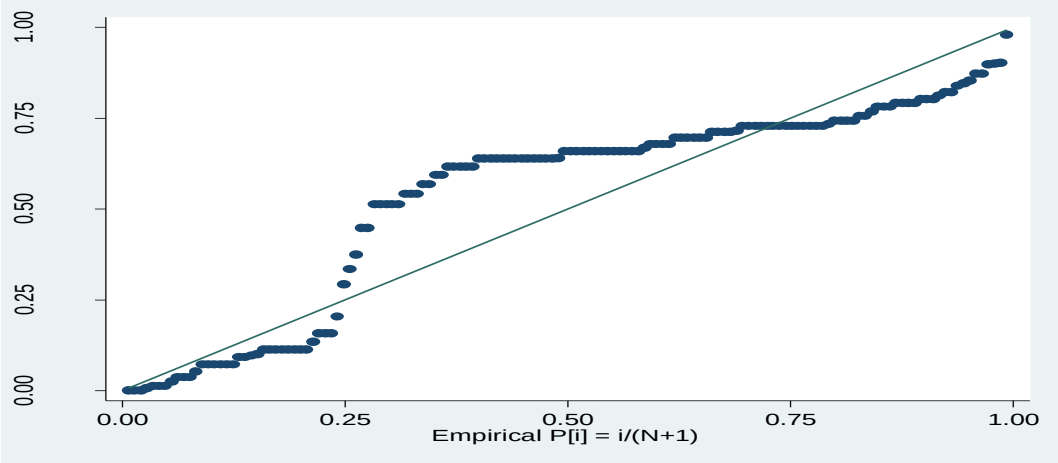
UNECE (United Nations Economic Commission for Europe), (2004). Women's self-employment and entrepreneurship. Paper prepared by the secretariat for the regional symposium on mainstreaming gender into economic policies, Geneva, 28- 30 January 2004.

Victoria, M., Samuel, B., Lloyd, C., & Lazarus, M. (2011). Determinants of small and medium enterprises failure in Zimbabwe: acase study of Bindura. 2(5), 82-89.

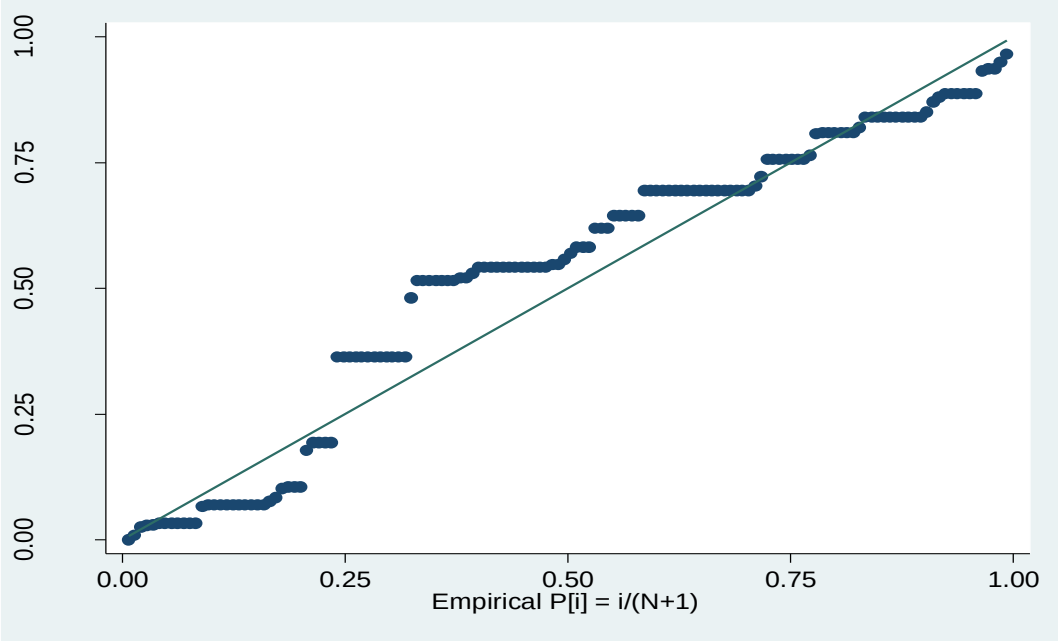
Yamane, T. (1967). Statistics: An Introductory Analysis. (2ndedn). New York: Harper and Row.

Annex

Annex 1A: Normality Assumption Test P-P plot for Model-1



Annex 1B: Normality Assumption Test P-P plot for Model-2



Annex 1C: Multicollinearity Test for model -1

```
. estat vif

    Variable |       VIF       1/VIF
-------------+----------------------
Received_a~g |      1.51    0.662128
Market_lin~e |      1.26    0.796254
Working_pr~s |      1.24    0.806481
-------------+----------------------
    Mean VIF |      1.34
```

Annex 1D: Multicollinearity Test for model -2

```
. estat vif

    Variable |       VIF       1/VIF
-------------+----------------------
Received_a~g |      1.51    0.662128
Market_lin~e |      1.26    0.796254
Working_pr~s |      1.24    0.806481
-------------+----------------------
    Mean VIF |      1.34
```

Annex 1E: Homoscedasticity Test for model -1

```
. estat hettest

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

         chi2(1)      =    15.75
         Prob > chi2  =   0.0001
```

Annex 1H: Homoscedasticity Test for model -2

```
. estat hettest

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

         chi2(1)      =     0.78
         Prob > chi2  =   0.3771
```

Appendix

Questioner

Dear Respondent,

This questionnaire was designed to collect information from MSE in Nifas Silk Lafto Sub city Woreda 01 and aimed to analyze " The Effect of BDS on the growth potential of MSE in Nifas Silk Lafto Sub city Woreda 01" *as a research subject for the partial fulfillment of the requirements of Master of Art in* Development Management. **Your response would have been used only for academic purpose and kept confidential.**

Thank you in advance for your co-operation.

Wondimagegn Tadesse
MA in Development Management Students
Tell +521912093489
St.Mary's University
Addis Ababa, Ethiopia

General Directions:

i. You are kindly requested to give genuine responses.
ii. You don ‘t need to write your identification
iii. Please put a tick (√) in the appropriate box.
iv. Put the numbers you agree with to those questions which are not multiple choices.

Part One: Demographic Information

1. What is your role in the business you are working on?

Owner ☐ Manager ☐ Member ☐

2. Sex Female ☐ Male ☐

3. Age _____

4. Marital Status Married ☐ Single ☐

5. Educational Level

Primary School ☐ Secondary School ☐ TVET ☐ Degree ☐ Masters and Above ☐

6. How long have you been in your business? _____

7. Number of members in your business 1. Male _____2. Female _____3. Total _____

8. What is your business venture?

Manufacturing ☐ Trade ☐ Construction ☐ Urban Agriculture ☐ Service ☐

Part Two: Question related to medium and Small Scale Enterprises

9. Are you a BDS user?

Yes ☐ No ☐

If your answer to the above question is `` Yes ``when did you receive your business development service support (your answer must have been in the last two years) _____?

10. Who provided you with BDS?

Government ☐ NGO ☐ Private Organizations ☐

Government & NGO ☐ Other Organizations ☐

11. How do you describe your BDS service?

1. It is playing a big role in the growth of our business.
2. It does not play a role in our business growth.

12. Did you get any business development support for increasing your sales volume?

Yes ☐ No ☐

13. Did you see any improvement in your sales volume?

Yes ☐ No ☐

14.If you answered "yes" to the above question, how would you describe your sales improvement after you got business development service?

Has shown improvement ☐ Has not shown improvement ☐

15. How much yours Sales Volume in 2020? _____?

About Working Machine

16. Is there an increase in the number of machines in your business compared to previous years?

Yes ☐ No ☐

17. When you started your business, what was the number of basic work machines in your organization? _____ ?

18. Your current working machine number _____?

About Customer Satisfaction

19. Have you received support from government and non-governmental organizations regarding customer handling?

Yes ☐ No ☐

20. How do you describe the change in your business in terms of customer satisfaction compared to previous years when you said "yes" to the above question?

Our customers are happy (yes) ☐

There is no change in the satisfaction of our acquaintances as before ☐

About Employees

21. Is there an increase in the number of employees in your business compared to previous years?

Yes ☐ No ☐

22. When you started your business, the number of employees in your company _____?

23. The current number of employees in your business _____ ?

About Working Premises

24. Do you think your current workplace is playing a significant role in your business?

Yes ☐ No ☐

25. How did you find your place of work?

Rental ☐ *From Government* ☐ *Private (Own)* ☐ *Others* ☐

26. If your answer to the above question is Option ``From Governmet `` How would you describe the contribution to your business growth?

Finding working premises has greatly contributed to the growth of our business ☐

finding working premises has not contributed to our business growth ☐

27. Do you think your workplace is ideal for infrastructure?

1. Yes 2. No

28. If your answer to the above question is `` Yes ``, what kind of infrastructure do you use (you can choose more than one)?

1. *Electricity*
2. *Water*
3. *Telecommunications*
4. *Road*
5. *Others*

29. How would you describe the infrastructure contribution to your current business?

1. It contributes greatly to the growth of our business.

2.It does not contribute to the growth of our business.

About Market Linkage

30. Does your business have a market linkage?

1. Yes 2. No

31. If your answer to the above question is `` Yes `` how does it describe your market linkages in your business?

1. Having a market linkage for our business has helped us to improve my business.

2. The presence of market linkages for our business has not had a positive impact on our business

32. If your answer to the above question number ``32``is `` No ``, does the lack of market linkages have a negative impact on the growth of your business?

1. Yes 2. It has not effect

About Entrepreneurship and Technical Training

33. Have you received any training on how to improve your business?

Yes ☐ No ☐

34. If your answer to the above question is `` Yes ``, which of the following trainings did you train? You can circle more than one choice.

Entrepreneurship Training ☐

Vocational Training ☐

Business Management Training ☐

Kaizen Training ☐

Other Trainings ☐

35. What changes have you seen in your business after using one of the services listed above?

Manage the business efficiently ☐

Improving the quality of production / processing skills ☐

Improved my relationship with customers and suppliers ☐

Helped me to increase profits and production ☐

The number of employees increased ☐

The number of working machines has increased ☐

Others ☐

36. How would you describe the role it can play in your business in terms of your entrepreneurship and technical training?

Taking the trainings has greatly contributed to the growth of our business ☐

Taking the trainings did not contribute to the growth of our business ☐

About Loan

37. Have you got a loan?

Yes ☐ No ☐

38. If your answer to the above question is `Yes `, how would you describe the contribution of getting a loan to your business?

Getting Loan has greatly contributed to the growth of our business ☐

Getting a loan does not contribute to the growth of our business ☐

39. If your answer to the question number `` 37`` is `` No ``, what is the reason?

1. Because loan requirements are beyond our control☐

2. Because we could not meet the requirements for a loan☐

3. Because the interest rate on loans is high ☐

4. There are no credit service providers near to our business☐

40. What problems do you face when looking for a loan?

1. Lack of Collateral. ☐

2. Lack of credit service providers. ☐

3. Lack of information about credit services. ☐

4. Other Reasons☐

Thank You!