



**CHALLENGES AND OPPORTUNITIES OF MICRO AND SMALL  
ENTERPRISES DEVELOPMENT IN AGARO TOWN, SOUTHWEST  
ETHIOPIA**

**BY**

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Development in Agaro Town, Southwest Ethiopia**

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**A Thesis Submitted to Jimma University, Department of Sociology, in Partial  
Fulfillment of the Requirements for the Degree of Masters of Arts in  
Sociology and Social Policy**

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## **Declaration**

I, the undersigned, declare that this thesis is my original work, which has not been presented for a degree in this or any other university; and all sources of materials used in the thesis have been duly acknowledged.

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## **Abbreviations**

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

MSME(s) - Micro, Small and Medium Enterprise(s)

MOTI - Ministry Of Trade and Industry

MOFED-Ministry of Finance and Economic Development

CSA -Central Statistical Authority

BDS - Business Development Services

GDP -Growth Domestic Product

GTP - Growth and Transformation Plan

UNDP- United Nation Development Program

SSA –Sub-Saharan Africa

UNIDO- United Nation Industry Development Organization

MSF - Micro and small Finance

TVET - Technical and Vocational Education and Training

MUDC- Ministry of Urban Development and Construction

FRMSES- Federal and Regional Micro and Small Enterprises Strategy

FRMSEDA- Federal and Regional Micro and Small Enterprises Development Agencies

MWUD- Ministry of Works and Urban Development

IFC- International Finance Corporation

SPSS-Statistical Package for Social Sciences

### **Abstract**

*The purpose of this study was to investigate the challenges and opportunities in the development of MSEs in Agaro town. In the study, both qualitative and quantitative research methods were used for this research. The study adopted descriptive survey and cross-sectional design. The study employed stratified sampling and simple random sampling to collect data from 247 MSEs. In order to collect data, questionnaire and interview guide were employed as data collection instruments. Data were collected from primary and secondary sources. Descriptive data analysis method was used to analyze the gathered data with the help of SPSS software version 20. Data presented in tables and pie-charts. Chi square was also used to estimate the degree of association between the dependent variable and some independent variables. The study found that MSEs have been confronted with a number of challenges that obstructed their growth and expansion. In particular, the study had found inadequate infrastructure facilities, poor managerial and technical skills, and inadequate working premises, poor social capital (Business Networks, lack of access to information, lack of access to innovation and lack of access to Finance) are the major challenges that deter MSE's development. Moreover, marketing problems, low support from respective institutions, inadequate supply of raw materials, and regulatory and institutional issues are the main challenges that affect the growth and expansion of SMEs of the study area. The study also revealed that the MSEs in the study area had created considerable employment opportunities for unemployed youth and contributed their part in boosting the incomes of households as well as personal savings. In addition to this easy to start the business, extensively supported by government and business opportunities were identified as an opportunities for MSEs in the study area. In line with the findings obtained from this study recommendations to respective governmental bodies and MSE's operators/managers have been forwarded.*

# **Chapter One**

## **Introduction**

### **1.1 Background of the study**

Micro and Small Enterprises play fundamental role in economic and social development of both developed and developing countries. MSEs have the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress (Mulugeta 2014). Study conducted by Endalkachew (2008) shows that micro and small enterprise sector is an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity, and bring technical change through the combination of all of these measures, to stimulate local economic and social development.

In most developing countries, entrepreneurial activities and the associated MSEs are particularly salient among the urban poor. These enterprises provide employment opportunity and source of income, by which these poor people withstand causes and seeds of extreme poverty. Consequently, encouraging and supporting the establishment and expansion of MSEs is one of the development paths opted by the governments of developing countries to reduce unemployment and the resultant poverty (Daniels and Mead 1998). Governments of various least developed nations are allocating ample resources for promoting the MSE sector because they see

MSEs as engines of employment, tools of alleviating poverty and improving equality (Gomez 2008).

As Habtamu, Aregawi and Nigusu (2013) noted MSEs do serve as a means of bringing economic transition by using the skill and the talent of people without requiring high-level training, much capital and sophisticated technology. This makes the sector more preferable to business entry, unemployment reduction, income generation, and poverty alleviation.

Ethiopia is one of the developing countries which have taken measures to enhance the operation of MSEs by considering their contributions. According to Ministry of Urban Development and Construction ( MUDC 2013), the licensing and supervision of micro financing institution proclamation No. 40/1996 was enacted in 1996; the Federal and Regional Micro and Small Enterprises Strategy (FRMSES) was formulated in 1997; and the Federal and Regional Micro and Small Enterprises Development Agencies (FRMSEDA) was established by regulation No.33/1998. All these institutional platforms are created in order to promote the growth and development of MSEs, which in turn are expected to contribute their parts in national growth and transformation. UNDP (2012) has indicated that the development of MSE's is the key component of Ethiopia's industrial policy direction that will contribute to the industrial development and economic transformation of the country. Even the country's latest grand plan (the Growth and Transformation plan-GTP, 2011-2015) has stressed the need for providing support to MSEs.

Based on these efforts, the Ethiopian government has tried to promote the development of the sector through workable laws and regulations, facilitation of startup and working capitals, managerial and technical assistance, working premises and infrastructure, market-enterprises linkages. These created favorable environments for the flourishing of many MSEs that positively contributed to employment creation, poverty alleviation, creation of entrepreneurship and national economic development (MoFED 2010).

After the adoption of the country's Micro and Small Enterprises Development Strategy, many such enterprises have been established and created job opportunity for a significant number of unemployed urban poor throughout the country. For instance, by citing the Ethiopian Ministry of Works and Urban Development (MWUD) (2009), Tegegne and Meheret (2010) reported that 395,806 employment opportunities have been generated by the 71,568 MSEs created in four major regions of the country namely Oromia, Amhara, Southern Nations, Nationalities and Peoples Region, and Tigray.

In spite of the above mentioned opportunities, the sector has been confronting with many challenges whose severity varies across regions and cities (MUDC 2013). It is generally recognized that MSEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. The International Finance Corporation (IFC) (2011) has identified various challenges faced by MSEs including lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and lack of access to credit.

Currently the number of MSEs is increasing at high rate, which means millions of unemployment youth and urban poor are organized into MSEs in order to improve their livelihood and contribute to the development of the country by exploiting the existing opportunities. However, the studies show that a large number of MSEs failed due to different problem. For example, according to Cant (2012), 40% of new organized MSEs in South Africa fail in their first year, 60% in their second year, and 90% in their first 10 years of existence. The study by Gichuki, Njeru, Tirimba(2014) also indicated that 3 out of 5 businesses fail within the first few months of operation and those that continue 80 per cent fail before the fifth year. As vital as they are, the sector has continuously remained stagnant in terms of growth and expansion Bowman (2006). This therefore implies need for intervention and more research on their status, their business and operations to enhance their performance in the country.

This study helps to make MSEs issues a subject of Sociological analysis which will have paramount importance for the practical understanding of the various challenges that different factors ( such as human capital in form of knowledge and skills of operators, social capital in form of social networking or business networking etc.) could bring on different aspects of the MSEs. This, in turn, will help academics, policy makers and officials to seek alternative ways of managing the challenges of the fast growing MSE in order to make it contribute to the socio-economic development of the country generally, and Agaro town particularly. Therefore, the purpose of this research is to investigate the challenges and opportunities of government initiated and organized MSEs in Agaro town.

## **1.2 statement of the problem**

Micro and Small enterprises play significant role in the economic development by creating employment, wealth creation, poverty eradication and creation of new firms (Musimba 2012). This sector contributes to about 70% the Gross Domestic Product (GDP) in Kenya (ROK 2012) and 3.4% to the GDP in Ethiopia (CSA 2007). In the global economy SMEs are largely recognized as engines of growth and development and are the backbone of economy in many successful developed nations (Zhou 2007).

However, the information on the background of the study reveals MSEs have very low survival rate. The collapse ratio of SMEs is alarming for developing countries as well as developed countries (Hodgett and Kuratko 2004). Prior studies identified that a significant number of new SMEs fail within first five years of their business operation (Zimmerer, Searborough and Wilson 2008). Ministry of Economic planning report on SMEs (ROK2007) shows that three out of five SMEs fail within their first three years of operation in Kenya. Several studies from Australia, USA and England showed that approximately 80% to 90% of SMEs fail within 5-10 years (Zimmerer 2008; Hodgetts and Kuratko 2004; Ahmad 2011).

Micro and Small enterprises in Ethiopia are owned and managed by individuals, groups, or associations who usually require a great deal of support from the government or other external sources. Aregawi and Tilaye (2014), MUDC (2013), and Habtamu, Aregawi and Nigusu (2013) stated that the facilitation and adjustment of startup and working capital sources, working premises, raw material supply, managerial and technical skill training, market-enterprise linkage

creation and management support for MSE's are shouldered on government officials. Thus, the responsibility requires tremendous efforts and integration between enterprise owners and government officials' at all hierarchical levels. These and lack of financial resources, management experience, poor location, poor infrastructure, low demand for products or services, corruption and shortage of raw materials are inherently affecting the long term survival, development and business performance (Akabueze 2002). Hanna (2010) and MUDC (2013) reported that though their extent varied across regions and cities in Ethiopia, irregular supply of raw materials, lack of working premises, insufficient startup and working capital, lack of access to market and access to land especially in Addis Ababa are the major obstacles of the enterprises. In addition, social, economic, education and personal background of operators' influences development of MSEs in Ethiopia (Mekonnen and Tilaye 2013).

Although many studies conducted in Ethiopia in relation to MSEs development, there is a gap this research is going to fill. Most of prior studies emphasized on such themes as factors that hinder MSE development, contribution they have for development, role in poverty and unemployment reduction and constraint and prospect of micro and small enterprises which didn't study the social dimension. In addition, MSEs studies have been limited to big urban centers like Addis Ababa the capital of Ethiopia.

For example, Mulu (2014) has attempted to investigate micro and small scale enterprises (MSEs) development services in women's entrepreneurial start-ups whereas Tesfaye (2014) conducted his MA research on the role of micro and small enterprise in reducing youth unemployment of technical and vocational education graduates in Addis Ababa city administration. Ephrem (2010)

also conducted his MA research on the role of micro and small enterprise in reducing poverty in Addis Ababa. Furthermore, Munira (2012) has investigated the performance of micro and small enterprises and their role in enhancing local economic development, in Gullele sub city of Addis Ababa. Kefale and Chinnan (2012) have studied employment growth and challenge in MSEs in Woldiya, Northeast Amhara Region whereas Belay, Asmera and Tekalign (2015) have studied on factors affecting development of MSEs in Mettu, Ilu Ababor Zone. Yet, none of these works resulted in a comprehensive understanding of the opportunities enjoyed and the challenges faced by micro and small enterprises particularly these studies didn't touch the social dimension. This indicated that no detailed study has addressed the relationship between social capital and the growth of SMEs and the impact of component of social capital on the overall growth and expansion of micro and small enterprises.

All above mentioned researches also focused on the economic variables that made contribution to the success and failure of MSEs and hence economic variables has got paramount research attention whereas social variables were overlooked despite their high role in determining the success and failure of MSEs. Therefore, it should be studied specially in developing country like Ethiopia where economic growth is highly embedded in social dimensions. Hence, the study will try to fill this gap by providing insight in to the development support needed and growth strategies for MSEs and whether social capital is a contributor or constraint to the growth of enterprises, via investigating challenges confronting micro and small enterprises development and available opportunities in the study area.

### **1.3 Objective of the study**

#### **1.3.1 General objective of the study**

The general objective of the study is to investigate the challenges and opportunities of micro and small enterprises development in Agaro, Oromia National Regional State, Ethiopia.

#### **1.3.2 Specific objective of the study**

**The specific objectives of the study are to:**

- Examine the support packages being provided by respective government institutions for the development of MSEs in Agaro town
- Investigate the social capital and its influence on the growth and expansion of MSE in the study area.
- Identify the challenging factors that lead to failure of micro and small enterprises in Agaro.
- Assess the roles of micro and small enterprises in employment generation and entrepreneurial development in the study area.

### **1.4 Significance of the study**

Undertaking this research has multiple significances for the sociological understanding of micro and small enterprises. Data which was gathered and analyzed in this study may provide empirical findings on the development of micro and small enterprises by examining challenges and opportunities of the micro and small enterprises and its role for community development. Other researchers who might be interested to conduct further study on similar study on similar subjects may also use it. Moreover, the findings of the study may serve as a source of information for persons who need to know about social and human capital in light of MSEs and their

relationships. In addition, the results obtained from this study may serve as an input for policy making, evaluation and for developing strategies that address the issues of micro and small enterprises sector in socio-economic development.

Despite the rapid expansion of micro and small enterprise programs there has been limited sociological investigation as to why MSEs programs have fascinated a host of development actors including the United Nations, governments, banks, non-governmental organizations, corporations and transnational agencies. A theoretical model explaining the challenges and opportunities of MSEs development is missing from major sociology journals and the sociological literature generally. This sociological investigation help to explore how assisting MSEs can be made into a systematic and long term solution to poverty and unemployment and under what conditions can MSEs sustain secure livelihoods rather than the failures.

Hence, this study concerned with opportunities enjoyed and challenges facing micro and small enterprises development in the study area. Therefore, the study is intended to fulfill the gap left by previous studies and supplement the past literature.

### **1.5 Scope of the Study**

In order to address the research objectives, the study was delimited spatially and operationally. This study limited to Jimma Zone, Agaro town as a research setting. It is also delimited to those MSEs who have been registered under the MSE development strategy of Ethiopian government and licensed by town service center in the town. This research has covered issue that challenging MSEs in their expansion and hinders them to contribute to employment creation and poverty reduction and opportunities of MSEs growth in the study area.

## **Chapter Two**

### **Review literature**

In this chapter, theories, concepts, definitions, conceptual framework and related works done by different scholars about MSEs issues are assessed and discussed with references to different perspectives in various countries.

#### **2.1 Definitions and concepts of Micro and small enterprises**

The statistical definition of MSEs varies by country, and is usually based on the number of employees or the value of assets. The lower limit for MSEs is normally set at 5 to 10 workers and the upper limit at 50 to 100 workers. Since these limits can vary in different countries, one should not excessively concern about the lack of consistency in employment-based definition of micro and small enterprises. For example a 50-employee firm in USA would be considered as smaller than a 50-employee in Bolivia due to the relative size of their economy (Liedholm2001).

Different countries use different criteria such as number of employees, assets, employed capital, sales turn over, or combination of the above factors to determine the size of the enterprises (Adil 2007). For example in United Kingdom the Bolton committee report (1971) as mentioned in Anduaem (2004), recognized the diversity of the sector and documented three essential characteristics of the firm. In view of that:

1. A small firm is managed by its owner in a personalized way,
2. It has a relatively small share of the market in economic terms, and
3. It is independent in the sense that it does not form part of a large enterprise and its ownership is relatively free from outside control in its principal decisions.

The Ethiopia government definition of MSEs is based on criteria such as level of paid-up capital/fixed asset, size of employment, using high tech establishment and consultancy services. This categorization is important for functional and promotional purposes to achieve the desired levels of development. In case of Ethiopia, there is no uniform definition at the national level to have a common understanding of the Micro and small enterprises sector (Munira 2012). However, two mostly used definitions of MSEs are the definition by Ministry of trade and industry (MoTI) on the basic criteria of capital investment and on the other hand by central statistical authority (CSA) that uses employment and favors capital intensive technologies as an index.

The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997. According to the MoTI:

*Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments, whereas*

*Small enterprises are those business enterprises with a paid up capital of above Birr20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments (MoTI 2011).*

CSA also categorized MSEs in to different scales of operation depending on the abovementioned yardsticks. According to CSA, “a micro enterprise is one with fewer than 10 workers; those with

10-50 workers constitute small enterprises while medium and large scale enterprises are those with more than 50 employees.

Currently, the revised micro and small enterprises strategy that divided micro and small enterprises in terms of product and service defined in the following ways and also this is my working definition:

- **Micro Enterprises** are those enterprises having 5 workers including family members and its total asset not exceeding Birr 100,000 for manufacturing enterprises and Birr 50,000 for service providing enterprises whereas,
- **Small enterprises** are those enterprises having 6-30 workers and its total capital not exceeding Birr 1.5 million for manufacturing enterprise and Birr 500,000 for service providing enterprises (MoTI2011).

## **2.2 Brief Historical development of MSEs in Ethiopia**

In most developing countries, MSEs by advantages of their size, location, capital investment and capacity to generate greater employment, became the main focused area. In relation to this, MUDC (2013) revealed that there was a government policy to lay the foundation of basic administrative and institutional infrastructure of the state during the 1940's and 1950's in order to consolidate the gains of reforms that were launched to accelerate the process of industrialization in Ethiopia. Thus, several reforms to the development of MSE's such as the Business Enterprise Registration Proclamation No.184/1961 required business enterprises to register under the Ministry of Commerce and Industry, the Industrial Regulation Legal Notice No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, the Investment

Proclamation No. 242/1966 provided MSE's tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature were made during this period.

Although these attempts were made to support MSE's development in the country, the socialist regime which followed a centrally planned economic system since 1974 came to power and introduced socialist proclamations, excessive government interventions, burdensome rules and regulations, bureaucratic red-tape as well as excessive and costly administrative and legal requirements to obtain trading license such as the Proclamation No.26/1975 that ended up owning and controlling the means of production. The regime also nationalized the private property and those actions had made the previously existing private sector almost came to an end and got crippled(MUDC 2013).

After the downfall of the Dergue regime, the Ethiopian People Revolutionary Democratic Front (EPRDF) had introduced public sector reform and private and market economy development. The licensing and supervision of micro financing institutions proclamation in 1996 and the Federal and Regional MSE's Strategy in 1997 were adopted to enhance the operation of MSE's. Besides, Federal and Regional MSE's Development Agencies were established with the main objectives of utilizing local raw material, creation of job, adoption of new and appropriate technologies, and enhancement of the development of MSE's (MUDC 2013). The current Growth and Transformation Plan (2010 -2015) has also given priority to MSE's development, and has put MSE's as one of the seven growth pillars of the country (MoFED 2011).

### **2.3 Constraints facing the MSE sector in Ethiopia**

A survey by Ethiopian Development Research Institute in (2003) which was studied by Ageba and Amha indicate a number of bottlenecks facing the MSE sector in Ethiopia. According to the authors, firstly there is lack of clear and pragmatic policy that favors development of MSEs. Lack of access to credit and capital has also been indicated as another second major challenge to MSE expansion in Ethiopia. According to the study by Ageba and Amha (2003) about 30% of the MSE operators interviewed replied that high collateral requirements to access credit have hampered their businesses. Since most MSEs do not have a track record with banks and as they do not have the experience in dealing with financial institutions banks are reluctant to give loans to micro and small scale enterprises. This could force entrepreneurs to borrow from informal financial markets at higher interest rates. The same study has also indicated lack of premise and land as a major bottleneck for MSE growth. About 25% of the sampled entrepreneurs reported that lack of business premises has adversely affected growth and survival of their businesses. The issue of land provision and the land lease system has greatly constrained the chances of micro and small enterprises who aspire to start-up businesses (Ageba and Amha 2004).

Stevenson and St-Onge (2005) in a study of support for growth-oriented women entrepreneurs in Ethiopia mention three major challenges for entrepreneurial success in Ethiopia. The first one relates to linkages. According to the authors, in Ethiopia the large and small firms compete rather than cooperate. Business cooperation through networking is not common in Ethiopia. The authors also mention that the institutional framework that enables outsourcing from large to small firms is also weak. The second major challenge for business success in Ethiopia according to the authors relates to lack of entrepreneurial and management skills. In this regard Ageba and

Amha (2004) describe that most MSE operators in Ethiopia are characterized by a low education profile so that ability to coordinate production, engage in innovate activities, and adopt to new and advanced technology is hampered. There is also general lack of entrepreneurial and marketing skills among Ethiopian entrepreneurs. This could in part be related to the fact that educated and better skilled Ethiopians show a tendency to join government jobs than becoming entrepreneurs according to a finding by the World Bank (2007) report. The third major challenge according to Stevenson and St-Onge (2005) is arbitrary and subjective tax system. According to the authors since Ethiopian micro and small enterprises do not keep complete book of records they are prone to subjective taxation. Ageba and Amha (2004) also found that about 37% of the interviewed MSE operators mentioned high taxes as a major bottleneck for business expansion.

Mulugeta (2011) has also identified and categorized the critical problems of MSEs in to 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; 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.

## **2.4 Theoretical Framework**

### **2.4.1 Social Capital Theory in Development Discourse**

Policy makers increasingly rely on theories of social capital to fashion development interventions that mobilize local social networks in the alleviation of poverty. The potential of such theory lies in its recognition of the social dimensions of economic growth. This recognition has inspired some innovative approaches to development, such as the now-popular micro and small enterprises (Rankin 2002).

Development discourse has generally evoked social capital in the sense popularized by sociologist Robert Putnam, as features of social organization, such as trust, norms, and networks, which can improve the efficiency of society (in my case enterprises) by facilitating coordinated actions (Putnam 1993). When people engage in networks and forms of association (organized into micro enterprises or form association), the argument goes, they develop a framework of common values and beliefs that can become a *moral resource* (Putnam 1993) or the *glue that holds a community together* (Potapchuk, Crocker, and Schechter 1997). The trust that emerges from common understanding will in turn generate norms of reciprocity that can help confront the tragedy of the commons in micro and small enterprises, whereby individual opportunism leaves common property resources under cultivated (Putnam 1993). Shared values endow society with logic of collective action by instilling in individuals a sense of stewardship for the common good and by ensuring social sanction against defection from the collective interest (Putnam 1993, 1995; Potapchuk 1997; Patricia Wilson 1997). Trust and norms of reciprocity, in other words, enhance MSE operators taste for collective benefits (Putnam 1995).

Moreover, the conclusion that social networks enhance social opportunity is relatively uncontroversial and has animated public intellectual life for centuries (Rankin 2002). Mostly, everyone knows from experience how important networks are to success – in business, in the job market, in the arts, in academia, in human well-being itself. It is also directly applicable to micro enterprises in my case. Yet never before have social networks and associational life have been featured so prominently among the leading development institutions as *prescriptions* for sustainable development and economic growth (Rankin 2002).

This formulation draws on Putnam's research in Italy and North America, which demonstrates that at aggregate levels, indicators of social capital (such as membership in civic associations) correlate positively with indicators of political democracy and economic growth (such as voting rates and per capita income). Among economists in particular, social capital has been embraced as something of a *magic bullet* with the power to correct state and market failure (Rankin2002.). This view also rests fundamentally on liberal rational choice theory, which interprets the development process to be driven foremost by the decisions of equally endowed, self-maximizing individuals subscribing to principles of economic rationality (Barbara and Ferree 1995; Nelson 1996).

The potential of social capital theory lies in its recognition of social networks and associational life as *resources* for fueling development from the bottom up. Indeed this recognition has inspired the World Bank and other mainstream development agencies to endorse some innovative, once marginal, approaches to development, such as the now popular micro finance

models through which the poor receive credit on the basis of their membership in self-regulating solidarity groups (Rankin 2002).

#### **2.4.2 Social Capital Theory and Micro and Small Enterprises Growth**

Social capital theory believes the existence of social organizations where members are entitled to have access to resources and benefits based on the rules of the game. Resource allocation among members of a given social cluster and individual decisions are governed by the rules of the game. Social capital theory has been successfully used by micro finance institutions (MFI) in channeling and collecting credit to the poor farm and urban households (Thorbeche 2000). Studies further show that social capital has been one of the essential inputs for the survival of many micro and small enterprises. It has been indicated that closeness; trust-based relationships, acquaintances among members of micro and small enterprises have been vital to reduce transaction costs and increase internal flexibility (Fafchamp and Minton 1999; Fukuyama, 1995). It has been repeatedly indicated that social capital used to play significant roles in improving firms' performances by providing access to information and reducing transaction and search costs in situations where markets failure and high transaction costs (Fafchamp and Minton 2003).

Putnam, (1995) for instance, views social capital as features of social life, networks, norms, and trust—that enable participants to act together more effectively to pursue shared objectives. Coleman (1993, 1995) on the other, formulated the concept of social capital as ways to bridge the gap between the sociologists' explanation of human behavior as determined by social factors, norms and social obligations, and the economists' assumption of rational self-interest. The concept of social capital can be viewed along three scopes or levels. The first is at the micro level such as network of individuals or households. The second is at the meso level,

incorporating the vertical as well as horizontal associations and behavior within and among other entities such as micro, small, medium and large firms. The third and most encompassing view of social capital, at the macro level, is incorporating the contribution of institutions and the broader political environment that shapes social structure and enables norms to develop (World Bank 2002).

There are three ingredients fundamental to social capital: resources embedded within the network, access to these resources through relationships, and the use of the resources for purposive action. **Social capital**, therefore, is defined 'as resources embedded in a social structure which are accessed and/or mobilized in purposive actions' (Lin 2001a). This theory of social capital explains how the social network (or the social structure) constraints or enables access to resources embedded within the network. It also states that firms should invest in social capital for future expansion and penetration in new market. It is within this context that this research is framed to use social capital theory.

Micro and Small Enterprises need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active MSEs sector - and the effective utilization of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries (Corps 2005). The MSEs need tailor-made information solutions - i.e., business information services that assess, verify and apply information to a specific business problem Okello-Obura(2008). In order to respond to the specific needs of the MSEs, business information services should create value by bringing together information from different sources - both local and international. This enables the integration of the SMEs into national and global value chains UNIDO (2005).

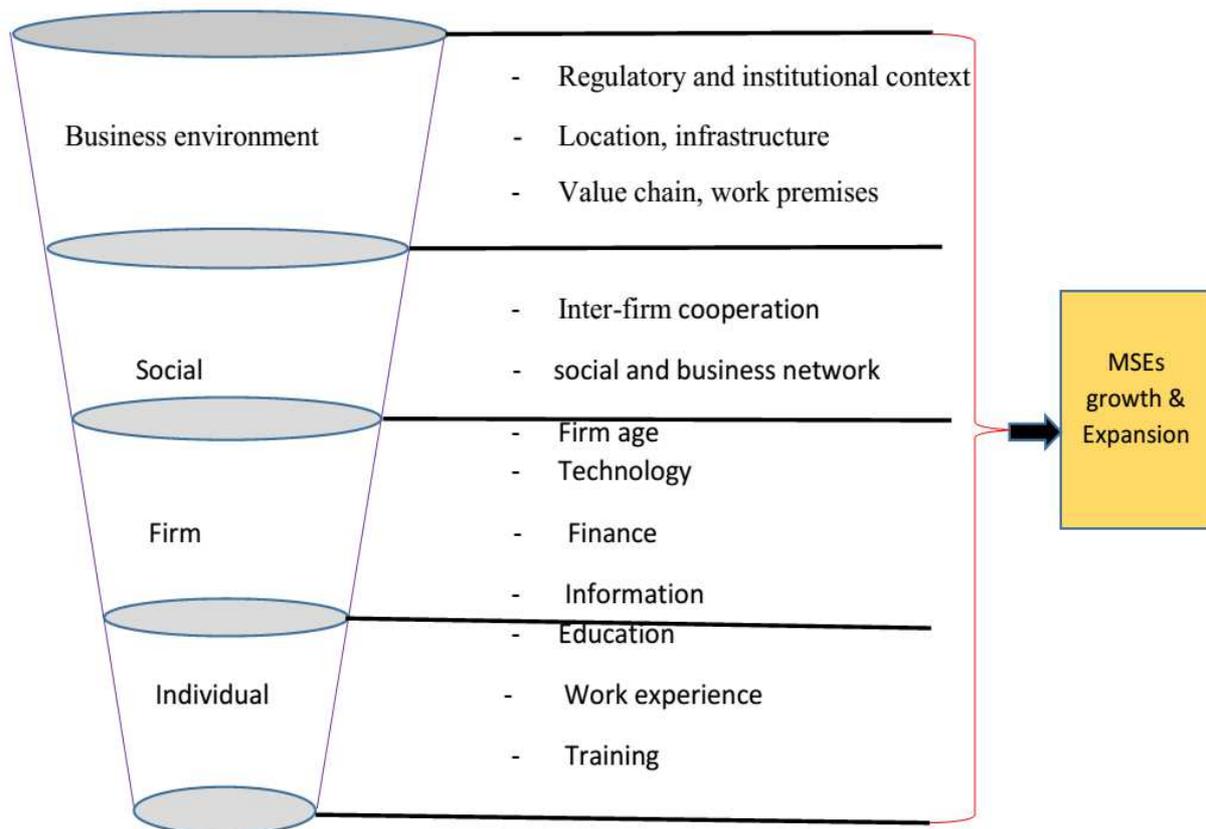
Okello-Obura (2008) argues that there is a need for collaboration between various industrial and trade organizations, professional bodies, private enterprises and government departments to provide MSEs with a comprehensive range of business information, advice and facilities. This implies that the issue of quality information becomes evident for MSEs.

The level of social capital of a community enhances the level of interpersonal trust. This is obviously the case if social capital is the result of moral values imprinted with education. But it is also the case if social capital measures the existence of social networks, which increase the effectiveness of social sanctions. In this case trust is the equilibrium outcome of a society where non-legal mechanism force people to behave cooperatively (Coleman 1999).

## **2.5 Conceptual framework**

This paper examines challenges of MSE development by building on the following conceptual framework. A range of factors play an important role in shaping the growth performance of a particular MSE, by influencing the opportunities available to operators and challenges to take advantage of such opportunities. Figure 1 show the factors grouped into four broad categories: contextual factors related to the business environment, social or relational factors, firm characteristics, and individual entrepreneur characteristics. The funnel shape of figure 1 emphasizes that the factors range from broad (contextual) to narrow (related to the individual entrepreneur). The discussion that follows identifies key factors for which sufficient evidence exists in the literature, discussing how each challenging MSE growth in the study area.

**Figure 1 conceptual framework for analyzing challenging factors of MSEs development and opportunities**



Source: Adapted from Simeon Nichter and Lara Goldmark (2005)

Many studies emphasize enabling business environment as major factors determining micro and small enterprise success in developing countries (Sethuraman 1997; De Soto 2001). Some MSEs may face potentially profitable business opportunities, but be unable to take full advantage of them due to inadequate capabilities.

Regulatory challenges and underdeveloped institutions frequently impose a disproportionate burden on micro and small enterprise because larger firms are better able to maneuver around obstacles or cope with the high fixed costs they impose (Tybout 2000). These regulatory and institutional challenges facing MSEs stifle growth in a multitude of ways. For instance, strict regulations and high taxes may keep firms small and informal (De Soto 1989), thereby contributing to increased transaction costs from problematic property rights protection and contract enforcement. Regulatory and institutional challenges may also deter MSE owners from making growth-enabling investments. For example, import duties on capital equipment (e.g., sewing machines) may disproportionately hurt MSEs. Typically, larger firms can bypass these duties by qualifying for investment promotions, and they may be preferred in allocations processes (Liedholm2001).

Within a given value chain, MSEs may be involved in any number of activities, including primary production, assembly, and service provision. Value chain characteristics can therefore hold implications for MSE growth. These (network) chains may hold the most promise for MSE success because they allow for inter-firm cooperation. Linkages can expand business opportunities and also lack of linkage challenge firm growth at the same time. Further, inter-firm collaboration can help boost productivity, whether through upgrading opportunities within value chains, increasing collective efficiency within clusters, or raising productivity among subcontracting firms.

In many developing countries, including Ethiopia, social links serve either as an enforcement or information device in the both formal and informal sector. In an attempt to clarify this point,

Kristiansen (2004) notes: Networks are one way in which entrepreneurs reduce transaction costs and risks and improve learning and information-sharing possibilities. In a region where capital markets are rudimentary, financial disclosure limited, and contract law very weak, interpersonal networks are critical to taking risks and moving economic resources. Trust facilitates cooperation between entrepreneurs, which is just as important as competition in achieving efficiency (Kristiansen 2004).

Small business success studies are largely biased towards the macro aspects of factors such as structural, finances and enabling business environments than just the individual entrepreneur while dealing with entrepreneurial performance (Johnson 1990). However, the growth of a firm is, to a certain extent, a matter of decisions made by individual operators. This is very much pronounced for microenterprises that are run by owner- managers. Previous studies indicate that personality traits, motivation, individual competencies and personal background are important factors for the success and failure of micro and small enterprises (Baum 2001; Shane 2003).

All types of business enterprises face marketing problems, but these problems are more severe in case of micro and small scale units because of lack of knowledge, adequate funds and lack of experience (Ashish and Sharma 2009). Marketing problem has been widely acknowledged as being the most important of all activities and critical for the survival and growth of SMEs. However, many studies found owner/managers of SMEs as having a very limited understanding of the marketing concept generally to belittle more than advertising and public relations and lacking adequate marketing skills.

Poor finance services, with high interest rates, high cost of premises and tax, difficulty in obtaining loans for startups, all were cited but stringent loan repayment terms was mentioned as jeopardizing the viability of SMEs. In addition, problems related to low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure.

Women own and operate the majority of MSEs in many developing countries, in part because of the ease of entry and their limited access to alternate opportunities (Rubio 1991). Yet women often face particularly difficult challenges that suppress the growth of their firms. Downing and Daniels (1992) provide an insightful analysis of many of the challenges constraining women's opportunities for MSE growth. All too often, women face asymmetrical rights and obligations limiting their labor mobility and burdening them with disproportionate household responsibilities.

## **Chapter Three**

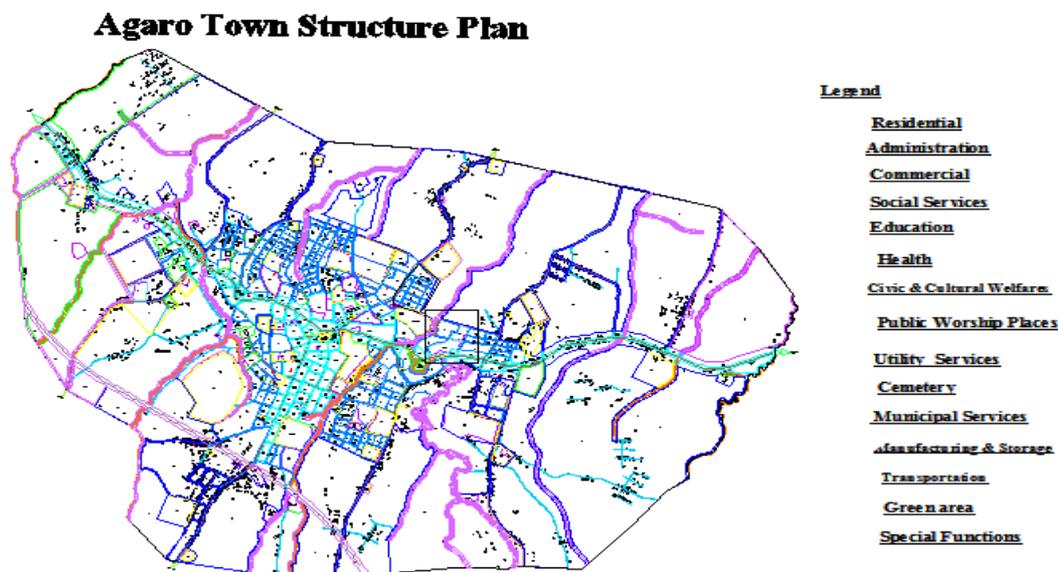
### **Research Method**

According to Saunders, Lewis and hill (2009) the choice of the research design depends on the objectives of the study, the available data sources, the cost of obtaining the data and the availability of time. Accordingly, the researcher employed survey method to investigate the challenges and opportunities of micro and small enterprises development. This method is appropriate in describing the situation by using quantitative and qualitative data (Saunders, Lewis and hill 2009).

#### **3.1 Study setting**

The study was conducted in Jimma Zone Agaro town located in Southwest Ethiopia at distance of about 395 km from Addis Ababa. Agaro town is founded in 1811 and has got master plan in 2006. The Agaro town has an area of 2614.5 hectares with 5 kebeles and have a sub-tropical climate with an altitude of 1704-2000 m.a.s.l. and a temperature ranging from 7.3 °C to 31 °C. The amount of rainfall ranges from 1450–1800 mm, 70% precipitation summer (May-September). The population of Agaro town is 39,174 in 2016, (19,745 male and 19,429 female) (CSA population projection from 2014-2018). People in the town were engaged in different business activities. Majority of them engaged in small business such as retailer (Agaro municipality Office 2015). From Jimma zone woreda towns, relatively large numbers of micro and small enterprise operators are found in Agaro town, so that the researcher prefer to make a study setting at Agaro town. Currently there are 672 micro and small enterprises and 2456 operator or members of the enterprises in the town.

## Map of the study area



Source: Agaro Municipality 2016

### 3.2 Sources of Data

In order to collect reliable data, both primary and secondary sources of data were the major focus of the researcher. To achieve the purpose of this study, the primary data was collected through questionnaire, interview and observation. Secondary sources of data were gathered from different published and unpublished documents, reports, electronic sources, magazines etc.

### 3.3 Study Design

This study used cross-sectional study due to the objective of the study and limitation of time. It helps to collect data on a cross-section of people at a single point in time in order to discover the ways and degree to which variables relate to each other. In this study, a combination of qualitative and quantitative approaches of doing research was employed. The types of research employed under this study were descriptive and explanatory research. The major purpose of descriptive research is to provide a detailed and accurate picture of the issue under study and

document a causal process and report a context of a situation. Then this study describes and critically assesses the challenges confronting the growth and expansion of MSEs in Agaro town. Second, the study employed explanatory with an aim of estimating the degree of influence of the factors on growth of MSEs.

### **3.4 Methods of Data Collection**

The researcher used both quantitative and qualitative data collection methods. Survey was conducted to collect quantitative data through the use of a structured and standardized questionnaire. The issues covered under survey method are all variables that significantly challenging the development of MSEs including contextual factors related to business environment, social factors related to business network, firm characteristics and operator entrepreneur characteristics. It is also used to assess the opportunities in the development of MSEs. The rationale behind is to generalize from sample to a population so that inference can be made about problem and situation of the target group.

On the other hand, key informant interview, in-depth interview, and observation were conducted to collect qualitative data. This qualitative tool used to explore the topic as well as utilize the knowledge and beliefs of the operators, managers and experts about the challenges of MSE and available opportunities. Qualitative methods help to find out what the issues are and the nature of the subject. Using this research method, the researcher has able to explore the attitude and perception of the beneficiaries on the support package provided by government and its implication on their success and failure, attitude and perception toward the micro and small enterprises strategy the operators have. The purpose of employing both qualitative and

quantitative data collection method is to capture the wider data from the target group for the purpose of deep analysis and understanding the challenges and opportunities of MSEs.

### **3.4.1 Survey**

A survey is a systematic method of collecting data from a sample of the population such that the results are representative of the population within a certain degree of error. The rationale for using survey is to collect quantitative data through the use of a structured and standardized questionnaire. The issues covered under survey method are variables that significantly challenging the development of MSEs including contextual factors related to business environment, social factors related to business network, firm characteristics and operator entrepreneur characteristics.

#### **Sampling Technique**

Stratified random sampling was used to get data from different sizes of the MSEs. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. According to Janet (2006), this step increases the probability that the final sample will be representative in terms of the stratified groups. The strata's are sectors including: manufacturing, construction, services, trade and urban agriculture.

According to Catherine Dawson (2009), the correct sample size in a study is dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled. In this study to select sample size, a list of the population formally registered MSEs until June 2015 by the Agaro town micro and small enterprises development office were obtained. The total

population of the study is 672 enterprises which includes manufacturing sector (126), services sector (222) trade (207) construction (65) and urban agriculture (52). The sample size selected here is considered as representative of manufacturing sector, construction sector services sector, trade sector and urban agriculture sector and also large enough to allow for precision, confidence and generalibility of the research findings.

**Sample size Determination:** Sulvian sample size determination formula has been used. The formula is written as  $n = N / (1 + Ne^2)$  where  $n$  = Number of samples,  $N$  = Total population (672) and  $e$  = Error tolerance. Based on sample size determination formula, we can get sample of 251, at 95 % confidence level and 0.05 precision levels. Accordingly, 251 respondents were selected from the total of 672 MSEs. These 251 respondents were selected from manufacturing sector, construction sector, services sector, trade sector and urban agriculture sector on proportional basis. Therefore,  $[(126/672) \times 251] = 48$  manufacturing sector out of 126,  $[(65/672) \times 251] = 25$  construction sector out of 65,  $[(222/672) \times 251] = 83$  services sector out of 222,  $[(207/672) \times 251] = 77$  trade sector out of 207 and  $[(52/672) \times 251] = 19$  urban agriculture out of 52 were selected. This sample size was randomly selected from sampling frame.

### **3.4.2 Data collection instrument**

Questionnaire consists a set of questions that was presented to a respondent for answers were used to collect data. The questionnaire contains questions or variables that discuss the major challenges and opportunities of MSEs and assistance that the operators needed from the government in the area of MSEs operation and the like. In order to collect the necessary data (responses), both closed and open ended questions developed and incorporated in the

questionnaire. The questionnaire was designed in English language and was administered to respondents in a face to face interview. The reason that I preferred to administer in this way is that it usually results in a higher response rate, preferable for survey addressing complex issues where some explanation may be needed and reduces non-response to individual questionnaire items.

### **3.4.3 In-depth interview**

An in-depth interview was held with purposively selected members or operators of the MSE sector to identify their views, characteristics and ascertain the support package provided to them, challenges they face, opportunities for them. In this regard 5 operators were interviewed.

### **3.4.4 Key informant interview**

Key informant interview was used to collect data which help to triangulate information collected through other methods. The data was gathered by interviewing some government officials who have better knowledge and experience in the subject matter or in the field. In this study, the key informants are the main actors of the study area such as MSE manager, experts and the MSEs development program officer.

## **3.5 Method of Data Analysis**

For the analysis of the data, both quantitative and qualitative methods were used from the point of view of research objectives. Descriptive statistics (such as percentage, mean, frequency and cross-tabulation) has been used in order to enhance and make meaningful analysis and interpretation of the research output and to estimate the degree of association between dependent variable and independent variables that influences the growth of MSEs, inferential statistics (chi square) was used. The statistical package for social sciences (SPSS) version 20 was used for the data processing. In the case of qualitative data, which collected through interview and

observation, a descriptive analysis was implemented. Finally, secondary data obtained from various data sources was organized and analyzed to compliment the survey results.

### **3.6 Reliability**

The reliability of instruments measures the consistency of instruments. Creswell (2009) considers the reliability of the instruments as the degree of consistency that the instruments or procedure demonstrates.

In this study each statement rated on a 5 point likert response scale which includes strongly agree, agree, undecided, disagree and strongly disagree. Based on this an internal consistency reliability test was conducted in Agaro town with a sample of 12 operators and the Cronbach's alpha coefficient for the instrument was found as 0.68 which is reliable. Although an alpha value of 0.80 or higher is taken as a good indication of reliability for others, Cohen et al. (2007) suggested that it is acceptable if it is 0.67 or above. Since instruments were developed based on research questions and objectives, it is possible to collect necessary data from respondents. Then instruments are consistent with the objectives of the study.

### **3.7 Validity**

Validity is the degree to which a test measures what it supposed to measure (Creswell, 2009). It is the degree to which results obtained from the analysis of the data actually represents the phenomena under study.

A pilot study was conducted to refine the method and test instrument such as a questionnaire before administering the final phase. Questionnaires was tested on potential respondents to make the data collecting instruments relevant and suitable to the problem and reliable as recommended by John Adams et al. (2007). Issues raised by respondents were

corrected and questionnaires were refined. Besides, proper detection by an advisor was also taken to ensure validity of the instruments. Finally, the improved version of the questionnaires were printed, duplicated and dispatched.

### **3.8 Ethical Considerations**

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of filling questionnaire and asking interview questions. Although all interview sessions has tried to tape-record, it was impossible as the respondents were not voluntary. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like 'respondent' were used.

### **3.9 Limitation of the study**

Like all research, this study has limitations. One of the problem encountered in the study has to do with the operator's reluctance to cooperate due to suspicion that disclosing information may lead to negative effect on their business. Another limitation to this study was that, the given time for field work was too inadequate for qualitative and quantitative data collection which resulted to some sort of delay to the researcher in submitting the report on the supposed university schedule. It is very important to note that these limitations did not have any significant interference with the outcome of the study.

## **Chapter Four**

### **4. Data Presentation, Analysis and Interpretation**

#### **4.1 Introduction**

This chapter presents results and discussion of the study. The results of descriptive analyses presented using frequency, tables, pie charts and percentages. Pearson chi square also used to estimate the degree of association between dependent and independent variables.

Two hundred fifty one questionnaires were distributed across the five sectors in the town, out of which 247 were completed and retrieved successfully, representing 98% response rate. Out of the 247 questionnaires administered 48, 83, 77, 24 and 19 were distributed to manufacturing sector, Services sector, trade sector, construction sector and urban Agriculture sector respectively.

This section is organized in the following manner: First, the general information about MSEs were presented and analyzed. Second, data collected through questionnaires and interviews were analyzed concurrently.

#### **4.2 General Characteristics of the Respondents**

In this section, the study provides details of the gender, age, marital status, education status, religion and ethnicity of the respondents.

**Table 4.1 Demographic Characteristics of the sample respondents**

		Frequency	Percent
Sex	Male	172	69.6
	Female	75	30.4
	Total	247	100.0
Marital status	Single	82	33.2
	Married	127	51.4
	Divorced	23	9.3
	Widowed	15	6.1
	Total	247	100.0
Age	18-25	79	32
	26-35	122	49.4
	36-45	46	18.6
Educational status	never attended class	16	6.5
	primary school	99	40.1
	secondary school	77	31.2
	TVET	43	17.4
	college diploma	1	.4
	first degree and above	11	4.5
	Total	247	100.0
Religion status	Orthodox	82	33.2
	Muslim	142	57.5
	Protestant	23	9.3
	Total	247	100.0
	Oromo	186	75.3
	Amhara	27	10.9
	Gurage	23	9.3
	Kafa	9	3.6
	Dawuro	2	.8
	Total	247	100.0

Source: Own field survey, 2016

As far as sex of the respondent is concerned, a result indicates that there is low proportion of women compared to men in the MSEs of study area. In the town the proportion of men in MSEs accounts for 172(69.6%) and women constitute only 75(30.4%), demonstrating that there is a clearly observable gender gap (table 4.1). There are some factors for this variation such as socio-cultural norm especially work of men and women. According to Nichter and Glodmark (2005),

women entrepreneurs face a constrained business environment where culture dictates access to market, education and business skills. Disproportionate domestic obligations limit competitiveness of women entrepreneurs.

Regarding the age structure of the respondent, 79 (32%) of respondents are found between 18-25 age categories while 122 (49.4%) of the respondents are found in the range of 26-35 years age group. Age group 36-45 and above years constituted 46(18.6 %).The majority of the respondents i.e.81.4 percent are found in the age range of 18-35 years and the remaining18.6 percent of respondent are found in the age range of above 36 years. This result shows that most of the sample respondents are the active sections of the societies. In other word, the finding of this research indicates that the MSEs strategies accommodate mostly active and productive age group of people as shown in the above table. The result also shows us that the MSEs operators are comprised of different age groups individuals working together for common goal.

In relation to marital status of the respondents, out of 247 respondents in the selected enterprises 33.2 percent of the respondents are single or never married while a large number i.e. 51.4 percent of the respondent are married. The divorced and widowed sample respondents accounted for about 15.4 percent. Hence this figure shows that most proportions of married and single are able to participate in MSEs and the sector is capable of absorbing both single and married individuals indiscriminately.

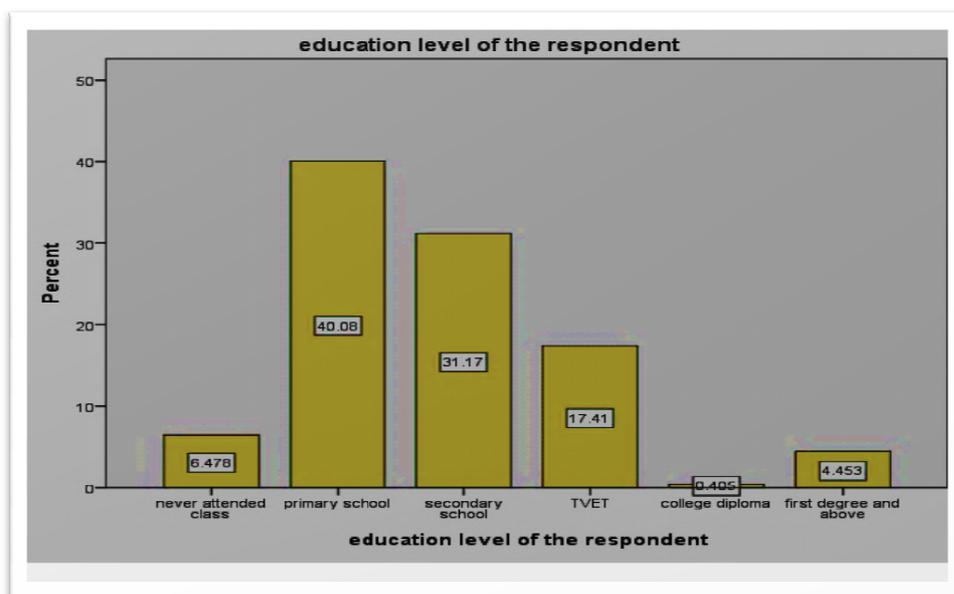
For enhancing the productivity and expansion of MSEs, education and skills are crucial things for overall growth and success of MSEs. As indicated in the Table 4.1, Managers /operators of the enterprises are found in different level of educational achievement. From the sample

respondent of 247, 99(40.1%) of respondent has completed primary school, 77(31.2%) of respondent are secondary level school. About 6.5 percent of sample respondent has never attended school. The rest sample respondent, 17.4 percent has completed secondary school and got TVET level education whereas 0.4 percent and 4.5 percent of respondents has got diploma and first degree and above respectively. This implies that the majority (73.3%) of MSE owners investigated in this study have attended primary and secondary school level education. Operator's educational status by sector shows that managers of enterprises like construction (62.2%) and manufacturing (29.8%) sectors has completed secondary school education and got TVET level education and above and the two sectors are better than other sectors in accommodating educated and skilled man power.

Hence, from the educational level of the managers and operators of the enterprises under study, it is possible to say that large proportions of the participants in MSEs are those who attended primary and secondary school education. The proportion of TVET level education and above is small that account for only 22.3 percent. This implies that majority of participants in MSEs are not professionals which can be a challenges in planning and managing their business. The acquisition of relevant formal education, technical training, business skills or on-the-job training is critically important for expansion and success of MSEs. Similar finding also shows that, most of MSE operators struggle because of a low level of education, poor technical training and inability to acquire on-the-job training (Paloma and Sergio 2006).

The finding of Gebeyehu and Assefa (2004) also prove that, lack of training institutions adequately equipped for training MSME entrepreneurs constitutes one of the key reasons for the poor performance of the MSME sector in Ethiopia.

Figure 4.1 Educational statuses of the respondents



Source: Own Field Survey 2016

### 4.3 General Characteristic of the Enterprises

#### 4.3.1 Main activity of the enterprises and the stage of MSEs

Table 4.2. Sectoral engagements of MSE operators and their stage/scale

Sector	Frequency	Percent
Manufacturing	47	19.0
Trade	75	30.4
Construction	24	9.7
Services	82	33.2
urban agriculture	19	7.7
Total	247	100.0
<b>Stage/scale</b>		
Micro	178	72.1
Small	67	27.1
Medium	2	.8
Total	247	100.0

Source: Field survey, 2016

As shown in table 4.2 above, the sample enterprises were operating in five sectors of business activities. From the survey results, most of MSEs in the town are engaged in services sector

(33.2%) followed by trade (30.4%), manufacturing (19%), construction (9.7%) and urban agriculture (7.7 %) sector. This classification of MSEs by sector was believed to be helpful to study each sector's critical challenges and constraints that affect the development of MSEs. This is because firm in different sectors of business activities face different problems. This means the degree of those critical challenges in manufacturing sector may differ from the factors that are critical to services sectors.

Among the five business sectors, majority of the entrepreneurs were working on service and trade sectors. Because, the sectors need little capital to start and run unlike construction and manufacturing-on which government emphasis to meet the expected Millennium development goal even if it requires large amount of initial capital and skilled human labor.

Also from table 4.2 above, one can easily identify the stage of the business that enterprises engaging in. From the total sample respondents, the majority of the enterprises i.e. 72.1 percent found in micro scale stage. While the rest of the enterprises in the sample 27.1 and 0.8 percent is found in small and medium scale stage respectively. This helps the researcher to get appropriate information from appropriate enterprise. For example, it can tell us whether the enterprise is growing or simply surviving. From the above figure, we can also generalize that majority of the enterprise in the sample did not show growth and they are in startup stage though they spend from 1-5 years in the business activities.

### Age of enterprises and their capital

Table4.3 The age of enterprise in operation and initial capital of enterprises

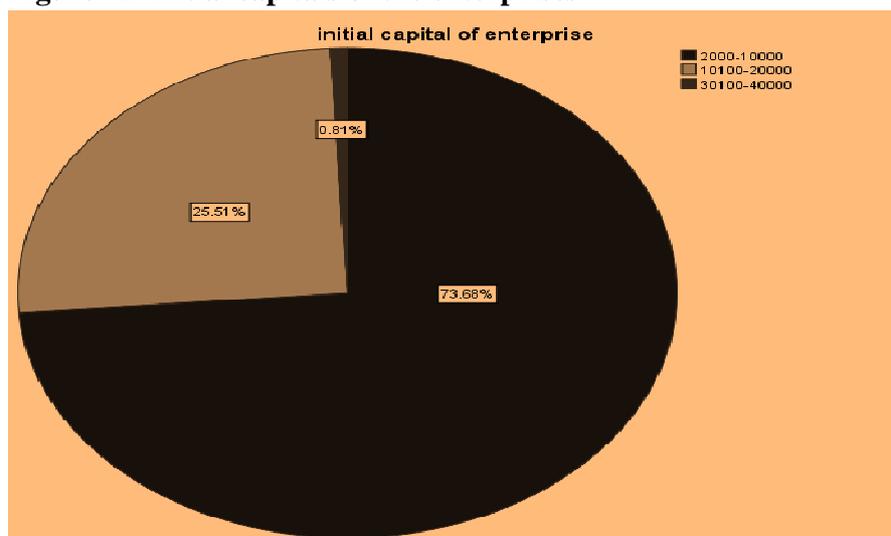
The age of enterprise in operation		Initial capital of enterprise			Total	Percent
		2000-10000	10100-20000	30100-40000		
	1-2	54	37	2	93	37.7
	3-4	74	21	0	95	38.5
	5 &above	54	5	0	59	23.8
Total		182	63	2	247	100
Percent		73.7	25.5	0.8	100	

Source: Field survey, 2016

The survey result revealed that 37.7 % of the sample MSEs are found in the age interval of 1-2 years, 38.5% of the sample enterprises found in age 3-4 years and 23.8% of the respondents are found in the age of 5 and above years.

Table 4.3 above indicates that the amount of initial capital of MSEs for starting business ranges from 2000-40000 ETB. However most of the MSEs (73.7%) of the sample respondents' initial capital were between 2000-10000 ETB. The rest 25.5% is between 10100- 20000 ETB and 0.8% of the respondents' initial capital is 30000 ETB and above. When the sectors compared, services and trade sectors constituted large proportion of initial capital within the range of 2000-10000 which also implies that the sector need small amount of birr to start business or easy to start.

**Figure 4.2 initial capitals of the enterprises**



Source: Field survey, 2016

Majority of all the sectors are their initial capital between 2000-10,000 birr that was 13.2 percent, 35.7 percent, 11.5 percent, 35.2 percent and 4.4 percent for manufacturing, Trade, construction, service and urban agriculture respectively. With initial capital between 10,100-20,000, the proportion for five sectors are 35.5 percent, 16.1percent, 4.8 percent, 25.8 percent and 17.7 percent for the respondents of the manufacturing sector, Trade sector, construction sector, services sectors and urban agriculture sectors respectively.

**Table 4.4 The age of enterprises in operation and current capital of the enterprises**

the age of enterprise in operation		current capital of the enterprise							Total	Percent
		5000-25000	26000-75000	76000-150000	151000-250000	251000-350000	351000-500000	510000 and above		
1-2	60	32	1	0	0	0	0	93	37.7	
3-4	50	30	10	2	1	1	1	95	38.5	
5 & above	10	27	14	4	1	1	2	59	23.8	
Total		120	89	25	6	2	2	3	247	100
Percent		48.6	36.1	10.1	2.4	0.8	0.8	1.2	100	

Source: Field survey, 2016

Availability of accurate information on current capital is very difficult. This is because fear of taxation, fear of other new competitors will engage in the business. According to the survey, majorities (48.6%) of the sample enterprises have current capital between 5000-25000 birr and (36.1%) of the sample enterprises have capitals between 26000-75000 birr. The rest of the respondents' current capital is 76000-150000 birr, 151000-250000 birr, 251000-350000 birr, 351000-500000 birr, 510000 and above which are 10.1 percent, 2.4 percent, 0.8 percent, 0.8 percent and 1.2 percent of the MSEs operators respectively.

Table 4.5 Current capital of the enterprise and the main activity of enterprises

		the main activity of enterprise					Total	Percent
		Manufactu.	trade	construction	Services	urban agri.		
current capital of the enterprise	5000-25000	9	42	4	57	8	120	48.6
	26000-75000	18	29	8	24	10	89	36.1
	76000-150000	16	2	5	1	1	25	10.1
	151000-250000	2	0	4	0	0	6	2.4
	251000-350000	1	1	0	0	0	2	0.8
	351000-500000	0	1	1	0	0	2	0.8
	510000 and above	1	0	2	0	0	3	1.2
Total		47	75	24	82	19	247	100

In order to understand the growth of MSEs, it was necessary to inquire the initial and current capital of enterprises. The above table 4.5 demonstrates the magnitude and direction of capital growth i.e. the result shows that there is a positive change in current capital from the initial one.

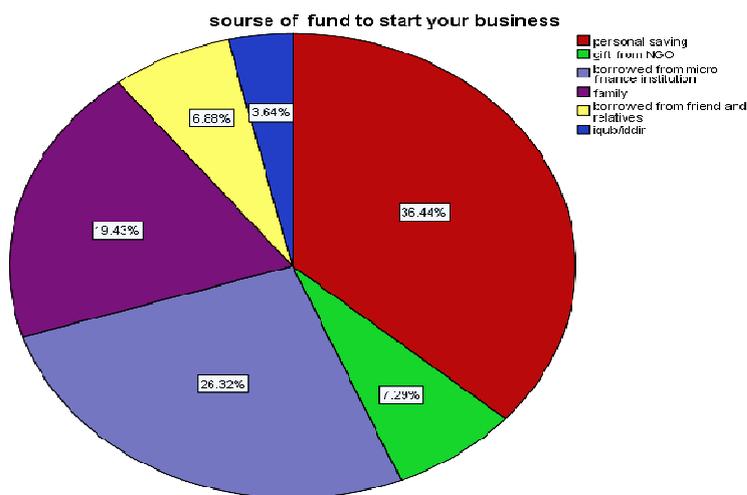
Currently, 51.4% of enterprises in the study area have a capital of more than Birr 25, 000 which was 73% at the beginning with initial capital less than 10,000. Therefore, enterprises show

improvement in terms of their current capital. However, from the above data, we can understand that more enterprises have a capital of between Birr 5,000 – 50000. Therefore, according to the new micro and small enterprise strategy, most of the enterprises are found at micro level. This means the majority of the established enterprises couldn't bring an expected change as per strategy's overall goal and objective due to different challenging factors in the town.

#### 4.3.2 The Main Source of Start-up capital

Starting own business requires a starting capital rather than mere existence of ideas. To capture information regarding the relative importance of the various sources of finance, enterprises were asked whether they ever received credit from each of a given list of sources of finance. The following figure shows the main sources funds.

**Figure 4.3 Source of startup capital**



Source: field survey, 2016

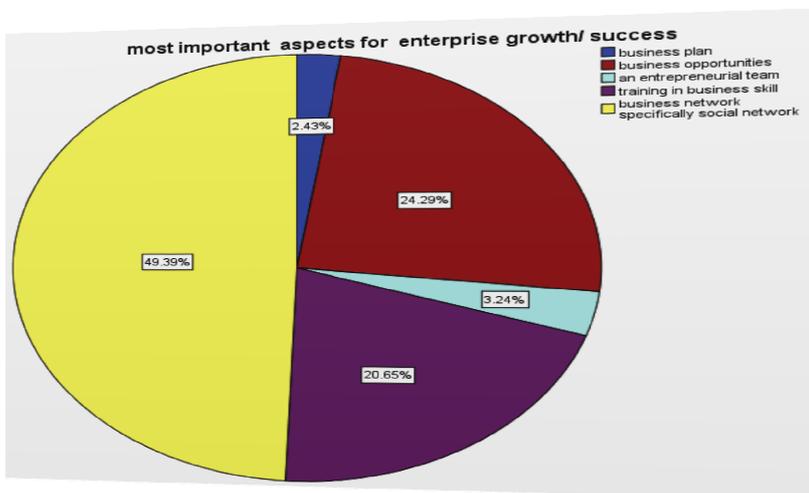
As can be seen from the figure personal saving (36.4%) are the most frequently used sources of finance to start their business, followed by micro finance institution (26.3%), family (19.4%), NGO (7.3%), friends/relatives (6.9%), iqub/iddir (3.7%) and none of the respondents got loans from bank. From this one can easily capture that the main source of finance for MSEs in Agaro town is personal saving. But also other source of finance like

family and NGOs plays the greatest role. In the town, informal sources play the greatest role in establishment of MSEs than the formal sources like microfinance and banks. Gebrehiwot and Wolday (2004) reported informal source of finance as the major source of finance for MSEs which accounts for about 87% whereas the contribution of banks was insignificant (1.9%).

Besides, the result of interview shows that majority of MSEs in the study area uses informal sources. The formal financial institutions have not been able to meet the credit needs of the MSEs. According to one of interviewee, the reason for emphasizing on informal source is that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other. But the access of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To sum up, such constraint of finance for MSE affects their growth directly or indirectly.

### 4.3.3 Opportunities for MSEs growth

Figure 4.4 opportunities for enterprises growth



Source: field survey, 2016

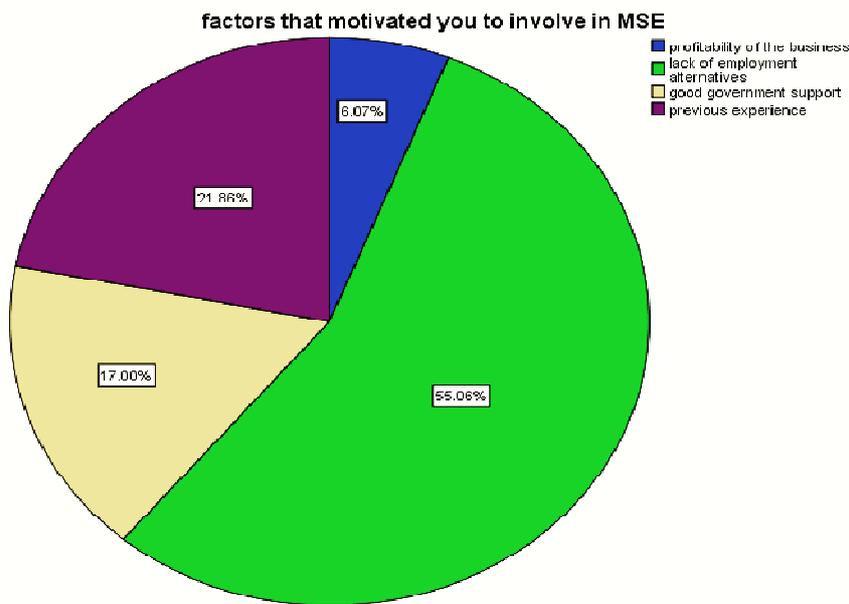
Various factors were identified as important factors for growth of MSEs. From the figure 4.4 above, business network (49.4%), availability business opportunities (24.3 %), training in

business skills (20.7%), entrepreneurial team (3.2%) and business plan (2.4%) were specified as important for the growth of their enterprises. The analysis of this result leads to the conclusion that a business network is the most important factors for the success of any MSEs.

The findings relate with the finding of Zontanos and Anderson (2004) shows that Social networking allows businesses to gain access to resources that might otherwise not be available to them. Moreover, the availability of business opportunities and training in business skills are also important aspects for the growth and expansion of MSEs.

#### 4.3.4 Leading factors to involve in MSEs

Figure 4.5 Factors that motivated you to involve in MSE



Source: field survey, 2016

The respondents were asked about factors that motivate them to operate as MSEs and provide the following responses. The results in figure 4.5 above indicate that, more than half of the respondents (55.1%) join to micro and small enterprises due to lack of employment alternatives. This was followed by previous experience in any other business activities (21.9%), expectation

of good government support (17%), profitability (6%) of the sector. From the survey, an involuntary choice dominates reasons for joining MSEs. Lack of alternatives alone accounted for about 55.1% of the total respondents and this figure is higher for male (56.4%) than female (53.6%).

This supports the findings of Halkias et al (2011) which found out that lack of alternative employment opportunity is the leading factors to join MSEs. But there is a deviation between the findings of this research and the findings of Gebrehiwot and Wolday (2004). They found that the two primary reasons to join MSEs were thought of profitability (43.6%) and skill in the business activity (38.4%).

The interview result also confirmed the above finding. One of the interviewee said that:

*The main reason to join MSE is due to lack of employment alternative. I did not have any job before I start this business. To join government office I do not have any certificate since I couldn't continue college level education after grade 10<sup>th</sup> completion so that the only option that I have is to organize under umbrella of MSEs and create my own job with my friends.*

Similarly other interviewee who is university graduate has forwarded similar idea with the above interviewee saying that:

*I was graduate of 2013 from Meda Welabu University with BA Degree. In the search of job I used to go here and there to hire in government office, but I couldn't found any job. In searching for a job, I spent a year and finally I come to the office of MSEs Agaro town to get information and advice regarding MSEs strategy. Finally they helped us to form group and gave us working premises/shade and we start to run our business. Therefore, the reason that motivates me to join MSE is due to lack of alternative job opportunity.*

However, one of interviewee from trade sector gives different information from the above interviewees. The interviewee said that “I have joined this business activity due to previous experience and also its profitability.”

### Work experiences of managers/operators before engagement in MSEs

Table 4.6 factors that motivated you to involve in MSE \* work experience of owner manager of the enterprise before engaging in the current business

		work experience of owner manager of the enterprise before engaging in the current business				Total
		had no work experience	had work experience in a similar line of business	had work experience in difference line of business	had been self-employed or operated my own business	
factors that motivated you to involve in MSE	profitability of the business	1	9	1	4	15
	lack of employment alternatives	101	19	3	13	136
	good government support	5	15	1	21	42
	previous experience	0	25	1	28	54
	Total	107	68	6	66	247

Source: Field survey, 2016

As indicated in the above table, from 136 respondents that were joined MSEs due to lack of employment alternatives, 101(40.9%) of them had no work experiences. 35(14.2%) of them were hired in different activities as a daily laborer. Again also from 54 respondent who joined MSEs due to previous experiences, 25(10.1%) of them had work experience in similar line of business and 29(11.7%) of them had been self-employed and from 42 respondent who joined

MSEs due to good government support expectation,5 of them had no work experiences whereas 15 of them had been self-employed.

#### 4.3.5 Favorability of business environment for MSEs

Table 4.7Favorability of the business environment for MSEs

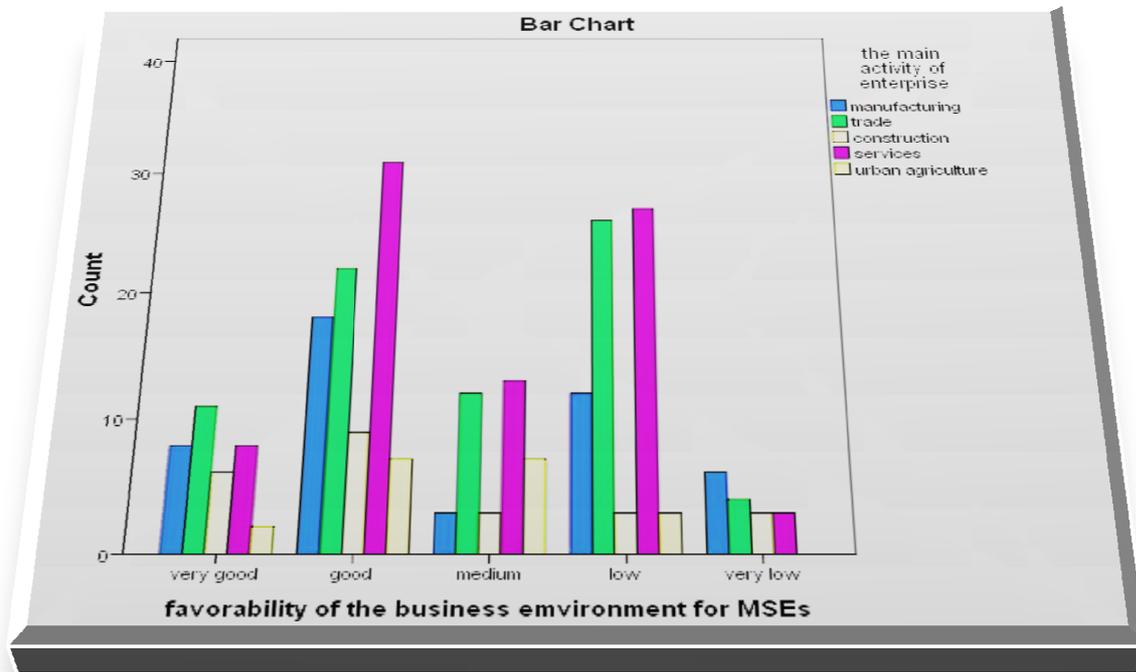
	Frequency	Percent	Valid Percent	Cumulative Percent
very good	35	14.2	14.2	14.2
Good	87	35.2	35.2	49.4
Medium	38	15.4	15.4	64.8
Low	71	28.7	28.7	93.5
very low	16	6.5	6.5	100.0
Total	247	100.0	100.0	

Source: Field survey, 2016

The respondents were asked about the favorability of the business environment for MSEs and these were 14.2% very good, 35.2% good, 15.4 % medium, 28.7% low, and 6.5 % very low. The respondents listed four factors at the level of the business environment that hinder growth and expansion of enterprise in the study area such as lack of sufficient working capital, lack of working premises, shortage of supply of different machine for industry sector, high corruption among officials.

In relation to this point, Caroline (2013) has stated that the overall business and regulatory environment is crucial to stimulate enterprises. The business environment includes the policy, legal and regulatory factors that provide the contexts and conditions for doing businesses and the government's general attitude towards the micro and small scale enterprises shape business opportunities for MSEs. Conversely, unfavorable business environment can deter the growth and expansion of MSE.

Figure 4.6 favorability of business environment for MSEs with main activities



Source: own field survey, 2016

Of the study's five sectors, the respondents from the trade and services sector were the least happy with the business environment in the town.

#### 4.3.6. Support provided by respective government institutions for the development of the sector

There are many external factors that impacts enterprises growth. This mainly includes supports enterprises receive from local government bodies which are clearly mentioned in the MSEs strategies of the government. The major ones, among others, include availing loan services, providing working premises, trainings, consultancies, and one-stop-services, market linkage, access to innovation and organizing in clustering and others for the enterprises to improved performances. Hence, this sub-topic attempts to look at the availability and quality of support services being given by the respective government bodies in the town of the study area.

Table 4.8 accessing support package from government

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	226	91.5	91.5	91.5
No	21	8.5	8.5	100.0
Total	247	100.0	100.0	

Source, Field survey, 2016

As indicated in the above table, 226(91.5%) of respondent had got support from government institution. But the rest 21(8.5%) of respondents were responded to the question that they didn't received any government support from any government institution. However, as one of interviewee from MSEs Office said, "all of MSE operators had got at least one of support package both during establishment and after established". From above table, the majority of established enterprises had got different kind of support from government institution and this can be considered as a good opportunity for any MSEs. Similarly, MUDC (2013) also reported that the opportunity in MSE strategy is that it is extensively promoted and supported by the government.

Table 4.9 Have you got support from government and satisfied by the support provided by institutions

		satisfied by the support provided by institutions					Total
		very high	High	Medium	Low	very low	
have you got support from government	Yes	9	50	70	78	19	226

Source: Own Field Survey, 2016

Among those who had got support from government, the respondents' satisfaction level is 4%, 22.1%, 31%, 34.5% and 8.4% at very high, high, medium, low and very low respectively. Here,

even though there is government support provided to MSEs, the survey results show us that about (42.9%) of the respondent didn't satisfied with the support provided by government institution. This may emanate from the ineffective implementation of policy, strategy and proclamation related with MSE development. One of the interviewee from operators supports this idea saying that:

*We have awareness regarding the strategy of MSEs particularly support packages strategy that programmed to provide by government to MSEs, but what we informed so far and practically what we are experiencing is too different. This means that there is big implementation problem with government officials and MSEs experts.*

Table 4.10. Have you got support from government \* absence of government support as a challenge to growth of enterprise

			absence of government support as a challenge to growth of enterprise		Total
			yes	No	
have you got support from government	Yes	Count	213	13	226
		%	94.2%	5.8%	91.5%
	No	Count	15	6	21
		%	71.4%	28.6%	8.5%
Total		Count	228	19	247
		%	92.3%	7.7%	100.0%

Source: Field survey, 2016

From above cross tabulation it could be observed that, 213 (94.2%) of respondents which received support from government institution were believe that absence of government support can hamper enterprise growth and expansion whereas 13(5.8%) of them who received support did not considered absences of government support as a challenge to their enterprise growth. On

the other hand, 15(71.4%) of the enterprises under study who didn't received any support from government institution believe that lack of government support can affect their enterprise growth and success whereas 6(28.6%) of them neither received government support nor believe that absences of government support affect the growth and success of their business.

The interview result conducted to validate data obtained through questionnaires confirmed that:

*Support package for MSE is critical factor that facilitate the growth and expansion of the enterprises and the reason that the majority of MSEs in the study area which some of them failed and others stagnant in their business growth is due to lack of government support and inappropriate implementation of the policy and strategy of MSEs. In addition, partiality in providing services is also there such as favoring relatives and friends, receiving undeserved benefits.*

#### 4.3.7. Promotion mechanism of MSEs

In the survey of micro and small enterprises under study, enterprises were asked whether they have ever advertised their products/ services.

Table 4.11 promotion campaign of enterprise

	Frequency	Percent	Valid Percent	Cumulative Percent
Posters	6	2.4	2.4	2.4
trade fair	17	6.9	6.9	9.3
Valid no advertisement	179	72.5	72.5	81.8
business cards	45	18.2	18.2	100.0
Total	247	100.0	100.0	

Source: Field survey, 2016

As can be seen from the table 4.11 above, majority of enterprises (72.5%) in the study area did not use any promotion campaign or no advertisement for either their product or services. But

27.5% use promotion campaign which includes business card (18.2%), trade fair (6.9%) and poster (2.4%). As survey result indicated that we can generalize that almost most of MSEs in the study area fall in shortage of promoting their product and services and it could be considered as a big challenge to their enterprise growth and expansion.

When one looks at the sector, from the five sectors, construction and manufacturing sectors were better in using different promotion campaign which includes posters, business card and trade fair to promote their product, services and others. Of the five sectors, none of them used promotion campaign such as TV, radio and newspaper to promote their product and services. Here, it could be said that lack of utilizing and launching different promotion campaign can be a key factor that can contributed to the low performance and success of MSEs of the study area.

MUDC (2013) stated that those MSEs that advertise their products/services have a better market linkage than others. However, there is one undeniable fact, which is about the positive role cooperative and MSE Development Bureaus play in bringing these smaller producers to the market through bazaars and trade fares. But, such supports are only reaching the few and the remaining majorities are still suffering from market linkage problems.

The interviews result conducted to validate data obtained through questionnaires confirmed that:

*We know that advertising is one way of product promotion mechanism that help to aware the customer about the quality of product, price of product, utilization procedure of product and even location of the business, but our problem is that we could not afford its price. Even we couldn't get a chance to involve in different bazaars and trade fairs which prepared by regional and federal government.*

On the other hand, one of interviewee from construction sector said that “we know the importance of advertisement to promote our product, but there is media unavailability- we couldn’t access the media for promotion.” In addition to this, there were operators that did not have awareness about the role of media in promoting products/services. Generally, it is possible to conclude that media unavailability, lack of finance or un-affordability and lack of awareness were the main factors that constrain MSEs under study to involve in promotion.

**Status of MSEs (growing or not growing)**

Table 4.12 Status of MSEs /rowing or not?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	127	51.4	51.4	51.4
No	120	48.6	48.6	100.0
Total	247	100.0	100.0	

The researcher asked the respondent whether their enterprises are growing or not (declining? stagnant?). Of the sample respondent, 127(51.4%) of them responded that their firm were growing whereas 120(48.6%) of the sample respondent answered their firm or enterprises were not growing due to different factors. Of the respondent who answered their enterprises is not growing, 113(94.2%) of them responded that they believed their enterprises didn’t show growth due to lack of ability to utilize their social capital effectively. Therefore it is possible to draw conclusion that one of the reasons to failure of MSEs in the study area is due to lack of utilization of social capital by MSEs. In relation to this finding, Eshetu (2008) has stated that social capital is a potentially useful tool for the development of MSMEs in developing economies such as Ethiopia. Conversely, enterprises who fail to make use of social capital are at a disadvantage in terms of firm-growth and long-term survival.

Table 4.13 an enterprises future plan regarding their business

	Frequency	Percent	Valid Percent	Cumulative Percent
stop operation	16	6.5	6.5	6.5
expand capacity	176	71.3	71.3	77.7
reduce capacity	3	1.2	1.2	78.9
maintain production at the same level	47	19.0	19.0	98.0
Others	5	2.0	2.0	100.0
Total	247	100.0	100.0	

Source: field survey, 2016

The respondents also asked about their future plan regarding their business and answered as follow. Of total respondents 176(71.3%) had plan to expand their business, 47(19%) maintained their production or services at the same level, 16(6.5%) going to stop their operations due to lack of profit, 3(1.2%) planned to reduce their capacity and 5(2%) others include shifting to other business activities. From this survey result what one could understand is that, even though 48.6% of the sample respondent said that their enterprises were not growing, the majority 176(71.5%) of them had a plan to expand their business and 93.5% of them struggle to sustain their firm.

The manufacturing and constructions sector constituted large percentage among those respondents who had planned to expand their business. Of the enterprises that were going to stop their operation, the main reason they cited were lack of government support, poor business environment, lack of sufficient capital to expand their business, and due to conflict among the members.

The researcher also asked the respondents about bureaucracy in enterprise organizing, registration and licensing if it is a challenge to their work. From the total respondent, the majority of enterprises 236(95.5%) had got business license whereas only 11(4.5%) of them

didn't licensed due to different factors such incapability to pay the cost of registration and licenses as they were young enterprises.

Table4.14. Business registration and licensing with time taken to get the services

		how many days did it took			Total
		too long	moderate	i got in short period of time	
do you have business license	Count	91	68	77	236
	Yes % within do you have business license	38.6%	28.8%	32.6%	100.0%
Total	Count	91	68	77	236
	% within do you have business license	38.6%	28.8%	32.6%	100.0%

Source: own survey, 2016

The survey result indicated that from total respondent who had registered and licensed, 91(38.6%) responded that it took too long time to get license, 77(32.6%) of them had got it in short period of time whereas 68(28.8%) of the respondents were ranked it as moderate to get the needed services from the respective office. This implies that, legal and regulatory problems were mentioned as a major obstacle for efficient operation in the sector. The finding of Eshetu (2008) indicated that bureaucratic registration requirements, excessive policy control, over-regulation, corruption, high tariffs, unfair taxation and lack of premises were major policy-related constraints that adversely affected the sector.

#### **4.3.8 Lack of institutional collaboration and knowledge exchange and its impact on the development of MSEs**

As one of MSEs' official reported that by its nature, the strategy of MSEs could not achieve its predetermined goals and objectives unless different sector work together collaboratively. Among the stakeholders, Oromia saving and credit share company and office of TVET of Agaro town were the most important institution which can play great role in overall development of

MSEs. However, there was poor relationship between the three sectors (office of MSEs, micro finance and office of TVET) which could be negatively affecting the growth and expansion of micro and small enterprises of the study area. The manager of MSEs office of Agaro town has reported that; “One of the factors that hindered our enterprises to grow as expected level was due to lack of institutional collaboration. There is big gap between stakeholders to come together and work collaboratively to attain the predetermined goals and objectives.”

The researcher also tried to assess to what extent lack of institutional collaboration and lack of knowledge exchange can affect the growth and profitability of the enterprises in the study area.

Table 4.15 Lack of institutional collaboration and knowledge exchange

To what extent lack of institutional collaboration and Knowledge exchange affects the growth of MSEs?	Frequency	Percent
very high	82	33.2
High	120	48.6
Medium	23	9.3
Low	20	8.1
very low	2	0.8
Total	247	100.0

Source: own survey, 2016

The survey result indicated that the majority 120(48.6%) and 82(33.2%) of the respondents felt that lack of institutional collaboration and poor knowledge exchange can affect the growth of enterprises highly and very highly respectively. About 23(9.3%) of them answered the problem is moderate whereas 22(8.9%) of the respondents at least agree that it is not a challenge for growth and expansion of MSEs.

### 4.3.9 Inter-firm cooperation

Figure 4.7 enterprise inter firm cooperation with other enterprise



Source: own survey, 2016

Table 4.16 Enterprise inter-firm cooperation with other enterprise \* lack of inter firm cooperation has an impact on the growth and success of your business

			lack of inter firm cooperation has an impact on the growth and success of your business		Total
			Yes	no	
enterprise have inter firm cooperation	No	Count	180	14	194
		%	92.8%	7.2%	100.0%
Total		Count	180	14	194
		%	92.8%	7.2%	100.0%

Source: own survey, 2016

As indicated in the above table, MSEs under study asked whether they have inter-firm cooperation to assess their social capital and its impact on the growth of MSEs. Based on this point, the majority 194 (78.5%) of the respondents were answered that their enterprises has no inter-firm cooperation while only 53 (21.5%) of them responded they have inter-firm cooperation. From cross tabulation it could be observed that, 180 (92.8%) of the enterprises

under study that do not have inter-firm cooperation with other enterprises believe that lack of inter-firm cooperation can negatively affect the growth and success of their business whereas only 14(7.2%) of them neither have inter-firm cooperation with other enterprises nor believe that lack of inter-firm cooperation can negatively affect the growth and success of their business.

Most studies indicate that horizontal and vertical inter-firm linkages contribute to long-term firm competitiveness through individual and collective learning processes (Altenburg 2006; Schmitz 1996). Yet, for learning processes to flourish, a simple rule applies. Positive dynamics of horizontal networking strongly depend on the quality of these networks, meaning the level of knowledge and skills they entail (Schmitz 1996). Taking this into consideration, one will clearly see that a network among equally poor micro entrepreneurs is not delivering the above-mentioned benefits of inter-firm linkages. With little business knowledge and technological capabilities will rarely pave the way to enterprise growth and development. There are limited possibilities for MSEs to learn from each other and improvements to occur.

Thus, research indicates that among micro and small firms that are still at an early stage of development, linkages with medium or large-sized buyers are more likely to initiate product and expansion of MSEs. Inter-firm linkages are more likely to expand a micro and small enterprise's capabilities and learning possibilities, which in turn increase business and growth opportunities, either in local or national markets.

As a result, initially, a major challenge for MSE growth and expansion is the establishment of linkages with firms which in turn allow for diffusion and adaptation of product and new technology. Regarding sectoral engagement, manufacturing and construction sectors has better inter-firm cooperation and linkage compared to other sector. One possible reason for the low

level of linkages is the low level of capacity of the MSEs in the study area particularly, and in the country generally.

The interviews result conducted to validate data obtained through questionnaires confirmed that “we do not have any linkage with other enterprises; even we do not know each other because there is no favorable environment for inter- firm cooperation such as clustering MSEs together and create value chain.”

#### 4.3.10 component of Social Capital

Table 4.17 component of social capital more affect the realization and expansion of your enterprise

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid lack of access to information	92	37.2	37.2	37.2
lack of business network	80	32.4	32.4	69.6
lack of access to innovation	28	11.3	11.3	81.0
lack of access to finance	47	19.0	19.0	100.0
Total	247	100.0	100.0	

Source: own field survey, 2016

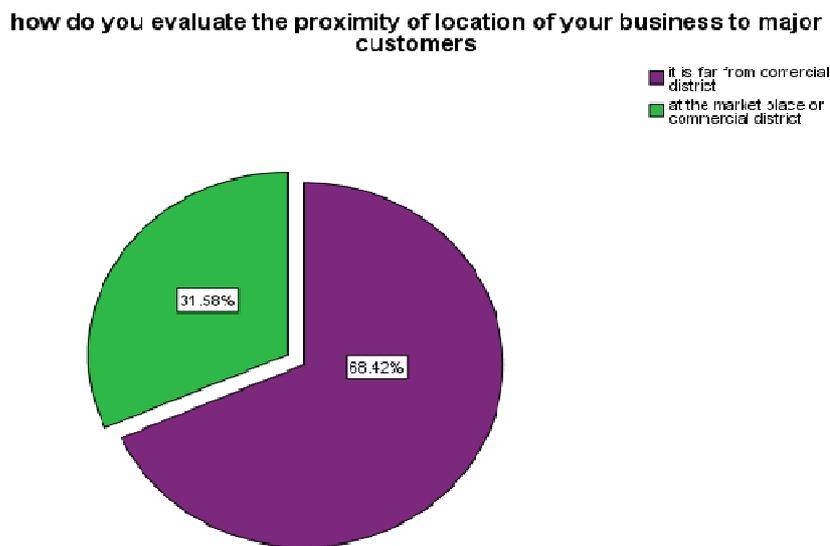
As shown in the table, 92(37.2%) of the respondents indicated that lack of access to information as a component of social capital can affect the realization and success of their enterprises followed by lack of business network 80 (32.4%), lack of access to finance 47(19%) and lack of access to innovation 28(11.3%). From this we can conclude that lack of access to information and business network contain large proportion that can affect the growth and expansion of MSEs under the study area.

This result concurs with the finding of Nthuni (2014) that found out business networks and access to information as a component of social capital showed the highest correlation with the growth of MSEs as indicated by a strong correlation coefficient of 0.972 and 0.86 respectively. This means lack of business network and lack of access to information can hamper the growth and expansion of MSEs.

#### 4.3.11 Location of enterprise/business

Location, defined as the proximity of working premises of small enterprises to major customers, is one of the determinants of growth (Mulugeta 2008; Leidholm 2002). Working premises of small enterprises may be located either at commercial centers, or out of commercial center (areas distant from commercial districts).

Figure 4.8 location of MSE's working place



Source: own survey 2016

Respondents were asked to indicate the proximity of their business enterprise to the commercial district. As it can be seen from the above figure, the majority 169(68.4%) of the

sample respondents of under study were operating in areas far from commercial districts or their business location is not convenient to access market opportunity, while 78 MSEs (31.6%) operate in commercial districts. A firm operating in a central market, where many of its customers are concentrated, may benefit from a better access to demand sources and is likely to show faster growth than that which operates in remote locations.

The study conducted by Eshetu (2008) proved that growth rate of micro and small enterprises operating in commercial district or near to potential market (customers) is higher than the growth rate of those that are far from potential customer (market). This provides evidence that existence of agglomeration of externalities and access to major customers and improved infrastructure facilities contributed significant advantage to greater growth of MSEs. Therefore it is possible to conclude that location of the business enterprises can be a challenge to the development of MSEs in the study area.

Interview conducted with one of MSE operator support this point that “in fact this working place is provided by the town’s administration office and I appreciate this, but the problem is that location of the shade or container is far from potential users or customers and has no infrastructure.”

#### 4.3.12 Role of MSEs in creating employment opportunity and developing entrepreneurship

Table 4.18 role of MSEs in employment generation

	Frequency	Percent	Valid Percent	Cumulative Percent
very high	69	27.9	27.9	27.9
High	124	50.2	50.2	78.1
Medium	25	10.1	10.1	88.3
Low	25	10.1	10.1	98.4
very low	4	1.6	1.6	100.0
Total	247	100.0	100.0	

Source: Own field Survey, 2016

Here also the respondents asked the opportunities of MSEs in employment generation role and entrepreneurship development. Result shows that 69(27.9%) very high, 124(50.2%) high and 25(10.1%) medium in creating job opportunity for those unemployed group whereas the rest 29(11.7%) of them indicated that MSEs' role in creating job opportunity for unemployment is low. In addition to this, secondary data that was obtained from Agaro town office of MSE shows that there are 672 established MSEs with total operator of 2456 within last five years. Therefore, it is possible to conclude that the majority with total average 88.3% of the respondent under study believed that MSEs can play great role in employment generation in the study area. This result is similar with that of Kefale and Chinnan (2012), reported that MSE strategy is the most important employment generating sector and effective tool for promotion of balanced regional development.

The interview result conducted with one of my key informants confirmed that:

*The strategy of MSEs implemented at least for a decade and within this period of time thousands of unemployment youth has got opportunities to create their own job by organizing themselves into MSEs and the majority of them become self-sufficient while few of them become a richer in the town. Therefore I can say that MSE strategy has played great role in creating job opportunities for the youth and the poor of the town.*

MSEs also can play great role in entrepreneurship development. The survey result shows that 12.6 percent of the respondent indicated very high, 37.7 percent high and 14.2 percent medium whereas 32.3 percent low and 3.2 percent very low. On average 64.5 percent of the MSEs under study agreed that the MSEs strategy can play a role in developing entrepreneurship.

#### **4.3.13. Social benefit of MSE**

The inquiry also made to assess if the MES operators has got social benefits in addition to its economic benefit. Accordingly, the respondents of study area asked about the social benefit that they so far got after they organized into MSEs. This is to investigate whether MSEs also play a role in changing social life of the MSEs under study.

Table 4.19 social benefits of MSEs

	Frequency	Percent
Valid      yes	212	85.8
Valid      no	35	14.2
Valid      Total	247	100.0

As it can be seen from the above table, 212(85.8%) of the respondent indicated that they got different social benefit in addition to its economic benefit after they established their firms, whereas the remaining 35(14.2%) of the sample respondent didn't get any benefit.

Table got social benefit from MSEs after you organized \* what are social benefit did you get from MSEs

		what are social benefit did you get from MSEs				Total
		got social acceptance	get married	free from addictive behaviour	healthy life	
have you got social benefit from MSEs after you organized	Count	123	18	37	34	212
	%	58.0%	8.5%	17.5%	16.0%	100.0%
Total	Count	123	18	37	34	212
	%	58.0%	8.5%	17.5%	16.0%	100.0%

Source: Field survey 2016

MSEs have a lot of social benefit in addition to economic benefits especially for young age group. Of 212 respondents who had got different social benefit in addition to economic benefit, 128(58%) has got social acceptance among the local community while 37(17.5%) of the respondents has indicated that they let free from different addictive behavior and crime. 34(16%) of the respondents said that they had married after they organized in to MSEs while 18(8.5%) of them said that they start to live healthy life.

#### 4.4 Challenges Confronting MSEs

The road to success of MSEs is not like a bed of roses but it is uncomfortable . This is particularly the case in developing countries like Ethiopia whose infrastructure is poor, financial institutions are not inviting MSEs, entrepreneurial knowledge and skills are poor and access to information to exploit business opportunity are poor. The study had tried to probe into different factors which challenge the smooth operations of MSEs in Agaro town. The main factors are regulatory and institutional, technological, working premise, market factors, infrastructure and social capital factors.

#### 4.4.1 Regulatory and institutional challenges

Table 4.20 Regulatory and institutional challenges

Challenges	Strongly agree		Agree		Undecided		disagree		Strongly disagree		Total	
	F	%	F	%	F	%	F	%	f	%	F	%
The tax levied on my business is not reasonable	3	1.2	36	14.6	8	3.2	172	69.6	28	11.3	247	100
Bureaucracy in enterprise registration and licensing	34	13.8	171	69.2	2	0.8	39	15.8	1	0.4	247	100
Poor government support	55	22.3	129	52.2	4	1.2	59	23.9			247	100
Lack of accessible information on government regulations that are relevant to my business	137	55.5	102	41.3	8	3.2					247	100

Source: survey results, 2016

Table 4.20 shows that close to 16% of the respondents at least agree that unreasonable tax levied on their business. About 81% of the respondents at least agree that the amount of tax levied on MSEs was reasonable or fair. From this we can deduce that the majority (close to 81%) of the participants either disagree or strongly disagree that it is not a challenge to growth and success of MSEs in the study area. Hence, it is not as such serious challenge to their work. But Gebeyehu and Assefa (2004) pointed out that over-regulation and stringent tax rules are two well-known factors that adversely affect the growth and survival of small businesses and enterprises.

Bureaucracy during enterprises registration and licensing is another regulatory and institutional challenge faced by MSEs. The table 4.20 depicts that the majority (83%) of MSEs under study at least agrees that bureaucracy in enterprises registration and licensing is main challenge to development of MSEs. Therefore, it may be concluded that bureaucracy in enterprises registration and licensing is the factor that challenge the development of micro and small

enterprise in the study area. This result is concur with MUDC (2013) stated that bureaucracy in company registration is the main factor that affects the performance of all MSEs.

Furthermore, the table indicates that poor government support is another problem that affects the growth and expansion of enterprises. The result shows that close to 75% of the respondents at least agree that the MSEs in the study area face a challenge to access government support. While the rest of the respondents in the sample undecided (1.2%), and disagreed (23.9%). From this one can say that the majority(75%) of respondents agreed as there is a gap in government support. Lastly, the table also indicates lack of accessible information on government regulations that are relevant to MSEs'business. The result shows that 55.5 Percent and 41.3 Percent of sample respondents were strongly agreed and agreed, respectively. From this we can deduce that the majority (close to 96.6%) of the participants either agree or strongly agree that lack of accessible information on government regulations that are relevant to their business.is a challenge to MSEs of the study area for their business growth and expansion or success. According to the survey result, enterprises engaged in manufacturing and construction sectors have experienced more regulatory and institutional challenges than other sector.

When the above responses compared with the interview conducted with operators of MSEs, it was confirmed that there are problems related to government bodies at each level. The interviewees were pointed out the implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of knowledge, lack of attitudinal changes and lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be

bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor MSEs.

The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsible to the issues of the MSE operators. According to interviewees, even when opportunities have been created, MSEs have not been able to draw the full advantage due to lack of coordination between actors and poor information access. Interviewees result also shows that there still exists an overly bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly. This includes a complex system, lengthy procedures and rules. For example, registration of an enterprises, getting working places, payment of stamp duty among others. For enterprise, this poses a major challenge and cost as the owners of the business would need to close for days in order to travel to concerned governmental offices to access these services sometimes without success. Operators believe that these requirements greatly limit their opportunities for growth, or to go out of business.

Dalitso and Peter (2000) also found out that high start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on MSEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect MSE operations. Prohibitive laws like The Business Licensing Act, The Electricity Act, The Control of Goods Act, and The Export Incentives Act, have severely constrained MSE development in Malawi (Daniels and Ngwira 1993). In addition to this World Bank (2011) also reported that enterprises face an array of regulatory and institutional constraints

hampering business activities. It is argued that regulatory policies in most developing countries are burdensome, very complex and in some cases even used as opportunities to accept bribes.

#### 4.4.2 Working Place challenges

Table 4.21 Working Place challenges

Challenges	Strongly agree		Agree		Undecided		Disagree		Strongly disagree		Total	
	f	%	f	%	F	%	F	%	f	%	f	%
Absence of work premises	87	35.2	38	15.4	2	0.8	106	42.9	14	5.7	247	100
Current working place is not convenient	74	30	79	32	1	0.4	83	33.6	10	4	247	100

Source: own field survey, 2016

The result of survey in table 4.21 above shows that the absences of work premises and inconvenient of current working places were a challenges that hinders the development of MSEs. Table 4.21 depicts that 87(35.2%) of the respondents were strongly agreed and 38(15.4%) agree with the view that absences of work premises was a big challenge to their growth and success. While the rest 106(42.9%) of them disagreed as it is not a challenge to their business expansion whereas 14(5.7%) of them strongly disagreed that absences of work premises were not a challenge to their operation. From this we can conclude that (50.6%) of the participants either agree or strongly agree that absences of work premises is a challenge to their operation.

Similarly, 74(30%) and 79(32%) of the respondent were strongly agreed and agreed respectively that current working place is not convenient to their business. This means, it is either far from commercial area or lack infrastructure. 87(37.6%) of the respondent, however, disagreed that their current working places are convenient to their operation. According to the survey result, the problem of work premises is almost similar among all sector of the study area. Generally, it is

possible to conclude that the highest proportion of the MSEs under study (56.5%) were at least agree as lack of working premise is the challenge in development of micro and small enterprises in the study area.

In an interview conducted with manager of MSE office and with MSE office expert: "MSE development strategy emphasis supply of working place by government. But due to shortage of budget and large number of MSEs in our town, we couldn't provide work place for all micro and small enterprises in our town so far organized." One of interviewee from trade sector also added that: "we are working in house rented from individuals and high rental charges have impeded the growth of our businesses as charges is higher than our capacity to pay." Similarly, in an interview conducted with operator from metal and wood work was confirmed this idea that "working place is our big challenge leads our enterprise's performance decline from time to time."

#### 4.4.3 Technological challenges

Table 4.22. Technological challenges

Challenges	Strongly agree		Agree		undecided		disagree		Strongly disagree		Total	
	F	%	F	%	f	%	F	%	f	%	F	%
	Lack of appropriate machinery and equipment	68	27.5	81	32.8	34	13.8	61	24.7	3	1.2	247
Lack of skills to handle new technology	66	26.7	83	33.6	31	12.6	65	26.3	2	0.8	247	100

Source: own survey, 2016

Table 4.22 depicts that lack of appropriate machinery and equipment is the challenge confronting the development of MSEs. The result shows that close to 61% of the respondents at least agree that the MSEs in the study area face a challenge to access appropriate machinery and equipment. With regard to lack of skills to handle new technology, the scores of respondents show

that close to 61% of sample respondents either agree or strongly agreed that lack of skill to handle new technology is a challenge to their enterprises. When we look at sector wise, even though all sectors face the challenge, the survey result shows manufacturing and construction sectors more affected by the problem.

The finding of this research reveals that limited technology constrained growth and expansion of MSEs in the study area. It was also indicated during the interview with the officials of MSEs that there is a problem of capital to buy the proper technology (equipment, machinery, tools). This is also because of shortage of money from saving and credit institution and the matured credit not collected on time. Moreover, respondents replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

#### 4.4.4 Infrastructural challenges

Table 4.23 Infrastructural challenges

Challenges	Strongly agree		Agree		Undecided		disagree		Strongly disagree		Total	
	F	%	f	%	f	%	f	%	f	%	F	%
Power interruptions	189	76.1	49	19.8	2	0.8	8	3.2			247	100
Insufficient and interrupted water supply	71	28.7	151	61.1	2	0.8	23	9.3			247	100

Source: field survey, 2016

The result of survey in table 4.23 above shows that power interruptions and insufficient and interrupted water supply were a challenge that hinders the development of MSEs. Table 4.23 shows that close to 96% of the respondents replied that power interruption is the main factor that responsible for low performances of MSEs in the study area. Furthermore, the table also depicts that close to 89% of the respondents at least agree that inadequate and irregular water supply is

another challenge that constrained the MSEs growth and expansion. Hence, from this majorities of the participants in the study area either agree or strongly agree that the infrastructural factors are the main challenge for the growth and expansion of micro and small enterprise. From the sectors, manufacturing and services has strongly indicated that power interruption is contributed to low performance of their enterprises.

Similarly, a research conducted by Daniel (2012) stated that unfavorable roads, power interruption, shortage of water, and inaccessible telecommunications are the major challenges and without which primary, secondary and tertiary production cannot function. Furthermore, Habtamu et al.(2013) indicated that MSE's operating with available infrastructure facilities has higher probability of long lasting existence and growth as compared to those MSEs that are operating without adequate infrastructures. In addition, Fagge (2004) also asserted that Inadequacy of infrastructural base such as epileptic power supply, unreliable telecommunication facilities, Poor state of road network and water supply are problems militate against the effective operation of micro and small enterprises. Moreover, the result of interview with one of operator also supports the above finding saying that:

*Power interruption is common in our town, you know, nowadays nothing is done without electric power. There is a day that we stay without work for one to three days due to power interruption and this is seriously affecting our business. We need government to solve our problem.*

#### 4.4.6 Marketing challenges

Table 4.24 Marketing challenges

Challenges	Strongly agree		Agree		Undecided		disagree		Strongly disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Inadequate market for our product	115	46.6	101	40.9	2	0.8	28	11.3	1	0.4	247	100
difficulty of searching new market	69	27.9	141	57.1	2	0.8	34	13.8	1	0.4	247	100
Poor product quality to attract market	4	1.6	28	11.3	23	9.3	170	68.8	22	8.9	247	100
Lack of promotion to attract potential users	12	4.9	134	54.6	10	4	86	34.8	5	2	247	100
Poor customer relationship and handling	10	4	68	27.5	17	6.9	144	58.3	8	3.2	247	100
Absence of relationship with an organization that conduct marketing research	93	37.7	142	57.5	2	0.8	10	4			247	100

Source: Own field survey 2016

As shown in the table above, marketing factor is consisted of six items. From these challenge, inadequacy of market, difficulty of searching new market, absence of relationship with an organization/association that conduct marketing research and lack of promotion to attract potential users are critical factors that affect the growth of MSEs engaged in all sectors. Table shows that close to 87% of the respondents replied that inadequacy of market is the main factor that responsible for low performances of MSEs in the study area. The table also depicts that close to 94% of the respondents at least agree that absence of relationship with an organization/association that conduct marketing research is a challenge to the growth and expansion of MSEs. It can also be seen that, lack of knowledge in searching new market is another challenge that affect the development of MSEs. The scores of respondents show that close to 85% of sample respondents at least agree that lack of knowledge in searching new market is the main problem to their firm.

Moreover, the result shows that close to 31% of the respondent agree that poor customer relationship and handling problem is a challenge to their business. But the majority (69%) of respondent didn't consider poor customer relationship and handling as a challenging issue to their business. Regarding to Poor product quality to attract market, of the total respondents only 11.3 Percent agree while the majority of the respondents (77.7%) disagree that poor quality of product to attract market is not a challenge rather the attitude that the society have to the product of MSEs is a major problem. Regarding sector, though all sectors face the problem, manufacturing and urban agriculture has faced severe challenge to get market for their product in the study area.

In an interview conducted with an operator of the sectors, it was confirmed that absence of selling place and location of working place has aggravated the already existing inadequate market. The operators argued that lack of selling place and location of working place is a direct contributor for their inadequate market hence low income of the studied MSEs. In addition to this lack of advertisement is also another contributing factor to inadequacy of market. One of the interviewee from manufacturing sector also added "we can produce a quality of product, different design and quantity, but our big problem is market. We do not have market access, no market linkage to sell our product and it is deterring our firm's growth."

As we can understand from the table, it is possible to conclude that the marketing problem hindering the growth and expansion of micro and small enterprises and they have been facing challenges related to the negative attitude of the community towards the quality of their products. This finding is in agreement with the finding of MUDC (2013) reported that lack of adequate

marketing channels, and lack of marketing skills are the problems to the starting of business and further growth of the sector.

#### 4.4.6 Entrepreneurship challenges

Table 4.25 Entrepreneurship challenges

Challenges	Strongly agree		Agree		Undecided		disagree		Strongly disagree		Total	
	F	%	F	%	f	%	F	%	F	%	F	%
Lack of entrepreneurship training	45	18.2	146	59.2	9	3.6	47	19			247	100
Lack of information to exploit business opportunities	128	51.8	103	41.7	4	1.6	11	4.5	1	0.4	247	100

Source: Own field survey, 2016

Among the entrepreneurial challenges, most important factor that affects the growth and expansion/success of micro and small enterprise is lack of entrepreneurship training which can help MSEs to improve their managerial and technical skill in running their business. It featured as a key problem in all sectors. Table 4.25 shows that close to 77 % of the respondents at least agree that lack of entrepreneurship training is a challenge to the development of MSEs under study. About 23% of the respondents at least agree that it is not a challenge to development of MSEs.

Similarly, the table indicates that lack of information to exploit business opportunities hinders the development of micro and small scale enterprises in the study area. This is justified by 93 Percent of the respondents at least agree on the problem. According to the survey result, the problem of poor entrepreneurship is almost similar among all sector of the study area. From the study it can be drawn that majority of the MSEs either strongly agree or agree that lack of entrepreneurship is the main challenge to growth and expansion MSEs of study area.

According to interview conducted with manager and experts of MSE office, it was confirmed that:

*The main problem is lack of cooperation between sectors to give necessary training that can fill the knowledge and skill gap of the operators and shortage of competent manpower(trainer) that can equip operators with enough knowledge and skill(both managerial and technical skill). The other problem is that the established MSEs are not committed to change to work what they got from the training and there is dependency syndrome and lack of attitudinal change among operators.*

Therefore, it can be conclude that lack of human capital is the major challenge to the development of MSEs understudy. Furthermore, it was confirmed that, the operators do not heightened the ability and awareness for recognizing and boldly exploiting business opportunities. According to them, this is due to lack of persistently and continually seeking of information opportunities. Consequently, it hampers the growth and expansion of MSEs in general.

The research conducted by Fagge (2004) also pointed out that lack of entrepreneur technical skill is one of the most often cited reasons for ineffective operation of small and medium enterprises. The author stated that low entrepreneur technical skills are problems militate against the effective operation of micro and small enterprises. Many entrepreneurs rush out to establish SMEs without having good and adequate technical and managing skills.

#### 4.4.7 Financial challenges

Table 4.26 Financial challenges

Challenges	Strongly agree		Agree		Undecided		Disagree		Strongly disagree		Total	
	f	%	F	%	f	F	%	F	%	F	f	F
Poor financial access	77	31.2	135	54.7	4	1.6	30	12.1	1	0.4	247	100
collateral requirement from lending institutions on MSEs	62	25.1	150	60.7	13	5.3	22	8.9			247	100
High interest rate charged by lending institutions on MSEs	56	22.7	152	61.5	14	5.7	25	10.1			247	100
Loan application procedures of lending institutions are too complicated	55	22.3	154	62.3	14	5.7	24	9.7			247	100

As it shown in Table 4.26, the majority of respondents (85.9%) reported that poor financial access is a major challenge to the expansion and success of MSEs in the study area. From total respondents 31.2 Percent strongly agree and 54.7 Percent agree on the problem. Eshetu (2008) has pointed out that getting credit finance from formal financial institutions as a key problem to MSMEs. Table 4.26 also shows that close to 86% of sample respondents at least agree that high collateral requirement from lending institution is a challenge for MSEs to access finance from MFI. By the same token 85 Percent of sample respondents at least agree with the complexity of loan application procedures of micro finance institution of the study area. Moreover, about 84 % of sample respondents at least agree that high interest rate charged by micro finance institution is a serious problem of MSEs in the study area. When we look at sectors, the survey result shows that almost all sectors face similar challenges in accessing finance in the study area.

It is clearly indicated in the strategy that the government facilitates provisions of loan services at preferential interest rate to micro and small enterprises during the specified time. Though such instruments are very supportive for the growth of MSEs, availability and quality of this support instrument has its own impact on their growth. One of the plausible reasons for the failure to bring credit service to the enterprises could be problems from supply-side—unavailability of enough money to be lent to the large number of MSEs existing in the town. There are some enterprises complaining about the existing system, for bring about a number of different criteria on borrowers to be eligible for the service. For instance, since MSE strategy was issued, there are an obligation that oblige or force enterprises to save about 20 % of their revenue(the amount of money they are intended to borrow) to be eligible for borrowing from micro financial institutions, which some individuals found difficult to fulfill.

In general, the result of financial factors indicated that there are poor financial access, high collateral requirement from lending institutions, loan application procedures of lending institutions, high interest rate charged by lending institutions and pre loan saving, which hinder the growth and success of micro and small enterprises in the study area.

In addition, the interview result also indicates that they all agreed the existence of the problems and explained the measures that the government is undertaking to lessen them such as lack of finance for credit, collateral requirement and loan application procedures to address all MSEs problem. However, they all agrees the measurements taken to alleviate these problems are not sufficient and so that a lot has to be done in the future.

Related to this result, Beck et al. (2010) noted that while domestic credit to the private sector has generally been increasing in most developing countries, anecdotal and statistical evidence suggest that micro and smaller enterprises continue to be largely left out. Mekonnen and Tilaye (2013) also stated that financial constraints such as inadequate start-up capital, insufficient loan, and inefficient financial market are the major obstacles in doing business, and most MSE's are highly risky ventures involving excessive administrative costs and lack of experience in dealing with financial institutions.

#### 4.4.8 Social capital factors

Table 4.27 Social capital challenges

S.No.	Challenges	Strongly agree		Agree		Undecided		Disagree		Strongly disagree		Total	
		F	%	F	%	f	%	F	%	f	%	F	%
1	Poor information access	194	78.5	39	15.8	6	2.4	8	3.3			247	100
2	Poor business network	189	76.5	42	17	10	4	6	2.5			247	100
3	Lack of innovativeness	62	25.1	154	62.3	7	2.8	23	9.3			247	100
4	Managerial and technical challenges	50	20.2	182	73.7	2	0.8	13	5.3			247	100

**Source: Own field survey, 2016**

The study also reveals that lack of social capital which include poor information access, poor business network, lack of innovativeness and poor managerial and technical skill are the major challenges that affecting growth and expansion of MSEs in the study area. The result shows that the majority (93.5 %) of sample respondent at least agree that poor business network is a challenge to the growth and expansion of micro and small enterprises. From the five sectors, manufacturing and construction has better business networking compared to services, trade and urban agriculture sectors.

Research conducted by Caroline (2013) has shown that inter-firm and interpersonal networking plays an important role in the process of enterprise creation and growth. Constant interchange with other firms and people enables firms to understand and keep up with up-to-date technology and further broadens the access to capital, markets, business opportunities and information. In view of that, networking is primarily a means of raising required resources, such as financing, knowledge and emotional support, yet it further creates room for learning and adjustment. Efficient and effective networks therefore help to accelerate the start-up of new enterprises, while also encouraging their growth and innovation capacity. This means lack of business network is seriously affect the growth and expansion of MSEs. She further also argued that a collective approach taken by firms lowers the transactions costs incurred by an enterprise. Therefore based on the above survey result, it is possible to draw conclusion that lack of business network as a component of social capital among the MSEs under study has contributed to the poor performance of the sector.

The table 4.27 above also depicts that poor information access is a main challenge that hamper growth and expansion of micro and small enterprises in the study area. The score shows that 83 % of the respondents strongly agree and 15.8 % agree that poor information access is a challenge that can hinder the growth of enterprises which should be taken into consideration by the SME operators. According to the survey result, the problem of poor information access is almost similar among all sector of the study area.

Caroline (2013) also stated that access to information on business management and market trends is crucial for the kind of learning related to the discovery and exploitation of business

ideas. As a result, businesses might be in a better position to anticipate changes in the environment and react more quickly and efficiently as markets change. Conversely, poor information access lead MSEs of the study area to letdowns all this opportunity which also adversely affect the growth of MSEs. Okello Obura et al (2008) also recommended that there is a need for collaboration between various industrial and trade organizations, professional bodies, private enterprises and government institution to provide SMEs with a comprehensive range of business information, advice and facilities.

Furthermore, the table depicts that lack of access to innovation is challenging the growth and expansion of micro and small enterprises in the study area. And the result shows that from the total respondent 25.1% of them strongly agree and 62.3% agree that lack of access to innovation can affect the development of MSEs. Varis and Littunen (2010) found out that introduction of new products in comparison to the revenues of enterprise is a major significance to SMEs growth and competitiveness. The size of network and weak ties also significantly affect the number of opportunities recognized by MSEs, meaning social interaction increases knowledge acquisition of opportunities.

Many researchers and practitioners claim that the major cause of micro and small enterprises failure is poor management. Whether the causes are labeled as financing, competition, marketing, inventory and others, they can be safely avoided if good management technical skills were in place. Therefore micro and small enterprises owners/managers need to develop basic managerial skills and knowledge. If they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources.

The above table 4.27 shows that the managerial and technical challenges that affect development of SMEs. The score shows that, 20.2% of the respondents strongly agree and 73.7 % agree on the problems. Almost the entire respondent agreed that lack of good managerial and technical skill is the challenges that confronting the growth and success of the MSE in the study area.

In this regard in an interview conducted with operators of MSEs, it was confirmed that they had many management problems which stem from factors such as poor record keeping, lack of strategic planning ability, insufficient training and lack of relevant qualifications. Furthermore, most of these enterprises operate without systems in line with good management practice in which the owner manager is the sole decision maker and his/her absence leads to a temporarily stop in decision making. Coming down to the matter of lack of a proper business plan for the business, in an interview conducted with operators, it was confirmed that operators of MSEs have no proper business plans at start faces the most challenges during the course of their lives. Training, one of support instrument that micro and small enterprises are entitled to receive to enhances production skills of operators failed to play its role to overcome this challenge.

To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, poor technical skill, and mistrust among business associates, insufficient training and lack of proper business plan.

Other findings also show that, the problems of MSE's management arises from the limited knowledge and ability of the owner or shortage of competent staff to advice the owner on

management policies (Stephen and Wasiu 2013). Decision-making skills, sound management and accounting practices are very low for MSE operators in developing countries (Aremu and Adeyemi 2011).Fagge (2004) also pointed out that the management problems militate against the effective operation of micro and small enterprises.

### **Chi Square Testing**

In this section, Chi square was used to estimate the degree of association between the dependent variable (growth and expansion of MSEs) and independent variables which includes different parameters.

#### **Age of enterprises in operation and growth and expansion of enterprises**

The Chi-square test found that there is a significant association between age of enterprises in operation and growth with  $(\chi^2 (2) = 13.524, p= 0.001)$  at  $(\alpha=0.05)$ . From this result, it can be concluded that the age of enterprise in operation has positive and significant association with the growth and expansion of MSEs in the study area.

#### **Availability of opportunity and growth**

The Chi-square test found that there is a significant association between Availability of opportunity and growth with  $(\chi^2 (4) = 15.622, p= 0.004)$  at  $(\alpha=0.05)$ . From this result, it can be concluded with 95% confidence that the growth or failure of the business differ significantly within the availability of different opportunities such as business opportunity, training in business skill, business network and entrepreneurship. Therefore, availability of different opportunities has a significant positive association with the growth and expansion of MSEs.

#### **Favorability of business environment and growth/success**

The Chi-square test found that there is a significant association between favorability of environment and growth with ( $\chi^2 (4) = 77.365, p = 0.000$ ) at ( $\alpha = 0.05$ ). The lambda coefficient with the value 0.67 reports that an association had moderate influence.

### **Factors lead to involve in MSEs and growth**

The result of the Pearson chi square test above shows that there is positive association between growth of MSEs and the factors that motivate operator to involve in MSEs with Pearson chi square ( $\chi^2 (3) = 8.98, p = 0.030$ ) at ( $\alpha = 0.05$ ). From this, it can be concluded with 95% certainty that there is significant association between the variables. But there is weak association with lambda coefficient value 0.26.

### **Government support package and growth of MSEs**

The Chi-square test found that there is a significant association between support package and growth with ( $\chi^2 (1) = 12.668, p = 0.000$ ) at ( $\alpha = 0.05$ ). The lambda coefficient with the value 0.72 reports that an association had strong influence.

### **Promotion campaign and growth**

The Chi-square test found that there is a significant association between promotion/advertisement and growth with ( $\chi^2 (3) = 29.541, p = 0.000$ ) at ( $\alpha = 0.05$ ). The lambda coefficient with the value 0.54 reports that an association had moderate influence.

### **Inter-firm cooperation and growth and expansion of enterprises**

The result of the Pearson chi square test shows that there is significant association between growth of MSEs and inter-firm cooperation with Pearson chi square ( $\chi^2(1) = 41.402, p = 0.000$ ) at ( $\alpha = 0.05$ ). The lambda coefficient with the value 0.77 reports that an association had strong influence.

### **Social capital and growth and expansion of MSEs**

The Chi-square test found that there is a significant association between social capital and growth with  $(\chi^2 (3) = 9.678, p = 0.022)$  at  $(\alpha = 0.05)$ . The lambda coefficient with the value 0.57 reports that an association had moderate influence.

### **Work experiences of operators and growth**

The result of the Pearson chi square test above shows that there is significant association between growth of MSEs and previous work experience of operators with Pearson chi square  $(\chi^2(3) = 13.991, p = 0.003)$  at  $(\alpha = 0.05)$ . From this, it can be concluded with 95% certainty that there is significant positive association between the variables.

### **Location of business and growth**

The Chi-square test found that there is a significant association between location of enterprises' business and growth with  $(\chi^2 (1) = 24.020, p = 0.000)$  at  $(\alpha = 0.05)$ . The lambda coefficient with the value 0.63 reports that an association had moderate influence.

## **Chapter Five**

### **5. Conclusion and Recommendation**

#### **5.1 Conclusion**

This research was conducted in Agaro town of Jimma Zone Southwest of Ethiopia with the prime intent of assessing the challenges that confronting the growth of MSE operators engaged in manufacturing sector, construction sector, services sector, trade sector and urban agriculture sector and available opportunity to them. Specifically, the study attempted to assess the factors that motivate to join MSEs, to assess opportunities, to investigate contextual factors, to assess the internal factors and to recommend possible solution to overcome the challenges of MSEs. Based on the findings of the study, the following conclusion was drawn.

The most important challenges include poor financial access, lack of access to information, regulatory and institutional factors, lack of access to innovation, managerial and technical problem, infrastructure, technological factors, entrepreneur and poor business network which are seriously affecting the growth and expansion of MSEs in the study area. Financial challenge which include guarantor requirement from micro finance institutions, shortage of working capital, high interest rate charged by micro finance institutions, and too complicated loan application procedures of micro finance institutions were among the challenges.

The workings premises challenges include absence of working premises and the inconvenience of working place with location of business whether commercial area or far from commercial district were another challenge to MSEs development. Infrastructural problem hindered the business performance of all sectors. Electric power interruption and inadequate water supply in the study area was highly affected the growth of MSE. Therefore, emphasis should be given since the successor failures of MSE's business growth and development depend on the availability and efficiency of infrastructure utilization.

There are also problems related to government bodies at each level. The implementation problems widely observed in the side of government officials and lower level experts. It was found that factors such as lack of coordination between actors, need of attitudinal changes, lack of knowledge, problem of bureaucracy in enterprises registration and licensing, lack of appropriate support, lack of responsiveness to the demands of the operators and accessible information on government regulations that are relevant to their business are the main challenges which hinders the growth and expansion of micro and small enterprise in the study area. In this study, there is discrepancy between strategy and practice with regard to the implementation of the white paper. It is argue that the level of commitment made by the national government towards supporting MSEs in terms of tangible measures such as access to finance, skills development, marketing, infrastructure, working premises and technology seems to be clearly inadequate.

Market access due to lack of market research, market information, trade fares, product exhibition, poor packaging and lack of advertising are also fixed as a challenge by most of the MSE operators. The result of this survey also revealed that the MSEs have no enough information that is supported with a market research, they have also very limited linkage to

their consumer and suppliers through exhibition, trade fares etc., and the advertising and promotion skill they have appeared to be very limited.

Result from this study have shown that lack of component of social capital (lack of access to information, access to innovation, access to finance and business networks) were the main challenging factors that hindered the growth and expansion of micro and small enterprises. The result shows that lack of ability to effectively utilize social capital by operators can adversely affect the growth and expansion of MSEs.

Furthermore, lack of opportunity in acquiring better managerial knowledge and skills, providing poor attention for managerial designations, and failure to prepare their own work plan were suggested to be the main problems confronting MSEs in relation to managerial and technical skills.

Finally, even though the sector is engulfed with many challenges and couldn't bring expected development, the result of this study reveals that MSEs strategy played great role in employment generations and creating entrepreneurs.

## **5.2 Recommendation**

Based on the findings and conclusions of the study, the following recommendations are forwarded.

- All support institutions should create integration by rules and regulations based on common board to provide uniform, fair and immediate managerial and technical support on financial, managerial, training and development and marketing matters. The common

board also enables to oversee and provide immediate adjustment on the existing regulatory issues which tap MSE's operations.

- Appropriate experience sharing activities should be set by the office of MSE's support institutions with the integration of MSE's operators; and this helps vulnerable MSE's to acquire better knowledge and experiences from the better MSEs.
- Educational institutions in Ethiopia should introduce and strengthen entrepreneurship related syllabus and expose their students to practice oriented teaching learning practices by enhancing the industry-university/college linkage practices. When students and trainees are oriented into entrepreneurship starting from the early stage, it becomes easier to them to establish successful and growing business enterprises.
- Government (MSEs offices) should undertake policies and support system that encourage establishment of micro small enterprises in concentrated commercial areas. Clustering strategies help micro and small enterprises overcome common entry and growth barriers, such as limited access to information, technology, inputs, markets information, specialized skills, credit and external services. Implementers of development programs should look for ways in which they can strengthen firm linkages and build social capital, such that MSEs and their partners are equipped to solve ongoing problems that arise in their value chain.
- MSE operators should take strong actions to designate their managers. In addition, challenges related to marketing should be resolved by the effort of officials and owners by: Identifying the potential customers and creating fully addressed linkages the MSEs with other government and private organizations within or around the study area helps MSE's operators to access adequate market opportunity; Setting integrated awareness creation programs on the attitude of the community to make them reliable to MSE's products.

- The Town MSE's offices and support institutions have to work with commitment in collaboration with MSE's owners to strengthen and broaden their business network between the production input suppliers and MSEs. This should be done based on continuous follow up and adjustments.
- Networking is primarily a means of raising required resources, such as financing, knowledge and emotional support, yet it further creates room for learning and adjustment. Therefore, taking this in to consideration, MSEs should have to utilize their social capital to the fullest.
- Conducting a more comprehensive and rigorous research work based on the whole area coverage is crucial to obtain the right information and identify the challenges which influence MSE's operation in different area. Hence, it is the researcher's suggestion that future research work could focus on the other districts in order to come up with specific findings which will contribute a lot in MSE's overall development in general and alleviating their immediate problems in particular.

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# APPENDIX A

## QUESTIONNAIRE

JIMMA UNIVERSITY  
COLLEGE OF SOCIAL SCIENCES AND HUMANITIES  
DEPARTMENT OF SOCIOLOGY  
MA PROGRAM IN SOCIOLOGY AND SOCIAL POLICY

### SECTION 1: INTRODUCTION

Dear respondent,

Hi! My name is **AberaDiriba** and I am a graduate student in the department of Sociology, Jimma University. Currently, I am undertaking a research entitled '*Challenges and opportunities of Micro and Small Enterprises Development in Agaro, Southwest Ethiopia*'.

The purpose of this study is to gain a deeper understanding of the challenges and opportunities that MSEs are facing and its implication the growth of micro and small enterprises. The analysis will give the MSEs clearer understanding to what extent the firm specific resources such as, social capital, education, experience, age and gender of owner (s), finance, location, age of the enterprises, as well as external factors become challenges to the growth of their business. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the Challenges and opportunities of Micro and Small enterprises in your town. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the

identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only.

Thank you in advance for your cooperation and dedicating your time!

AberaDiriba

Mob. No: 0913983936

E-mail address: aberamoa2015@gmail.com

### **Instructions**

- ❖ No need of writing your name
- ❖ For Likert scale type statements and multiple choice questions indicate your answers with a check mark (✓) in the appropriate space.

### **SECTION 2: GENERAL INFORMATION OF THE RESPONDENTS**

1. Gender: A. Male = 1 B. Female = 2
2. Age (in year)\_\_\_\_\_
3. Marital Status? A. Single B. Married C. Divorced D. widowed
4. What is your level of Education?  
A. Never attended class B. Primary Level C. Secondary level D. TVET  
E. College diploma F. First Degree and above
5. Religion 1. Orthodox 2 Muslim 3.Protestant 4.Catholic 5. Others-----
6. Ethnicity 1 Oromo 2.Amhra 3.Gurage 4.Kafa 5.Dawro 6.Yem 7.others (please specify) -----

### **SECTION 3: GENERAL INFORMATION ON ENTERPRISES**

7. What is the main activity of the enterprise?  
A. Manufacturing =1 B.Trade =2 C.Construction = 3 D. Services=4 E. Urban Agriculture=5
8. In which stage of business you are involved in?  
A. Micro scale B. small scale C. medium scale.

9. For how long have your business been in operation?

A. Less than a year B. 1-2 years C. 3-4 years D. 5 years and above

10. Would you indicate the amount of initial capital----- and current capital -----?

11. How did you raise funds to start-up your business?

A. Personal saving D. gift from NGOs G. Borrowed from Micro finance institutions

B. Family E. Got loan from Friends/Relatives H. Others (specify) -----

C. Got loan from Banks F. Iqub/Idir

12. Which one of the following aspect is the most important for the success/growth of your business enterprise? A. A business plan C. An entrepreneurial team

B. Business opportunities D. Training in business skills

E. Business network specifically social networks.

13.. What are the factors that motivated you to involve in MSEs? (More than one answer is possible)

1. Profitability of the business 2. Lack of employment alternatives

3. Good government support 4. Previous experience 5. Others (specify)

14. How do you see the favorability of the business environment for MSEs?

1. Very good 2. Good 3. Medium 4. Low 5. Very low

15. Is there any support from government institution? 1 =yes 2 = No

16. To what extent you satisfied by the support provided by institutions?

1. Very high 2. High 3. Medium 4. Low 5. Very low

17. Do you think absence of government driven supports can be a challenge to the growth of your business 1= Yes 2= No

18. Which promotion campaign your business use?

A. Posters B. Trade fair C. No advertisement

D. Business card E. TV, Radio and magazines F. Others (Specify)

19. Do you feel your business has grown 1. Yes 2. No

If your answer for Q19 is no, don't you think the failure be caused by lack of the utilization of social capital by your firm 1= Yes 2= No

20. What is your future plan regarding your business?

Stop operation  Expand Capacity  Reduce capacity

Maintain production at the same level  others

21. If your answer for Q20 is stop your business, why? -----

22. Do you have business licenses? 1= Yes 2= No

23. If your answer for question 22 is "yes", how many days did it took? A too long B. moderate C. I got in short period of time

24. To what extent lack of institutional collaboration and knowledge exchange affect the growth of your enterprise? A. Very high B. high C. Medium D. Low E. very low

25. Does your enterprise have inter-firm cooperation with other enterprises? 1= Yes 2= No

26. If your answer for question 25 is no, don't you think lack of inter-firm cooperation has an impact on the growth and success of your business 1. Yes 2. No

27. Which of the following component of social capital do you think more affect the realization and expansion of your business enterprise?

A. Lack of access to information C. Lack of access to innovation

B. Lack of business network D. Lack of access to finance

28. How do you rank level of technical skills of business manager 1= adequate 2= inadequate

29. How do you rank level of managerial skill of business manager 1= adequate 2= inadequate

30. Which of the following problem is more challenging the growth of your business enterprises?

A/ Poor customer handling B/ lack of clear division of activities due to lack of strategic planning skill

C/ poor quality of support and high corruption from officials D/ Conflict among the members of the enterprise

31. Do you think poor enabling environment is a barrier to the growth and success of your enterprise

1= Yes 2=No

32. Does your enterprise have linkage with the other sector? 1= Yes 2= No

33. If your answer for Q32 is yes, in what activity do you linked to other enterprises?

- A. Selling raw material B. Buying raw material C. giving services D. selling our product

34. How do you evaluate the proximity (nearness) of location of your business to major customers (Thick in one of the boxes).

It is far from commercial district..... 1

At the market place/commercial district..... 2  Others (Specify) .....

35. What was the work experience of the owner/manager of this enterprise before engaging in the current enterprise?

- A. Had no work experience B. Had work experience in a similar line of business C. Had work experience in a different line of business D. Had been self-employed or operate my own business in different line of business E. others -----

36. To what extent MSEs can play role in employment generation?

- A. Very high B. high C. Medium D. Low E. very low

37. To what extent MSEs can play role in developing entrepreneurship?

- A. Very high B. high C. Medium D. Low E. very low

38. Do you think that you get social benefit from MSEs after you organized 1.yes 2. No

39. If your answer for Q36 is yes, what are social benefit did you get from MSEs?( more than one answer is possible)

- A. Get social acceptance C. Free from addictive behavior  
B. Get married D. Healthy life E. others (specify) -----

#### **SECTION 4: CHALLENGING FACTORS AFFECTING THE GROWTH AND EXPANSION OF MICRO AND SMALL ENTERPRISES**

The major challenges that affect development of MSEs are listed below. Please indicate the degree to which these factors are affecting the growth and expansion of your enterprise. After you read each of the

problems, evaluate them in relation to your business and then put a tick mark (✓) under the choices below.

Where, **5** = strongly agree, **4** = agree, **3** = undecided, **2** = disagree and **1**= strongly disagree.

1. Please indicate the degree to which you agree with the following statements concerning regulatory and institutional challenges

S.No.	<b>Regulatory and institutional challenges</b>	5	4	3	2	1
1.1	The tax levied on my business is not reasonable					
1.2	Bureaucracy in enterprise registration and licensing					
1.3	Lack of government support					
1.4	Lack of accessible information on government regulations that are relevant to my business					

2. Please indicate the degree to which you agree with the following statements concerning working place challenges.

S.No.	<b>Working Place challenges</b>	5	4	3	2	1
2.1	Absence of work premises					
2.2	Current working place is not convenient					

3. Please indicate the degree to which you agree with the following statements concerning technology challenges

S.No.	<b>Technology challenges</b>	5	4	3	2	1
3.1	Lack of appropriate machinery and equipment					
3.2	Lack of skills to handle new technology					

4. Please indicate the degree to which you agree with the following statements concerning infrastructural factors.

S.No.	<b>infrastructural factors</b>	5	4	3	2	1
4.1	Power interruptions					
4.2	Insufficient and interrupted water supply					
4.3	Lack of business development services					

5. Please indicate the degree to which you agree with the following statements concerning marketing factors.

S.No.	Marketing factors	5	4	3	2	1
5.1	Inadequate market for our product					
5.2	Lack of knowledge Searching new market					
5.3	Poor product quality to attract market					
5.4	Lack of promotion to attract potential users					
5.5	Poor customer relationship and handling					
5.6	Absence of relationship with an organization that conduct marketing research					

6. Please indicate the degree to which you agree with the statements concerning entrepreneurship factors

S.No.	Entrepreneurship factors	5	4	3	2	1
6.1	Lack of entrepreneurship training					
6.2	Lack of information to exploit business opportunities					

7. Please point to the degree to which you agree with the statements of financial factors.

S.No.	Financial factors	5	4	3	2	1
7.1	Lack of cash management skills					
7.2	Poor financial access					
7.3	collateral requirement from lending institutions on MSEs					
7.4	High interest rate charged by lending institutions on MSEs					
7.5	Loan application procedures of lending institutions are too complicated					

8. Please indicate the degree to which you agree with the challenges that have a direct influence on the growth and expansion of your business enterprise?

## **APPENDIX B**

### **Interview Questions**

#### **Interview questions with MSE operators and MSE Office**

### **Interview Questions**

#### **Interview questions with MSE operators**

1. What problems did you face while running MSEs in relation to:

A. Contextual factors

- legal and institutional factors [government policy, bureaucracies (in relation to enterprise registration and licensing), taxation and like]
- Premises factors
- Technology factors
- Infrastructure (power, transportation, water supply and like)
- Marketing factors (relationship with suppliers, customers and others value chain )

~ Financial factors ( accessibility, interest rates, collateral requirements, etc)

B. Internal factors

- Management and related factors
- Entrepreneurial factors

C. Social or relation factors

- Business networking
- Information access

- Innovation access

Generally what were the problems you face?

- A. At the time of establishment of the business
- B. Running the business

What were your solutions?

- D. For problems at the time of establishment of the business
- E. For problems at the time of running the business

2. What are other problem(s) did you faced regarding the overall functioning of your activity?

3. What are the opportunities of MSEs in your firm?

**Interview used for Government officials**

**Interview questions with MSE leaders and actors in different level**

Thank you for your cooperation to the interview

Date of interview -----

Name of the Organization \_\_\_\_\_

Name of interviewee \_\_\_\_\_

Position in the institution \_\_\_\_\_

Time of interview: Started at \_\_\_\_\_ Ended at \_\_\_\_\_

1. What problems did/are you face/facing in your office in the process of developing small scale to growth medium scale enterprise?

2. What are the opportunities and threats in the process of developing micro and small scale Enterprises?

3. How you see the coordination of different sectors works on micro and small scale enterprise?

4. How do you describe the general situation of MSEs in view of the goal set by the government in developing micro and small scale to lay down the base for industrialization?
5. According to the strategies of micro and small scale enterprise do all sectors work on micro and small scale enterprise play their role properly? If not, what is the problem?
6. How do you monitor the activities of MSEs in your town?
7. What are the solutions for the problem?