



**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
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**CHALLENGES OF MICRO AND SMALL ENTERPRISES IN  
WORABE TOWN, SILTE ZONE OF SNNP REGIONAL STATE OF  
ETHIOPIA**

By: Sirmolo Jemal

Advisor: Filimon Hadaro (PhD)

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APPROVED BY THE BOARD OF EXAMINERS:

Approved by Board Examiners:

Filimon Hadaro (PhD)

Advisor

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Internal Examiner

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
External Examiner

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

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## **Acronyms**

BDS- Business development services

CSA- Central Statistical Agency

EEA-Ethiopian Economic Association

GDP- Gross Domestic Product

GTP- Growth and Transformation Plan

FeMSEDA- Federal Micro and Small scale Enterprises Development Agency

MSEs- Micro and Small scale Enterprises

MSME- Micro, Small and Medium scale Enterprises

MFI -Microfinance Institution

MoFED -Ministry of Finance and Economic Development

MOTI- Ministry of trade and industry

MoIT- Ministry of Industry and Trade

MoUDH- Ministry of Urban Development and Housing

MoUDC- Ministry of Urban Development and Construction

PASDEP- PASEDP: Plan for Accelerated and Sustained Development to End Poverty

SME- Small and Medium Enterprises

SNNPR-Southern Nations, Nationalities, and Peoples' Region

TVET-Technical and Vocational Education and Training

UN- United Nations Organization

WTAFEDO-Worabe Town Administration Finance and Economic Development Office

## ***Abstract***

*Micro and Small Enterprises (MSE) play vital role in the process of development. It generates employment at low cost and helps the society to move on the path of wealth & growth. No wonder that government, particularly in the developing countries has made tremendous efforts to enhance the capacity of micro and small enterprises (MSEs). However, the MSE sector has fallen short of expectations. In respect of this, the fundamental objective of the study was to reveal the key Challenges for the developments of MSEs in Worabe town. To achieve the objective, the study employed both qualitative and quantitative research approach. The available data was gathered from primary and secondary sources and closely examined through probability and non probability sampling techniques. Generally the study elicits key challenges which seem to affect performance of MSEs in Worabe town which include: finance related problems, market problems and working premises. The municipality should strive to do everything possible to improve the business environment in which MSEs operate through improved infrastructure such as an electrical power supply, water, shade (buildings) and roads that are necessary and basic to the effective performance of Micro and Small Enterprise in Worabe town. This is achieved through coordination of responsible sectors. To tackle marketing linkage challenges there should be a multi-dimensional and concerted effort by the local governments and Micro and Small enterprise owners/managers in such a way that instead of hanging around government market linkages the Micro and Small enterprise owners/managers should work more to be competitive and enhance market linkages were among the recommendations by the researcher.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background

Governments all around the world now recognize the role of Micro and Small Enterprises as an engine of economic growth and sustainable development (Wasihun, 2010; Shitu, Neshamba and Valero-Silva, 2016; Mrope and Mhechela, 2015). They are also seen as key instruments of economic diversification, income generation and distribution, and accelerating the economy of a country (Aynadis and Mohammednur, 2014; Lenjisa, 2014; Gebreeyesus, 2014; World Development, 2012). Getahun (2016); Abawa and Raghurama (2017) Argue that Small Enterprise is considered as a backbone of the economic growth. Countries from developing nations are advised to use the potential of Small business, mobilize resources and production activities leading to employment and income generation for those who cannot work in high-skill demanding business companies.

Most developing countries proved MSEs as a powerful propellant effect for rapid economic growth because of virtue of their size, location, capital investment and their capacity to generate greater employment. Because MSEs sector do not request high-level training, much capital and sophisticated technology, the sector recognized as an instrument in bringing about economic transition. (Wolde, 2013; Drbie and Kassahun, 2013; Seyoum, 2015).

Employment is the gateway out of poverty for many and an important cornerstone of economic and social development (UN- Habitat, 2016). The contribution of Micro and Small Enterprises to GDP and employment is considerably high. In India For example, the manufacturing and export related contributions of MSEs were 45% and 40%, respectively. In Japan MSEs contributed for 53.3% of the manufacturing output. MSEs are also home for innovation and supply of raw materials for bigger industries as well as outsourcing functions (Ministry of urban development and housing, 2016, p.4-14). In Malawi Micro and Small Enterprises (MSEs) contributed income to about 25% of Malawian households, employed about 38% of the country's labor force, and contributed about 15.6% to GDP (MOIT, 2012, pp.9). While In Ethiopia, The MSEs sector is the second largest employment generating sector for low income groups next to the agriculture

sector (Tefera, et al., 2013). According to CSA (2003) almost 50% jobs created in Ethiopia are attributable to small business.

In Ethiopia the role of Micro and Small Enterprises (MSEs) is seen as crucial in poverty reduction through employment generation, income and skill (scarce capital) mobilization. Cognizant of this, the government formulated national MSEs Development Strategy in 1997. The MSE Policy envisages poverty reduction in urban areas and developing entrepreneurship and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment creation, entrepreneurship expansion and transition of MSEs to medium and large size companies (Assefa, *et.al.* 2014, and p.19-31).

In line with the country strategy, Southern peoples regional state bureau of Urban development and housing and Silte zone town development and housing department has responsible for promotion and development of Micro and Small Enterprises in order to generate income and provide job opportunity for unemployed people in urban centres. According to Silte zone town development and housing department report, Micro and Small Enterprises created employment opportunities for 3130 peoples in 2017 with in towns at zone level.

In Worabe town Urban job creation food security Office is responsible to promote and facilitate the development of MSEs to play their crucial role in solving unemployment problem and provide job opportunities for unemployed people including those graduated from university and TVET.

The extant literature has attributed the dismal contributions of Micro and Small Enterprises (MSEs) to GDP and employment in most economies, the effectiveness of the sector depends on the nature, performance and available resource. Lack of working premises, Limited access to financial services, lack of market, absence of technical and business skills are among the major obstacles of the sector (Muleta 2016).

## 1.2. Statement of the Problems

Most developing countries like Ethiopia have been formulated and implemented different Micro and Small Enterprise development strategy to support the development of the sector, thereby transforming economies and generate substantial employment opportunities. As per Berhanu (2014), Micro and small enterprises sector are major income generating and basic means of survival for the poor.

Despite the mentioned facts above, the growth of MSEs faces a number of constraints that hinders its rapid growth and development at one hand and its ultimate goal of reducing poverty and unleashing its potential contribution to the national economic transition. The challenges that undermine the growth of MSEs in Ethiopia include among others access to technology, adequate skills, capital and lack of conducive and working markets. The negative attitude towards MSEs by the people is also a core challenge. The attitude challenge takes different manifestations of which the most important are: The attitudes that considering engagement in MSEs is a sign of poverty and backwardness and discounts their potential role because of this narrow perspective, preference for paid employment, dependency (an expectation of receiving subsidies and charity rather than working and investing in one's own future) is seen manifesting among the society and those who participate in MSEs in Ethiopia (ministry of urban development and housing 2016, p.61-63)

In Ethiopia according to (Assefa, *et.al.*, 2014) key constraints of Micro and Small Enterprises includes “access to finance, collateral challenges, marketing challenges, working and sales space constraints, institutional coordination problem, attitudinal challenges, licensing and registration challenges, capital goods and machinery challenges”. While major challenges identified by ministry of urban development and construction ( 2013) are access to finance, access to land or work or work space, access to input, lack of managerial skill, lack of technical knowledge access to market . Among these the major ones are lack of finance (42%), lack of working premise (28.3%) and lack of access to market or absence of linkage to market (18.1%) among others like access to input , lack of managerial skill and lack of technical knowledge.

Several studies have been identifying factors affecting performance of Micro and Small Enterprises in different regions of Ethiopia. For instance the findings of Seyoum (2015) shows

that external factors those influence the performance of enterprises are location of working premises, access to credit, training, market .While study conducted by (Kefyalew and Jembere, 2016) Micro Finance Institutions in Wolaita and Dawro zones revealed that MSEs operators do not access adequate loan for business start-up, a long bureaucratic procedure to secure the credit and lack flexibility in loan repayment arrangements in formal lending institutions compared to the informal sources. Moreover, high collateral requirement the interest rate charged by formal institutions is high to credit access. Hence, Micro and Small Enterprise operators are forced to use the informal institutions as a source of finance. While critical problems of the MSEs sector in Addis Ababa includes Market-related problems, Institution-related problems and Financial factor Admasu, (2016).

As indicated in review of literatures above, most of the previous study result shows differences. This difference shows that the key challenges of MSEs growth vary from town to town and place to place. Hence this study is therefore aims to find out the key challenges of Micro and Small Enterprises that are operating in the Worabe town.

### **1.3. Objectives of the Study**

The general objective of the study was to analyze the challenges and assess prospects of MSEs in Worabe town Silte zone in Southern regional state of Ethiopia.

The specific objectives of the study were to:

1. Asses the key challenges of MSEs that are operating their business in Worabe town;
2. Analyze ways of correcting challenges of MSEs in Worabe town.

### **1.4. Research Questions**

The study raised the general question whether the persisting challenges of MSEs in Worabe town Silte zone in southern regional state of Ethiopia has hampered the role of MSEs in poverty reduction ,employment creation, income earnings for individuals engaged in the sector.

The specific research questions of the study area as follows

1. What are the key challenges facing MSEs that operate in Worabe town?
2. How can supports for MSEs solve the challenges of MSEs operating in the town?

### **1.5. Significance of the study**

This study will have important contributions to the local government, Micro and SmallEnterprises operators and the local community to understand the challenges of Micro and SmallEnterprises development. It is hoped that they will use it as an input to enhance the activities of Micro and SmallEnterprises in town. Furthermore, the findings of this study will inform academic researchers as a reference for further researches as well as comparative study from data results and evidence substantiated.

### **1.6. Scope and Limitation of the Study**

The scope of the study was limited to assess the challenges and prospects facing Micro and Small enterprises in Worabe town, using descriptive and qualitative research design. Furthermore, the study area was chosen because it is relatively better centre of business activities and chief town within the zone. MSEs Sector comprises manufacturing, construction, service, trade and urban agriculture sectors in Worabe town. It should also be mentioned that lack of organized and relevant recorded data were among some the limiting factors in this study.

## CHAPTER TWO

### REVIEWS OF RELATED LITERATURE

#### 2.1. Definition of Micro and Small Enterprises

It is hard to find universally acceptable definition of Micro and Small Enterprises (The World Trade Report, 2016:16; Haile, Girmay and Hagos, 2014:135; Hawando: 2017) .Some countries even have multiple definitions across different government institutions. This is so because the criteria and ways of categorizing enterprises as Micro, Small and Medium vary from country to country and from organization to organization. The most commonly used criteria are employment, turnover and productive assets (Reinecke, and J.White, 2004; World Bank, 2013).

The definition used to define MSE sector in Kenya is based on three criteria: the number of workers, the turnover and assets of the enterprises. Micro Enterprises are defined as firm, trade, service, industry or a business activities whose annual turnover that does not exceed 500,000 Kenya Shillings and whose total employees are less than 10 people meanwhile Small Enterprises are those firms, trade, service, industry or business activities that post an annual turnover of between Ksh500, 000 and Ksh5 million and have an employee list of 10 to 50 (Kenya's Micro and Small Enterprises Act, 2012:7).

In Ethiopia, there is no consistently placed definition for the Micro and Small Enterprise sector by different organization. Federal Ministry of trade and industry has defined Micro Enterprises as an enterprise with a total asset of less than 20,000 Birr (\$1200) and Small Enterprises as Enterprises with a total asset of Birr 500,000 (\$30,000) or less. While Central Statistics Agency used type of technology adopted and the size of man power to define the sub sector. Accordingly, Handicraft and cottage industries in which a single person or family members perform their activities mainly by hand and using non-power driven machineries; and Small manufacturing enterprises engaging less than 10 persons and using motor driven machinery (MoTI,1997).

However the country has revised the definitions of MSEs in 2011 to align with at least some countries and an international organization(Abawa & Raghurama, 2017), to consider the limitations of previous definitions,to integrate the development of the sector with the country's 5

year (2003-2007 E.C) Growth and Transformation Plan (GTP) and hoped to bring about rapid economic growth and lift up the country to middle income level. In the new definition, some of the attributes used by other countries and international organizations such as considering job creation, size, asset base and differentiating Minimum asset requirement for services and industry are addressed (MoUDH, 2016). Accordingly; 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. 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. When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick (Federal Micro and Small Enterprise development agency, 2011). In this research the revised definition MSEs by FeMSEDA is used.

## **2.2. Survival Vs Growth-Oriented Enterprises**

Categorizing micro enterprise as survival and growth-oriented is use full to analyze the extent of their contribution to economic development and it would facilitate the identification of the appropriate support policies to such enterprises (Kanothi, 2009).

Survival based micro enterprises according to Mashigo(2015) are referred to as enterprises that cannot create extra employment opportunity other than the operators and minimal asset value or activities by people unable to find alternative jobs before starting the businesses, with no skills training in the particular field and only limited opportunities for growth into a viable business.

Apart from the survivalist micro enterprises, growth oriented enterprises are businesses that always re-invest in the business and employ additional labor which may enhance their credit worthiness and for that matter increase their chances of growth (Hallow, 2016).

Rogerson (1996: 171) states both categories of enterprises as follows:

The first category is survivalist enterprises which represent a set of activities undertaken by people unable to secure regular wage employment or access to an economic sector of their choice. Generally speaking, the incomes generated from these enterprises, the majority of which tend to be run by women, usually fall short of even a minimum standard of income, with little capital investment, virtually no skills training and only

constrained opportunities for expansion into a viable business. Overall, poverty and a desperate attempt to survive are the prime defining features of these enterprises.

The second category is growth oriented enterprises which are very small businesses, often involving only the owner, some family members and at most one to four paid employees. These enterprises usually lack all the trappings of formality, in terms of business licenses, formal premises, operating permits and accounting procedures, and most have only a limited capital base and their operator only rudimentary business skills. Nonetheless, many micro-enterprises have the potential to develop and flourish into small and medium enterprises.

In Ethiopia However, the micro and small enterprises sector is categorized in to Start-ups, Growing-middle and Maturity depending on stages of development to facilitate and provides appropriate policy support (Assefa, *et.al.* 2014:9-10).

### **2.3. Micro and small Enterprises Development strategy in Ethiopia**

Nowadays, the significant contribution and potentials of the MSE sector in poverty reduction has been recognized in Ethiopia (Adam, 2014). In line with, federal government of Ethiopia has adapted MSE development strategy to promote the sector in 1997. The objective of the strategy is to create enabling environment for the sector (MOTI, 1997). MSE Policy targets reducing poverty in urban areas and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and targets but having similar objectives. According to revised (MSEs) Development Strategy of Ethiopia, the main focus of the government is to create Job opportunities through MSEs development, in order to reduce unemployment problem, alleviate poverty and promote industrial development by considering the MSEs as a base (Joshi and Mihreteab, 2015).

The revised MSE strategy has two major dimensions of MSE development stages. The first is the transition of an enterprise from Micro to Small and from Small to Medium Enterprise level. The second is the process whereby MSEs maintain and strengthen their competitiveness within their own category of MSE. MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space (MoUDH, 2016).

As stated by Assefa, *et.al.* (2014:9-10) and Seyoum, Aragie, and Tadesse(2016:584-585):

Policy support for MSE development in Ethiopia depends on stages of development in which MSEs are categorized into Start-ups, Growing-middle and Maturity. Start-up stage Enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector. In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique.

Growing stage Enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, Enterprises at this stage also suffer from different challenges like financial constraint, lack of appropriate technology and technical skill, absence of sufficient working and sales premises and rent seeking behavior. To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, Enterprises are considered to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FEMSEDA has a strategy that aims to strengthen Enterprises in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to Enterprises

## **2.4. Challenges of Micro and small Enterprises**

Sitharam and Hoque(2016) defined the business environment as factors both internal and external to the organization, influencing the continued and successful existence of the

organization. Accordingly this part assesses the most serious challenges that constrain the development of Micro and small Enterprises.

### **2.4.1. Inadequate finance**

One of the major challenges pointed out as hindering the development and survival of start-up MSEs is access to finance (MOTI, 1997, pp, 10;Engida,et al,2017,pp.11;Fadahunsi ,2012). MoUDC (2013) and Tadesse(2014) also identified that financing has become a principal challenge to Micro and Small Enterprises in Ethiopia; banks in Ethiopia do not provide finance in the form of loan to MSE's due to collateral obligations and other requirement. More over the study conducted by (Kefyalew, 2016)revealed that MSE lack adequate loan to start-up their business, long process to secure the credit, high collateral requirement and high interest rate of loan service by lending institutions. Several studies (Abera,2012; Wolde,2013;Mebrahtu,2014; Alemu,2015;Admasu,2016;Gebreyohannes,2015) pinpointed that the loan MSEs is not sufficient to start business, run and expand business because enterprises need finance to purchase equipment and machinery, to expand their market and to cover working capital shortages. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. The research conducted by Bernard; Sare, and Musah,(2014) in Ghana also confirms that high interest rate is the leading factor in constraining MSEs development.

### **2.4. 2. Marketing challenges**

Presence of market for the products and services is one the driving forces behind the success of Micro and Small Enterprises and some efforts available by the governments; marketing is among the major challenges for the development the sector. MSEs in Ethiopia are encounter access to sufficient and sustainable market, lack of suitable working and selling premises and inadequate market competition and knowledge. Several studies conducted in different regions such as:Admasu(2016).Abera(2016);Bekele andMezgebe(2016);Engida,etal,(2017,pp.11);Abera(2012);Sherefa(2012)also identified that marketing is among the top most severe problems that hinder the development of micro and small enterprises

### **2.4.3. Problem of skilled manpower**

For Micro and Small Enterprises, Training is the main means to gain the relevant and business-specific know-how and abilities to start and grow their own businesses in low and middle income countries (German Development Institute, 2013). However, studies by Abera(2012); Kebede(2015) mentioned that Lack of entrepreneurship training is one the hindering factors for the success of their business.

### **2.4.4. In adequate infrastructure**

In most developing countries infrastructural facilities are grossly inadequate Olalekan(2014). Inadequacy of the physical infrastructure is among the causes of low levels of investment and unsatisfactory performance of Micro and Small Enterprises. Study conducted by Abdissa and Fitwi (2016) in south west of Ethiopia, most MSE operators opined that lack of adequate infrastructural facilities especially insufficient and interrupted electric power and water supply. Abera(2012); Cherkos( 2017) ; Demeke (2016) also mentioned challenges like interruption of electric power, interruption of water supply ,lack of road facilities and interruption of telecommunication service are constraining factors of MSEs development.

### **2.4.5. Policy and regulatory challenges**

Having the right business policy, regulations and related institutions is vital for the health of an economy (Doing Business, 2014; Belás and Sopková (2016). However, enabling policy environment itself may not be sufficient to ensure optimal results because the response to the enabling policy environment depend on, among other things, the degree to which MSE operators can access resources such as skill, technologies, finance, infrastructure, markets, etc( Ageba and Amha,2006). (Bekele and Mezgebe, 2016; Abera, 2012) study results reveals that most of the Enterprises are not getting support from government. (Abera, 2012; Admasu, 2016) also states that bureaucracy in company registration is the main factor that affects the performance of the sector in addition to unreasonable tax and related issues.

### **2.4.6 Working premise and Challenges**

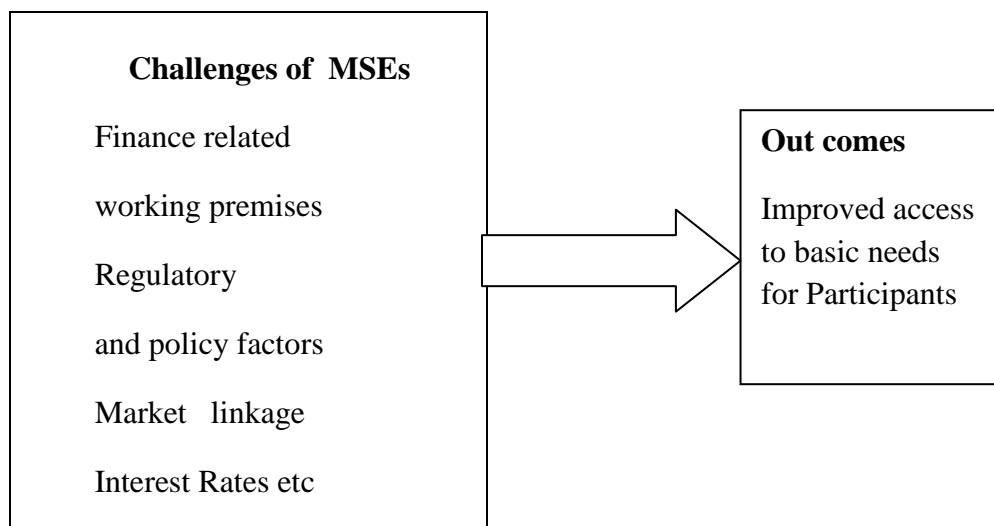
For successful and sustainable growth of Enterprises, working premise is one of the main components (Haile et. al, 2014). However, the shortage of such infrastructure has also been one

of the main obstacles to the development of the sector in many urban areas of the country. For instance, the findings of (Haile et. al, 2014) shows that MSEs that have own working premise grow faster than those that operates at rented and at family working premise. In addition, the studies conducted by Adeg( 2014);Berhanu (2014); MoUDC( 2013) and Cherkos et.al (2017 ) states that among obstacles experienced by entrepreneurs operating MSEs sector is unavailability of work premises.

## 2.5. Conceptual Framework of the study

Conceptual framework means a written or visual presentation of the main things to be studied that can be explained either graphically or in narrative form. Previous related works were reviewed to develop the conceptual framework. The variables that this study focused on were challenges of Micro and Small Enterprises. The challenges of MSEs include: Regulatory and policy factors, working premises, technological, infrastructural, marketing and financial factors. Further more if the MSEs achieved positively, the enterprises under study will expand and the Participants have got improved access to basic needs .This is shown in the following diagram.

Conceptual Framework: Onchallenges of Micro and Small Enterprises in Worabe town.



(Source:Ephrem Setegn, 2010)

## **2.6 Empirical Studies on Micro and Small Enterprises in Ethiopia**

Tarfasa, et al. (2016) conducted a research to assess the Determinants of growth of Micro and Small Enterprises by using a random sample of 300 MSEs selected from manufacturing, construction, service, trade and urban agriculture in Addis Ababa. According to this research, among manager's or owner's characteristics, age, marital status and education were important factors affecting growth of both Micro and Small Enterprises. The finding of this study reveals that weak business environment influences the growth of firms. In particular, frequent power interruptions, lack of access to credit, and shortage of water is inversely correlated with growth of Micro and Small Enterprises

In his research, Cherkos et.al (2017) studied significant factors in Micro and Small Enterprises performance in Amhara region. In his study, working premises, access to finance, infrastructure, entrepreneurship and business managerial problems are found to be the most critical factors and took majority of the share for the causes of 50% drop-out. The study also shows that even though working areas are built, they are not functional due to lack of facilities. Moreover, due to infrastructure problem of daily power interruption, 25% of their work time is lost.

Leza , Rajan and Kuma(2016)conducted research with the intention of investigating the key determinants of employment growth among MSEs, based on interview schedule consisting 352 randomly selected enterprises in three administrative towns in Wolaita Zone, finding that Shortage of working premises, power supply, other infrastructures and inputs rising costs are among the problems of challenging the proper functioning of the MSEs. Available working premises and other infrastructure in most cases are inconvenient to accommodate business tasks and related requirements.

Kefale and Chinnan (2012: 25) identified major problems that hindered employment growths are market problems, lack of working capital among others such as Seasonality work; input supply problem, power fluctuation, and lack of skilled manpower, high rent, high input price, unfair competition and utilities expense are also encountered by Micro and Small Enterprises. This indicated the fact that market problem, working capital problem and lack of working place coupled with other factors stated above has negative impact on the employment growth in small

and micro enterprises. Similarly, key informants and group focus discussion held to identify major constraints that hindered employment growth in Micro and Small Enterprises.

Study by Kibret, et al. (2015: 19-20) identified major problems experienced by MSEs in Gedeo Zone, where high tax, inefficient tax administration, prices of inputs, bureaucratic burden, lack of raw materials, inadequate skills, and high interest rate. Furthermore, high collateral requirement was another major hindering factor. This is due to the reason that commercial banks considered Small businesses as high risk clients with little or no resources to provide collateral.

Kebede and Simesh(2015: 1627) conducted a study to examine the impact of environmental factors affecting the Micro and Small Enterprises performance in East Gojjam Zone and concluded that inadequate power supply, inadequate water supply, unavailability of dry waste and sewerage system, unavailability of business development service, unavailability of suitable market place collateral requirements to get loan, shortage of working capital and unavailability of own working premise were identified as serious problems for low performance.

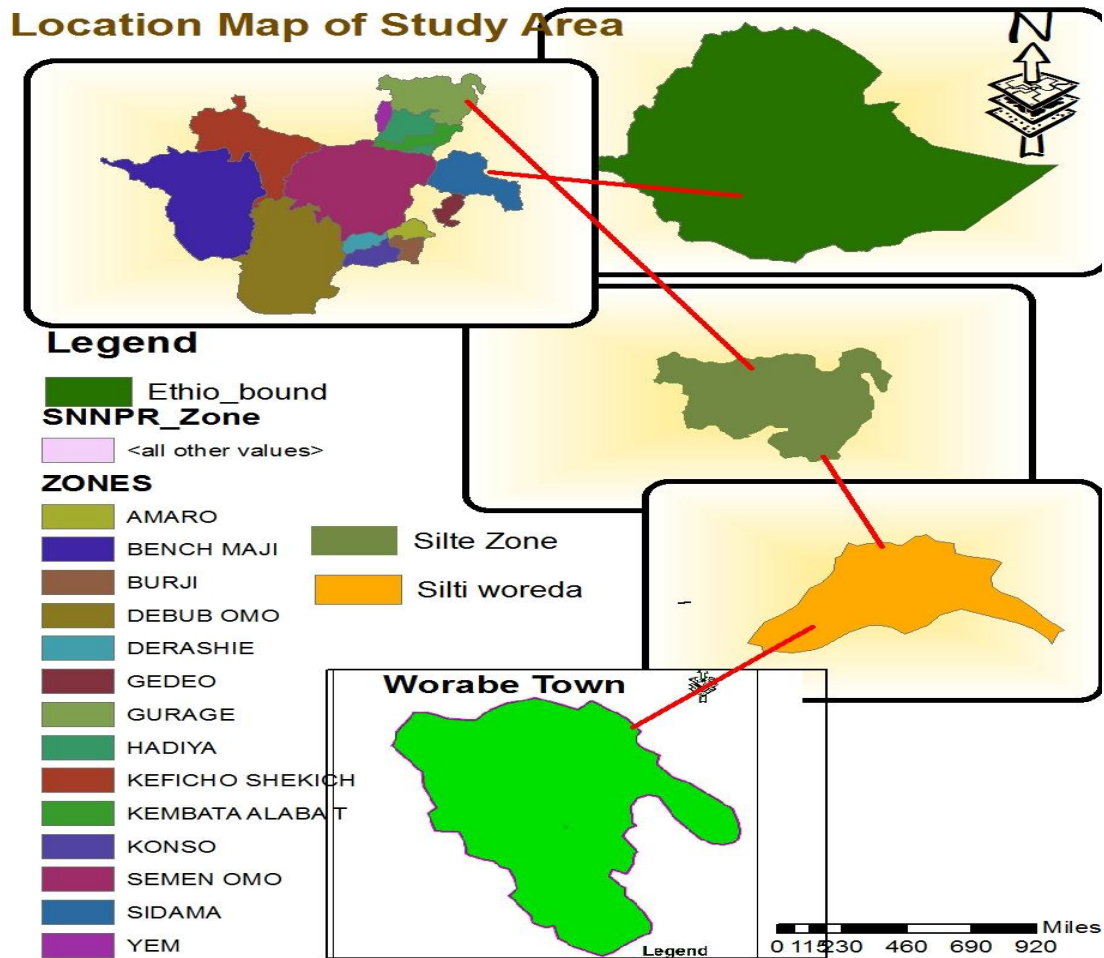
# Chapter Three

## Research Methodology

### 3.1. Introduction

In order to assess the key challenges on performance of MSEs, this study made use of a research methodology. This section provides an overview of the study’s research approach and discusses procedures and activities under taken, focusing on namely location map of the study area , the type of research method and design, sample and sampling procedure, sources and types of data, method of data collection, method of data analysis and ethical considerations.

Figure 1:



Source: Nebil, 2015

## **3.2. Research approach and design**

According to Kothari (2004, p.31) research design is "the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the conceptual structure within which research is conducted and constitutes the blueprint for the collection, measurement and analysis of data".

The study employs mixed quantitative and qualitative approaches. Kothari (2004) defines quantitative data as "the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. While, "qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior through focus group interviews, projective techniques and depth interviews". The reasons for the application of both quantitative and qualitative approaches is that, the research questions deal with issues that require both deep understanding as well as facts on the study population, and potentially facilitate the stronger inferences than do single research approach. To reduce as well as eliminate biases that arise from personal opinions and the methods used triangulation or multiple data sources were used to examine a situation under study.

## **3.3. Sample and Sampling Procedure**

### **3.3.1. Sampling Design and Procedure**

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

The study used both random (probability) and non-random (non-probability) sampling method. Non-random sampling technique was applied to collect data from the concerned government offices such as MSEs officials and experts who facilitate the MSEs sector in the town under study. Among different Non-probability sampling techniques, the researcher applied purposive sampling techniques to select from government officials and Experts that facilitates the sector in town.

Kothari (2004,p.62)states stratified sample as “a probability sampling technique in which the researcher divides the entire target population into different sub-groups, or strata, and then randomly selects the final subjects proportionally from the different strata. This type of sampling is used when the researcher wants to highlight specific subgroups within the population”. Stratified random sampling is good for this research since ensured the presence of key subgroups within the sample. Stratified random sampling technique allows the population to be stratified into a number of non-overlapping sub-populations or strata (departments); and sample items (personnel) at tactical and operational level is selected from each stratum (department). Hence to select a sample, first the lists of those MSEs that are currently registered and operating in Worabe town were identified as sampling frame by a researcher. Samples were selected using stratified random sampling technique, where the entire population was divided in to subgroup (strata) of manufacturing (Metal & wood work, garment, and agro processing), service (garage, meal and barber), urban agriculture (cattle fattening, honey production, dairy farm),Trade sector(packed water, alcohol free soft drinks, goods) and construction works (building material production, cobble stone production, cobble stone paving). Then the sample will be drawn from each type using a ‘lottery’ method.

### **3.3.2. Sample size determination**

In this study, systematic random sampling type of probability sampling was used in selecting each element of the sample size from the strata sub groups (manufacturing, service, urban agriculture, retailing, and construction works) and the data will be collected by using questionnaire. The population for the study was MSEs operators engaged in different sub sectors in the town. These are 938 in number in the year 2018.

In order to determine sample size Yamane (1967 cited in Abdissaand Fitwi, 2016) finite and large population sample size formula with 95 % confidence level and 0.05 precision levels is employed. The formula used to obtain this sample size is presented below.

$$n = \frac{N}{1 + N(e^2)}, \text{ Where } n = \text{sample size}$$

N = population size

e = sampling error (level of precision)

Accordingly the target population results, the following number of samples.

$$N = \frac{938}{1 + 938(0.05)^2} = 280$$

Accordingly, 280 respondents (owners /operators) were selected from 938 MSEsowners /operators. These 280 respondents were selected from each sub sector computed based on their number of respective population (weight) and the samples were selected by using systematic random sampling technique.

**Table 1 Major activity in the town and respective sample size**

Major activities	Targeted population	Sample size
Construction	339	101
Manufacturing	132	39
Service	264	79
Trade	102	31
Urban agriculture	101	30
Total	938	280

Source: Worbe town Municipality Urban job création and Food Security office

### 3.4.Sources and Types of Data

#### 3.4.1. Data Sources

In this study the researcher employed primary and secondary data sources. Kothari (2004:95) stated that Primary data are those which are collected afresh and for the first time, and thus

happen to be original in character. On the other hand, secondary data are those which have already been collected by someone else and which have already been passed through the statistical process

The primary sources of this study were organized MSEs cooperative members who run business currently, Government officials and Experts who facilitates the sector under study in town. Among several methods of collecting primary data the researcher had been used closed and open ended questionnaires, structured and interview guide and field observation .Primary quantitative and qualitative data that had been collected through questionnaire and interview were applied for analysis. In addition to the questionnaire and interview, document analysis had been carried out on available documents, reports.

The Secondary quantitative and qualitative data sources may be either published data or unpublished data. The researcher had been used published data from the central and local governments publications; different journals; national strategy plans,previously done related research papers, other related books, reports and publications of various associations connected with business and industry, banks, reports prepared by research scholars, universities, public records and statistics, diaries, letters, trade, labor bureaus and other public/private individuals and organizations as well as websites. Secondary data had been used for the literature review section.

### **3.5.Method of Data Collection**

#### **3.5.1. Instrument for Primary data collection**

##### **A. questionnaires**

In order to collect the necessary primary data both closed and open ended questionnaire was developed to generate information and data that had been used for both qualitative and quantitative analysis. Structured questionnaire was employed for Micro and Small Enterprise Cooperative member sample respondents of the study area to identify their views, key challenges and prospects of MSEs in the study area towards answering the research questions. The questionnaire were prepared in English and then later translated to Amharic .The questionnaire was divided into five parts. Part one was concentrated on the demographic characteristics of

respondents; part two of the questionnaire was about enterprise characteristics and prospects, questions in part three part four and part five was about Challenges and Prospects of Micro and Small Enterprises. These questions looked at the constraints faced by MSEs during of these businesses.

## **B. Interview**

For government officials and experts the researcher used Key informant interview guides. Reason for using this type of interview guide was it enabled to obtain additional information, which was related to study. This instrument was used to capture specific changes in MSEs trend, challenges during operation and start up of businesses, prospects and policies to solve hindering factors of the sector. Structured interview guides were used during interview session. Information extracted through interview enriched data collected through questionnaire and was essentially used for qualitative analysis purpose. The interview was held either in English or Amharic as per the interest of the respondents.

## **C. Observation**

Under this method, the information was sought by way of investigator's own direct observation without asking from the respondent. The main advantage of this method is that subjective bias is eliminated Secondly, the information obtained under this method relates to what is currently happening; it is not complicated by either the past behavior or future intentions or attitudes. Thirdly, this method is independent of respondents' willingness to respond and as such is relatively less demanding of active cooperation on the part of respondents as happens to be the case in the interview or the questionnaire method (Kothari, 2004).The researcher used non-participant observation method to see the real situation of the enterprises. Under this method, the researcher has got a chance to exposure to see different issues like the, availability infrastructures, the working conditions and other related issues were observed.

## **D. Document research**

To extract reliable information, available documents dealing with the subject matter were reviewed. Hence, Secondary quantitative and qualitative data were gathered from the central and local governments publications; technical and trade journals; nationalstrategyplans,previously

done related research papers, other related books, reports and publications of various associations connected with business and industry, banks, reports prepared by research scholars, universities, public records and statistics, diaries, letters, trade, labor bureaus and other public/private individuals and organizations as well as websites. The researcher used multiple relevant data to discover areas of convergence and divergence to ensure a more expansive look at the situation. The information gathered through observation, key informant interview and document analysis was used to triangulate and complement the data collected through other methods. In this study the Key informants were urban job creation and food security office of Worabe town.

### **3.6. Methods of Data Analysis**

In this study, the quantitative data on the other hand were analyzed by using descriptive statistics with the aid of Microsoft Excel. The researcher believes that using Microsoft Excel is reliable and convenient than the manual system. The collected data was edited, organized and coded and organized to make it suitable for analysis. Once the analysis was undertaken, the result of the analysis was presented in descriptive statistics formats including percentages, pie charts and bar graphs and tables. The qualitative data obtained from key informant interviews, document analysis and personal observations were analyzed through description and narratives using words.

### **3.7. Ethical Considerations**

The purpose of the this study were appropriately informed for all participants in the research and their willingness and okay were secured before the distribution of the questionnaire and commencement of the interviews and requesting interview questions. The study maintained the secrecy and the identity of each participant to secure privacy of the respondents. Throughout the study, names are kept secret and instead collective names like, “Respondents, key informants “were used.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

In this chapter the analysis and discussion of the results of the data collected through different data collection methods and tools were carried out. It includes a discussion of the Socio-demographic Characteristics of respondents, Business and previous occupation of respondents, the characteristics and prospects Micro and Small Enterprises. The key challenges affecting the performance of Micro and Small Enterprises in general were discussed together with the prospects of these Micro and Small Enterprises. Generally, the analysis and discussion of the results were carried out using a descriptive research design, including statistical tools such as bar graphs, pie charts and tables.

#### **4.2 Socio-Demographic Characteristics and Prospects of respondents**

This section discusses the general characteristics of respondents in the Micro and Small Enterprises based on in their responses. It includes Respondents sex, Age category, and status of formal Education and Marital status.

##### **4.2.1 Respondents sex, Age category, status of formal Education and Marital status.**

As shown in the table 2 below, majority of the respondents were within the age category of 24-29 years (34.64 %) followed by those under the category of 30-35 years (27.14%). The remaining respondents were under the age category of 18-23 (21.4%) years and 36- 64 years(16.78%). The study revealed that most of the enterprises in the town were owned by youths who are trying to invest in the sector in order to have their own business. This finding concurs with an earlier findings by Goshu(2015) and Leza , Rajan and Kuma(2016)in different studies in which they established that majority of MSEs owners/managers were young. Hence it was believed that Micro and Small Enterprises have a remarkable role in reduce the rate of the youth unemployment in the study town. This meets one of the objectives of the government, that of creating employment opportunities for the youth.

Meanwhile the educational level of the respondents, it was clearly seen from the table that most were within the grade level of 5-8 (40.7%) and 9-10 grade level (22.5%). The table also shows grade level of 1-4 (13.6%), Diploma (11.42%) and first degree and above (7.14%). This implies that the majority of respondents were not educated enough. There was consensus, more or less through the literature study that for the MSMEs to be successful they should consider education as one of the variables. However, with the empirical there was mixed findings as some agreed with literature and others disagreed (Julius, 2016:pp.75). Alemayehu and Gecho(2016) pointed out that Most previous studies claim that formal education has a positive impact on the business performance. As per Getahun (2016) argue that Education increases the chance of the success of the business and the probability of identifying good business opportunities.

As it is indicated in the findings of G/Mariam (2010 pp:33), in terms of gender male owned MSEs dominate than that of women and account for 63.7 percent. Similarly, regarding sex of respondent's the proportion of male were significant 70%(196) and the rest (30%) (84) were female. This clearly shows that in Worabe town most of Micro and Small Enterprises activities are carried out by male. This result is in agreement with earlier findings of Osunsan, Kinyatta, Baliruno and Kibirige (2015) in which they found out that most business owners are male, 258 or 63.08% noted that there was the traditionally dominant role of men in Ugandan society and business generally .The data obtained from Worabe town administration finance and economic development office report indicates that 51% of the town population are female and 49% were male. Hence the participation of female in micro and small enterprises requires further mobilization by the local government to promote their participation in the sector.

The marital status of the respondents shows that the majority were married(50%) followed by singles(42%).The remaining 3.6 % and 3.9% of the respondents were divorced and widowed respectively.

This shows that the predominance of married respondents were used Micro and Small Enterprises sector to generate income either as the primary earner for the household or in a supplementary role, or simply the wish to own their own business due to the fact that married people have pressure and responsibility to earn income than unmarried ones. This finding agrees with earlier findings by Belay (2012) on his study of “The Contribution of Group-Based Micro and Small Enterprises to the Local Economy and Social Development in the Arada Sub City: A

Case Study on Metal and Wood Work Enterprises.” in which he found out that majority of MSEs have families and they obliged/forced to provide any support to their respective family members. This finding also consistent with an earlier finding of a study by Debelo, Teshome and Minalu(2015) in which they found out that most MSEs owners were married.

**Table: 2 Respondents Age category, status of formal Education and Marital status**

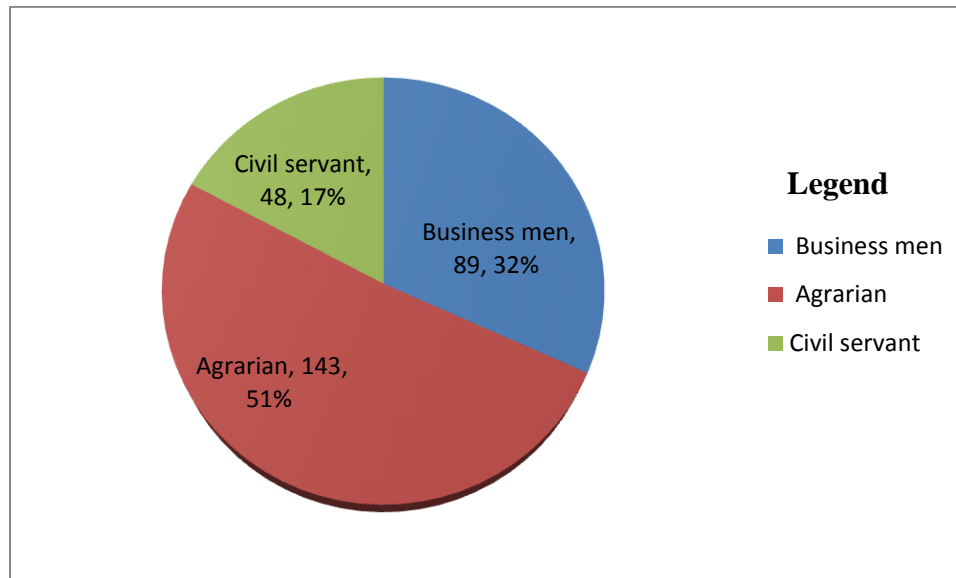
1. Sex Respondents	Number	Percentage
Male	196	70%
Female	84	30%
Total	280	100%
2. Age category	Number	Percentage
18-23 years	60	21.4%
24-29 years	97	34.64%
30-35 years	76	27.14%
36 – 64 years	47	16.82%
Total	280	100%
3. Level of Education	Number	Percentage
Uneducated	13	4.64%
1- 4	38	13.6%
5-8	114	40.7%
9-10	63	22.5%
Diploma	32	11.42%
First degree and above	20	7.14%
Total	280	100%
4. Marital statuses	Number	Percentage
Single	119	42.5%
Married	140	50%
Divorced	10	3.6%
Widowed	11	3.9%
Total	280	100%

Source: (Own Data, 2018)

#### **4.2.2 Respondents' Family Background**

Ranwala(2016 ) argue that Family occupational background with entrepreneurial or Small business experience is a more reliable and agreeable basis of support in managerial competency and entrepreneurial orientation of the youth than families without entrepreneurial background. Respondent's family occupations might have included business men, civil servants, agrarians, civil servants and business men. In this regard, business operators in the study sites were asked about their family's occupations in order to establish whether it was related to their current business activities.

**Figure 2: Respondents family Background**



Source: (Own Data, 2018)

As indicated in Figure 2 above, the majority (143 or 51%) of the Respondents family backgrounds were agrarian, followed by 90 (32%) whose parents were businesspersons and 44 (16%) whose families were civil servants by occupation. Although, family occupation background was the prominent issue that nurtures the attitude towards entrepreneurship (Prabhakar, 2016). However, the implication of the finding shows that majority of the respondents in the study lacked the relevant and practical experience that can be gained from an entrepreneurial family. Hence concerned bodies should identify the shortcomings of Micro and Small Enterprises and build their capacity.

### **4.3 Business and occupation**

#### **4.3.1 Respondents occupation before joining MSEs**

Generally, Micro and small enterprise owners/managers with prior relevant experience expected to have better business success than that of owners/managers without prior relevant experience. Belay (2012) claim that related work experience gives a person the required skills necessary for starting and running the same activity efficiently. However Existing literature on the influence of prior experience on the performance of new business enterprises has found mixed results

Toohey(2009:pp.20).The study conducted by Chiliya and Roberts-Lombard (2012:pp.468)andChiliya, N. and Roberts-Lombard, M. (2012).found a positive link between prior experience and performance of new business. This implies that new business owners can benefit from prior experience.

Similarly the findings the study conducted by Julius (2016) showed that there was definite and positive relationship between previous work/business experience and business success, meaning it was very important for the success of MSMEs. wolde and Geta (2015) also argue that prior related business oriented experience provides a person the required technical skill necessary to start and run the business efficiently, in contrast to those without any prior experience. This study claims that business owners can benefit from prior experience in such a way that they focus on the strengths and build new business based on the skills that they have possess. The survey result presented in Table 3, revealed that there were only 10% MSEs owners/managers had relevant previous occupations. Majority of business operators (47%) were students before starting their current business followed by (40%) were unemployed and 2%, 1% falls under, daily wage laborer and Government employee respectively. This reviles that the role of MSEs in solving unemployment problem is remarkable other than they lack relevant experience.

**Table: 3 Respondents occupation before Joining MSEs**

Respondents previous occupation	Freq.	Percentage
Unemployed	112	40
Student	131	47
Daily wage laborer	6	2
Involved in same business	28	10
Government employee	3	1
Total	280	100

Source: (Own Data, 2018)

### 4.3.2 Source of Respondents Skill for running current business

Nassazi(2013:21) states that “the main purpose of training is to acquire and improve knowledge, skills and attitudes towards work related tasks. It is one of the most important potential motivators which can lead to both short-term and long-term benefits for individuals and organizations”. Respondents were asked to capture information regarding the sources skill for running current business development activities and summarized in table 4. Accordingly 45% of Micro and Small Enterprises Operators have replied that the skill to run the current business is obtained through self effort. Whereas 16% and 6% of the operators replied their skill is obtained through on job training and formal training .This reveals that there is a gap in Provision of business support training for Micro and Small Enterprise operators to have the right skills and experience.

**Table: 4. Sources skill for running current business**

No	Description	frequency	%
1	previous experience	28	10
2	self-effort	132	47
3	Family	56	20
4	On job training after joining MSEs	41	15
5	Formal training	23	8
Total		280	100

Source: (Own Data, 2018)

## 4.4 Enterprise characteristics

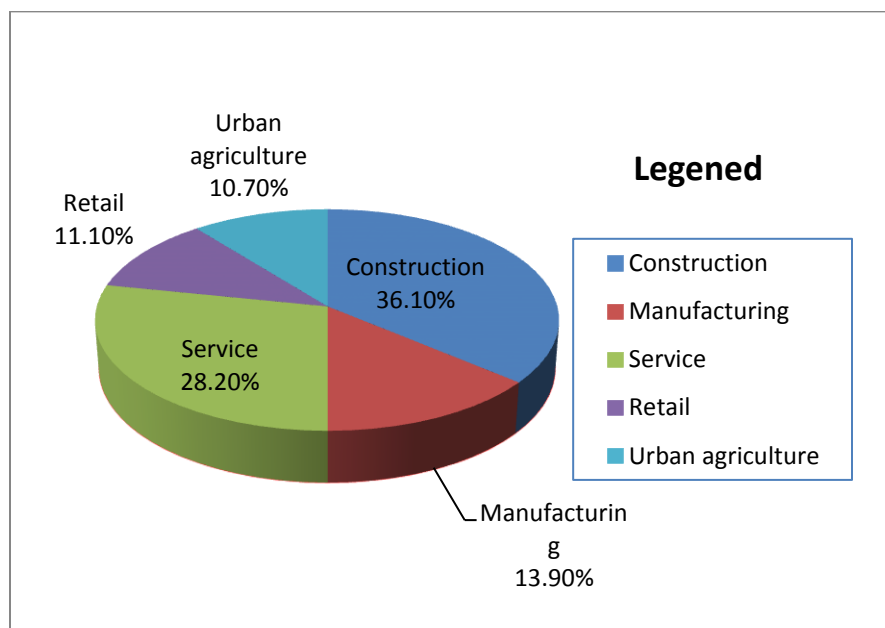
### 4.4.1 Sector distribution of Respondents in Micro and Small Enterprises

There are five types sectors in which respondents were engaged in the study town. Namely: trade, service, manufacturing, urban agriculture and construction.

As shown below in figure 4, the majority 36.1% of the respondents worked in the construction sector such as cobble stone paving, construction material production and contractors followed by service (28.2%) of the respondents were engaged. These activities include catering of tea and

coffee, barber, tailoring, internet cafes and décor, meal. 13.9% of the respondents were engaged in manufacturing, including woodwork, metalwork, agro processing. In addition, 11.7% of the respondents were engaged in urban agriculture, including livestock fattening, poultry and dairy farming, while 11.1% worked in the retail sector. The study found that the proportion of respondents who were engaged in the construction (36.1%) and service sector (28.2%) was higher compared to the number of those engaged in other sectors. Therefore, this implies that relatively there is a pull factor for operators to engage in construction and service sector while the other was found to be a less significant in attracting enterprise owners to engage in. This finding contradicts with an earlier finding by Mesfin (2015), on the study of “Challenges and Prospects of Small Enterprises in Ethiopia: A Study of Entrepreneurs in Tigray Region” found out that majority of MSEs were engaged in trading. This finding also contradicts with an earlier findings by Alemu (2015) in his study of “The Challenges of Financing Growth Oriented Micro and Small Enterprises: The Case of Hawassa City MSEs, Ethiopia” he established that majority of MSEs owners/operators engaged service sector. This finding further disagree with the findings of Tarfasa, et al. (2016) in which they established that majority of MSEs owners/operators engaged trade sector.

**Fig. 3: Sector distribution Respondents in micro and small scale Enterprises**



Source: (Own Data, 2018)

#### 4.4.2 Age of business

The survey result indicated in table 5 shows that the majority (154 or 55 %) of the respondents had operated their businesses for a period of not more than two years while those who had been in operation for more than five years numbered only 14(5 %). This indicates there was an increasing trend of participation in MSEs business in the town under study.

**Table 5: Age of Small Enterprises**

Year of establishments	Age of MSEs in year	frequency	Percentages
2017	1	84	30
2016	2	70	25
2015	3	52	18.6
2014	4	31	11.1
2013	5	29	10.3
2012	6	8	3
2011	7	6	2

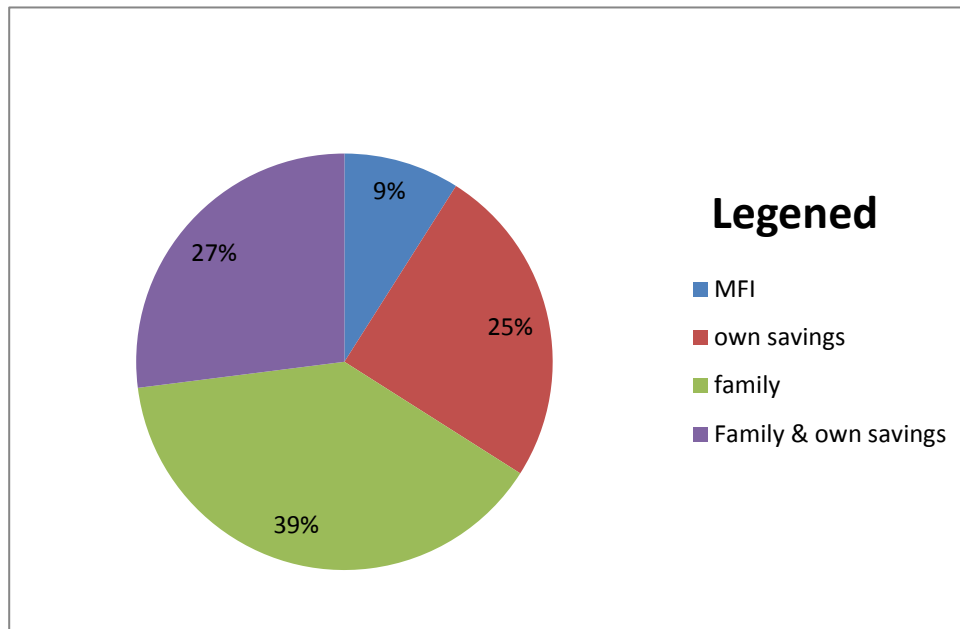
Source: (Own Data, 2018)

#### 4.5 Challenges of micro and Small Enterprises

##### 4.5.1 Source of Start-up Capital and (or) expansion to MSEs

No one can start a business or run a business without adequate funds. Every business requires some money to start, which is called initial capital. The amount of capital required depends upon the nature and size of business. Finance required for business activities may consist of owner's contribution and borrowings from different sources. However, individuals and their relatives are assumed to be the main source of financing. Consequently, functionality and productivity of these enterprises are constrained due to an adequate financial source (Nuriye, 2014). In order to capture information regarding sources of finance, respondents were asked whether they had received credit from a given list of sources of finance, such as Micro Finance Institutions, Banks, own savings or other sources.

**Figure4: Source of Start-up Capital**



Source: (Own Data, 2018)

From figure 6 above, it could be seen that majority 109 (39%) of the respondents depended on their family for their initial capital or source of finance at startup of the enterprises. 76 (27%) obtained their initial capital from family and own savings and 70 (25%) of respondents used own savings as sources. Only 25 (9%) obtained loans from Micro Finance Institutions. These findings are similar to Seyoum (2015: 136–139), who argue that firms in developing countries use their own savings, complemented by borrowing from friends and family to operate their businesses. The conclusion drawn from this was that Micro and Small Enterprises in Worabe town obtained their initial capital majorly from informal sources. This means that the respondents chose to get their start-up capital from sources that didn't have strict requirements such as collateral security and high repayment cost. This finding is also agreed with those of Kebede & Simesh (2015) in their study of "The Impact of Environmental Factors on the Performance of Micro & Small Enterprises in East Gojjam Zone, Ethiopia" in which they found out that most of the enterprises obtain their initial capital from sources that attract little or no interest rates which include personal savings, family members and friends, traditional sources. This finding further affirms the finding by Tadesse (2014: pp. 39) in a study of "Access to Finance for Micro and Small Enterprises in Debre Markos Town" that most MSE owners use their own

savings complementary to other sources rather than using formal financial institutions. More over the findings Mulugeta (2014) in his study of “Assessing the factors affecting the performance of Micro and Small Enterprises the case of Yeka sub-city, Addis Ababa” that major sources of finance for MSEs in Yeka Sub city find out that informal sources of finance for SMEs was significant. He states that the reason for emphasizing on informal source was that the requirement of collateral is relatively easier since such sources usually take place among parties with intimate relationship and trust of each other.

Several studies also had similar findings with the findings of this study on sources finance for MSEs. For example Wolde and Geta(2015:pp.69),and Demeke(2016);Alemu (2015); Gebreeyesus ( 2007) point out that initial financing for small businesses comes mostly from personal savings

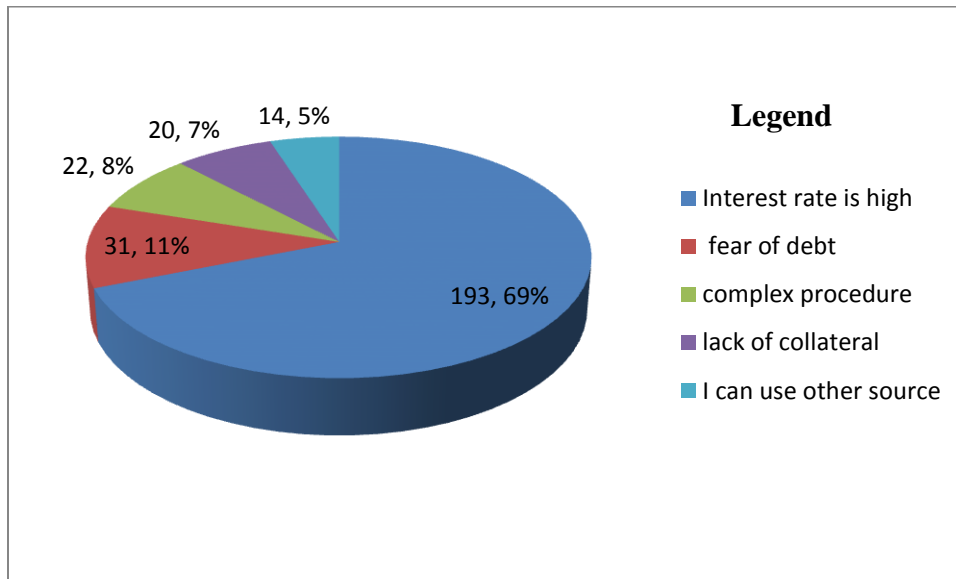
#### **4.5.2 Respondents reasons for not requesting credit from formal financial institutions**

The survey result in Figure.7 shows that Interest rate was the most frequently mentioned factors that deterred Micro and Small Enterprises borrowers (193 respondents or 69%) from the credit services of financial institutions (particularly from Micro Finance). Other reasons that prevented respondents from borrowing were fear of debt, complex procedure, and lack of collateral (31 respondents or 11%, 22 respondents or 8% and 20 respondents 5% respectively). Although, debt financing is useful for small business in that it will strengthen the businesses in producing more and to become financially strong to compete with medium and large businesses Zeru, F.(2010).

Generally, high interest rate and fear of debt were the most pressing problems when compared to other constraints. This implies that the respondents' prefer to get financing from non-banking institutions where the terms are more lenient. This finding is the same with some of previous findings of Wolde and Geta(2015) in his study of “Determinants of Growth and Diversification of Micro and Small Enterprises : The Case of Dire Dawa” found that complex procedure; Inadequacy of loan amount and lack of collateral were most frequently mentioned reasons. This result disagree with earlier finding by Mesfin (2015) that group requirements is the first most common factor (by 35.7% %) that hinders MSEs from accessing loans from financial institutions

particularly MFs followed by complex borrowing procedures (20%).The result is also contradicts with that of earlier findings of Kenneth(2012)in his study of the “Factors influencing performance of youth group Micro and Small Enterprises in Kisumu west district, Kisumu county” in which he found out that lack of collateral, small equity base were the most mentioned challenge.

**Figure5: Reasons for not request for credit from formal financial institutions**



Source: (Own Data, 2018)

### 4.5.3 Major challenges during operation of MSEs in Worabe town

According to the survey results indicated in the table 7, during start up the business the major bottle neck problems were finance related problems (25%), lack of market for products (23%) and lack of working place (16%). Others, like high collateral requirement, cost of raw material, infrastructure problems and lack of skill were among the mentioned problems of Micro and Small Enterprises operators in the town under study.

Besides, the result of key informants’ interview showed that lack of working premises, lack of capital, market problems, infrastructure problems ,high interest rate of credits by financial institutions were major challenges of MSEs during operation. In addition one of the interviewee said that “lack of model business plan in one stop service and lack creating awareness was one of

the factors for a number of MSEs who were selecting business options based on a presumption of market need, without doing any feasibility study”

This findings affirms Some of the findings by Getahun(2016) in a study of “The Challenge and Prospects of Small Enterprise in Ethiopia: A Survey of Some Selected Small Enterprise in Addis Ababa City ” in which he established that major problem areas facing the operators of small scale business in Ethiopian in the following order of their descending intensity: Inadequate credit assistance, problem of skilled man power, infrastructural problems, inadequate managerial skill, multiple tax and Levis, lack of access modern technology, policy inconsistency and government bureaucracy, marketing factors and politic-legal factors. The finding is also in agreement with those of Haile et.al,(2014)in their study of the “External Factors Affecting the Growth of Micro and Small Enterprises (MSEs) in Ethiopia: A Case Study in Shire Indasselassie Town, Tigray” in which they found out that Access to working premise, access to credit and access to infrastructure are found significant in determining the probability of MSEs growth from external factors. This finding further affirms an earlier finding by Engida,et al,(2017) in a study of “The major bottlenecks of micro and small enterprises’ growth in Ethiopia: An econometric analysis” that MSEs face enormous challenges. Among those accesses to finance (start up and working capital), access to the market and lack of working premises were the major constraints hampering enterprise growth. A number of previous studies also had findings that concur with the findings of this study on critical challenges. For example, W/Aregay (2016) in a study of “Factors Affecting the Performance of Micro and Small Enterprises in kirkos Sub- city, Addis Ababa, Ethiopia”found out that Lack of Finance, working premises and lack of access to market, pose challenge to MSEs while Kebede (2015) attributed constraints such as financial constraints, lack of market access, lack of training and advisory services access to infrastructure, computer related services, access to production inputs, skilled personnel.

**Table 6: Major challenges MSEs during operation in WorabeTown.**

No	Major challenges of MSEs during start-up	Frequency	Percentages
1	Cost of raw material	31	11 %
2	Finance related problems	70	25 %
3	Lack of working place	45	16 %
4	Lack of marketlinkages	64	23 %
5	Lack skill	28	10 %
6	high collateral requirement	25	9 %
7	Absence of power	17	6 %
Total		280	100%

Source: (Own Data, 2018)

### **4.5.3.1 Test of Hypothesis**

The chi-square, denoted by the Greek letter  $X^2$  is often utilized in hypothesis testing when the difference between a set of expected or theoretical frequencies are concerned.  $X^2$  is denoted by the formula:  $X^2 = \sum \frac{(O - E)^2}{E}$ , where O= observed frequency and E=expected frequency

For the purpose of accuracy, the contingency tables which are crossed classified tables that depicts observed frequencies of a sample when there are r numbers of rows and c columns in the table was used. Computations of Respondent's frequencies are made using probability rules and the sum of expected frequencies. In this analysis, 5% or 0.05 is used as level of significance while the degree of freedom (df) given as  $(r - 1) (c - 1)$  was utilized to determine the critical value under the significant level.

#### **Decision Rule**

For the fact that we are testing the null hypothesis, if the computed  $X^2$  value is greater than the critical value under the level of significance., we reject the hypothesis otherwise we accept it.

**Hypothesis One H0:** Challenges of owners/managers for micro enterprises and small enterprises may not the same while running business in Worabe town.

**H1:** Challenges of owners/managers for micro enterprises and small enterprises are same while running business in Worabe town.

**Table 7: Scale of Operation \* major Challenges faced by MSEs owners/managers during running the business in Worabe town**

		Major Challenges faced by MSEs owners/managers during running the business							Total
		Cost of raw material	Finance related problems	Lack of working place	Lack of market linkages	Lack skill	high collateral requirement	Absence of power	
Scale of operation	Micro enterprise	29	60	45	48	28	25	15	250
	Small enterprise	2	10	0	16	0	0	2	30
Total		31	70	45	64	28	25	17	280

Source: (Own Data, 2018)

Computation of Expected frequency for a cell= (column total of a cell) \*(raw total of a cell) ÷ (grand total)

Using the formulae  $\chi^2 = \sum \frac{[O - E]^2}{E}$  we then calculate as follows

E

**Table 8 Computation of the chi-square**

Variable	Respondent	f <sub>o</sub>	f <sub>e</sub>	f <sub>o</sub> - f <sub>e</sub>	(f <sub>o</sub> - f <sub>e</sub> ) <sup>2</sup>	$\frac{(f_o - f_e)^2}{f_e}$
Cost of raw material	Micro enterprises	29	27.68	1.32	1.7424	0.0629
	Small enterprises	2	3.32	-1.32	1.7424	0.0629
Finance related problems	Micro enterprises	60	62.5	-2.5	6.25	0.1
	Small enterprises	10	7.5	2.5	6.26	0.1
Lack of working place	Micro enterprises	45	40.2	4.8	23.04	0.5731
	Small enterprises	0	4.8	-4.8	23.04	4.8
Lack of market linkages	Micro enterprises	48	57.14	-9.14	83.53	1.4618
	Small enterprises	16	6.86	9.14	83.53	12.1777
Lack skill	Micro enterprises	28	25	3	9	1.8
	Small enterprises	0	3	-3	9	3
high collateral requirement	Micro enterprises	25	22.3	2.7	7.29	0.3269
	Small enterprises	0	2.7	-2.7	7.29	2.7
Absence of power	Micro enterprises	15	15.18	-0.18	0.0324	0.002
	Small enterprises	2	1.82	1.82	0.0324	0.018
Total						17.1874

$$df=(R-1)(c-1)=(2-1)(7-1)=6 \Rightarrow 12.592$$

**Table 9: Chi-Square Table.**

<b>df</b>	<b>0.995</b>	<b>0.99</b>	<b>0.975</b>	<b>0.95</b>	<b>0.90</b>	<b>0.10</b>	<b>0.05</b>	<b>0.025</b>	<b>0.01</b>	<b>0.005</b>
<b>1</b>	---	---	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
<b>2</b>	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
<b>3</b>	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
<b>4</b>	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
<b>5</b>	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
<b>6</b>	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
<b>7</b>	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
<b>8</b>	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
<b>9</b>	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589

Checking the chi-square of  $df = 6$  under the level of significance of 0.05, we will get the critical part to be 12.592.

**Decision**

The calculated value was 17.1874. Therefore our critical value of 12.592 is less than our calculated value of 17.1874. We therefore reject the null-hypothesis at 5% level of significance which says that while running business, Challenges of owners/managers for micro enterprises and small enterprises may not be the same in Worabe town and accept the alternative hypothesis which states that while running business, Challenges of owners/managers for micro enterprises and small enterprises are the same in Worabe town.

**4.5.4 Current Major Challenges of MSEs in Worabe town**

Concerning supports for MSEs according to Officials of town administration, government particularly the local government facilitates the following: provide financial support through Micro Finance Institutions; create market linkages through government development projects; provide training based on their skill gap and facilitate working and selling premises. However as indicated in the table 8, below majority of sampled respondents replied that lack of capital (28%), lack of working place (24%) and lack of market for products (17%) were still the major problems for their enterprise growth. Others cost of raw material, Lack skill, absence of power, high collateral requirement were among the stated problems. Moreover, the result of survey from key informants confirms the findings of sampled respondents in the study town. Besides conflict

among members because of lack of clear record keeping, lack of training for operators, lack of continuous consultancy and business advice were among mentioned challenges during operation.

This finding is consistent with previous findings of Wakuma & Temesgen (2016), in their study of “Analysis of Growth Determinants of Micro and Small Enterprises in Urban Areas of West Shoa, Oromia Regional State, Ethiopia ” found out that lack of market, financial problems and working place are sever challenges that hinders MSEs growth. This finding also occurs in the findings of Kusi, Narh & Tettey (2015) on the study of “Exploring the Factors That Hinder the Growth and Survival of Small Businesses in Ghana ( A Case Study of Small Businesses within Kumasi Metropolitan Area ) ” they noted that marketing problem, Working capital problem and lack of training were key challenges of Micro and Small Enterprises. This finding further occurs in early findings by Lemma (2017) in his study of “Challenges Facing Women Micro and Small Business Enterprise Owners in Jimma Town” found out that lack of Access to technology, lack of business premises, infrastructure related problems, shortage of raw material, lack of market and access to finance were major problems.

**Table: 10 Current Major Challenges of MSEs**

No.	Description	Frequency	%
1	Lack of capital	78	28
2	Cost of raw material	45	16
3	Lack of working place	67	24
4	Lack skill	17	6
5	Lack of market linkages	48	17
6	Absence of power	25	9
Total		280	100

Source: (Own Data, 2018)

#### 4.5.4.1 Test of Hypothesis

**Hypothesis Two H<sub>0</sub>:** Challenges of owners/managers for micro enterprises and small enterprises may not be the same in Worabe town currently.

**H<sub>1</sub>:** Challenges of owners/managers for micro enterprises and small enterprises are the same in Worabe town currently

**Table 11: Scale of Operation \* major Challenges of MSEs owners/managers in Worabe town currently.**

		Major Challenges faced by MSEs owner/managers in Worabe town currently						Total
		Lack of capital	Cost of raw material	Lack of working place	Lack skill	Lack of market linkages	Absence of power	
Scale of operation	Micro enterprise	78	31	62	17	37	25	250
	Small enterprise	0	14	5	0	11	0	30
Total		78	45	67	17	48	25	280

Source: (Own Data, 2018)

Using the formulae  $\chi^2 = \sum \frac{[O - E]^2}{E}$  we then calculate as follows

**Table 12 Computation of the chi-square**

Variable	Respondent	$f_o$	$f_e$	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
Lack of capital	Micro enterprises	78	70	8	64	0.9142
	Small enterprises	0	8	-8	64	8
Cost of raw material	Micro enterprises	31	40	-9	81	2.025
	Small enterprises	14	5	9	81	16.2
Lack of working place	Micro enterprises	62	60	2	4	0.0666
	Small enterprises	5	7	-2	4	0.5714
Lack skill	Micro enterprises	17	15	2	4	0.2666
	Small enterprises	0	2	-2	4	2
Lack of market linkages	Micro enterprises	37	43	-6	36	0.8372
	Small enterprises	11	5	6	36	7.2
Absence of power	Micro enterprises	25	22	3	9	0.4090
	Small enterprises	0	3	-3	9	3
Total						41.49

$$df=(r-1)(c-1)=(2-1)(6-1)=5 \Rightarrow 11.070$$

Checking the chi-square of  $df = 5$  under the level of significance of 0.05, we will get the critical part to be 11.070.

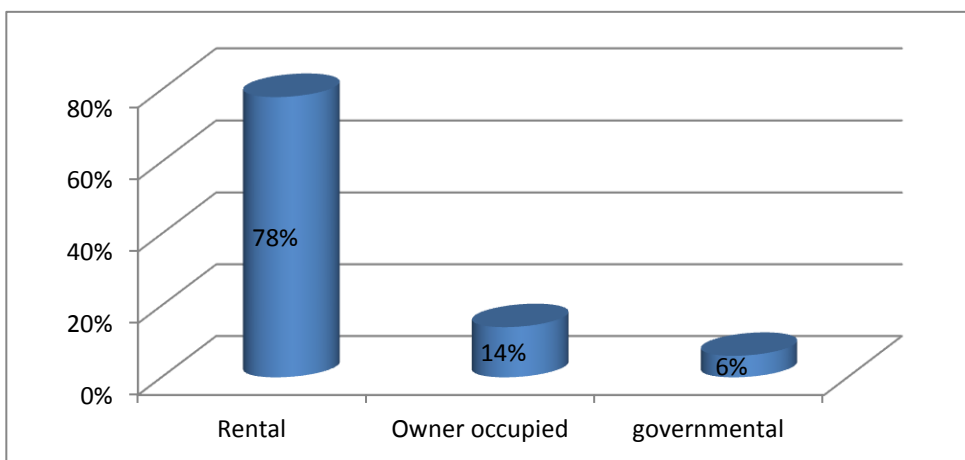
### Decision

The calculated value was 41.49. Therefore our critical value of 11.070 is less than our calculated value of 41.49. we therefore reject the null-hypothesis at 5% level of significance which says that Challenges of owners/managers for micro enterprises and small enterprises may not the same in Worabe town currently and accept the alternative hypothesis which says that Challenges of owners/managers for micro enterprises and small enterprises are same in Worabe town currently.

### 4.5.5 Ownership of premises

The working place is one of the main components that are needed for a successful and sustainable growth of Enterprises because it is essential in creating access to resources and the necessary markets. lack of premise is unquestionably a serious problem for MSEs operators .As indicated in figure 8, majority of MSEs (78%) do not have their own working premises that is their working premises are rented from private owners. Only 14% of the respondents work in their own premises. While 6% respondents replied that their premises were rented from the government. This shows the need for solution regarding working premises by concerned body. This result occurs with an earlier finding of Getahun (2016) in which he found out that working premise was among the major challenges stated by Micro and Small Enterprise owners

**Figure 6: Ownership of premises for MSEs**



Source: (Own Data, 2018)

During the field survey, problems related to power supply for business premises and other related challenges were observed. Accordingly most government owned working premises were lack of basic services like power supply and water. These problems hinder Micro and Small Enterprises to do their business at full capacity.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter deals with conclusions and recommendations. The findings of this study have important implications for interventions designed to enhance the start up, growth of MSEs by concerned bodies.

#### 5.2 Conclusion

The aim of this study was to investigate the key challenges faced by MSEs in Worabe town, Silte zone of SNNP Regional State of Ethiopia. An extensive literature review on the challenges faced by MSEs was done. From the survey results, it can be concluded that MSEs face a lot of challenges in the business world and these challenges limit the development and growth of their business enterprises in Worabe town.

#### 5.3 Recommendations

On the basis of the major findings of the study, the following recommendations are forwarded with the view to strengthen the contributions of MSEs in the study area.

- The municipality should strive to do everything possible to improve the business environment in which MSEs operate through improved infrastructure such as an electrical power supply, water, shade (buildings) and roads that are necessary and basic to the effective performance of Micro and Small Enterprise in Worabe town. This is achieved through coordination of responsible sectors.
- To tackle marketing linkage challenges there should be a multi-dimensional and concerted effort by the local governments and Micro and Small enterprise owners/managers in such a way that instead of hanging around government market linkages the Micro and Small enterprise owners/managers should work more to be competitive enhance market linkages.
- The government should reduce the tax rate for MSEs to zero percent (0%) within their first three years of life.

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# APPENDIXES

## SURVEY QUESTIONNAIRE

Dear respondents: I would like to inform you that this questionnaire is designed to collect primary data to produce a research thesis on; challenges and prospects of Micro and Small Scale Enterprises (MSEs) in Worabe town. Hence providing genuine information will help to identify key challenges and prospects of micro and small scale enterprises. Any response you provide will be used exclusively for the research purpose only.

The result of the investigation will benefit policy makers, entrepreneur, MSEs product users and other stakeholders who wish to support MSE development by providing important information on the existing situations. Your contribution for this study is very important I am very grateful for your cooperation.

Instruction: Answer the questions below by putting “x” and filling your opinion in the space provided

### Part 1 Socio-demographic Characteristics of respondents

<p>1. sex</p> <p>2. What is your age?</p> <p>a) 18-24 years      c) 31-35 years</p> <p>b) 25-30 years    d) 36-64 years</p> <hr/>	<p>3. Education level</p> <p>a) Uneducated</p> <p>b) 1- 4-----</p> <p>c) 5-8 -----</p> <p>d) 9-10-----</p> <p>e) Diploma -----</p> <p>g) First degree and above</p>
<p>4. Marital status</p> <p>a. Married b. Unmarried c. Divorced</p> <p>d. Other (Specify) _____</p> <hr/>	<p>5. Family background (you can give multiple answers)</p> <p>a. Business men -----</p> <p>b. agrarian</p> <p>c. Civil servants-----</p> <p>d. Other (specify)-----</p>

Part 2 .Business and occupation

<p>6.What was your engagement before you started this business? a) Unemployed -----                  b) daily laborer ----- c)student -----                  d) Involved in same business -----                  e) Government employee f) others, please specify</p>	<p>7. Where do you obtain the skills that are necessary to operate your business? (you can give multiple answers)                  a) From my previous experience -----                  b) Sharing from family                  c) short term On job training -----                  d) Formal training-----                  e. self-effort</p>
<p>8. Does your enterprise have a business plan?                  1. Yes                      2. No</p>	

Part 3 Enterprise characteristics

<p>9. What the type of business sector you are engaged in?                  a) Service----                  b) Manufacturing -----                  c) Industry ----                  d) Retailing-----                  e) Construction -----</p>	<p>10. When was your business established?</p>
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11. Indicate the number of employee at the beginning for your enterprise operation?

Part 4 Challenges and Prospects of micro and Small Scale Enterprises

<p>12. What is your source of credit to running your business?                  A. Bank .....                  B. MFIs .....                  C. Own saving.....                  D. Other sources (specify) .....</p>	<p>13. If you did not request for credit, what are your reasons?                  A. I don't need credit.....                  B. The interest rate is high.....                  C. The procedure is complex.....                  D. I do not have collateral.....                  E. The loan amount is inadequate.....                  F. I fear debt .....</p>
<p>14.What are the major challenges faced by our business at start-up and operation?                  a) Finance related problems ---                  b) Government rule---                  c) Lack of information--                  d) High collateral requirement---                  e) Cost of raw material-----                  f) Lack of skill----                  g) Getting license require long time-----</p>	<p>15. What are the current major impeding challenges for the growth and expansion of the firm?                  a) Lack of capital -----                  b) Government rule-----                  c) No access to credit facility-----                  d) Lack of information-----                  e) Cost of raw material-----                  f) Lack of skill----                  g) Getting license require long time-----</p>

<p>h) Lack of working place-----  I) Lack of market linkages---  J) No problem—  K) Other specify (Specify) ----</p>	<p>h) Lack of working place-----  I) Lack of market linkages-----  j) No problem -----  K) Other (specify) -----</p>
<p>16. Indicate the type of premisethat you  of operating your business currently?  a) Rental house -----  b) Government house -----  c) Others specify .....</p>	

Part 5 Interview Guides

Interview guides to be answered by officials and experts working municipality MSE offices

Dear respondents: I would like to inform you that this questionnaire is designed to collect primary data to produce a research thesis on; challenges and prospects of Micro and Small Scale Enterprises (MSEs) in worabe town. Hence providing genuine information will help to identify challenges and prospects of micro and small scale enterprises. Any response you provide will be used exclusively for the research purpose only. The result of the investigation will benefit policy makers, entrepreneur, MSEsproduct users and other stakeholders who wish to support MSE development by providing important information on the existing situations.

Your contribution for this study is very important I amvery grateful for your cooperation

Answer the following questions by filling your opinion accordingly

1. Does MSEs operation in the town expanded in the last 5 years? If so why? If not, why?

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2. What are the challenges you faced during establishment of MSEs in Worabe town?

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3. What challenges are identified during the operation of MSEs in Worabe town?

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4. What supports are given to SMEs in the town?

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5. How can policy support unleash the prospects & solve the challenges of MSEs in Worabe town?

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6. What is your overall opinion regarding the performance of MSEs in Worabe town?

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