

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

ASSESSING PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN
OROMIA REGIONAL STATE

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ADDIS ABABA

DECLARATION

I the undersigned, declare that this thesis is my own work and has never been presented in any other university. All sources of materials used for this thesis have been duly acknowledged.

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Advisor's Approval

This thesis has been submitted for examination with my approval as a university advisor.

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Certification
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This is to certify that the thesis prepared by Alemu Hawando Girmesso entitled "CHALLENGES AND PROSPECTS OF MICRO AND SMALL ENTERPRISES IN OROMIA REGIONAL STATE" business management in finance complies with the regulation of the university and meets the accepted standards with respect to originality and quality.

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DEDICATION

With much pleasure, gratitude and honor, I dedicated this thesis to my beloved Tigist Ayalew, Ruhama, Yeshkolwoyin and Recab for their unconditional love and patience during my absence.

Abstract

This research aimed at assessing the performance of MSEs met merits special consideration of development of small scale Enterprises. It tried to answer three important questions: What are the major internal and external challenges, opportunities and prospects in development of Small Scale to medium scale enterprise? What are the key strategies used to develop MSEs and to solve the challenges faced by the SMEs transitional development of Small Scale to medium scale enterprise? Do all MSEs actors in government sectors play their role according to the MSEs strategy? With the above objectives in mind, data were gathered through Questionnaire, Review of both published and unpublished materials. The information gleaned through questionnaire from a sample of 352 operators in Oromia region of the selected zones and woredas. Eventually, using a mix of qualitative and quantitative tools, the study found out major challenges, which seem to affect development of small scale Enterprises in Oromia regional state that include: implementation problems related to government bodies at each level, inadequate finance. For the above challenges, better the Oromia regional government bodies provide affordable alternative sources of finance and strengthen it's institutions at different levels, to play a major role in positively influencing the development of MSEs. Hence, there is a need for strengthening the MSEs growth, based on findings, recommendations to government bodies, to operators of MSEs and suggestions for other researchers are forwarded.

KEY WORDS: MSEs, Entrepreneurs, Performance, challenges, Prospects

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Acronyms and Abbreviations

CLEP	Commission on Legal Empowerment of the Poor
CSA	Central Statistical Authority
FeMSEDA	Federal Micro and Small Enterprises Development Agency
FGD	Focal Group Discussion
GDP	Gross Domestic Product
KMs	Kilo Meter
MOTI	Ministry of Trade and Industry
MSME	Micro Small and Medium Enterprise
NGO	Non-Governmental Organizations
OCSA	Oromia Credit and Saving Association
OMSEA	Oromia Micro and Small Enterprise Agency
MSSE	Micro and Small Scale Enterprise
SPSS	Statistical Package for Social Science
SSMCs	Small Scale Manufacturing Cooperatives

CHAPTER ONE; Introduction

1.1. Background of the Study

Micro, Small and Medium Enterprises (MSMEs) are viewed as a key driver of economic and social development in all over the world. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness. They are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Pelham, 2010). Micro and small scale enterprises (MSEs). Apart from the fact that it contributes to the increase in per capital income and output, it also creates employment opportunities, encourage the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization that are considered to be critical in the area of engineering economic development (Oboh,2004). They are also believed to be a catalyst in the socio-economic development of any country. They are a veritable vehicle for the achievement of national macroeconomic objective in term of employment generation at low investment cost (Odeh, 2005)

Ongori (2010) earmark MSE as the cornerstones of both developed and developing economies. Hunguin and Morrison (2007) also stated the government's view MSEs as major source of employment; economic growth and wealth. They are the catalysts for the development of a nation through contribution to the industrial sector.

According to (Oboh,2004 and Odeh,2005), the catalytic roles of micro and small businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia and India. They contribute substantially to their gross Domestic Production (GDP) export earnings, employment opportunities, linkage development to large industries and essential for a competitive and efficient market. For a large number of unemployed populations in developing countries, productive MSEs offer not only an opportunity to build sustainable livelihoods, but also a chance for integrating themselves into society. For instance in Ethiopia, MSEs support the rural economy in providing income generating activities thus increasing the rate of growth of real per capital income, income distribution and improve economic stability.

The government of Ethiopia developed a National Micro and Small Enterprise Strategy in 1996/97. However, the duty has been given significant emphasis since 2004/2005. In line with this, the government has decided to establish MSEs coordinating body at regional level. Hence, MSEs Development Agencies are set up in all regions so that it can play a great role in alleviating poverty & reducing unemployment, helping out the sector to play pivotal role as a base to medium and large scale industry (Ajeba & Ameha, 2004).

In light of this, the Oromia regional government officially established Micro and Small Enterprises Development Agency by regulation number 13/1998. The agency aimed at creating more employments and quality of jobs; increase returns on investment in social security; secure increased standards of life and to bring sustainable economic growth in the region. In addition, the sector serves in promoting the development of women, youth and others to be an important driver of economic development through fostering growth, technology adoption and innovation for poverty reduction (Commission on Legal Empowerment of the Poor, 2006).

1.2.Statement of the Problem

Micro, Small and Medium Scale Enterprises contributes a colossal percentage to Gross Domestic product (GDP) in ensuring economic growth, employment, income stability and poverty reduction in most developing countries (Adjei, 2012). Hence states give massive assistance; financial, technical, marketing and managerial supports necessary for the MSEs to grow (Hailay, 2003). In countries like Ethiopia, MSEs are aimed at benefiting the population, with the objective of enabling them to be self- employed investors who can serve as a base for industrial sector development (OMSSEA, 2011).

Accordingly, the Regional Government of Oromia is doing all its best efforts to promote the development of MSEs through increased incentive schemes including enhanced budgetary allocation for technical assistance programs (Commission on Legal Empowerment of the poor, 2006). In addition, awareness creation schemes, development of implementation manuals and continuous capacity building efforts have been extensively made so as to realize the success of the MSE Development. Currently 2, 451, 479 entrepreneurs were registered in 229,243 MSEs in Oromia Regional State. However, despite the fact that these people are expected to get the

necessary technical, financial and managerial support, they have not performed creditably well and they have not played the expected role in contributing to the regional economic growth (Oromia MSE Development Agency 2nd Quarter report, 2014).

Regardless of the efforts made at ensuring the successful implementation of the MSE strategy, they couldn't bring the intended result. According to Regional MSE Agency annual report (2013), Micro and small scale enterprises (MSEs) in the region have not performed well and they have not played expected role in economic growth. This situation has been of great concern to the government, citizen, operators, practitioners and organized private sectors. Hence, this study is aimed at assessing the challenges that impede the development of the sector and future prospects of MSEs in Oromia Regional State.

With the realization of the potentials of the MSEs, governments at different level in Oromia have put up a lot of support programs to promote and sustain their development. It is believed that massive assistance; financial, technical, marketing and managerial from the government are necessary for the MSEs to grow. The Oromia Regional Government has stepped up efforts to promote the development of MSEs through increased incentive schemes including enhanced budgetary allocation for technical assistance programs (Commission on Legal Empowerment of the Poor, 2006: P5). Yet, the micro and small enterprises in the region do not perform as expected.

As indicated above, regardless of the big mandate that rested on the MSEs' Sector, the successes registered so far were problematic. The fruit gained from the sector is below the expectation of the region. The research conducted on this sector, though many are scattered and are not capable of covering the whole region, focus on scaling up the best practices of successful MSEs.

The study therefore set out to assessing the performance of Micro and small enterprises in Oromia regional state as a survey.

1.3. Objectives of the Study

1.3.1. General Objective

The overall objective of this study is to assess the performance of Micro and Small Scale Enterprises in Oromia Regional State

1.3.2. Specific Objectives

The specific objectives of this research include;

- To assess the current status of Micro and Small enterprises in the Region;
- To scrutinize the challenges facing Micro and Small enterprises during entry and operation;
- To analyze the existing opportunities for Micro and Small enterprises development in the region;

1.4. Research Questions

The study attempts to address the following basic research questions:

- What is the current status of MSEs in Oromia Region?
- What are the key challenges facing MSEs during entry and operation in Oromia Regional state?
- What are the currently existing opportunities for MSEs development in the region?

1.5. Significance of the Study

This research is expected to contribute in identifying the major challenges that are hindering the development of MSEs in Oromia Regional State. While doing this, it's believed that the findings of the study will show the area that needs to be given special emphasis so as to improve the performance of the sector. This will help the population involved in MSE Sector, the private Investors, the financial institutions and other stakeholders to play their role in supporting the development of the sector. In addition this research will help the policy makers for future consumption and academicians as a base for further study.

1.6. Scope of the Study

This study is delimited to studying the assessment of performance of MSEs in rural and urban areas of Oromia Regional State. It's targeted at those sectors which are expected to play a significant role in the MSEs sector development in the region. It is delimited to the key economic, socio-cultural, and legal/administrative factors affecting the performance of MSEs. It focuses only on assessing the major personal and organizational characteristics of entrepreneurs

in MSEs to check whether these characteristics affect their performance. It confined to 5 key MSE sectors; Manufacturing, Construction, Service, Agriculture and Trade, which are considered as growth corridors.

1.7. Limitation of the Study

The Oromia regional state is the largest region in terms of area and population size. From this fact it's possible to predict a limitation of time and resources. To avoid problems of over generalization, appropriate sampling technique were employed. It should also be mentioned that financial constraints and a lack of organized and relevant recorded data were among some of the limiting factors in this study.

1.8. Organization of this paper

Chapter One deals with background of the study, statement of problem, objectives, research questions, scope of the study, limitations of the study, and the significance of the study and the organization of the paper. Chapter two focuses on the literature review of the study. The third chapter is concerned with the research methodology and profiles the study area, the fourth chapter is about data analysis and presentation and the last (fifth) chapter states the conclusion and recommendation of the research.

CHAPTER TWO; Literature Review

INTRODUCTION

The chapter looks at literature on the research topic "Assessing performance of MSEs in Oromia regional state". The chapter also gives a review of numerous literatures on Micro and small enterprises considering theoretical and empirical studies to the subject matter.

2.1 Definitions and Concepts of Micro and Small Enterprises

The definition of micro and small enterprises is still controversial. There is no generally accepted definition of micro and small enterprises. Micro and small enterprises in one country may be small or medium enterprises in the other country. Many developing countries apply based on specific parameters, which include factors such as the number of employees, asset, capital, sales turnover, etc. The definition which is based on the above criterion partially focuses on specific target groups for any preferential treatment of the various actors in the MSE recognizing that, there are no standard definitions of MSE. Thus, the definition of MSE depends on the stage of economic development of the country.

According to Bolton Committee (1971), first an "economic" and "statistical" definition of a small firm was formulated. Under the "economic" definition, a firm is said to be small if it meets the following three criteria: relatively small share of their market place, managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and independent, in the sense of not forming part of a large enterprise. On the other hand, the "statistical" definition, the Committee proposed two criteria; size of the small firm sector and its contribution to GDP, employment, exports, etc.; the extent to which the small firm sector's economic contribution has changed over time (Bolton, 1971).

The sectoral classification has also used as criteria to define MSEs by Bolton Committee. Accordingly firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm) whereas, firms in the road transport industry are classified as small if they have 5 or fewer vehicles (Bolton, 1971).

However, there have been criticisms of the Bolton definitions. This center mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach. In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Thus, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, those in wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees (Ekpenyong, 1992).

European Union (EU) Member States, traditionally have their own definition of what constitutes an SME, for example the traditional definition in Germany had a limit of 250 employees while in Belgium it could have been 100. But now the EU has started to standardize the concept. Its current definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" (Carsamer, 2009).

By contrast, in the United States, when small business is defined by the number of employees, it often refers to those with fewer than 100 employees, while medium-sized business often refers to those with fewer than 500 employees. Canada also defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business), and a medium-sized business as fewer than 500 (Carsamer, 2009).

Generally, from the global experiences of the definitions of MSE entails that there is no commonly used definition of MSE across the countries of the world. However, all the definitions have taken the common criteria such as the number of employees, paid up capital, sectoral category, market share and the management entity.

2.2 Theoretical frame work

2.2.1 Theories of Growth of small Enterprises

Various theoretical models have been developed to describe the growth of small businesses. One class of theoretical model focuses on active or passive learning. According to Ishengoma

(2004:65-71), Cunningham and Maloney(2001:27-51),Goedhuys (2002:63-71), and Harabi(2003:139-150),in the passive learning view a firm enters a market without knowing its own potential of growth. Managers of firms learn about their efficiency when they are established in the industry. With firm age, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will differ widely from year to year.

In the active learning model, a firm explores its economic environment actively and invests to enhance its growth. The prospective and actual growth changes over time in response to the outcomes of the firm's own investment and other actors in the same marketplace.(Berkham,Gudgin,Hart and Hanver 1996:438-447; Goedhuys 2002: 305-317;harding 2002: 9-15). According to this model, owners or managers could raise their competence through formal education and training that enhance their talents. Businesses run by entrepreneurs or managers with higher formal education and training would therefore be anticipated to grow faster.

A second set of growth theories includes the stochastic and deterministic perspectives. the stochastic theory ,which is also known as Gibrat's law,argues that all changes in magnitude are the result of chance(Mullei 2003:296-307). Thus, the size and age of the firms has no effect on the growth of small enterprises. Empirical test of the law are indicated by considering the size and age as potential variables while neglecting other explanatory variables that may significantly affect firm growth(Evans 1987a: 126-147;Gurmeet and Rakesh 2008:301-302). The deterministic method, on the other hand, assumes that variations in the rate of growth across firms depend on a set of observable industry and firm specific characteristics (Pier 2002:83-94; Solymossy and Penna 200:99-114).

The industrial organization model (I/O) explains the external environment's dominant influence on a firm's strategic action (Hitt,Ireland and Hoskisson 2009: 67-76). The model specifies that the industry in which a company chooses to compete has a stronger influence on performance than the choices managers make inside their organization. The firm's performance is a function of primarily a range of Facility, such as finance, training and access to market and other business development services (Hullberg 1999: 104; Harding 2002: 76-78: Jennings and Beaver 1997:209-210; et al. 2008: 65-86: Wole 2004 80-95). This theory specifies that a firm

effectiveness, its rate of return on invested capital, is more a function of external characteristics i.e. interactions among suppliers, buyers and business competitors currently in the market and of potential new entrants to the industry, than the firm's unique internal resources and capability.

The resources-based model assumes that such each organization is a collection of unique resources and capability, Where some are tangible and others intangible (Dockel and Ligthelm 2005: 56; Lee and pennings 2001:78). Fay and Clark (2000:93-101) and Hitt et al.(2009:33-46) argue that tangible resources are assets that can be seen and quantified. Manufacturing tools, dissemination centers and formal reporting methods are examples of tangible resources, while intangible resources are assets that are rooted deeply in the firm's history and have been accumulated over time. These resources include knowledge, trust between managers and employees, managerial capabilities, the distinctive ways of work, scientific competences, the capacity for invention, brand name and the firm's reputation for its goods or services and how it interacts with people such as consumers and suppliers.

Compared to tangible resources, intangible resources are superior sources of core competencies (Hitt,et al.2009:50). In fact, the global economy, the accomplishment of a corporation lies more in its intellectual proficiency than in its physical assets(barney 1991:99-120;Berkham et al.1996:324-335).

2.2.2 Definition of SMES's in Ethiopian context

Similar to the global experience, the definition of MSEs in Ethiopia consist paid up capital and number of employees as criteria except that it categorize the firms as formal and informal. According to Ministry of Trade and Industry (MoTI) definition, MSEs based on capital investments a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997. The definition given by MoTI states the difference between micro and small enterprises based on paid up capital. 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 Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments (Commission on Legal Empowerment of the Poor, 2006).

On the other hand, Central Statistical Agency (CSA) categorizes enterprises into different scales of operation on the size of employment and the nature of equipment. According to CSA; Establishments employing less than ten persons and using motor operated equipment are considered as small scale manufacturing enterprises whereas enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries. As the third category, Cottage and handicraft industries are those establishments performing their activities by hand and using non power driven machines.

In light of the above definitions and taking into consideration the Ethiopian situation, micro, small and medium enterprises (MSMEs) may be defined in the following way:

- Micro enterprises are business activities that are independently owned and operated, have small share of the market, are managed by the owner and employing five or less employees. This has recently been revised to include employment until 10 workers and capital reaching up to 20,000 birr.
- Small businesses are those enterprises that employ 6 to 49 employees. They share the same characteristics with micro enterprises in other aspects.
- Medium scale enterprises are those enterprises which have a relatively higher share of the market, are independently or jointly owned or managed by the owner or by appointed executives and employ 50 to 99 persons.
- Those enterprises that employ more than 100 persons could be considered as large enterprises (Commission on Legal Empowerment of the Poor, 2006).

The definition given above by Ministry of Trade and Industry for MSE in the context of Ethiopia is similarly applied in the Oromia Regional State.

2.2.3 Overview of the MSE Sector in Ethiopia

The Ethiopian government has formulated a National MSE Development and Promotion strategy in 1997, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. The overall objective of the strategy is to create an enabling environment for MSEs, with specific objectives to facilitate economic growth; bring equitable development; create long-term jobs; strengthen cooperation between MSEs; provide the basis for medium and

large-scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises. The strategy targets support measures and beneficiaries such as small manufacturers in food, textiles, leather, clothing metal works, and crafts; self-employment (focus on school leavers, disabled and unemployed youth); start-up and expanding firms (focus on women-owned); small enterprises in nomadic and disaster areas; agro-business and small scale farming and fishing; small builders/contractors; small exporters; as well as small-scale tourism operators (FDRE MoTI, 1997)

On the other hand, Oromia Regional State MSE Development Agency has developed different strategic manuals and policy directives concerning capacity building, financial management, service cluster, level of transition of MSES, scaling up best practices, etc.

In the year 2011/2012 for the effective implementation of MSE followed by dissemination of documents and massive training. According to research carried out by Commission on Legal Empowerment of the Poor in 2006 the private sector in Ethiopian is characterized by high domination of micro and small enterprises of low income groups accounting for the bulk of non-agricultural economic activities and particularly, concentrated in the production and consumption of textiles, food and beverage processing. Moreover, the report of the research has shown that most MSEs are characterized by ease of entry and constitute the bulk of the population at the same time most of them are located in rural areas (Commission on Legal Empowerment of the Poor, 2006).

2.2.4 Role of MSE's to economic development of the nation

Two schools of thought have emerged as pro-MSE's and anti-MSE's perspectives in the studies of MSE's regarding their role in developing and developed countries. Most donor countries and development agencies share the view of the pro-MSE's that is springing up of such entrepreneurial and innovative ventures help promote economic growth and help reduce the high poverty level in such developing economies (Beck & Demirguc-Kunt, 2004).

The pro-MSE has argued that MSE's enhance competition and entrepreneurship and thus have economy wide benefits in efficiency, innovation and productivity growth. Thus, direct government support of MSE's can help countries reap social benefits. Second, MSE's are generally more productive than large firms but are impeded in their development by failures of

financial markets and other institutions for capital and other non-financial assistances. Thus, pending financial and institutional improvements, direct government support of MSE's can boost economic growth and development. The growth of MSE's boosts employment more than the growth of large firms because MSE's are more labor intensive. So subsidizing MSE's may help reduce poverty (Beck & Demircuc-Kunt, 2005).

However, the anti-MSE has questioned the efficacy of MSE's in promoting growth and reducing poverty. First, they argue that large enterprises may exploit economies of scale and more easily undertake the fixed costs associated with research and development, boosting productivity. They argue further that some researchers found that small businesses are neither more labor intensive nor better at creating jobs than large firms (Thormi & Yankson, 1985).

Moreover, they doubt the crucial role of small businesses and instead emphasize the importance of the business environment facing all firms, big and small. Small businesses create monopoly. They are of the view that if there are low entries and exit barriers, well defined property rights, effective contract enforcement, and access to finance, it will work to promote conducive business environment for all firms and not only small firms (Demircuc- Kunt et al, 2004).

However, scholars attempted to reconcile the above controversies by the flexibility of the business technology and people involves. Levy & Powell (2005) noted that, MSE's are thought to be flexible and innovative organizations that are able to respond quickly to customer and market demands (flexibility). Contrary to what happens in large firms, the production technologies of many manufacturing MSE's may inhibit flexibility (Gupta & Cawthorn, 1996), while Carrie et al. (1994) believe that it is people rather than technology that provides flexibility.

Despite the controversies in efficiency and poverty reduction, literature shows small business plays a vital role in the socio economic and political contribution in both developed and developing nations. Small business contributes to equitable distribution of wealth and decentralization of economic power. A small business requires less capital and they are labor intensive in their nature. Empirical Studies

2.3 Empirical Studies

SMEs in the economy have been constrained by a number of factors. Prominent among these are limited management and entrepreneurial skill of the owners/managers, marketing problems due to quality of the products and poor market research, lack of adequate infrastructure and modern technology and lack of adequate access to credit. Small scale enterprises produce largely for the domestic market although there are few of their products for export markets. Those producing for export are unable to identify the specific buyers in the export trade. In the early years 1930's Senator Macmillan said that SMEs' growth showed that they were distressed with finance gap. Much pragmatic studies revealed that SME were faced with not only equity gap but also debt gap.

Aryeetey et.al (1996) indicated that most of the small business enterprises' operators have little formal education in managing their business. The background of the owners/managers, therefore, places a limitation on their managerial capabilities. This problem has affected the scope of their operation and therefore they are not able to take full Advantage of emerging opportunities (Steel, 1996). In certain situations, managerial incompetence has led to operational inefficiencies resulting in poor performance (Pappoe, 1992)

Small scale enterprises produce largely for the domestic market although there are few of their products for export markets Those producing for export are unable to identify the specific buyers in the export trade. This creates the problem of unfair competition from outside producers as well as dumping of goods from the developed countries (Aboagye et.al 1998).

With regard to the use of modern technology, the operators of the SMEs use basic locally developed technology and machinery which restrict incentives to innovation. These are limited in capacity and efficiency. The SMEs thus, experience much wastage of materials as well as frequent machine breakdown (Anderson, 1998). Technical expertise in the SMEs is also limited. Some of the small firms are not aware of the availability of modern technologies or do not have the capability to develop and apply them. Moreover, where there is such awareness, lack of funds restricts their acquisition.(Olu,2009).

(Goze, 1990) in his study of small firms, stated that, few small firms start their projects with their own capital (personal saving) and with assistance from families and close associates.

2.3.1 Challenges of MSEs in Ethiopia

Ethiopia had a long experience of poor macroeconomic policies, economic mismanagement, protracted war, internal instability and recurrent drought are the main causes of the direct situation the country is now in today. The socialist regime which followed a centrally planned economic system since 1974 introduced excessive government interventions and controls that were responsible to hamper the development of small business throughout the country.

As the socialist Derg regime implemented extensive nationalization of private property, the previously existing private sector almost came to a complete halt due various ideological complexities. After the change of government in Ethiopia in 1991, several policies were formulated and regulations promulgated relating to diverse social, economic and political issues. The most important policy and institutional reforms which include the support for those in extreme need and the provision of enabling environment for private sector development. To enhance the development of private sector, the government has formulated a National MSE Development and Promotion Strategy in 1997, which aims to use an approach to alleviate the problems of unemployment and promote the growth of MSEs.

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

2.4 Conceptual Framework

The challenges of MSEs across the world differ from country to country. Though the challenges are diverse and multidimensional many scholars categorize the challenges as having internal and external factors. The conceptual framework regarding the development of MSEs is depicted in the diagram below;

2.4.1 Internal Factors

➤ Attitude and Motivation

According to Hall (1995) mentioned motivation as a factor influencing the success or failure of a small firm. He argued “the motivation of owners for starting or assuming control of their business may play some part in determining their success”. Macpherson & Holt (2007) stated that a firm’s growth is dependent on the managerial knowledge .Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees (Thassanabanjong et al., 2009).Moreover, the research carried on in Kosovo by Soini & Veseli (2011) found that Motivation of the owner is one of the internal factor influencing the growth of MSEs. The personality, skills, responsibilities, attitude and behavior of managers will have decisive influence on MSEs development (Levy and Powell, 2005).

➤ **Plan and goal feasibility**

The plan that is set by the institutions during their initial stage is a determinant factor. When MSEs plan unattainable and one that is not feasible it affects the effectiveness of the enterprises;

➤ **Skills and capabilities**

Megginson (2003), Kuratko and Hodgetts (1995) and Hall (1995) postulate that the skill and capability as one of the challenges of MSEs that can be reflected in terms of business knowledge, a lack of management skills, and, and inexperience. Managers of small firms are assumed to be generalists rather than specialist and are thus responsible for allocating limited resources and cannot afford to make poor decisions. Moreover an over-reliance on the single owner manager and existence of reluctance to move away from this managerial tendency on the part of the owner-manager translates into poor human resources practices where no new qualified staff is hired or authority and responsibility delegated to other employees (Megginson et al, 2003).

➤ **Technology and Marketing**

According to Office of Small and Medium Enterprises Promotion (OSMEP) (2007), SMEs that use inefficient technology, not maximizing machinery utility and not improving in technology, and not adaptors of technology tend to have low productivity and they are weak in terms of competition. The investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms (World Bank, 2009).

Brush (2009) stated that marketing is one obstacle for MSEs to grow as many of them confront challenges in establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. Hall (1995) believes that firms are more likely to survive the highly vulnerable start-up period the less uncertainty about the initial level of demand they would face.

➤ **Human relations/communication**

The relationship between human beings is one of the crucial factors that can contribute for the success of organizations. Organizations that have a strong relationship with other organizations are mostly profitable and successful. Communication on the other hand is one of the biggest contributor in linking organizations and institutions connected to each other. In addition it helps individual members, and institutions to learn from each other through sharing their experience.

2.4.2 External factors (Challenges)

➤ **Institutional challenges**

These are factors that are attributed to the sector up on which the MSEs engage affects the effective functioning of the enterprises. While some sectors, like the Agricultural aspects that have support from different stakeholders, some may not get this. The suppliers' side is also another challenge that hampers the success of small and micro enterprises.

➤ **Environmental challenges**

Hunger and Wheelen (2003) and Coetzee and Visagie (1993) stated that the environment generally affect the long-run decisions of an organization. Small organizations have very little, if any, influence over the forces of the external environment and this can be attributed to the limited resource of the small firm (Tibbits, 1979). Shifts in the forces within the external environment, impact upon all organizations, big and small. But it is savior on small firms because of their skill, experience and resources. Hunger and Wheelen (2003); Coetzee and Visagie,(1993) stress on that governments; local communities; suppliers; creditors; customers;

employees and labor unions; special interest groups; and trade organizations as the challenges and opportunities for small business success.

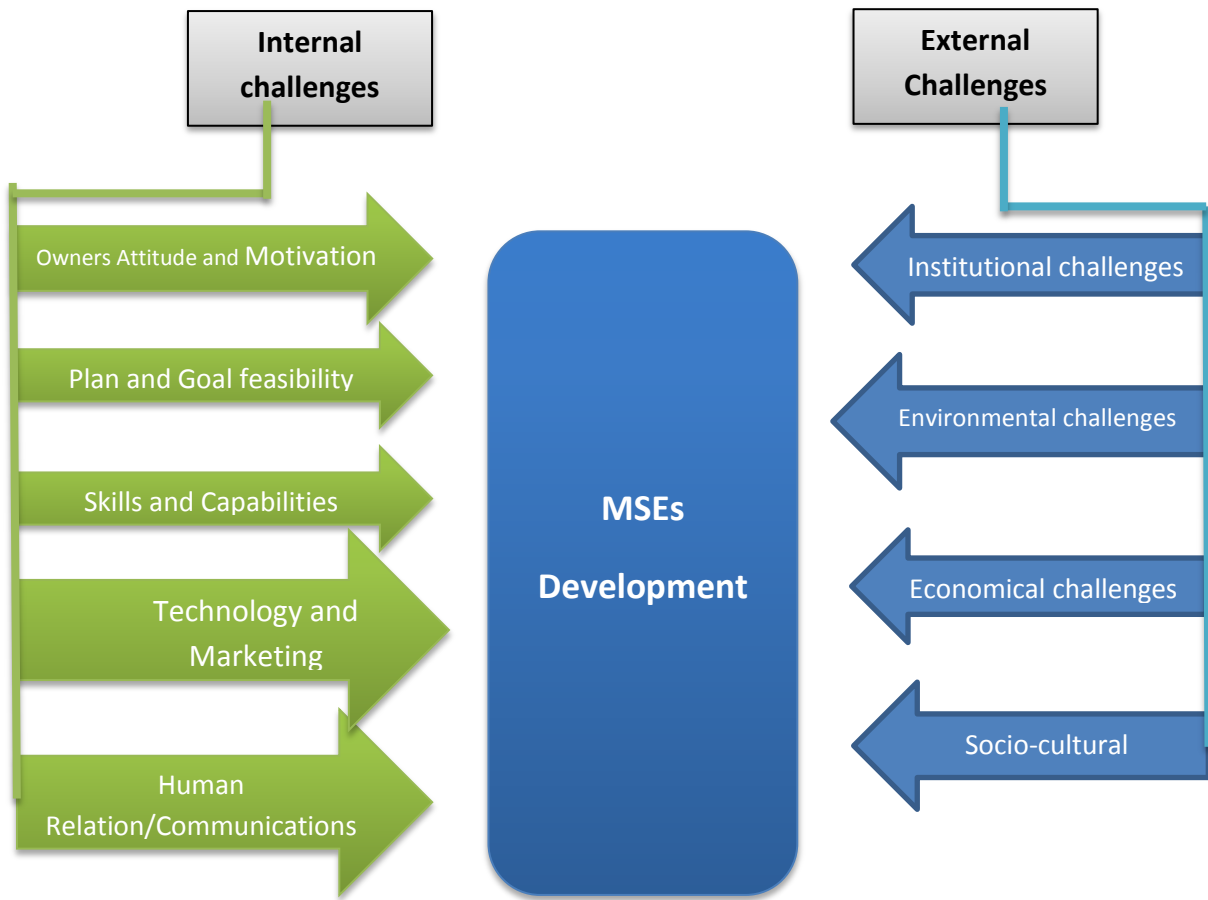
➤ **Economic challenges**

Megginson (2003), Kuratko and Hodgetts (1995) and Hall (1995) researches indicate that the main reasons or causes for the failure of small firm is the lack of capital. This seems to be the primary reason for business failure and it is considered to be the greatest problem facing small business owners. From a business viewpoint without adequate financing, the business will be unable to maintain and acquire facilities, attract and retain capable staff, product and market a product, or do any of the other things necessary to run a successful operation (Megginson, 2003).

➤ **Socio - cultural challenges**

According to Hunger and Wheelen (2003) and Coetzee and Visagie (1993) socio-cultural forces which regulate the values, mores, and customs of society; and technological forces that generate problem solving inventions.

Figure 1: Conceptual Framework



Source: Adapted from Charles Harvie, 2011

CHAPTER THREE; Methodology of the Study

Introduction

Under this chapter, the researcher tried to outline the design of the research, approach of the study, the sampling design, sampling technique, data sources, tools used for data collection and method of data analysis.

3.1 Description of the Study Area

Owing to the federal system of government structure, the regional state of Oromia is established in 1992 as per the proclamation No.7/1992 which is issued to establish regional self-government in the country. The proclamation empowered the regional government to establish its own structure, fully exercise the right to self-determination, and build a political community founded on the rule of law, capable of ensuring a long-lasting peace, guaranteeing a democratic order, plan and implement growth strategy believed to foster resource utilization and economic maximization in the region.

The administrative structure of the region embraces the Regional Government, Zonal, Districts and Kebeles. Currently, the region consists of 18 zones and 304 woredas. Organs of the regional state comprise the 'Chaffee Parliament', which is vested with the legislative power and is the supreme organ; the administrative council, in which the executive power is vested and is accountable to 'Chaffee'; and the court, in which the judicial power is vested.

Oromia is the most populated and the largest among all Ethiopian administrative regions. It extends from 3040'N to 100 35'N and from 340 0S'E to 430 11'E. The land area of the region is estimated at 284,538km² (26.8% of the country's land mass). The elevation of the region varies from less than 500m to 4,000m above sea level. Its climate is affected significantly by variation in altitude, its latitudinal position, prevailing winds and air pressure and circulation and its proximity to the sea.

According to the 2013 population and housing estimate, the estimated population of the region is 32,220, 000, that is 37.2 % of total of the country (www.citypopulation.de/ethiopia.htm/).

3.2 Research Design

It is acknowledged that several options are available in social research but the choice of approach depends largely on the objectives of the study. The study was employed a descriptive research design. The main reason for using this design was due to the fact that this design was supposed to help to briefly assess the major challenges encountering the MSEs sector development along with the future prospects. Moreover, this design helped to briefly explain, other than simply describing the existing performance of the sector.

3.3 Research Approach

Being a descriptive design, the research used a mixed type of research in which both qualitative and quantitative approaches were employed. This was done mainly to strengthen the finding of the study through triangulating the results to be obtained using both approaches.

3.4 Population of the Study

The population of the study comprises mainly of two groups. The first were those MSE enterprises that are currently functioning across the region. The second group of the population includes those governmental institutions that directly or indirectly contribute to the development of the sector. This is depicted in the table below;

Table 1: population of the Study /

S no	Group	Population		
		Rural	Urban	Total
1	manufacturing	8178	18854	27032
2	construction	15133	25669	40802
3	Agriculture	54039	19125	73164
4	Service	14853	26865	41718
5	Trade	19574	26953	46527
	Total	111777	117466	229243

Source: OMSE Development Agency, 2016

As can be seen on Table 1 above, the total number of MSEs enterprises registered in the Region since 2006. Hence these enterprises were the targets of the study.

Table 2: Population of the Study II

S.No	Sector	Population			
		Woreda	Zone	Region	
1	Oromia MSEs Development Agency	608	36	4	648
2	Oromia Credit & Savings Association	304	18	2	324
3	Oromia TVET Agency	304	18	2	324
4	Oromia Bureau of Agriculture	304	18	4	326
	Total	1520	90	12	1622

Source: OMSE Development Agency, 2016.

Based on the importance of the different governmental institutions in contributing to the development of the MSEs, they were included as part of this study. Hence, as can be seen on Table 2 above, except for Oromia MSEs development agency, all the remaining governmental institutions are supposed to have one representative who was expected to participate in providing valuable information for the study.

3.5 Sampling Design

3.5.1 Sampling Size

From the currently operating MSEs, 229423 enterprises in the region, a representative sample was selected. To keep the representativeness and enhance the reliability of the findings, 95% level of confidence and a 5% confidence interval was used to determine the size of the sample. As a result, based on (The Research Advisors, 2006), 384 enterprises were selected as sample size of the study.

3.5.2 Sample Techniques

To get the determined sample size, multi – stage sampling design was used. As a result, initially all zones, including self-administrative cities were categorized in to five clusters based on their geographic location. Then, four zones and three self-administrative cities, proportionally to all clusters, were purposively selected for the sample selection.

Table 3. Sampling Design I

Sampling Stage 1 – cluster sampling

S.No of cluster	Cluster composition	No of Zones in the cluster	Proportion in %age	Proportion in Number	Zones selected (Purposively)
1.East	East Harage,west Hararge and Arsi	3	16.67	1	East Harerge
2.West	Kelem wollega, E/wollega, W/wollega, Horo Guduru ,IluAbabora ,Jimma	6	33.33	2	West wollega,Jimma
3.south	Borena,Guji, W/Arsi and Bale	4	22.22	2	Guji and West Arsi
4.Centeral	Centeraland west shoa,E/shoa, Oromia special zones and North shoa	5	27.78	2	South west shoa and East shoa
		18	100	7	

Source, Own Computation, 2016/17

Table 4: Sampling Design II

At this stage, from the selected zones, 18 sample cities are purposively selected.

Sample Zones	Selected Cities	Number of MSEs in the City	Proportion in %	Number of Selected Sample
East Hararghe	Haramaya,	384	2%	9
	Deder	489	3%	11
	Kersa	420	3%	10
	Babile	229	1%	5
West Wollega	Gimbi	242	1%	6
	Ayira,	176	1%	4
	Nedgo	293	2%	7
	Nole Kaba	290	2%	7
Jimma	Jimma city	2,805	17%	65
Guji	Borena Nagele	260	2%	6
	Adola	586	4%	13
	Shakiso	264	2%	6
West Arsi	Shashamane	1,614	10%	37
Oromia Special Zones	Sebeta	754	5%	17
	Burayu	1023	6%	24
	Sululta	968	6%	22
East Showa	Adama	2,947	18%	68
	Bishoftu	1965	12%	45
South West Showa	Woliso City	972	6%	22
Total	18 Cities	16681	100%	384

Source: Own Computation, 2016/17

3.6 Data Sources

Both primary and secondary data sources were used for the collection of data. Primary data were gathered through Semi – structured and closed ended and open ended Questionnaire. Secondary data to be used includes different statistical reports, magazines, books and other publications related to the MSEs sector.

3.7 Data Gathering Tools

The primary data and secondary data were gathered specifically through the following data gathering tool;

3.7.1 Semi – Structured Questionnaire

Semi structured questionnaire were dispatched to Micro and small scale enterprises in the region Leaders and Members of the enterprises were given with a question to be filled anonymously.

3.8 Methods of Data Analysis

Analysis of data is a process of editing, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggestion, conclusions, and supporting decision making (Adèr, 2008).

Data from the field were edited and coded appropriately to make meaning out of them. Editing was done to correct errors, check for non-responses, accuracy and corrects answers. Coding was done to facilitate data entering and a comprehensive analysis.

3.8.1 Qualitative Data Analysis

Data gathered through qualitative data tools were analyzed through discussion under major thematic areas, after the necessary pre-analysis task such as recording, transcribing and coding were made.

3.8.2 Quantitative Data Analysis

Quantitative data gathered through semi – structured questionnaire were analyzed through the latest version of SPSS (Statistical Package for Social Science) Version 20. Both descriptive and inferential statistics will be used for analyzing quantitative data. Specifically Percentages was used to compare the significance of the response of respondents.

CHAPTER FOUR; Data Analysis and Discussion

4.1 Introduction

In this chapter the analysis and discussion of the results were carried out using a descriptive research design, including bar graph, pie chart and tables. It includes the demographic features of entrepreneurs, the challenges affecting the performance of Micro and small enterprises in general are discussed and examine together with the prospects of these Micro and small enterprises.

The road to success of MSEs is not like a bed of roses but it is bumpy or coarse. This is particularly the case in developing countries like Ethiopia whose infrastructure is poor, financial institutions are not inviting MSEs, and entrepreneurial knowledge and skills are poor. The study had tried to probe into the varieties of factors, which challenge the smooth operations of MSEs in Oromia regional state. The results summarized in the following tables.

4.2 Sex and Ages of Entrepreneurs

A total of 384 questionnaires were distributed and out of this 352 were received from the field and the analyses are made from the responses received. Out of this 40 were from the MSEs development organizations, 62 from MFIs and 250 were entrepreneurs. Out of the 250 entrepreneurs, 36.8% were male and 63.2% represent female. This clearly shows that in Oromia most of SME's activities are carried out by many women and can also be confirm by the 2010 housing and population census which indicate that 51% of the population are female and 49% were male. The table 5 below explains gender and age of entrepreneur respondents.

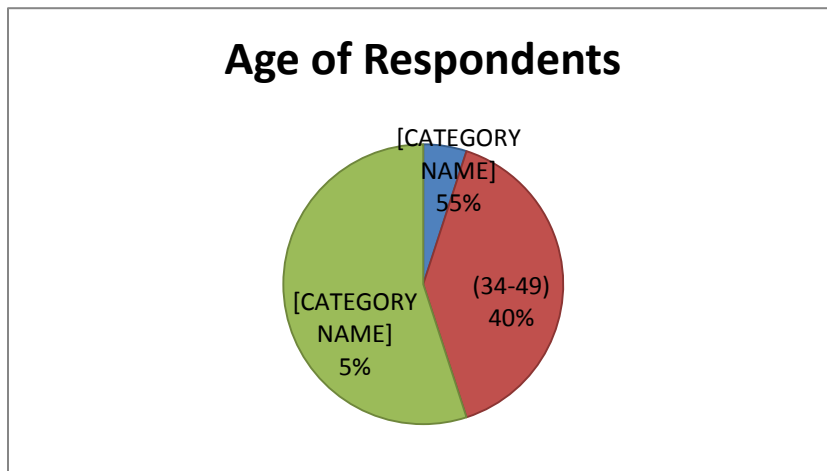
Table 5: Gender and age of Entrepreneurs' Respondents

Sex Entrepreneurs' Respondents only	Frequency	Percentage
Male	110	44%
Female	140	56%
Total	250	100%
Age Total Respondents		
20-35	194	55%
36-49	140	40 %
50-60	18	5%
Total	352	100 %

Source: Primary data from survey 2016/17

From the survey, out of the 94 entrepreneurs interviewed 43 of them which represent 46% falls within the ages of 20-35 years which shows that youth have seriously involved themselves with the SME's activities and this can serve as a bright future for the sectors if all the necessary support are given to the sector and can reduce the rate of the youth unemployment since a lot of them are now involving themselves in SME activities. This attest with a survey conducted about small scale enterprises in Ghana which revealed that young people owned almost 40 percent of the enterprises .Younger youth aged 15-25 owned only 5.4 percent of enterprises whilst those aged between 26-35 years owned 33.8 percent (Osei, et al., 1993). 45 of the entrepreneurs which al o represent 48% falls within the age brackets of 36- 49, while the remaining 6 falls within 50-60 years and this also form 6%. The study revealed that young people owned most of the enterprises in the country, from this it is believed that micro and small scale enterprises has a good future and will help to reduce poverty among the youth in the near future. The figure 2 below explains the age groups of respondents.

Figure 2: Age of Entrepreneurs



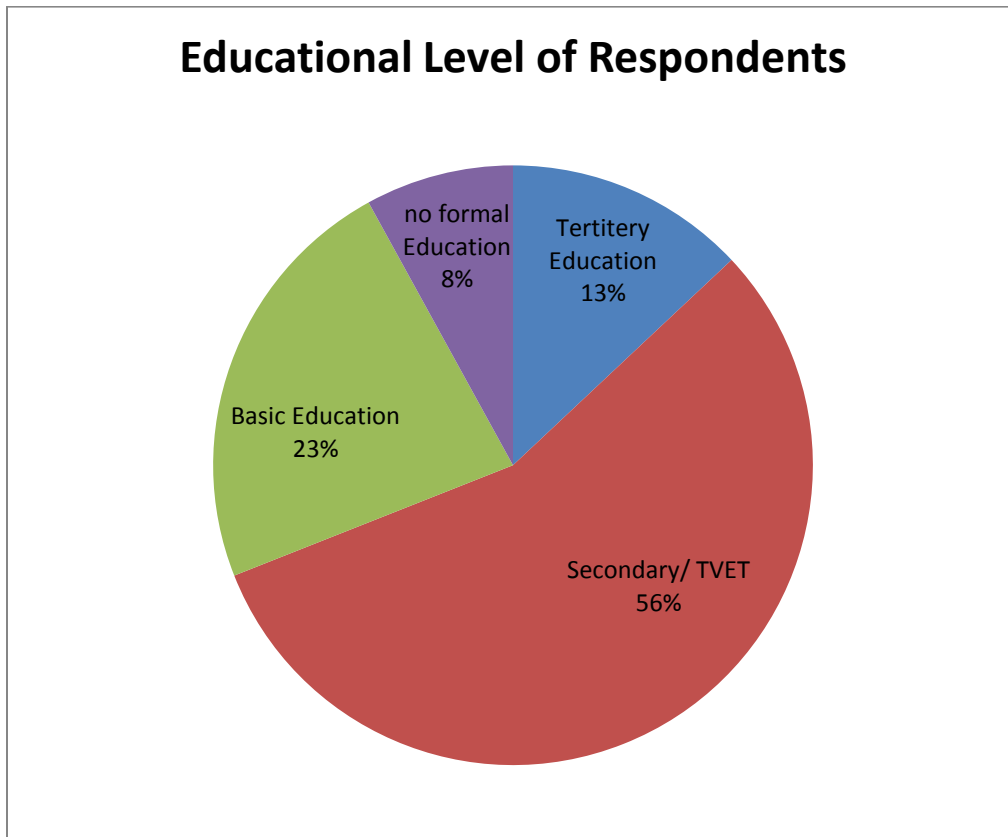
Source: Primary data from survey 2016/17

4.3 Level of Education

Education is a powerful tools for successful business here the researcher's emphasis is on the formal Education but not informal Education. The analysis of educational background of the entrepreneurs are shown in figure 3 below which revealed that 13% of the Entrepreneur respondents have obtain tertiary education, 56% have also obtained Secondary /Technical or Vocational education, 23% have basic education and 8% had no formal education. From the study it was revealed that the low level of education of Entrepreneur limit their capacity to deal with plans that can lead to business growth like keeping proper books of records, prepares business plan, taking advocacy issues to support their businesses and also look for more training programs to improve their businesses which is normally run by development organizations. It was revealed that those with secondary education can manage their business and are also able to keep some level of records as well as making contact with other stakeholders.

It was also revealed that they are aware of some facilities such as financial and technical support available to help them grow their businesses. Most of the entrepreneurs suggested that government should make it compulsory that if you want to even learn a trade, you must finish at least basic school and to them it will help government to even achieve its educational policies. It will also help to improve records keeping which in the long way help improve SME's in the country as well as increasing employment, since SME's employed greater percentage of the labor force in the country. It can help them seek for credit facilities and also help them in tracking the growth of the businesses.

Figure 3: Educational Level of Respondents



Source: Primary data from survey 2016/17

4.4 Major Factors Affecting Performance of MSEs

4.4.1 Politico-Legal Factors

The politico-legal factors assumed to affect the performance of MSEs and considered in this analysis are reasonable the tax levied on business, bureaucracy in company registration and licensing, government support, political intervention, and accessible information on government regulations that are relevant to business.

Table 6 Analysis of Politico-Legal Factors affecting performance of MSEs

Question	Response	Frequency	Percentage of total response	Grouped Response
The tax levied on my business is not reasonable	Strongly agree	0	0%	6.53%
	Agree	32	6.53%	
	Undecided	80	22.77%	22.77%
	Disagree	240	68.18 %	68.18%
	Strongly Disagree	0	0%	
Total		352	100%	100%
Bureaucracy in company registration and licensing	Strongly agree	150	42.61%	65.34%
	Agree	80	22.73%	
	Undecided	40	11.36%	11.36%
	Disagree	60	17.05%	23.3%
	Strongly Disagree	22	6.25%	
Total		352	100%	100%
Lack of government support	Strongly agree	87	24.72%	43.72%
	Agree	68	19%	
	Undecided	32	9%	9%
	Disagree	102	29%	47%
	Strongly Disagree	63	18%	
Total		352	100%	100%
Political intervention	Strongly agree	101	28.69%	50.85%
	Agree	78	22.16%	
	Undecided	73	20.74%	20.74%
	Disagree	64	18.18%	28.41%
	Strongly Disagree	36	10.23%	
Total		352	100%	
Lack of accessible information on government regulations that are relevant to my business	Strongly agree	125	35.51%	61%
	Agree	90	26%	
	Undecided	54	15%	15%
	Disagree	50	14%	24%
	Strongly Disagree	33	9%	
Total		352	100%	100%

Source: Primary data from survey 2016/17

As shown in the table 6 above, 68.18% of the respondents disagreed on the factors asked “the tax levied on my business is not reasonable’ and 22.77% were not decided on reasonability on the tax levied while only 6.53% agree as it is unreasonable. The respondents also justified the reasonability of tax levied on their business on open ended questionnaire by stating the existence of three years tax concession at their early start up. From this one can conclude that even though some of the respondents are unclear with the reasonability of the tax being levied, the majority of the MSEs believe that the tax levied on their business is reasonable.

With regard to bureaucracy in company registration and licensing, 65.1% of the respondents agreed (42.61% strongly agreed and 23% agreed) on the existence of bureaucracy while 23% of the respondents do not agree on the existence of bureaucracy as shown above in the table 6. Respondents also tried to justify this issue on the open ended questionnaires that the registration and licensing will not complete within the shortest possible time because of corruption and nepotism. If someone has relative or friends from the registration and licensing office he/she will receive his/her license within one or two days if not he/she will take more than two weeks to receive the license unless he/she give a sort of bribe. This shows that there exist bureaucracy in registration and licensing though the extent may differ from place to place.

A lot has been said and written about the contribution of government and other institutions at different levels to help develop MSE’s in developing countries. In Ethiopia (Oromia), government has launched numerous development programs and projects to help grow the economy. Oromia MSE Agency was established to promote the regional MSEs and help them in their way to success. But, the result in the table 6 above indicates that lack of government support is another problem that affects the performance of micro and small enterprises. Of total respondents 53.2% agreed that there is lack of government support to MSEs; whereas, 47% of the respondents disagreed on the lack of government support. Still 9 % of the remaining respondents neither ‘agreed’ nor ‘disagreed’ (undecided) on the existence factors related to lack of governmental support to MSEs. When this response is compared with the response from open ended questionnaire the government support was there though it is not as adequate as the expectation of MSEs and the distribution is not uniform from organizations.

With regard to political intervention 50.85% of the respondents agreed that there is political intervention to help them and to use them as development means for the country; Whereas,

28.41% disagree on the presence of political intervention and the remaining 20.74% of the do not clear on the existence of political intervention. From this one can conclude that there is a political intervention to benefit the MSEs but the level of awareness created in the mind of entrepreneurs is not sufficient.

When the above responses compared with the open ended questionnaire filled by operators of MSEs, it was confirmed that there are problems related to government bodies at the woreda levels. The response from open ended questionnaire 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 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.

Furthermore, the politico-legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises (especially in Oromia region). Even when opportunities have been created, MSEs have not been able to draw the full advantage due to absence of appropriate policy support.

According to the response of respondents of open ended questionnaire, 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 a business, getting working places, payment of stamp duty among others. For enterprises found in Oromia, 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 force enterprises to operate informally, which greatly limits their opportunities for growth, or to go out of business.

4.4.2 Working Place Factors

Working place factors which are the environment within which the business will operate. The table 7 below explains the condition found concerning the business atmosphere from the field.

Table 7 Analysis of Working Place related Factors

Question	Response	Frequency	Percentage of response tototal respondents	Grouped Response
Absence of own premises	Strongly agree	240	68.18%	77.27%
	Agree	32	9.09%	
	Undecided	20	5.68%	5.68%
	Disagree	60	17.05%	17.05%
	Strongly disagree	0	0.00%	
Total		352	100%	100%
Current working place is not convenient	Strongly agree	156	44.32%	67.05%
	Agree	80	22.73%	
	Undecided	56	15.91%	15.91%
	Disagree	48	13.64%	17.05%
	Strongly Disagree	12	3.41%	
Total		352	100%	100%
The rent of house is too high	Strongly agree	87	24.72%	59.66%
	Agree	123	34.94%	
	Undecided	0	0.00%	0.00
	Disagree	82	23.30%	40.34%
	Strongly Disagree	60	17.05%	
Total		352	100%	100%

Source: Primary data from survey 2016/17

As shown in table 7 above, the premises factors that hinder MSEs' performance are absence of their own premises, the rent of house is too high and the current working place is not convenient for their business.

As per the data 77.27% of respondents agreed on the absence of own premises; whereas, about 17.05% disagreed on the absence of their own premises indicating that the government is providing shades. Still the remaining 5.68% of the respondents refrain themselves from deciding and expressing it.

As per the data gathered from the field and shown in the table 7 , 67.05% of the respondents agreed that current working place is not convenient to operate their business effectively; whereas, 17.05% agreed that it is convenient for them and the remaining

15.91% did not decide whether it is convenient or not. As per the response from open ended questionnaire, most of the respondents justified that the problems with this regard increased production cost, transportation cost and it negatively affects the competitive advantages of MSEs. Moreover their perishable products were spoiling because of inconvenience of the working places. Those who didn't decided justify that there is a protection by the government since government has plans to promote SME's or local produce industries in the country. They also argued that in recent times government have increased infrastructure like roads to support SME's to transport their commodities to the market centers.

With regard to high rent of house, 59.66 % of the respondents agreed on high cost of house for owner managers engaged MSES. But 40.34% of the respondents disagree on the high cost of rent of house. The response from open ended questionnaire most MSEs operated in rented house and high rental charges have impeded the performance of their businesses as some charges are higher than the capacity to pay. According to them, this high rent of house is resulted from absence of own premises to run business.

4.4.3 Technological Related Factors

The survey confirms the debate that SME's are thought to be flexible and innovative organizations that are able to respond quickly to customers and market demands by Levy & Powel (2005). Table 8 below attested to the view of Levy & Powel (2005).

Table 8: Analysis of Technological Related Factors

Question	Response	Frequency	Percentage of response to total respondents	Grouped Response
Lack of appropriate machinery and equipment	Strongly agree	87	24.72%	41.76%
	Agree	60	17.05%	
	Undecided	73	20.74%	20.74%
	Disagree	82	23.30%	37.50%
	Strongly Disagree	50	14.20%	
Total		352	100%	100%
Lack of skills to handle new technology	Strongly agree	98	27.84%	52.56%
	Agree	87	24.72%	
	Undecided	106	30.11%	30.11%
	Disagree	61	17.33%	17.33%
	Strongly Disagree	0	0.00%	
Total		352	100%	100%
Lack of money to acquire new technology	Strongly agree	87	24.72%	52%
	Agree	96	27.28%	
	Undecided	0	0.00%	0.00%
	Disagree	82	23.35%	48%
	Strongly Disagree	87	24.65%	
Total		352	100%	100%
Unable to select proper technology	Strongly agree	169	48.01%	82.95%
	Agree	123	34.94%	
	Undecided	0	0.00%	0.00%
	Disagree	50	14.20%	17.05%
	Strongly Disagree	10	2.84%	
Total		352	100%	100%

Source: Primary data from survey 2016/17

As it can be seen in table 8 above, 41.76% of the respondents agreed that the lack of appropriate machinery and equipment is the main problem of MSEs while 20.74% undecided on the lack of appropriate machinery and equipment and the remaining 37.50% disagree on the issue of lack of appropriate machinery and equipment.

On the other hand, as depicted in the table 8 above, 52.56% of respondents agreed on lack of skills to handle new and proper technology whereas, 17.33% disagreed on lack of skills to handle new and proper technology and the remaining 30.11% of the respondents were undecided on the issue. As a result of this, their business is not growing and their customers also are no more Patronizing with them.

Again as shown in table 8 above the response of the respondents on the lack of money to acquire new technology and lack of appropriate technology (machinery, equipment, tools etc.) is slightly falls between agreed and disagreed (52% of the respondents agreed while 48% of the respondents disagreed) which moderately affects their performance. This difference in response resulted from the fact that some of them have sufficient money for the purchase of equipment and others have no sufficient money or depend on other financing sources. As per the data from survey, some respondent has no ability to select proper technology though the technology is available in the market but the majority can able to select it. The respondents indicated that the presence of these machines, tools and equipment have allowed the operators to produce products. Moreover, respondents replied that, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

4.4.4 Analysis Related to Infrastructural Factors

Table 9 Analysis related to Infrastructural factors

Question	Response	Frequency	Percentage of response to total respondents	Grouped Response
Power interruptions	Strongly agree	125	35.51%	86.65%
	Agree	180	51.14%	
	Undecided	0	0.00%	0.00%
	Disagree	47	13.35%	13.35%
	Strongly Disagree	0	0.00%	
Total		352	100%	100%
Insufficient and interrupted water supply	Strongly agree	125	35.51%	75.28%
	Agree	140	39.77%	
	Undecided	0	0.00%	0.00%
	Disagree	87	24.72%	24.72%
	Strongly Disagree	0	0.00%	24.72%
Total		352	100%	100%
Lack of business development services	Strongly agree	87	24.72%	52%
	Agree	96	27.28%	
	Undecided	0	0.00%	0.00%
	Disagree	82	23.35%	48%
	Strongly Disagree	87	24.65%	
Total		352	100%	100%
Lack of sufficient and quick transportation service	Strongly agree	130	36.93%	71.02%
	Agree	120	34.09%	
	Undecided	23	6.53%	6.53%
	Disagree	50	14.20%	22.44%
	Strongly Disagree	29	8.24%	
Total		352	100%	100%
Lack of appropriate dry waste and sewerage system	Strongly agree	140	39.77%	73.30%
	Agree	118	33.52%	
	Undecided	0	0.00%	0.00%
	Disagree	79	22.44%	26.70%
	Strongly Disagree	15	4.26%	
Total		352	100%	100%

Source: Primary data from survey 2016/17

The result presented in table 9 shows that power interruption is the main problem followed by lack of sufficient and quick transportation service that hinders the business performance of all sectors. On the other hand, insufficient and interrupted water supply, and lack of appropriate dry waste and sewerage system are the main challenges that hinder the performance of business MSES business. The table above shows that, 75.28% of respondents agreed on insufficient and interrupted water supply, and 52% agreed on the lack of appropriate dry waste and sewerage system. As opposed to this, 24.72% of the respondents disagreed on the insufficient and interrupted water supply that affect the performance of MSEs engaged. The disagreement and agreement was justified by the response from open-ended questionnaire.

Accessibility of a location is the ease with which it can be accessed by different modes of transport (Brown and Lloyd, 2002:188-204). Divergent from these aspects of MSEs , however, most of the studied area is situated far from the main asphalt road and the condition of the road leading to the cluster from the main road is extremely poor. This poor state of the road condition of locality has culminated in high transportation service costs to the MSEs, in addition to making the sector difficult for accessibility by the existing and potential customers.

Concerning transport facilities, access to affordable and appropriate public transport is of paramount vitality in expanding the employment opportunities of the urban poor who need inexpensive access to areas of economic and commercial activity. Equally, the importance of physical capital especially infrastructure in enabling people to access, and directly support, income-generating activities is well recognized by writers on urban livelihoods such as Rakodi (2002:22). Housing which is close to employment opportunities or markets will improve residents' access to income-generating work and will reduce transport costs, which can be a significant expenditure and time-drain for the urban poor (Farrington et al., 2002:57).

In the view of majority respondents from the response of open ended questionnaire, this poor state of the local road has hampered the accessibility of their working site by existing and potential customers.

In addition, it has forced the operators to incur high transportation service cost, damaging their already meager and continuously declining income. The 'seriousness' of the problem was stressed by respondents who said that: We usually rent private cars to transport (deliver) the raw

materials here purchased from market, which is located fairly near to working site. But the owners of the cars usually request us to pay them high cost. We supposed to pay such amount of money mainly because of the unsuitability of the road around our working area.

The other impediment, according to interviewees of the sector, is the increasing cost or price of transportation service especially the hardly affordable price of those private cars on which the respondents load raw materials from places of supply. The respondents associate this expensive transportation service price with the unsuitability of the road facility. The respondents agree that, if the road infrastructure around their working area is maintained or improved, there would be possibility of a remarkable reduction on their expenses related to running their businesses.

4.4.5 Financial Factors

Table 10 Analysis related to Financial Factors

Question	Response	Frequency	Percentage of total response	Grouped Response
Inadequacy of credit institutions	Strongly agree	173	49.15%	71.88%
	Agree	80	22.73%	
	Undecided	13	3.70%	3.70%
	Disagree	50	13.35%	27.55%
	Strongly Disagree	36	14.20%	
Total		352	100%	100%
Lack of cash management skills	Strongly agree	112	31.81%	68.74%
	Agree	130	36.93%	
	Undecided	0	0.00%	0.00%
	Disagree	77	21.88%	31.26%
	Strongly Disagree	33	9.38%	
Total		352	100%	100%
Shortage of working capital	Strongly agree	121	34.38%	75.86%
	Agree	146	41.48%	
	Undecided	22	6.25%	6.25%
	Disagree	31	8.81%	17.91%
Strongly Disagree	32	9.10%		
Total		352	100%	100%
Fear of High collateral requirement from banks and other lending	Strongly agree	145	41.19%	67.61%
	Agree	93	26.42%	
	Undecided	38	10.80%	10.8%

Question	Response	Frequency	Percentage of total response	Grouped Response
institutions on medium scale Enterprises	Disagree	18	5.11%	21.59%
	Strongly Disagree	58	16.48%	
Total		352	100%	100%
Fear of High interest rate charged by banks and other lending institutions on medium scale enterprises	Strongly agree	140	39.77%	62.78%
	Agree	81	23.01%	
	Undecided	31	8.80%	8.80%
	Disagree	44	12.5%	28.41%
	Strongly Disagree	56	15.91%	
Total		352	100%	100%
Loan application procedures of banks and other lending institutions are too complicated on medium scale Enterprise	Strongly agree	141	40.06%	73.86%
	Agree	119	33.80%	
	Undecided	19	5.40%	5.40%
	Disagree	29	8.24%	20.74%
	Strongly Disagree	44	12.5%	
Total		352	100%	100%

Source: Primary data from survey 2016/17

Analysis on Financial Factors

As it shown in table10 above, the majority of respondents 71.88 Percent reported that they have the problem related to inadequacy of credit institutions and 27.55 Percent disagreed on the problem 3.7 percent of the respondents were undecided. Similarly, most of respondents, 68.74 Percent are agreed and 31.26 percent disagree on the lack of cash management skills respectively. With regard to shortage of working capital out of the total respondents, 75.86 Percent and 17.91 Percent of the respondents agreed and dis agreed on the problem respectively and 6.25 percent are undecided. Regarding Fear of high collateral requirement from banks and other lending institutions 67.61 percent and 21.59 Percent of respondents agree and disagree on the problem respectively and 10.8 percent are undecided on this question. Similarly, 62.78 Percent of respondents agreed, and 28.41 Percent of respondents dis agreed and 8.80 percent are undecided with the complexity of loan application procedures of banks and other lending institutions. Moreover, Fear of High interest rate charged by banks and other lending institutions are a serious problem of MSEs 73.86 percent of the respondents agreed, 20.74 Percent disagreed,

and the remaining 5.4 percent are neutral. In general, the result of financial factors indicated that there are inadequacy of credit institutions, lack of cash management skills, Shortage of working capital, fear of high collateral requirement from banks and other lending institutions, loan application procedures of banks and other lending institutions fear of high interest rate charged by banks and other lending institutions, which hinder the transitional development of small scale Enterprises in the study area.

When we see from the table above, the total average 70.12 Percent of the respondents' agree as Financial Factors affect the development of small scale Enterprises. From this result, it is possible to say that Financial Factors contributed for hindering development of small scale Enterprises in the study area. In addition, during the interview of management and director of Oromia MSE agency and with the actors of the zonal MSE officials, 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, .and gap to address all MSEs cash management skill.; 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 smaller enterprises continue to be largely left out.

4.4.6 Management Factors

According to Fagge, (2004) the Management problems militate against the effective operation of small and medium enterprises.

Table 11 Analysis related to Management Factors

Question	Response	Frequency	Percentage of total	Grouped Response
Lack of clear division of duties and responsibility among employees	Strongly agree	135	38.35%	64.77%
	Agree	93	26.42%	
	Undecided	31	8.81%	8.81%
	Disagree	63	17.9%	26.42%
	Strongly Disagree	30	8.52%	
Total		352	100%	100%
Poor organization and ineffective communication	Strongly agree	95	26.99%	59.38%
	Agree	114	32.39%	
	Undecided	20	5.68%	5.68%
	Disagree	61	17.33%	34.94
	Strongly Disagree	62	17.61%	
Total		352	100%	100%
Poor selection of associates in business	Strongly agree	115	32.66%	55.10%
	Agree	79	22.44%	
	Undecided	30	8.54%	8.54%
	Disagree	84	23.86%	36.36%
	Strongly Disagree	44	12.5%	
Total		352	100%	100%
Lack of well trained and experienced employees	Strongly agree	109	30.96%	64.20%
	Agree	117	33.24%	
	Undecided	17	4.83%	4.83%
	Disagree	73	20.74%	30.97%
	Strongly Disagree	36	10.23%	
Total		352	100%	100%
Lack of low cost and accessible training facilities	Strongly agree	109	30.97%	61.08%
	Agree	106	30.11%	
	Undecided	37	10.51%	10.51%
	Disagree	63	17.89%	28.41%
	Strongly Disagree	37	10.52%	
Total		352	100%	100%

Source: Primary data from survey 2016/17

As shown in table 11, lack of clear division of duties and responsibility among employees is the problems that hinder the transitional development of small-scale enterprise to medium scale enterprise. It shows that 64.77 Percent, and 26.42 percent of respondents agreed, and disagreed respectively and the remaining 8.81 percent are undecided. With regard to Poor organization and ineffective communication, of the total respondents 59.38 Percent agreed and 34.94 Percent disagree i.e. 5.68 Percent of respondents reported, as they are indifference on the problem mentioned above. Likewise to Poor selection of associates in business, the majority of respondents 55.10 Percent are agreed and 36.36 Percent dis agreed as there is poor selection of business field and 8.54 percent are neutral. Regarding to lack of well-trained and experienced employees, of the total respondents, 64.2 Percent agreed, 30.97 Percent disagreed and 4.83 percent undecided as there are a problem. In relation to costly and inaccessible training facilities, the table below shows that, 61.08 Percent of respondents agree and 28.41 Percent of respondents disagree as there is a problem. In general 10.51 Percent of respondents reported they are undecided on the problem. In general, it was investigated that most of them were responding that Management Factors are hinders the transitional development of small scale Enterprises. The agreement on this factor is justified by the total average 60.91 Percent of respondents were consented, on the problem. In this regard in an interview conducted with management and director of Oromia MSE agency and with the actors of the zonal MSE officials, it was confirmed that they had lack of coordination between actors; attitude and capacity problem in the officials, and experts to support operators. Because of this, many management problems face enterprises such as Poor selection of associates in business, Poor organization and ineffective communication.

Management has always been a problem in this sector as most small scale businesses do not have the required management expertise to carry them through once the business start growing. The situation gets compounded as training is not usually accorded priority in such establishments.

4.4.7 Marketing Factors

Table 12 Analysis related to Marketing Factors

Question	Response	Frequency	Percentage of total response	Grouped Response
Inadequate market for products	Strongly agree	189	53.69%	76.13%
	Agree	79	22.44%	
	Undecided	43	12.22%	12.22%
	Disagree	6	1.70%	11.93%
	Strongly Disagree	36	10.23%	
Total		352	352	100%
Lack of knowledge Searching new market	Strongly agree	126	35.79%	74.71%
	Agree	137	38.92%	
	Undecided	53	15.05%	15.05%
	Disagree	13	3.69%	10.51%
	Strongly Disagree	24	6.82%	
Total		352		100%
Lack of demand forecasting	Strongly agree	126	35.80%	74.44%
	Agree	136	38.64%	
	Undecided	36	10.23%	10.23%
	Disagree	37	10.51%	15.62%
	Strongly Disagree	18	5.11%	
Total		352	100%	100%
Absence of relationship with an organization that conduct marketing research	Strongly agree	136	38.63%	76.70%
	Agree	134	38.07%	
	Undecided	36	10.22%	10.22%
	Disagree	26	7.39%	13.64%
	Strongly Disagree	22	6.25%	
Total		352	100%	100%
Lack of promotion to attract potential users	Strongly agree	94	26.71%	60.53%
	Agree	119	33.82%	
	Undecided	51	14.49%	14.49%
	Disagree	50	14.20%	25.00%
	Strongly Disagree	38	10.8%	
Total		352	100%	100%
Poor customer relationship and handling	Strongly agree	118	33.52%	67.61%
	Agree	120	34.09%	
	Undecided	19	5.40%	5.40%
	Disagree	58	16.48%	26.99%
	Strongly Disagree	37	10.51%	
Total		352	100%	

Source: Primary data from survey 2016/17

As indicated in the Table 12, eight questions were designed to gather information about Marketing

Factors According to the responses for inadequate, market for their product, Out of the total respondents 76.13 agreed and 11.93 Percent disagreed on the problem and the remaining 12.22 percent prefer to be silent of this question. Regarding to demand forecasting the majority of respondents 74.71 Percent agreed and 10.51 Percent disagreed as there is Lack of demand forecasting and 15.05 percent was not responded the question. In Table 4.11 above, it can be seen that, lack of knowledge Searching new market is another marketing factor that affect the transitional development of MSEs. As a result shows 74.44 Percent, 10.23 disagree and 15.62 Percent of the respondents are undecided. Regarding the Absence of relationship with an organization that conduct marketing research 76.7 percent of the respondents are agreed with the question and 13.64 percent of them are disagreed and the remaining 10.22 percent are undecided with the question. Concerning the Lack of promotion to attract potential users 60.53, 14.49 and 25.00 percent are agree, undecided and disagreed respectively. Also 67.61 percent are agreed, 26.99 percent are disagreed, and the remaining 5.4 percent are undecided about Poor customer relationship and handling.

As it can be seen from the table above , it is possible to conclude that the total average 71.69 percent are agreed on the Marketing Factors are problem on the development of small scale Enterprises in the study area.

4.4.8 Entrepreneurial Factors

Table 13 Analysis related to Entrepreneurial Factors

Question	Response	Frequency	Percentage of total response	Grouped Response
Lack of motivation and drive	Strongly agree	109	30.97%	57.39%
	Agree	93	26.42%	
	Undecided	20	5.68%	5.68%
	Disagree	69	19.60%	37.21%
	Strongly Disagree	62	17.61%	
Total		352	100%	100%
Lack of tolerance to work hard	Strongly agree	109	30.97%	67.33%
	Agree	128	36.36%	
	Undecided	31	8.81%	8.81%
	Disagree	48	13.64%	23.87%
	Strongly Disagree	36	10.23%	
Total		352	100%	100%
Lack of persistence and courage to take responsibility for one's failure	Strongly agree	122	35.65%	70.87%
	Agree	124	35.22%	
	Undecided	32	9.10%	9.10%
	Disagree	36	10.23%	20.74%
	Strongly Disagree	37	10.51%	
Total		352	100%	100%
Absence of initiative to assess ones strengths and weakness	Strongly agree	103	29.21%	64.15%
	Agree	123	34.94%	
	Undecided	31	8.80%	8.80%
	Disagree	70	19.88%	27.08%
	Strongly Disagree	25	7.2%	
Total		352	100%	100%
Lack of entrepreneurship training	Strongly agree	134	38.07%	66.69%
	Agree	99	28.52%	
	Undecided	34	9.66%	9.66%
	Disagree	60	17.1%	23.63%
	Strongly Disagree	25	6.53%	
Total		352	100%	100%
Lack of information to exploit business opportunities	Strongly agree	146	41.47%	67.89%
	Agree	93	26.42%	
	Undecided	51	14.49%	14.49%
	Disagree	16	4.55%	17.62%
	Strongly Disagree	46	13.07%	
Total				100%

Source: Primary data from survey 2016/17

Among the entrepreneurial factors, lack of motivation and drive is one. This factors had got the result from the total respondents 57.39 Percent, 5.68 percent and 37.21 Percent are agreed, undecided and disagreed respectively. The second most important factor that affects the transitional development of small-scale enterprise is lack of tolerance to work hard. This factor score 67.33 percent agree 23.87 percent disagreed and the remaining 8.81 percent are undecided on lack of tolerance to work hard. This shows that more than 70.87, 9.10, 20.74 Percent of respondents agreed, undecided and disagreed respectively with that, they have the problem of tolerance to work hard.

Furthermore, the result of respondents indicates that lack of persistence and courage to take responsibility for one's failure is the third entrepreneurial factors that hinder the development of small-scale enterprises. As indicated in the table above regarding Absence of initiative to assess ones strengths and weakness, the result of respondents shows that 64.15 Percent ,8.80 percent and 27.08 percent agree, undecided and disagree respectively. Thus, it may be concluded that Absence of initiative to assess ones strengths and weakness is the main factor that hinder the development of small-scale enterprise. With similar to this, the table shows that Lack of entrepreneurship training is a problem of small scale development. The agreement on this factor is justified by the 66.69 percent s agreed and 23.63 Percent of disagreed and the remaining 9.66 percent undecided.

Similarly, the table indicates that Lack of information to exploit business opportunities hinders the transitional development of small-scale enterprises. This is justified by 67.89 Percent of agreed and 17.62 Percent of dis agreed respondents and the remaining 14.49 percent undecided. When we see from the table, the total average 65.65 Percent of the respondents' .agree as Entrepreneurial Factors affect the development of small scale Enterprises. From this result, it is possible to say that Entrepreneurial Factors contributed for hindering development of small scale Enterprises in the study area.

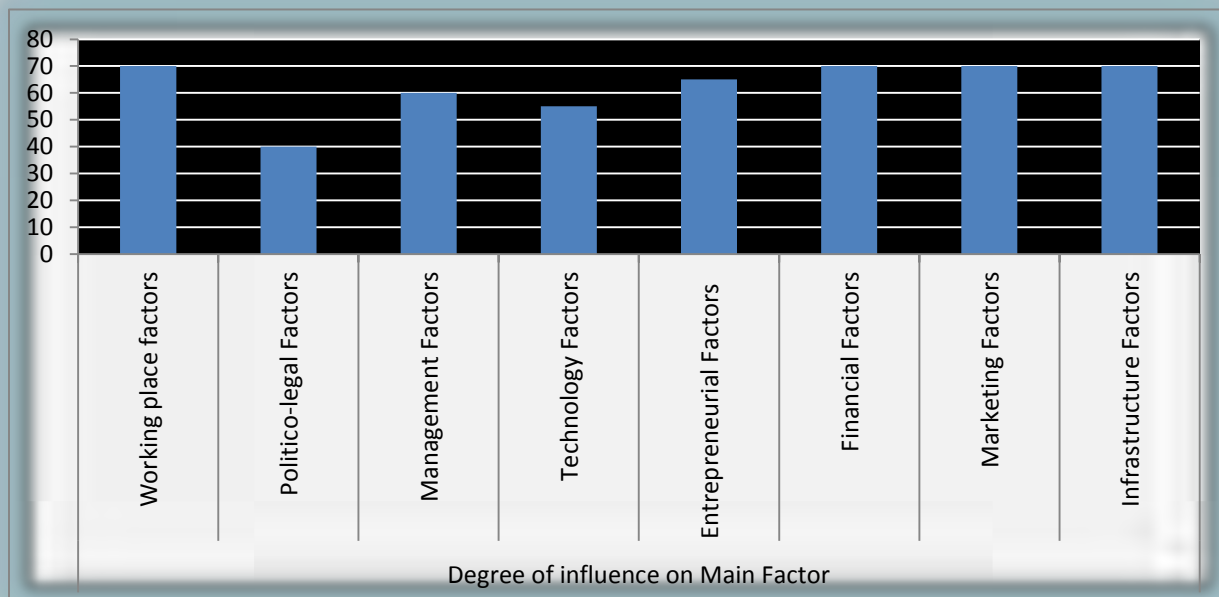
According to interview conducted with management of Oromia MSE agency and with the actors of the zonal MSE officials, it was confirmed that the main problem is dependency syndrome, lack of attitudinal change. They don't want to lose government supports i.e. audit service, credit, working place and market linkage, which became lease and asked to pay after transition. For the

reason that they do not show interest to develop in to growth medium enterprise, instead they hidden their capital, and human resource, they lose motivation, lock of initiative. According to (Fagge, 2004), lack of entrepreneur technical skill is one of the most often cited reasons for effective operation of small and medium enterprises. The author stated that low entrepreneur technical skills are problems militate against the effective operation of small and medium enterprises. Many entrepreneurs rush out to establish SMEs without having good and adequate technical skills.

4.5 Degree of Influence of Main Factors in Development of Small Scale Enterprise

Even if, all the legal, financial, management, marketing, working place, entrepreneurial infrastructure, and technology, factors affect the development of small scale enterprise, this does not necessarily mean that all factors have equal impact. The following graph clearly compares the overall impact of all key factors discussed in detail as the following.

Figure 4.3: Degree of Influence of Main Factors



Source: - Own field survey, 2016/17

It can now be seen that Infrastructural, Marketing and financial factors has the biggest potential to contribute to hinder the development of small scale, followed by entrepreneurial, technological, management, legal and Working Place factors. In other words, the result shows that Infrastructural, Marketing and financial factors are the three top most factors that affect the development of small scale Enterprise in the selected area. The closer analysis of the result leads to the conclusion that the above main factors affect the development of small-scale enterprise. According to ILO (2005) premises, markets, finance, supply arrangements, regulatory barriers and legitimization of entrepreneurial activity are among the most urgent.

4.6. Prospects for the Development of Small Scale in the Study area

In strengthening the contribution of MSEs for industrial development in the form of technologies development, employment opportunity, income generation and technical assistance from government have been facilitated. The incumbent government due attention for the growth and development of micro and small enterprises through different mechanisms and develop workable strategy for the sector, is playing a positive role. Among different mechanisms from the strategy, in providing necessary supports for entrepreneurs, facilitating market linkage, training, provision of working premises and different kinds of business development services might be considered as some of the working strategic mechanisms. The five-year Growth and Transformation Plan also gives particular attention to the growth, expansion and strengthening of micro and small-scale enterprises. The sector is believed to be the base for industrial development, major sources of employment and income generation for a wider group of the society. According to the Ministry of Finance and Economic Development Annual Progress Report for F.Y. 2010/11 around 542,000 jobs were created at the end of 2010/11. It shows that micro and small enterprises is given due attention in growth and development plan and it's also considered as one of the opportunities the sector gets from the government. Through time the micro and small enterprises changes into small industrial level and hence government from federal to local administration should attempt to supports the growth of the sector.

The local governments, provides working premises for the entrepreneur because having working land was one major obstacle for the growth and development of the sector. Providing working

premises, as officials said, improve the problem of capital of the entrepreneurs. From the result of respondents, we can assume that most of the operators want to develop their business, because the working environment made them to do more. In the future MSEs can play its role successfully by solving its problem. Ethiopian federal democratic republic government has paid due attention to the development of micro and small enterprises because they are important vehicles to the industrial development, economic growth and equity within the country. Considering the well importance of MSEs in base for industrial development, job creation, increasing income of households, reducing level of poverty, all stakeholders should make their own efforts in order to remove the constraints that have encountered in the MSE operators.

CHAPTER FIVE; Summary, Conclusions and Recommendations

5.1. Introduction

This chapter deals with the summary, conclusions and recommendations. For transparency purpose, the summary from Major Findings and the conclusions are based on the research objectives of the study. Recommendations are made to government bodies, to operators of MSEs and suggestion for other researchers.

5.2. Summary

The study revealed that the internal practice of planning in advance for different activities executed in the day to day operation of the enterprises for attaining pre-established goals.

- It is understood from the study that MSEs strongly Use formal record keeping and financial control mechanism in the enterprises day to day business operation.
- The Principal Owners have lack of Management Experience for different activities performed in the enterprises.
- More than half of MSEs involved in this study are owned and run by individuals with marketing skill, but still the need for training and development remains a high priority.
- There are problems related to government bodies at each level.

The implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices. It was found that factors like lack of coordination between actors, lack of knowledge, need of attitudinal changes, lack of support, problem of bureaucracy in Enterprises registration, lack responsiveness to the demands of the operators and lack of accessible information on government regulations that are relevant to their business are identified as focus areas of MSEs in study area.

- in relation to the financial factors there are inadequacy of credit institutions, lack of cash management skills, shortage of working capital, fear of high collateral requirement, loan application procedures and interest rate charged by banks and other lending institutions, are recognized as strategic focus part for government bodies in the study area. Since, it hinders the transitional development of small scale enterprises.

- It was found that factors like Poor organization, and selection of associates in business, ineffective Communication, lack of inaccessible training facilities, and strategic business planning, lack of clear division of duties and responsibility among employees, Lack of well trained and experienced employees is the main problem for hindering the transitional development of small scale Enterprise in study area.
- In relation to Marketing Factors, it is found that, there is lack of demand forecasting, market for their product, lack of knowledge of searching new market
- Relationship with an organization that conducts marketing research, lack of promotion to attract potential users, with poor customer relationship and handling, poor product quality to attract market, and lack of society understanding about small scale enterprise are a visible support and training gape from government sectors in market area.
- According to the result of the study, there is a visible working place problem in MSEs in the study area. These are justified by absence of own premises, inconvenient of Current working place and lack of facilitation of government
- Entrepreneurial factor is very important for the growth of business Enterprises. But factors like lack of motivation and drive, absence of initiative to assess ones strengths and weakness, lack of tolerance to work hard, lack of persistence and courage to take responsibility for one's failure, lack of entrepreneurship training, lack of information to exploit business opportunities, lack of choice in business type according their interest is the main problem in the operators of the Enterprises in the study area.
- It was found that factors like problem of power interruptions, lack of business development services, inadequate and irregular water supply are the main infrastructural factors in the study area, which need government attention.
- Technological Factors were confirmed by the respondents in this survey indicated that their businesses were constrained by lack of skills to handle new technology, lack of capital to acquire new technology, unable to select proper technology, lack of appropriate machinery and equipment for their business.

5.3 Conclusions

The issue of MSEs has been one of the top agendas of various policy makers and academics since time memorial. The reason for such favorite attention given by government is due to MSEs' indispensable role in creating wide job opportunities, improving household income and well-being, and boosting national economy. The findings of the present study have also proved that MSEs in Oromia regional state had significantly contributed to creation of new jobs.

Taking the data analysis and the findings in to account the following conclusions could be reached. Since the transition of small scale enterprise to medium enterprise is as crucial to preserve the flow of new small businesses into the economy and it will further reduce the unemployment rate and increase the number of products or services offered to the society.

This research was conducted in Oromia Regional state with the main objective of critically assessing the performance of Micro and Small Enterprises. Specifically, the study attempted to investigate contextual factors, to assess the internal and external factors. The study used both quantitative and qualitative approaches of research design; mainly used descriptive researches and recommend possible solution to alleviate the problem of MSEs.

Based on the objectives and findings of the study, the following conclusions are worth drawn. There are problems related to government bodies at each level. The implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices. 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, lack of support, lack responsiveness to the demands of the operators and accessible information on government regulations that are relevant to their business are the main problem which hinders the transitional development of small scale Enterprise in the study area. There is no clear policy to the MSEs in the position of growth development stage, which sector can follow up. For the reason that and lack of coordination between actors Weak supports and follows up, make difficult to know their weakness and strength entirely.

In addition officials/experts not define and identify the types of supports according to the enterprises level arrived in the study area. Because of no industrial zone established for growth

medium enterprises according to the strategy in all towns, it makes difficult to fulfill necessary input and it also creates threat on the new small scale Enterprises developing to medium enterprises.

The statistical result indicates that, there is the problem of dependency syndrome, and lack of attitudinal change in most operators in MSEs. They do not show interest to develop in to growth medium enterprise and hidden their capital, and human resource which is a criteria for transitional development. Also this study indicates that, factors like problem of power interruptions, lack of business development services, inadequate and irregular water supply are the main infrastructural factors in the study area which need government attention.

According to the findings of the research MSEs businesses were constrained by lack of skills to handle new technology, lack of capital to acquire new technology, unable to select proper technology, lack of appropriate machinery and equipment for their business.

The most important appropriate factors identified are financial, Marketing, working place, Entrepreneurial, technological, infrastructures, managerial factors and choice in business type according their interest is the main problem for hindering the development of small scale Enterprise in study area. The main cause for this problems are lack of coordination between actors, lack of attitudinal changes and knowledge, lack of support and responsiveness to the demands of the operators, in the side of government structure and problem of dependency syndrome, and lack of attitudinal change in most operators in MSEs. In general, the findings of this research show that the MSEs have great roles in industrial development by playing a base position. There are different constraints which hinder the transitional development of MSEs in the study area which can be solved in government body and operators themselves.

Therefore, it is important to draw some recommendations that can help to reduce the problems on MSEs and to encourage the development and expansion of the sectors.

5.4. Recommendations

The main interest of this paper was assessing the challenges and prospects of small and micro enterprises. On the basis of the major findings of the study, the following recommendations have been drawn with the view to improve the contributions of MSEs in Oromia regional state.

- It is better if Oromia regional government bodies provide affordable alternative sources of finance for MSEs. This can be done by communicating with the credit institutions to lessen their requirements.
- The regional government should strengthen the government institutions capacity at different levels, to play a major role in positively influencing the development of MSEs.
- The types of supports need for the MSEs in each level of growth should be identified and define to help according to their stage.
- Responsible bodies should act to tackle the lack of attitudinal change and knowledge or any motivational mechanism of officers by providing training and motivational mechanism.
- To avoid problems of appropriate selection of business type according to their interest, the officials working in MSEs should allow the operators to select type of business based on their preference and interest.
- To play MSEs their roles properly, the government body should strength coordination between actors in all level and Improve provision of necessary infrastructure.

Finally, investigating different factors based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. The focus for this study was on the Challenges, Prospects of Micro, and Small Enterprises. It is the researcher's view that future research could therefore investigate the other Challenges, Prospects of Micro, and Small Enterprises and come up with specific findings, which will potentially contribute a lot in the development of the country in general.

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APPENDIX

QUESTIONNAIRE

The following questionnaire is part of a survey being conducted on Assessing the performance of Micro, Small and Medium Enterprises in Oromia:- This information is purely for survey purpose and therefore its confidentiality is highly guaranteed. You are therefore kindly requested to provide accurate answer to the ensuring questions. Your co-operation and support will be appreciated.

SECTION A

1. Respondent's Gender

a. Male b. Female

2. Age

a. 20-35 b. 36 – 49 c. 50 -60

3. Education level

a. below grade 10 b. certificate c. diploma d.BA/BSC e.MA/MSC

4. Place of Work

.....

5. What is the main activity of the enterprise? _____

SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

The major factors that affect performance of MSEs are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, 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.

4 Please indicate the degree to which you agree with the following statements concerning politico-legal factors.

6	Politico-Legal Factors	1	2	3	4	5
6.1	The tax levied on my business is not reasonable					
6.2	Bureaucracy in company registration and licensing					
6.3	Lack of government support					
6.4	Political intervention					
6.5	Lack of accessible information on government regulations that are relevant to my business					
7	Working Place Factors					
7.1	Absence of own premises					
7.2	Current working place is not convenient					
7.3	The rent of house is too high					
8	Technological Factors					
8.1	Lack of appropriate machinery and equipment					
8.2	Lack of skills to handle new technology					
8.3	Lack of money to acquire new technology					
8.4	Unable to select proper technology					
9	Infrastructural factors					
9.1	Power interruptions					
9.2	Insufficient and interrupted water supply					
9.3	Lack of business development services					
9.4	Lack of sufficient and quick transportation service					
9.5	Lack of appropriate dry waste and sewerage system					
10	Marketing Factors					
10.1	Inadequate market for my product					
10.2	Searching new market is so difficult					
10.3	Lack of demand forecasting					
10.4	Lack of market information					
10.5	Absence of relationship with an organization that conduct marketing research					
10.6	Lack of promotion to attract potential users					
10.7	Poor customer relationship and handling					

11	Financial Factors					
11.1	Inadequacy of credit institutions					
11.2	Lack of cash management skills					
11.3	Shortage of working capital					
11.4	High collateral requirement from banks and other lending institutions					
11.5	High interest rate charged by banks and other lending institutions					
11.6	Loan application procedures of banks and other lending institutions are too complicated					
12	Management Factors					
12.1	Lack of clear division of duties and responsibility among employees					
12.2	Poor organization and ineffective communication					
12.3	Poor selection of associates in business					
12.4	Lack of well trained and experienced employees					
12.5	Lack of low cost and accessible training facilities					
12.6	Lack of strategic business planning					
12.7	Lack of motivation and drive					
12.8	Lack of tolerance to work hard					
12.9	Lack of persistence and courage to take responsibility for ones failure					
12.10	Absence of initiative to assess ones strengths and weakness					
12.11	Lack of entrepreneurship training					
12.12	Lack of information to exploit business opportunities					
13	General Factors Please indicate the degree to which you agree with the following factors that have a direct influence on the Performance of your business?					
13.1	Politico-legal factors					
13.2	Working space factors					
13.3	Technological factors					
13.4	Infrastructural factors					
13.5	Marketing factors					
13.6	Financial factors					
13.7	Managerial factors					
13.8	Entrepreneurial factors					

14. In your opinion, what are the barriers to the development of the SMEs in Oromia?

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15. What are some of the sources of financing your Business?

A. Personal saving B. Family C. Banks D. NGOs E. Friends/Relatives F. Iqub/Idir

G. Local Money Lenders H. Micro finance institutions

I. Others (specify) -----

16. Have you taking loan from any Financial Institution before?

a) Yes b) No

17. If yes was there any difficulty in obtaining the Loan?

a) Yes b) No

18. How do you access the rate of interest from the Financial Institution?

a) Very Low b) Low c) Satisfactory d) High e) Very High

19. Does your products enjoy monopoly in the district?

a) Yes b) No

20. If no, what kind of goods does the product compete with?

a) Local goods b) Other Districts c) Foreign goods

21. What effect does the importation of foreign goods have on your business?

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22. In your opinion, do you think SMEs' have challenges in their operations?

a) YES b) NO

23. If yes state some of the challenges

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24. Explain how these challenges can be solved

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QUESTIONNAIRE TO BE FILLED BY SME'S DEVELOPMENTAL

ORGANIZATION

The following questionnaire is part of a survey being conducted on Assessing the performance of Micro, Small and Medium Enterprises in Oromia. This information is purely for survey purpose and therefore its confidentiality is highly guaranteed. You are therefore kindly requested to provide accurate answer to the ensuring questions. Your co-operation and support will be appreciated.

SECTION A

1. Respondent's Gender

. Male b. Female

2. Age

a. 20-35 b. 36 – 49 c. 50 -60

3. Place of Work

.....

4. Position/Rank

SECTION B

5. What role do your organization provided to promote SME's?

a. Training b. Advisory Services c. Referral Services d. Others Specify

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6. Is SME's sustainable industry in Oromia?

a. Yes b. No

7. If yes provide reasons

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8. If no provide reasons

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9. List the challenges that face SME's? Please specify in order of ranking.

a.

b.

c.

d.

10. Why do you see them as challenge?

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11. In your view how can these challenges be solved

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.....

12. Does your organization provide credit to SME's?

a. Yes b. No

13. If yes in what way?

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14. Does your organization have policies for SME's?

a. Yes b. No

15. If yes state some of the policies.

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.....

16. What do you think government should do to develop SME's? Please specify

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.....

17. Why is it that a lot of SME's in Oromia do not grow?

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