Prospects and Challenges of Micro and Small Scale Enterprises in Adama City, Ethiopia

Bisrat Tekle Woldearegai, Trisingh Pattamajhi Asima, Babita Das

Abstract: This study was aimed to assess prospects and challenges of micro and small scale enterprises in Adama city. A descriptive survey design was employed. A survey questionnaire which included both the close ended and the open ended questions, observation and document review were used as data collection tools of the study. The study used stratified random sampling technique to select the sample and accordingly about 116 MSE respondents were selected from a list of registered micro and small scale enterprises which obtained from Adama city micro and small scale development office. The result of the study showed that limited finance, lack of awareness about policies related to MSE, lack of business development services and internal management related problems are the major challenges of MSE in Adama city. This finding implicate for the need of further research by taking large sample from various micro and small scale enterprises.

Keywords: MSE, Awareness, Adama City, Small Scale Enterprise.

I. INTRODUCTION

1.1. Background of the Study
Micro and Small Enterprises, in the realm of economy, play a momentous role in the development process particularly in developing countries. This role showed an increment from time to time. Among its contribution, poverty alleviation, employment generation, local economic development as well as formalization of informal sector activities are some. Perceiving Micro and Small Enterprises as marginal and underproductive sector which is in the 1950s and 1960s has shifted and started to be viewed as a means of efficiency use of resource and sustainable development in the 1990s (Tegene and Mulat, 2005). MSEs, in all successful economies, are seen as an essential spring board for growth, job creation, and social progress. They are also considered as an engine to create employment, more equitable income distribution; activate competition; exploit niche markets; enhance productivity and enhance technical changes (Getahun, 2016).

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Micro and Small Enterprises, due to their better knowledge of local markets, use of indigenous technology and low level of capital requirement increase the flexibility of the economy and hence accelerate local economic development. They also play a role in formalizing informal activities in the economy of developing countries. As a result, the term informal sector is often being replaced by Micro and Small Enterprises (Bevan and Joireman, 1997). Micro and Small Enterprises are characterized by highly diversified activities and heterogeneity in size, location and sector both in the formal and informal economy. In general, Micro and Small Enterprises are understood to be the nucleus for new and larger enterprises by creating forward and backward linkages.

In Ethiopia, the characteristics of Micro and Small Enterprises are very similar to the rest of the developing countries in terms of their diversified activities and heterogeneity as well as use of traditional means of production. Micro and Small Enterprises are also considered to be an important alternative due to their role in absorbing manpower in large quantities as well as their lower requirement of capital. The sector is believed to contribute to the rapid economic growth and income distribution using the skill and talent of the people with low level of training, with minimum capital as well as provision of the basis for medium and large-scale enterprises (Tereda, 2014; MOTI, 1997).

In spite of their significance in triggering and sustaining economic growth and equitable development in both developed and developing countries, there are several constraints that hinder effectiveness of MSE. These constraints include unfair competition from the formal sector, poor access to land and infrastructure, lack of access to finance and requirements for collateral, low productivity of human resources, and corruption (Amin, 2007).

Adama is a commercial city in the country. The expansions of MSEs created various opportunities. The growth rate of MSEs is steady though these positive factors are there (Oromia Micro and small Enterprises, manual 2003-2006 as cited in Tesfaye, n.d).
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In view of the above stated reasons, this study endeavored to identify the prospects and challenges of micro and small enterprise in Adama city, Ethiopia.

1.2. Statement of the Problem
Micro and small enterprises are becoming crucial and a key factor for sustained growth and development of economies of the world principally in developing countries (Gosho, 2015). They are recognized as driving force and an integral component of economic development. It plays this role by creating job opportunities the growing workforce, dynamic market oriented economic growth and promoting democratization. It is believed as a crucial element in haul upping the countries out of poverty. The sector is viewed as a key driver of economic and social development in many developing countries. They represent a large number of businesses in a country, bring about much wealth and employment and are widely considered to be vital to a country’s competitiveness. Pertaining to this, Pelham (2000) have found out that MSEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development.

In Ethiopia, micro and small enterprises (MSEs) are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non agricultural sectors. In recognition of the important role MSEs have to play in creating income and employment opportunities and reducing poverty, the government drafted its first micro and small enterprise development strategy in 1997. Despite having immense contribution in creating job opportunities and building the economy of developing countries, MSE operation and growth have been persistently challenged by numerous factors, even a significant number of MSEs in different parts of the country have collapsed and goes out of operation (Gebrehiwot and Welday, 2006).

In Ethiopia many studies have been conducted on micro and small scale enterprises. Getahun (2016) argue that due to the MSE sector play huge role in solving the problem for its intensive labour intake (Getahun, 2016). Other study by Selam (2011), on the role of MSE in improving the socio economic status of women, identified that the informal sector is the major source of employment for significant number of citizens both in rural and urban areas (Selam, 2011). This studies focus on role of MSE in creating employment opportunities for citizens of the nation. However after 1997, on wards the government put special emphasis on MSE development. The micro and small enterprise development strategy has started implementation in Ethiopia with the aim of reducing urban unemployment, poverty and bringing economic development. Due to this, promoting MSEs has been taken as a tool in Adama city, like other cities of Ethiopia. In the past six years (20012-2018), more than 13460 micro and small scale enterprises have been established in Adama city. Even though all of the enterprises were expected to graduate into the next level every two years, most of them are not on the status to graduate. This indicates that, despite having contribution in creating job opportunities and building the economy of the country, MSE operation and growth have been challenged by numerous factors. Thus, this study aims to identify those prospects and challenges of MSEs in Adama city, Ethiopia.

1.3. Objectives of the Study
1.3.1. General Objective of the Study
The main aim of this study was to assess prospects and challenges of micro and small scale enterprises in Adama city, Ethiopia.

1.3.2. Specific Objectives of the Study
The specific objectives of the study were:
• To assess prospects of micro and small scale enterprises.
• To identify the challenges of micro and small scale enterprises.
• To identify possible measures to overcome challenges of micro and small scale enterprises.

1.4. Conceptual Frame Work
In this study, the independent variables are initial capital, operational location, loan/ credit, formal linkage, business development service, government support and internal management while performance of MSE is dependent variable.

**Independent Variable**

- Initial Capital
- Operating Location
- Loan Credit
- Formal Linkage
- Business Development Service
- Governmental Support

Dependent Variable Performance of Micro and small scale enterprises

Fig.1. Conceptual frame work of the study

**II. METHODOLOGY OF THE STUDY**

2.1. Description of Study Area
This study carried out in Adama city of Oromia Regional State, Ethiopia. The city is located 92 km South-east of Addis Ababa on the highway to Djibouti. Based on the information obtained from the Council Office of the City, it has six sub cities and 18 kebeles with the area of 31,457 hectares and its population is estimated to be 427,302.
2.2. Study Design
A descriptive survey design was used. Descriptive survey design was chosen because it is appropriate for educational fact finding as it yields greater deal of information which is accurate. It also enables researcher to gather data at a particular point in time and use it to describe the nature of existing conditions. The study analyzed the quantitative data using Pearson correlation coefficient and Chi-Square test for the purpose of determining correlation and association between variables.

2.3. Target Population
The target population was drawn from all micro and small scale enterprises in Adama city which were established in 2016. The total micro and small scale enterprises registered with Adama city administration micro and small scale development office in (2016) were 1975 enterprises. The businesses in operation are construction, trading, urban agriculture, manufacturing and service provision.

2.4. Inclusion criteria
All micro and small scale enterprises which are established in 2016 only included in the study.

2.5. Sample Size Determination
To determine the sample size of the study, the researchers applied a simplified formula provided by Yamane (1967) in order to determine the required sample size at 95% confidence level, degree of variability \( \sigma = 0.5 \) and with the level of precision=9%.

\[
Ss = n \times N \, \text{strata/ N total, where } \ n=\text{sample size, } N=\text{population of the strata, } N \text{ total=total population}
\]

According to the above formula, the sample size will be a minimum of 116. And this research paper surveyed to 116 respondents.

2.6. Sampling Techniques
The study used stratified random sampling technique to select the sample. This total sample size is proportionally distributed to each stratum. To determine the sample size of the study from each stratum the researchers employed formula of proportionate stratified sampling, \( Ss=n \times N \text{strata/ N total} \), where \( n=\text{sample size, } N=\text{population of the strata, } N \text{ total=total population} \)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of enterprise in 2016</th>
<th>Ss=n X strata/ N total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>387</td>
<td>23</td>
</tr>
<tr>
<td>Construction</td>
<td>266</td>
<td>15</td>
</tr>
<tr>
<td>Urban Agriculture</td>
<td>153</td>
<td>9</td>
</tr>
<tr>
<td>Service</td>
<td>710</td>
<td>42</td>
</tr>
<tr>
<td>Trading</td>
<td>459</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>1975</td>
<td>116</td>
</tr>
</tbody>
</table>

(From: Adama city MSE development office)

This sampling design was used because the population of study was not homogenous and was to be sub-divided into sub-units namely construction, trading, urban agriculture, manufacturing and service provision. The reason behind the selection of stratified random sampling is that its ability to ensure inclusion of sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population. To select respondents from each strata simple random sampling method, lottery method is employed.

2.7. Data Collection Instruments
The study used survey questionnaire to collect data. The questionnaire comprised closed-ended questions and few open-ended questions which aimed to provided additional information that would not be captured in the close-ended questions. Self-administered questionnaire prepared with English language, and translated into Amharic and Afan Oromo to fit respondents. Document review (secondary data) was also used.

2.8. Method of Data Analysis and Interpretation
The analysis of data was done using both qualitative and quantitative analysis tests/tools. The quantitative data filled in and manipulated using SPSS V.20, and analyzed using frequency, Chi-square and Pearson Correlation coefficient. The outcomes of the study were demonstrated by tables and charts. The qualitative data described following the quantitative for aim of substantiating it.
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III. RESULT AND DISCUSSION

3.1. Respondent’s Distribution by Type of enterprises

According to Fig 2, out of total of 116 samples MSEs 23(19.83%) of them engaged in manufacturing. The majority 42(36.21%) of them engaged in service providing sector, while about 15(12.92%) and 9(7.76%) of sample MSEs engaged in construction and Urban agriculture respectively. The remaining 27(23.28%) of sample MSEs engaged in trading. As depicted in Fig 2, majority 42(36.21) of sample MSEs established in 2016 engaged in service provision sector this imply that significant number of MSE operators in urban centers prefer service provision over other sectors.

3.2. Distribution of Sample MSE operators by Age Group

As can be shown in table 4 above, the majority of the operators of MSEs are in the age range of 24-29, which represents youth population. Majority of them fall in the working age group. Such productive work force is often believed to be an engine for the overall development of a country. Therefore, it can be drawn that majority of the MSE operators are youths who has better energy and speed that would help to produce more. It is among the major resource by which the country’s desired economic development can be attained by. Being dominantly filled by a working age group proves that the sector is important instrument for the economic development of the country where significant number populations are youths.

3.3. Respondent’s distribution by Startup capital

Table 5, indicates that the amount of initial capital of MSEs for starting business ranges from 0-80,000 ETB. As depicted in the above table majority MSE operator’s initial capital were between 0-20,000 ETB. When the sectors compared, there is no major difference among sectors. Majority of all the sectors were their initial capital between 0-20,000 ETB that was 71.02% of Sample MSEs.
Regarding initial capital to establishing micro and small scale enterprises, the finding of this study is consistent with the finding of a study on urban informal economy in Kenya by (Karagu and Otieno, 1994, as cited in Selam 2011) that stated the micro and small scale sector attracts large number of youths every year. This is because it is possible to start the MSE business with no or little initial capital.

3.4. Respondents’ distribution by source of initial capital

As illustrated in Fig 3. larger portion 70(60.34%) of sample MSEs reported they got the startup capital for establishing their business through loan from credit association. While the remaining 30(25.86%) and 16(13.79%) of sample MSEs reported they got the startup capital for establishing their business from family support and members contribution. Regarding the source of start of capital to establish MSE business from the finding of the study one can understand that credit associations are back bone of the MSE sector. Moreover families have positive attitude towards MSE sector. Therefore government and other stake holders need to support development and expansion of credit associations and create awareness about role of MSE in reducing poverty and creating job opportunities.

3.5. Respondent’s Distribution by Current Capital

According to the researcher survey, majority 61.33% of the enterprises have current capital above 80,000 ETB. About 28.46% of the enterprises have current capital between 60001-80000 ETB. The remaining 8.47% and 1.75% of the respondents have current capital between 40001-60000 ETB and 20000-40000 respectively. By comparing initial capital of the MSEs with current capital, there are significance differences in the capital amount invested. From the finding of the study it is possible to argue that the MSE sector plays significant role in profit maximization, therefore government must have to give attention to its development.

3.6. Relationship between Initial capital and Current capital

Pearson’s Product Moment Correlation Coefficient was computed in order to examine the relationship between initial capital and current capital.

As it is clearly indicated in the above table 7, a strong positive relationship was found between initial capital and current capital (r = .387, p < .01), which are statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the initial capital plays a significant role in determining the current capital.

3.7. Respondents Response about Availability of Operating Location

The following graph shows respondents response about availability of operating location/working area.

As it is clearly indicated in the above table 7, a strong positive relationship was found between initial capital and current capital (r = .387, p < .01), which are statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the initial capital plays a significant role in determining the current capital.
As showed on Fig 4, large portion (97.27%) of sample MSEs reported that they have operating location/working area. Location, particularly in the case of sales outlets, can play a central role in determining the survival of small enterprises. It is generally believed that those who operate in commercial districts or at the roadside typically show higher growth rates than those that are based in private homes or are far away from main roads. However significant number of respondents reported that even though they have operating location /working area the area is not suitable for their business. Distance from market area, narrowness, Non availability of infrastructures such as electric city and water, are the major reasons that reported by respondents that make the operation location unsuitable.

3.8. Performance of MSE and Operational Location

Table 8. The Association between Operation Location and Performance of MSE

<table>
<thead>
<tr>
<th>operation location</th>
<th>Chi-Square</th>
<th>Df</th>
<th>Asymp Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>104.310*</td>
<td>1</td>
<td>.000</td>
</tr>
</tbody>
</table>

Chi square test was used to estimate the degree of relationship between the performance of MSE and operational location. Accordingly, the chi-square test result is 104.310, with a p-value of .000. From this result, it can be concluded with 99% confidence that the performance of business significantly within the operational location. Therefore, the operational locations are a significant positive association with the performance of MSEs.

3.9. Respondent’s response about their attitude towards obtaining credit/loan

The respondents in the study sites were asked about their attitude to obtain credit /loan facilities and the reported that

Fig 5. Respondents Response about their attitude towards loan/credit
(Source: Own Field Data, May, 2018)

As demonstrated in Figure 5 above, the majority (60 or 51.72%) of MSE operators in the study sites reported that they obtain loan/credit for the operation and expansion of their businesses. About 45(30.79%) of operators do not obtain loan while 11(9.48%) of respondents showed no interest in taking credit, for various reasons. Regarding access to loan the finding of this study is different from the argument of Abdullah and Baker (2000: 34–36) who point out that small firms are still short of credit despite the fact that there are many indigenous financial institutions available that extend credit facilities. High collateral requirements, group-lending requirements, high interest rates and short repayment periods were the main factors making access to loan difficult.

3.10. Respondent’s response about the adequacy of the amount of credit/loan

Fig 6. The Adequacy of the Amount of Credit/Loan
(Source: Own Field Data, May, 2018)

As can be seen from Figure 6 above, out of 60 sample MSEs which have access to loan/credit 30 (50%) of them reported that the loan was not sufficient. While 10 (16.67%) of the respondents reported that the amount of the loan was moderate, the remaining 20 (33.33%) of them reported that the loan was sufficient. This implies that formal financial institutions were not meeting the credit demands of their clients, although they frequently claim that they are created to fulfill the credit needs of small enterprises. In fact, the survey found that these institutions had a long way to go in improving their service delivery and enhancing their capacity to meet the credit needs and preferences of their clients.

3.11. Respondent’s response about availability of formal and well-organized linkages

Fig 7. Respondent’s response about availability of formal and well-organized linkages
(Source: Own Field Data, May, 2018)

As illustrated in the Fig 7, majority of sample MSE operators reported that they do not have formal and well organized linkage with either among themselves or with other institutions. Only about 20(17.24%) of sample MSEs reported that links among themselves or with other institutions such as government sector offices and other consumers. According to this finding majority of MSE operators’ do not have formal and well organized links and this may result in stagnation of enterprise. In a free market economy especially with stiff competition marketing is a key factors for the successes of micro and small enterprise (Gebertinsae, 2003).
As stated on the above Figure majority of the respondents reported that they do not have the access to market. This shows that sector are facing a serious problem related to its access to market.

3.12. Respondent’s response about availability of business development services

Business Development Services (BDS) are wide variety of non-financial services such as training, counseling, technology development and its diffusion that enable small enterprises to become productive and to effectively reduce poverty by contributing to the development of local economy.

Fig 8. Respondent’s response about availability of business development services
(Source: Own Field Data, May, 2018)

As showed above majority 51.74% of respondents reported that regular business development service is not available. About 22.41% of respondents reported that business development services are available but not sufficient. Only 30(25.86%) respondents reported business development services are available. According to the finding of study significant number of respondents reported that business development services are not available and not sufficient. This may result in poor productivity of MSEs the study area.

3.13. Respondent’s response about Availability of Government Support

Fig 9. Respondent’s response about availability of government support

As illustrated in the above Fig 4.8, significant number of sample MSEs reported that government support is available for the sector. About 20(17.24%) of respondents reported that there is no government support they receive. Out of sample MSE that reported availability of government support significant number of them believe that the support provided by government is not sufficient or not in the desired amount. The respondent are also asked what type of support government provides to them; reducing tax, encouraging the sector to start by providing lands market advantage and loan availability are the major supports provided by government. Generally the support of government in city toward the sector is less, for development and expansion the sector needs support from different stake holders and government.

3.14. Respondent’s response about their awareness of policies and strategies related to MSE

As showed on above figure large number 86 (74.14%) of MSE operators have no or little awareness of the national MSE development policies and strategies. About 20(17.24%) of respondents reported that they have high awareness of the national MSE development policies and strategies. Only 10(8.62%) of respondents reported that they have very high awareness of the national MSE development policies and strategies.

From the finding of this study one can understand that majority of MSE operators have no or little awareness about policies and strategies that directly and indirectly have on their business activities. This will have negative impact in expanding and developing their business.

3.15. Respondent’s response about internal management in their MSE

Fig. 11 Respondent’s response about Internal Management in their MSE

As showed in fig 11, majority 51(43.97%) of respondents reported that internal management in their MSE is poor. While about 40(34.48%) of respondents reported that internal management in their MSE is good. The remaining 25(21.55%) of respondents reported that internal management in their MSE is very good.

From the finding of this study one can understand that in the study area significant number of owners and managers of MSE lack basic managerial skills and knowledge. Many researchers and practitioners claim that one of the major causes of small business failure is poor management.

Lack of strategic business planning, Lack of experience in owning/ managerial a business, Lack of clear division of activities and duties, and Personal problems (health, social) of owner/manager are the major internal management related problems of MSE sector in the study area.
Therefore, if they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources of their MSE. This finding of study is supported by the assumption of "Active learning model" that argues owners or managers could raise their competence through formal education and training that enhances their talents. Businesses run by entrepreneurs or managers with higher formal education and training would therefore be anticipated to grow faster.

IV. CONCLUSION AND RECOMMENDATIONS

Based on the findings of the study the following conclusions were made: The major challenge that the majority of MSE facing is limited finance. This is mainly associated with unfavorable terms and conditions of the loans making it hard for entrepreneurs to access such loans. This is coupled with lack of collaterals making it hard for microenterprises to experience any significant growth. Therefore, government action is necessary to assist potential start-ups and disadvantaged groups in society.

The other challenge that hinders the effectiveness of MSE according to the finding is that lack of awareness about policies. Majority of MSE operators have no or little awareness of the national MSE policies and strategies. This gap is influencing both directly and indirectly the effectiveness of MSEs. Thus, government and other stake holders need to create awareness about policies and strategies relate to the sectors during establishing enterprises.

Unavailability and insufficiency of business development services are the challenges. This may result in poor productivity of MSEs the study area. The government and other stake holders have to provide training and counseling for MSE operators before and after establishing MSE.

Internal management related problems are the other changes which significant number of MSE had. This is resulted from most leaders and managers of MSE which they lack basic managerial skills and knowledge. Therefore, if they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources of their MSE.

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