Understanding Challenges of Small Micro Enterprise Development in Ethiopia
(A Case of Adama Town, Oromia National Regional State)

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Abstract: The study has conducted in Adama town of Oromia National Regional state, to understand the policy constraints and challenges facing small micro business enterprise. The study employed 120 sampled members selected from six small micro enterprises, which has selected from 60 business enterprises (20 members from each of woodwork, metalwork and cobbled stone business works). The data were analyzed by using descriptive statistics. Accordingly the study result points out the challenge and problems facing the small business enterprises which including; shortage of credit, high interest rate, lack of collaterals for guarantees of loan, lack of work place for business operation and its high rent, and poor marketing net work as the measure challenges. In addition, the study verified the policy constraints, which includes; poor credit supplying policy and policy constraints on providing sufficient managerial and entrepreneurial skill as the measure constraint which challenging the study small business enterprise in the study area of Adama town.

Keywords: Small Business Enterprise, Challenges and Policy Constraints

I. INTRODUCTION

Background

In developing and least developing countries, the developments of small and medium micro enterprise have a fundamental role in contributing for the infant economic developments. Moreover, the small and medium small micro enterprise have a vital role in developing and least developed countries in creating employment opportunities and for generating of incomes which further used for reduction of poverty and maintaining family food security in poor countries, where, their economy on the infant stage and not capable of for creating employment opportunities. Furthermore, the development of and expansions of small and medium micro enterprise in least developing countries have a crucial role in creating entrepreneurial capability and for further transferring to medium and large industries (Ademasu, 2012). On the other hand, as mentioned by Feeney and Riding (1997) the employment creating capability of small and medium enterprise and its increasing entrepreneurial spirit and its foundation for the developments of industrialization are the measure key factors. Hence, this motivates the least developing and developing countries Government to motivate and to give attention for the developments of small and medium micro enterprises. Furthermore, small and medium micro enterprise contributes a lot for the realization of the policy of free market economy. Moreover, as mentioned by Stephen and Wasu (2013) small and medium micro enterprise has a fundamental and crucial role in developing and least developed countries. For example, as the study revealed, about 90% of the small private enterprise in Africa failed under small and medium micro business enterprise, which indicates the small and medium micro enterprise have a great share in creating employment opportunities, improving incomes and for economic developments of poor countries of sub Saharan African countries. Moreover, as mentioned by Amentie et al (2016) small and medium small business enterprise are strategically important for entrepreneurship growth and development, hence they mitigate the monopolistic power of large enterprises and increase the perfect competitiveness of the markets. Beside, the small micro enterprise has contribution for innovations and economic growth of least developed and developing countries. Ethiopia is one of the sub Saharan African populated and poor countries, with the approximated populations of about 100 millions (CSA, 2017). Though the countries underdeveloped and poor economic growth, the problem of youth unemployment, poverty and food insecurity has been long lived in the country (Weretew, 2010; Solomon, 2004; ILO,2003). For the last two decades of Imperial and Military regime, the country focus in developing polices tools and agenda in reducing the problem of unemployment and for maintaining of national economic growth and development. Moreover, during the period adopting and development of small micro enterprise as a policy tool of reducing unemployment has under estimated and insignificant (Hagose, 2012; Gebreyesus, 2009). With the emergence and rise of the current Ethiopian People’s Republic Democratic Front (EPRDF) since 1990 the new development policy were constructed. Accordingly, the country has begun implementation of the integrated development plans in 2002. The first being Sustainable Development and Poverty Reduction Program (SDPRP)
which covered the past three years 2002/03-2004/05. During the era, developing of small and medium small micro enterprise as one of the policy tool for improving the income of poor and reduction of unemployment were one of and the policy inclusive. During SDPRP, period the country began to register better economic performance with an average GDP growth of 6.7% per year and an average annual per capita income growth rate of 3.65%. Beside, the second and third years of SDPRP period registered double digit economic growth with annual rates of 11.9% and 10.6% respectively (MoFED, 2010). In addition, the country set Growth and Transformation Plan (GTP1) from 2010-11-2014/15 and Growth and Transformation Plan (GTP2) from 2015-2020 with the main agenda to eradicate national poverty and to bring up the national economy to the medium income countries (MOFED, 2012). Moreover, the main concern of Growth and Transformation Plan (GTP2) were modernization in the development of the agricultural sector, expansion of industrial development through developing small and medium micro enterprise as aground with primary focus on light manufacturing, developments towards, realizing of Ethiopia’s vision of becoming a lower middle income country by 2025 (GTP,2015/16).

Beside as mentioned by CSA (2004) more than half percentage employment creation was by small micro enterprise of private, partnership, and private micro business. However, the success of small micro enterprise in achieving the police objectives of reducing the problem of unemployment and improving the incomes of the participants in the business were not as expected (Turunesh, 2011; Garoma, 2012). As the study by Eshetu and Mamo (2009) and Tomas et al (2017) revealed, the small micro enterprises has failed to reduce the problem of unemployment and in improving participants income, which results from in appropriate policy development in supporting the developments of and supporting of the small micro enterprise business participants. Thus, this indicates the small micro enterprise in Ethiopia operates under none conducive and poor government policy supports for the developments of the enterprises. In addition, the study result by Admasu and Rao (2015) mentioned and identified that, the policy constraint in supporting the growth of small business micro enterprise at national level and the failures of supportive sector like the support from financial institution in supplying credit for the members were as the measure constraint and failures of small micro enterprise in Ethiopia. Similarly the study result by Gebrehwot and Wolday (2004); Ageba and Amha (2004) also revealed, similar results of poor policy development of the country in supporting and providing incentives for the developments of small micro enterprise, like lack of credit for the business, work place and demanding of collateral were the measure constraint and challenges. Moreover, demanding of pre saving of about 10% of requested capital for the loan by credit supplying financial institutions, which is beyond the capacity of the small micro enterprise entrepreneurs for the emergency of their business were the other problem and challenges. Furthermore, the small and medium micro enterprise in Ethiopia accounts 98% of the industrial sectors and the small micro enterprise business accounts about 65%. However, the growth and its expansion to achieve in improving the problem of unemployment and improving income and reduction of poverty is below expected and approach to the grounds (Habtamu et.al, 2013; Haftu et.al.2009; Hailemichael, 2014; FDRE,2010; Mekonnen,2013). Moreover, the persistent failure and none successful of the small micro enterprise in Ethiopia in achieving the policy of reducing problem of unemployment and business participant livelihoods was the main indicator for the failures and under developments of industrial sectors in Ethiopia. Further, hence the industrial sector contributes and supplies raw materials for agricultural sector; failures of small micro enterprise and industrial sector also have spillover effect on the developments of agricultural sectors (Werotaw, 2010; MSE, 2011; Markos, 2015; Zeleke, 2009). The selected study area Adama Town is one of the main and big towns where service sector and industrial sector grown at national level. Moreover, the town is the first service sector and small micro enterprise growing town of Oromia national regional state. Furthermore, the small micro business enterprise is the main regional policy tool used for reductions of problems of unemployment in the town and for improving of the income of poor and for further improving of their livelihood sustainably. Thus, understanding of the success of, effectiveness or failures of small micro enterprise in achieving the policy objectives of reducing the problem of unemployment and in improving of participant income has a fundamental role. Accordingly, based on the above reviewed empirical literature and facts the main objectives of this article are; to provide a clue and conceptual idea on the policy constraint for developments of small micro enterprise and challenges and problems facing the small micro enterprise entrepreneurs in selected study area of Adama town of Oromia national regional state.

II. DATA AND METHODOLOGY

Description of the Study Area

The study area Adama town is located in the eastern Ethiopia of central rift valley of Oromia national regional state. The town has 95 km far distant from the main capital city of Addis Ababa to the east. The inhabitant in the town has more dominated by Oromo ethnicity and with limited inclusive of other Ethiopian ethnicities. The total population of the town is about 82,225, which constitute 43510 male and 38715 female populations where, 75% of the populations has inhabitant of rural areas. The agro climatic ecology of the area has exhibits typical characteristics of semi-arid environments of weyina dega. The yearly maximum temperature

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ranges from 19 to 27 degree centigrade, while the minimum temperature ranges from 8.1 to 19 degree centigrade. The annual rainfall in the town is about 742 mm, which occurs from July to September, and this season is locally termed as Genna (which means main rainy season in Afar Oromo). On the other hand, the other rainfall regime, on the town called Afrasa, which occurs from the month of February to April (OWWSDE, 2008).

**Sample Design and Methods of Data Collection**

For this study to select the study small micro enterprise and sample households, the study utilized three stage stratified simple random sampling by purposively selecting the study small micro enterprises engaged on metal work, wood work and coble stone works to classify the study villages/kebele’s into different strata’s. Finally, the study selected 120 sampled households (members) in the business from purposively selected six small micro enterprises (from, metalwork, woodwork and coble stone small micro enterprises) which selected from 60 micro enterprises by using proportionate simple random sampling. For proper answering of the study objectives, primary and secondary data has utilized. For primary data collection, the study employed structured interview questioners, Key Informant Interview (KII), Focus Group Discussion (FGD) and personal observation methods. Beside, before data collection, field visit has made on each kebeles with Adama town small micro enterprise experts to understand the enterprise member’s business operation environments and to understand the physical problems the members of the enterprise facing. Following the field visit before primary data collection has ongoing the interview questionnaires has pre tested, checked, and a sort of error correction has made on the overall structures and contents. On the other hand, secondary data has collected from different international, national and regional institutions and from past review of literature related to the study.

**III. METHOD OF DATA ANALYSIS**

To achieve the study objectives and to undertake the overall analysis of collected primary and secondary data, the study utilized descriptive statistics methods. The descriptive methods have utilized to compare the demographic and socio economic characteristics of sampled enterprise members from selected business small micro enterprises (woodwork, metalwork and coble stone works) and to interpret the collected raw data meaningfully.

**IV. RESULT, DATA PRESENTATION, AND DISCUSSION**

**Demographic and Socio Economic Characteristics**

The study employed 120 sampled members by selecting 40 sampled household members from each selected small business micro enterprises in the selected study area of Adama town. Based on the survey result the study revealed that, the average age of sampled households are 27, with minimum and maximum age of 22 and 29 respectively. Thus, from the survey result one can understand that, the members of the study small business micro enterprise in the study area were on the young and active age level. Therefore, this implied that, the young age of sampled members of the selected study business enterprise have a fundamental role on their business development and to bring a dynamic change, hence their demands young and active labor. Moreover, young age have advantages to easily understand entrepreneurial skill and training given from governmental and none governmental institutions for their business operation and capacity building. On the other hand, gender and level of education of sampled members have their own vital role. Hence, one of the main government objectives are to reduce women unemployment rate through participating and giving a priority for women’s in small business micro enterprise to improve sustainably their livelihoods at national and regional level. However, as the survey result revealed, the participations of women’s in selected small micro business enterprise in the selected study area has very low and near to the grounds. As the survey result mentioned women participants has constituted only (17%) of the sampled members of selected small micro business enterprises. Nevertheless, as the study point out, 17% of participant, women’s has participated in cible stonework only and none of themes has participated in selected small micro business metalwork and woodwork. Thus, this indicated that even though one of the main government objectives were to participate women’s in small micro business enterprise to resolve the long stayed women livelihood problems, yet the objective were not achieved in selected study area. Therefore, it demands regional government attention to resolve this problem and to put a sort of directions and the way in which women participation has improved sustainably.

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However, as the survey result point out, (83%) of sampled members have male participants. Thus, as mentioned by focus group discussion with each business enterprise leaders, the implication on behalf of this outcome is nationally and regionally the work cultures of woodwork and metalwork have dominated by males. However, this work culture to be improved and the responsible institution should work on the way the women’s will participated in every of small micro business enterprise, for persistent improvement their livelihoods through creating employment opportunity and in improving their incomes. Accesses to education have a fundamental role in human capital development and capacity building. Moreover, education has a crucial role in enabling of the participants to make their business plan, including of the activity and for sustainable planned business operation plans for generating of meaning full incomes. Furthermore, accesses to education have a fundamental role to adopt the new technology and for well utilization of existing technology in business operation, hence most specifically the woodwork and metalwork were demands operating machineries through power utilizations. Beside, education has capable of to assess and to deals about the supply and demands of the market for both input and outputs market and to establish persistent marketing net work with the input suppliers for their business operation and for sale of output. Accordingly the survey result revealed that, (13%) and (31%) of sampled members of study small micro business enterprise were junior complete (12 grade complete) and college diploma complete, however, the majority sampled members (56%) were under graduated (BA and BSC holders). Therefore, as the study result mentioned, more of the members of the study small business micro enterprises were BA and BSC holders. Thus, the implication on behalf of this result were, the government were pay attentions and gave the in-depth focus to reduce the problems of university and college graduated unemployment problems and to improve their livelihoods. Furthermore, the increase in graduated volume of students persistently and the incapability of the national economy to increase the job opportunity for graduated youths were the big problem and the main causes of increase in the rate of unemployment’s. Therefore, as mentioned during focus group discussion, organizing of graduated skilled work force in small business micro enterprise were the measure options to create job opportunity for graduated youths and to minimize the rate of unemployment specifically in the selected study town of Adama and generally at national level. However, on the other side, the study result indicates that, the focus of regional governments to create work opportunity for unskilled work force at small business micro enterprise were low which directly increases the unskilled work force unemployment rate and affects their livelihoods persistently.

**Figure 3.1 Gender Statuses of Sampled Members of Selected SBME in percentage**

Source: own survey, 2017/18

**Figure 3.2 Education Level of Sampled Members of Study Small Business Micro Enterprise**

Source Own Survey, 2017/18
Evaluating Sampled Household Income

At national and regional level the main objectives of organizing participant members in small business micro enterprise is with the main focus of reducing the problem of unemployment through increasing employment opportunity and in order the member participants are generate sufficient income sustainably. Accordingly, as the study result revealed, the mean annual net income generated by sampled members of each selected study small business micro enterprise were different in each selected business enterprises (woodwork, metalwork and coble stone works). Accordingly, as the study result mentioned, the mean annual net income generated by sampled members were 13,241, 15,412 and 19,351 ETB (Ethiopian currency) for woodwork, metal work and coble stone work enterprises participants. Therefore, as the study result mentioned the mean annual net income for metalwork and woodwork participant sampled households were low relatives to the coble stone works. As mentioned by the member participants the implications on behalf of this have the market price for the input used for their business operation were high and it increases persistently. For example, as they mentioned, most of the business enterprise have no their own machineries and work places for their business operation and not capable of to purchases, as a result, they has rented from out sides with high and costly rents. Moreover, as the member-sampled households mentioned, the income generated from their business operation is not sufficient to maintain their family livelihoods, as a result, most of them have a plan to leave the business and to search for other job opportunity. Therefore, supporting of the members by the government through supplying the necessarily incentives like supplying work machineries and work place have a fundamental role for their sustainable business operations to achieve the objectives of creating work opportunity and reducing the problems of unemployment persistently.

Figure 3.3 Mean Annual Net Income of Sampled Member of Study Small Business Enterprise

Source: own survey, 2017/18

Challenges of Study Small Micro Business Enterprise

For development of small business micro enterprise, institutional support like supplying of sufficient access of credit, access market, and providing of training for the business participants for skill development and capacity building have a vital role. Moreover, hence most small business microenterprises have no sufficient initial investment capital and have no work place, supporting with providing of work place has a fundamental role. For this article to have sufficient information with regarding challenges, facing the small business micro enterprise open-ended questionnaires and focus group discussion has made with leaders of each selected small micro enterprises.

Access credit: As mentioned by members of sampled small business micro enterprise all of the members were unemployed and most of them are university and college graduated. Therefore, even though they organized as the association and have willing to participate in the small business micro enterprise, they have no initial investment capital. Hence, access credit is a ground for the origin of their business. However, as the study result pointed out, (81%) of sampled members of study small business enterprise were facing challenges to obtain sufficient credit from different credit supplying financial institutions. Moreover, as the study result mentioned, in the study area of Adama town the financial institutions supplying credit for small micro business enterprise were limited. For example as mentioned during focus group discussion with selected small micro enterprise members, the measure credit supplier financial institution which constituted about 90% in the town were Oromia credit and saving share company. However, as the study result indicates, the pre conditions to access credit by the selected small business micro enterprise is difficult and none affordable to full fill the criteria and challenges for the member users in the selected study town. As the study result revealed, the credit supplier financial institutions were demands, collateral, guarantee and (20%) pre-saving/deposit of the amount requested principal by the members of small business enterprise. Nevertheless, as the study result pointed out, most of the members of the study small business micro enterprises were college and university graduated, and unemployed. Moreover, they have no any financial sources before they organized as the association. As a result, they were facing challenges and invited to searching for friend ship and local credit for their initial business origination with high interest rate.
The other challenge facing the study small micro business members were high Interest rate. As the study result pointed out, the other problem and challenge facing the selected study small business enterprise were the problem of high interest rate. Accordingly, (73%) of the members reported the challenge of high interest rate and they were pay (13%) of the interest monthly. However, this is not affordable by the study small enterprise members, hence there were other factors which affects their payment capability like, low market demands and market linkage with their final product. In addition, shortage of raw materials and its high cost were the ground. The other challenges encountered the sampled small business micro enterprise were the problem of marketing net works. As the study result mentioned, (62%) of the sampled members of small micro enterprise reported the problem of marketing net work which affected their business persistently. Accordingly, poor marketing net work, low market demands for their final products and problems of shortage of raw materials were the other marketing challenge. For example, as the study result point out, the woodwork and metalwork enterprise participant mentioned that, they were persistently facing the challenge of shortage of raw materials for their business operation. As a result, they continually affected by high cost of raw materials and their business operation were with high cost of production. Furthermore, this high cost of production exposed them for low profit generations and even leads them to decide for leaving of their business and to change their business to other alternative business.

Additionally, as the study result revealed, in the selected study area of Adama town even though the policy attitudes of organizing small business micro enterprise puts a policy directions of providing work place for organized enterprise, there were no support in providing work places for their business operation by the town. Accordingly, as the study result mentioned, (86%) of members reported the problem and lack of work place. In addition as the information obtained, and retrieved from the members of the selected small micro enterprise, they were obligated to rent the work places with paying of high and unaffordable monthly rent payment. Moreover, as the study result revealed, the member of the selected small micro business enterprise(woodwork and metal work) paying high monthly rents for work places which constituted about 7000ETB to 11,000 ETB. However, as the information retrieved from the study members of the small micro enterprises (woodwork and metalwork), the payment were highly cost and unaffordable with paying capability of the members. Therefore, this further negatively affecting their business operation hence, it is one of the factors, which contributed for high cost of their business operations persistently. Beside, as the study result mentioned high cost of production further leads for the incapability of paying the interest rate for the loan and further creates for the failures of most of their business.

**Policy Constraints**

As mentioned by FDRE (2010); UN Economic Commission for Africa (2008); Moyi (2013); Markos et al (2015) Brenda and Gregory (2015) in least developing and developing countries small micro business enterprise has developed with the objectives of women empowerment, poverty reduction, employment and income generation. Beside, as the study by Habtamu et al (2013); Anne (2014) ;Semistatus and Rainer (2014) ; Markos et al (2015) revealeds, small business micro enterprise are serve as transition of traditional economy to modern industrialization with low cost of production, low skill and low technology. Considering this fact in Ethiopia the developments of small micro business enterprise has formulated since 1997 and from 1997-2002, about 1.5 million peoples have employed in the sector. However, the enterprise have been encountered a lot of
The study concluded that, poor and insufficient access to credit, demands of financial institutions for collateral to deliver loan for the members and high interest rate imposed on the loans were the measure challenge and problems facing the members and mitigate their business developments. Moreover, lack of work place and its high rent, poor marketing net work and marketing infrastructures for purchase of raw materials and sale of their output were the other additional challenges facing the developments of small business enterprises in the study area. Beside, the policy set by the regional government to deliver loan for the small micro enterprise members were found to be full of constraint and not considered the capability of most the members of the small micro enterprises. Moreover, the study concluded that, the regional policy direction for the small micro enterprise development and the actual implementation of the designed policy on the ground to support the development of small micro enterprise in selected study area were contradict each other and full of constraints.

**Recommendation**

Based on concluded and summarized result, the study puts the following constructive policy recommendations for success and developments of study small micro enterprise in the selected study area.

- The regional small micro enterprise office should work on the revising of the credit supplying policy for small micro enterprise hence the credit delivering policy, which demands collateral and (20%) pre saving of the amount loan requested is unaffordable by the members.
- The regional small micro enterprise office should work on supplying of sufficient credit for the organized small business micro enterprise members through establishing strong net works with multi micro and financial institutions.
- The regional small micro enterprise office should work on reductions and setting of unfair interest rate imposed on the loan supplied for the members through bargaining with those financial institutions provide loans.

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• The regional small micro enterprise office should work on the way the loan will supplied for the small micro enterprise members without grants of collateral; hence, most of the members were unemployed and have no economic background to provide collateral.

• Adama town small micro enterprise office should work on providing and facilitating of work places for the organized members of study small micro enterprise by contacting with Adama city administration and in establishing marketing net work with governmental and none governmental institutions.

VI. REFERENCES


