Assessment of Factors Affecting the Success of Micro and Small Scale Enterprises in Ethiopia: (Case of Debre Markoss Town)

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I. INTRODUCTIONS AND JUSTIFICATION OF THE STUDY

Throughout the world it is acknowledged that micro and small enterprises play a vital role in socio-economic development as a means for generating sustainable employment and incomes. Furthermore, the informal economy is increasingly being recognized by governments and donors as an important part of the wider economy in that it provides the breeding ground for micro and small enterprises, and in the process contributing to the reduction of poverty (Zewde & Associates, 2003). Governments of developing countries and donors have initiated interventions to enable Micro and Small Enterprise (MSE) operators solve the Micro and Small Enterprise (MSE) problems. With increased urban population dynamics of Sub-Saharan Africa (SSA), the importance of micro and small enterprises (MSEs) is also growing. In SSA, given the rapid rural-urban migration and deficiency to absorb this migration, Micro and Small Enterprises (MSEs) have become important urban economic institutions and providers of urban employment (Elias, 2005).

In Ethiopia, it is widely known that, the government and donors have supported Micro and Small Enterprise (MSE) in a variety of ways, which include both financial and non-financial service, they have understood that non-financial service currently known as business development services (BDS), is among the important factors that can improve the performance of MSE operators in the country. (Gebrehiwot and Wolday, 2004). By considering the above importance of the micro and small scale enterprises to the people and also the constraints faced by the sector, different researchers try to examine the factors that affect the success of micro and small scale enterprises from different perspectives.

By recognizing the role of MSEs in to consideration the researcher was initiated to conduct a study on the title problems that affect the success of micro and small scale enterprises. And under this the researcher wants to investigate what problems they face during their start-ups and running of the business? What supports they got? And also the major challenges that MSEs are facing?

Objective of the Study
1. To identify the problems that MSEs face at start-ups and during running the business.
2. To identify factors affecting the success of micro and small scale enterprise.
3. To identify the motivation and/or incentives provided by bureau of MSEs for the micro and small scale enterprises.

Significance of the study
This research work will have of immense benefit: to create awareness to owners of the enterprises about the problems as well as the support services by the agency. And also to indicate the Government problems that MSEs face at the start ups and also during running of the business. This helps the agency to adjust different programs to overcome the problems that MSEs Face. In addition, this research will equip both policy makers and owners with the strengths and weaknesses of various strategies/incentives and for the adjustment of training program to solve the problems. This will make it easier for both Government and owners to combine the best management practices with appropriate mix of policies and incentives to achieve the objectives set for the MSEs Sub-sector. Moreover, it will also help as a ground to conduct further study in the topic of the same field.

II. LITERATURE REVIEW

Definition of micro and small scale enterprises
The definition for micro and small enterprises varies from country to country. What is identified or categorized as micro enterprise in one country may be considered as a small enterprise in other country. The most commonly used criteria to define micro and small enterprises are the number of employees, total net sales and investment level. However, the most frequently used definitional basis is the number of employees (employment,) and here again; there is variation in defining the upper and lower size limit of micro and small scale enterprises (world bank,2003). In case of Ethiopia Enterprises in the MSE sector are defined both in terms of paid-up capital and number of workers (see Table 1). For the purposes of directing its policy and programmers support, the ministry of trade and industry (MoTI) has adopted a definition of micro, small and medium/large enterprises based on paid-up capital. The MSED strategy (1997) defines MSEs as follows:
Constraints facing Micro and Small scale Enterprises sector: Empirical Evidence

In most developing countries, small businesses face a wider range of constraints and problems and even in effectively functioning market economies they are unable to address the problems they face on their own. The constraints relate, among others, to the legal and regulatory environments, access to markets, finance, business information, business premises (at affordable rent), the acquisition of skills and managerial expertise, access to appropriate technology, access to quality business infrastructure, and, in some cases discriminatory regulatory practices. (Ministry of Trade and Industry, 1997)

Stevenson and St-Onge (2005) describe that, the constraints facing MSEs in most developing economies are similar: Unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices; Lack of access to markets, finance, and business information; Lack of business premises (at affordable rent); Low ability to acquire skills and managerial expertise; Lack of access to appropriate technology; and Poor access to quality business infrastructure.

Lack of Access to Finance

As indicated in Ibrahim (2008) the small and medium sized industrialist needs funds for both expansion and working capital. It is obvious also that the company cannot satisfy this requirement without support from owners or some financial institutions. And also Desta (2010) states Access to financial services for vertical business and diversified activities is very limited. Micro Finance Institutions cater mainly for the lower (‘economically active poor’) level of customers while banks provide for medium and large enterprises. The growth-oriented micro and small enterprises on the one hand and the poorest on the other are not catered for.

Onugu (2005) also state that lack of easy access to funding/credits, which can be noticeable to the unwillingness of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.

The Government of the Federal Democratic Republic of Ethiopia is committed to strengthen the link between micro and small enterprises and existing as well as evolving financial institutions.

As indicated in Stevenson and St-Onge (2005), access to institutional credit is limited in Ethiopia although there is a vast demand for MSE financing. Start-up enterprises are often undercapitalized, which is a serious constraint to their further development and growth. Women often start a business with their own money or money borrowed from family and friends with limited access to other forms of credit. Therefore, the tendency is for them to start tiny and remain at that level. The major sources of MSE financing in Ethiopia are informal lenders (money lenders, trade credit, friends, relatives, etc.); semi-formal finance; NGOs; Micro Finance Institutions (MFIs); and commercial banks.

Problems related to Market and marketing services

Ibrahim (2008) states SME faced serious market constraints, including the inability to sell their products, and lack of access to appropriate and relevant information and advice. Because most SMI lack adequate staff with managerial skills, proper market planning and strategies are absent.

Small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. This assertion also holds true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector in developing countries.

As clearly indicated in Onugu (2005) Weak demand for products, arising from low and diminishing consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.

Responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses which have to compete with others for the same clients, regional governments, chambers and business associations who should see to it that there are no hindrances to market access of new comers, and big enterprises who should re-orient procurement towards small suppliers and subcontractors. (ibid)

Poor Management/inadequate competent personnel: Much has been written about the lack of small business management skills as pointed out by (Pickle and Abrahamson 1990; as cited in Mbonyane, 2006), most small business owners are not informed about the legal aspects concerning business and failures to do so can result in financial losses or even the failure of the business. And also as indicated in Onugu (2005) Lack of appropriate and adequate managerial and entrepreneurial skills with the assistant of lack of strategic plan, business plan, succession plan, adequate organizational set-up, transparent operational system, etc on the part of
many founders and managers of SMEs. As fallout of this, many of the MSE promoters purchase obsolete and inefficient equipment thereby setting the stage for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.

**Input Constraints**

Availability of inputs and cost were the most common constraints. The specific problems differed by country, but many of them were related, varying according to whether the business perceived that their access, availability or cost was the most important problem and whether they were based primarily on imported or domestic inputs (World Bank, 1993; Parker et al, 1995; as cited in Dalito and et al 2000). It was also found that input constraints vary with firm size. Also Ibrahim (2008) states that lack of local raw material were the difficulties encountered in some industries. This has resulted in quite a number of industries importing their raw materials requirement. The following are the prevailing reasons for importing the raw materials: Non availability of local raw materials; inadequate supply of domestic substitutes and low quality of local raw materials/substitutes.

**Lack of Training in Entrepreneurships and Skills**

Desta (2010) stated that access to training opportunities for MSEs is very limited despite the fact that several NGOs, donors and government bodies do provide training. And also as indicated in Onugu (2005) In spite of the fact that training institutions, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information Technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. And regarding the supports of the trainer (Desta, 2010) indicates that Access to apprenticeship training and on-the-job experiences is also very limited while other services such as business extension services and counseling are generally unavailable for MSEs.

Ministry of trade and industry in the strategy of SMEs development, the acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important requirements to enable people to advance lower level activities into larger and better earning enterprises.

**Problems related to premises and infrastructural problems**

Infrastructure is one of the basic factors required to enhance the rate of industrialization in any country. The development of business and industrial premises (shops, offices, factories, market stands, etc.) and infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage systems, etc. are key infrastructural facilities and utilities which warrant the growth and expansion of business enterprises. (Ethiopian Ministry of trade and industry 1997) Stevenson and St-Onge (2005) states Most Ethiopian MSEs face challenges in accessing plots of land and facilities to produce and market their products. Infrastructure facility as indicated in Ibrahim (2008) refers to social overhead capital which the governments provide and are available to both the ordinary consumers and the industrial sector. They include such things as: Supply of Electric Power; Water Supply; Good Post and Communication Lines; Transportation Systems

**Problems with Policy, Incentives and Operating Environment**

Ibrahim (2008) indicates SMEs immensely require conducive policies, package of good incentives and operating environment to perform and produce products that are competitive locally and internationally. Government that is genuinely committed to the promotion and development of SMEs would make sure the following frameworks, including others, are in place: Stable fiscal and monetary setting with reasonable interest and exchange rates, financial markets and moderate tax rate; Policies that minimize the cost of business; Policies that facilitate business such as infrastructure and security; diligent implementation of policies and incentives schemes. (ibid)

**Social barriers**

As indicted in Bartlett and Bukvic (2009) on the paper barriers encounter MSEs Growth in Slovakia has emphasized the importance of social capital, trust and network ties between entrepreneurs as factors stimulating the development of the SME sector (Grabher and Stark 1997; Raiser 1999; as cited in Bartlett and Bukvic). Without a degree of trust between business partners, the parties to a transaction will feel exposed to opportunistic behavior which will either raise the transactions costs of doing business or even prevent the transaction being carried out altogether. Small firms may need an institutional support network to overcome some of these (and other previously mentioned) barriers to growth. Local enterprise agencies can ideally provide much needed support to new and growing SMEs in the form of provision of information, advice and training services (“real services”). These services may be a more effective way of overcoming the barriers to SME development than the provision of financial assistance alone.

**Lack of support services**

Lack of initiative and administrative framework or linkage to support and sustain SMEs’ development, which to a large extent, is also a reflection of poor technological capability or intellectual resource are stated as a problem ( Onugu,2005). And also according to the Ethiopian ministry of trade and industry the support strategy will help to correct the preferential treatment accorded in favors of bigger enterprises. At the same
time, it aims at bringing the greatest possible cooperation and interaction between the segments (Micro, Small, Medium and Large) of the economy (Ethiopian ministry of trade and industry, 1997).

**Target population and Sampling**

The target group for the study was owners and managers of micro and small scale enterprises in Debre Markoss. For the study sample was determined as follows: first the researcher found total population from the Eastern Gojjam zone MSEs office. Then the researcher determined the sample size. In the report of Eastern Gojjam zone MSEs office in January (2011), in Debre Markoss there are about 4320 micro and small scale enterprises in eight packages i.e. food and food related, urban agriculture, council related activities, textile, construction, metal and woodwork, retailers and others. There are several approaches to determine the sample size. In this study the simplified formula provided by Yemane (1967), was applied.

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N \left( \frac{1}{N} + \frac{N(e)^2}{n} \right) = \frac{N}{1 + N(e)^2}
\]

To determine the required sample size at 91% confidence level, and level of precision or sampling error 95% will employ. By using this formula given above the researcher took 120 MSEs as a sample.

**III. RESEARCH INSTRUMENTS/SOURCES OF DATA**

To collect the relevant data for this study, the researcher used both primary and secondary sources of data. And In order to collect the relevant data for the study; data was collected from respondents through questionnaires and interview using survey method. A questionnaire was designed by the researcher and distributes to the sample micro and small scale enterprises managers and owners. The data collection process using questionnaire was followed the following approaches: first, the respondents’ was identified with respect to their location address and place of work. The questionnaire was designed by the researcher. In administering the questionnaires the researcher employed three enumerators on the commission basis, and the researcher gave them guidance on how to fill the questionnaire and also supervises during the process of data collection. Face-to-face interviews was also arranged with management of the targeted MSEs offices and also thirty selected entrepreneurs so that relevant issues and questions are raised, and answers obtained for them as the interviews was greatly help to throw light on the answers to the questionnaire and give additional information that was utilized in the research. It was included for triangulations of the responses given in the questionnaire. Additionally, Secondary data was collected from reports of the Debre Markoss MSEs office reports, manuals, and annual reports. Other secondary data includes books, journals, related websites in the internet and other documents that have relation to the topics understudy.

**IV. CONCLUSION**

- There is an increase in the number of enterprises since 1998; as the researcher got information from the office head of MSEs regarding the recent formation of these enterprises and the dominancy by age group of below 39 is associated with the favorable conditions created and the attention given by the government to the sector, specifically the MSE strategy in 1997. Following these government policies, they were able to create favorable conditions in creating employment through MSEs by creating access to finance and trainings. This makes them progressively more engaged in economic activities that enable them to contribute to the household income and to the development of the country.

- Even if the number of enterprises increases from time to time since 1998, majority of the enterprises face different problems at the start ups and during running of their businesses. Lack of capital, lack of appropriate working place and lack of appropriate skilled labour were the first top listed problems during starting of the business. But government rules and regulations are not as such difficult to start but it was encouraging. When we see with regard to sex, females are somehow highly affected by the problems than that of males at the start up.

- For about 73% of the respondents, informal sources of credit are the main sources of startup funds. This is due to two major reasons: the first fear of the enterprise to take loan from financial institutions; and the second reason behind is lack of willingness of financial institution to give credit for MSEs. During running of the business 49.1% of the respondents get credit, and 64.34% of the credit user got credit from micro finance institution and banks (46.48% and 17.86 respectively). From 51.9% of the respondents that do not get credit; about 76% of them sate problems related to financial institution as hindrance to get credit. Such as, lack of required collateral, high interest rate and lack of appropriate credit facility.

- Majority of the respondents conduct the business at rental homes and argue that even if the rental home is suitable for them the amount paid to the rent was too high. And also there is a periodic shift of premises due to the interest of the owner to conduct similar business. Narrowness of the work place was the first serious problem followed by high rental expenses of the working premises.
Lack of suitable location or sales outlet, lack of timely market information, and lack of awareness of semi contractors are the first three markets related problems that micro and small scale enterprises face. Even if the entrepreneurs face such problems there are different incentives provided for them such as they have some priority to win different bids to supply goods and services. Regarding raw material problems due to the increased number of enterprises, there is a problem of high cost of raw material, lower quality of raw material and also this creates shortage of raw material. Metal and wood work, textile and construction were highly affected by supply of raw material. And relatively food and food related package is the least affected by lack of supply of raw material.

With regard to Problems related to government rules and regulation lack of linkages between government organizations and MSEs and lack of motivating policy to inter firm linkages among MSEs are the identified problems. But, high profit tax and licensed fees are the least specified problems. And majority argues that problems related to government rules and regulations are not a major hindrance for their business success.

**Recommendations**

The findings revealed that a number of factors affect the success of micro and small scale enterprises at the start up and during running of their businesses. Among these, lack of capital, lack of appropriate working place and lack appropriate skilled labour at the start up. And also lack of fund for working capital is another problem they encounter. Respondents also raised lack of suitable location or sales outlet, lack of timely market information, and lack of awareness of semi contractors as a marketing problem. Moreover, respondents raised lack of assistance in the work place and on-off nature (inconsistency) of the training as a problem.

To overcome the above stated problems, the government encourages the link between BDS providers and MFI to improve the challenges that MSEs Face. Through MFI the entrepreneurs get financial supports and credit services and from BDS providers they get non-financial assistance. If enterprises were supported by BDS providers they should be promoted to move entrepreneurs in to more profitable and competent sector. This should involve BDS provisions in areas such as: product development, marketing skills, improvement of productivity and its quality, skill development of employees, availability of timely information. By doing so the government creates not only large number of enterprises but also with better quality and meet the planned effect through the enterprises. In addition, it is recommend that the MSEs Office is better to link the micro and small scale enterprises with Debre Markoss TVET to make the support service effective and to reduce the problem of lack of assistance in work place and on-off nature of the trainings. Lastly, the government should encourage those institutions that want to provide BDS services.

At the startup it is observed that women are highly affected by the problems than men, therefore, the government in addition to strengthen the above given recommendation through the office of women affairs give special considerations. Such as: searching of different sources of fund to overcome the problem of lack of capital, providing appropriate trainings to reduce skill problems and also to alleviate the attitude of gender in equalities.

With regard to infrastructure, lack of access to water and electricity and also high cost of electricity and transportation are the first two stated problems in relation with access and cost. So, it is recommended that government at the local, state, and federal levels take the necessary action to solve the problems related to cost and their supply. And because of high cost of rent, entrepreneurs face problem of working premises. Therefore the government should lease working premises at a fair rental expense, and/or by providing land and loan at a fair interest rate; the government initiates entrepreneurs to construct their working premises.

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**V. REFERENCE**


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