

## Deterrents to the Success of Micro and Small Enterprises in Akaki-Kality Sub-City

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### Abstract

*Micro and Small Enterprises (MSEs) are driving forces for economic growth, job creation and poverty reduction in developing countries. Cognizant of this fact, Ethiopia is one of the countries which have taken measures to enhance the operation of MSEs. However, there are MSE's in the country that have shown deteriorating performance and have been experiencing huge stumbling blocks with no significant graduation from one enterprise level to the next. This study was conducted in some selected districts of Akaki-Kality Sub-city with the purpose of analyzing the challenges confronting MSEs' successful operation. To this end, a mixed research design was applied that involved quantitative (descriptive survey) and qualitative (exploratory research) methods. For this study, 89 questionnaires were distributed and 81 of them were successfully completed and used for analysis. The participants were selected using a combination of purposive, stratified and simple random sampling methods. In addition, in-depth interviews were conducted with 12 sub-city and district officials and experts; and 9 MSE's owners through semi-structured interview questions. The quantitative data were analyzed using appropriate descriptive and inferential statistics while the qualitative data were analyzed by using content analysis and narration approach. As a result, the study revealed that the MSEs in the study area had created considerable employment opportunities for unemployed youth and contributed their part in boosting the incomes of households as well as personal savings. On the other hand, MSEs have been confronted with a number of challenges that obstructed their successes. In particular, the study had pinpointed inadequate infrastructure facilities, inadequate finance, poor managerial and technical skills, and inadequate working premises as the major challenges of MSE's successful operations followed by marketing problems, low support from respective institutions, inadequate supply of raw materials, and regulatory issues. In line with the findings obtained from this study recommendations to respective governmental bodies and MSE's owners/managers have been forwarded.*

**Key terms:** Challenges, micro and small enterprises, performance, and success.

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## 1. Introduction

It is generally recognized that Micro and Small Enterprises (MSE's) have vital contribution to the economic development and creation of wider employment opportunity in developing countries with large number of unemployed people. As Habtamu, Aregawi and Nigusu (2013) noted MSEs do serve as a means of bringing economic transition by using the skill and the talent of people without requiring high-level training, much capital and sophisticated technology. This makes the sector more preferable to business entry, unemployment reduction, income generation, and poverty alleviation.

Ethiopia is one of the developing countries which have taken measures to enhance the operation of MSEs by considering their contributions. According to the Ministry of Urban Development and Construction (MUDC, 2013), the licensing and supervision of micro financing institution proclamation No. 40/1996 was enacted in 1996; the Federal and Regional Micro and Small Enterprises Strategy (FRMSES) was formulated in 1997; and the Federal and Regional Micro and Small Enterprises Development Agencies (FRMSEDA) was established by regulation No.33/1998. All these institutional platforms are created in order to promote the growth and development of MSEs, which in turn are expected to contribute their parts in national growth and transformation. UNDP (2012) has indicated that the development of MSE's is the key component of Ethiopia's industrial policy direction that will contribute to the industrial development and economic transformation of the country. Even the country's latest grand plan (the Growth and Transformation plan-GTP, 2011-2015) has stressed the need for providing support to MSEs.

Based on these efforts the Government has tried to promote the development of the sector through workable laws and regulations,

facilitation of startup and working capitals, managerial and technical assistance, working premises and infrastructure, market-enterprises linkages. As a result, many MSEs have played their roles to employment creation, poverty alleviation, creation of entrepreneurship and national economic development (MoFED, 2010). In spite of the fact that MSE's have been playing their roles in employment creation, poverty alleviation, creation of entrepreneurship and country economic development in the country, the sector has been confronting with many challenges whose severity varies across regions and cities. Therefore, the purpose of this research is to analyze the practices and challenges of government initiated and organized MSE's in Akaki Kality sub-city of purposively selected districts.

## **2. Problem Statement and Purpose of the Study**

MSEs are privately owned and managed by individuals, groups, or associations who usually require a great deal of support from the Government or other external sources. As Aregawi and Tilaye (2014), MUDC (2013), and Habtamu *et al* (2013) found out the facilitation and adjustment of the startup and working capital sources, working premises, raw material supply, managerial and technical skill training, market-enterprise linkage creation and management support for MSE's are shouldered on government officials. Thus, the responsibility requires tremendous efforts and integration between enterprise owners and government officials' at all hierarchical levels.

However, there are inherent problems which affect long term survival and business performance of MSEs due to lack of financial resources, management experience, poor location, poor infrastructure, low demand for products or services, corruption and shortage of raw materials (Akabueze,

2002). In this regard, Hanna (2010) and MUDC (2013) found out that though their extent varied across regions and cities in Ethiopia, irregular supply of raw materials, lack of working premises, insufficient startup and working capital, lack of access to market and access to land especially in Addis are the major obstacles of the enterprises.

In addition, owners of the enterprises and MSEs' coordinators and experts in Addis Ababa raise critical problems facing in their day-to-day operations related to working premises, raw materials, management and financial adjustments. Furthermore, anecdotal evidences, quarterly and annual reports, and public meetings on MSE found in various sub-cities showed that there are MSEs that have shown deteriorating performance and have been experiencing close to ceasing themselves instead of graduating themselves from one enterprise level to the next level due to various deterrent factors.

Therefore, the purpose of this study was to analyze the typical challenges of MSE's operating in selected districts of Akaki-Kality Sub-City. In particular, the study was initiated to address the following basic research questions:

- i. How do MSEs perform in terms of creating jobs and generating adequate income for their members?
- ii. What are the major challenges confronting with MSEs' operations in Akaki-Kality Sub-City?

### 3. Brief Theoretical Review

#### 3.1 MSE's at the Global and Ethiopian Context

The concept of MSEs has been defined and used differently in different countries. This reveals the absence of one universally accepted definition of MSEs. In most cases, MSEs are defined based on the number of people employed in the enterprises, investment outlay, annual sales turnover, paid up capital or a combination of these measures (Stephen & Wasiu, 2013; GFDRE, 2011). In this regard, as Osotimehin, Jegede, Akinlabi & Olajide (2012) in Britain have noted, small business is a business with an annual turnover of €2 million or less with fewer than 200 paid employees. In Japan, small enterprises are either having capital not exceeding Y50m or having not more than 300 employees in manufacturing industry and either having capital not greater than Y10m or having not more than 50 employees in commerce and service sectors (Stanley & Morse, 1965).

In a similar manner, the definitions of MSE's given by majority of African countries are used more or less same criteria. Concerning this, Olabisi *et al.* (2013) defined Small scale enterprises in Nigeria as an industry whose total project cost excluding cost of land including working capital does not exceed N5m (i.e. US\$500,000). Besides, MSE's are defined in Ghana that Small-scale enterprise is a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) and with employee less than five workers. However, due to depreciation of currency MSEs are classified in to *micro*, *very small*, and *small* employing six, six to nine, and ten to twenty nine employees, respectively (Daniel, 2012).

The Ethiopian Government has used two definitions in identifying micro and small sized enterprises since 1997. As to MoTI (1997), micro enterprises

are those enterprises with a paid-up capital of not exceeding Ethiopian Birr (ETB) 20,000 and excluding high tech consultancy firms and other high tech establishments. While small enterprises are those business enterprises with a paid-up capital of not exceeding ETB 500,000, and excluding high tech consultancy firms and other high tech establishments. However, according to the new MSEDSE (2011), the previous definition was revised as “**Micro Enterprise**” consist of the number of its employees (including the owner or family) is not greater than 5 and total asset is less than 100,000 ETB for industrial sector and less than 50,000 ETB for service sector; while **Small Scale Enterprise** is an enterprise which has 6-30 employees and total asset 100,001—1,500,000 ETB for industrial sector and 50, 0001—500,000 ETB for service sector.

The above definitions given by different countries have used nearly similar criteria though their differences have been exhibited by the number of employees, assets, amount of paid up capital and annual turnover due to the economic levels and the social conditions of each country.

### **3.2 Highlights of the Development of MSEs in Ethiopia**

In most developing countries, MSEs by advantages of their size, location, capital investment and capacity to generate greater employment, became the main focused area. In relation to this, MUDC (2013) revealed that there was a government policy to lay the foundation of basic administrative and institutional infrastructure of the state during the 1940's and 1950's in order to consolidate the gains of reforms that were launched to accelerate the process of industrialization in Ethiopia. Thus, several reforms to the development of MSE's such as the Business Enterprise Registration Proclamation No.184/1961 required business enterprises to register under

the Ministry of Commerce and Industry, the Industrial Regulation Legal Notice No.292/1971 manufacturing enterprises were required to acquire a temporary license of six month validity and a permanent license, the Investment Proclamation No. 242/1966 provided MSE's tax relief, access to land and buildings, public utilities and other facilitations of advisory and administrative nature were made during this period.

Although these attempts were made to support MSE's development in the country, the socialist regime which followed a centrally planned economic system since 1974 came to power and introduced socialist proclamations, excessive government interventions, burdensome rules and regulations, bureaucratic red-tape as well as excessive and costly administrative and legal requirements to obtain trading license such as the Proclamation No.26/1975 that ended up owning and controlling the means of production; and the Proclamation No.76/1975 because of which acquisition of private businesses was restricted to a single license and capital ceilings were set at 300,000 birr for wholesale trade, 200,000 for retail trade and 500,000 for industrial establishments. The regime also nationalized the private property and those actions had made the previously existing private sector almost came to an end and got crippled.

In the late 1977, the Handicrafts and Small Scale Industries Development Agency (HASIDA) was established by Proclamation No. 124/1977 with the objective to give further improvement to the development of the public economy by encouraging cooperative development in the small scale sector by issuing licenses to cooperatives, regulating their activities, and assisting in the provision of inputs and training (Ibid). As Teshome (1994) noted, the Dergue regime had declared a new program of mixed economy development with two declarations in two successive years: the Small Scale Industry

Development Special Decree No.9/1989 and Special Decree on Investment No.17/1990. The former decree allowed establishment of small-scale enterprises by business organizations, cooperatives and individual entrepreneurs and replaced the restrictive Proclamation No.76/1975 and allowed participation by the Diaspora and raised the capital ceiling for small scale enterprises from birr 500,000 to between two and four million birr (MoTI, 1997). The Decree No.17/1990 had lifted the restriction of private sector participation to single license and allowed individuals to undertake investment in unlimited number of enterprises though the journey into mixed economy development was short lived due to various factors.

After the downfall of the Dergue regime, the Ethiopian People Revolutionary Democratic Front (EPRDF) had introduced public sector reform and private and market economy development. The licensing and supervision of micro financing institutions proclamation in 1996 and the Federal and Regional MSE's Strategy in 1997 were adopted to enhance the operation of MSE's. Besides, Federal and Regional MSE's Development Agencies were established with the main objectives of utilizing local raw material, creation of job, adoption of new and appropriate technologies, and enhancement of the development of MSE's (MUDC, 2013). The current Growth and Transformation Plan (2010 -2015) has also given priority to MSE's development, and has put MSE's as one of the seven growth pillars of the country (MoFED, 2011).

### **3.3. Micro and Small Enterprises Contribution**

Micro and small scale enterprises are one of the priority areas of action among the Programs addressing African development (UN, 2008), and it can be seen as a means of achieving smooth transition from tradition to modern industrial sector; and has a huge contribution to the growth and



development of the country in terms of employment generation with a relative low capital cost (Stephen & Wasuu, 2013). In light of this, GFDRE has recognized the contributions of MSE to the national development efforts and MSE's strategy was formulated and has been implemented since 1997 (MSEDS, 2011). During the first MSE's development strategy (1997 to 2002) more than 1.5million people were employed.

In addition, according to the Federal Micro and Small Enterprise Agency yearly statistical bulletin (2005) about 2,681,367 people were employed in MSEs, which is more than 48% improvement from the expected plan of the GTP (1,800,000). Besides, the strategic direction of GTP has taken MSE's as a key for industrial development and envisaged structural transformation of the national economy (MoFED, 2010). The annual Report of the Federal Micro and Small Enterprises Agency (2005) has shown that in the years ranging from 2003 to 2005 many (about 1775) small enterprises were promoted to medium level; and the sector had also contributed to the development of the country economy by fetching 14 Billion Birr and 864 million Birr from the local and foreign markets, respectively.

### **3.4. Rationale for Emphasizing MSE's Development**

Ethiopia is one of the least developed countries which have a population growth rate Of 2.79%, the labor force (the employed and unemployed) has continued to grow faster than what the economy can gainfully and productively employ. The working age population stood at 54% of the population in 2004/05, and is growing by about 1.2 million people per year, and out of the 33,088,792 economically active populations 1,653,686 (5%) are unemployed (CLEP, 2006).

Hence, one of the major rationales focusing on MSE's is that they are large employers of the labor force and this helps to handle unemployment and poverty. The second rationale is that it helps to decentralize industries, to accelerate rural development, and to restrict urban immigration and the consequent problems of overcrowding in the cities (MoFED, 2010). The third rationale is that it adds value in the manufacturing sector and to the Gross Domestic Product (GDP) of the economy. The study conducted by Uzor (2004) MSE's could be more eagerly used to achieve industrial dispersal and regional balance in economic development, diversification of the industrial structure and the transformation of the rural economy.

### **3.5. The Role of MSE's Support Institutions**

As the (United Nations Development Program [UNDP], 2006) most of the responsibility to MSE's support relies on government organizations, associations and agencies. Hence, their commitment and degree of cooperation determines the success or failures MSE's. Accordingly, the GFDRE (2011; 1997) has made institutional arrangement such as Ministry of Trade and Industry, Regional Bureau, Federal MSE Development Agency, Regional MSE Development Agencies, or other similar designated organs at the local levels, and Business Associations for MSE's sector support programs and strict controls in the use of funds. The Ministry of Trade and Industry has roles for the formulation of the country's industrial and trade policies and strategies, defining the size of micro and small scale enterprises. In addition, the regional bureau also has roles to set criteria for prioritization of MSEs for support, to create proper networking within business associations, regional chambers, and other stakeholders to strengthen the flow of information.

Besides, Micro and Small Enterprises Development Agency with its respective hierarchies has roles to provide human resource training and development, information and consultancy, facilitation, technical, marketing and promotional support services to MSE's owners/managers to equip their managerial, technical and business management skills.

Even though these efforts have been made, performing their mandates with maximum effort and commitment is questionable because of bureaucratic and inflexible work Procedures, lack of commitment and responsiveness, and unsuitable regulatory issues (Mulugeta, 2011).

### **3.6. The Challenges of Micro and Small Enterprises**

Even though MSE's have important roles in economic development, poverty alleviation, employment opportunity, they are critically challenged by certain impeding factors to sustain within the sector. The research conducted by Bowen, Morara and Mureithi (2009) in Kenya revealed that three out of five micro and small businesses failed within the first few months of operation due to competition, managerial inefficiency, insecurity, debt collection, lack of working capital, power interruptions, political uncertainty, cost of materials and low demand of the products.

The problem confronting MSE's appears to be similar in least developed or developing countries. However, the extent of the problems varies from country to country and industry to industry; and it depends on firms' characteristics (Aremu & Adeyemi, 2011). Currently, there are many internal and external challenges face MSE's in their operations and hinder their growth in Ethiopia (MUDC, 2013). A hard look at various studies has revealed a number of deterrents to the growth and survival of the MSEs. These are summarized as under.

- a) Lack of Adequate Finance:** - Financial constraints such as inadequate investment capital, insufficient loan, and inefficient financial market are the major obstacles in doing business, and most MSE's are highly risky ventures involving excessive administrative costs and lack of experience in dealing with financial institutions (CLEP, 2006). According to Sacerdoti (2005) in Habtamu et al. (2013), financial institutions such as microfinance and the banking systems in Africa are not in a position in providing enough financial support to the expansion of micro and small businesses. MUDC (2013) also identified that financing has become a principal challenge to micro and small scale enterprises in Ethiopia; except City administrations and regional microfinance institutions, their savings and family supports, banks in Ethiopia do not provide finance in the form of loan to MSE's due to collateral obligations and other requirement.
- b) Lack of Working Premises:** - Working premises with least leasing price adjustment is the first requirement and taken as mandatory to the government (GFDRE, 1997 and 2011). According to the three years performance report of FMSEA (2005), the government has supplied 23,263,938 Sq. kilometers land to buildings, sheds and displaying places. Although these efforts have been made, it is the second ranked challenges in regional towns and the major ones in Addis Ababa (Habtamu, et al., 2013; MUDC, 2013). Thus, the problem requires attention to gain MSE's expected benefit.
- c) Lack of Managerial and Technical Skills:** - the problems of MSE's management arises from the limited knowledge and ability of the owner or shortage of competent staff to advice the owner on management policies (Stephen & Wasuu, 2013). Decision-making skills, sound

management and accounting practices are very low for MSE operators in developing countries (Aremu & Adeyemi, 2011). In addition, lack of managerial skills leads to problems in production due to lack of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's and they cannot afford to employ specialists in the fields of planning, finance and administration (CLEP, 2006).

- d) Lack of Adequate Market:-** marketing knowledge is important for the promotion, growth and development of Micro and small enterprises. In this regard, the Ethiopian government has formulated MSE's strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information center (MoTI, 1997). However, inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting of business and further growth of the sector (MUDC, 2013; MoFED, 2011).
- e) Inadequacy of Infrastructure Facilities:-** A research conducted by Daniel (2012) stated that unfavorable roads, power interruption, shortage of water, and inaccessible telecommunications are the major challenges and without which primary, secondary and tertiary production cannot function. Furthermore, Habtamu et al. (2013) indicated that MSE's operating with available infrastructure facilities has higher probability of long lasting existence and growth as compared to those MSEs that are operating without adequate infrastructures; and electric power interruption and inadequate water supply in Ethiopia was highly affected the growth of the business. Therefore, emphasis should be given since the

success or failures of MSE's business growth and development depend on the availability and efficiency of infrastructure utilization.

**f) Erratic Supply of Raw Materials:-** Linking MSEs to production input suppliers, improving suppliers' capacity and regular supply of quality information on input supply sources have positive effects on the success of MSE's (Siva, 2012). As MUDC (2013) has pointed out one of the major problems constraining the MSE's development in Ethiopia was found to be erratic supply of raw materials. To ameliorate such a problem, an aggressive strategy needs to be crafted to promote business ventures which supply inputs by local and international investors.

**g) Regulatory Constraints:-** registration and licensing, and the extent of government official involvement and accessibility of rules and regulations have impacts on MSE's. According to Dlitso, K., and Peter Q. (2000), high start-up costs for licensing and registration requirements, cost of settling legal claims and excessive delays in court proceedings can impose excessive and unnecessary burdens on MSE's operations. Even though registration and licensing helps MSE's to have legality rights, and to reduce the prevalence of informality, more than 12% of MSE's in Addis Ababa didn't have registration license (MUDC, 2013).

## **4. Methodology**

### **4.1. Research Design**

According to Saunders, Lewis and Thornhill (2009) the choice of the research design depends on the objectives of the study, the available data sources, the cost of obtaining the data and the availability of time. Accordingly, the researchers had employed descriptive survey method to

analyze the challenges of MSE's. This method was appropriate in describing the situation by using quantitative and qualitative data (Saunders et al, 2009).

#### **4.2 Data Sources and Data Gathering Instruments**

In this study, both primary and secondary sources of data were used as important sources of data. The researchers gathered primary data from MSEs operators through questionnaire. Furthermore, face-to-face interviews with selected MSEs Operators, and local MSEs officials and experts were undertaken. This provides an opportunity of getting reliable data, and a chance for the interviewer and interviewees to have better interaction and clarification of issues.

Moreover, the study employed documentary analysis of secondary data from the Federal MSEs Agency and sub-city offices reports, government documents, books, journals, published and/or unpublished research papers.

The review of literature and the research questions were used as a guideline for the development of the questionnaire, and some questions were taken from other sources (Admasu, 2012). The questionnaire contains both open-ended and close-ended questions. Most of the close-ended items were constructed in such a way they were measured on a five-point Likert Scale format. The questionnaire was designed both in English and Amharic languages to MSE owners to create proper rapport and gain better responses from those who cannot clearly understand the English language. Besides, semi-structured interview questions were designed to MSE owners, and officials as well as experts.

### **4.3 Reliability and Validity of Instruments**

Reliability is the extent to which data collection techniques or analysis procedures will yield consistent findings (Sunders *et al*, 2009). Ensuring the reliability of the instrument is possible through testing and a standardized test is expressed as coefficients which vary between -1 and +1. In this regard, the Cronbach's alpha value of 0.67 and above is recommended to be acceptable to ensure reliability of an instrument. In this research, the Likert scale questionnaires were tested with a sample of 30 MSE's operators and the Cronbach's alpha coefficient was found to be 0.94, and it can be taken as highly reliable without a threat of multi-collinearity effect.

Regarding validity, the questionnaire was given a panel of experts who judged the appropriateness of the questionnaire to measure important aspects of the study. Based on the feedback, issues which were suggested to be improved were re-phrased and others were scrapped from the list of items as suggested by the experts. The pilot test results had also helped to improve the validity of the questionnaire considerably.

### **4.4 Sampling Design**

Akaki- Kality sub-city is one of the ten sub-cities of Addis Ababa which is intentionally selected for this study since one of the researchers has lived in the sub-city since 1994 and has a good exposure to the problems recurring in the sub-city; and its proximity creates convenience to the researcher to get adequate information and to collect data within a short period of time.

The target population of this study was owners of MSEs operating within the sub-city and the local officials and experts working in MSE departments. The population is large, the distributions across sectors have been diverse and their lists are not well organized. Hence, the researchers have decided to



conduct the research within three randomly selected districts namely Districts One, Four and Seven to alleviate the problems related to time, finance and management of the research facing the researchers during the conduct of the study.

According to Zikmund, Babin, Carr and Gieriffin (2010), a researcher should not take the whole population because the results of good and representative samples have the same characteristics as the population as a whole. It is in light of this suggestion that representative samples have chosen from the study population. The selected districts have 115 MSEs, which constitutes a population of 734 owners/managers in the construction (423), manufacturing (171) and service sectors (140) and the samples were selected by stratified and simple random sampling technique to minimize sampling bias and creates relatively homogeneous samples. The samples were computed by using the sample formula of Nasiruma (2000) in Nyabwanga and Ojera (2012);  $n = \frac{NC}{c^2 + (N-1)e^2}$  Where,  $n$  = the sample size,  $N$  = the population,  $c$  = the coefficient Variation (0.5), and  $e$  = level of precision (0.05). Thus,  $n = 734 * 0.5 / (0.5^2 + (734-1) 0.05^2)$  which has a total of 89 samples. This was proportionally distributed to each stratum. In addition, interviews were administered. Once the sample size was determined, the selection sample respondents was made based on a combination of stratified random sampling, systematic random sampling, and purposive sampling methods.

#### **4.5 Method of Data Processing and Analysis**

The study employed manual and computerized data processing techniques. The data processing activities such as editing, coding, classification and tabulation have done. Those actions had helped to clean up and detect errors and omissions. The appropriate analytical techniques such as descriptive

statistics (viz., frequency counts, percentage, mean & standard deviation) and inferential statistics (viz., One Sample Kolmogorov-Smirnov Test) were applied in order to summarize data and test the significance of the differences in opinions of the respondents.

#### **4.6 Ethical Considerations**

All participants included in the study were duly informed about the purpose of the study and their willingness and agreement was secured before filling up the questionnaire and conducting interview. The study also maintained the confidentiality of the identity of each participant.

### **5. Findings and Discussions**

#### **5.1 Characteristics of respondents**

About 73 percent of the respondents of this study were found to be male MSE owners while 27 percent were found to be female MSE owners. This implies that majority of MSE owners and the activities in the sub-city are carried out by men, which further reveals that there is gender gap in favor of males in MSE-related activities and wealth creation endeavors in the sub-city. This might be the reflection of the traditional stereotyping that is inherent in the social fabric of Ethiopian society that denies free participation of women in formal economic activities. This is against the policy direction that encourages women empowerment and gender mainstreaming in all sectors of the present Ethiopian Government. Thus, more efforts are required to be exerted to change the traditional mentality ingrained in women and men so that women get better chance of engaging themselves in truly formal economic and/or wealth creation activities.

Regarding the age structure, a great majority (about 79%) of the study samples fall within the age category of 35 years and below, which is an indication that most of the MSE owners are youngsters who are energetic enough to make their enterprises better off economically. As far as the qualification of the entrepreneurs is concerned, about 10 percent of them had attended primary education (Grades 1-8), 28 percent had attended secondary education (Grades 9-12), 54 percent had graduated with diploma in TVET, and the remaining were found to be first degree holders. This shows that a great majority of the respondents were diploma holders in TVET, which is a necessary qualification for building skills of aspiring entrepreneurs.

Regarding the sectoral engagements of the MSE's owners, about 58 percent of them have been engaged in the construction sector (viz., building & carpentry works, bricks production, electric installation, tap water fixing, coble stone works, etc.), 23.5 percent were engaged in manufacturing activities (viz., metal works, woodwork, garment and leather products), while the remaining 18.5 percent were engaged in service delivery business (viz., bar and restaurant, beauty salon, photocopy, etc.). As far as their experiences are concerned, about 51.9 percent of owners had above five years experience, 27.1 percent had 3-5 years of practical experience, and about 21 percent had less than three years of experience on their current business. This shows that majority of the MSE owners had a fairly long work experience, which demonstrates that they can fairly judge the performances of their MSEs and the challenges that have been confronting them since their establishments.

## **5.2 MSE's Performances in Job Creation and Revenue Generation**

As it has been widely believed that MSEs do serve as the driving forces of job creation and national transformation process. In case of the present study, it has been proved that the MSEs under study had opened job opportunities for about 68 percent of the respondents for the first time in their life time. Those respondents did not have any gainful employment prior to creating the MSEs of their own, which specially helped about 56.8 percent of them to have earned an average monthly salary of Birr 1000 to 3000. The MSEs have had also opened employment opportunities for up to 40 persons, which of course varies from organization to organization depending on their performances. When they were asked about whether they got advantages from running the MSEs, the owners expressed that a great majority (48%) of them have been making livings out of the incomes they generated from MSEs, the second majority (37%) opinionated that they were able to support their family out of the incomes they generated from MSEs, 10 percent expressed that they were able to pursue their studies by the income they generated from MSEs, and about 5 percent expressed that they were able to save adequate amount of money out of the income they made from MSEs. The findings reveal that the MSEs have been contributing towards improvements of the well-beings of the MSEs owners and their families in many ways.

The results were found to be significant as confirmed by Chi-square test at more than 99 percent confidence level or with a margin of error less than one percent in each case. Such results seem corroborate the findings of other studies (e.g. Habtamu, Aregawi & Nigusu, 2013; MUDC, 2013). In fact, the MSEs sector has been considered by academicians and policy makers as an engine of economic growth, poverty reduction, and social development due

to its effect on employment and income generation, import substitution, its role as a springboard to entrepreneurship and industrialization, input distribution for large industries and distribution of their products through linkage and sub-contracting, and income distributions among different sections of the society (Aregawi & Tilaye, 2014; Bekele & Worku, 2008; Liedholm, 2002; Mead & Liedholm, 1998).

Regarding the startup capital, 53.1 percent of the MSEs had started their business with an initial capital of 10,000 Birr or above but the rest of them had done so with an initial capital of less than 10,000.00 Birr. About 66.7 percent of the MSE owners had obtained startup and working capital from microfinance institution, 16 percent from personal savings, 12.3 percent from their families, and only 4.9 percent had got from banks. The findings have revealed that the main sources of MSEs initial capital happened to be micro finance institutions (MFIs) while banks played a very insignificant role in supporting MSEs. The findings further corroborate the speculation that Banks in Ethiopia have not created pro-small scale enterprise operations due to their rigid policy of collateral requirement. This policy needs to be reviewed in such a way that it allows financial access for dynamic and capable entrepreneurs who may all the business skills and talents but not physical assets to be used for collateral purpose. In this regard, the banks need to adopt strategies that allow reserved loans for exceptional entrepreneurs based on through analysis of risk factors. This will contribute towards their social commitment and lead them towards becoming model corporate citizens.

### **5.3 Challenges Confronting MSEs**

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 Akaki-Kality Sub-City. The results have been summarize in the following table.

**Table 5.1 Major Challenges Confronting MSEs**

<b>Factors</b>	<b>Mean</b>	<b>K&amp;S Z test</b>	<b>Significance level (p)</b>	<b>Rank</b>
Lack of the necessary support institutions	3.58	2.34	0.000	6th
Lack of access to finance	3.85	2.89	0.000	2nd
Lack of working premises	3.80	2.53	0.000	4th

Factors	Mean	K&S Z test	Significance level (p)	Rank
Lack of the necessary support institutions	3.58	2.34	0.000	6th
Lack of access to finance	3.85	2.89	0.000	2nd
Lack of working premises	3.80	2.53	0.000	4th
Lack of access to market	3.64	2.47	0.000	5th
Lack of the necessary managerial knowledge & skills	3.81	2.45	0.000	3rd
Poor infrastructural facilities	4.06	3.35	0.000	1st
Shortage of raw materials	3.24	2.87	0.000	7th
Regulatory problems	3.10	2.32	0.000	8th

**Source: Survey results**

As it has been depicted in Table 5.1, MSEs operating in the study area have been confronting with a number of challenges. Among those challenges the major ones include poor infrastructural facilities, lack of access to finance, lack of knowledge and skills, lack of working premises, lack of access to market, lack of necessary support from relevant institutions, shortage of raw materials, and regulatory problems holding the rank of serious ranging from 1 to 7, respectively. All of the results were found to be statistical significant as asserted by Kolmogorov-Smirnov Z test at more than 99 percent confidence level or with a margin of error counted on less than one percent ( $p < .000$ ).

In relation to support institutions, MSEs lack proper experience sharing activities, technical and managerial support related to financial matters, ability to solve immediate problems, and equal treatment of using incentives given by the government. In addition, most MSEs had faced finance related

challenges such as collateral requirements, inadequacy of loan and the difficulty of accessing finance followed by inconvenience of loan repayment period and high interest rate which severely hinders MSE's operation. In relation to premises, most (75.3%) of MSEs were not allowed for those new entrant groups of having less than ten members. Majority of MSE's didn't have short and long term marketing plan, fully addressed market linkages, clearly defined customers, means of product accessibility and differentiated products; and have been facing challenges related to the negative attitude of the community towards the quality of their products. Furthermore, MSEs had faced challenges in acquiring better managerial knowledge and skills as they did not get the right capacity building training from qualified institutions. Their managers had confronted with skill deficiencies in preparing their own work plans and exploiting market opportunities. In addition, unavailability of appropriate dry waste and sewerage system, power interruption, inadequate water supply, and poor transportation facility near the working site are the critical influencing factors for the full scale implementation of MSE's. Most (79%) of the respondents indicated existence of bureaucratic influence in supplying production inputs, and (50.6%) of the respondents indicated that MSEs and production input suppliers couldn't create the necessary linkages due to lack of the right bridging body. Besides, new entrants have faced challenges to have registration and licensing on time. What is more unreasonable involvement of some of government officials is also obstructing their performance considerably.

## **6. 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 authorities 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 Akaki-Kality Sub-City had significantly contributed to creation of new jobs for considerable youths and raising the household incomes considerably. MSEs in the study area had provided employment opportunity to owners and employees, and helped them to increase their per capita income and able to help their families. Majority of the study participants were youths who are believed to give bright future for the development of the sector and reduce youth unemployment. However, the involvement of males in MSE's activities is more than females, which reveals the prevalence of gender gap in the sectoral participation and balancing this gap and improving the participation of women would have indispensable roles in benefiting women, bringing political, social and economic development of the society. The main sources of startup capital for MSE's happened to be microfinance institution followed by personal savings and family.

Furthermore, the study had revealed that MSEs operating in the study area have been confronting with a number of challenges. Among those challenges the major ones include poor infrastructural facilities, lack of access to finance, lack of knowledge and skills, lack of working premises, lack of access to market, lack of necessary support from relevant institutions, shortage of raw materials, and regulatory problems holding the rank of serious ranging from 1 to 7, respectively. All of the results were found to be statistical significant as asserted by Kolmogorov-Smirnov Z test at more than 99 percent confidence level or with a margin of error counted on less than one percent ( $p < .000$ ).

Even though the sector has huge contributions to the community, finance related factors such as difficulty of accessing finance, high collateral requirements and inadequacy of loan are the major ranked challenges followed by inconvenience of loan payback period and high interest rate had severely hindered most sample MSE's operations. In addition, the extent of support extended to MSEs in providing proper experience sharing activities, technical and managerial support related to financial matters, solving MSE's immediate problems based on continuous monitoring activities, equal treatment of using incentives given by the government were found to be by far lower than they were expected by the entrepreneurs/MSE owners. Inability to prepare and distribute working premises based on MSE's level, and failure to provide premise to new entrant groups of having less than ten members, absence of short and long term marketing plan, fully addressed market linkages, clearly defined customers, inability to produce differentiated products, and the negative attitude of the community in line with products quality were also other identified problems. Furthermore, lack of opportunity in acquiring better managerial knowledge and skills, providing poor attention for managerial designations, and failure to prepare their own work plan were suggested to be the main problems confronting MSEs in relation to managerial and technical skills.

In addition, poor infrastructure facilities including unavailability of appropriate dry waste and sewerage system, continuous power interruption, inadequate water supply, and poor transportation facility near the working site were found to be among the first ranked problems confronting MSEs. On top of these, inability to create linkages between MSE's and production raw material suppliers and bureaucratic influence on input supply, preconditions to have registration and licensing and unreasonable

government officials' involvement were indicated as the other challenges confronting MSE's operation. Finally, challenges related to infrastructure facilities, financial, managerial and technical skills and working premises were found to be largely pressing and the four most impeding factors that affect MSE's operation in the study area.

## **7. Recommendations**

Based on the findings and conclusions the recommendations are forwarded as follows.

- 7.1 Emphasis should be given for women to have equal access in obtaining their own income and to contribute their roles to the economy at large.
- 7.2 All support institutions should create integration by rules and regulations based on common board to provide uniform, fair and immediate managerial and technical support on financial, managerial, training and development and marketing matters. The common board also enables to oversee and provide immediate adjustment on the existing regulatory issues which tap MSE's operations.
- 7.3 Appropriate experience sharing activities should be set by the sub-city MSE's support institutions with the integration of MSE's operators; and this helps vulnerable MSE's to acquire better knowledge and experiences from the benchmarked MSEs.
- 7.4 The city administration should communicate and integrate with the federal government to create linkages between the commercial banks and MSE's by setting reasonable collateral, interest rate and payback periods.

7.5 The preparation and distribution of premises should be done with its appropriate waste and sewerage system, adequate water supply and better transportation facility. This should be done with strong commitment and accountability by the Addis Ababa City Administration and their lower level political officials in collaboration with the city and sub-city water and sewerage, road transport and electric power offices. Premises should be adequately prepared and considered before MSE's graduation from one level to the other with prior planning, commitment and coordination of the sub-city and district land development management and MSE's offices. MSE's themselves should create collaboration with technical and vocational, and institutions to acquire relevant training.

7.6 MSE owners should take strong actions to designate their managers. In addition, challenges related to marketing should be resolved by the effort of officials and owners by:

- i. Identifying the products customers and creating fully addressed linkages the MSEs with other government and private organizations within or around the study area helps MSE's operators to access adequate market opportunity.
- ii. Setting integrated awareness creation programs on the attitude of the community to make them loyal to MSE's products.

7.7 The Sub-City MSE's offices and support institutions have to work with commitment in collaboration with MSE's owners to strengthen and broaden the linkages between the production input suppliers and MSE's this should be done based on continuous follow up and adjustments.

7.8 Conducting a more comprehensive and rigorous research work based on the whole area coverage is crucial to obtain the right information and identify the challenges which influence MSE's operation since this study was on some selected districts of the sub-city. Hence, it is the researchers' suggestion that future research work could focus on the other districts in order to come up with specific findings which will contribute a lot in MSE's overall development in general and alleviating their immediate problems in particular.

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