

The Challenges of Micro and Small Enterprises in the Case of Jimma Genet Woreda

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Abstract

This study aimed at assessing the challenges of MSEs in poverty reduction in Jima Genet district, Oromia Regional State, Ethiopia. Many studies which focused on problems and factors that slow down the growth of MSE failed to address the factors of five economic sectors such as agriculture, trade, manufacturing, construction and service. The objective of this study was to analyze the role of MSE in income generation and poverty reduction in the study. Both quantitative and qualitative research method was used and Primary data was obtained using questionnaires and interview. Secondary data was also collected from reports, journals, past research works, official documents and the internet. Non probability (purposive sampling) was used to determine the sample size and the determined sample size was selected by systematic sampling method from the population in the study area. The data was analyzed based on descriptive statistics such as percentages and graphs. Based on the findings, the study recommended that Enterprises should train by professionals how to develop business plan; the culture of developing cooperation among members, government should improve system of giving production place and formal and informal association should be improved by taking the work of successful enterprises as examples; enterprises must develop sufficient marketing skills and diversified their product.

Keywords: Constraints of micro and small enterprise; Development; Poverty; Success and role of MSE.



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1. Introduction

In developing countries, Micro and Small Enterprise (MSE) by good quality of their size, location, capital investment and their capacity to generate greater employment have proved their principal effect on rapid economic growth. This makes micro and small enterprise a major area of concern for government and non-government organizations with the objectives of unemployment reduction, income generation and equitable income distribution, import substitution, innovation and poverty reduction (Dakar, 2013).

In Ethiopia, MSE are the second largest employment generating sector next to agriculture (ILO, 2009). A national survey conducted by Central Statistics Authority (2010) central statics agency (CSA) in 2010 indicates that more than 1.3 million people in the country are engaged in SME sector. They account for a substantial share of the total employment and Gross Domestic Product (GDP) which has great significant for the alleviation of poverty and income creation. This means that they are often the basic economic defense of the most vulnerable households in high risk environment, such as civil conflict and natural disasters. The SME sector is believed to be able to fill the gap that exists between the poor and the rich in developing countries regarding income generation and decreasing unemployment rate (Berihanu, 2014).

1.2. Statement of the Problem

Developing countries have common characteristics of low economic growth, fast population growth, high level of unemployment and poverty. Like many other major cities and rural areas of developing countries, Ethiopia is presently suffering from a large number of social and economic problems including widening income disparity, deepening poverty, rising unemployment, poorly developed physical and social infrastructure and the explosion of slums and squatter settlements (UN, 2008). For this reason, MSE is recognized by the EPRDF government as one of the potential sector to alleviate poverty in the country in general and in the study area in particular (MOFED, 2006).

Micro and Small Enterprises provide employment opportunity and income generating system to those who do not have access to the formal sector employment. It is also regarded as a tool for supporting the economic and social conditions of the poor, especially for the youth and women, by allowing access to education, health facilities and improves their living standards sustainably (ILO, 2009). On the other hand, the reviewed empirical studies reveal that there is a gap with regard to assessment of enterprises' roles in terms of employment opportunities, generating income and profit and reducing poverty. In addition, some reviewed empirical studies with regard to the sector focused on major challenges and constraints (Endalkachew, 2008; Weldegrbriel, 2012; Workineh, 2007).

There are many studies which focused on problems and factors that slow down the growth of MSE and the outcome of the program in comprehensive forms. Regarding the role of MSE in the process of poverty reduction, empirical studies fail to investigate role of MSE and how the program interfere in an individual level, though according to MOFED (2006), the program designed to change the life of those individuals who involved in the program. For instance, the study conducted by Endalkachew (2008), Weldegrbriel (2012) and Workineh (2007) with the objective of analyzing Causes of MSEs Failures, Problems of Micro and Small Enterprises, factors that hinder

the performance of MSEs, respectively, found that lack of capital, lack of markets, bureaucratic regulatory requirement, problem of business development services, poor supply of infrastructure, lack of raw material and inappropriate locations are still major problems of the sector.

1.3. Objectives of the Study

1.3.1. General Objectives

The general objective of this study is to assess the challenges of micro and small enterprises in poverty reduction.

1.3.2. The Specific Objectives

The specific objectives of this research will be to:-

- Assess the growth rate of MSE in the study area
- Analyze the role of MSE in employment creation and its sustainability
- Analyze the impact of MSE in income generation
- To assess the prospects and major constraints of MSE in the study area.

2. Review of Related Literature

2.1. Definition of MSE

Small business has often been seen as a narrowly defined development activity, with little or no connection to broader development priorities. However, this misrepresents the role of large and dynamic sector can play, and has the effect of limiting the potential contribution of micro and small enterprises to national development objectives (Simon, 1999).

Moreover, there is no generally accepted definition for Micro and Small enterprises. The definitions given to MSEs vary from country to country and even within the same country. All use a range of terms to describe MSEs like for example, small businesses, small manufacturing enterprises, small firms, small enterprises, small scale industries, micro enterprises, the informal sector, cottage and handicrafts, tiny businesses, other income generating activities and the like (Berihanu, 2014).

The lack of consistent definition of MSE lead to confusion to distinguish between one segment and another; and bring significant implications on the structure of interventions and promotional supports that could be provided to the sector. In United Kingdom the diversity of the sector is recognized and documented based on three essential characteristics: It is managed by its owner in a personalized way, It has a relatively small share of the market in economic term and it is independent in the sense that it does not form part of a large enterprise and its ownership is relatively free from outside control in its principal decisions (The Bolton Committee Report, 1971 cited by Andualem (2004). In Thailand a “small enterprise” is defined as one with no more than 50 million Baht invested, and 30 million Baht for retail enterprises consisting of 5 to 19 workers, while a “medium-sized enterprise” shall contain a capital investment of between 50 million Baht (or 30 million for

2.2. Concepts of Poverty

For individuals, poverty is a frightening. It is a vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy. For families, poverty is a trap. It leads to inadequate schooling, low skills, insecure income, early parenthood, ill health and early death. For societies, poverty is a curse, “It hinders growth, fuels instability, and keeps poor countries from advancing on the path to sustainable development”(ILO, 2003).

The OECD’s Development Assistance Committee has defined poverty as comprising multiple “dimensions of deficiency that relate to human capabilities, including consumption and food security, health, education, rights, voice, security, self-esteem and well-mannered work”(OECD, 2001). It notes that poverty reduction should, in addition, be conducted in the context of environmental sustainability and gender equity (Dakar, 2013).

World Bank (2001), in *Attacking Poverty*, accepted the view that poverty encompassed “not only material deprivation (measured by an appropriate concept of income or deprivation) but also low achievements in education and health”. It broadened further the concept of poverty, however, to include “weakness and exposure to risk and powerlessness”. The notion of power and voice has also been accepted by a number of bilateral development agencies. For example, SIDA (2002), in its poverty reduction policy paper, notes that poverty “robs [people] of the opportunity to choose on matters of fundamental importance to themselves [and] the essence of poverty is not only a lack of material resources but also lack of power and choice”.

2.3. Measure of Poverty

By definition, measuring poverty implies establishing a threshold level of income or consumption below which people are considered poor. The poverty line is generally defined according to the minimum level required to satisfy a person’s basic needs based on the cost of a basket of everyday goods and services. The notion of what constitutes

“basic needs” is a political question and varies across societies. As such, the poverty line is a reflection of the social norms at a particular place and moment in history (World Bank, 2002).

The Millennium Development Goals establish the poverty line at the equivalent of US\$1 per day in 1993 Purchasing Power Parity (PPP) terms. Using this standard, people in “extreme poverty” are those that live in households with income per person of less than one dollar per day. According to ILO (2005), in 1999, some 1.2 billion people, or 24 percent of the total population in developing countries, lived below this poverty line. The incidence of poverty depends on where the threshold is set as well as the assumptions used in calculating particular measures (Demis, 2011).

2.4. The Contribution of MSEs in Poverty Reduction

There is an emerging consensus on poverty reduction and small enterprises that is comprised of two central elements. According to Paul Vandenberg (2006), the first is that much of the population in poor countries operates or works for micro and small enterprises (MSE) and that even in richer countries, a substantial portion of the population is employed in Micro and Small Enterprises (MSEs). In poor countries, MSEs are where the poor are working – either out of choice or out of necessity. The second element of the consensus is that the general functional areas of how to support private sector development in general and MSE in particular, are being established (Admasu, 2012).

The role and the contribution of MSEs in the industrialization process of developing countries have however been very long neglected and underestimated due to the tendency to favor large-scale import substitution (Assan, 1999). Only in the recent years, the importance of formal MSEs in manufacturing, “to encourage industrialization” (Sievers and Vandenberg, 2007) has been acknowledged. Now days, it has been recognized that SMEs play an important role in the economic growth of developing countries and it is believed that the success or failure of a transition economy can be traced in large part to the performance of its entrepreneurs (Belay File Garoma, 2012).

3. Methodology

3.3.1 Research Design

The research was relayed on both quantitative and qualitative types of data. Concerning sources of data, both primary and secondary sources were used in generating valuable and relevant data. Primary data was collected from Micro and Small Enterprise managers and workers of micro and small enterprise of in the study area. Secondary data was obtained from bulletin, brochures and office documents.

3.3.2. Sampling Technique, Procedure and Sample Size

To collect relevant data from the selected samples, a questionnaire which consist both open and closed ended questions had been applied. The questionnaire was prepared in English language; however, it is translated into Afan Oromo in order to make the questions simple, clear, and understandable to respondents. The data was gathered by interviewing some government officials as well as MSE managers who cannot read and write on the questionnaire.

The target population of the study was MSE leaders or managers of the enterprise in the study area. To this end, MSE were classified in to five economic sectors namely, agriculture, service, trade, manufacturing and construction. Total population of this study from all five sectors was 359. Since our population was small in size (under 1000) the researcher needs large sample ratio, so for this study 40% was purposively taken as sample of the study to get reliable and highly accurate data from sampled population.

Many researchers determined sample size purposively based on the total number of population. Example Belay File Garoma (2012) determined the sample size 20 % from the total population of 800 to take 160 sample and Workneh (2007) took 30% sample from the total population of 450 to conduct on 135 samples purposively. The researcher also determined 40 % from each sector to conduct 144 samples from the total population of 359 purposively to get relevant and proportional data. The determined sample size was selected by using systematic sampling method by taking list of MSE from the woreda document or profile. This lottery method will give equal chance for every population to be represented in the sample. Finally, from all sectors, 144 sample respondents were randomly selected. The population of the study constitutes the managers of 359 micro and small enterprises under different business sectors. The summary of sample frame and sample size is presented in table 1.

Table-1. Summary of sample frame and sample size

S.No	Key Sectors	Number of Enterprises	Sample (40 %)
1	Agriculture	269	108
2	Service	17	7
3	Trade	32	13
4	Manufacturing	28	11
5	Construction	13	5
	Total	359	144

Source: Jima Genet MSE profile from 2011-2015

3.3.3. Methods of Data Collection

Primary source: - primary data was collected through field work survey. Information on the status of employment, income and other data was collected from the sample respondents, such as MSE managers, employees, and from head of Micro and Small Enterprise office. The study used interview and questionnaire methods of primary data collection.

Secondary sources: In this study, secondary data was collected from officially published and unpublished materials such as, annual reports of the woreda, statistical bulletins, brochures and other materials.

3.3.4. Methods of Data Analysis

The type of data that are used for the study was based on quantitative and qualitative. In order to analyze the data, it was collected through questionnaire and interviews from the respondents. The counting and placing of data in particular group and sub group was done through simple and cross tabulation. Descriptive statistical tools such as tables, percentages and graphs were used to analyze the data. Percentage of the data was calculated from the total of respondents. This method of analysis is used to determine the sustainability and role of micro and small enterprise in poverty reduction and employment creation.

In addition to descriptive statistics, econometric statistics such as logistic regression model was used to investigate the factors for the increase in status of improvement in income (income growth) for poverty reduction. In the regression model, the status of income was treated as a dichotomous dependent variable by taking 1 for income growth/improvement and 0 otherwise to indicate for measuring poverty as indicated by many researchers such as Paul Vandenberg (2006), OECD (2001) and ILO (2003), used in their study.

3.3.4.1. Model Specification

The functional relationship between the probability of improvement in income to measure poverty and explanatory variables Following Green (2003), and Gujirati (2006), the logit model is specified as follows:

$$P(Y_i = 1 / X) = \frac{1}{1 + e^{-(\beta_i X_i)}} \dots\dots\dots 1$$

For ease of the expression this can be written as follows

$$P(Y_i = 1 / X) = \frac{1}{1 + e^{-Z_i}} \dots\dots\dots 2$$

Where: P (Y_i=1/X) is the probability that SMEs income being increased or not, Z_i= the function of a vector of n explanatory variables, e represents the base of natural logarithms and equation (2) is the cumulative logistic distribution function. If P (Y_i=1) is the probability of MSE income being increased, then 1- P (Y_i=0) represents the probability of SMEs income being constant or declining and is expressed as:

$$1 - P(Y_i = 1) = \frac{1}{1 - 1 + e^{-Z_i}} = \frac{1}{1 + e^{Z_i}} \dots\dots\dots 3$$

$$\frac{P(Y_i = 1)}{1 - P(Y_i = 1)} = \frac{1 + e^{Z_i}}{1 + e^{-Z_i}} = e^{Z_i} \dots\dots\dots 4$$

Equation (4) simply is the odds ratio, the ratio of the probability that enterprises income being increased to enterprises income being either constant or declining. The interpretation was, if odds ratio of logit is greater than 1, the probability of income(Y=1) is to increase. if odds ratio of logit is less than 1, the probability of income (Y=1) is to decrease. Taking the natural logarithm of equation (4), we can get:

$$Li = \ln\left(\frac{P(Y_i = 1)}{1 - P(Y_i = 1)}\right) = Z_i \dots\dots\dots 5$$

Where Li, is log of the odds ratio or (logit), which is not only linear in Xi but also linear in the parameters. Finally, by introducing the stochastic disturbance term (U_i) we can rewrite the logit model as follows:

$$Z_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + U_i \dots\dots\dots 6$$

Where: β₀ is the constant term and β's are coefficients to be estimated and X's = are explanatory variables that determines MSE income growth or not. The independent variables considered in this study are improvement in market linkage, training, working experience in business, business plan, production place and loan. In this study, therefore, the logit model is customized by the equation (6) in order to analyze how various different factors affecting MSE income growth. The empirical model for MSE income growth or not is specified as follows:

P (Income growth= 1 / x) = β₀ + β₁ market linkage + β₂ training + β₃ business experience + β₄ production place + β₅ business plan + β₆ access to Financial loan + U_i Where Y_i is status of income whether it is improved or otherwise (dependent variable). The data was analyzed by using statistical package for social science (SPSS) version 20.0v. Definition of variables in this paper for logit model were coded in table 2.

Table-2. Definition of Variables used with their code

Type Of Variables	Variable Designation	Definition	Measurements
independent	X ₁	Market linkage	Yes=1, No=0
	X ₂	access to Training	Yes=1, No=0
	X ₃	Previous business experience	Yes=1 ,No=0
	X ₄	Production place	Yes=1,No=0
	X ₅	Business plan	(Yes=1 and not =0)
	X ₆	Access to credit	Yes=1,No=0
Dependent variable	Y	Status of income	improved=1 ,otherwise=0

4. Finding and Discussions

4.1. Constraints of MSE

The challenges of micro and small enterprises include that obstacle that hinders/tackle the performance and success of MSE. In the study area, the constraints were separated as external and internal constraints. Both internal and external constraints are direct effect for the effectiveness of enterprises.

4.2. External Challenges

Another constraint for small business success is the influence of environmental or external factors. In this section emphasis is given to enabling business environments and social networks. These two sub-dimensions are chosen because the study assumes that these are the most relevant external factors influencing small business success from the context of the study area.

4.3. Facilitating Business Service

Many studies emphasize facilitating business environment as major factors determining small enterprise success. The license bureaucracy in trade and industry or MSE office, loan or credit system by micro finance institutions and attitudes of people at different levels are the three important pillars shaping business environments of MSE. According to this study, these factors determine effectiveness and efficiency of key business infrastructures such as business development support (BDS), microfinance institutions, marketing and research and development. A good attitudes of the woreda leaders help it access of these services to the needy with minimum cost. Poor service given to MSE in general, leads to higher transaction costs. This indicates signs of poor/good support based on several checklists: the number of steps/ procedures to obtain a business license and the costs paid for it, enforcement of contracts and access to legal right, ease of access to information about markets, access to credit facilities, ease of acquisition to land titles/ lease and tax costs to a business. In many of MSE in the study area, lack of enabling business environments has hampered the development of the sector and kept entrepreneurs delayed in the informal sector.

Table-3. Comparison of Major External Challenges of MSE

Major Problems	Agriculture	Service	Trade	Construction	Manufacturing	Total	%
production place	34	3	2	2	-	41	28.5
leaders' support	5	2	6	-	2	15	10.4
power supply	-	-	-	-	6	6	4.2
Train	21	1	1	-	2	25	17.4
Credit and loan	31	-	1	3	-	35	24.3
irrigation Water supply	10	1	-	-	-	11	7.6
Market linkage	3	-	3	-	1	7	4.9
other	4	-	-	-	-	4	2.8
Total	108	7	13	5	11	144	100

Source: own survey, 2018

Table 3 shows the rank of constraints that the operators put according to its difficulty. According to this data, the majority of operators/managers 28.5% ranked constraints of production place should be the first one while the others 24.3 % reported the problem of Credit and loan should be the most challenges. This study reveals that lack of production place/land, lack of loan /credit, leaders' attitude problem and lack of training are the bottleneck of MSE for their effectiveness and success in the study area. In addition, infrastructural service constraints and market linkages are the next constraints of MSE.

4.4. Financial Loan Challenges

Finance is considered as backbone of enterprises' activity. Since the purchase of necessary raw materials and other activity needs finance, firms cannot move with the absence of this fund. Even though micro finance institutions (OCSSC) are the supplier of credit and loan, there are interrelated problems that hinder financial loan of firms. Collateral problem is one of the major problems in financial credit. In order to give loan for MSE, micro finance institutions need collateral's office organize different social groups with different social status like poor farmers,

graduate students and literate and illiterate people in different areas of subsectors. In order to give loan for these different social groups, micro finance institution asks to provide collateral. According to Micro finance Institution (MFI) the required collateral is required from different administration level starting from kebele chairman to woreda administration and town administration. Based on the above challenges, high interest of loan is also the major challenge that firms deal with. According to the information obtained from OCSSC, small and micro enterprises pay annual interest of 13% for their loan. This also discourages the operators no to participate in loan taking.

4.5. Impacts of Production Place

Production place is where firms produce and prepare their outputs for sale. Production place is the determinant tool for the effectiveness of small and micro enterprises. This is because without production place anything (production) cannot take place. As a result, the major challenge of SME in the study area is production place as seen in the table below.

Table-4. Distribution of Production Place

Description	Agriculture	Trade	Service	Construction	Manufacturing	Total	%
production place by renting	6	7	4	2	4	23	16
on own land/home	43	4	1	3	5	56	38.9
given by government	59	2	2	-	2	65	45.1
Total	108	13	7	5	11	100	100

Source: own survey of 2018

From the table above, small and micro enterprises in the study area obtain production place in different ways as renting, by their own land/home and the other are given by the kebele administrators/town administrators. As indicated in the table above, 45% of the respondents reported that they obtain production place by the kebele/town administrators and 38.9% reported that they are producing on their own land/home. The remaining respondents (16%) reported that, they produce by renting the production place land/home. The table also indicates that about 54.9% of the respondents have no production place. This study reveals that lack of production place and renting home/land increases the cost of production and results ineffectiveness of the operators in the study area. This indicates that more of respondents use production place by renting and on their own home.

4.6. Impacts of Infrastructure

Infrastructure like: road transport, power and water supply are an important for the effectiveness of MSE. But the supply of some of these facilities is very rare and causes the operators/managers ineffective. Some of them are:

4.6.1. Power Supply

The supply of electricity is an essential for the activity of manufacturing, construction and service subsector which need power to move machine. Enterprises engaged in these subsectors especially, in metal and wood work need power because they use power driven machine for their activities. Due to this reason MSE working in manufacturing subsector reported that interruption of power is the major constraints. According to them, on average the availability of power is 2 to 3 days per week. Other enterprises licensed in other subsector such as barber, beauty salon, tailor (service subsector) also faces with similar problem of power interruption. This survey indicates that the critical challenge for manufacturing and service is power interruption next to challenges of production place.

4.6.2. Water Supply Impacts

As it has been explained earlier, the majority of MSE in the study area (75%) are engaged in agricultural subsectors like irrigation, fishing, fattening and forestry. The supply of water is very important for those MSE engaged in irrigation. The majority of agricultural irrigation in the area is traditional way and there is no modern irrigation canal. This traditional irrigation canal needs high effort to bring water from the river to farm land. The river is most of the time shallow which is tiresome for irrigation channel. Due to this challenge, important and known rivers which are used for irrigation become dry during Bega (dry season). Since the rivers are shallow and deep, it needs water pump generator to pump water from the deep area of river. MSE need water pump generator rather than using canal to water their irrigation crops. But due to lack of initial capital, the operators cannot purchase water pump generator. The main problem related to this factor is that MSE cannot produce at the right season to supply at the right time for the consumers. The irrigation produced is partially rain fed and partially used by irrigation. The operators engaged in this subsector sow the crop in January assuming that the rain may rain after two months (in March and May month). Operators expect rain because there is no enough water irrigation during these months. This survey indicates that irrigation is not independent of rain water. But in rainy season, the reaped crops may be destroyed when hit by rain. This untimely production of irrigation crops without considering demand and weather condition for the product is the major factor for ineffectiveness of MSE in agricultural subsector.

4.7. Supervision Constraints

Micro and small enterprises established in the woreda become more encouraged if there is continuous advice and follow up. As indicated before an established /organized MSE has problems such as managerial skill which is related with their educational level. In order to compensate this problem, it is necessary to follow and supervise them

from time to time. But many of the respondents complain that there is no supervision and follow up. Once they are organized and given license no body either MSE office employee or other TVET experts supervise them. This survey reveals that lack of supervision by the concerned body such as MSE office employee, is the main factor for the dissolution of many of MSE operators.

4.8. Internal Constraints

Internal constraints of MSE are a problem that arises from the internal of business. The constraints that are considered as internal problem are as follows.

4.8.1. Lack of Managerial and Technical Know-How

The ability of MSE owner/manager is the central determinant of success or failure. The root cause of either MSE failure or poor performance is almost invariably a lack of management attention to strategic issues such as human resources management. MSE personal competence in selecting the right business and running it will be crucial, as the firm is likely to be indistinguishable from the owner. Therefore, as the business develops, growth can be rapidly partial due to unwillingness or inability to draw others to help with the management of the MSE. In addition, the management of people (human resources management) is particularly important as it includes not only the personnel issues of dealing with employees, but also of managing people outside of the organization who are also critical to its success, such as key customers, suppliers and banks. There is an over-reliance on the single owner/manager of most small and micro enterprise firms and reluctance to move away from this managerial tendency on the part of the MSE owner/manager. As a result, this translates into poor human resources practices where no new qualified staff is hired or authority and responsibility delegated to other employee. The majority of MSE owners in the study area manage the enterprises themselves, with few possessing the skills to draft medium to long term business plans. Furthermore, they are unable to develop technical knowhow through research and development (R&D) due to a lack of financial resources. The lack of managerial and technical know-how seriously inhibits innovative start-ups and business diversification.

Table-5. Comparison of MSE Internal Challenges

Challenges	Agriculture	Construction	Manufacturing	Trade	Service	Total	%
Managerial skill	43	1	3	1	3	51	35.42
Lack of fund	52	3	2	2	4	63	43.75
Lack of market information	2	1	4	3	2	12	8.33
Lack of proper record keeping	11	0	2	1	4	18	12.5
Total	108	5	11	7	13	144	100

Source: own survey in 2018

A good management of enterprise is the major factor for the effectiveness and success of MSE. But managerial skill needs educational skill to follow the day to day activity of the firm. As indicated in the table below, majority of respondents (35%) reported that managerial problem is the major factor for the effectiveness of their operation. Due to low management skill there is a conflict between team members. This team conflicts is regarded as disagreement between MSE team members and the manager. This cause of team member conflict may be due to violation of the rule of organization, refusal of saving payment. The other cause of conflict between team members is on the share of saved/borrowed money or borrowed money from Micro Finance Institutions (MFI). This means the team members force their leader to share the finance they borrowed/saved from financial bank. This finding reveals that the attitudes of team member are to work individually than working in team to improve their life. Many MSE in developing countries face a chronic shortage of funds (48.75 %). Furthermore, it is extremely difficult for MSE to acquire funding from private financial institutions because they generally lack collateral for loans and the know-how to write business plans. Moreover, the loan amounts are small. As a result, they are unable to obtain funding for medium and long-term investments necessary for growth, and therefore are unable to compete in the market MSE in the study area generally have less ability to gather information and must rely on specific traders to obtain market information. As a result, even though MSE may have a comparative advantage in terms of raw materials or labor force, they are unable to exploit these advantages by proposing products that meet market needs. In many cases, MSE may not be able to secure new distribution channels to expand their business.

Financial management regarded as one of the most important aspects of business. Therefore, financial information available to MSE owner/manager must be detailed; separated from their personal accounts; regardless of whether their financial information was derived from a cashbook, bank statement, double entry bookkeeping, monthly or quarterly management accounts, and whether their financial system was computerized or not. Small and micro enterprises (MSE) owners with the expectation to use difficult financial information would be coupled with a greater probability of their firms' success. As a result, 12.5% respondents reported that they had recording challenges. However, the availability of financial information and regular record in the study area is too poor. The finding of this study reveals that those owner/ managers who record their financial information mainly to assist in the running of the business were more likely to succeed than those limiting its use to assisting in their negotiations with external businesses.

5. Conclusions and Recommendations

5.1. Summary and Conclusion

The study covers almost all sectors that were identified by Jima Genet district MSE office. Therefore, the study identifies the major impacts towards the role of MSE by considering all sectors. From the sectors agriculture and trade sector are the largest one respectively. This shows that in Jima Genet district, MSE business is dominated by agricultural sector. The majority of the sample firms were legally organized as cooperative firms. The data shows that cooperative form of MSE is most common in the study area. Most respondent replied that lack of production place; managerial skill and credit facility are the major problem of all sectors.

The sources of capital fall under the two traditional sources; borrowing from friends & relatives and personal saving. But other informal sources like “Equib” also play a great role in establishing MSE. As compared to the formal sources like microfinance, MSE in the woreda use informal sources. This shows that further studies should be conducted towards microfinance for MSE and the way to strength other traditional informal sources of finance. A few of MSE prepare business plan only to get loan not for the sake of to control their business. This shows that government and other institutions should motivate and help them to establish business plan in order to control business. Most of the sample firms have plan to expand their business if their request fulfilled by the government and other institutions.

Although the role of MSE in reducing poverty can be affected by several factors, the scope of this study is limited to only the major factors. The respondents rated the perceived impact of 6 items on the performance of their business. These are: Premise/production place, managerial skill, lack of train, Marketing, Financial loan access, infrastructure and other factors. The study showed that environmental factors like intensity of competition, availability/affordability of business license, rapid and costly technological changes, climate conditions and bureaucracy in government office for registration & licensing are their major problems.

5.2. Recommendations

The nature of the problems that identified in the study varies in their complexity from sector to sector and from place to place. The researcher’s recommendations to the problems are as follows;

- The designing and implementation of small business assistance programs should be based on the identification and prioritization of critical factors.
- A practical entrepreneurial development programs requires long-term view of current problems. The study of small business problems must target on finding long lasting and sustainable solutions. And hence detail research on each sector (agriculture, construction, manufacturing, service and trade) should be undertaken to identify the major problems.
- The government should give attention to encourage MSE engaged in manufacturing and construction which have greater capacity in creating job and increasing income of people by giving low interest loan, and giving short term training about the importance of this sector.
- The Kebele administrator, OCSSC and Jima Genet woreda MSE office should improve their services specially the business license and registration procedure. To this implementation of information technology with skilled manpower is crucial.
- The SMEs office should undertake detailed study on the site to be given, the people to be organized, and the talent of the people and their capability of doing the intended business before giving the working place and licenses.
- The MSE office should be transparent at the time of allocating the working place to the unemployed. At the same time close supervisor of the MSE should be designed.
- To solve conflicts between MSE businesses, the organizer, MSE office should force them to develop their own rules and regulations.
- The government should develop specially loan system/strategy for SMEs with minimum collateral amount at fair interest rate. At the same time the government should support other informal sources association like “Equib” to reduce the risk.
- Micro and Small Enterprises pass through different steps to take their license during start up. It takes more than one month for the operators to take license in average .In this process, MSE become discouraged. So, the government should give awareness for trade and industry office and MSE workers how to minimize this problem and the newly established operators should be welcomed by the government office.
- The contribution of females in social, political and economic sector is very high. In this study, the participation of females in construction and manufacturing is too low.

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