

# Problem, Prospects And The Role Of Micro And Small Enterprises To Economy: The Case Of Western Hararghe Zone, Ethiopia

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## Abstract:-

The present study aimed to investigate the Problems, Prospects and the role of Micro and Small Enterprises in economy the case of Western Hararghe. The greatest challenges of micro enterprises, opportunities of micro enterprises, the roles of micro enterprises in employment generation, the roles of micro enterprises in entrepreneurial development had been identified. The sample of the study consists of all the micro and small enterprises and micro enterprise offices in Western Hararghe. Stratified random sampling was used to get information from different sizes of the SMEs. The data were collected from 197 micro and small enterprises and micro enterprise offices in Western Hararghe. The data were gathered using questionnaire and interview. The data obtained were analysed using both quantitative and qualitative techniques. Quantitative data obtained were analysed using descriptive statistics and independent sample t-test. The qualitative data were analysed using narration. Comparison of the Fairness of tax based on establishment time using t-test show that that there was no significant difference between MSEs based on establishment time and result of comparison of MSEs on Profitability in relation to establishment time show there was no significant difference among MSEs regarding profitability.

## 1. Introduction

### 1.1. Background of the study

There is no doubt that SMEs play a significant role in the creation employment opportunity to the population. Reviews of studies in the area confirm that the contributions of SMEs in this regard have long been recognized all over the globe (cf., Liedholm, 2001, ILO, 2003a, Vandenberg, 2004, Mazumdar, 2004, Haftu, et al, 2009). Beck and Demirguc-Kunt (2006), for example, report that small enterprises (along with medium) are major drivers of both employment and economic growth contributing to more than 50 % to GDP and 60 % to employment in developed economies, Similarly, in Ethiopia's situation, as result of research conducted in previous time, most of SMEs have been confronted by many problems like lack of access to finance, working premises (Endalkachew, 2008), lack of market for their products ( Eshetu and Mammo, 2009), lack of skills and managerial

expertise, infrastructure, information and appropriate technology. These problems result in failure of businesses and have the effect of preventing their expansion almost from the beginning of their operations. (Gebrehiwot and Walday, 2006, Netsanate, 2009). Most of the researches done by above researchers were focused on rural micro and small enterprises and some of them are national wide researches. Thus, this paper will work to identify Problems, Prospects and the role of Micro and Small Enterprises in economy in the case of Western Hararghe.

### 1.2. Statement Of The Problem

Poor countries, like Ethiopia, at this time are highly attached with different problems like poverty, unemployment, backward culture, famine, illiteracy, high population growth rate etc. According to Federal Urban Development Package of Ethiopia 2005, "In Ethiopia, the number of people who can work continues to grow more rapidly than the

ability of the economy to provide new employment opportunities. Unemployment, particularly urban unemployment, is one of the critical problems in the country. The rate of urban unemployment in the country was 26.4 percent in medium towns and 40 percent in large urban towns in 2005” Western Hararghe in relation to Ethiopia’s other towns is highly affected by draught due to shortage of land and rain. This and other factors affected western Hararghe to have many unemployed, less income or poor people.

The micro and small enterprise development strategy has started implementation recently in Ethiopia to reduce urban unemployment, poverty and bring economic development. Due to this, promoting SMEs has been taken as a tool in Western Hararghe, like other cities of Ethiopia. As the result of this, many SMEs are created in the past years. Those SMEs flourished are individually owned and cooperatives enterprises. The questions are whether these enterprises contribute to employment generation and its sustainability? If SMEs contribute to income creation for those individuals engaged in SMEs? what are the prospects and challenges of SMEs?

### **1.3. Objectives of the study**

#### **1.3.1. General objective:**

The general objective of the study was to assess Problems, Prospects and the role of Micro and Small Enterprises in economy in the case of Western Hararghe.

#### **1.3.2. Specific objectives**

The specific objectives of the study were:

1. To assess greatest challenges of micro enterprises.
2. To assess opportunities of micro enterprises in Western Hararghe.
3. To assess the roles of micro enterprises in employment generation.
4. To assess the roles of micro enterprises in entrepreneurial development.
5. To make recommendations on intervention measures that can help in improving the performance of micro enterprises.

### **1.4. Scope of the study**

The study coverde manufacturing industry, service and construction sectors of SMEs in Western Hararghe. In this research the samples were taken

from SMEs which were registered by trade and industry office.

### **1.5. Significance of the study**

There are many SMEs in Western Hararghe. Their potential to create employment and to generate income makes them crucial economic instrument. Hence, the result of the research provided relevant information to policy makers and local development planners working on the development of conducive environment for SMEs. Furthermore, the study provides additional information about the role of SMEs in employment creation in Western Hararghe for interested researchers, prospective entrepreneurs, and business consulting firms.

### **1.6. Operational definition of the variable**

MSEs: Micro and small enterprises

### **Methodology**

The study was undertaken in western Hararghe which is found in Eastern part of Ethiopia. The study included micro and small enterprises in each Wereda including the zonal town Chiro. Thus, the study focused on Problems, Prospects and the role of Micro and Small Enterprises in economy in the case of Western Hararghe.

### **Research design**

The goal of this study was to evaluate Problems, Prospects and the role of Micro and Small Enterprises in economy. It was survey study, one of the descriptive studies. The survey method was selected for this particular study as it was found to be an appropriate technique for collecting vast information and opinions from quite a large number of respondents to find out the existing situation on micro and small enterprises in western Hararghe.

### **Sources of Data**

Primary and secondary data were used in generating valuable and relevant data for the study. These data was gathered from micro and small enterprises and micro enterprise offices in Western Hararghe. The major sources of the data were thus, micro and small enterprises and micro enterprise offices in Western Hararghe.

**Primary source:** primary data was collected through field work survey. Information on the status of employment, income and other data was

collected from the MSEs owners, employees, and from process owner of Trade, Industry and Transport bureaus in Chiro.

**Secondary sources:** In this study, secondary data was collected from officially published and unpublished materials, Reports, statistical bulletins, brochures and other materials for necessary information.

### Population of the Study

Population of this study were all micro and small enterprises and micro enterprise offices in Western Hararghe. There are 3696 micro enterprises and 197 small enterprises found in western Hararghe.

### Sampling Technique

Stratified random sampling was used to get information from different sizes of the SMEs. This technique was preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups before selecting elements for the sample.

In this study to select sample size, a list of the population formally registered SMEs Trade and Industry offices was used. The total population of the study was 3696 micro enterprises and 197 small enterprises. The researcher used the sample size determination formula, which was developed by Yamane (1967:886), to determine the sample size of SMEs for the study.  $n = N / (1 + N(e)^2)$  Where  $n$  is the sample size,  $N$  is the total SMEs in the selected weredas. After determination of sample size, stratified sampling method was employed.

### Instruments of Data Collection

In order to procure data for this study, two data collecting instruments were used. These were:

1. Questionnaire and
2. Interview.

### Questionnaire

Questionnaire was used as a major data collecting instrument due to its convenience to collect adequate data from a large number of respondents. To make the data manageable, close ended questionnaire was prepared to collect data from the relevant respondents. The questionnaire was translated to afan Oromo as respondents were users of the stated language.

### Interview

Data was also collected through interview to crosscheck data obtained through questionnaire.

### Method of Data Analysis

After the collection of data through questionnaire, the raw data was classified and tabulated depending on the kind of question to make it easily manageable and understandable. After it was tabulated, the issues were analysed and interpreted based on the kind of question by using different analytical methods. Descriptive statistical tools such as tables, percentages, were used. Mean, maximum, minimum were used to classify the respondents annual income and number of employees per MSEs in to the above mean, below the mean, the minimum and the maximum. Challenges, opportunities, and role in entrepreneurial development were analysed by descriptive statistical tools using SPSS.

### Results And Discussion

This chapter deals with the presentation and analysis of the data collected from MSE owners and MSE officers. The data was gathered from through MSE owners and MSE officers using questionnaires and interview, respectively. All the data gathered from the questionnaires were organized and analyzed in tabular form and interpreted using frequency, percentage, mean and independent sample t-test. The qualitative information gathered through interviews were narrated and interpreted in qualitative manner. The first part of this chapter deals with characteristics of respondents while the second part deals with the analysis of the data corresponding to each question.

### Demographic characteristics of the participants

Overall demographic characteristics of respondents are discussed on the table below.

### Gender and educational background of respondents

**Table 4. 1.** Trend of Gender and education level of respondents

1. Gender			
	Male	Female	Total
Frequency	115	82	197
Percentage	58.4	41.6	100

  

2. Education level				
	Secondary school graduates & below	TVET diploma holders	& 1 <sup>st</sup> degree & above	Total
Frequency	105	73		197
Percentage	53.3	37.1		100

As indicated in table 4.1., among the respondents of western Hararge, 58.4% were male and 41.6% were female and among these respondents 53.3% were secondary school graduates & below, 37.1% were TVET graduates & diploma holders and 9.6% were 1<sup>st</sup> degree and above graduates.

**Table 4. 2.** Trend of Age and Marital status of respondents

3. Age						
	18-30	31-40	41-50	51-60	61 & above	Total
Frequency	146	44	7	0	0	197
Percentage	74.1	22.3	3.6	0	0	100

  

4. Marital status					
	Unmarried	Married	Divorced	widowed	Total
Frequency	90	104	3	0	197
Percentage	45.7	52.8	1.5	0	100

Table 4.2. Above indicates that 74.1% of the respondents lay in the range of 18-30 years old, whereas 22.3 % and 3.6% of them aged in the age group of 31-40 and 41-50 years old respectively. On the other hand, the marital status of these respondents shows that 45.7 % were unmarried, 52.8% were married and 1.5% of them are divorced.

**Response on business profiles**

Kind of enterprise, size and number of members are discussed on the table 4.3.

**Table 4. 3.** Response on the kind of enterprise, size and number of members

1. Kind of ownership			
	Partnership	Proprietorship	Total
Frequency	150	47	197
Percentage	76.1	23.9	100

  

2. No of members			
	1-5 members	6-50 Members	Total
Frequency	125	72	197
Percentage	63.5	36.5	100

As indicated in the table 4.3. above, more than half of the respondents (76.1%) of the businesses were partnership kind and the rest (23.9%), were proprietorship kind of business. From these respondents it is shown on the table that 63.5% were micro enterprises and the rest 36.5% were small.

**Response on motivation to start business**

Reasons that motivated people to start business has discussed in Table 4.4. below.

**Table 4. 4.** Reason to start business

1. Factors motivated to start business					
	Profitability of business	Lack of employment alternative	Good government support	Previous experience	Total
Frequency	28	144	15	10	197
Percentage	14.2	73.1	7.6	5.1	100

Table 4.4. above indicates that most of the respondents (73.1%) join business due to lack of employment opportunity followed by profitability of business scoring 14.2%. However, only 7.6% of the respondents start business by considering support from government and 5.1% due to experience they had.

**Response on work condition before starting business**

The working condition of respondents before starting business has discussed in the table 4.5 below.

**Table 4. 5.** Working condition of respondents before starting business

Did you have an employment before you start this business?	Frequency		Percentage	
	Yes	No		
	29	168	14.7	85.3

The results given in the table 4.5 shows 85.3% of the respondents were unemployed before starting business whereas only 14.7% of them were employed. This shows that people from the

community join business as an alternative in searching employment. On the other hand it also reveals that MSEs are creating job to those who are not employed in large.

**Favorability of business environment for MSEs**

The following table shows favorability of business environment for MSEs.

**Table 4. 6.** Favorability of business environment

How do you see the favorability of the business environment for MSEs?

	Very good	Good	Medium	Low	Very low	Total
Frequency	6	27	47	51	66	197
Percentage	3	13.7	23.9	25.9	33.5	100

**Table 4. 7.** Satisfaction level on services provided by different institutions

How satisfied are you with the service provided by the institutions till now?			Extremely satisfied	Somewhat satisfied	Neither nor	Somewhat dissatisfied	Extremely dissatisfied	I do not get service
MSEs	Development	Frequency	0	5	56	97	39	0
Bureau		Percentage	0	2.5	28.4	49.2	19.8	0
Micro	Finance	Frequency	0	5	29	133	30	0
Institutions		Percentage	0	2.5	14.7	67.5	15.2	0
TVET Centers		Frequency	35	12	13	106	31	0
		Percentage	17.8	6.1	6.6	53.8	15.7	0
Trade & Industry		Frequency	0	5	64	92	36	0
Bureau		Percentage	0	2.5	32.5	46.7	18.3	0
NGOs		Frequency	0	2	6	26	10	153
		Percentage	0	1.0	3.0	13.2	5.1	77.7

Table 4.7 reveals that very few respondents were somewhat satisfied to services given by the offices and only 17.8% of the respondents were extremely satisfied in services given by TVET centers among all service providing offices. On the other hand, only less than 33% of the respondents were neither satisfied nor dissatisfied. The table also shows that most respondents somewhat and extremely dissatisfied by the services provided by the stated offices. This shows that MSEs were not satisfied by the services they were getting from institutions. In addition, most respondents (77.7%) indicated that they did not get any service from NGO's and from those who were getting services most of them (13.2%) were somewhat dissatisfied by services they were getting.

**Dependence of success on the support provider institution**

The extent to which the business success depends on the service providing institution was shown in the table 4.8.

**Table 4. 9.** Sufficiency and source of capital

Do you think the amount of your current capital is

What was your source of finance when you start your business?

As indicated in table 4.6 above, most respondents (59.4%) replied that the business environment was not favorable. On the other hand, very few respondents (16.7%) face favorable business environment and 23.9% of the respondents replied the favorability of the business environment was medium.

**Satisfaction level on services provided by different institutions**

The satisfaction level on services provided by different institutions is discussed in the table below.

**Table 4. 8.** The extent of dependence of success on support providing organization

To what extent your business successes depend on the support provider institutions?						
	Very high	High	Medium	Low	Very low	Total
Frequency	38	32	70	40	7	197
Percentage	19.3	16.2	35.5	20.3	8.6	100.0

Table 4.8 shows most respondents (35.5%) believed that the success of their enterprise depends highly and very highly on the support providing institutions. On the other hand, 35.5% of the respondents indicated that it had medium relationship contrary to this few respondents (28.9%) indicated there was low and very low relation between their enterprise success and support providing institution. Sufficiency and source of capital to run their business Sufficiency and source of capital to run MSEs were discussed using percentage analysis. The results were given in the following table.

sufficient to run your business?	Sources of capital						Total
	Yes	No	Own personal saving	Bank loans	From relatives	Micro Finance loans	
Frequency	3	194	65		54	68	197
Percentage	1.5	98.5	33.0		27.4	34.5	100

Table 4.9 above shows almost all respondents believed their capital was not enough to run their business. It shows MSEs were running their business in short of capital. The table also shows that the first source of capital for MSEs was Micro finance (34.5%) followed by own savings (33%) and relatives (27.4%).

### Finance related factors affecting businesses

The finance related factors which had impact on MSEs were analyzed using percentage. The results are given in the following table

**Table 4. 10.** Finance related factors

Please indicate in the box below, the degree to which these finance related factors are affecting the performance of your business.		Very high	High	Medium	Low	No effect	Total
Failure to apply financial statements analysis	Frequency	93	69	31	4		197
	Percentage	47.2	35.0	15.7	2.0		100
Unplanned withdrawal of cash for personal use	Frequency	87	25	71	10	4	197
	Percentage	44.2	12.7	36.0	5.1	2.0	100
Poor management of working capital	Frequency	94	57	39	7		197
	Percentage	47.7	28.9	19.8	3.6		100
Shortage of finance	Frequency	91	69	30	7		197
	Percentage	46.2	35.0	15.2	3.6		100

Table 4.10 reveals that most respondents (82.2%) faced high and very high difficulty in applying financial statement analysis in their business followed by 15.7% who faced medium difficulty. From MSE respondents 56.9% made unplanned withdrawal of cash for personal use 36% made unplanned withdrawal at medium. Only, 5.1% made unplanned withdrawal for personal use 2% faced no difficulty with unplanned withdrawal. On the other hand large number of respondents (76.6%, 81.2%) had problem with management of working capital and financial shortage respectively.

### License and process to get it

**Table 4. 11.** License and its process

Do you have license for your business?	If your answer to question number 20 is "No", what is your reason				Total	
	Yes	No	High cost of license	Lack of awareness		Bureaucracy
Frequency	180	17	2	15	0	17
Percentage	91.4	8.6	1.1	88.2	0	100

  

Is there an improvement in license procedures in the past years?				
Yes	No	I do not know	Total	
Frequency	129	46	10	197
Percentage	65.5	23.4	5.1	100

Table 4.11 above indicates that most respondents (91.4%) had license for their business and only 8.6% of the respondents did not have license. On the other hand, from those who did not have license, 88.2% did not have due to lack of

awareness and the others 11.8% due to high cost of license. The table indicates also that more than half of the respondents (65.5%) believed that the procedure to get license was improved and 23.4% responded that there was no improvement of procedure and lastly 5.1% did not know.

### Acquiring working space

Working place acquirement ways were requested and discussed on the table below.

**Table 4. 12.** Ways of acquiring working place

	How do you acquire the working space on which you operate your business?					Total
	Bought	Rented from private owners	Leased	Rented from those who obtained the land from the government	Given by the government	
Frequency	12	15	76	94		197
Percentage	6.1	7.6	38.6	47.7		100

As table 4.12 indicates, large number of respondents (47.7%) got place on which they operate their business from government followed (38.6%) by rent obtained from those who got land from government. Very few respondents 7.6% rented from private owners 6.1% bought for their business.

### Attractiveness and sufficiency of working space

**Table 4. 13.** Working space related questions

	Do you think your location is attractive business area?		Do you think this amount of space is enough for your day to day business operation?	
	Yes	No	Yes	No
Frequency	30	167	37	160
Percentage	15.2	84.8	18.8	81.2

Table 4.13. above indicates that most respondents of MSEs (84.8%) think that the location in which they are operating is not attractive. In addition, 81.2% the respondents responded that the space is not enough for their operation. This shows that from working place point of view, MSEs are not working in a conducive place.

### Problems and sources of finance

**Table 4. 14.** Problems and sources of finance

Source of credit	Long process	Problems faced				Lack of awareness	Small loan size	Not tried
		Collateral requirement	Bureaucracy	High interest rate				
Banks	Frequency	68	73	50	59	44	5	123
	Percentage	34.52	37.06	25.38	29.95	22.34	2.54	62.44
MFI	Frequency	111	117	149	112	29	105	56
	Percentage	56.35	59.39	75.63	56.85	14.72	53.30	28.43

As indicated in the table above, MSEs in western Hararghe faced difficulty in getting finance from banks and MFIs. Most of MSEs 62.44% did not tried to get loan from banks and those who tried faced difficulties of long process, collateral requirement, Bureaucracy and High interest rate. Getting finance from MFIs was also not easy. They were facing problems of long process (56.35%), collateral requirement (59.39%), Bureaucracy (75.63%), High interest rate (56.85%), Lack of awareness (14.72%) and Small loan size (53.30%).

**Competition of MSEs**

**Table 4. 15.** Level of competition

How do you see the level of competition with other business organizations?						
	Very high	High	Medium	Low	Very low	Total
Frequency	35	36	80	24	22	197
Percentage	17.8	18.3	40.6	12.2	11.2	100

  

Who are your major competitors?				
	Other MSEs	Medium and large enterprises	Importers and exporters	Total
Frequency	51	120	26	197
Percentage	25.9	60.9	13.2	100.0

Table 4.15. indicates that more than half ( 76.7%) of the respondents responded that they faced competition at medium and more. In addition to that these respondents indicated that higher competition was from medium and large enterprises. On the other hand 25.9% of the respondents indicated that their competitors were other MSEs and lastly, very few respondents (13.2%) indicated that their competitors were importers and exporters.

**Access and quality of infrastructure**

The access and quality of infrastructure for MSEs has discussed in the table below.

**Table 4. 16.** Access and quality of infrastructure

Facility		Quality					Total
		Very high	High	Medium	Low	Very low	
Electricity	Frequency	20	73	78	26	197	
	Percentage	10.2	37.1	39.6	13.2	100	
Water	Frequency	5	89	76	27	197	
	Percentage	2.5	45.2	38.6	13.7	100	
Telephone	Frequency	13	109	57	18	197	
	Percentage	6.6	55.3	28.9	9.1	100	
Transport	Frequency	8	12	75	77	197	
	Percentage	4.1	6.1	38.1	39.1	100	

As table 4.16. shows, most respondents indicate that facilities of electricity, water, telephone and transport was medium and below. It shows 52.8% of electric, 52.3% of water, 38% telephone and 51.8% of transport facility was low and very low.

**Availability of Business plan**

The availability of business plan in MSEs has discussed in table ---below.

**Table 4. 17.** Availability of Business plan

Does your company have a business plan?			
	Yes	No	Total
Frequency	36	161	197
Percentage	18.3	81.7	100

Table 4.17 indicates most respondents (81.7%) did not have business plan.

**Fairness of tax**

**Table 4. 18.** Tax related question

Do you think that tax collectors are fair?			
	Yes	No	I have not paid yet
Frequency	46	134	17
Percentage	23.4	68.0	8.6

Table 4.18. above indicates large number of respondents (68%) believed that the tax was not fair whereas 23.4% responded it was fair and the rest 8.6% responded they did not paid yet.

**Profitability and usage**

**Table 4. 19.** Profit related questions

	How do you see the profitability of your business?		For what purpose do you use the profit of your business?		
	Decreasing	Increasing	For business expansion	For household consumption	For saving
Frequency	111	86	34	110	53
Percentage	56.3	43.7	17.3	55.8	26.9

Table 4.19. indicates 56.3% of the respondents responded their profit was decreasing and 43.7% said it was increasing. On the other hand, more than half of the respondents (55.8%) use their profit for household consumption followed by 26.9% who said they save their profit and only 17.3% of the respondents used for business expansion.

**Experience of MSEs owners**

**Table 4. 20.** Experience of MSEs

Have you got enough experience from this business to start another business?		
	Yes	No
Frequency	139	58
Percentage	70.6	29.4

As indicated in the table 4.20., most respondents (70.6%) believed that they had got enough experience from their business to start even another business.

**Interview results discussion**

Interview was conducted with MSE office heads. It

was made for 10 wereda office heads. These were Chiro town, Boke, Tulo, Habro, Doba, Gemechis, Gubba koricha, Daro labu, Oda bultum. The same questions were raised for all. The first question was the way they classify MSEs based on capital as micro and small. All respondents clearly stated that they classify MSEs firstly by the kind of business they engaged in to five and stated Industry, service, agriculture, construction and merchandise. Except for construction and Industry those having a capital of up to 50,000 were classified under micro and from 50,000 to 100,000 as small. For construction and Industry, those having capital up to 100,000 are micro and from 100,000 to 500,000 were classified under small. Their answer for the second question i.e how they classify MSEs based on number of employees/members was also discussed similarly. All respondents discussed those MSEs having up to 5 members were classified under micro and those having from 6 to 50 were classified under small. The other question raised was about the ownership form of the business. All respondents discussed their office works only with those having more than one ownership. Proprietorship kind was not included for such kind of support.

Question on why people want to join MSEs was raised for each. All of the respondents believed that most of the people came to them due to lack of employment opportunity on the other hand some of the respondents told few people came by knowing the profitability of the business specially in industry kind MSEs. They also discussed that almost all who came to join the business were unemployed.

Question was raised to check the favorability of business environment for MSEs. Among the ten interviewees, six mentioned that the environment was good, support from government on different cases like acquisition of operating area, different trainings and facilitation of loan was there to support them. Two of the respondents express that even though support was provided it was not so much satisfying. The rest two respondents explained that the favorability was very low. They explained the office was trying to support them based on the rule and regulation of MSEs. However, the office could not provide support as needed. They stated that MSEs were not convenient with the working place the office was providing. In addition, to get loan from micro finance institution they had to have collateral which the individuals took it as a difficulty as most of them were unemployed. They also explained that the trainings provided by TVET centers were not supporting the MSEs to fill their skill gap.

For issue raised about the dependence of the success of MSEs on support providing institution

all explained that it depends. They told that most of the members of MSEs were unemployed people; these people did not have enough capital to run their business. The amount of capital required from the owners to get loan was 10% of the total capital needed. For the rest amount they seek loan mostly from micro finance institutions. When they ask loan they have to prepare business plan. However the people could not prepare the business plan and experts from the office prepare business plan and gave them to get loan. The micro finance institutions reduce the amount of capital requested by the individuals to at least half. At the end they cannot operate what they want due to lack of capital. And lastly, they explained, the success of their business depends on the capital they had to operate their business. Only one wereda i.e. Daro labu explained that MSEs got financial support from NGO. Question on work place acquisition, attractiveness of the place and sufficiency of the place was asked. They all explained that their office provides work place depending on the kind of MSEs. However, the place they were providing was not enough and in addition not attractive. They were providing them just to provide and even cannot facilitate good places.

Concerning competition respondents raised that competition from medium and large enterprises was the one on which they were suffering.

Issues on different infrastructures were discussed during interview. Accordingly, five interviewees explained, water and electricity facility were low and very low level and telephone and transport was medium. Other three interviewees explained all the four facilities found at medium level. Two explained that transport facility was very low.

Question on fairness of tax was raised for the interviewees. Seven interviewees agree that there was gap on tax collection. They were considered just as any other merchants and no favor was there for MSEs.

Lastly, question on experiences of MSEs and what it supported them was asked. The respondents explained members of MSEs had got enough experience from their business. Some had changed their business by identifying successful business areas.

### **Comparison of MSEs based on their experience**

Comparison of MSEs based on the time of establishment

**Table 4. 21.** Comparison of MSEs employment history based on experience



Variable	Institution	N	M	SD	SEd	t-value	Significance Level(2tailed)
Employment before joining business	2005 before	&38	1.82	.393			
	2006 up now	159	1.86	.346	.346	-0.661	P>0.05

df = N1+N2-2= 195, df = Degree of Freedom, N = Number of Sample, M = Mean, SD = Standard Deviation, SEd = Standard Error of Difference The results given Table 4.21. show the employment history of MSE owners did not vary significantly based on time. The t- value obtained, assuming equal variance between the groups, is -0.661, which is statistically not significant. The mean MSEs started 2005 and before and those who started 2006 and working up to now was 1.82 and 1.86 with standard deviation of 0.393 and 0.346 respectively and standard error difference was 0.346.

Thus it can be concluded from the table that there was no significant difference in the employment history of both who started the business at 2005 & before and working from 2006 up to now. Hence table 4.5. and table 4.21 lead to the conclusion that people join MSEs due to lack of alternative employment opportunity.

**Comparison of fairness of tax based on establishment time**

**Table 4. 22.** Fairness of tax based on establishment time

Variable	Institution	N	M	SD	SEd	t-value	Significance Level(2tailed)
Fairness of tax	2005 before	&38	1.74	.446	.035	-.066	P>0.05
	2006 up now	159	1.74	.439			

The results on the table 4.22. show the t-value of -0.66 assuming equal variance between the groups and mean tax fairness of MSEs established 2005 & before 1.74 and 2006 up now 1.74 at a standard deviation of 0.446 & 0.439 respectively. The result obtained shows that there was no significant difference between MSEs established 2005 & before and those established at 2006 on wards on fairness of tax.

Thus table 4.22. and table 4.18 indicated that tax paid by MSEs was not fair.

**Comparison using profitability**

**Table 4. 23.** Profitability based on establishment time

Variable	Institution	N	M	SD	SEd	t-value	Significance Level(2tailed)
Profitability	2005 before	&38	1.45	.504	.039	.148	P>0.05
	2006 up now	159	1.43	.497			

The results on the table 4.23. reveals the t-value of 0.148 assuming equal variance between the groups and mean profitability of MSEs established 2005 & before 1.45 and 2006 up now 1.43 at a standard deviation of 0.504 & 0.497 respectively. The result obtained shows that there was no significant difference between MSEs established 2005 & before and those established at 2006 on wards profitability.

Hence table 4.23. and table 4.19 indicated that profitability in MSEs did not vary based on establishment time.

**Summary And Conclusion**

**Summary**

The present study was designed to investigate the Problems, Prospects and the role of Micro and Small Enterprises in economy. It was employed in the case of Western Hararghe An attempt was also made to identify the difference among MSEs based on establishment time.

The target population of this study consisted of MSEs found in western Hararghe. Accordingly, the owners of MSEs and MSE development officers were included. A Stratified random sampling method was used to give chance to every MSEs found in different weredas. In addition to this, available sampling method was used to include office heads of MSE development office of the weredas.

To conduct this study, both qualitative and quantitative data were used. Quantitative data were collected on the personal characteristics of respondents, business profiles and basic business information of MSEs using questionnaire whereas qualitative data were collected using interview from MSE development heads to supplement the quantitative data. The quantitative data was analysed using frequency and independent sample t-test analysis using SPSS. The data collected through interview were analysed using narration.

Independent sample t-tests were employed to compare the mean scores of MSEs established before 2005 and those established after 2006. From this study the following major findings have been drawn.

Respondents of MSEs having a higher percentage for lack of employment opportunity and no employment before joining the business, i.e. 73.1% & 85.3% respectively, believed that they joined the MSE mainly because of lack of employment opportunity. Result from the t-test shows there was no significant difference between those who joined

the business in 2005 and before and those who joined in 2006 and later.

Favorability of business environment for MSEs was also analysed. The analysis shows that the business environment was not conducive for MSEs scoring a higher percentage i.e. 59.4%.

Most respondents i.e. more than 50% of MSEs were not satisfied with the service provided by different institutions.

MSEs indicated that the success of their enterprise 71% depended on the support providing institution very highly, highly and at medium level. This indicates that the success of the MSEs depend on support providing institutions. This was clearly supported by data obtained from interview. The interviewees stated that the MSEs cannot get the amount of capital they needed. Thus, their success depends on capital they obtained and the capital they obtained matters their work.

Analysis about the sufficiency of capital revealed almost all MSEs i.e. 98.5% could not get sufficient capital. The analysis also indicated, the first source of capital for MSEs was micro finance institution and personal saving having 34.5% and 33% respectively.

The study had also analysed the finance related problems and identified that most MSEs i.e 82.2% failed to apply financial statement analysis highly and very highly. At the same time 56.9% of these MSEs made unplanned withdrawal of cash for personal use. Results of the analysis also show that, large number of MSEs i.e 76.6% manage their working capital poorly and 81.2% faced shortage of finance very highly and highly.

Result of analysis indicated that almost all MSEs had business license whereas very few MSEs i.e 8.6% did not had. From those who did not have licence, 88.2% indicated that they lack awareness on license. On the other hand, 65.5% believed that the procedure to get license had become better.

Analysis from the study indicated that most MSEs 47.7 obtained working space from government. Next to those who got from government 38.6% indicated they acquire their working space by renting from those who obtained from government. However, the result indicated most of them 84.8% were working in a place where it was not attractive for their business. In addition to that most MSEs 81.2% were working in a place where the area was not enough to perform their day to day business activity.

Most MSEs in western Hararghe 76.7% faced competition at medium and more level. The result indicated this competition was highly from (60.9%) from medium and large enterprises.

Analysis about availability of business plan indicated that most MSEs 81.7% did not have

business plan. In addition to this, result on tax fairness 68% indicated that there was no fairness on tax payment.

Profitability of MSEs was analysed and the result indicated almost around half i.e 56.3 of MSEs's profit was decreasing and 43.7% of them had an increasing profit margin. The result also revealed that from the profit they obtained, 55.8% was used for home consumption.

At the end the study identified that most MSEs 70.6 had got enough experience which can help them to go for search of new job. It indicated that MSEs work on development of entrepreneurial skill.

## Conclusions

Conclusions were drawn on the basis of findings of the data analysis. The Problems, Prospects and the role of Micro and Small Enterprises in economy in the case of Western Hararghe had been identified and concluded. The conclusions were:

- ✓ Most of the MSEs in western Hararghe were partnership kind and were owned mostly by 1-5 members.
- ✓ Many of the businesses were started due to lack of employment opportunity. Thus, unemployment was the main reason to start business in western Hararghe.
- ✓ Favourability of business environment was not good for MSEs.
- ✓ MSEs in western Hararghe got support from different institutions but the amount they got was not enough to perform what they wanted. Hence, the success of the MSEs depends on the support providing institutions.
- ✓ MSEs in western Hararghe failed to apply financial statement analysis, made unplanned withdrawal of money for personal use, manage their working capital poorly and faced shortage of finance.
- ✓ MSEs in western Hararghe had licences for their business.
- ✓ MSEs in western Hararghe did not get working space and even the working spaces given were not attractive and sufficient for work.
- ✓ MSEs in western Hararghe had problems in getting finance from both bank and micro finance institutions. MFIs had long process, bureaucracy and require collateral. In addition, they provided small loan which is not enough for their business need.
- ✓ MSEs in western Hararghe had competition it was highly from medium and large enterprises.
- ✓ Facilities of electric, water, telephone and transport were not sufficient and needs further job.
- ✓ MSEs in western Hararghe paid taxes but the

amount was not fair.

- ✓ MSEs in Western Hararghe were profitable at decreasing rate and spent their profit mostly for home consumption.
- ✓ Regardless of the challenges MSEs in western Hararghe were facing, they got experiences which will help them in entrepreneurial development.

### Recommendations

Based on the major findings indicated in the analysis, recommendations have been drawn with the view to improve the role of micro and small enterprises in contribution to employment, income generation and entrepreneurial development. Deep emphasis should be given to MSEs in western Hararghe in solving financial problems, problems of facilities like working space, electricity, water, transport & telephone and skill gaps.

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