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Challenges and Opportunities of Growth of Micro and Small Enterprises in Asella City, Ethiopia

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Abstract: *The main objective of this study was to investigate the challenges and opportunities of growth of MSEs in Asella town. MSEs have been regarded as the machine of economic growth and development all over the world. It also play a crucial role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. It was also designed as the organization that absorbs huge number of unemployment. Cross-sectional survey research design, primary and secondary data, stratification and simple random sampling technique, questionnaire for data collection, 174 of MSEs sample size, descriptive statistics and inferential statistics for analyses were used. The results of this study shows that poor government regulation, evaluation, follow, working premises, initial investment, high collateral requirement from financial institutions, lack of clear job description among members, lack of training, poor linkage of MSEs to the market, were some infrastructural, managerial, financial, legal, and marketing challenges as factors affecting the growth of MSEs in Asella City. Hence, the concerned office should support the MSEs to tackle factors hindering its growth. MSEs should linked to the market and members should develop culture of working together for the growth of SMEs.*

Key words: *Challenges, Opportunities, Micro and Small Enterprise.*

I. INTRODUCTION

It is generally renowned that Micro and Small Enterprises (MSE's) have vigorous 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. 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. 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. 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. 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 shade/land especially in Asella are the major obstacles of the enterprises. In addition, owners of the enterprises and MSEs' coordinators and experts in Asella town raise critical problems facing in their day-to-day operations related to working premises,

raw materials, management and financial adjustments. This shows MSEs 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 and opportunities of MSE's growth and transformation operating in Asella City. In particular, the study was initiated to address the following basic research questions:

i. What are the major challenges confronting with MSEs' growth in Asella city?
ii. What are the opportunities for growth of MSEs' in Asella city?

II. LITERATURE REVIEW

2.1. MSE's at the Global and Ethiopian Context

In most cases, MSEs are defined based on the number of people employed in the enterprises, investment outlay, and annual sales turnover, paid up capital or a combination of these measures (Stephen & Wasiu, 2013; GFDRE, 2011). 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).

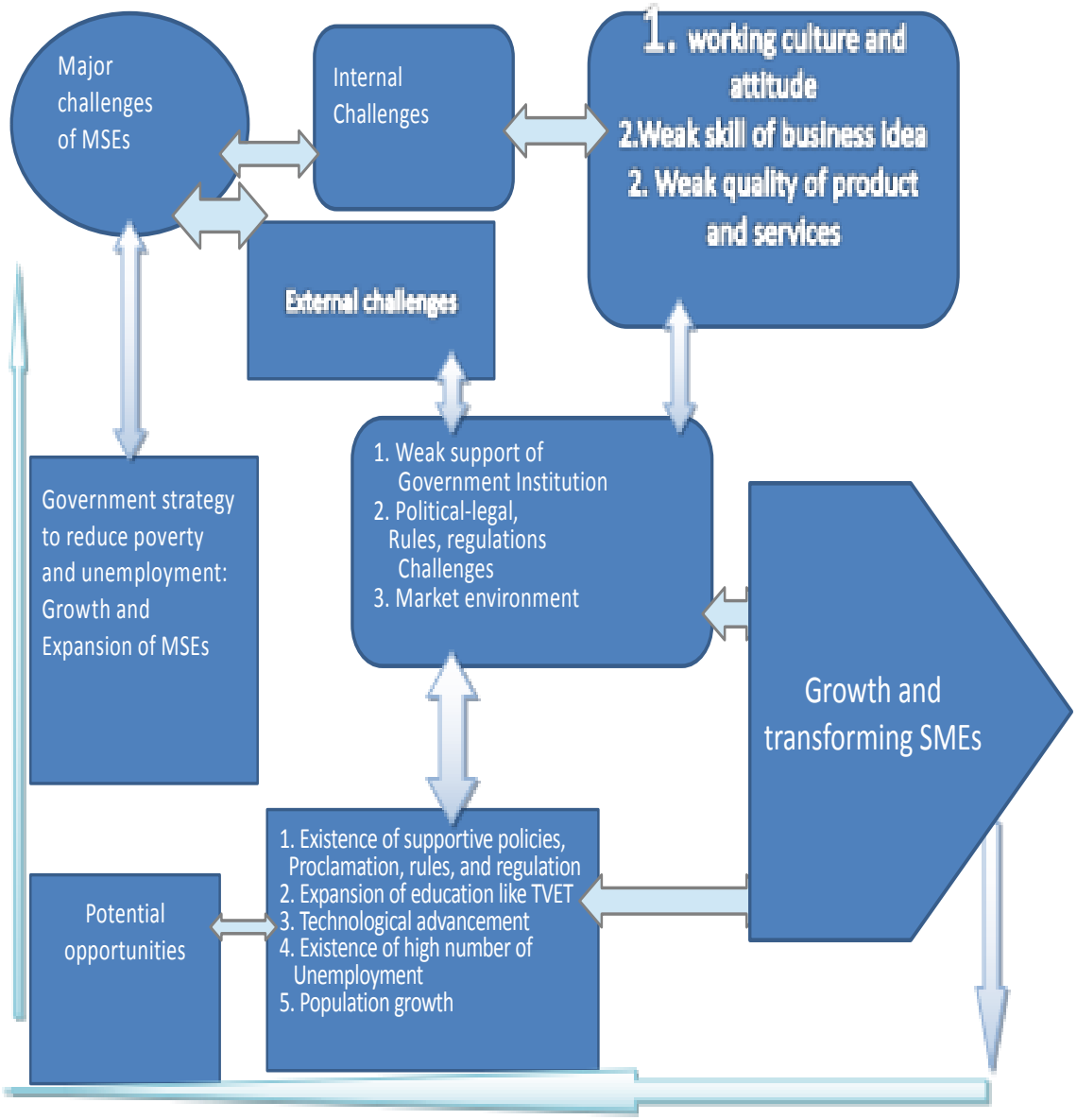
The Ethiopian Government has used two definitions in identifying micro and small sized enterprises since 1997. As to MoTI (1997), micro enterprises are those enterprises with a paid-up capital of not exceeding Ethiopian Birr (ETB) 20,000 and excluding high tech consultancy firms and other high tech establishments. 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.

2.2. 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 Lack of Adequate Finance (inadequate investment capital, insufficient loan, and inefficient financial market are the major obstacles in doing business), Lack of Working Premises, Lack of Managerial and Technical Skills, Lack of Adequate Market, Erratic Supply of Raw Materials and Regulatory Constraints are some major challenges for MSEs growth. In Ethiopia, MSE's Sector is the second largest employment-generating sector following agriculture (CSA, 2005). According to CSA (2005) the sectors contributes 3.4% of GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001. In spite of the enormous importance of the micro and small enterprise (MSE) sector to the national economy with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy. These challenges are lack of access to credit, insufficient loan size, time delay and collateral (Weldegbriel M, 2006).

2.4. Conceptual framework



Source: Conceptualization diagram of the study from different literature reviews

III. METHODS AND MATERIALS

This study sought cross-sectional survey research design. This design is restricted to factual registrations, and that there is no quest for an explanation why reality is showing itself this way. This ensures objectivity and neutrality in drawing conclusions. Both primary and secondary sources of data was used to implement this study. The population of interest for this survey research was MSEs and office experts from concerned sectors. From total population of 848 MSEs members in Asella city sample size was statistically drawn by the following formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where
N= Size of total population =848, n= is the desired Sample size =, e= is the estimated standard error which is 5% for 95% confidence level (the limit of tolerable error 5%) 1=is a constant
$n= 848/1+848(0.05)^2 = 272$

Table 3.1: strata and proportional sample

Sn.	Strata	Total size	Proportion
1	Manufacturing	152	54
2	Construction	138	42
3	Trade	168	71
4	Urban agriculture	125	33
5	Retail business	146	48
6	Service	119	24
	Total	848	272

Semi-structured questionnaire was used to collect a primary data for analysis. Before data analysis was conducted, the questionnaires were also checked for completeness. Data cleaning and error checking was also conducted, and errors fixed. After the completion of data collection, the questionnaires were coded for easy of analysis and counter checking. In this study both quantitative and qualitative analytical procedures were employed in order to answer the research question and to attain the objectives. Data analysis was conducted with support of statistical package for social science (SPSS, 22.0) versions software computer program) for descriptive and inferential data analysis and qualitative approach was used. Reliability of data was checked using α. The calculated α for this study was 0.855.

IV. Analysis and Discussion

4.1 Descriptive Analysis

Table 4.1 Response of Respondents

	Description	Respondents
1	Sample	272
2	Questionnaire Distributed	272
3	Questionnaire Returned	264
4	Response rate	97%
5	Usable response	264

Source: Field Survey, 2019/20

Response rate is the total number of respondents who participated in the study and out of the total questionnaires distributed i.e.272, out of which 264 were participated in the survey. The percentage of response rate was 97.7%. According to Saunders et al., (2009) a response rate above 60% is good, and above 70% is very good.

Table 4.2: Infrastructural, marketing, financial, and management challenges and opportunities of MSEs

Infrastructure challenges	Mean	Std. Deviation
lack of machinery	4.10	.923
lack of skill to handle new technology	4.19	1.141
lack of money to acquire technology	4.33	.778
unable to select proper technology	4.14	.942
Inconvenient working place	4.56	237
The rent of working are is too high	4.05	.048
Power interruptions	3.70	.232

Interrupted water supply	3.9	.138
Poor transportation service	3.92	.591
Marketing challenges		
In adequacy of market	4.40	.737
poor market information	4.60	.491
poor market survey and analysis	4.65	.655
Poor promotion of our products	4.33	.323
Poor relation with suppliers	4.44	.034
Poor relation with customers/ low customers	4.71	.054
Poor customer service	4.21	.321
Low market share	4.2	.431
Financial challenge		
high interest rate charged by financial institutions	4.09	.882
in adequacy of credit institutions	4.13	.799
lack financial management skill	4.30	.954
shortage of working capital	4.35	.634
high collateral requirement from lending institutions	4.30	.622
Management challenges		
lack of clear duties and responsibilities among members	4.04	.625
poor follow up and evaluation	4.30	.954
poor organization and ineffective communication	4.13	.799
lack of well-trained experienced employees	4.17	.762
lack of training	4.27	.688
Poor culture of working together	4.51	.043
Opportunities of MSEs		
focus of government to reduce unemployment	4.30	.750
expansion of education center and graduate number	4.04	.044
technological advancement	4.26	.990
high number of unemployment	4.49	.584
population growth	3.52	.375

Source: own survey 2019/20

Table 4:2 reveals that infrastructural challenges of SMEs in growth and transforming, as was shown inconvenient work place was the major challenge as it was shown by mean score of 4.56. lack of machinery, lack of skill to handle new technology, lack of money to acquire technology, unable to select proper technology, The rent of working are is too high, Power interruptions, Interrupted water supply, Poor transportation service were also infrastructural challenges affecting SMEs growth and transforming as was shown by mean score of 4.1, 4.19, 4.33,4.14,4.05, 3.7,3.9, and 3.92 respectively. This implies that machinery, technology, working place, rental cost, electric power interruption, water supply and transportation service were some infrastructural challenge that hinder the growth and transforming of SMEs.

Table 4:2 indicates the marketing challenges that affects the growth and transforming of SMEs, as it was shown Poor relation with customers/ low customers was the major challenges that affect the SMEs as it was shown by mean score of 4.71. In adequacy of market, poor market information, poor market survey and analysis, Poor promotion of our products, Poor relation with suppliers, Poor customer service, Low market share were also marketing challenges affecting SMEs growth and transforming as was shown by mean score of 4.40, 4.60, 4.65, 4.33, 4.44, 4.21, and 4.2 respectively. From this it can be generalized that there were poor marketing linkage with customers, suppliers, low promotion of their products, and low market share.

The results of table 4:2 indicates that financial challenges that hinder growth and transforming of SMEs, as shown shortage of working capital was the major factor that affects SMEs as shown by mean score of 4.35. High interest rate charged by financial institutions, in adequacy of credit institutions, lack financial management skill, and high collateral requirement from lending institutions were also affects growth and transforming of SMEs as shown by mean score of 4.09, 4.13, 4.3, and 4.3 respectively. This implies that interest rate, access of

credit institutions, financial management skills, initial investment cost, and collateral were the hindering factors of SMEs growth and transforming.

The results of table 4:2 indicates that management challenges that affects growth and transforming of MSEs, as it was shown poor culture of working together was the major hindering factor, as was shown by mean score of 4.51. lack of clear duties and responsibilities among members, poor follow up and evaluation, poor organization and ineffective communication, lack of well-trained experienced employees, and lack of training were also affects the growth and transforming of MSEs as shown by mean score of 4.04, 4.30, 4.13, 4.17, and 4.27 respectively. This indicates that lack of clear job description among MSEs members, poor team work, poor follow-up and evaluation, and lack of training were managerial factors that affects growth and transforming of MSEs.

Table 4:2 results indicate that opportunities of growth and transforming MSEs, as it was shown high number of unemployment was the major opportunity to growth and transforming of MSEs as shown by mean score of 4.49. Focus of government to reduce unemployment, expansion of education center and graduate number, technological advancement, and population growth were opportunities to be exploited to growth and transforming of MSEs as shown by mean score of 4.3, 4.04, 4.26, and 3.52 respectively. This implies that expansion education sector, huge number of unemployment, trend of population, and technological advancement were the opportunities to foster growth and transforming of MSEs.

4.2 Correlation Analysis

Table 4.3 shows the correlation between independent variables (infrastructure, marketing, finance, management, opportunities) and dependent variables (growth of SMEs) were positive. Infrastructure had a correlation of .870**, p<0.01 with growth of SMEs, marketing had a correlation of .197**, p<0.01 with growth of SMEs, finance, had a correlation of .665**, p<0.01 with growth of SMEs, management had a correlation of .923**, p<0.01 with growth of SMEs, which mean that the respondents are more likely infrastructure, marketing, finance, management, and were positively affects the growth of SMEs. From this management and infrastructural factors has strongest correlation with Growth of MSEs as shown by statics results of 0.923 and 0.87 respectively. Finance factors has medium correlation with MSEs growth as it was shown by statically result of 0.665 and marketing factors has a weak correlation with MSEs growth as it was shown by statics result of 0.193.

Table 4.3: The correlation between independent and dependent variables

		Y	X1	X2	X3	X4
MSE growth	Pearson Correlation	1	.870**	.197**	.665**	.923**
	Sig. (2-tailed)		.000	.001	.000	.000
	N	264	264	264	264	264
infrastructural challenges	Pearson Correlation	.870**	1	.338**	.691**	.778**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	264	264	264	264	264
marketing challenges	Pearson Correlation	.197**	.338**	1	.351**	.215**
	Sig. (2-tailed)	.001	.000		.000	.000
	N	264	264	264	264	264
financial challenges	Pearson Correlation	.665**	.691**	.351**	1	.726**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	264	264	264	264	264
management challenges	Pearson Correlation	.923**	.778**	.215**	.726**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

N	264	264	264	264	264

**. Correlation is significant at the 0.01 level (2-tailed).

4.3 Inferential Analysis

In this study a multiple linear regression model was implemented to identify the relationship between the four independent variables (infrastructure, marketing, financial, and management) and the dependent variable which is the growth of the SMEs. The researchers applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 4.4: Modell summary and coefficients of variables

Model summary	**R**	**R square**	**Adjusted R square**	**Std. Error of the Estimate**		**Durban-Witson**
	0.869	0.820	0.808	0.209		2.077
	Model	**Unstandardized Coefficients**		**Standardized Coefficients**	t	
	Variables	**B**	**Std. Error**	**B(Beta)**		**Sig**
Coefficients	Constant	-.471	0.141		-3.346	0.000
	Infrastructural factors (X_1)	0.526	0.038	0.434	13.875	0.000
	Marketing factors (X_2)	0.105	0.033	0.068	3.191	0.000
	Financial factors (X_3)	0.161	0.044	0.068	3.628	0.000
	Management factors (X_4)	0.802	0.056	0.625	14.227	0.000

The R column represents the value of *R*, the multiple correlation coefficient. R is considered to be one measure of the quality of the prediction of the dependent variable; growth of SMEs. A value of 0.859, in this case, indicates a good level of prediction. The 'R square' column represents the R2 (also called the coefficient of determination), which is the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model). In this case a value 0.820 means that the model independent variables explain 82% % of the variability of the dependent variable, growth of MSEs while the remaining 18% of the variation of the dependent variable was explained by other factors which were not included in the model.

In Table 4.4 above values under B column indicates that the value of constant term and the estimated coefficients of independent variables in the multiple regression model that used as a measurement of growth of MSEs.

There were two hypothesis in this research study. The null-hypothesis was stated as the business factors in MSEs do not affect the growth MSEs in Asella City and it was tested at a 5% level of significance. Accordingly, the result revealed that the business factors of MSEs do play a significant role in determining the growth of MSE as the null hypothesis was rejected and the alternative hypothesis which stated the business factors do affect the growth of MSEs was accepted as illustrated in Table 4.4 . The unstandardized coefficients B column, indicated that the estimate of coefficients of the independent variables in the multiple regression equation as indicated below in the following form.

$Y= \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Predicted growth of MSEs value (Y) = -0.471 + .0.526 (infrastructural factors -X_1) + 0.105(marketing factors -X_2) + 0.161 (finance -X_3) + 0.802 (Management factors -X_4), ε = error term

The multiple regression equation in this study could be summarized in the following equation form.

$$Y = -0.471 + .0.526X1 + 0.105\,X2 + 0.161X3 + 0.802X4$$

Table 4.4 above further shows that, all the explanatory variables included in the above regression equation in this study can significantly explain at 95% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. In this study the first, second and third highest influence on the growth of MSEs were by management factors , infrastructural factors, and finance factors with *Beta* value of 0.802, 0.526 and 0.161, respectively. On the contrary, marketing factors with beta value of 0.105 was the lowest predictor of the growth of MSE.

4.3.1 Analysis of Variance (ANOVA)

Table 4.5: Analysis of variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	130.508	5	26.102	593.040	.000[b]
	Residual	11.355	258	.044		
	Total	141.864	263			

The **ANOVA** table 4. 5 tests whether the overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predict the dependent variable.
As illustrated in Table 4.5, there regression model shows all the independent variables explains the variability in the dependent variables significantly at α= 0.01 as p-value was 0.000 In this study, the significance value is .000 which is less that 0.05 thus the model is statistically significant in predicting infrastructural, marketing, finance, management, opportunities and growth of SMEs.

V. Conclusions And Recommendations

5.1 conclusions

MSEs development program is one of the poverty reduction strategies, which was mainly focused on the very low income citizens and reduction of unemployment both in rural and urban areas of Ethiopia. In many countries this sector created job opportunities for 8.3, 60, and 40 million citizen in Ethiopia, India, and japan in country level respectively. Power interruptions, interrupted water supply, working premises, and poor transportation service were the major infrastructural challenges affecting the growth of MSEs. Lack of adequate market, poor supply and customer relationship, lack reliable market information, and low market share were marketing challenges affecting the growth and transforming of MSEs. Lack of trained manpower, poor working culture among members, lack of clear job description among members of MSEs, poor follow-up and evaluation, were managerial challenges hindering growth of MSEs. Working capital, high collateral, and high inters rate charged by financial institutions were some financial challenges hindering the growth of MSEs. Expansion of education sector, technological advancement, unemployment rate, and population trend were some of the opportunities that foster the growth and transforming of MSEs.

5.2 Recommendations

To solve the rule and legal challenges government should support MSEs by broking bureaucracy in the sector and decreasing tax rate charged on their business activity. To address infrastructural challenges government should provide premises considering their business nature to minimum appropriate level. To solve marketing challenges government should interlink MSEs to medium and large companies to sustain and growth of SMEs in the market. MSEs should be organizes based on market analysis, rather than emotion and shortcut approach of growth. The sector office should provide continual monitoring, evaluation, and training, to solve MSEs managerial challenges. Government should design strict legal system engage MSEs on how to access finance, collateral issue, and working capital. The members of MSEs should exercise culture of working together with clear duties and responsibilities.

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