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Assessing the challenges of micro and small enterprises in Dalocha town

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Declaration

I, Abdulmejid Admama, hereby declare that the work which is being presented in this thesis entitled “Assessing the challenges of micro and small enterprises in Dalocha town” is an original work of my own and prepared under the guidance of my thesis Advisor Tamiru Berafe (Assistant Professor). It has not been presented for any level of study in any other University. All the sources of the materials used in this study have been duly acknowledged.

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This is to certify that the above declaration made by candidate is correct to the best of my knowledge.

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Approval

We, the undersigned, members of the Board of Examiners of the final open defense by **Abdulmejid Admama** have read and evaluated his/her thesis entitled “**Assessing the challenges of micro and small enterprises in Dalocha town**”, and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree **in Development planning and management**.

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Acronyms

CSA- Central Statistical Agency

GDP- Gross Domestic Product

GTP- Growth and Transformation Plan

FeMSEDA- Federal Micro and Small scale Enterprises Development Agency

MSEs- Micro and Small scale Enterprises

MFI –Micro finance Institution

MoFED -Ministry of Finance and Economic Development

MOTI- Ministry of trade and industry

MoUDH- Ministry of Urban Development and Housing

SNNPR-Southern Nations, Nationalities, and Peoples' Region

TVET-Technical and Vocational Education and Training

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Abstract

This study focused on assessing the challenges of micro and small enterprises in Dalocha town. The objective of the study was to investigate the challenges of micro and small enterprises in Dalocha town. In order to achieve the objective of this study, the study used both qualitative and quantitative research approach. The study data was gathered from primary and secondary sources and examined through probability and non-probability sampling techniques. Accordingly, challenges of financial facilities, marketing networks, infrastructural facilities, management efficiency as well as socio political situations had very high effects and negative effect on the progress of the studied area Micro and Small Enterprises. Thus Considering the output of the research, the study were recommended the following; Micro Finance Institutions interest rate is so high and loan payback period is short, to reduce this challenges the study recommend Micro Finance Institutions reconsiders the procedures, to reduced management efficiency among member groups of Micro and Small Enterprises. The study recommends that the Woreda bureau of Micro and Small Enterprises may provide experts technical assistance and training according to the nature of the enterprises.

Key Words: Micro and Small Enterprises, challenges, market, infrastructure and finance.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Micro and Small Enterprises are seen as key instruments of economic diversification, income generation and distribution, and accelerating the economy of a country (Aynadis, 2014). Most developing countries proved MSEs as a powerful propellant effect for rapid economic growth because of virtue of their size, location, capital investment and their capacity to generate greater employment. Because MSEs sector do not require high-level training, much capital and sophisticated technology, the sector is recognized as an instrument in bringing about economic transition (Seyoum, 2016).

In Ethiopia, The MSEs sector is the second largest employment generating sector for low income groups next to the agriculture sector (Tefera, 2013). According to (CSA, 2009) almost 50% jobs created in Ethiopia are attributable to small business. In Ethiopia the role of Micro and Small Enterprises (MSEs) is seen as crucial in poverty reduction through employment generation and capital mobilization. Cognizant of this, the government formulated national MSEs Development Strategy in 1997. The MSE Policy envisages poverty reduction in urban areas and developing entrepreneurship and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment creation, entrepreneurship expansion and transition of MSEs to medium and large size companies (Assefa, 2014). In line with the country strategy, bureau of Enterprise and Industry development and Silte zone Enterprise and Industry development department has responsible for promotion and development of Micro and Small Enterprises in order to generate income and provide job opportunity for unemployed people in urban centers.

In Dalocha town, Enterprise and Industry development office is responsible to promote and facilitate the development of MSEs to play their crucial role in solving unemployment problem and provide job opportunities for unemployed people including those graduated from university

and TVET. The study aimed at identifying the challenges of Micro and small enterprises in Dalocha Town.

1.2. Statement of the Problem

Most developing countries like Ethiopia were implemented different Micro and Small Enterprise development strategy to support the development of the sector, thereby transforming economies and generate substantial employment opportunities. As per (Berhanu, 2014), Micro and small enterprises sector are major income generating and basic means of survival for the poor.

Despite the mentioned facts above, the growth of MSEs faces a number of constraints that hinders its rapid growth and development at one hand and its ultimate goal of reducing poverty and unleashing its potential contribution to the national economic transition. The factors that affect the growth of MSEs in Ethiopia include among others access to technology, adequate skills, capital and lack of conducive and working markets. The negative attitude towards MSEs by the people is also a core factors. In Ethiopia according to (Assefa, 2014) key constraints of Micro and Small Enterprises includes access to finance, collateral challenges, marketing challenges, working and sales space constraints, institutional coordination problem, attitudinal challenges, licensing and registration challenges. The major challenges identified by (Ministry of Urban Development and Housing., 2016) are access to finance, access to land or work or work space, access to input, lack of managerial skill, lack of technical knowledge access to market . Among these the major ones are lack of finance (42%), lack of working premise (28.3%) and lack of access to market or absence of linkage to market (18.1%) among others like access to input , lack of managerial skill and lack of technical knowledge.

Several studies have been identifying the challenges of Micro and Small Enterprises in different regions of Ethiopia. For instance the findings of (Seyoum, 2016) shows that external factors those influence the performance of enterprises are location of working premises, access to credit, training, market .While study conducted by (Kefyalew, 2016) Micro Finance Institutions in Wolaita and Dawro zones revealed that MSEs operators do not access adequate loan for business start-up, a long bureaucratic procedure to secure the credit and lack flexibility in loan repayment arrangements in formal lending institutions compared to the informal sources. Moreover, high

collateral requirement and the interest rate charged by formal institutions are high to credit access. Hence, Micro and Small Enterprise operators are forced to use the informal institutions as a source of finance. While critical problems of the MSEs sector in Addis Ababa includes Market-related problems, Institution-related problems and Financial factor (Admasu, 2016).

Most of the previous study result shows that the key challenges of MSEs growth vary from town to town and place to place. Hence, this study was aimed to find out the key challenges of Micro and Small Enterprises in Dalocha town.

1.3. Objectives of the Study

1.3.1. General objective of the study

The general objective of the study was to assess the challenges of Micro and Small Enterprises (MSEs) in Dalocha town.

1.3.2. Specific objectives of the study

The specific objectives of the study were to:

- ✓ To assesses financial challenges and constraints affect Performance of Micro and Small Business enterprise in Dalocha town
- ✓ To identify major constraints with respect to market relation challenges impending the enterprises performance
- ✓ To assess infrastructural challenges with respect to performance of MSEs
- ✓ To examine society perception and its effect on MSEs performance
- ✓ To examine members of MSEs management efficiency system and its effect on their enterprise Performance
- ✓ To recommend possible solution for concerned bodies to alleviate the challenges of MSEs in Dalocha town.

1.4. Research Questions

- ✓ How Financial Constraints affect Performance of Micro and Small enterprise in Dalocha town
- ✓ What are the major constraints MSEs marketing practice?
- ✓ What are the common challenges of infrastructural facilities in MSEs?
- ✓ How Society perception and view affect the enterprise performance?
- ✓ How MSEs Members management systems affect their enterprise Performance?

1.5. Significance of the study

This study has important contributions to the local government, Micro and Small Enterprises operators and the local community to understand the challenges of Micro and Small enterprises development. The study can help in identifying the existing challenges and posed on the successfulness by identifying the major constraints which affect the activities of MSE. The main findings of the study expected to indicate the strategic intervention areas that might be improved. Furthermore, this small case study also used, as academic experience for the researcher and reference for others researchers and academicians in related area. In addition the Findings from this study will assist academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical factors that affect the performance of MSEs. The findings of this study will help MSEs in Dalocha town and others, within an insight into the benefits of using different factors studied in this research to predict and assess the challenge that affect the performance of MSEs. The government can use the findings of this study to assist in policy formulation and development for a framework for critical finance, marketing, work premises and other common challenge that affect the performance of MSE. Moreover, the findings of this study will help the policy makers and financial institutions how to

encourage establishing or expanding MSEs. It also enables them to know what kind(s) of policies should be framed.

1.6. Scope of the Study

The scope of the study was limited to assess the challenges of Micro and Small scale enterprises in Dalocha town, using descriptive and qualitative research design. Furthermore, the study area was chosen because it is relatively better center of business activities and chief town within Dalocha Woreda. MSEs Sector comprises manufacturing, construction, service, trade and urban agriculture sectors in Dalocha town.

1.7. Limitation of the Study

Lack of organized data was among the limiting factors in this study. Lack of research conducted by other researcher on this topic in the study area context in which this study was undertake, which may help the researcher as reference, was limitation of this study.

1.8. Organization of the Study

The study consists of five major chapters. The first chapter is an introductory chapter, which consists of Background of the study, Statement of the problem, Objectives of the study, Significance of the study, Scope of the study, Limitation of the study, and Organization of the paper. The second chapter reviews literature that related to the study. The third chapter incorporates the methodology of the study. The study results and discussion constitutes the forth chapter. The last chapter incorporates conclusion and recommendation. Other supplementary part of the research is present before and after these five chapters.

CHAPTER TWO

REVIEWS OF RELATED LITERATURE

2.1. Definition of Micro and Small Enterprises

It is hard to find universally acceptable definition of Micro and Small Enterprises (The World Trade Report, 2016:16; Haile, Girmay and Hagos, 2014:135; Hawando: 2017) .Some countries even have multiple definitions across different government institutions. This is so because the criteria and ways of categorizing enterprises as Micro, Small and Medium vary from country to country and from organization to organization. The most commonly used criteria are employment, turnover and productive assets (World Bank, 2013)

The definition used to define MSE sector in Kenya is based on three criteria: the number of workers, the turnover and assets of the enterprises. Micro Enterprises are defined as firm, trade, service, industry or a business activities whose annual turnover that does not exceed 500,000 Kenya Shillings and whose total employees are less than 10 people meanwhile Small Enterprises are those firms, trade, service, industry or business activities that post an annual turnover of between Ksh500, 000 and Ksh5 million and have an employee list of 10 to 50 (Kenya's Micr and Small Enterprises Act, 2012:7).

In Ethiopia, there is no consistently placed definition for the Micro and Small Enterprise sector by different organization. Federal Ministry of trade and industry has defined Micro Enterprises as an enterprise with a total asset of less than 20,000 Birr (\$1200) and Small Enterprises as Enterprises with a total asset of Birr 500,000 (\$30,000) or less. While Central Statistics Agency used type of technology adopted and the size of man power to define the sub sector. Accordingly, Handicraft and cottage industries in which a single person or family members perform their activities mainly by hand and using non-power driven machineries; and Small manufacturing enterprises engaging less than 10 persons and using motor driven machinery (MoTI,1997).

However the country has revised the definitions of MSEs in 2011 to align with at least some countries and an international organization (Abawa & Raghurama, 2017), to consider the limitations of previous definitions, to integrate the development of year (2003-2007 E.C) Growth and Transformation Plan (GTP) and hoped to bring about rapid economic growth and lift up the country to middle income level.

In the new definition, some of the attributes used by other countries and international organizations such as considering job creation, size, asset base and differentiating Minimum asset requirement for services and industry are addressed (MoUDH, 2016). Accordingly; Micro Enterprises are those enterprises having 5 workers including family members and its total asset not exceeding Birr 100,000 for Manufacturing enterprises and Birr 50,000 for service providing enterprises. Small Enterprises are those enterprises having 6-30 workers and its total capital not exceeding Birr 1.5 million for manufacturing enterprise and Birr 500,000 for service providing enterprises. When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick (Federal Micro and Small Enterprise development agency, 2011). In this research the revised definition MSEs by FeMSEDA is used.

MSEs are also defined in a range of ways using different factors like; number of employees, volume of sales, and the capital value of the business. Although many countries around the globe seem to use common factors in their definitions, the degree of emphasis and measures used differ quite considerably. To this end, different governments and writers in MSEs' definition differ considerably. This difference is influenced largely by, the industry within which the MSE is competing and population and stage of a country's economic development (Hillary, 2000).

A definition of MSEs in the industrialized world would differ from how MSEs are defined in the emerging economies. An enterprise categorized as micro enterprise in USA may be treated as medium enterprise in Africa or somewhere in Asia for the fact that the definition of MSE is relative to economic development. The annual turnover figures also differ from country to country, depending among other factors on population size and stage of economic development. From this we can learn that there is no common definition of MSEs and that the definitions vary

from country to country depending largely on the size of the economy, the levels of development, culture and population size of a country involved.

Based on both national and international experiences the government of Ethiopia defines micro enterprises which involved in manufacturing, construction and mining as an enterprise that operates with a maximum of 5 people (including the owner) and/or own up to ETB100,000 total asset. The total equity aspect is limited to a maximum of ETB 50,000 if the micro enterprises are engaged in the service sector including retailer, transport, hotel and Tourism, ICT and maintenance service. Likewise, the Ethiopian government classifies enterprises that have 6 to 30 employees (including the owner) and/corporate with a total asset that is beyond the micro enterprises in the industrysegment but not exceeding ETB 1.5million as small enterprises. On the other hand the definition puts enterprises engaged in the service sector like in the retail, transport, hotel and Tourism, ICT and maintenanceunder small enterprise once their capital exceeds ETB 50,000 until it reaches ETB 500,000 and/or employing the same 6-30 employees as the enterprises operating under the industry sector.Over all the countries definitions sides the total asset yardstick in times of ambiguity.

Table 1 Definition of MSEs

Enterprise	Sector	Employees	Total asset
Micro enterprise	Industry	Below 5	Below 100,000 Birr
	Service	Below 5	Below 50,000 Birr
Small enterprise	Industry	6-30	Below 1.5 Million Birr
	Service	6-30	Below 500,000 Birr

Source: Ethiopian Micro and Small enterprises strategy 2011

CSA adopts its own definition which is not well aligned with the MSE policy and FeMSDA's definition which is based on the size of employment and extent of automation.

2.2. The size of Ethiopia's MSE sector

The size of MSE is measured by its contribution to the GDP, Employment and Export and total and new annual establishments. How large is the Ethiopian MSE sector? The MSE sector is a key target sector but its current size or performance in terms of its contribution to GDP, Employment and Export and total manufacturing output is largely unknown (EDRI, 2014). According to the exploratory research made by EDRI in 2014, there is little or no information on the number of enterprises, the total sales, total employment and the number of newly-established MSEs. FeMSEDA was also consulted and they acknowledged that they don't have complete data in this regard but mentioned that it is among their priority issues in the coming years.

2.3. Characteristics of MSEs

The MSE sector is characterized by a number of highly diversified activities, which can create job opportunity for a large segment of the population. The characteristics of the informal sector (small and micro enterprises) have also been described as it is easy to enter; more efficient, more equitable in distributing the income they generated, geographically diverse, more entrepreneurs nurturing mainly financed by personal and family resources, requires small starting capital, uses labor-intensive techniques, and it relies on the non-formal school system such as apprenticeship and on-the-job training (Zewde et al, 2002, Liedholm, Carl, and Mead, C. Donald 1999).

2.4. MSE development in Ethiopia

MSEs Development was given a prior attention during the first growth and transformation plan (GTP) period. The GTP has indicated the MSEs development as one of the seven recognized growth pillars. Some studies rightly point out that MSEs have been on the forefront in employment creations, poverty reduction, proliferations of entrepreneurs and consequently overall contribution to the economic development of the country (MoTI, 1997; Haftu, et al,

2009; GTP, 2010). In line with this the recent two MSE strategy documents introduced (as of 1997 and 2011) by the current government of Ethiopia worth looking.

MSE Development Strategy formulated in 1997 clearly enlightens a systematic approach to alleviate the problems and promote growth of enterprises. The primary objective of this national MSE development strategy was to create enabling environment for MSEs to operate. It was the responsibility of the MSEs then to exert great effort to operate, grow and progress to the next level. Facilitating economic growth to bring equitable development, creating long term jobs, strengthening cooperation between MSEs, setting the basis for medium and large scale enterprises, promoting export and balancing preferential between MSEs and bigger enterprises were the main objective of the 1997 strategic document.

The later MSE Strategy incorporated fresh band of target groups, the graduates in addition to the poor and less skilled citizen to create their own jobs through cooperatives. Establishment of cooperatives and groups were also expected to induce technological transfer and enhance the corporate management skills. The government in its 2011 MSE development strategy document identified and given priority attention to 5 key MSE development sectors believed to substitute import and engage in manufacturing. The sectors which were given priority attention are the manufacturing, the service, construction, urban agriculture and the retail sector. The strategy also outlines different criterion to identify their growth stage. The growth stage is then used to analyze the specific problems that MSEs face at a given growth stage and provide them the necessary support.

According to the strategy, textile, garment, leather production, food and beverage processing, metal works, metal engineering, wood works and agro-processing are given a prior attention under the manufacturing sector. Likewise the strategy clearly names, sub-contracting, building material provision, traditional mining, cobble stone, and infrastructure subcontracting under construction sector. The trade sector has also been designed to accommodate whole sale and retailer of domestic and raw materials supply as a key engagement area. Rural transport, café, storage, tourism, managerial advisory, beauty salon, electronics, software development and

internet café are some of the areas identified under the service sector. Similarly areas of engagements like beekeeping, poultry, modern irrigation, and production of vegetables and fruits are mentioned as key areas that are given due attention in order to attain the strategic goals set by the government.

2.5. MSE as a key means for the country's development

MSE development is one of the key focus areas of the country's development strategy. Due to this it receives massive support from the government in the form of access to finance, market, technology, training and working space (EDRI, 2014). As it was clearly indicated in the GTP, the government strongly believes that MSEs are the right solution to reduce urban unemployment and hence reduce poverty. For instance, MSE promotion and support is the vital strategy to fulfill the job creation for 3 million new citizens indicated in the national plan in the short-run and achieving industrialization in the long run. The country adopts a layered policy support in which MSEs are categorized into three different stages as startups, growing-middle and maturity. Start-up stage enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector. In order to mitigate these challenges, FeMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique. Growing stage enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, enterprises at this stage also suffer from different challenges like financial constraint, lack of appropriate technology⁹ and technical skill, absence of sufficient working and sales premises and rent seeking behavior. To alleviate these specific challenges, FeMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, enterprises are considered to

have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FeMSEDA has a strategy that aims to strengthen enterprises in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to enterprises. We discuss each of the direct government support to MSEs in subsequent sections.

2.6. Survival versus Growth-Oriented Enterprises

Categorizing micro enterprise as survival and growth-oriented is use full to analyze the extent of their contribution to economic development and it would facilitate the identification of the appropriate support policies to such enterprises (Kanothi, 2009).

Survival based micro enterprises according to Mashigo(2015) are referred to as enterprises that cannot create extra employment opportunity other than the operators and minimal asset value or activities by people unable to find alternative jobs before starting the businesses, with no skills training in the particular field and only limited opportunities for growth into a viable business.

Apart from the survivalist micro enterprises, growth oriented enterprises are businesses that always re-invest in the business and employ additional labor which may enhance their credit worthiness and for that matter increase their chances of growth (Hallow, 2016). Rogerson (1996: 171) states both categories of enterprises as follows:

The first category is survivalist enterprises which represent a set of activities undertaken by people unable to secure regular wage employment or access to an economic sector of their choice. Generally speaking, the incomes generated from these enterprises, the majority of which tend to be run by women, usually fall short of even a minimum standard of income, with little capital investment, virtually no skills training and only constrained opportunities for expansion into a viable business. Overall, poverty and a desperate attempt to survive are the prime defining features of these enterprises.

The second category is growth oriented enterprises which are very small businesses, often involving only the owner, some family members and at most one to four paid employees. These

enterprises usually lack all the trappings of formality, in terms of business licenses, formal premises, operating permits and accounting procedures, and most have only a limited capital base and their operator only rudimentary business skills. Nonetheless, many micro-enterprises have the potential to develop and flourish into small and medium enterprises.

In Ethiopia However, the micro and small enterprises sector is categorized in to Start-ups, Growing-middle and Maturity depending on stages of development to facilitate and provides appropriate policy support (Assefa, *et.al.* 2014:9-10).

2.7. Micro and small Enterprises Development strategy in Ethiopia

Nowadays, the significant contribution and potentials of the MSE sector in poverty reduction has been recognized in Ethiopia (Adam, 2014). In line with, federal government of Ethiopia has adapted MSE development strategy to promote the sector in 1997. The objective of the strategy is to create enabling environment for the sector (MOTI, 1997). MSE Policy targets reducing poverty in urban areas and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and targets but having similar objectives. According to revised (MSEs) Development Strategy of Ethiopia, the main focus of the government is to create Job opportunities through MSEs development, in order to reduce unemployment problem, alleviate poverty and promote industrial development by considering the MSEs as a base (Joshi and Mihreteab, 2015).

The revised MSE strategy has two major dimensions of MSE development stages. The first is the transition of an enterprise from Micro to Small and from Small to Medium Enterprise level. The second is the process whereby MSEs maintain and strengthen their competitiveness within their own category of MSE. MSE development, being one of the development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space (MoUDH, 2016). As stated by Assefa, *et.al.* (2014:9-10) and Seyoum, Aragie, and Tadesse (2016:584-585): Policy support for MSE development in Ethiopia depends on stages of development in which MSEs are categorized into Start-ups, Growing-middle and Maturity. Start-up stage Enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek

various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the sector. In order to mitigate these challenges, FEMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique.

Growing stage Enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, Enterprises at this stage also suffer from different challenges like financial constraint, lack of appropriate technology and technical skill, absence of sufficient working and sales premises and rent seeking behavior. To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, Enterprises are considered to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FEMSEDA has a strategy that aims to strengthen Enterprises in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to Enterprises.

2.8. Challenges of Micro and small Enterprises

Sitharam and Hoque(2016) defined the business environment as factors both internal and external to the organization, influencing the continued and successful existence of the organization. Accordingly this part assesses the most serious challenges that constrain the development of Micro and small Enterprises.

2.8.1. Inadequate finance

One of the major challenges pointed out as hindering the development and survival of start-up MSEs is access to finance (MOTI, 1997, pp, 10; Engida,et al,2017,pp.11;Fadahunsi ,2012).

MoUDC (2013) and Tadesse(2014) also identified that financing has become a principal challenge to Micro and Small Enterprises in Ethiopia; banks in Ethiopia do not provide finance in the form of loaner obligations to MSE's and other requirement due. More to over call at the study conducted by (Kefyalew, 2016)revealed that MSE lack adequate loan to start-up their business, long process to secure the credit, high collateral requirement and high interest rate of loan service by lending institutions. Several studies (Abera, 2012; Wolde,2013;Mebrahtu,2014; Alemu,2015;Admasu,2016;Gebreyohannes,2015) pinpointed that the loan MSEs is not sufficient to start business, run and expand business because enterprises need finance to purchase equipment and machinery, to expand their market and to cover working capital shortages. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. The research conducted by Bernard; Sare, and Musah,(2014) in Ghana also confirms that high interest rate is the leading factor in constraining MSEs development.

2.8.2. Marketing challenges

Presence of market for the products and services is one the driving forces behind the success of Micro and Small Enterprises and some efforts available by the governments; marketing is among the major challenges for the development the sector. MSEs in Ethiopia are encounter access to sufficient and sustainable market, lack of suitable working and selling premises and inadequate market competition and knowledge. Several studies conducted in different regions such as:Admasu(2016).Abera(2016);BekeleandMezgebe(2016);Engida,etal,(2017,pp.11);Abera(2012) ; Sherefa(2012)also identified that marketing is among the top most severe problems that hinder the development of micro and small enterprises.

2.8.3. Problem of skilled manpower

For Micro and Small Enterprises, Training is the main means to gain the relevant and business-specific know-how and abilities to start and grow their own businesses in low and middle income countries (German Development Institute, 2013). However, studies by Abera(2012); Kebede(2015) mentioned that Lack of entrepreneurship training is one the hindering factors for the success of their business.

2.8.4. Inadequate infrastructure

In most developing countries infrastructural facilities are grossly inadequate Olalekan (2014). Inadequacy of the physical infrastructure is among the causes of low levels of investment and unsatisfactory performance of Micro and Small Enterprises. Study conducted by Abdissa and Fitwi (2016) in south west of Ethiopia, most MSE operators opined that lack of adequate infrastructural facilities especially insufficient and interrupted electric power and water supply. Abera (2012); Cherkos(2017) ; Demeke (2016) also mentioned challenges like interruption of electric power, interruption of water supply ,lack of road facilities and interruption of telecommunication service are constraining factors of MSEs development.

2.8.5. Policy and regulatory challenges

Having the right business policy, regulations and related institutions is vital for the health of an economy (Doing Business, 2014; Belás and Sopková (2016). However, enabling policy environment itself may not be sufficient to ensure optimal results because the response to the enabling policy environment depend on, among other things, the degree to which MSE operators can access resources such as skill, technologies, finance, infrastructure, markets, etc(Ageba and Amha,2006). (Bekele and Mezgebe, 2016; Abera, 2012) study results reveals that most of the Enterprises are not getting support from government. (Abera, 2012; Admasu, 2016) also states that bureaucracy in company registration is the main factor that affects the performance of the sector in addition to unreasonable tax and related issues.

2.8.6. Attitudinal challenges

There are two conflicting schools of thought on the expansion of MSEs. The first school acknowledges the positive role MSEs play in the creation of opportunities for many especially the disadvantaged. MSEs are central in creating massive employment opportunities while reducing poverty in an economy (FeMSEDA, 2011). On top of these, MSEs form the basis for a number of developments in technology where new breakthroughs are made; MSEs serve as a spring board for the industrial aspiration of a country. Contrary to this the second school of

thought considers the increase in the number of micro and small enterprises as a sign of failure of the economy to provide productive jobs; the sector is the last option which gives the bare minimum for subsistence support (FeMSEDA, 2011). People with no hope of finding formal employment are forced to engage in MSEs. It is considered as a place of last resort with little probability for improvement. Disfranchised people with less formal education are engaged in a one man or family run businesses with bleak hope for success. It is a sector characterized by poor productivity growth, informality and working on the margins where survival is the primary concern (DOTE, 2014). Even though there is a tendency for the former view to prevail over the later in recent years, there still remains a lot of hurdles in changing the attitudes of people on the role MSEs play (FeMSEDA, 2011). With the prioritization of MSEs given in the industrial drive of the country, designated bureaus are established with the sole role of facilitating the development of MSEs.

Furthermore, participation of a large number of the society in the sector 16 and success stories albeit few emanating from the sector have played a significant role in boosting the image of the sector. However, MSEs are yet to overcome the negative images they had over many years. The perception that MSEs are yet to produce quality products that can compete with similar products is the primary challenge. Even though efforts are underway to popularize usage of local products with many exhibitions, bazaars and advertisements like the “ Buy Ethiopian”, there still remains a great deal of sensitization of the public that MSEs are as good as any similar product (EDRI, 2014). Since old habits are hard to change this might take years. Attitudinal problems of the private sector towards MSEs are reflected more importantly in the way that MSEs are crowding out the private investors. This is more visible in the construction sector. MSEs undertake 30-50% of the construction works in the state sponsored housing development project. Massive government infrastructure development projects have targeted creating opportunities for MSEs (EDRI, 2014).

2.8.7. Institutional coordination problem

Ethiopia's MSE policy support is multi-agency. The implementation of the MSE policy involves many government agencies – FeMSEDA and ReMSEDA, MFIs, Land Development and Management Bureaus, and other infrastructure providers such as EEPC, Ethio-Telecom and Water and Sewerage Management Authority (FeMSEDA 2011). As a result of this, multi-agency support system policy coordination becomes a critical challenge during the policy implementation. In order to address the coordination problems, Ethiopia instituted coordination councils both at Federal and Regional Levels. At the Federal level, there is an MSE council that oversees policy implementation and coordination. The MSE council consists of Ministry of Urban Development, Housing and Construction (MoUDHC), Federal Micro and Small Enterprises Development Agency (FeMSEDA), Regional Micro and Small Enterprises Development Agencies (ReMSEDA) who are represented by regional Vice Presidents, Technical and Vocational Education and Training (TVETs), Ministry of Industry (MOI), National Bank of Ethiopia (NBE) and Ethiopian Revenue and Customs Authority. The Federal MSE council is chaired by the MoUDHC. There is similar council at the regional level, which is chaired by the Mayor in Addis Ababa and Presidents in other regions (FeMSEDA, 2011).¹⁷ Hence, about 10 government agencies are involved in the implementation and follow-up of the MSE policy. Consequently, implementation coordination has been a challenge. The setting up of the MSE council consisting of relevant government agencies has eased the problem to a great extent but the coordination problem still exists. The Council has to be well-mandated and structured so that it addresses not only policy issues but also follow-up implementation issues on the ground; and for this, the council needs to have smaller units that can regularly monitor and follow-up implementation issues (ERDI, 2014).

2.8.8. Working premise and Challenges

For successful and sustainable growth of Enterprises, working premise is one of the main components (Haile et. al, 2014). However, the shortage of such infrastructure has also been one of the main obstacles to the development of the sector in many urban areas of the country. For instance, the findings of (Haile et. al, 2014) shows that MSEs that have own working premise

grow faster than those that operates at rented and at family working premise. In addition, the studies conducted by Adeg0 (2014); Berhanu (2014); MoUDC (2013); Cherkos et.al (2017) and Sirmolo (2018) states that among obstacles experienced by entrepreneurs operating MSEs sector is unavailability of work premises.

2.9. Conceptual Framework of the study

Conceptual framework means a written or visual presentation of the main things to be studied that can be explained either graphically or in narrative form. Previous related works were reviewed to develop the conceptual framework. The variables that this study focused on were challenges of Micro and Small Enterprises. The challenges of MSEs include: Regulatory and policy factors, working premises, technological, infrastructural, marketing and financial factors. Furthermore if the MSEs achieved positively, the enterprises under study will expand and the Participants have got improved access to basic needs.

2.10. Empirical Studies

Thapa and Goswami and Joshi (2008) in their study they found that the education of owners has positive effect on entrepreneurial and small business success. Similarly Rose, Kumar and Yen (2006), in their study of the Dynamics of Entrepreneurs Success Factors, reported that, higher education level helps the business owners to have better knowledge and skills which contribute to the success of their venture. Working experience also assists the entrepreneurs with information and understanding about the industry and thus, assisted them in venturing into the current business they are in. King and McGrath,(2002) in their study suggest that those with more education and training are more likely to be successful in the SME sector. A study conducted by Okpara and Wynn, P. (2007) implied that the most successful MSEs Members (owners) in Singapore have higher educational levels compared to that of unsuccessful MSES.

Accordingly their survey implied that, Seventy percent of successful entrepreneurs are university graduated, while 23% are not. According to Lussier, R.N. and. Halabi,C.E.(2010) after entering the MSEs entrepreneurial world, those with higher levels of education are more successful

because university education provides them with knowledge and modern managerial skills, making them more conscious of the reality of the business world and thus in a position to use their learning capability to manage business.

Praag, M. (2003) further found that the government is not actively providing support mechanisms for business registration to ensure the success of micro-enterprises. There is also poor communication between the government and small business owners. Lack of proper regulation in terms of borrowing funds from the banks by small business owners; lack of focus in formulation and implementation of policies, and tax laws affects the performance of MSEs. For the proper promotion of the development of small business enterprises, there is need for a well-articulated plans or programs by the government (Etumeahu, 2009).

According to Watson, (2001), there is lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control and those with technical knowledge. Furthermore the study was assessing several related studies of the area, to minimize similarities and fill research gaps. Accordingly, there were a study conducted by Gebreeyesus, (2009), the study assess to Identify success factors of MSEs in Addis Ababa. Though the study implied success factors of the studied SMEs, however, it was not indicated constraints that affect the enterprise development negatively.

The other study report of Lafuente and Rabetino (2011) indicates the relationship between enterprises performance and forms of ownership. They reported that rather than those firms with a single-tier leadership structure (entrepreneur-manager), the presence of entrepreneurial teams increases firm's resources and capabilities, a fact that enhances employment growth indicating that the presence of entrepreneurial teams improve internal decision making processes leading to higher growth rates. Similarly the study of Lussein (1995) supports the fact that enterprises which

are owned by more than one owner have a higher chance of success than those enterprises owned and managed by a single owner.

CHAPTER THREE

Methodology of the study

3.1. Description of the study area

Dalocha is a town in Silte zone of SNNPRS, South east of Addis Abeba. Dalocha town is the administrative center of Dalocha woreda. It is located at 187 km from Addis Abeba, 215km from Hawassa and 14km from Worabe town administration.

Dalocha is one of the woredas in the Southern Nations, Nationalities, and Peoples' Region of Ethiopia. Part of the Silt'e Zone, Dalocha is bordered on the south by Sankurra, on the west by Wulbareg, on the north by Silte, and on the east by Lanfro.

Dalocha woreda has a total population of 123,303 and from which 41,214 of its population are urban dwellers. Out of this population 32% are youth. The majority of the inhabitants were Muslim, with 98.07% of the population reporting that belief, while 1.64% practiced Ethiopian Orthodox Christianity.

The two largest ethnic groups reported in Dalocha were the Silte (97.63%) and the Amhara (1.4%); all other ethnic groups made up 0.97% of the population. Silte is spoken as a first language by 97.41%, and spoke 2.14% Amharic; the remaining 0.45% spoke all other primary languages reported.

Concerning education, 12.74% of the population were considered literate, which is less than the Zone average of 20.62%; 3.34% of children aged 7–12 were in primary school, 0.52% of the children aged 13–14 were in junior secondary school, and 1.36% of the inhabitants aged 15–18 were in senior secondary school.

Concerning sanitary conditions, 30.04% of the urban houses and 10.46% of houses had access to safe drinking water at the time of the census; 28.82% of the urban and 2.58% of all houses had toilet facilities.

The town has numerous socio-economic problems such as poverty, poor infrastructure, unemployment. These make the town to be incompatible with the booming population that is hungry for these services. Young population is becoming dominant population group in the town. This group is also the most affected group of society by the above stated socio-economic constraints. The young sect of society in Dalocha is alarmingly increasing from time to time because of three reasons; High rural to urban population, strategic location of the town and presence of government institutions.

Because of shortage of land in rural areas the young migrate to urban center especially Dalocha town in search of better life, education, health and other services. Second, Dalocha is located in strategic position with main roads. The accessibility of the town has resulted in high mobility of population from different directions to Dalocha town. Third, there are some government institutions and different offices to which many youth come for education and other reasons. These all were the reasons why the study area has been selected.

3.2. Research Design

Descriptive research method was employed as it is efficient to evaluate and determine the adequacy of a program under existing condition against the established standards. The descriptive method is special importance for this particular study to assess several factors and portray how they affect performance of MSEs. The method descriptive research design is special importance for this particular study to portray how the micro and small enterprise business activities determined by several variables such as, financial adequacy, infrastructural facilities, marketing networks, Policy and procedure and legality condition as well as, managerial efficiency of members belong to the enterprise. In general the method is believed to generate adequate and relevant data breadth pertaining to the issue under investigation if backed by appropriate research procedure.

3.3. Research Approach

The researcher was used both quantitative and qualitative approaches. The reason for the application of both quantitative and qualitative approaches is that, the research questions deal with issues that require both deep understanding as well as facts about the challenges of Micro and Small Enterprises which can be presented and analyzed quantitatively and employing both approaches potentially facilitate the stronger inferences than do single research approach. In order to reduce as well as eliminate biases that might arise from personal opinions and the methods will use triangulation or multiple data sources to examine a situation under the study.

3.4. Types and Sources of data

In this study the researcher has used both primary and secondary data. The primary sources of data of this study was organized MSEs cooperative members who run business currently, Government officials and Experts who facilitates the sector under study in Dalocha town. Among several methods of collecting primary data the researcher has used closed and open ended questionnaires, structured interview and field observation. Primary quantitative and qualitative data that was collected through questionnaire and interview was applied for analysis.

The Secondary quantitative and qualitative data sources were obtained from both published data and unpublished data. The researcher has used published data from different journals; previously done related research papers and related books, reports and publications of various associations connected with business and industry, banks, reports prepared by research scholars, universities and other public/private individuals and organizations as well as websites.

3.5. Methods of Data Collection

3.5.1. Questionnaires

In order to collect the necessary primary data both closed and open ended questions were prepared to gather information and data that was used for both qualitative and quantitative analysis. Structured questionnaire was employed for Micro and Small Enterprise Cooperative member sample respondents of the study area which was aimed to answering the research

questions. The questionnaire was prepared in English and Amharic and it was divided into three parts. Part one was concentrated on the demographic characteristics of respondents; part two of the questionnaire was about enterprise characteristics and questions in part three deals about the challenges of Micro and Small Enterprises.

3.5.2. Interview

For government officials and experts the researcher used Key informant interview guides. Reason for using this type of interview guide is to obtain additional information which is related with the issue of this study. This instrument is used to capture specific changes in MSEs trend, challenges during operation and startup of businesses, prospects and policies to solve challenges of the sector. The interview was held in Amharic language.

3.5.3. Observation

The main advantage of this method was that subjective bias was eliminated. Secondly, the information obtained under this method relates to what is happening; it is not complicated by either the past behavior or future intentions or attitudes. Thirdly, this method is independent of respondents relatively less demanding of active cooperation on the part of respondents as happens to be the case in the interview or the questionnaire method (Kothari, 2009). The researcher has used non-participant observation method to see the real situation of the enterprises.

3.6. Sample and Sampling Procedure

3.6.1. Sampling Design and Procedure

The study was used both probability (random) and non-probability (non-random) sampling method. Among different probability (random) sampling techniques, the researcher applied Stratified sampling to ensure the presence of key sub groups within the sample. Hence to select a sample, first the lists of those MSEs that currently registered and operating in Dalocha town were identified as sampling frame by a researcher. Samples were selected using stratified sampling technique, where the entire population was divided in to five subgroups (strata); manufacturing,

service, urban agriculture, Trade and construction work. Then the sample was drawn from each type using a lottery method. Non-probability (Non-random) sampling technique was also applied to collect data from the concerned government offices such as MSEs officials and experts who facilitate the MSEs sector in the town under study. Among different non-probability sampling techniques, the researcher has applied purposive sampling techniques to select from government officials and experts that facilitate the sector in Dalocha town.

3.6.2. Sample size determination

In this study, systematic random sampling technique of probability sampling was used in selecting each element of the sample size from the strata sub groups (manufacturing, service, urban agriculture, trade, and construction works) and the data was collected by using questionnaire. Target population for the study was the MSEs members in different sub sectors in the town. These are 814 in number in the year 2020.

In order to determine sample size Yamane (1967 cited in Abdissa and Fitwi, 2016) finite and large population sample size formula with 93 % confidence level and 0.07 precision levels was employed. The formula used to obtain the sample size is presented below:

$$n = \frac{N}{1+N(e)^2} \quad , \text{ Where } n = \text{sample size}$$

N = population size

e = sampling error (level of precision)

Accordingly the target population results, the following number of samples:

$$n = \frac{814}{1+814(0.07)^2} = 163$$

Accordingly, 163 respondents were selected from 814 MSEs operators. These 163 respondents were selected from each sub sector based on their number of respective population (weight) and the samples were selected by using systematic random sampling technique.

3.7. Methods of Data Analysis

In this study, the quantitative data was analyzed by using descriptive statistics with the aid of SPSS version 23. The researcher believes that using Microsoft SPSS is reliable and convenient than the manual system. The collected data was edited, organized and coded to make it suitable for analysis. Once the analysis is undertaken, the result of the analysis was presented in frequency, percentages and tables. The qualitative data obtained from interviews and observations was analyzed through description and narratives using words.

CHAPTER FOUR

RESULT AND DISCUSSION

This chapter deals with the discussion and analysis of data collected from different Micro and Small Enterprises located in Dalocha town. The study was distributed 163 questioners. Based on this the study analyzed as follows:

4.1. Demographic Characteristics of respondents

This sub-section discuss about the demographic characteristics of respondents such as sex, age, educational level and marital status. Understanding backgrounds of the MSEs are necessary to associate their effect on the progress of MSEs development.

Table 1: Demographic Characteristics of respondents

No	Character	Category	Frequency	%
1	Gender	Male	98	60.12
		Female	65	39.88
		Total	163	100
2	Age	From 18 – 23	25	15.34
		From 24 – 29	71	43.6
		From 30 - 35	42	25.77
		From 36 – 65	21	12.88
		Above 65	4	2.41
		Total	163	100
3	Educational Level	Uneducated	17	10.43
		1-4	35	21.47
		5-8	51	31.29
		9-12	27	16.56
		Diploma	19	11.66
		First degree and above	14	8.59
		Total	163	100
4	Marital Status	Single	104	63.8
		Married	50	30.7
		Divorced	7	4.29
		Widowed	2	1.21
		Total	163	100

Source: (Questionnaire, 2021)

Based on the above sex profile data, respondents who participated in this research, from 163 total respondents 98 which represent 60.12% are male while, 65 respondents 3.88% of them are female. According to the data, participant of male are greater than female participant. Based on these we can argue that, in the studied area there were male domination than female in operating Micro and small enterprises.

With regard to the data of age frequency and percentage shows that, 25 (15.34%) of respondents found between the age groups of 18 – 23, about 71 (43.6%) of them found between the age groups of 24 – 29, about 21 (12.88%) of them found between the age groups of 30 – 35, on the other hand 42 (25.77%) of them found between the age group of 36 – 65, the rest 4 (2.41%) found above 65. With regards to the age distribution of the respondents majority of them found at young age which is appreciated because starting operating business in the young by itself minimize unemployment of youth in the town.

With regard to educational status of the respondent, 17 (10.43%) uneducated, About 35 (21.47%) of respondents found between the education level of 1 – 4, on the other hand, 51 (31.29%) of respondents found between the education level of 5 – 8, About 27 (16.56%) of respondents found between the education level of 9 – 12, About 19 (11.66%) of respondents diploma, on the other hand, there were 14 (8.59%) of respondents were First degree and above. According to the data we can associate that, about 103 (63.19%) of respondents found on the low level of educational background which is uneducated, 1-4 and 5-8.

Concerning the marital status, The study also revealed that, 63.8% of respondents were single/unmarried, 30.7% of respondents were married, and 4.29% of respondents were divorced, while the rest 1.21% of the respondents were widowed. In fact, marital status has its own contribution on the saving and using the enterprises money. Accordingly, married population of this study may need more money and other expenditures than unmarried member groups.

4.2. Business and occupation

4.2.1. Respondents job before joining MSEs

MSEs Operators with earlier appropriate experience expected to have better business success than that of operators without earlier appropriate experience. The findings of the study conducted by Julius (2016) showed that there was definite and positive relationship between previous business experience and business success, meaning it was very important for the success of MSEs. This study claims that business owners can benefit from prior experience in such a way that they focus on the strengths and build new business based on the skills that they have possess.

Table: 2 Respondents occupation before Joining MSEs

No	Respondents previous job	Frequency	(%)
1	Unemployed	124	76.1
2	Daily laborer	28	17.18
3	Public servant	11	6.72
	Total	163	100

Source: (Questionnaire, 2021)

This study claims that business owners can benefit from prior experience in such a way that they focus on the strengths and build new business based on the skills that they have possess. The survey result presented in Table 2, revealed that there were only 17.18% MSEs Operators who had relevant previous occupations. Majority of the operators (76.1%) were unemployed before starting their current business followed by (6.72%) was public servant. This reviles that the role of MSEs in solving unemployment problem is remarkable.

4.2.2. Sources of Skills for Starting and Running MSEs

The main objective of training is to obtain and improve knowledge, skills and attitudes towards work related tasks Nassazi (2013). It is one of the most important potential motivators which can lead to both short-term and long-term benefits for individuals and organizations. Respondents were asked to capture information regarding the sources of skill for running their business and summarized in the table 3 below.

Table: 3. Respondents' Opinions about the Sources of skill for starting and running MSEs

No	Description	Frequency	(%)
1	Self-effort	79	48.47
2	Previous experience	22	13.5
3	On job training	45	27.61
4	Formal training	17	10.42
	Total	163	100

Source: (Questionnaire, 2021)

As shown in the above, 48.47% of Micro and Small Enterprises Operators have replied that the skill to run the current business is obtained through self-effort, 13.5% of MSEs Operators obtained their skill through previous experience. Whereas 27.61% and 10.42% of the operators replied their skill is obtained through on job training and formal training. This tells that there is a gap in Provision of training for Micro and Small Enterprise operators to have an accurate skill.

4.3. Enterprise Types

There are five sectors in which MSEs owners were engaged in the study area. These sectors include: trade, service, manufacturing, urban agriculture and construction.

Table 4: Sector distribution of respondents

No	Character	Frequency	(%)
1	Service	59	36.2
2	Trade	33	20.2
3	Manufacturing	47	28.8
4	Construction	19	11.7
5	Urban agriculture	5	3.1
	Total	163	100

Source: (Questionnaire, 2021)

As shown above in table 4, the majority 36.2% of the respondents worked in the service sector and followed by manufacturing (28.8%) of the respondents were engaged. 20.2% of the respondents were engaged in trade. In addition, 11.7% of the respondents were engaged in construction, while 3.1% worked in the urban agriculture sector. The study found that the proportion of respondents who were engaged in the service (36.2%) and manufacturing sector (28.8%) was higher compared to the number of those engaged in other sectors. Therefore, this implies that relatively there is a pull factor for operators to engage in service and manufacturing sector while the other was found to be a less significant in attracting enterprise owners to engage in. This finding contradicts with an earlier finding by Sirmolo (2018), on the study of Challenges of Micro and Small Enterprises in Worabe town found out that majority of MSEs were engaged in construction.

4.4. Challenges of MSEs

There are several challenges that affect MSEs Performance, however, in this study some of major areas of determinate were assumed as a major determinates of SMEs such as, availability of finance, marketing networks, infrastructural facilities, policies and procedural conditions and managerial efficiency.

4.4.1. Financial Challenges of MSEs

Financial availability and other financial related factors determine performance of SMEs development, accordingly, in this study attempts tried to assess how financial related factors determine the studied SMEs using questioner and interview, the questioner were provided through five types of questions (Whether, Strongly Disagree (SD), Disagree (D), Neutral (N) Agree (A) strongly agree (SA) and their view implied below in the table as follow:

Table 5: Financial challenges of MSEs

No	Questions	SD	D	N	A	SA
1	High collateral requirement	21 (13%)	29 (18%)	18 (5%)	80 (49%)	15 (15%)
2	High interest rate of financial institution	17 (10%)	21 (13%)	11 (7%)	102 (63%)	12 (7%)
3	Inadequate payback period	16 (10%)	26 (16%)	12 (7%)	87 (53%)	22 (14%)
4	Lack of better record keeping and financial control mechanism	19 (12%)	28 (17%)	13 (8%)	78 (48%)	25 (15%)
5	Unplanned withdrawal of cash for varied activities	23 (14%)	33 (20%)	7 (4%)	76 (47%)	24 (15%)

Source questioner, 2021

As implied from the table above 80% of the respondents implied there is high collateral requirement asked by micro and finance institution. The high collateral requirement of micro and finance institutions affected innovative as well as entrepreneur development in the country, supporting innovators and entrepreneur ideas by assessing their feasibilities can encourage SMEs business development and it can reduced unemployment problems. In this regard the study correlated that, the country need small business entrepreneur development, in contrary there is no competitive financial access that is prohibited by the regulatory rule of NBE, these activities kill the micro economic development of the country. Therefore, the growing number of youth's unemployment and the existence high collateral requirement contradict strategies to develop SMEs business.

Regarding the loan interest payed by the enterprise, respondents accounted for, 63% assured it very high. Accordingly it was reported that the terms of credit of Dalocha MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate that is 9% in comparison with the interest rate of 6% charged by the banks. Majority of respondents indicated that, MFI charges them totally 12% of the extended credit, of which 9% is paid as interest on the loan, 3% as service charge. This high loan cost puts the affordability of the loan of the MFI demanding by the users. Obviously, such high loan cost further damages the already low meager revenue of the enterprises.

On the other hand, 87% of the respondent still indicates that the short repayment period scheduled by the MFI put them in worrisome state as they face shortage of market resulting in their inability to repay the loan with in the period stipulated by the MFI. Use of formal record keeping and financial control mechanism in the enterprises day to day business operation is considered as another variable that would result difference in performance between those use the system and those do not use. Based on this the study were assessed the MSEs financial recording and controlling system, however, the enterprise were not have well organized financial recording and controlling this were assured in addition to observation of the researcher, by 19% respondents that said strongly disagree.

Finally, the study were assessed whether, the study SMEs use financial with drawl according to plan or not, the result implied by 33% (which their disagreement), SMEs still didn't withdraw for the plan. The possible justification to the importance of using plan is that, planning in advance what needs to be done helps enterprises to act strategically to realize established development goals rather than moving in a random and unsystematic way to the opportunities as well as unfavorable situation that will happen in their business operations. This proactive move of the enterprises increases their chance of success in the dynamic environment. And this also works to the enterprises that use a short term plan of 1 to 2 years for their business activities.

4.4.2. Marketing challenges of MSEs

Regarding the marketing challenges the study was assessed some of major areas that affect effectiveness of Market of MSEs development. In this regard, the study assessed market networking of the studied enterprise, competitiveness with similar companies, promotion methods, and product quality as well as price computation. Below the table implied members of the enterprise response regarding the provided questions.

Table 6: Marketing Challenges of MSEs

No	Questions	SD	D	N	A	SA
1	Shortage of market networking	7(4%)	15 (9%)	7(4%)	125(77%)	9(6%)
2	Inability to compete with large companies	9(5%)	19(12%)	11(7%)	109(67%)	15(9%)
3	Lack of promotion to attract potential customer	13(8%)	11(7%)	5(3%)	105(64%)	29(18%)
4	Challenges of competitive product quality	10(6%)	18(11%)	12(7%)	98 (60%)	25(16%)
5	Challenges of competitive price setting	14(9%)	21(13%)	9(5%)	96(59%)	23(14%)

Source questioner, 2021

As implied 77% of respondents shortage of market network was one of the major factors that determine the progress of the MSEs. In this regard some of the enterprise member employee interview implied that, specifically, the sectors of Constriction and Wood Works, suffer from lack of marketing network, some of them implied that, there are different types of enterprise similar us government in somehow create network in some of the projects managed by government such as, office, and other related projects however, it was difficult to maintained parts of work on the projects this is because of some of SMEs are networked, In addition as indicated by 67% respondents large organization also unfairly computed with SMEs. As a result as above 48% of SMEs specifically that engaged in wood works and 15% in construction sectors members were out from their enterprise.

Regarding the SMEs promotional activities, respondents accounted for 82% who said strongly agree and agree implied their less-activities to promote and attract potential customers. There are different types of promoting SMEs such as, transporting martial's on time, discounting price, provide credit and so forth, however, the studied MSEs except those MSEs participated in food and beverage that tried to excesses to promote their customers such transporting food product (Enjera) to hotels based on their own transportation facilities and providing credit service, the rest of the studied MSEs were not used proportional marketing activities.

As implied by 60% respondents, the quality of the products cannot compete with similar large companies, this is because to produced quality of products it may supported by several inputs such as, qualified man power, equipment's, and other necessary input. As a result of this quality of products were not make the studied MSEs progressive.

Finally, the study were assessed how competitive price setting affect the studied MSEs progress, accordingly, 73% that said agree and strongly agree were confirmed there price setting on the products were affected their market, specifically, the MSEs found in textile and garment, implied that producing the products and price of the market was not balance, this is because some of the textile products enter in controband, some of them sold in less price at every street so that it was difficult to commutate with this types of environment. In addition respondents in interview also

implied that, the recently price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The 73 operators indicated that the continuously increasing price of inputs has been checked by the government action. They also indicated that the materialization of this ceiling has also saved them from being ‘exploited’ by illegal merchants, who always increase prices of basic commodities unreasonably.

4.4.3. Infrastructural Challenges of MSEs

Infrastructural facilities are another sources of challenges of MSEs progress, accordingly, in this study attempts were tried to assess major challenging areas specifically considering the nature of MSEs in Dalocha, such as, sources of raw materials, supply of water and electric power, working shades, site location, transportation accessibility and facilities of machineries and equipment’s. Based on these the study discussed the studied MSEs characteristics internes of infrastructural facilities.

Table 7: Infrastructural challenges of MSEs

No	Questions	SD	D	N	A	SA
1	There is shortage of raw materials	11(7%)	15(9%)	11(7%)	109(67%)	17(10%)
2	Insufficient and interrupted electric supply	3(2%)	4(2%)	2(1%)	141(87%)	13(8%)
3	Insufficient and interrupted water supply	12(7%)	10(6%)	6(4%)	107(66%)	28(17%)
4	Accessibility of transportation	9(5%)	19(12%)	11(7%)	109(67%)	15(9%)
5	Site area of the SMEs	13(8%)	11(7%)	5(3%)	105(64%)	29(18%)
6	Lack of space of working place	10(6%)	18(11%)	12(7%)	98 (60%)	25(16%)
7	Lack facilities of machinery and equipment	14(9%)	21(13%)	9(5%)	96(59%)	23(14%)

Source questioner, 2021

The study regarding the supply of raw materials implied that, 67% and 10% collectively account for 77% member respondents assured except food and beverage MSEs the rest constriction; textile, metal work and wood works have shortage of raw material.

Regarding electric supply, most of the respondents accounted for 87% assured Insufficient and interrupted electric supply, affect all of the studied area MSEs, in this regard some of the Member respondents implied that because of the shortage of electric supply they are enforced for additional cost such as, costs for generators.

Similarly, inefficient water supply also affected MSEs business in this regards 83% of the respondents assured even though the intensity of the problem is not high like electric shortage problem, however, lack of water supply also has its own effect on the production process of the MSEs; this problem is even worst in some of MSEs, such as, construction sectors MSEs as they depend more on water for their production.

Regarding the accessibility of transportation 76% of respondents engaged between Agree and Strongly agree assured, that, transportation problem affect the MSEs business progress, specifically, Construction and Wood and metal work MSEs more affected through lack of transportation Vehicles, as interview and observation of the MSEs any one of them didn't have their own car that transport materials like cements, sands, and other relegated raw materials, so that they were spending large amount of money through renting of machineries and cars. In this regard some of the members of construction of MSEs implied the benefit of their enterprise is much affected through lack of transportation facilities.

Regarding the site area of the studied organization, respondents accounted for 82% implied that, the site that were given by the government were not market site area, some of the MSEs even though they were licensed in Dalocha town, because of lack of shade they were given working shade at the edge of the city such as, Construction, wood and metal works, as well as textile MSEs located far apart from their center, however, the area that they located even does have

infrastructural access such as, road, electric as well as water supply, as a result most of the members leave from their enterprise.

In addition 76% of the respondents found in all of the MSEs confirmed that absence of selling place has aggravated the already existing ‘inadequacy and crowdedness’ of the internal working space of the shades. The operators intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied MSEs.

Finally the study were assessed accessibility of equipment’s and machineries, however respondents accounted for 73% implied that the lending MFI amount is fixed the maximum allowed for the enterprise 1 million birr so that it was difficult to fulfill all of the necessary equipment’s.

4.4.4. Policies and procedural challenges of MSEs

Regarding polices and procedural challenges the study were assessed some of the major challenges that were observed in the environment of MSEs such as, bureaucracy in registration and licenses, political intervention, government support, Society view and condition of tax levied. In this regards respondents view were analyzed as follow:

Table 8: Policies and procedural challenges of MSEs

No	Questions	SD	D	N	A	SA
1	Bureaucracy in MSEs registration and licensing	21 (13%)	27 (17%)	4 (2%)	98 (60%)	13 (8%)
2	There is high degree of Political intervention	35 (21%)	51 (31%)	5(4%)	64 (39%)	8 (5%)
3	Lack of government support	22 (14%)	38 (23%)	5 (3%)	85 (52%)	13 (8%)
4	Society view of SMEs as political favors than job creation	13 (8%)	15 (9%)	3 (2%)	96 (59%)	36 (22%)
5	The tax levied is not reasonable	15 (9%)	20 (12%)	4 (3%)	99 (61%)	25 (15%)
6	Lack of training and Technical assistance from the sub – city Bureau	14 (8%)	19 (12%)	2 (1%)	89 (55%)	39 (24%)

Source questioner, 2021

Regarding bureaucratic process to register and get licensee, respondents accounted for engaged on the option of agreement and strong agreement 73% assured there were bureaucratic challenge of getting license. Regarding the question asked whether political interference affect the enterprise smooth working progress or not, accordingly respondents accounted for 56% assured there were no that much political interference, however, some of the rest 44% implied there were political interference, accordingly some of the respondents implied in the interview some of the MSEs much favored and have network of market specialty in the government project, for example, some of the MSEs engaged in food and beverage supply their products in several types of government officials meeting, those MSEs are politically, in favored this is because they are active participant and members of the ruling party, while the Neutral MSEs area not invited on an opportunities as such.

With related to the questions assessed intensity of government support 60% of the respondents implied still there is lack of governmental support starting from establishing fair marketing networking on government projects up to diminishing its bureaucratic working. On the other hand respondents accounted 40% implied government support were better; this is because government supports MSEs through providing shade accesses, finance, and technical support in somehow.

Regarding the society view of SMEs respondents accounted for 81% implied society view about MSEs more tied with political mission than creating employment opportunities; as a result most of the view of the society affected the progress of the enterprise. Regarding the tax levied fairness respondents accounted for 21% confirmed their disagreement i.e., the tax levied by government were not fair. As implied in the interview the enterprises engaged in wood and metal work, textile and food processing sector, the tax levied on their business is not reasonable.

Finally, respondents of the studied enterprise accounted for 79% assured there were lack of training and technical assistance given from the Woreda office. As implied by the enterprise employee the Woreda officials are assigned politically, in addition there were no employee

specifically assigned to support MSEs technically, as a result some of the officials just supervise and visit MSEs but not support technically or providing training.

4.4.5. Managerial challenges of MSEs

Management efficiency of MSEs is one of the determinant factors that determine the progress of MSEs. In this regarding the study were tried to assess factors that determine members of the MSEs Management and collaborative work efficiency. Based on this respondents view provided as follow:

Table 9: Managerial challenges of MSEs

No	Questions	SD	D	N	A	SA
1	Mistrust among members of SMEs.	13(8%)	17(10%)	10(6%)	101(62%)	22(14%)
2	Lack of well trained and experienced employees in the enterprise	6(4%)	19 (12%)	7(4%)	111(68%)	20 (12%)
3	Lack of tolerance among members groups	2(1%)	13 (8%)	11(7%)	104(64%)	33 (20%)
4	Lack of strategic business planning	8 (5%)	16 (10%)	19(11%)	76 (47%)	44(27%)

Source questioner, 2021

As indicated on the above table respondents of MSEs were assessed how management efficiency of members of the enterprise and its effect on the effectiveness of their enterprise and their view for each of the related questions analyzed as follow: Regarding the challenges of mistrust among member respondents accounted for 76% assured, there were challenges of mistrusting among members of the enterprise. With regard to this an interview were conducted with some enterprise

operators, they were implied that, most of members of the enterprise are youths, have low level of educational background and some of them experienced misbehavior, therefore these condition collectively make members to mistrust and tolerated each other's.

In addition as implied by 80% respondents most of the enterprise have not well trained and experienced employees specifically, Wood Work and Metal Works enterprise, Textiles, and construction sectors. It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Enock N., 2010:43). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and forecasting under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals.

Down to the matter of lack of a proper business plan challenges of the studied enterprise respondents accounted for 74% confirmed that operators of MSEs have no proper business plans at start faces the most challenges during the course of their lives. According to operators, lack of trust in doing business on the other hand seems to have prevailed in most of the cooperative and partnership business (mistrust between business associates). To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, mistrust among business associates, insufficient training, lack of proper business plan and lack of relevant qualifications among employees.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The objective of this study was to examine the key challenges of MSEs in Dalocha town, Silte zone of SNNP Regional State of Ethiopia. A broad literature review on the challenges faced by MSEs was done. From the study results, it can be concluded that MSEs face a lot of challenges and these challenges limit the development of their business in Dalocha town.

The finding of the study regarding infrastructural facilities constraints have found that, there was lack of efficient, reliable, safe and affordable infrastructural facilities that smoothly facilitates MSEs projects. As a result, most MSEs have problems related to business premises such as shortage of electric and water supply problems.

The main internal factors affecting performance of MSEs were management challenges such as, lack of strategic business planning, mistrusting and lack of tolerance among members, poor training facilities for members, lack of persistence and courage to take responsibility for one's failure and absence of initiative among members of the enterprise were the major challenges affecting performance of MSEs.

The contribution of MFIs has shown an increase, however, there are still problems related to high interest rate, collateral problems, small loan size, bureaucracy, and lack of awareness. The study has also identified the critical marketing challenges prevalent in the MSEs in Dalocha town such as poor market networking, inability to compete with large company, poor pricing, absence of promotion, and lack of efficient distribution channel.

Finally, the study has further identified that different influences in which each of the factors under study have in different categories of the business. It has been noted that the contextual factors are prevalent to the businesses such as challenges of financial facilities, marketing networks, working areas; infrastructural facilities as well as management efficiency had very high effects on the progress of the studied area Micro and small enterprises (MSEs).

5.2. Recommendations

Recommendations for corrective measures to solve the challenges of MSEs are essential. Based on the findings and conclusions of the study, the following recommendations are forwarded.

- ✓ To make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure such as electric power, water, transportation and shades are basic to effective performance of MSEs.
- ✓ With regard to marketing support, the following measures need to encourage by the government. These are linking MSE's with medium and large firms to serve as market outlets, Provision of training on quality improvement and cost decline modalities, Provision of information on market opportunities, Construction of display centers and provision of advertising support.
- ✓ Inadequacy of credit institution is the major constraints for MSEs to expand their activities. The Dalocha town government bodies should enhance the establishment of other alternative micro finance institutions so as to improve access to credit service by working jointly with the banks and other credit institutions to full fill financial requirements of MSEs. By doing so, the MSEs can get enough access to finance for their business activities.
- ✓ During the field observation the researcher observed that a number of operators come together to form association without their interest just for the sake of to form an association. This condition hinders the effort of interested people because the non- motivated individuals take advantages at the expense of others. Therefore, in order to avoid such kind of problems due emphasis should be given at the time of group formation.

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APPENDIXES

WOLKITE UNIVERSITY

College of Social Science Humanities

Dear respondents: I would like to inform you that this questionnaire is designed to collect primary data to conduct a research thesis on; challenges of Micro and Small Enterprises (MSEs) in Dalocha town. Hence providing genuine information will help to identify challenges of micro and small enterprises. Any response you provide will be used exclusively for the research purpose only. I am very grateful for your cooperation.

Instruction: Answer the questions below by putting x and filling your opinion in the space provided:

Part 1: General background of the respondents

1. Sex: A) Male----- B) Female-----

2. Age: A) 18-23 years---- B) 24-29 years----- C) 30-35 years---- D) 36-65 years---- E) Above 65 years

3. Education level

A) Uneducated----- B) 1- 4----- C) 5-8 ----- D) 9-12----- E) Diploma -----

F) First degree and above-----

4. Marital status

A) Single-----

B) Married-----

C) Divorced-----

D) Widowed _____

Part 2: Business and occupation

5. What was your job before you started this business? (You can give multiple answers)

A) Unemployed -----

B) Daily laborer -----

C) Public servant-----

6. How did you acquire the skills that are essential to start and operate your business?

A) Self effort -----

B) From previous experience

C) Short term on job training -----

D) Formal training-----

f) Others, please specify-----

Part 3: Enterprise Type

7. What is the type of your business?

A) Service-----

B) Manufacturing -----

C) Urban agriculture -----

D) Trade-----

E) Construction -----

Part 4: The following questions are dealing about the challenges that affect MSEs progress. Therefore, indicate your motivated level of agreement or disagreement by putting tick (√) mark with the corresponding score value.

No	Challenges of MSEs	Score Values				
		SD	D	N	A	SA
1	Financial challenges of MSEs					
1.1	High collateral requirement					
1.2	High interest rate of financial institution					
1.3	Inadequate payback period					

1.4	Lack of better record keeping and financial control mechanism					
1.5	Unplanned withdrawal of cash for varied activities					
2	Marketing Challenges of MSEs					
2.1	Shortage of market networking					
2.2	Inability to compete with large companies					
2.3	Lack of promotion to attract potential customer					
2.4	Challenges of competitive product quality					
2.5	Challenges of competitive price setting					
3	Infrastructural challenges of MSEs					
3.1	There is shortage of raw materials					
3.2	Insufficient and interrupted electric supply					
3.3	Insufficient and interrupted water supply					
3.4	Accessibility of transportation					
3.5	Site area of the SMEs					
3.6	Lack of space of working place					
3.7	Lack facilities of machinery and equipment					
4	Policies and procedural challenges of MSEs					
4.1	Bureaucracy in MSEs registration and licensing					

4.2	There is high degree of Political intervention					
4.3	Lack of government support					
4.4	Society view of SMEs as political favors than job creation					
4.5	The tax levied is not reasonable					
4.6	Lack of training and Technical assistance from the sub – city Bureau					
5	Managerial challenges of MSEs					
5.1	Mistrust among members of SMEs.					
5.2	Lack of well trained and experienced employees in the enterprise					
5.3	Lack of tolerance among members groups					
5.4	Lack of strategic business planning					

Interview Guides

Interview guides for officials and experts working in Dalocha woreda Enterprise and industry development office.

Dear respondents: I would like to inform you that this interview is designed to collect primary data to produce a research thesis on; challenges of Micro and Small Enterprises (MSEs) in Dalocha town. Hence providing genuine information will help to identify challenges of micro and small enterprises. Any response you provide will be used exclusively for the research purpose only. The result of the investigation will benefit policy makers, entrepreneur, MSEs product users and other stakeholders who wish to support MSE development by providing important information on the existing situations. Your contribution for this study is very important. I am very grateful for your cooperation.

The interview will be conducted with you in order to answer the following questions.

1. What are the challenges you faced during establishment of MSEs in Dalocha town?

2. What challenges are identified during the operation of MSEs in Dalocha town?

3. What supports are given for you to start and run MSEs in Dalocha town?

4. How can the government policy support you to solve the challenges of MSEs in Dalocha town?

5. What is your overall opinion regarding the performance of MSEs in Dalocha town?
