ASSESSMENT OF FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES (INCASE OF WOLKITE TOWN)

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Abstract

Micro and small enterprises (MSEs) are considered as an engine for development through promoting entrepreneurial talents, creation of employment opportunity, self-employment capability and fostering economic growth.

This research aims to investigate assessment of factors affecting the performance of MSEs in Wolkite town. For the sake of achieving the objectives of the study, researcher employed both primary and secondary data. Primary data was collected through questionnaire and interview as best instrument of data collection; on the other hand secondary data was collected from office manuals and annual reports.

In order to collect reliable information which are relevant to the study, the researcher used both probability and non-probability sampling techniques. Accordingly this particular study employed personal judgment and stratified sampling methods of non-probability and probability sampling techniques respectively.

Descriptive method of data analysis was employed to analyze the collected data. The data collected were presented in tabular form with percentage computed values. Finally, based on the findings of the study, recommendation and conclusion was forwarded to the concerned body.

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List of Acronym

Art	Article
ETB	Ethiopian birr (Local currency)
CBE	Commercial Bank of Ethiopia
CC	Chambers of Commerce
CED	Committee for Economic Development
CSA	Ethiopian Central Statistics Authority
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GEM	Global Entrepreneurship Monitor
GTP	Growth and Transformation Plan
HASIDA	Handicraft and Small-Scale Industries Development Agency
HLCLEP	High Level Commission on Legal Empowerment of the Poor
LDCs	Less Developed Countries
LE	Large Enterprise
MFIs	Micro Finance Institutions
MN	Mean
MoTI	Ministry of Trade and Industry
MoWUD	Ministry of Works and Urban Development
MSDA	Micro and Small Enterprises Development Agencies
MSMEs	Micro, Small and Medium Enterprises
NMSEDPS	National Micro and Small Enterprises Development Promotion Strategy
PRSs	Poverty Reduction Strategies
ReMSEDAs	Regional Micro and Small Enterprise Development Agencies
R and D	Research and development
SD	Standard Deviation
SPSS	Statistical Package for Social Science
UNIDO	United Nations Industrial Development Organizations

CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The micro and small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2007). The dynamic role of micro and small enterprises (MSEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized. It is estimated that MSEs employ 22% of the adult population in developing countries (Fisseha, 2006).

In developing countries, MSEs by virtue of their size, capital investment and their capacity to provide greater employment have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (ILO, 2008).

The sector has potential to supply the ideal environment for enabling entrepreneurs to optimally exercise their talents and to achieve their personal and professional goals (MoTI, 1997). In all successful economies, MSEs are seen as a crucial springboard for growth, job creation and social progress. The small business sector is also seen as an important force to create employment opportunity and more equitable income distribution, activate competition, exploit niche markets, and increase productivity and technical change and, through the combination of all of these measures, to encourage economic development. This is not denying the relevancy of large industries and other enterprises for the growth of the Ethiopian economy. There is ample evidence to suggest that the labor absorptive capacity of the MSE sector is high. The average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is important for many of the challenges facing Ethiopia (MoTI, 1997).

In Ethiopia, MSEs Sector is the second largest employment-generating sector following Agriculture (CSA, 2005). A national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2005 in 48 major towns depicts that nearly 585,000 and 3,000 operators engaged in micro and small-scale manufacturing industries respectively, which absorb about 740,000 labor forces.

According to Mulhern (1995), MSEs exert a strong influence on the economies of all countries, particularly in the developing countries. He reported that the MSEs have been a major engine in

the economic growth, innovation and technological progress. In addition, Carrier (2008) stated that;

The MSEs are more fertile than their larger enterprises in terms of innovation and development. The MSE sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicates that the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government is crucial.

Werotaw study (2010 as cited in Admasu 2012) showed Micro and small enterprise in Ethiopia is, however, confronted with several factors that affect the performance of MSE. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition, there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how. Generally, the main focus area of this study was to assess factors affecting the performance of MSEs in Wolkite town.

1.2. STATEMENT OF THE PROBLEM

In most developing countries, MSEs face constraints both at start up phases and after the establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fedahunsi, 1997). It is typical of MSEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004). This, according to World Bank, has created finance gap in most markets. The MSEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MSEs and medium and large enterprises has undermined the role of MSEs in the economic development in African countries (World Bank, 2004).

The study conducted by Ethiopian CSA discloses that, the contribution of small enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006). However, their contribution is very low in compared with that of other countries due to financial problem, lack of qualified employees, lack of proper financial records, marketing problems, lack of working premises and raw materials. Lack of information about market opportunities and standards and regulations is one of the underlying factors that affect their performance (Mulu Gebreyesus, 2009).

According to Zeleke study (2009 as cited in Admasu 2012) lack of integration between the vocational curriculum taught at academic institutions and skills required at the workplace in small businesses and enterprises is a major obstacle to the growth and development of MSEs.

The same author continued stating:

The performance of the MSE sector in Ethiopia is poor in comparison with similar sectors in other African countries such as South Africa, Kenya, Uganda and Tanzania. Small business enterprises in Ethiopia are generally characterized by an acute shortage of finance, lack of technical skills, lack of training opportunities and raw materials, poor infrastructure and over-tax.

In most urban areas of Ethiopia, MSEs have a problem of finance when establishing the business most individual sources of finance come from personal savings and loans acquired from relatives, friends and moneylenders with high amount of interests (MoTI, 2005). After the business goes operational, the probability of becoming profitable and paying back debts along with accrued interest is less. Besides, MSEs do not conduct market research and develop/design a product or service as per the need of customers (Zeleke, 2009).

According to the study conducted in Addis Ababa University by Zeleke (2009) and Admasu (2012) particularly in Arada and Lideta sub cities concluded that marketing, infrastructural and entrepreneurial factors are the basic variables which affects the performance of MSEs. But some other factors such as luck of commitment to their business, and lack of awareness regarding to business plan is still uncovered. In addition to this, the study focuses not only identifying factors which affect performance of MSEs, but also the researcher tries to assessed important opportunities which are currently available for MSEs in Wolkite town.

1.3. Research questions

- What are the critical factors that mostly affect the performance of MSEs?
- What are the sources of finance or funds available to the MSEs?
- What are the current available opportunities for MSEs?

1.4. Objective of the study

1.4.1. General objective

The general objective of the study is to assess factors that are mostly affecting the performance of MSEs in Wolkite town.

1.4.2. Specific objectives

The specific objectives of this study are mainly to:

- Identify the sources of finance available for MSEs.
- Examine the current available opportunities for MSEs.

1.5. Significance of the study

The finding of the study were important for the researcher to be familiar with the basic concepts of research. In addition, it is important for other researchers as a reference who engaged to study

in this area. It also help MSEs in Wolkite town and others, within an insight into the benefits of using different factors studied in this research to predict and pro-act against the factors that affect the performance of MSEs.

1.6. Scope of the study

The study assessed factors affecting the performance of MSEs in Wolkite town. This study was particularly emphasized on most important factors such as working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors. To facilitate the accuracy and reliability of data, the researcher collects information from the most recent sources.

1.7. Organization of the paper

The entire paper is classified into five chapters. The first chapter deals with the introduction part, which includes background of the study, statement of the problem, objective of the study, scope of the study, limitation of the study, and organization of the study. Chapter two is concentrated on the review of the literature and empirical reviews. Chapter three of the paper deals with methodology which includes methodology of data collection, methods of sampling and data analysis. Chapter four is concerned with data analysis and data presentation. And finally the paper tries to make conclusion and recommendations based up on the findings.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. INTRODUCTION

This chapter would be reviews existing literature on the subject of this studies. It outlines the literature review, the theoretical and conceptual frameworks of the study, empirical literature and identifies literature gap.

2.2. Definition of micro and small enterprises

The MSE sector everywhere is characterized by highly diversified activities which can create employment opportunities for a substantial segment of the population. This suggests that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and making easy the environment for new job seekers and self-employment requires a direct intervention and advocate of the government and other concerned stakeholders (Mulugeta, 2011). Hence, in order to channel all necessary support and facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

However, there is no single and universally acceptable definition of a small enterprise (Kaya Nula and Quartey, 2000). This is so because the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country depending essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma I. et al., 2009:1-9, as cited in Admassu 2012). Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size include, number of employees, turnover, profitability, net worth, etc. When these measures are applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

The absence of such uniform definition of MSEs has created a difficulty. In line with this, Tegegne and Meheret (2010) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector.

United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2002:53).

The United States of America, the Small Business Act issued in 1953 stated that, small business is one which is independently owned and operated and not dominant in its field of operation. The act also further stated that, number of employees and sales volume as guideline in defining small business (Major L. C. & Radwan N. S., 2010). In the same country, a committee for economic development (CED) has explained that small business is characterized by at least two of the key features: management is independent (usually the managers are owners), capital is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country).

Similarly, in Ethiopia there is no uniform definition at the national level to have a common understanding of the MSE sector. Ministry of Trade and Industry (MoTI) and the Ethiopian Central

Statistics Authority (CSA) have defined MSEs separately. While the definition by MoTI uses capital investment, the CSA uses employment and favors capital intensive technologies as a yardstick. The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating MSE development strategy in 2003 (MoTI, 2003).

According to the official definitions of MoTI, micro enterprises are businesses enterprises found in all sectors of Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high technology consultancy firms and other high technology establishments. Small enterprises are business enterprises with a paid-up capital of more than Birr 20,000 but not exceeding Birr 50,000 and excluding high technology consultancy firms and other high technology establishments (MoTI, 2003).

The central statistical authority has attached various definitions to enterprises based on capital, level of technical and technological capacities. In 2003 the CSA based its definition of MSEs on the size of employment and extent of automation for small scale enterprises and used a combination of these criteria for defining such enterprises. Accordingly, it has defined small scale manufacturing enterprises as: Establishments engaging less than 10 persons ….

Enterprises in the micro enterprise category are sub-divided into informal sector operations and cottage industries: cottage and handicraft industries are those establishments performing their activities by hand and using non-power-driven machines. The informal sector is defined as household type establishments or activities, which are non-registered [enterprises] and cooperatives operating with less than 10 persons (CSA, 2003).

According to regulation, “micro enterprise” means an enterprise having a total capital, excluding building, not exceeding Birr 50,000 in the case of service sector or not exceeding Birr 100,000 in the case of industrial sector and engages 5 workers including the owner, his family members and other employees (Art. 2(1)). The same regulation defines “small enterprise” as an enterprise having a total capital, excluding building, from Birr 50,001 to 500,000 in the case of service sector or Birr 100,001 to Birr 1,500,000 in the case of industrial sector and engages 6 to 30 workers including the owner his family members and other employees (Art.2(2)).

As we can understand from the above definitions, there is no universally acceptable definition of MSEs. Different scholars define MSEs differently based on the level of development of the country under review. As shown above, it is usual to see that different institutes define MSEs differently using their own parameters.

2.3. The Role of Micro and Small Enterprise in Poverty Reduction

Poverty in Ethiopia is widespread and remains a major challenge of sustainable development and stability (Lutheran World Federation of Ethiopia, 2006 cited in Esthetic & Mammo, 2009:2).

By now, it is clear and agreeable that poverty, both in urban and/or rural areas, is all about lack of basic needs, low or inadequate level of income and consumption, poor command over resources,

and high level of social exclusion, inequality and vulnerability. The role played by MSEs, through the various socio- economic benefits emanating from the sector was found to be eminent in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the MSEs will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society (Mukras,2003:58-69).

Current international thinking is in tune with a view that acknowledges MSEs as a tool to fight poverty in the long run. The UNIDO approach to this is worth mentioning here: Poverty reduction is simply not going to happen by government fiat but only through private sector dynamism. The evidence directly linking MSEs and poverty reduction is considerably less robust than that linking them to economic vitality, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low skilled workers, increased skills development and broader social impacts.

The movement to support MSE development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries places a more pronounced emphasis on the contribution that the private sector will have to make – compared to the over-reliance on the social agenda that characterized earlier PRSs (Perumal K. & Prasad, n.d:2-29)).

In conformity with the above view advanced by UNIDO and as an organization concerned to the condition of labor, the ILO's approach to poverty reduction is through small enterprise development. This strategy focuses on the needs of poor people who are part of the MSE economy, as owners/operators and workers, as their dependents', as the unemployed who may benefit from job creation and as customers. While further strengthening the above shown approach, Vandenberg (2006:18) suggests that: the ILO's existing strategy for poverty reduction through small enterprises must emphasize the fact that small enterprises make a positive contribution to poverty reduction when they provide employment, adequate levels of job quality, and low-cost goods and services used by the poor; entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through small enterprise development; and vibrant enterprises, competitive markets and a fair globalization can make a significant impact on poverty reduction.

Drawing on a study conducted in the urban centers of four Western African countries namely Benin, Burkina Faso, Niger and Togo to identify key factors shaping the micro enterprise sector, explores the needs, characteristics, motivations, and success factors for micro entrepreneurship in the region, together with some of the impediments to the growth and success of micro enterprise ventures (Roy and Wheeler, 2006:452- 464). Roy and Wheeler indicated that MSE provide a substantial source of employment, there by contributing to get rid of poverty to the urban poor.

According to them, the main reason for the urban poor to be absorbed in the MSE is due to the fact that the formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason many have had to look for alternative means to generate a livelihood. Hence, participation in the informal sector is often the only option available as a source of income, and so the sector has absorbed many of the unemployed who have been neglected by the formal sector in the region. They pointed that the income generated from being engaged in MSEs primarily used to satisfy the poor's own physiological needs and those of their family, and then to provide a home and security for the household. They specifically claimed that MSEs help the urban poor by making them financially secure which in turn limits or reduces the misery, vulnerability and material and non-material hardships that come with poverty.

2.3.1. Micro and Small Enterprise for Economic Growth:

Pro and Contra Arguments

There are two polarized thoughts, according to (Agyapong, 2010:196-205; Anderson et al., 2004 4:12-33 and Staley & Morse, 1999:31) the role and contribution of MSE to economic growth and poverty reduction: 'Pro' and 'Contra' Arguments. Their works often classified as the classical and modern theories on MSEs' development. The contra argument predicts that advantages of MSEs will diminish over time and large enterprises (LEs) will eventually predominate in the course of economic development marked by the increase in income. In line with these shortcomings and pessimism Admassie and Matambalya (2002:1-29), for instance, concluded that high level of technical inefficiency, which reduce their potential output levels significantly. Research carried out by Biggs (2002 cited in Tegegne and Meheret, 2010:14) strongly question the role played by MSEs to minimize the incidence of high-level poverty in most developing economies through employment creation, income generation and multiplier effects on other sectors of the economy. While, the pro argument views based on experiences from many countries showing the 'contra' arguments seem to get less supports as many international aid agencies, including the World Bank (2004:41).

The World Bank gives three core arguments in supporting MSEs in LDCs, which in line with the arguments of the 'modern' (pro) paradigm on the importance of MSEs in the economy (World Bank, 2002 and 2004 cited in Tulus T., 2006:5). First, MSEs enhance competition and entrepreneurship and hence have external benefits on economy wide efficiency, innovation and aggregate productivity growth. Second, MSEs are generally more productive than LEs but financial market and other institutional failures and not conducive macroeconomic environment impede MSE development. Third, MSEs, Expansion boosts employment more than LEs growth because MSEs are more labor intensive. In other words, the World Bank believes that direct government support for MSEs in LDCs help these countries exploit the social benefits from their greater competition and entrepreneurship, and their MSEs can boost economic growth and development.

The above arguments do not mean, however, that LEs are not important, or MSEs can fully substitute the role of LEs in the economy. Even, there are skeptical views from many authors about this World Bank's pro-MSE policy. Some authors stress the advantages of LEs and challenge the assumptions underlying this pro-MSE policy. Specifically, LEs may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R and D) with positive productivity effects (Tulus Tabunan, 2006).

2.4. The Micro and Small Enterprise Sector in Ethiopia

The five-year Growth and Transformation Plan (GTP) has given particular attention to the expansion and strengthening of micro and small-scale enterprises (MoWUD, 2007).

Table 2.1 numbers, amounts of created and jobs created through MSEs

	2008/9	2009/2010	Percentage change
No. of MSEs	73,062	176,543	141.6
No. of total employment	530,417	666,192	25.6
Amount of credit (in million Of birr)	662.7	814.1	22.8

According to MoWUD (2007) the sector is believed to be the major source of employment and income generation for a wider group of the society. The major objective of this program, which is creating and promoting MSEs in urban areas, envisages reducing urban unemployment rate. A total of 176,543 MSEs were established in 2009/10 employing 666,192 people. The number of established and total employment created went up 141.6 and 25.6 percent, respectively, compared to a year ago. The total amount of loan received from micro finance institutions was Birr 814.1 million under the review period, 22.8 % higher than last fiscal year.

2.4.1. Micro and Small Enterprise Development Strategy

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and MSEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management (United Nations, 2002:101-103). As stated by United Nations report (2002:101-103): In 1977, the Handicraft and Small-Scale Industries Development Agency (HASIDA) was establish to provide training mainly in management and technical skills and to serve as coordinating agency for Government policy on small enterprises. Shortage of funds and unfavorable government policy toward the private sector in the 1980s made it extremely difficult for HASIDA to have an impact on the development of local small enterprises.

Since mid-1999, the government has revisited the whole issue of small and medium enterprise promotion in Ethiopia but with more focus on micro and small enterprises. A major study was conducted with the support of a donor agency which resulted in the preparation of a National Micro and Small Enterprises Development Promotion Strategy (NMSEDPS).

The Ethiopian government released the country's first MSEs Development strategy in November 1997 E.C. The primary objective of the national strategy framework is to create an enabling environment for MSEs. In addition to this basic objective of the national MSE strategy framework, the MoTI has developed a specific objective which includes, facilitating economic growth and bring about equitable development, creating long-term jobs, strengthening cooperation between MSEs, providing the basis for medium and large-scale enterprises, promoting export, and balancing preferential treatment between MSEs and bigger enterprises (MoTI, 1997:8-27). The strategy outlines the policy framework and the institutional environment for promoting and fostering the development of MSEs and stimulating the entrepreneurial drive in the country.

2.4.2. The Implementation Structure of the Strategy

The two most important institutions that are directly involved in the promotion of MSEs are MoTI and the newly established MSEDA. The latter is envisaged to operate the federal and regional level of government (MoTI, 1997).

2.4.3. The Ministry of Trade and Industry

The ministry of trade and industry has responsibility, as the organ of the federal government for the formulation of policies and strategies to promote the expansion of enterprises and to facilitate the provision of assistance to MSEs. The other duties given to the ministry is to support and create conducive environment for the development of private promotional institutions. Regional bureau of trade and industry were delegated to develop and promote the sector in their regions by coordinating regional activities and creating networks with business associations to strengthen the flow of information to MSEs (MoTI, 1997).

2.4.4. The Federal Micro and Small Enterprises Development Agency

To further ensure the proper institutional coordination for MSE support functions, the government created the new Federal Micro and Small Enterprises Development Agency (FeMSEDA) in 1998. In addressing above objectives, FeMSEDA is expected to provide support to the Regional Micro and Small Enterprises Development Agencies (ReMSEDA). The FeMSEDA (2006) provide: leadership by delivering 'training the trainers' programmers to equip regional agencies, business associations, and other professionals to deliver entrepreneurship training and facilitation services and BDS to MSEs; studying the problem of identifying viable markets for MSEs and addressing

product quality issues; disseminating information to MSEs; and advising government on MSE policies and strategies.

The FeMSEDA has been established as an autonomous government institution having its own legal identity and run by a board of management which includes representatives of the private sector. Private sector participation in the management of enterprise promotion agency is a new approach in Ethiopia. The FeMSEDA is directly accountable to the MoTI. In 2000, the regional governments also provided for the establishment of ReMSEDAs to provide extension services to MSEs at the regional, zonal and woreda level. The MoTI through FeMSEDA provides institutional support.

2.5. The Concept of Business Performance

According to Martin (2010) performance is defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (Bidzakin K.J., 2009). The issues that remain unresolved are the goals against which performance should be assessed and from whose perspective the goals should be established (Etzioni, 1998).

Rami Alasadi and Ahmed Abdelrahim (2007) on their study defined performance as follows. The most commonly adopted definition of success [good performance] is financial growth with adequate profits. Other definitions of success [good performance] are equally applicable. For example, some entrepreneurs regard success [good performance] as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it (GEM, 2004). However, performance seems to be conceptualized, operationalized and measured in different ways thus, making cross- comparison is difficult (Srinivasan et al., 1994). Among the most frequently used operationalization are survival, growth in employees and profitability. ReMSEDAs are independent of FeMSEDA but work collaboratively with FeMSEDA and regional offices of MoTI.

A business enterprise could measure its performance using the financial and non- financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' delivery time, waiting time and employees' turnover. Recognizing the limitations of relying solely on either the financial or non-financial measures, owners-managers of the modern small business has adopted a hybrid approach of using both the financial and non-financial measures (H Gin Chong, 2008).

Problems of micro and small enterprises (MSEs)

According to a research conducted by baumback (1983) in Nigeria contend that most of problems of MSEs including manufacturing ones are external factors. Among the most important external or environmental factors are those related to capital shortage, taxation regulation, product liability patent and franchising abuse. These are discussed as follow.

I. Luck of basic infrastructure

The micro and small enterprise (MSEs) are operated in an environment with very poor infrastructure which constitutes a barrier to entry and hinders international competitiveness. In many states in the country nonexistent of infrastructure, inability to access market, communication, power, water etc. prevent development of micro and small enterprise (American international journal of contemporary research vol. 2 No 4; April 2012).

II. Luck of access to financing

Luck of short, medium and long-term capital, inadequate access to financial resource and credit facility affect the growth of micro and small enterprise development.

III. Luck of access to capital

The author observes that micro and small enterprise have series financial problems in at least three respects of: Securing funds in small amount at rates comparable with those paid by large industries. Building and manufacturing adequate financial reserves. Securing long term equity capital.

IV. Inflation

Despite the fact that the cost of capital is higher for the small-scale manufacturer, the effect is even compounded by raising inflation rate (Nigeria [National Council for development of MSEs]. (Retrieved November 25, 2006, from http: //www. development of MSEs/.

2.6. Challenges in Facing Micro and Small -Scale Enterprises

There are various challenges facing micro and small-scale enterprises; while some are financial others are non-financial. The financial constraints include those factors that prevent micro and small-scale enterprises (MSEs) from accessing funds easily, inadequate sources and supply of funds has been a major setback to the realization of many brilliant business ideas and outward expansion of existing business. The inability of the small business owners to raise funds expand their business has been linked to poor business history, high risks, associated with starting new business, which banks tend to avoid, insufficient collaterals, inadequate record keeping and knowledge of the risks facing their business. Record keeping is particularly important to the integrity of the business, Cole 1998 (as cited in Baumack, 2012).

The external factors that are hindering the growth of MSEs include access to financial services, access to infrastructure, and access to working premises (Ishengoma & Kappel, 2006).

Access to Financial Services

Different research evidenced that the small firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators/owners are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions (Sethuraman, 1997).

Credit from formal sources are not only managed by government regulations but often they also form part of public sector domination, and hence administered by a bureaucracy that is generally unfriendly to the poor, illiterates and semi-educated in the small firm sector. Similar attitudes also prevail in the private sector; the private banks for example rarely find it profitable to deal with these units, though a few exceptions are emerging (Sethuraman, 1997).

Access to Infrastructure

The most of small firms faced lack of appropriate location for their businesses. Some of the small firms are located in places with an inadequate supply or lack of public services and economic infrastructure (water and electricity, transport systems, telecommunication system, sanitation services). In comparison to middle or high-income communities, small firms with access to these services incur a relatively high cost per unit for the service.

Besides, small size firm cannot afford to invest in private public goods (Reinikka & Svensson, 2002) or to buy services from private providers which would be more expensive than supplying from government suppliers (Ishengoma, 2004). A poor economic infrastructure and limited access to public services increases the operating costs of small firms, limits their ability to meet quality standards (hygiene standards in café), hinders their participation in linkage relationships (Collier, 2000).

Access to working premises

The working place is one of the main components that are needed for a successful and sustainable growth of enterprises because it is essential in creating access to resources and the necessary markets. Most of the women do not have their own working premises; their working place is shared with other members in the cooperative (Rahel & Issac, 2010).

Many entrepreneurs avoid paying tax into the relevant authorities. Poor infrastructure structure is another factor preventing small and medium enterprise to access founds easily from banks and other specialized financial institution. An industrial analysis recently observed that one of the reasons why micro and small-scale enterprises (MSEs) funds has not been invested, is the operator prefer to get the funds as loan, rather than as equity contribution. To gain access to finance, micro and small-scale enterprises (MSEs) owner should learn to put up realistic business plan supported with financial projections, which highlight the profitability of the enterprises before they seek for

funds. Such companies should be duly and legally registered with appropriate authorities maintain financial records and put in place strong internal control mechanism. Above all, the operators should be knowledgeable about the kind of business they want to venture into.

Summarized factors that affect the performance of MSEs in case of Ethiopia

Even though there are a lot of achievements that contribute for the GDP of the country in the MSEs Development program, there are challenges faced.

The major challenges in the sector are lack of entrepreneurial capability of the, MSEs Operators and poor technical and technology support in the sector as a Whole. Lack of access to market for their product and services, Lack of entrepreneurial capability.

2.7. Empirical Study

According to Mead & Liedholm (1998) and Swierczek (2003), the main factors that affect the performance of MSEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1997). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick 1998), intense competition with replication of micro-businesses (Manning & Mashego, 1999); manager characteristics including lack of skills and experience (Katwalo & Madichie, 2008 and Verhees, F. M., & Meulenberg, M. G., 2004).

A study by Hall (2000) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis).

2.7.1. Previous Studies on Ethiopian Micro and Small Enterprise

Eshetu and Zeleke, (2008 as cited in Admassu, 2012) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSMEs from 5 major cities in Ethiopia. According to this research, the factors that affect the long-term survival of MSEs in Ethiopia are found to be inadequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of the profit to investment. This is so because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as Iqub was critically helpful for long-term survival of the enterprises.

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting (FMSEDA, 2006:34).

In his research, Dereje, (2008 as cited in Admassu, 2012) studied the nature, characteristics, economic performance, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. The results of the study revealed that the main constraints of the MSEs were shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. Studies were also conducted specifically with a purpose of identifying the problems that MSEs, encounter.

According to HLCLEP (2006), 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.

Mulugeta (2011) has identified and categorized the critical problems of MSEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

In reality, literature on MSEs in Ethiopia is mainly focused important factors that affect the performance of small enterprise. But it didn't conduct much in line with performance aspects of micro enterprises and current available opportunities for MSEs. However, this research tried to assess factors affecting the performance of MSEs and the opportunities which are available for this enterprise.

2.8. Conclusion and knowledge gap

A lot of researches have been accepted out locally and internationally reviewing small and micro enterprises. Most of these research concentrate on businesses in the cities and urban centers. They also concentrate on their study areas based on their own objectives. Therefore, the proposed study would build on the local literature on the determinants of entrepreneurial success in Wolkite.

Similar studies have focus on the challenges face by SME traders but this study was concentrate on what affects their success. The impact of access to business information, access to finance and availability of managerial experience are yet to be research as a single intervention in an urban setting. These studies would concentrate mainly on the determinants of entrepreneurial success and entrepreneur in Wolkite. The scarce availability of reliable and valid data continues to be one of the key obstacles in understanding small and micro entrepreneurs in the urban area Wolkite. These studies would helpful to building on the locally scarce available data.

CHAPTER THREE

3. REASEARCH METHODOLOGY

3.1. INTRODUCTION

In order to analyze the potential impacts of factors on performance of MSEs, this study made use of a research methodology. The chapter discusses procedures and activities under taken, focusing on sources of data, data collection instrument, sampling method, data presentation and analysis of data.

3.2. Description of the study area

Wolkite Town is located in south Nations and Nationalities Peoples Regional state, Gurage zone. It is the capital town of Gurage zone district, and also 158 km from Addis Ababa on the main road of Jimma and 430 km through southern nation's nationalities and peoples, regional state (SNNPRS) Hawassa. This means that it could be reach from Addis Ababa to or via Hawassa. It also Gubrye sub-city is located in Eastern Gurage zone district 14km western direction of Wolkite town. Wolkite was founded in 1937, and has a town administration, municipality, three sub-cities

and five kebeles. In Wolkite works the intention of assessing the contribution of the SMSEs strategy to poverty reduction, job creation and business development interims of entrepreneurship development and unemployment reduction perspective. They work different activities to organize different types of enterprise registered indifferent job creations.

The study was focused on the problem or factors that affecting (hinder) the performance of MSEs in Wolkite town which found in south region and Gurage zone. The research was conducted by using both qualitative and quantitative research approach.

3.3. Research Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information.

The types of research employ under this study were mainly descriptive type research. The major purpose of descriptive research is description of the state of affairs as it exists at present. Then this study describes and critically assesses the factors affecting the performance of MSEs in Wolkite town.

3.4. Source of Data

The study was employed both primary and secondary sources of data.

I. primary sources

In order to realize the objectives of the study, the researcher uses well designed questioner as best instrument. The interview method was employed to gather information specifically from managers/owners of the enterprise.

3.5. Sample size

In these studies, to selected sample size, a list of the population formally registered entrepreneurs the Wolkite Town Administration Trade and Industry Development Bureau by the year (2022/2023) were obtained. The total population of the study is 1687 enterprises which includes constructions the total population 362, manufactures the total population 234 trade the total population 382, services the total population 387 and agriculture the total population 322 enterprises in the three administrative. The sample size selected here is considered as representative of the constructions, the manufactures, the trade, the services and agriculture enterprises in the three administrative. And also, large enough to allowed for precision, confidence and general abilities of the research findings.

3.5.1 Sampling Techniques Cluster sampling techniques is used to drawn the study participants. Because of heterogeneity and geographical areas description among entrepreneurs

and because of needed to ensure adequate sample sizes selection of subgroups a stratified sample follow by cluster sample technique is applied. The stratification is done by constructions, manufacture, trade, services and agriculture where the target population is found in constructions is 362, manufactures accounts for 234, trade accounts for 382, the total population in the services accounts for 387 and agriculture accounts for 322 in Wolkite, enterprises in the three administrative. A cluster sample is preferring in this case, because it would be considered more effective when there are geographic areas/clusters where greater chance existed for sample the desire units/individuals.

3.6. Sample Size Determination

There are 1687 enterprises registered at Wolkite which are considered to be the target population of this study. In addition to that other sample for the research would be officials and exported for entrepreneurs. According to expert would be selected purposely with the intention of obtain the person that could be provided more information about entrepreneurs for the interview take selection simple random sampling is the basic selection process of sampling and is easiest to understand.

Interview: is an adaptable way of finding things out. The human language is very useful in opening of what lies behind people's action Zikgmund, (1994). Interview allows person-to-person discussion that could be led to increase insights in to respondents‟ thoughts, feelings and behavior on important issues of enterprises.'' Another advantage that could be derived from the interview is its flexibilities in expressing different viewpoints on the subject under study. Thus, key informants (determinants of entrepreneurial successes of SMSEs) were interviewed in depth using unstructured questions during the working hours. The participants be selected by each firm manufacturing, 13 construction, 20 service, 22 trade 21and urban agriculture 18 than the total sample take 94, majority of the interviewees are owner-managers and managers, around through random sampling method because of their closeness to executed the issues.

The sample size is determining use the formula props by (Kothari2007). According the formula for sample size determination:

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

$$\underline{=1687/1+1687(0.1)^2} =94$$

Where, n = is the sample size for a finite population

N= size of population which is the number of households.

e = margin of error consider is 10% for this study.

So, we have 94 entrepreneurs as sample formula use for sample size at enterprise level is n = N (enterprise) *n (all enterprise) where n (all enterprise); is the sample size N (all enterprise) at enterprise
N= (enterprise): -is the population size at enterprise n = (all enterprise): - is sample size of five enterprises n = (all enterprise): - is the population size of three administration_area enterprises through the survey will be conduct.

n (Manufacturing) =234*94/1687 =13
n(Construction)=362*94/1687=20
n(Services) =387*94/1687 =22
n(Trade)=382*94/1687=21
n(Agriculture)=322*94/1687=18

Table 3.1 Number of samples from each sector

Enterprise	**Total number of population**	**Sample proportion**	**Sample size**
Manufacturing	234	14%	13
Construction	362	21%	20
Service	387	23%	22
Trade	382	22%	21
urban agriculture	322	19%	18
Total	1687		94

3.7. Data presentation and analysis

After relevant information is gathered, the data are coded, classified, and presented in tabular form with appropriate percentage computed values. The analysis part will be conducted by descriptive method of data analysis, which is used to compare and contrast different variables (factors). Finally, appropriate conclusion and recommendation can be forwarded based on the findings of the study.

CHAPTER FOUR

4.1 INTRODUCTION

The purpose of this study is to critically assess the factors affecting the performance of MSEs in kebeles of Wolkite town.

Around 94 questionnaires were distributed across the three sectors in two kebeles, out of which 85 were completed and retrieved successfully, representing 90% response rate. Out of the 94 questionnaires administered 35, 31 and 28 were distributed to manufacturing, construction and service respectively. The numbers of questionnaires retrieved from manufacturing, construction and service are 32, 29, and 24 respectively. This represents a response rate of 91%, 93.5% and 86% for manufacturing, construction and service enterprise respectively.

Generally, this section is organized in the following manner: First, the general information about MSEs were presented and analyzed. Second, data collected through questionnaires were analyzed concurrently.

4.2 General Information of MSEs in Wolkite town.

Currently, there are around 1687 MSEs operated in Wolkite town. These enterprises are concentrated on 5 kebeles. But the manner of concentration and distribution of these enterprises is very uneven. Most of these enterprises are engaged in 3 main sectors namely; Service, trade, and construction enterprises.

4.1.2. Forms of MSEs in Wolkite town

Table 4.1 ownership and forms of MSEs in the town

No.	Form of MSEs	Percentage (%)

1	Private business	42
2	Partnership	5
3	Co-operative	53
Total		100

Source, Wolkite enterprise document 2012

As it is shown on the table, the ownership and form of micro and small business enterprises in Wolkite town are mainly classified in to three; namely, private business, partnership, and co-operative form of business enterprises. Of these, the largest form of business in which MSEs engaged in the city is co-operative form of business (53%), followed by private (42%) and partnership (5%) form of business respectively. The total number of co-operative, private and partnership forms of business enterprises which are found particularly in 02 and 03 kebeles are around 99, 61 and 10 respectively (Wolkite enterprise document 2012).

Table 4.2. Background information of respondent's

No	Item	Service		trade		construction		Total	
1	Sex	No-of Respondent	%-age	No- of Respondent	%-age	No- of Respondent	% age	No- of Respondent	%-age
	Male	3	29%	14	72%	17	71%	34	63%
	Female	9	71%	5	28%	7	29%	21	37%

(Source, from retrieved questionnaires)

As shown in table-3 above, from the total number of respondents, 63% were males and 37% constitute females. This shows that the total number of females engaged in entrepreneurial

activities is lower than males. In addition to this the engagement of males and females in MSEs is vary in each category of business activity. Females are highly engaged on service enterprise; on the other hand, males are dominant in manufacturing and construction types of businesses.

But what should be noted here is that, the involvement of females now a day becomes prospective. Because according to a research conducted by Daniel (2010, in Jimma University) states that from the total of MSEs operated in Jimma town, only 17% females were participated. But currently the involvement of females in entrepreneurial activities becomes increase when it is compared to the past.

4.3 GENERAL CHARACTERSTICS OF THE ENTERPRISE

4.3.1. Nature of business MSEs engaged

Most of the enterprises in Wolkite town are engaged in three main sectors, mainly; service, Trade and construction enterprises.

Table 4.3 Nature of business MSEs engaged

No.	Sectors	Percentage
1	service	47
2	trade	31
3	Construction	22
Total	Three	100

(Source – source from retrieved questionnaires)

As it is shown on the table above, majority of enterprises in the city are engaged in three main activities. From these the service sector is the dominant area of operation for most enterprises followed by trade and construction enterprises with their respective percentage values of 47%, 31% and 22% . This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the performance of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors in manufacturing sector may differ from the factors that are critical to construction and service sectors.

4.3.2 The Main Sources of finance at start-up phase

Starting own business requires a starting capital rather than mere existence of ideas. To capture information regarding the relative importance of the various sources of finance, enterprises was asked whether they ever received credit from each of a given list of sources of finance.

Table 4.4 shows the main sources of funds.

No	Source of funds	Percentage
1	Personal savings	39%
2	Micro finance institutions	24%
3	Family, friends/relatives	18%
4	Iqub/idir	13%
5	Banks	6%
Total		100%

Source: survey of questionnaires

As can be seen from the table personal savings (39%) are the most frequently used sources, followed by micro finance institutions (24%), family, friends/relatives(18%), iqub/idir (13%) and banks (6%) in that order. This shows that the main source of finance for MSEs in kebele 02 and 03 is personal saving followed by micro finance institutions. But also other traditional source like iqub/idir, family and friends/relatives plays the greatest role.

Besides, the result of interview shows that majority of MSEs in the study area uses informal and semi-formal financial sources. The formal financial institutions, particularly banks have not been able to meet the credit needs of the MSEs. According to majority interviewee, the reason for emphasizing on informal sector is that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To wind up, such constraint of finance for MSE affects their performance directly or indirectly.

4.3.3 The Important Aspects for Business Venture success

Table 4.5 important aspects for MSEs Success

Important aspects	Respondents	
	No.	Percentage (%)
Business plan	20	36
Entrepreneurial team	15	28
Availability of business ventures	12	21
Training in business ventures	8	15
Total	55	100

Source- from distributed questionnaires

As it can be seen from the table above, 36% of the respondents indicated that a business plan is important for the success of their business ventures, 28% of the respondents felt that an entrepreneurial team is essential for the success of their business ventures, 21% of respondents respond that the availability of business opportunities is important for the success of their business ventures, and 15% of the respondents concluded that training in business skills is important for the success of their business ventures. The closer analysis of the result leads to the conclusion that a business plan is the most important aspects for the success of any business venture. According to Renee (2007 as cited in Admasu 2012), sound business plan may make a difference between a business that succeeds and a business that fails. Approximately 90% of small businesses fail before two years, according to the Small Business Association. And even after that two year mark has been passed, there are no guarantees. This is mainly due to lack of business plan knowledge and the absence of a business plan.

4.4 Factors affecting the performance of Micro and Small Enterprises

Respondents were asked different questions regarding the factors affecting the performance of MSEs in 02 and 03 sub-kebeles. Their responses are organized in the following manner.

Table 4.6 Politico-legal factors that affect the performance of MSEs

Item	Service		Trade		construction	
1.politico-legal factors	No - of Respondent	%-age	No - of Respondent	%-age	No - of Respondent	%-Age
Tax levied on my business isn't fair	3.44	68%	3.57	71%	3.25	65%
Bureaucracy in company registration and licensing	3.66	73%	3.71	74%	3.75	76%
Luck of government support	3.77	75%	2.57	51%	3.50	70%

Source data collected from questionnaire

As it is indicated in table above, the average frequency of response and percentage of response for the politico-legal factors were calculated and it resulted different values. The table shows inadequacy of government support has an average frequency response of 3.77 with a percentage of 75% for service sector, bureaucracy in company registration and license has an average frequency and percentage of response of 3.71 and 74% respectively for Trade sector and 3.75 and 76% respectively for construction sector. Therefore, it may be concluded that bureaucracy in company registration is the main factor that affects the performance MSEs engaged in construction and trade sectors. On the other hand, luck of government support is the major factor that affects the performance of MSEs particularly in service sector.

According to the table 4.1 above, enterprises engaged in manufacturing, construction and service sector, the tax levied on their business is not reasonable. So this factor moderately affects MSEs performance because the percentage of response is above 50%.

Table 4.7 Working place factors that affect the performance of MSEs

Item	Service		Trade		Construction	
Working place factors	Average frequency of responses	%-Age	Average frequency of response	%-Age	Average frequency of responses	%-Age
2.1. Absence of own premise	4.33	86%	3.14	62%	3.5	70%
2.2. Inconvenient of current working place	3.44	68%	3.42	69%	4.0	80%
2.3.The rent of house is very high	1.22	24%	2.42	48%	2.5	50%

Source from retrieved questionnaire

The average frequency and percentage of response in table above shows, the premises factors that hinders the performance of MSEs particularly in the service sector is absence of their own premise. But in Trade and construction sectors, the inconveniency of current working place is the main factor that affects the performance MSEs followed by the absence of place for working. With regard to rent of house, the average frequency and percentage of response is lower than 50%. This shows that the expensiveness of rent of the house is not as such an important factor that can hinder the performance of MSEs in all the above three sectors.

What should be noted is that the intensity of influence of the above factors is not similar for all sectors. The degree of affection varies from one particular sector to another. Absence of their own working premise and inconveniency of current working place are the most critical factors that negatively affect the performance of service sector and Trade sector respectively.

Table 4.8 Technological factors that affect the performance of MSEs

Item	Service		Trade		Construction	
Technological factors	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Lack of appropriate machinery and equipment	4.55	91%	3.25	65%	3.75	75%
Lack of skills to handle						

new technology	3.88	77%	4.00	80%	4.00	80%
Lack of money to acquire new technology	4.33	86%	3.71	74%	3.50	70%

As it can be seen in table above, lack of appropriate machinery and equipment is the main problem of MSEs engaged in Service sector. The average frequency and percentage of response for this sector are 4.55 and 91% respectively. This is followed by lack of money to acquire new technology which has an average frequency and percentage of response of 4.33 and 86% respectively.

According to table 4.3, for operators engaged in Trade and Construction business, lack of skill to handle new technology is the main factor that affects their performance in similar manner. That is an average frequency of 4.00 and percentage of response of 80% respectively for both. With regard to lack of appropriate machinery and equipment, the average frequency of response are 3.25 and 3.75 with percentage of response of 65% and 75% for operators engaged in Trade and Construction respectively.

Table 4.9 Infrastructural factors that affect the performance of MSEs

Item	Service		Trade		Construction	
Infrastructural factors	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Power interruptions	4.77	95%	4.42	88%	4.65	93%
Insufficient &interrupted water supply	3.77	75%	4.14	82%	4.42	88%
Lack of sufficient and quick transportation service	3.85	78%	3.85	77%	4.25	85%

The result presented in table 4.7 shows that power interruption is the most series problem that hinders the business performance of all the above mentioned sectors. The average frequencies of response of power interruption are 4.77, 4.42 and 4.65 with percentage of response of 95%, 88% and 93% for Service, Trade and construction sectors respectively. The average frequency of response for lack of sufficient and quick transportation service are 3.85, 3.85 and 4.25 with percentage of response of 78%, 77% and 85% for service, trade and Construction sectors respectively. This shows that lack of sufficient and quick transportation service is another constraint that hinder the performance of MSEs specifically the above three sectors.

Concerning transport facilities, access to affordable and appropriate public transport is of paramount vitality in expanding the employment opportunities of the urban poor who need inexpensive access to areas of economic and commercial activity. Equally, the importance of physical capital especially infrastructure in enabling people to access, and directly support, income-generating activities is well recognized by writers on urban livelihoods such as Rakodi (2002:22). Housing which is close to employment opportunities or markets will improve residents' access to income-generating work and will reduce transport costs, which can be a significant expenditure and time-drain for the urban poor (Farrington et al., 2002:57).

Table 4.10 Marketing factors that affect the performance of MSEs

Item	Service		Trade		Construction	
Marketing factors	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Inadequate market For my product.	3.77	75%	3.85	77%	3.50	70%
Searching new market is so difficult.	3.55	71%	3.71	74%	3.25	65%
Absence of relationship with an organization that						

Conduct marketing research.	3.11	62%	3.42	68%	2.72	54%
Poor customer relationship and handling.	2.22	44%	2.45	49%	2.55	51%

As shown in the table above, marketing factor is consisted of four items. From these factors inadequacy of market and difficulty of searching new market are critical factors that affect the performance of MSEs engaged in all sectors. The average frequency and percentage of response clearly show respondents agreement on the variables. That is average frequency response of market inadequacy are 3.77, 3.85 and 3.5 with percentage of response of 75%, 77% and 70% for MSEs engaged in service, trade and construction sector respectively. The respondents of service, trade and construction sectors with an average frequency of response of 3.55, 3.71 and 3.25 with percentage of responses of 71%, 74% and 65% shows that there is difficulty of searching new market respectively.

In table 4.10 it can be seen that, absence of relationship with an organization that conduct marketing research is another marketing factor that affect the performance of MSEs. The average frequency of response of 3.11, 3.42 and 2.72 with percentage of response of 62%, 68% and 54% for MSEs engaged in service sector, trade and construction sector enterprises respectively.

On the other hand, the table above shows that respondents of all sectors are neither ‘agreed’ nor ‘disagreed’ with poor customer relationship and handling that affect their performance with average frequency of response of 2.22, 2.45 and 2.55 with percentage of response of 44%, 49% and 51% for respondents engaged in service, trade and construction sector respectively.

Table 4.11 financial factors that affect the performance of MSEs

Item	service		Trade		Construction	
Financial factors	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Inadequacy of Credit institutions.	2.64	52%	2.42	48%	2.25	45%
Shortage of Working capital.	3.85	78%	3.57	71%	3.64	72%
High collateral requirement From banks and other lending Institutions.	2.51	51%	2.47	49%	2.37	47%
High interest rate charged by banks and other lending Institutions.	3.44	68%	3.26	65%	3.67	73%

The average frequency score of 3.85, 3.57 and 3.64 with percentage of response of 78%, 71% and 72% of the respondents in table 4.7.6 shows that those operators engaged in service, trade and construction sector have a problem of shortage of working capital sustain in their own business. Regarding inadequacy of credit institutions, the average frequency and percentage of response depicts that the respondents' of the three sectors agreement scale is more of undecided. The results show that the average frequency of responses for service, trade and construction business are 2.64, 2.42 and 2.25. This shows that the respondents of the three sectors are in dilemma to say that the credit institutions are adequately available or not.

With regard to high interest rate charged by banks and other lending financial institutions, the average frequency of response of 3.44, 3.26 and 3.67 with a percentage of response of 68%, 65% and 73% for entrepreneurs engaged in service, trade and construction sector respectively. This implies the high interest rate charged by banks and other lending financial institutions is another factor that affect MSEs engaged in the above three sectors.

Regarding the high collateral requirement from banks and other lending institutions, the average frequency of response i.e. 2.51, 2.47 and 2.37 and percentage of response of 51%, 49% and 47% for the operators of the above three sectors. This shows that the intensity of affection for the problem specified is not as such critical. Because the respondents are in dilemma or doubt to say whether or not the problem specified affect their operation.

The presence of affordable credit is essential for enterprise growth. With regard to credit access and availability, there are both formal and informal sources serving the operators in the studied area. The informal sources are consisted of loan from other fellow operators, family, relatives and friends. According to responses from the operators, the credit generated from such sources, along with a loan secured from micro finance institution (MFI) and own savings constitutes a portion of the start-up capital of the MSEs. Wolkite MFI is the formal source of credit used by operators, though there are other financial service providers like state-owned and private commercial banks.

Table 4.12 Management factors that affect the performance of MSEs

Item	service		Trade		Construction	
Managerial factors	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Luck of clear division of Duties and responsibility Among employees	3.66	73%	3.71	74%	3.25	65%
Lack of well trained and experienced employees.	3.33	66%	3.92	78%	3.75	75%

As shown in table 4.12 above, lack of clear division of duties and responsibility among employees is the main problems that hinder the performance of MSEs which are engaged in service and trade sectors followed by construction sectors. It shows an average frequency of response of 3.66 and 3.71 with percentage of response of 73% and 74% for service and trade sectors respectively. Therefore, the average score of the respondents with regard to lack of clear division of duties and responsibility among employees indicate that this factor have an effect on their performance of MSEs particularly which are engaged in the above businesses.

The table also shows lack of well trained and experienced employees is the problem of operators engaged in trade and construction sectors followed by service.

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, as cited by Admassu, 2012). 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.

Table 4.13 Entrepreneurial factors that affect the performance of MSEs

Item	Service		trade		Construction	
Entrepreneurial factors	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Lack of motivation and drive.	4.14	82%	4.18	83%	4.08	81%
Lack of persistence and courage to take responsibility For ones failure.	4.23	84%	4.37	87%	4.25	85%
Absence of initiative to assess ones strengths and Weakness.	3.82	76%	3.74	74%	3.75	75%

Among the entrepreneurial factors, lack of persistence and courage to take responsibility for one's failure scores the highest average frequency of response of 4.23, 4.37 and 4.25 with percentage of response 84%, 87% and 85% for operators engaged in service, trade and construction sectors respectively. The second most important factor that affects the performance of MSEs is lack of motivation and derives. Their average frequency of responses are 4.14, 4.18 and 4.08 with percentage of response of 82%, 83% and 81% for MSEs engaged in service, trade and construction sectors respectively. This shows that the operators of all sectors agreed with that they have faced the problem of lack of motivation and derive for their work.

Furthermore, the average frequency and percentage of response indicates that absence of initiative to assess ones strengths and weakness third entrepreneurial factors that hinder the success of entrepreneurs employed in all sectors.

According to interview conducted with operator it was confirmed that, lack of tolerance to work hard and absence of initiative to assess ones strengths and weaknesses are another factor affecting the performance of MSEs. According to them this is due to negligence on the part of employees and/or owner managers to develop and implement such a culture of tolerance and assessment of strengths and weaknesses.

4.7.9 Comparison of Factors

Even though, all the politico-legal, infrastructure, working premises, technology, marketing, financial, management and entrepreneurial factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above.

Table 4.14 Comparison of the major factors

Item	Service		trade		Construction	
Rank of Severity	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
1. Politico-legal factors	3.14	63%	3.23	64%	3.33	66%
2.Working premises factors	4.04	80%	3.85	77%	3.68	74%
3. Technological factors	3.22	64%	2.94	59%	3.03	60%
4. Infrastructural factors	4.23	84%	4.28	85%	4.03	80%

5. Marketing factors	3.51	70%	3.67	73%	3.22	64%
6. Financial factors	4.46	89%	4.54	90%	3.95	79%
7. Management factors	3.55	71%	3.14	62%	3.01	60%
8.Entrepreneurial factors	4.14	83%	3.42	76%	3.51	70%

As it can be seen from the above summarized table, that financial and infrastructural factor has the biggest potential to contribute to the performance, followed by working premise, entrepreneurial, marketing, management, politico-legal, and technological factors. In other words, the result shows that financial and infrastructural factors are the two top most factors that affect the performance of MSE in the selected area. This result is supported by Haftu et al. (2009 as cited in Admassu, 2012) who found that lack of finance and working space rank on top being reported as the major constraints by a large proportion of the enterprises. It can, therefore; be concluded that finance and infrastructural factors do largely affect the performance of MSEs which are engaged in service, trade and construction sectors.

Table 4.15 the current major opportunities of MSEs

Item	service		trade		Construction	
Available opportunities	Average frequency of responses	%-Age	Average frequency of responses	%-Age	Average frequency of responses	%-Age
Growing number of credit institutions	4.33	86%	4.28	85%	4.12	82%
Supply of technological Inputs	2.45	49%	2.55	51%	2.38	47%
Supply of working place	4.14	83%	3.42	66%	3.51	70%
Availability of supply chain of inputs	3.14	63%	3.23	64%	3.33	66%

marketing relationship	3.32	65%	3.61	71%	3.48	68%

Among the current available opportunities that are accessible to operators of MSEs, the growing number of credit institution, scores the highest average frequency of response of 4.33, 4.28 and 4.12 with percentage of response of 91%, 93.5% and 36% for operators which are engaged in service, trade and construction sectors respectively.

The second most important opportunity that is currently available to MSEs is supply of working place. Their average frequency of responses are 4.14, 3.42 and 3.51 with percentage of response of 83%, 76% and 70% for MSEs engaged in service, trade and construction sectors respectively. This shows that the operators of all sectors agreed with that they have an opportunity of supply of place for work which is available to all sectors that are engaged in three sub sectors.

According to interview conducted with operator it was confirmed that, currently, particularly in relation to availability credit financial institutions such as Wolkite MFI encourage them to take loan for starting their business or for their working capital need. This is an indicator of the growing number of credit institution

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDETIONS

5.1 INTRODUCTION

In this chapter the conclusions and recommendations are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. Based on the findings of the study recommendations are made to operators of MSEs and suggestion for other researchers.

5.2 CONCLUSIONS

This research was conducted on kebeles of Wolkite town with the prime intent of critically assessing the factors affecting the performance of MSEs typically engaged in service, trade and construction business activities. Specifically, the study attempted to examine the sources of finance or funds available for MSEs, the problems affecting their performance, and opportunities which are currently available to MSEs, Operators. Based on the objectives and findings of the study, the following conclusions are worth drawn.

The main sources of startup and expansion finance or funds for most MSEs are personal savings followed micro finance institutions and family, friends/relatives. The formal financial institutions, particularly banks have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from personal savings and informal sources.

The most important critical factors identified are financial factors which include shortage of working capital, high interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions.
The workings premises factor such as absence of own premises and inconveniency of the current working place hinder their performance. Marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research. Infrastructural factors incorporate power interruptions, and lack of sufficient and quick transportation service that hinder the business performance of all sectors.
The main internal factors identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. Lastly, the major entrepreneurial factors include lack of persistence and courage to take responsibility for one's failure and absence of initiative to assess ones strengths and weakness.
Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degree of those critical factors in service sector slightly differ from the factors that are critical to trade and construction sector businesses, most of the factors are considerably common for three sectors. It has been noted that the following factors are prevalent to the businesses such as financial, infrastructural, workings premises, and marketing had very high effects on the performance of MSEs compared to other factors in the research area.
Currently it is claimed by the government of Ethiopia, that the MSEs, sector is a prime strategy to economic development in urban areas. As a result of this various governmental bodies designed various programs aimed at developing MSEs, Sector. Most of the programs were designed by taking into consideration of the following facts i.e. particularly to increase the number of MSEs, increase productivity and employment opportunity, improving their performance and competitiveness. Important measures such as increasing the number of microfinance institutions, providing of place for work and supporting and awarding of MSEs, are currently taken in to account on the side of the government so as to make them more productive and operationally sustainable.

5.3 recommendations

Suggestions for corrective and complementary measures to enhance the potential performance of MSEs are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of the study, the following recommendations are forwarded.
The Wolkite town government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to lessen their requirements. This should be done so that MSEs can get enough access to finance for their business activities.

The strengthening of government institutions at different levels would play a major role in positively influencing the development of MSEs, thus to reduce delays in processing legal

requirements. The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blockings by laws, to address issues of getting a license or getting a premises on which to operate. A number of factors should be considered in designing all-encompassing policy for the promotion of the sectors.

Marketing factors are frequently indicated as the explanatory factor for most problems faced by the studied MSEs. Therefore, it is necessary to solve this deep-rooted problem. Some of the ways of doing so can be: -

- Providing selling and display places in areas close to working area.
- Linking the MSEs with other private contractors working within or around Wolkite so that the operators are able to secure market opportunity.

The operators of MSEs should form groups and make use of pooled negotiating power for borrowing purposes. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production. This will enhance their competitiveness through a reduction in the cost of production. The benefit of sharing such service for the operators of MSEs is that it will strengthen the future survival, profitability and eventual growth of MSEs.

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 and enabling the environment for business operations is generally an imperative. Uninterrupted power supply and quick transportations are basic to effective performance of these enterprises. Finally, investigating different factors based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. The focus for this study was on the service, trade and Construction business sectors. It is the researcher's view that future research could therefore investigate the other sectors like urban agriculture and merchandise and retail businesses and come up with specific findings which will potentially contribute a lot in the development of the country in general. This study dealt with more of the important and critical factors that affect the performance of MSEs. The field of MSEs is large and very diverse. It is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF MANAGEMENT AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

SECTION 1: INTRODUCTION

Dear respondent, I am a graduate student in the department of Accounting and finance, Wolkite University. Currently, I am undertaking a research entitled 'assessment of Factors Affecting the Performance of Micro and Small Enterprises in Wolkite town. Please assist me in giving correct and complete information to present a representative finding on the current status of the assessment factors affecting the performance of Micro and Small enterprises in Wolkite town. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Instructions1. No need of writing your name and indicate your answers with a check mark (√) in the appropriate space.

SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

1. Name of organization

Sex A. Male ☐ B. Female ☐

1. What is the main activity of the enterprise?

A. manufacturing ☐ B. Construction ☐ C. service ☐

2. How did you raise funds to start-up your business?

A. Personal saving ☐ B. Family ☐ C. Banks ☐

D. Micro finance institutions ☐ E. Friends/Relatives ☐

F. Iqub/Idir ☐ G. Others (specify) ☐

3. Which one of the following aspect is the most important for the success of your business venture? A. Business plan ☐ B.Business opportunities ☐

C. An entrepreneurial team ☐ D. Training in business skills ☐

E. Other please specify_____

4. Do you have business plan?

A. Yes ☐ B. No ☐ C. I haven't but I'm plan to prepare for the future ☐

5. What is your attitude regarding to the preparation of business plan?

A. It is tiresome to prepare ☐ B. It couldn't add value to my business ☐

C. It is mandatory to sustain in the business ☐ D. Other specify ……..

SECTION 3: FACTORS AFFECTING THE PERFORMANCE OF MICRO AND SMALL ENTERPRISES

The major factors that affect performance of MSEs are listed below. Please indicate the degree to which these factors are affecting the performance of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (√) under the choices below.

Where, 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1= strongly disagree.

6. Please indicate the degree to which you agree with the following statements concerning politico-legal factors.

6. Politico-Legal Factors	5	4	3	2	1
6.1 The tax levied on my business is not reasonable					
6.2 Bureaucracy in company registration and licensing					
6.3 Lack of government support					

7. Please indicate the degree to which you agree with the following statements concerning working place factors.

7. Working Place Factors	5	4	3	2	1
7.1. Absence of own premises					
7.2 Current working place is not convenient					
7.3 The rent of house is too high					

8. Please indicate the degree to which you agree with the following statements concerning technology factors.

8.Technological Factors	5	4	3	2	1
8.1 Lack of appropriate machinery and equipment					
8.2 Lack of skills to handle new technology					
8.3 Lack of money to acquire new technology					

9. Please indicate the degree to which you agree with the following statements concerning infrastructural factors.

9. Infrastructural factors	5	4	3	2	1
9.1 Power interruptions					
9.2 Insufficient and interrupted water supply					
9.3 Lack of sufficient and quick transportation service					

10. Please indicate the degree to which you agree with the following concerning marketing factors

10. Marketing Factors	5	4	3	2	1
10.1 Inadequate market for my product.					
10.2 Searching new market is so difficult.					
10.3 Absence of relationship with an organization that conduct marketing research.					
10.4 Poor customer relationship and handling.					

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11. Please indicate the degree to which you agree with the following statements concerning financial factors.

11. Financial Factors	5	4	3	2	1
11.1 Inadequacy of credit institutions.					
11.2 Shortage of working capital.					
11.3 High collateral requirement from banks and other lending institutions.					
11.4 High interest rate charged by banks and other lending institutions.					

12. Please indicate the degree to which you agree with the following statements concerning management factors.

12. Management Factors	5	4	3	2	1
12.1. Lack of clear division of duties and responsibility among employees.					
12.2. Lack of well trained and experienced employees.					

13. Please indicate the degree to which you agree with the following factors that have a direct influence on the performance of your business?

13.General Factors	*5*	*4*	*3*	*2*	*1*
13.1 Politico-legal factors.					
13.2 Working space factors.					
13.3 Technological factors.					
13.4 Infrastructural factors.					
13.5 Marketing factors.					
13.6 Financial factors.					
13.7 Managerial factors.					
13.8 Entrepreneurial factors.					

14. Please indicate the degree to which you agree with the following statements concerning the current available opportunities of MSEs in the city.

14. The current available Opportunities of MSEs	*5*	*4*	*3*	*2*	*1*
14.1. Growing expansion of credit institutions.					
14.2. Adequate supply of technological inputs.					
14.3. Availability of place for operation.					
14.4. Availability of supply chain of inputs in the city.					
14.5 Strong market relationship					