



Indo - African Journal for Resource Management and Planning

(An International Peer Reviewed Research Journal)

ISSN 2347-1786, VOL 3, NO. 01 August 26, 2015

Article info

Received on March 15, 2015

Published on August 26, 2015

India

PROGRESSES, EFFECTS, AND CHALLENGES OF MICRO AND SMALL SCELE ENTERPRISES AT WUKRO TOWN

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ABSTRACT

The progresses, effects and challenges of micro and small enterprises (MSEs) in employment and income generation is increasingly recognized and has become a major playing field for policy makers and donors with dual objective of enhancing growth and alleviating poverty in both developed and developing countries including Ethiopia. Due to this fact, this particular paper reports the significant role and constraints of micro and small enterprises on poverty alleviation in a particular case of Wukro town. The study follows descriptive type of research and based on 430 MSE operators who are registered and licensed by the town MSE development office from 2002-2007E.C half year and engaged in different activities. The sample survey was conducted based on primary and secondary data using both structured open and close ended questionnaire and interview and observation method through a survey of 40(9% of total population/430) sample MSE operators in order to have adequate information on the situation of MSEs sector and to assess the current situation of the business environment in Wukro town, Even if there have been promising measures undertaken by the government to promote and facilitate the MSEs sector by liberalizing and improving the policy, regulatory and institutional support that resulted in increasing employment opportunity, the sample, survey showed still there is divergence between stated policies and directives and the result on the ground. According to the information from the sample survey shortage of finance (lack of capital), in adequate business support and shortage of raw materials are the major market related obstacles, while high collateral requirement, lack of business premises and bureaucratic red tape are the other major rules /regulations relate constraints that hinder the growth and expansion of the MSEs sector. Therefore, well designed, coordinated and promoted provision of business development service instruments, regular review of policy, legal and regulators environment, applying different financial

instruments, designing special credit scheme, way of encouraging of donors and NGOs, improving public private partner-ship are some suggested points need to be addressed so as to create a strong, diversified, resilient and competitive economy, which can effectively cope with the challenges of poverty and which can also easily and confident adapt to the changing market and technological conditions in the regional and global economy at large.

Key Words - micro and small scale enterprises

1. Introduction

In developing countries like Ethiopia, where agriculture plays predominant role in the economy and the countries demographic pressure marked by high population growth which is manifesting a negative impact on the country's socio-economic development. The formal industrial sector alone could not be capable of creating sustainable economic development, generate large employment and alleviate poverty. . Because of this, the importance role of Micro and Small Scale Enterprise(MSE) in the process of economic development has now been widely acknowledged in many developing countries including Ethiopia ((Ngatu Legse 2006).

Micro and Small Scale Enterprises in developing countries like Ethiopia have significant role in terms of employment generation, quick production response, source of income of each households, their adaptation to low level infrastructure, and use of local resources, a means of realizing equitable income distribution & injecting a feeling of competition. Furthermore, Micro and Small Scale Enterprises demands small capital requirements for starting the activity, low skill insuring food security and private sector development, increase domestic savings, and investment, helps for balanced development provision of goods and services which are better adapted to local market needs, access to improved quality of work and working conditions which may contribute to a better quality, increased economic participation of disadvantaged and marginalized groups in the society access for training and development of human resources stimulating innovation, entrepreneurship technology development research and powerful instrument in economic growth and eventually elimination of poverty (Ngatu Legse 2006).

In the case of town Wukro administration consists of 3 kebeles with a population of 30,210 (based on Central Statistics Agency 1999E.C) in there exists NGOs and governmental organizations. More of the population is mainly stay with unemployment and other has engaged in informal sectors. There are 430 licensed and registered MSEs in the city, which have different challenges. But with their challenges, they contribute important role in

employment generation and economic growth in the town as well as in the country level. But the towns MSE are not in a good position rather they have clear information about MSEs existing situation is paramount important to make any decision regarding MSEs. Therefore, this study attempts to investigate the existing MSEs condition with particular emphasis to the state of financial and non-financial challenges and the role of MSEs in the town under discussion.

2. Research methodology

2.1 study area

The survey area where the majority of the fields work was carried out in Woreda kiltie Awlealo , Eastern Zone of Tigray region. Tigray is the northern most region of Ethiopia and lies between latitudes 14° 16' and longitudes 39° 09'. Wukro is surrounded by Kiltie Awulaelo woreda and 45 km north of Mekelle, capital of Tigray in Ethiopia.

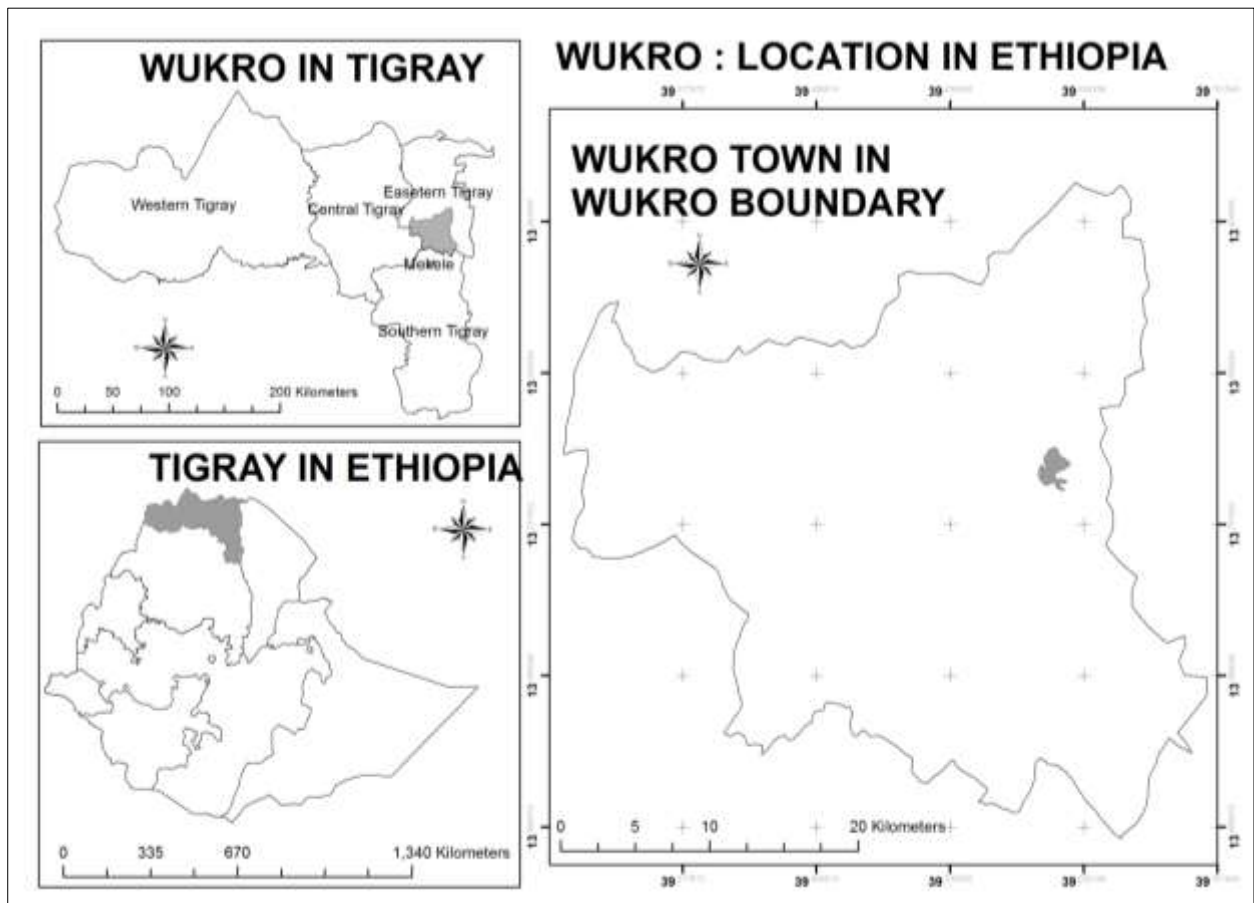


Figure 1

Research Methodology

The study applies descriptive type of research. This is because descriptive study it investigates the progresses, effects, and challenges of MSEs in Wukro town at the present

situation and it describes how the expansion of MSEs can reduces poverty of MSEs operators. In other words, the study is a purposive process of gathering analyzing classifying and tabulating data about the revealing conditions, practices, trends and cause effect relationships of expansion of MSEs with poverty reduction.

2.2 Data sources

In order to see the progress, effects and challenges of micro and small scale enterprise at Wukro town the researcher is collected from secondary and primary source of data.

Primary source of data

The primary source of data collected from the micro and small scale enterprise at Wukro town

Secondary source of data

The secondary data is obtained from the reports of micro in small scale enterprise of Wukro town.

2.3 Sampling Technique

In order to see the role and constraints of MSEs in poverty reduction in Wukro town a well justifiable and representative number of samples have to obtain based on probability and non probability sampling technique.

Table 1 Major activities in the town and their sample size

No	Major MSE Activities	Targeted Population No (T.P)	Sample size (9% of T.P.No)
1	Construction	50	5
2	Traditional black smith and small cottage	30	3
3	Tailor	90	8
4	Food processing and bakery	75`	7
5	Metal and wood work	40	4
6	Petty trade	85	8
7	Small service provision (salon)	60	6
	Total	430	40

Source: Wukro town MSE office 2006 Annual report

To select the sample population; first the total MSEs in the town divided in to seven major strata's based on their almost similar activities, and then the Number of sample is computed by taking 9% of each strata (using proportionate stratified random sampling technique).

In addition to the above proportionate stratified random sampling, non probability sampling which is purposive sampling technique would be employed for concerned personnel, MSE officers, Experts of central Zone Trade, Industry and Urban Development Coordinating Departments. The reason why purposive sampling used is that to select officials and experts who are supposed to be well experienced informed and knowledgeable who can illustrate the reality based on their experiences.

Population and Sample Size

Even though many informal, unregistered and unlicensed MSEs operators are found in the town, the known, licensed and registered MSEs operators by the town administration until 2006 E.C annual year were 430 in number. Based on this fact the study is conducted by taking these 430 MSEs legal operators as a target population with 9% (40) of sample size. In addition to this, two officers and three experts from the total population of 16 workers found in the town MSE office. The other many unregistered and unlicensed MSEs that are facilitating by household levels cannot be studied as they are, if so the study would be complicated.

2.4. Data Gathering Tools

The data was collected from both primary and secondary sources. The primary data was collected by using; questionnaire, interview and observation method of data collection tools. While secondary data could be obtained from books, brochures, reports of the town MSEs office, Journals.

Questionnaire: Self-administered, both closed and open-ended questionnaire was prepared and translated into Tigrigna Language and delivered to the selected 40 sample MSEs Operators.

Interview: by using judgmental sampling structured interview were made with the concerned personnel's or MSE officers found in the town administration.

Observation: observation or visit was made at each sample of MSE operators in the town by the researcher.

3. Result and Discussion

From the 430 total population the sample size are 40(9%) selected by probability and non-probability sampling technique. In addition to this, two officers and three experts from the total population of 10 workers found in the town MSE office. The data was collected from both primary and secondary sources. The primary data was collected by using; questionnaire, interview and observation method of data collection tools. While secondary data could be obtained from reports of the town MSEs office, The method of data analysis is conducted according to the nature of the gathered data and information if whether it is quantitative or qualitative in nature. The quantitative data analyzed and interpreted based on the responses given by the majority of respondents for each items in the questionnaire using the average

methods of descriptive data analysis by using for example tables and percentages. Where as qualitative data that are gathered from interviews, observation and open-ended questionnaires are analyzed and interpreted based on the evaluation of the researcher.

According to the sample survey in this study, interims of gender female operators 21(52.5%) dominate than male 19(47.5%) operators. However, when we consider the educational background of the survey indiated that.20(50%) are high school (9-12) level, from this 11(27.5%)are female,9(22.5%) are junior school(5-8) from this 4(10%) are female, and 3(7.5%)are primary school (1-4), from this1(2.5%) are female, 6(15%) are certificate levels from this 4(10%) are female, and the rest1 (2.5%) illiterate from this 1(2.5%) are female respondents as shown in the survey. So from this sample data conclude that Source of Capital for Starting the Business to participate Macro and Small Enterprises borrowing from relatives friends, personal saving and from financial institutions are operating starting of source of capital respectively.

This study is conducted to visualize and analyze the roles that faced MSEs in poverty reduction on a survey consisting 65-selected sample MSEs Operators in Wukro town, which are operating/registered from 2002-2007 E.C. The survey covers variety of activities such as; construction, traditional black-smith and small cottage, tailor, food processing and bakery, metal and woodwork, petty trade and small service provision (barber and beauty salon).

The sample data reveals that female operators dominate than male MSEs operators in the town. The average number of persons engaged in a business and their average age is 3 person and 35 years old respectively. This implies that owners of the enterprises and his/her operate most of the MSEs in the town family members; participation of youth in the MSEs sector is low. Interims of starting capital the information showed that the average start-up capital was 4000 Birr which indicates that most of the operators are starting their specific business with small amount of finance.

When we consider the educational background the survey indicated that majority of the respondents are operating their business with lower educational background, which are below certificate and only have basic skill of writing and reading. This indicates that MSE operators in Wukro town have rather low business skill and hadn't got any business training and development programs. In addition the information from the survey indented that most of the operators have started their business from scratch and only a few start their business with previous preparation and planning. Interims of source of finance to start the business the survey showed that borrowing from relatives and friends is the higher source of finance. And the next source of finance is personal saving; cash from Iqub, bank and borrowing from supplier's loans, inheritance, and others are source of finance to start the business. This indicated that relative to other sources the role of financial institutions (Microfinance and Bank) to finance MSEs Operators is unsatisfactory. This is due to high interest rate, short repayment period; long procedural formalities, high collateral requirements to get access to credit.

The data also showed that the MSEs operators were enter into their particular business because it is profitable, skilled in this activity, majority have no better alternative, and

relatives/parents in the business. This indicates that most MSEs operators consider the sector/their business as the last chance to which they resort to having assessed all other possibilities. Even though majority of MSE operators assumed that their business is the last chance for them, the survey indicated that all respondents had got employment opportunity, as a result their income level and saving ability has increased. In general, operators' life is improving from time to time as compared to before.

In addition the results of the study indicated that, the role of micro and small enterprises(MSEs) in employment and income generation is increasingly recognized with dual objective of enhancing growth and alleviating poverty by creating self employment opportunity in Wukro town, even though, the sector facing different problems that has made it difficult to exploit the existing potentials for acceleration of SME development and limits its ability to exploit the exciting potential of SMEs to accelerate growth and reduce poverty of the town's poor.

Due to this, the three major obstacles that hinder to start the MSEs Sector are: lack of capital /credit, lack of working place/land, and bureaucratic red tape to get license. Moreover, the three markets related obstacles to expand and grow the business are: shortage of capital/credit, inadequate business support, and shortage of raw materials.

In addition, the major rule/regulation constraints of MSEs Operators are: high collateral requirement, and inadequate business premise. Moreover, lack of skill (business know how), uncertain market, high competition, entry regulations and high tax are not the major problems that faced during their working time. This implies that there have been a provision trends of the government support (especially compared to the past government rule that required high capital to enter the business, rigid entry regulation, etc...) on some areas (especially licensing procedure have shown a great improving in Wukro town) to promote and facilitate the MSEs sector in order to achieve its major objective.

Generally, the Wukro city MSEs office and municipality of the town trying to encourage MSEs operators in provision of support and services like constructing clusters, establishing kiosks etc particularly after the reform period, even if it needs more improvement.

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