

# International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

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## *Determinants of Growth of Micro and Small Enterprises in ETHIOPIA (A Case of MSEs in Mekelle City, Tigray)*

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*Abstract: Nowadays MSEs are recognized as vehicles for economic growth and reduce poverty and unemployment. But some years ago MSEs were considered as unproductive enterprises contributing nothing for the growth and development of nations. What matters now is not unproductiveness of MSEs but their growth and development. Therefore, this research is concerned with identification of the factors affecting sustainability of MSEs operating in Mekelle city. This study is aiming at investigating the most sustainable as well as unstable sector among MSEs in Mekelle city, Ethiopia. Moreover the factors contributed to the unstability of such MSEs as well as the government support which is being provided to the MSEs is also discovered. Primary and secondary data are used to achieve the determined objectives. Primary data is collected through questionnaire. The collected data is analyzed using descriptive analysis.*

*Keywords: Business Challenge, Micro and Small Enterprises, Sustainability.*

### I. INTRODUCTION

Micro enterprises were viewed as marginal and unproductive entities that were used as means to avoid taxes and had little potential for growth of the enhancement of entrepreneurial capacity (Tegeene and mulat, 2004). But nowadays the contribution of micro and small enterprises (MSEs) to employment, growth and sustainable development is widely acknowledged. MSEs are long recognized as important vehicles of economic diversification, income generation and distribution, and accelerating the economy of a country. They can also help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution.

They have been the primary sources of employment creation not only in developing countries but also in developed countries. In developing countries, MSEs have also a crucial role because of their potential contributions to improvement of income distribution, employment creation, poverty reduction, industrial development, rural development, and export growth. For this reason, governments have been supporting their MSEs extensively through many different programs, with subsidized credit schemes as the most important component. International institutes such as the World Bank, the Asian Development Bank (ADB) and the United Nation Industry and Development Organization (UNIDO) and many donor countries through bilateral co-operations have also played a crucial role in empowering MSEs in developing countries (Tambunan, 2006).

The developed as well as developing countries are taking extreme benefits from MSEs that enable them to accelerate their economy. They play considerable responsibility in providing further employment and conversion of economy. The roles of MSEs in the creation of productive employment are concerned with its position in the centre of the range of sizes and resource intensities in a rising economy. Accordingly developing economies have started to focus on the crucial role that MSEs can play in their development (Maad, 2008).

MSEs are known by their greater utilization of local raw materials, employment generation, take part in rural and urban development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of

regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers(Taiwo A. et.al., 2012) .

MSEs are found in every economy; either in developing economy or developed economy. In either case, they play significant role in the growth and sustainability of growth of countries. In most of countries, there are small number of large enterprises, larger number of medium enterprises and very large number of micro enterprises (Tarmidi, 2005).The Government of Ethiopia is focusing on the micro and small enterprises basically because of their contribution in reducing unemployment.The focus stems from the increasing unemployment problem in Ethiopia; and MSEs have significant role in poverty alleviation and job creation in (Solomon, 2004). They are attracting the attention of government, and government is supporting them in different ways like financial support, creating marketing link, providing free showing area, free production and operation area, promotion and so on.

Although MSEs, as compared to their larger counterpart businesses, can create more employment per unit of scarce capital, there are many MSEs which dissolve after a short period of time of their establishment. Having such contribution of MSEs for job creation, poverty alleviation, accelerating growth of a country, their dissolution will result in increment of unemployment, poverty, weak economic growth etc. Undoubtedly dissolution of an established MSEs is a cost at regional or at national level. Therefore, this research is conducted focusing on determination of factors affecting sustainability of micro and small enterprises operating in Mekelle city.

## II. LITERATURE

### A. *Micro and Small Enterprises' Definition*

Micro and small enterprises are defined in a variety of ways using various factors. Although many countries around the globe seem to use common factors in their definitions, the degree of emphasis and measures used differ quite considerably. These factors include number of employees, volume of sales, and the capital value of the business. Generally there are two types of definitions. The first is operational definition, which are largely used for working purposes and the other is theoretical definition, which are generally, employed to characterize the sector. In recent times, there has been some degree of convergence in MSEs definitions particularly in Europe. The European Commission defines MSEs using a combination of employee numbers, annual turnover or balance sheet total and ownership.

However, the above convergence does not in any way suggest a common agreement of the specific numbers in terms of these variables. To this end, different governments and writers in MSEs' definition differ considerably. This difference is influenced largely by two factors. These are population & stage of a country's economic development, and industry within which the MSE is competing (Hillary, 2000). A definition of MSEs in the developed world would differ from how MSEs are defined in the third world. An enterprise categorized as micro enterprise in USA may be treated as medium enterprise in Africa for the fact that the definition of MSE is relative to economic development. The other factor commonly used in defining MSEs is annual turnover. Again, the acceptable figures differ from country to country, depending among other factors on population and stage of economic development. For example, the accepted definition of small enterprises in USA is "an entity with average annual gross revenues for the preceding three years not to exceed \$15 million, and very small enterprises (Micro enterprises) as an entity with average annual gross revenues for the preceding three years not to exceed \$3 million". This shows that there is no common definition of MSEs and that the definitions vary from country to country depending largely on the size of the economy, the levels of development, culture and population size of a country involved.

The Ethiopian government defines MSEs based on the size of the capital and level of automation (MSE strategy, 2004). Accordingly micro enterprises are those small business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high-tech consultancy firms and other high-tech establishments and Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 50,000.

In the improved definition of MSEs of Ethiopia (MSE strategy, 2010), Ethiopian Ministry of Trade and Industry and Central Statistical Authority (CSA) define MSEs according to the number of employees and capital. Ministry of Trade and Industry adopted official definition of Micro and a Small enterprise in Ethiopia is as follows.

**Table 1:** Definition of MSEs according to Ethiopian Trade and Industry Office

Enterprise	Sector	Employee	Capital
Micro-enterprise	Industry	<=5	<= ETB 100,000.00
	Service	<=5	<= ETB 50,000.00
Small-enterprise	Industry	6-30	<= ETB 1.5million
	Service	6-30	<= ETB 500,000.00

Source: Ethiopian Micro and Small Enterprises Strategy (2010)

### B. Characteristics of MSEs

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

### III. RESEARCH OBJECTIVE

- Investigating most unstable sector from MSEs.
- Investigating most sustainable sector from MSEs
- Identifying the factors contributed to the instability of dissolved MSEs.
- Identifying types of government supports to the MSEs.

### IV. RESEARCH METHODOLOGY

#### A. Target Population

The target populations of the research are owner managers of MSEs operating in Mekelle city, sub-cities MSEs agency workers as well as each sub-cities trade and industry office employees.

#### B. Sampling Technique and Sample Size

To determine the sample size of active MSEs, we have used three stage sampling technique where by all the sub cities (complete enumeration) are considered; and the sample size is proportionally taken from each sub cities (proportional Quota Sampling technique) from which the ultimate sample element MSEs were drawn based on simple random sampling technique. Among the seven sub-cities, three of them are dropped because they don't have the required data for our research.

Based on Yemane (1996) sample size determination formula, we can get a grand total sample of 388, at 95 % confidence level and 0.05 precision levels.

$$n_0 = \left( \frac{N}{1 + N(e^2)} \right)$$

Where  $n_0$  = sample size

$N$  = population size

$e$  = sampling error/level of precision

This total sample size is proportionally distributed to each sub-city as shown in the table below.

Table2: The sample size allocation to the sub-cities

No	Sub-city	No of active MSEs	Samples Taken
1	Ayder	1339 * 0.0375	50
2	Hawelti	3626 * 0.0375	136
3	Qedamay Woyane	3517 * 0.0375	132
4	Semen	1864 * 0.0375	70
Total			388

That is  $388/10346 = 0.0375$  is the multiplication factor where by the number of active sub-cities are multiplied to provide the proportional sample size.

We have used complete enumeration to select 1895 Micro and small enterprises dissolved in 2011 and 2012. That is the total number of MSEs dissolved in from the sub-cities in two years is 1895. Therefore, the total number of our sample from both primary and secondary sources is 2283.

#### C. Data Type, Source and Data Collection Method

In this study primary and secondary data are used. Primary data is collected through questionnaire from MSEs' owners. And secondary data is collected from the sub cities' trade and industry offices. MSEs, when dissolve, fill a form that help the office to gather information including the reason to exit from the business. Such data is used to analyze problems that cause MSEs to dissolve.

#### D. Data Analysis and Interpretation

The primary and secondary data collected from target respondents and corresponding offices are analyzed using descriptive analysis. This method of analysis is used to determine the main problems that active MSEs are facing and to examine the role of government in sustaining MSE's.

### V. ANALYSIS

This part presents the data gathered from both the office of MSE's administration and the existing MSE's operated in Mekelle city particularly from four sub-cities.

#### A. The most unstable and sustainable sector among MSEs operating in Mekelle City

Table 1: Dissolved MSE's in Sector since 2010-2011

Sub-city		Sector					
		Manufacturing	Construction	Urban agriculture	Trade	Service	Total
Hawelty	No	27	2	1	235	239	504
	Percent	5.35%	0.8%	0.4%	46.6%	47.4%	100%
Qedamay Woyane	No	36	6	1	533	469	1045
	Percent	3.44%	0.57%	0.09%	51%	44.88%	100%
Semen	No	17	11	0	98	68	194
	Percent	8.76%	5.67%	0	50.51%	35%	100%
Ayder	No	0	7	0	25	120	152
	Percent	0%	4.6%	0.00%	16.45%	79.00%	100%
Total	No	80	26	2	891	896	1895
	Percent	4.2%	1.21%	0.1%	47.20%	47.29%	100%

Source: Secondary data (2010-2011)

The above table depicts MSE's dissolved in 2011-2012 in the four sub-cities, namely Hawelty, Qedamay Woyane, Semen, and Ayder. When one business is dissolved, the owner submits his or her license to trade and industry office of the sub-city and it fill a form showing date of establishment, capital, date of dissolution, and the reason for dissolution.

As we can see from the table, in Hawelti most of the dissolved businesses are trade sector and service; because 46.6% and 47.4% of dissolved MSEs during the above-mentioned periods in the sub-city are trade and service sectors respectively. In Qedamay Woyane, 51% and 44.88% of the dissolved MSE's are from trade and service sectors, the same is true in the remaining sub cities i.e. for Semen 50.51% and (35%) of the dissolved businesses are trade and service sectors respectively and for Ayder (79%) of the MSE's are from sectors. In fact in all of the sub cities the most unstable sectors are trade and service sectors. The data shows that manufacturing and construction sectors are more sustainable than services and trade.

Table 2: Factors contributed to the instability of dissolved MSEs in Hawelti sub city

Sub-city	Reason	Number	percentage
Hawelti	Bankruptcy	385	76.4%
	Asset sale	115	22.8%
	Natural factor	2	0.8%
<b>Total</b>		<b>504</b>	<b>100%</b>

Source: Secondary Data (2013)

### B. Factors contributed to the instability of dissolved MSEs.

From the document review, it was also found that MSE's are dissolving from different factors. However, the reasons are varying from one sub-city to another sub-city as each sub-city has its own problem that may not face in other sub-cities.

The above table presents the factors contributing for dissolving MSE's in Hawelti sub cities. Accordingly, the major reason for 76.4% of the dissolved MSE's is loss and this is the most common problem in all sub cities though there is some difference in the degree. The reason for 22.8% of the dissolved MSE's in the sub city is asset sale. This reason is for service providing sectors particularly owners engaged in transportation services. So most important factors contributing for the dissolution MSE's is loss and asset sales in this sub city.

Table 3: Factors contributed to the instability of dissolved MSEs in Qedamay Woyane sub city

Sub-city	Reason	Number	percentage
Qedamay Woyane	Bankruptcy	641	61.34
	Lack of premise	103	9.85%
	Address/sector change	75	7.18%
	formality	38	3.64%
	Asset sale	78	7.46%
	Others	149	14.26%
<b>Total</b>		<b>1045</b>	<b>100%</b>

Source: Secondary Data (2013)

The above table depicts the major reasons for MSE's dissolution in Qedamay Woyane sub-city. Qedamay Woyane is the largest market site of the city where most of small and large business located in. in this sub-city there are variety of reasons for dissolving MSE's. Among these, 61.34% of them are dissolved due to bankrupts in their business, 9.85% of them due to lack of working premise, 7.18% of them are due to address or sector change, and 7.46% of them are dissolved asset sale. Other reasons also include, tax, natural factors, social factors, and other personal reasons. Still, the most important factor affecting the sustainability of MSE's is business loss.

Table 4: Factors contributed to the instability of dissolved MSEs in Semen sub city

Sub-city	Reason	Number	percentage
Semen	Bankruptcy	109	56.18%
	Address/sector change	9	4.64%
	Tax	7	3.06%
	formality	21	10.82%
	Asset sale	27	13.91%
	Others	21	10.82%
	<b>Total</b>	<b>194</b>	<b>100%</b>

Source: Secondary Data (2013)

This table also shows the reason for dissolution of business in semen sub city. In this sub city loss carries more weight as a reason for the instability of MSE's which carry 56.18% of the total dissolved MSE's in the sub city. Next to this, asset sale for 13.91 % of the MSE's and formality for 10.82% are additional factors contributing for business shut up. Other factors also have their own share as a reason for the problem.

Table 5: Factors contributed to the instability of dissolved MSEs in Ayder sub city

Sub-city	Reason	Number	percentage
Ayder	Bankruptcy	85	66.91
	Asset sale	46	30.26
	Address/sector change	9	5.92
	Finance	2	1.31
	Market	4	2.62
	Others	6	3.96
	<b>Total</b>	<b>152</b>	<b>100%</b>

Source: Secondary Data (2013)

Finally, Ayder sub-city, relatively has small number of dissolved MSE's but this does not mean that MSE's operated in Ayder sub city are more sustainable than others. Rather this is from the geographical scope of the sub-city.

Like the above sub-cities, 66.91% of the dissolved MSE's in Ayder are due to business loss, 30.26% of them are dissolved due to asset sale. Other insignificant percent of them are due to such factors as address change, financial problems, market problems and other factors.

Generally, in all of the sub-cities, business loss carries major percentage and is considered as most influential factors. With regard to business premise, the data obtained from the coordinator revealed that, Qedamay Woyane is largest market area of the city and every business owner wants to locate its business in this sub city. However house rent for the business is, in most cases, more than the capital investment of the MSE's. As result of this the MSE's are forced dislocate their business to other sub cities after they develop customer base in that area.

In addition to this, the data indicates that lack of business and market awareness is among the main reasons affecting sustainability.

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### C. The role of Government Support

Table 6: The role of government support

No	Government Role	Frequency	Percentage
1	Support of technology transfer	25	3.93%
2	Training	154	24.21%
3	Creating Market Linkage	27	4.25%
4	Credit Facility	112	17.61%
5	Working place facility	28	4.40%
6	Consultancy Service	40	6.29%
7	Financial support	49	7.70%
8	Material Support	28	4.40%
9	No support at all	164	25.79%
<b>Total</b>		<b>636</b>	<b>100%</b>

Source: primary data (2013)

Regarding government support most of MSEs assured that they get different support from government. Only 25.79% said that they do not get any support from government. Government supports them in technology transfer, in providing business training, creating market linkage, creating credit facility opportunities, working premises support, consultancy service, financial support as well as materials support. Nevertheless MSEs, in the previous discussion, explained that there is inadequacy in government support for the fact that the support is not as much as they need.

## VI. CONCLUSION

- According to the analysis intensive competition, inadequate credit facility, starting business without conducting survey, inappropriate tax imposition, inappropriate tenure, lack of business training, shortage of working capital, absence of appropriate technology, uncollectible receivables and lack of financial management skill and experience are the top ten challenges that micro and small enterprises of Mekelle city facing.
- Among the five sectors (as categorized by the MSE agency), service sector is the most unstable sector. On the other hand manufacturing sector is the most sustainable sector in Mekelle city.
- In Ayder sub-city intensive competition, lack of business training, inadequate credit facility, lack of financial management skill, starting the business without survey, family responsibility, poor marketing linkage, poor customer handling, lack of previous personal experience in the business as well as lack of marketing information are the main problems.
- Similarly inappropriate tax imposition, intensive competition, starting the business without survey, absence of appropriate tenure, shortage of capital, inadequate credit facility, lack of appropriate technology, lack of trained human resource, lack of business training and Overemphasis on short term profitability are some of the problems facing MSE in Hawelti sub-city.
- When we see the problems of MSEs of Qedamay Woyane sub-city there are some common problems with other sub-cities. Inappropriate tax imposition, intensive competition, inadequate credit facility shortage of capital and tenure are some of them. Moreover, absence of appropriate technology, lack of advertisement, overemphasis of short term profitability, lack of business training as well as uncollectible receivables are some of the problems of MSEs, according to the respondents in Qedamay Woyane sub-city.
- According to the data collected from Semen sub city, family responsibility, intensive competition, uncollectible receivables,

lack of financial management skill, inappropriate tax imposition, poor marketing linkage, starting the business without survey, lack of previous business management experience, lack of appropriate tenure, as well as poor customer handling are the problems they are facing.

- When the data is analyzed to know the problems of the city in general, the aggregate data of all sub-cities is considered. Accordingly, the top ten problems (based on frequency of respondents towards the variables) are intensive competition, inadequate credit facility, starting business without conducting survey, inappropriate tax imposition, inappropriate tenure, lack of business training, shortage of working capital, absence of appropriate technology, uncollectible receivables and lack of financial management skill.
- There are different reasons for MSEs to dissolve. Some of the reasons are common to the sub-cities and some others are particular to the sub-cities.
- The main reasons for dissolution of MSEs of Ayder sub city are bankrupts, asset sale, finance, market problem as well as natural factors like death or sickness.
- The reasons for dissolved MSEs of Hawelti sub city are Bankrupts, Asset Sale, and other natural factors.
- Similar to the other sub-cities Qedamay Woyane sub-city also has the following reason for the dissolution of its MSEs. These are bankrupts, lack of premise, formality problem (such as renewal deadline problem), asset sale, and other factors.
- Like other sub cities bankrupt is a common problem to Semen sub city. Tax imposition, formality, asset sale and other are some of the reasons.
- In fact, the government provides supports MSEs in different ways. However, there is inadequacy in its support.

#### **VII. RECOMMENDATIONS**

- MSEs should be guided by the marketing principles and business science in general. They should develop good strategies that can make them competent over their competitors.
- They should not wait trainings to come to them via government support. They should rather plan and budget for the training. Through training they can develop good financial management skill, good customer handling skill and so on. So they should give due attention for trainings
- Regarding the credit facility, MSEs should be visionary and should not be limited with minor limitations like inadequate credit facility. It would have been difficult if there was no credit facility at all. But the credit facility does exist. So, they should use the available credit and find other options strengthen the working capital. Besides, MSE's owners need to have a mental setting that believes the key for success is the result of performance rather than amount of money.
- As technologies ease the business world and help to produce quality product with minimum cost, MSE owners are recommended to use appropriate technology.
- According to the finding, many MSEs join their business without conducting market research; but starting a business with no adequate marketing information is very challenging for the fact that unprecedented problems will face the enterprise and lead it to bankrupts. If business is started without any market research, it is susceptible to different problems. Therefore, new MSEs should conduct market research before starting their business to make their business safe and sustainable and at least to accept calculated risks.
- Moreover, MSEs should be wise in customer handling. In the modern business activity, marketing focuses on customer satisfaction, which is in turn, depend on the quality of goods and services delivered and the way customers are treated and handled. But they should not offer their goods or services on credit for customers that are not loyal to their business.

- It is true that MSEs are contributing more than half of many nations total employment opportunity. So government should support these MSEs at least by providing the appropriate service in their contact with government offices. Government officials should follow objective procedure for tax imposition.
- MSE agency should learn from the reasons of dissolved MSEs to take action on active MSEs.
- According to the regional MSEs agency office, government support is provided only for MSEs that are organized by the agency itself. Therefore, we recommend the agency to support other MSEs though they do not organize them, making the degree of support different.

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