An Analysis on Encounters and Prospects of Micro and Small Scale Enterprise in Oromia Regional State: In the Case of Nekemte Town

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Abstract

The Micro and Small Scale Enterprises (MSEs) occupied a place of importance in the Ethiopian economy with a potential for job opportunities, growth and development. The aims of this study was to scrutinize the challenges and opportunity affecting the performance of MSEs with a special emphasizes on manufacturing ,trade and service sectors in Oromia Regional State, in case of Nekemte city. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. The information collected through questionnaire from a sample of 133 operators and face-to-face interviews were conducted with 21 operators of MSEs. The respondent operators were selected using stratified sampling technique. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The findings reveal that the major challenges that hinder MSEs and their transformation towards Medium scale are the lack of working place, limited starting capital, marketing problems, infrastructures and politico-legal problems. In order to mitigate working place problems, stakeholders like the City Administration MSE office, trade and industry and the land administration should have a joint plan; more financial accesses shall be introduced; With the support of the community, Trade and Industry should seriously follow up the operation of MSEs; a fair competition and healthy market arrangement shall be established; the microfinance institutions should revisit its policy to ease the credit access and there should be a room to provide credit without group formation if the customer has an equivalent asset for collateral.

Keywords: Operators • MSEs • Performance • Challenge

Introduction

The reality of economic poverty is among the crucial features of least developed countries. This incident has been estimated to lead large proportion of the people of these countries to live hardly ever for survival. On the other hand, this has a trend to distort the socio-economic wellbeing of the society as a whole in terms of crimes, absence of peace, mental depression, and other related undesired practices which are likely to put the societies in a vicious circle of poverty [1]. Several scholars state a number of multi-dimensional reasons for the presence of such underdeveloped features in the LDCs. Lack of sufficient savings and productive investments are expected to be among the major tangible reasons for the underdeveloped economic status of these countries [1]. In consideration of this, a number of policy measures were being taken to increase the rate of savings and to expand investments across these economies.

On the other hand, primary much emphasis was being given to the extension of investment on large scale economic activities which comprise a very little proportion of the total economic activities of the countries. It is common that, in most LDCs, very large proportion of the people are engaged in small scale economic activities. Hence, all the efforts that were made for decades which neglect the small scale economic activities could not achieve the desired mission of the societies [2]. For that reason, different studies started to lay the thought of focusing on small scale economic activities. Accordingly; recently, different developing country's governments begin to design economic policies and strategies that can broadly embrace these initially neglected economic activities.

There are different empirical evidences revealing the shift of policy focus from the one that emphasizes on large scale economic activities to micro, small and medium scale activities. In Thailand, planning and policy-making used to give much attention to large scale enterprises. But, recently, they appear to have been characterized by the understanding that there must be a shift from emphasis on large-scale enterprises toward the small and medium-sized enterprise sector, including microenterprises. It is felt that micro, small and medium-sized enterprises are able to contribute to the achievement of national development objectives [2]. Generally, in most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology [3]. In consideration of this, the Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (Ibid). MSEs have been given much attention by different policy makers as a path for economic growth and development. The improvement of performance and expansion of these enterprises is believed to bring a better socio-economic environment which can improve the wellbeing of the society at large. However, the worthiness and the capability of the enterprises to realize the achievement of the desired mission, is conditional on the fulfillment of different factors, of which the availability of favorable market condition is the major one. Hypothetically, it is anticipated that the progress of Medium and Small Scale Enterprise relies on their profitability and their ability of capital accumulation. This is, in turn, highly correlated with the availability of sufficient market for their products. The lower the demand for their products, the lower will be the sales and revenue generated by the enterprises. The opposite is likely to hold if the demand for the products is higher with greater access to the market.

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Divers empirical studies show that small enterprises usually regard market constraints and the inability to sell their products as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level [3]. In addition, access to markets and lack of market information is one of the most critical constraints to the growth of emerging MSEs in Kenya. The policies for addressing this problem do not seem to have achieved much success because access to market and information on competitors continues to be a severe problem for MSEs. According to the study of Kayanula, et al. in Malawi, there was a general lack of marketing skills and information by MSEs [4]. Their study shows that processors had little knowledge of their customer preferences regarding product range, taste and packaging. All these assertions also hold true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector [3]. Accordingly, responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses which have to compete with others for the same clients, regional governments, chambers and business associations who should see to it that there are no hindrances to market access of new comers, and big enterprises who should re-orient procurement towards small suppliers and subcontractors (Ibid). Therefore, by considering the upper mentioned understanding in mind, the researcher will analyze the existing marketing phenomena empirically thereby an attempt will be made to identify the major challenges and determinants of favorability of MSEs' market, taking a case study on operators of the sector in Oromia Regional State specifically in Nekemte city. In addition, the researcher undertakes a multi-dimensional need assessment to figure out the compatibility between the existing and actual situation of the businesses and what ought to be.

Literature Review

The study 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). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to business operations of micro enterprises. A view expressed and argued that the causes of failure cannot be isolated and that 'any attempt to do so is, at bottom, a futile exercise.' However, they suggested that: The issue of causation is clarified somewhat by classifying causes as endogenous (internal to the firm and presumably within its control) and exogenous (external to the firm and beyond its control). Such a classification has the merit of providing a somewhat better policy handle since if causes are endogenous, appropriate policy 'helps firms help themselves'; if exogenous, appropriate policy may seek to change the economic environment [4,5].

Previous evidence suggests that, although endogenous factors were the main cause of failure, exogenous factors had a significant effect in approximately one third of small business failures. According to Mead, et al. and Swierczek, et al. 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 [6]. 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. 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. Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development, intense competition with replication of micro-businesses, manager characteristics including lack of skills and experience [7,8].

Roy identified that the level of training of micro entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary

resources and/or technologies; level of planning; vision for the future; and the entrepreneur's level of poverty are among the factors contributing to success of MSEs while lack of market knowledge and training, limited access to capital, and lack of co- operation among possible business partners are some of the factors inhibiting the growth and development of the micro enterprise sector. Eshetu 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, that lasted from 1996-2001, the factors that affect the long term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their 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 Iqub3 was critically helpful for long-term survival of the enterprises. Businesses that did not participate in Iqub schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study [9-11].

In their study, based on the survey covering 123 businesses units in four Kebeles of Nifas Silk- Lafto and Kirkos sub-cities of Addis Ababa, and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, Paul found out that the studied enterprises registered 25% increment in the number of total employment they created since their establishment with an average annual employment rate of 11.72%. With regard to the sources of initial capital of the studied enterprises, the study indicated that, the main ones were loan from MFI (66.7%), personal savings/Iqub (17.5%), and loan from family/friends (17.1%). Moreover, the concrete problems that the targeted MSEs faced at their startup were lack of capital (52.8%), skills problem (17.9%) and lack of working space (17.1%). Moreover, Daniel identified that lack of raw material, stiff competition and shortage of working capital. Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle, Tegegne and Meheret's research was conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%) [12-15].

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. The product line of MSE activities in Ethiopia is relatively similar. Accordingly she states that: Lack of product diversity, however, is prevalent and as a result similar products are over- crowding the market. Some micro enterprises shift from one product to another, and in doing so, capture better market opportunities. Nevertheless, as soon as the market has established itself, a multitude of further micro enterprises start off in the same business and this causes the selling price to fall immediately [16,17].

According to this study shortage of funds discourages the smooth operation and development of MSEs. Even if there are credit facilities, some of the MSEs do not use the money for the intended purpose. They rather divert it for other unintended and non-productive expenditures. Consequently, the enterprises fail to return the money back to the lender on time. This can result in a loss of credibility to get repeated loans when needed. The study of competition is also another problem that hinders the performance of MSE. She explained it: As is mostly the case and common recognition, "Competition is Cruel", which implies that some larger companies in relation to MSEs have advantages due to: selling at reduced

price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities [18-22].

In his research, 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. For instance, research undertaken in Kolfe Keraneo sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MSEs. Similarly, Adil's research carried out in Addis Ababa shows that inappropriate government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct MSEs [23-25].

According to HLCLEP, 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 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 scanty and most of the available studies were not conducted in line with performance aspects of micro enterprises. However, this research tried to assess factors and opportunities for the performance of MSEs in a holistic way by targeting and deeply investigating those operators engaged in different selected sector in Nekemte city [25,26].

Materials and Methods

Source and nature of data

To undertake this study, both primary and secondary data have been taken into account. Secondary data from files, pamphlets, office manuals, circulars and policy papers were used to provide additional information where appropriate. Besides, variety of books, published and/or unpublished documents, websites, reports and newsletters were reviewed to make the study fruitful. Moreover, the secondary data is gathered from different organizations which are concerned with the activities of MSEs, such as both regional and national agencies of MSE, Ministry of Trade and Industry and others. To collect the primary data, questionnaires is systematically designed and distributed to both the MSE operators in the city. This was completed by the owner managers/or operators of the enterprises. Besides, face-to-face interviews with the MSEs operators/and the relevant owner managers who heads the enterprises in the selected sectors.

Research design: The study adopted the descriptive and mixture of survey and observation to examine selected Micro and Small Scale Enterprise (MSE) operators. The study also applied the triangulation methods, (which

refer to the use of more than one approach to the investigation).This made the researcher to apply qualitative approach and quantitative approaches of data collection and analysis. With qualitative approach, a highly structured questionnaire administered to customer of product and MSEs operators at Nekemte city. The quantitative approach will be used to conduct interviews with government office, NGO and financial institutions officials in Nekemte town. Moreover, the study utilized cross-sectional in the sense that all relevant data was collected at a single point in time. The reason for preferring a cross-sectional study is due to the vast nature of the study and the limitation of time. And obtaining information from a cross-section of a population at a single point in time is a reasonable strategy for pursuing many descriptive researches. Questionnaire design: The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The reason for the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent. The literature in the study was used as a guideline for the development of the questions in the questionnaire. Besides, some questions in the questionnaire were adopted from other sources. The questions that were used in the questionnaire are multiple-choice questions and five-point likert scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree).

Sampling design

Target population: The researcher targeted all the registered and licensed Micro and small scale enterprises operators based at Nekemte city particularly operators of manufacturing (metal and wood works), operators of Trade (building and construction materials), operators of service (Electronics, beauty salon, grocery, photo studio, and pharmacy). The justification behind to select these categories of associations is due to the ease to access information and their high concentration in number in the study area and also need assessment survey result.

Sample size and sampling technique: The study has use both Stratified random sampling and area sampling (proportional cluster sampling) method as a primary tool to identify the appropriate and relevant respondents of operators of the sectors. Accordingly, all the selected sectors (Manufacturing (Metal and wood works, Service (Electronics, Pharmacy, Beauty salons, Photo studio, Grocery), Trade (Building and construction materials shops) in the city are considered in to different strata (sector). And then, we selected sector using simple random sampling method. Neuman argues that, "The main factor considered in determining the sample size is the need to keep it manageable enough. Also this enabled the researcher to derive from it detailed data at an affordable cost in terms of time, finances and human resource[7]. In this study, the sample size formula has been used, which was developed by Cochran, et al. [8].

In this study to select sample size, a list of the population formally registered MSEs until May 2018 by the Nekemte city Trade and Industry Development Bureau were obtained. The total population of the study is 1000 enterprises in the cities, the sample of 140 which includes Manufacturing, Service, and Trade were selected. The interviews were administered on the sample of 20 operators. These small numbers of interviewees were selected because of related responses from majority of respondents. One hundred thirty three questionnaires were distributed across the three sectors cities, out of which 133 were completed and retrieved successfully, representing 98% response rate.

Variables and measurements

The selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process. The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measures that might not truly reflect their performance. Such performance measures include but not limited to: market share, sales volume, company reputation, Return-On-Investment (ROI), profitability, and

established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses.

In this study, change in profit is used as a dependent variable to measure the performance of MSEs. Here the change in profit ratio data is used as the measure of the dependent variable performance of the enterprises involved in the survey. This is mainly because of the following three reasons. First, as the pilot study clearly indicates, MSEs are more focuses on profitability than other modes of performance measures. Second, as recommended by Rami and Ahmed change in profit has been widely adopted by most researchers and practitioners in business performance models. Also growth in employment level of the enterprises would not be another appropriate alternative measure of performance because this MSEs are primarily established as a source of self-employment. The independent variables are politico-legal, working premises, infrastructural, marketing variables.

Data analysis: The processed data further transformed to look for patterns and relationship between and/or among data groups by using descriptive and inferential analysis. The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained to carry out an empirical investigation on the favorability and challenges of market access of the sector. Specifically, descriptive statistics (mean standard deviation and charts) and inferential statistics (Chi-square independence test) were taken from this tool.

Descriptive analysis: It used to analyze the favorability and challenges of market access of the sector. In relation to this, the degree of favorability of market access was categorized into high favorability, medium favorability and unfavorable market access. Accordingly, the extent of favorability of market access will be measured using the number of associations facing the three possibilities of market access. Similarly, severity of each marketing challenge of the sector were analyzed using three possibilities (sever, not sever and not a problem at all) taking the number of associations reporting so, as a unit of analysis. Descriptive analyses were also applied to discuss the issues related to the major determinants of demand (market access) of products of MSEs in the city. The three categories of favorability of market access (high favorable, medium favorable and unfavorable) will be considered to describe the demand for the products of each type of business (industry) in different places of the city. To identify the more demandable products of MSEs, a need assessment targeted on the users (consumers) of the products of MSEs carried out, in all areas of the city. Accordingly, the more demandable products in different areas of the city is screened out and ranked using descriptive ways of analysis taking the number of selected customers using the products in different places of the city as a unit of analysis. In addition, those demandable products which cannot be accessed easily in different places of the city were identified and ranked using similar ways of analysis.

Data analysis and interpretation, to facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. The purpose of this study is to critically assess the challenge and factors affecting the performance of MSEs in Nekemte city. How far, the owner managers are aware on the challenges of MSE's performance. Data were collected from operators or owner managers of MSEs found in the study area. Generally, this section is organized in the following manner: First, the general information about respondent and MSEs were presented and analyzed. Second, different factor that expected to affect the performance of MSE were analyzed using chart, table and Chi-square technique.

Factors affecting the performance of micro and small enterprises in Nekemte city

Respondents were asked different questions regarding the factors affecting the performance of MSEs in Nekemte city and their responses are organized in the following manner (Table 1). There are a number of challenges that affect performance of MSEs associated with different

factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the performance of MSEs. The results for measures of central tendency and dispersion were obtained from the sample of 120 respondents in Manufacturing business sector (Metal and wood works), Service business sector (Electronics, Beauty salons, Photo studio, Grocery), Trade business (Building and construction materials shops). A five point's likert scale was used to measure the responses; one indicates that not important/Challenging factor to affect the performance of at all and five is very important [27-29].

Results and Discussion

Based on pre-study/need assessment survey, it was selected that working place factor that critical hinders/challenges the performance MSE in Nekemte are absence of their own premises, the rent of house is too high and the current working place is not convenient for their business in the selected sector. As shown in Table 1, the mean score of absence of own premises indicate 4.81, 4.32 and 4.15 by sampled respondents engaged in Manufacturing business sector (Metal and wood works), Service business sector (Electronics, Beauty salons, Photo studio, Grocery), Trade business (Building and construction materials shops) respectively. This indicates that almost all selected MSE run their business by rented house. Besides, it was found that the house rent cost that enterprise runs their business is so high. In an interview conducted with an operator in all selected sector, it was confirmed that, they operated in rented house and high rental charges have impeded the performance of their businesses as some charges are higher than the capacity to pay. According to them, this high rent of house is resulted from absence of own premises to run their business. The respondents of Manufacturing business sector (Metal and wood works) agree with their current working place is not convenient to run business (mean scores of 3.39). But, the mean scores for enterprises engaged in Service business sector (Electronics, Beauty salons, Photo studio, Grocery) and Trade business (Building and construction materials shops) not that much complaining the work place environment(mean score of 1.23 and 2.13). During need assessment (pilot) survey it was identified that among marketing factor three items (Inadequate market for my product, Lack of market information and Lack of promotion to attract potential users) are critical factors that affect and challenges the performance of MSEs engaged in all selected sectors in Nekemte city. As indicated in Table 2, the mean scores clearly show respondents agreement on the variables. That is mean scores of market inadequacy are 4.23 and 4.36 for MSEs engaged Manufacturing business sector (Metal and wood works), Trade business (Building and construction materials shops) respectively. However, operator in Service business sector (Electronics, Beauty salons, Photo studio, Grocery) disagree on issue related to lack of market in their product(mean score of 2.30). Moreover, lack of market information hinder businesses performance for business enterprises engage in all sector (mean scores are 2.5, 3.94 and 3.77). Likewise, in relation to lack of promotion to attract potential users, the respondents of Trade business and Service business sectors are neither 'agreed' nor 'disagreed' (mean score of 3.0 and 2.9). But, as the table above shows, lack of promotion to attract potential users is the main factor that affects the performance of MSEs engaged manufacturing business sector. As the mean score (3.95) clearly depicts, the respondent operators agree on their inability to promote potential users.

llenge mentioned were lack of market, which the problem is magnified because most of the entrepreneurs' trade homogeneous commodities. The inaccessible location of the business and the less affordability of customers are also other factors, which intensify the problem. The other dominant challenge is the illegal action of whole sellers' joint involvement in distribution and retailing with discounted price. The retailers (MSE) purchase commodities from the whole sellers, but customers prefer to purchase at a discounted price from the whole sellers. As it is indicated in Table 3, the mean for some selected politico-legal factors were calculated. The table shows the bureaucracy in company registration and licensing

has a mean score of 4.33, 4.36, 4.5 for Manufacturing business sector, Service business sector, Trade business respectively. Therefore, it may be concluded that bureaucracy in company registration is the main factor that challenges for the success MSE in Nekemte in all selected sectors. This is followed by average score of the respondent's response with regard to unreasonable tax and related issues. The enterprises engaged in all sector, the tax levied on their business is not reasonable. The agreement on the non-reasonability of the tax amount is justified by the calculated means of 3.88, 3.77 and 3.73 respectively. According to the table above, the business owner manager engaged in all selected sector in study area were neither 'agreed' nor 'disagreed' problem related to political intervention around their working areas. Furthermore, the table indicates that lack of government support is another problem that affects the performance of enterprises engaged in Service business and Trade business sector. However, respondents of manufacturing business sector were disagreed with the factors related to lack of government support.

The mean score and standard deviation clearly shows their disagreement (mean of 2.13). The above finding compared with the interview conducted with operators of MSEs, it was confirmed that there are problems related to government bodies at the kebele levels. The interviewees are pointed out the implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor MSEs. The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsive to the issues of the MSE operators.

Furthermore, the politico-legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises. Even when opportunities have been created, MSEs have not been able to draw the full advantage due to absence of appropriate policy support. According to interviewees, there still exists an overly bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly. This includes a complex system, lengthy procedures and rules. For example, registration of a business, getting working places, payment of stamp duty among others. For enterprises found in study area, this poses a major challenge and cost as the owners of the business would need to close for days in order to travel to concerned governmental offices to access these services sometimes without success.

As founded in need assessment study in study area, power interruptions and insufficient and interrupted water supply are the most dominant issue in the categories of infrastructural factors that affect the performance of MSE. The result presented in Table 4 shows that power interruption is the main problem that hinders the business performance of all sectors. The mean scores of power interruption are 4.88, 4.63 and 3.63 for manufacturing business sector, Service business sector, Trade business respectively. On the other hand, insufficient and interrupted water supplies are the main challenges that hinder the performance of business operators engaged in service business sector(mean score of 4.53) . However, according to respondents of manufacturing Business and, they were neither agree nor disagree for insufficient and interrupted water supply that affect their business success. As opposed to this, the table shows that insufficient and interrupted water supply does not affect the performance of MSEs engaged in Trade Business Sector in the study area.

Comparison of factors and their variation among sector

Even though, all the politico-legal, infrastructure, working premises, marketing factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact in the study area. The following table clearly compares the overall impact of all key factors discussed in detail above. It can now be seen in Table 5 that working premises factors has the biggest potential to contribute to the performance of micro and small scale enterprise in Nekemte city, followed by marketing and infrastructural, politico-legal factors. In another words, the result shows that working premises and marketing factors are the two top most factors that affect the performance of MSE in the selected area. This result is supported by Haftu Berihun et al. who found that lack of working space rank on top being reported as the major constraints by a large proportion of the enterprises. It can, therefore, be concluded that marketing and working premises factors do largely affect the performance of MSEs in Nekemte city. It can be also compare the effect of different factor on individual sector in Table 6. Among the selected factor, working premise and infrastructural can highly affect the performance of manufacturing sector in the study area, followed by politico-legal and marketing factor. When comparing factor affect the success of service sector in the study area, politico-legal are the influential factor, while looking in trade sector, marketing and work place are the most influential factor. It is possible to wrap up that entrepreneurs are not satisfied with the existing business environment. Hence, the dominant challenges hindering MSEs transformation towards Medium scale are the lack of working place, starting capital (credit ceiling) and the action of whole sellers involvement in the parallel work of retailing. The credit is not more than twenty thousand birr. This limits them not to invest in moderate businesses such as milk cows which a single one needs to invest more than 25,000 birr.

Table 1. Results of a multiple regression of a direct assessment of truthfulness rating from FACT Items.

Manufacturing business sector		Service business sector	Trade business sector	Grand
Working place factors	Mean score	Mean score	Mean score	Mean score
Absence of own premises	4.81	4.32	4.15	4.24
Current working place is not convenient for business	3.39	1.23	2.13	3.52
The rent of house is too high	4.53	3.76	3.82	3.22
Grand mean score	-	-	-	4
Grand mean score	-	-	-	4

Table 2. Marketing factors affect the performance of MSE in Nekemte city.

Manufacturing business sector		Service business sector	Trade business sector	Grand
Marketing Factors	A. Mean	A. Mean	A. Mean	A. Mean
Inadequate market for my product	4.23	4.36	2.3	4.24
Lack of market information	2 .50	3.94	3.77	3.52
Lack of promotion to attract potential users	3.95	3	2.9	3.22
Grand mean/standard deviation	-	-	-	3.93

Table 3. Politico-legal factors that affect the performance of MSE in study area.

Manufacturing business sector		Service business sector	Trade business sector	Grand
Legal factors Item	A. Mean	A. Mean	A. Mean	A. Mean
The tax levied on my business is not reasonable	3.88	3.77	3.73	4.24
Bureaucracy in company registration and licensing	4.33	4.36	4.5	3.52
Political intervention	3	2.91	3.02	-
Lack of government support	2.13	3.5	3.7	3.22
Grand mean/standard deviation	-	-	-	3.62

Table 4. Infrastructural factors that affect the performance of MSE in study area.

Manufacturing business sector		Service business sector	Trade business sector	Grand
Infrastructural factors	A. Mean	A. Mean	A. Mean	A. Mean
Power interruptions	4.88	4.63	3.63	4.24
Insufficient and interrupted water supply	3	4.53	3.13	3.52
Grand mean/standard deviation	-	-	-	3.73

Table 5. Comparison of the major factors that affects MSE in Nekemte City.

No.	Factors	Grand mean	Rank of severity of the challenges in the success of MSE
1	Politico-legal factors	3.62	4th
2	Working premises factors	4	1st
3	Infrastructural factors	3.73	3rd
4	Marketing factors	3.93	2nd

Table 6. Comparison of individual factor on each selected business sector.

	Working premises factors	Infrastructural factors	Marketing factors	Politico-legal factors
Manufacturing sector	3.7	3.65	3.13	3.25
Service sector	3.71	2.75	3.12	3.9
Trade sector	3.8	3.4	3.9	2.53

The main sources of startup and expansion finance or funds for most MSEs are iqub/idir followed by personal savings, family and friends/relatives. The formal financial institutions 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 informal sources.

The workings premises factors include absence of own premises and the rent of house is too high. 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. Though, various governmental bodies designed various programs aimed at developing MSEs sector. Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the performance and competitiveness of MSEs. This is mainly because of the fact that these programmers or policies are not effectively implemented in line with their intended objectives owing to various reasons. According to the findings, the reason ranges from lack of visible commitment of some governmental bodies to lack of regular integration between the MSEs operators and the concerned bodies of the government. 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 manufacturing sector slightly differ from the factors that are critical to trade sectors, most of the factors are considerably common for three sectors. It has been noted that the contextual factors are prevalent to the businesses such as workings premises, marketing and infrastructure had very high effects on the performance of MSEs compared to other factors in the Nekemte City. In order to have a bright prospect for MSE, the following recommendations are forwarded. In order to address the need of working place, stakeholders like the Nekemte city administration MSE office, trade and industry and that of the land administration should have a joint plan. Particularly, women are more vulnerable to problems which most of them had a very limited starting and operating capital resulting them less advantageous in the business competition as compared to male entrepreneurs. The national and regional governments also support provision of shades.

Clustering of working places with similar specialization is advisable since customers flow to the areas where there are many alternatives for price and quality comparison. National and regional 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.

Conclusion

The study of conclusion says that the work place and 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 place, linking the MSEs with other private contractors working within or around Nekemte so that the operators are able to secure market opportunity, changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run and allowing those MSEs located and operating at Nekemte city to participate in biddings opened in other sub-cities of study area. 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. It is the researcher view that future research could therefore investigate the other sectors like construction, urban agriculture, and retail 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 contextual and internal factors that affect the performance of MSEs. Further research could target the medium and larger firms that have dominated the markets having graduated from the 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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