

## **Socio-economic Contributions of Micro and Small Enterprises: The Case of Jimma City**

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### **Abstract**

This study examined micro and small enterprises (MSEs) contributions to the socio-economic of peoples in Jimma city. The study used inferential and descriptive design, and was carried out on 82 organized/cooperated MSEs in Jimma city. Samples were randomly selected through stratification in each activity of the sector. Results were analyzed and changed to tables, charts and bar-graphs, and some of them were tested using Chi-square techniques. The findings of the study has shown that there is a socio-economic improvement through participating in employment creation, saving and income generation, developing entrepreneur's skills and knowledge, and gender empowering, changing many peoples' social issues and also ways of acquiring businesses and linking different levels of enterprises to facilitate its development. Result indicates that 79.27% of the enterprises responded that the overall socio-economic improvement of the peoples was good. Even though the MSEs have such great roles in changing peoples' living conditions, the activities of the sector was constrained by many factors like lack of financial capacity, lack of working and production places, rules and regulatory procedures, lack of capacity to compete larger enterprises, and insufficiency of business development services and socio-economic infrastructures. Though, there are strategies to combat problems in the city, these challenges also leads to importance to put some suggestions for the improvement of the enterprises activities. In this case enabling environment for MSEs sector development is very crucial, especially, to encourage and promote the sector and there should be an integrated effort of government to lead the support, the need to participate private sectors and non-governmental organizations in the MSEs development.

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## **INTRODUCTION**

Socio-economic development of any country designates both qualitative and quantitative changes which contribute grossly to the improvement of people's life. This requires industrialization where micro and small enterprise comes into the centerpiece as one of the packages and instruments to help accelerate economic growth and then the overall socio-economic development of the nation. The socio-economic progress of a neo-independent developing country rests on the pillars of income from a large number of people. In this respect, the small-scale sectors, especially the MSEs have a vital role to play.

MSEs make important contributions to economic and social development. In all economies they constitute the vast majority of business establishments, are usually responsible for the majority of jobs created and account for one-third to

two-thirds of the turnover of the private sector. In many countries they have been the major engine of growth in employment and output over the last two decades (UNIDO, 2004).

Consequently, MSEs have significant roles in the Ethiopian economy. Their role is immense in terms of employment generation, powerful instrument in economic growth, source of income, quick production response, their adaptation to weak infrastructure and use of local resources, a means of realizing equitable income distribution and injecting a feeling of competition. MSEs also have great value in Ethiopian socio-economic growth as it requires small capital, promote inter-sectoral linkages as it is a base for medium and large scale enterprises, increased domestic saving and investment. Also they help for balanced development provision of goods and services which

are better adapted to local needs, access to improve quality of work and working conditions which may contribute to a better quality, increased economic participation of disadvantaged and marginalized groups in society, access for training and development of human resources stimulating innovation, entrepreneurship, technology development, research, and eventually alleviation of poverty. According to a nationwide survey in 1997 by the Central Statistical Authority (CSA) of Ethiopia, the micro-enterprises and small-scale industries establishment account for 99% of all manufacturing sector, 93% share within total employment and the value of production is as high as 28% from the total manufacturing output. Also the share for the difference between the gross value of production and the value of the inputs that put into the production from outside is staged at 30%. The MSEs sector constitutes about 3.4% of the GDP; which is about 33% of the overall industrial sector's contribution and 52% of the manufacturing sector's contribution in Ethiopia (CSA, 1997 cited in Yared, 2007).

In recognition of the socio-economic roles of the sector and its potential contribution to the country's economic development, the development of micro and small enterprise sector is becoming a subject of national importance. The socio-economic roles of MSEs sector in Ethiopia is not without constraints. They face problems of policy and regulatory frameworks, and structural and institutional anomalies, lack of smooth supply of raw materials and lack of working premises; lack of sufficient capital, and marketing problems. These problems call for government intervention by recognizing and paying due attention to the promotion and development of MSEs. It is also important to formulate strategies in a ways to address the challenges of unemployment, economic growth and equity, and overall poverty in the country.

Various studies have shown persistence of poverty and the unprecedented level of unemployment that characterizes Ethiopia in general and urban areas in particular. The role of MSEs provides significant contribution to the economy in respect of employment and output in many African countries. But, in Ethiopia case this sector are marginalized and do not got much emphasis in general and in Jimma in particular. In Jimma city, like other towns of the country, the number of population is changing radically, but the poverty and unemployment rates are increasing as of its population. Though poverty and unemployment of the city is high, the research and study to tackle these problems have not been given seriously and the various tools of reducing poverty which ultimately improve the socio-economic

development of the city are not given proper attention it deserves. MSE is one of the tools to help improve the socio-economic development yet, practically, there are scanty studies to complement these resulting in knowledge gap regarding the MSEs contributions to the development of socio-economic and the constraints of the MSEs face to be diversified. Due to these and other many constraints the MSEs development is not diversified as of their roles in the city and hence is vital to study on them.

The main objective of the research was to examine the contributions of cooperative micro and small enterprises in socio-economic development activities of Jimma city

## **MATERIALS AND METHODS**

### **Description of the Study Area**

The study was conducted in Jimma city which is located in Southwest Ethiopia at distance of 335km of Addis Ababa. As the 1986 master plan indicated, the Jimma city has an area of 46.23 km<sup>2</sup> (4623 hectares) and have a sub-tropical climate with an altitude of 1704-2000 m.a.s.l. and a temperature range of 7.3 °C to 31 °C. The amount of rainfall ranges from 1450–1800 mm, which of 70% precipitation is in summer (May- September) (JCASP, 2006). In 2005 the population of Jimma city was more than 155,000 and during 2008 estimated to be 220,000 (Jimma City Planning and Programme Office, 2008) which consisted of 49.5% male and 50.5% female (BFEDO, 2004). Majority of the people in the city was engaged in more than 4500 business entities/trade and commerce which created jobs for 20,000 peoples. About 280 people engaged in transportation sector and 7500 employed on agricultural sectors. Whereas the industry sector hold small share, majority of the peoples employed in government and private sectors (JCASP, 2006). The local-rural exchange in Jimma and its surrounding has contributed significant role for city's business activity. However, the formally organized peoples in micro and small enterprises did not started their jobs in which they were cooperated as indicated in the table below and their challenges not to start their activities are discussed in the results and discussion part.

### **Research Design and Data Sources**

The study used inferential and descriptive statistics for quantitative data analysis. Employment, asset changes, social capital of enterprises owners, education and health status, income and expenditures of the people engaged in the enterprises are used as main variables of the study. Also data on financial sources, institutional arrangements, and firms' linkages: horizontally,

vertically and with markets and urban versus rural, entrepreneurship characteristics were collected. The field work is conducted from March-May 2008.

Both primary and secondary data were used to undertake the study. Secondary data generated in the study came from Jimma City Administration/Municipality and the city Trade and Industry Office under which MSEs sector/department is included and the concerned offices and MSE operators and used for the primary data collection as a basis. Besides, primary data collected both from the trade and industry office of the city through interview of the experts regarding problems MSEs faces and the access available for operators, and from the city MSEs operators that are working in associations/cooperative.

**Sampling Technique and Data Collection**

During the study stratified random sampling technique was used to take samples from the total enterprises working in associations in the city. Sampling was undertaken from different types of activities: Industry, Services, Construction, Urban Agriculture and Trades of formally organized operators in the enterprises. About 25% of the association/cooperative enterprises were sampled in the study which comprises about 82 sample enterprises from a total of 324 cooperative enterprises. The sampling technique was done through dividing the enterprises into four classes of the city. In each class the sampling was randomly taken from the five various activities of enterprises. Then, in each MSEs activity about 25% sample size was selected from the total number of MSEs sector and in each of the sector activity the same sample size was sampled, because the study focused mainly on descriptive design and primary data collected from the cooperative MSEs in the city.

The data was collected by reviewing selected number of past years MSEs performance of the city and other relevant sources from the Trade and Industry Office of the city, which focused mainly on MSEs Department. Both secondary and primary data was collected during the study. Secondary data was collected from the city administration, and city trade and industry office. The primary data was collected both from the city trade and industry office and MSEs sector department experts and their operators (their leader). Information was gathered through direct contact, observation, interview, and through prepared close and open-ended questionnaires of the concerned bodies at the city level and enterprises sector in the city. Data collection focused mainly on the city formally cooperative enterprises and municipality, and the city MSEs. Data collected from the trade and industry office was mainly about the enterprises status, supports available to the MSEs operators,

challenges they faced to organize peoples in the sector and coping strategies undertaken by public officials/government. Then, the collected data was organized in the form of tables.

**Statistical Analysis**

Both qualitative and quantitative data were collected and analyzed from the view point of research objectives. The collected data was analyzed in terms of the number of respondent characteristics and perception. So, the collected data was organized and changed into tabular form and then, the organized data was analyzed in the form of bar graphs and charts. Also the survey result data were analyzed using Chi-square tests, especially on employment, income and finance access to check whether the hypothesized variables proved the contributions/roles of MSEs to the socio-economic development.

**RESULTS AND DISCUSSION**

**Socio-Demographic Feature of MSE Operators**

**Business Background**

The studied MSEs owners have been working in groups in each activities of the enterprises and organized by the government effort and themselves. Majority of them (89%) respond that working in groups have great value like income generating, building capacity and support of each other, experience exchange, to make self confidence and to work valuable activities, to solve technical and other problems, to use effectively and efficiently human resources, capitals and other resources. Also used to get financial services, working premises, land/working places, and other business development services which facilitate working and business growth process. Only 11% of them respond that working in groups has no value, because of absence of agreement between the operators and absence of working habit in partnership (Table 1).

**Table 1:** Responses of the MSEs operators to value of cooperation.

<b>Responses whether organization have value or not</b>	<b>No</b>	<b>%</b>
Yes	73	89.02
No	9	10.98
<b>Total</b>	<b>82</b>	<b>100</b>

The number of MSEs established in 2005 and 2006 was about 34.2% and 23.2%, respectively. A significant number of firms (43%) have started their business in the years 2006 and 2008. This indicated that most of the MSEs were new and great attention was given to them in recent years according to city government officials respond. But most of the

enterprises developed (821) in the city, do not started their business activities and forced to discontinue their business due to some problems like absence of working site, credit/financial facilities, materials and necessary working infrastructures, and disagreement of the organized peoples. Only about 324 enterprises joined their business activities, of which 82 MSEs included in sampling study (Table 2).

**Table 2:** Sample size of enterprises.

Years of Establishment (in, E.C)	No of MSEs established	%
2008	3	3.7
2007	14	17.1
2006	18	22.0
2005	28	34.2
2004	19	23.2
<b>Total</b>	<b>82</b>	<b>100</b>

Most of the MSE operators in Jimma engaged in industry (31.7%), trade (26.8%) and services (22%). This showed that, the city economic activity mainly depends on and occupied by industries and trades. The rest were engaged in construction (12.2%) and urban agriculture (7.3%) (Table 3).

**Table 3:** Various activities of MSEs in Jimma city.

Activity	Number of MSEs	%	Number of Members	%
Industry	26	31.7	326	33.7
Services	18	22.0	204	21.1
Trade	22	26.8	219	22.7
Construction	10	12.2	159	16.4
Urban Agriculture	6	7.3	59	6.1
<b>Total</b>	<b>82</b>	<b>100</b>	<b>967</b>	<b>100</b>

#### Demographic Characteristics of MSE Owners

The study indicated that male dominates (62%) the demographic features of the owners though the number of females (38%) participated in the enterprises was not least (Table 4). This indicates that, even though in our country, job seeking habit of men is higher; the MSE activity is one option for job opportunity to women. About 14.7% of the owners participated in MSEs was less than or equal to 15 years old, about 25.5% and 39% of the MSEs operators were between ages of 15-20 and 21-25, respectively, and the rest 20.8% of them were above 25 years. From this figure, it is possible to see that more than 75% of the operators were in

productive age and most of enterprises operators were unemployed and job seekers before engaged into MSE sector.

Most of the sampled owners (51%) of MSEs were not married. Young age operators but have no jobs before they were engaged in MSEs activity. On the other hand, about 28% of them were married. The divorced and widowed people were about 21%. This indicated that above half percent of the owners of enterprises were young unmarried in the working age that have positive attitude to work in MSEs sector (Table 4).

In the city, the MSE sector has created employment opportunity for those who were not literate (29%) and also for those who attended only the primary school (32%) which totally covers about 61% of the total sampled MSEs operators. On the other hand, the level of education attended by operators' shown that 71% of the enterprise operators were literate that ranges from primary school to above certificate (Table 4). This figure is less than what was reported by CSA publication for the country where it has shown that 74.49% of those engaged in small-scale manufacturing were literate (CSA, 2003). This sample figure indicated that majority of the operators in MSEs were illiterate and low level of educational status, and the entrepreneur's skills, knowledge and higher level of education needed was low in the activities of MSE sector. This implies that people having low level of skills can participate & perform the MSEs activities.

**Table 4:** Demographic Characteristics.

Characteristics	No of Operators	Percent (%)
<b>Gender</b>		
Male	598	62
Female	369	38
<b>Age</b>		
≤ 15	142	15
15-20	247	25
21-25	377	39
>25	201	21
<b>Marital Status</b>		
Married	271	28
Unmarried	495	51
Others (Divorced & Widowed)	201	21
<b>Level of Education</b>		
Illiterate	282	29
Primary School (1-6)	307	32
Junior & Secondary School (7-12)	236	24
Certificate & above	142	15
<b>Total</b>	<b>967</b>	<b>100</b>

### Roles of Micro and Small Enterprises (MSEs)

In Ethiopia, like other developing countries, MSEs have great roles in the socio-economic development endeavors. MSE sector contribute job opportunity, an instrument in bringing about economic transition through generating income and saving, exploiting niche market, enhancing productivity and technological change, of which all these stimulate economic development. Also the sector is the home of entrepreneurship, an essential spring board of growth, job creation and social progress at large (Andualem, 1997). Looking the MSEs activity surveyed and the inherent characteristics of the sector, the following points were some of the roles of the MSEs in the socio-economic development of the study area.

### Employment Generation

In Ethiopia, the challenge of employment generation is equivalent to achieving the objective of sustained growth and reduction of poverty. In fact, the reduction of unemployment and ensuring sustainable growth is not a simple activity, and it takes long time to achieve goals. According to Ministry of Finance and Economic Development 1994 report, with the rapidly increasing population of 3% per annum, and an even faster growth of the youth population pressure on agricultural sector, the demand for micro and small business enterprise are increasing from day to day. Also according to the Jimma city administration officials report, the number of unemployed people is increasing from

time to time and become the most serious problems with less economic development.

So, according to the tasks of both federal and local government to generate employment opportunities for people, the city MSEs is one to curb unemployment problem. The development of MSEs which employs more people per unit capital than larger firms can do is more important in this case. The result of the study indicated that, various types of enterprises' activities have significant contribution to both owners and hired labor force which constituted about 70% and 30%, respectively (Table 5). From the total operators engaged in the enterprises, about 61% of the total employment cooperated was accounted by both industry (34.7%) and trade (26.3%). Services and construction sectors contributed 20% and 12.8% respectively in partnership operating; however, in urban agriculture fewer people (6.18%) engaged. This might be due to absence of working premises for urban agriculture and majority of the city peoples' activities were depend on trade and commerce.

Not only the owners but also hired labor is the one that engaged in small businesses in the city. MSEs are the one that hire more labor force, which was about 30% of the total employees in the sampled enterprises. This on average covers about 3.5 persons per establishment and this figure indicated that the owners and hired labor force was highly engaged in MSEs (Table 5). In short, MSE sector comprises more labor force.

**Table 5:** Types of MSEs employment in Jimma city by activity.

Activity Type	Organized Owners			Hired Labor			Total		
	No	%	Average	No	%	Average	No	%	Average
<b>Industry</b>	236	34.7	9.1	90	31.4	3.5	326	33.7	12.5
<b>Services</b>	136	20.0	7.6	68	23.7	3.8	204	21.1	11.3
<b>Trade</b>	179	26.3	8.1	40	13.9	1.8	219	22.7	9.9
<b>Construction</b>	87	12.8	8.7	72	25.1	7.2	159	16.4	15.9
<b>Urban Agriculture</b>	42	6.2	7.0	17	5.9	2.8	59	6.1	9.8
<b>Total</b>	<b>680</b>	<b>70</b>	<b>8.3</b>	<b>287</b>	<b>30</b>	<b>3.5</b>	<b>967</b>	<b>100</b>	<b>11.8</b>

Most of the operators working in MSEs have been engaged previously in different activities and more than half percent of them were unemployed. As indicated in Table 6, about 52.4% of the operators were unemployed before joining the MSE activities. According to Meseret (2006) report conducted in Nekemte town, about 75.4% of the MSE operators have no jobs before they engaged into MSEs. The rest 20.7% was in self-owned informal activity, 14.6% in self-owned formal activity, 7.3% in civil services and 4.88% in urban agriculture before they shifted to formally organize cooperative and hired labor in the MSEs.

Consequently, their reasons of shifting to MSEs sector were MSEs/small business investment was a source of income and create job opportunity (36.6%), to get high income (24.4%), lack of alternative (15.9%), interest in the activity (14.6%) and adaptation from family tradition (8.5%) (Table 6). This indicated that MSEs are the major alternative option for job opportunity for more than 76.8% of people and to bring high income through formalizing their activity and reducing the level of unemployment (52.4%).

**Table 6:** Previous activity of peoples and reasons of shifting to MSE businesses.

Previous activity	No	%	Reasons to shift	No	%
Agriculture	4	4.88	Family tradition	7	8.54
Self-owned informal activity	17	20.73	Interested in the activity	12	14.63
Self-owned formal activity	12	14.63	To get high income	20	24.39
Civil servant/services	6	7.32	MSEs/small investment brings high income & create jobs	30	36.59
Unemployed	43	52.44	Lack of alternative	13	15.85
<b>Total</b>	<b>82</b>	<b>100</b>	<b>Total</b>	<b>82</b>	<b>100</b>

### Testing Perception of MSE Operators on Employment Generation

In order to evaluate perception of the MSE operators through the intervention of micro and small enterprises involving both sex category of employees in each activity, the data was analyzed as: The null hypothesis (Ho) is taken as “the MSE activities and the number of labor force involved in each activity by sex category is independent” and the alternate hypothesis (Ha) is “the MSE activities and the number of labor force involved in each activity by sex category is dependent”. To check whether Ho is works or not, it was computed as:

$$X^2_{cal} = \sum \frac{(O_{rc} - E_{rc})^2}{E_{rc}}$$

$E_{rc}$

$O_{rc}$  = Observed frequency of  $r^{th}$  row and  $c^{th}$  column

$E_{rc}$  = Expected frequency of  $r^{th}$  row and  $c^{th}$  column

This is compared with the critical value from the Chi-square distribution  $(r-1)(c-1)$  degrees of freedom, where ‘r’ is the number of rows and ‘c’ is the number of columns. Considering the survey result, both male and female respondent participated in MSE activities were tested at 5% level of significance.

**Table 7:** Labor force absorption of MSE activities.

MSE Activities	Labor force		Row Total
	Male	Female	
<b>Industry</b>	226 (201.6)	100(124.4)	<b>326</b>
<b>Services</b>	109 (126.2)	95 (77.8)	<b>204</b>
<b>Trade</b>	108 (135.4)	111 (83.6)	<b>219</b>
<b>Construction</b>	114 (98.3)	45 (60.7)	<b>159</b>
<b>Urban Agriculture</b>	41 (36.5)	18 (22.5)	<b>59</b>
<b>Column Total</b>	<b>598</b>	<b>369</b>	<b>967</b>

Since the calculated value is higher than the value on the table of chi-square distribution ( $X^2_{cal} > X^2_{\alpha} (0.05)$ , or  $36.434 > 9.488$ ), we reject the null hypothesis (Ho) and hence we accept the alternative hypothesis (Ha). With the implication of this comparison result, the MSE activities and the number of labor force involved in each MSE activities were associated to each other.

### Gender Empowerment

Promoting gender equality is one of the millennium development Goals of the 21<sup>st</sup> century. Resources to strengthen poor women’s economic opportunities is improving because women have began to mobilize themselves both individually and collectively in creative ways in different fields of MSEs (Mayoux, 2003).

The gender dimension of the sampled enterprises in the study area showed that there was a gender-based specialization in the various types of business activities. Even though in many activities male dominated the sector, significant number of females were engaged in trade (51%) and services (46.6%) activities, which indicated that female participation in the MSE activities was empowered. The present study is supported by Tegegne and Mulat (2005) survey which indicated that about 19% of the operators were females, of which about 78% was participated in the food and drinks activities. In general, MSE activities are the job opportunity available for women that make them participate highly in the activity.

### Income Generation

#### Initial Investment, Current Capital and Working Capital

The initial investment of most of MSEs was found to be low in Jimma city (Figure 1). About 63.4% of the total sampled MSEs had an initial investment of less than 10,000.00 ETB while about 22% of them are in the ranges of 10,001-20,000 Birr and only 14.6% of them started their business with initial capital of greater than 20,000.00 Birr. The survey undertaken by Tegegne (2007), and Tegegne and Mulat (2005) indicated that about 95% of 94 enterprises and 93.7% of 319 enterprises have

been started their business with less than initial capital of 32,000.00 & 20,000.00 Birr, respectively. In general, the low initial investment of MSEs in the study area was an indication of low entry capital barrier for MSEs/firms in the area.

The study result indicated that greater than a quarter (26.6%) of the enterprises owners' current capital was greater than 50,000.00 ETB. About 30.4% of enterprises current capital has been categorized in the ranges of 20,001-50,000 ETB (Figure 1). This indicated that about 43% of the enterprises current capitals were categorized under the micro level and the rest 57% of them are under

the small-scale enterprises level (Figure 1). This shows that micro and small-scale enterprises are sectors that lead people into capital accumulation for self sustenance and economic growth. The working capital of the surveyed enterprises patterns was similar to that of current capital. It shows that their working capital increased even though their initial investment was dominated by low amount of capital. About 67.1% of the respondents' working capital was greater than 20,000.00 ETB. This implies that the MSE sectors contribute to capital generation for people who have low capital, and so the sector is the base for peoples' business development and socio-economic changes.

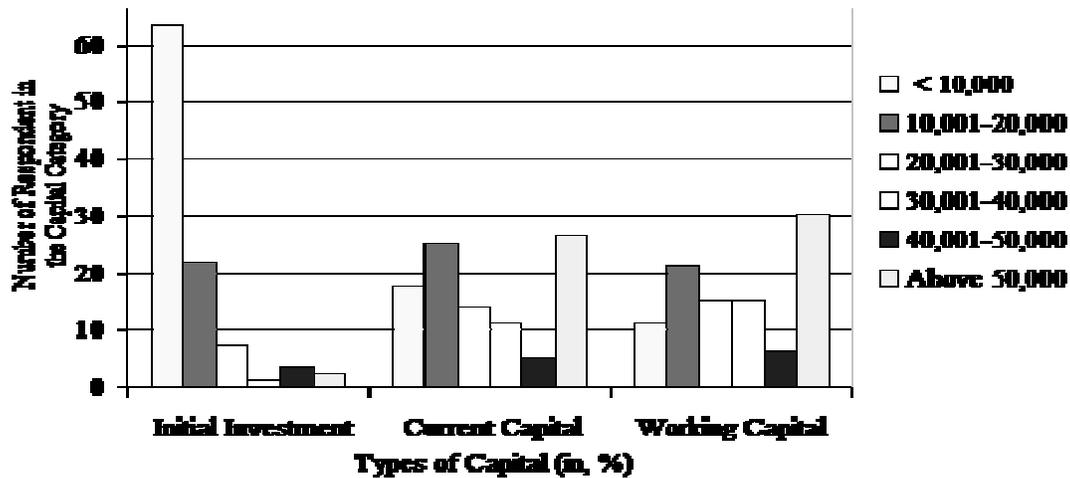


Figure 1: Initial investment, Current and Working Capital of sampled MSEs.

**Income**

The other role of MSEs is income generation. In Jimma city majority of the MSE operators responded that they have got income from the business activities they were running, even though the average yearly income (annual average net income) of some owners was so small. About 42.68%, 60.97% and 82.93% of the enterprises'

owners responded that their average income, average expenditure on different basic items, and annual average net income was less than 10,000 ET.Birr, respectively (Table 8). This showed that, even though their average annual net income was low, the business activities and MSE sector contribution to operators' yearly income was significant.

Table 8: Yearly average incomes, net incomes, and expenditures.

	Average yearly Income		Average Yearly Expenditure		Average Annual Net Income	
	No	%	No	%	No	%
0-10,000	35	42.68	50	60.97	68	82.93
10,001-20,000	21	25.61	18	21.95	6	7.31
20,001-30,000	10	12.20	2	2.44	2	2.44
30,001-40,000	-	-	1	1.22	2	2.44
40,001-50,000	4	4.88	1	1.22	-	-
Above 50,000	12	14.63	10	12.20	4	4.88
<b>Total</b>	<b>82</b>	<b>100</b>	<b>82</b>	<b>100</b>	<b>82</b>	<b>100</b>

### Saving

The operators of MSEs were not only getting income for current purpose but also or saving some of their income either for future consumption or further investment. About 86.8% of the operators responded that they have saving account, while 23.2% of them have no saving account (Table 9). MSEs are sectors that initiate most people to develop businesses and accumulate capital. This result indicated that MSE activities make operators to get profit which leads them to save some of their income for economic growth.

Though saving is an important tool in the business activity, the amount to be saved is also very crucial for further investment. As majority of the enterprises owners (46%) responded that their amount of saving per month was less or equal to 100.00 ET.Birr, only 9.5% and 15.9% of them were saving from 201-300 and above 300 ETB per month, respectively. However, it is possible to see that MSE activities are a source of saving, even if the amount of saving varies according to the type of activity and the economy of owners. Their saving patterns were also individual (40.2%) & communal (36.6%) which indicates that working in partnership develops the culture of saving, & investing together makes them to strengthen their capacity for additional activities.

**Table 9:** Saving status, type and amount of money saved by the MSE operators.

Status of saving	Number	%
Yes	63	76.8
No	19	23.2
Saving Type		
Personal	33	40.2
Communal	30	36.6
Others/No saving	19	23.2
Total	82	100
Amount of saving per month		
0-100	29	46.0
101-200	18	28.6
201-300	6	9.5
Above 300	10	15.9
<b>Total</b>	<b>63</b>	<b>100</b>

### Testing Perception of MSE Operators On Income Generation

The field survey data results analyzed by the Chi-square testing hypothesis is:

$H_0$ = The level of income and types of MSE activities participation are independent.

$H_a$ = The level of income and types of MSE activities participation are dependent.

$\alpha$  = 5% level of significance

**Table 10:** Income level and number of owners participated in each MSE activity.

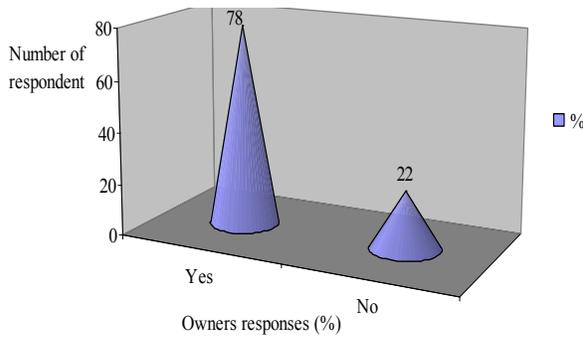
Category of Income level (in, ET.Birr)	Number of MSEs owners in each activities					Row Total
	Industry	Trade	Construction	Services	Urban Agriculture	
0-10,000	13(11.1)	14(9.4)	0 (4.3)	5 (7.7)	3 (2.6)	<b>35</b>
10,001-20,000	4 (6.7)	7 (5.6)	2 (2.6)	8 (4.6)	0 (1.5)	<b>21</b>
20,001-30,000	2 (3.2)	0 (2.7)	6 (1.2)	1 (2.2)	1 (0.7)	<b>10</b>
30,001-40,000	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	<b>0</b>
40,001-50,000	0 (1.3)	0 (1.1)	0 (0.5)	2 (0.9)	2 (0.3)	<b>4</b>
> 50,000	7 (3.8)	1 (3.1)	2 (1.5)	2 (2.6)	0 (0.9)	<b>12</b>
<b>Column Total</b>	<b>26</b>	<b>22</b>	<b>10</b>	<b>18</b>	<b>6</b>	<b>82</b>

Since the calculated value was found to be higher than the value on the table of chi-square distribution ( $X^2_{cal} > X^2_{\alpha} (0.05)$ , or  $55.90 > 31.410$ ), the null hypothesis ( $H_0$ ) rejected and the alternative hypothesis ( $H_a$ ) accepted. It implies that the MSE activities improving the peoples' income and the income levels are associated.

### Entrepreneurship

Entrepreneurship is the entrepreneurial function in the business development process and widely recognized to be a critical factor in the economic growth of nations, particularly, in less developed countries like Ethiopia. Entrepreneurship has been regarded by many as one, perhaps the most significant causal factor in the process of economic growth and development. A micro-enterprise

participant is an entrepreneur so long as he/she is a person who is able to take at the environmental, marshal resources, implement action to maximize those opportunities (ILO, 1987). Micro and small enterprises do serve as school of entrepreneurship for businessman who can think of investing and raising the size of their capital and use it fruitfully. From the total sample studied about 78% of them responded that they have got skills and knowledge after they participated in the MSEs activities (Figure 2). This shows that MSE sector and working in partnership is a source of acquiring skills and knowledge. They also responded that most of the knowledge they were applying on the job acquired through training of one entrepreneur from the others.



**Figure 2:** Responses of MSE owners acquiring entrepreneurship in the activity.

Majority of the entrepreneurs (68.3%) have got working skills and knowledge from self taught through practicing in their business activities and from apprentice and on job training (13.4%) than from formal training and vocational/technical education. Similar to the sources of acquiring skills and knowledge, the level of sources varies in each MSE activity. For instance, entrepreneurs who have got vocational training in industry were about 7.69% and in services about 27.77%. On the other hand, entrepreneurs who got through self taught were 76.93% in industry and 66.67% in services activity. This indicated that the number of operators in each activity varies and the level of skills acquiring depends on the type of activity. So, participating in MSE sector is one way of acquiring knowledge and skills to apply in other business activities.

**Social Sector Improvement**

Micro and small enterprises not only contribute to the economic growth but also have greater roles in the changes of social dimensions like education, health, and social capital. The MSE owners had different levels of perceptions on social issues improvement. They respond that there was a

change in educating their family after they engaged in the enterprise. About 18.29% and 39.03% of the owners have a very good and good improvement in educating their family respectively (Table 11). This shows that more than half percent (57.32%) of them have got improvement or income to educate their family through involving in MSE activities.

In addition, health factor is one of the social issues that require income and economy in the people’s life. The study revealed that about 12.20 and 41.46% of the MSEs responded that their levels of health status improvement were very good and good, respectively after they were engaged in MSEs. These figures indicated that majority of the peoples engaged in the sector have got income improvement to take care of their family health. In general, participating in MSE sector brought positive changes on the peoples’ health status.

The other social issue is social capital in which the society can be characterized in their area. The MSE owners perception regarding the rates of social capital/society relationship changes after they were participated in the sector were good (48.78%), very good (41.46%), fair (6.10%) and bad (3.66%) in order of decreasing levels. In this issue the majority of respondents had a positive social capital in their life (Table 11). This indicates that working in partnership and participating in small business developed high social capital/unity between the societies. As reasons given, working in groups and participating in MSEs sector are useful to exchange idea, skills and knowledge, adoption of working culture and to build capacity (human, capital and other resources capacity), and also used to solve their problems in their environment through discussing their local issues. Generally, the majority of them have got the sector as an important sector for peoples’ living conditions improvement.

**Table 11:** Status of peoples’ social issues through participating in MSE sector.

Types of Social Issues	Levels of social issues improvement							
	Very Good		Good		Fair		Bad/weak	
	No	%	No	%	No	%	No	%
<b>Family Education</b>	15	18.29	32	39.03	18	21.95	17	20.73
<b>Health Status</b>	10	12.20	34	41.46	35	42.68	3	3.66
<b>Social Capital</b>	34	41.46	40	48.78	5	6.10	3	3.66
<b>Overall Socio-economic Changes(Negative/Positive)</b>	15	18.29	37	45.12	20	24.39	10	12.20

**Large Enterprises Development**

The aim of business owners is not only to survive through having income but also to shift their business to larger investments. As indicated in Table 8 above, the amount of operators’ income was increasing which might be through improving their business activity to get profit and minimizing

their cost. The MSEs started their business initially either by small amount of capital or by taking loan showed that at the start-up their business 85.37% of the enterprises were micro and 14.63% of them were small level enterprises. But through time they become shifted to larger level both by labor and finance levels. Accordingly, the number of micro

level enterprises reduced to 47.6%, but the number of small and medium-scale enterprises increased to 47.6% and 4.8% in their finance amount (Figure 3). This indicated that micro-enterprises are the bases to create large enterprises that directly and indirectly contribute to further job creation for unemployed one, and income increment & capital accumulation

for further investment. This is supported by “through time, a one-time micro-enterprise will either vanish or get larger in terms of the labor and capital employed, raw materials used, and the volume and value of output produced” (Economic Commission for Africa, 1994).

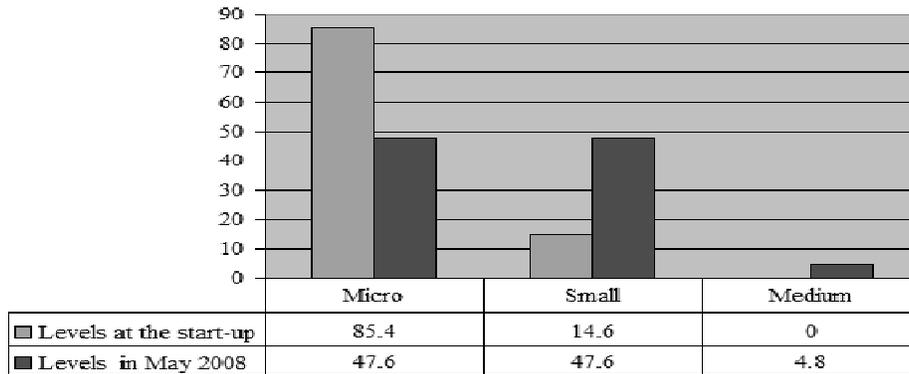


Figure 3: Levels of MSEs start-up and May 2008 capital.

**Micro and Small Enterprises Enabling Factors**

Nowadays recognizing the crucial roles that MSEs play both in the national and local economy, the central and regional government of Ethiopia has taken active and encouraging steps to promote the growth of the sector. To this effect, the federal and regional MSE development and promotion strategy, which enlighten a systematic approach to alleviate problems and promote growth of MSEs was formulated. The MSE strategies have significantly earmarked for creating favorable environment to accelerate economic growth through industrial development in Ethiopia. These measures have been, particularly, showing positive changes, even though many problems still continued to affect the development of MSEs.

Jimma city administration is applying the formulated strategies and programs by the federal and regional government to promote and encourage their development. The strategies intend the government officials in the city to create enabling environment for sector expansion. These are creating better access to bank loan (micro finance institutions), to plot of land, to market, to training requirement and to raw materials; and improving the licensing procedure that needs high government interference. It also includes supplying & expanding of physical and institutional infrastructures (roads, telephones, electricity, water, skilled labor/human capital and other working promises), which affects entrepreneurs’ activity in the city to encourage the MSE growth were the major one (Jimma City Trade and Industry Office, 2008).

**Major Challenges of MSE Owners**

In most developing countries like Ethiopia, MSEs face a wider range of constraints and problems and they are unable to address the problems they face on their own, even in effectively functioning market economies. Even though efforts to promote the development of MSEs are available, the MSEs are still being challenged with different levels of problems. To solve this problem effectively it is helpful to know problems according to its severity that MSEs faces. Consistent with this, MSE owners in Jimma city were constrained by a number of problems both at the time of starting businesses and also during the time of operation of their businesses. Accordingly, the survey conducted in Jimma city on the sample size indicated that owners were constrained with lack of working place/not commercial area, insufficiency of finance or credit facility, high cost of raw materials, inadequate supply of inputs, production/technical problems, rules and regulations procedures, lack of business skills, procedures of registration and paying large taxes according to their severity at the time of business start-up or before joining the business operation (Figure 4). Though government support to promote and encourage the sector development is available for cooperated people during the business start-up, these and other factors were challenging peoples’ entrance to the MSEs activities. This slowed the sector operators’ activity not to be started on time.

Lack of working and production places especially for traders and producers of agricultural products, lack of credit facilities and insufficiency of creditors in the city, and lack of commitment of operators to

continue with the activity they were organized in and searching other alternative jobs were the major challenges they were facing during undertaking business activity in the study area. For instance, number of respondents who faced with insufficiency of working capitals, lack of working places, lack of capacity to compete large enterprises and inadequacy of inputs/raw materials supply during

the business operation were about 48.78%, 48.78%, 86.60% and 47.56% of the total sample size, respectively (Figure 4). This indicates that majority of the operators were challenged by the business enabling environment during time of operation and this can affect the growth and performances of micro and small enterprises.

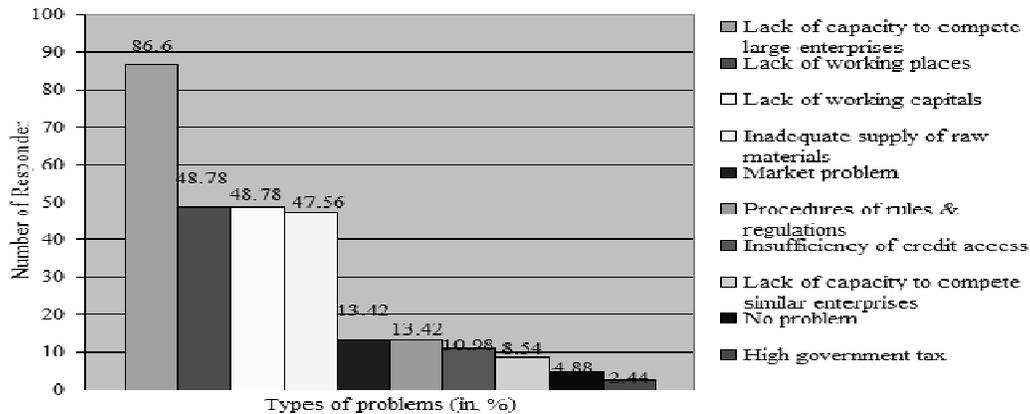


Figure 4: Challenges of MSE owners during business operation.

**Copping Strategies to Curb Problems**

The Jimma city administrative has been undertaking some coping strategies to solve problems that MSE operators were facing. Initiating people themselves to be organized in the form of cooperative in MSEs activities to build their human, capital and other resources, as the common language called “Unity is Strength” for growth was one strategy taken. Also providing working and production areas in specified area/places to minimize the land and urban plan problems by the city administration through organizing peoples in the form of cooperative and constructing shade houses to the MSE operators with low credit and cost by the city municipality were the other coping strategies.

Secondly, the city government has started to enhance and promote the construction of commercial market houses, building houses to provide the MSE owners in the form of rent according to the income capacity of people. Thirdly, personal/individual houses rent development promotion for encouraging of micro and small enterprises activities, and introducing, and promotions of different supporting institutions like Organization for Social Service for AIDS (OSSA), Jimma University, Churches (Mekaneyesus Church) and other voluntary supportive sectors and institutions were appreciated and promoted to develop and encourage the capacity of MSEs. Lastly but not least, is promoting peoples to work and show their skills, cultural and other man-made materials on bazaar, festivals and cultural and other exhibition programs are some of the coping

strategies the city government officials were undertaking to promote and encourage MSE sector development.

The role of MSEs in socio-economic endeavors found to be significant. The study result showed that the operators’ socio-economy was improved even if the MSEs are still facing some challenges in their activities. MSEs are important sectors in creating significant job opportunities for a number of citizens, especially, for those who have low income and minimum skills in the city, and who have no job opportunity. MSE is an important sector that comprises many women in all of its activities which means it empowers women’s capacity.

Most MSE operators in the city have no higher level education but they got skills and knowledge after they were participated in the business activities. MSEs are, in some respects, sources of skills and knowledge that entrepreneurs can apply in the business activities and it is a ways of improving social issues of most poor entrepreneurs. As the survey result indicated the majority MSEs operators income improvement involved in the changes of social issues like the capacity of people to educate their family, taking care of their family health, and improves the social capital of most society participated in the sector.

MSEs are important sector for majority people who have low capital and skill to work together in a form of cooperative and also the sector used as a linkage of different levels of sectors in which the access of job opportunity was facilitated. Also many

operators have joined the MSE business to get job opportunity and income, and to develop their capacity in their area of living. The development of MSE sector directly or indirectly contributes to the reduction of poverty through improving the operators' socio-economic conditions, and consequently contributes to the development of the city. Though the MSE sector has these roles, in order to utilize these MSE potentials, it calls for high efforts the support of different institutions/organizations for the success of MSEs growths.

Though support and promotion of MSE activities by different institutions especially the government sectors was available, those engaged in MSE in the form of cooperative was facing different challenges during the study time. The consistence of assistance to encourage MSEs was weak. As the result indicated the quality and quantity of different business development services and infrastructures affected the development of micro and small enterprises in the city.

## CONCLUSIONS

Even though the level of socio-economic development varies; in most of developing countries the majority of societies' social and economic conditions are weak. Ethiopia is one of the developing countries that face the challenges of absolute poverty and high unemployment as its economy is weakly developed. Also the majority of the country's people levels of income and conditions of consumption are very weak. To solve these weak socio-economic conditions of most society, MSEs have great roles especially in improving the income level of the poor peoples and generating employment opportunity for many people in different cities and towns. Poverty and unemployment situations of most cities are become the more challenges for economic growth. In Jimma city where living situations of majority people is weak and the number of unemployment is increasing from day to day, the MSEs are one to increase income level and create employment opportunity for many city people, especially for those who have minimum skills and low capital.

In general, the MSEs sector have great roles in improving economy, especially in creating employment opportunity, improving the income level, empowering women capacity, making people intends to save money, developing the operators skills and knowledge, improving people's living conditions and social issues, and contributing to integrating different business levels, establishment of larger businesses and partnership for the people in the study area. Though the sector has such and like roles, in general its development is at low stage as they are facing different challenges both in the

country and in Jimma city. The low quantity and quality of different business development services and socio-economic infrastructures highly contributed to the slow growth of MSEs.

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