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Determinants of Micro and Small Enterprises Growth in Ethiopia: The Case of Nekemte Town of Oromia Region, Ethiopia

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Abstract
Micro and small enterprises (MSE) are recognized as important vehicles of economic growth, employment creation, income generation, and poverty reduction. As a result, MSE occupy a prominent position in the development agenda of Ethiopia. The main objective of this study is to examine determinants of MSE growth in terms of profitability of MSE business in Nekemte town. The total population of the study was 504 MSEs operating in five sectors (construction, manufacturing, urban agriculture, trade and service) which is used as a stratum. Proportional stratified sampling technique was used for the selection of 96 MSEs from the strata. Following this, key informants are selected from MSEs by purposive sampling technique. Data was collected by using structured questionnaire from the selected respondents and analyzed by using statistical package for social science (SPSS-version 16.0.) and STATA soft ware. The study shows that the major source of finance for MSE is personal saving. It is only less than one fourth of the respondents that are borrowed loan from MFI. The study shows that MFI loan term is too short to run the business. Most of the respondents are characterized by low level educational status and lack work experience. Most of the MSEs that are operating in government shade complain for its sufficiency and suitability of the location for running business. The result of regression analysis shows that sources of finance for MSE operators, loan term (duration of loan period) that MSEs borrowed from MFI, previous business experience of the operators, marketing skill of members of the business, source of raw materials of the MSE, and major customers of the product or services of MSEs affects positively the growth of profitability of MSEs business significantly at 1% level of significance. Managerial skill of the respondents and suitability of the location of the business positively determine the growth of MSE in terms of the profitability of MSE business significantly at 5% level of significance. Also, educational status of MSE operator affects negatively the growth of MSE significantly at 5% level of significance in the study area. These findings corroborate the need for integrated approach towards the growth of MSE sector. Based on the findings the researcher recommends that locality based approach for solving problems of MSEs through prioritizing the challenges as per their severity; enhancing capacity of the MSE development agency through provision of skill and business training; improving local business environment through provision of sufficient work premises at appropriate location & facilitating access to credit from financial institutions are the major once.
Keywords: Micro and small enterprise, Growth, Profitability, Determinant factor, Nekemte

1. INTRODUCTION

1. 1. Background of the Study

The role of Micro and Small Enterprises (MSEs) in socio-economic development as a means for generating sustainable employment and income is increasingly recognized. In developing countries, the MSE sector is the largest source of employment and income generation activity, particularly for the urban population (Wasihun & Paul, 2010). Now days, in almost all economies of the world, MSEs are becoming a crucial and key factor for sustained growth and development and becoming the lifeblood of most economies (Brhane, 2014). In Ethiopia, like any other developing countries, MSE has become an increasingly widespread used strategy for its labor intensiveness, suitability to produce more jobs with less capital per job created, its utilization of locally available resources, fostering of linkage within and among various sectors and its resilience to internal and external economic shocks (FMSEDA, 2012).

However, the sector has been bound with various complicated and interlocked constraints and problems, which hinder its potential contribution to the socio-economic development of the country (FMSEDA, 2012). In recognition of the sector's potential contributions and its constraints, the government has been attempting to create enabling environment for its growth and profitability. Among others, the issuance of proclamation No 33/1998 to establish the Federal MSE Development agency (FeMSEDA) and amendment of the proclamation by No 104/2011 are the major government efforts made to alleviate the constraints of the sector. As a result, MSE are flourishing across the country and the MSE sector becomes the second largest employment generating sector for the poor households following the agriculture sector (Mohammed, Habtamu, & Dessalegn, 2014).

Despite there is a mushrooming of entrepreneurs the MSE support institutions in response to the government's efforts, the MSE sector is still facing some constraints such as access to finance, inadequate

infrastructure, access to land/business premises, high transactional cost, limited managerial and technical skill and market related issues (Brhane, 2014; Musara & Gwaindepi, 2014) have been holding back the MSE sector from contributing its maximum potential to the economic growth and development of the country. Thus, this research aims to investigate determinants of MSE growth in terms of the profitability of MSE business in the study area that are identified at national level and are still persisting in most places and holding back MSE sector growth and development which includes: lack of finance; lack of work premise and land; lack of technical and managerial skill; lack of marketing skill; lack of suitable working environment; lack of customer relation; lack of knowledge in record keeping; and lack of work experience of MSE operators.

1.2. Statement of the Problem

Despite MSEs are recognized as vehicles for economic growth and reduce poverty and unemployment (Zemenu & Mohammed, 2014), most of them are facing critical constraints both at the operation and start up level. Some of these constraints include lack of access to finance, lack of access to working premise, lack of entrepreneurial training and management skills, lack of marketing information and the like (Brhane, 2014). Shortage and size of credit, shortage of working premise and size of sales spaces and stringent licensing requirements are some of the other key constraints to Ethiopian MSE (Assefa, Zerfu, & Tekle, 2014)

Although the government has been taking series of polices and strategies, most interventionist policies are blanket recommendations regarding MSEs and hence are inappropriate and impractical for some situations. For instance, the national micro credit and saving directive that forces MSEs engaged in priority sectors (manufacturing and enterprise engaged on exportable products) to save 15-20% of their loan demand and 25-30% for MSEs that are not engaged in priority sub sectors for six months have possessed strong challenges for access to finance on the entrepreneurs (Assefa, Zerfu, & Tekle, 2014). Lack of working premise for MSE is unquestionably a serious problem. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and development of existing ones (MTI, 2012).

Furthermore, lack of skilled and experienced labor which leads to problems in production due to the unfamiliarity of workers with rapid changing demand, and lack of coordination of production process are critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of finance, administration, and technically knowledgeable experts (Richard, 2000; Drucker, 1984). Lack of entrepreneurial skills that nurture the growth and development of MSEs and marketing their products effectively through acquiring information on marketing opportunities is the major bottlenecks that MSE entrepreneurs face all over the country. In addition, lack of marketing skills, weak infrastructural facilities renders small businesses to be uncompetitive. Thus this study aims at assessing determinants factors of MSE growth in the study area.

2. REVIEW OF RELATED LITERATURE

2.1. Concepts of the Study

In many developing countries, including Ethiopia, MSE development programs are viewed as a key policy strategy to embrace the growth of MSE sector (Belay, 2012). Three indicators of success are important to views MSE success in African entrepreneurs rather from a contribution that these businesses make towards the economy. The first one is profit and profit generating capacity of the business through generating income. The second one is employment creation by MSE business which is viewed from the number of employees in the enterprise. Finally the third is the business turnover especially when one is interested to understand the macroeconomic contribution of the MSE sectors (Van Dijk, 2005). The word profitability is composed of two words Profit and Ability. Ability refers to the earning capacity or power of an enterprise to earn the profit through increasing income. So, profitability may be defined as the ability of a given investment to earn a return from its use. Profitability of a concern indicates the financial stability and the greater the possibility of profit earning (Kavitha, 2012). Thus, this research looks at the growth of MSE in terms of profitability of the business.

2.2. Micro and Small Enterprises' Definition

MSEs are defined in a variety of ways using various factors. These factors include number of employees, volume of sales, and the capital value of the business (Zemenu & Mohammed, 2014). In Ethiopian, the MSE development strategy defines MSEs according to the number of employees and capital (FeMSEDA, 2010). Micro Enterprise under the industry sector (manufacturing, construction and mining) is an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector (retailer, transport, hotel and Tourism, Information Communication Technology (ICT) and maintenance service) Micro enterprise are an enterprise operating with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Small Enterprises in the industrial sectors are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Similarly, in the service sector, small enterprises are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 50,000 and not exceeding Birr 500,000 (FMSEDA, 2012).

Table 1: Definition of MSE applicable in Ethiopia

Enterprise	Sector	Employee	Capital
Micro-enterprise	Industry	<5	< ETB 100,000
	Service	<5	< ETB 50,000
Small-enterprise	Industry	6-30	< ETB 1,500,000
	Service	6-30	< ETB 500,000

Source: FeMSEDA, 2010

2.3. Role of the MSE Sector

MSEs have been recognized as engines of growth and development throughout the world (Munyori & Ngugi, 2014). The MSE operations worldwide plays a pivotal role by adding value to the economy by creating jobs, enhancing income, lowering costs and adding business convenience (Fatoki, 2012; Katua, 2014). MSEs are now widely recognized as a major component in the growth and development of emerging economies. They are found to be one of the most reliable economic development and livelihood strategy, especially during economic turbulence (Kamoyo, Muranda, & Mavhim, 2014). The importance of MSEs in general and new businesses in particular makes a significant contributions in addressing socio economic problems such as unemployment, poverty, income inequalities, political stability and economic growth among others (Musara & Gwaindepi, 2014). In Ethiopia, the MSE has prioritized for economic growth, employment generation and building an industrial economy. The MSE sector serves as vehicle of development and broadens employment opportunities at urban center. The elements of the sector are taken as the major productive forces in the manufacturing sector and serve as incubation hubs for developmental investors. MSEs play great role in utilizing local resources and are labor intensive (FMSEDA, 2012). According to the Central Statistic Authority (2003), almost 50% jobs created in Ethiopia are attributable to MSE of which 974,676 micro and 31,863 are small enterprises, which accounts for 99.40% and 0.46% respectively. In addition, micro enterprises and small enterprises provide employment opportunities to 89.75% and 0.91% respectively.

2.4. Access to Finance and Loan Term

MSE face considerable financing constraints which hampers their profit and turnover growth. Lack of finance is the most referred complaint among entrepreneurs in Africa (Bigsten, et al., 2003; Abdullah & Baker, 2000; Russel, 1997). Such lack of access to financial resources hinders firms from growing to their optimal size (Cabral & Mata, 2003; Elston, 2002; Holtz-Eakin, Joulfaian, & Rosen, 1994). Also study result conducted on six towns in Ethiopia by (Gebreeyesus, 2009) shows credit constraint affects negatively firm growth. Shortage of finance and small size of credit are key constraints to Ethiopian MSE growth (Assefa, Zerfu, & Tekle, 2014). Moreover, the study conducted by Ageba & Amha (2003) shows lack of access to credit is the major challenge to MSE growth and expansion in Ethiopia. About 30% of MSE operators replied that high collateral requirements to access credit hampered their businesses growth. Since most MSEs do not have a track record with banks and as they do not have the experience in dealing with financial institutions banks are reluctant to give loans to MSEs leading MSE to borrow from informal financial markets at higher interest rates (Ageba & Amha, 2003).

2.5. Entrepreneurial Skill

Entrepreneurship is recognized as an important driver of economic growth, productivity, innovation and employment. Entrepreneurship is related to the functional role of entrepreneurs and includes coordination, innovation, uncertainty bearing, capital supply, decision making, ownership and resource allocation in their organization (Munyori & Ngugi, 2014). Most of the prevalent areas in which MSE faces a problem are sales or marketing, human resource management, and general marketing research and training (Kefale & Chinnan, 2012). The growth of a firm is, to a certain extent, is a matter of decisions made by individual entrepreneur. This is very much pronounced for MSEs that are run by owner-managers. Personality traits, motivation, individual competencies and personal background are important factors for the success/failure of MSE (Baum, Locke, & Smith, 2001; Shane, Locke, & Collins, 2003)

Schooling is important personal background that influences MSE performance and growth. Education helps entrepreneurs to make good judgments, best use of information, exploit opportunities well leading to firm growth and success (Bates, 1990). Study conducted by Goedhuys and Sleuwagen (2000), argue that higher education not only raises enterprise performance, but also increases outside options such as wage employment. Lower education and vocational training significantly influenced the likelihood of being entrepreneurs rather than wage employees. Higher education was found to influence post entry firm growth (Goedhuys & Sleuwaegen, 2000).

Marketing problem has been widely acknowledged as being the most important of all activities and

critical for the survival and growth of MSEs. However, many studies found owner/managers of MSEs as having a very limited understanding of the marketing concept generally to be little more than advertising and public relations and lacking adequate marketing skills. Specifically, problems in promotion and marketing research were frequently encountered by MSEs. These problems include the selection of promotional media, low purchasing power of customers, advertising, content design and format of the promotional materials, market size, location and addresses of potential customers (Kefale & Chinnan, 2012).

2.6. External Task Environment

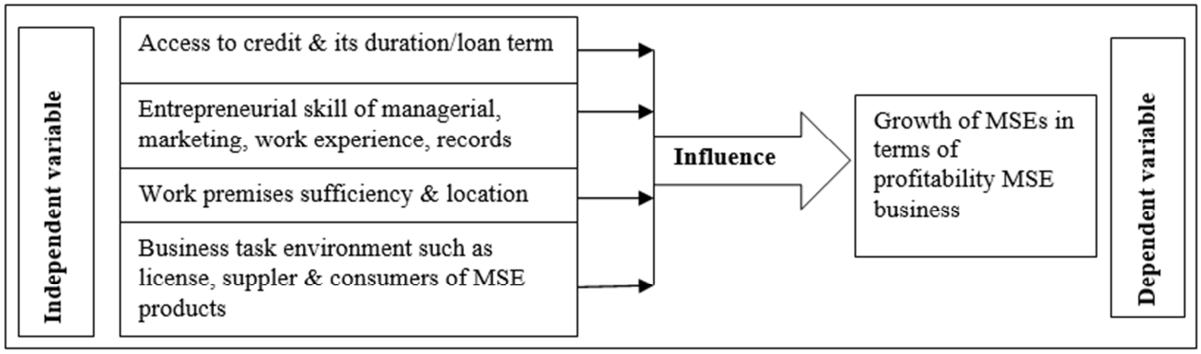
The task environment comprises environmental elements such as competitors, suppliers, customers, availability of business premises, its sufficiency and suitability, bureaucracy in registration and licensing and others (Belay, 2012). Access to working and sales premises are also the other challenges to MSEs operating in the country. Enterprises located at commercial districts may experience better demand but they could also face stiff competition. A positive relationship between location and success can be expected if enterprises produce complementary products and are located near final demand. (McPherson, 1996). Mead and Liedholm (1998) argue home-based MSEs tend to be overlooked and therefore face either demand problems or may not be visible to support agencies and many consumers. The location of MSE business could have a direct influence on profitability and growth of MSEs by affecting supply and demand conditions that have a direct implication on costs and benefits accruing for the business. Study of small firm dynamics in Africa found that businesses located in commercial districts and on roadsides were positive and statistically significant in influencing enterprise growth rates compared to enterprises located at home. MSEs operating roadside locations and market locations were found to show a significant survival advantage compared to home based enterprises (Liedholm, 2002). The study conducted by Ageba and Amha (2003) in Ethiopia indicated lack of premise and land are major bottleneck for MSE growth. According to their study, 25% of sampled entrepreneurs reported that lack of business premises has adversely affected the growth and survival of their businesses. The issue of land provision and land lease system has greatly constrained the chances of MSEs who aspire to start up businesses. Rent is extremely high in major cities. The supply of working spaces is small relative to demand (Assefa, Zerfu, & Tekle, 2014).

The legal and regulatory system that calls for complex registration and licensing requirements demands tedious and costly reporting practices imposing heavy costs on MSEs and hence reduce their profitability of the business. Unpredictable government policies coupled with grand corruption, high taxation pose great threat to growth of MSEs. They are disincentive to increasing the size of business operations (Nganwa, 2013). Many African countries do not have a legal and regulatory framework that supports growth of MSE sector. Unpredictable government policies coupled with grand corruption, high taxation pose great threat to growth of MSEs. They are disincentive to increasing the size of business operations. In the case of Uganda, an extensive number of outdated and cumbersome laws and regulations had increased the transaction costs of MSEs, thereby hampering their economic performance and growth. In Ethiopia, the complexity of the customs system and the many forms and declarations required had a negative impact on the general business climate, diverting entrepreneurs' efforts from more productive tasks (Nganwa, 2013).

2.7. Conceptual Framework of the Study

The conceptual frame work of the study is developed based on the existing literature. That is the availability of credit from reliable institution and its duration, the skill that entrepreneurs possess, sufficiency of work premises and suitability of the location of government shade, and the business task environment influences the growth of MSE in terms of profitability of the business.

Figure 1: Conceptual frame work of the study



Source: Author compilation based on literature

3. METHODOLOGY OF THE STUDY

3.1. Description of the Study Area

Nekemte town which is 330 km away from Addis Ababa was founded in 1865 as a small village under the auspices of King Moroda Bakare. Initially it was serving as a center of trade root by the name *"sarara"* trade exchanged their product like, ivory, gold, silver, and different types of grain from Maji and Kafa to Mituwa, Gondor and Gojam. It is medium size town and one of the first grades of 20 cities found in Oromia regional state. Nekemte is surrounded by Guto Gida in the north, Wayu Tuka in the east, Guto Gida in the west & south. The town has an altitudinal range of 1,960 to 2,170 meter above sea level and its temperature range is 14^0C-26^0C and its annual rain fall is between 1500 to 2200mm. The population of the town is 76,817 out of which male constitutes 39,167 while the remaining 37,650 are female. Currently there were more than 126,000 inhabitants are living in the town. Ethically, Oromo, Amhara, Gurage, Ttigire etc. are the majority ethnic group residing in the town (CSA, 2008). According to the master plan (2009), the total area coverage of the town is 5,580 hectares. Like any other towns in the region, most of the people in the town depend on trade activities.

However, the town has unique opportunity that it is located at the junction point and strategic site for business for western Oromia region as well as the western part of Ethiopia. Also, the town is found a gate way to the western part of country. Currently, the administrative structure of the town is divided into six sub-city administration structures. All administrative structure like municipal office, revenue office, finance and economic development, MSE development agency and the others exist in the town. The MSE development agency is actively involved in the management of MSEs starting from its organization to training, licensing, providing work premises, arranging collaterals for loan processing from micro finance institution, monitoring (MFI) and reporting of the MSE activities.

3.2. Research Design

In this study relevant data was collected from secondary and primary data sources. Secondary data was extracted from statistical bulletin prepared by the Central Statics Authority, Federal MSEs agency, different kind of journals and Nekemte town MSE agency. The primary data source was obtained from the top management level of MSE owners in relation to the major determinant that affect their profitability of MSE business by survey method using questionnaire from the selected sample members of the selected MSE sectors in April 2013 operating their business in the study area. The study analyzed the effect of independent variables over the growth of MSE in terms of profitability of MSE business that is used as dependent variable in the study area.

3.3. Population and Sample Size

The targets populations of the study was 504 MSEs (with 2,722 members) which are operating in manufacturing, services, trade, construction, & agriculture sector in the town. The sample size was determined by using Jeff Watson (2001) methods of sample size determination formula that was applied to reach at the required sample size for data collection from the respondents operating in MSEs (Watson, 2001). This was computed as follows:

$$n = \frac{\frac{P[1-P]}{\frac{A2}{Z2}+\frac{P[1-P]}{N}}}{R} = \frac{\left(\frac{0.1[1-0.1]}{\frac{(0.05)2}{1.96)2}+\frac{0.1[1-0.1]}{2722}}\right)}{0.95} = 96$$

Where: n= Sample size required;

N= Number of members of the MSEs which is 2,722;

P= Estimated variance in a population as a decimal of 0.2 for 80-20 variability among MSE operators in the town in relation to dependent variables;

A= Precision desired, expressed as decimal of 0.05 for 5% level;

Z= Confidence level of 1.96 for 95%; and

R = Estimated response rate, as decimal of 0.95 for 95% response to be returned.

In this study, proportional stratified sampling technique was used for the selection of 96 MSE member (one respondent from one MSE) from the five MSE sector (construction, manufacturing, urban agriculture, trade and service) which is used as strata. Following this, within the selected MSE, purposive sampling method was used for the selection of one respondent that reports on behave of the selected MSE based on the position he/she have and the duration that respondent stayed in that enterprises. One respondent is taken from one MSE at a time to increase the chance of the involvement of different MSEs in the study. MSEs involved in the sample is the one that had a minimum of one year experience in the MSE sectors in which they are operating their business during data collecting period in the study area.

3.4. Model Specification and Data Analysis

The severity and specify of growth determining independent variables over dependent variable in the study area are explained using the following regression model.

$$profit = \beta_0 + \beta_1 sfinan + \beta_2 duloam + \beta_3 educa + \beta_4 wexpr + \beta_5 mskil + \beta_6 mrkskill + \beta_7 wpspace + \beta_8 wploct + \beta_9 blicen + \beta_{10} actrerd + \beta_{11} rmsupp + \beta_{12} custm + \varepsilon \ldots\ldots\ldots Equ\ (1)$$

Where;

profit is a dependent variable which is growth in terms of profitability of MSE business and the independent variables in the regression analysis are:
sfinan is the source of finance for the business of MSE;
duloam is the loan term of loan that MSEs borrowed from lending institution;
educa is an educational achievement of the respondent from the selected MSEs;
wexpr is the work experience that the respondent of the MSE posses;
mskill is the managerial skill of the respondent of the MSEs possess;
mrkskill is the marketing skill that the respondent of the MSEs posses;
wpspace is the sufficiency of work space in which MSEs are operating;
wploct is location of the work premises in which MSEs are operating their business;
blicen is the formality of the business possessing business license and renewal;
actrerd is the record keeping ability of the MSE;
rmsupp is the major raw material suppler for the MSE business;
custm is the potential customers for the product or service of the MSEs;
$\boldsymbol{\beta_0}$ is the intercept, $\boldsymbol{\beta_i}$'s are vector of coefficient and $\boldsymbol{\varepsilon}$ is the stochastic random term.

Data collected was edited, coded, and entered in to data view of SPSS and analyzed by SPSS version 16.0. Descriptive statics such as table, and graphs were used in the analysis. The data that is cheeked, cleared and entered into SPSS is moved to STATA software. The entire necessary test was conducted to identify the existence of autocorrelations and multicollinearity. Multicollinearity is a problem regarding Ordinary Least Square Method. If coefficient of correlation between two successive factors is in excess of 0.80, so there is sever problem of Multicollinearity (Gujarati, 1995). It can be removed by dropping one variable from the regression model.

4. RESULTS, DISCUSSIONS AND INTERPRETATIONS

In this study, data collected from 96 MSE operators operating in the study area was coded, entered in SPPS, presented, analyzed, and interpreted. First, it discusses the demographic characteristics of respondents; source of finance and related factors; entrepreneurial factors; external task environment other critical factors that determine the growth of MSEs in terms of profitability MSE business was analyzed. Finally, the result of regression analysis was described under this section.

4.1. Demographic Characteristics of Respondents

The first part of the questionnaire was designed to gather information about MSE operator's characteristics. The study shows 67 (69.8%) of the respondents are male and 29 (30.2%) of them are female. The study also shows that 38 (39.6%) of the respondents are found in the age category of 16 to 25 and 26 to 35 years each. The remaining 22 (22.8%) of the respondent reported that they are found in the age of above 35 years old. This shows that most of MSE operators are younger with age below 35 years. The educational background of the respondents ranges from below high school to first degree. The study shows that 37 (39.4%) of the respondents are below high school that can read and write, whereas 23 (23.2%) of the respondents were high school complete and TVET graduate each. The remaining 10 (10.5%) have college diploma and 3 (3.2%) of them are first degree holders. The study also shows that 62.6% of the respondents are high school complete and below. The result of this study was in line study conducted by Goedhuys and Sleuwagen (2000) that argue higher education not only raises enterprise performance, but also increases outside options such as wage employment. Lower education and vocational training significantly influenced the likelihood of being entrepreneurs rather than wage employees.

Table 2: Demographic characteristics of the respondents

Characteristic	Variable	Frequency (%age)
Sex of the respondent	Male	67 (69.8%)
	Female	29 (30.2%)
Age of the respondent	15 to 25 years	38 (39.6%)
	26-35 years	38 (39.6%)
	36-45 years	11 (13.5%)
	46-55 years	8 (8.3%)
	56-65 years	1 (1%)
Educational status of the respondents	Below high school	37 (39.4%)
	High school complete	22 (23.4%)
	TVET graduate	22 (23.4%)
	College diploma	10 (10.6%)
	First degree	3 (3.2%)

Source: Own survey, 2013

4.2. Source of Finance and Related Factors

Finance is one of the major resources in any business. The result shows that 46 (47.9%) of the respondents reported their MSE is started business by personal saving which was not sufficient enough for expansion and growth of the business whereas 23 (24%) of the respondents reported that they are started business with loan borrowed from micro finance institutions (MFIs). It also shows that 19 (19.8%) of the respondents started business with finance obtained from different sources (from sales of assets, gift from family and friends etc). The remaining 8 (8.3%) of the respondents reported that as they are running their business loan obtained from relatives due to lack of access to formal loan for their business. This is due to the fact that many of the MSE operators fall short of preparing detailed business plan and project proposal for loan processing as they are less educated. This indicates that MSE operators in the study area face difficulties in getting loan from MFI due to the collateral requirements and the time taking procedure of MFI system. The result of the study was in line with the study of Cabral & Mata (2003) and Elston (2002) that describe lack of access to financial resources hinders firms from growing to their optimal size.

Table 3: Accounting and finance related determinants of MSE growth

Characteristic	Variable	Frequency (%age)
Source of finance for the MSE business	Personal saving	46 (47.9%)
	Borrowed from MFI	23(24.0%)
	Borrowed from relatives	8(8.3%)
	Other source	19(19.8%)
Amount of loan size borrowed from MFI	Sufficient	9 (39.2%)
	Not sufficient	14(60.8%)
Loan term of loan borrowed from MFI	Too short	15 (65.2%)
	Optimal	8 (33.8%)
Accounting and record keeping by MSE	Yes	58 (60.4%)
	No	38 (39.6%)
Whether the MSE is Profitable or not	Yes	89 (92.7%)
	No	7 (7.3%)

Source: Own survey, 2013

Basically MFIs are established to finance MSE operators. But, the results of the study show that there is only 23 (24%) of the respondent that are acquired loan from MFI. In addition to meager share of the MFI loan for MSE business in the study area, 14 (60.5%) of the respondents reported that the loan disbursed by MFI is not sufficient to run the business. Only 9 (39.2%) of the respondent reported that the amount of loan size provided by the MFI is sufficient to run their business. Similarly, 15 (65.2%) of the respondents acquired loan from MFI reported that the duration of loan payment time (loan term) provided by MFI is too short. It is only 8 (33.8%) of the respondent that are reported that the loan term of the MFI is optimal. The result of this study is also in line with Abdullah and Baker's (2000) findings that lack of credit as one of the major factors affecting the success of small firms.

Despite, MSEs operating in Ethiopia are not legally required to maintain books of account and records of their business, the study shows that 58 (60.4%) of the respondents reported that they are maintaining records of accounting, raw material and fixed asset inventory records. However, 38 (39.6%) of the respondents reported that they do not maintain accounting record for their business transactions. Tax authority uses MSEs' daily/monthly sales to levy tax on MSE business. This may lead to subjective type of tax determination up on

MSE due to lack of accounting record for the MSE business. This may adversely affect the profitability of the MSE business. Moreover, the result of the study shows 89 (92.7%) of the respondents reported that their business is profitable whereas the remaining 7(7.3%) of the respondents reported their business is unable to generate profit. This indicates that the profitability MSE in the study area is very high and indicates high chance of growth.

4.3. Entrepreneurial Skills

All members of an enterprise do not have the same position and power in MSE business. The positions that commonly exist in MSE are manager, cashier/ accountant and member. The study shows that 57 (60.5%) of the respondents are working on the managerial position followed by cashier and accountant 30 (31.2%) indicating few number of employee 8 (8.3%) in the sample survey. This implies that 90.7% of the respondents have a position that helps in decision making the business operation. It is also described that 62.8% of the respondents are with educational achievements of high school complete and below high school that can read and write. This indicates MSE with low level of educational achievements are becoming working on the managerial position who are incapable of understanding the modern business environment that intern affects the growth and profitability of MSEs.

In relation to work experience, the study reveals that most of the respondents 87 (90.6%) do not have work experience on the sector they have organized in and only 9 (9.4%) of the respondents are reported that they have an experience on which they had organized. This is an indication that people simply rush in to the business without adequate knowledge and experience about the business they engage in and their business leads failure. The growth of a firm is, to a certain extent, a matter of decisions made by individual entrepreneur. This is very much pronounced for MSEs that are run by owner-managers. The study result reveals that 82 (85.4%) of the respondents reported that they have the required managerial skill that helps them to manage the day to day operation of a business whereas the remaining 14 (14.6%) of the respondents reported that they lack managerial skill required for the profitability and growth of the enterprise. The marketing skill is another type of individual entrepreneur skill that is crucial for firm growth. The study result reveals that almost all, 91 (94.8%), of the respondents reported that they have the required marketing skill. It is only 5 (5.2%) of the respondents that are reported as they lack marketing skill in their business.

Table 4: Entrepreneurial characteristics of the respondent

Characteristic	Variable	Frequency (%age)
Position of the respondent	Manager	57 (60.5%)
	Cashier/accountant	30(31.2%)
	Member	8(8.3%)
Work experience of the respondents at start ups	Yes	9 (9.4%)
	No	87 (90.6%)
Managerial skill of the respondent	Yes	82(85.4%)
	No	14 (14.6%)
Marketing skill of the respondents	Yes	91(94.8%)
	No	5(5.2%)

Source: Own survey, 2013

4.4. External Task Environment

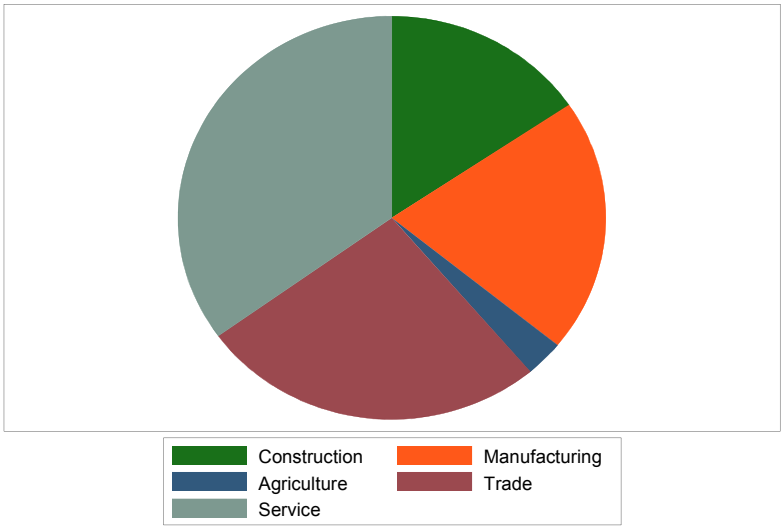
An environment is the relevant physical and social factors outside the boundary of an organization that are taken into consideration during organizational decision-making. The task environment involves environmental elements such as competitors, suppliers, customers, availability of business premises, its sufficiency and suitability, bureaucracy in company registration and licensing and others (Belay, 2012). The sector of MSE business is the one that is highly affected by the task environment. The business is affected by the location and sufficiency of the work premises. The study reveals that the major business sectors in which the respondents are organized is the service sector 31 (32.3%) followed by trade sector 27(28.1%) and with the lowest in urban agricultural sector 3 (3.2%) in the study area.

Manufacturing sector constitutes 20 (20.8%) of sample respondents whereas the construction sector accounts for 15 (15.6%) sample operators. The proportions of MSEs in all sectors are not uniform for all sectors and particularly low in agricultural sector which was the main stay of the country. This implies that the support strategy of the national and local government policy is not an encouraging and attractive in attracting individuals to be organized in to urban agriculture. This is probably due to the fact that urban agriculture is capital intensive and also requires infrastructural developed land that the town administration cannot afford. This also constrains the growth of MSEs in the study area.

With regard to work premises in which the MSE operators are running their business, the result of the study shows that more than half 52 (54.2%) of MSEs are running business in government constructed shade. On

the other hand, 23(24.0%) MSEs are working their business on open field/along road side and else were suitable for running business. These enterprises are reported that as they are profitable and have sufficient market for their products. The result of this finding was similar to that of (Liedholm, 2002) which states the study of small firm dynamics in Africa found that businesses located in commercial districts and on roadsides were positive and statistically significant in influencing enterprise growth rates compared to enterprises located and operating at their home. The remaining 13(13.5%) and 8(8.3%) are operating their business in rental and own constructed work premises respectively. The amount of working premises rent can also affect the growth of MSE in terms of profitability of MSE business that in turn also affect the level of profit to be re-invested in to the business operation.

Figure 2: Distribution of the respondents among the five sectors of MSE



When we see the size and the sufficiency of production/display center of government shade, it is found that 24(46.1%) of the respondents reported that the work preemies was sufficient for their business operation whereas 28(53.9%) of the respondent reported that they are unhappy with sufficient work premise. Similarly, the result of the study reveal that 35 (67.4%) of the respondents agree that government constructed work premises was found in suitable whereas 17 (32.6%) of the respondents are unhappy with the location of the work premises.

Table 5: Major task environment that affects growth of MSE

Characteristic	Variable	Present (%)	Frequency (%age)
Work premises of the respondents	Government shade		52 (54.2%)
	Open field/road side		23 (24.0%)
	By rented premises		13 (13.5%)
	Own constructed		8 (8.3%)
Sufficiency of shade provided by Government	Yes		24 (46.1%)
	No		28 (53.9%)
Suitability of location shade Government	Yes		35 (67.4%)
	No		17 (32.6%)
Legality/business license of the respondents	Yes		95 (99.0%)
	No		1 (1.0%)
Major source of raw material for MSEs	Farmers		16 (16.7%)
	Intermediaries		60 (62.6%)
	Other MSEs		5 (5.2%)
	Other suppliers		15 (15.6%)
Potential customers of MSE product/service	Community		68 (70.8%)
	Government institution		28 (29.2%)

Source: Own survey, 2013

The study also reveals that almost all 95 (99%) of the respondents reported that they are legally registered and are operating business having renewed business license. The main suppliers of raw material for the respondent, 60 (62.5%), are intermediaries (local traders) followed by farmers 16 (16.7%). The level of raw material that MSE gets from other MSE is very low 5 (5.2%). This implies that urban rural linkage (MSE with farmers) is better for the respondents of the MSE than the linkage that exists among MSEs' operators. On the

other hand, the result of the study shows that 68 (70.8%) of the respondents reported that community is MSE potential customers whereas 28(29.2%) of the respondents reported that government institution is the potential customer for their products/services due to the fact that they are legally registered and are participate in different types of government bids. This in turn implies that despite the government set different types of rules and regulation that encourages promotion and development of MSE product/service, its share of consumption is far below than the local community consumption of MSEs' product and services.

4.5. Empirical Results of Regression Analysis

Regression analysis of independent variables over dependent variable is conducted. All necessary tests such as autocorrelation test, multicollinearity and model adequacy test was conducted. The test result shows there is no autocorrelation and multicollinearity problem in the regression model. The model is also adequate and the result of the regression analysis shows that the independent variables explain 51.6% of the growth of MSE in terms of profitability of MSE business in the study area as represented by the R^2. This means that other factors not studied in this research contribute 48.4% of the growth of MSEs in the town. Therefore, further research should be conducted to investigate the other factors (48.4%) that affect growth of MSEs in the study area.

Table 6: Empirical results of regression analysis

Whether MSE Profitable (profit)	Coef.	Std. Err.	t	P>t	[95% Conf	Interval]
Source of finance for MSE (sfinan)	.0385951	.0118608	3.25	0.002	.0150045	.0621858
Duration of MFI loan (duloam)	.0944567	.0345963	2.73	0.008	.0256461	.1632674
Educational status of respondent (educa)	-.0387317	.0202602	-1.91	0.059	-.0790284	.001565
Work experience during start up (wexpr)	.1921951	.0761571	2.52	0.014	.0407217	.3436684
Managerial skill of respondent (mskill)	.1378271	.0606173	2.27	0.026	.0172616	.2583926
Marketing skill of respondent (mrkskill)	.3151114	.0956281	3.30	0.001	.124911	.5053118
Accounting record keeping (actrerd)	.0294282	.0462196	0.64	0.526	-.0625007	.121357
Location of government shade (wploct)	.1029261	.0520153	1.98	0.051	-.0005301	.2063824
Sufficiency of government shade (wpspace)	-.0489466	.0456532	-1.07	0.287	-.139749	.0418558
Legality/owning license (blicen)	.2443291	.2103607	1.16	0.249	-.17407	.6627282
Raw material supplier of MSE (rmsupp)	.073786	.0256857	2.87	0.005	.0226982	.1248738
Major customer of product/service (custm)	.1245749	.0483394	2.58	0.012	.0284297	.2207201
_cons	-.3285205	.2695132	-1.22	0.226	-.8645715	.2075305
Number of obs = 96 F(12, 83) = 7.40	Prob > F = 0.0000 R-squared =0.5167			Adj R-squared =0.4469 Root MSE =.19439		

Source: Own survey, 2013

The OLS estimation results for all determinants of MSE shows that sources of finance for MSE operators, loan term (duration of loan period) of MFI, previous business experience, marketing skill of the entrepreneurs', source of raw materials for MSE, and customers of MSE product or services affects positively the growth of profitability of the MSEs business significantly at 1% level of significance in regression analysis. Managerial skill of the entrepreneurs and location of the business positively affect the growth of MSE in terms of the profitability of MSE business significantly at 5% level of significance in the study area. The result of the relation between MSE growth and work location is positive which is in line with the study conducted by McPherson (1996). The locations of business have a direct effect on the growth and profitability of the enterprises by influencing the demand and supply condition of the business. Also, educational status of MSE operator affects negatively the growth of MSE significantly at 5% level of significance in the study area. Bates (1990) finds that education helps entrepreneurs to make good judgments, best use of information, exploit opportunities well leading to firm growth and success. The negative sign of education is due to the fact that respondents of the study are characterized by low level of educational achievement that adversely affects profitability of the MSE business. From the regression results described on table 6 above, the following regression equation was formulated.

$$\text{profit} = -.32 + .03\text{sfinan} + .09\text{duloam} - .03\text{educa} + .19\text{wexpr} + .13\text{mskil} + .31\text{mrkskill} - .04\text{wpspace} + .10\text{wploct} + .24\text{blicen} + .02\text{actrerd} + .07\text{rmsupp} + .12\text{custm}$$

Where, proft is dependent variable which is growth in terms of profitability of MSE business and the independent variables in the regression analysis are: ***sfinan*** is the source of finance for MSE; ***duloam*** is the duration (loan term) of MFI; ***educa*** is an educational achievement of the respondent of MSEs; ***wexpr*** is the work experience that the respondent of the MSE posses; ***mskill*** is the managerial skill of the respondent; ***mrkskill*** is the marketing skill that the respondent; ***wpspace*** is the sufficiency of government shade work space; ***wploct*** is location of the work premises of government shade for MSEs; ***blicen*** is the formality of the business license and renewal; ***actrerd*** is the record keeping ability of the MSE; ***rmsupp*** is the major raw material suppler for the MSE business; ***custm*** is the potential customers for the product or service of the MSEs.

From the regression equation established, taking all the factors (all independent variables in regression

model) constant at zero, the growth of MSE in terms of profitability of MSE business would be decline by -0.328. This implies that in the absence of the above dependent variable, members of the MSE use capital of the business for overhead and running cost from the MSE asset. Furthermore, if all the other variables are kept constant, a unit increases in marketing skill of the entrepreneur lead to a 0.315 growth of MSE in terms of profitability of MSE business. A unit increase in work experience of the entrepreneur will lead to a growth of 0.192 growths in profitability of MSE business. Similarly, a unit increase in formality of a business will lead to a 0.244 success in strategy implementation by the government, while a unit increase in managerial skill will lead to a 0.137 growth in profitability of MSE business. These results imply that marketing skills contribute more to the growth in terms of profitability of MSE business followed by legality of the business, work experience, managerial skill and so on. An accounting record keeping contributes the least to growth of MSE in terms of profitability of their business in the study area.

5. SUMMARY AND CONCLUSION AND RECOMMENDATIONS

5.1. Summary of the Findings

This section describes the main findings of the study. The result of the study shows that nearly half of the MSE are started MSE business by personal saving which was not sufficient enough for expansion and growth of the business. Basically MFIs are established to finance MSE operators. But, the results of the study show that it is only less than one fourth of the respondents that are borrowed loan from MFIs. In addition to meager share of the MFI loan for MSEs, 60.5% of the respondents borrowed from MFI reported that the amount of loan is not sufficient to run the business. Similarly, 65.2% of the respondents borrowed from MFI reported that the loan term of MFI is too short. The study also shows that 60.4% of the respondents keeps accounting records whereas 39.6% of them do not keep accounting records for the transaction of their business.

Moreover, the result of the study shows that the operators of MSEs are generally characterized by low educational achievement. Most of them are working at managerial position that was critical in decision making process of the business. Working on managerial position with high school complete and below educational achievements could contributed too little to business growth in the study area. The study further revealed that business environment in terms of work premises is not conducive for the majority of the respondents operating in the town. More than half of the respondents are operating in government constructed shade. The remaining were operating in own constructed, in rental work premises and open field/road side. More than half of respondents working in government constructed shade are complaining that the size of work premise. Around one third of the business operators that are working in government shade are complain that the location of the work premises is not suitable for running their business. The study result also reveals that intermediaries are the main suppliers of raw material for MSE followed by rural suppliers. Furthermore, the study shows that 70.8% of potential customers for MSE product or services are the community of the surrounding followed by government institution.

Finally, the result of regression analysis reveals that sources of finance for MSE operators, loan term of MFI, previous business experience, marketing skill of members of the business, source of raw materials , and major customers of the product or services of the MSEs affects positively the growth of profitability of MSEs business significantly at 1% level of significance. Managerial skill of the respondents and location of the business positively determine the growth of MSE in terms of the profitability of the business significantly affect at 5% level of significance in the study area. The educational status of MSE operator affects negatively affects the growth of MSE significantly at 5% level of significance in the study area.

5.2. Conclusion

MSEs remain an important contributor to economic growth and employment creation in Ethiopia. However source of finance and loan term, working of entrepreneurs on the position of managerial position with low level of educational status as well as suitability and sufficiency of the work premise provided by government threatens to undermine the potential benefits of MSE businesses. This was not the sole problem of the entrepreneurs but also lack of enabling business task environment from the support institution. The profitability of MSE is the reason why stake holder and MSE support institution are always striving for. Despite the MSE sector is the major strategic area in which 1st, 2nd and 3rd priority was given in the region, the study reveals that there are still major bottlenecks that hinders the growth of MSE in terms of profitability MSE business in the study area. The result of the study was also in line with the existing literature and studies that was conducted by other researchers.

5.3. Recommendations

The nature of determinants of MSE growth identified in the study varies in their complexity and severity. Majority of the problems can be solved by the collaborative effort of support institutions and other stakeholders. Major recommendations that the researcher suggest to minimize severity of determinant factors that affects growth of MSE in terms of profitability of MSE business is described as follows. MSE support

program should have to be based on the identified critical factors. Major problems like sufficiency of work premises, its suitability, lack of working capital and others that MSEs in Nekemte town face need to be addressed by prioritizing them in accordance of their severity as well as the availability of resources to run the operation. MSE development agency and municipal services should undertake detailed study on the suitability of the location and the sufficiency of work premise size along with nature and type of business before constructing the premises for MSE. MFI institution are member of MSE support institution and has to provide credit service for organized MSE through adjusting loan term based on the nature of the business and its capacity of revenue generation. Sufficient managerial and marketing skill training has to be provided for MSE to change the traditional way of operating and marketing business in to the modern types of production and marketing.

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