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FACTORS AFFECT PROFITABILITY OF MICRO AND SMALL ENTERPRISES IN SEMERA – LOGIA CITY ADMINISTRATION, AFAR REGION, ETHIOPIA

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ABSTRACT

Factors affect profitability of Micro and Small Enterprises in Semera – Logia town, Afar region. This research aims to investigate factors that affect the profitability of MSEs with a special emphasizes on metal, food processing and wood work sectors in Semera – Logia town, Afar region. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. The information gleaned through questionnaire from a sample of 103 operators and face-to-face interviews were conducted with 5 operators of MSEs. The respondent operators were selected using stratified sampling technique. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study identified eight major challenges which seem to affect profitability of MSEs in Semera – Logia town which include: inadequate finance, lack of working place, marketing problems, inadequate infrastructures, poor management practices, and technological, entrepreneurial and politico-legal problems including bureaucratic bottlenecks. The findings further indicate that, there exists linear and positive significant ranging from substantial to strong relationship was found between independent variables and dependent variable. Moreover, the selected independent variables significantly explain the variations in the dependent variable at 1% and 5% level of significance. Based on findings, recommendations to government bodies, to operators of MSEs and suggestions for other researchers are forwarded.

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1.1. BACKGROUND OF THE SUDEY

The micro and small business sector are recognized as an integral component of economic development and different element in the effort to raise countries out of poverty (Wolfenson, 2007). The active role of micro and small enterprises in developing countries as engines through which the growth objectives of developing countries can be achieved had long been recognized. It is estimated that MSEs employ 22% of the adult population in developing countries (Fisseha, 1992).

In developing countries, MSEs by good quality of their size, capital investment and their capacity to produce greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSEs sector will also be helpful in bringing about economic transition by providing goods and services, which were of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (ILO, 2008).

According to Goldmark (2009), found that the MSEs sectors generate substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which will typically be more focused on small-scale production.

The division is potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to achieve their personal and professional goals (Abebe, 1997). In all successful economies, MSEs will be seen as an essential facilitator for growth, job creation and social progress. The small business sector will also be seen as an important force to create employment and more equitable income distribution, activate competition, make use of functional markets, and enhance productivity and technical change and, through the combination of all of these measures, to stimulate Ethiopia's economic development (Abebe, 1997).

In addition, there will also be personal attitudes or internal factors that affect the performance of

MSEs, which will be related to the person's individual attitude, training and technical know-how (Werotew, 2010).

According to Mulhern (1995), MSEs make use of a strong power on the economies of all countries, for the most part in the developing countries. He reported that the MSEs have been a major teacher in the economic growth, modernization and technological progress.

The MSEs are more productive than their larger enterprises in terms of innovation and development. The MSE sector is characterized by highly diversified activities, which can create job opportunities for a substantial segment of the population. This indicates that the sector were a quick preparation for unemployment problem. To control unemployment and facilitate the environment for new job seekers and self-employment a direct intervention and support of the government will be important. Assistance and support to strengthen these enterprises can lead to higher profits and employment levels which in turn can contribute to a bottom-up transition out of poverty for entrepreneurs and workers (Vandenberg & Sievers, 2007). It is further believed that:

The MSEs activities can contribute to increasing tax-incomes for the government and enable the government in the long run to invest the money. In order to strengthen the position of MSEs, the access to financial and non-financial services plays an essential role in the performance and expansion of these enterprises. The strengthening and the expansion of existing MSEs and the support of new enterprises can contribute to fulfill social objectives, attract considerable foreign reserves into a country and have a clear importance in providing employment, meaning they are the backbone of the private sectors in developing countries (Liedholm, 1998).

The aim of MSEs development and the provision of MSEs services was to enable the entrepreneurs to take advantage of market opportunities and improve the access to skill development opportunities that strengthen entrepreneurial capabilities (UNIDO, 2002).

Micro and small enterprise in Ethiopia are, however, confronted with several factors that affect the profit performance of MSEs. The

major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work place, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition, there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how (Werotew, 2010). Generally, there are external and internal factors which are still that affect the profit performance of MSEs.

1.2 STATEMENT OF THE PROBLEM

In most developing countries, MSEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fadahuni, 1997). It is typical of MSEs in Africa to be lacking in business skills and guarantee to meet the existing lending criteria of financial institutions.

This, according to World Bank (2004), "has created finance gap in most markets. The MSEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks". This unequal access to finance by MSEs and medium and large enterprises has undermined the role of MSEs in the economic development in African countries (World Bank, 2004).

The study conducted by Ethiopian CSA discloses that, the contribution of small enterprises in creating job opportunities and in the development of our economy is very important (Agency, 2006). However, their contribution is very low in compared with that of other countries due to financial problem, lack of qualified employees, lack of proper financial records, marketing problems, lack of working place and raw materials. Lack of information about market opportunities and standards and regulations is one of the underlying factors that get in the way their performance (Gebreyesus, 2009).

According to Worku Zeleke (2008), Lack of integration between the vocational curriculums

taught at academic institutions, skills required at the workplace in small businesses, enterprises is a major obstacle to the growth and development of MSEs. Identified that lack of access to finance is the most influential factor from among all adverse factors hindering the growth and development of the MSE sector in Ethiopia.

After the business goes operational, the probability of becoming profitable and paying back debts along with accrue interest is less. Besides, MSEs do not conduct market research and develop/design a product or service as per the need of customers (Worku, 2008).

For MSEs, lack of location is unquestionably a serious problem in the city. Most informal operators do not get access to suitable locations where they can get easy access to markets. Additional, the problem of technical procedures and appropriate technology used by the firm will another factor associated with high technology of equipment and use of new technologies. The previous studies have been not included those problem.

To fill this information gap, this study therefore aims to provide a general view of factors that affect the profit performance of MSEs through a comprehensive review of literature and empirical study available on the area. This result in the development of a theoretical framework for the initiation of policies and programmers for enterprise development. From the practical point of view, it serves not only to provide a self-check to current enterprise sector, but also to increase the participation in business activities through a better understanding of the determinants of the performance of the enterprises. Such an understanding of the pre-requisites for Semera-Logia town MSE to perform well in their businesses is of critical importance especially in today's competitive environment.

To guide the study towards the achievement of its objective, the following research questions are being developed:

1. What are the sources of finance or funds available to the MSEs?
2. What are the various external factors that slow down the profitability of the MSEs?
3. What are the internal factors that affect the profitability of MSEs?

1.3 Objectives of the study

1.3.1 General Objective

The main objective of the study is to examine factors that affect the profitability of MSEs in Afar region, specifically Semera-Logia town.

1.3.2 Specific Objectives

The specific objectives of the study will be:

1. To examine the sources of finance or funds available for the start-up and the growth of MSEs.
2. To identify the internal and external factors that affect the performance of MSEs.

1.4. Research Hypothesis

Profitability of MSEs, is influenced by both internal and external factors, operators need to understand what influences businesses to reach peak profitability. The external and internal factors include politico-legal, working place, technological, infrastructural, marketing, financial factors, and entrepreneur and management skill. The influence of these factors to the firm performance will very important but it will noteworthy that the management has no (little) control over them (Wanjiku, 2009). Based on this empirical data, the researcher specifies the following hypothesis:

H1. There is a relationship between political factors and profitability of MSE in Semera Logia Town.

H2. There is a strong relationship between working place factors and profitability of MSEs in Semera Logia Town.

H3. There is a relationship between technology factors and profitability of MSEs in Semera Logia Town.

H4. There is a relationship between Infrastructural factors and profitability of MSEs in Semera Logia Town.

H5. There is a strong relationship between the marketing factors and profitability of MSEs in Semera Logia Town.

H6. There is a strong relationship between the financial factors and profitability of MSEs in Semera Logia Town.

H7. There is relationship between Entrepreneurial factors and profitability of MSEs in Semera Logia Town.

H8. There is relationship between Management factors and profitability of MSEs in Semera Logia Town.

1.5. Significance of study

MSEs are one of the government priority areas in the struggle towards growth and development. Findings of this study will assist researchers' get deeper understanding of the critical factors that affect the profitability of MSEs, the government also can use the findings of this study to assist in policy formulation and development for a framework for critical finance, marketing, work place and other factors that affect the profitability of MSEs. Moreover, the findings of this study will be help the policy makers and financial institutions how to encourage establishing or expanding MSEs.

1.6. Scope of the study

The FMSE office followed similar institutional framework, policies, procedures, promotional packages and created similar political-legal business environments in all Semera logia town of Afar region. Hence, the study conducted in Afar region i.e. Semera logia town, the outcome of the study is applicable to all MSEs in Afar region.

The study focuses only on the manufacturing sectors of Metal work, Food Processing and Wood work MSEs mainly for the first reasons of data from manufacturing enterprises are easily measurable and the second reason is that the pre-assessment study showed that the selected manufacturing sectors are commonly available in all town of Afar region, for all enterprises are established under almost similar business environments, so the outcome of the study is applicable to all sectors of MSEs.

1.7. Limitation of the study

Like all research, this study will have limitations. Such limitation described as follows, most of the documents that are concern with micro enterprises are written in Amharic. To translate in-to the require instruction language (English) takes longer period. Another problem encounter in the study has to do with the operator's unwillingness to cooperate due to feeling that disclosing information may lead to negative effect on their business. To minimize the above limitation, the researcher will use as

much possible appropriate methodology, finally good relation with my advisor.

1.8. Description of the Study Area

The afar regions are located in the hottest part of the world and afar inhabit the lowlands of northeastern Ethiopia. The capital city of Afar region is Semera, Semera has located a latitude and longitude of 11°47'32" 41°0'31" E. The large numbers of the peoples are pastoralists, there is not stable life. The life of people based on Awash River. The EFDR government give the afar people the right of autonomous and established many public sector offices provide services to the people.

2.1. Introduction

This chapter reviews works on MSEs in Ethiopia and other countries in general. Works on performance and determinants of performance is be also reviewed. This is help to understand the state of MSEs and its determinants of the performance. This chapter comprises of six sections. These are definitions of MSEs, the role of MSEs in poverty reduction, the MSE sector in Ethiopia, the concept of business performance, empirical studies, theoretical studies and the conceptual framework.

2.2. Definition of micro and small enterprises

The MSE sectors everywhere are characterizes by highly diversified activities, which can create employment opportunities for a substantial segment of the population. This implies that the sector is a quick preparation for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders (Firasew, The Livelihoods Reality of Micro and Small Enterprise Operators:, 2011). Hence, in order to channel all necessary support and facilities to this diversified sector, a definition are needs to categorize the sector accordingly.

However, there is no single and universally acceptable definition of a small enterprise (Kayanula, 2001). This is so because the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country depending essentially on the

country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma, 2009). Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, revenue, profitability, net attraction, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The absence of such uniform definition of MSEs has created a difficulty. In line with this, (Ayenew ,2010). Argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact very difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the most wanted levels of development of the sector.

United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2002).

The United States of America, the Small Business Act issued in 1953 stated that, small business is one, which are independently owns and operated, and not leading in its field of operation. The act also further stated that, number of employees and sales volume as guideline in defining small business (Radwan, 2010:2-19). In the same country, a committee for economic development (CED) has explained that at least two of the key features characterizes small business: management is independent (usually the managers are owners), capitals is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country).

According to Kayanula & Quartey (2000), In Malawi, the official definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees and

turnover. An enterprise is defined as small scale if it satisfies any two of the three criteria, that is, it has a capital investment of USD 2,000.

In Kenya, by referring the 1999 MSE National Baseline Survey, MSEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal informal sector which employ 1-50 people (Firasew, 2011). More specifically, according to them, micro enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions will be based on one of the three criteria mainly used in literature to define MSEs-number of employees. The second criterion relies only on the degree of legal formality and will mainly be used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized and highlighted that the degree of informality size employment of MSEs is based; and lastly, they claimed that the term MSE incorporates firms in both the formal and informal sectors.

According to Federal Democratic Republic of Ethiopia (FDRE) (1997), Regulation, “micro enterprise” means an enterprise having a total capital, excluding building, not exceeding Birr 50,000 in the case of service sector or not exceeding Birr 100,000 in the case of industrial sector and engages 5 workers including the owner, his family members and other employees. The same regulation defines “small enterprise” as an enterprise having a total capital, excluding building, from Birr 50,001 to 500,000 in the case of service sector or Birr 100,001 to Birr 1,500,000 in the case of industrial sector and engages 6 to 30 workers including the owner his family members and other employees.

As we can understand from the above definitions, there will be no universally acceptable

definition of MSEs. Different scholars define MSEs differently based on the level of development of the country under review. As shown above, it is usual to see that different institutes define MSEs differently using their own parameters.

2.3. Role of micro and small enterprise in poverty reduction

The poverty in Ethiopia is widespread and remains a major challenge of sustainable development and stability (Lutheran World Federation of Ethiopia, 2006 cited in Eshetu, 2009). By now, it is clear and agreeable that, poverty, both urban and/ or rural areas, is all about lack of basic needs, low or inadequate level of incomes and consumptions, poor power over resources and high level of social keeping out, inequality and vulnerability. The role played by MSEs, through the various socio-economic benefits emanating from the sectors will be important in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the MSEs will not only have contributed towards poverty reduction, but they will also have improved the benefit and standard of living of the many in the society (Mukras, 2003).

Current international thinking is in line with a view that acknowledges MSEs as a tool to fight poverty in the long run. The UNIDO approach to this is worth mentioning here:

Poverty reduction is simply not going to happen by government fiat but only through private sector energy. The evidence directly linking MSEs and poverty reduction is considerably less healthy than that linking them to economic strength, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low skilled workers, increased skills development and broader social impacts. The movement to support MSE development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries place a more pronounced emphasis on the contribution that the private sector will have to make-compared to

the over-reliance on the social agenda that characterized earlier PRSs (Prasad & Perumal, 2012).

In conformity with the above view advanced by UNIDO and as an organization concerned to the condition of labor, the ILO's approach to poverty reduction is through small enterprise development. This strategy focuses on the needs of poor people who are part of the MSE economy, as owners/operators and workers, as their dependents, as the unemployed who may benefit from job creation and as customers. While further strengthening the above shown approach (Vandenberg, 2006).

Drawing on the study conducted in the urban centers of four Western African countries namely Benin, Burkina Faso, Niger and Togo to identifies key factor shaping the micro enterprise sectors, explores the needs, characteristics, motivations, and success factors for micro entrepreneurship in the region, together with some of the impediments to the growth and success of micro enterprise ventures (Roy, 2006). Roy indicated that MSE provide a substantial source of employment,

There by contributing to get rid of poverty to the urban poor. According to them, the main reason for the urban poor to be absorbed in the MSE is due to the fact that the formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason, many have had to look for alternative means to generate a livelihood. Hence, participation in the informal sector is often the only option available as a source of income, and so the sector has absorbed many of the unemployed who have been ignores by the formal sector in the region. They pointed that the income generated from being engaged in MSEs primarily used to satisfy the poor own physiological needs and those of their family, and then to provide a home and security for the household.

2.4. The Micro and Small Enterprise sector in Ethiopia.

The five-year Growth and Transformation Plan (GTP) has given particular attention to the expansion and strengthening of micro and small-scale enterprises (FDRE, 2007).

Table 2.1: Amount of Credit and Jobs Created through MSEs

| | 2008/09 | 2009/10 |
|--|---------|---------|
| No. of MSEs | 73,062 | 176,541 |
| No. of total employment | 530,417 | 666,191 |
| Amount of credit (in millions of Birr) | 662.7 | 814.1 |

Source: (Federal Democratic Republic of Ethiopia (FDRE) The Urban Development and Industry Package (2007)

2.5. Micro and Small Enterprise Development Strategy

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and MSEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities, which consisted of providing training on business management (United Nations, 2002).

As stated by United Nations report (2002), in 1977, the Handicraft and Small-Scale Industries Development Agency (HASIDA) was establish to provide training mainly in management and technical skills and to serve as coordinating agency for Government policy on small enterprises. Shortage of funds and unfavorable government policy toward the private sector in the 1980s made it extremely difficult for HASIDA to have an impact on the development of local small enterprises.

2.6. The Implementation Structure of the Strategy

The two most important institutions that directly involved in the promotion of MSEs are MoTI and the newly established MSED. The latter will envisaged to operate the federal and regional level of government (Ministry of Trade and Industry, 1997).

2.7. The Ministry of Trade and Industry

The ministry of trade and industry has responsibility, as the organ of the federal government for the formulation of policies and strategies to promote the expansion of enterprises and to facilitate the provision of assistance to MSEs. The other duties given to the ministry is to support and create conducive environment for the development of private

promotional institutions. Regional bureau of trade and industry are delegated to develop and promote the sector in their regions by coordinating regional activities and creating networks with business associations to strengthen the flow of information to MSEs (MoTI, 1997).

2.8. The Federal Micro and Small Enterprises Development Agency

To further ensures the proper institutional coordination for MSE support functions, the government created the new Federal Micro and Small Enterprises Development Agency (Abebe, 1997). In addressing above objectives, FeMSEDA is expects to provide support to the Regional Micro and Small Enterprises Development Agencies (ReMSEDA). leadership by delivering ‘training the trainers’ programmers to train regional agencies, business associations, and other professionals to deliver entrepreneurship training and facilitation services to MSEs; studying the problem of identifying viable markets for MSEs and addressing product quality issues; disseminating information to MSEs; and advising government on MSE policies and strategies. FeMSEDA also operates skills and technology training facilities, much like incubators, where training is offers in woodworking, metalworking, and handicrafts. It also provides a marketing outlet for MSE products in its sales, display center, and organizes MSE product exhibitions at national and local trade fairs.

2.9. The Concept of Business performance

According to Ogutu Martin (2010), Performance are defined simply in terms of output terms such as quantified objectives or profitability. Performance has been the subject of extensive and increasing empirical and conceptual investigation in the small business literature (John B. K., “Assessing Performance of Micro and Small Scale Agribusinesses in, 2009). The issues that remain unresolved are the goals against which performance should be assesses and from whose perspective the goals should been establishes (Etzioni, 2011).

According to Abdelrahim Rami (2007). On their study defined performance as follows. The most commonly adopted definition of success good performance is financial growth with adequate

profits. Other definitions of success good performance are equally applicable. For example, some entrepreneurs regard success good performance as the job satisfaction they derive from achieving most wanted goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

According to Entrepreneurship (2004), defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalized and measured in different ways thus, making cross- comparison is difficult (Srinivasan, 1994). Among the most frequently used operationalization are survival, growth in employees and profitability.

A business enterprise could measure its performance using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers’ satisfaction and customers’ referral rates, delivery time, waiting time and employees’ turnover. Recognizing the limitations of relying only on either the financial or the non-financial measures, owners-managers of the modern small business has adopted a hybrid approach of using both the financial and non-financial measures (Chong, 2008).

2.10. Theoretical Studies

This section gives emphasis to two dimensions that influence micro and small enterprise profitability: the internal factors and external factors.

2.10.1. Internal Factors

Small business success studies will largely biased towards the macro aspects of factors such as structural, finances and enabling business environments than just dealing with entrepreneurial performance (Johnson, 1990). However, the growth of a firm is, to a certain extent, a matter of decisions made by individual operators. This was very much pronounced for microenterprises that are runs by owner-managers. Previous studies indicate that motivation, individual competencies and

personal background are important factors for the success of micro and small enterprises.

Entrepreneurial factors

Studies related to psychological factors of business success for developing country firms are very scarce (Goldmark, 2009). Most of the macro-based studies have tended to assume entrepreneurs with similar experiences and demographic characteristics. However, none of these factors alone can create a new venture or drive success. Accordingly, personality traits play a key role in driving ventures towards success.

H₁. There will relationship between Entrepreneurial factors and profitability of MSEs in Semera- Logia Town.

Management factors

According to Worku Zeleke (2008) conducted a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises. Successful businesses are significantly associated with the ability to generate profit on a sustainable basis. Profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

H₂. There will relationship between Management factors and profitability of MSEs in Semera-Logia Town.

2.10.2. External Factors

Marketing Factors

The study of Lussier (1995), Emphasizes on the importance of marketing skill of the business owners as one factor to the success and better performance of small businesses. Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertises, and the ability to come up with new ideas are very important factors that micro and small business enterprises should possess to be successful long-term survival in the future. In this study customer, relationship also reported as one of the important success factors of the small business owners. From this study report, one can understand the importance of marketing skills of

the business owners to be successful in their competitive environment.

H₃. There will a strong relationship between the marketing factors and profitability of MSEs in Semera - Logia Town.

Working place factors

For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to startup businesses (Muchie, Eshetu, & Mammo, 2009).

H₄. There will a strong relationship between working place factors and profitability of MSEs in Semera - logia Town.

Financial factors

Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks (Commission on Legal Empowerment of the Poor, 2006).

H₅. There will a strong relationship between the financial factors and profitability of MSEs in Semera – logia Town.

Technology

Choice of technology and innovative capacity is another important factor determining growth of MSEs. It has divided in to production, investment, and innovative/ adaptive capability. Production capability is the static knowledge and skill required to use existing Technology development, which is far less applicable to MSEs, is the process of designing new machineries/ equipment's / Processes/ products.

H₆. There will a relationship between technology factors and profitability of MSEs in Semera - logia Town.

Infrastructure

Good infrastructure facilitates have a positive effect in reducing the cost of operation. MSEs Owners in Ethiopia indicated that lack of efficient, reliable, safe and affordable infrastructure is affecting the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu, 2009).

H₇. There will a relationship between Infrastructural factors and profitability of MSEs in Semera Logia Town.

2.11. Empirical studies

According to Swierczek (2003), the main factors that affect the profit performance of MSEs in developing countries are not their small size but their isolation, which get in the way access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991).

This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being puts at 99 percent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for MSE development (McCormick, 1998), intense competition with duplication of micro-businesses manager characteristics including lack of skills and experience (Madichie, 2008).

A study by Hall (1992), has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprises showed that high tax rates, corruption and regulation in the form of licenses and permits, there are founds to be the most important

constraints to business operations of micro enterprises (Firasew, 2011). Previous evidence suggests that, although endogenous factors were the main cause of failure, exogenous factors had a significant effect in approximately one third of small business failures (Peterson, R. A., Kozmetsky, & Ridgway, 1983).

2.11.1. Previous Studies on Ethiopian Micro and Small Enterprises

According to Zeleke Worku (2008) Conducted longitudinal study to assess the impacts of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MSMEs from five major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long-term survival of MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. This is so because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as Iqub was critically helpful for long-term survival of the enterprises. Businesses that did not participate in Iqub system regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study.

Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia namely Adama, Hawassa, Bahirdar and Mekelle (Tegegne, 2010) was conducted with the intention of assessing the contribution of the MSE strategy to poverty reduction, job creation and business development. The raised causes for this gloomy prospect of business were not growing (33%), lack of finance (13%), lack of market (11%), and lack of working space (4%) (Woldelul, 2004)

The major constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of

market-related problems of MSEs engaged in metal and woodworks are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting. The product line of MSE activities in Ethiopia is relatively similar (Woldelul, 2004).

According to Woldelul (2004), competition is also another problem that gets in the way of the performance of MSE. explained its: mostly the cases and commons recognition, "Competition are unkind", which implies that some larger companies in relation to MSEs have advantages due to: selling at reduced price without reducing product quality using economies of scale, customer targeting capacity, proper and intensified product/service advertising capacity, good personal contacts and networks, sound industry reputation and sufficient information regarding existing market and capacity to exploit more market opportunities.

According to High Level Commission on Legal Empowerment of the Poor (HLCLEP), there is lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack of coordination of production process and inability to troubleshoot failures on machinery and/or equipment is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control and those with technical knowledge.

In reality, literature on MSEs in Ethiopia is inadequate and most of the available studies were not conducted in line with performance aspects of micro enterprises. However, this research tried to assess factors that affect the profit performance of MSEs in a holistic way by targeting and deeply investigating those operators engaged in Metalwork, food processing and woodwork activities in Semera Logia Town.

2.12. Research Gap

The previous studies were not included some factors that affect profit performance of MSEs, **Figure 1: Conceptual frameworks (Own Model).**

lack of location is unquestionably a serious problem in the city. Most informal operators do not get access to suitable locations where they can get easy access to markets. Additional, the problem of technical procedures and appropriate technology used by the firm are another factor associated with high technology of equipment and use of new technologies.

There are previous research works conducted on MSEs, most of them was focused from the success, and growth point of view, and conducted several years ago hence there was a time gap observed due to the regency of information and the progressive policies and strategies in the promotion of MSEs, the study was hopefully filled the information gap created due to the longevity of study.

2.13. The Conceptual Framework.

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and external factors, operators need to understand what influences businesses to reach peak profit performance. The external and internal factors include politico-legal, working place, technological, infrastructural, marketing, financial, entrepreneur and management factors. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009). Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or fight the threats found in the external environment. The internal factors that influence the firm's performance can be classified as management skill and entrepreneurial factors. With the research objectives, business performance will be the dependent variable whereas politico-legal, working place, technological, infrastructural, marketing, financial, management and entrepreneurial factors are all independent variables.



Managerial skill Factors

3.1. Introduction

In order to analyze factors that affects on profitability of MSEs. This section provides an overview of the study's research approach, which lays within the mixed methods strategies. The chapter discusses procedures and activities under take the study research design, sampling strategy, Sampling Technique, Population of the study, Sampling size, data collection, questionnaire, data processing and analysis.

3.2. Research Design

Research designs are the blueprint for fulfilling research objectives and answering research questions (John, Hafiz, Khan, & Raeside, 2007). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. The same authors discuss three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships). The types of research employed under this study will descriptive and explanatory research. The major purpose of descriptive research is description of the state of affairs, as it exists at present. Then this study describes and critically assesses the factors that affect the profitability of MSEs in Semera – logia town.

3.3. Research Approach

According to Mark Saunders (2009), mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. In this study, a combination of qualitative and quantitative approaches of doing research will employ, which has practice as recommended by (Creswell, 2009).

All relevant Data were collect from a single point in time through cross sectional method. A qualitative and quantitative method of data collection applied to compensate each method's weaknesses with strengths from the other method. In designing of the instruments a questionnaire comprised of five point Likert scale questions will constructed, the type of scales used to measure the items on the instrument was continuous scales (strongly agree to strongly disagree), multiple choice questions, interview questions developed in consultation with literature. Therefore, this study uses qualitative and quantitative research approach to examine the role of factors that affect profitability in MSEs Semera logia town.

3.4. Sampling Strategy

The Semera logia towns are purposely choice among the one town of Afar Region, as a study area for this research. This is because it is maintained by the government of Ethiopia, that the MSE sector is a prime strategy to economic development in urban areas. Second, the town was selected based on their nearness and convenience to collect data in short time.

Although there are different sectors in which the MSE operators have been engaged in Semera logia town, the sectors selected for this research is metalwork, food processing and woodwork sector because of the following rationales. This makes the sector more and easily accessible for the data collection. Second, it is difficult to reach the operators/or owners managers of some sectors like municipality service, parking and others. Lastly, metalwork, food processing woodwork 'popularity' in Ethiopia by absorbing significant number of operators via cooperative form of organization is also shown empirically by (Tegegn, 2010).

3.5. Sampling Technique

Stratified random sampling methods used to get information from different sizes of the MSEs. This technique is preferred because it is use to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample.

1.6. Population of the study

The total population of the study is 150 enterprises, which includes metalwork (14) food processing (21) and woodwork (68). The sample size is considered as representative of metalwork, food processing and woodwork and large enough to allow for accuracy, confidence and general ability of the research findings.

3.7. Sampling size

According to Dawson Catherine (2009), the correct sample size in a study is dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled. In this study to select sample size, a list of the population formally registered MSEs until May 2013 by the Federal MSE Bureau will obtain.

The following formula will be used for the calculation of the sample size since it will be relevant to studies where a probability sampling method was used (Watson, 2001).

$$n = \frac{P [1-P] A^2}{R}$$

R

- $[(20/150) \times 103] = 14$ Metal work out of 20
- $[(30/150) \times 103] = 21$ Food Processing out of 30
- $[(100/150) \times 103] = 68$ wood work out of 100 were selected

Where n = sample size required = 103
 N = number of population = 150
 P = estimated variance in the population = 50%
 A = margin of error = 5%
 Z = confidence level = 1.96 for 95% confidence
 R = estimated response rate = 96%

Accordingly, 103 respondents are selected from the 150 MSEs. These 103 respondents are selected from Metalwork, Food Processing & Wood work on proportional basis. The interviews administered on the sample of 10 operators out of 150. This small

number of interviewee selected because of related responses from majority of respondents.

3.8. Sources of Data Collection

This study uses both primary and secondary sources of data collection. Primary sources in order to realize the target, the study used well-design questionnaire as best instrument. This completed by the owner managers/or operators of the enterprises. Besides, face-to-face interviews with the MSEs Operators/and the relevant owner managers who has the enterprises in the selected sectors. The interview method of data collection is preferred due to its high response rate. That is, it gives the two people concerns an opportunity to interact and get details on the questions and answers. Through interviews, clarification of issues is easily achievable leading to accuracy of data from the respondents. With respect to secondary data, the source will be from seasonal and annual reports of city administration MSEs Office, thesis document, journals, books, articles, and internet browser

3.9. Questionnaire

The layout of the questionnaire keeps very simple to encourage meaningful participation by the respondents. The questions keep as brief as possible with care take to the actual wording and phrasing of the questions. The reason for the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to complete by the respondent (Adams, 2013). The literature in the study will use as a guideline for the development of the questions in the questionnaire. Besides, some questions in the questionnaire will adopted from other sources (Habtamu, 2010). The questions that will use in the questionnaire are multiple-choice questions and five-point Likert scale type questions. The type of scales measures the items on the instrument is continuous scales (strongly agree to strongly disagree).

3.10. DATA PROCESSING AND ANALYSIS

3.10.1 Data Processing

The methods of data processing in this study were manual and computerize system. In the data processing procedure editing, coding, classification and tabulation of the collected data used. Data processing has two phases namely: data clean up and data reduction. During data clean up, the collected, raw data, will edit to detect anomalies, errors and omissions in responses and checking that the questions are answered accurately and uniformly. The process of assigning numerical or other symbols came next, which used to reduce responses into a limited number of categories or family. After this, the processes of classification or arranging large volume of raw data into classes or groups based on common

characteristics will apply. Data having the common characteristics is placed together and in this way, the entered data divided into a number of groups. Finally, tabulation and pie charts will use to summarize the raw data and displayed in the form of tabulation for further analysis.

3.10.2. Data Analysis

This is the further transformation of the processed data to look for patterns and relationship between and/or among data groups by using descriptive and inferential (statistical) analysis. The Statistical Package for Social Sciences (SPSS) version 21 will be use to analyze the data obtained from primary sources. Specifically, descriptive statistics (mean standard deviation and charts) and inferential statistics (correlation and regression) taken from this tool.

The reason for using descriptive statistics is to compare the different role.

Descriptive Analysis

Descriptive analysis will use to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation). Moreover, pie charts will use to describe the general characteristics of enterprises. The reason for using descriptive statistics was to compare the different factors. Besides, the interview questions will analyze using descriptive narrations through concurrent triangulation strategy.

Inferential Analysis

According to Sekaran (2000), inferential statistics allows inferring from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. The next inferential statistical methods will use in this study.

3.11. Model specification

Profitability of MSEs, is influenced by both internal and external factors, operators need to understand what influences businesses to reach peak profit performance. The external and internal factors include politico-legal, working place, technological, infrastructural, marketing, financial factors, management skill and entrepreneurial. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009). Based on this empirical data, the researcher specifies the following

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8$$

Where:

Y is the response or dependent variable- profitability

X₁= political or legal,

X₂= working place,

X₃= technology,

X₄= infrastructure,

X₅= marketing,

X₆= finance,

X₇= managerial skill and

X₈= entrepreneurial skills are the explanatory variables.

β₀ is the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

β₁, β₂, β₃, β₄, β₅, β₆, β₇, and β₈ are the coefficients associated with each independent variable, which measures the change in the mean value of Y, per unit change in their respective independent variables.

Accordingly, this statistical technique used to explain the following relationships.

Regress profitability (as dependent variable) on the selected linear combination of the independent variables using multiple regressions.

4. 1. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. The purpose of this study is to critically assess the factors affect the profitability of MSEs in Samara – Logia town. How far, the owner managers are aware on the challenges of MSE's performance. Data were collected from operators or owner managers of MSEs found in Samara – Logia town.

One hundred three questionnaires were distributed across the three sectors in one town, out of which 92 were completed and retrieved successfully, representing 89.3% response rate. Out of the 103 questionnaires administered 14, 21 and 68 were distributed to metal work, food processing and wood work respectively. The numbers of questionnaires retrieved from metal work, food processing and wood work are 12, 18 and 62 respectively. This represents a response rate of 85.7%, 85.7% and 91.1% for metal work, food processing and wood work respectively.

Generally, this section is organized in the following manner: First, the general information about MSEs were presented and analyzed. Second, data collected through questionnaires and interviews were analyzed concurrently. Moreover, the results of Pearson's Product Moment Correlation Coefficient and regressions were analyzed.

4.2. Respondents' Characteristics

Table 4.1: Sex Composition of the Respondents

| No | Sex | No | Percent |
|----|--------|----|---------|
| 1 | Male | 61 | 66.3 % |
| 2 | Female | 31 | 33.7 % |
| | Total | 92 | 100 % |

Source: SMEs survey respondents SPSS Version 21 output result (2020).

Table 4.1 depicts the characteristics of entrepreneur respondents. The respondents include 61 of male respondents and 31 of female respondents. Though in aggregation not equal numbers of male and female respondents are obtained, there is great difference by sub-sectors where the respondents are 66.3% male and 33.7% female. From this it was possible to say that the participation of male in micro and small enterprises are significant.

Table 4.2: Age Composition Profile of the Respondents

| No | Age | No | Percent |
|-------|----------------|----|---------|
| 1 | Below 25 years | 15 | 16.3% |
| 2 | 26-35 years | 42 | 45.7% |
| 3 | 36-45 years | 30 | 32.6% |
| 4 | Above 46 years | 5 | 5.4% |
| Total | | 92 | 100% |

Source: SMEs survey respondents SPSS Version 21 output result (2020).

In relation to age, the majority of entrepreneurs are in two age groups, 26-35 and 36-45, representing 45.7 % and 32.6 % of respondents respectively. The below 25 years age group is the third largest group accounting for 16.3 %, whereas those above 46 accounted only for 5.4 % of the respondents. This shows that 88.3% of the respondents are young that have been important to growth of the entrepreneurs.

Table 1.3: Marital status of Respondents

| No | Marital status | No | Percent |
|-------|----------------|----|---------|
| 1 | Single | 50 | 54.3% |
| 2 | Married | 27 | 29.3% |
| 3 | Divorce | 12 | 13% |
| 4 | Widow | 3 | 3.3% |
| Total | | 92 | 100% |

Source: SMEs survey respondents SPSS Version 21 output result (2020).

According to table 4.3 above indicated that, 54.3 percent of the respondents had single, 29.3 percent of the respondents were married, 13 percent of the respondents were divorced and 3.3 percent of the respondents were widow. From this result, single respondents were most of the participants of this study.

Table 4.4: Education Level of the Respondents

| No | Level of education | No | Percent |
|----|-------------------------------|----|---------|
| 1 | Primary school grade 1 to 8 | 8 | 8.7% |
| 2 | Secondary school grade 9 to10 | 5 | 5.4% |
| 3 | Preparatory school 11 to 12 | 9 | 9.8% |
| 4 | Vocational school | 15 | 16.3% |
| 5 | College | 26 | 28.3% |
| 6 | University | 19 | 20.7% |

| | |
|-------|----|
| Total | 92 |
|-------|----|

Source: SMEs survey respondents SPSS Version 21 output result (2020).

According to table 4.4 above indicates that, 28.3% of the respondents are College, 20.7% of the survey respondents have University, 16.3%, 16.3% of the survey respondents are Secondary and Vocational school respectively, 9.8 preparatory schools and 8.7% of the survey primary school.

Hence, from the educational levels of the managers/ Operators of the enterprises, it is possible to generalize that large proportions of the participants in MSEs are those who completed their College, The next beneficiary groups are University, Those who have secondary and Vocational school respectively, preparatory school and primary education can have adequate record keeping and financial control system and proper planning system, while, the other group who attended lower than preparatory school educations have lack of record keeping and financial control system and proper planning system.

4.3. Reliability

The reliability of instruments measures the consistency of instruments. Creswell (2009), considers the reliability of the instruments as the degree of consistency that the instruments or procedure demonstrates. The reliability of a standardized test is usually expressed as a correlation coefficient which measures the strength of association between variables. Such coefficients vary between -1.00 and +1.00 with the former Showing that there is a perfect negative reliability and the latter shows that there is perfect positive reliability.

Table 4.5: Reliability Statistics

| Reliability Statistics | |
|------------------------|------------|
| Cronbach's Alpha | N of Items |
| .714 | 9 |

Source: SMEs survey respondents SPSS Version 21 output result (2020). In this study each statement rated on a 5-point Likert response scale which includes strongly agree, agree, undecided, disagree and strongly disagree. Based on this an internal consistency reliability test was conducted in Sambera town with a sample of 5 operators and the Cronbach's alpha coefficient for the instrument was found as 0.714 which is highly

reliable. Typically, an alpha value of 0.70 or higher is taken as a good indication of reliability, although others suggest that it is acceptable if it is 0.67 or above (Cohen, 2007). Since, instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. Then, instruments are consistent with the objectives of the study.

4.4. GENERAL CHARACTERISTICS OF THE ENTERPRISES

4.4.1. Category of Business Venture

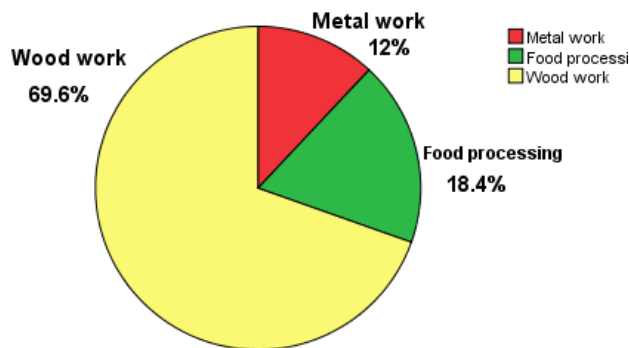


Figure 2: Sectors respondents engaged in
Source: Field survey SPSS Version 21 output result (2020).

As shown in figure 4.1 above, the sample firms were operating in three sectors of the economy. Most of them are engaged in wood work (69.6%) followed by food processing (18.4%) and metal work (12%). In my study area large numbers of MSEs Sectors were leading in wood work sectors and others are not much more available as compare with in wood work.

4.4.2 The Main Source of Start-up and Expansion Finance

Starting own business requires a starting capital rather than mere existence of ideas. To capture information regarding the relative importance of the various sources of finance, enterprises were asked whether they ever received credit from each of a given list of sources of finance. The following figure shows the main sources funds.

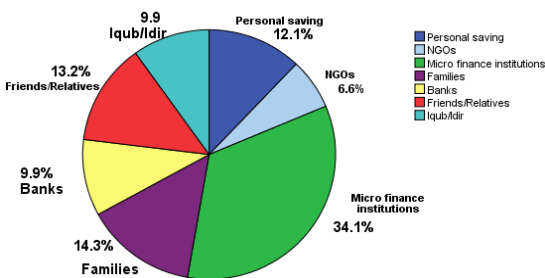


Figure 3: Sources of finance

Source: Field survey SPSS Version 21 output result (2020).

As can be seen from the figure 4.2 micro finance institutions (34.1%) are the most frequently used sources, followed by families (14.3%), friends/relatives (13.2%), personal saving (12.1%) and iqub/idir (9.9%) in that order. And the remaining sources of finance come from bank (9.9%) and NGOs (6.6%).

This shows that the main source of finance for MSEs in Samara – Logia town is micro finance institutions. But also other traditional source like family, friends/relatives, personal saving and iqub/idir plays the greatest role. In the town, informal sources play the greatest role in establishment of MSEs than the formal sources like banks and NGOs.

Besides, the result of interview shows that majority of MSEs in the study area uses informal sources. The formal financial institutions have not been able to meet the credit needs of the MSEs. According to majority interviewee, the reason for emphasizing on informal sector is that the requirement of collateral/guarantor is relatively rare since such sources usually take place among parties with intimate knowledge and trust of each other. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. To wind up, such constraint of finance for MSE affects their performance directly or indirectly.

4.4.3. The important aspects for the profitability of Business ventures

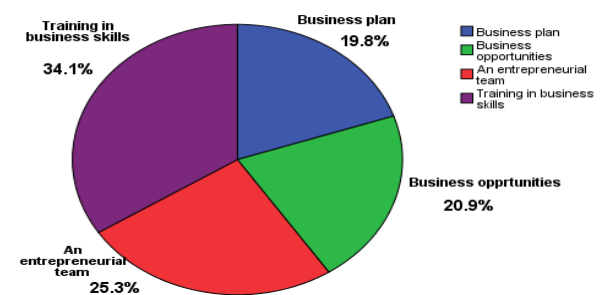


Figure 4: Important aspects for business venture
Source: Field survey SPSS Version 21 output result (2020).

As it can be seen from the figure 4.3 above, 34.1% of the respondents indicated that training in business skill is important for the success of their business ventures, 25.3% of the respondents felt that the availability of an entrepreneurial team is important for the success of their business ventures, 20.9% of respondents alluded to the fact that a business opportunities is essential for the success of their

business ventures and 19.8% of the respondents concluded that business plan is important for the success of their business ventures. The closer analysis of the result leads to the conclusion that training in business skill is the most important aspect for the success of any business venture.

4.5. Factors Affecting the Performance of Micro and Small Enterprises

Respondents were asked different questions regarding the factors that affect the profit performance of MSEs in Samara – Logia town. Their

Table 4.6: Politico-legal factors that affect the performance of MSEs

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|---|------------|-------|-----------------|-------|-----------|-------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| The tax levied on my business is not reasonable | 3.33 | 1.073 | 2.94 | 1.211 | 3.08 | 1.164 | 3.11 | 1.14 |
| Bureaucracy in company registration and licensing | 2.75 | 1.545 | 3.00 | 1.455 | 2.81 | 1.435 | 2.84 | 1.47 |
| Lack of government support | 2.25 | 1.357 | 2.83 | 1.098 | 2.40 | 1.166 | 2.49 | 1.20 |
| Political intervention | 1.67 | 1.155 | 3.00 | 1.572 | 2.52 | 1.327 | 2.39 | 1.35 |
| Lack of accessible information on government regulations that are relevant to my business | 2.08 | .793 | 2.33 | .767 | 2.60 | .983 | 2.33 | 0.84 |
| Grand Mean and Standard Deviation | | | | | | | 2.63 | 1.20 |

Source: Field survey SPSS Version 21 output result (2020)
MN=Mean, SD=Standard deviation

As it is indicated in table 4.5 above, the mean and standard deviation for the politico-legal factors were calculated. The table shows the tax levied on my business is not reasonable has a mean score of 3.33 with a standard deviation of 1.073 for metal work 3.08, mean score of 3.08 with standard deviation of 1.164 for wood work and mean score of 2.94 with standard deviation of 1.211 food processing. Therefore, it may be concluded that tax levied on my business is not reasonable is the main factor that affects the performance of all sectors. This is followed by average score of the respondent's response with regard to Bureaucracy in company registration and licensing.

According to the table 4.5 above, enterprises engaged in food processing, wood work and metal work the bureaucracy in company registration and licensing. The agreement on the company registration and

responses are organized in the following manner. there are a number of challenges that affect performance of MSEs associated with different factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the performance of MSEs. The results for measures of central tendency and dispersion were obtained from the sample of respondents of metal works; food processing and wood works are shown in the following tables.

licensing amount is justified by the calculated means of 3.00, 2.81 and 2.75 with standard deviation of 1.455, 1.435 and 1.545 respectively. The mean score 3.00 and standard deviation 1.572 shows that, the operators of food processing in MSEs agree with the problem related to political intervention around their working areas. But, the business owner manager engaged in metal work and wood work were neither 'agreed' nor 'disagreed' with this problem. Furthermore, the table 4.5 indicates that lack of government support is another problem that affects the performance of enterprises engaged in food processing and wood work with a mean of 2.83 and 2.4 and standard deviation of 1.098, 1.166 respectively. But, respondents of metal work were disagreed with the factors related to lack of government support. The mean score and standard deviation clearly shows their disagreement. That is

mean of 2.25 and standard deviation of 1.357 for owner manager engaged in metal work sector.

Lastly, the table indicates that the owner managers engaged in all sectors are neither 'agreed' nor 'disagreed' with related to lack of necessary information on government regulations. That is a mean score of 2.60, 2.33, and 2.08 with standard deviation of .983, .767 and .793 for an operator engaged in wood work, food processing and metal work respectively. When the above responses compared with the interview conducted with operators of MSEs, it was confirmed that there are problems related to government bodies at the city administration levels. The interviewees are pointed out the implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor MSEs. The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which

resulted in abandoning or being irresponsible to the issues of the MSE operators.

Furthermore, the politico-legal environments were mentioned among the key constraints to enterprises in the field survey, it is recognized that some respondents are classified as the major constraints to enterprises Samara – Logia town. Even when opportunities have been created, MSEs have not been able to draw the full advantage due to absence of appropriate policy support. According to interviewees, there still exists an overly bureaucratic government system that often results in unnecessary delays in compliance and is excessively costly. This includes a complex system, lengthy procedures and rules.

For example, registration of a business, getting working places, payment of stamp duty among others. For enterprises found in Samara – Logia town, this poses a major challenge and cost as the owners of the business would need to close for days in order to travel to concerned governmental offices to access these services sometimes without success. Operators believe that these requirements force enterprises to operate informally, which greatly limits their opportunities for growth, or to go out of business.

Table 4.7: Working place factors that affect the performance of MSEs

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|---------------------------------------|------------|-------|-----------------|-------|-----------|-------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Absence of own premises | 2.50 | 1.087 | 3.28 | 1.602 | 2.85 | 1.435 | 2.87 | 1.37 |
| Current working place is not suitable | 2.17 | 1.267 | 2.39 | 1.092 | 2.81 | 1.424 | 2.45 | 1.26 |
| The rent of house is too high | 3.42 | .793 | 2.83 | 1.249 | 3.27 | 1.217 | 3.17 | 1.08 |
| Grand Mean /Standard deviation | | | | | | | 2.83 | 1.23 |

Source: Field survey SPSS Version 21 output result (2020).

The mean scores and standard deviations in table above shows, the premises factors that hinders their performance are absence of their own premises, the rent of house is too high and the current working place is not convenient for their business. As the mean score of the rent of house is too high indicate 3.42, 3.27 and 2.83. With standard deviation of .793, 1.217 and 1.249 for respondents engaged in metal work, wood work and food processing respectively.

With regard to absence of Own premises, the mean scores are 3.28, 2.85 and 2.50 and standard deviations are 1.602, 1.435 and 1.087 for owner managers engaged in food processing, wood and

metal work respectively. The respondents of wood work and food processing agree with their current working place is not convenient to run business. Their mean scores are 2.81 and 2.39 and standard deviations are 1.424 and 1.092 respectively. But, the mean scores and standard deviations for enterprises engaged in metal works are 2.17 and 1.267 respectively.

In an interview conducted with an operator of metal work it was confirmed that, they operated in rented house and high rental charges have impeded the performance of their businesses as some charges are higher than the capacity to pay. Similarly, in an

interview conducted with owner managers of wood work was confirmed this idea. According to them,

this high rent of house is resulted from absence of own premises to run business.

Table 4.8: Technological factors that affect the performance of MSEs

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|---|------------|-------|-----------------|-------|-----------|-------|-------|-------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Lack of appropriate machinery and equipment | 2.17 | .718 | 2.33 | 1.029 | 2.84 | 1.393 | 2.26 | 1.04 |
| Lack of skill to handle new technology | 1.67 | .888 | 2.67 | .970 | 2.05 | .798 | 2.13 | .885 |
| Lack of money to acquire new technology | 2.33 | 1.155 | 1.89 | .583 | 2.39 | 1.136 | 2.20 | .958 |
| Unable to select proper technology | 2.58 | .900 | 2.28 | 1.018 | 2.69 | 1.154 | 2.51 | 1.02 |
| Grand Mean /Standard deviation | | | | | | | 2.27 | 0.975 |

Source: Field survey SPSS Version 21 output result (2020).

As it can be seen in table 4.7 above, lack of appropriate machinery and equipment is the main problem of MSEs engaged in wood work. The mean scores and standard deviations are 2.84 and 1.393 respectively. This is followed by Lack of skill to handle new technology. The food processing and wood work mean score and standard deviation are 2.67 and 2.05 with .970 and .798 respectively.

According to table 4.7, for operators engaged in food processing and metal work, lack of appropriate machinery and equipment is moderately affects their performance. That is a means and standard deviations of 2.33 and 2.17 with 1.029 and .718 respectively. With regard to lack of money to acquire new technology, the mean scores and standard deviations are 2.39 and 2.33 with 1.136 and 1.155 for operators of wood and metal work respectively.

On the other hand, the mean and standard deviation for lack of skills to handle new and proper technology, the table above depicts that the respondents' agreement scale is more than undecided, at, if new and appropriate technologies obtained, the presence of them will result in performance improvement.

indeed less than agreed. That is the mean ranged between 2.05 and 2.67 for lack of skills to handle new technology and 2.28 and 2.69 for unable to select proper technology.

The studied MSEs own a variety of working machines, equipment and tools, most of which were purchased. According to the interview with the operators, the loan to purchase equipment and materials were obtained from both formal and informal sources.

Welding machine, singer, grinder, stove, drill machine, screw driver, hammer, chisel and clamps are some of the work-related machines and equipment owned by the studied MSEs. The operators indicated that the presence of these machines, tools and equipment has allowed the operators to purchase products.

In contrast to this, according to some interviewees of food processing sector, they lack money to acquire new technology (equipment, machinery, tools, etc.). Moreover, respondents replied th

Table 4.9: Infrastructural factors that affect the performance of MSEs

| Item | Metalwork | | Food processing | | Wood work | | Grand | |
|---------------------|-----------|-------|-----------------|-------|-----------|-------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Power interruptions | 1.75 | 1.138 | 2.69 | 1.127 | 3.33 | 1.273 | 2.59 | 1.17 |

| | | | | | | | | |
|---|------|-------|------|-------|------|-------|------|------|
| Insufficient and interrupted water supply | 2.26 | 1.303 | 2.60 | 1.188 | 2.00 | 1.154 | 2.28 | 1.21 |
| Lack of business development services | 1.75 | .866 | 2.44 | 1.042 | 2.45 | 1.327 | 2.21 | 1.08 |
| Lack of sufficient and quick transportation service | 1.50 | .522 | 2.28 | 1.074 | 3.28 | 1.070 | 2.35 | 0.88 |
| Lack of appropriate dry waste and sewerage system | 2.00 | .669 | 2.42 | .594 | 2.13 | .586 | 2.18 | 0.61 |
| Grand Mean /Standard deviation | | | | | | | 2.34 | 0.93 |

Source: Field survey SPSS Version 21 output result (2020).

The result presented in table 4.8 shows that power interruption is the main problem followed by lack of sufficient and quick transportation service that hinders the business performance of all sectors. The mean scores of power interruption are 3.33, 2.69 and 1.75 with standard deviations of 1.273, 1.127 and 1.138 for wood work, food processing and metal work respectively. The mean scores of lack of sufficient and quick transportation service are 3.28, 2.28 and 1.5 with the standard deviations of 1.070, 1.074 and .522 wood work, food processing and metal work respectively.

On the other hand, insufficient and interrupted water supply, and lack of appropriate dry waste and sewerage system are the main challenges that hinder the performance of business operators engaged in food processing. The table 4.8 above shows that, according to respondents of food processing sector, the mean scores of 2.6 and 1.188 with standard deviations of 2.42 and .594 for insufficient and interrupted water supply, and lack of appropriate dry waste and sewerage system respectively.

As opposed to this, the table 4.8 shows that insufficient and interrupted water supply does not affect the performance of MSEs engaged in wood and metal work sectors in the selected area. The disagreement on the variables is justified by the calculated means and standard deviations. That is a mean score of 2.00 and 1.154 with standard deviation of 2.26 and 1.303 for MSEs engaged in wood and metal work respectively. With regard to lack of appropriate dry waste and sewerage system, respondents of wood and metal work sectors are almost undecided. The mean score of 2.13 and .586 with standard deviation of 2.00 and .669 for operators engaged in wood and metal work respectively. It seems that these operators neither agree nor disagree on the issue related to lack of appropriate dry waste and sewerage system.

Accessibility of a location is the ease with which it can be accessed by different modes of transport (Brown, 2002). Divergent from these aspects,

however, most of the studied area is situated far from the main asphalt road and the condition of the road leading to the cluster from the main road is extremely poor. This poor state of the road condition of locality has culminated in high transportation service costs to the MSEs, in addition to making the sector difficult for accessibility by the existing and potential customers.

Concerning transport facilities, access to affordable and appropriate public transport is of paramount vitality in expanding the employment opportunities of the urban poor who need inexpensive access to areas of economic and commercial activity. Equally, the importance of physical capital especially infrastructure in enabling people to access, and directly support, income-generating activities is well recognized by writers on urban livelihoods such as (Rakodi, 2002). Housing which is close to employment opportunities or markets will improve residents' access to income-generating work and will reduce transport costs, which can be a significant expenditure and time-drain for the urban poor (Farrington, 2002).

In the view of majority operators interviewed, this poor state of the local road has hampered the accessibility of their working site by existing and potential customers. In addition, it has forced the operators to incur high transportation service cost, damaging their already meager and continuously declining income.

The other impediment, according to interviewees of the sector, is the increasing cost or price of transportation service especially the hardly affordable price of those private cars on which the operators load raw materials from places of supply. The operators associate this expensive transportation service price with the unsuitability of the road facility. The operators agree that, if the road infrastructure around their working area is maintained or improved, there would be possibility of a remarkable reduction on their expenses related to

running their businesses.

Table 4.10: Marketing factors that affect the performance of MSEs

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|--|------------|-------|-----------------|-------|-----------|-------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Inadequate market for my product | 1.75 | .866 | 3.78 | 1.060 | 4.17 | 1.373 | 3.23 | 1.09 |
| Searching new market is so difficult | 2.39 | .835 | 2.87 | 1.501 | 3.23 | 1.562 | 2.83 | 1.29 |
| Lack of demand forecasting | 2.83 | 1.115 | 2.11 | .832 | 2.15 | .743 | 2.36 | 0.89 |
| Lack of market information | 2.33 | .778 | 2.44 | 1.042 | 3.00 | 1.074 | 2.59 | 0.96 |
| Absence of relationship with an organization that conduct marketing research | 2.42 | .515 | 2.61 | 1.195 | 3.17 | 1.253 | 2.73 | 0.98 |
| Lack of promotion to attract potential users | 2.73 | 1.044 | 2.50 | 1.150 | 2.68 | 1.098 | 2.63 | 1.09 |
| Poor customer relationship and handling | 2.58 | .936 | 3.06 | 1.383 | 2.48 | .900 | 2.70 | 1.07 |
| Grand Mean /Standard deviation | | | | | | | 2.72 | 1.05 |

Source: Field survey SPSS Version 21 output result (2020).

As shown in the table 4.9 above, marketing factor is consisted of seven items. From these factors inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research are critical factors that affect the performance of MSEs engaged in all sectors. The mean scores and standard deviations clearly show respondents agreement on the variables. That is mean scores of market inadequacy are 4.17, 3.78 and 1.75 with standard deviations of 1.373, 1.060 and .866 for MSEs engaged in wood work, food processing and metal work respectively.

The respondents of wood work, food processing and metal work agree with a mean of 3.23, 2.87 and 2.39 with standard deviation of 1.562, 1.501 and .835 that there is difficulty of searching new market respectively.

In table 4.9 it can be seen that, lack of demand forecasting is another marketing factor that affect the performance of MSEs. The mean of 2.83, 2.15 and 2.11 with standard deviation of 1.115, .743 and .832 for MSEs engaged in metal work, wood work and food processing respectively. Moreover, the table 4.9 shows that lack of market information hinders businesses performance. The mean scores are 3.00, 2.44 and 2.33 and standard deviations are 1.074, 1.042 and .778 for business enterprises engaged in

wood work, food processing and metal work respectively. Similarly, majority of respondents agreed with they have no relationship with an organization and/association that conduct marketing research. This agreement is justified by the mean scores of 3.17, 2.61 and 2.42 with standard deviation of 1.253, 1.195 and .515 for an operator engaged in wood work, food processing and metal work respectively.

On the other hand, the table 4.9 above shows that respondents of all sectors are neither 'agreed' nor 'disagreed' with poor customer relationship and handling that affect their performance with mean of 3.06, 2.58 and 2.48 and standard deviation of 1.383, .936 and .900 for respondents engaged in food processing, metal and wood work respectively. Likewise, in relation to lack of promotion to attract potential users, the respondents of metal work and wood work are do not like to decide on it. This is justified by the mean score of 2.73 and 2.68 with standard deviation of 1.044 and 1.098 respectively. But, as the table 4.9 above shows, lack of promotion to attract potential users is the main factor that affects the performance of MSEs engaged food processing sector. As the mean score 2.50 and standard 1.150 clearly depicts, the respondent operators agree on their inability to promote potential users.

In an interview conducted with an operator of the

sectors, it was confirmed that absence of selling place has aggravated the already existing ‘inadequacy and crowdedness’ of the internal working space of the shades.

The operators intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied MSEs. Absence of selling place obviously narrows the chance to access new customers. The recently price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The operators indicated that the continuously increasing price of inputs has been checked by the government action. They also indicated that the

materialization of this ceiling has also saved them from being ‘exploited’ by illegal merchants, who always increase prices of basic commodities unreasonably.

On the other hand, however, currently the owner managers attributed the sky rocketing price of commodities to the shortage or inadequacy of supply of commodities. Brilliantly enough, one respondent linked the issue with population increase. This is true since when there is a sufficient demand for a given goods or services, in this case higher population; it is likely that the price of that goods or services becomes high.

Table 4.11: Financial factors that affect the performance of MSEs

| Item | Metal work | | Food processing | | Wood work | | Grand | |
|---|------------|------|-----------------|------|-----------|------|-------------|-------------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Inadequacy of credit institutions | 2.97 | 1.14 | 3.01 | 1.09 | 2.92 | 1.25 | 2.96 | 1.14 |
| Lack of cash management skills | 3.82 | .81 | 3.83 | .85 | 4.20 | .82 | 3.95 | .82 |
| Shortage of working capital | 4.34 | .70 | 4.42 | .66 | 4.43 | .65 | 3.06 | .67 |
| High collateral requirement from banks and other lending institutions | 4.36 | .86 | 4.46 | .70 | 4.45 | .75 | 4.42 | .77 |
| High interest rate charged by banks and other lending institutions | 4.26 | .99 | 4.33 | .82 | 4.42 | .77 | 4.33 | .86 |
| Loan application procedures are too complicated | 4.07 | .87 | 3.91 | .97 | 4.17 | .92 | 4.05 | .92 |
| Grand Mean /Standard deviation | | | | | | | 3.79 | 0.86 |

Source: Field survey SPSS Version 21 output result (2020).

The mean scores of 4.46, 4.45 and 4.36 with standard deviation of .70, .75, and .86 of the respondents in table 4.10 shows that those operators engaged in food processing, wood and metal work have faced the problem related to high collateral requirement from banks and other lending institutions respectively. Regarding inadequacy of credit institutions, the mean scores depicts that the respondents’ of the three sectors agreement scale is more of undecided. The results show that the means ranged between 2.92 and 3.01. This shows that the respondents of the three sectors are in dilemma to say that the credit institutions are adequately available or not.

With regard to shortage of working capital the mean score of 4.43, 4.42 and 4.34 with standard deviation of .65, .66 and .70 for entrepreneurs engaged in wood work, food processing and metal work respectively. Similarly, interest rate charged by banks and other

lending institutions is high with a mean score of 4.42, 4.33 and 4.26 with standard deviation of .77, .82 and .99 for operators of wood work, food processing and metal work respectively.

By the same token, respondents of the three sectors agreed with the complexity of loan application procedures of banks and other lending institutions. This is justified by the mean scores 4.17, 4.07 and 3.91 with a deviation of .92, .87 and .97 for operators engaged in wood work, metal work and food processing respectively. Moreover, lack of cash management skills are a serious problem of MSEs as the table 4.10 above shows very well. The respondents agree with a mean of 4.20, 3.83 and 3.82 with standard deviation of .82, .85 and .81 for MSEs engaged in wood work, food processing and metal work respectively.

Operators were interviewed to give their opinion on

the nature of problem related to financial factors. It was found that, mainly ensuing from low market, the operators usually suffer of shortage of cash leading to their inability to cover their daily needs adequately. The other cause of this low cash presence at the disposal of the operators could be the increasing expense incurred by their respective MSEs in relation to purchase of raw materials and services such as transportation, in addition to cost of utilities consumed both at home and work place. The operators frequently mitigate this problem of cash shortage through borrowing and lending each other. The other mechanism of easing such cash shortage is through diversification of income generating activities.

The presence of affordable credit is essential for enterprise growth. With regard to credit access and availability, there are both formal and informal sources serving the operators in the studied area. The informal sources are consisted of loan from other fellow operators, family, relatives and friends. According to responses from the operators, the credit generated from such sources, along with a loan secured from micro finance institution and families a portion of the start-up capital of the MSEs. Afar micro finance institution is the formal source of credit used by operators, though there are other financial service providers like state-owned and private commercial banks.

Even if many writers including Vandenberg support the already established opinion on micro-finance that holds a view that micro-finance is a useful way of channeling finance to the poor and overcoming the difficulties they face in securing credit from formal financial institutions such as banks (Vandenberg, 2006). It was reported that the terms of credit of afar MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate that is 9% in comparison with the interest rate of 6% charged by the banks.

Majority of respondents indicated that, MFI charges them totally 12% of the extended credit, of which 9% is paid as interest on the loan, 3% as service charge.

Table 4.12: Management factors that affect the performance of MSEs

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|---|------------|-----|-----------------|------|-----------|-----|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Lack of clear division of duties and responsibility among employees | 3.16 | .89 | 3.21 | .92 | 3.13 | .85 | 3.16 | .88 |
| Poor organization and ineffective Communication | 3.26 | .99 | 2.85 | 1.09 | 2.97 | .94 | 3.02 | 1.00 |
| Poor selection of associates in Business | 4.18 | .81 | 4.28 | .79 | 4.33 | .75 | 4.26 | .78 |

This high loan cost puts the affordability of the loan of the MFI demanding by the users. Obviously, such high loan cost further damages the already low meager revenue of the enterprises. On the other hand, the interviewees' pointed that the short repayment period scheduled by the MFI put them in worrisome state as they face shortage of market resulting in their inability to repay the loan with in the period stipulated by the MFI. Given the market problem of the MSEs, it is fair to suggest the MFI to effectuate a 'grace period policy'.

Majority of interviewees widely outlined that, they are frequently uses informal sources as a main sources. According to them, this is because of the view that the requirement of collateral and loan application procedures are relatively rare (completely none) in case of informal sources. Since such sources usually take place among parties with intimate knowledge and trust of each other, making the need for security (in the form of asset collateral/guarantee) low.

Respondents were also interviewed to give their opinion regarding saving, majority of them had a prior saving, though incomparable with their current level. The operators indicated that they have saving account opened at Afar MFI and Commercial Bank of Ethiopia (CBE) in their own name. In addition to this form of saving, there is also a scheme called Iqub, where each member of it puts equal monthly contribution and the pooled amount is given to each contributor on rotational basis. The money accessed from Iqub sources is usually spent for undertaking other income generating activities by other family members such as gullit. Such informal indigenous rotating saving and credit schemes have a remarkable role in consolidating the enriched social life among the operators.

To wind up, the operators had better level of cash possession in comparison with the past but it is declining as time passes because of the inflation, increasing price of inputs, basic commodities and services such as transportation.

| | | | | | | | | |
|---|------|-----|------|------|------|-----|-------------|------------|
| Lack of well trained and experienced employees | 3.85 | .75 | 3.28 | 1.11 | 4.08 | .87 | 3.73 | .91 |
| Lack of low cost and accessible training facilities | 4.08 | .86 | 3.97 | .81 | 3.03 | .78 | 3.69 | .81 |
| Lack of strategic business planning | 3.98 | .81 | 4.07 | .78 | 4.02 | .68 | 4.02 | .75 |
| Grand Mean /Standard deviation | | | | | | | 3.69 | .85 |

Source: Field survey SPSS Version 21 output result (2020).

As shown in table 4.11 above, poor selection of associates in business is the main problems that hinder the performance of MSEs. It shows a mean score of 4.33, 4.28 and 4.18 with a standard deviation of .75, .79 and .81 for MSEs engaged in wood work, food processing and metal work respectively. Therefore, the average score of the respondents with regard to poor selection of associates indicates their agreement with little deviations among them.

With regard to strategic business planning the mean scores are 4.07, 4.02 and 3.98 with standard deviation of .78, .68 and .81 for operators engaged in food processing, wood work and metal work respectively. This shows that MSEs have a problem with developing and implementing the strategic planning activities successfully. Likewise, in relation to costly and inaccessible training facilities, the table above shows that, the mean score of 4.08, 3.97 and 3.93 with standard deviation of .86, .81 and .78 for MSEs engaged in metal work, food processing and wood work respectively.

The table also shows lack of well trained and experienced employees is the problem of operators engaged in wood and metal work with mean score of 4.08 and 3.85 with standard deviations of .87 and .75 respectively.

But as the table above shows, the problem of well trained and experienced employees for operators engaged in food processing is moderate with a mean of 3.28 and standard deviation of 1.11. To the contrary, the respondent of all sectors neither 'agree' nor 'disagree' with the issue of poor organization and ineffective communication.

The mean scores and standard deviations clearly show that they are almost undecided. That is means of 3.26, 2.97 and 2.85 with standard deviations of .99, .94 and 1.09 for MSEs engaged in metal, wood work and food processing respectively. Similarly, the mean scores and standard deviations of lack of clear division of duties among employees are 3.21, 3.16 and 3.13 and .92, .89 and .85 for MSEs employed in food processing, metal and wood work respectively.

It is argued from a theoretical perspective that management experience and continuous training

provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Enock, 2010).

With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and forecasting under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals.

In this regard in an interview conducted with operators of MSEs, it was confirmed that they had many management problems which stem from factors such as poor record keeping, insufficient training and lack of relevant qualifications.

Furthermore, most of these enterprises operate without systems in line with good management practice in which the owner manager is the sole decision maker and his/her absence leads to a halt (temporarily stop) in decision making. Similarly, interviewees commonly indicated that, inability (low technical skills) to troubleshoot failures on machinery and/or equipment is a critical problem. Since the operators of MSEs cannot afford to employ specialists in the fields of maintenance with technical knowledge.

Coming down to the matter of lack of a proper business plan for the business, in an interview conducted with operators, it was confirmed that operators of MSEs have no proper business plans at start faces the most challenges during the course of their lives. According to operators, lack of trust in doing business on the other hand seems to have prevailed in most of the cooperative and partnership business (mistrust between business associates). As evident in the study eleven have had a case of distrust among members of cooperatives and partners in their particular business.

To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, mistrust among business associates, insufficient training, lack of proper business plan and lack of relevant qualifications among employees.

Table 4.13: Entrepreneurial factors that affect the performance of MSEs

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|--|------------|------|-----------------|-----|-----------|-----|-------------|-------------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| Lack of motivation and force | 2.46 | .89 | 2.49 | .85 | 2.38 | .96 | 2.44 | .90 |
| Lack of tolerance to work hard | 2.92 | .97 | 2.82 | .86 | 3.28 | .74 | 3.00 | .85 |
| Lack of persistence and courage to take responsibility for one's failure | 4.16 | .86 | 4.21 | .70 | 4.30 | .74 | 4.22 | .76 |
| Absence of initiative to assess one's strengths and weakness | 4.02 | .922 | 3.99 | .97 | 3.95 | .91 | 3.98 | .93 |
| Lack of entrepreneurship training | 3.90 | .87 | 3.96 | .75 | 3.97 | .92 | 3.94 | .84 |
| Lack of information to exploit business opportunities | 3.84 | .99 | 3.89 | .90 | 3.88 | .89 | 3.87 | .92 |
| Grand Mean /Standard deviation | | | | | | | 3.57 | 0.86 |

Source: Field survey SPSS Version 21 output result (2020).

Among the entrepreneurial factors, lack of persistence and courage to take responsibility for one's failure scores the highest mean as 4.30, 4.21 and 4.16 with standard deviation of .74, .70 and .86 for operators engaged in wood work, food processing and metal work respectively. The second most important factor that affects the performance of MSEs is absence of initiative to assess one's strengths and weakness. Their mean score of 4.02, 3.99 and 3.95 with standard deviation of .92, .97 and .91 for owners engaged in metal work, food processing and wood work respectively. This shows that the operators of all sectors agreed with that they have faced the problem of assessing their weaknesses and strengths.

Furthermore, the mean and standard deviation indicates that lack of entrepreneurship training is the third entrepreneurial factors that hinder the success of entrepreneurs employed in all sectors. Given that a mean score of 3.97, 3.96 and 3.90 with standard deviation of .92, .75 and .87 for MSEs engaged in wood work, food processing and metal work respectively. Regarding lack of information to exploit business opportunities, the mean of 3.89, 3.88 and

3.84 with standard deviation of .90, .88 and .99 for an operator engaged in food processing, wood and metal work respectively. Thus, it may be concluded that lack of information to exploit business opportunities is the fourth factor that hinder the performance of MSEs engaged in three sectors.

As opposed to this, the table 4.12 shows that lack of motivation is not a serious problem of operators engaged in three sectors. The disagreement on this factor is justified by the calculated means of 2.38, 2.46 and 2.49 with standard deviations of .96, .89 and .85 for operators engaged in wood, metal work and food processing respectively. However, the table indicates that lack of tolerance to work hard moderately hinders the performance of MSEs operated in wood, metal work and food processing with means of 3.28, 2.92 and 2.82 and standard deviations of .74, .97 and .86 respectively.

In an interview conducted with an operator of MSEs, few (two) interviewees replied that lack of motivation and drive affect the performance of MSEs. Even though the results in this study show only two operators whose business is constrained by lack of motivation and drive, it has been proven that this is a

major constraint to many small business owners. According to interview conducted with operator it was confirmed that, lack of tolerance to work hard and absence of initiative to assess one's strengths and weaknesses are another factor affecting the performance of MSEs. According to them this is due to negligence on the part of employees and/or owner managers to develop and implement such a culture of tolerance and assessment of strengths and weaknesses. Amazingly, all of the interviewees confirmed that, lack of persistence and courage to take responsibility for one's failure (low level risk taking) is the main entrepreneurial factor that affects the performance of MSEs.

Lack of entrepreneurial training was mentioned by operators in the entire study area. According to interviewees, it featured as a key problem in all sectors. A number of interviewee respondent felt that enough training in entrepreneurship would better

Table 4.14: Comparison of the major factors

| No. | Factors | Grand Mean | Grand Standard deviation | Rank of Severity |
|-----|-------------------------|------------|--------------------------|------------------|
| 1 | Politico-legal factors | 2.45 | 1.81 | 4 rd |
| 2 | Working place factors | 4.60 | 1.75 | 2 st |
| 3 | Technological factors | 2.38 | 1.04 | 5 th |
| 4 | Infrastructural factors | 2.37 | 1.54 | 6 th |
| 5 | Marketing factors | 2.98 | 1.47 | 3 rd |
| 6 | Financial factors | 4.72 | 2.96 | 1 st |
| 7 | Management factors | 2.20 | 1.20 | 7 th |
| 8 | Entrepreneurial factors | 2.13 | 1.94 | 8 th |

Source: Field survey SPSS Version output result (2020).

It can now be seen that financial and working place factors has the biggest potential to contribute to the performance, followed by marketing, politico-legal, technological infrastructural, management, and entrepreneurial factors. In another words, the result shows that financial and working premises factors are the two top most factors that affect the performance

Table 4.15: Micro and small enterprise profit Performance rating based on business practice.

| Item | Metal work | | Food Processing | | Wood work | | Grand | |
|------------------------------------|------------|------|-----------------|-------|-----------|-------|-------|------|
| | MN | SD | MN | SD | MN | SD | MN | SD |
| The business is Profitable | 1.67 | .985 | 2.06 | .639 | 2.76 | 1.422 | 2.16 | 1.01 |
| There is a good Sales income | 2.42 | .669 | 2.33 | 1.534 | 2.68 | 1.098 | 2.47 | 1.10 |
| The business has good Market share | 2.17 | .937 | 1.67 | .767 | 2.76 | 1.302 | 2.2 | 1.00 |

prepare to perform in their business endeavors. Furthermore, with regard to lack of information to exploit business opportunities interview was conducted with operators of MSEs. It was confirmed that, the operators do not heighten the ability and awareness for recognizing and audaciously exploiting business opportunities. According to them, this is due to lack of persistently and continually seeking of information opportunities. Consequently, it hampers the performance of MSEs and the fulfillment of competitive urges in general.

4.6. Comparison of Factors

Even though, all the politico-legal, infrastructure, working place, technology, marketing, financial, management and entrepreneurial factors affect the performance of MSEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above.

of MSE in the selected area. This result is supported (Haftu, 2009). Who found that lack of finance and working space rank on top being reported as the major constraints by a large proportion of the enterprises? It can, therefore, be concluded that finance and working place factors do largely affect the performance of MSEs.

| | | | | | | | | |
|---------------------------------------|------|------|------|-------|------|------|------|------|
| There is good customer loyalty | 2.92 | .900 | 2.89 | 1.079 | 2.87 | .983 | 2.89 | 0.98 |
| Grand Mean /Standard deviation | | | | | | | 2.43 | 1.02 |

Source Field survey SPSS Version 21 output result (2020).

From the table above it can be understood that all the sectors agreed on the profitability of the business they are engaged there is good customer loyalty in this highest mean as 2.92, 2.89 and 2.87 with standard deviation of .900, 1.079 and .983 for operators engaged in metal work, food processing and wood work respectively. The second most important factor that affects the performance of MSEs is the business is Profitable. Their mean score of 2.76, 2.06 and 1.67 with standard deviation of 1.422, .639 and .985 for engaged in wood work, food processing and metal work respectively. The MN score observed above the SD showed that there is low variation in among the responses. Whereas the respondents showed their disagreement on market share and Sales income with score of 2.76, 2.17, and 1.67 with SD 1.302, .937 and .767 from here it can be concluded that regardless of other factors the business engaged by operators are profitable. For

most of enterprises are not keeping record profitability is justified by survival and covering household expenditures.

4.7. Pearson's Product Moment Correlation Coefficient

In this study Pearson's Product Moment Correlation Coefficient was used to determine whether there is significant relationship between politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial variable with performance. The following section presents the results of Pearson's Product Moment Correlation on the relationship between independent variables and dependent variable. The table below indicates that the correlation coefficients for the relationships between performance and its independent variables are linear and positive ranging from substantial to strong correlation coefficients.

Table 4.16: The relationship between independent variables and performance

| | | Performance |
|-------------------------|---------------------|-------------|
| Politico- legal factors | Pearson correlation | .459** |
| | p-value | .000 |
| | N | 92 |
| Working premises | Pearson correlation | .230* |
| | p-value | .028 |
| | N | 92 |
| Technological factors | Pearson correlation | .456** |
| | p-value | .000 |
| | N | 92 |
| Infrastructural factors | Pearson correlation | .270** |
| | p-value | .009 |
| | N | 92 |
| Marketing factors | Pearson correlation | .543** |
| | p-value | .000 |
| | N | 92 |
| Financial factors | Pearson correlation | .577** |
| | p-value | .000 |
| | N | 92 |
| Management factors | Pearson correlation | .553** |
| | p-value | .000 |
| | N | 92 |
| Entrepreneurial factors | Pearson correlation | .247* |

| | | |
|--|---------|------|
| | p-value | .018 |
| | N | 92 |

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Source: Field survey SPSS Version 21 output result (2020).

As it is clearly indicated in the above table 4.15, a strong positive relationship was found between finance and performance ($r = .577, p < .01$), management and performance ($r = .553, p < .01$), and marketing and performance ($r = .543, p < 0.01$), which are statistically significant at 99% confidence level. This implies that at a 1% level of significance it was discovered that the finance, management and marketing plays a significant role in determining the performance of MSEs in the selected town.

Moreover, the table 4.15 presents the association between the selected variables and performance of MSEs for a sample of 92 operators in Samara – Logia town, Afar region. There is substantial, however statistically significant relationship between politico-legal and performance ($r = .459, p < .01$). This would imply that, the more politico-legal the better performance of MSEs would be.

The result on table above further indicates that, there is a substantial positive correlation between

Table 2: Regress profit performance (as dependent variable) on the selected variables (as independent variables) using multiple regressions.

| Model Summary | | | | | |
|---------------------------|-----------------------------|------------|---------------------------|----------------------------|------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | |
| 1 | .798 ^a | .636 | .601 | 9.569 | |
| Coefficients ^a | | | | | |
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | 48.337 | 16.266 | | 2.972 | .004 |
| Politico-Legal Factors | 1.083 | .234 | .328 | 4.624 | .000 |
| Working Place Factors | 1.401 | .578 | .163 | 2.423 | .018 |
| Technological Factors | .405 | .193 | .168 | 2.094 | .039 |
| Infrastructural factors | .862 | .359 | .168 | 2.400 | .019 |
| Marketing Factors | .647 | .234 | .233 | 2.768 | .007 |
| Financial Factors | .768 | .295 | .235 | 2.604 | .011 |
| Management Factors | .355 | .330 | .097 | 1.075 | .285 |
| Entrepreneurial Factors | .432 | .739 | .041 | .585 | .560 |

a. Dependent Variable: Profit performance

a. Predictors: (Constant), Entrepreneurial Factors, Working Place Factors, Politico-Legal Factors, Technological Factors, Infrastructural factors, Marketing Factors, Financial Factors, Management Factors.

Source: Field survey SPSS Version 21 output result (2020).

Table 4.16 above displays the estimates of the multiple regression of performance against its variables for the sample of 92 operators. The

technological factors and business performance ($r = .456, p < .01$), which is statistically significant at 99% confidence level. This implies that MSEs with entrepreneurial skills performed considerably better. There exists a positive relationship between infrastructural factors and performance ($r = .270, p < 0.01$), entrepreneurial factor and performance ($r = 0.247, p < 0.05$), and working place factor and performance of MSEs ($r = 0.230, p < 0.05$), which are statistically significant at 95% confidence level.

4.8. The Regression Results and Hypothesis Testing

The regression result that are obtained by regressing factors that affect the profit performance micro and small enterprise on the politico-legal, working place, technological, infrastructural, marketing, financial, management and Entrepreneurial factors were analyze and reported. Finally, the hypothesis tests were undertaken based on the proposed hypothesis and the regression output results.

hypothesis which states that the business performance of aimed at MSE development do not affect the MSEs in the selected manufacturing sector

of Samara – Logia town are tested at a 1% and 5% level of significance; it was discovered that the business performance of aimed at MSE development do play a significant role in determining the of MSEs.

4.9. Hypothesis Test

The regression analysis whose results are presented in table 4.16 above provides a more comprehensive and accurate examination of the research hypothesis. Therefore, the regression results obtained from the model were utilized to test these hypotheses. The hypotheses sought to test for a significant influence of the politico- legal, working place, technological, infrastructural, marketing, financial, management and Entrepreneurial factors on the direct effect of profit performance of MSEs which was measure in terms of profitability in MSEs sectors.

As can be seen in table 4.16 above the p-value for the politico-legal, working place, technological, infrastructural, marketing and financial factors are statistically significant at ($p < 0.01$ and $p < 0.05$) which suggests a strong support for hypothesis; whereas, Management and Entrepreneurial Factors are not supported the developed hypothesis because it was statistically insignificant at ($p < 0.05$) level of significant and positively affects the performance of MSEs. factors that affect the profitability of MSEs in the selected manufacturing sector of Samara – Logia town.

H1. There is a relationship between political factors and performance of MSEs in Samara – Logia town.

The first hypothesis of this research posted that the political factor is directly related with the extent of the performance of MSEs it receives. Showing the strongly correlated relationship between the MSEs sector, the positive beta signs and a statistically significant result of political factor related with the profit performance ($\beta = 1.083$, $t = 4.625$, $P < 0.01$) support the proposed hypothesis acceptable.

The results were consistent with the previous performance of MSEs research works of the influence of these factors to the firm performance is very important but it is noteworthy that the political factor has no control over them the tax levied, Bureaucracy, Lack of government support and Political intervention (Wanjiku, 2009).

H2. There is a strong relationship between working place factors and performance of MSEs in Samara – Logia town.

The second hypothesis of this research posted that the working place factor is directly related with the extent of the performance of MSEs it receives. Showing the strongly correlated relationship between the MSEs sector, the positive beta signs and a statistically significant result of working place factor

related with the profit performance ($\beta = 1.401$, $t = 2.423$, $P < 0.01$) support the proposed hypothesis acceptable.

The results were consistent with the previous performance of MSEs research works of the issue of land provision and the land lease system has greatly constrained the chances of micro, small and medium enterprises who aspire to startup businesses (Muchie, Eshetu, & Mammo, 2009).

H3. There is a relationship between technology factors and performance of MSEs in Samara – Logia town.

The hypothesis of this research the regression result highly supports this hypothesis at ($P < 0.05$) level of significant and with the positive signs of beta and t statistics ($\beta = .405$ and $t = 2.094$) supports the proposed hypothesis acceptable. But this result was consistence with some previous performance of MSEs.

According to Annen (2003), it is divided in to production, investment, and technology innovative/ adaptive capability.

H4. There is a relationship between Infrastructural factors and performance of MSEs in Samara – Logia town.

The forth hypothesis of this research posted that the infrastructural factor is directly related with the extent of the performance of MSEs it receives. Showing that strong correlated relationship between the MSEs sector, the positive beta signs and a statistically significant result of infrastructural factor related with the profit performance ($\beta = .862$, $t = 2.400$, $P < 0.05$) support the proposed hypothesis acceptable.

The results were consistent with the previous performance of MSEs research works of a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu, 2009)

H5. There is a strong relationship between the marketing factors and performance of MSEs in Samara – Logia town.

The five hypotheses of this research posted that the marketing factor is directly related with the extent of the performance of MSEs it receives. Showing that strong correlated relationship between the MSEs sector, the positive beta sign and a statistically significant result of marketing factor related with the profit performance ($\beta = .647$, $t = 2.768$, $P < 0.01$) support the proposed hypothesis acceptable.

The results were consistent with the previous performance of MSEs research works of as a result the study of Lussier (1995), Emphasizes on the importance of marketing skill of the business owners

as one factor to the success and better performance of small businesses.

H6. There is strong relationship between the financial factors and performance of MSEs in Samara – Logia town.

The sixth hypothesis of this research posted that the financial factor is directly related with the extent of the performance of MSEs it receives. Showing that strong correlated relationship between the MSEs sector, the positive beta signs and a statistically significant result of financial factor related with the profit performance ($\beta = .768$, $t = 2.604$, $P < 0.05$) support the proposed hypothesis acceptable.

The results were consistent with the previous performance of MSEs research works of Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks (CLEP, 2006).

H7. There is relationship between Management factors and performance of MSEs in Samara – Logia town.

This hypothesis was not supported by the regression result as of the regression results management factors insignificant related with at ($P < 0.05$). As shown in table 4.16 above that weak correlated relationship between the MSEs sector. The coefficient of management factor ($\beta = 0.355$) were positively related but statistically ($t = 1.075$), weak relationship between MSEs ($\rho > 0.05$) not significant related with the performance of micro and small enterprise.

The result was inconsistent with the previous performance of MSEs research works.

According to Zeleke Worku (2008) conducted a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises.

H8. There is relationship between Entrepreneurial factors and performance of MSEs in Samara – Logia town.

This hypothesis was not supported by the regression result as of the regression results entrepreneurial factors insignificant related with at ($P < 0.05$). As shown in table 4.16 above that weak correlated relationship between the MSEs sector. The coefficient of Entrepreneurial factor ($\beta = 0.432$) were positively related but statistically ($t = .585$), weak relationship between MSEs. ($\rho > 0.05$) not significant

related with the performance of micro and small enterprise.

The result was inconsistent with the previous performance of MSEs research works. Studies not related to psychological factors of business success for developing country firms are very scarce (Gold mark, 2009). Most of the macro-based studies have tended to assume entrepreneurs with similar experiences and demographic characteristics.

The table 4.16 revealed that, the correlation between the observed value of performance and the optimal linear combination of the independent variables (politico-legal, working place, technological, infrastructures, marketing, finance, management and entrepreneurial factors) is 0.798, as indicated by multiple R. Besides, given the R Square value of 0.636 and adjusted R square value of 0.601, it may be realized that 63.6% of the variation in performance can be explained by the independent variables. The remaining 36.4 % of the variance is explained by other variables not included in this study. The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

Predicted profit performance score = $48.337 + 1.83$ (politico-legal) + 1.401 (working premises) + $.405$ (technological) + $.862$ (infrastructures) + $.647$ (marketing) + $.768$ (finance) + $.355$ (management) + $.432$ (entrepreneurial)

Table 4.16 further shows that, all the explanatory variables included in this study can significantly explain at 95% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized, we can compare them. Thus, the largest influence on the performance of MSEs is from the politico-legal factor (0.328), the next is financial factor (0.235), marketing (0.233) Infrastructural and technology factors (0.168), and working place (0.163). On the other hand, with the bet management a value of (0.097) and entrepreneurial with the beta value of (0.041) factors are the poorest predictor of profit performance when it is compared with the other explanatory variables under study.

.1. Introduction

In this chapter the conclusions and recommendations are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. Based on the findings of the study recommendations are made to government bodies, to operators of MSEs and suggestion for other researchers.

5.2. Conclusions

This research was conducted in Samara – Logia town of Afar region with the prime intent of critically assessing the factors affect the profitability of MSE operators engaged in metal work, food processing wood work activities. Specifically, the study attempted to examine the sources of finance or funds available for MSEs, to investigate external factors, to assess the internal factors and to recommend possible solution to alleviate the problem of MSEs. Based on the objectives and findings of the study, the following conclusions are worth drawn.

The main sources of startup and expansion finance or funds for most MSEs are micro finance institutions followed by family, friends/relatives, personal saving and iqub/idir. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases, these problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

The most important external factors identified financial factors which include high collateral requirement from banks and other lending institutions, shortage of working capital, high interest rate charged by banks and other lending institutions, and too complicated loan application procedures of banks and other lending institutions. The workings premises factors include absence of own premises and the rent of house is too high. Marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research. Infrastructural factors incorporate power interruptions, and lack of sufficient and quick transportation service that hinder the business performance of all sectors.

Though, various governmental bodies designed various programs aimed at developing MSEs sector.

Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the performance and competitiveness of MSEs.

This is mainly because of the fact that these programmers or policies is not effectively implemented in line with their intended objectives owing to various reasons. According to the findings, the reason ranges from lack of visible commitment of some governmental bodies to lack of regular integration between the MSEs Operators and the concerned bodies of the government.

The main internal factors identified were management factors which include poor selection of associates in business, lack of strategic business planning, and costly and inaccessible training facilities. Research hypothesis the specific empirical findings emerged from the investigation that there exists insignificant positive relationship between independent variables and dependent variable.

Lastly, the major entrepreneurial factors include lack of persistence and courage to take responsibility for one's failure and absence of initiative to assess one's strengths and weakness. In terms of the stated research hypothesis the specific empirical findings emerged from the investigation that there exists insignificant positive relationship between independent variables and dependent variable. Moreover, the selected independent variables may insignificantly explain the variations in the dependent variable in study area.

Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degrees of those critical factors in food processing sector slightly differ from the factors that are critical to metal and wood work sectors, most of the factors are considerably common for three sectors. It has been noted that the external factors are prevalent to the businesses such as financial, working place; marketing and politico-legal had very high effects on the performance of MSEs compared to other factors in the research area.

5.3. Recommendations

Suggestions for corrective and complementary measures to enhance the potential performance of MSEs are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the sector. Based on the findings and conclusions of the study, the following recommendations are forwarded.

The Afar Region government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks

and other credit institutions to lessen their requirements. This should be done so that MSEs can get enough access to finance for their business activities.

The strengthening of government institutions at different levels would play a major role in positively influencing the development of MSEs, thus to reduce delays in processing legal requirements.

The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blockings by laws, to address issues of getting a license or getting a premises on which to operate. A number of factors should be considered in designing all-encompassing policy for the promotion of the sectors.

Marketing factors are frequently indicated as the explanatory factor for most problems faced by the studied MSEs. Therefore, it is necessary to solve this deep-rooted problem. Some of the ways of doing so can be:

- Providing selling and display places in areas close to working area.
- Linking the MSEs with other private contractors working within or around other town so that the operators are able to secure market opportunity.
- Changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run.
- Allowing those MSEs located and operating at Awash town to participate in biddings opened in other town of Afar region.

The operators of MSEs should form groups and make use of pooled negotiating power for borrowing purposes. They can use such negotiating power to purchase raw materials and receive discounts which might lead to a reduction in the cost of production.

Through networking, MSEs of Samara – Logia town

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can be able to exchange services such as advertising amongst themselves for free. This will enhance their competitiveness through a reduction in the cost of production. The benefit of sharing such service for the operators of MSEs is that it will strengthen the future survival, profitability and eventual growth of MSEs.

To make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is generally an imperative. Uninterrupted power supply and quick transportations are basic to effective performance of these enterprises.

Finally, investigating different factors based on the right information are vital for the good performance of any business venture. This can be achieved by conducting more researches in related areas. The focus for this study was on the manufacturing sectors particularly in metal work, food processing and wood work.

It is the researcher's view that future research could therefore investigate the other sectors like construction, urban agriculture, and retail and come up with specific findings which will potentially contribute a lot in the development of the country in general. This study dealt with more of external and internal factors that affect the profit performance of MSEs.

Further research could target the medium and larger firms that have dominated the markets having graduated from the MSEs. The field of MSEs is large and very diverse. It is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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