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# **The Effect of Small and Medium Enterprises in Employment Creation and Income Generation in Somali Regional State: A Case of Kebridahar Town**

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## **Abstract**

The Role of Small and medium Enterprises in Employment Creation and Income Generation Ethiopia Somali Regional State in Jig-Jiga Town. This study were look at the Role of Small and medium Enterprises in Employment Creation and Income Generation Somali Regional State in kebridahar town using primary data collected depth interview, questionnaire, and focus group discussions. It was examine use of International and Ethiopian Experience literature in general, and in Ethiopia in particular. To obtain data needed to undertake the study primary data were collected to appropriate data collection tools. In order to confirm that the designed data collection tool is accurate, pilot survey were also being conducted. Moreover, the question of sampling techniques and sample size determination has been dealt with. Both descriptive and quantitative methods were employed for analysis purpose. Descriptive statistical tools such as tables and percentages were use. Also, Mean, maximum, minimum were use to classify the respondents annual income and number of employees per Small and medium Enterprises in to the mean, below the mean, the minimum and the maximum.

## **INTRODUCTION**

Micro Enterprises play an important role in employment creation and income generation. These Small Scale Enterprises are more efficient in the nation's economy as they create employment and can provide income generation opportunity for low income groups. The small scale enterprises provide the entrepreneurial culture and boast of the economy against economic crises, such as low per capita income, poverty and unemployment. According to Government of Ethiopia, Government has recognized the contribution of MSEs in terms of job creation, income generation and to the alleviation of poverty. MSE sector is the major source of employment and income for the urban dwellers in most developing countries.

Different countries use different points of criteria to distinguish micro and small business enterprises from other economic entities within their national boundary. The major criteria use in

the definitions according to Carpenter (2003) could include various combinations of the following: Number of employees, financial strength, sales value, relative size, initial capital outlay and types of industry. For instance, European Commission utilizes three criteria to determine whether an enterprise is a micro or small sized. These are staff headcount, annual turnover, and annual balance sheet .In European Commission Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro. Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro (Kushnir et al, 2010).

Nowadays, there are multi dimensional problems like extreme poverty, unemployment, low per capita income, and unequal income distribution facing in many developing countries. As a result, different governments are framing different strategies and policies to create job opportunities and to pull these countries out of their problems. One strategy as to create jobs and accommodate maximum number of citizens has been emerged, i.e., the establishment of MSEs. (Ermias, 2011). Like many developing countries, Ethiopia is also suffering from severe poverty, unemployment, income inequality and lower per capita income. In response to the mentioned problem, and also by recognizing the significance of this sector, the Ethiopian government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998. The country's industrial policy in 2003 and the poverty reduction strategy program of 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers (Ephrem, 2010; MOFED, 2006; MoTI, 1997).

Micro and small scale business enterprises are seen as the most important alternative sector in fostering socio-economic developments in both developed and developing countries. Particularly, they make undoubtedly a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty exists. Several studies reveal that MSEs in these countries are considered as crucial in employment creation and generally contribute to economic growth as an engine of development and vehicle towards fulfilling the Millennium Development Goals. Chief among these goals is the reduction of poverty through creating employment, wealth and improvement of living standards, because

poverty and unemployment rate are considerably higher in these countries than developed countries, (Robinson & Pharr, 1991; cited in Abiyu ,2011).

Studies conducted by Endalkachew (2008) also shows that the micro and small business sector is an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity, and bring technical change through the combination of all of these measures to alleviate poverty. MSEs can play a role in improving the socio-economic condition of the poor since they create employment opportunity that enable them to generate their income which in return leads to access for socio-economic merits such as education, better health condition, good housing and nutrition (Endalsasa, 2012;Ephrem, 2010; Munira, 2012).

Cognizant of the role of MSEs in employment creation and income generation for the poor, the Ethiopian government is advocating for the importance of these enterprises for enhancing development and growth by identifying youth and women as a target group for relevant support measures (MOTI, 1997). Institutionalizing the MSEs is one of the ways to facilitate development and growth condition. Due to this the government take the MSEs as a core development partners and paved the way for the formation of MSEs Development Agency that will facilitate their function and give technical assistance, training at different level (federal and regional).

However, according to Weldegbriel and Admasu ,(2012) this sector faces lot of constraints such as, lack or in adequate trainings, lack of loan, lack of working space, lack of quality of employment, lack of managerial skill inadequate market linkage etc. These problems are highly restricting the contribution of MSEs for socio-economic development. Despite these challenges the MSEs sector contribute much for alleviating the poverty of the participants in the study area, by creating employment jobs and in return increase their income and fulfilled their basic needs. On the basis of this fact the study will attempt to assess the role that MSEs play in improving the living standard of the poorer section of residents and its constraints by focusing on Employment Creation and Income generation Somali Regional State in Kebridahar Town.

Developing countries have common characteristics of low economic growth, fast population growth, high level of unemployment and poverty. Like many other major cities of developing countries, Kebridahar is presently suffering from a host of social and economic problems including widening income disparity, deepening poverty, rising unemployment, severe housing shortage, poorly developed physical and social infrastructure and the proliferation of slums and

squatter settlements (UN-HABITAT, 2008). For this reason, MSEs is recognized by the government as one of the potential sector to alleviate poverty in the country in general and in Kebridahar Town in particular (MOFED, 2006). They provide employment opportunity and income generating scheme to those who do not have access to the formal sector employment. It is also regarded as a tool for supporting the economic and social conditions of the poor, especially for the youth and women, by allowing access to education, health facilities and improves their living standards sustainably. On the other hand, the reviewed empirical studies reveal that there is a gap with regard to assessment of enterprises' roles in terms of employment opportunities, generating income and profit and alleviating poverty. In addition, some reviewed empirical studies with regard to the sector focused on major challenges and constraints (Endalkachew, 2008; Weldegbriel, 2012; Workneh, 2007).

There are many studies focus on problems and factors that hinder the growth of MSEs and the outcome of the program in aggregate forms. Regarding the role of MSEs in the process of poverty reduction, empirical studies fail to investigate role of MSEs and how the program intervene in an individual level, though according to MOFED (2006), the program designed to change the life of those individuals who involved in the program.

For instance, the study conducted by Endalkachew (2008), Weldegbriel (2012) and Workneh (2007) with the objective of analyzing Causes of MSEs Failures, Problems of Micro and Small medium Enterprises, factors that hinder the performance of MSEs, respectively, found that lack of capital, lack of markets, bureaucratic regulatory requirement, problem of business development services, poor supply of infrastructure, lack of raw material and inappropriate locations are still major problems of the sector. But the researchers did not see how MSEs contribute for poverty alleviation in the process of employment creation, asset holdings and income generation.

SRS in relation to Ethiopia is highly affected by long lasting war, draught due to shortage of rain. This and other factors affected ESRS to have many destitute, unemployed, less income or poor people. Kebridahar is one of the cities found in Ethiopia, with high unemployment level. In recent years, the problem of unemployment is aggravated in the town because of rapid migration of people from various parts of the worlds, and high natural growth rate of population, low death rate and limited job opportunity by the private sector and government. On the other hand, due to high number of students graduating from universities, colleges and other institutions the

unemployment rate is increasing. The micro and small medium enterprise development strategy has started implementation recently in Ethiopia to reduce urban unemployment, poverty and bring economic development. Due to this, promoting MSEs has been taken as a tool in Kebridahar Town, like other cities of Ethiopia. The study tried to analyze the role of micro and small medium enterprises in employment creation and income generation in Unemployment reduction by taking of Kebridahar Town as a case study. Hence, the study tried to fill this gap by providing insight in to the Kebridahar Town of micro and small medium enterprises and their role in the employment creation and income generation of the MSE operators and members in the city. Therefore, the micro and small medium enterprise development strategy has started implementation recently in Ethiopia to reduce urban unemployment, poverty and bring economic development. Due to this, promoting MSEs has been taken as a tool Somali Regional State in Kebridahar Town., like other cities of Ethiopia. As the result of this, many MSEs are created in the past five to six years. Those MSEs flourished are individually owned and cooperatives enterprises. The questions are whether these enterprises contribute to employment generation and its sustainability? If MSEs contribute to income creation for those individuals engaged in MSEs? What is the trend of MSEs in Kebridahar Town.? What are the prospects and challenges of MSEs. The main objective of this study is to assess the role of micro and small medium enterprises in employment creation and income generation Somali Regional State in Kebridahar Town. Based on the general objective, the specific objectives are;

- To assess the trend/ growth rate of MSEs in Kebridahar Town.
- To assess the role of MSEs in employment creation and its sustainability in the study area.
- To assess the role of MSEs in income generation in the study area.
- To assess the prospects and major constraints of MSEs in the study area.

## **2. LITERATURE REVIEW**

### **2.1 Theoretical Review**

#### **2.1.1 The Role of Micro and Small Scale Enterprises for Economic Growth**

The shift in focus, in developing countries, towards the development of micro and small scale enterprises results from the fortunes being laid by the enterprises. These enterprises are said to be much contextual to the existing situations of most developing countries. In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth (FDRE, MoTI, 1997). It is recognized that, in most of the developing countries, majority of the

people are engaged in the operation of micro and small scale enterprises which are likely to locate everywhere (both in urban and rural areas) in the countries. Due to their small and perceived flexible nature, MSEs are expected to be able to withstand adverse economic conditions and survive where many large businesses would collapse (Aryeetey E. & Ahene A., 2004: p. 3). The flexible structure is also an advantage when it comes to adapting quickly to customers demands (Kayanula D. & Quartey P., 2000: p.10). The implication of this is that economic need of the mass of the people of these countries is possibly be satisfied through the development the sector. -

### **2.1.2 Characteristics of SMEs**

Zewde and Associates (2002) identified that the MSE sector is characterized by a number of highly diversified activities, which can create job opportunity for a large segment of the population. The characteristics of the informal sector (small and micro enterprises) have also been described as it is easy to enter, it is financed mainly from personal and family resources, it requires low starting capital, it uses labor-intensive techniques, and it relies on the non-formal school system such as apprenticeship and on-the-job training (Aboagye and Gozo, 1986; cited in demis, 2011). Donald (1999) also identified the following distinguishing features, namely more labor intensive, more efficient, more equitable in distributing the income they generated, geographically more widely diversified, and more nurturing of entrepreneurs.

#### **2.1.2.1 Employment Generation**

Available evidence suggests that micro enterprise do not show growth in terms of number of people employed (Mead,D,C and Liedlholm,C, 2000).While small firms experience both high job creation and destruction rates, it appears that job destruction during recession is lower in small enterprise than in large enterprises perhaps due to greater wage flexibility in small firms (Snodgrass & Biggs 1998). In contrast, large firms offer better in terms of wages, fringe benefits, good working conditions, opportunities for skill enhancement and job security (Snodgrass & Biggs 1998). According to the study made by liedlholm (2002), the closures rate for MSEs of developing countries in Africa and Asia is occurred in the early years of firm's existence. In Kenya, Botswana, Swaziland, and Zimbabwe, over 50 percent of the small firms get closed within three years of start up. Ibid page 22 added that "Since small firms have higher gross job creation and destruction rates than large enterprises, small firms may offer less job security than

large firms. In the US for both new and already existing jobs, Jobs durability increases with firm size.

#### **2.1.2.2. Location and Survival Rate of MSEs**

Location can play a central role in determining MSEs survival. MSEs located in urban or commercial areas are more likely to survive than their counter in rural areas. Those that operate in commercial districts or on road sides typically show greater growth rates than those that are based on their home, although it can vary at the country level (Liedholm, 2002).

#### **2.1.2.3 Gender and MSEs**

According to op.cit based on the study of the nine countries; in five of these countries women outnumber men as owners and operators of MSEs. Those small firms tend to be concentrated in relatively specific activities like beer brewing, knitting, dress making, crocheting, cane work and retail trading. Ibid page 5 added that MSEs headed by women are more likely to be based out of their homes. Home based MSEs tend to be hidden to markets and because most homes are not on streets that people pass.

#### **2.1.2.4 Labor Distribution in MSEs and Large Enterprises**

Small firm expansion boosts employment more than large firm growth, because small firms are labor intensive, coinciding with the factor market structure of most developing countries. Many analysts argue that within industries, for a given scale of production, small firms are more labour intensive than large firms. However there are some evidences suggests that enterprise scale is an unreliable guide to labor intensity because many small firms are more capital intensive than large firms in the same industry. Labor intensity exhibits more variation across industries than among firm size groups within industries (MSE DEGPR, 2006). According to the study made by Sondgrass & Biggs (1998) depicted that „ The fact that small firms employ a large share of the labor force in developing countries may be a more reflection of the product composition of production in those countries than inherent labor intensity of small firms”’.

#### **2.1.2.5 Income**

While there are many exceptions to the basic pattern, the evidence suggests that larger employers offer better jobs in terms of wages, fringe benefits, working conditions and opportunities for skills enhancements as well as job security. In low-income countries, small enterprises have much lower productivity levels than larger firms which lead to lower wages and non wage



benefits. There is some evidence that this divergence in labor productivity and wage rates between small and large firm“s narrows as countries become more developed in terms of industrialization (Snodgrass and Biggs 1998).

#### **2.1.2.6. Efficiency and Innovation in MSEs**

Efficiency and innovation is one of the determinants in MSEs survival. Snodgrass and Biggs (1998) stated that; “There has been a substantial difference detected in economic efficiency among enterprise of varying sizes. It is often argue that small firms are more innovative, particularly when they follow “niche strategies” using high product quality flexibility and responsiveness to customer needs as a means of competing with large scale mass producers’’. Measures of enterprise efficiency vary greatly both within and across industries. Those that varies are labor productivities or total factor productivities. Among the total factor productivities; financial market, imperfections such as information asymmetries, transaction costs and contract enforcement costs are particularly affecting the poor who lack collateral and credit histories not to work efficiently (Beck, et.al, 2004 cited in MSE Degpr, 2006). Joseph Schumber (1995), a remarkable analyst and advocate of capitalism, asserted that the hall mark of capitalism is innovation. The only survivors are those who constantly innovate and develop new products and process to replace the old ones (Brown and Latour, 2004 cited in Kelly D. Edmison 2004).

#### **2.1.2.7. Market Linkage**

In a study made by MSE DGPR (2006), it is described that “Market linkages amongst small firms are quite limited. The majority of small firms sell directly to final consumers although some use contracting and clustering’’. The study of Millhold (2002) suggests that those MSEs that sell to traders and manufacturing firms are more likely to grow than other MSEs sells to final consumers and in view of (Small Enterprise Assistance Funds, 2004) that “Smaller business may import fewer intermediate goods. A greater amount of products are purchased from labor intensive MSEs which may produce a large local multiplier effects’’. This in turn can lead to increased opportunities for locally sustainable growth and employment.

#### **2.1.3 The role of micro and small enterprises in poverty alleviation**

By now it is clear and agreeable that poverty, both in urban or rural areas, is all about lack of basic needs, health care, clean water, sanitation, education and low or inadequate level of income and consumption, and poor command over resources. Before reaching in to such multifaceted understanding of the concept of poverty, poverty was viewed in terms of level of income in the late 1950’s and 60’s. Then onwards, however, the trend of defining it begun to incorporate other

non-economic aspects. Likewise, on the other hand, according to Green et al (2006), one important innovation, since the late 1980's and early 1990's, in development research and policy has been the refocusing of the goals of development strategy from an exclusive concern with economic growth to 'growth with poverty reduction' through MSE development. Again during these decades, the role played by MSEs, through the various socio-economic benefits emanating from the sector, was found to be eminent 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 SMEs will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society (Mukras, 2003 cited in Mulugeta, 2011).

As shown above, central to the problem of poverty is the availability of work. Work, secured either as owner or employee in MSEs, allows people to produce for themselves (i.e. food) and earn the money needed to buy goods and services. In this point poverty reduction can be correlated with job creation. As a result, different study shows that MSEs are important means in poverty alleviation through employment creation and income generation for low-income groups with limited opportunities. They do have the capacity to increase the level of income of individuals and to improve the living standards of the larger poor because they need low startup capital and their potential to absorb the huge proportion of the uneducated or the low educated work force, which is the reality in the poor countries like Ethiopia.

#### **2.1.4 Economic and social significances of micro and small enterprises**

The important role of MSEs play in the process of economic development has now been widely acknowledged. MSEs have a number of potential advantages to the economies of least developed countries (LDCs). They are suitable to the factor endowments of LDCs as they utilize domestic resources and use labor intensive technology. MSEs are favorable to the vast majority of the population whose income is very low. Given this low income level and the associated effective demand, MSEs, become ideal to satisfy the demands of narrow domestic markets. Furthermore, lesser capital and skill requirements of MSEs, implies that they can be easily established and operated by the nations of least developed countries (Simeon and Lara, 2008). In both developing and developed countries, the MSE sectors generated substantial employment and economic output. Their share of overall employment tends to be higher in developing countries, which are typically focused on small-scale production In developing countries like Ethiopia,

where the public formal sector proves to be incompetent to offer job opportunities to the increasing population/labor force, the informal sector are proven to be effective spheres of means of survival. They are home of entrepreneurial skills, complements large and medium industries; contributed to interregional balance/income equity, diversity range of products with less investment, justify the credibility of bottom up growth and assist the adaptation/transfers and development of technology etc (Fekadu, 2001).

#### **2.1.5 Employment opportunity.**

Micro and small enterprise inherently have the capacity to extend large employment opportunities to unskilled and semi skilled labor force who are excessively abundant in most developing countries. Studies in five African countries (Botswana, Kenya, Malawi, Swaziland, and Zimbabwe) found that MSEs generate nearly twice the level of employment as registered, large-scale enterprises and the public sector in many Latin American countries, MSEs employ over half the working population. An ILO study examining firms with fewer than 10 workers found that they generated 58 percent of total employment in Paraguay, 54 percent in Mexico, and 53 percent in Bolivia (ILO, 2005). By increasing employment opportunities for the active working force MSEs provide livelihood to a large proportion of people both in developing and developed countries. All small enterprise display a remarkable capacity to absorb labor, thus contributing to easing the pressure of unemployment, thus technologies that require more labor per unit of output should be favored than those which need less labor. Being labor intensive and capital saving, MSEs could help in solving many of the problems Ethiopia is facing. They also generally employ workers with limited formal training (Andualem, 2004).

#### **2.1.6 Contribution to the economy and income source for the poor**

The contribution of MSEs varies considerably across countries. MSEs contribute approximately 31 percent in Pakistan MSEs development is seen by some policy makers as a means to increase incomes of the poor. The economic impact of MSEs can be reflected by their contribution to output, employment, income investments, exports and some other economic indicators. MSEs, by virtue of their size, location and capacity to generate greater employment, can be seen as an essential springboard for growth, job creation, social progress and economic growth. In addition, the smallest firms in developing countries often provide essential sustenance for their owners and workers, and they provide an important social safety net, offering temporal employment to

vulnerable segments of the population (Esubalew,2006). In Ethiopia given the capital scarcity, heavy unemployment, and low level of industrialization, technology and productivity; micro, small and medium-sized enterprises are of great importance in the national economy by their contribution to GDP. Moreover, they are considered to lay the foundation for and promote accelerated and integrated development of the small scale industrial sub-sector. Thus, MSEs can be seen as an important force to provide more equitable income distribution, activate competition, exploit niche markets, enhance productivity and technological change, and to stimulate economic development (Adil 2007).

#### **2.1.7 Mobilization of domestic resources.**

Micro and Small enterprises mostly begin as a very small entity with low amount of capital drawn from the savings of owners or borrowed from relatives and friends. In the regard they are instrumental for the mobilization of domestic resources for a productive investment that may otherwise not be drawn into the development process. Ethiopia lacks the necessary skilled work force, capital and the entrepreneurship capacity to establish and expand large industries; promoting MSEs play a significant role in bringing local economic development. The potential advantage of using locally available resources, MSEs can save foreign exchange and even they can generate foreign exchange they are sufficiently nurtured to become exporters (Assefa, 1997). Economic growth in Ethiopia is constrained, among other things by shortage of capital. The country is in early stage of industrialization. Thus, much of the required investment for the industrial sector should come from domestic savings. There are, however, reserves of ideal saving that could be drawn in to productive use if the owners had the choice to set up business by their will. Thus, one of the objectives of developing of MSEs is to mobilize the unutilized and underutilized saving so as to make them productive (Abraham, 1997).

#### **2.1.8 Constraints in the development and promotion of MSEs**

Some of the major constraints identified by various studies on MSEs are associated with policy and institutional related bottlenecks, paucity of capital, human and material inputs, equipment and technology, and their development are held back by different constraints. Their size and structural diversity have also exhibited immense and diversified constraints or problems that prevent the growth and development of the sector. The intensity of the problem is also various from country to country or from community to community with in the same country. The type and degree of the problems are differently reflected in different countries and societies, which

have different levels of socio-economic developments and socio cultural backgrounds. Moreover, the differences in the problems have also direct correlation with the objectives of macroeconomic policies and consequent sector development strategies and programs adopted by each country (Dagnaw, 2009).

In present day Ethiopia, although significant strides have been made to allow small scale enterprises to be created, formidable obstacles militate against development both against the existing SSEs and/or those that aspire to start up one. Various problems have been identified, written and raised at different forums, in the country over the past few years. Some of the most critical and leading factors constraining and hampering the SSE in Ethiopia, among others, are lack of access to financial capital and credit, lack of access to premises and land, lack of infrastructure, lack of training in entrepreneurial and management skills, lack of incentives, lack of information on business opportunities and socio-cultural factors (Fekadu 2001).

#### **2.1.9 Ways of addressing constraints of sustain micro and small enterprises**

Business development service implies that improve the performance of the enterprise, its access to market, and its ability to compete. It goes even further and provides a list of seven categories of BDS that address specific constraints to micro and small enterprise growth and development. These are training and technical assistance, access to market, input supply, technology and product development, infrastructure, policy and finance. Business development service include provision of the following services those are short term training, business expansion and counseling, market opportunity creation product design, technology and provision of working premises to support micro and small enterprise operators. The business development service field is now quickly adopting new high impact strategy that can reach large number of business in a sustainable manner. the provision of some services, like communications and advertizing are on a fully commercial basis that has shown effective markets for business services offer the opportunity to help many small enterprises develop and complete. The business development service field is currently focused (philipos2006).

### **3. METHODOLOGY**

This study investigates the role of micro enterprises in employment and income generation, a case study of Kebridahar city. For the purpose of this study, the researcher was use cross sectional study design where data was collected at one particular point in time. **Moreover, mixed methods were used in this research. The researches were using both qualitative and quantitative approaches. This is because; using the two approaches together can give the opportunity to**

capture both the quantitative and qualitative aspects in one shot. The needed data were collected using questionnaire schedule focus group discussions with head, owner and working members of the MSEs in town under study. A questionnaire consisting of all relevant variables important to address objectives of the study was developed and the collected. The Data was collected from 3 micro enterprises of Kebridahar city. One of the sampling method known as stratified random sampling was used. Two samples are taken one for the owner and the other for employee. For the owner the sampling technique has been used through stratified random sampling. Here three categories of Micro Enterprises sectors are taken from Finance service sectors , loan service and Hello cash service. In kebridahar, there are 219 micro and small medium enterprises service sector, 82 are Finance service, 80 are loan service and 57 are Hello cash service.

From these different service sectors, the sample has been selected through proportional stratified sampling by judgmental decision. This is for the purpose of comparison between different service sectors in their contribution to income, employment and others. A sample size that was used in this study is determined by Yamane (1967) approach in order to determine the required sample size at 95% confidence level, degree of variability of= 0.5 and with the level of precision of= 9% is. According to the the formula, the sample size was minimum of 79. And this study was survey to 79 respondents. Guided by the proportional probability to size (PPS), samples of 29, 29 and 21 MSEs have been selected from each service sectors. Data were analyzed by using Descriptive statistical tools such as tables, frequency and percentages were use with Statistical Packages for Social Sciences (SPSS). Also, Mean, maximum, minimum was use to classify the respondents annual income and number of employees per MSEs in to the above mean, below the mean, the minimum and the maximum.

#### **4. RESULTS AND DISCUSSIONS**

The results of this study clearly indicates that, 65.5 percent of the respondents of Finance service sectors, 72 percent of the loan service sectors, and 43 percent of the hello cash service sectors owned individually or cooperatively are owned by males, 34.5 percent of the Finance service sectors, 28 percent of the loan service sectors and 57 percent of the hello cash service sectors owned individually or cooperatively are owned by females. According to the study kebridahar MSEs , show that female entrepreneurs run the majority of MSEs in kebridahar. However, the socio-cultural attitude could be another factor for decreasing participation of female in Finance service sectors and loan service sectors in this study. According to the researcher Survey, the

numbers of male owned MSEs are more than the numbers of MSEs owned by female which are 62 percent and 38 percent respectively. This is due to the Finance service sectors and loan service sectors selected by the researchers to be studied are highly dominated by male.

Table 4.2.2 presents the age distribution of the respondents and clearly shows that majority of them fall in the working age group. Such productive work force is often believed to be an engine for the overall development of a country. Being dominantly filled by a working age group alone, however, will not prove the sector's important instrument for the economic development of the country. In order for the sector to play a significant role in the economy, other issues such as capital, land, skill, natural resources have a significance roles. With this reservation, therefore, it can be drawn that majority of the MSE owners age are youth who has better energy and speed that would help to produce more is among the ones the country's desired economic development can be attained by. As can be shown in table 4 .2.2 above, the majority of the owners of MSEs are in the age range of 24-29, which represents 60.8 percent of the respondents. The rest 27.8 percent of the respondents are in the age range of 18-23 and 11 percent above age 42. Only 3.8 and 3.8 percent of the MSEs represent 30-35 and 36-41 respectively.

As it is indicated in table 4.2.2 that the majority of the employees of MSEs like the owners are in the age range of 30-35 which represents 40 percent of the sample respondents. The rest 30 and 30 percent of the respondents are in the age 18-23 and 24-29 respectively. When MSE owners and employees age compared, majority of the owners and employees are in the age category which is 24-29 and 30-35.

The questionnaire included information on educational level of respondents to identify the skill of the respondent based on their level of education. Understanding the level of respondents' education helps in identifying and determining the development approaches to be followed (Aklilu.W, 2010). High level of human capital and research and development are positively associated with the performance of firms. They promote the growth of firms from low level of activities to large and better enterprises (Aklilu,W. 2010). From Table 4.2.3 it can be observed that the majority's education levels are from Certificate (34.2 percent). The respondents with diploma level of education and first degree holders" accounts for 57 and 8.9 percent of the sample respondents respectively. It can be clearly observed from the below figure that majority of the MSE operators have less than diploma level of education.

When the different sectors are compared in terms of level of education, the loan service sector has the highest level of education or joined tertiary level of education which is diploma. According to the focus group discussion made with MSE owners and with Kebridahar MSE various university and college graduates are starting to engage in the service sector due to government encouragement by providing loans and other services. As a result the loan service sector has more owners who have attended high levels of education than other sectors.

From Table 4.2.3, it can be observed that majority of the employee's education levels are from certificate (30 percent). The respondents with diploma and degree level 50 percent and 20 percent respectively. It can be clearly observed from the above figures that majority of the MSE employees have diploma level of education which is 50 percent. When MSE owners and employees are compared in education level, 57 percent of the MSE owners are diploma holders however 50 percent of the MSE employees have diploma.

[In this study](#), MSEs established five years earlier are the focus of the study. This is to see the trends and growth rates of MSEs over the course of time. However, there were no cooperative owned construction sectors of MSEs in Kebridahar before 2005 (Kebridahar micro finance institution Bureau 2010). All of the cooperatives members were established after 2005. This study looks at cooperatives members established after the year of 2005. According to Table 4.3.1 below, all of established MSEs are recent establishments. 100 percent of the MSEs were established in the years between 2005-2009. The rest (0 percent) are established between 1999-2004. This shows that the three of service sectors is the youngest sector.

It is indicated, the number of MSEs in Kebridahar by sector and form of ownership. To see the trend of MSEs, five year sample of MSEs was taken from three of service sectors. There was a great amount of variety in number of MSEs in the consecutive years. When the growth rate of the MSEs studied, there was a high difference in growth statistics. The growth rate of MSEs from the first year of observation to the second year of observation was 18 percent, which was from 2005 to 2006. The growth rate from 2006 to 2007 was 39 percent and from 2007 to 2008 was 13 percent.

There was also growth from 2008 to 2009 which was 9 percent. When the sectors compared individually or sole owned with cooperatives growth rate, there was four years consecutive growth in individually or sole owned. However, there was not consecutive growth for four years in cooperative enterprises. Rather growing for two years and declining in the next year then



growing in the final year of the observation. Regarding the sectors, the Hello cash service sector is more than the other sectors in terms of number of establishment in Kebridahar. Both the Hello cash service and the loan service sector are growing fast at an average four year growth rate 23.2 percent and 19.9 percent respectively. From this it can be concluded that the Hello cash service sector is better in four year average growth rate than finance service and loan service sector. However, the finance service sector grew for three consecutive years and decline in the final year. Though the loan service sector is growing, it is at infancy stage. Its indicates that the amount of initial capital of MSEs for starting business ranges from 100-106,000 birr. Nonetheless most of the MSEs (59.49 percent) were their initial capital between 100-5,000birr. When the sectors compared, there is no major difference among sectors except 100-5000. Thus, Majority of all the sectors were their initial capital between 100-5,000 birr that was 68.9 percent and 71.43 percent Loan service and Hello cash service respectively.

Availability of accurate information on current capital dissimilar that of initial capital is very difficult. This is because fear of taxation, fear of other new competitors will engage in the business and socio- cultural problem. Even if the researchers showed them identification card and other relevant documents, respondents are reluctant to tell the facts. As it is mentioned in earlier chapter micro are enterprises whose capitals are up to 20,000 birr. Those enterprises are taking the majority in Ethiopia. According to the researcher survey, majority (31.65 percent) of the enterprises have current capital between 20,000-100,000 birr. And (21.52 percent) of the enterprises have a capital between 100,001-200,000 birr and (20.25 percent) enterprises have a capital between 300-10,000 birr. The rest of the respondent's current capital is 10,001-20,000birr, and 200,001-500,000 birr which are 18.99 percent, and 7.59 percent of the MSEs owners respectively. By comparing initial capital of the MSEs with current capital, there are significance differences in the capital amount invested. In table 4.3.2.2 above most of the MSEs (59.49 percent) were their initial capital were between 100-5,000birr. However, in table 4.3.2.3 above most of the MSEs (31.65 percent) of the enterprises have current capital between 20,000-100,000 birr.

In this study also among the MSEs owners, majority of them (58.22 percent) had previous occupations and 41.77 percent had not had previous occupations. According to this survey MSEs created employment opportunities for those owners of MSEs. And among those owners of MSEs 41.22 percent had been unemployed, this means that MSEs created job to 41.77 percent of the

unemployed people. In addition to this MSEs created employment for 58.22 percent of students in high school, college and university. From this we can conclude that MSEs have crucial role in employment creation. Those employed in MSEs also gain direct and indirect positive effect by being employee of MSEs. According to focus group discussion made, majority of owners motivated to engage in MSEs firstly, due to the background skill they have. Next, due to the expectation of better income. Finally, due to MSEs require low startup capital. From this we can conclude that experience or skill that were gained by working in MSEs helps to start their own business and to earn better income.

According to Table 4.3.1 above shows comparisons and contrast of three service sectors and form of ownership with consecutive years. In general, the average number of employees for MSEs is 7.05. This is different for MSEs owned individually (sole) and MSEs owned cooperatively. MSEs owned cooperatively have more employees than MSEs owned individually. Those MSEs owned cooperatively have an average employee count of 8.4 and MSEs owned individually or sole has an average of 5.7 employees. There is growth of MSEs average number of employee from year to year. In individually or sole owned MSEs the average employee was 4.39 in 2005 and become 5.7 in 2009. However it is difficult to detect or say there is growth of employees from year to year in cooperatively owned MSEs.

According to focus group discussions made with stakeholders, this may be due to many reasons. First, the cooperatives do not want to increase members or employees. If members increase there will be division of wealth among the new ones. Secondly, due to conflicts that arise among members some of the members quit the job. Finally, some of the members get a better job and withdraw from the cooperative. When the three sectors are distinguished in terms of highest number of employees; the loan service sector has the highest employee count of 8.3 per MSEs and the finance service sector become the second with average employee count of 7.52 and the hello cash service sector is third with an average employee count of 5.41. In the above Table 4.3.1 the minimum and maximum employee count of MSEs are indicated and the minimum employee count of 1 in all sectors and the maximum employee count of 49 in the loan service sector. Form this it can be concluded that the loan service sector can have the capacity to recruit more employees. Encouraging the loan service sector has to be given more emphasis, if it is wanted to decrease unemployment.

As it shown in Table 4.3.3.2, several types of employment have been mentioned with figures. According to the study there are different kinds of jobs such as full time recruited, part time recruited, casual work, family part time job, family full time job, full time self business, part time self business etc. Among those type of employment; full time self business is a type of business having more employees per enterprise than any other type of business with an average of 3.08 people. Full time recruited also have on average 1.27 people per MSEs. Casual work and family full time also on average 1.2 and 0.86 people per MSEs. Part time recruited and family part time on average are 0.51 and 0.43 people per MSEs respectively. The lowest number of employees on average is part time self business that accounts only 0.28 people per MSEs on average.

According to Table 4.3.3.3, most of the owners of MSEs (52 percent) did not possess skill that helps to administer and operate MSEs. Only 48 percent of the owners of MSEs possess skill that helps to administer and operate MSEs. So that Skill is similar with knowledge and attitude which helps them to run the day to day activity of the business. Skills can be managerial, financial or technical skill. The employees of MSEs have possess similar the skill (50 percent) to run MSEs According to a focus group discussion held with stakeholders, some the owners and employees of MSEs accumulate skill through experience while they were recruited.

MSE owners who have previous occupation were getting annual average income of 4,387 birr. When we compare and contrast the sectors, the Loan service sector has an annual average income of 4,948 birr better than the other sectors. The Hello cash service has an annual average of 4,983 birr previous income has annual average of 3,234 birr previous income. Some of the MSE owners get an income outside of their enterprises. However, the average annual income is very low. The average annual income outside of this business is 362 birr. According to study table 4.3.4.1 above, many of the respondents (44.6percent) annual average of five years income is between 30,001-60,000 birr. 17.3 percent of the respondents also receive a five year annual average income between 5,001-30,000 birr. 12 percent of the MSEs receive a five years annual average income between 60,001-84,000 birr. 5.2 percent of the respondents get the highest five year average annual income of MSEs of 156,001-240,000 birr. 13.5 percent of the respondents get the lowest five years average annual income of below 5,000 birr.

Regarding comparisons of ownership, the individuals or sole ownership receive more income than the cooperatives. This is because the individuals work harder than the cooperatives because they feel to have a stronger sense of ownership. In cooperatives most of the individuals work in

working hours while in individually (sole) owned enterprises work as long as work exists. The three service sectors income also differs from each other. The highest income category that is between 156,001-240,000 birr is occupied by 9.2 percent of the finance sector and 6.4 percent of the hello cash service sector. The lowest income category that is below 5,000 birr is taken also highly by finance sector (19.5 percent), followed by loan service sector (13.5 percent) and hello cash service sector (3 percent). From this it can be concluded that entrepreneurs wants to run or open new MSEs, will get more income if they engaged in hello cash service sector since the hello cash service sector is the second in terms of highest income category and also the hello cash service sector is the third or last from the three sectors in terms of low income category.

According to table 4.3.4.2, most of the MSE owners (40.7 percent) use their dividend to create new business. 31.5 percent of the owners of these MSEs save their profit and 16.7 percent of the respondents use profit for household needs. The rest of the MSE owners use their profit for reinvesting in the current business they are running. From this it can be concluded that majority of owners income is used for investment and this in turn leads to the growth of MSEs both in terms number of establishment and in size of the existing MSEs.

In table 4.3.4.3, the annual average five year income was taken to assess employee income. Most of the employees of MSEs (50.6 percent) get an annual income of 7,201- 8,400 birr followed by 22.8 percent of MSEs employee get a five years average annual income from 3,600-6,000 birr. 13.9 percent of the employee gets a five year average annual income from 6,001-7,200. 7.6 percent of the employees get five years average annual income of 8,401-10,800. From the respondents the highest paid employee is only 5.1 percent of the MSEs employees equaling 10,801-15,600 birr. When the five year annual incomes are compared to the lower level government salary standard of the civil servant (i.e. minimum 357 birr) it is similar with the first category of annual average income of 3,600-6,000 birr and this represents for 22.8 percent of the employees that are getting low income according to the government standard.

From this we can conclude that majority of the MSEs create income which is above the lower level government salary standard of the civil servant (i.e. minimum 357 birr). However there are MSEs that cannot pay minimum salary standard which leads to the job creation to be unsustainable and difficult to buy their basic needs.

According to table 4.3.4.4, the employees of MSEs use their income for different purposes. However a majority of employees use their income for household consumption (50 percent). (10

percent) use their income to create new business and (10 percent) of them use it for entertainment. The rest use their income for children is education (20 percent) and to put in to saving (10 percent). Sustainability of a business can be assured through different things. Sustainability is defined by scholars differently. Yet here in order to have business sustainability, the business must be socially supported. In other words the business should not be opposed by the society. Secondly, the business should be environmentally friendly. Last, the business should get profit. Challenges from society are whether the surrounding society is affected negatively by MSEs. From Table 4.3.5.1, only a few of the respondents (16.3 percent) face challenges from society and most of them (70.89 percent) do not face challenges from the society. According to the focus group discussion made with MSE owners, the bars face problems with the community, as it is socio-culturally not supported by the society. Challenges from environment are whether MSEs affect the natural environment negatively or not. In table 4.3.5.2, 71 percent of MSE respondent's state their enterprise is environmentally friendly. 23 percent of the respondents admit their enterprise affects negatively the environment. Today pollution becomes an important scenario because it has multi dimensional affects on the environment. According to the focus group discussion made with MSE owners, grinding mills have a problem with sound and air pollution. Bars, video shops, movie/television football shows an increase sound pollution. Community members go and complain to local administrations in order to withdraw from the area.

According table 4.3.5.3, most of the enterprises (71 percent) get market or demand to their product and the rest 23 percent did not get market to their product. The low level demand is normal phenomena to developing or poor countries like Ethiopia. The low level per capital income and the higher poverty rate of Ethiopia one can understand that there is low purchasing power or there is high deficiency of demand. Studies show that the per capital expenditure in Kebridahar town 854.00. Poverty rate of Ethiopia one can understand that there is low purchasing power or there is high deficiency of demand. Studies show that the per capital expenditure in Kebridahar town 854.00 (Br.829.00 for rural areas and Br.996.00 for urban areas) (MOFED, 2002). This per capital expenditure is low when it is compared with other developing countries. The level of poverty in Kebridahar is 61 percent (62 percent rural and 61 percent urban) of population living below poverty line (MOFED, 2002). Due to this low level of per capital expenditure and high poverty rate, it is expected to be abnormal or low level of demand or market. As it is indicated in the table 4.3.5.3 most of the MSEs did not have much market problem however, significance number of the MSEs

face demand deficiency. This market problem or demand deficiency can be highly minimized when the MSEs providing quality product and services, focus on advertisement and sales promotion, proper management, apply customer oriented practices and improvement. According to table 4.3.5.4, if other new similar enterprises established, 74.7 percent of respondents of MSE owners believe that new comer MSEs will get market. In contrast few of the MSEs owners (19 percent) oppose for coming new business since they will not have market or demand for their product. From this we can conclude that if new MSEs are established and engaged in service, finance, loan and hello cash service sectors they will get market.

According to table 4.3.6.1, during start-up of the business, a majority of the enterprises (54.4 percent) did not face constraints. And 40.5 percent of the MSEs face constraints. During operation unlike during start-up of the business majority of the enterprises (40.5 percent) faces constraints. 54.4 percent of the enterprises do not face constraint. During operation there are high constraints among Finance and hello cash service sectors than Loan service sector which is 41.4 percent, 34.5 percent and 47.6 percent respectively. This is because finance and hello cash service sectors require skilled manpower. Inability to get skilled man power may increase problems during operation. Among finance, loan and hello cash service sectors 55.1, 58.6 and 47.6 percent respectively the respondents do not face constraints during operation. The researchers have divided the constraints: internal and external. The internal factors can be during start up or operations, which hinder the normal functioning of MSEs, include: limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location. The external factors can be during start up or operations which affect the normal functioning of MSEs, include: low access to financial service and low business development services, limited market and poor supply of economic infrastructure and public Services. Low business development service include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services.

In this survey, majority of them said that shortage of finance limited them not work or use their potential. MSE owners indicated that lack of efficient, reliable, safe and affordable infrastructure is also their problem. The mentioned physical infrastructure facilities are not adequately developed or expanded in kebridahar to meet the growing demands of MSEs activities. MSEs

reported that they 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.

In kebridahar, regarding to the constraints also confirmed by ( Zaid,N and Tourban,K 2003) lack of market and shortage of capital found out to be the most pressing and leading problems facing in MSEs kebridahar. However, in this research market problem was not found the most pressing problem. Apart from these ( Zaid,N and Tourban,K. 2003) added that lack of inputs, insufficient working premises, lack of knowledge and skills, problems in government procedures, and infrastructural problems constitute the other problem areas. In Malawi a study made by (Mead, D, C. & Liedlholm, C. 2000) credit was identified as the most pressing problem and access to raw materials was listed as important constraints.

## **5. CONCLUSION**

Micro and small medium enterprises are among the major economic activities in the kebridahar next to agriculture. Many people in kebridahar are employed and get income by working in these organizations. Besides employment and income contribution, they played a great role in economic development of the region by supplying different goods and services to the community. This study focuses on MSEs in employment creation and income generation in kebridahar by reviewing three service sectors. The service sectors were finance, loan and hello cash service. These different service sectors were taken in order to show a comparison among sectors and provide a good sample size representative of MSEs. About 79 sample from MSEs owners and 10 from MSEs employees have been covered by the survey study. Based on this, the findings and results of the survey can be summarized as follows: A majority of owners of MSEs are between the age of 24-29 and this covers 60.8 percent of the total owners" response and majority of the employees of MSEs (40 percent) are in the age range of 30-35. From this it can be drawn that majority of the MSE owners age are among the ones the town desired economic development can be attained by. The diploma holders are the level of education for majority of MSE owners and employees, which in percentage accounts for 57 percent of the owners and 50 percent of employees. So that Majority of the MSE owners and employees have diploma level of educationThe level of education indicates that they need a higher level of education to run the MSE services sectors to accept easily new ideas and technology.

With regards to the establishment of the MSEs, 100 percent of the MSE establishments are recently established between 2005-2009. With regard to growth rate of MSEs, majority of the

MSEs owners have shown a growth and 68.9 percent of the MSEs owners measure their growth rate in terms of income. The research paper has seen a five year trend of kebridahar, and there is consecutive growth in number of establishment in MSEs with different growth rates. And the average growth rate in number of establishment in five consecutive years. In employment creation, MSEs created jobs for many individuals. The average employee of MSEs is 7.05 per MSEs in kebridahar town. The dominant type of employment in these MSEs is full time self business for owners of MSEs and full time recruited for employees of MSEs. From this it can be concluded that most of MSEs has a great role in reducing unemployment of the town.

Owners and employees get income from MSEs and use for different purposes. Most of the MSE owners (44.6 percent) annual average income of five years is between 30,001-60,000 birr and 50.6 percent of the employees get annual average income of five year from 7,201-8,400 birr. Most of the owners use income for creating new businesses. However, the employees use income primarily for household needs and this is because income of employees is very low to save or create new business. Regarding sustainability of the business, majority of MSEs are sustainable because of they are supported by the society, do not affect the environment and get demand for their product. Obstacles or constraints are faced during the operation of MSEs in a majority of the respondents, while majority of the MSEs during startup do not faces constraints. The major constraints are financial problems and shortage of work premises work premises as mentioned by majority of respondents.

## **6. RECOMMENDATIONS**

Based on the major findings mentioned in the analysis, a number of policy recommendations have been drawn with the view to improve the role of micro and small medium enterprises in contribution to employment and income generation.

**Access to credit;** Although savings are one of the means of accumulation of capital, often savings alone cannot be sufficient for running and expanding business operations, thus, there is a need for creating lines of credit. The support of Banks should be encouraged through varying methods, such as widening the kind or range of collaterals, providing credit by making longer repayment, increase the amount of loan provided for group based lending.

**Provide work place;** The construction of market sheds and common facility centers at suitable locations by assistance of the government, donors and private sector could help to address this



problem. Thus, government with support from donors could engage in constructing shades for MSEs to address the problem of work place, coupled with measures to encourage private investors to engage in construction of premises suitable for entrepreneurs. In this regard, the government should provide certain incentives for private investors such as tax relief for some time and availing of lease-free land, etc. Creating work premises would benefit MSEs in reducing costs of high rent, reducing displacement, reducing closures of an enterprise. In addition, if MSEs have a constant work place, they can draw long year strategic plans regarding expansion of the business.

**Marketing Assistance;** With regard to marketing support, the following measures need to encourage by the government.

- o Linking MSEs with medium and large firms to serve as market outlets.
- o Provision of training on quality improvement and cost reduction modalities.
- o Provision of information on market opportunities & appropriate/improved technologies.
- o Construction of display centers and provision of advertising support.
- o Establishment of market information centers

**Business Development Services;** Provision of business development services such as training technical and managerial, advisory and counseling services are very crucial for sustainable growth of MSEs. In this regard support agencies need to tailor their training and an advisory service to meet the specific needs and situation of MSEs. Support organizations can also play facilitating roles by referring and linking MSEs to other organizations for special skills training. The managerial trainings can be how to record, how to do the debit and asset etc. The technical training should be given depending on the type of the business and sector so that it will help MSEs to supply goods and services in quality and quantity thereby get demand for their products. Both these trainings should be given to new as well as existing MSEs.

**Improving Educational System;** The Somali regional state of education bureau should participate in designing and implementing good educational policy that can help youngsters to be innovators and self employed. The unemployment rate and low income can be reduced highly if there is a good educational policy, which encourages creating job and high productivity there by increases income.

**Carrying with Follow Up and Evaluation and Provide Integrated Support;** Conducting follow up and evaluation will lead to MSEs to know their problems and give support. Based on

the focus group discussion conducted with MSEs, supports provided were not integrated with different offices such as business training with credit and work premises. Therefore, the local administration of the city has to be integrated in any supports provided to MSEs in order to enhance their capacity and ensure sustainability of the enterprise.

**Capacity Building to Bureaus;** The supporting agencies and organizations such as, government and donors should to Strengthened, bureau of education at zone level, local administration and chambers of commerce through providing the necessary hard and software facilities.

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