



# The Role of Micro and Small Enterprises for Poverty Alleviation

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**Abstract:** MSEs are basically set up with the goal of poverty alleviation. This enterprise have a very important and effective role in both developed and in developing countries because it is considered the backbone of their economies. MSEs can play a role in improving the socio-economic condition of the poor, create employment opportunity, job creates greater utilization of local raw materials and improve the economic growth of the country. Which indicates that without the establishment of micro and small scale enterprise, no nation can achieve a viable economic growth/development or the reduction of poverty. Even if MSEs play a vital role in the livelihood of rural household by generating income, peoples become little attention to them because of lack of necessary conditions in order to run this enterprises. This review investigate on the importance of MSEs for poverty alleviation and the challenges of micro and small scale enterprises for the operation of MSEs. The review result suggest that major challenges and problems that faces the small scale enterprise in order to operating their business is influenced by lack of access to finance, lack of infrastructure, lack of training in entrepreneurial and management skills, lack of information on business opportunities, lack of access to premise, Lack of access to capital, inefficient financial market, problem of skilled manpower, Lack of clear and pragmatic national policy, Socio cultural constraints, Arbitrary and subjective tax system, high interest rates for borrowing, lack of production place, lack of market, lack of credit facilities are the major factors influencing on the operation of MSEs for the alleviation of poverty.

**Keywords:** MSEs, Poverty, Role of MSEs, Challenges and Problems, Poverty Deduction

**Abbreviations:** ADLI: Agricultural Development Leads to Industrialization, CSA: Central Statistical Agency, GDP: Gross Domestic Product, GTP: Gross Transformation Plan, FDRE: Federal Democratic Republic of Ethiopia, MSEs: Micro and Small Enterprises, MSMEs: Micro, Small and Medium Enterprises, MTI: Ministry of Trade and Industry, PRSs: Poverty Reduction Strategies, SMEs: Small and Medium Enterprises, TVET: Technical and Vocational Education and Training

## 1. INTRODUCTION

### 1.1. Background

Poverty reduction of any country can contribute grossly to the improvement of people's life and economic growth of the country (Tefera, 2013). This requires industrialization where micro and small enterprise comes into the focus as one of the packages and instruments to help accelerate economic growth, socio-economic progress and then the overall reduction of poverty of the nation. They make a huge contribution to employment in many developing countries where there is a challenge of high unemployment and poverty exists (Diriba, 2013). Globally, the small-scale industries are well-known for their immense contributions to poverty reduction, development process and as engines of economic growth, critical segment of the manufacturing sub-sector, effective strategy for tackling unemployment, diversifying output, achieving trade and balance of payment (Umogbai *et al.*, 2016).

According to United Nations, report (2011), Ethiopia stands 174<sup>th</sup> of 187 countries in the global poverty index indicating that it is one of the poorest countries in the world. This is the reason for most developing countries are facing multi-dimensional problems like unemployment, low per capita income, unequal income distribution, lack of access to credit, poor farming practices and soil unproductiveness, deforestation and soil erosion, the willingness of the people to make MSEs, low agricultural productivity (Epherem, 2010 and Gebrechristos and Jafri, 2014).

Micro and small scale business enterprises are seen as the most important alternative sector in fostering socio-economic developments and reduction of poverty in both developed and developing

countries. It is the chief sector to achieve the goal through creating employment, improve saving and wealth and improvement of living standards. Since poverty and unemployment rate are considerably higher in these countries than developed countries so MSEs is very important (Siyum, 2015). In addition to this MSEs can play a role in improving the socio-economic condition of the poor by enable them through generate their income access for socio-economic merits such as education, better health condition, good housing and nutrition (Ephrem, 2010).

A study conducted by FDRE, (2013), for example, report that micro and small enterprises are major drivers of both employment and economic growth contributing to more than 50 % to GDP and 60 % to employment in developed economies, constitute less than 30% of employment and 17% of GDP in developing countries. MSEs in Ethiopia are the second largest employment generating sector next to agriculture (Habtamu *et al.*, 2013).

MSEs are long recognized as important vehicles of economic diversification, income generation and distribution, and accelerating the economy of a country (Munira, 2012). They can also help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution, employment creation, industrial development, rural development, poverty alleviation, job creation, to identify and exploit market opportunities, and export growth to provide the basis for medium and large scale enterprises (Zemenu and Mohamed, 2014).

According to Addis Ababa 2016 report, due to limited growth in employment prospects in the public sector and declining absorptive capacity of the agricultural sector, the numbers of new job seekers are turning to micro and small enterprises (MSEs). The Ethiopia government is focusing on the micro and small enterprises basically because of their contribution in reducing poverty and unemployment becomes better than other sectors. Even he emphasizes more on micro and small enterprises than medium and large enterprises. The government have been supporting their MSEs extensively through many different programs, with subsidized credit schemes, financial support, creating marketing link, providing free showing area, free production and operation area, promotion and so on (Amare and Raghurama, 2017).

Based on the report obtained from National Bank of Ethiopia from 2008/09-2014/15, it is revealed that the new MSEs establishments is important for poverty reduction, for employments generated. MSEs establishment has grown from 73,775 in 2008/09 to 271,519 in 2014/15. When we see the employment creation of newly established MSEs on employment creation is increasing from 530,417 people in 2008/09 to 2,800,000 people in 2014/15. According to World Bank report 2013/14 revealed that the poverty level in Ethiopia had declined from 44% in 2000 to 30% in 2011 and have further went down to 26 % in 2013 (Amare and Raghurama, 2017).

MSEs are known by their greater utilization of local raw materials, employment generation, take part in rural and urban development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers (Taiwo *et al.*, 2012).

There are researchers which study on challenges which hinder on the expansion of micro and small scale enterprises for poverty alleviation, employment creation and socio economic growth of the country. Due to those constraints, the MSEs development is not diversified as of their roles in the country. So it is vital to review on these problems which face the creation and set-up of MSEs and the contribution of micro and small enterprises in the economy to reduce poverty.

### **1.2. Objectives of the Paper**

#### *1.2.1. General Objective*

The general objective of this review is to identify the role of micro and small scale enterprises for poverty alleviation.

#### *1.2.2. Specific Objectives*

- To review the role of MSEs in poverty alleviation.
- To review challenges and problems that faces the small scale enterprise while operating their business.

## 2. DISCUSSION

### 2.1. Definition of Mses

There is no universal definition of MSEs, which may vary from country to country, year to year, from period to period because of the classification of businesses into large scale, medium scale or small scale is highly subjective. (Ekpeyong and Nyong 1992, Egbuogu 2003, Rajan 2013). Sometimes it is defined in terms of number of workers employed and on the use of electric power and also in terms of investment made. For example, we can define MSEs differently by Ministry of Trade and Industry (MTI) and Central Statistical Agency (CSA). The former uses capital investment as a yardstick and the later one uses employment favors capital intensive technologies as a yardstick. According to the MTI, Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000. On the other hand, CSA categorizes enterprises into different scales of operation on the size of employment and the nature of equipment and employing less than ten persons as small scale manufacturing enterprises (Tesfaye, 2014).

MSEs can also defined by qualitative and quantitative approach. The Qualitative Approaches look in to the operation styles, degrees of specialization, over all aims and objectives or the relationship with community. This approach is inherently subjective, broad based, offers conceptual flexibility and less precise than quantitative approach. It is better when one is focusing more on the development of MSEs such as creations of employment, income distribution, poverty reduction etc. rather than size of MSEs. In contrast to the qualitative approach, the Quantitative Approach relies on clearly defined parameters like number of other members of the enterprises, sales turn over, asset, capital, net worth and the like. The approach is essential to identify specific target groups for inclusion or exclusion of certain preferred treatments (Andualem, 1997).

**Theories on Micro and Small Enterprises:** There are two theories which are developed on the development of MSEs at different times (Tambunan, 2006). These are the classical and the modern theories.

**Classical theory-** states that poverty and the importance of MSEs development correlate positively. In the course of rapid economic development, the economic share of MSEs declined; while those of large and medium enterprises dominate the economy. In other words, the higher the proportion of people living in poverty, the more will be the contribution of MSEs in reducing poverty (Tambunan, 2006). This theory only focused on the relationship between levels of income and the growth of MSEs. Because of these short coming of the theory, the modern view was developed in 1980s.

**Modern Theory-** postulates that the major reason for the emergence of the notion of flexible specialization was the long debate of how to interpret the new global pattern of production caused by globalization forces and industrial restructuring. Hence according to (Tambunan, 2006), in the modern theory have three characteristics; flexible and specialization, high level of competitive innovation and high level of cooperation. The flexible specialization means MSEs grow faster than large enterprises with the process and are important source of invention, efficiency and innovation. Hence in the courses of development, the economic share of MSEs becomes increases and contribute a lot for poverty alleviation; while, it declines in the classical theories (Tesfaye, 2010).

### 2.2. Definitions of Poverty

The word poverty comes from old French *povreté* (Modern French: *pauvreté*), from Latin *paupertās* from pauper (poor) (Walter, 2005). There are several definitions of poverty depending on the context of the situation it is placed in. According to United nation, fundamentally, poverty is the inability of having choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit (Gordon, 2005). According to World Bank, Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life (Tesfaye, 20104).

Poverty is usually measured as either absolute or relative:

**Absolute poverty:** Absolute poverty measures poverty in relation to the amount of money necessary to meet basic needs such as food, clothing, and shelter. Absolute poverty or extreme poverty or abject poverty is "a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information (Gordon, 2005). It is a condition so limited by malnutrition, illiteracy, disease, squalid surroundings, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency. Is a set condition, which is the same in every country, and does not change over a period of time (Sachs, 2005).

**Relative poverty:** it is being actually an index of income inequality. Relative poverty views poverty as socially defined and dependent on social context, hence relative poverty is a measure of income inequality. This income inequality is measured by Gini coefficient. The value of Gini coefficient lies between 0–1.0 would mean there is no inequality. In other words every citizen would earn the same. 1 would mean there would be severe inequality. Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income (Raphae, 2009). Relative poverty reflects better the cost of social inclusion and equality of opportunity in a specific time and space. Relative poverty, on the other hand, refers to conditions which are subjective to the society in which the person lives, and therefore, does vary between countries, and can change over time (Sachs, 2005).

In general, Poverty is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work (Siyum, 2015). According to Ukwu (2002), suggests that poverty is a living condition in which an entity or individual is faced with economic, social, political, cultural and environmental deprivations. These deprivations are captured as lack of food, poor expectancy rate, poor environmental conditions, low educational opportunity, poor health services, general lack of economic infrastructure and lack of active participation in decision making either as it affects the individual or a nation.

### 2.3. Empirical Review on MSEs Activities and Poverty

#### 2.3.1. Contribution of MSEs for Poverty Reduction

According to Federal Democratic Republic of Ethiopia (1997-2025), there are three strategies for the development of MSEs for poverty reduction. The first strategies are Micro and Small Enterprises Development Strategy of Ethiopia (1997-2010); the fundamental principles of this strategy are "Agricultural Development Leads to Industrialization" (ADLI) and market economy principles. This strategies have facing problems: lack of access to finance, say nothing whether these enterprises are grown to the next higher level or not, cannot define MSEs. The second one is MSEs Development Strategy, Provision Framework and Methods of Implementation (2011-2015); the main aim of this strategy is to alleviate the implementation gap of the first MSEs Development strategy, to shift Agricultural Development Leads Industrialization strategy to "industry" and to alleviate the financial constraint by means of giving the state government to give the credit to MSEs. The third one is Industrial Development Strategic Plan (2013-2025); it emphasis on the economic level of the country should be reaching in the middle level income by 2015 by focusing on manufacturing sector. The main focus of this strategies is for job creation, promotion of industry and employment creation which gives less emphasis for the economic contribution because of difficulty of knowing the exact contribution of Micro and Small Enterprises to the GDP.

Due to the weakness of the first edition of Growth and Transformation plan (GTP I) which do not consider the Medium and Large enterprises, the second edition of Growth and Transformation Plan (GTP II) (2015/16-2019/20) was formulated. From this projection the share of Micro and Small Enterprises in GDP under base scenario in percent is stated as 1.1 in 2014/15 to 1.8 in 2019/20 and for Medium and Large scale enterprises as 3.7 in 2014/15 to 5.9 in 2019/20. The plan has tried to project the contribution of Micro and Small; and Medium and Large enterprises to GDP. The entire projection is made only for manufacturing that overlooked the service sector (Amare and Raghurama, 2017).

(Mohammed, 2016), the role of micro and small-scale industries is important in a developing country like Ethiopia for eradicating poverty through growth process of economy, create employment generation, mobilization of resources and entrepreneurial skill, better utilization of local resource,



equitable distribution of income, rural development and creating regional balance in promotion, growth of various development activities and supports the growth of large industries by providing components and semi-finished. (Ermias, 2017) viewed that MSEs is very important for reducing unemployment and poverty among vulnerable groups, has a potential to support the Ethiopian economy in achieving its development goals, creation for high value-added industries, to increase income and domestic saving, promotion of large-scale manufacturing industries, to create employment opportunities, creation of female-oriented businesses and creation for investments.

(Akugriet *al.*, 2015) conduct a study on the contributions of small and medium scale enterprises to economic growth in Zebilla, They conclude that 85% of the respondent confirmed that MSEs is important for infrastructural development, 60% respondents ranked the enterprise is more profitable, 25% indicated moderate while 15% less profitable, 78% of respondent set MSEs is important for poverty reduction and 69% respondent set MSEs is vital to empowering citizens. In addition to this SMEs constitute a vital element for the economic growth, improved living standards, achieve high levels of productivity and to increase the availability of scarce resource for use. (Addi, 2014) explained that MSEs is a role for poverty alleviation, accelerate the achievement of economic independence, potential to utilize idle labor force and generate income to the incumbents including owners, employees and laborers. As his result, the developments of micro and small enterprises help to reduce the proportion of foreign capital and skills by indigenous ones, improve efficiency by using his/her fund and skill, best use of his time, equipment, materials and labor.

(Tefera, 2013) demonstrated that a dynamic and growing sector of MSEs can contribute to the realization of a wide range of development objectives such as the attainment of income distribution and poverty reduction, employment generation, mobilization of savings and production of goods and services that satisfy the basic needs of the poor. The micro enterprises sector has been instrumental in bringing about economic transition by providing goods and services that are of adequate quality and affordable cost to a large number of people in rural areas, and by effectively using the skills and talents of these people, without requiring high-level training, large sums of capital or sophisticated technology. The importance of MSEs in general and new businesses in particular makes a significant contributions in addressing socio economic problems such as unemployment, poverty, income inequalities, political stability and economic growth among others (Musara & Gwaindepi, 2014).

(Epherem, 2010) conduct a study on the role of micro and small enterprises in poverty alleviation in Gulele sub city, the role of MSEs is important for improving the living conditions, saving habit and income of the members. Their saving becomes 91.84% from the income gained from their respective enterprises, food intake becomes 69.7%, 62.12% for clothing, 92.4% for schooling expense, and 72.73% for health care, 78.09% housing facilities due to increment in income. (Agyapong, 2010) study on the role of micro, small and medium enterprises (MSMEs) in poverty alleviation in Ghana. The author is of the view that MSMEs help to create jobs and increase income of the people. This increased income helps the people to obtain better schooling, health facilities and empowers them to get rid of vicious circle of poverty. Furthermore, growths in small and medium enterprises (SMEs) also contribute to human capital through on job training and also contribute to increase tax revenue of the government.

(Kang'ori, 2014) reported that the role of micro and small nonfarm enterprises in poverty reduction in Morang county, MSEs increases the household income and welfare, skill development, access to more rewarding economic opportunities, providing employment opportunities, contribution to self-confidence empowerments of the individuals, ability to acquire assets creating institutional structure, people's needs and objectives, providing new opportunities for the poor and women, ability to acquire loan to expand business, enhanced standard of living, saving and profit and ability to provide basic needs (food, education, clothing, health, and shelter). Muturi (2015) also emphasis on the role of micro and small enterprises in achieving kenya vision 2030, according to his study, MSEs is important for to generate job opportunities, improve living standards, adoption of appropriate technology, development of a pool of skilled and unskilled labor, macroeconomic stability, technology and innovation, capital and wealth creation, increasing revenues and promotion of gender empowerment.

(Diriba, 2013) bearing that socio-economic contributions of micro and small enterprises: the case of Jimma city, he were tested using Chi techniques; His finding shows that MSEs is important for employment creation, powerful instrument in economic growth, poverty reduction, quick production

response, saving and income generation, Saving increase, Profit increased, realizing equitable income distribution, quality of life of the participants improved, developing entrepreneur's skills and knowledge, and gender empowering, changing many peoples' social issues and also ways of acquiring businesses, linking different levels of enterprises to facilitate its development and Transformed into medium and large enterprises.

### 2.3.2. Major Challenges and Problems that Faces the Expansion of Micro and Small Scale Enterprise

Micro and Small Enterprises face a number of challenges in the process of performing their activities. A study conducted by (Abdissa, 2016) factors affecting performance of micro and small enterprises in South West Ethiopia: Using descriptive and Pearson correlation analysis, his results show that there is a significant relationship for political, social factor, land available, technological factor, infrastructural factor, marketing factors, financial factor and Management factor with the performance of MSEs. All the selected independent variables were significantly explaining the variations in the dependent variable at 5% level of significance. Diriba (2013) reported that there are many constraints facing micro and small scale enterprises which affect to operate to the business. These are: Unfavorable legal and regulatory environment discriminatory regulatory practices; Lack of access to markets, business information; Low ability to acquire skills and managerial expertise; Low access to appropriate technology; Poor access to quality business infrastructure; Lack of access to raw materials, lack of working capital and intermediate inputs and the like.

(Tesfaye, 2014) conduct a study on the role of micro and small enterprises in reducing youth unemployment, he was analyzed the collected data by using frequency and percentage. From his study, negative social and cultural attitude towards self-employment, lack of access to start up finance, lack of business assistance and support, mismatch between jobs available and larger number of new graduates, low economic capacity of the country to absorb the graduates, lack of guidance and counseling service, unfavorable conditions from MSE facilitators, weak tie among TVET, micro finance institutions and MSE development head office were indicated as the major problems. Cetindamar *et al.*, (2012) also stated that the chance of individuals to start their own business and get involved in entrepreneurial activities is highly affected by access to vital resources such as financial, human, social forms of capital. However, resources are not fairly distributed among societies.

A study conducted by (FEDR, 2013) survey on micro and small enterprises (MSEs) in selected major cities of Ethiopia, using frequency and percentage identified a number of challenges and constraints hindering the growth of MSEs. The constraints are shortage of finance (42%), followed by lack of working premise (28.3%), lack of access to land (18.4%) and lack of access to market or absence of linkage to market 12% were among the strong factors inhibiting the growth of these enterprises. Kankuse (2014) conduct a study on the opportunities and challenges of micro enterprise in empowering women: the case of Adami Tulu JidoKombolcha district, using percentage factors which hinder on the expansion of MSEs in descending order are lack of financial resource, increasing cost of raw material, lack of initial capital, skilled manpower, tax rate, lack of business know how and attitude of society towards MSEs. Weldegbriel (2012) also conduct on problems of micro and small enterprises in Addis Ababa, by using logistic regression model; lack business plan, lack of formal and informal association, lack of favorable business environment, high cost and shortage of raw materials, lack of proper institutional support, lack of proper marketing practice and inflexible competition are the major problems facing MSEs.

A study conduct by Epherem (2010) on the role of micro and small enterprises in poverty alleviation in Gulele sub city, he use frequencies and percent and his result shows that out of the total (105) respondents, Shortage of startup capital (72.38%), high interest rates for borrowing (71.77%), skilled personnel (69.39%), lack of production place (68.57%), unaffordable tax (67.05%), inadequate support from Government (66.67%), lack of working capital or lack of credit facilities (63.81%), lack of access for training (62.77%) and lack of market (59.05%) are the major constraints which affect the operation of MSEs.

(Kadiri, 2012) conduct a study on the contributions of small and medium scale enterprises (SMEs) to poverty alleviation in Nigeria. The Binomial Logistic Regression Analysis was employed as the tool for statistical analysis. The study found that the sector was unable to achieve this goal due to its inability to obtain adequate business finance and due to corruption. 300 SMEs representing 75 percent of the total respondents were of the opinion that finance is the greatest challenge and the remaining 25

percent of the total respondents were of the opinion that corruption is the greatest challenge facing SMEs in the country. According to (Alemayehu and Agarwal, 2015) study on the performance determinants of micro and small enterprises in Ethiopia: a study conducted in Sodo and Boditi towns in Wolaita zone, by using multiple linear regression model, the major factors affecting the performance of MSEs were financial, marketing, working premise, infrastructural, government support and legal and internal management factors. This variables spell out 77.7% for affecting MSEs performance and the remaining 22.3% was not explained by this study variables Among six identified factors except public infrastructural factor all other factors were statistically significant and among significant factors financial constraint contribute very high impact (56.1%) on MSEs performance when other factors held constant and followed by marketing and management problems constraint.

(Belayet *et al.*, 2015) conduct a study on factors affecting developments of micro and small enterprises. Using descriptive statistics researchers found as: lack of market linkage; lack of awareness of credit; providing institution; lack of professional assistance; lack of knowledge; poor infrastructures; access to capital; lack of experience, promotion, networking in ascending order covers 69.78 %. The remaining 30.23% is caused by negative attitude towards MSE, lack of integration among government sectors and others. Fikadu (2015) study on determinants of Micro and Small Enterprises Growth in Ethiopia: The Case of Nekemte, by using multiple linear regression (OLS) analysis the result shows that sources of finance for MSE operators, loan term (duration of loan period) of MFI, previous business experience, marketing skill of the entrepreneurs', source of raw materials for MSE, and customers of MSE product or services affects positively the growth of profitability of the MSEs business significantly at 1% level of significance in regression analysis. Managerial skill of the entrepreneurs and location of the business positively affect the growth of MSE in terms of the profitability of MSE business significantly at 5% level of significance but the educational status of MSE operator affects negatively the growth of MSE significantly at 5% level of significance.

**Table1.** Challenge and problems which affect the set-up of Micro and Small Scale Enterprise (Mohammed, 2016)

Descriptive Statistics					
Problem Area	Observations	Minimum Ranking	Maximum Ranking	Mean	Std. Deviation
Problem of skilled man power	212	1.00	9.00	3.353	2.335
Inadequate credit assistance	212	1.00	9.00	2.235	1.711
Policy inconsistency and government bureaucracy	212	1.00	9.00	6.009	2.308
Lack of access modern technology	212	1.00	9.00	5.712	2.110
Inadequate managerial skill	212	1.00	9.00	4.311	2.143
Infrastructural problems	212	1.00	9.00	3.867	2.196
Marketing factors	212	1.00	9.00	6.221	2.086
Politic-legal factors	212	1.00	9.00	7.198	1.932
Multiple tax and levis	212	1.00	9.00	5.316	2.130

A study conduct by (Mohammed, 2016) on the Challenge and Prospects of Small Scale Enterprise in Ethiopia, a survey of some selected Small Scale Enterprise in Addis Ababa city, using frequencies, mean and standard deviation to showed that there are many constraints which affect the performance of MSEs in the sub-city. The income that get from MSEs becomes the most important for reduction of poverty and economic growth of the countries.

From his 212 respondents the result shows that, inadequate credit assistance represents the greatest among all the problem areas since it has the lowest mean of 2.24. Next to the inadequate credit assistance; problem of skilled man power, infrastructural problems, Lack of access modern technology, multiple tax and Levis, policy inconsistency and government bureaucracy, marketing factors and politic-legal factors with mean of 3.35 and 3.87, 4.31, 5.32, 5.7, 6.01, 6.2 and 7.1981 respectively

**Table2.** Constraints which affect MSEs faced at start up and operational level (Siyum, 2015)

Problems	Yes		No	
	Frequency	Percent	Frequency	Percent
Shortage of startup capital	282	87.3 (1)	41	12.7
Lack of Quality of Chiseled cobbles	220	68.1 (3)	103	31.9
Lack of experience	178	55.1 (6)	145	44.9
Lack of availability of input on time/Lack of raw material	207	64.1 (4)	116	35.9

Hard working condition	146	45.2 (8)	177	54.8
Lack of access for training	164	50.8 (7)	159	49.2
Lack of favorable policy support	140	43.3 (9)	183	56.7
Inadequate support from Government	197	61.0 (5)	126	39.0
Lack of working capital	274	84.8 (2)	49	15.2

A study conducted by Siyum (2015), the role of MSEs in urban poverty alleviation: a case study on cobble stone paving sector in Addis Ababa city, using frequencies and percent to address constraints which affect the performance of MSEs for their engagement in cobble stone paving as well as during operational level. As a result, out of the total 323 respondents, existence of Shortage of startup capital (87.3%), lack of working capital (84.8%), like lack of quality of shaped cobbles (68.1%), lack of availability of input on time or lack of raw material (64.1%), inadequate support from government (61%), lack of experience (55.1%), lack of access for training (50.8%), hard working condition (45.2%) and lack of favorable policy support (43.3%) are the major factors which affect the set-up of MSEs.

### 3. SUMMARY AND CONCLUSION

Micro and Small scale enterprises are generally regarded as the engine of economic growth, poverty reduction and equitable income distribution in developing economies like Ethiopia. It is the second largest employment generating sector next to agriculture in Ethiopia. It has been playing an important role for achieving its development goals, to achieve the country plan of both GTP I and GTP II, to increase income and domestic saving, equitable distribution of income, better utilization of local resource, growth of large industries, achievement of economic independence, improve efficiency and production of goods and services that satisfy the basic needs of the poor.

It is also important for their greater utilization of local raw materials, increase tax revenue of the government, adoption of appropriate technology, increasing revenues, increase saving or income to the individual, promotion of gender empowerment, increasing socio-economic growth, enhanced standard of living, macroeconomic stability, quick production response, innovation, lowering costs, take part in rural and urban development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. Due to these significance the Ethiopia government is basically focusing on this enterprises better than other sectors.

Even if MSEs are contributing a lot for poverty alleviation, there are problems which hinder for the expansion of micro and small enterprise. These are: lack of access to start up finance, lack of working capital, lack of availability of input on time or lack of raw material, lack of experience, lack of experience, inadequate support from Government, lack of access for training, problem of skilled man power, inadequate credit assistance, lack of production/market place, lack of adequate infrastructure, lack of access for training, lack of appropriate information, lack of proper institutional support, multiple tax and levies or unaffordable tax, corruptions, mismatch between jobs available and larger number of new graduates, inadequate managerial skill, policy inconsistency and government bureaucracy, high interest rates for borrowing, unfavorable conditions from MSE facilitators and lack of access to appropriate technology.

Generally, now a day MSEs are widely recognized as the most reliable economic development and growth, poverty reduction, income generation and employment creation. MSEs occupy prominent position in order to achieve the above objective in Ethiopia. So without MSEs no nation can achieve a viable economic growth and reduction of poverty. Inadequate credit assistance, lack of access to start up finance, problem of skilled man power, high interest for borrowing and lack of production/market place are the major factor which hinder for the expansion of micro and small enterprises. So attention should be given to these problems in order to improve the establishment and role of MSEs for poverty alleviation

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