

**Assessment on the Determinant Factors on the Performance of Micro & Small
Enterprises: The Case of Harar Town**



**A RESEARCH PROPOSAL SUBMITTED TO DEPARTMENT OF ECONOMICS IN
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Declaration Sheet

The _____

_____ proposal outlined herein is my own work, completed without external assistance, under the supervision of _____. All sources utilized in this document are properly cited in the text and included in the reference section. I acknowledge and agree that failure to adhere to these guidelines may result in denial of progression to the next phase.

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Abstract

Micro and Small Enterprises (MSEs) are critical drivers of economic growth, employment creation, and poverty reduction, particularly in developing countries like Ethiopia. In Harar Town, MSEs play a significant role in the local economy, providing goods and services, generating income, and creating employment opportunities for a large segment of the population. However, despite their importance, many MSEs in Harar face challenges that hinder their performance and sustainability, including limited access to finance, inadequate infrastructure, lack of managerial skills, and unfavorable market conditions. Understanding the factors that influence the performance of these enterprises is essential for designing effective interventions and policies to support their growth.

This study aims to assess the determinant factors affecting the performance of MSEs in Harar Town. Using a mixed-methods approach, the research will collect both quantitative and qualitative data through surveys, interviews, and focus group discussions with MSE owners, managers, employees, and key stakeholders. The study will examine internal factors such as managerial capabilities, access to finance, and business planning, as well as external factors such as market conditions, government policies, and infrastructure. The data will be analyzed using statistical tools and thematic analysis to identify trends, correlations, and key insights.

The findings of this study will provide valuable insights for policymakers, development agencies, and MSE owners in Harar Town. By identifying the key factors that influence MSE performance, the research will offer actionable recommendations to address the challenges faced by these enterprises and enhance their growth and sustainability. Ultimately, this study aims to contribute to the economic development of Harar Town by supporting the growth of MSEs, which are vital for job creation, poverty reduction, and overall economic prosperity.

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Abbreviation and Acronyms

- **GDP:** Gross Domestic Product
- **ILO:** International Labour Organization
- **MSEs** - Micro and Small Enterprises
- **MoTI:** Ministry of Trade and Industry
- **SPSS:** Statistical Package for the Social Sciences
- **STATA:** Statistics + Data

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Micro and Small Enterprises (MSEs) are widely recognized as key drivers of economic growth, particularly in developing countries. Their ability to generate employment, foster innovation, and contribute to poverty reduction makes them indispensable to economic development. MSEs are especially significant in economies where large-scale industrialization is limited, as they provide goods and services to a broad segment of the population at affordable prices. Moreover, these enterprises often utilize local skills and resources without requiring advanced training, substantial capital, or sophisticated technology, making them accessible to a wide range of individuals, including those with limited education and financial means (ILO, 2008).

In Ethiopia, the government has long acknowledged the critical role of MSEs in addressing some of the country's most pressing economic challenges, including unemployment, poverty, and income inequality. MSEs serve as a safety net for individuals who are unable to secure formal wage employment, offering them opportunities to earn a livelihood and improve their economic standing. At the same time, these enterprises act as a platform for skill development, enabling individuals to enhance their productivity and contribute to private sector growth. By creating jobs and increasing incomes, MSEs play a vital role in raising national income and fostering sustainable development (Solomon, 2007).

Since the adoption of a free-market economic policy in 1991, Ethiopia has placed a strong emphasis on the development of small enterprises as a cornerstone of its economic strategy. The government has implemented various policies and strategies aimed at promoting the start-up, growth, and expansion of MSEs. These efforts are aligned with the broader goals of poverty reduction, job creation, and economic transformation. Small businesses are particularly important in Ethiopia, where they provide employment opportunities for the urban unemployed, new entrants to the labor market, and rural migrants seeking better economic prospects.

The recently introduced *Micro and Small Enterprise Development Strategy* and the *Industrial Development Strategy* further underscore the importance of MSEs in Ethiopia's economic

landscape. These strategies highlight the role of the private sector in generating income and employment, particularly in urban areas where unemployment rates are high (Andualem, 1997). As noted by Habtamu and Nigusu (2013), MSEs are instrumental in driving economic transition by leveraging local skills and resources, often without the need for significant capital investment or advanced technology.

Despite their importance, MSEs in Ethiopia face numerous challenges that hinder their performance and growth. These challenges include limited access to finance, inadequate infrastructure, lack of managerial skills, and unfavorable market conditions. Understanding the factors that influence the performance of MSEs is crucial for designing effective interventions and policies to support their development. This is particularly relevant in Harar Town, where MSEs play a significant role in the local economy but have not been extensively studied.

Therefore, this study seeks to investigate the determinant factors affecting the performance of MSEs in Harar Town. By identifying these factors, the research aims to provide valuable insights for policymakers, development agencies, and MSE owners. The findings will contribute to the development of targeted strategies to enhance the performance and sustainability of MSEs, ultimately supporting economic growth and poverty reduction in the region.

1.2 Statement of the Problem

Micro and Small Enterprises (MSEs) are recognized as pivotal contributors to economic growth, employment generation, and poverty alleviation in developing countries, including Ethiopia. In Harar Town, MSEs serve as essential pillars of the local economy, offering employment opportunities, generating income, and providing a wide range of goods and services. Despite their crucial role, many MSEs in Harar struggle to achieve sustainable growth and operational efficiency.

The challenges confronting MSEs in Harar are multifaceted. Limited access to finance remains a significant barrier, as many small enterprises lack the collateral or credit history required by formal financial institutions. Inadequate infrastructure, including unreliable electricity and poor transportation networks, further hampers business operations and growth. Additionally, a lack of managerial skills and business planning capabilities among MSE owners often leads to inefficient operations and financial mismanagement. External factors, such as unfavorable market conditions and inconsistent government policies, also pose significant hurdles to MSE sustainability and performance.

While various studies have assessed the performance determinants of MSEs in other regions of Ethiopia, there is a noticeable gap in research specifically focused on Harar Town. The unique socio-economic and cultural dynamics of Harar may influence the performance of MSEs differently compared to other regions. Therefore, understanding the specific factors affecting MSEs in Harar is critical for designing targeted interventions and policies that can effectively support these enterprises.

1.3. Objectives of the Study

1.3.1. General Objectives

The general objective of this study is to assess the determinant factors affecting the performance of Micro and Small Enterprises (MSEs) in Harar Town. The study aims to provide a comprehensive understanding of the internal and external factors that influence the success or failure of these enterprises.

1.3.2. Specific Objectives

- To identify the internal factors (e.g., managerial capabilities, financial resources, business planning) that influence the performance of MSEs in Harar Town.
- To examine the external factors (e.g., market conditions, government policies, infrastructure) that impact the performance of MSEs in the region.
- To evaluate the relative importance of these factors in determining the growth and sustainability of MSEs.
- To provide recommendations for policymakers, development agencies, and MSE owners on how to address the challenges and enhance the performance of MSEs in Harar Town.

1.4. Hypothesis

The study hypothesizes that the performance of MSEs in Harar Town is significantly influenced by a combination of internal and external factors. Specifically, it is hypothesized that:

- Access to finance and managerial skills are critical internal factors that determine the success of MSEs.
- External factors such as market access, government policies, and infrastructure play a significant role in shaping the performance of MSEs
- The interaction between these internal and external factors determines the overall growth and sustainability of MSEs in Harar Town.

1.5. Significance of the Study

This study holds significant value for multiple stakeholders:

- **For Policymakers:** The research will provide evidence-based insights to inform the development of policies and programs aimed at supporting MSE growth and sustainability in Harar Town.
- **For Development Agencies:** The findings will guide the design of targeted interventions to address the specific challenges faced by MSEs, promoting economic development and job creation
- **For MSE Owners and Managers:** The study will highlight critical areas for improvement, offering practical recommendations to enhance business performance and sustainability.
- **For Academics and Researchers:** This study will contribute to the body of knowledge on MSE performance determinants, particularly in the context of Harar Town, and serve as a reference for future research.

1.6. Scope of the Study

The scope of this study is limited to Micro and Small Enterprises operating within Harar Town. It will focus on both internal and external factors influencing MSE performance, including managerial capabilities, access to finance, business planning, market conditions, government policies, and infrastructure. The study will utilize a mixed-methods approach, combining quantitative and qualitative data collection techniques such as surveys, interviews, and focus group discussions.

1.7. Limitation of the Study

Several limitations may affect the outcomes of this study:

- **Data Availability:** Limited access to up-to-date and comprehensive data from local administrative bodies may constrain the analysis.
- **Respondent Bias:** The accuracy of self-reported data from MSE owners and managers may be influenced by personal biases or reluctance to disclose sensitive information.
- **Generalizability:** The findings of this study may be specific to the unique socio-economic context of Harar Town and may not be fully generalizable to other regions.

- **Resource Constraints:** Time and financial limitations may affect the breadth and depth of data collection and analysis.

By acknowledging these limitations, the study will aim to mitigate their impact through robust research design and methodology.

CHAPTER TWO

2. Literature Review

Micro and Small Enterprises (MSEs) are integral to economic development, particularly in developing countries where they play a crucial role in job creation, income generation, and poverty reduction. According to the International Labour Organization (ILO, 2008), MSEs contribute significantly to employment and GDP in many countries. In Ethiopia, the government has recognized the importance of MSEs through policies and strategies aimed at fostering their development, such as the Micro and Small Enterprise Development Strategy (MoTI, 1997).

Several studies have explored the factors influencing MSE performance. Access to finance is a recurrent theme, as highlighted by Beck and Demirgüç-Kunt (2006), who argue that financial constraints are a major barrier to MSE growth in developing countries. In Ethiopia, Zewde and Associates (2002) found that limited access to credit and financial services hampers the expansion and sustainability of MSEs. This is often due to stringent collateral requirements and high-interest rates imposed by financial institutions.

Managerial capabilities also play a critical role in MSE performance. According to Osei, Baah-Nuakoh, Tutu, and Sowa (1993), MSE owners with better managerial skills and business acumen tend to perform better than their less skilled counterparts. Training and education are essential for enhancing these skills, as noted by McPherson (1996), who emphasizes the positive correlation between educational attainment and business success.

Infrastructure is another determinant of MSE performance. Poor infrastructure, such as unreliable electricity, inadequate transportation networks, and limited access to markets, can significantly impede business operations. Liedholm and Mead (1999) highlight those infrastructural deficiencies are a common challenge for MSEs in Sub-Saharan Africa, including Ethiopia.

Market conditions and government policies also influence MSE performance. The dynamic nature of markets, competition, and consumer preferences requires MSEs to be adaptable and innovative. However, inconsistent government policies and bureaucratic hurdles can create an uncertain business environment, as discussed by Tefera, Gebremichael, and Abera (2013) in their study on MSEs in Addis Ababa.

While these studies provide valuable insights, there is a notable gap in research focused specifically on Harar Town. The unique socio-economic and cultural context of Harar may present distinct challenges and opportunities for MSEs. Therefore, this study aims to fill this gap by providing a comprehensive assessment of the factors influencing MSE performance in Harar Town, contributing to the broader understanding of MSE dynamics in Ethiopia.

CHAPTER THREE

3. Research Design and Methodology

3.1. Study Area

The study will be conducted in Harar Town, a historic and culturally significant city located in eastern Ethiopia. Harar Town is known for its vibrant economy, driven largely by Micro and Small Enterprises (MSEs) operating in sectors such as trade, manufacturing, and services. The town's strategic location and cultural heritage make it an important hub for economic activities, particularly for small-scale businesses. The study will focus on MSEs within the town's boundaries, ensuring that the findings are relevant to the local context and can inform targeted interventions for the region.

3.2. Research Design

This study will adopt a mixed-methods research design, combining both quantitative and qualitative approaches to provide a comprehensive understanding of the factors influencing the performance of MSEs in Harar Town. The quantitative component will involve structured surveys to collect numerical data on the internal and external factors affecting MSE performance. The qualitative component will include in-depth interviews and focus group discussions to gather detailed insights into the challenges and opportunities faced by MSE owners, managers, and employees. This dual approach will allow for a more nuanced analysis of the issues and ensure that the findings are both statistically robust and contextually rich.

3.3. Study Participants

The study participants will include:

- **MSE Owners and Managers:** These individuals will provide insights into the internal operations of the enterprises, including challenges related to finance, management, and business planning.
- **MSE Employees:** Employees will offer perspectives on the day-to-day operations and challenges faced within the enterprises.

- **Key Stakeholders:** This group will include local government officials, representatives from financial institutions, and development agencies involved in supporting MSEs. Their input will provide a broader understanding of the external factors affecting MSE performance, such as government policies, access to finance, and infrastructure

3.4. Sampling Method

A stratified random sampling method will be used to select participants for the study. The MSEs in Harar Town will be stratified based on their sector (e.g., trade, manufacturing, services) and size (e.g., micro, small). This approach ensures that the sample is representative of the diverse range of MSEs operating in the town. For qualitative data, purposive sampling will be used to select key informants, such as experienced MSE owners and stakeholders, who can provide in-depth insights into the factors affecting MSE performance.

3.5. Sample Size

The sample size for the study will be determined based on the number of registered MSEs in Harar Town. A target of at least 100 MSEs will be included in the survey to ensure that the findings are statistically significant and representative of the broader population. For qualitative data, approximately 10-15 in-depth interviews and 2-3 focus group discussions will be conducted, with each focus group comprising 6-8 participants.

3.6 Types of Data

The study will collect both primary and secondary data:

- **Primary Data:** This will include quantitative data from surveys and qualitative data from interviews and focus group discussions. The surveys will focus on internal factors (e.g., managerial skills, access to finance) and external factors (e.g., market conditions, government policies) affecting MSE performance. Interviews and focus group discussions will provide deeper insights into the challenges and opportunities faced by MSEs.
- **Secondary Data:** This will include data from government reports, academic journals, industry publications, and other relevant sources. Secondary data will be used to supplement the primary data and provide context for the study.

3.7. Method of Data Collection

- **Surveys:** Structured questionnaires will be administered to MSE owners and managers to collect quantitative data on the factors affecting their performance. The questionnaires will include both closed-ended and open-ended questions to capture a range of responses.
- **In-Depth Interviews:** Semi-structured interviews will be conducted with key stakeholders, including government officials, financial institution representatives, and experienced MSE owners. These interviews will focus on external factors such as government policies, access to finance, and infrastructure.
- **Focus Group Discussions:** Focus group discussions will be held with MSE employees to gather their perspectives on the internal dynamics of the enterprises and the challenges they face in their day-to-day operations.

3.8 Method of Data Analysis and Interpretation

- **Quantitative Data Analysis:** The quantitative data collected from surveys will be analyzed using statistical software such as Microsoft Excel or SPSS/STATA. Descriptive statistics (e.g., mean, median, standard deviation) will be used to summarize the data, while inferential statistics (e.g., regression analysis, correlation analysis) will be used to identify relationships between the variables.
- **Qualitative Data Analysis:** The qualitative data from interviews and focus group discussions will be analyzed thematically. The data will be coded and categorized into key themes and patterns, which will then be interpreted in the context of the study's objectives and research questions.
- **Integration of Findings:** The quantitative and qualitative findings will be integrated to provide a comprehensive understanding of the factors affecting MSE performance in Harar Town. The results will be interpreted in light of the study's objectives, and actionable recommendations will be developed based on the analysis.

Conclusion

This proposal outlines a comprehensive study aimed at assessing the determinant factors affecting the performance of Micro and Small Enterprises (MSEs) in Harar Town, Ethiopia. MSEs play a critical role in the local economy by generating employment, reducing poverty, and fostering economic growth. However, their performance is often hindered by various internal and external challenges, including limited access to finance, inadequate infrastructure, lack of managerial skills, and unfavorable market conditions. Understanding these factors is essential for designing effective interventions and policies to support the growth and sustainability of MSEs.

The study will employ a mixed-methods research design, combining quantitative and qualitative approaches to gather and analyze data from MSE owners, managers, employees, and key stakeholders. By identifying the key factors influencing MSE performance, the research aims to provide actionable recommendations for policymakers, development agencies, and MSE owners. These recommendations will focus on addressing the challenges faced by MSEs and enhancing their growth and sustainability.

The findings of this study will contribute to the broader goal of economic development in Harar Town by supporting the growth of MSEs, which are vital for job creation, poverty reduction, and overall economic prosperity. Ultimately, this research seeks to provide valuable insights that can inform targeted interventions and policies, ensuring that MSEs continue to play a pivotal role in the economic transformation of Harar Town and Ethiopia as a whole.

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