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EFFECTS OF GOVERNMENT SUPPORT INTERVENTIONS ON PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN AMBO TOWN, ETHIOPIA

Debela Hailu

Lecturer
Ambo University
Ambo, Ethiopia

Mohammednur Ahmed

Assistant Professor
Ethiopian Civil Service University
Addis Ababa, Ethiopia

Abstract

The study was conducted to investigate the effects of government support on the performance of Micro and Small Enterprises (MSEs) at Ambo town. The government is providing various development supports like financial access, training, technological support, working area, creating market linkage, promoting enterprises to increase, potential, profitability and performance of MSEs which have relevant contribution for development of the town. The researcher used both primary and secondary sources and methods to collect data. The primary sources of data are enterprises owners managing manufacturing, Construction, Trade, Service and Urban agricultural businesses. Besides, the study has employed stratified sampling (respondents) methods. The data was analyzed using descriptive, inferential statistics and binary logistic regression. The inferential side of the statistical analysis was used in an attempt to measure the effects of different supports designed by the government to improve growth and performance of MSEs. Most of the independent variables showed positive relationship with dependent variable.

Key words: Government supports, Micro and Small Enterprises, Enterprise Performance

Introduction and Problem Statement

Micro and Small Enterprises (MSEs), as economics agents, are playing a pivotal role in tackling poverty and fostering economic empowerment in developing countries. The sector attracts the attention of policy makers and donor communities at national and international level in exploiting the existing economic and social potentials of the

enterprises to promote economic development of a nation (McPherson, 1996; Fredrick, 2005). As a result the sector is getting attention from policy makers and other concerned stakeholders in an attempt to improve economic and operational enterprise performance (Yusuf, 1995; Longenecker *et al.,* 2006).

In Ethiopia, the Federal Government has paid a policy attention for the past two decades to MSEs development and growth strategies. The government designed MSEs Development Policies and Strategies since 1997 which was revised in 2011 to accommodate the changing needs of the enterprises that resulted from the political and economic changes in the country. According to the Ethiopian Development Research Institute (EDRI) report, the primary objective of the revised strategy framework was to create a favorable environment for MSEs operation. This could help MSEs to facilitate economic growth, create long-term jobs, strengthen cooperation between MSEs, provide the basis for medium and large scale enterprises and promote export (Berihu, Abebaw and Biruk, 2014).

According to the Ethiopian Central Statistics Authority (CSA) report of 2009, MSEs in Ethiopia were impeded by wide range of constraints and problems such as lack of access to finance, unfavorable regulatory environment, limited access to markets, business development services, information, business premises, the acquisition of skills and managerial expertise, restricted access to appropriate technology, and limited access to quality business infrastructure. To address these constraints, extensive researches were conducted on MSEs characteristics, challenges, contributions, success and failure factors (Bereket, 2010; Ermias, 2011; Abiyu, 2011; Tiruneh, 2011, Weldegebriel, 2012). However, there are scanty studies that have been focused on the impact of government intervention in enterprises. Therefore, this study generally designed to study the government support intervention on the economic performance of Micro and Small Enterprises in Ambo town with the following specific objectives.

- To describe the basic characteristics of MSEs in Ambo town
- To identify the types of government support programs available for MSEs.
- To measure the impact of government support interventions on MSEs economic performance.

MSEs from Ethiopian Context

Micro and Small Enterprises (MSEs) has led to diverse definitions and unresolved debates. There is no universally agreed up on the definition of MSEs. Due to this, the meaning of MSE is necessary arbitrary because people, countries and organizations adopt different standards for different purposes according to their own working definition. These individuals and organizations have been defining them in a variety of ways using different factors according to their country and organization perspectives (Amenu, 2005). Gebreeysus (2009) adopted the definition of small business. A small business is one which is independently owned and operated, and which is not dominant in its field of operation'. Researchers and other interested parties have used specific criteria to operationalize the small business as a construct: value added, value of assets, annual sales, and number of employees. A study done by Commission on Legal Empowerment of the Poor (2006), conducted in Addis Ababa reported that; size of employment, capital investment or turnover is used as criteria to categorize enterprises along scales of operation and define micro, small, medium and large enterprises. From this perspective, some developed and developing countries defined Micro and Small Enterprises based on work force (number of employees), sales, turnover, assets, investment, machinery and equipment, capital investments.

There is lack of uniform definition at the national level to have a common understanding of MSEs sector. While the definition by ministry of trade and industry use capital investment whereas the central statistics authority uses employment and favored capital intensive technologies as yardstick. Micro enterprises are those business enterprises in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments. Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high technological establishments (MoTI, 2004).

Definition of MSEs in Ethiopia had improved based on the gathered experience, by identifying the gaps of the existing definition of MSE, ignoring the size of employee and by taking total asset as criteria and by dividing it in to industry and service sector; and considering the coming 5 years inflation and fluctuation/regularity of currency the definition of MSEs was improved (MSEDS strategy, 2011).

Table 1: Definition of MSE

Level of Enterprise	*Sector*	*Human Power*	*Total Asset ETB*
Micro Enterprise	Industry	≤ 5	≤ 100,000
	Service	≤ 5	≤ 50,000
Small Enterprise	Industry	6-30	101,000 - 1,500,000
	Service	6-30	50,001 -500,000

Source: Ethiopian Micro and Small Enterprise Development Strategy (2011)

The FDRE MSEs Development Policy and Strategies

The government of Ethiopia its transition from centralized to market based economy was working in formulating and implementing different policy and strategies. As a result, A National MSE Strategy of Ethiopia was issued in 1997. The same strategy was revised in 2011 with the aim of responding to the changing national economy. Specifically, the strategy was designed to achieve three major objectives: job creation, bringing sustainable economic development and developing future business entrepreneurs. The Industrial Development Strategy of Ethiopia, formulated in 2003, clearly indicates that promoting MSEs are one of the important instruments to create productive private sector and entrepreneurship and that the government will give due emphasis and priority to promote this sector. The strategy also stresses that every effort will be made to support this sector by providing infrastructure (working premises and land), financial facilities, supply of raw materials, training, etc. Federal and regional governments are expected to coordinate the support services through the already established MSE Development Agencies. The primary objective of the MSE strategy as stated in the 1997 strategy document is to create enabling legal, institutional and other supportive environment for the performance of MSEs. The specific objectives include:- Facilitate economic growth and bring about equitable development, Create long-term jobs, Strengthen cooperation between MSEs, Provide the basis for medium and large scale enterprises, Promote exports, and Balance preferential treatment between MSE and bigger enterprises (Gebrehiwot and Wolday, 2004).

In a bid to promote the enterprises and improve MSEs, the MSEs development strategy document stated five areas of intervention.

1. *Facilitating access to finance through loan provision*: the government aims at facilitating access to finance to business operators especially by arranging loans as seed money in the formation stage. Most of the time, financial support and credit are designed for those who

have limited savings and in need of additional finance to form business enterprises. In addition to providing sustainable credit service on the basis of business nature, the strategy focuses on making business operators to be competent in managing finance, to use the loan properly and effectively, and to improve saving culture.

2. *Training and consultancy*: It is often assumed that SMEs are not capable of paying market prices for advisory services. Various studies discuss theoretical reasons why firms might not purchase advisory services at market prices and why government intervention would therefore be justified (McKenzie and Woodruff, 2014). The following can be taken as main reason for limited interest by business operator to ward training and constancy: (1) entrepreneurs may not adequately understand the potential value of advisory services and are hence not willing to pay market prices; (2) SMEs may not have the cash to pay for these services because banks are reluctant to provide them with loans; and (3) limited availability of locally and privately supplied advisory services could play a role.
3. *Providing working site for enterprises:* In the first five year Growth and Transformation Plan (GTP), the government of Ethiopia plans to provide 15,000 hectares of land for different Micro and Small Enterprise development projects, facilitate working and sales sites on MSE business nature, facilitating production and sales sites rent in a fair price, build industry zone at all regional city/towns before they leave the centers (FDRE Micro and Small Enterprise Development Strategy, 2011).
4. *Business development services:* Public support to promote enterprise since the 1970s in developing countries has moved from centralized state development agency initiatives to decentralized market development instruments. It is now increasingly agreed that, if it is to be economically efficient and practically effective, technical assistance for the enterprise sector needs to be flexibly organized and demand-responsive. While traditional centralized assistance may continue to be effective in some circumstances, assistance needs to be to a large extent moved out of the State or quasi-public agencies to competitive private service providers responding to the evolving needs of client enterprises, subject to service quality control. Stimulation of private service supply and upgrading its capacity to respond to the demands of new and expanding private enterprises is therefore a central task of public policy. Such

concerns have been the focus of a series of international workshops on business development services (BDS) held during 1999 and 2000 under the auspices of the Committee of Donor Agencies for Small Enterprise Development (Phillips, 2000).

5. *Promoting or graduating enterprises to the next level:* The efficacy of such interventions, however, depends on identifying the key problems and targeting the potentially successful entrepreneurs. An examination of the characteristics of the entrepreneurs and enterprises with high potential to survive and grow is therefore essential. Access to market information system was facilitated to those who are engaged in the sector and in export products too, access to market opportunities were facilitated by establishing various marketing systems, and to encouraged and strengthen their marketing capacity by organizing in association and group, various forms of market linkages in sub-contracting were expanded (FDRE, 2011), MSE development strategy.

Methodology

Description of the study area

Demographically Ambo (also known as *Hagere Hiwot*) is a town and separate district in central Ethiopia. Located in the West Shewa Zone of the Oromia Region, west of Addis Ababa, this town has a latitude and longitude of 8°59′N 37°51′E and an elevation of 2101 meters. The 2007 national census reported a total population for Ambo of 48,171, of whom 24,634 were men and 23,537 were women. According to the data obtained from Ambo Town Micro and Small Enterprise Office repot, in 2015. There were 463 MSEs registered by the office and operating formally from 1998 up to the end of 2015

Data Collection and Analysis Methods

To address the research problem and to achieve the stated objectives, a cross-sectional survey was employed as a research design. The aim of the survey was analyzing and explaining the effect of MSEs government policy interventions and support on MSEs which are operating in Ambo Town. Both quantitative and qualitative approaches were employed with the purpose of achieving triangulation in data presentation and analysis.

Primary and secondary data sources were used for this study purpose. The primary sources of data were MSES operating in Ambo town. Primary data were collected through the designed questionnaire,

containing close and open ended questions. The questionnaire was kept brief to reduce respondent fatigue and boredom. Parallel to this, interviews were conducted with government officials to collect relevant data. On the other hand, the secondary sources of data were used whenever it found to be appropriate.

The population of interest was MSEs operating in Ambo town. From administrative and policy perspectives, the enterprises are categorized in to five sectors namely: Manufacturing, Construction, Urban Agriculture, Services, and Retailers. According to the data obtained from Ambo Town Micro and Small Enterprise Office repot, 2015 there were 463 MSEs formally registered and operating in the town. The following table shows the sectorial distribution of MSEs in the town with the proportion of sample taken. The sample size was determined using statistical formula at 7.5% precision level proposed by Yemane (1967)[1] taking its applicability in finite and infinite population characteristics. Accordingly, the sample size of the study was determined to be 129 out of the 463 enterprises operating in the town.

1 $n = \frac{N}{1+N*e^2}$, *at 7.5% precision level*

Table 2: Distribution Sampled Respondents

Type of Business	*Population*	*Sample Size*	*Total Responded*	*Response Rate*
Manufacturing	66	18	18	100%
Construction	128	36	27	75%
Urban Agriculture	16	4	4	100%
Service	119	34	34	100%
Retailors	134	37	33	89%
Total	463	129	116	90%

Source: Own Survey

Sampling procedure: A stratified random sampling procedure was used given the sectorial classification of the enterprises by the government in the above table 1.ed to be independent of the other. Finally, MSEs were selected from each stratum randomly

Conceptual framework

For the study of the effects of government support intervention on performance of Micro and Small Enterprises, the following are the list and framework of independent variables and dependent variable with Mathematical model of Logistic regression analysis.

$$Y = \beta 0 + \beta 1x1 + \beta 2x2 + \beta 3 \ldots\ldots\ldots\ldots\ldots\ldots \beta kxk + \varepsilon i$$

Independent variables:- Loan, working sites, training, market linkage, technology support, and promotion levels. Dependent variable is Performance of Micro and Small Enterprises.

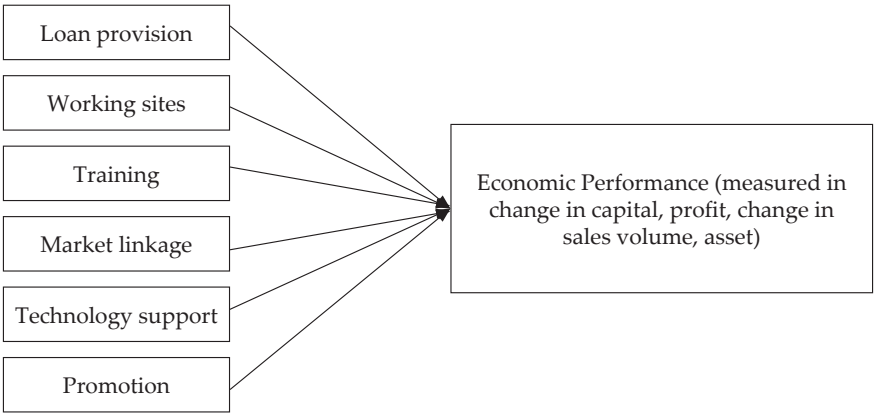

Figure 1: Dependent variable and Independent variables conceptual frame work

Source: Researcher made

Regression Model - Binary Logistic Regression)

Binary logistic regression was used to measure the effects of government support intervention on micro and small enterprise performance. In the model the following factors were incorporated: work experience, loan (financial access), training, market linkage (market creation), work site (work area) and to predict the performance (general, capital and saving measures). All variables involved in the analysis were categorical except one variable (work experience). Thus, to interpret the results of analysis, the last category of the variables was taken as reference category in the study.

The dependent variable of this study has two categories (0 and 1). The value 0 represents the stagnant/decreased performance of the Micro and Small Enterprises; and value 1 indicates increase/improvement in performance. The reason that the researcher used binary categories (two categories) is that fits the assumptions of Logistic Regression particularly Binary Logistic Regression Model. These are, dependent variable should be measured on a dichotomous scale where incase of this Economic performance of MSEs is dichotomous variables not continuous, rather it is categorical, to check whether it is to increase

or not increase. Independent variables can be either categorical or continuous. In this model, five independent variables were using categorical and one factor using continuous (*i.e.* work experience). Independent observations and dependent variable have mutually exclusive and exhaustive categories. The value of a dependent variable is defined as a linear combination of the independent variables plus an error term. It can be shown by the following equation.

$$\ln\left(\frac{p(x)}{1-p(x)}\right) = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 \ldots\ldots\ldots\ldots\ldots\ldots \beta kXk + \varepsilon i$$

Where:

- $\ln\left(\frac{p(x)}{1-p(x)}\right)$ is dependent variable (effects of policy interventions and supports)
- βs = Population parameter to be estimated,
- X_k = Work Experience (X_1), Financial access (X_2), Training (X_3), Market linkage (X_4), Work site(X_5), Promotion X_6
- ε_i =is vector error of prediction.

The regression coefficients are interpreted as the change in the expected value of **Y** associated with a one-unit increase in an independent variable X, with the other independent variables held constant. Besides, descriptive tools such as frequency distribution and percentage and binary logistics regression were employed in the process of data to analysis. The data were analyzed using Statistical Package for Social Science (SPSS) version 16.

Results and Discussions

The Test of Association

Chi-square is used to estimate the degree of association between dependent variable and independent variables which include different parameters. The test shows that training ($X^2 = 27.303$ with p-value 0.00), market linkage ($X^2 = 16.646$ with p-value 0.000), work site ($X^2 = 10.752$ with p-value 0.001), and promotion (17.512 and p-value = 0.000) showed a positive relationship with enterprise performance, however, work experience (7.738 with a p-value 0.356) has shown statistical insignificance relation enterprise performance.

Regression Result Of Overall Performance

The relationship between the general MSEs Performance and the policy intervention policy variables is found to be statistically significant except with the work experience variable. As we can observe from Table 3, the following variables are statistically significant: Loan/access to finance is statistically significant factor of the performance ($P < 0.05$), Training is statistically significant factor of performance ($P < 0.01$), Market linkage is statistically significant factor of performance ($P < 0.01$), Work site/ work area is statistically significant factor of performance ($P < 0.05$), Promotion/recession is statistically significant factor of performance ($P < 0.05$).

Table 3: Regression Result of Overall Performance

Predictors	*Categories*[a]	*B*	*S.E(B)*	*Wald*	*Df*	*Pvalue*	*Exp(B)*	*95% C.I. For Exp B*	
								Lower	*Upper*
Work Experience	Yes	0.043	0.119	0.132	1	0.716	1.044	0.827	1.319
	No(Ref)								
Financial Access	Yes	1.193	0.597	3.988	1	0.046*	3.296	1.022	10.625
	No(Ref)								
Training	Yes	2.937	0.684	18.441	1	0.000*	18.868	4.937	72.107
	No(Ref)								
Market Linkage	Yes	1.771	0.624	8.046	1	0.005*	5.877	1.729	19.979
	No(Ref)								
Work Site	Yes	1.653	0.646	6.544	1	0.011*	5.225	1.472	18.544
	No(Ref)								
Promotion	Yes	1.428	0.573	6.214	1	0.013*	4.169	1.357	12.811
	No(Ref)								
Constant		-2.963	0.958	9.555	1	0.002*	0.052		

Variable(s) entered on step 1: Experience, Loan, Training, Market linkage, Work site, Promotion

Capital Amount as Measurement of Performance

Capital amount as dependent performance variable and it is statistically significant. Another test that has been conducted to measure the performance of the enterprises was capital change. Hence, Training is statistically significant factor of Capital ($P < 0.01$), Market linkage is statistically significant factor of capital ($P < 0.01$), Work site/ work area is statistically significant factor of capital ($P < 0.05$), and Promotion is statistically significant factor of capital ($P < 0.05$). Therefore,

the relationship between training, market linkage, work site, and promotion with Capital is statistically significant, and those MSEs who have got training, market linkage, work site and promotion were 12.101, 4.455, 3.557 and 3.255 times more likely to increase their Capital than those who do not have training, market linkage, work site and promotion respectively.

Table 4: Regression result on Capital Change

Predictors	*Categories*[a]	*B*	*S.E(β)*	*Wald*	*Df*	*Sig.*	*Exp(β)*	*95% C.Ifor Exp β*	
								Lower	*Upper*
Work experience	Yes	0.023	0.111	0.042	1	0.838	1.023	0.823	1.271
	No(ref)								
Financial access	Yes	0.676	0.539	1.576	1	0.209	1.967	0.684	5.652
	No(ref)								
Training	Yes	2.493	0.619	16.224	1	0.000	12.101	3.597	40.714
	No(ref)								
Market linkage	Yes	1.494	0.581	6.621	1	0.010	4.455	1.428	13.902
	No(ref)								
Work site	Yes	1.269	0.586	4.685	1	0.030	3.557	1.127	11.220
	No(ref)								
Promotion	Yes	1.180	0.543	4.719	1	0.030	3.255	1.122	9.442
	No(ref)								
Constant		-2.029	0.820	6.119	1	0.013	0.131		

Variable(s) entered on step 1: Experience, Loan, Training, Market linkage, Work site, Promotion

Capital Amount as Measurement of Performance

The researcher also checked the sales volume, (which is used to measure performance of MSEs) as dependent variable and it is statistically significant. The following variables are statistically significant: Training is statistically significant factor of saving amount (P< 0.01), Market linkage is statistically significant factor of saving amount (P < 0.05), and Work site / work area is statistically significant factor of saving amount (P < 0.01). Therefore, the relationship between training, market linkage, and work site with saving amount is statistically significant, and those MSEs who have got training, market linkage, and work site Table 5. Saving amount as measurement of Performance were 11.039, 3.720 and 5.458 times more likely to increase their saving amount than those who do not have got training, market linkage and work site respectively.

Table 5: Regression Result on Savings Change

Predictors	*Categories*[a]	*β*	*S.E(β)*	*Wald*	*Df*	*Sig.*	*Exp(β)*	*95% C.Ifor Exp β*	
								Lower	*Upper*
Financial access	Yes	0.676	0.519	1.695	1	0.193	1.965	0.711	5.433
	No(ref)								
Training	Yes	2.401	0.578	17.268	1	0.000	11.039	3.556	34.262
	No(ref)								
Market linkage	Yes	1.314	0.545	5.821	1	0.016	3.720	1.280	10.815
	No(ref)								
Work site	Yes	1.697	0.577	8.647	1	0.003	5.458	1.761	16.915
	No(ref)								
Promotion	Yes	0.857	0.512	2.801	1	0.094	2.357	0.864	6.434
	No(ref)								
Constant		-2.153	0.595	13.098	1	0.000	0.116		

Variable(s) entered on step 1: Financial access, Training, Market linkage, Work site, Promotion

Conclusion

In this study attempts were made to measure effect of government support on performance of Micro and Small Enterprises. From this, the research findings indicated that government interventions that aimed at supporting the development of MSEs have significant contribution in the overall performance of the enterprises. These interventions were found to have positive implication in increasing capital, improving enterprise growth, generating employment and enhancing performance of Micro and Small Enterprises. From this it can be concluded that the policy interventions need greater attention in maintaining them as well as strengthening the support to be provide d in the future to MSEs in the town as well as in the country.

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