

Access to Market and Growth of Micro and Small Scale Enterprises in Ethiopia: Evidence from Wolaita and Dawro zones, Southern Ethiopia.

Abstract

Today in many developing countries like Ethiopia, micro and small scale enterprises (MSE) coupled with institutional supports such as good market access grant a useful strategy to create jobs for jobless and reduce poverty. Access to market for the products of these MSE claimed to be the way and motivational factor in determining the achievement of the above stated goal. However, empirical evidence about access to market for the products of MSE are lacking and, if any, with so many challenges. By considering the case of access to market for products of MSEs in Wolaita and Dawro zones from Southern Ethiopia, this paper investigates whether there is good market access for their products to be revitalized as ensuring job creation and poverty reduction in the two zones. The study was based on primary data collected from 182 MSE operators selected from a total 7 districts (towns) of the two zones. The data was analyzed using descriptive statistics and probit regression model. Informed by relevant statistical tests, empirical model estimation was made using maximum likelihood estimation technique. The result shows the significant impact of access to credit, access to market information, experience in business, number of business development training attended, distance from the center of the market, age of the enterprise and the type of enterprise, on access to market reaffirming their role in promoting MSE development for income poverty reduction and employment creation in the two zones. Further strengthening and expanding access to market for MSE's product is commendable in this case as MSEs need to be given special attention and support for their growth and development.

Key words: Micro and small scale enterprises; access to market, Wolaita zone, Dawro zone.

1. Introduction

Improving the productivity and market linkage of MSE operators is widely accepted as the engine of MSE development and expansion, providing a pathway to lift a large number of youths out of income poverty (FeMSEDA, 2015). This becomes possible mainly through MSE market linkage improvement and development strategy. Supported by appropriate strategy, and other institutional environments, MSE encouragement and linking with market can help them get economic incentives to expand their business and innovate new to generate income for poverty reduction and create jobs for many as expected to do. However, mainly impaired by institutional underdevelopment, MSE productivity gains and market linkage are not significant and strong (Atieno, 2009). Such trends slow down MSE development and its employment expansion as well as income generating impacts, suggesting a compelling need to create an enabling institutional and organizational setup for such goals.

Important questions to be answered in this regard may include those raised in relation to the appropriate strategy and support that need to be promoted and strengthened and their roles in generating better market linkages for MSEs as their development pathway. Government offices are considered as *pace-makers*, including setting and paying fair prices for the products of MSE products and utilizing the services they are rendering. Such supports are expected to be expanded and repeated by other market actors. This can make government offices leaders in creating market for MSEs and, by virtue of this, they can be claimed playing its leading role in these enterprise's

development process. Investigating the reality of such claims is relevant from institutional innovations point of view for MSE development as way to create jobs and poverty reduction strategies in developing countries. This paper assesses whether access to market play a significant role in MSEs development and expansion process in Wolaita and Dawro zones.

Motivated by such evidences, this paper tries to answer whether good access to market can be considered as appropriate motivational pathway to promote MSE development by promoting innovation and generating income and incentives for MSE operators in the two zones. The main focus of the paper is to investigate a link between access to market and MSE development indicated as their capital growth. To our best knowledge, such link is not sufficiently studied and documented at empirical level in the study area, at least.

2. LITERATURE REVIEW

The survey conducted by FeMSEDA (2013) on selected towns in Ethiopia identified frequent challenges encountered by the MSEs in the country in which their extent varied across cities. This survey result revealed that finance shortage was identified as a principal challenge (42%) followed by lack of working premise (28.3%) and lack of access to market (18.1%) for MSEs in the regional towns of the country. Conversely, lack of access to land was the most crucial bottleneck (26.4%) followed by problems of finance (25.6%) and access to market (25.1%) for constraining performances of MSEs in Addis Ababa, the country's capital city.

FeMSEDA (2011) identified among the main constraints encountering MSE in Ethiopia is market problem, which is resulted from failure in competency in markets and lack of producing quality and demanded commodities and lack of commitment staying at the market. Lack of access to market for their product and services is the key problem that FeMSEDA identified as the major challenges for the growth of MSE in the country.

UNIDO (2007) explained that MSEs are often unable to take advantage of market opportunities that require large volumes of production, broad product range and regular supply. According to this report, MSEs lack market related information and skills and have little access to expertise and finance, which hinder them from performing well and results in slow growth of such enterprises. Due to this factors, this report claim that MSEs are often unable to enter circuits of production and selling of their products at both local and global markets.

According to Nichter and Goldmark (2009) an important dimension of growth or potential growth in a market linkage of MSE is from the demand side of the market. In this case it is clear that the available demand for MSE's product demand provide an opportunity for their sell of products and motivates more to produce. This is what we call access to market in which many MSE are facing today.

Nordin (2005) suggested financial services constitute the output produced by financial corporations and provided to their customers. According to his finding, some of the services are priced implicitly in the form of interest margins i.e by paying or charging different interest rates to borrowers and lenders whereas other are priced explicitly i.e directly charged by financial corporation to their customers.

Groenewald and Jordaan (2012), in their book on unlocking credit market to small holder, mentioned that many rural (and also urban) households in many parts of the world have lived in a vicious cycle of poverty; low rates of capital investment, coupled with low incomes, inevitably led to low savings, low productivity and ultimately again poverty and low investment. According to these authors, it was assumed that poorer cannot save due to their low income and high propensity to spend. That is why governments in different countries stepped to close this gap. This led to what has later been described as the traditional, or conventional, or supply led approach to credit. Adams and Vogel (1984), cited in Groenewald and Jordaan (2012), stated that donors and policy makers embarked on supply-led credit and simultaneously neglected the mobilization of rural savings. However, results have practically everywhere been futile.

Groenewald and Jordaan (2012) indicated that failure of the supply-led approach became evident as a large number of the institutions involved proved to be non-viable and non-sustainable; many donors removed or reduced support, and governments in some developing countries could not continue institutions. According to Gobeze (2005), on his paper entitled micro finance development, group lending methodology has been a great opportunity for the majority poor as it removes the main entry barrier for those with no collateral, limited literacy, weak technical knowledge and narrow prior money management experience. It has also advantages for micro financing institutions in terms of screening out those who are not credit worthy.

3. METHODOLOGY OF THE STUDY

3.1 Descriptions of the Study Area

Wolaita is the name of both the people and area in Southern Nations, nationalities and Peoples' Regional State (SNNPRS). It is bordered in the north by Hadiya and Sidama, in the South by Gamo Gofa and Dawro. Geographically it is located in 6°51" and 7°35" North Longitude; and 37°46" and 38°1" East Latitude. The topography of Wolaita zone is composed of rugged undulating mountain, rolling hills, plateaus and plains that extend up to low land of Lake Abaya. The major economic activities are agriculture (production of legumes, root crops and some cereals – predominantly maize), and livestock rearing.

Dawro is another zone in the Ethiopian Southern Nations, Nationalities, and Peoples' Region (SNNPR). It located at about 500km in southwestern of Addis Abeba, the capital of Ethiopia and 275 km Hawassa, the capital of SNNPR. Dawro is bordered on the south by Gamo Gofa, on the west by the Konta Special Woreda, on the north by the Gojeb River which defines its boundary with the Oromia Region, on the northeast by Hadiya and Kembeta Tembaro, and on the east by Wolaita ; the Omo River defines its eastern and southern boundaries.

3.2. Sampling Technique

Owners/operators of micro and small scale enterprises in Wolaita and Dawro zones are the main target population of the study. Thus, these enterprise owners/operators were the basic sampling unit for this particular study. The total number of registered MSEs in Wolaita is 2012 in 2007 E.C and 789 in Dawro zone in the same year. Two-stage sampling techniques were used to generate the required primary data. At the first stage, 7 towns (5 from Wolaita and 2 from Dawro zones) were selected based on their proportion. In the second stage, MSE

owners/operators were selected by simple random sampling techniques simplified formula provided by Yamane (1967). A probability proportion to size (PPS) was employed to determine sample size from each towns and finally 182 MSE owners/operators were selected by using systematic random sampling techniques.

Table 1: Number of respondents

Town	Frequency	Percent
Areka	21	11.54
Sodo	39	21.43
Tercha	37	20.33
Boditi	27	14.84
Humbo	23	12.64
Shantu	20	10.99
Waka	15	8.24
Total	182	100

Source: own computation, 2016

3.3 Sources of Data and Methods of Data Collection

Both qualitative and quantitative data were collected from primary and secondary sources. Data from primary sources such as MSE owners/operators, and MSE officials were collected through survey questionnaire.

3.4 . The Empirical Modeling Framework

The input for basic analysis will be survey of MSE. With the goal being to investigate common characteristics that explain the likelihood that one micro enterprise might have good access to market for his product and others have no access, hence an appropriate utility maximization approach in such case is the probit regression. The probit model can be employed when the dependent variable (access to credit) is dichotomous. It specifies a non-linear functional relationship between the probability of having good access to market or not and those factors that influence that decision.

The probit model assumes that while we only observe the values of 0 and 1 for the variable Y, there is a latent, unobserved continuous variable Y^* that determines the value of Y . We assume that Y^* can be specified as follows:

$$Y_i^* = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_k x_{ki} + u_i \dots\dots\dots (1)$$

and that:

$$Y_i = 1 \text{ if } Y_i^* > 0$$

$$Y_i = 0 \text{ otherwise:}$$

where $x_1; x_2; \dots; x_k$ represent vectors of random variables, and u represents a random disturbance term.

Now from equation 1,

$$\Pr(Y_i = 1) = \Pr(\beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_k x_{ki} + u_i > 0) \dots\dots\dots (2)$$

Rearranging terms,

$$\Pr(Y_i = 1) = \Pr(u_i > (-\beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_k x_{ki}))$$

$$= 1 - \Pr(u_i < -(\beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_k x_{ki}))$$

$$= 1 - F(-(\beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_k x_{ki})) \dots\dots\dots (3)$$

where F is the cumulative density function of the variable u. If we make the usual assumption that u is normally distributed, we have:

150 $\Pr(Y_i = 1) = 1 - (\Phi(\beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_k X_{ki}))$
 151 $= 1 - \Phi(-X_i \beta)$
 152 $= (X_i \beta) \dots \dots \dots (4)$
 153 where Φ represents the cumulative normal distribution function.

154 Using maximum likelihood techniques we can compute estimates of the coefficients (β 's)
 155 and their corresponding standard errors that are asymptotically efficient. However, these estimates cannot be
 156 interpreted in the same manner that normal regression coefficients are. These coefficients give the impact of the
 157 independent variables on the latent variable Y^* , not Y itself. To transfer Y^* into a probability estimate for Y we
 158 compute the cumulative normal of Y^* . Because of this transformation there is no linear relationship between the
 159 coefficients and $\Pr(Y_i = 1)$. Hence the change in $\Pr(Y_i = 1)$ caused by a given change in explanatory variables
 160 will depend upon the value of all of the other explanatory variables and their corresponding coefficients, or
 161 more precisely on the value of the sum $X_i \beta$, as well as the change in explanatory variables.

162 3.5. Instrumentation of the study

163 Before going for actual survey, pilot test has been done to assure for the quality of primary data. To acquire
 164 preliminary information from the respondents and also to know if wording of the questionnaires is as intended
 165 by the researchers. Additionally, pilot testing has been done to know the reactions of the respondent to questions
 166 and flow of the questions, to uncover ambiguity, lack of clarity, or biases in question wording, which should be
 167 eliminated before administering to the intended sample. The model is tested also for possible problems of
 168 multicollinearity (using variance inflation factor (VIF) for continuous variables and contingency coefficient
 169 (CC) for categorical variables). We used robust estimation technique to account for possible heteroskedasticity
 170 problem and reported the Robust Standard error (i.e., corrected for heteroskedasticity). The computed variance
 171 inflation factor (VIF) and contingency coefficient (CC) values (Table 2 and Table 3) are very low compared to
 172 the respective critical values (10 and 0.75, respectively), indicating that there is no severe multicollinearity
 173 problem among the continuous and categorical explanatory variables considered in the specified model.

174 **Table 2: VIF Test Result for Continuous Variables used in model estimation**

Variable	VIF	1/VIF
Number of Training attended	1.72	0.581826
Age of the enterprises	1.05	0.953354
Educational level	1.04	0.959174
Distance to market (in hour)	1.04	0.964533
Mean VIF	1.215	

175 Source: own computation, 2016

176 **Table 3: Contingency coefficient test result for discrete independent variables**

	Type of Enterprise	Access to credit	Type of ownership	Business experience	Access to market information	Nature of the product
Type of Enterprise	1.00					
Access to credit	0.00943	1.00				
Type of ownership	-0.1584	0.14919	1.00			
Business experience	-0.1050	0.1992	0.1732	1.00		
Market information	0.0721	0.6101	0.1159	0.1284	1.00	

Nature of the product	0.0631	0.1733	0.1767	0.0986	0.1378	1.00
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4. Findings and Discussions

Informed by the above pre-statistical variables relevancy test results, empirical model estimation was made using maximum likelihood estimation technique and other descriptive statistics. We start our discussion and findings displays from descriptive statistical computation.

4.1. Descriptive Statistics

Under this section, we displayed the most three factors that affects and determine the current growth of MSE businesses in Wolaita and Dawro zones using all sampled data. Accordingly, sampled MSE operators responded the first, the second and the third most important factor that obstacles their growth as per the following tables and discussions.

Table 4: The First Most Important Obstacle to growth of MSEs in the Study Area:

Factors	Frequency	Percent
Capital shortage	63	34.62
Lack of skilled labour	17	9.34
Lack of inputs	56	30.77
Inadequate/uncertain market access	42	23.08
Cost of borrowing	2	1.1
Inadequate business support	2	1.1
Total	182	100

Source: Authors Computation, 2016

The above result indicates that about 63 (34.62%) respondents from a total of 182 samples claim that the first factor that obstacle the growth/expansion of MSE in Wolaita and Dawro zone is capital shortage. Similarly about 30.77% of sampled respondents respond that the first factor that hinder their growth is lack of raw materials for their operations. About 23% (42 respondents) claim that the first most important factor that affect and determine their expansion is lack of access to market for their products.

Table 5. The second most important obstacle to growth of MSE's in the study area

Factors	Frequency	Percent
Capital shortage	57	31.32
Lack of skilled labour	16	8.79
Lack of inputs	31	17.03
Inadequate or uncertain market access	47	25.82
Lack of access to credit	7	3.85
Cost of borrowing	11	6.04
Inadequate business support services	13	7.14
Total	182	100

Source: Authors computation, 2016

Result from Table 5 above indicates that about 31% (57 respondents from a total of 182 samples) claim that the second most hindering factor that obstacle the growth/expansion of MSE in study area is the shortage of capital. About 17% of sampled respondents respond that the second factor that hinder their growth is lack of raw materials for their operations. About 26% (47 respondents) claim that the second most important factor that affect and determine their expansion is lack of access to market for their products.

Table 6: The third most important obstacle to growth of MSE's in the study area

Factors	Frequency	Percent
Capital shortage	11	6.04
Lack of skilled labour	20	10.99
Lack of inputs	28	15.38
Inadequate or uncertain market access	59	32.42
Lack of access to credit	13	7.14
Cost of borrowing	11	6.04
Inadequate business support services	40	21.98
Total	182	100

Source: own computation, 2016

Similarly, result from Table 6 above indicates that about 32.42% (59 respondents) claim that the third most hindering factor that obstacle the growth/expansion of MSE in Wolaita and Dawro is lack of access to market for their products. About 22% of sampled respondents respond that the third factor that hinder their growth is inadequate business support services for their operations. About 15.38% (28 respondents) claim that the third most important factor that affect and determine their expansion is lack of input in the study area.

4.2. Econometric Regression Result

As stated above, based on the pre statistical test result, we present the result from probit regression using maximum likelihood estimation method. What techniques for presenting and interpreting probit estimates have in common is that each attempts to illustrate the effect of changes in an independent variable on the probability that the dependent variable takes the value1. The simplest technique used to present probit estimates is to set each independent variable to its mean (or mode for discrete variables), and show the effect on $\Pr(Y_i = 1)$ as the independent variables vary one at a time (Nagler, 1994). This is done by first computing $\Pr(Y_i = 1) = \Phi(X_i\beta)$, which is simply to mean regressing the probit model.

To determine the impact of a unit change (marginal effect) in explanatory variables on $\Pr(Y_i = 1)$, explanatory variables are set equal to explanatory variables + 1, and $\Pr(Y_i = 1) = \Phi(X_i\beta)$ is recomputed. Then, the first probability is subtracted from the second probability, and this difference is the impact of a unit change (marginal effect) in explanatory variables when all other independent variables are held at their mean or mode. A different value would be arrived at if all other explanatory variables were, for example, set to 0. As one can observe from the following table (Table 7) result, the negative and significant result obtained for distance to market reflects the inverse relationship that exists between access to market and higher distance from the center of each towns which was measured in hours traveled. A further distance from the center of each town negatively affects MSE's

access to market for their products, according to this result. Lack of market information and infrastructure (and associated transaction costs) contribute to this.

The positive and significant coefficient obtained for leather and leather products from Table 7 below shows that compared to other enterprise's type, those who participate in such activities has better market access. According to the result, MSEs get better access to their products if they produce leather and leather products in the study area.

Table 7: **Probit Regression Result**

Number of observation=182, Wald Chi2=94.17, Probability>Chi2 =0.00000						
Log Pseudo likelihood = -46.394617			Pseudo R2 =0.4503			
Access to Market (Dependent Variable)	Coefficient	Robust Standard Error	P> z	Average marginal effects	Standard Error	P> z
Distance to market (in hour)	-0.207**	1.880000	0.0210	0.3165**	2.89E-06	0.0278
Type of enterprise:						
Metal and wood work	0.1403892	0.4588822	0.7600	0.0218203	0.070588	0.757
Urban agriculture	0.164673	0.5360293	0.7590	0.0253426	0.0805588	0.753
Trade	0.4850537	0.3938789	0.2180	0.0655665	0.0554209	0.237
Services	-2.3841**	1.0332	0.0210	-0.607**	0.1952753	0.002
Leather and leather products	0.8818**	0.4054	0.0300	0.10253*	0.0523986	0.05
Textile and clothing	-0.2284136	0.4525614	0.6140	-0.041	0.0827807	0.619
Access to Credit: Credit Received	2.27***	0.5488	0.0000	0.5984***	0.1476174	0.0000
Ownership type of the enterprise:						
Partnership	0.1044455	0.3733685	0.7800	0.0160282	0.0589256	0.786
Private Limited (PLC)	0.1976421	0.5781755	0.7320	0.0293876	0.0846195	0.728
Cooperative Company	-0.0184263	0.6622342	0.9780	-0.0029469	0.1061495	0.978
Share company	0	(empty)				
Age of the enterprises	0.1661**	0.07031	0.0180	0.02517**	0.011387	0.027
Experience in any business before	0.3342**	0.3683463	0.0364	0.55267**	0.0665476	0.0406
Access to market information	0.12539*	0.0726	0.0840	0.0190**	0.0113429	0.094
Nature of the product: New product	-0.0491398	0.0774593	0.5260	-0.0074484	0.011711	0.525
Educational level	-0.133403	0.1079915	0.2170	-0.0202206	0.0163807	0.217
Number of Training attended	0.6641***	0.2048	0.0010	0.10066***	0.0308982	0.001
constant	-2.308**	0.7808675	0.0030			

*, **, and *** indicates statistical significance of the coefficient result at 10%, 5% and 1% significance level respectively.

However, those who participate in service sector has low (negative) access to market for their services compared to other types of enterprises. The reason for this is that, enterprises who provide services depends on different factors and it is always seasonal. This implies there is no consistent and expected demand for the services each MSE operators provide in the study area, in comparative language.

The other important factor that positively and significantly affect MSEs access to market is access to credit.

Many literatures support this result as access to finance is the key factor in ensuring the sustainability and

growth of MSE everywhere. Here in Wolaita and Dawro zones too, this result assure the important role which access to credit play in affecting (positively) and determining (significantly), the probability of MSE's access to market for their products in the study area. This is because credit access is everything for all MSE operators.

In addition, age of the enterprise has a significant and positive impact on determining access to good market for MSE products. This is in line with the available theory that experience plays a key role linking producers and markets together. Thus, those MSE operators as a producers having a long experience in producing and supplying their products to the market have greater access to market when compared to the newly entrants to the business in every aspect. One can refer the descriptive summary of this variable in the following table.

Year of Start (E.C) ¹	Frequency	Percent
1996	1	0.55
1998	8	4.4
1999	2	1.1
2000	6	3.3
2001	9	4.95
2002	21	11.54
2003	25	13.74
2004	14	7.69
2005	36	19.78
2006	51	28.02
2007	9	4.95
Total	182	100

Source, Authors computation, 2016

The remaining explanatory variables experience in this business before coming to MSE, number of business development training attended and access to market information also have the right signs matching theory and empirics. Some of these variables are related to know how about business development plan. The findings on these factors show the importance of the individual variables specified in terms of affecting MSE's access to market for their products. Whether provided by MFIs, public service providers like MSE development agencies or other sources, better access to market information and training on business related issues improves MSE growth by providing information related their products market on price, place and time.

5. Conclusions

Micro and Small scale development depends on the capacity of MSEs to generate income, which, in turn, depends on access to market and market participation. Institutional variables, such as access to credit, technical variables such as business training related issues, play a pivotal role in facilitating such process of MSE developments. In addition, distance to market, and experience in the business significantly affects MSE's access to market in the study area. Such variables are trusted to demand side of market participation, secure better incentives and income to MSEs and, thereby, promote MSE development and expansion. They also play a *pace-*

¹ E.C. is to mean Ethiopian Calendar which lags 8 years from Gregorian colander.

making role by setting and creating demands for MSE's products that may serve as references for different market actors.

The empirical evidence from this study shows the instrumental role of the above variables in terms of playing key roles in determining and influencing MSE's access to market in Wolaita and Dawro zones. They do so by creating better demand for MSE's products, which could be considered as their direct contribution to economic incentives and their growth/expansion. The overall evidence reaffirms the bi- role of access to market to promote MSE development in the study area. In view of this, we recommend their development, wider coverage and use of their services by government and other consumers in the specific study area. Moreover networking with consumers should be facilitated, and supplying production and sales center on fee/rent basis, allow MSEs to show their products in bazaars and exhibitions, creating legal framework that can help them to link with government and private institutions in purchasing and sub-contract form for their products. Access to market information system will be facilitated to those who are engaged in the sector. Access to market opportunities should be facilitated by establishing various marketing systems and various forms of market linkages in sub-contracting will be expanded.

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