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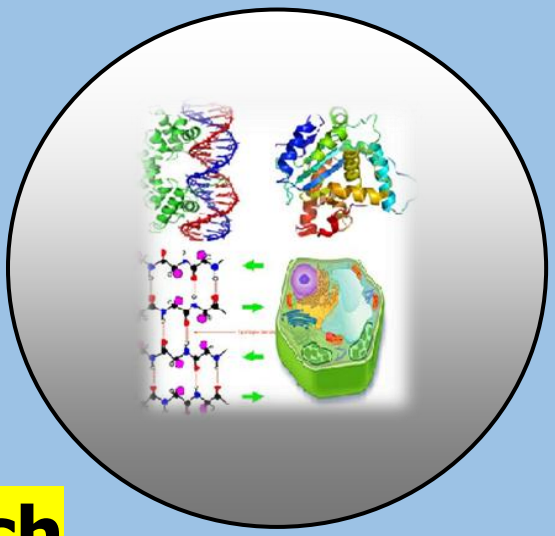

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Barriers to Entrepreneurs in South Western Oromia, Ethiopia: The Case of Jimma and Nekemte Towns

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ABSTRACT

Entrepreneurship plays an important role in any given economy and is the prime mover of economic development. It is critical element not only for reduction of unemployment and job creation but also for balanced and sustainable economic growth. Though the crucial role, to be played by entrepreneurship in driving economic development and job creation is increasingly emphasized by the Federal Democratic Republic of Ethiopia, the contribution of the sector in the creation of sustainable business employment is inconsiderately significant. Empirical studies consulted during reviewing of literature on this study verified that, entrepreneurship in Ethiopia is underdeveloped and is still at its embryonic stage. Hence this research aims to investigate barriers to entrepreneurship in Oromia regional state, Ethiopia, with specific emphasis of entrepreneurs operating in Micro, Small and Medium Enterprises. Cross-sectional study design was used. The sample size used for the data was 337 which were determined by simple random sampling technique formula. The collected data was analyzed using statistical analysis such as descriptive and inferential analyses considering 5% probability level. There is an association between business type and startup capital and business type and number of employees to be employed in the business. And also there is association between having business plan with type of business, capital and number of worker at 5% level of significance. Moreover, lack of land & working premises, tax burden, lack of sufficient support and lack of credit are the major barriers to the entrepreneurs. Based on the findings, recommendations to government bodies, to entrepreneurs in Micro, Small and Medium Enterprises and suggestions for other researchers are forwarded.

Keywords: Barriers to Entrepreneurship and Entrepreneur.

INTRODUCTION

Entrepreneurship is basically concerned with creating wealth through production of goods and services. It is one of the most critical inputs in economic development of a nation. Entrepreneurship speeds up the process of activating factors of production, leading to higher rate of economic growth, dispersal of economic activities and balanced economic growth among the regions (Hailay, 2007). Owing to the cumulative effect of past social, economic and political situations entrepreneurship activities development is still at its embryonic stage in the country. The development of entrepreneurship in a country can be measured in different ways. The commonly applied yardsticks include the quality or features of entrepreneurship, the contribution to national economy, and type of technology applied and the size of the modern sector (Werotaw, 2010). In developing countries, including Ethiopia, there is a strong co-existence of the modern with the traditional, the formal with the informal, the agricultural with the industrial, the urban with the rural economy. In the modern sector, entrepreneurs make use of modern technology, depend on two or more capital sources, and plan for future growth, and hence, demonstrate a developed entrepreneurship. On the contrary, the entrepreneurs in the traditional sector have limited capital sources; depend on outdated technology, low productivity and their contribution to the national economy is not significant as compared to the modern sector. Entrepreneurship in such sector is at its embryonic stage which is typical characteristics of a large number of entrepreneurs owned enterprises in Oromia. The domination of the subsistence agriculture in Ethiopia also shows the low level of entrepreneurship development. Subsistence agriculture is the single most important employer and food supplier.85 percent of the total employment and 46 percent of the GDP are contributed by agriculture (CIA World fact Book, 2013). National report of Ethiopia on UN conference of Economic development (2012) showed that, Ethiopia lacks sustainable development indicator and is facing challenges of unemployment at urban areas and job creation in its growth and transformation plan implementation. The challenge of unemployment and job creation can be directly tally with the lack of entrepreneurship development in the country. Entrepreneurship is critical element not only for reduction of unemployment and job creation but also for balanced and sustainable economic growth. Research has showed that entrepreneurship is the engine of economic growth. Researches such as individual and social factor behind successful entrepreneurship, attitude of college students' toward entrepreneurship, mobilizing Diaspora entrepreneurs in Ethiopia, Women Entrepreneurship in MSE in Ethiopian, were among some of the researches conducted on this area. But the investigator couldn't come across the research conducted on barriers to entrepreneurship development in Oromia National Regional state.

In view of the problem of limited entrepreneurship in Oromia region, this study is meant to answer the following questions:

- What are the predisposing factors to entrepreneurs to start business venture?
- What are the existing motivating factors for entrepreneurs in Jimma and Nekemte towns of Oromia?
- What are the barriers for entrepreneurship in the study area?
- What are the challenges faced by the entrepreneurs operating in Jimma and Nekemte towns of Oromia region?

Therefore, the aim of this study is to identify the barriers that impede entrepreneurial business venture and to recommend possible way out to reduce the barriers so that Oromia entrepreneurs play their role in enhancing the economic development of the country in general and the region in particular.

MATERIALS AND METHODS

Study Area

The study was conducted on entrepreneurs operating their business in MSEs of South Western Oromia National Regional state at Jimma and Nekemte Towns. Jimma Town is 352 km in the southwest of Addis Ababa while Nekemet town 331 km from the capital Addis Ababa to the west.

Research Design

This study employed both descriptive and explanatory research design. Descriptive design was used in determining the frequency with which events occurred, and explanatory design was used to determine the relationship between study variables. The type of research employed under this study was descriptive and made use of descriptive and inferential statistical analysis. Accordingly, this research described and provided information on predisposing, motivating and barriers to entrepreneurship and finally the relationship between the main barriers were explained in detail.

Sample size and Sampling Technique

Enterprises in MSE, formally registered under the Municipality of Jimma and Nekmte Towns were used as a sampling frame .The two Zonal Towns were purposely selected as study area from the six Zonal Towns of South Western Oromia Region. The sample frame consists of 1,511 enterprises operating in service, construction& industry, urban agriculture and trade sectors. Thus the sample size for this study is determined to be 337.

This study employed stratified random sampling method in which the population of the study is stratified by sector as service, industry, agriculture and trade and the sample size for each type was distributed proportionally.

Method of data Collection

Questioner was developed and used as data gathering tool from respondents. The questionnaire was designed to collect information on the predisposing factors, motivating factors and barriers to entrepreneurship development in Nekemte and Jimma Towns of Oromia region. Questionnaire as an instrument for data collection was chosen because it helps the respondents to be objective and more precise in responding to the research questions. The information obtained by employing this method is considered to be of a more objective to gather required data within the desired variables.

Secondary data was collected through consultation of concerned offices operational manuals, the FDREs proclamations, observation of the way Entrepreneurs in MSE are getting services from Revenue authority offices, Town municipalities and saving and credit Unions.

Method of Data analysis

Both descriptive and inferential statistical analyses were employed. The processed data was analyzed by using Excel and statistical package for social sciences (SPSS) Version 16. Analysis of descriptive statistic and chi-square conducted to investigate statistically significant difference between variables and 5% level of significance was considered to test the association between variables.

Reliability analysis

The reliability of instruments measures the consistency of instruments. Cronbach's alpha coefficients were used for reliability test.

In this study questionnaires consisted of 18 questions was designed to determine entrepreneurship barriers with respect to the individual, economic and environmental dimensions were designed. Out of 18 questions, 6 questions are allocated to individual barriers, 7 questions to economic barriers and 5 questions to environmental barriers. The questioners were distributed to 30 respondents for Pilot test to conduct pretest on the designed. Accordingly Cronbach's alpha coefficient for all items is 0.875 which is considered as excellent and reliability of each barrier is as follows: individual barriers= 0.816; is good and that of economic and environmental barriers= 0.699 and 0.76 respectively resulted in acceptable reliability, indicating instruments were consistent with the objectives of the study.

REUSLT AND DISCUSSION

This section also includes a discussion based on the findings of both primary and secondary data analysis. The demographics include the ages of entrepreneurs who participated in this study as well as their marital status, region of origin, level of education, age of business startup, startup capital amount, and type of business and previous experience of the entrepreneur. Findings related with objective of the study were presented and discussed. Finally barriers to entrepreneurship were investigated segregated as individual/personal, environmental barriers and economic barriers.

Table 1. Demographic characteristics of the respondents from the study area.

Characteristics		Frequency	Percent
Region of origin	Oromia	293	86.9
	Amhara	17	5
	Tigray	11	3.3
	AA	16	4.7
Gender	Male	213	63.2
	Female	124	36.8
Marital status	Single	142	42.1
	Married	172	51
	Divorced	13	3.9
	Widow	10	3
Level of education	10th grade or below	115	34.1
	diploma	119	35.3
	1st degree	96	28.5
	2nd degree and above	7	2.1
Business type	manufacturing or construction	109	32.3
	Services	140	41.5
	Urban Agriculture	15	4.5
	Trade	73	21.7
Total		337	100

Demographic characteristics of Entrepreneurs

The profile of sampled respondent indicate that majority, 293(87%) of them originally grown up in Oromia region, 17(5%) originated from Amhara region, 16(4.7%) from Addis Ababa and the remaining11 (3.3%) are from Tigray region and, majority of them are male in their sex. It was found that 63.2% the entrepreneurs' are male and 36.8% of them are females in their sex.

The data on the age of the respondents included in this study indicate that the average age range of respondent is31.06±6.78 and average age range they started business is 26.48±5.83. The marital status of entrepreneurs included in this study depicts that, 172(51%) are married, 142(42.1%) are single, 13(3.9%) divorced and10 (3%) are widowed.

The data on the educational attainment of the sample population shows that 119(35.3%) of the entrepreneurs have secured diploma in their educational attainment, 96(28.4%) are first degree holders and115 (34.1%) of them are tenth grade and below in their educational attainment. Only 7(2.1%) of them are 3rd degree and above in their educational attainment.

Business type, Starting capital and Number of employee

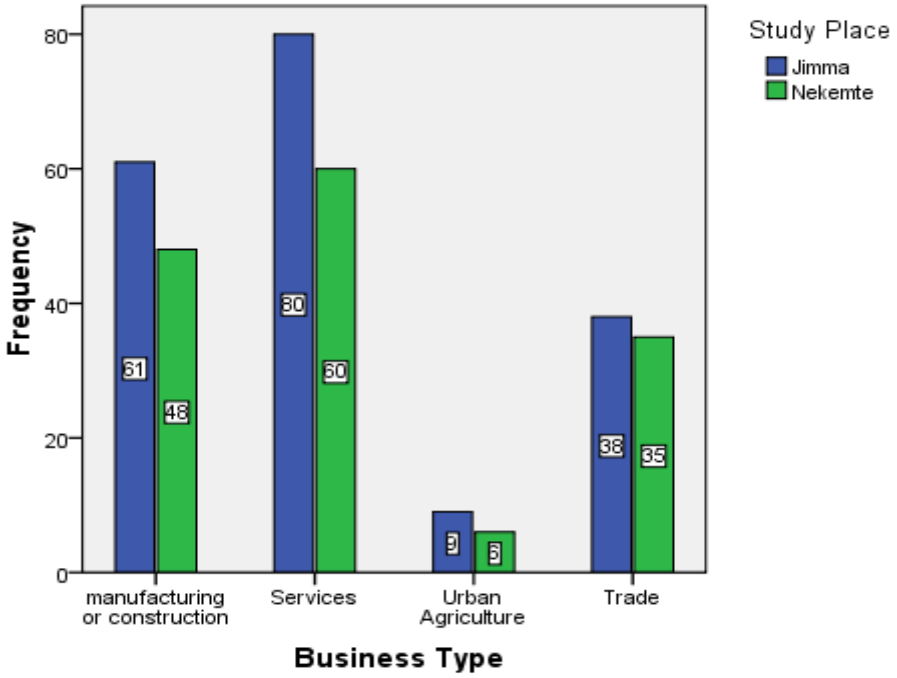

Fig. 1 The distribution of the study unit by sector inNekemte and Jimma.

The proportion of study population comprises of 140 entrepreneurs from service sector, 109 from manufacturing and construction, 73 from trade and the remaining 15 from urban agriculture (Fig. 1).

As indicated on the table 2 below, 70 (50%) of the entrepreneurs in the service sector and 44 (40.4%) of the entrepreneurs in the manufacturing sector started their business with birr 5000 or less. 7 (46.7%) of those entrepreneurs in urban agriculture started their business inbetween5000 to 10000 Birr, 26 (35.6%) of those entrepreneurs in trade sector started their business in Birr more than 20,000.

The overall starting up capital of entrepreneurs indicates that 130 (38.6%) of the entrepreneurs had commenced their business in Birr 5000 or less, 96 (28.5%) started their business in more than Birr 20,000, and the remaining 111 (32.9%) had started their business in between Birr 5, 000 & 20,000.

The relevance of private enterprise in developing country is not only evaluated based on the benefit it bestows to the owners but, also by the amount of work force it absorbed. In this regard, from the sampled enterprise of the study, 68.2% of them have less than ten employees and only 16 % of them are able to employee more than 20 individuals in their business operation.

The relation between Business type with start-up capital and number of employees was assessed using chi-square test of association. Accordingly the value of chi-square for type of business and startup capital is 40.5 (<0.001), number of employee is 27.12 (<0.001). This indicates that there is an association between business type and startup capital and number of employees to be employed in the business at 1% level of significance.

Table 2. The Relationship between business type with business startup capital and number of employee.

		Business Type				Chi-Square value(P)
		Manufacturing	Service	Urban agriculture	Trade	
Starting capital in Birr	<5000	44(40.40%)	70(50.00%)	2(13.30%)	14(19.20%)	40.499(<0.001)
	5000-10000	13(11.90%)	21(15.00%)	7(46.70%)	20(27.40%)	
	10,000-20,000	25(22.90%)	11(7.90%)	1(6.70%)	13(17.80%)	
	> 20,000	27(24.80%)	38(27.10%)	5(33.30%)	26(35.60%)	
Number of employee	<5	19(21.8%)	52(59.8%)	3(3.4%)	13(14.9%)	27.118(<0.001)
	5-10	46(32.2%)	56(39.2%)	10(7%)	31(21.7%)	
	11-20	25(47.2%)	12(22.6%)	0	16(30.2%)	
	>20	19(35.2%)	20(37%)	2(3.7%)	13(24.1)	
Total		109(32.32%)	140(41.54)	15(4.45%)	73(21.66%)	

Planning is the process of putting ones motivational business idea on paper (Werotaw, 2010).It is a function of breaking large tasks in to detailed activities and put them in schedule when to perform them. The result of this study show that 236(70%) of the entrepreneurs started their business by having business plan of any kind.

The association of having business plan with variables such as type of business, startup capital and number of employees absorbed in the enterprise were tested using chi-square test with chi-square values was 19.83 (p<0.001), 17.413 (p<0.001) and 8.063 (0.045) resp. indicating that there is an association between having business plan with type of business, capital and number of worker (Table 3).

Analysis of Economic, Individual and Environmental Barriers

In addition to the above findings this study has also categorized the barriers to entrepreneurship as economic barrier, individual barrier, and environmental barrier. The purpose of categorization was to identify the area where the barriers are more sever and evaluate the seriousness of each category of barriers.

Table 3. The association of Startup business plan with business type, staring capital and number of employee.

Variable		Start up business plan		
		Yes	No	Chi-Square(p)
Business Type	manufacturing or construction	86(78.90%)	23(21.10%)	19.83(<0.001)
	Services	81(57.90%)	59(42.10%)	
	Urban Agriculture	9(60.00%)	6(40.00%)	
	Trade	60(82.20%)	13(17.80%)	
Starting capital in Birr	<5000	77(59.20%)	53(40.80%)	17.413(0.001)
	5000-10000	54(88.50%)	7(11.50%)	
	10000-20000	36(72.00%)	14(28.00%)	
	>20000	69(71.90%)	27(28.10%)	
Number employee	<5	57(65.50%)	30(34.50%)	8.063(0.045)
	5-10	93(65.00%)	50(35.00%)	
	10-20	42(79.20%)	11(20.80%)	
	>20	44(81.50%)	10(18.50%)	
Total		236(70.00 %)	101(30.00 %)	

Analysis of Economic Barrier

There are number economic barriers that affect entrepreneurship. This part explains the descriptive statistics calculated on the basis of the barriers that affect entrepreneurial activities in MSEs. The results for measures of central tendency and dispersion are shown in the following Table 4. As indicated in Table 4, the mean and standard deviation for the economic barriers were calculated. The result shows that lack of land and working premise has the highest average mean score of 3.89 with standard deviation of 1 .17. Therefore, it may be concluded that lack of access to land and working premise is the major economic barrier that negatively affect entrepreneurship. This is followed by average mean score of the respondent's response with regard to unreasonable tax and related issues. In the same table above, enterprises engaged in MSE, the tax levied on their business is not reasonable. The agreement on the non-reasonability of the tax amount is justified by the calculated average means score of 3.85 with standard deviation of 1.23.

Furthermore, the table indicates that lack of access to capital and credit for startup and expansion of business is another barrier that affects enterprises in MSE which is justified by the average means score of 3.78 and standard deviation of 1.26.

The respondents of this study claimed that banks were reluctant to facilitate credit facility to Micro and Small Enterprises. The calculated average mean score and standard deviation of this variable are 3.52 and 1.24 respectively which justifies the importance of this barrier to entrepreneurship.

The table also shows that unpredictable material price and lack of sustainable market as two equally important barriers to entrepreneurship development in the two towns. The importance of these barriers is equally valued by the average respondents. The average mean and standard deviation of inflation and or unhealthy fluctuation of material price are 3.77 and 1.21 respectively and that of sustainable market for goods and services are 3.77 and 1.12 respectively. Lastly, the result indicates that the entrepreneurs in MSE have not decided whether lack of profit from entrepreneurial activity is barrier to them or not. The average mean and standard deviation of this variable is 3.19 and 1.23 which is under the bracket of undecided scale of importance.

Table 4. Type of Economic barriers from Jimma and Nekemte town, Nov. 2013.

Item	**Industry**		**Service**		**Urban agriculture**		**Trade**		**Grand**	
Economic Barriers	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Lack of access to capital and credit	3.96	1.15	3.72	1.28	4.07	1.16	3.55	1.36	3.78	1.26
Reluctances of banks to provide loan to MSEs	3.47	1.21	3.46	1.26	3.40	1.45	3.71	1.21	3.52	1.24
Lack of land working premises	3.81	1.17	3.91	1.22	3.93	1.10	3.96	1.12	3.89	1.17
Lack of attractive profit	2.89	1.26	3.47	1.12	3.13	1.60	3.10	1.20	3.19	1.23
Lack of sustainable market	3.69	1.24	3.82	0.95	3.73	1.22	3.78	1.23	3.77	1.12
Unreasonable tax& tax payment system	3.62	1.13	3.85	1.21	3.47	1.41	3.33	1.31	3.85	1.23
Inflation	3.74	1.20	3.76	1.26	3.67	1.35	3.84	1.09	3.77	1.21
Grand mean score and deviation									**3.65**	**0.72**

Analysis of Individual barrier

Individual barriers are barriers related to the individual entrepreneur or owners of Micro and Small Enterprises. Detailed result of the measure of central tendency and dispersion on major individual related barrier is presented on the Table5 bellow. The average mean and standard deviation score of lack of knowledge and skill is 3.49 and 1.19.From this measure of central tendency value we can say that this variable is the most prominent personal barrier to entrepreneurship followed by lack of information with average mean and standard deviation of 3.39 and 1.19.

The other variable that is raised by respondent as personal barrier is lack of motivation, job satisfaction and lack of interest, the average mean score of which is 3.38 and standard deviation of 1.22.As indicated in the Table 5 most of the personal variables raised under personal category are neither important barrier nor not important barrier. This can be justified by the average mean score value between 2.75 and 3.25.

Analysis of Environmental Barrier

The analysis of environmental factors emphasizes barriers related to infrastructure, legal factors, rules and regulations governing the business operations. Table 6 shows the mean and standard deviation score of some of the variables under this category. The result presented in table 4.10 shows that infrastructure including power interruption and road are the major barrier to the entrepreneurship operation in the two towns. The average means scores and standard deviation of infrastructure is 4.13 and 1.10 justifying the significance of this barrier to the respondents.

Table 5. Type of Individual barriers from Jimma and Nekemte town, Nov. 2013.

	Industry		Service		Urban Agriculture		Trade		Grand	
Personal/individual	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Lack of knowledge and skill	3.48	1.24	3.40	1.26	3.20	1.15	3.77	.91	3.49	1.19
Lack of information	3.50	1.24	3.33	1.14	3.60	1.12	3.21	1.21	3.39	1.19
Lack of motivation, job satisfaction, and financial interest	3.37	1.29	3.45	1.21	3.53	1.12	3.23	1.17	3.38	1.22
Lack of experience and trainings	3.21	1.39	3.39	1.32	3.73	1.16	3.33	1.16	3.34	1.30
Family influence	3.14	1.26	3.27	1.23	3.27	1.44	2.82	1.25	3.13	1.26
Lack of understanding of business creation	3.24	1.33	3.41	1.29	3.53	1.36	3.21	1.18	3.31	1.28
Grand mean/standard deviation									**3.34**	**0.90**

Table 6.Type of Environmental barriers from Jimma and Nekemte town, Nov. 2013.

Item	**Industry**		**Service**		**Urban agri.**		**Trade**		**Grand**	
Environmental Barrier	Mean	*SD*	Mean	*SD*	Mean	*SD*	Mean	*SD*	**Mean**	***SD***
Lack of awareness of society to entrepreneurship	3.59	1.37	*3.53*	*1.29*	3.73	*1.33*	3.58	1.12	3.57	1.28
Lengthy licensing procedure, bureaucracy and corruption	3.96	1.21	3.73	1.32	3.60	1.59	3.60	1.21	3.77	1.28
Lack of model entrepreneurs in the community& business information	3.22	1.24	3.32	1.29	2.86	1.59	2.94	1.15	3.18	1.27
Entrepreneurial orientation of the community	3.31	1.29	3.32	1.24	3.66	1.34	3.04	1.22	3.27	1.26
Lack of infrastructure (Road, power supply and telecommunication).	3.98	1.14	4.20	1.10	4.00	1.30	4.27	1.00	4.13	1.10
Grand mean/standard deviation									**3.59**	**.89**

The second most important environmental barrier as indicated in the table above is lengthy licensing procedure, bureaucracy and corruption .The average mean score of the same is 3.77 and standard dispersion is 1.28.Lack of entrepreneurship awareness of society is the other important barrier to entrepreneurship. The average mean score of which is 3.57 and its standard dispersion is 1.28.

Average respondents were indifferent on barriers like lack of model and entrepreneurial orientation of the community, which is justified by the average mean score of undecided scale value.

The main purpose of framing these barriers to entrepreneurship in to these three main group is to identify the category of barriers with sever adverse effect on entrepreneurship. Table bellows shows the grand mean of the three categories of barriers.

As indicated from the above grand Table 7 economic barrier is the most important barrier followed by environmental barrier. The grand mean score of economic barrier is 3.65 and its grand standard deviation score is 0.72.The grand mean score of environmental barrier is 3.59 and its standard deviation is 0.89 and personal barrier mean score is 3.34 and grand standard deviation of 0.90.

Therefore, it can be concluded that economic barrier ranked as the most sever barrier to entrepreneurship and environmental barrier rank as the second followed by individual barrier based on the their level of severity.

Table 7. Over all barriers from Jimma and Nekemte Town, Nov. 2013.

Barrier category	Grand mean	Grand SD	Rank of Severity
Economic	3.65	0.72	1st
Personal/individual	3.34	0.90	3rd
Environmental	3.59	0.89	2nd

Correlation analysis

Correlation is a single number that describes the degree of relationship between two variables. It shows how strongly the relationships between pairs of variables are related (Pallant, 2007).The correlation table 7 below indicates the existence of appositive correlation of 0.535 between economic and individual barrier, correlation of 0.311 between economic barrier and environmental barrier and correlation of 0.275 between individual and environmental barrier.

Table 8. Relationship between Barriers from Jimma and Nekemte Town, Nov. 2013.

Barriers	Economic	Individual	Environmental
Economic	1		
Individual	.535*	1	
Environmental	.311*	.275*	1

*p<0.05 show significant at less than 5 % probability level

CONCLUSION

Based on the objective and findings of the study, the following conclusions are drawn. The major barriers identified includes lack of access to land, tax burden, and lack of sufficient guidance on business development services , lack of credit, lack of skilled man power, corruption and cost of financing. It was concluded that barriers related to land such as lack of working premises, place for production, places for marketing and displaying product are some of the important barriers in the region, indicating that land is an important resource to facilitate the entrepreneurship development.

Another variable stipulated as a barrier to entrepreneurial activity is lack of credit. Accessing credit especially for starting an enterprise, is one of the major challenges facing entrepreneurs. Credit accessing problem related to lack of collateral, inability to qualify for loans due to stringent criteria applied by banks are some of the major barriers facing entrepreneurs. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is collateral requirement, most MSEs have been forced to use the informal institutions for credit. But, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be due to the inability of the enterprise to meet formal financial institutions requirements. It is indicated that informal source is the source of finance for 67% of entrepreneurs in the study area. This shows that majority of the entrepreneurs use the informal source for financing their business.

RECOMMENDATION

Suggestions for corrective and complementary measures to reduce the barriers that hinder entrepreneurship in Oromia National Regional State are essential. Such suggestions require an in detail analysis of different barriers regarding the entrepreneurship. Based on the findings and conclusions of the study, the following recommendations are forwarded.

- ✓ The regional government need to design a system that allow entrepreneurs obtain land in long term and less costly leasing and devise means of availing accessible working premises at affordable price for entrepreneurs in micro and small business enterprises.
- ✓ Tax determination activity need to be undertaken in a more objective and transparent manner than judgment. The amount of tax to be paid by the entrepreneur shouldn't be contingent to subjective judgment of tax levying individual. It was found that tax has been determined based on judgment and using of unreliable data where the business has no financial statement or where the financial statement presented was rejected by the tax authority.
- ✓ The financial institutions should be made entrepreneur friendly through adjusting the credit accessing criteria, lowering the cost of capital and valuing the business idea as collateral especially for entrepreneurs in MSE

Finally, investigating different obstacles and barriers based on the right information are vital to create palatable environment that foster entrepreneurship in the region in particular and the country in general. This can be achieved by conducting more researches in related areas.

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