

**Acknowledgment**

***Romans 11:33-36***

*Oh, the depth of the riches of the wisdom  
and knowledge of God!  
how unsearchable his judgments,  
and his paths beyond tracing out!  
“Who has known the mind of the Lord?  
Or who has been his counselor?”  
“Who has ever given to God,  
that God should repay him?”  
for from him and through him and to him  
are all things.  
To him be the glory forever! Amen.*

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***Tseguereda Abraham***

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### **Acronyms**

**COMESA:** *Common Markets for Eastern & Western Africa*

**CSA:** *Central Statistical Agency*

**FDI:** *Foreign Direct Investment*

**ILO:** *International Labor Organization*

**LDCs:** *Less Developed Countries*

**LED:** *Local Economic Development*

**MOLSA:** *Ministry of Labor and Social Affairs*

**MSE:** *Micro and Small Enterprises*

**NGO:** *Non Governmental Organization*

**SAP:** *Structural Adjustment Program*

**SMEs:** *Small and Medium Enterprises*

**SNNPRS:** *Southern Nations, Nationalities and Peoples Regional State*

**TNC:** *Transnational Corporations*

**WTO:** *World Trade Organization*

### **Amharic Words**

*Amede Gebeya:* *Spot in Merkato where footwear are sold*

*Birr:* *Local currency*

*Kebele:* *Sub district within a Woreda*

*Sherra Terra:* *Spot in Merkato where inputs for shoe production are manufactured*

*Woreda:* *District in a Region under the Zone*

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## **Abstract**

*In Ethiopia as in many other developing countries, Micro and Small Enterprises are extensively expanding and absorbing a wide urban labor force. This research is very much significant in emphasizing the developmental role that the expansion of MSEs can play.*

*Light industries such as the footwear sector can be easily promoted and lead to opening to overseas market through the export of semi –processed and finished manufactures. The study has concentrated on small enterprises in the footwear industry, a very significant component of the shoe industry that is not given enough attention.*

*In order to achieve the objective of the study, a questionnaire survey covering a total of 100 enterprises was conducted on three purposively selected Woredas: Woreda 5, 8 and 10. Case studies on three large and three small enterprises have been used to complement findings.*

*The result of the research in general showed that the small footwear enterprises comprise operators that acquired skills informally and are mostly involved in manual work. Supports for entry in the sector, transfer of information, skills, know how and financial assistance depends on the social network of friendship and kinship rather than on formal institutions.*

*The study also indicates that the small-scale footwear sector is established by enterprises with limited start up capital and fixed assets. Utilization of simple labor intensive technology is also favorable. Findings show also that small firms engaged in shoe production are responsive, as rapid adoption to change and diversification are more feasible. However their lack of financial capacity to innovate and create their own models, makes them dependent on designs owned by large enterprises.*

*The study of the labor relations in the sector gives us an insight both on the strength of unregulated labor relations and the challenges of evading employment protection and security laws.*

*The sector is integrated with the rest of the economy through complementary linkages. Therefore the sectors significance was also measured in terms of its multiplier effect on other sectors in the economy. In spite of the fact that linkages are found to be weak and needing strengthening.*

*In general the paper has attempted to look into the socioeconomic importance of the sector by looking into its many characteristics in a particular sector: the footwear industry.*

## **CHAPTER ONE**

### **Introduction**

#### **1.1 Background of the Study**

In many African states, the growth of formal sector employment has been unsatisfactory with static if not declining formal employment. On the other side in most LDCs the contribution of MSEs to employment and income seems to have been increasing over time. To some scholars this is a promising indication: markets are working, people are finding opportunities to participate in productive activities. To others, however this augmentation in the number of people employed in the marginal sector of the economy is a sign of the failure of the economy to provide productive jobs; people are compelled to take part in activities that supply only petty subsistence income. The incapability of the urban manufacturing, trade and services sector to provide a reasonable rate of growth in employment, mingled with the accelerated growth of city population has put immoderate strain on urban labor markets. At the macro- level of development policy, a new perspective seems to be arising at the end of the 1990s, which is engaging the primary focus of development back on to the eradication of poverty (Mc Grath & King, 1999:1-2).

The shift towards a pro –poor policy is at least by inference a critique of the Structural Adjustment (SAP) strategies put in practice for over a decade and a half. Critiques have long pleaded that the focus on macroeconomic essentials under this approach increased poverty levels for large number of Africans and eroded rather than supported African development.

After a number of failures of conventional industrialization strategies in various parts of the Third World, alternative approaches encompassing various possibilities and potentials become necessary.

It has become evident that efforts through SAP should have addressed both long and short-term development constraints and policy makers need to take into consideration countries' socioeconomic imperatives.

Furthermore in the context of local economic development, small and micro enterprises have a significant role, they serve primarily local markets but the development of export outside the area is beneficial. One of the central guiding ideas of LED is its interest for the development of the local economic base of an area. The economic base may consist of one or numerous clusters in particular industries (Helmsing, 2001:15). The study of small footwear producers is thus relevant with regard to LED.

Macharia suggests that the “informal” is more endemic to Africa than the ‘formal’. He says that the traditional is more powerful than the modern mainly because the modern was recently imposed in the African society. The reality is that any analysis of the African community that does not focus on informality will only ignore it at its own risk, and bring up an incomplete analysis.

## **1.2 Statement of the Problem**

Micro and Small enterprises (MSE) engage the largest number of people outside agriculture. Over the past few years this sector has been winning recognition as a vital contributor to the economy and a dynamic tool of local growth .It contributes to development in a number of ways: through employment creation, income generation and multiplier effects on other sectors of the

economy. However, the significance of this sector is not well recognized by decision-makers and government officials. Small enterprises originate in response to opportunities to gratify urgently felt needs which may be neglected by planners or may not be acknowledged as legitimate needs at all. Smuggling, prostitution, illegal liquor manufacture are initiated because the law prohibits people from obtaining a service they are willing to pay for. More legitimate activities such as mobile food vending, garbage picking or roadside vehicle repair may not be illegal, but their problems are more likely to arise from the fact that they are not commonly taken into account as an admissible kind of economic activity. Official negligence and opposition expressed in many restrictions seems to be a major problem of MSEs.

In Ethiopia as in many other African countries, MSEs are extensively expanding together with augmenting levels of unemployment due to the speedy growth in the labor and youth population, the declining rate of labor absorption of the modern sector, and public sector reform. The issue of informalisation in the labor market still remains as many workers no longer have secure jobs, little or no social protection, and declining real wages and salaries (ILO,1993:9).

However the critical question is whether the sector could proceed to play the sponge role in the absorption of an increasing proportion of urban labor force especially with the expansion of the urban labor market due to continuous rural-urban migration (ILO, 1992:22). That is why the need to develop the capacity of this sector seems to be crucial.

This study attempts to bring a wider awareness on the role of Micro and Small enterprises to macroeconomic development, and also on its potential contributions that might be reached if the sector is promoted by creating an enabling environment.

### **1.3 Research Objective**

#### **◆ General Objective**

This study aims at investigating the dynamism of Micro and Small enterprises in Addis Ababa and their potential contribution to development with a special focus on footwear enterprises.

#### **◆ Specific Objectives**

- Identify the characteristics of the enterprises in order to measure the dynamism of the sector.
- Identify the characteristics of operators and workers in the sector.
- Identify the major constraints facing the sector in an urban setting.
- Identify the existence of a linkage between large and small enterprises in the footwear industry.
- Identify the linkages to other sectors of the economy.
- Identify the characteristics of the labor relations in the sector.
- Recommend some interventions that will tackle hindrances and increase the productivity of this sector.

### **1.4 Specific Research Questions**

- What are the measures that should be taken to increase the contribution of that sector to the urban economy?
- What are the linkages of the sector to other sectors?
- What are the major characteristics of the business in the sector? (Characteristics can refer to age and size of the enterprises as well as differences by characteristics of owners and by sector of activity)
- What are the problems faced by the sector and especially by footwear enterprises?
- How can these constraints be addressed or resolved?

### **1.5 Significance of the Study**

MSE's are according to some studies significantly more efficient than larger firms. The sector contributes to development in a number of important ways.(cf. Chapter 2, 2.3)The socioeconomic argument is that poverty is caused by inadequate incomes; employment creation is thus perceived as the principal goal of most poor countries and the sector is held to be an abundant source of jobs. The products of this sector are also more likely to satisfy the needs of poor people than are the products of large enterprises and foreign technology enterprises. MSEs fulfill local demands. They satisfy local needs by making differentiated products; manufactured in smaller quantities and being relatively scattered in their location. Furthermore, local indigenous technology is more likely to use locally produced raw material and equipment thus saving foreign exchange, which might otherwise be spent on imports as well as on internal transport costs (Harper, 1987:11-12).

Liedholm and Mead (1999:6-8) summarize the contribution of the sector to development as follows:

1. Contribution to household income and welfare
  - Providing income for those with limited options
  - Providing a basis for growth in income and welfare through asset accumulation, skill development and access to more rewarding economic opportunities.
  - Providing employment
2. Contribution to confidence and empowerment of the individual
  - Recognition of the dignity of the individual
  - Spreading the vision that change is possible
3. Contribution to social change, political stability and democracy.
  - Through increasing confidence in local, representative community based institutions

- Through the development of individual feelings of responsibility and participation in governance;
  - Through the creation of institutional structures reflecting people's needs and objectives.
4. Contribution to distributional or developmental objectives
- providing new opportunities for the poor
  - providing new opportunities for women
  - providing new opportunities for those in rural areas and in isolated locations
5. Contributions in the area of demographic change
- Through reduction in birth rates
  - Through reduction in rural-urban migration

Furthermore as a primarily agrarian economy Ethiopia's export is mainly from the agricultural sector. Nevertheless although insignificant export from the manufacturing sector contributes to some extent to the country's foreign exchange earnings. The exportable items from this sector however are very few in numbers, small in size and comprise semi processed agricultural products. Export in semi –processed hides and skins are the major export items in the manufacturing sector. Export earnings from semi-processed skins indicated an annual increment of 11.4% between 1994 and 1999, which is more or less equivalent to the growth rate in the volume of exports (Befekadu & Berhanu:1999/2000:224). Export earnings has been fluctuating and it might reduce in the future. In order to maintain the comparative advantage that the country holds in this sector export of processed leather products such as footwear products can be very profitable. The footwear sector is thus significant to study with regard to the previous experience of exporting hides and skins.

## **1.6 Research Methodology**

### **1.6.1 Methods of data collection.**

A combination of the following methods has been employed to acquire the necessary information or data for the study.

#### **1.6.1.1. Primary data**

##### ***A. Quantitative Method***

Primary data have been collected using the cross –sectional survey method; that is asking people questions in a written questionnaire. The sample selected can be used to describe a larger population at a time. The survey covers a sample of 100 footwear enterprises. Both the sampling element and the unit of analysis are the business or the enterprise. Questionnaires for both owners and employees are prepared. 50 employees in small footwear enterprises are interviewed from among the 100 enterprises. Representativeness of the data is assured by selecting and including in the sample each third enterprise in the field, this had enable us to make a conclusion for the population of small shoe makers in the study area.

In order to generate reliable data and look for apparent variations in Addis Ababa, three *Woredas* with a relatively high density of population have been selected. These *Woredas* are *Woreda* 05,08 and 10. The footwear industry is concentrated in these *Woredas* but in differing magnitude. From the six Zones and 28 *Woredas* of Addis Ababa 3 *Woredas* from two Zones are thus covered in this study (see Annex, map: the map attached herewith is outdated and only include 25 *Woredas*). As *Woreda* 8 and 10 are in Zone 5 and *Woreda* 5 in Zone 1. The population size of *Woreda* 5,8 and 10 is according to the 1994 Census 85,187; 87,895; and 80,404 respectively (CSA, 1995:11). We can see that the selected *Woredas* are the 6<sup>th</sup>, 8<sup>th</sup> and 12<sup>th</sup> most populated *Woredas* in Addis Ababa. 70%, 15%, 15% of the sample size is from *Woreda* 5, 8 and 10 respectively. *Woreda* 5 or the Merkato area has the greatest concentration of small footwear producers and is thus given more weight, in *Woreda* 8 there are also a

concentration a of large footwear enterprises like Jamaica, and Elfenesh & Zelalem footwear & Leather Product Groups, etc.

### ***B. Qualitative Method***

In addition the study includes case studies of three small and three large footwear enterprises in Addis Ababa. The case studies have been useful in making a comparison between large and Micro and small enterprises and establish the link between them, as well as supplementing findings from the interviews. Case studies focus on enterprises of different characteristics (age of enterprise, size, legal status, location & sector of activity). Cases have been selected for micro and small enterprises because of their describing particular characteristics. Large enterprises selected are among the biggest footwear enterprises in Ethiopia: two privates and one public are purposively selected here. The researcher has made observations and interacted in the field setting for a period of two weeks to get to know personally the people being studied. Observation and informal interviews with relevant key persons also support the research especially in cross - checking findings.

#### **1.6.1.2 Secondary Data**

Secondary data obtained from relevant institutions has been used where appropriate. Previously collected information or surveys have been inspected and taken into consideration. Studies conducted by governmental institutions, *Woreda* office documents (e.g *Woreda* Finance Reports) and CSA publications (e.g. survey of Urban Informal Sector Operators in Addis Ababa) have been used.

#### **1.6.2 Method of Analysis**

- The process of analysis has been done using SPSS( Statistical Package for Social Sciences)

- Descriptive statistical methods of analysis have been employed to analyze the data collected through survey. Major characteristics of enterprise owners and employees have been described.
- Analysis has also focused on attempting to identify relationships between variables especially between key variables.

### **1.7 Limitations of the Study**

The lack of a reliable sampling frame has been a major hindrance in the research process.

This has been because of two major reasons:

- A proper all encompassing list of MSE's footwear enterprise operators is of course not available; the best list of operators was found in Kebele Finance Reports, used to collect taxes. Those references have been found to be defective and outdated, for example some enterprises may have changed their activities while there is no modification in the Kebele's record. Furthermore, the very bad filing system made records not easily available.
- Another problem was that the study aimed to cover also footwear enterprises unregistered and not known by official records.

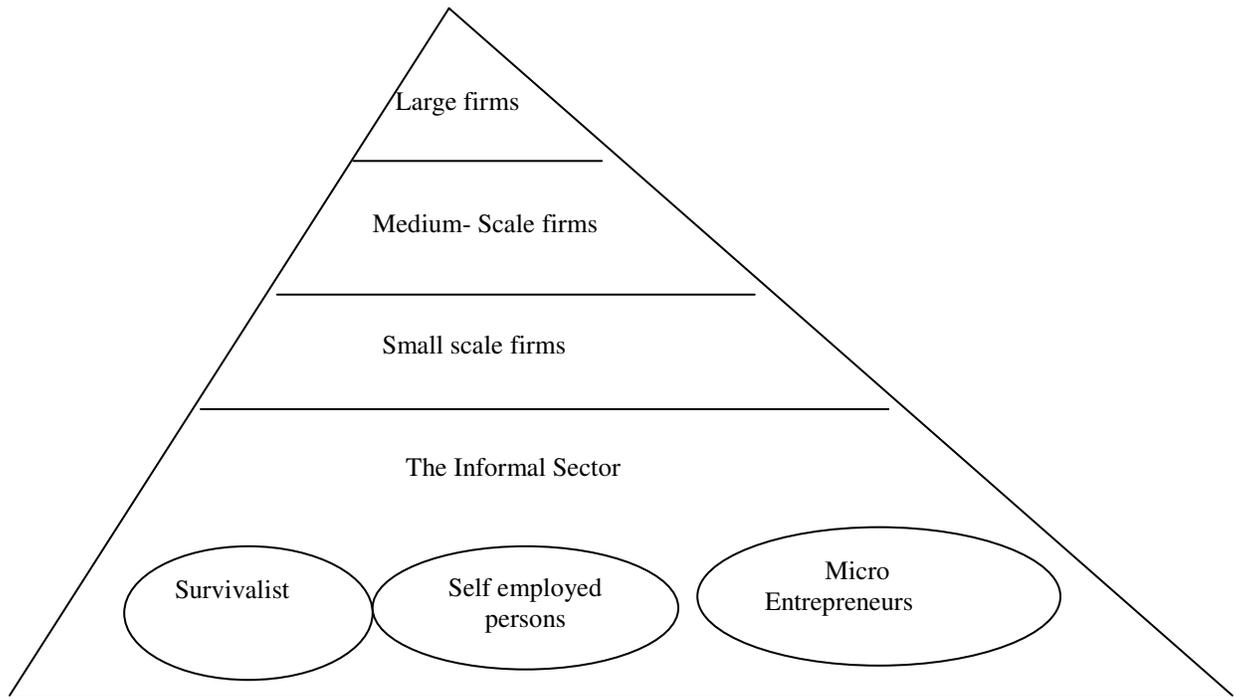
To alleviate these difficulties the sample of the study has not all been randomly selected. Enterprises from official records have been randomly selected to complement these; enterprises have also been selected through purposive sampling. Both purposive and random sampling have thus been used.

### **1.8 Conceptual Definition**

Micro and Small enterprises have been initially conceptualized as 'the informal sector' (Figure 1). The concept of informal sector is also used alternatively in this paper and refers to micro and small-scale enterprises, because it is consistently and widely accepted, and comparative

data are available for Ethiopia. It also shows the informality of labor relation and work organizations existing enterprises with moderate size.

**Figure1: Position of Micro and Small Enterprises**



**Source: Fidler & Webster (1996)**

However, the definition of the informal sector is very much debated. Definitions vary depending on national circumstances and practices. By informal sector we refer to a specific form of income generating

production relationship. Although most of the individuals engaged in informal economic activities are poor, particularly in the Third World, informal economic process cut across the whole social structure. Focus should be on the logic of the process. It is possible to look behind the appearance of special conditions (Poverty, destitution) to focus on the social dynamics underlying the production of such conditions. The basic distinction between formal and informal activities does not depend on the character of the final product but on the manner

in which it is produced and exchanged. As stated by Castells and Portes (1989:12) the informal economy is not a group of survival activities accomplished by needy people on the margins of society. Studies in both advanced industrial and less developed countries have displayed the economic dynamism of unregulated income generating activities and the relatively large level of income of many informal business persons, sometimes above the level of workers in the formal economy. Some activities in the informal sector arise from the extreme need of a worker, but comparable motivation could influence a worker to accept lower wages in the formal sector.

Writers like Gelder (1989:41) affirm that informal work cannot be captured on the foundation of profit maximization and cost- benefit analysis. Moral responsibilities trust and loyalty emerges to be just as important. That is why even if the number of workers is the most widely used criteria, it is not adequate to establish the informal traits of a specific kind of economic activity. Randomly used numbers, which frequently vary from 5 to 10, are used, but this method is said to disregard social relations: ties of kinship or trust that can also define the informality of an economic activity (Gelder, 1989:59). The problem with a size criterion is that it is often complex to measure, and even if it can be measured, the cut off point is often selected arbitrarily. However the size criterion is after all easier than other criterion, such as the legal status of enterprises (see Annex B<sub>4</sub>), assets employed or sales turnover. Those standards that are more qualitative by nature can also be used, those relating to the management method and procedure of operation of enterprises (Harper, 1987:2).

The concept “informal sector “ was first introduced by Hart and made official by the ILO Employment Strategy Mission to Kenya in 1972. The ILO started to use the term, with

reference to small family business with small initial investment, which are labor intensive and utilize local raw materials (Dijik, 1989:209).

Hart working in a low-income district in Accra distinguished between what he called formal and informal on the foundation of the lawfulness of the activities; in this sector he saw survival mechanisms for the urban poor (Macharia, 1997:36). The work of the ILO in Kenya brought international attention to the subject of the informal sector. The ILO Report came up with seven characteristics subject to strong criticism. The ILO team was not preoccupied with a precise definition. The team's concern was mainly to explain income inequalities that presented barriers to growth. They thus identified the following characteristics:

- ease of entry
- reliance on indigenous resources
- family ownership of enterprises
- small scale of operation
- labor intensive and adapted technology
- skills acquired outside the formal school system
- unregulated competitive markets.

The ILO list is inadequate for various reasons. For instance, the availability of capital does not govern entry into the informal economy only but requires complicated social network connections not available to everyone with some financial resources. For some sub-sectors, for instance, entry is more difficult than for the formal economy (Ibid. 37).

10 years later Moser (1984) challenged the imprecision of the ILO'S list by offering a new definition:

*“ The informal sector is still too broad to be meaningful; at one end is a pool of surplus labor, at the other skilled high income earning entrepreneurs, at one end the proliferation of residual enterprises involutory in nature, at the other end the dynamic evolutionary enterprises.”(Ibid.)*

Many scholars have denounced the term informal sector for being analytically vague. Peattie indicated that the word has popular appeal but, due to the various economic activities it comprises, it is not beneficial for analysis. (Ibid, 38) In light of so many criticisms, the ILO (1991) adjusted its prior definition and indicated that the informal sector:

*“is understood to refer to every small –scale unit producing and distributing goods and services and consisting of independent ,seller, employed producers in urban areas of developing countries some of whom employ family labor and/or a few hired workers or apprentices which operate with very little capital, or none at all, which utilize a low level of technology and skills ,and therefore operate at a low level of productivity.....they are for the most part unregistered and unrecorded in official statistics: they tend to have little or no access to organized markets, to credit institutions ,or to many public service” (Ibid.)*

The problem assigning a particular definition to the term informal sector is also apparent in Ethiopia. The Central Statistical Authority (CSA) and the Ministry of Labor and Social Affairs (MOLSA) identify the informal sector as a unit based on individual enterprise. An activity practiced by the owner with a small number or no employees (CSA&MOLSA, 1997:1). The ILO (1993,77) in a study conducted in Ethiopia asserts that:

*“An enterprise is in the informal sector if it has one or more of the following properties: owner management with less than 10 wage employees including the case of single person enterprise of self employment, engagement of members of the family of the owner and a significant part of the workforce outside of a formal contract, considerable dependence on indigenous or traditional technology, on lack of need for skills acquired through formal training, lack of need for skills acquired through formal training, lack of proper accounting system and formal management structure, orientation for subsistence rather than growth, lack of fixed location (..) and the absence of significant dependence on formal financial institution as sources of credit.”*

Micro and Small enterprises (MSEs) designate enterprises that depict the informality of economic units as indicated above. The government of Ethiopia, in its Federal Micro and Small

Enterprise Strategy (1997) defined MSEs based on the size of capital and level of automation as follows ( Wolday,2002:1):

*“ Micro enterprises are those small business enterprises with a paid up capital of 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 50,000, and excluding high –tech consultancy firms and other high tech establishments.”*

The ILO report distinguish also different stratum or scales of informality by which the informal sector in Ethiopia can be identified (ILO, 1993:78-80)

1. ***Itinerant Micro-enterprises***: These are enterprises, which are unlicensed, and non- tax paying, characterized by self-employment in the retail trade and service sectors. We can mention here street vending of food items, crafts, shoe shining, etc. This section habitually demands less capital and businesses are generally coping mechanisms for low- income households that use unskilled labor.
2. ***Indigenous Micro- enterprises***: Home based fixed location enterprise that fully relies on family labor and indigenous technology. Customarily those enterprises do not pay business or income taxes. They rely on unskilled labor and informally procured skills. As an example we have here home based eating and drinking spots, home based workshops of traditional artisans in weaving, carpet making, woodwork etc...
3. ***Traditional Micro- enterprise***: They have fixed location and are municipality licensed and tax paying. Family members are part of the workforce, one to five wage workers can also be employed e.g. small restaurants, traditional drinking halls, butcheries.
4. ***Informal Small Business***: This sector employs family labor but also up to ten wage workers as well as a couple of apprentices. They are municipality licensed and tax paying. It is

usually based on imported technology. It needs workers with vocational skill obtained through formal education or informal training. Its informality consists in the fact that it lacks formal management arrangement and a suitable accounting system and it has no strong bond to the banking system as a source of credit. Informal small businesses in manufacturing are concentrated in food processing, grain mills, oil processing, tailoring, leather shoe production.

The informal economy encompasses diversity of situations and activities. However there is no point in attempting to produce a universally or even a nationally acceptable standard. A very clear understanding of the purpose for which the definition is to be used should come before any definition. An operational definition is thus developed for the purpose of this research.

### **1.9 Operational Definition of Concepts**

*Micro and Small Enterprises:* Two criteria have been used here: Number of workers and social relations between workers and employers. In the limits of this particular research small and micro businesses are economic activities employing less than twelve workers (number selected for practical purposes). The economic activity are also be carried out by people related to one another through ties of kinship or trust, no written labor contracts or business like, juridical agreements between the workers are involved. Throughout this document the sector refers to the smallest enterprises, typically those with a small scale of operation and labor intensive mode of production. The degree of legal or regulatory control over the enterprises is not considered. The size of enterprise capital is not used as distinguishing criteria as it is

difficult to measure. In this document alternative terms to indicate micro and small enterprises have been employed, for instance terms like informal sector, small-scale enterprise, small firms, small enterprises connote the formerly defined concept.

**Development:** Collective and sustainable social and economic well being of a community, bringing about a decent standard of living and equity within a society. It also refers in this context to the reduction of poverty, unemployment, and underemployment and to rapid industrialization.

**Enterprise:** It refers to a unit of economic organization or activity whether public or private engaged into the manufacturing of goods.

**Footwear:** Articles worn on the feet that does not extend above the ankle and has a thick or stiff sole and often an attached heel. In this context of this study it refers to leather and synthetic shoes of boys, girls, men and women of different sizes and designs. Other type of footwear products are excluded like canvas shoes, slippers (sponge & rubber), boots, rubber boots & shoes, etc.

**Micro and small Footwear Enterprise:** Economic units that incorporate the characteristics of micro and small enterprises producing footwear items with previously indicated characteristics.

**Fixed Capital Value:** The estimated price of inputs and equipment used in the production process of a particular enterprise at the time of the survey

**Weekly Income:** Estimates of the amount of periodic gain or recurrent benefit measured in money that derives from the production process of a particular enterprise at the time of the survey.

***Input Expenditure:*** Estimates of financial outlay for inputs (e.g. raw materials, labor costs, working premise rent) used for the production in an enterprise at the time of the survey.

***Permanent Paid Employee:*** Salaried employee that is not subject to replacement in the near future.

***Temporary Paid Employee:*** A salaried employee employed on casual basis and can be relieved from his/her job seasonally or at any time.

***Paid apprentice:*** A worker that receives some kind of remuneration but is more an on job trainee than a full time producer.

## **CHAPTER 2**

### **REVIEW OF LITERATURE**

#### **2.1 Different Theoretical Approaches on the Role & Nature of Micro and Small Enterprises**

In this subsection different theories are included on the role of MSE in the development of the economy as presented by Lyberaki & Smith. In addition the dynamic theory of the firm indicating variables affecting the expansion and survival of small enterprises are discussed in this section.

The variety of approaches regarding the nature of small-scale industries makes it obvious that the sector cannot be taken as a united and distinct analytical group. At the level of empirical study, there are difficulties for instance, there is limited consistency in what it is that one is referring to. The definition of what includes small businesses differs from country to country and within the same country at different times. Statistics are less than comprehensive and accurate, this factor influence thus empirical studies. The study of small-scale / informal industries and their place in the process of industrialization of developing economies has been a relatively new area of concern and various approaches to the sector result in defining various roles and functions of the sector. Three approaches are discussed here in after.

1. ***The Evolutionary Approach***: This is not a strictly separate form of category, rather a pervasive influence common to many approaches. Those who embrace this approach explicitly adopt a historical perspective which analyses small- scale industries in terms of trends valid for all industrial processes regardless of the latter's timing and location (Lyberaki & Smyth, 1990:127). The existence of small-scale production is legitimized with

reference to small market size, poor infrastructure, low mechanization and very poor division of labor. In the latter stages of development, the contributions of small-scale enterprise decreases and big capitalist firms becomes the essential form in the industrial structure. The growth of large firms is related with augmenting market size, economies of scale, changing factor proportions and improved infrastructure. This is a rigid and linear notion of both industrialization and development, which does not allow for the very obvious coexistence of large and small scale industries in both developed and developing countries. Furthermore it does not meet the questions of the transformations that large and small firms undertake during the industrialization process. Despite its problems, this approach is highly influential. It appears in much of the literature related with the idea of small-scale industries, even when the latter belongs to alternative traditions (Ibid., p128).

2. ***Marginality Approach***: This approach is located in the Latin American theoretical tradition. Small producers are related of the marginal pole of economy predestined to subsist at its margins. Contrary to this perspective, the alternative one argues that small-scale industry is in many instances functional to the main system.
3. ***The autonomous or dependent development debate***: It deals with the question of the relationship between small and large units of production. The first degree represent a pure dual sector model and due to the lack of strong links between the two self contained parts, is able to center on either segment without affecting overall trends of the economy as a whole. In fact, each sector is seen as acting independently through its own dynamism. Much of the criticism of this approach come from the petty commodity production approach which view any notion of independence and autonomy as misleading; since in any socioeconomic formation there is a continuum of productive activities rather than a two sector division. Thus

one should concentrate on the relationship between the different elements of the ensemble, which. In reality the dependent status of petty commodity producers appears in a wide variety of shapes. There are indeed various degrees and patterns of dependent relations. In other words, the degree of relative autonomy changes according to the branch of activity and the nature of the production process (subcontracting relations, dependence on merchants or large firms for raw material/ technical assistance...)(Ibid.: 129).

The “informal sector theory” appears to be a newly devised restatement of an old dualistic theory. Nevertheless it brings two new elements into consideration, foremost this theory emphasizes institutional factors and the role of the government in the development process. Besides it postulates that the sector is intrinsically dynamic and that increasing the links between the large and small businesses will stimulate this dynamism. Debates have been lifted regarding the exactitude of these suppositions (Picavet, 1989:182).

Marxist analysts state that the relationship between large and small businesses is exploitative; the formal sector appropriates the surplus value of small production both in the commodity and factor markets. Any transfer from the large to the small scale economy leads to high purchase prices, as formal sellers hold a relatively monopolistic position in the market. On the other side any selling by small-scale production worker results in low prices or profits because of the competition between small-scale production suppliers. According to Marxist analysts the dynamism of the sector is only profitable to the capitalists. They also argue that since the government is part of the capitalist sociopolitical system, ordinarily tends to favor the formal sector (Ibid.).

When we review the nature of theories concerning the sector we can make a distinction between general macro-level theories pertaining to the role of the sector in development and more specific theories regarding certain aspects of the operation of small enterprises.

We can also differentiate theoretical contributions to the issue of defining the sector from theories relative to the role of the sector in the development process (Dijk, 1989: 211). Theories concerning the role of Micro and Small businesses in development have been presented in broad terms; solely asserting the weight of the sector and the necessity to advance it. These theories do not furnish substantial insight into its functioning but helps to produce a favorable atmosphere for policies and programs (Ibid: 212). Other theories are related with the exploitation of small enterprises by larger enterprises. In spite of this theory governments and projects try to expand subcontracting to smaller firms (Ibid. : 213).

The dynamic theories of the firm maintain that the expansion and survival of micro and small enterprises are induced by several variables ( Liedholm & Mead,1999:21-22):

- Firm age indicating the stage in the life cycle of the enterprise, is voiced to be inversely associated to the development of an enterprise.
- Initial size is also inversely related to both growth and survival.
- The level of growth and continuation is higher on dynamic sectors
- Enterprises located outside the home in discernible locations like commercial areas are more successful.
- Macro variables: The consequence of aggregate level of economic activity affects the success of small firms, external factors like government policy can be mentioned here.
- The characteristics of the entrepreneur like formal education, technical training, experience has also some impact

The values and ideologies underpinning the support for small enterprises vary from laissez – fairist neo liberalism of De Soto through the employment creation view of the ILO to the humanitarian question to reinforce survival strategies for the poor.

## **2.2 Characteristics of Small and Micro Enterprises**

This section describes the characteristics of the small-scale businesses sector by identifying the major features distinguishing them from large and formal enterprises. But the sector consists also of different type of enterprises that can be differentiated based on their activity, machinery, dependence, etc.

Enterprises in this sector share similar characteristics. Two main features are their small scale of operation and labor intensive mode of production. Other common characteristics include low fixed costs, reliance on family labor, use of personal or informal sources of credit and lack of wage employment. Formal/Large and small business are compared in table 1, in which we can distinguish the major features of the sector especially regarding the type of technology used which is less sophisticated, management and market.

**Table 1 Characteristics of Large & Small –Scale Enterprises**

Characteristics	Large-scale Businesses	Small -scale Sector
Entry barriers	High	Low
Technology	Capital intensive	Labor intensive
Management	Bureaucratic	Family –based
Capital	Abundant	Scarce
Work hours	Regular	Irregular
Wage labor	Normal	Limited
Inventories	Large	Small
Prices	Often fixed	Often negotiable
Financial services	Banks	Personal, informal
Customer relations	Impersonal	Personal
Fixed costs	Large	Negligible
Advertising	Necessary	Little to none
Government subsidy	Often Large	None
Markets	Often export	Rarely export

Source: Fidler & Webster, 1996:5

In most cases what is written about the sector consider it as though it were a uniform mass of micro enterprises, all facing very comparable problems. Yet, the sector actually consists of a very heterogeneous diversity of enterprises (Buckley, 1998:50).

Bijlmer (1989:144) in his study on street workers describes the characteristics differentiating small -scale workers by activities, sort of equipment they use, mobile versus permanent or stationary type of work etc. The separation between those who have a fixed place of work and those who move around is also made. As instead of waiting for their clientele the latter go to their potential customers.

The age of establishment of enterprises can also distinguish enterprises (see Annex B<sub>6</sub>). Workers engaged in Micro and small businesses are said to be self-employed however many are dependent on those who possess and command the means of production. The dependent worker counts on others for credit, for rent of working sites, tools and the provision of raw materials. Truly self employed workers on the other hand operate separately even if they might rely on inputs provided by others (Ibid. 149).

Four type of measurements can be used to identify the autonomy of a small -scale worker: the association with the supplier (s/he has free choice of supplier); the manner in which the supplies are financed; control of the originating capital; and ownership of the machinery (Ibid. 150). There is a solid indication of the systematic linkage between large and small enterprises. Individual workers may switch between the two sectors even during the same workday. Any alteration in the regulation of economic activities causes a parallel change of the formal - informal relationship (Castells & Portes, 1989:12). Moreover regarding legality of businesses, it is because there is a formal economy that we can talk about an informal one. In an economy with no regulation the difference between formal and informal would not have significance. On the

other hand the more a society institutionalizes its economic activity the more individuals strive to avoid this system, the sharper the division between the two sectors. However, the informal sector also expands even in enormously institutionalized economies at the expense of already formalized work relations (Ibid. p13).

### **2.3 The Economic and Social Contribution of the Sector**

This section deals with the socioeconomic role of MSEs. The sector has been encouraged due to its employment creation and poverty alleviation function. Its advantage lay also in its using labor intensive technologies and indigenous resources. With increased decentralization strategies in the industrial sphere, small firms become advantageous as large firm activities are put out to small enterprises. The flexibility of the sector has also been presented as an advantage in this part.

Mkandawire summarizes the most frequently asserted specific contributions of the sector (Mkandawire, 1999:38) (Box2)

- Efficient utilization of resources
- Employment generation
- Innovative entrepreneurial development
- Stimulation and democratization of capital accumulation by redressing regional or ethnic imbalances.
- Regional development
- National control of the economy
- Poverty alleviation
- Increasing flexibility of the economy
- Ensuring sustainable development through the use of environment –friendly Small –scale technologies.

The potential significance of this sector has not been used or exploited especially in labor intensive light industries. This Research is very much significant in emphasizing on the

developmental role that an expanded small scale economy can play. Notwithstanding such pressures to promote the sector, not everyone was convinced that it is the wise thing to do. Such misgivings can in part be attributed to misconceptions about the sector. To some it represents marginal activities that are not economically viable and hence did not justify a shift of resources from more productive sectors or branches.

In other words, it was argued that the promotion of this sector rested on concern with equity. Others saw the virtues of promoting the sector. There is an effective demand for what the sector produces. It uses so little capital to create a job and it contributes to human resource development through informal training systems. The sector rarely depends on financial resources from the State or the formal banking sector since operators mobilize their own resources. They also make a maximum use of indigenous resources, including the recycling of waste materials. It was therefore argued that the sector deserves to be promoted. The producers in this sector should have greater and freer access to resources, information, know-how and markets so that it can function optimally. Not only will such measures lead to more efficient use of labor and non-labor resources in a static sense, but also they would enhance the overall rate of economic growth and thus contribute to dynamic efficiency. When we study the role and contribution of the sector the largely recognized reasoning is that small scale industries being labor – intensive and employing comparatively simple technology, has the possibility of providing much more to employment source, when contrasted to large firms. Nevertheless the character of the productive procedure and the kind of economic activity or sub sector alter the proportion of labor intensity or labor creation capacity of a sector (Lyberaki & Smyth, 1990:130).

Another issue habitually raised is that small firms furnish an outlet for the dynamism of enterprising and self-reliant people and consequently provide ways of entry into business for

entrepreneurs and the seed bed for progress. With regard to this debate, it has appropriately been marked out that the desire and ability of an individual to run a business is no insurance that equivalently such determination has favorable impact on the social economy. The issue is whether or not the individual ability (both in terms of skills and capital) is socially beneficial and thus desirable.

Furthermore there is a prevalent supposition that small-scale manufacturers furnish an augmentation in surplus value and the accumulation of capital in industry, through assisting to hold the price of labor low. Portes maintains that the essential element is that the sector subsidizes a small part of the expenses of formal enterprises in capitalist countries enabling them to build up relatively low wages on their own labor. The essential needs of formal sector employees are partly satisfied by goods and services fabricated using cheaply paid informal labor (Lyberaki & Smith, 1990:132).

Another framework within which small-scale industry and its association to capitalism are investigated is that which reflect on the recent change in the method of production. This tendency is known as 'the decentralization of production'. A vast body of research from the developed and developing world indicates that large firms are disposed to diminish plant size, split up manufacture cycles between firms and expand the putting out of tasks to a network of small firms, and home based workers. Decentralization designates predominantly two processes. First, the putting outs of the most labor-intensive sections of the production process to small workshops or domestic workers. Here extended profitability for the big firms' lies in the extraction of absolute surplus value through the prolongation of working day and poor remuneration. Second the subcontracting of parts of the production process is followed by a

direction towards a substitute of parts of the method of production with components, initially from workers control of the machine to the placement of units of control in the machine.

Another factor when dealing with the capacity and role of small-scale industry is the actuality that within the 'informal sector' approach small-scale industries are said to employ simple, labor intensive technologies, suitable to the sector. Use of intermediate or appropriate technology is defended by the lobbyists of 'small is beautiful' theorization. More currently, the argument has been transferred towards testing the significance of the shift of technological know how from large to small firms, however in some instances subcontracting links have not ended in any important technological transfer between firms of distinct sizes (Ibid: 135)

Finally the assumed flexibility of small-scale industries makes the sector beneficial. Proponents of small-scale firms have argued that small units are intrinsically more flexible and responsive to market signals than larger enterprises. The flexibility and responsiveness make them the seedbed for prosperous industries at initial stages. This dynamism has however been questioned. It has been maintained that small firms play a less significant part in innovation, since they need the financial resources and marketing skills necessary for the prospect. It is also questioned whether small firms have the information about new products, markets and other circumstances to which they are assumed to respond which such readiness and flexibility. Larger firms on the other hand have the ability to coordinate a wide range of information to switch production accordingly and to predict future trends.

## **2.4 The Social Dynamics in Micro and Small Enterprises**

The social dynamics depicted by kinship and friendship are one of the “secrets “of the continuous development of the micro and small scale economy in Third world cities, even when the government of those countries may not be supporting it. The social networks have for a long time been the mortar behind the growth of MSEs. The informal contributions to this sector of these networks include facilitating entry, giving money for starting a business or dealing with a crisis and giving advice (Macharia, 1997:147). The analysis of ethnicity in the sector is significant both theoretically and practically. Theoretically a class analysis of the sector cannot be sufficient for understanding labor markets. Ethnicity, friendship and kinship ties are major basis of the social networks that characterize the sector (Ibid.: 43). Sociologically “urban ethnicity” suggests that ethnicity has a social function in urban areas. The separation from tribal life and entry into urban life, far from weakening the bonds between tribal members actually strengthens them. Ethnicity in towns is primarily a means of classifying the multitude of Africans of heterogeneous origins who live together in urban areas. Ethnic classification is the basis of urban life. Ethnic ties play an almost equivalent role to the social welfare system found in most western countries (Ibid., 122). Macharia criticizes statements affirming that the sector is characterized by ease of entry. He argues that no one enters the sector as such. He /she has to move along a network. Ethnicity helps new migrants to settle and find an economic activity. The social dynamics of the sector is part of its success due to job creation when compared with formal sector (Ibid., 123). Ethnicity / kinship determines entry in the small scale economy, transfer of information is very important especially when space to be allocated formally or informally is scarce. It also determines the transfer of skills and technology. The concept of trust is very important among all the small -scale operators (Ibid.).

## **2.5 Labor System in Micro and Small Enterprises**

In this segment of the literature review the character of the informal labor system is discussed. Self –employment dominates the sector, but when waged labor is involved labor relations are non-conflictual but lack legal worker protection system.

A sizable literature continues to draw attention to the desperate, irregular and fluid labor system functioning in the lower ranks of the economy. (Breman, 1996:3) There is a tendency to define employment in this sector primarily as self-employment. Hart considered this, to be the most striking feature of the concept “the informal sector” he introduced. The distinction between opportunities in small and large enterprises is based essentially on that between wage earning and self –employment. The large majority of urban small-scale sector labor is self-employed, work for one’s own account and at one’s own risk.

The fall in self-employment and the stagnation or even relative decline in formal working arrangements indicate the great and growing significance of wage dependency in MSEs employment (Breman, 1996:8).

MSE units may encompass the self – employed working alone or with the aid of unpaid family members, as well as micro –entrepreneurs employing a few hired workers and apprentices. The sector employs men, women, youth and children alike. Nonetheless, there are considerable differences in levels of income, type of activity, productivity and employment status depending on age and sex .Women tend to be concentrated in low productivity and often unremunerated jobs (World Labor Report, ILO,1997/98:180).

In the sector, remuneration, conditions of work, and income and income are not, unlike in the formal sector, a matter of negotiation with an employer, but depend on a variety of factors (Ibid.:

175). The inadequate legal and social protection of the sector workers and their restricted access to capital market and formal training institution may be attributed to a great extent to their lack of representation and participation in decision making (Ibid.:177). Another factor preventing workers in this sector from trying to improve their conditions or remuneration through organization is that family or ethnic loyalties count more than working class solidarity. This is certainly one main reason why, despite often unsatisfactory working arrangements, working relationships in this sector are usually characterized by the absence, or low level of conflict. This factor coupled with the very modest scale of operation of most small sector units and their high instability is responsible for the low level of unionization of workers in small enterprises (Ibid., 180). The ILO identifies some five categories of workers in this sector: account workers operating alone or with unpaid family members who are not paid wages but earn an income; owners or employers of micro enterprises with a few apprentices and hired workers; wage laborers engaged in micro –enterprises usually with no formal contracts working on a casual or regular basis; family workers who are not remunerated; wage workers who work in a place of their own choosing, such as home workers and paid domestic workers (Ibid. :181). The sector is dominated by the self-employed working alone or aided by unpaid employees, including both family members and apprentices (Ibid: 182)(See Annex B<sub>2</sub>)

Until the 1980's conventional wisdom defended that industrialization and economic development would be followed by a transfer from unregulated informal labor to protected, regular employment, a course which could be refined by encouraging the formalization of small scale and informal manufacture. Nonetheless industrial restructuring and the expansion of flexible labor practices has intended that, in many parts of the developing world, enterprises rise have sought to reduce their fixed wage , labor force , make payment systems more flexible , and

expand the use of contract workers and temporary labor. In this process of 'informalization' of large industrial enterprises, the trend is to by pass rules covering employment protection and security through connecting production to small, informal auxiliary enterprises on terms which make those who operate within them especially exposed (Ibid.). As mentioned earlier the informal sector is used sometimes to refer to illicit or illegal activities by individuals operating outside the informal sphere for the purpose of evading taxation or regulatory burden. (Fiddler & Webster, 1996:5) The failure to comply to regulations and laws gives rise to a number of problems which affect the well being of workers in MSEs and their productivity. The fact that they are unregistered or not included in any list deprives them of any legal protection. Invisibility or non-or partial observance of rules and obligations have severe repercussions and on the social protection of MSE operators (Ibid., p185). Studies indicate that employees' remuneration was determined on the basis of the productivity or income of the enterprise, rather than the number of hours worked at the workplace. Other studies show that workers were paid at piece rates or by the job and that hours of work were not strictly monitored. Furthermore only a small proportion of the sector entrepreneurs pay their employees social contributions (Ibid.: 186).

Another important factor, which might explain the non-or partial observance of labor laws within small enterprises, is the paternalistic nature of the working relationship, which characterizes them. Apprentices and wage laborers are often bound to the business owner (who is moreover personally involved in a work on a daily basis) by family, geographic or ethnic ties, this tends to promote non-conflictual relationship (Ibid. 187).

Labor laws are inadequate to regulate the relationship between employers and workers in the sector. The principles of annual leave, sick leave and maternity leave benefits, which are included in labor legislation and based on the premise that a regular wage is being paid and that

the employer has full control over working hours, are very far removed from the social context in which most small enterprises operate (Ibid.: 187).

## **2.6 Government Intervention in the Sector**

As it is discussed in this section the dominant justification on the significance of the Micro and Small enterprises have changed over the years as well as the magnitude of state intervention. The state can intervene in promoting the sector through a number of programs, like provision of credit, appropriate technologies, technical assistance, intervention on both the demand and the supply side, etc. This section also identifies the habitual biases of policy makers. Moreover policy papers are rarely adequately implemented and the calculated action on the part of the public sector is required to fully utilize the potentials of small-scale enterprises.

The first generation of thoughts on small -scale businesses focussed extensively on describing the features, attributes and obstacles to the sector. Out of these studies the issue of policies and institutional environment in advancing the growth of the sector come into view. Policy reform occurs to be a more cost-effective approach to effect the development of the sector and to intensify its job creation potential. The engagement of the government has been detected amply in the domain of fiscal policy and the greater enforcement of registration and fiscal policies in the sector (ILO: Arusha, 1993:18).

Eagerness for encouraging policies promoting small-scale industries has been abandoned because of various new viewpoints. Traditional arguments for assisting small-scale industrial activities were questioned. The customary case for supporting small scale industry in developing economies rests on premises that it has a tendency to be more labor – intensive, bestow more

appropriate technology and, in particular areas of manufacturing can be evenly as competitive as big scale industries. This orthodoxy has been extremely upset by contemporary international research into whether the promotion of small- scale manufacturing enterprises was a judicious strategy for reducing poverty and inequality given that it would result in increased demand for unskilled labor . The principal finding was that medium sized production activities were found to be more effective, however size, in terms of number of workers, was usually a very poor indicator of those firms that might be of interest to policy makers. In many cases, policies for promoting small-scale industries were ineffective and have retrogressive effects. Although it is hard to generalize this conclusion for all small scale industries in the Third world (Rogerson, 1991:367).

An additional element in augmenting enthusiasm for policies promoting small-scale industries has been an inclination perceived in several countries of the “informalization” of large-scale enterprises. As the sector does not comprise an undifferentiated body of micro enterprises all facing the same problem, the kind of policy issued should thus consider this variety. The transparent participation of African policy makers especially concerning small enterprise development is said to be very meaningful. Small enterprises have been given limited attention by African states, while in some countries donors and NGO’s have made significant initiatives (Helmsing & Kolstee, 1993:6).

Generally economic intervention by the state can influence activities in micro and small scale industries positively or negatively: such interference can be directed to regulate the economy. Regulation can not be put forth effectively and equally, the result is that an economic margin arises to which informally working people are attracted. Governments often take actions against the problems, which customarily occur with marginal activities (Gelder, 1989:45).

In the Third Biennial Meeting of African Employment Planners, most studies have noted that policy reform seems to be a more cost effective method to induce the development of the sector and to intensify its job creation capacity. The involvement of the government has been found to be important in the areas of fiscal policy and issues of licensing and registration (ILO, 1993:18). According to some studies the expansion of small-scale enterprises presume a proactive and interventionist policy and state ability to proceed such plan. Nevertheless one of the effects of SAP in Africa has been exactly to decrease the capacity by the state to accomplish these measures (Mkandawire, 1999:33).

In more recent literature, small enterprises are the essence of competitive capitalism, unhampered by state interference or state assisted monopolistic practices of large-scale enterprises (Ibid.). In Africa the state has been associated with development strategies, which have favored large-scale parastatal enterprises or private firms dominated by transnational corporations (TNCs). Yet industrialization rooted in exceedingly protected large-scale industries has not been a resounding success in Africa (Ibid.).

Over the years, the dominant justification for small-scale enterprises has shifted. In the 1970s, the ILO approach connected small-scale enterprises to strategies of “ growth with equity”. In more recent years, small enterprises have been preserved on the foundation of static allocative efficiency and often evolve equity inferences from neo- classical first standards or on the grounds of ‘livelihood’ or ‘sustainable’ development strategies, which will be inclined to transfer growth and efficiency considerations to secondary place. (Ibid.p38)

For some the issue of such small enterprises particularly in their informal form, indicates the revival of civil society in Africa. In spite of the fact that neo liberal policies have contributed to the ideological respectability of small enterprises in Africa policy debates, they also tended to

weaken state's capacity to be of much use to small and medium enterprises. Experts imply that the emergence of a national bourgeoisie is nurtured or even planned by the state. (Ibid. p 46) More precisely, the state will have to perform more than a hardly regulatory or custodial role by engaging in distinctly developmental tasks. There is nothing either in African economy and political history or the experiences of other developmental states that makes it inherently impractical for African states to perform such a role (Ibid.).

Economic reform program is no more than a procedure in building a capacitating environment for a long term strategy for employment promotion and poverty alleviation which in the situation of the urban economy is a strategy for private sector progress. Private sector development in this context is nearly synonymous with small- scale sector development; this is due to formal private business shows a limited portion of employment in urban centers. Micro and small business are on the margin between informality and formal small enterprises and are prone to react better and rapidly to amend steps to developments into formal businesses, industry, construction, agriculture and transport.

Many projects and programs are not especially intended for the sector. They have a bound scope: provision of credit and appropriate technologies. Other components of MSEs promotion programs are education training, technical assistance, marketing, and organization of entrepreneurs and institutional support (Ibid.: 213).

In some cases there is an inclination to attempt to confine the role of the government to generating a favorable environment and playing an enabling role, as government institutions have a tendency to be too centralized and bureaucratic and their activities may be affected by political consideration (Ibid.: 218). The role of NGOs in supplying technical support and stimulating micro ingenuity can be enormous, however some NGOs have been hesitant in

supporting business initiatives because they do not believe they should be involved in profit oriented activities (Ibid.: 219). Four biases are regularly encountered in government policies and programs with respect to small enterprises. Government policies are said to generally favor urban areas, larger industrial –type enterprises and male workers (Ibid.: 220).

States can encourage or assist SMEs on both the supply and demand sides. On the demand side, policies designed at assisting small enterprises have accounted for demand stimulation state policies that increase aggregate demand. The kind of adjustment that African countries have followed during the last fifteen years has centered around economic stabilization and demand constraint and has been basically deflationary ensuing in small rates of growth and hardly an increase in investment. Poorly devised trade liberalization policies have flooded domestic markets with imported goods because no policies to enhance domestic industries to produce some of these goods competitively were presented at the same time. Furthermore macro policies, the state can proceed sectoral or industrial level policies that can support the development of small-scale industries. The state can select items for exclusive production on the small scale and can subcontract particular activities to small-scale enterprises (Mkandawire,1999: 35).

On the supply side, the state can rectify the functioning of markets by supplying infrastructure and through launching for some organizational forms that exploit union and solve coordination failure and diminish risk. It can promote acquirement of technological ability through its training program and through articulating small enterprises with large enterprises (Ibid.).

In spite of the presence of policy documents, scantiness of organization of government policy results in generally being very inadequately implemented. Small enterprise have endured nuisance caused by government security officers, due to long and inadequate red – tape

bureaucracy, small scale entrepreneurs have had to linger many months before obtaining licenses for their business. (Macharia, 1997:172) The outcome of government's promotion of small enterprise development is not impressive. The government through various appropriate departments should specialize more in taking up a useful role, especially by repudiating all the impeding by -laws, (...) problems to getting a premise to operate, getting a license, problems of procuring advice on what commodity to retail, when and where (Ibid.).

### **2.7 The Sector Linkages to Other Sectors**

This section discusses how the MSEs are important because of their effect on other sectors. The linkage of the sector to other sectors is an important aspect of its dynamism. Subcontracting arrangements between small and large firms are discussed here.

In some African countries, state policy focus on promoting small-scale industry through accelerated measures for economic deregulation. Beyond deregulation initiatives considerable interest centers on the potential for expanded linkages between formal large business enterprises and small scale producers, through the fostering of subcontracting networks (Rogerson, 1991:365). Two aspects of approaches can be given weight: the first focusing on large enterprises would be to earn foreign exchange by competing on the world market, whereas the second constituting of small scale enterprises, would be geared to absorbing surplus labor, using labor intensive methods of production. Marked expansion of subcontracting arrangements in large industrial firms usually intends to escape state regulations on production conditions, union contracts and taxes. Evidence from some countries like India shows that the production processes in large factories was put out to small workshops in which workers are unprotected by legislation. Owners therefore choose to expand their businesses by forming a string of small

firms, rather than setting up larger formal plant (Ibid., :368). In countries like Mexico the industrial system is also characterized by complex, pyramid like chains of vertical subcontracting; where industrial production is being 'put- out' to labor intensive, low paid small-scale and mainly unrecorded organizations. As formal enterprises subcontract parts of the production process to communities of home workers, the result has been the development of small scale, small -scale enterprises, albeit at the lower echelons of subcontracting, at a cost of low earnings, vulnerability and precarious work conditions. Even if informalization implies that labor is unprotected and vulnerable and that the character and dynamics of small-scale production are determined by its relations with the state and larger enterprises, this does not mean either that small scale activities necessarily have no potential for expansion or expanding livelihoods (Ibid.:369) The existence of informalized work including home work, does not constitute an incipient phase within the industrialization process , nor does it represent a pre or non capitalist mode of production ,on the contrary , its an integral element of the modern capitalist production process. Subcontracting relationships that occur between large and small enterprises are neither entirely detrimental nor entirely beneficial and their effect actually varies from industry to industry and from place to place. Large and small -scale sectors are usually seen as complementary rather than competing sectors. A number of hypotheses have been presented in the literature regarding the nature of relationship between these sectors. One school believes that the MSEs are an autonomous segment of the economy producing mainly for consumption within this sector. Another school (the petty commodity production theorists) argues that the sector has a dependent relation and is exploited by the formal sector. A third view is that the sector is integrated with the rest of the economy through complementary linkages. (Preston & Eleanor, 1991:29). A study of linkages is important because they are likely to play a key role in

the formulation of strategies for the promotion of Micro and small enterprises. They would determine the nature and scope of interventions in the sector. A number of linkages can be identified direct and indirect, backward and forward, production linkages, consumption and technological linkages. Backward linkages involve the supply of raw materials equipment from the formal/large to the small- scale enterprises e.g. purchase of leather by shoemakers. Forward linkages involve the use of small-scale enterprises products as inputs into the formal sector (which may occur through subcontracting) and sale of the finished products and services of small to formal sector. The technological linkages would involve the supply of equipment, technical know how and skills by large to small enterprises; e.g. many of self employed workers in the sector were former apprentices trained in the formal sector. These technological link important for increasing the quality of the processes and products in the sector (Ibid.).

Finally, consumption linkages refer to direct links with final consumers, mostly household that depend on the sector itself for their income may buy the sector output, or alternatively, the output may be destined also for households whose incomes are derived mainly from the government and modern private sectors. A third possibility small-scale sector output brought by other firms and government agencies (Ibid.).

Some studies incur that there is a strong “vertical linkage” between the agricultural sector and Micro and Small enterprises employment in the urban economy due to the concentration of small businesses in retail trade in agricultural products and the dominance of the food processing, textiles and leather industries in small-scale manufacturing (ILO, Addis Ababa, 1993:85). Retail is also the strongest point of linkage between MSEs employment and the formal sector. Small-scale businesses are the distribution outlets for formal private and public manufacturing enterprise. The relationship between the small- scale sector enterprises and other sectors of the

economy is therefore mainly of complementarity. Small scale sector activities produce output either that is not a substitute to that of the formal sector or caters for demand in excess of that which could be met by production by formal enterprises (Ibid.: 86). At the level of access to factors of production the relationship of the formal sector in general and public establishment in particular on the one hand and MSEs on the other has been one of competition for investible funds, land and raw materials, but one of complementarity in relation to the labor market (Ibid.). In conclusion we can say that despite their informality activities in this sector are closely linked to the formal sectors of the economy in general. Money made in the sector is invested in the formal sector through established banks. Money will also be used to purchase services from the formal sector, e.g. education cost. The interdependence of the two sectors can be complex, some scholars suggest that one or the other is dominant, interstitial, or peripheral depending on the angle of the study. Close linkages and interdependence between large and small enterprises. People active in the small businesses learn, through regular interaction with sections of the formal economy, about finance, investment and government activities. Thus the formal sector supplies MSEs, which in turn supplies large enterprises. (Macharia, 1997: 44)

## **2.8 Micro and Small Enterprises & Globalization**

The role of small enterprises in a changing global setting and the effects of theoretical inclination of influential institutions like the World Bank are examined in this section.

Conventionally in less developed countries, small enterprises were considered as socially desirable, but their potential remained in doubt. Their purpose was to originate jobs, to be a seed-bed for local entrepreneurship, to utilize mainly indigenous resource, to form local markets for

fulfilling the fundamental needs of the poor, and to bring a more equitable distribution of income. Exceptionally, however were small enterprises seen as competent to get internationally competitive. The achievement of industrial districts in the developed countries was thus held as an indication that small firms could be economically viable and contribute to the industrial development. The theory of the industrial district was then presented in the study of industrial development in the Third World, both at the hypothetical and theoretical level (Rabellotti, 1997:30).

Industrial districts are defined by:

- Clusters of mostly small and medium enterprises, which are spatially condensed and specialized by sector.
- A solid, somewhat homogenous cultural and social framework uniting the economic agents and producing a joint and largely recognized behavioral norm, at times explicit but frequently implicit.
- A profound set of backward , forward , horizontal linkages grounded both on market and non- market exchange of goods , services and information
- Existence of public and private local institutions that supports all the economic agents in the clusters.

The above characteristics result in shaping small firms in the districts as economically viable and internationally competitive enterprises, letting the districts to stretch to an elevated stage of collective efficiency. (Rabellotti, 1997:33)

Another theory connected to the capacity of Micro and small enterprises is the notion of flexible specialization. This concept indicates the most significant elements of the dynamics of small firms: their specialization and flexibility. Flexible specialization is understood as a concept designating six significant and often interdependent, characteristics of the dynamics of small enterprise sector ( Dijkman ,1997:94)

- A creative drive on the side of the entrepreneur
- The technology put to use by workers trained on the job, which regularly has various goals.

- Inter-firm collaboration generally in the structure of subcontracting.
- Linkages of micro and small enterprises
- Specialization and proven flexibility.

Flexible specialization strategies have allowed small entrepreneurs in various countries to persist and enabled their firm to get more competitive than larger enterprises.

Micro and small enterprises (MSEs) are attracting more focus as the international economic circumstance is also altering. Internationally work is increasingly being deregulated and informalized.

With globalization it is being affirmed that there is an obligation to enhance collaboration between enterprises and sectors to advance and be more competitive. Small and micro enterprises are said to persevere better and be more competitive and gainful when they are arranged in clusters. This is based on Humphrey principle that states that small firms can achieve economies of scale and enhanced flexibility when they tend to be more specialized and augment inter firm cooperation, if small businesses cluster their competitiveness may be larger than that of the bigger firms. (Loop, 2000:14) Clustered small enterprises may thus be more prosperous and achieve evolutionary growth rather than scattered small enterprises. (Knorringa, 1999:1588)

The process of augmented internationalization of production, trade and investment resulted in the current phenomena of globalization. Alongside this came an extensive shift in the manner in which work was arranged Mass production became broadly challenged by flexible production as the principal method of managing manufacturing activity. The new approach by highlighting on smaller economic elements and informalization increased the emphasis on small and micro enterprises as key economic agents (Mc Grath & King, 1999:6).

Globalization has thus resulted in a decrease in the amount and characteristics of traditional formal sector enterprises shaping them more like informal sector activities (Loop, 2000:14).

The course of globalization is concerned with internationalization that is the diffusion of economic activities across nations. Globalization involves functional cohesion between internationally scattered activities. Africa is often said to be widely marginalized in the process of globalization; and its marginalization is seen as an important issue that hinders development. Many policies and the SAP are conducted to augment African foreign trade in order to gain more foreign currencies and to make nations more attractive to FDI (Pedersen, 1999:147). Multinational firms from developed countries perform a large role in African manufacturing industries. In most African countries multinationals possess a grand portion of the manufacturing industries instituted during the import substitution era. Although they usually operate more efficiently than locally owned industries, they have usually not been competitive in international markets (Ibid. : 151- 152).

Pedersen (1999:154) argues that enterprises in Africa combine many functions in their organization, which hamper their productivity and make them unable to link up with the global economy. At the same time, the small enterprises are kept back in the traditional exchange system, incapable to invent strategies to extend their markets and develop their technology. To change this process large enterprises must open up and the small must act jointly with each other and with larger enterprises. One of the principal rational why inter- firm collaboration and vertical specialization is not undertaken is the exalted transaction costs due to the lack of trust and poor infrastructure. In many African societies interaction is rooted on individual trust which is very important in an unsteady environment and a non- effective formal legal system.

The value chain view of global economic integration stresses that for many industries admittance to international markets is not merely completed through the manufacturing and marketing of goods; but also comprises reaching entry into the international design, production and marketing channels incorporating different firms. Understanding the procedure of value chains has been found to basic for LDC policy makers and firms to shape their way into the global economy and use accessible potentials to modify the manner they are associated to Global value chains. (Gereffi, 2001:2)

Gereffi identifies two types of network: firstly the producer driven commodity chains, seen in the sector auto computer, aircraft, electrical machinery, where industrial capital is very important. The second is the buyer driven commodity chains, which include sectors such as, garment, footwear, toys and house wear industries, where commercial capital plays important role. (Loop, 2000:15-16) The foundation of global value chains is the fact that some firms affect the order of global production, and marketing systems, they thus carry resolutions that have significant outcomes for the entry of developing nations to international markets. In various LDCs we can observe the alteration from export oriented industrialization to an accentuation on increasing entrance to high value activities in global value chains. Policy makers and entrepreneurs have been persuaded that taking part in global value chains and manufacture systems is basic to economic development. (Ibid. pp. 4-5) In its analysis of workers in an united world (World Development Report, 1995) the World Bank appears to support the trend towards formalization arguing that a shift to a less distorted and more formalized labor market can function as an equalizing mechanism. This can be read as a fair appraisal of the outcome of the industrialization process that has been going on in different parts of the world. (Breman, 1996:12) The policy makers of the World Bank show themselves to be opposed to formal labor markets which, in

their considered opinion, are inherently distorted and biased against the working poor. The basic argument is that, by dismantling the entrenched position of a small but privileged segment of the workforce, more jobs can be created. Labor market dualism resulting from a faulty policy towards formalization of work arrangements at the wrong time and place, will have to go for the sake of a better future for all. (Breman, 1996:12) Policies that favor the formation of small groups of workers in high productivity activities lead to dualism (segmentation of the labor force into privileged and underprivileged groups) and tend to close the formal sector off from broader influences from the labor market, at the cost of job growth. The self employed which is also the Bank's favored category in its portrait workers in MSEs, have no real need for the security and protection which comfort the life of the labor aristocracy in formal sector economy. According to the World Bank minimum wages are said to be both dysfunctional and inoperative, and most other labor regulations which aim to limit the free flow of market forces are equally ill- advised. (Ibid. p13) The World Bank report strongly suggests that workers in MSEs are not really so vulnerable that they may rightfully claim all kinds of benefits and provisions in order to survive. Report stresses that employer – worker relations in the small-scale economy continue to be governed by a wide range of social customs and traditions that mitigate the insecurity of the working poor. Employers are said to extend loans to workers who face unexpected expenses, to support older workers or those unable to work on health grounds, and to continue wage payments during the slack season. Although never formally agreed upon in advance, informal commitments by employers are an important element of socially sanctioned codes of conduct. In addition to these forms of institutionalized patronage, more horizontal ties of solidarity along familial lines diminish the urge to lengthen the burden of the working poor and to ease their lack of security by setting up a safety net. (Ibid. p 14)

### **2.9 Challenges Faced by Micro and Small Enterprises**

A number of constraints can be recognized as impeding small enterprises. A major inhibition is connected to the confined access to resources especially finance, market and skill. There is a scarcity of working capital, as formal credit institutions are not accessible to this sector. On the other hand market is said to be restricted because the goods and services are fabricated to content the needs of the poor which have a very low income and purchasing power, the demand generated within the sector is not satisfactory. Dearth of better technology, managerial and other technical skills may also be an obstacle to the growth of micro and small scale businesses enterprises. (Endanchyelem, 2000:23) These constraints result in the development of small businesses producing the same things and competing with each other to sell into the same small local market. (See Annex B<sub>3</sub>)

Liedholm and Mead (1991:103-104) argue that the challenges faced by middle and small enterprises depend on their level of development. For instance newly established enterprises want to master new skills and the principal challenge in the short run may be the subsistence of the business. On the other hand established enterprises may need to grow more rapidly, have a greater efficiency and be able to continue to survive.

The inexistence of institutional regulation in the economy of small businesses may influence various settings of the work process. For example labor may be tacit, lacking social benefits and paid under the minimum wage. Workers tend thus to be down graded, taking fewer benefits, less wages and working under inferior working circumstances than those universally accepted in the formal economy (Castells & Portes, 1991: 26).

We should however note that the very massive number of one or two person enterprises generally ambulatory or functioning from momentary premises clearly have rather different problems from the small but increasing number of relatively modern businesses (Ibid.: 27). Another challenge related to this sector is that difficulty of obtaining reliable statistics and thus lacking a proper insight to address the problems in this sector. Competition in most small enterprises markets is fierce due in part to ease of entry and large number of participants and in part to the small size of many markets served by small sector enterprises. Lack of specialized skills leads micro-enterprises to become concentrated in similar activities, which results in market saturation. (Fidler & Webster, 1996:10) Furthermore, another problem is that informalization implies that labor is unprotected and vulnerable and that the character. Extent and dynamics of small-scale production are determined by its relations with the state and larger enterprises, this does not mean either that small-scale activities necessarily have no potential for expansion or that workers in them cannot obtain adequate and expanding livelihoods. (Rogerson, 1991:369)

### **2.10 Small and Micro Enterprises & the Footwear Industry in Addis Ababa**

According to the CSA & MOLSA research the enterprises in the Manufacturing industry in which the footwear sector is included comprise 42.07% of the informal sector enterprises, which is a substantial fraction (Table 2).

***Table 2 Distribution of Informal Sector Establishments/Activities by Industry  
In Addis Ababa(1996)***

Major Industrial Group	Number of Enterprises	Percentage
Agriculture, Hunting forestry & fishing	3,026	2.38
Mining & Quarrying	172	0.14
<b><i>Manufacturing</i></b>	<b><i>53,559</i></b>	<b><i>42.07</i></b>
Construction	3,095	2.43
Trade, Hotels and Restaurants	54,323	42.67
Transport	111	0.09
Community and personal services	13,032	10.24
<b>Total</b>	<b>127,318</b>	<b>100</b>

*Source: CSA & MOLSA, 1996:36)*

Besides the CSA & MOLSA Survey findings showed that labor productivity as measured in terms of annual gross value of income per person engaged, was very low in manufacturing as compared to that of the other major industrial, groups in the informal sector (Table 3). Though this industry was the leading major industrial group in terms of number of establishments. On the other hand, the evidence presented in the same table portrays that labor productivity as measured in terms of annual value added per person was lower in Trade, Hotels & Restaurants. Though this major industrial group took the highest share in the total gross value of income and annual gross value of income per person engaged.

***Table 3 :Urban National Gross Value of Income & Value added per person Engaged by Industry for the informal Sector (1996)(Value in Birr)***

Major Industrial Group	Gross value of Income	Value Added	Number of persons	Gross value of Income Per person engaged per year	Value Added Per person engaged
Agriculture, Hunting Forestry & fishing	69,194,430	51,541,464	27,767	2,492	1,820
Mining & Quarrying	2,968,842	2,359,151	1,451	2,046	1,626
<b>Manufacturing</b>	<b>579,789,941</b>	<b>409,534,701</b>	<b>354,908</b>	<b>1,634</b>	<b>1,154</b>
Construction	20,071,004	18,440,458	8,524	2,355	2,163
Trade, Hotels & Restaurants	1,230,633,530	236,655,222	295,577	4,166	801
Transport	7,151,582	4,872,900	3,992	1,791	1,221
Community and Personal services	67,613,678	50,365,870	38,946	1,756	1,293
<b>Total</b>	<b>1,977,423,007</b>	<b>773,769,766</b>	<b>731,165</b>	<b>16,240</b>	<b>10,078</b>

*Source: CSA& MOLSA,1996:47*

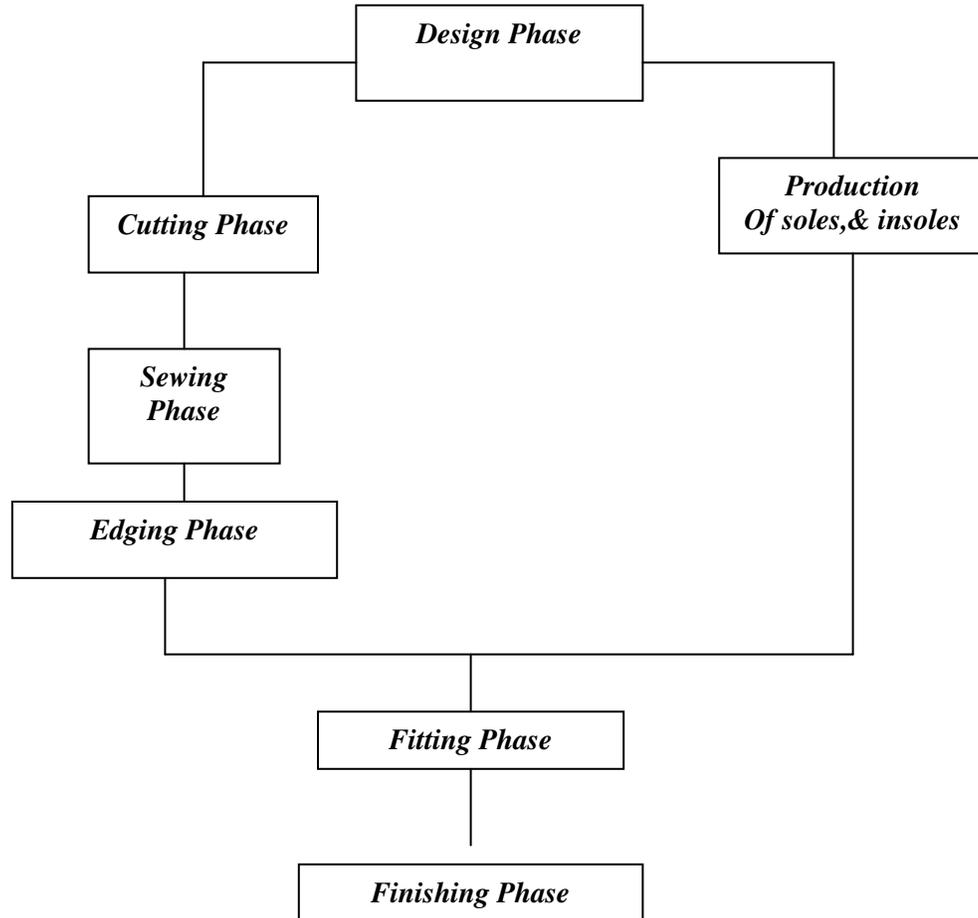
Endanchyalem (2000:22) affirms that the MSE in Ethiopia are performing in a discriminatory macroeconomic policy environment and that government disregard or harassment has restrained the growth possibility of the sector. Although there is a widespread consensus on government interference in the sector, there is some discussion on how this intervention shall take place. Problems originate also from the feebleness of policies designed to encourage the sector. A number of conditions should be contemplated in developing policies. For instance internal and external determinants should be given significance, the procedure of policy design should also be fixed within the whole macroeconomic policy and regulation. The diversity of the sector should also be taken into consideration while policies are designed. Statistical data are also needed on the kind and characteristics of existing activities and on constraints encountered before making policy decisions.

There is no comprehensive policy standard, which could be used to all activities and to all countries. Hence it will be advantageous to take actions taking into account the country's macroeconomic policy and the welfare of society. The improvement of MSEs need not inescapably focus on the sector alone; a transformation in the formal sector may benefit the sector. Furthermore; other development-oriented actions can also have positive impact like provision of market places, sanitary facilities and a well-developed infrastructure etc. (Ibid.)

The policy of the Derg resulted in the development of the sector in different ways: at the macro level, it gave rise to unsustainable budgetary and external imbalances at intensely low levels of public investment within less than two decades after nationalization (Ibid. : 87).

The policy also deformed public sector investment in favor of capital intensive projects by promoting an import – substituting industrial strategy through the overvaluation of the birr, high nominal rates of protection to public enterprises and the administrative apportionment of capital expenditure, credit foreign exchange and urban space in favor of less labor intensive and large scale investment projects. At the micro level the Derg created a number of legal and institutional obstacles to private investment in formal enterprises. Disincentive for investment in formal employment in the urban formal sector has been increasing proportionally to the corresponding extent as the formal sectors failed to absorb a significant proportion of the growth in the labor force. Moreover the cost of living of public sector workers augmented due to macroeconomic imbalances pressing them to recourse to small-scale sideline businesses as coping strategies. (Ibid.)

**Figure 2 Major Phases in Footwear Production**



Source: Adopted from Rabelloti (1997:35)

Establishments of footwear (together with leather production) comprise only 1.4 % of urban area Cottage/Handicraft manufacturing industries (Annex B<sub>1</sub>) Male operators dominate the footwear industry in Ethiopia (Annex B<sub>5</sub>). The footwear industry involves leather, canvas, plastic shoes as well as boots and slippers production (Annex B<sub>7</sub>). Phases of production (Figure 2) are decentralized in small enterprises the whole process is only undertaken in large firms. Small firms are not capable of performing the whole process in footwear production. The smaller the enterprises the more they are engaged in assembling different parts produced elsewhere.

## **CHAPTER THREE**

### **Profile of Small Entrepreneurs and Shoe Firms**

#### **3.1 Characteristics of Small Footwear Enterprise Operators**

Sample of enterprises has been taken from three *Woredas*. Initially attempt was made to trace the main concentration of those small-scale operators in the city of Addis Ababa. Finally one main cluster and two minor ones have been identified in *Woreda 5*, *Woreda 8* and *10* respectively. 70 %, 15% and 15% of the total sample apprehended are samples of enterprises drawn from *Woreda 5*, *Woreda 8* and *10* each (Table 4).

**Table 4: Ethnic Distribution of Enterprise Owners by Woreda (n=100)**

Ethnic background	Woreda			Total
	Woreda 5	Woreda 8	Woreda 10	
Oromo	11.4%	20.0%	20.0%	<b>14.0%</b>
Guraghe	80.0%	60.0%	40.0%	<b>71.0%</b>
Amhara	8.6%	20.0%	40.0%	<b>15.0%</b>
<b>Total</b>	<b>70.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>100.0%</b>

Source: own survey, AddisAbaba,2002

The characteristics of Micro and small enterprise operators vary depending on the sector or the level of development of the area in which they operate. Hence as indicated earlier an attempt to portray the major characteristics of small footwear enterprise operators in the study will be undertaken. Knowing what kind of people are engaged in shoe production activities in the study area has been of interest. From the review of literature it has been established that small scale are

categorized into survivalist, self-employed and micro-entrepreneurs. Most literature studies agree in the fact that women undertake less remunerative and home based small-scale businesses.

In this case the survey results indicate that all enterprise owners in this sector in the taken sample are male (100%). This indicates perhaps the societal stereotype excluding women in the shoe making business.

**Table 5: Birth Place and Ethnic Background of Enterprise Owners (n=100)**

Birth Place	Ethnic Background			Total
	Oromo	Guraghe	Amhara	
Addis Ababa	57.0%	50.7%	66.7%	<b>54.0%</b>
Oromiya	28.6%	1.4%	6.7%	<b>6.0%</b>
Amhara Region			20.0%	<b>3.0%</b>
SNNPRS	14.3%	47.9%	6.7%	<b>37.0%</b>
<b>Total</b>	<b>14.0%</b>	<b>71.0%</b>	<b>15.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

The sample population shows also a clear concentration in terms of ethnic groups involved. 70% of footwear enterprise owners are Guraghes. However according to the Population Census of Addis Ababa they represent only 6.4% of the total population of Addis Ababa (CSA, 1995: 32). The rest of the operators are Oromos (14%) and Amharas (15%). Moreover 54% of our interviewees were born in Addis Ababa and 37% in SNNPRS (Table 5). This might support the argument depicted in the literature indicating that small scale sector entry can be easier for those who have kinship and ethnic ties support. Furthermore one possible explanation for most entrepreneurs to be born in Addis Ababa could be that shoe making is basically an urban activity and its skills are acquired in the urban sphere.

**Table 6: Cross tabulation of Marital Status of Owners and Number of Dependent**

**Household Members (n=100)**

Household size	Marital Status			Total
	Unmarried	Married	Divorced	
1	65.0%			<b>41.0%</b>
2-5	22.3%	61.1%		<b>36.0%</b>
6-10	9.5%	36.2%		<b>20.0%</b>
>10	3.2%	2.8%		<b>3.0%</b>
Total	6.3%	22.2%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>63.0%</b>	<b>36.0%</b>	<b>1.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

Another characteristic is that 63% of enterprise owners are single while 36% are married. This might show that young people attempting to create employment for themselves dominate the industry. 73% of interviewed operators are young, 19 to 30 years old. On the other hand 59% of the interviewees support a family of more than two individuals (adults and children alike) (Table 6)

**Table 7: Educational Status of Enterprise Owners by Woreda (n=100)**

Educational Status	Woreda			Total
	Woreda 1	Woreda 8	Woreda 10	
Illiterate	4.3%			<b>3.0%</b>
Read and write	4.3%	26.7%		<b>7.0%</b>
Primary education	27.1%	27.7%	46.7%	<b>30.0%</b>
Secondary education +Graduate	64.3%	46.7%	53.3%	<b>60.0%</b>
<b>Total</b>	<b>70.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa 2002

When we observe the educational status of the owners we can say that most of them have gone through primary and secondary education while the rest represent only 10% of the sample; that are illiterate and can read and write (Table 7). This might show us that investors in this sector are relatively educated urban dwellers, trying to create an income generating activity through self employment because of the failure of the educational system to provide higher education or/and because of pressing needs. But what can be seen as very significant is that 94% of the interviewee assert, not to have received any specialized formal training in shoe making (Table 8).

**Table 8: Former Employment and Acquirement of Specialized Training of Enterprise Owners (n=100)**

Former Employment	Specialized Training		Total
	Yes	No	
Government employee	16.7%	2.1%	<b>3.0%</b>
Self-employed	33.0%	12.8%	<b>14.0%</b>
Employed in a private enterprise	33.3%	16.0%	<b>17.0%</b>
Not employed	16.7%	69.1%	<b>66.0%</b>
<b>Total</b>	<b>6.0%</b>	<b>94.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

The absence of formal training has been related to the fact that only one training center formed recently under the Ministry of Trade and Industry exists. Hence the existing skills in this industry rely mostly on self taught and informal training. This has a direct implication on the quality of the products delivered and highly limits their competitive capacity. We can also observe from the data that mainly those who have no previous occupation are in shoe production (Table 8).

In this regard 76% of the operators claim to have learned the skill being employed in other formal and small footwear industries, 18% said to have learned the skill from family and friends. Only 3% have gone through formal training; for 3% of the operators it was self-effort that played an important role for their learning of footwear making skills. 90% of the operators say that they are occupied on a full time basis on this particular enterprise; the labor-intensive character of the production might explain this phenomena.

**Table 9: Attitude of Business Owners Regarding the Support from Friends & Family**

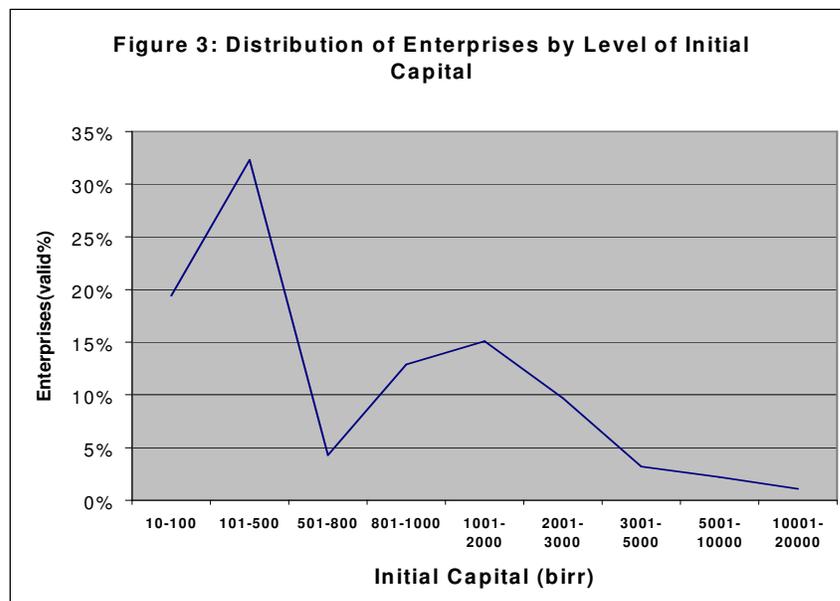
Support from Friends/Family	Percent
Very Useful	13.0%
Useful	21.0%
Somewhat Useful	21.0%
Not Useful at all	44.0%
Total	100.0%

Source: own survey, Addis Ababa

Enterprise owners are mostly skilled in shoe making and their enterprises have evolved from single person enterprises depending entirely on family labor to enterprises employing a workforce. In 89% of the cases the owners participate not only in managing the business but in manual work as well. One crucial point identified is that support from friends/ family is very important. Support can take many forms like entry in the sector, transfer of information, skills, know how and financial support. In this instance 34% of interviewee have found the support of their relatives and friends to be very useful, and useful (Table 9). Small enterprises in this sub-sector exhibit thus features that are common to small businesses.

### **3.2 Profile of Enterprises Production and Activities**

In the literatures overviewed, it is usually stated that the small business sector is heterogeneous. Micro and Small scale enterprises are a combination of economic activities varying in size, products produced, levels of capital investment and gender of those predominantly producing. As formerly stated thus some sub sectors are better paying than others, some require large capital to start while others require a small amount of capital.



Source: own survey, Addis Ababa, 2002

Men dominate some while women run others. Some involve future promises of growth while others are essentially marginal and stagnant. Small footwear manufactures employing up to 12 persons are the element of our study. The general profile of one hundred enterprises including the size of their initial capital, input expenditure and income estimates are surveyed. Likewise the type of shoes produced, enterprises source of finance, supply chains of raw materials, peak and slack business periods are the factors considered in studying the situation of small-scale footwear manufactures. Almost half of studied enterprises have a start up capital of less than 500

birr; 30% have an initial capital that range from 500 to 2000 birr and the rest more than birr 2000(Figure 3).

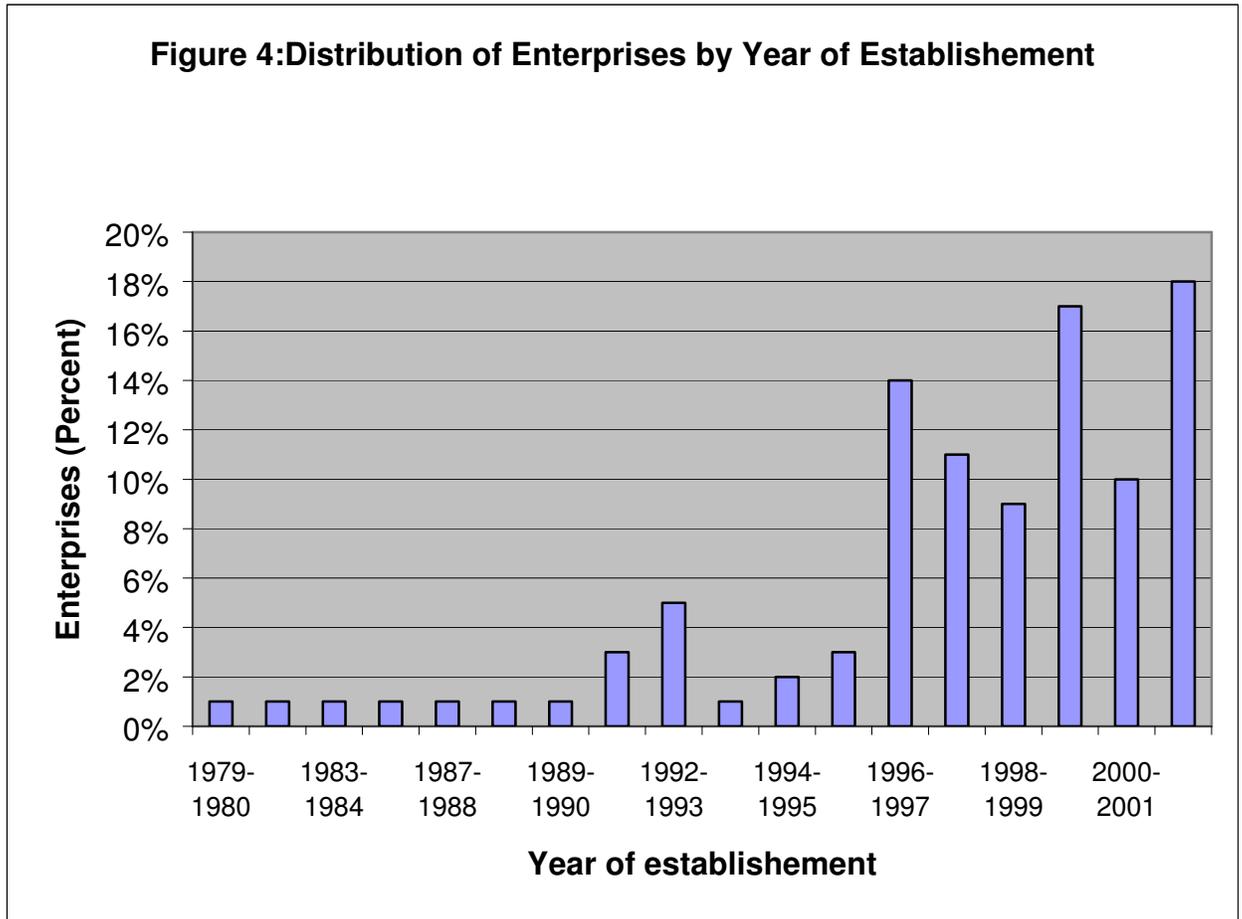
**Table 10: Weekly Income ,Fixed Capital Value, and Weekly Input Expenditure Estimates of Enterprises( n= 100)**

Value in Birr	Weekly Income Estimates	Fixed Capital Value	Weekly Input Expenditure
10-20	40.0%	11.0%	27.0%
51-200	32.0%	16.0%	35.0%
201-1000	15.0%	31.0%	19.0%
1001-5001	1.0%	14.0%	3.0%
5001-30000	1.0%	11.0%	1.0%
Missing Value	11	17	15
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

When we look to figures related to capital, income and expenditure, we should take into consideration the fact that such figures are very inaccurate because they are based on estimates. Owners rarely use accurate account of their income and use common system of account taking. Further, weekly input expenditure and income estimates vary greatly. Another reason for limited accuracy of this kind of data is that people are reluctant to give income data, and when they provide it they tend to overestimate expenditure and underestimate income.

Although we observe a difference between studied enterprises in terms of weekly income, fixed capital value and weekly expenditure, we also notice that most enterprises lay in the category of very low fixed capital, income and expenditure (Table 10). Moreover not only enterprises operate with restricted fixed capital and revenue but they are also mostly young and still in a stage where survival is their basic goal. For instance 79% of the sampled enterprises are established after 1996(Figure 4).



Source: own survey, Addis Ababa, 2002

**Table 11: Cross Tabulation of Enterprises Activity by Type of Shoes Produced (n=100)**

Kind of Activities	Type of Shoes Produced			All	Total
	Synthetic	Leather	Synthetic & leather		
Shoe making	23.5%	56.9%	16.0%		<b>41.0%</b>
Shoe repair and making	76.5%	43.1%	76.0%		<b>57.0%</b>
Making parts of shoes			4.0%	100.0%	<b>1.0%</b>
All			4.0%		<b>1.0%</b>
Total	100.0%	100.0%	100.0%	100.0%	<b>1.0%</b>
<b>Total</b>	<b>17.0%</b>	<b>58.0%</b>	<b>25.0%</b>	<b>3.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

Both synthetic and leather producers employ between 1-4 workers but then leather shoe producers seems to employ more workers relatively. More than half of the enterprises under study are engaged in both shoe repair and shoe making activities. While 41% of the enterprises are shoe making Manufactures only. Just one enterprise is engaged in making parts of shoes (Table 11) This activity as observed in the field is only undertaken by bigger

***Case1: an early stage footwear factory***

*X is 37 years old, he is born in Addis Ababa and is now running a small shoe production and repair business . He has been working in Jamaica factory for three years .He is now operating in a premise he has rented from the kebele, that he also uses as a residence unit in Woreda 8 kebele 23. He pays 60 birr per month for the rented house. He got his initial capital from relatives. Besides a relative with a well-established footwear enterprise provides him with outdated models or designs of shoes.*

*X is regularly engaged more often in shoe repairing than in shoe making. He makes shoes only when ordered, as he lacks capital both to purchase inputs and necessary machinery. He stated that he lacks space as well as basic equipment and that he does everything manually. He finds his work very unproductive and inefficient. He works alone as demand for his product is not satisfactory. He is not fully occupied at his job and can not afford an extra hand except for his wife support. Although he thinks he is perfectly capable of expanding his business and he is well skilled, mainly financial constraint hinders him to fulfill his ambitions. It is apparent that rather than being an efficient Micro enterprise his business is just a survival strategy to support his family.*

firms that produce shoe parts (upper & lower parts) both for their own output and the local market. The production of bottoms is the phase more frequently decentralized. This can be explained by the fact that the production of soles, insoles and heels is an independent phase from the rest of the process, demanding the utilization of specialized machines, special labor force skills and larger- scale economies than shoe production itself. However in larger firms producing good quality products theses phases may be internalized to retain better control over the process (refer to case 4). We can also observe that most enterprises (58%) produce leather shoes while only 25% of them produce both leather and synthetic shoes. On the other hand only17% of the enterprises, produce synthetic shoes (Table 11). The dominance of leather shoe production is most probably due to the access of local hides and skin and processed leather. Which is the second export item of the country (after coffee).

**Table 12: Access of Shoe Designs and location of Enterprises (n=100)**

Design Access	Location of Enterprise				Total
	Within a Residential unit	Adjacent to a residential premise	In an independent permanent unit	In an independent temporary unit	
From contracted designers	21.4%	12.5%	34.0%	29.4%	<b>28.0%</b>
From shoes in the market	35.7%	37.5%	28.3%	17.6%	<b>29.0%</b>
According to customers choice	7.1%	12.5%	18.9%	11.8%	<b>15.0%</b>
From other similar enterprises	14.3%	12.5%	3.8%		<b>6.0%</b>
From catalogues		12.5%	1.9%		<b>3.0%</b>
All	7.1%	12.5%	11.3%	35.3%	<b>15.0%</b>
Missing values	14.3%		1.9%	5.9%	<b>4.0%</b>
Total	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>14.0%</b>	<b>16.0%</b>	<b>53.0%</b>	<b>17.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

Access to design of shoes is crucial in being competitive in the shoe industry. Enterprises with new and fashionable models of shoes are commonly more competitive. In the case of the sample taken, 15% get their designs from contracted designers, 29% of producers get their design or copy the design of shoes in the market; 28% and according to customers choice (Table 12). Customers may make their choice from catalogues or already produced shoes. The fact that most producers copy their designs from shoes in the market is an issue on which large firms and smaller ones hold a conflict. Formal and bigger companies accuse small-scale producers to copy their designs and saturate the market with similar produces. (Refer to case 5)

More than half of the enterprises under study (53%) are located in an independent permanent unit. 17% operate in an independent temporary unit. While 16% & 14% operate from a premise adjacent to and within a residential unit respectively. This is a surprising outcome as most small-scale sector activities are acknowledged to operate from residential units and not independent

work premises as the study shows. According to table 12 we can also see that relatively well established enterprises employ their own designers and operate from independent working premises.

**Table 13: Ownership Type by Financing Source of Enterprises to Start the Business (n=100)**

Ownership Type	Financing Source				Total
	Own savings	Borrowing from friends relatives	Borrowed from banks	Borrowed from MFIs	
Individual Ownership	85.7%	80.0%	100.0%	100.0%	<b>84.0%</b>
Family Ownership	11.1%	20.0%			<b>14.0%</b>
Partnership	3.2%				<b>2.0%</b>
Total	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>63.0%</b>	<b>35.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>100%</b>

Source own survey, Addis Ababa, 2002

When we consider the type of ownership of enterprises we see that 85.7% of them are owned individually and have used their own savings to start the business. While 14% and 2% are family businesses and partnership respectively (Table 13). On the other hand we can also see from the data that 63% of entrepreneurs get their initial capital to establish their business from their own savings. Not a negligible part

**Case 2 Bekele Teferi: A journey from employment to self employment**

*Bekelle is a 25 years old shoemaker in Woreda 5. He has discontinued his education from grade 10. He used to be employed in a private footwear enterprise. He now works in a workshop he rented from the Kebele, that appears to be relatively well equipped and orderly. Though he has been working legally for the last four years, he admits he did not renew his license recently. He sees no point in paying taxes as others do the same business without that. He started his business with a capital of 5000 Birr from his own savings. He employs two regular and three casual workers, which are paid on daily basis according to their output. He supplies wholesalers both in Addis and in different regions. Unlike some producers Bekelle produces shoes without receiving any order, probably because he can store his product and distribute it gradually. He affirms that they used to share sewing machines with neighbors engaged in the same business, now he has his own machine. His business has been slowly growing and the demand was good until two years ago. Import of Chinese shoes has affected producers like Bekelle who were ill-prepared to such competition. They say they are slowly recovering from that recession as customers are now recognizing the quality of their product. Sub contracting or contracting activities are rare since most enterprises work below capacity and compete for the same restricted market.*

(35%) borrowed from friends and relatives. Only one individual has borrowed from a bank and another from a Micro-financing Institute. This shows us how the role of formal credit institutions is limited in financing small enterprises in this sub-sector. Further we can see from the table that borrowing from friends and relatives is more common when a family owns business (Table 13).

**Table 14: Source of Raw Materials and Raw Material Providers(n=100)**

Raw Material Provision	Source of Raw Materials			Total
	Imported	Local	Both Equally	
Individual Retailers	71.4%	83.3%	90.9%	85.0%
Wholesalers	28.6%	16.7%	9.1%	15.0%
Total	100.0%	100.0%	100.0%	100.0%
<b>Total</b>	<b>7.0%</b>	<b>60.0%</b>	<b>33.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

When we look into the supply chains for raw materials we note that 60% of enterprises use mainly local raw materials 7% use imported raw materials while 33% use both local and imported raw materials. We notice also that individual retailers usually distribute local raw materials while wholesalers more often supply imported ones (Table 14). Leather, soles, hammers, cutting knives, glues are processed goods produced at local levels but imported substitutes can also be used for all those commodities. Individual retailers (85%) and wholesalers (15%) mainly provide raw materials. In *Merkato* the biggest market in the city, a major supply base of raw material is located in the spot customarily called “*Shera Tera*”(refer to case 3), where almost all raw materials necessary in shoe production are available. It has been observed during the fieldwork that micro and small footwear enterprises are mainly engaged in assembling processed and semi processed inputs. In contrast Private Limited Companies like Peacock (refer to case 5) and Kangaroo (refer to case 4) provide soles to the local market.

**Case 3 Unlicensed footwear Productions in Merkato**

*Y is born in Addis Ababa. He supports 14 members of his family, siblings and parents. Being a 12 grade Graduate with no further training on footwear making, he got his skills by working for seven years as an apprentice for Italian shoemakers in Piazza.*

*He was never employed in another field. As he wanted to start his own business he thus preferred to exercise the skills he acquired for years. He first started his business with a loan his sister secured from a Micro-financing Institute, and his own savings of about 2000 Birr. He operates in a premise where other shoemakers work in adjacent rooms. Three other shoemakers in Merkato use other accommodations. These producers as many other small-scale shoe makers in the biggest market of Addis Ababa provide shoe shops in “Amede” with ordered shoes sold customarily in dozens. Small-scale producers in this area imitate shoes in vogue in the market. These entrepreneurs rarely use catalogues or produce according to customer’s as they generally supply wholesales. Processed raw materials are amply available in “Shera Terra” the problem of the operators is that they need adequate space to store their products. Besides they lack capital to produce in large quantity. Their task usually consists in assembling semi finished inputs. For example they got finished soles from bigger shoe factories like Kangaroo, processed and cut leathers produced by Dire Tannery etc. In his enterprise Y utilizes few machines, and he even shares a sewing machine with his neighbors. Some equipment is also contracted for some time. Y specified that though he employed three salaried workers, they have no regular working arrangements, they will only come when there is something to do, otherwise they will try to get occupied elsewhere as he himself will attempt to do. They have no strict rules as to working time or remuneration, they carry out all things; negotiating for each segment of work. Informal relationships made employees-employer relationship less oppressive than in formal factories. Y admits that he evade taxes because if he began paying taxes he will not make any profit at all. As a consequence he can not get access to any formal credit and the possibilities of expanding his business are restrained. Small- scale producers similar to Y can hardly compete with bigger firms, the latter being more productive and generating superior outputs per day. They also usually own designs and monopolize the market. Sometimes larger enterprises tend to diminish the price of a particular model and put small enterprises out of business. The footwear enterprise has been very unprofitable in the last two to three years as Chinese shoes of lesser prices have saturated the market. Both large and small shoe producers pronounce that they have been affected by this condition.*

Upper leather parts are also available in “*Shera Tera*”, smaller enterprises lack the technological potential to process raw inputs. The existence of a very well developed system of suppliers working for the footwear sector represents one of the main assets of small shoe producers. The ability of suppliers to manufacture a wide variety of products with short delivery times allows the shoe producers to postpone to the last moment their purchase of inputs.

Only 17% of the enterprises claim to have a stable demand for their products, the other 83% pronounce that their business fluctuates and that their profitability has decreased in the last two to three years due to the infiltration of Chinese shoes in the local market.

**Table 15: Peak and Slack Business Periods(n=100)**

Peak period	Slack period					Total
	Summer	Rainy Seasons	January-March	Period other than holidays	I don't Know	
Summer (September-December)	5.6%	52.6%				<b>24.0%</b>
Rainy seasons(June - August)	61.1%					<b>11.0%</b>
Holidays	22.2%	15.8%	50.0%	80.0%		<b>26.0%</b>
April- May		26.3%	50.0%	20.0%		<b>1.0%</b>
December-January		2.6 %				<b>20.0%</b>
I don't Know	11.1%	2.6%				<b>18.0%</b>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Total</b>	<b>18.0%</b>	<b>38.0%</b>	<b>2.0%</b>	<b>15.0%</b>	<b>27.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

When the peak and slack business periods of this sub-sector are investigated, we can identify that businesses are lucrative during the summer (24%), on holidays (26%) and from December to January (20%). Business is bad in rainy seasons (38%) and in the period after holidays (15%). Here we can observe that 18% & 27% of operators state that they do not know their peak and slack business periods respectively; this indicates that business is done more on practice than more formal business inquiry. We recognize here the need for skills acquired through training to ameliorate the dearth of proper accounting system and formal management structure (Table 15).

**Table 16: Cross Tabulation of Initial Capital by Enterprise Ownership(n=100)**

Initial Capital	Ownership Type			Total
	Individual Ownership	Family Ownership	Partnership	
10-100 Count % within Initial Capital %within ownership type	11 61.1% 13.9%	7 38.9% 53.8%		18 100.0% 19.4%
101-500 Count % within Initial Capital %within ownership type	25 83.3% 31.6%	5 16.7% 38.5%		30 100.0% 32.3%
501-800 Count % within Initial Capital %within ownership type	4 100.0% 5.1%			4 100.0% 5.1%
801-1000 Count % within Initial Capital %within ownership type	11 91.7% 13.9%	1 8.3% 7.7%		12 100.0% 15.1%
1001-2000 Count % within Initial Capital %within ownership type % of Total	13 92.9% 16.5%		1 7.1% 100.0%	14 100.0% 15.1%
2001-3000 Count % within Initial Capital %within ownership type	9 100.0% 11.4%			9 100.0% 9.7%
3001- 20000 Count % within Initial Capital %within ownership type	6 100.0% 7.6%			6 100.0% 6.5%
Total Count % within Initial Capital %within ownership type	79 84.9 2.5%	13 14.0% 100.0%	1 1.1% 100.0%	93 100.0% 100.0%

Source: own survey, Addis Ababa,2002

According to the above table (Table 16) as the Initial capital increases, individual ownership is seen as a dominant type of ownership. Small family businesses with limited capital are thus identified as a category. Family assistance in labor and other non- financial resources is also actually more common when the enterprise depends on limited sources.

## **CHAPTER FOUR**

### **Employment Structure of Small Footwear Enterprises**

#### **4.1 Employment Status of Workers**

To have an insight in the employment condition of the sub-sector the study observed the working relationships existing in 84 enterprises (excepts for those operated by the owner only). To supplement these, fifty workers have been interviewed. The result of the two kinds of questioning i.e. the owners about their employees and the workers directly, has been combined in this chapter.

**Table 17: Employees by Woreda and Sex (n=50)**

Sex	Woreda			Total
	Woreda 10	Woreda 5	Woreda 8	
Male	100.0%	75.8%	75.0%	<b>78.0%</b>
Female		24.2%	25.0%	<b>22.0%</b>
Total	100.0%	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>10.0%</b>	<b>66.0%</b>	<b>24.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

Interviewed workers distribution by *Woreda* as indicated in the table above (Table 17). An attempt to include workers from the three *Woredas* was made. The largest proportion is from *Woreda 5* as logically more enterprises from this *Woreda* are included in our sample. 22% of the workers studied are female, we can thus see that even if they are not business owners women are employed as skilled and unskilled laborers in this sector though their ratio is still moderate (Table 17).

**Table 18: Marital Status and Ethnic Background (n=50)**

Marital Status	Ethnic Background					Total
	Oromo	Guraghe	Amhara	Don't want to tell	Gamo/Had ya	
Single	60.0%	78.6%	53.8%	100.0%	100.0%	<b>72.0%</b>
Married	40.0%	21.4%	30.8%	-	-	<b>24.0%</b>
Divorced	-	-	15.4%	-	-	<b>4.0%</b>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>10.0%</b>	<b>56.0%</b>	<b>26.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

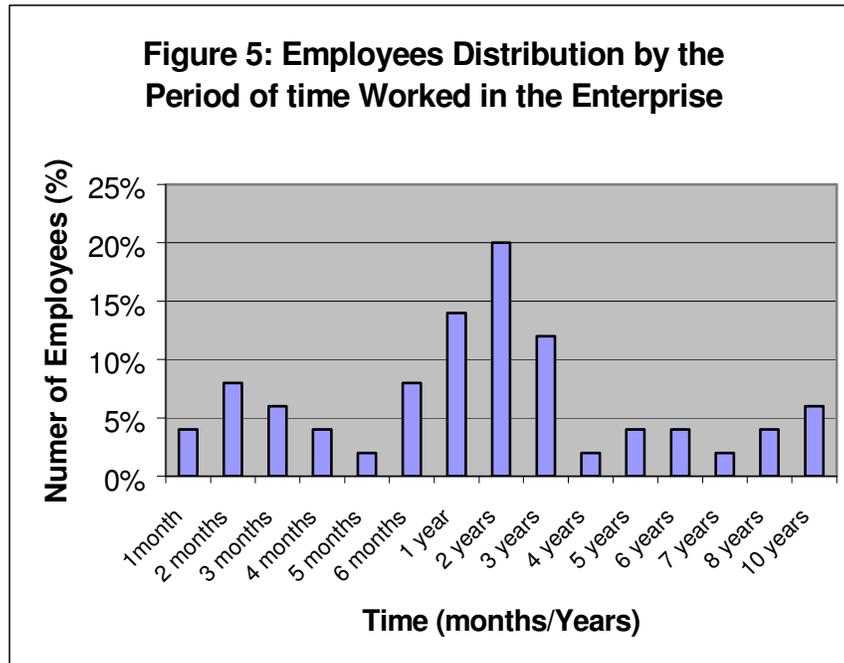
When we look into the ethnic distribution of sampled workers we note that Guraghes have the highest part. The relatively large proportion of Guraghes in this sector may also depict here social connections existing not only in establishing businesses but also in having access to employment in this sector. When we look into the data we got from 100 enterprises we observe that except for the enterprises that do not employ workers, 59 % employ from 1 to 5 workers and 25% from 6 to 12 employees (see table 18)

**Table 19: Number of Workers by Characteristics of Employment (n=100)**

Number Of workers	Type of Workers					Total Number of Workers %
	Regular Workers %	Casual Workers %	Skilled Workers %	Unskilled Workers %	Children %	
0						<b>16.0%</b>
1-5	53.0%	35.0%	40.0%	24.0%		<b>59.0%</b>
6-12	8.0%	4.0%	8.0%	2.0%	5.0%	<b>25.0%</b>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>61.0%</b>	<b>39.0%</b>	<b>48.0%</b>	<b>52.0%</b>	<b>5.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

When we look into the time and extent for which the employees have worked in the enterprises we remark that 54% of employees have been working from 6month to three years in the studied enterprises (Figure 5).



Source: own survey, Addis Ababa, 2002

**Table 20: Type of Employment and Former Employment (n=50)**

Type of Employment	Former employment		No former employment	Total
	Employed by private enterprise	Self employment		
Regular paid employee	66.7%	50.0%	28.6%	<b>38%</b>
Casual paid employee		33.3%	31.4%	<b>26%</b>
Casual paid employee	11.1%		20%	<b>16%</b>
Paid apprentice			2.9%	<b>2%</b>
Unpaid family member	22.2%	16.7%	17.1%	<b>18%</b>
Total	100%	100%	100%	<b>100%</b>
<b>Total</b>	<b>18%</b>	<b>12%</b>	<b>70%</b>	<b>100%</b>

Source: own survey, Addis Ababa, 2002

Amid the sampled employees 38% are regular employees, 42% are casual employees and 18% are unpaid family members. We can observe in here that the proportion of unpaid family labor is not negligible. In addition 70% of sampled workers affirm not to have a former employment, while 18% have been employed by private enterprises probably in the same sector, and 12% have been self employed (Table 20). A large part of employees are unskilled not a negligible part are also casual workers, this finding supplement the previous remark that the sector has not a negligible proportion of unskilled and not permanent workers (Table 19).

Permanently paid employees which consist of 66.7% have been previously employed by private enterprises usually in the same sector (Table 20), they have got more skills than casual employees who do not have former employment according to the table. Skills are circulated among enterprises through labor force mobility, which enhances local innovation processes, which usually takes place inside the organization. Changes are based on common knowledge accumulated by people rather than enterprises.

**Table 21: Days Worked per Week & hours Worked per Days(n=100)**

Hours Worked per days	Days Worked Per Week							Total
	1	2	3	4	5	6	7	
4			12.5%					36%
6						12.5%		6%
7				50%		4.2%		6%
8		50%	37.5%		100%	29.2%		2%
9						8.3%	25%	6%
10	100%	50%	25%	50%		37.5%	25%	4%
11						8.3%	25%	34%
12							25%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%
<b>Total</b>	<b>6%</b>	<b>8%</b>	<b>16%</b>	<b>4%</b>	<b>10%</b>	<b>48%</b>	<b>8%</b>	<b>100%</b>

Source: own survey, Addis Ababa, 2002

When we look into enterprises working arrangements, we can remark that working hours are not strictly supervised. Half (52%) of the workers declare that they work 8 hours and more per day. Moreover, 56% of employees say they work for 6 or 7 days per week. A substantial 30% work 3 days or less per week. Here, when not fully occupied all week the possibility to be engaged in other activities to supplement their income is open and can make the sector more attractive (Table 21).

**Table 22: Number of Workers by Salary Payment Basis( n=100)**

Number of Workers	Payment basis					Unpaid	Total
	Daily basis	Weekly basis	Monthly basis	In relation to sales	Both on daily & monthly basis		
0						76.2%	<b>16%</b>
1	5.6%		50%	8.7%		4.8%	<b>6%</b>
2	33.3%	9.7%		13%	33%	14.3%	<b>16%</b>
3	27.8%	6.5%		13%	67%		<b>12%</b>
4	11.1%	32.3%		17.4%			<b>16%</b>
5	5.6%	9.7%		17.4%		4.8%	<b>9%</b>
6	5.6%	9.7%		8.7%			<b>6%</b>
7		3.2%		13%			<b>4%</b>
8		3.2%	25%	4.3%			<b>3%</b>
9	5.6%	12.9%	25%				<b>6%</b>
10	5.6%	6.5%					<b>3%</b>
11		3.2%					<b>1%</b>
12	3.2%			4.3%			<b>2%</b>
Total	100%	100%	100%	100%	100%	100%	<b>100%</b>
<b>Total</b>	<b>18%</b>	<b>31%</b>	<b>4%</b>	<b>23%</b>	<b>3%</b>	<b>21%</b>	<b>100%</b>

Source: own survey, Addis Ababa, 2002

Labor relations in Micro and Small Enterprises as the literature points out are basically different from the formal sector. In this sector, remuneration, conditions of work, employment and income opportunities, depend on a variety of factors. As it is indicated in Table 22, the payment basis is usually related to the size of the enterprise (essentially related to whether the enterprise employ

workers or not). In enterprises with no paid employees unpaid family labor is used. Almost half of the employees are paid on daily and weekly basis and 23% are paid in relation to sales, conventional payment that is monthly payment is unusual. (Table 22)

In the 100 enterprises studied 62% owners disclose that most of their employees are salaried; 15% employ mostly unpaid family members 3% apprentices, and 4% state that active partners are involved. More than half (62%) of business operators admit that they have no fixed working hours for their employees; only 22% have fixed working hours.

**Table 23: Payment Term of Employees and Type of Payment (n=100)**

Payment Term	Type of Payment			No employees	Total
	Cash only	Kind only	Cash & kind		
Daily basis	26.9%	12.5%	12.5%		18%
Weekly basis	40.4%	12.5%	37.5%		31%
Monthly basis	7.7%				4%
In relation to sales	23.1%		45.8%		23%
Both on daily & basis	1.9%	75%	4.2%		8%
No employees				16%	16%
Total	100%	100%	100%	100%	100%
Total	52%	8%	24%	16%	100%

Source: own survey, Addis Ababa, 2002

Concerning remuneration half of the enterprise owners declares to pay their employees in cash only, however not a negligible part of them (24%) pay on cash and kind basis and on kind only (8%). Therefore not a negligible part of employees are paid on kind.

According to business operators payment was also made for 31% of the enterprises on weekly basis, 18%, were paid on daily basis. Nevertheless, here we can notice that 23% of enterprises pay their employees in relation to sales (Table 23). The survey shows that employees' remuneration was determined on the basis of the productivity or income of the enterprise rather

than the number of hours worked at a workplace. In some cases workers were paid at piece rates or by the job and hours of work were not strictly monitored. Furthermore, only a small proportion of those entrepreneurs pays their employees social contributions. For instance 64% of interviewed workers say that they do not get any wage benefit. However 44% also say that they will get some help in case of emergency. Social ties being stronger in those small enterprises, workers might have access to unconventional assistance but not to formal social protection in accordance with labor laws. Another important factor that might explain the non- or partial observance of labor laws within small enterprises is the paternalistic nature of the working relationship, which characterizes them. Apprentices and wage laborers are often bound to the business owner, by family, geographic or ethnic ties. For instance half of the employees interviewed in this study admit to have kinship or friendship ties with the owner. This condition tends to promote a non - conflictual relationship that reduces the need for standard regulations of the labor relations. In this context most enterprises do not provide a definite job description and a significant number of workers (46%) work without any kind of agreement with the owner. (Table 24)

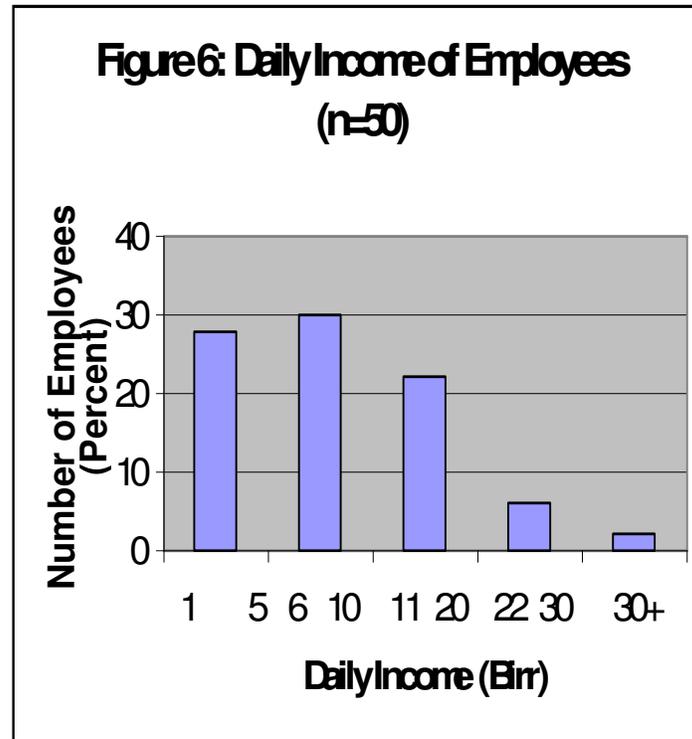
**Table 24: Agreement with Owner and Job Description (n=50)**

Agreement with Owner	Job Description		Total
	Yes	No	
Yes	84.2%	35.5%	<b>54.0%</b>
No	15.8%	64.5%	<b>46.0%</b>
Total	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>38.0%</b>	<b>62.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

Small- scale sector workers may work in these conditions because they find it attractive or because they do not have any other choice, because of their restricted access to skills and work experience.

As the following figure (figure 6) indicates the daily income of employees' is customarily between 1 birr to 10 birr. For instance 58% of the employees considered earn 1 to 10, 28% earn 11 to 20 and 20% more than 20 birr. Payment varies as it is done according to sales. As with the owner's income the same problem of accuracy might be visible here also.



**Table 25: Willingness to Stay in the Sector and Reasons (n=50)**

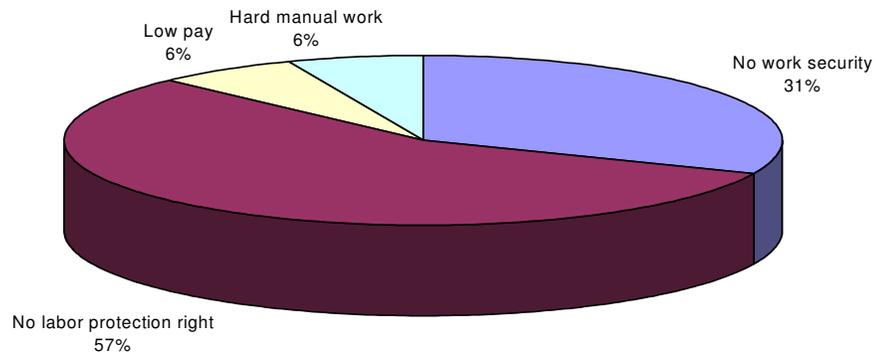
Causes	Willingness to stay in the Sector		Total
	Yes	No	
I want to learn skill	36.4%		<b>16.0%</b>
I want to start my own business		10.7%	<b>6.0%</b>
I want to be employed in formal enterprises		35.7%	<b>20.0%</b>
No job security		53.6%	<b>30.0%</b>
I will not find a better job	27.3%		<b>12.0%</b>
My work is near my residence area	9.1%		<b>4.0%</b>
I work for a relative	27.3%		<b>12.0%</b>
Total	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>44.0%</b>	<b>56.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

As we can see in table 25 those who want to stay in the sector (or in the enterprise in which they currently work) desire that because they think they still lack skill (36.4%). They work for a relative or spouse especially (27.3%) or they fear they won't find a better job (27.3%). On the other hand workers who want to leave the sector aspire to be employed in a formal enterprise (35.7%) or start their own business (10.7%). But most of them want to leave because of job insecurity. Failure to comply with regulation and laws gives rise to a number of problems, which affect the well being of workers and their productivity in this sector. The fact that they are unregistered or not included in any list deprives them any legal protection in such matters as the guarantee of property rights or the enforcement of contracts.

## **4.2 Challenges Faced by Workers**

**Figure 7 : Problems Identified as basic by employees**



Employees in MSEs such as the footwear sector in Addis Ababa have many problems related to the kind of labor relations in the sector. Workers in this sector are legally unprotected though there is less labor conflict in this sector. More than half (57%) of employees recognize thus their main problem as not having any labor protection right. Moreover they also raise the issue of their having no working security, few of them sign legal contracts with their employers and thus can be out of job with no compensation and forewarning. Low pay and hard manual works are also identified to a lesser extent (Figure 7).

## **CHAPTER FIVE**

### **Linkages, Dynamism and Challenges of the Sector**

#### **5.1 Linkages to Other Sectors & Export Competence of Small Footwear Enterprises**

According to the collected data Small and Micro businesses are not involved in overseas trade. Only one enterprise is engaged in exporting footwear in the case of this study. Research demonstrates that enterprises involved in export trade are on average larger, more productive, pay higher wages and use more capital intensive production, than their non-exporting rivals. There are researchers that argue that there is significant evidence to show that exporting rather than any other factor brings about improvements in business performance and productivity. However the global competitiveness of the Ethiopian footwear Industry and especially of small businesses in the sector is very low. Since the sector has been protected from external competition for decades (Case 6).

#### **Case 4: Kangaroo Shoe Factory**

*Kangaroo Shoe factory was founded 10 years ago, and is now acknowledged as one of the biggest footwear industry in the country with an initial capital of Birr 270,000 but is now operating with a capital of 8 Million Birr. The factory processes also inputs, it has a tannery and a sole manufacturing factory. High technology machines are imported from Italy, Taiwan, England and China. Kangaroo Plc. supply wholesalers with both finished and semi processed products of leather and soles. The enterprise has so far exported to Italy, Uganda and Tanzania, on irregular basis.*

*The design of marketed shoes is devised both by employed foreign and national designers. The dearth of formally skilled manpower is extremely felt in the country. The enterprise for example has only one employee trained in the shoe manufacturing training center established by the Ministry of Trade and Industry: The Institute of Leather and Leather Products. With regards to overseas trade Kangaroo Plc. deal in most cases with intermediaries and not directly with recipients. The enterprise asserts that they produce occasionally shoes to European enterprises using their brand name and their designs. The linkage of this enterprise with smaller and medium enterprises is limited to procurement of inputs. These enterprises use inputs and raw materials especially processed leather and soles. Subcontracting and contracting and even organizational bonds are scarce. Kangaroo Plc. has been working under capacity. They now work with 100 employees, and have reduced 2/3 of their employees in the past two years. From the capacity of producing 1,000 pair of shoes per day, it confines its production to 100-500 pairs of shoes per day. The major difficulty of this firm especially in the last two years has been a market problem. Like the small footwear enterprises they have reduce their competitiveness due to imported Chinese shoes. The imported mostly synthetic shoes have the advantage of being cheaper, attractive by virtue of better finishing work and advanced technologies. National producers like Kangaroo hope for a tax and duty reduction for their imported inputs and demand for protectionist policies by the government.*

Interviewed operators identify the obstacles to competitiveness as follows:

**Table 26: Export Status and Obstacles to Competitiveness on External Markets**

Obstacles to competitiveness	Export		Total
	No	Yes	
Lack of quality	41.4%		<b>41.0%</b>
High price	8.1%		<b>8.0%</b>
Lack of advertisement (agents)	19.2%	100.0%	<b>20.0%</b>
Lack of Capital	21.2%		<b>21.0%</b>
Lack of raw material	2.0%		<b>2.0%</b>
Government policy	1.0%		<b>1.0%</b>
Don't Know	7.1%		<b>7.0%</b>
Total	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>99.0%</b>	<b>1.0%</b>	<b>100.0%</b>

The lack of product quality has been identified as a major constraint by 41% of them; 21% consider the lack of capital both on financial basis and equipment is hindering them from exporting. 20% said not to have agents who can advertise their products abroad. The rest identify problems like price (8%), lack of raw materials (2%) and government policy (1%) as hindering overseas trade (Table 26). One argument supported by many scholars is that the sector is not an autonomous segment of the economy producing mainly for the consumption

**Case 5: Peacock Shoe Factory (Dire Private Limited Company)**

*Peacock shoe factory was established in 1994, in effect of the national adoption of the market economy. It operates from a dwelling rented from the government. The enterprise is a constituent of an industrial group: the Dire Industry Plc, which include different industries such as a tannery, a footwear industry, and transport service supplier. Peacock employs 95 salaried workers, of which 40 are female. The enterprise use local input of leather and soles but also import soles and upper parts of shoes, glues from countries like South Africa, Portugal, and Italy. The enterprise produces both leather and synthetic shoes. Operating at full capacity it can produce 500 pairs of shoes per day. It distributes its products to wholesalers but have also 11 distribution centers: 3 in Addis Ababa and 8 in regions. The firm has two trained designers of its own and does not use foreign designers. The major problem identified by the owners is that of unjust competition with the small-scale sector especially with the unregistered segment of this sector. Operators in this sector are charged to copy designs and sell it with lesser price and quality. Pertaining to the import of Chinese shoes the prospect is that the enterprise is being quite competitive and is no more threatened by it. The firm sees a positive prospect and it is planning to augment its production and expand its activity in the future.*

within this sector; it is rather integrated with the rest of the economy through complementary linkages.

In this research a general attempt was made to identify linkages with formal shoe making and other sort of enterprises. For the hundred enterprises a number of questions were asked to identify direct, indirect, backward and forward linkages. When we consider forward linkages: we observe that the use of small business products as inputs into the large enterprises, which may occur through subcontracting and sale of the finished products and services from small to large enterprises , does not take place. Our

finding show that 92% of enterprises studied do not undertake any kind of contracts for other enterprises. Among those who admit to produce based on contract agreements 7 enterprises say they produce to wholesalers outside Addis Ababa, and 6 of them to smaller enterprises.

The connection is thus almost non existent in this direction. Backward linkages have been however identified, as formal sector products are used as inputs into the MSEs. Industries processing hides and skins to leather are major input suppliers.

**Case 6: Anbessa Shoe Action Cooperation**

*The factory was established 42 years ago as a Private business. It was nationalized and became a state factory after the Revolution. It now operates as an autonomous state Factory managed by a board of directors. The enterprise is internally managed, is profitable and does not rely on any governmental subsidy for the last 8 years. Anbessa is the oldest shoe manufacturing enterprise in the country. The factory produce gents, ladies and children shoes of different sizes and models. Its output goes up to 2500 pairs of pure leather shoes per day. The firm has no t have significant marketing problems and uses a number of shop channels both in Addis and in different towns outside the capital. Shops are located in Nazereth, Dire Dawa, Awassa, Jimma, Agaro, Dessie, Mekelle, Gonder, Bahir Dar. With regards to export, Anbessa use to export upper shoe leather to the former Republic of Tcheckoslovakia. In general we can pronounce that the industry does not take part into the export Trade. Furthermore, they use local leather but import soles from countries like South Africa. The factory-marketing expert maintains that though the competition in the footwear industry is high, their enterprise is exclusive in mass production. They are also the sole enterprise that succeed in reaching lower social classes and regional markets at a large scale both due to the type of their products and their scattered distribution channels. Although they have a massive production system and use improved technologies, they admit that they are not that much efficient. They recognize that private producers happen to work with cheaper cost and adapt rapidly to new models. Private producers are thus price competitive because their production cost is significantly lower than state factories. The enterprise in the past regime was following a product oriented strategy, as it was not responsible for the marketing process .It is now focusing on a market oriented strategy, where marketing feedback, being competitive and profitable turn out to be necessary*

Shoe factories like Kangaroo Private Limited Company and other sole Factories produce also soles used as inputs by Small enterprises. (Refer to Case 4)

The linkage between these enterprises shows that growth in the small footwear sector will have a multiplier effect in other more formal enterprises.

**Table 27: Formal Enterprises Competition Effect and its Causes (n=100)**

Causes of the Effect of formal Enterprise Competition	Effect of formal Enterprise Competition		Total
	Yes	No	
Cheaper	10.4%	1.9%	<b>6.0%</b>
With better quality	14.6%	1.9%	<b>8.0%</b>
Cheaper and with better quality	50.0%	1.9%	<b>25.0%</b>
Monopoly	25.0%		<b>12.0%</b>
No effect		94.2%	<b>49.0%</b>
Total	100.0%	100.0%	<b>100.0%</b>
<b>Total</b>	<b>48.0%</b>	<b>52.0%</b>	<b>100.0%</b>

Source: own survey, Addis Ababa, 2002

Competition for the existing limited market is one challenge that most entrepreneurs recognize. However small entrepreneurs might not be affected as such because though they copy the designs of larger enterprises they produce with less cost and sell cheaply usually similar products. But in some instance (Table 27) large footwear enterprises are highly competitive by the quality and price of their products and they also monopolize the market affecting the market price as wanted. These variations in competitiveness depends on the type and quality of shoe produced high quality shoes are not easily imitated and need high technology their production is undertaken efficiently by larger enterprises. But products are usually mixed up in a common market such as “*Amede Gebeya*”.

Enterprises under study do not exert contractual activities, they also are not involved in subcontracting to other enterprises, either smaller or larger ones. 99% claim not to have ever been involved in subcontracting. The need to subcontract does not occur, the demand of the

market being commonly small. Enterprise subcontracting to smaller units like household units is not customarily adopted in this case as it is done in some Asian and Latin American light Industries. Another kind of linkage that can be identified between small and large enterprises is the technological linkage that involve the supply of equipment, technical know how and skills by small to the large businesses. For instance many of skilled salaried workers and owners in the small sector are former apprentices trained in large enterprises. In accordance to our data, most business operators had learned the skill of shoe making being employed in a formal enterprise (Refer to case 1).

Finally we can identify consumption linkages, which refer to direct bond with final consumers, mostly households that is the output of small enterprises may be bought by households. For instance 47% of studied enterprises declare to sell their goods directly to consumers rather than to wholesalers or retailers.

**Table 28: Joint Material Purchase and Borrowing of Tools (n=100)**

Joint Raw material purchase	Borrow and Lend Tools			Total
	Always	Rarely	Never	
Always	5.3%		5.3%	3.0%
Rarely	15.8%	44.2%	13.5%	27.0%
Never	78.9%	55.8%	81.6%	70.0%
Total	100.0%	100.0%	100.0%	100.0%
Total	19.0%	43.0%	38.0%	100.0%

Source: own survey, Addis Ababa, 2002

When we look at the linkages that may exist within the sub-sector itself (i.e. the small footwear enterprises) ; we found to out that here also the link is found be loose. When we have to look at joint activities like joint raw material purchase: 4%, 27%, and 69% say to purchase inputs jointly with other similar enterprises always, rarely, and Never respectively (Table 28). Joint purchase is

rare and it usually takes place when enterprises need to buy relatively expensive equipment like a sewing (*singer*) machine. (Refer to case 2)

Enterprises may share space like occupying different rooms in the same premise this has been observed in *Merkato* (Refer to case 3). Among the enterprises under study 13% have admitted to share their warehouse with others. In this condition borrowing and lending tools and equipment is probably more frequent. Only 19% of the interviewed enterprises admit to always lend or borrow tools, while 43% and 37% say they rarely and never do that.

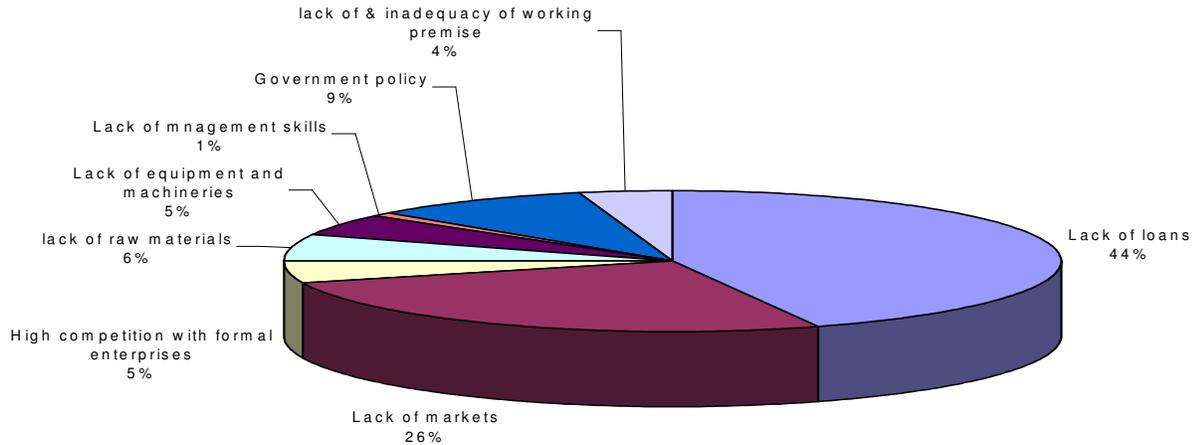
Another issue detected by the study is that small scale operators do not have an organizational umbrella under which they defend their interest. Although most producers acknowledge the importance of a producers association, initiatives have not been taken so far. The only national shoe producers association does not include small enterprises and was only established by large footwear firms, which were at risk with the bulky import of Chinese synthetic shoes.

## **5.2 Dynamism and Challenges of the Sector**

The dynamism of MSE is also portrayed by its rapid adoption to changes in the market. Production being at small-scale level, diversification is also feasible; for example, this type of enterprises can produce different designs and adopt to change in models promptly. As we observed during field research smaller enterprises have also greater ability to modify their products and their production process, their operation being less standardized and regulated it makes alteration smooth. In the past two years 24% of enterprises have made a change in market/clients reached which also involve a change in product. Some of the enterprises (26%) have made a change in production process that is in raw materials and equipment

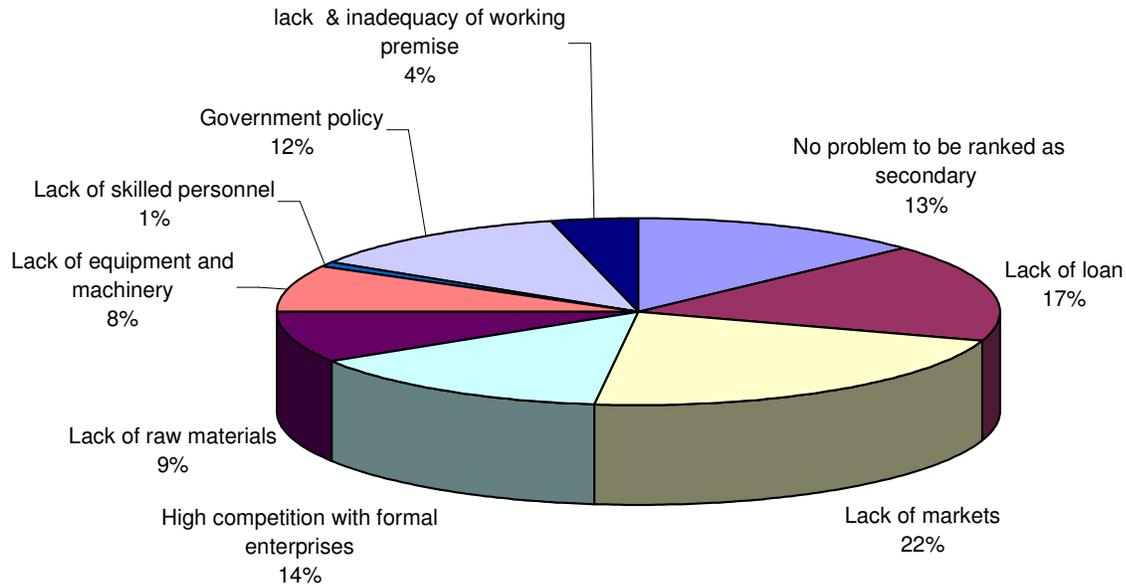
used, finally 15% have made a change in products quality and type of products.

**Figure 8: Problems identified as Primary Challenges by Enterprise Operators**



When we examine planned future changes, we remark that change are planned in almost every aspect: change in products (22%) , change in production process (26%)change in markets /clients reached (8%), change in enterprise location(15%). Moreover six enterprise owners plan to close their business, while one individual plans to transfer its ownership. We can thus say that having less of fixed capital, regular workers and regulated work organization small footwear enterprises are more predisposed to reorganization and have a better ability to adapt to market changes.

**Figure 9: Problems Identified as Secondary Challenges by Enterprise Operators**



Enterprise owners have identified major challenges in the sector: lack of loan is a major problem beside the lack of markets, high competition with formal enterprises and government intervention are also among the pressing problems (Figure 8& 9).

## **CHAPTER 6**

### **Summary of Findings, Recommendations & Conclusion**

#### **6.1 Summary of Findings**

The research main objective being to give an overview of the footwear industry in Addis Ababa's three *Woredas*. The profile of small shoe firms and entrepreneurs was given much emphasis. Studying the characteristics of both the enterprises and the entrepreneurs will enable us to give in insight on the dynamism of the sector and its potential contribution to development. Moreover the labor relations in the sector and the linkages of the sector to other sectors are also of interest in this study. Finally, an attempt to identify challenges hindering the growth of the sector is made, as addressing the problem will equate to utilizing the potentials of the sector. According to the findings of the research, most interviewed footwear enterprise owners and employees are Guraghes. This finding relates to previous findings indicating that friendship and ethnic ties mainly made entry to the sector activities possible. The analysis of ethnicity in the MSE sector is significant. Basically, awareness of ethnic distribution is useful for policy planning, especially if the small-scale economy becomes the major employer. As many micro and small activities, employing indigenous knowledge, this sector also employs workers with no formal training but getting their skills through experience and informal training. Skills in this sector are circulated between enterprises through labor force mobility, especially from Large to small firms rather than through formal skill training. Operators depend more on informal ties i.e. friends and family rather than formal system of credit (banking) or public service.

Leather shoes compared to synthetic and canvas production dominate the footwear industry. Wide circulation of information about products also takes place, between large and small

footwear enterprises. The diffusion of information helps smaller firms which do not have the capabilities to produce their own original sample collection. On the other hand, larger firms, which may invest a lot of resources in the development of new products, try to defend themselves from imitation by other firms. One of the challenges of small footwear enterprises has been the competition with large firms and how the latter monopolize the market and are able to influence the price of products making them less competitive.

A number of beneficial linkages are part of the dynamism of the sector. For instance the existence of a very well developed system of suppliers in “*Shera Terra*” helps in creating a very competent and cooperative system of production, able to fulfill a very diversified demand. The ability of suppliers to manufacture a wide variety of products with brief delivery times permits the shoe producers to diversify their products and satisfy market demands. The relation of the sector to other sectors such as the leather industry implies also its economic significance.

An attempt to look into labor relations in the sector indicates that family or ethnic ties that promote non-conflictual relationship characterize working relationships. Family labor is utilized to a large extent. Remuneration tends to be on daily and weekly basis and for a substantial number of employees in kind rather than in cash. The working condition of employees is very unsatisfactory it leads to the inadequate legal and social protection of MSE sector workers. However, the labor climate is characterized by high flexibility of the labor force, in terms of the willingness or ability to work extra- hours. This flexibility is crucial in an industry such as footwear where production is seasonal and orders tend to arrive at the last moment.

The footwear industry has traditionally neglected commercialization and marketing because the domestic market was closed to international competition for a long time. This allowed the domestic producers especially public enterprises to produce shoes which were easily sold on the

closed market, no matter what the quality and design is. With the opening to external market and the risk that imported Chinese shoes brought, a new era began with the need to be competitive on the local market as well as opening for external markets with improved quality and productivity.

## **6.2 Recommendations**

Suggestions for corrective and complementary measures to enhance the potential contribution of the footwear sector and especially MSEs in this sector are discussed in this section. Such recommendations demand an in-depth analysis of the impact and limitations of government policy regarding the sector.

Some basic recommendations can however be made based on interviews with enterprise operators, workers, key persons and observations. Changes in the policy and institutional framework are aimed at strengthening the economic performance of the sector as well as its potential in job creation.

- The strengthening of government institutions at different levels would play a major role in positively influencing the development of Micro and Small enterprises, thus to reduce delays in processing legal requirements. Reduce government institutional weaknesses, which include lack of coordination, poor quality and high cost of delivery of services. This might contribute to the effectiveness and survival of particular activities in this sector. The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blocking by laws, to address issues of getting a license or getting a premise on which to operate. A number of factors should be considered in designing an all-encompassing policy for the promotion of the sector. As the footwear sector is operating under certain policy environments in relation to other sectors, the process

of policy design for the promotion of the sector should be set within the whole macroeconomic policies and regulations.

- The need to undertake research and studies on specific activities like the footwear sector for example is observed as studies in this sector are almost non-existent.
- The government should create an enabling environment for entrepreneurs to get access to credit facilities both for those who seek start-up capital and for those who seek funds for further development of an already existing enterprise. The dearth of working capital is one of the major constraints of the small footwear sector as identified in the study. Like other sector small enterprises firms in this sector have limited access to formal credit facilities, and rely mainly on informal credit systems. Improving the access to micro credit and supporting the expansion of Micro financing Institutes can be one way of alleviating this problem.
- Government interventions should distinguish between those activities and sub-sectors that are expanding, dynamic; generate more employment and income from enterprises with little growth potential. To distinguish between sectors of great potential like the small-scale footwear sector and other declining sectors.
- Before designing policies, for the promotion of the sector, it is appropriate to identify internal and external factors that affect the growth of the sector. In the case of the footwear sector linkages both to intermediary industries and formal enterprises should be considered in policy making. Furthermore strengthening the links between the small and large enterprises will trigger the dynamism of small-scale sector.
- Government interventions and promotion of small-scale enterprises should address constraints hindering the productive potential of the sub-sector. Government assistance might be in the form of providing market studies, improving the capacity of enterprises to be more

outward looking, to help firms improve the quality of their products according to international standards. With this regard we recommend that the acute shortage of formally trained skilled manpower should be resolved through adequately planned capacity building and training programs that could be undertaken by both the public sector and NGOs.

- As studies in many other countries have acknowledged clustering has helped local enterprises to develop and overcome constraints and compete in distant markets. Systematic support should be given to the spatial and sectoral concentration of enterprises especially as indicated in the study in the footwear clusters of Woreda 5 and Woreda 8. Intense vertical and horizontal linkages based both on market and non- market exchanges of goods , services and information can become an important device for the growth of the sector.
  
- It is important to have quantitative information on the sub sector. It will be difficult to address the problem without information on the nature and type of activities; on major constraints of the activities; on the employment status and skill of the people engaged in the activities; and on the employment status and skill of the people engaged in the activities. Primary data for this subsector is thus needed. Although it is commended that this research gives us an overview of the major characteristics of the sub sector. But a study with a wider target and a more in-depth investigation on the nature of the enterprises are necessary so that adequate measures designed to improve the productive capacity of the sector can be taken. As we have observed in the research only larger firms are organized into an association. Small firms are scattered and not organized into interest groups. Government intervention may benefit only those that are more organized and sometimes the condition of those in the lower strata may worsen as a result of government intervention. Interventions and policy

should be thus more target specific. The organization of enterprises in this sector can also contribute to the sector development.

- The one problem identified by both large and small footwear enterprise operators is the problem of imported Chinese shoes provided at extremely low prices in the market. Most, of the producer demand for protectionist policies that will stop the flow of cheaply sold shoes. Protectionism goes against the trend and demand of international organizations such as the COMESA and WTO. Duty levied on imported shoes and value added tax on imports, does not offset cost disadvantage of both small scale and large domestic producers. Policies that will mitigate for the effects of trade liberalization on local footwear enterprises are one area that should be investigated. The infiltration of the market with cheap synthetic shoes from China make it difficult for local manufacturers to compete as the low cost prices are attractive to a large number of low income clients.

### **6.3 Conclusion**

Current thinking looks to Micro and Small business development as a major tool with which to reduce poverty. Very small enterprises are seen as a vehicle with which the poor can increase their income. The role of the sector has continued to grow in many developing countries, it absorbs much of the shock of economic crisis, create employment and provide second incomes to individuals whose real incomes have been eroded by inflation and public spending cutbacks. Furthermore its role has been expanded from poverty alleviation and employment creation objectives to a role in industrial development. Besides the role of equity and poverty alleviation,

MSEs are also assumed to have a role in industrial growth and developing internationally competitive products. Many studies in developed countries have shown that small and medium – sized enterprises are able to enter into the international market. The internationalization of small industries in developing countries has been recognized as one strategy for industrialization. The aim of this research has been to identify the prospects of such development in small-scale footwear enterprises in Addis Ababa. The absence of internationalization can be explained by the existence of numerous obstacles of technological, informative and financial nature depicted by the firms studied in this research. The study of the nature and characteristics of small enterprises, inter-firm relationships and linkages has been found to be very relevant since the existing potential of light industries, such as the footwear sector is vast in a country that holds many comparative advantages. The footwear sector potentials lies in the fact that the country export unprocessed hide and skins, while the value added can be higher for processed materials.

When it comes to explain what exactly accounts for the dynamics in the small footwear sector, and how this dynamism can be augmented, there is much less evidence to reach some definitive conclusion. Further research is needed to address some of the specific issues outlined in this paper, and to test empirically the validity of the assumptions pointed at. The patterns of scholarly specialization distinguish between the formal industrial sector and the small -scale sector. There is a need of an industrialization policy that moves the country ahead to a next and more competitive stage of manufacturing goods but at the same time makes the sector an integral part of that industrial project. The lack of an active national policy on industrialization and the continuing failure to integrate into any such policy the potential of the small scale economy will most likely impede development efforts.

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# ANNEX A- MAP

# ANNEX B- TABLES

# ANNEX C-

# QUESTIONNAIRS

**Questionnaire (Type 1)**  
**For Micro & Small Footwear Enterprise Employers/Owners**

The questionnaire is prepared to collect information on footwear enterprises in the Micro and small footwear sector. It will be filled through interviews conducted by data collectors from Addis Ababa University. The researcher appeals for the cooperation of informants in providing appropriate answers for both open and close-ended questions.

◆ Put the appropriate number, which represent the answer in the box provided

◆ Write the answers of the interviewee on the blank space provided, for open-ended questions. □

The information will be useful in understanding how the sector operates. Recommendations based on the information you give may be of great assistance to the recognition of the contribution of the small-scale footwear sector. Your cooperation will be highly appreciated.

Enumerator's Name : \_\_\_\_\_  
Date : \_\_\_\_\_  
Time : \_\_\_\_\_  
Questionnaire Type (1/2) : \_\_\_\_\_  
Question Number : \_\_\_\_\_  
*Survey Area* : \_\_\_\_\_

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*Woreda* \_\_\_\_\_  
*Kebele* \_\_\_\_\_  
*House Number* \_\_\_\_\_  
Name of Enterprise \_\_\_\_\_

**I. Characteristics of the employer/owner of the business**

1. Age □ □
2. Sex □  
(1=Male, 2=Female)
3. Birth Place \_\_\_\_\_
4. Ethnic Background \_\_\_\_\_
5. Marital Status □  
(1=Single, 2=Married, 3=Divorced  
4=Widowed, 5= Separated)
6. Household size: \_\_\_\_\_ persons □ □
7. Educational Background □  
(1=Illiterate, 2= Read and Write  
3= Primary, 4= Secondary, 5=Graduate)

8. Any specialized Training   
(1=Yes, 2=No)

9.If yes specify the type of training and duration

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10. When was the enterprise established? \_\_\_\_\_

11. Former employment if any \_\_\_\_\_

12. Do you manually work in your enterprise? (inf.)   
(1=Yes, 2=No)

13. How did you learn the skills you are using?   
(1=from family, 2=being employed yourself  
3= Through formal training, 4= others, specify.....)

14. Are you fully employed in running this business?   
(1=Yes, 2= No)

15. Are you involved in any other activity apart from this one?   
(1=Yes, 2=No)

16. If yes, what type of activity are you engaged in the   
(1= Informal sector activity, 2= Other private business activities,  
3=government employee, 4=Others,specify..... )

17. How useful were your friends, relatives ,neighbors (other contacts)   
in developing your present business  
(1= Very useful, 2=useful  
3=Somewhat useful 4=Not useful at all)

## **II. Characteristics of the Business**

18. What kind of activities do you undertake in your enterprise?   
(1= Shoe repair, 2= shoe making 3=Shoe repair and making  
4=Making parts of shoes 5=Others, specify .....

19. What type of shoes do you make?   
(1=plastic shoes, 2=synthetic shoes 3= tissue shoes  
4=leather shoes)

20. Where do you get the model(design) of your shoes?   
(1= From employed designers, 2=from shoes in the market  
3= according to customers' choices, 4= from other similar enterprises  
5= Others, specify.....)

21. Ownership type of the business   
(1=Individual ownership, 2=Family ownership)

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3= Partnership, 45 Other)

22. Location of the enterprise

(1= Within a residential premise, 2=Adjacent to a residential premise  
3=In an independent permanent unit, 4=In an independent temporary unit)

23. Initial Capital size \_\_\_\_\_ birr

24. Source of financing initially

(1= own saving, 2=borrowing from friends relatives  
3=borrowed from banks, 4= others specify)

25. Give an estimate of your income in this business for last  
Week only \_\_\_\_\_ birr

26. Estimate the value of your fixed capital (asset)  
in birr \_\_\_\_\_

26. Is your capital equipment initially:

(1=New, 2=Second hand, 3=Self constructed  
4=Others)

27. What is your peak period /month of the year in terms of sale ?

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28. What is your slack period/ month of the year in terms of sale?

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29. To whom do you sell your products?

(1= to consumers (individuals), 2=to wholesalers (distributors)  
3= to retailers, 4= to workshops or factories, 5=others, specify.....)

30. Do you have a stable demand for product or services?

(1=yes, 2= No)

31. Do you produce for local consumption or for export as well?

(1=only local, 2=for export , 3= both 4= others,specify.....)

32. How much on average do you spend on inputs for the last week \_\_\_\_\_ birr?

33. Who provides you with raw materials

(1=individuals (retailers), 2= wholesalers, 3=informal enterprises)

35. Which raw materials do you use in your business?

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34. Is the raw material you use?

(1= processed, 2=Semi-processed,  
3= Not processed at all)

35. Are the raw materials you use mainly:   
 (1=imported, 2= local, 3= both equally, 4= others specify.....)

36. If a formal enterprise produce similar goods will it affect you?(inf.)   
 (1= yes, 2=No)

37. If yes, it is because formal enterprises sell their goods   
 (1=cheaper, 2= with better quality  
 3=cheaper and better quality, 4=others describe)

**III. Labor System**

38. How many workers do you have in your enterprise?

39. Characteristics and Number of workers:

Type of Employees	Sex	
	Male	Female
Regular		
Casual		
Skilled		
Unskilled		
Unpaid family members		
Apprentices		
Children (below age 18)		

40. Do you have a fixed working hour   
 (1= yes, 2=No)

41. Enterprise pays wages to workers in   
 (1=cash only, 2= kind only, 3= cash and kind)

42. Wages are paid on   
 (1=daily basis, 2= weekly basis, 3= monthly basis  
 4 = in relation to sales 5= others)

43. Employees are mostly   
 (1=active partners, 2=unpaid family members  
 3= apprentices, 4=salaried)

**IV. Market**

44. Are your products exported to other countries?

(1=Yes, 2=No)

45. If, yes mention countries of destination (at least three countries) for your products \_\_\_\_\_

---

46. What do you think are the obstacles for your products not to be competitive on external markets? (1=quality, 2= price, 3= advertisement, 4=others, specify.....)

47. Do you fear the competition of small footwear enterprises in the local market? (1=Yes, 2=No)

48. If Yes, Please explain \_\_\_\_\_

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49. If No, Please explain \_\_\_\_\_

---

**V. Vertical and Horizontal Linkages**

50. Do you purchase raw materials jointly with other similar enterprises? (1= always, 2= rarely, 3= Never, 4= others, specify.....)

51. Do you borrow from or lend to other similar enterprises (e.g: tools, machines) (1= always, 2= rarely, 3= Never, 4= others, specify.....)

52. Do you sometimes undertake jobs/contracts jointly with other firms? (1= yes, 2=No)

53. If , yes what kind of jobs contracts with what type of firms(smaller ,bigger, formal, informal)? \_\_\_\_\_

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54. Do you undertake jobs /contracts for smaller or for larger firms? (1= yes, 2=No)

55. If, yes what kind of jobs contracts with what type of firms (smaller ,bigger, formal, informal)? \_\_\_\_\_

---

56. Do you subcontract jobs/ contracts to other firms? (1= yes, 2=No)

57. If, yes what kind of jobs contracts with what type of firms (smaller, bigger, formal, informal)?

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58. Do you share space /shop with others?  
(1= yes, 2=No)

59. If yes, in what way, please explain?

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**VI. Conclusion**

60. Are you a member of an association of similar enterprises?  
(1= yes, 2=No)

61. If yes, name the association \_\_\_\_\_

62. Do you get some benefit from being a member?  
(1= yes, 2=No)

63. If, yes in what way?

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64. Do you get any support from the government?  
(1= yes, 2=No)

65. If, Yes in what way?

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66. Did any of the following changes take place in the enterprise in the past two years?  
(1= change in products, 2= change in production process,  
3= change in markets/clients reached, 4= others ,specify.....)

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67. In the near future, do you plan to make any changes in your enterprise concerning:  
(1=products, 2= production process,  
3= markets /clients, 4= location of enterprises,  
5=Ownership of enterprises, 6=Others, specify.....)

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68. Problems faced by the enterprise (rank according to the order of importance)

1. Lack of loan and facilities
2. Lack of markets
3. High competition with formal enterprises
4. Lack of raw materials
5. Lack of equipment and machinery
6. Lack of management skills
7. Lack of skilled personnel
8. Government policy
9. Others, specify.....


**Questionnaire (Type 2)**  
**For Footwear Micro and Small Enterprise Employees**

The questionnaire is prepared to collect information on footwear enterprises in the Micro and small footwear sector. It will be filled through interviews conducted by data collectors from Addis Ababa University. The researcher appeals for the cooperation of informants in providing appropriate answers for both open and close-ended questions.

- ◆ Put the appropriate number, which represent the answer in the box provided
- ◆ Write the answers of the interviewee on the blank space provided, for open-ended questions.

The information will be useful in understanding how the sector operates. Recommendations based on the information you give may be of great assistance to the recognition of the contribution of the small-scale footwear sector. Your cooperation will be highly appreciated.

Enumerator's Name : \_\_\_\_\_  
Date : \_\_\_\_\_  
Time : \_\_\_\_\_  
Questionnaire Number (1 or 2) : \_\_\_\_\_  
Question Number : \_\_\_\_\_  
*Survey Area* : \_\_\_\_\_

---

1. Age

2. Sex   
(1=Male, 2=Female)

3. Birth Place \_\_\_\_\_

4. Ethnic Background \_\_\_\_\_

5. Marital Status   
(1=Single, 2=Married, 3=Divorced  
4=Widowed, 5= Separated)

6. Household size: \_\_\_\_\_ persons

7. What was your former employment \_\_\_\_\_

8. How long have you worked in this enterprise \_\_\_\_\_ month/years

9. Type of employment

(1=permanent, paid employee, 2=temporary paid employee   
3=casual paid employee, 4=Paid apprentice

5=Unpaid apprentice, 6=Unpaid family member

10. If paid employee, do you have any fixed agreement with the owner?  
(1=yes 2=no)
11. Have you a specific job description?  
(1=Yes, 2= No)
12. Are you related to your employer through ties of kinship or/and friendship?  
(1=Yes, 2=No)
13. How many hours per day do you work?
14. How many days per week do you work?
15. How are you paid  
(1=on daily basis, 2=weekly  
3=monthly, 4=According to sales)
16. How much do you earn daily \_\_\_\_birr
17. Do you get non-wage benefits?(food, clothing etc)  
(1=yes, 2=No)
18. Do you get help in case of emergency?  
(1=yes, 2=No)
19. Do you think that there is a possibility for you to move into a larger enterprise?  
(1=yes, 2=No)
20. Do you want to stay in this sector activity for long?  
(1=yes 2=No)
21. Why? Please explain?

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22. Problems faced by the enterprise (rank according to the order of importance)

- 1.Lack of loan and facilities
- 2.Lack of markets
- 3.High competition with formal enterprises
- 4.Lack of raw materials
- 5.Lack of equipment and machinery
- 6.Lack of management skills
- 7.Lack of skilled personnel
- 8.Government policy
- 9.others,specify.....


23. What are the main problems faced by the employee at work?  
(rank according to their order of importance)

1. No work security
2. No labor protection rights
3. Low pay
4. Hard manual work
