

Addis Ababa University
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Development Management

Performance and Challenges of Government
Supported Micro and Small Scale Associations in
Wolkite and Boutajira City Administrations

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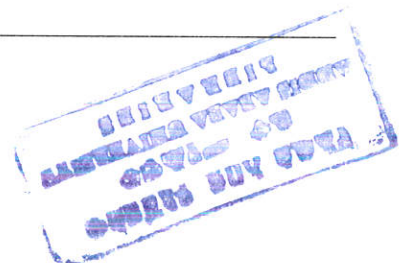
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Abstract

The Primary objective of the present study is to assess and evaluate the general performance and challenges of MSSAs in Wolkite and Boutajira city administrations. In order to meet objectives of the study, various books, journals, policy and strategy documents and regulations were referred. Structured questionnaires were also distributed to 92 selected operators of the associations. Furthermore, 5 officials and experts from both Wolkite and Boutajira cities were interviewed and have provided important information.

In the study areas, Wolkite and Boutajira, the MSSEs development program has been implemented since 2003. MSSAs have been established in the areas of construction, Metal and Wood works, urban agriculture, textile and tailoring, municipality services and food processing and preparation. Various support-Services including access to market, finance and credit, spaces, training and counseling, machineries, equipments and inputs have been given to the MSSAs.

After carefully looking in to and analyzing the available data, the study has found out that these supports have not been directed towards ensuring sustainability of the associations. The practice of service provision in the two cities is not inline with the principles and objectives of the national strategy. The associations exhibit high closure rate and dropout of members. They cannot create long-term jobs. The participation of women in the association is also found insignificant.

The study has also come up with the fact that the associations have been given priority in the market access from the public institutions. Even if this priority helps them to get market at the start-up stage, it makes them also entirely dependent on single market opportunity from the government that limited their over-all performance.



Because of this over-protection and dependence, the associations finally become politicized and they are not market-oriented entities.

The MSSAs also suffer from various challenges and constraints. Among them, the fact that they face shortage of access to technical and vocational training, spaces, finance, inputs and better machineries and equipments. There is no any networking among the associations. Members are also not clear about the legal forms of their associations. The expected linkage with TVET institutions is also found weak. Furthermore, the associations do not have necessary accounting records and do not prepare financial statements regularly so that analyzing their financial progress is found difficult.

MSSAs in order to play the expected role in socio-economic development of the two cities, establishing large number of associations and providing them support alone is not enough. All support services must be designed in such away that ensure sustainable growth of the associations and the attitudes of members should be also shaped through continuous awareness programs. As much as possible, they should be insulated from the direct political involvement. Furthermore, problems related with the access to space, finance, inputs and other services should be settled.

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Acronyms

ADLI	Agricultural Development Led to Industrialization
BDES	Business Development Extension Services
CSA	Central Statistical Authority
ILO	International Labor Organization
MFIs	Micro Finance Institutions
MOTI	Ministry of Trade and Industry
<u>MSSAs</u>	<u>Micro and Small Scale Associations</u>
MSSEs	Micro and Small Scale Enterprises
MSSEDA	Micro and Small Scale Enterprises Development Agency
NGO's	Non-Governmental Organization
OMFI	Omo Micro Finance Institutions
SBA	Small Business Administration
SNNPRS	Southern, Nations, Nationalities and Peoples' Regional State
TVET	Technical and Vocational Education Training
UK	United Kingdom
UN	United Nations
USA	United States of America
WED	Women's Entrepreneurship Development

Operational Definitions of Terms.

- Association: - Collection of persons willingly organized and registered in accordance with the law to be engaged in Micro and Small Trade, Handicrafts and Industry Development Sector in SNNPRS.
- Construction: - Wide range of construction activities such as building schools, health institutions, bridges, road side tiles, sewerages, ditches, bricks, wall construction, electric installation etc... Associations to be organized for construction may be given a license of grade starting from 10 construction standards.
- Metal and Wood Works: - Activities that include sheet metal works, metal construction works, metal furniture production, machine fabrication, and home and office furniture's and equipments.
- MSSAs: - MSSEs that receive comprehensive and all-rounded support-services and which are included by the regional encouragement and promotion regulation Nos of 30/2004 and 60/2007.
- Micro-Scale Enterprises: - Enterprises with a paid-up capital of not exceeding Birr 20,000 excluding high technical Consultancy firms and other high technical establishments.
- MSSEs Under Regular Program: - MSSEs which are not included under the encouragement and promotion regulations which receive maximum of 3 forms of support-services based on their needs.
- Operators: - Members of the MSSAs who are both co-owners and workers Of the associations.
- Public Institution: - Any office of the regional government the budget of which fully or partially allocated by the government, and public which fully or 50% is owned by the regional government.

Small- Scale Enterprises: - Enterprises with a paid-up capital of above Birr 20,000 up to 500,000 excluding high consultancy firms and other high technical establishments.

Support- Services: - Services including access to training, counseling, technical and vocational trainings, market, finance, information, business development services, technology, machinery, equipment, inputs and spaces which are given to the MSSEs by the government agencies.

Urban Agriculture: - Various small-scale agricultural activities to be undertaken in urban areas.

Chapter One

Introduction

1.1 Background

Least developed countries share a set of common problems like wide spread and chronic absolute poverty, high and rising level of unemployment, rapid population growth, high economic inequalities, low and stagnant level of agricultural productivity, low domestic saving and so on (Todaro, 2003).

Under these socio-economic trends micro-income generating activities may heavily assist to reduce the level of unemployment and poverty problems since they have diversified activities, and they are also labor intensive. Micro and Small Scale Enterprises (MSSEs) development program has enormous scope for rural and /or urban development and national prosperity. In developing countries, MSSEs have provided fuller employment opportunities for the unemployed labor force. In countries where poverty is deep-rooted because of increasing population, the sector can be pace setter for economic development.

(J.Levistsky, 1989).

The role of MSSEs as generators of employment and in poverty alleviation is being recognized increasingly in many countries and organizations. Given flexibility of their locations, low requirements of capital, training and technology, and their labor intensive nature, MSSEs are increasingly recognized as effective instruments not only for poverty alleviation, broad-based development and job creation but also for rapid economic growth and structural transformation (Gebrehiwot, 2000).



Over the past 20 years, extensive, complex and ever-changing arrays of organizations and initiatives have emerged throughout many parts of Africa to stimulate and support micro and small-scale enterprises. This support sector operates across all stages and at all levels of enterprise development. It is involved in providing and facilitating full range of the ingredients needed for business development and does this for both targeted client groups as well as through main streamed services. Poverty alleviation and employment creation are the most important objectives of the MSSEs development policies and programs (ILO 2005:7).

MSSEs development policies are generally described in the broadest terms. On the whole, governments, in line with the current economic thinking, emphasize the creation of an enabling environment by instituting market-oriented reforms, the facilitation of foreign direct investment and export promotion (UN, 2004). In the prevailing climate of globalization, developing countries urgently need to ensure that they have a critical mass of domestic enterprises in the middle range, which are internationally competitive and capable of penetrating global chains of production.

In Ethiopia, poverty is deep-rooted and age-old phenomena. There are indeed important factors in understanding poverty in Ethiopia. Among the factors that influence the socio-economic development of the country are population explosion, high unemployment rate, internal migration, drought, inadequate infrastructures etc. (Weyni, 2001). Therefore, the above discussions on poverty and unemployment; and roles of MSSEs sector to solve these problems in least-developed countries, are also vital to Ethiopian case. Rapid migration to urban centers aggravates unemployment problems, which also results in the rise of urban poverty level. Data obtained from Ministry of Finance and Economic Development (as cited by MOTI: 2006:10) indicates that 37 percent of the urban dwellers live under the line of absolute poverty.

In order to reduce the deep-rooted urban poverty and high level of unemployment level, the government of Ethiopia has valued the irreplaceable roles of MSSEs. MSSEs development program has been taken as a major component of urban development packages. To this effect, the government has formulated the national MSSEs development and promotion strategy in 1997 that enlightens a systematic approach to alleviate the problems and promote the growth of MSSEs (Gebrehiwot and wolday, 2004).

One of the measures taken by the government to promote the MSSEs sector is the establishment of Micro and Small Scale Enterprises Development Agency (MSSEDA) through the councils of Ministers Regulation Number 33/1998. The Agency is responsible for encouraging, coordinating and assisting institutions that provide supports to the development and expansion of MSSEs. It also provides support to agencies and institutions at regional and local levels that are the main bodies to promote and MSSEs at the grass-root levels (MOTI, 2006).

Institutional structure of the Agency is also extended to regions, zones and cities including Addis Ababa and Dire Dawa city administrations. The Southern Nations, Nationalities and Peoples' Regional State (SNNRPS) is one of the federating states of the Ethiopian Federal Democratic Republic Government. It has established its regional MSSEDA for developing, supporting and coordinating the MSSEs at all zones and 19 selected 'reform cites'. Since Wolkite and Boutajira city administrations are two of the 'reform cities', they have the institutions up to Kebele levels.

1.2 Statement of the Problem

The indispensable role of MSSEs has been recognized in the process of reducing urban poverty and unemployment. In many cases, however, the sector faces a range of legal and regulatory constraints and biases that limit its capacity to create new employment opportunities and reduce poverty (UN, 2001). The needs of MSSEs sector should be clearly identified and appropriate measures to be taken to satisfy these needs. Gebrehiwot and Wolday (2004:12) indicated that the support service is not comprehensive, coordinated and consistent in the availability and quality of the provision support-Services.

MSSEs development program has been started in the two cities since 2003 and support-agencies have been also extended from regional to kebele levels. However, their impact on business formation, survival and growth of the MSSAs is very limited. Overemphasis is given to business start-ups with little focus on the latter stages of the associations. As a result, the associations demonstrate high closure rates.

The SNNPRS Promotion and Encouragement Regulations No_s 30/2004 and 60/2007 have given MSSAs different priorities and incentives. These regulations are thought over-protective that gives MSSAs privileged advantages that do not ensure sustainable development of MSSAs. The UN document (2001:14) indicated overly protective MSSEs development policies have proved ineffective in promoting a robust and dynamic MSSEs sector. The outcome of such policies is a MSSEs sector with low productivity, insufficient opportunities for dynamic growth and powerful vested interests.

The MSSAs in Wolkite and Boutajira cities demonstrate high closure trends and members' dropout that makes them unable to create sufficient and permanent jobs. Contrary to the direction of the national strategy, the support-services provided to the MSSAs make the associations entirely dependent on government

agencies for their day to day activities than creating sustainable and business oriented entities. It seems also that the support-services are towards controlling the sector than promoting it. To this effect, the MSSAs are already politicized that resulted in role conflict and ambiguity with in members of MSSAs.

The evaluation report of MOTI (2006:10-19) on current status of MSSEs in SNNPRs including wolkite and Boutajira identifies the basic problems of the sector. Some of the major problems are related with limited access to spaces, finance and credit, technical and vocational training, market, technology and inputs. The report also includes the dependence attitude of the operators as a problem in the development program. The participation of women is also found low in the associations. Because of these facts, there is a pressing need to assess and evaluate the performance and challenges of the MSSAs in the two cities with respect to the following basic questions.

- What are the major types and sources of support- Services given to the MSSAs? Is the practice of service provision inline with the direction of national MSSEs development strategy?
- Are the MSSAs expanding their activities and creating long-term jobs?
- What is the legal organizational form of the MSSAs? How were they formed? What about their natures and characteristics?
- What are the major challenges and constraints faced by MSSAs?
- Is there strong linkage between the TVET institutions and the MSSAs?
- How is the level of women participation in the associations?
- Are the members of the associations self-initiators? Business- oriented? And self-reliant?

1.3 Objectives of the Study

The general objective of the study is to evaluate performance and challenges of government supported Micro and Small Scale Associations (MSSAs) operating in Wolkite and Boutajira city administrations. The basic principles and objectives of

the national MSSEs development strategy have been used as a benchmark to evaluate the practice of the support services. The followings are specific objectives of the study.

1. Assessing the nature, characteristics and organizational forms of the MSSAs.
2. Evaluating the growth and survival trends of the associations.
3. Analyzing the practice and impact of the major 'support-services' given to MSSAs based on principles and objectives of the national MSSEs development strategy.
4. Exploring the participation of women in the associations.
5. Evaluating the linkage between the TVET institutions and the MSSEs development program in the two city administrations.
6. Identifying the major sources of finance and market for the MSSAs
7. Analyzing the networks among the MSSAs, and with other firms.
8. Evaluating attitudes and self-initiations of the members of the associations.
9. Identifying the institutional arrangement of the support services to MSSAs.
10. Identifying and analyzing the major challenges and constraints for the operation of MSSAs.
11. Evaluating the financial performance of the associations.
12. Making recommendations, which will remove the constraints, problems and drawbacks, and improve the environment.

1.4 Significance of the Study

The development of MSSEs sector has been widely recommended as one of the most appropriate means of setting urban unemployment and poverty problems. Its role is vital in over-all socio-economic development of a country. Despite this fact, MSSEs are not playing the expected role because of different reasons. As a result,

the unemployment level and the chronic poverty of the urban centers seem to be continued unsolved in the future. Even if there are some numbers of researches done on this sector, they are confined to Addis Ababa and to some major cities. Therefore, the researcher finds it necessary to conduct the study in Wolkite and Boutajira cities since these urban centers are fast-growing and becoming overpopulated. As a result, the level of unemployment and poverty is becoming more serious than before.

The MSSAs in the study areas have been receiving various support services from the supporting agencies. So, it is found necessary to evaluate and ensure whether these supports have brought the intended result on the over-all performance of the associations or not; and, to this effect the findings of the study will provide important feedbacks to the concerned bodies that might use it to take corrective measures. The findings of the study are also expected to initiate and help other researchers to conduct detailed studies on specific aspect of the problem or they can make it regional overview of the sector.

1.5 Scope of the Study

The scope of this study is confined to Micro and Small Scale Associations (MSSAs) operating in Wolkite and Boutajira city administrations. The study includes only package associations so that regular micro and small-scale enterprises are not part of the study. It should be remembered that all MSSEs can be categorized in to package and regular-based on the number and form of the support services they received. Enterprises under the package program are entitled to receive comprehensive and all-round supports of the government because they are the primary targets of the development program. Enterprises under the regular program, on the other hand, receive not more than 3 forms of support services. Furthermore, associations only that had been established in 2004 are included and the study covers the time range between 2004 and 2007.

1.6 Research Design and Methodology

1.6.1 Sources of Data and Data Collection Methods

In order to get reliable data that would help to meet objectives of the study, both primary and secondary sources were used. Structured questionnaires to the selected members of the MSSAs were distributed. On the basis of their educational status, the questionnaires were translated into Amharic language.

Primary data were also collected through interview with the Head of Gurgae Zone MSSE Development Desk and with 4 experts from each Keble in the two cities (each cities have two Kebeles). In addition to these, the researcher used his personal observation, experiences and inquiries as he had been working there for about three years. Regarding secondary sources, different books, articles, journals, government reports, regulations and strategies, and research papers were used.

1.6.2 Sampling Methods

As stated earlier, the focus of the study was on package MSSAs in Wolkite and Boutajira city administrations. Following the policy direction of Ministry of Trade and Industry (MOTI), 152 MSSAs with 2064 members have been established since 2004 in the fields of construction, metal and wood works, municipality services, urban agriculture, food processing and preparation and textile in the study areas. For the purpose of this study, however, associations only from construction, metal and wood works and urban agriculture were included in the study based on purposive sampling method because these areas of activities have quite large share in the number of associations and members. Within these selected areas, 128 associations with 1808 members had been established between 2004 and 2007.

Furthermore, to have consistent picture of the sample associations; among associations in the three areas of activities, only those that were established in the 2004 were selected. 51 (31 in Boutajira and 20 in Wolkite) associations with 809 members were established in the areas of construction, metal and wood works, and urban agriculture activities in 2004. And, 23 (10 in Wolkite and 13 in Boutajira) associations were selected randomly from the total associations [51] that were established in 2004. Finally, 4 members from each selected associations become the final respondents of the study using simple random sampling method. Furthermore, the interviewees were selected on the basis of purposive sampling method because they were found resourceful in the area.

1.6.3 Sampling Size

From the 51 associations (24 in construction, 8 in metal and wood works and 19 in urban agriculture) were established in 2004 in the three areas of activities, 23 associations were included in the study on the following procedures. First, 5 associations from construction activities in each city were selected randomly. Next, from metal and wood works, 3 associations in each city were included using random method of sampling. Then, 2 and 5 associations in Wolkite and Boutajira respectively were selected randomly from urban agriculture activities. The reason for the different representation of associations in the two cities is that the number of associations in urban agriculture in Boutajira city is much higher than that of Wolkite.

Finally, questionnaires were distributed to 4 randomly selected members from each of the 23 associations. And a total of 92 (40 in Wolkite and 52 in Boutajira) respondents in the two study areas from the three dominant activities became the final sample size of the study and 3 respondents did not return the questionnaires. In addition to the 92 operators, 5 officials and experts were used to collect primary data.

1.7 Limitation of the Study

Limited research skills and experiences of the researcher make the study limited both in scope and depth. Another important factor that significantly limited the study is absence of necessary documents and records, especially financial records that would have been used to make it more complete and comprehensive. Finally, the fund granted from the University for conducting the study was paid late, which created financial problems.

1.8 Organization of the Study

The whole part of the paper is divided into four chapters. In the first chapter, introduction, statements of the problem, objectives of the study, significance of the study, methodology and limitations of the study are included. The second chapter reviews the related literature that builds the major conceptual and operational frameworks of the study. The third chapter discusses about the data presentations and analysis. Finally, the fourth chapter contains the major Summary, conclusions and recommendations of the study paper. In addition to these there is a Bibliography and a few annexes at the end.

Chapter Two

Review of Literature

2.1. Complexities in the Definitions of Micro and Small Scale Enterprises (MSSEs)

One of the major problems that constantly arise when dealing with MSSEs is lack of clear and universally accepted definition of the term. Due to this controversy in the definition, policy makers, researchers, NGOs and other organizations use different terms interchangeably to describe the term MSSEs. Some of these terms include small business, small and medium sized enterprises, small-scale industries, informal sector, cottage and handicraft, other income generating activities, etc...

There are various standards used to differentiate micro, small, medium and large-scale enterprises. Generally, the three most commonly used measures of size for these enterprises are assets /financial investment, employment size, and sales volume (UN, 2001:2).

Another challenge faced when trying to understand the MSSEs in any country is the scale and mix of informal and formal enterprises that exist (Liedholm, 2001:8). The fact that much trading goes on in an informal context makes it doubly difficult to develop an accurate picture of these MSSEs, which in statistical terms to focus on registered businesses. Trading that exists of the formal frameworks of registration, taxation and regulation, is clearly an easier choice for those whose primary purpose is to generate an income, particularly when that income provides a means to survival (ILO, 2002).

Literature in this area is extensive both in form and content. In form, it ranges from traditional academic research papers to government, donor and NGO statements or commentary in a range of informal or 'grey' literature, and on a multitude of different websites. In content terms, it addresses generic enterprise issues, those specific to women's enterprise, disabled enterprise, and those pertaining to experience in both the developed and developing world (ILO, 2005:6).

Further complexity comes with the addition of different definitions used by donors and development organizations working within countries. For example, we can see the following four employment definitions of "small enterprise" being used in Tanzania at the time.

Table 2.1: MSSEs Definitions on the Bases of Employment

R.N	Organization	Employment criteria
1	The Economic and Social Research Foundation	5-10 employees are licensed and have premises
2	Small Industries Development Organization	1-49 employees
3	The Tanzania's Small and Medium Enterprise Development Policy	- Micro enterprises: 1-4 employees; small enterprises 5-49 employees
4	ILO	10-49 employees

Source: ILO, 2005, pp10

2.2 Some Selected Definitions of MSSEs

Since there is no universally recognized definition of MSSEs, countries, donors, NGOs, researchers and authors have their own definitions on the basis of national, social, economic, political and organizational conditions.



Staley and Morse (1965:7) provide definitions of MSSEs in the following countries.

- ❖ In Middle East MSSEs refer to enterprises employing up to 49 people.
- ❖ In Indonesia they include all production units employing less than 10 full time workers and not using mechanically driven tools or machinery; home and cottage industries included.
- ❖ In Japan a manufacturing plant with 300 employees or less and with capital investment not exceeding 10 million yens is considered MSSE.

In the United States of America, the Small Business Administration (SBA) qualitatively defined a small business as one which is independently owned and operated, and which is not dominated in its field.

In United Kingdom, the Influential Bolton Committee report on small firms in the UK (1971) recognized the differences of the sector and described the features of small business as: managed by its owner in personalized way, has relatively small share of the market in economic terms and; independent in the sense that it does not form part of a larger enterprise and its ownership is relatively free from outside control in its principal decision (Wolday et al, 1997:3).

The European Bank (2006:21), on the other hand, has traditionally defined MSSE based on sub-loan size. A micro loan is a loan up to a maximum of E 30,000, and a small loan is between E30, 000 and E125, 000.

But if one used the European definition for MSSE then micro enterprises are companies with up to 9 (nine) employees, and small enterprises have between 10 and 49 employees.

In Zambia, micro enterprise is any business whose total investment, excluding land, machinery and building, does not exceed US\$ 10,000; where the annual turn over does not exceed US\$ 20,000 and employees less than 10 people. Small

enterprise, on the other hand, is any business whose total investment, excluding land and building, does not exceed US\$ 50,000 for manufacturing and US\$ 10,000 for trading and services; where the annual turn over does not exceed US\$ 80,000 and employees up to 30 people. Both micro and small enterprises need to be registered with the Ministry of Commerce, Trade and Industry (Richardson and Howarth, 2002).

ILO (1995:10) has adopted the following simple working definitions for the general use through out the Women's Entrepreneurship Development (WED) project:

- Micro: Enterprises with up to and including 9 full time employees (excluding the technology /knowledge based enterprises) that are registered and /or licensed.
- Small: Enterprises with between 10 to 30 full-time employees that are registered and/or licensed.

2.3 The views toward MSSEs

2.3.1 Classical View

Classical development theories such as Modernization and the Dependence theories view MSSEs as low productive activities. Modernization theory considers development as a process where primitive agriculture is gradually mechanized; and small and low enterprises are substituted by large-scale mechanical industrial enterprises with high productivity. This theory assumes that the industrial structure in Third World Countries will show parallel development to what has been happened in Western Europe and United States and America. As production is concentrated in towns to exploit urban and agglomeration economies, MSSEs are believed to disappear eventually (Tegegne and Helmsing, 2002).

The Dependence Theory on the other hand, views large-scale industries as national and international corporations shaping the world economy (Pederson, 1989). These corporations are headquartered in the capital cities of developed countries, but the production units are spread over countries and regions where there are cheap factors of production. Thus, these corporations exploit the cheap factors of production and enjoy economies of scale, and are more profitable than micro and small local enterprises. Under this situation, the theory views that micro and small scale enterprises survive as either in direct dependence on large scale enterprises or as sub-contractors or petty producers or traders operating in extremely competitive markets with no possibility to earn profit enough to invest and grow.

2.3.2 Recent views on MSSEs

- I. Flexible specialization: - It is based on the manufacture of custom made product by use of multipurpose technology production methods operated by skilled workers (Helm sing, 2000). In flexible specialization, a firm depends on other firms that specialized in the manufacture of certain components. Inter-firm sub contracting is the basis of sectorized specialization. Micro and small enterprises were disadvantaged in the past, but flexible specialization has created new opportunities.
- II. Network approach: - Enterprises are not homogenous and independent entities, however, in a network of enterprises, organizations and households through which commodities, labor, capital and information flow (Pederson, 2005). The theory considered individual enterprises as dependent on resources controlled by other member of the network. This network of enterprises includes suppliers, customers, employees, and public authorities. Thus, MSSEs, according to this theory, have an indispensable role and contribution to the economy.

2.4 Types of MSSEs

MSSEs, which have roles in the creation of employment and potential in alleviating poverty, are major features of the economic landscape in all developing countries. Different authors and NGOs classify the sector variously based on areas of operation, male/ female operators, urban rural enterprises and the like.

Liedholm and Mead (1999) classified MSSEs in to four major categories.

These are: -

- I. New starts: - These are enterprises just getting under way. The needs of this group for support are significantly different from those enterprises that have been in existence for some time and that have managed to overcome their start-up problems.
- II. Non-growing: - These are enterprises that have survived the perils of start up but not added to their employment starting from their establishment.
- III. Small growing: - These are enterprises that have been in existence for sometime and have added to their workforce since starting, but have grown only in small amount.
- IV. Graduates: - These enterprises started from small base and have made a transition to reach at least the middle ranges of small enterprises spectrum.

2.5 The contribution of MSSEs to Local Development

The contribution of the MSSEs to employment growth and sustainable development is now widely acknowledged. The available evidence suggests that MSSEs have played a major role in the growth and development of all the leading economies in Asia (UN, 2001:2).

In this period of globalization of world trade, an increasing role is being assigned to the private sector in many developing countries. In parallel to, and as a part of this shift, there has been the emergence of micro and small-scale enterprise (MSSEs) sector as a significant component in economic development and employment (ILO, 2005:1). MSSEs accumulate and develop their capital, skill and managerial abilities that lead them to medium and then large-scale enterprises gradually.

2.5.1 Employment Creation

The strongest argument in favor of MSSEs is advocated because of their relatively labor-intensive nature in many countries. This sector- with both its formal and informal components-has increasingly been seen as a means of generating meaningful and sustainable employment opportunities particularly for those at the margin of the economy-women, the poor and the disabled. (ILO, 1998).

Micro and small-scale enterprises (MSSEs) have been playing a significant role in the economy of both developing and developed countries. For instance, in the Netherlands 57 percent labor force is involved in MSSEs (Sonko, 1994). Again, in USA it was reported that 70 percent of the new jobs have been created in the MSSEs (Kapur, 1994). MSSEs in Zambia are responsible for employing nearly 55 percent of the working population, a figure that increases to almost 82percent when the unpaid family workers are included (ILO, 2000). In Tanzania also they provide job opportunities to 20-30 percent of the labor force (Massawe, 2000 and Finseth, 1998).

2.5.2. Homes of Entrepreneurship Development

MSSEs serve as a school of entrepreneurship for businessman who can think of investing and raising capital to use it fruitfully. They also can serve as breeding ground for skilled industrial workers, managers and entrepreneurs that are essential for successful development of medium and large-scale enterprises

(Solomon,1986:10). Again, MSSEs provide effective means for stimulating indigenous entrepreneurial skills that is one of the core factors in developing countries.

2.5.3. Fertile Ground for Technology Transfer and Adoption

Technical progress and transfer in the mode of production is the sum of research, invention, development and innovation. MSSEs bring innovation to the market faster than medium and large-scale enterprises (Solomon, 1986). MSSE development increases the number of inventors, innovators and risk takers; and consequently increases technical progress. It is the presence of this class of society that determines the level of technology advancement at early stage of development.

2.5.4. Utilize Indigenous Knowledge and Resources

MSSEs utilize and mobilize local resources and knowledge. They play the role of mobilizing the fragmented as well as little capital of individuals in the community. They usually collect and utilize resource and knowledge from near by areas. Staley and Morse (1965) feel that the most convincing argument in favor of MSSEs is that untapped and latent resources are reached by such an approach to development.

2.5.5. Major Sources of Income for Marginalized part of a Society

The MSSE sector plays an indispensable role of generating income to the marginalized people like women, disabled, the poor and migrants. As the sector requires relatively small amount of capital, and use local knowledge, these part of the society usually find easy to involve in the sector.



2.5.6. Serve as Seedbeds for the Establishment of Medium and Large Scale Enterprises

MSSEs accumulate capital, skills-both technical and managerial, entrepreneurial skills and knowledge of the business. Therefore, they serve as seedbeds for the establishment of medium and large-scale enterprises gradually.

2.5.7. Foreign Exchange Saving

Unlike medium and large-scale enterprises, which mainly depend on imported capital goods, spare parts and inputs, MSSEs use local resources and save foreign exchange. Even if it is insignificant in developing countries, they also generate foreign exchange.

2.6 Major Challenges of MSSEs

While the micro and small-scale enterprises sector is expanding in the majority of countries through out the world, it is clear that the sector has been facing various challenges. These challenges hinder the sector to play their significant contribution in the economy of these countries. The followings are some of the major challenges facing MSSEs.

2.6.1 Absence of Appropriate Strategy and Policy

Framework

The sector in many least developed countries shows a distinct dual structure. At one extreme there exists a few large modern capital intensive, resource-based imports dependent and assembly oriented enterprises; while at the other extreme there are small and informal enterprises that use very simple and traditional technologies and serve a limited local market. This structural imbalance in many developing countries has arisen despite their implementation and MSSEs promotion programs for many years.

The industrialization policies persuaded by developing countries in the past are identified as having contributed to bias in favor of large scale enterprises by encouraging premature movements of resources in to a large capital intensive businesses rather than promoting the gradual and organic growth of enterprises. This bias persists in many developing countries, rendering their MSSE promotion strategies largely ineffective. Further more, efforts focusing on MSSE development are often frustrated by the absence of a favorable macroeconomic framework. In addition, repressive legal and regulatory regimes can impose disproportionately high costs on MSSEs, which often results in a polarization of business size and the phenomenon of the “Missing Middle” (UN, 2001).

2.6.2 Severe Competition and the Internationalization of Market

While the MSSE sector is expanding in the majority of countries through out world- in many cases creating markets and quickly adapting to the every changing need of global consumers-it is clear that these smaller enterprises face particularly sever competition as many as of them operate at the margins of the formal economy with far less resources than the larger global players. In addition, MSSEs have tended to suffer from a “scale bias” under national and regional industrial and enterprise development policies that are not always supportive (ILO, 2001). For example, universally in relative MSSEs face the additional burdens and procedural and administrative problems relating to registration, licensing, formalization and resource acquisition, in terms of their access to and management of finance, space, land and people (ILO, 2005).

The East and South-East Asian experience with export orientation shows that the majority of small enterprises perform poorly on the world market (ILO, 1996). Those most likely to survive are the ones with export potential and which, in addition, grow from small in to efficient medium sized firms.

MSSEs are expected to benefit from trade liberalization as a result of greater access to imported raw materials, intermediate goods, spare parts and technology. However, while trade liberalization has, in some cases, eased the supply constraints for small firms, it has also presented them with intense competition from foreign goods (UN, 2001). Therefore, globalization and the internationalization of markets affect the MSSEs performance both at the policy level and at the operational level; these enterprises see the appearance of new investors, new customers and new competitors. Because of these challenges, it is quite clear that a dynamic MSSE sector cannot be established without external assistance. In their pursuit of open investment and trade policies, as dictated by the new global economic environment, governments of developing countries need to integrate measures aiming at MSSE development in to their general industrial and economic policy.

2.6.3 Lack of Access to Finance and Credit

Enterprises need finance to invest in new equipment and machinery, reach out to new markets and products, cope with temporary cash flow shortage as well as to innovate and expand (Gebrehiwot and Wolday, 2004: 53).

Amongst all the aspects of challenges the MSSEs faced is the financing of MSSEs. While there has been considerable growth in micro finance institutions and private commercial banking serving MSSE in urban areas over the last fifteen to twenty years, too often rural areas lack sufficient financial services. MSSEs are generally under-capitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals (Kimuyu and Omiti, 2000).

Lack of access to medium or long-term credit is a major constraint for those enterprises that wish to expand their activities. The reasons for this are well known, particularly the fact that MSSEs present a high risk to the lender because many of them have insufficient assets and suffer from low capitalization.

In addition, poor accounting records and the lack of other financial records make it difficult for banks to assess the credit worthiness of potential MSSEs. Moreover, the relatively high cost of processing small loans means that lending to MSSEs is generally not profitable for banks (UN, 2001:8).

Problems related with interest rate, collateral arrangement, payment, procedures and amount of credit creates shortage of start up and working capital. This chronic shortage of capital prevents MSSEs from making capital investment in labor substituting machinery that leads to increased productivity and satisfactory profitability. In order to solve these problems, European Bank (2006, 18) proposed leasing system in the production sector and expanding MFIs.

2.6.4 Limited Market Availability

Marketing of products and services is an area which requires due attention for the development of small-scale enterprises. The causes of market problems for micro and small scale enterprises' products and services emanates from severe market competition, low infrastructure facilities poor qualities of products and services and others. In some sub-Saharan Africa countries, insufficient demand remains a serious problem. For this reason, a more general issue is that MSSEs will reach wider markets and be able to charge higher prices only if the commodities which are produced by the sector are market oriented.

2.6.5 Lack of Skills and Expertise

The success of MSSEs is basically dependent upon the initiatives and skills of those who promote and run them. Inadequate skill has been a result of the incapability of the sector to train the labor force by itself. The operators of MSSEs usually lack managerial experiences and have problems in estimating their working capital needs and adequately costing products and services.

Further more, they are usually incapable of controlling and managing their books of accounts. It is argued that many of the people engaged in MSSEs do not have the proper skill in the area. This is proposed as the main reason for the lack of initiation by many of the workers to change the techniques of production to achieve larger quality and quantity of goods and services accompanied with lower costs of production

2.6.6 Lack of Technology and Information

MSSEs are lacking badly technological information poor awareness of the latest technological achievements makes them dependent on the information they get from scarce sources (Tefere, 1996:10). Lack of technical dynamism of MSSE sector explains its limited upward mobility even when it is not reinforced by government policies, leading to the phenomenon of depressed relative productivity in the sector (Dipak 2001: 12).

2.7 An Overview of the MSSE Sector and MSSE Strategy in Ethiopia

As MSSEs require small capital, utilize local knowledge and resources, and as they are labor intensive by their very nature, they play significant role in poverty reduction, employment and empowering the poor in least developed countries including Ethiopia. The contribution of the sector is more important in Ethiopian case as the private sector is infant, and the contribution of the medium and large-scale enterprises is at minimal level.

The survey report of MOTI (2006:5) on over-all performance of MSSEs in the four major regional states indicates that Ethiopian urban centers demonstrate chronic poverty and high unemployment rate.

From the total population of 74 millions, 8.5 millions live in urban areas; and 3.9 millions of the urban dwellers reach productive age. Among the people that reach productive age, about 1.1 millions are found unemployed (i.e. 28.2 percent). Furthermore, data obtained from Ministry of Finance and Economic Development (as cited by MOTI: 2006) indicates that 37 percent of the urban dwellers live under the line of absolute poverty. By the year 2020, the number of the urban dwellers is expected to have 30 percent share of the total population with average annual growth of 6 percent (Ibid).

Table 2.2 Numbers of Micro and Small-Scale Enterprises in Ethiopia

Activities	Number of enterprises	Number of operators
Micro and small industries	31,863	97,781
Informal enterprises	799,358	799,354
Cottage & handicrafts industries	974,676	1,306,865
Total	1,805,897	2,203,990

Source: CSA (as cited by MOTI 2006)

2.7.1. Definitions of MSSEs in Ethiopian Context

As we pointed out earlier, there is no universally recognized definition of the sector. Countries, organizations, NGOs, donors and authors use various definitions of MSSEs. The definitions and MSSEs used in Ethiopian context is the following.

The national micro and small-scale enterprises development strategy define the MSSEs mainly on the basis of capital (MOTI, 1997) and they are: -

- ❖ Micro enterprises: - businesses with fixed assets valued not more than 20,000 birr, excluding high technology consultancies and other such firms.

- ❖ Small enterprises:- businesses with fixed assets of more than 20,000 birr and less than 500,000 birr, excluding high technology consultancies and other such firms.

The Central Statistics Authority (CSA), on the other hand, defines the sector differently using employee-based criteria: enterprises having 10 and less employees are considered micro, and those that have up to 20 employees are small enterprises. It should be also noted that the nation wide applicable definition is the first one on the basis of capital.

2.7.2. MSSE Development Strategies in Ethiopia

Policies and regulations during the Derg era were openly aimed at curtailing (if not eliminating) the private sector. Restrictive policies such as fixing a ceiling on industrial capital, introducing one man-one license rule, favoring the state enterprises, restrictions on license and investments etc (which discouraged the participation of the private sector in the economy) were in place (Gebrehiwot and Wolday, 2004).

Since 1991, there has been recognition of the role of MSSE sector in employment creation and economic growth. Drastic measures were taken to transform the command economy to a market-led one, which are bound to affect MSSEs.

According to Gebrehiwot and Wolday (2004), the main macroeconomic and political reforms and restructuring that may, directly or indirectly, affect the development of MSSEs include:

- Adoption of market based economic policy
- Deregulation of domestic prices
- Devaluation of the local currency
- Privatization of public enterprises

- Issuance of the National Micro and Small Enterprise Development Strategy in 1997
- Establishment of Federal Micro and Small Enterprise Development Agency (proclamation No, 33/98)
- Financial sector reforms including the opening of private banks, insurance companies, and micro-finance institutions and the like.

The National Micro and Small Enterprise Development Strategy was issued in 1997. The Industrial Development Strategy, issued in 2003, clearly states that the private sector will be the engine of industrial development. It also indicates that promoting MSSEs is one of the important instruments to create productive private sector and entrepreneurship, and that the government will give due emphasis and priority to promote this sector. The strategy considers the development of the sector as a crucial tool to settle urban unemployment, poverty and income disparity.

2.7.3. Objectives of the National MSSE Development Strategy

The general objective of the national strategy is primarily to create an enabling environment for small and micro scale enterprises. In addition to the basic objective cited above, the Ministry of Trade and Industry (Nov. 1997) mentions the following specific objectives of the national MSSE development strategy:-

- I. Facilitates economic growth and brings about equitable development. This objective can be attained by making use of mostly local resources in the production of goods and services, and stimulate the growth of the economy. The expansion of MSSE also results in equitable regional development and distribution of income and wealth.

II. Creates long term job

MSSE activities have crucial potential to absorb a large number of unemployed people. For MSSEs to sustain employment for longer period; skill upgrading programs for MSSE operators, and strengthening the use of appropriate modern technique should be part and parcel of MSSEs support.

III. Strengthens cooperation between MSSEs

Since MSSEs lack skills and resources, net working among them is needed so that the hindering obstacles will be jointly addressed and build collective efficiency.

IV. Provides the basis for medium and large scale enterprises

MSSEs offer the seed bed for growth and stimulate indigenous enterprise entrepreneurship.

V. Promotes export

Here the focus is on designing and developing means that will help MSSEs to involve in export market

VI. Balances preferential treatment between MSSEs and bigger enterprises

The support strategy will help to correct the preferential treatment accorded in favor of larger enterprises.

2.7.4. Fundamental Principles of the Strategy and Institutional Support

The MOTI (1997) also provides some fundamental principles of the strategy that guide stakeholders' interventions in the development of MSSEs. These principles are:

1. Support to the MSSE operators will be based on the Agricultural Development Led Industrialization (ADLI), and private sector development.

2. All support to the MSSE sector should be designed to be all round.
3. To make the programs effective and sustainable, the support service to be provided will be on fee-bases as much as possible
4. The demand side is important factors for growth and development of the MSSEs
5. Emphasis will be given to the advancement of women
6. Training and upgrading skills of the various MSSEs supporting institutions is critical and will be given upper- hand consideration for effective and sufficient service
7. The private sector will be involved in the supply of commercial Business Development Service (BDS) to the MSSE operators
8. Facilitate cooperative ventures

The government and other stakeholders are also expected to give substantial support for the development of MSSEs. The intended support to promote the sector includes:

- Creation of legal framework
- Improvement of access to finance
- Introduction of incentive schemes
- Encouraging partnership
- Provision of training in entrepreneurship skills and management; advice and markets; improved infrastructure

Due attention is also given in the strategy to strengthen private sector associations and chambers. Based on the national strategy, regional governments are expected to develop their own regional MSSE development strategies.

The responsibility for the support and development of MSSEs lies under aboard of ranges, associations, and agencies. These include all levels of governments, NGOs,

community based organs, development and business associations, private institutions and foreign donors' agencies. The major organs to participate in the implementation of the strategy, on the other hand, are Ministry of Trade and Industry, Regional Bureaus, Federal MSSE Development Agency, Regional MSSE Development Agencies, NGOs and Business Associations (MTI, 1997).

The National Micro and Small Scale Enterprise Development Strategy clearly points out the main socio-economic benefits of the MSSEs to the national development. These are:-

1. They are mainly labor-intensive so that they absorb substantial number of unemployed labor force
2. They require relatively small capital to start-up
3. Both the literate and illiterate can join the sector
4. They substitute import
5. Backward linkage to medium and large scale enterprises
6. They use simple technology
7. Women can easily engage in business activities
8. Most of them use indigenous raw materials

2.7.5. The Key Areas of MSSE Sector

The MSSEs operate their businesses in various areas of activities. The Ministry of Trade and Industry (MTI) under urban industry and urban development package prepares a five-year plan (2005/2006 – 2009/2010) to be implemented in urban areas of the country (MTI, 2006).

Based on their potential about reducing urban unemployment, six broad areas of activities that will be given special emphasis are selected.

These are: -

1. Textile and tailoring activities
2. Wood and metal works activities
3. Food processing and preparation activities



4. Construction activities
5. Municipality activities
6. Urban agriculture activities

In order to involve in the MSSE activities and then to get the support from the government, MSSE operators are expected to receive legal certificate (MTI, 2006). The operators have four alternatives to involve in the sector and to be legal and certified.

These are: -

1. Organized themselves as cooperative association
2. Establish partnership or private limited company form of business
3. Establish corporation type of business, and finally
4. Operate individually like sole proprietorship.

Chapter Three

Data presentation And Analysis

3.1 Background of the Study Areas

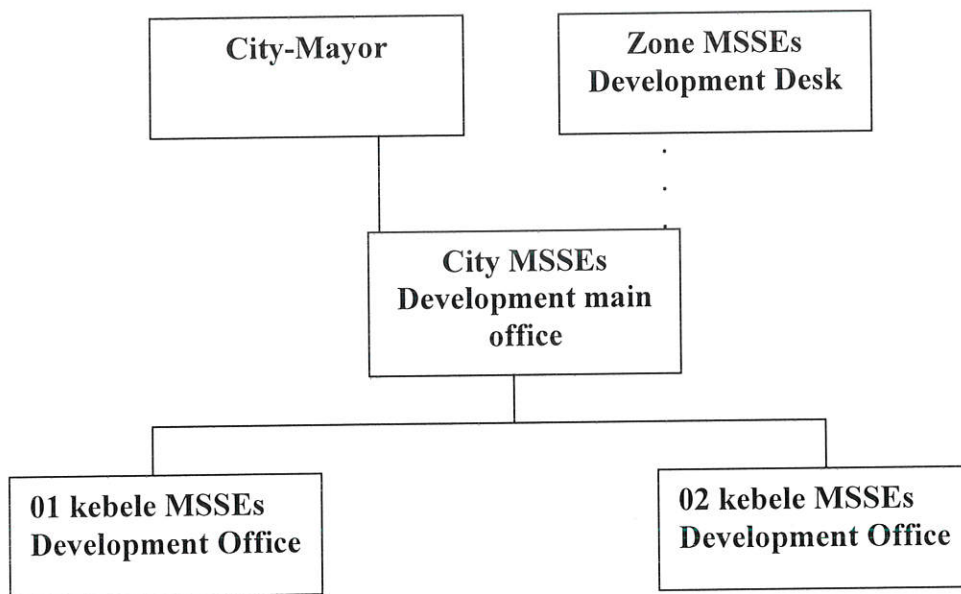
Gurage zone is one of the 13 zones in Southern Nations, Nationalities and Peoples' Regional State (SNNPRS). The zone constitutes 12 woredas and 2 city administrations. Wolkite is the capital city of the zone; and Boutajira is the second biggest city in terms of population and area size. Their proximity to Addis Ababa makes them well-known trade centers. Wolkite is located at 158 kilometers from Addis Ababa and its population is estimated to be 35,000. Boutajira, on the other hand, is found at 119 kilometers from Addis Ababa while its population is estimated around 33,000.

In May 2003, the SNNPRS re-organized the administrative structures of 19 cities in the region. These cities were considered as "reform cities" and targets for executing government urban development policies. Wolkite and Boutajira are two of the reform cities having the new city administration structures. Since then, they have both state and municipal functions. They are under collective administration of City Councils, Mayors and the Cabinets and Municipal Managers.

Micro and small-scale development program in the two cities has started since June 2002. One unit under the Zone Trade, Industry and Urban Development Department was established to undertake the MSSEs development program throughout the zone, especially in the two cities. The main task of the Unit was facilitating credit access to MSSEs. Until the end of 2003, 5 enterprises having 100 members were established in the two cities. They borrowed 194,800 Birr from Ethiopian Development Bank (Woliso and zaway branches).

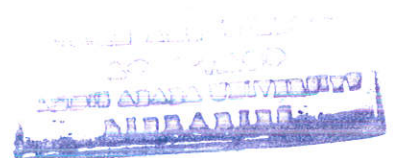
The MSSEs development program was limited in both scope and depth. Lack of clear policy guidelines, institutional problems and manpower shortage were the main reasons for the limited development program. Following the implementation of the cities' new administrative structure, the development program took new direction. The Micro and Small-Scale Enterprises Development Main Offices were established in the two cities, and to prioritize the program the office heads became cabinet members. Further more, this structure was also extended up to kebele level. In order to facilitate and coordinate the MSSEs development program throughout the zone, Garage Zone MSSEs Development Desk was also established.

Figure 3.1:-The Organizational Structure of MSSEs Development in Wolkite and Boutajira Cities.



Source: Own Illustration

Concerning the institutional framework for the development program of MSSEs, organizational structure and network ranging from Regional MSSEs Development Bureau to kebele Development Offices has been introduced.



This organizational arrangement specified the roles, duties and responsibilities of the concerned public institutions. It may also be noted that Wolkite and Boutajira cities have two kebele administrations each. Regarding the number of manpowers who execute the development program in the cities, the new structure requires 23 employees for each city. However, nearly 55 percent of the positions are vacant. This indicates that there is a problem of having the required professionals. In order to attract qualified candidates and motivate existing employees, one scale salary increase has been introduced for those who are working in MSSEs development institutions through out the region.

3.2:- An Overview of the Micro and Small Scale Enterprises Sector in the Study Areas

As it has been explained in the previous discussions, MSSEs play significant roles in the process of urban poverty reduction and generation of employment opportunities. Ethiopian urban centers have been suffering from chronic poverty and unemployment problems. Even if the accurate figure on the level of poverty and unemployment problems in the study areas is not available, it is strongly believed that the national urban areas figures reflect the situation of the two cities.

Even if it did not provide the exact proportions of the dwellers of the two cities that engage in MSSEs, the Zone MSSEs Development Desk's report (2008:10) considers "majority" of them engage in the sector directly or indirectly. The MSSEs Development Offices in wolkite and Boutajira cities have been established to provide various supports to MSSEs. The MSSEs, which deserve government supports, can be classified into package and regular enterprises on the basis of forms and number of support programs they received.

Regular enterprises are those that receive limited form and number of supports from public institution. Generally, regular enterprises receive maximum of three forms of supports. These enterprises can operate either individually or they can form associations. Package Micro and Small Scale Associations (MSSAs), on the other hand, are entitled to receive comprehensive support including access to finance, training and counseling, business development services, provision of space, access machineries and technologies, market opportunities, input and information. MSSAs are generally considered as the main target of the MSSEs development strategy.

3.2.1:- Package Micro and Small Scale Enterprises in the Study Areas

The data obtained from the report of Gurage Zone MSSEs Development Desk (2008:15-16) on the number of package enterprises established from 2004-2007 in the two cities, their area of activities their age and sex is summarized below.

Table3.1: The Profile of Package Associations in Wolkite and Boutajira (2004-2007).

Business Activities	Number of Associations						Number of Members in 2007					
	Wolkite		Boutajir a		Total		Male		Female		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Construction	36	23.6	32	21.0	68	44.6	970	47.0	50	2.4	1020	49.4
Metal and wood works	6	4.0	11	7.2	17	11.2	242	11.7	30	1.5	272	13.2
Urban agriculture	9	6.0	34	22.4	43	28.4	386	18.7	130	6.3	516	25.0
Food preparation & processing	6	4.0	6	4.0	12	8.0	30	1.5	90	4.4	120	5.9
Textile and	4	2.6	4	2.6	8	25.2	56	2.7	40	1.9	96	4.6
Municipality services	4	2.6	-	-	4	2.6	18	0.9	22	1.0	40	1.9
Total	65	42.8	87	57.2	152	100	1702	82.5	362	17.5	2064	100

Source: Garage Zone MSSE Development Desk (2008), Wolkite

The Package Associations in the two city administrations have been organized by procedures and guidelines of the Cooperative Associations. They are registered, licensed and certified by the concerned body. Therefore, we can categorize them under the formal sector of the economy.

The data in Table 3.1 indicates that 152 package micro and small associations in Wolkite and Boutajira cities had been established in the years between 2004-2007. These associations engaged in areas of Construction, Metal and Wood Works, Urban Agricultures, Food Preparation and Processing, Textile and Municipality Services. It is important here to remember that these areas of activities are identified by the National Strategy as potentially important for the socio-economic development of the urban areas (MTOI, 2006).

In the year 2007, all these associations had 2064 members. Each association had 13 members in average. Splitting the data from Table 3.1 by business activities, it appears that quite large proportion of associations involved in construction activities. Nearly 45 percent the MSSAs in the study areas engaged in construction, and these associations absorbed about 50 percent of the total associations' members. From this data, we can say that construction activities dominated other business activities in the two city administrations. The rapid expansion and growth of construction in the country may contribute for its domination. Further more, huge housing constructions by the government and non-governmental institutions are expected to be another cause for the domination of construction activities.

On the other hand, the number of associations involved in the areas of municipality services, textile and food preparation and processing was insignificant (15.8 percent), and these three business areas had a share of only 12.40 percent of all members in the two cities. When we look at the data in Table

3.1 from the location of the associations, Boutajira has more number of associations and members. 57.2 percent (87 out of 152) of the total associations operated their business in Boutajira. The surprising thing from the data is that urban agriculture activities absorbed significant number (34 out of 87) associations in Boutajira city administration. But its proportion in Wolkite is only around 13.85 (out of 65). Finally, there exists no association on municipal services in Boutajira city because they have been established under the regular program.

One of the fundamental principles that guide interventions by stakeholders, as stated in the National MSSEs Development Strategy, is that emphasis will be given to the advancement of women. Furthermore, one characteristic of MSSEs that contrasts to that of larger businesses is the relatively better participation of women in the sector. Contrary to these principles and expectations, the participation of women in MSSAs is very low. Table 3.1 clearly reveals the data that from the total members of the associations, women constitute only 17.5 percent (362 out of 2064) share. When we compute women's share in the three dominant areas of activities (i.e. construction, metal and wood works, and urban agriculture), it is only nearly 11.6 percent (210 out 1808). Even if women members are larger than the men in associations involved in food preparation and processing, and municipality services (women have 70percent share in the two areas), the actual number of women is still insignificant because the two business activities constituted only 7.8 percent share of all associations.

The MSSEs are expected to expand their activities and create job opportunities. They can achieve the objectives for which they are emphasized only when they survive and grow. In Wolkite and Boutajira cities, associations established between 2004 and 2007, but dissolved by the end of 2007 are presented in Table 3.2.

Table 3.2 Number of Dissolved MSSAs in Wolkite and Boutajira (2004-2007)

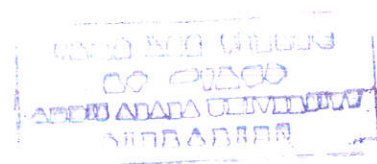
Business Activities	Number of Dissolved Associations						Job losses due to the Termination	
	Wolkite		Boutajira		Total			
	No	%	No	%	No	%	No	%
Construction	10	18.2	15	27.2	25	45.4	300	46.2
Textile	4	7.3	4	7.3	8	14.6	84	13.0
Urban Agriculture	8	14.5	10	18.2	18	32.7	215	33.2
Metal and wood worker	3	5.5	1	1.8	4	7.3	49	7.6
Total	25	45.5	30	54.5	55	100	648	100

Source: Gurage Zone MSSEs Development Desk (2008), Wolkite

The data in Table 3.2 indicates that 55 micro and small-scale associations (MSSAs) have completely terminated their businesses. These associations got license and registered as micro and small-scale enterprises; but they were not able to survive. When they terminated the businesses, it resulted in 648 job losses. Construction associations had the largest share (45percent) of dissolved associations. Boutajira city took the higher share (54.5 percent) of dissolved associations than wolkite. When we compare the proportion of dissolved associations with actively operating associations (see Table 3.1), they constitute 36.2 percent.

The tentative survey report of Zone MSSEs Development Desk on the main causes of the termination listed the followings:

- Unprofitability of the associations
- Lack of market for their products/services
- Absence of agreed behavior and cooperation among the members.



Generally, the business environment is becoming more dynamic, competitive and challenging because of national and international factors. The establishment of MSSAs by itself cannot bring the desired outcomes. They have to be able to survive, and even expand their businesses. MSSAs provide the basis to medium and large-scale enterprises only if they could expand their activities and accumulate capital, technology and skills. The national strategy also expects MSSEs to create long-term jobs, which reduce the level of urban unemployment and poverty significantly. The dissolved associations in Wolkite and Boutajira cities questioned the sustainability of other associations. High closure rate of MSSAs might be related to the uncoordinated support- service programs, which give overemphasis for business start-ups by neglecting the latter development stages. The national MSSEs development strategy gives due emphasis to the demand side, and the associations should develop market-oriented attitude. Preliminary profitability and market assessment should be done before deciding to establish associations. All these should have been done by the MSSE development institutions at all levels.

3.2.2 Micro and Small Scale Enterprises under the Regular Program in the Study Areas

In addition to facilitating establishment of package associations and supporting them, the MSSEs development institutions are expected to provide supports to MSSE that are outside the package program. The number of MSSEs under regular program exceeds the package associations. They can get up to 3 types of support individually and collectively. They usually receive credit service, space facilitation and business development extension services. From 2003-2007, 119 regular enterprises had been established having 1554 members. These enterprises received 3,526,601 Birr credit, and 26,544 meter-squared spaces were also provided to them. It should be noted here that the main focus of their survey is on package associations. The details on regular micro and small-scale operators will not be presented.

3.3 Profile of the Sample Micro and Small Scale Associations

As it is indicated in the methodology of this study, the targets of the study are MSS Associations established in package program in the areas of construction, metal and wood works and urban agriculture activities. The number sample associations are 23 in Wolkite Boutajira city administrations.5 and 3 associations in the areas of construction, and metal and wood works were selected respectively in each of the study areas. 2 associations in Wolkite and 5 associations in Boutajira were also included from urban agriculture activities. All these associations were established in the year 2004. The names, number of members at the time of establishment and at the end of 2007, sex composition, and areas of activities of the sample associations is presented in Table 3.3 .

Table 3.3. General Profile of the Sample Associations in Wolkite and Boutajira City Administrations.

Name of the Association s	Business Activities	Location		Number of Members in 2004						Number of Member in 2007					
		Wolkitte	Boutajira	M		F		Total		M		F		Total	
				No	%	No	%	No	%	No	%	No	%	No	%
Abysinia	Construction		✓	10	2.7	-	-	10	2.7	6	2.4	-	-	6	2.4
Hosana Ber	>>		✓	15	4.0	-	-	15	4	15	6.0	-	-	15	6.0
Tinsae Bout	>>		✓	15	4.0	-	-	15	4	15	6.0	-	-	15	6.0
Birhan	>>		✓	18	4.8	2	0.5	20	5.4	10	4	1	0.4	11	4.4
within	>>		✓	8	2.1	7	1.9	15	4	7	2.8	4	1.6	11	4.4
Foyat	>>	✓		20	5.4	-	-	20	5.4	11	4.4	-	-	11	4.4
Yisreshe	>>	✓		19	5.1	1	0.3	20	5.4	13	5.2	-	-	13	5.2
Nigat	>>	✓		17	4.6	3	0.8	20	5.4	11	4.4	2	0.8	13	5.2
Andinet	>>	✓		13	3.5	4	1	17	4.5	10	4	1	0.4	11	4.4
Araya Enhun	>>	✓		14	3.8	-	-	14	3.8	11	4.4	-	-	11	4.4
Tigist Fire	Metal and wood works	✓		20	5.4	-	-	20	5.4	15	6.0	-	-	15	6.0
Hibir	>>	✓		20	5.4	-	-	20	5.4	10	4	-	-	10	4.0
Erinza	>>	✓		20	5.4	-	-	20	5.4	10	4	-	-	10	4.0
Hibret	>>		✓	15	4.0	-	-	15	4	10	4	-	-	10	4.0
Alfa	>>		✓	10	2.7	-	-	10	2.7	10	4	-	-	10	4.0
Tesfa	>>		✓	20	5.4	-	-	20	5.4	9	3.6	-	-	9	3.6
Selam	Urban Agriculture		✓	9	2.4	11	3	20	5.4	4	1.6	6	2.4	10	4.0
Ediget	>>		✓	13	3.5	7	1.9	20	5.4	8	3.2	4	1.6	12	4.8
Almy	>>		✓	6	1.6	4	1.0	10	2.7	4	1.6	4	1.6	8	3.2
Rihobot	>>		✓	3	0.8	12	3.2	15	4	3	1.2	12	4.8	15	6.0
Tatek	>>		✓	10	2.7	10	2.7	20	5.4	8	3.2	-	-	8	3.2
Tesfa	>>	✓		10	2.7	-	-	10	2.7	8	3.2	-	-	8	3.2
Tsion	>>	✓		4	1	12	3.2	16	4.3	2	0.8	8	3.7	10	4.0
Total	23	10	13	309	83	63	17	372	100	210	83.3	42	16.7	252	100

Source: Own Illustration

The data in Table 3.3 indicates that participation of women in sample MSSAs in the two cities is insignificant, and it is also correlated with the analysis of women participation in total package associations (see also Table 3.1). At the time of establishment, the 23 selected associations had only 63 women members (17 percent), while at the time of the survey their numbers decreased to 42(16.7percent). Furthermore, associations in the areas of metal and wood works have no single female member. Out of 117members of associations in the area of construction, the number of women is only 8(6.8percent). They, on the other hand, had better participation in associations of urban agriculture by having 35percent.

Another interesting point from Table 3.3 is that how many of the sample associations increased or reduced the number of their members during the period of establishment and the time of the survey. The increase or reduction of the number is generally related with expansion or contraction of the associations' activities. At the time of their establishments, the selected associations had 372 members, but only 252 members were available at the time of the survey. This means 120 members (32 percent) left the associations.

Among the selected associations, nearly 83 percent (19 associations) had demonstrated a decrease in the number of their members during 2004-2007. In addition to this, the number of members in 4 associations is reduced to less than 10(Table 3.3). It implies that these associations should have been legally dissolved because any cooperative needs to have a minimum of 10 members. On the other hand, only 17 percent (4associations) had the same number of members at the time of establishment and the survey. The surprising thing is that no single association increased its members' number during the time interval. High termination rate of associations and significant number of drop out members from existing associations make it important to evaluate establishment process, members' relationship and awareness of the form of their businesses. So as to get reliable

information on these issues, head of Zone MSSEs Development Desk was interviewed. He said that Volunteers are invited through notices on boards to participate in MSSEs. Kebele extension agents also play important roles in searching out those volunteers. After satisfying all required procedures, they form associations having 10 up to 20 members. Then, after receiving training and counseling, they start their operations.

Interviewed experts in the two cities also added the fact that MSSAs had been established based on the direction of regional MSSEs development bureau. The bureau had prepared a strategic plan that specified the number of MSSAs to be established on each area of activities. They also noted that members are not as such interested to engage in the associations.

From this information, we can expect complications like the operators may not have appropriate skills and experiences, and consequently the contribution of each member may vary significantly where as distribution of benefits is expected to be equal to all members. Further complication comes when members may not know each other before since they are called on the notice board. Members who do not know each other with different backgrounds may find it difficult to have common objectives, and the commitment to achieve it. It should be also noted that lack of commitment and cooperation among members of the association was identified as one of the causes for the termination of the associations (see pp 38).

The two cities also do not determine how many MSSAs to be established in each area of activities. They follow the regional direction without adjustment on the basis of local context. Therefore, there is a probability of forming MSSAs that would not have market demand for their products and services. Here, it should be again remembered the fact that MSSEs are expected to be market oriented and demand-driven in the national strategy.

The national MSSEs development strategy identified four alternative legal forms of organization for those who wanted to involve in MSSE sector. These are sole proprietorship, cooperative association, private limited company, and share company. Contrary to these alternatives, all MSSEs in SNNPRS are given organizational form of cooperative associations (MOTI, 2006:9). This limited alternative prohibited the members from evaluating and selecting other forms of organization on the basis of their objectives, type of activities, legal requirements and the like.

In order to analyze their awareness about the legal forms of their associations, respondents were asked to identify the legal forms among the given alternatives. Their responses are presented in Table 3.4.

Table 3.4: Awareness of the Respondents about Their Legal Form of Association

Legal forms of organization	Number of Respondents	
	No	%
Cooperative	10	11.2
Private limited company	48	54
Share company	8	9
Sole proprietorship	4	4.5
I don't know	19	21.3
Total	89	100

N=89

As it is indicated previously all package associations in the region were given cooperative form of organization. Contrary to this fact, only 10 respondents (11.2 percent) reported that they had cooperative association form. Large proportion of the respondents (54percent) considered their enterprises as “private limited company”.

In addition to this, 21.3 percent of the respondents replied that they did not know the legal form of their associations. Generally, members do not have the awareness about the legal states of their associations. It may have its own far-reaching impacts on the performance of the associations.

Generally, when the MSSAs are established, the initiative should have come from the operators. Members should have clear picture of their organizational forms and objectives, their rights and duties. The establishment process of associations in the study areas needs close supervision so as to avoid the contraction and closure of associations with subsequent job losses.

3.4 Respondents' Profile

As it is stated in the methodology part of the survey, 23 package associations established in 2004 were purposely selected for detail analysis. Questionnaire was distributed to 4 members of each association. Among the total 92 distributed questionnaires, 89 were returned.

Table 3.5: Respondents' Characteristics In terms of Sector, Sex And Location

Business Activities	Number of Respondents in the Two Cities											
	Wolkite						Boutajira					
	Male		Female		Total		Male		Female		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Construction	18	20.3	2	2.2	20	22.5	17	19.1	2	2.2	19	21.3
Metal and wood works	12	9	-	-	12	9	12	18	-	-	12	18
Urban Agriculture	3	3.4	4	4.5	7	7.9	8	19	11	12.3	19	21.3
Total	33	32.6	6	6.7	39	39.3	41	46	13	14.6	50	60.6

N=89

Table 3.5 indicates the proportion of male and female members in the selected micro and small-scale associations. Women's share in the association is only 21 percent and men dominated the associations by having a share of 79percent. The Table 3.5 indicates that women representation in the sample is higher when we compare it with their proportion in all associations operating in the two cities (see Table 3.1). Association established in Wolkite had 39percent share, and that of Boutajira 61percent. The reason for this variation of the respondents was clearly indicated in the methodology part. On the other hand, as construction activities dominated the other areas, in the two cities, it still has higher proportion of respondents.

Table 3.6. Respondents' Age, Marital Status, and Existence of Dependents

1. Marital status	Number of Respondents					
	Male		Female		Total	
	No	%	No	%	No	%
Married	43	48.3	14	15.7	57	64
Single	25	28.0	5	5.7	30	33.7
Divorced	2	2.3	-	-	2	2.3
Total	70	78.6	19	21.4	89	100
2. Existence dependents						
Yes	49	55	17	19.1	66	74.2
No	21	23.6	2	2.3	23	25.8
Total	70	78.6	19	21.4	89	100
3. Age						
Below 20	6	6.7	-	-	6	6.7
20-29	45	50.6	3	3.4	48	54
30-39	18	20.2	7	7.9	25	28.1
40-49	1	1.1	9	10.1	10	11.2
Above 49	-	-	-	-	-	-
Total	70	78.6	19	21.4	89	100

N=89

As Table 3.6 demonstrates, large portion of respondents are young. Nearly 60 percent and 89 percent of them are under the age of 30 and 40 years respectively. Only 7.9 percent are between the age of 40 and 49 years. Regarding the age of women and men, women have higher age than the men operators. There is no single female operator under the age of 20.

Table 3.6 reveals data that indicates majority of the respondents (64 percent) are married while 33.7 percent are single; and only 2.3percent are divorced. Another interesting thing from the data is that 74.2percent of the respondents reported that they had dependent people who expected their support. When we split it on the bases of sex, 89.5percent of women have dependents. When we compare it with the share of males (i.e. 70percent), it reflects the larger social responsibility of women. Concerning the number of dependents on them, it varied from 2 to 6. Each respondent has an average of 3 dependents. Therefore, it indicates that supporting the operators in micro and small-scale enterprises has far-reaching economic and social effect.

Table 3.7. Educational Status of Respondents

Education Level	Sectoral Distribution						Sex					
	Construction		Metal & wood work		Urban Ag.		Male		Female		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Illiterate	-	-	-	-	2	2.2	-	-	2	2.2	2	2.2
Write and Read	1	1.1	-	-	6	6.7	4	4.5	3	3.3	7	7.8
1-4 Grades	6	6.7	3	3.3	6	6.7	8	9	7	7.9	15	16.9
5-8 Grades	10	11.3	4	4.5	8	9	20	22.5	21	12.2	22	34.7
9-10 (9-12 in the previous curriculum)	8	19	2	2.2	2	2.2	2	10.11	14	3.3	14	14.2
High school complete	9	10.1	6	6.7	2	2.2	15	16.9	2	2.2	17	19.1
TVET Graduates	5	5.6	9	10.1	-	-	14	15.8	-	-	14	15.8

N=89

A good proportion (65.2percent) of the respondents did not complete secondary school while close to 19percent are high school graduates (Table 3.7). Further more, only 15.75 percent of the respondents graduated from Technical and Vocational Education Training Institutions (TVET). On the basis of business activities, respondents from construction, and metal and wood works have relatively better educational status. (92.3 percent) of respondents from urban agriculture associations, on the other hand, did not even complete secondary school.

One of the objectives of national MSSEs development strategy is creating strong linkage between the MSSEs development and TVET institutions. (MOTI, 2006). The MSSEs are required to be operated and run mainly by TVET graduates. Contrary to this expectation, proportion of the respondents with TVET education is only 15.7

percent. Looking at the same issue by sex proportion, about 73.7 percent of female respondents did not even attend secondary school, and there is not any female TVET graduate respondent.

Table 3.8: Respondents' Prior Status

Prior Status	Male		Female		Total	
	No	%	No	%	No	%
Jobless	21	23.6	4	4.5	25	28.1
Doing the same job individually	28	31.5	11	12.4	39	43.9
In school training	12	13.5	-	-	12	13.5
Engaged in other activities	9	10	4	4.5	13	14.5
Total	70	78.6	19	21.4	89	100

N=89

The data in the Table 3.8 shows that 28percent of the respondents reported that they were jobless before involving in the associations. A large proportion of respondents (43.9percent), on the other hand, had been doing the same type of activities individually. It is only 13.6 percent of the respondents that joined the sector directly form in school training. The larger number of female respondents (57.9percent of female respondents) reported that they were doing the same job individually . MSSAs in the study areas created jobs mainly for those who had been already involved in various activities. They, on the other hand, produced relatively less jobs for the unemployed labor force. Furthermore, the strategy expects the sector to absorb individuals who had been in school training especially TVET institutions. However, MSSAs could not meet this expectation also.

3.5 Respondents' Reasons, and Procedures and Challenges for Taking Part in the Associations

We have already discussed that all of the associations in Wolkite and Boutajira city administrations possess cooperative form of organization.

Respondents were asked why they joined the associations, and how they rated the procedures required to involve in the sector. The data and the analysis are presented in Table 3.9.

Table 3.9: Respondents' Reasons for Joining the Associations

Reasons	Number of Respondents	
	No	%
Friends pressure	9	10.1
Thought would be more effective in groups	22	24.7
To get government support	38	42.8
Having no alternative	18	20.2
Others	2	12.2
Total	89	100

N=89

The large proportion of the respondents (42.8 percent) reported that they joined the associations expecting government support. And, 24.7 percent thought to be more effective operating in groups through forming associations. Another important point here is that 20 percent of the respondents considered it as their last alternative; and they chose it because they did not have any other option (Table3. 9).

The important thing under this issue is that the expectation of the operators to have government supports. The writer of this survey observed that the operators in

the two cities expected much support from the government. When they established the associations, they were told that credit access would be facilitated without telling them the required interest and service charges. Then, when they started the business, they were asked to pay interest and service charges for the money they borrowed. This was absolutely against their expectation.

The same thing happened with access to market because they did not get the expected market from public institutions as they were told that government would facilitate market access for their products and services. Generally, over ambitious promises for the establishment of the associations resulted in a feeling of “dependence” on operators.

Table 3. 10: Views of the Respondents on Procedural Requirement to Form the Associations

Responses	Number of Respondents	
	No	%
Very easy	21	23.6
Easy	44	49.5
I do not know	5	5.6
Difficult	11	12.3
Very difficult	8	9
Total	89	100

N=89

Regarding the procedural requirements to involve in the associations in the study areas, much higher proportion of the respondents (73 percent) reported as either easy or very easy. Only 21 percent of them, on the other hand, considered it difficult or very difficult. The data in Table 3.10 clearly reveals the fact that the procedural requirement can be considered enabling. The interviewee from zone MSSEs Development Desk added to the fact that MSSEs have been given the licenses by the city MSSEs development main office, and there is a no procedural complexity in the process.

Respondents, on the other hand, were asked to list the challenges in the process of establishing the associations. The most frequently raised challenge was the required number of members to form the associations. To be legally certified and licensed, a package enterprise is required to have members of between 10 and 20. They reported that working with more than 10 members was difficult and unmanageable. It should be also noted that as these associations have cooperative forms of organization that requires a minimum of 10 members. Therefore, unless other organizational forms are introduced, it would be hardly possible to reduce their number to less than 10. In addition to this; members with in an association have different levels of skills, experience and backgrounds.

3.6 The Forms of Support to MSSEs: Prospects and Challenges

The National MSSEs Development Strategy proposed support program. One of the unique characteristics of package micro and small-scale associations is that they are entitled to get comprehensive supports. These supports include: training and counseling services, facilitation of working and selling space, credit access, market and marketing network, and facilitating access to inputs, technologies and machineries.

The provision of these supports to associations in Wolkite and Boutajira cities, its prospects and challenges are presented as below.

3.6.1 Training and Counseling Access to MSSEs in Wolkite And Boutajira cities

Training applies to any transfer of knowledge, skills, or attitude, which is organized to prepare for more productive activities, or to change the working environment.

Unlike formal educational programs, short-term skill training, directly or indirectly,

affects the performance of MSSE operators. In this respect, non-formal training might be given to people who have never gone to school.

Table 3.11: Respondents' Access to Training and Counseling

Questions	Alternative Responses	Number of Respondents						Total	
		Construction		Metal and Wood works		Urban Agriculture			
		No	%	No	%	No	%	No	%
Ever got Training and counseling	Yes	39	43.8	24	26.9	19	21	82	92.7
	No	-	-	-	-	7	7.3	77	7.3
Types of Training and counseling Received	Marketing	31	38.8	22	26.8	16	19.5	69	84.1
	Entrepreneurship	37	45.1	24	29.3	17	20.7	78	95
	Financial mgt	30	36.6	18	22	13	15.8	61	74.4
	Bus. Mgt	28	34.1	15	18.3	11	13.4	61	74.4
	Product quality management	15	14.6	11	18.3	8	9.8	34	41.5
	Others	12	13.4	5	1.6	7	7.9	24	26.9
Ever got Technical and vocational training	Yes	17	19.1	8	9	4	4.5	29	32.5
	No	22	25	16	18	2	2.2	60	73.2
Sharing training cost	Yes	-	-	-	-	-	-	-	-
	No	39	48.5	24	29.3	19	23.2	82	100

N1=89

N2=82

Table 3. 12 demonstrates that 92 percent of the respondents reported that they received training and counseling services. All respondents from construction and metal and wood works reported that they have received training counseling services. It is only 8 percent that said they did not get the access and all of them are from associations in urban agriculture activities. The data also reveals the types of training and counseling they received. Marketing and entrepreneurship were given the first priority. 77.5 percent and 87.65 percent of the respondents were trained in

areas of marketing and entrepreneurship respectively. Product quality management, on the other hand, is given less emphasis-only 41.5 percent of the respondents trained in this area. Giving less emphasis for the quality of their products might produce negative impact on the total performance of the associations.

Regarding the respondents access to technical and vocational training, it is only 36.6 percent that received the technical and vocational training. Respondents from construction and wood and metal works had relatively better access 58.65 and 27.6percent share of those as they who received the training. Only 13.8percent of respondent that received the training were from urban agriculture. When we see the general access of respondents to technical and vocational training, it is insignificant. As these training programs have profound impact on the actual performance of the operators, measures should be taken to improve the coverage.

On the other hand, efforts should be made to make the training service demand-led: that is, it should be treated in a business-like manner (including fees to cover the cost of training) and marketed to them. The national strategy also stated that support services should, as much as possible, be based on fees. Contrary to this principle, all respondents who received the training services did not share the costs. The government covered the whole training costs.

In order to get detailed information about the training, cost-sharing and technical and vocational training access, the Head of Zone MSSEs Development Desk was interviewed. And, the data obtained from the interviewee is summarized follows. The two-city administrations-Wolkite and Boutajira cities-have 'training and counseling officers' at city and kebele levels. The officers' main duty is to identify the training gap and deliver training and counseling services. Because of this, all operators in the two cities have received extensive trainings on the identified areas.

With regarding the less coverage of technical training access, he said that these trainings had been undertaken at regional level and selected member from each associations had been sent to Awassa, Wolayta, and Dilla Technical Training Centers. Even if the two cities have Technical and Vocational Training Institutions, there is no as such strong operational linkage between the MSSEs development program and the institutions. The interviewed experts gave almost similar responses. Furthermore, they added that there does not exist formal and strong linkage with TVET institutions mainly because the TVET institutions and the MSSEs development agencies do not have any structural relationship, as they are accountable to different bodies. In addition to this, the institutions do not have the expected technical capacity and they give trainings on limited subject areas.

It should be remembered that the national strategy considers TVET institutions as one of the important collaborators of the development program. One of the areas of collaborations is that they need to give the necessary technical skills development trainings to the MSSEs operators.

One of the support programs designed by the National Development Strategy in relation to training and counseling services is Business Development Extension Service (BDES). BDES includes a wide variety of non-financial services such as labor and management trainings, consultancy and counseling; marketing and information services; technology development and diffusion; and mechanisms, which improve business linkage through, sub contracting and business clusters. The interviewee explained that all extension agents and officers working in the two cities had received. "Training of Trainers" in the areas of BDES. He added that these trained officers and extension agents provided the services to MSSEs operators.

The interviewees explained the reasons why the operators had not shared the training costs they received. They said that operators did not pay because they were not psychologically prepared for it. Further more, they did not believe they should have shared the cost. In addition to this, all the respondents in the interview said that the main problem regarding training and counseling provided to them was not covering the cost, but they were not willing to receive the services unless they were paid per dime for the duration of training services. They also added that MSSAs are not willing to share the Costs of not only training but also of other services they received. Finally, almost all of the respondents indicate the fact that members of the associations have developed extreme degree of dependence on public agencies.

Table 3.12:- Respondents' Views on the Relationship between Performance Improvement and the Training

The Received Training Improved Performance	Alternative response	Respondents' Number	
		No	%
	Strongly agree	13	15.9
	Agree	32	37.8
	I do not know	23	28
	I disagree	10	12.2
	Strongly Disagree	4	4.9

N= 82

Table 3. 12 reveal the perception of respondents about the relationship between the training they received and the improvement of their performance. 53.6 percent of them reported that either they agreed or strongly agreed that it helped them to improve their performance. The surprising thing here is that 28percent of respondents who received training did not know whether it helped them or not.

Respondents were also asked to list the major problems of training and counseling services; repetitions of training in similar areas by same trainers, absence of payment, training on working days, and lack of practical and technical trainings were some of the listed problems.

In summary of the training and counseling access of the respondents, there is relatively large coverage of training and counseling access, and BDES is also included in the service. Contrary to this coverage, the access to technical vocational training is limited. Further more, they did not share the costs of the training they received, and this is against the policy direction of National Development Strategy. Finally, the impacts of training and counseling given to them should be regularly assessed, and remedial actions should be taken.

3.6.2 Access to Finance

Enterprises need finance to buy new equipment and machinery, reach out to new markets and products, cope with temporary cash flow shortages as well as to innovate and expand. Some argue that capital, being scarce in developing countries, should essentially be deployed in a way that maximizes the creation of new jobs and production of new goods and services rather than being used to convert a very small number of businesses into modern capital intensive ones. Enterprises may use internal and external sources of finances.

Urban industry and urban development package (2006:12) points out that MSSEs face shortage of capital; and to solve this problem micro finance institutions need to be expanded in urban areas. The document further identifies specific finance problems of MSSEs in the country some of the identified problems include: limited number sources, limited collateral arrangements, complexities of borrowing process, lack of short-term loans, high uncollectible rate of loan and others.

The finance access to MSSEs operators in Wolkite and Boutajira cities is mainly form Micro Finance Institutions (MFIs). The MFIs involved in the provision of credit

access to MSSEs in the two cities are OMO MFI, Wisdom MFI, Meklet MFI and Metemamen MFI. However, it is Omo Micro Finance Institution that provides the lion's share of the services. All the package associations in the two cities get the credit service from OMO MFI.

Omo MFI was established under the ownership of SNNRS mainly to facilitate the credit provision to MSSEs in the region. Its organizational structure is stretched to city MSSEs Development Offices. The institution provides credit and saving services. Its annual interest and service charge is 10percent and 2percent respectively. The credit size to an individual member is between 2000 and 5000 Birr (2006:1-18)

Concerning the loan term, it varies from 2 to 5 years depending on the loan size. The institution uses different collateral arrangement alternatives including asset, salary, group network, associations, and idir collaterals for regular users. The package associations, on the other hand, are required to bring official guarantee letter from MSSEs development office in addition to group collateral arrangement. Members should also be cleared from unpaid credit records.

One of the main objectives of MFIs is to promote the saving habit of the society. MSSEs are also expected to save some portions of their income, and invest it to expand their business. It develops two types of savings: compulsory and optional savings. All creditors from the institution are required to save from 3 percent-10percent of the loan; and 20 birr monthly individually. Furthermore, borrowers can save voluntarily whatever amount they want.

Table 3.13: Respondents' Sources of Finance

	Personal	Family	Banks	MFIs		NGOs	Others	
				No	%		No	%
Sources of start-up capital	-	-	-	89	100	-	-	-
Sources of working capital	-	-	-	89	100	-	16	18

N=89

Table 3. 13 reveal that all respondents started their business by borrowing from MFI (OMO MFI). In addition to OMFI, 18percent of the respondents also specified public institutions as other source of finance. They did not contribute any money from their personal sources. This practice is against the expected characteristics of the sector. For instance, the survey conducted by CSA (2003) indicates that 34. 14 percent of the MSSEs used their personal savings to start the business. 29.56 percent borrowed from friends and relatives and 26.15 started their business by assistance of friends and relative. The complete dependence on Credit source for start-up capital may have negative impact on the performance and sustainability of the MSSAs. All respondents also use OMO MFI to solve their working capital problems.

Another important point regarding sources of finance is that the Micro and Small Trade, Handicrafts and Industry Promotion and Encouragement Regulation No 60/2007 (that improved Regulation No 30/2004) directs that MSSEs can get advance payment up to 20percent of the total price after contractual agreement and they use it as one source of working capital. Generally, they are completely dependent on MFI and governmental institutions for start-up and working capital money.

Table 3.14: Finance Problem and Loan Payment

Items	Responses	Respondent No	
		No	%
Finance problem faced	Yes	68	76.4
	No	21	23.6
Regular loan payment	Yes	16	18
	No	73	82
Fairness of interest rate and service charge	Strongly agree	-	-
	Agree	8	9
	I do not know	5	5.6
	Disagree	51	57.3
	Strongly disagree	25	28.1

N=89

Table 3. 14 indicate that large proportion of the respondents (76.4 percent) reported that they had financial problems to run their business successfully; only 23.6 percent of them did not consider it as a problem. With regard to regular loan payment trends, quite majority of respondents (82 percent) said that they did not pay their loan regularly.

Concerning the amounts of annual interest rate and service charges, still a larger proportion of the respondents (85.4 percent) reported that they either disagreed or strongly disagreed on the fairness of the amount. It is only 9 percent that said they agreed on the fairness. It should be noted that both the interest rate and service charges of OMFI is the lowest of all other MFIs operating in the two cities. The main problem with the amount of interest rate and service charges is not the figure (as it is the lowest in the two cities)but it is their orientation and expectations. All of the respondents in the interview explained that members are not still convinced on the payment of the interest and charges. They thought that it should have been given freely or without interest and charges. The report of Gurage Zone OMFI (2007:10) discloses that the MSSAs in the two cities have not yet paid loan of more than 432,336.85 ETB.

Respondents were also asked to list the specific problems in relation to credit access. The most repeated problems are high interest and service charge; limited access to short-term finance; insufficient loan size; in- convenient repayment schedule and short grace period.

Table 3.15: - Accounting Records and Financial Statement

Items	Respondent Answer											Total	
	Construction				Metal and Wood Works				Urban Agriculture				
Availability accounting Records	Yes		No		Yes		No	Yes			No		
	No	%	No	%	No	%	No	%	No	%	No	%	
		6	6.7	33	37	4	45	20	22.5	-	-	26	29.2
Preparation of financial statements	-	-	39	43.9	-	-	24	27	-	-	26	29.2	89

N=89

Table 3. 15 clearly show that large proportion of the respondents (88.8 percent) did not have any legal accounting records that are significantly important to run any business smoothly. Without having these records, it is hardly possible to measure their sales, costs and net profits (losses). The Table also indicates that none of the respondents' associations prepared financial statements regularly. Because of this incompleteness of necessary documents, it is not possible to analyze the financial progress of the associations. It should be remembered that analyzing the financial performance of the associations was one of the objectives of the study. However, it cannot be met because of these limitations.

Another complexity regarding financial measurement of their progress is that members of the associations involve also in other income-generating activities. Therefore, generalization from the respondents' answers may lead to wrong conclusions. Further more, even if members of an association are expected to

undertake their business collectively, some associations do not follow this procedure. Operators undertake their activities individually at their own home places. For example, members of all urban agriculture associations undertake their business separately. They used the name 'association' simply to get government support.

3.6.3 Marketing Network and Access to Market

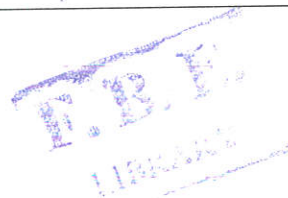
In a Free Market Economy, especially with stiff competition, marketing is a key factor to the success of MSSEs. Marketing should aim at creating markets and developing saleable products of MSSE operators. Efficiency in marketing determines sales, profits and growth. As it is stated in the previous discussion, lack of market for MSSEs is one of the constraints for the development of the sector. This section will discuss the sources of market, marketing related supports and its consequent prospect and challenges.

Table 3.16: - Market Sources of Respondents

Business Activities	Market sources									
	Public Institutions		Private institutions		Individuals		Other		Total	
	No	%	No	%	No	%	No	%	No	%
Construction	39	43.8	-	-	-	-	-	-	39	43.8
Metal and wood works	24	27	-	-	-	-	-	-	24	27
Urban Agriculture	-	-	12	13.5	11	12.4	3	3.4	26	29.2
Total	63	7.8	12	13.5	11	12.4	3	3.4	89	100

N=89

Table 3.16 indicates that public institutions were the only purchaser of products and services produced by the respondents' associations in the areas of construction and metal and wood works. Respondents from urban agriculture associations reported that they sold their products and services to private institutions and



individuals. Totally, public institutions took nearly 71 percent of the associations' market. The general figure shows that public institutions are the main market sources for the association.

The Micro and Small Trade, Handicrafts and Industry Promotion and Encouragement Regulation No 60/2007 (that improved Regulation No 30/2004) issued by the SNNPRs required all public institutions to prioritize Micro and Small Scale Associations (MSSAs) when they purchased products and services. Article 6 of the Regulation specified that all public institutions having products and services to be purchased for not more than 300,000 Birr should be given to MSSAs without any bidding process. It also further says that unless and otherwise the gross income in three rounds does not reach 900,000 birr, to get directly or to complete with similar associations, the right cannot be reserved. The price is decided by negotiation by the associations, the bureau and the institutions.

Furthermore, associations bidding with contractors who are not included in the Regulation should be privileged in the process of tender by adding 10 points for the point earmarked for cost estimated by the associations.

In summary of the market access to the associations and the application of the regulation, associations working in the two cities enjoyed promotion and encouragement. All public institutions had been forced by the Regulation to make their purchases from the associations. As a result of this, the institutions become their primary markets.

The interviewees of the study were also asked about the application of the Regulation and its impact on the performance of the associations. The data received from them is analyzed in summary. They said that the Regulation had created favorable market opportunities in public institutions for the products and services of the associations, and it should be remember that all these promotion and encouragement would stay only for five years. They added that the intention of the

encouragement and promotion regulation is to help the associations strengthen their financial and technical capacity within the given period of time. Then after, they are expected to compete with other firms based on the principles of free market economy. Furthermore, all other support-Services also stay only for five years. After the completion of the period, the MSSAs are thought to be self-reliant. However, the associations have not prepared for this transformation.

Regarding the negative impact of the Regulation, almost all respondents in the interview stressed on the dependence attitude of the operators. Rather than shifting their reliability on the institutions to the broad business market gradually, they still have not expanded their market. They become totally dependent on the institutions for selling their products and services. Furthermore, when the public institutions had nothing to purchase, the associations entirely closed their activities, and they were not able to pay their MFI debt. They thought that since the government did not give them market, they should not be asked for debt repayments. The large number of MSSAs established in each year expecting the government services make the limited market of public institutions insufficient for all of them. Therefore, the duplication of associations in few activities to get incentives and benefits of the regulations is also another problem.

The National MSSEs Development Strategy clearly pointed out that the demand side needs to be considered, and MSSEs should be market-driven so that their sustainability and growth would be assured. Contrary to this, MSSAs operating in the two cities are found far away from the guidelines of the strategy, and their entire performance and sustainability depend on the money of the public institutions. All support-Services should be organized in a manner that increases the entrepreneurship skills of the operators. As it is stated earlier, entrepreneurship trainings were given to the MSSAs. It could not, however, change their orientations.

Table 3.17 Adequacy of Market for Respondents

Question	Responses	Construction		Metal and woodwork		Urban agriculture		Total	
		No	%	No	%	No	%	No	%
Have you got adequate market	Yes	8	9	5	5.6	12	13.5	25	28
	No	31	34.8	19	21.4	14	15.7	64	72
	Total	49	43.8	24	27	26	29.2	89	100

N=89

Table 3.17 indicates that nearly 72 percent of the respondents considered the market for their products and services inadequate. It is only 28 percent that reported having adequate market. Generally, the availability of market for their products and services is limited mainly to public institutions. The national development strategy directs the MSSEs to be export-oriented. Contrary to these expectations, the MSSAs in the study areas could not develop sufficient local markets for their products and services.

One of the mechanisms that should have been used to expand the market access to the MSSAs in the study areas is developing scientific promotion and advertising activities. Showrooms and display rooms should be also provided. Despite their significant importance, the two city administrations have never prepared exhibitions and trade-fairs for the products and services of the associations. On the top of all these, efforts should be made to change the market-orientations of the members.

Finally, respondents were asked to list the major market and market-related problems. They mentioned poor market access, large number of associations in similar activities, pressure from the public officials to work at lower price, unwillingness of some institutions to give the market opportunities against the regulation, and lack of show rooms and display rooms to be the major problems.

3.6.4 Access to Production and Selling Spaces

Facilitating production and selling spaces for MSSEs is one of the support programs of the national MSSE development strategy. Article 13 of the Regional Regulation No 60/2007 requires city administrations to provide necessary facilities for associations in relation to land and offices. Building clusters and sheds to settle space problem of the sector is considered important.

Table 3.18: Respondents' Means of Getting Spaces Access

Means of getting spaces	Number of Respondents from						Total	
	Construction		Metal & work		Urban agriculture		No	%
	No	%	No	%	No	%		
Renting from individuals	12	13.5	8	9	-	-	20	22.5
Renting from Government	-	-	4	4.5	-	-	4	4.5
Freely from Government	27	30.3	12	13.5	4	4.5	43	48.3
Any others	-	-	-	-	22	24.7	22	24.7
Total	39	43.8	24	27	26	29.2	89	100

N=89

Table 3.18 reveals the data that indicate 52.8 percent of the respondents got space from the government either freely or through renting. 22.5 percent of them, on the other hand, rented it from individuals. Only 8.35 of those that got the access from the government paid rent. A large proportion of respondents (85 percent) from urban agriculture used other mechanisms to get space, and they also told that they used their own spaces.

Table 3.19: - Convenience of the Spaces Provided to the Respondents

Is the Location of the Space Convenient	Number of Respondents from:							
	Construction		Metal & Wood Works		Urban Agriculture		Total	
	No	%	No	%	No	%	No	%
Yes	11	12.3	6	6.7	9	10.1	26	29.2
No	28	31.5	18	20.3	17	19.1	63	7.8
Total	39	43.8	24	27	26	29.2	89	100

N=89

Respondents were also asked whether the spaces they used to produce and sell their products and services were convenient or not. As Table 3.20 indicates, 63 respondents considered it inconvenient. They were further asked to mention the major problems concerning the space. Lack of space, space with small size, high rent fees, limited access of infrastructures, lack of show rooms and display rooms are the repeatedly listed problems.

The Head of the Zonal MSSEs Development Desk (the Interviewee) of the study said that extensive projects have been started to settle problems of space in the two cities. He also added that associations which rented land from individuals paid an average of 120,000 birr annually that would have been invested to expand their activities. To settle these problems 16 sheds and 30 blocks of clusters are under-construction in Wolkite and Boutajira cities.

3.6.5 Access to Machineries, Equipments and Inputs

As it is indicated earlier, MSSEs are the centers of innovation and creativity. To play their expected roles in overall national development, they need to have accesses of getting necessary machineries and equipments. The conducted survey (MOTI, 2006) considered lack of access to machineries and equipments as one of the major challenges for MSSEs throughout the nation.

The Regional Regulation No 60/2007 provides that machineries and equipments necessary for the operation of Micro and Small-Scale Associations (MSSAs) should

be facilitated through lease. The TVET institutions are also expected to play significant contributions in the provision of these facilities. The associations have also problems of access to necessary inputs.

Table 3.20:- Respondents' Access to Machineries and Inputs

Have you access to machineries and equipment	Response	Number of Respondents							
		Construction		Metal & wood works		Urban Ag.		Total	
		No	%	No	%	No	%	No	%
Have you access to input	Yes	27	33.3	19	21.4	9	10.1	55	61.8
	No	12	13.5	5	5.6	17	19.1	34	38.2
	Total	39	43.8	24	27	26	29.2	89	100
Have you access to input	Yes	14	15.7	17	19.1	11	12.3	42	47.2
	No	25	28.1	7	7.9	15	16.9	47	52.8
	Total	39	43.8	24	27	26	29.2	89	100

N=89

Table 3. 20 Indicates that nearly 62 percent of the respondents reported that they had access to machineries and equipments. Respondents from metal and wood works associations had relatively better access to machineries and equipment as 79 percent of them reported they had the access. Only 34.6 percent of respondents from urban agriculture association, on the other hand, said that they were supplied with the facilities.

Contrary to the better access of machineries and equipments, only 47 percent of the respondents reported that they had access to inputs. Like the relatively better access to machineries and equipments, respondents from wood and metal associations had also better access to inputs (71 percent). Further information was

also obtained from the Interviewee about how the associations got support to have accesses to machineries and equipments, and inputs. He said that the zone and city MSSEs offices had facilitated credit access from Omo Micro Finance Institution so that they could purchase simple machineries and equipments. For large-scale equipments and machineries, lease arrangements had been conducted with Gurage Zone Development Association, the TVET Institutions, Housing Development Project Office and other Public Institutions.

3.7. Networks Among the Micro Small Scale Associations and Other Enterprises

The MSSAs need to cooperate with each other so that they could overcome obstacles and conquer markets beyond individual association's reach. The networking aims at raising competitiveness, in particular, at creating new business opportunities. The bases for the development of solid network include: mutual trust between participating enterprises, long-term relationships, and mutual benefits. As it's stated previously, Micro and Small Scale Associations can adopt the networking through forming Cooperative Unions, Federations and League. However, Associations that operate in Wolkite and Boutajira cities have not yet formed the networking.

So as to know the extent of cooperation among the associations operating in similar activities (even if it is not institutionalized networking), respondents were asked to rate the degree of cooperation.

Table 3.21: The Degree of Cooperation among MSSAs, the Attitudes of Other Firms and the Society towards them

Degree of Cooperation Among they MSSAs	Alternative Responses	Number of Respondents in Business Activities							
		Construction		Metal and Wood Works		Urban Agriculture		Total	
		No	%	No	%	No	%	No	%
Very strong	5	5.6	2	2.2	4	4.5	11	12.3	
Strong	7	7.9	5	5.6	5	5.6	17	19.1	
Do not know	4	4.5	3	3.4	2	2.2	9	10.1	
Weak	15	16.8	10	11.2	11	12.5	36	40.4	
Very weak	8	9	4	4.5	4	4.5	16	18	

N=89

Table 3.21 indicates that only 31.5 percent of the respondents reported that there were strong or very strong cooperation among the associations operating in similar activities. A large proportion of the respondents (58 percent) on the other hand, viewed it either weak or very weak. Overall, Table 3.22 indicates the existence of poor cooperation among the associations.

So as to produce concrete generalizations on the existence of networking among MSSAs, head of the desk was interviewed. He said that the MSSAs in the two study areas generally do not have strong cooperation among themselves. They have no full awareness about the benefits of networking and cooperation. On the contrary, they competed with each other for the limited market of public institutions that was the only access to most of the associations. Because of this, rather than trying to expand their market base, they developed a feeling of rivalry with each other.

On the perception of other private firms towards the MSSAs, The interviewees were asked. They said that the main source of the conflict was that of the promotion and encouragement regulation that the MSSAs market priority from public institutions without bidding with other firms outside the program. Because of this, the firms

considered the encouragement promotion program as against the principle of 'free-market'. They viewed it as a mechanism designed to eliminate them from the market. Furthermore, some of the members had been working in these firms prior to joining the associations. They left these firms and took their market. They said these were the main reasons for the conflicts between them.

Concerning the relationship between the associations and the society, the Interviewee considered it generally positive. But, because of lack of awareness of the society about the development program, the associations had been considered as parts of the public institutions. He added that efforts have not been made to introduce them to the society and therefore the society does not consider them as business entities and does not purchase their products and services.

Finally, the writer would like to give the data obtained through his personal observations and informal inquiries. These associations are viewed as branches of the government institutions. They are thought as completely politicized. The reasons for these perceptions emanate from the political background of the members and their active political participation. The information obtained through informal inquiries indicates that almost all members of the associations are members of the ruling party. Further more, they involve in political activities within the society. Because of this, they are perceived as political entities; not business entities.

The complete politicization of the associations may develop negative impact on the members themselves and on the society as well. The associations consider themselves as government organs and expect to receive regular budget allocation. The symptom of this dependence is that the entire income of the associations comes from government institutions. They do not become market focused, and they completely forget the over all demand side of the market. We can easily observe that

unless they get market from the public institutions, their entire operations come to be minimal. All these trends may create a real challenge on their survival and sustainability.

3.8. Existence of Enabling Environment for the Development of MSSES

Designing and implementing appropriate policies, strategies, and legal and regulatory framework are prerequisites for creating an enabling environment to promote MSSEs. As it is stated previously, the general objective of the national MSSES development strategy primarily is to create an enabling environment for the development of the sector. In order to get attitudes of the respondents about existence of enabling environment for the development of the sector in the two cities, they were asked to select from the given alternatives. They were also asked whether their association would join the medium and large-scale businesses. Their views and responses are tabulated in Table 3.23

Table 3.22:- Respondents' views on Existence of Enabling Environment, and Joining the Medium and Large-Scale Businesses

1.Existence of enabling environment for the development of MSSES	Strongly agree		Agree		Don't know		Disagree		Strongly disagree		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
	16	18	42	47	14	15.8	11	12.2	6	6.8	89	100
Do you agree that your MSSA will graduate to Medium and large enterprise sector?	9	10.1	2	23.6	21	23.6	24	27	14	15.8	89	100

N= 89

As Table 3.22 indicates, 65.2 percent of the respondents reported they either agree or strongly agree on the existence of enabling environment for the development of MSSEs in the two city administrations. It is only 19.1 percent of them that either disagree or strongly disagree on the existence of enabling environment. Generally, large portion of them consider the environment is enabling for their associations.

Table 3.22 also indicates data on the views of the respondents whether their associations will join the medium and large-scale businesses in the future or not. 42.7 percent of the respondents reported that they either disagree or strongly agree in the transformation of their associations to a higher level. 23.6 percent of them, on the other hand, neither agree nor disagree on it. Respondents who believe in the possibility of the transformation of associations into medium and large-scale associations are 33.7 percent only.

Views of the interviewees on the existence of enabling environment and the possibility of transforming the MSSAs into medium and large-scale businesses are summarized as follow.

The interviewees listed the availability of clear MSSEs development strategy; the extended institutional arrangements up to the grass-root levels; the issuance of various proclamations, regulations and circulars to supporting the sector; the simple and convenient procedures and requirements for registration, formalization and licensing the enterprises; and the provision of all-rounded support services as evidences of the existence of enabling environment for the development of MSSEs. The respondents added that the two city administrations have been trying to implement the strategy and policy designed to promote MSSEs. They concluded that there is enabling environment so that some of the associations will join the medium and large-scale businesses in the near future.

Finally, respondents were asked to list the major constraints they faced. Lack of sufficient market and limited access to credit and finance are mentioned by all of the respondents. Lack of adequate spaces and inputs, conflicts among themselves, lack of large-scale machineries and equipments and high interest rates and service charges of the loan were also included by them in the list of constraints.

Chapter Four

Summary, Conclusions and Recommendations

4.1 Summary

4.1.1:- Institutional Arrangement for the Development of MSSAs

Since May 2003, Wolkite and Boutajira city administrations have become two of the 'reform cities' in SNNPRS. Since then, institutions from Regional MSSEs Development Bureau to Kebele MSSEs Development Offices have been extended to promote MSSEs. MSSEs development program has been taken as the major activity of the urban development policies to reduce unemployment and poverty in the cities. The institutions have provided various 'support services' to MSSAs.

4.1.2 Organizational Forms of the MSSAs

Following the national and regional MSSEs development strategies various support services have been given to MSSEs under package and regular programs. The targets of this study (i.e. package associations) in Wolkite and Boutajira have cooperative forms of organizational status. They are licensed and formalized. Furthermore, other legal forms of organizations have not been introduced in the formation of MSSAs in the two cities. Lack of members' awareness about the legal nature of their associations, their rights and duties create critical problems in the associations. Associations in the area of construction activities dominate over other associations in both number of associations and members. The findings of the study also indicate that the required procedures to form MSSAs in the two cities are simple and convenient.

4.1.3: - High Termination Rate of Associations and Dropout of Members

The findings of the study show significant proportions of the MSSAs in the study areas terminated their business activities. Furthermore, the dropout rate of members from the existing active associations is quite significant. High termination and dropout appear to be the real challenges for the sustainability and survival of the enterprises. In general, almost all existing associations have contracted their activities with subsequent job losses rather than expanding their activities so that they could have absorbed additional manpower and reduce unemployment and poverty in the two cities.

4.1.4 Low Participation of Women in the MSSAs

Another important finding of the study is that contrary to the direction of the development strategy, the participation of women in MSSAs in Wolkite and Boutajira cities is found so insignificant that the associations have already become men-dominated. Women have better participations in associations related to urban agriculture. Majority of members of the associations, in the study areas, are young and married; and they support others who depend on them. An other finding of the survey is that the required procedures and legal requirements for individuals to form the associations are found simple and convenient.

4.1.5 Dependence on the Market of Public Institutions

Concerning to the support services of the government to the associations; on the basis of the Micro and Small Trade, Handicrafts and Industry Promotion and Encouragement Regulation No 30/2004 and the improved Regulation No 60/2004 various support services have been given to the associations. One of the encouraging elements of the regulations is that all public institutions are required to give priority to MSSAs without any bidding process when they need to purchase products and services having a value of not more than 300,000 Birr. Even if this

priority provides the associations better market access for their products and services, it makes them completely dependent on the market of public institutions alone.

Consequently, lack of sufficient market becomes the main reason for the termination of associations and members' dropout, and a challenge for sustainability and survival of the existing associations. Generally efforts have not been made to make the associations market-oriented. On the other hand, they compete with each other for the limited market access provided by the public associations.

4.1.6: - Absence of the Basic Accounting Records and Financial Statements

The findings of the research also provide another challenge on the efforts to make an analysis of financial performance of the associations. They do not use the basic accounting records to record the sales income and costs and to measure net profits (losses) of the associations. Furthermore, they do not prepare financial statements regularly. Because of the absence of these crucial documents, it becomes difficult to evaluate financial performance and progress of the associations.

4.1.7:- Finance Problems and Omo MFI as the Major Source of Finance

Findings regarding access to financial sources, Micro Finance Institutions (MFIs) are the major sources. Omo MFI, on the other hand, is the only source of finance to the package associations in the two cities based on the "Operational Agreement" between the Regional Bureau and the Institution. The important thing is that the institution arranges simple collateral agreement.

Still lack of financial resources is one of the major challenges mainly because the maximum loan size for an individual is limited to 5000 birr. Furthermore, since members do not contribute any resources; they entirely depend on Omo MFI to get

start-up capital, working capital, and capital to purchase machineries and equipments. Therefore, shortage of capital becomes inevitable. In order to reduce this financial shortage, when public institutions purchase products and services from the associations, they are required to pay them 20percent advance payment after completing the contractual agreement.

4.1.8:- Good Access to Training and Counseling Services

Members of the MSSAs in Wolkite and Boutajira city administrations have encouraging access to training and counseling services. BDES has been also included in the support services. But, despite its direct impact on performance of the members the level technical and vocational training is very low.

4.1.9:- Access to Other Services

The MSSAs have been also provided with facilities like production and selling spaces, equipments, machineries and inputs at different levels.

4.1.10:- No Cost Sharing Practice

The findings also give us the cost-sharing trends of MSSAs. Contrary to the principle of national MSSEs development strategy, members of the associations have not paid for the services they received from MSSEs development offices. Not only this but also they expect per-dime payment when they receive training services. This is an attitudinal trend of dependence, and over expectation of the government support services.

4.1.11: - Absence of Networking and Cooperation among the MSSAs

The findings of the survey also show that networking and cooperation among the associations does not exist. Rather than exploiting the optimal opportunities jointly, they rivalry compete for the limited market of public institutions. In addition to

this, these associations, in most cases, do not have cordial relationship with other firms that are excluded from the encouragement program. Also, they do not consider the society at large as their target market; and as a result the society does not buy their products and services sufficiently.

4.1.12: - Weak Linkage between the MSSEs Development Program and the TVET Institutions

Concerning the relationship between TVET institutions and the MSSEs development program in the study areas; even if there are TVET Institutions in each city, the linkage is not strong. Contrary to the policy guideline of the strategy, the proportion of TVET graduate members in the associations is small. In addition to this, coverage of the technical and vocational training access is found insignificant. Training and counseling services, on the other hand, have wide coverage.

4.1.13: - Absence of Market- Oriented Attitudes of Members of the MSSEs

Finally, the orientation of members of the associations is too far from the principles, techniques and attitudes of the business world. And, this may become the first reason of their failure. One of the reasons for this negative-orientation might be their political leaning towards the ruling party. They involve actively in political activities within the society. Consequently, the society considers them as political institutions rather than as business enterprises.

4.2. Conclusions

In the two city administrations, MSSAs have been established in six identified areas of activities. Various supports were given to these associations. Assessing and evaluating performance and challenges of these MSSAs on the basis of major principles and objective of the national strategy was the general objective of the study. After analyzing and interpreting the collected data and drawing major findings, the conclusions of the study is presented below.

Contrary to the expectation of the national strategy, the MSSAs in the study areas could not survive and expand their activities so that they are unable to create permanent job opportunities. They demonstrate high closure rate and members' dropout. This indicates poor performance of the associations in reducing unemployment problems in the cities.

The support-Services given to the MSSAs are not directed towards creating strong MSSE sector that reduces urban poverty and unemployment. It should be remembered that establishing large number of MSSAs alone couldn't produce the intended objectives. When the services are given, the principles and objectives of the national strategy are neglected. Cost-sharing practice does not exist in the service provision, which makes the MSSAs expect the government solve all of their problems. In effect, members of the associations are not self-initiators, market-oriented and demand-driven. The over-all support services failed to create strong MSSAs that could solve problems of poverty and unemployment.

Weak linkage with TVET institutions, low participation of women, absence of networking and neglecting the demand side are all found the practice of MSSAs which are against the principals and objectives of the strategy. These facts have reduced the roles of the sector in the process of solving problems of the urban areas. The MSSAs has also problems of space, finance, technical and vocational traininings, inputs and other services.

Therefore, the over-all performance of the MSSAs is far away from the policy direction of the government. In effect, the MSSAs are not in the proper way to meet the intended objectives of the national strategy as they do not expand their activities and secure long-term jobs. Furthermore, they are not in a position to graduate the medium and large-scale enterprise sector.

4.3 Recommendations

In light of the aforementioned findings and conclusions, the following possible recommendations are forwarded so that they can be used as corrective measures:

- 4.2.1 The other legal forms of organizations, besides cooperatives, should be available as alternatives when individuals decided to join the sector. When individuals come to establish associations, they should be informed of their rights, duties and responsibilities. All members should participate in preparing by laws, procedures and regulations that govern members of the associations. All these may minimize conflicts; increase cooperation and trust.
- 4.2.2 Efforts should be made to expand the market access to the products and services of MSSAs, and then, their entire dependence on public institutions will be minimized. The associations also need to be market-oriented. So as to expand their markets, exhibitions, trade-fair may be organized and mass promotion techniques should be adopted.
- 4.2.3 Preliminary market studies should be made before establishing the associations and it may help them to be market-driven business entities.
- 4.2.4 Continues and practical trainings and awareness creation services that make the members self-initiators, entrepreneurs, and business minded should be given.

- 4.2.5 The facilitating role of the government should be made clear to the members so that it may reduce their dependence attitude on the support of the government.
- 4.2.6 Trainings that enhance technical and vocational skills of the members should be given priority. These services also should be based on the specific performance gap of the associations
- 4.2.7 Mechanisms should be designed to enhance the linkage between MSSAs and the two TVET institutions.
- 4.2.8 Support services to MSSAs should be given, as much as possible, on the basis of cost sharing arrangement. That will develop sense of ownership that ensures their sustainability.
- 4.2.9 Further specific studies should be conducted to know the reasons for low participation of women in MSSAs in the study areas and necessary measures ought to be taken.
- 4.2.10 Short-term financing access should be arranged, and members should be motivated to use their personal means's of financing. Based on their concrete business plans, the loan size of Omo MFI should be increased.
- 4.2.11 The basic accounting records should be regularly used to record their sales, cost, and net profit (loss) so that their financial progress will be evaluated easily. They also need to prepare timely financial statements.
- 4.2.12 The associations should be as much as possible insulated from direct political involvements so that they focus on their businesses and improve the society's position.
- 4.2.13 All government supports should be directed to ensure sustainability and growth of the associations. Unless these associations survive and expand their activities, they can not absorb reasonable labor force and reduce urban poverty.

- 4.2.14. Spaces which sufficient size and convenient location should be provided to the MSSAs.
- 4.2.15. Lease- arrangement and long-term credit should be facilitated to solve problems of medium and large- scale machineries and equipments.

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ANNEXES

ANNEX I

ADDIS ABABA UNIVERSITY
FACULTY OF BUSSINESS AND ECONOMICS
DEPARTMENT OF PUBLIC ADMINSTRATION AND DEVELOPMENT MANAGEMENT

Title of the Thesis: performance and challenge of MSSEs: The cases of Wolkite and Boutajira cities,

QUESTIONNAIRE

Dear Respondent

This questionnaire is prepared to collect responses of MSSEs operators to conduct a study on the title “ Performance and challenges of MSSEs”. Your cooperation is vital for the success of the study. You are therefore kindly requested to spare your valuable time to fill this questionnaire. Please fill it as honestly as possible. Responses will be kept confidential and the information will be used for the study purpose only. The result of the study may benefit you in one way or another.

Please give your answer by placing a tick (✓) mark where this box appears.

Thank you in advance for your cooperation.

Your's sincerely

Walelgn Adnew

1. Location

Boutajira

Wolkite

2. Area of activity

Construction

Metal and wood works

Urban agriculture

3. Sex:

Male

Female

4. Age:

Below 20 years

20-29 years

30-39 years

40-49 years

Above 49 years

5. Marital Status:

Single

Married

Divorced

6. Do you have any dependent on you?

Yes

No

7. If you say "yes" for the above question, how many _____.

8. Educational status:

Illiterate

Write and Read

1-4 Grades

5-8 Grades

9-10 Grades (9-12 in previous curriculum)

TVET graduate

9. What was your job prior to your engagement in the MSSE sector?

Jobless

Doing the same job

In school training

10. Why do you prefer to engage in the sector?

Friends' pressure

Though would be more effective in groups

To get government support

Having no alternative

Others

11. How do you rate the procedures and regulations required to form the associations?

Very easy

Easy

I do not know

Difficult

Very difficult

12. Please list the major procedural and regulation constraints in the process of establishing the associations.

13. Have you ever got training and counseling services?

Yes

No

14. If you say "yes" for the above question, in which of the following areas?

Marketing Management

Entrepreneurship

Financial Management

Business Management

If any other, please specify it

15. Have you received any technical and vocational training related to your job/business?

Yes

No

16. If you receive any kinds of trainings, do you agree that they help you in improving your performance?

Strongly Agree

Agree

I do not know

I disagree

I strongly disagree

17. Do you share the cost of the training?

Yes

No

18. Please list problems related with the training you have already taken?

19. Where did you get the money to start-up the business?

From my personal sources

From family, relatives and / or friends

From micro finance institutions

Loan from commercial banks

From NGOs

If any other, please mention it, _____

20. Do you have any problem of money / capital to carry out your business properly?

Yes

No

21. If your answer for the above question is “yes”, how do you often settle
Your financial problem?

Through borrowing from family friends/ relatives

NGOs

Through borrowing from Commercial Banks

Through micro-finance institutions

If any other , please specify it, _____

22. How do you rate the simplicity of these requirements to get loan?

Very simple

Simple

I do not know

Difficult

Very difficult

23. Do you agree that the interest rate and service charges are fair?

Strongly Agree

Agree

I don't know

Disagree

Strongly Disagree

24. Do you repay your debt regularly and timely?

Yes

No

25. If you say “No” for the above question, please list your reasons

26. Please mention problems related to access to finance to run your
enterprise, if there are any

27. Does your enterprise have formal accounting records like cash
receipt voucher, payment voucher and the like?

Yes

No

28. Do you prepare financial statements of your association regularly?

Yes

No

29. Who is (are) your regular customer (s)?

Government institutions

Private institutions

Individual households

If any other, please specify it _____

30. Do you think you are getting sufficient market for your product?

Yes

No

31. Please list the market problems your enterprise is facing currently, if any _____

32. How do you get the space for production and selling your product?

Renting from individuals

Renting from the government

Freely from the government

If any, please mention it, _____

33. Is the location of the space convenient for production and selling the product?

Yes

No

34. Please list the problems related with the space for producing and selling your product

35. Do you have access to machineries and equipments?

Yes

No

36. Have you got the access to inputs?

Yes

No

37. Pleas, mention the problems related with access to machineries,
equipments and inputs _____

38. How do you rate the cooperation among MSSEs?

Very strong

Strong

I do not know

Weak

Very weak

39. Do you have positive relationship with other enterprises that are not
with in MSSE government package?

Yes

No

40. If you say "No" for the above question, why do you think so?

41. How do you rate the attitude of the society towards your activities?

Very positive

Positive

I do not know

Negative

Very negative

42. Please, list the major constraints faced by your association

56. Do you agree that the government policies help in creating favorable
environment for the development of MSSEs?

Strongly Agree

Agree

I do not know

Disagree

Strongly disagree

57. Do you think that you can transform your association in to medium- and large scale enterprise?

Strongly Agree

Agree

I do not know

Disagree

Strongly disagree

Thank you

ANNEX II

ADDIS ABABA UNIVERSITY

FACULTY OF BUSSINESS AND ECONOMICS

DEPARTMENT OF PUBLIC ADMINSTRATION AND DEVELOPMENT MANAGEMENT

Title of the Thesis: performance and challenge of MSSEs: The cases of Wolkite and Boutajira cities,

Interview guide for data collection from Head of Gurage Zone Micro and Small Scale Development Desk and experts.

1. What are the requirements and procedures needed to form MSSAs in Wolkite and Boutajira city administrations?

2. How do the MSSAs get the following support-services? Please, tell the constraints also.

- i. Access to training and counseling
- ii. Access to technical and vocational trainings
- iii. Access to market
- iv. Access to spaces
- v. Access to credit and finance
- vi. Access to machineries, equipments and inputs

3. How is the implementation of the Encouragement and Promotion Regulation in the two cities? What about its impacts?
4. Does the MSSEs development program have linkage with TVET institutions in the two cities.
5. Is there networking and cooperation among the MSSAs?
6. Does cost-sharing practice exist with MSSAs? If not, why?
7. How do you see the attitudes and orientations of members of the MSSAs? What about their 'dependence' attitudes?
8. How do you rate the attitudes of the other private firms and the society towards MSSAs?
9. Do you think there exists enabling environment for the development of MSSEs in the two cities?
10. What mechanisms have you used to follow-up and supervise the performance of the associations?
11. What are the major constraints faced by them?



Declaration

I, the undersigned, declare that this thesis is my original work and it has not been presented for a degree in any University and that all source of materials used for the thesis have been duly acknowledged.

Declared By:

Name: Waleign Adnew

Signature: 

Date: JULY 18, 2008

Confirmed by advisor:

Name: Prof. DR CHAKRA DHAR DASH

Signature: Chakradhar Dash

Date: 18 July 2008

Place and date of submission: _____