



ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF DEVELOPMENT STUDIES

INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT STUDIES (IRLDS)

**ASSESSMENT OF THE LOCAL BUSINESS ENVIRONMENT IN ARBAMINCH
TOWN**

(THE CASE OF SMALL AND MICRO ENTERPRISES OPERATING IN ASSOCIATIONS)

Misganu Getahun

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa
University in Partial Fulfillment of the Requirements for the Degree of
Masters of Arts in Regional and Local Development Studies**



**November, 2008
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Acronyms

A/M/T/T/In/T office	Arba Minch Town Trade, Industry and Transport office
AMU	Arba Minch University
BDESC	Business Development Extension Service Centre
BDS	Business Development services
EBD	Enterprise and Business Development
FDI	Foreign Direct Investment
KG	Kinder Garter
LEBD	Local Enterprise and Business Development
MFI	Micro Finance Institution
MLE	Medium and Large scale Enterprises
NGOs	Non Government Organizations
R&D	Research and Development
SNNPRS	South Nations Nationalities and People Regional State
SMEs	Small and Micro Enterprises
TOT	Turn-Over Taxes
VAT	Value Added Taxes

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Abstract

The study was conducted to assess the internal and external business environment of the associations operating in Arba Minch town. The areas of internal business environment of the associations include organizational structure and management, internal resources, working premises, line of businesses and marketing activities, and the firms' business concepts. The external environmental factors investigated are linkages of the firms, government-related factors, finance, supply and market factors. Whereas multi-stage sampling design was used, structured interviews with the chairpersons of the firms, unstructured interviews with key informants, and personal observations of the researcher were employed to collect primary data. For secondary data; reports, proclamation and policy documents from SMEs development desk, Omo MFI, and A/M/T/T/In/T offices were consulted. To analyze data, descriptive research method was employed. Due to the creation of associations, employment opportunities were created for many unemployed and poor residents of the town. Accordingly, their socio-economic status (joint actions and benefits, employment and income), and the income of the locality have changed. However; poor organizational structures; inadequate finance, working premises and tools of production; poor record keeping, and poor promotion activities are the major internal problems. The constraints from the external environment are absence of inter-firm associations, poor linkages of the firms with medium and large business firms; inadequate training and BDSs from the local government due to poor implementation capacity (shortage of human, financial and material resources), bureaucracies and inequitable focus of government authorities for business sectors; poor quality, high cost and few alternative sources of raw materials; confinement to the local market , dearness of cost of life in the locality and under-optimal supplies of infrastructural facilities. In conclusion, those shortfalls can end up in the under-capacity operations of the firms and under-optimal income generating capacity of the entrepreneurs. Specifically, overlapping of tasks and therefore distrusting and conflicts among the team members; poor resource management, and limited marketing efforts of the firms; lack of inter-firm associations, poor implementation capacity of the local authority and discriminatory supports and focuses of the local government for business sectors and activities are the major problems. Therefore, the under-capacity operations of the SMEs should be capacitated by addressing the financial, business premises, supply of inputs, and tools of production needs of the enterprises. Stabilizing the rising costs of items in the market place and strengthening the purchasing power of the community have to be capitalized on. Demand-driven productions are also

recommendable. The marketing scope of the firms should be promoted beyond the locality and they should not be limited to government organizations but their linkages with NGOs, other SMEs, private organizations and other government organizations in and outside the area have to be promoted. Creating fair and equitable market opportunities for the competing firms is also important factor. Promotion, distribution; new products, markets, and new business lines development are the other efforts of the firms need to be strengthened. Besides, undertaking training need assessment, and capacitating local institutional infrastructure are the other important inputs. The regulatory provisions to privilege associations need to be revised in a way other business ownerships are promoted; the associations become self reliant, income of the local authority is optimized, and income contribution cultures of the entrepreneurs to the locality are stimulated. Lastly, the implementation capacity of the local authority should be strengthened.

CHAPTER ONE

Introduction

1.1. Background of the Study

Local Economic Development (LED) is the process involving the formation of new institutions, the development of alternative industries, the improvement of the capacity of existing employers to produce better products, the identification of new markets, the transfer of knowledge, and the nurturing of new firms and enterprises at a local level. According to Rogerson (2003), the mainstream approach of LED is based on the central idea that local mobilization of resources and actors, building a convergence of interest around the competitive advantage of localities, may, on one hand, arrest the damaging effects, and, on the other hand, enable exploitation of the opportunities created by new global market conditions. Moreover, LED can broadly be defined by Helmsing (2001:8) as:

...a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources, to create jobs and to stimulate the economy of a well-defined area. It emphasizes local control, using the potentials of human, institutional, and physical and area natural resources. LED initiatives mobilize actors, organizations and resources; develop new institutions and local systems through dialogue and strategic actions

Moreover, there are three main LED initiatives (ibid): 1) Locality development, 2) Community-based economic development, and 3) Enterprise and Business Development (EBD). Locality development corresponds to the management of the entire local territory, i.e. the build up physical infrastructure, and economic and social overhead capital of the locality in such a manner that it generates the balanced development of all land uses, resolving land use conflicts, minimizing negative and maximizing positive externalities. This helps to enhance the competitiveness of locality's economic activities. It also improves the local quality of life; and makes the locality more attractive to external investment, firms and people (ibid). Secondly, community-based economic development aims to: stimulate a sense of community, promote self help and empowerment, contribute to the generation of self-employment,

improve living and working conditions in settlements, and create public and community services (Blakely, 1994). Thirdly, Enterprise and Businesses Development (EBD) consists of initiatives that directly target and involve (cluster of) enterprises. Though all these initiatives deserve attention from development practitioners through their research works, the EBD initiative is the essence of this particular study.

One of the core values of LED program is the expansion, restructuring or creation of the economic base of an area. The economic base of an area refers to the activities that involve exporting their products and services to outside the area concerned. It may consist of one or more clusters of local producers in the particular industries (Helmsing, 2003). This can be enhanced through strengthening cluster formation and promoting the local participation in the corresponding commodity chain (by inward attraction of external firms, or new investment from the existing firms or the combination). In short, business enterprises play significant role in promoting the economic base of an area.

Business is the heart of LED. It redresses a balance between community as a social construct and business as instrument of wealth. Increasingly, governments of developing countries perceive micro, small and medium enterprises as engines of employment, poverty alleviation, and broad-based economic growth. The development of businesses can enlarge poor people's opportunity, security and empowerments (ibid). It is clear that urban areas in developing countries are characterized by dualism and income inequality, high poverty and unemployment. One of the strategies these governments pursue against the problems is to expand business enterprises. Accordingly, the Ethiopian government is undertaking the development of businesses in associations to lessen the problems of poverty and unemployment in urban areas. Hence, it is a typical focus in the recent urban development package of the country. Arbaminch town is one of the towns in the country embraced under the package. To this end, the expansion of associations has been underway since 1997EC. Accordingly, to the date of the survey, more than 124 associations were established and created job opportunities for more than 1500 residents of the town (i.e. for more than 1100 regular operators and for more than 400 daily laborers). For the effectiveness of the program, however, the investigation of the business environment of the associations in the town has a paramount importance. Accordingly, the interest of the research work at hand would be to assess and investigate the prospects and constraints of the EBD through assessment of their business environment.

1.2. Statement of the Problem

Like LED, the EBD is a multi-actor and multi-component. It requires favorable local business environment. The local business environment can be controllable or uncontrollable. The controllable business environmental factors pertain to the management systems and organizations, internal resources, marketing activities and business concepts, and scope of operations of the individual firms. The uncontrollable ones are socio-economic activities; government, market, financier and suppliers factors; and the linkages of the firms with other entities. On the other hand, the local business environment matters in so far as the basic infrastructure, the presence and efficiency of related and supporting services, development of markets and market supporting institutions; production and business networks, clusters of firms ('new industrial districts'), entrepreneurship and entrepreneurial development (programs), and actions and autonomy of the local government are concerned. Moreover; demographics, unemployment, wealth, the educational and occupational profile of the entrepreneurs/workforce, the prevalence of small firms, the extent of owner-occupied housing, infrastructure endowment and a region's history are some of the other factors that determine the rate of firms' creation and expansion in a locality. In general, while the internal (controllable) factors bring strengths and weaknesses, the external (uncontrollable) factors pose both threats to and opportunities for the firms. Therefore, the environmental factors influence the business organizations. Moreover, various factors of EBD activities will vary/ in their operations, distributions, opportunities and constraints/ in different localities or districts.

In Ethiopian context, therefore, the challenges the business environmental factors pose and the prospects they have on the development of business enterprises (the SMEs operating in associations since 1997EC) need to be identified taking in to account the differences in the contexts of various localities. Accordingly, in Arba Minch town, it is found to be important to undertake the investigations on the business environment of the associations.

In the town of Arba Minch, the creation and expansion of associations (SMEs) have been the key focuses of the [local] government since their time of establishments (1997EC). The efforts of the operators, and the involvements and supports of other stakeholders including government and NGOs or private sectors are also the other inputs towards the development of the business firms. The

assessment of the details of the environmental factors of the associations will help investigate where the weaknesses and the strengths of the firms are and where opportunities and threats of the external forces come from. These in turn contributes to the effectiveness of the expansion of the associations (SMEs) in that the investigation of the environment would set a stage to take appropriate actions to tackle the obstacles, improve the areas of strengths and make use of opportunities investigated. However, since the operation of the government-induced-associations, there has been no one research work done to assess the environment of the SMEs in the town. Because of these, therefore, there has been no genuine way of identifying the major areas of problems and prospects associated with the environment of the associations to take corrective measures in the particular area. Accordingly, a number of questions remain unanswered. For example, what are the prospects, gaps and challenges from the business environment of the associations? What are unique to the environment of the associations? From what areas do major problems and challenges face the associations/firms? What are the areas of the strengths and opportunities of the firms? Therefore, this study is intended to address these issues and questions in the specified town.

1.3. Objective of the Study

General objective

The overall objective of the study is to assess the local business environment of Small and Micro Enterprises operating in associations and to identify the prospects, gaps and challenges it has on their development in Arba Minch town.

Specific objectives

1. To investigate the internal business environment of the Small and Micro Enterprises operating in associations in Arba Minch town;
2. To investigate the external business environment of the Small and Micro Enterprises operating in associations in Arba Minch town; and
3. To make suggestions that may improve the working environment of the enterprises for improved performance

1.4. Research Questions

To achieve the stated objectives, the following questions are expected to be answered in this study.

1. How are the management aspects of the enterprises evaluated?
2. How are the managerial qualities of the owner-managers or the team leaders evaluated?
3. What are the statuses of the internal resources of the SMEs?
4. What types of networks (if any) are there for the SMEs?
5. What is the status of services and supports from the government? Are there BDSs? What are the problems from the government in its efforts to toward the development of the SMEs?
6. What are the opportunities and constraints related to finance, raw materials and inputs, markets and infrastructure?

1.5. Operational Definitions

For the purpose of this study, the following working definitions were adopted for the major concepts mentioned in this study.

- **Package program** refers to comprehensive supports and services meant to be provided to selected business sectors by the regional government
- **Regular program** encompasses limited and basic supports and services given to some sectors operating under SMEs
- **Departmentalization**-grouping of similar tasks into categories like grouping by product, process, functions, or by type of customer, geographical distribution or any other form suiting the activities of a particular firm
- **Kebele** refers to the lowest administrative level of the Ethiopian government
- **Job description** refers to a written description of the characteristics of the job
- **Job specification** refers to personal traits, experiences and qualifications needed to perform the job effectively
- **SMEs** stands for Small and Micro Enterprises
 - In Ethiopian context, micro enterprises are the business enterprises with a paid-up capital of less than Birr 20,000 and excluding high tech consultancy firms and other technology establishments. Additionally, the number of workers is 10 or less.
 - Secondly, Small enterprises are businesses with paid-up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other technology establishments. The number of workers here is 11-50.
 - In this context, the SMEs include only the government-induced associations
- **Association** stands for collection of persons willingly organized and registered (at a firm level) in accordance with the law to be engaged in SMEs development sector. So in this case, it refers to SME. Accordingly, for the associations, the terms like "firms", "enterprises", "SMEs" and "business organizations" are interchangeably used.
- **Appropriate/suitable Technology** refers to machineries/tools of production that are capital saving, cost efficient, productive and that are labor intensive.
- **Institutions** refer to set of rules, regulations, policies and directives, and etc.

1.6. Scope of the Study

The coverage of the study was limited in terms of time and area. The study was entirely conducted in Arba Minch town. Only the government-focused associations (under the package and regular programs) established post 1997EC were surveyed. The study was entirely confined to investigate the internal and external business environment of the firms. The internal environment is seen at firm levels. At firm level, organization and management aspects, status of resources, line of businesses and marketing, and the firms' business ideologies were the major areas of investigations. In the second case, the external environmental factors including linkages of the firms, finance, government-related factors (policies and regulations, bureaucracies, taxation, infrastructure, and other government supports and services), and supply and market factors were the major areas of investigation.

1.7. Significance of the Study

This research output was targeted to have a paramount importance in many of its aspects. First of all, in the specified town, there is no particular study which has systematically examined the environment of the government-focused SMEs operating in associations either due to the recency in their establishments or lack of any one to initiate a study up on the case. Moreover, the studies/research works/ already undertaken on local business environment, entrepreneurship and enterprise dynamics focusing on rural small towns, Woreda towns, zonal towns, regional cities and national capital basically concentrate on all legal forms of SMEs. For example, Tegegne and Mulat (2005) in their research work entitled 'Micro-Enterprises Performances in Small Towns, Amhara region', and Elias (2005) in his research document entitled 'Role of Small and Micro Enterprises in LED, Hawassa city', and Debebe (2006) in his Thesis work entitled "The opportunities and constraints for the survival and growth of Micro and Small Enterprises in urban Ethiopia: The case of weavers enterprises at 3 *Kebeles* in Gullele Kifle Ketema of Addis Ababa" have identified major prospects and problems of SMEs in small and rural towns, and regional and national capitals. But these studies did not address the particular business environment of the SMEs operating in associations. Yet they were done in other towns/cities rather than in the town specified. Because of these, the out put of the study at hand can help as important document for the local and regional authorities, policy makers and researchers, students and any other interested parties in the issues of business development. It would also be a feedback to the program (related to the development of SMEs) the regional government has been running since 1997EC.

1.8. Methodology

1.8.1. Rationale for Study Area Selection, Study Population and Sample Design

The study area (Arba Minch town) was purposely selected for the basic reasons that the researcher had past experience to the town. Secondly, it was selected because no research was conducted on the areas of business activities run in associations in the area. Accordingly, the target population for the study was the government-induced associations in the town since 1997EC. The total number of the operating enterprises since the same time was 124. The list of all the enterprises was obtained from report documents found in Arba Minch town SMEs development desk and A/M/T/Tr./In./T offices and it was used as sampling frame. Before the design of the instruments and collection of data, careful sample designs had to be made. Accordingly, multi-stage sampling design was employed to select the sample. Based on the sampling frame and in consultation with the officials, the enterprises were first grouped/ stratified in to seven sectors (construction, metal and wood works, textile and garment, urban agriculture, food/agro processing, handicrafts, and regular enterprises) to reduce the heterogeneity. Areas of activities or line of business works were the bases of the categorization. Each sector was further segmented in to firms having similar business functions (the detail is shown in Table 1.1). Furthermore, the town was segmented in to sub towns so as to fairly represent the geographically dispersed firms in the sample. Finally, a total of 70 firms (20, from Sikala sub town; 20, from Abaya sub town; 18, from Nech Sar sub town; and 12, from Secha sub town) were randomly selected from the enterprises in proportion to the concentration of similar firms. But since some enterprises were not totally operating in some sub towns, they were made to be represented from any where they are operating. Typically, the enterprises in agricultural sector are concentrated around Kulfo River crossing Abaya and Sikala sub-towns. Finally, the researcher believed that it would be the chairpersons of the firms who could best provide relevant information on the enterprises; hence it was decided to contact them for data collection.

However, due to the unreturned and unfilled questionnaires, and lack of willingness of the respondents, 57 enterprises were actually contacted through their chairpersons. To fill the gap and supplement the information collected through the structured interviews, different situation analysis reports prepared by experts on more than twenty five individual firms were consulted. Moreover; other secondary sources, personal observation, and key informant interviews were used to supplement the information. Finally,

the actually sampled enterprises were 8 from Secha sub town, 19 from Nech Sar sub-town, 19 from Sikala sub town and 11 from Abaya sub town. All the sectors were also fairly represented (despite the unreturned/unfilled questionnaires) as shown in the Table1.1: 15, from construction sector; 12, from metal and wood works; 4, from urban agriculture; 5, from agro processing; 8, from textile and garment; 2, from handicrafts and 11, from regular business sectors were included in the sample. Majority of the enterprises surveyed were established in 1998EC (38.6%) and in 1999EC (29.8%) where as the others i.e.17.5% and 14% began their operation in 2000, and in 1997, respectively. From the surveyed enterprises, the majority (86%) has got business licenses; where as the rest (14%) do only have legal personality but no business license. Lastly, the detail of the sample plan is shown below.

Table 1.1. Details of the Sample Design for the Questionnaire Survey

No.	Sectors	Planned samples					Total	Comment
		Enterprises	Number					
			ST	NT	SiT	AT		
1	Construction	Block production	1	1	2	2	6	*Three firms did not fully fill in to questionnaires
		Precast bim production	1	0	0	3	4	
		Sand production	1	0	1	0	2	
		Electric installation	1	0	1	0	2	
		Sanitary installation	1	1	0	0	2	
		Road& sewerage works	0	1	0	1	2	
2	Metal and wood works	Metal works	1	1	2	2	6	*One firm did not return a questionnaire
		Wood works	2	2	2	3	9	*Two firms did not fill to questionnaires
3	Urban agriculture	Solid waste collection and compost production	0	1	1	0	2	*One firm did not return the questionnaire
		Small scale vegetable and fruit production	0	0	2	3	5	*All work around Kulfo river; *They are dominant in the sector *3 did not fill questionnaires
		Cattle fattening	0	0	0	1	1	
4	Agro processing	Baltena products	0	0	1	1	2	
		Injera making	1	0	1	2	4	*One did not return a questionnaire
5	Textile and garment	Weaving	1	2	1	1	5	
		Leather and leather products	1	2	0	0	3	
6	Handicrafts	General handicrafts	0	1	1	0	2	
7	Regular	Tour service	1	0	0	0	1	
		Garage works	0	2	2	1	5	*They dominantly operate
		Motor cycle and bicycle maintenance	0	1	2	0	3	*One enterprise did not fully fill in to questionnaire
		Gold smith	0	0	1	0	1	
		Cafeteria	0	0	0	3	3	*One enterprise did not return a questionnaire
Grand total						70	-----	

NB: ST= Secha Sub Town, NT=Nech Sar Sub Town, SiT= Sikala Sub Town, AT=Abaya Sub Town

1.8.2. Study Design, Sources, Types and Methods of Data Collection

1.8.2.1. Study Design

The type of study is generally descriptive in which facts are narrated, and inferences and predictions are reached. The survey design used is cross sectional survey in which relevant information was collected at the time of the field survey on the present conditions of the environment of the SMEs.

1.8.2.2. Sources, Types and Methods of Data Collection

Both primary and secondary data sources were employed to obtain qualitative and quantitative data. For secondary data, different documents were consulted. Government policy and regulation documents, bankers' documents/the Omo MFI), and reports and plan documents from A/MT/T/In/Tr office and SMEs development offices at different levels were used. On the other hand, the targeted sources of primary data include the SMEs (associations), Omo MFI, Arba Minch TVET College, tax administration offices of the region and the town, and the SMEs development offices in the town and sub towns in conjunction with the A/T/T/In/T office. Moreover, for primary data collection, various tools were used. Structured interviews, key informant interviews, and personal observation were employed.

Structured interviews: The randomly selected owner-chairpersons of the enterprises were interviewed with the help of commissioned interviewers/enumerators selected from AMU university students. The main types of data inquired in the structured interview include data pertaining to the business organizations, organizational resources, status of services provided by the government, networks and linkages, finance and raw materials, and market factors.

Key informant interviews: Unstructured interviews were conducted with officials of Omo MFI (the only institution through which loan disbursements have been made), the town bureau of trade, industry, and transport; SME development desk, tax administration offices (at the town and regional levels) and training institution (Arba Minch TVET college). These were totally conducted by the researcher him self.

Observation: To strengthen the information obtained through various techniques, the researcher's personal observation was concentrated on the business or work premises, work environment, lay out and manner of establishments, infrastructure, employees/ partners' relations and other observable features at the premises of the enterprises and at the centers of the service providers (the government

bodies). To these ends, the researcher personally visited (with checklist of those issues) 15 associations randomly, 3 cluster areas in Sikala, Abaya, and Nech Sar Sub towns and 1 SMEs development office at the town level and 3 SMEs development offices in 4 sub-towns.

1.8.3. Methods of Data Organization and Analysis

After all data were edited, coded and organized; both qualitative and quantitative data analysis techniques were employed. In quantitative data analysis, ratios and percentages help the process. To help support these all processes and to display data, different graphs, charts and (frequency) tables were used with the help of computer manipulations. A descriptive type of qualitative data analysis was also used after the mass data were reduced and organized meaningfully.

1.9. Limitations of the Study

During the study progress, the researcher faced few difficulties, particularly, during the time of data collection. During this period, a few business managers were busy with filling various questionnaires coming from Arba Minch University graduating students. Due to these, they were unable to fully fill in to some questions and totally unreturned the questionnaires administered to them. Henceforth, 8 partially-filled questionnaires collected were discarded and the rest 5 were totally unreturned.

1.10. Organization of the Paper

This paper is segmented in to five chapters. In the first chapter, introductory discussions, statement of the problem, statement of objectives of the study and the methodology are the main parts presented. The second chapter deals with reviews of the related literature in which relevant theories, empirical evidences and regulatory issues, and business environmental factors affecting the functions of business firms are discussed. In the third chapter, the fourth chapter deals with the main body of the research in which data organizations, analysis and discussions are made. Moreover, background of the study area is presented in this section. The fourth chapter contains the conclusions of the research work, and policy implications and recommendations.

CHAPTER TWO

Review of the Related Literature

2.1. Theoretical Literature

2.1.1. The Business Environment

The Oxford dictionary gives the meaning of the word "Environment" as surrounding objects, regions or circumstances. The business environment, in fact, consists of all those aspects and forces in the surroundings of business enterprises under which business operations are to be carried out effectively. In other words, Business environment encompasses the element or set of conditions, i.e. economic, social, political, and institutional- in which business operations are conducted. Moreover, W.F. Guleck and L. R.Jauch (1988) defined the word "Business Environment" as the factors that pose threats to the firm, and offers opportunities for exploitation. Although there are many factors, the most important of these are socio-economic, technology, suppliers, competitors, government and physical and natural resources.

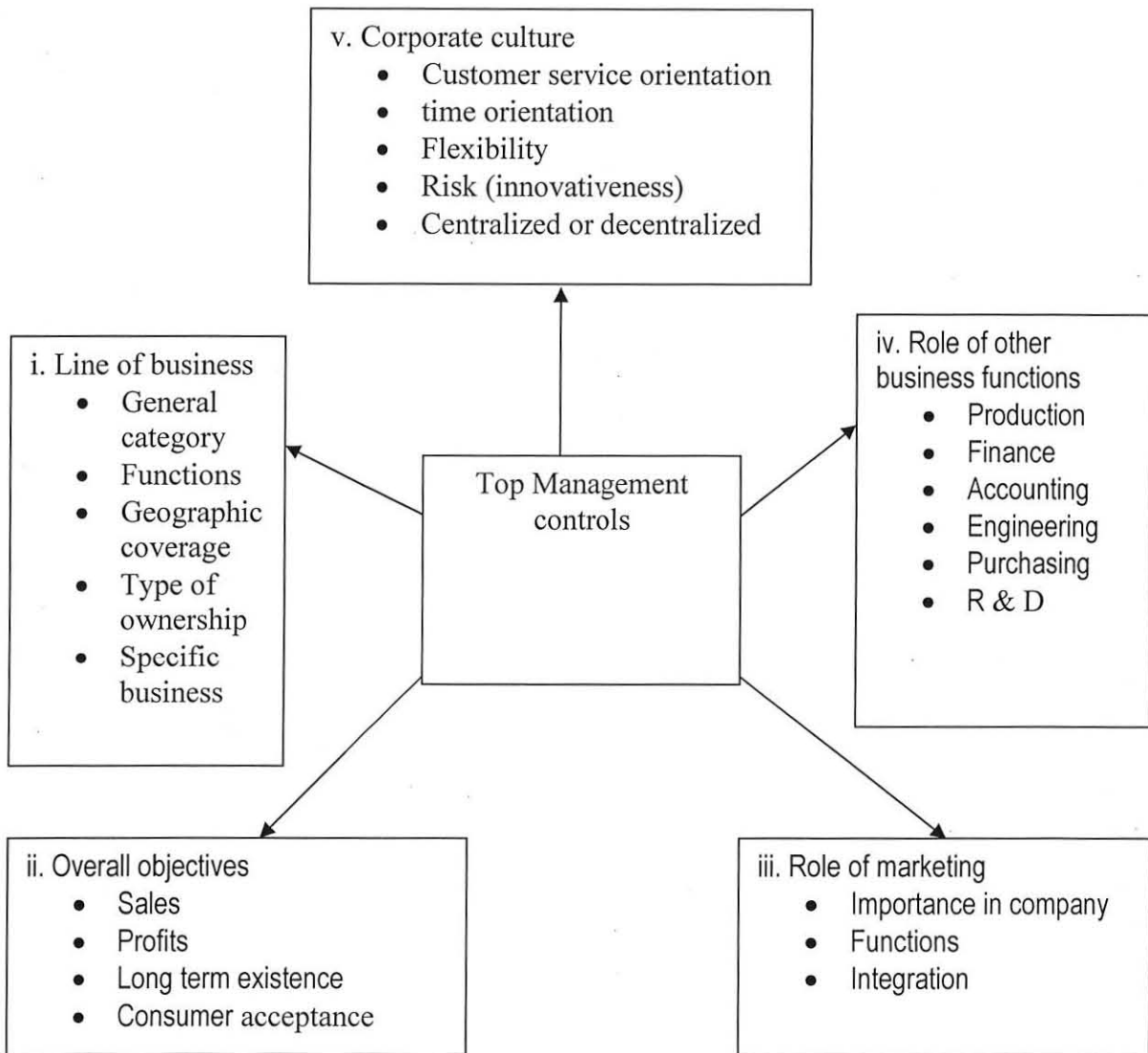
In a nutshell, all the definitions show that the business environment is the very crucial factor for the success of any business. Business environment can broadly be divided into two categories: external environment and internal environment.

1.Internal Environment: This is also called controllable factor. These factors are internally directed by an organization and its marketers. Some of these factors are directed by top management; these are not controllable by marketers. Top management must develop plans to satisfy overall organizational goals. In situations involving small or medium sized institutions, both broad policy and marketing decisions are often made by one person, usually the owner.

A) Factors Directed by Top Management: Although top management is responsible for numerous decisions, five factors are of great importance to marketers: line of business, overall objectives, role of

marketing, role of other business functions, and corporate culture. They have an impact on all aspects of marketing. Figure 2.1 shows the types of decisions in these areas.

Fig 2.1. Factors controlled by Top Management



Source: Adopted from Jauch and Glueck(1988) "Business Policy and Strategic Management"

I. Line of Business: The line of business refers to general goods or services category, functions, geographic coverage, type of ownership and specific business of a firm. The general goods or service category is a broad definition of the industry in which a firm seeks to be involved. It may be energy, transportation, computing or a number of others. The business functions out line a firm's position in the

marketing system from supplier to manufacture to wholesaler to retailer and the tasks it seeks to do A firm may want to be in more than one position. Geographic coverage can be neighborhood, city, regional, national or international. Ownership ranges from a sole proprietorship, partnership or franchise to a multiunit corporation. The specific business is a narrow definition of the firm, its functions and its operations.

II.Overall objectives: Overall objectives are the broad, measurable goals set by top management. A firm's success or failure may be determined by comparing objectives with actual performance. Usually, a combination of sales, profit, and other goals is stated by management of short-run (one year or less) and long-run (several years) periods. Most firms cite customer acceptance as a key goal with a strong effect on sales, profit, and long-run existence.

III.Role of marketing: Top management determines the role of marketing by noting its importance, outlining its activities, and integrating it into a firm's overall operation. Marketing's importance is evident when marketing people have decision-making authority and proper resources are given. It is not considered important by a firm that gives marketing people advisory status, places marketing personnel in a subordinate position, equates marketing with sales, and withholds the funds needed for research, promotion, and other marketing tasks. The larger the marketing role, the greater the likelihood that a firm has an integrated marketing organization. The smaller its role, the greater the possibility that a firm undertakes marketing tasks on a project, crisis, or fragmented basis.

IV.Role of other business functions: The roles of other functions and their interrelationships with marketing need to be defined clearly to avoid overlaps, jealousy, and conflict. Production, finance, accounting, engineering, purchasing, and research and development each have different perspectives, orientation, and goals.

V.Corporate culture: Top management strongly influences a firm's corporate culture: the shared values, norms, and practices communicated to and followed by those working for the firm. It may be described in terms of:

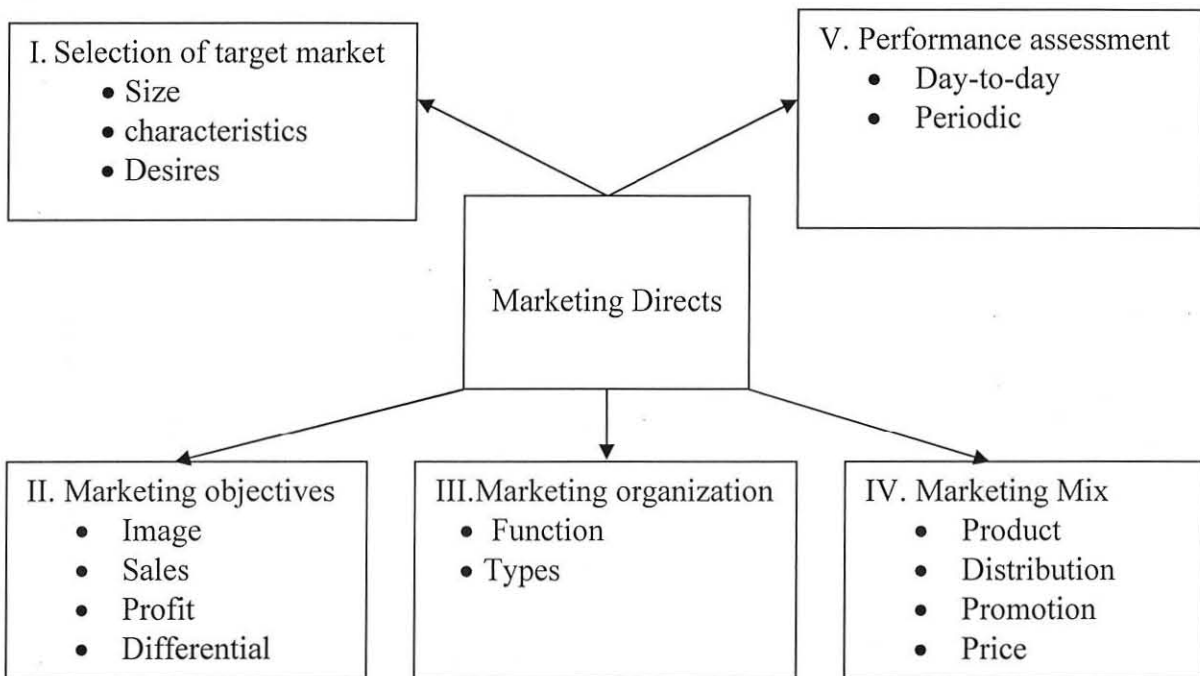
- ♣ A customer-service orientation-is the commitment to customer service clear to employees?
- ♣ A time orientation- is a firm short- or long- run oriented?
- ♣ The flexibility of the job environment-can employees deviates from rules? How formal are relations with subordinates?
- ♣ The level of risk/ innovation pursued- is risk taking fostered?
- ♣ The uses of a centralized/ decentralized management structure-how much inputs into decisions do

middle managers have?

- ♣ The level of interpersonal contact- do employees freely communicate with one another?
- ♣ The use of promotions from within- is internal personnel given preference as positions open?

B) Factors Directed by Marketing: The major factors controlled by marketing personnel are the selection of a trademarked, marketing objectives, the marketing organization, the marketing mix, and assessment of the marketing plan-see Figure 2.2

Fig 2.2. Factors controlled by Marketing



Source: Adopted from Jauch and Glueck(1988) "Business Policy and Strategic Management"

I. Selection of target market: One of the most crucial marketing-related decisions involves selecting a target market, which is the particular group(s) of customers a firm proposes to serve, or whose needs it proposes to satisfy, with a particular marketing program. When selecting a target market, a company usually engages in some form of market segmentation, which involves, subdividing a market in to clear subset of customers that act in the same way or that have comparable needs. These questions must be addressed before devising a marketing approach:

- Who are our customers?
- What kinds of goods and services do they want?

- How can we attract them to our company?

II. Marketing objectives: These are more customer oriented than those set by top management. Marketers are quite interested in the image consumers hold of a firm and its products. Sales goals reflect a concern for brand loyalty (repeat purchase), growth via new-product introductions, and appeal to unsatisfied market segments. Profit goals can be related to long-term customer loyalty. Most importantly, marketers seek to create differential advantages, the unique features in a firm's marketing program that cause consumers to patronize that firm and its competitors. Without differential advantages, firm would have a "me-too" philosophy and offer the consumer no reasons to select its offerings over competitors' products.

III. Marketing organization: This is the structural management that directs marketing functions. It outlines authority, responsibility, and the tasks to be done so that functions are assigned and coordinated. An organization may be:

- Functional with jobs assigned in terms of buying, selling, promotion, distributions and other tasks.
- Product-oriented with product managers for each product category and brand managers for each brand in addition to functional categories.
- Market oriented with job assigned by geographic market and customer type, in addition to functional categories. A single firm may use a mixture of forms.

IV. Marketing mix: This is the specific combination of marketing elements used to achieve marketing objectives and satisfy the target market. It encompasses decisions regarding four major variables:

- ❖ Product decisions involve determining what goods, services, organizations people, places and or ideas to market; the number of items to sell and their quality; the innovativeness pursued; packaging; product feature, warranties; when to drop existing offering; and so on.
- ❖ Distribution decisions include determine whether to sell via intermediaries or directly to consumer , how many outlets to sell through, how to interact with other channel members, what terms to negotiate, the functions to assign to others, supplier choice, and so on.
- ❖ Promotion decisions include selecting a combination of tools (advertisings, public relations, personal selling, and sales promotion) whether to share promotions with others, the image to pursue, the level of personal service, media choice, message content, and promotion timing.

- ❖ Price decisions include choosing overall price levels, the range of prices, the relation between price and quality, the emphasis to place on price, how to react to competitors, when to offer discounts, how prices are computed, what billing terms to use, and so on.

C. Other Internal Factors that Determine SMEs/ Enterprising

- **Demographic factors:** These include such factors as sex, education, age occupation and etc. They determine enterprises performance. Especially, education creates an opportunity to get exposure to modern methods of doing things. The study of Tegegne and Mulat (2005) in Amhara small towns), for example, demonstrates that demographic character of the operator was insignificant to better economic performance. However, the study in Turkey shows a significant positive correlation between firm performance and the education of the operators. (Ozca, 1995 as cited in Debebe,2006).
- **Firm age and size:** As the age of firms increase, the entrepreneurs can learn much about the business. Empirical results of different studies showed there was a positive as well as negative relationship. That study by Little, Mazumder and Page found that as the age of the firms increase the efficiency showed a marked decline. The same study showed a significant positive relationship with firm size and efficiency. However, capital utilization effects, management exercise and labor forces made the size insignificant (Lundual and Battese. 2000). The same authors found a positive relationship between firm size and efficiency with Kenya manufacturing. The study also revealed that the age factor was more significant for larger firms than the smaller ones. Contrary to this, the relationship of firm size and growth was found to be negative in Cote d'Ivoire.
- **Management :** The management aspect of the enterprise affects the performance of the firms. The strategy, marketing plan, record keeping, human resource management and the legal ownership forms show some aspects of management. For example, as the finding of Morgan et al (2000) shows, limited liability firms are less profitable than the partnership because of less risk exposure likelihood of the managers in the later than in the former. Computerized accounts and good record keeping also have a positive relationship with firm growth.
- **Finance:** Firms need finance to perform well and to grow. Especially, starting capital and working capital have paramount importance. The findings of Tegegne and Mulat (2005) have also shown a positive and significant relationship of working capital and the firm revenue.

- **Innovation:** Innovation involves introduction of new changes in technology or developing new products to sell. Hughes (cited in Foreman –Peck et.al, 2000) states that growth of the firms is more likely associated with introducing new changes in process or products.

D. Specific Success Factors for Enterprises/Entrepreneurs: Several success factors are apparent from research on innovation and entrepreneurship. With some exceptions, most new ventures succeed because their founders are capable individuals. The other success factors include the following.

i. The Entrepreneurial Team: At the top of the success factor list is the “entrepreneurial team.” The term “team” is used because, more often than not, entrepreneurs do not start business by themselves; they have teams, partners, close associates, or extensive networks of advisers. An entrepreneurial team is usually headed by an individual who provides the critical profile of success. This focal entrepreneur typically has an above-average education, with about 35 percent of technical entrepreneurs holding graduate degrees. Most entrepreneurs started their business when they were in their 30s, and they had solid job experience. Most technical entrepreneurs tend to start business closely related to what they did in previous career positions. Those in non-technical areas often leverage their experience in marketing, merchandising, or a professional service area such as insurance or finance. We can infer that success is closely tied to solid knowledge base and substantial experience in related fields of endeavor. They will also have well-developed social and business relationships, and therefore, have a strong foundation for building a team or support network.

ii. Venture Product or Services: Nearly all successful ventures start small and grow incrementally; few “gear-up” with substantial organizations for a big-bang start. Incremental expansion of products and services also tend to stay within the bounds of positive cash flow. Products tend to have strong profit potential with high initial margins. In each instance, products and services tend to display a distinctive competency in their industries. Entrepreneurs must assure themselves of a niche for their services. A corollary to this rule is that successful entrepreneurs should “stick to their knitting” by concentrating initially on one distinct product or service.

From an investor's viewpoint, the product or service idea is secondary to the entrepreneur. A popular expression among investors is that they would rather “back a first-rate entrepreneur with a second-rate

product than the other way around". This does suggest that investors must have considerable confidence in the entrepreneurial team before buying into the venture.

iii. Markets and Timing: Successful entrepreneurs tend to have a clear vision of both existing and potential customers. Planning can necessitate forecast of sales based on sensible projections. Valid market research, not simply a good idea, is crucial to convince investors. Markets evolve and there are windows of opportunity that can lead to exceptional success. Misjudging those windows can result in dismal failure. Market potential is critically influenced by timing of new products or services. Timing pertains to-when products or services are introduced, how they are priced, how they are distributed and how they are promoted.

iv. Business Ideology: From an entrepreneur's perspective, every venture has an ideology, a philosophy or rationale for existing. It is concerned with system of beliefs about how one conducts an enterprise. These beliefs include-a commitment to providing customers with value, the ability to take calculated risks, the determination to grow and to control the fate of the business, the propensity to elicit cooperation among team members, and the perspective of creating wealth realistically. A business ideology may not be entirely defined by these notions, but failure is often blamed on one of them. For example, rarely do we hear that a business failed because the product was flawed, but more often because the firm lost track of its commitment to customers.

E. Specific Internal Factors for the Failure of SMEs: Every year many small business firms cease operations. The most frequent cause is failure to pay debts, in which case it is common for the owners to declare bankruptcy and to seek to accommodate the creditors, such as paying them some amount on Birr. In other instances, businesses go out of existence because the owners realize that although currently they are solvent, if they continue operations they will incur debts they cannot meet.

On the other hand, most of the time the major reason that businesses fail is incompetence. The owners simply do not know how to run the enterprise. They make major mistakes an experienced, well trained entrepreneur would see quickly and easily side step. The other reason businesses fail is unbalanced experience. This means owners do not have well rounded experience in the major activities of the business, such as finance, purchasing, selling, and production. A third common cause of business failure is lack of managerial experience. The owners simply do not know how to manage people. A

fourth common reason is lack of experience in the line; that is, the owner has entered a business field in which he or she has very little knowledge. Other common causes of business failure include neglect, fraud, and disaster. Neglect occurs whenever an owner does not pay sufficient attention to the enterprise. Fraud involves intentional misrepresentation or deception. If one of the people responsible for keeping the business's books begins purchasing materials or goods for him self or her self with the company's money the business might find itself bankrupt before too long. And disaster refers to some unforeseen happening or 'act of God'. If a hurricane hits the area and destroys materials sitting in the company's yard, the loss may require the firm to declare bankruptcy. The same is true for fires, burglaries, robberies, or extended strikes.

Management Traps In one study reported by SBA (written by Hailay, 2003), ten firms that had failed during prosperous years were compared to ten similar companies that had been successful during the same period. An analysis of the two groups revealed a number of avoidable management traps. Ten of the more specific managerial causes of small business failure are discussed below.

Inadequate records Nine bankrupt firms had inadequate records. One of them, for example, often had bid unsuccessfully on government contracts. The bids were consistently too high. Unable to land any contracts this way, the company then hired a consultant who not only cost it a lot of money but also involved the firm in a disastrous subcontract. Unable to establish an adequate record-keeping system, however, the firm simply had no basis for estimating its costs and correcting the problem. Another firm had a good product line but failed to keep revenue and expense records. The partners never knew where they were in terms of finances. During the bankruptcy proceedings, the accountants admitted they were unable to reconstruct even the simplest form of income statements from the records they had found. In fact, the office records consisted of piles of unsorted papers jammed into an old-fashioned safe.

Expansion beyond resources Some of the firms had grown rapidly and their bookkeeping systems were not designed to handle dramatic growth. In three cases, management simply tried to save money on its bookkeeping system by taking shortcuts-all with disastrous effects.

Lack of information about customers Half of the unsuccessful firms lacked information about their customers. For example, one company had been shipping goods to customers without making credit investigations. As a result, its receivables were in terrible shape. Most of the accounts were 90 days or more in arrears. Additionally, one of its customers was bankrupt and had not made a payment in more than a year, and the company had continued to ship goods to it.

Failure to diversify market Three firms failed to diversify their markets and wound up selling their goods to a mere handful of customers. A loss of any one customer would have had a tremendous effect on overall revenue. One company contracted all of its output to one buyer when that buyer canceled the contract, the company went bankrupt.

Lack of marketing research: Two firms undertook major ventures without conducting any market research, while three adopted simple solutions to their marketing problems by contracting their entire plant output to a single buyer. In all cases, changes in market conditions left them in a very poor position.

Legal problems: One company tried to save money on legal fees. However, when long, drawn-out patent infringement proceedings became necessary, the company was ill prepared to deal with them. Had the firm exercised foresight and obtained competent legal advice from the beginning, many of these problems could have been avoided.

Nepotism: In three instances favoritism toward family members helped cause the enterprise's failure. The most typical example was the practice of carrying on the payroll family members who received high salaries but contributed little to the overall running of the business. Additionally, in certain cases, meddling by these family members in important business matters resulted in severe financial setbacks.

One-person management: In three cases, one-person management led to firm failure. This occurred in one instance when the individual who had built the firm from nothing began to experience poor health and sold out to a group of investors. The investors did not realize that the man's technical genius was the reason for the company's success.

Lack of technical competence Two companies suffered from a lack of technical competence. One had been purchased by a group of investors who had little technical knowledge and lacked the expertise for choosing a technically skilled vice president. The firm's previous reputation carried it for a while. However, the first two shipments were rejected because they did not meet the quality called for by the contract. Eventually, the contract was cancelled, and firm went bankrupt.

Absentee management One firm had a long period of profitable operation. Then it went through a number of years of absentee management. Operations gradually deteriorated; financial records were neglected; and the bookkeeper failed to make several years' tax payments.

2. External Environments: are also called uncontrollable factors. These factors affect an firm's performance that cannot be fully directed by that firm and its marketers. A marketing plan, no matter how well conceived, may fail if uncontrollable factors have too adverse and impact. Thus, the external environment must be regularly observed and its effects are considered in any marketing plan. Contingency plans relating to uncontrollable variables should also be a key part of a marketing plan. Uncontrollable factors that especially bear studying are linkages of firms with customers, competitors, suppliers and distributors, technology, the economy, government, socio-cultural factors, an d independent media. The following details are made as written by Bantie (2001: 15-17).

I. Customers: Customers purchase products of business firms. They may be individuals or organizations. Their decisions to buy or not to buy the firm's output directly determine the firm's sales volume and finally its survival. They also affect the characteristics of the firm's products or services; its quality, features, sales price, and point of sale. The response of the business firm could be to conduct customer or market research.

II. Competitors: These are organization's opponents, the organizations against which the business firm competes for customers and resources in the external environment. However, business organizations focus most of their competitive efforts on customers. Competitors can be viewed as dynamic, ongoing processes of moves and counter moves. To this end, a thorough competitor analysis enables any business organization to better anticipate competitors' moves and counter moves. The analysis takes in to account the strengths and weaknesses of the competitors.

III. Suppliers: All organizations require resources-funds, energy, equipment, services and materials-to produce a product or service that provide these resources. However, the problems of the suppliers are related to quality, cost and timeliness.

IV. Human resources: In this case, the resources pertain to the vast resources of people in the external environment from which an organization obtains its employees. They provide knowledge, skills and drive that create, maintain and advance business organizations.

V. Technology: The development in technology can have impact on a business firm in two ways:

- a) It can influence the firm' use of knowledge and techniques in producing a product or service and in performing other works of the firms.
- b) It can affect the characteristics of a firm's products or services. The businessman must keep abreast of the latest development, incorporate the advancements to maintain the firm's competitiveness and cope up with fast changes in technology. In these respects, training of the staff is crucial to update the skills and knowledge.

VI. The Macro and Micro Economic factors: Theses are related to the changes in the states of the economy. The economic indicators include inflation rates, gross national product, unemployment rates, interest rates, the values of the currency, the size of the budget and the budget deficit. When there is economic growth, firms enjoy a growing demand for their products; get funds for their expansion and other investments. But when the economy down turns the demand drops, unemployment rises, and profits and profits shrink.

VII. Government: Political, legal and regulatory environment: These affect business organizations in the areas of wages and taxes, the right of employees and the business firms' liabilities for harm done to customers by its products. Moreover, business firms monitor governmental legislative developments to ensure their compliance with the law. Political stability and philosophy, monetary and fiscal policies; restrictions on capital movement and industrial licensing laws are the other aspects of those government –related-factors. In shot, these forces can act as both constraints and opportunities.

VIII. Socio-cultural factors: These factors can produce flow of information and services but, to a lesser degree, often goods which influence the firm action. The other important element of social relationships and practices for business development within a network is trust, as indicated by Lorenz (1990). The importance of trust, but also the local socio-cultural environment in a wider perspective, is the reason why business networks in South-eastern Africa are often base on ethnicity (the Indians and Arabs) or tribes (e.g. the Yaos in Malawi) (ibid). Moreover, within the same environment, the technological capability plays a decisive role.

IX.Cluster and Network Through this, firms can improve their performance. For example, according to Foreman –peak et al (2003), studies in Wales showed that membership of business association were found significant contributors to firm growth.

X. Infrastructure: Communication, transport and power supply enable firms to function properly.

2.1.2. Components of Local Enterprise Development

In the heart of the local Economic Development program, we find the expansion, restructuring or creation of the economic base of the area. The economic base may consist of a single or various concentrations or cluster of local producers in particular industries. As Helmsing (2001) put, initiatives to be developed by local producers can develop in two directions:

- A. Strengthening the cluster formation processes and
- B. Advancing the local participation in the corresponding commodity chain, either by new investment or existing local firms, or by a selective attraction of external firms, or a combination

Some of the components of an Enterprise and Business Development program include the following.

1. Focus on target groups: Each focus has its own specific requirements.

- i. Selective inward attraction of new firms,
- ii. New firm formation. In many countries, University graduates are targeted for new firm formation. This is not because of the shortage of SMEs in the developing countries but because of the need for competent entrepreneurs who can operate even at a global level
- iii. Targeting the existing firms for expansion and growth; and
- iv. Targeting on the innovation and graduation of SMEs.

2. Fiscal incentives and real services:

a. Many local authorities do use different mechanisms to contribute to LED. To attract external investors, they use such fiscal incentives as provisions of property tax holidays, subsidized and or free of charge offers of land and industrial sites.

In general, financial incentives seek to compensate for locational disadvantage but real services support local enterprises to create competitive advantage (Helmsing, 2001). The real services that the local governments can offer, as an alternative to and to overcome the problem of providing fiscal incentive, are discussed as follows.

3. Business development and support services: The institutional infrastructure refers to a range of enterprise support services and a variety of forms may be distinguished (Helmsing, 2001). They include the following items:

- ✓ **Sign posting** which involves the provision of information to entrepreneurs about the availability of business services, potential business partners, markets and suppliers, source of finance and technical services. It directs the user to specialist providers. Chamber of commerce and specialized enterprise and promotion agencies do usually take care of the responsibility.
- ✓ **Business skilling:** Such support services involve a formal transfer of knowledge to enterprises through exchange of information and training. It can be executed by such organizations as Commercial agencies, Enterprise agencies, and specialized intermediary organizations and so on.
- ✓ **Business advice:** Counseling or consulting client firms on market and technological developments is the target of such effort.
- ✓ **Business assistance** refers to situation in which the service provider actually undertakes tasks for a client firm.
- ✓ **Business support:** This mechanism is an actual assistance which includes the provision factor inputs to the firm.

On the other hand, these services are intermingled with financial services, marketing, human resource development, and technology and innovation. It is also worth mentioning to remind that the LED can not be "localist" by excluding the sectoral and (inter)national support channels and systems. For instance, for local producers to get access to more remunerative external market, they generally require specialist producer services to enable them to get knowledge about these markets. Small and

medium enterprises need to gain access to external resources and rely on specialist business service providers to obtain market and product information, tools and technologies, skills and etc.

The development of the specialist services is viewed as one of the market-based externalities of agglomeration. But inter-firm cooperation generates specialist services on a non-market basis. As witnessed in Italian districts, government supports such services. As the new industrial district literature shows, there are a wide range of institutional modalities for specialist services:

- ✓ **Public provision** (e.g. Provide export marketing, vocational training ,and technology centers)
- ✓ **Public-private partnership** (e.g. where the government (co-)finances the service centers but leaves it to the private sector to run it)
- ✓ Intermediary forms of **non-profit enterprise promotion agencies**
- ✓ **Business associations**, and
- ✓ **Consortia**-formalized agreements between a limited number of firms to pool efforts or resources for a common purpose .For example, they can be found in the area of export marketing, credit and procurement and sourcing of inputs.
- ✓ **Formation of groups of firms** which is more restricted to a smaller group and often involves more flexible arrangements such as joint tendering, for export orders, or joint procurement and sourcing of inputs.

There are relative importances of the different modalities depending on the different circumstances. For instance, researches in Japan, Korea, Indonesia, and Colombia, on export marketing, technological support services and financial support systems showed that private sources are preferred to collective public sources. The later is important at early stages of export growth and functions properly if decentralized to and supporting private support channels including own business associations.

4.Special programs of enterprise development and networking: A great range of other special programs also deserve a special attention from government bodies/local authorities and other players. These include formation and promotion of growth center/point, building of clusters, producers' group learning, and collective learning and enterprise networks. In the first case, the government concentrates public infrastructure investment in particular places and some times with package of incentives to attract new firms in. This creates agglomeration which in turn generates specialization. In

the second case, assuming that the geographic concentration of firms is already in existence, a new form of advantage can be gained and competitiveness of the clusters can be strengthened by the joint actions of the local producers through business support services and inter-firm co-operation. The third case involves the group based learning of the norms and standard of products and production system (techniques, practices, quality control and etc).Actors can also contribute to the transfer of the new knowledge: foreign buyer(Schmitz and Knorrigna,1999),a local business association (Meyer-Stamer,1998) or a local enterprise agency (Maldonado,2000).

There is also a need of a local milieu (Maillat, 1995, 1998) in which the players (firms, research and training institutes, and local authority) in a locality become interdependent and cooperative so as to get the most out of the existing resources. This is simply the "mirror image" of collective learning. There must be a learning dynamic which is manifested by the players' ability to modify their own behavior and to implement new solutions to achieve changes in their environment .Innovativeness of a milieu is measured by the local actors capability to make use of the advantages of collective learning and shape themselves in that direction. When a milieu succeeds in organizing its resources and coordinating and linking economic, cultural, and technological structures it becomes capable of creating new ways of productively combining these resources (Helmsing, 2001).Innovative capability depends on both combination of existing resources and linking up with external resources. They must also have a relative decision making independence and autonomy of making strategic choices.

In the fourth one, networks must be organized locally and are meant to integrate vertical programs and facilitate the flow of information about opportunities and about resources that need to be mobilized to seize these (Helmsing, 2001).Networks facilitate external effects of economic decision-making to become internalized by better attuning decisions to each other ,and by preventing negative and maximizing positive externalities(ibid).According to Bennett and McCoshan (1993) ,different types of networks can be identified. It also varies from region to region depending on the different economic characteristics. Peripheral regions, for example, depend much on the local governments as central actors in LED networks.

In general, these are the determinant ingredients of the attempts to develop businesses enterprises and entrepreneurs locally.

Moreover, as Cook and Morgan (1998) clearly put, local producers have to develop associational capacities at three levels: at the level of the firm (between managers and workers), at the level of inter-firm cooperation and the commodity chain and at the level of enterprise support systems .To get the interaction right among these three is also crucial. The locality or region can perform strategic support functions that can not easily be done centrally. The national level can not deal with the detail and complex affairs but the local government can accommodate the local diversity and specificity in doing its activities.

Furthermore, according to Richard(1981)there are about twelve basic tools for (Local) Business development .They include one stop centers, start-ups and venture financing companies, small business development centers, women's enterprise ,group marketing systems, promotion and tourism programs, research and development programs, incubation centers ,micro enterprises, technology and business parks, enterprise zones, and entrepreneurial development courses. The selection and application of the tools varies within and among localities.

2.1.3. Actors in Enterprise Development Programs

As Helmsing (2001) noted, in general, for the success of the local EBD, the local firms themselves and their associations, the local government and transnational corporations are the main actors. The first two are discussed here below.

A. The local producers themselves are the key actors in Enterprise and Local Business Development. Inter-firm co-operation and their joint actions play great role. But, usually the local producers are individualistic and they find it difficult to simultaneously operate competition with co-operation. These require external catalysts and brokerage roles for their effectiveness. For example, the role played by Andalusian Industrial Promotion Institute in the case of Macael marble industry as examined by Barzelay (1991),the contribution made by individual leaders and business associations and the presence of role models that stimulated firms to collaborate in the case of ceramics industry in Santa Catarina [in Brazil] as witnessed by Meyer-Stamer (1998) and the case of the failure in Brazilian shoemaking firms because of the inability of the regional /local governments to play a brokerage role as written by Schmitz(1999) evidence the importance of the roles played by the external catalysts.

The role played by associations of the local producers has been expanding due to the following factors:

- i. Transformation of the role of the state in economic development. The neo-liberal thinking induced the reduction in the interventionist role of the national government/state through its economic policies. In its place market forces were expected to solve economic problems. The market factor may fail due to these reasons: up-front investment costs or risks are too high; demand may be too low, the public and 'club' good character of the necessary provisions, knowledge barriers, and etc. Moreover, an enabling and demand led governance is advocated .The latter implies that government delegates implementation to others. Here the business associations are one of the basic actors in articulating concerns and demands of producers ,pooling resources and providing (semi-) public and 'club' goods (Helsing,2001).

- ii. The globalization of economic activity and a concomitant increase in the complexity of the business environment .Accordingly the firms need access to specialist business services. Associations provide that and it ultimately contributes to 'Collective efficiency'. They constitute a crucial dimension of local 'institutional thickness' and are important components of local social capital (ibid).

- iii. Due to the rapid development and changes in the technological factor, the important contribution of the associations is observed in channeling tacit knowledge from other associations in other countries to benefit, resource wise, the smaller and less experienced firms .The knowledge is required to enable the firms to use and adapt the accessible technology to the local circumstances. Collective learning of the firms can also be facilitated by the business associations. For example, through local business associations local producers in ceramics and marble extraction and in the building materials industry in Brazil and Spain respectively succeeded in linking up with business associations in Italy, which they considered their role models on how to reorganize their industry and bring their own practices up to the world standards (Barzelay, 1991; Meyer-Stamer, 1998).Associations are also considered as the routes through which firms 'learn by interaction'.

B. For the local government to have a role in LED or EBD, it needs several requisite factors. Decentralization and strengthened structure of the local government, legislations enhancing public-private partnerships, changing perceptions on social security and poverty alleviation, support programs for the local governments, and pressure groups are among essential factors that enable it to work.

Many developing and countries in transitions have already started the decentralization process along with strengthening their local governance structures. But usually the transfer of the public

responsibilities to the local government is with out adequate transfer of resources. For example, the need to generate more local revenues has forced the local governments to take more interest in the economic development in their area of jurisdiction. However, the concern for the LED does not only emanate from the need to generate revenue but also requires responsiveness to the needs of the local people and enterprises.

Secondly, as evidences from South Africa, Uganda and Bolivia show local governments are mandated to engage in the establishment of the Public and Private partnerships. In the third case, as attributed to the weight of emphasis given to social security and poverty alleviation, the local governments are actively involved in the affairs of local employment creation.

The fourth factor deals with the national government program to support the local government to actively pursue development activities at the local level. Finally, the regionalist pressures arising from the political demands in response to past neglects and /or the need to build local initiatives in line with successful processes of local specialization.

In general, local governments are among the important components of the local economic development. Most local authorities spend a relatively minor fraction of their budgets on direct economic support .What is more important, however, here is the manner in which they discharge their responsibilities and realize their importance as

- i. a source of economic opportunity, and
- ii. a service enhancing or inhibiting enterprise development and competitiveness.

The industrial district studies argue that definitely there is a role played by the local government but also stress that there are rare cases where the local government initiatives play a role in the economic development of the clusters. However, the local authorities can, at least, create conditions for local producers, intermediary organizations and public support agencies to engage in a self-organized process of interactive learning.

2.1.4. Government Regulation on SMEs /the Business Associations:

[The SNNPRS context [Regulation No.60/2007]

I. Prioritizing association for construction and related services

- ❖ All public institutions having construction works and related services to be implemented for not more than Eth. Birr 300,000 shall be given to an association organized for this purpose directly. The price can be decided by negotiation of the associations, the SMEs development bureau and the institutions
- ❖ Unless and otherwise the gross income in three round should not reach Birr 900,000, the SMEs have the right to get directly or to compete with similar association
- ❖ An association encouraged in this regulation shall get advance payment up to 20% of the total price after contractual agreement.
- ❖ Grouping of associations bidding with contractors that are not encouraged by this regulation shall be privileged in the procedures of tender by adding 10 points for the point earmarked for cost estimated by association.

II. Support for contractor that subcontracts Association

- ❖ If contractors that are not privilege by this regulation win the tender and willing to sign a subcontract not less than 60% of the total cost for associations organized by this regulation, 10 point earmarked for cost

III. Supply of agricultural hand tools production raw materials and prioritizing purchase of agricultural hand tools for associations

- ❖ The SMEs in associations shall be provided with, by public institutions, out-of-use assets for production
- ❖ Any public institution that needs to buy agricultural hand tools for agricultural extension packages or other agricultural activities shall buy from associations directly with out bid.

IV. Priorities for purchase of Office Furniture's, Uniforms and clothing's from association

- ❖ Public institutions that need to buy office furniture's, civil servants and students' uniform shall buy from associations directly.

V. Priority for purchase of Food and Food Related Products from Associations

- ❖ Any public institutions that need to buy food related products shall buy from associations engaged in the production of food and food related value added products with out bid.

VI. Prioritizing Purchase of Town and Cleaning Services

- ❖ Public institutions and municipalities that need services related to town and office cleaning and other permanently for a limited period of time shall buy the services from association organized for this purpose directly.

VII. Supply of Land, office and Machineries

- ❖ Regional Urban development bureau and City Administrations shall provide necessary facilities for associations in relation to land and offices.
- ❖ Machineries and equipments necessary for the operation of associations shall be facilitated through lease. Trade industry and urban development coordination bureau shall organize machineries and equipments necessary for associations by collecting from different institutions of the regional state.

VIII. Training

- ❖ Members of associations shall get short term trainings from technical and vocational training centers and other related training centers located in and around their areas by requesting through trade, industry and urban development of zonal and urban administration.

IX. Credit Facility

- ❖ Saving and credit institutions at all regional level shall be obliged to give priority for associations. The institutions board shall follow it up.
- ❖ Civic Organizations may provide credit service for associations. The relevant regional bureau shall be obliged to take the necessary action and encourage the civic organization. Concerned offices shall issue directives.

X. Exemptions and accountability

- ❖ An association privileged under this regulation shall be entitled to get advantages of construction activity products and other related supplies with direct purchase with out bid only for three times.
- ❖ At any circumstance, an association shall not be entitled to get advantages of this regulation after five years starting from the coming into force of this regulation (Megabit 1999EC). After this day all procedures of bid and free market shall be implemented.
- ❖ Notwithstanding the encouragement provided by this regulation, associations have the right to bargains and competing in construction activities, production and other services by competing with others

- ❖ To bring effective enforcement of this regulation, all public institutions shall be obliged to perform their duties accordingly.
- ❖ If the relevant public institution ascertains the existence of quality and performance problems of their products, the encouragement chance shall cease to continue.

XI. Organizing Winner prize

- ❖ Regional Trade, Industry and Urban Development bureau shall organize yearly winner prize to encourage micro and small trade, handicrafts and industry in comparison to standard quality, productivity and timeliness and other related performance measurements.

2.1.5. Problems in Ethiopian Small and Micro Business

Small scale industries have not been able to contribute substantially as needed to the economic development particularly because of financial, production, and marketing problems. These problems are still major handicaps to their development. Lack of adequate finance and credit has always been a major problem of Ethiopian small business. Small –scale units do not have easy access to the capital market because they mostly organized on proprietary partnership basis and are of very small size. They do not have access to industrial sources of finance partly because of their size and partly because of the fact that their surpluses which can be utilized to repay loans are negligible. Because of their size and partly because of the limited profit, they search for funds for investment purposes. Consequently, they approach moneylenders who charge high rate of interest and hence small enterprises continue to be financially weak.

Small scale enterprises find it difficult to get raw materials of good quality, at cheaper rates and in time. Due to these, the enterprises very often fail to produce goods in requisite quantities, of good quality with fair price. Furthermore, the techniques of production, which these enterprises have adopted, are usually outdated. Because of their poor financial position, they are not able to buy new equipment. Consequently, their productivity suffers. The report of Assefa (1997) also witnessed this fact.

The issue of adopting appropriate technology has been a serious problem of MSEs in the country. 29 percent of the small scale manufacturing enterprises among the entrepreneurs approached by the CSA

survey (2002) on small scale manufacturing industries reported frequent machinery failure to be their major reason for not being fully operational.

Besides, many small business enterprises are suffering with the problem of marketing their products. As many literatures and authors stress, the lack of market information and markets have been the major impediments to the development of SMEs in Ethiopia. Because of the absence of market research and information many of the small enterprises are often concentrated in the production of similar commodities, which puts them under fierce competition among themselves. Marketing problem is a serious constraint that hinders small enterprises' growth and their product diversification. Ledholm and mead (1999) emphasized that the inability to introduce new product types can be seen as a problem of markets for the products of SMEs.

Lack of premises is a major problem for SMEs and informal firms; they can rarely acquire suitable locations where they can get access to markets. The transaction cost of securing premises is also a constraint for MSEs. The land lease promulgation, which has been effective in most urban areas have an impeding impact on micro and small entrepreneurs who wish to start up business (Andualem, 1997).

Infrastructures related to water, electricity and market access or roads are vital inputs to small-scale industries. However, shortage of such infrastructure has been one of the major constraints to the development of the sector in many urban areas of the country.

Moreover, lack of adequate skills is one of the seven major problems confronted by entrepreneurs at the starting of operation as revealed by the result of the national survey on small scale manufacturing industries undertaken by CSA in 2002. .

In the country, for SMEs, access to information (related to market, raw materials, utilities, technology, business opportunities and information about government policies and regulation) is often limited, as it is cumbersome and expensive to collect process and disseminate that information.

The existing situation of consultancy service (regarding how to undertake business opportunity identification and feasibility study, to prepare business plan, to identify sources and procedures for finance, to build business linkage, to implement appropriate cash flow management and records, and

other accounting activities) in Ethiopia is fairly infant and weak. Though the institutional arrangement is in place, the achievement in this regard so far is not as such attractive (Debebe, 2006).

Various studies and discussions also indicate the following as some of the regulatory issues affecting the private sector in general and the small enterprises development in particular.

1. Governance responsibilities of the government and the private sector are not clearly put. There are governance weaknesses on the part of both government and the private sector.
2. Market regulation is not mostly ensuring fair competition and market efficiency.
3. Dialogue between the private sector and government has not been strengthened which could have minimized the regulatory and governance weaknesses.
4. Bureaucratic delays and administrative inefficiencies.

For example, the CSA's survey result on small scale manufacturing industries (2002) revealed that of the total establishments approached, some owners reported that government regulations were obstacles for starting their business operations. Among those who replied, 41.5 percent and 32 percent reported that getting license and regulation on obtaining working premises, respectively, were their major problems to start operation in this sector, and 13.4 percent reported that tax regulations were their major problems. Therefore, it is only by overcoming all these constraints that small entrepreneurs can hope to make their enterprises successful.

CHAPTER THREE

Data analysis, Discussions and Findings

3.1. Introduction

This chapter discusses the findings from the research survey, key informant interviews, observations and secondary documents. In this, business associations (in both package and regular programs) are the only units considered in the analysis. To keep consistency and integration of ideas, some of the findings regarding the factors (the internal and external business environment) affecting the fates of the enterprises are discussed simultaneously. At the same time, the data found through different mechanisms are presented and analyzed in a way they reflect consistent flows of ideas and findings. Moreover, in case some theories and empirical facts are not clearly shown in the Reviews of the Related Literature section, they are made to be incorporated in the Discussion and Analysis part.

3.1.1. Background Description of the Study Area

Based on the compiled documents obtained from Arba Municipality, this section provides a brief history of the study area. Arba Minch town is one of the big towns found in SNNPRS. The town was established in 1955 EC as a capital of the former Gamo Gofa province and it is now the capital of Gamo Gofa Zone. Its municipal administration was established in 1957. Moreover, the town is found at a distance of 505 Kms from Addis Ababa, and 270Kms from the capital of the region, Hawasa. Its geographical location is at 60.4^o North and 36. 4^o East. The town lies on 2184 hectares of land and its land feature is partly plain and partly hilly. It is found in the Great Rift Valley at an altitude of 1200 - 1400m USL and has hot whether condition. The lower part of town contains the settlement of Sikela and the upper level, the settlement of Shecha. These settlements have expanded and there is now one large continuous urban area. Averagely, its temperature level is 29^oc and the annual rainfall range is 800-1000 mm/year.

Arba Minch does literally mean “the 40 springs” and it has got this name from the 40 springs found in the dense forest found near the town. The area of the town is highly endowed with natural resources. It

is situated on two levels of escarpments which overlook Lake Abaya to the north and Lake Chamo to the south. Moreover, Nech Sar National Park is connected to it by "*Egziher Dildiy*" which is a mountain that separates the two lakes and connects part of the town to the park.

According to the same document from the municipality, currently, the population of the town is estimated, at 65,000 to 70,000 inhabitants, which is in line with Master Plan projections of 75,000 by 2005. The annual growth rate has been estimated at 5%.

Now a day, Arba Minch town is one of the towns in the country embraced under reform program. From the 19 reform cities/towns (with a population of greater than 15,000 each) in SNNPRS, the town belongs to the Grade II towns, together with Dilla, Sodo and Hosaina. Because of this it possess a town administration next to the municipal administration. Besides, reform and development program, the town has been making changes in multitude of socio-economic spheres. This has also created opportunities to tackle problems pertaining to good governance and development in the town .The new regional cities/towns an administration proclamation also assures the autonomy of the town for self governance and clear accountability so that the unnecessary interventions of the third party (authority) in the home affairs of the municipality is reduced. This in turn reflects itself in direct participation of the community in development activities, socio- economic changes in the area and in good governance.

For administrative purpose, currently, the town is segmented in to four sub-towns: Sikala, Secha, Nech Sar, and Abaya sub towns. The major economic activity of the town in general is trade. Tourism, fishery, crocodile development, and banana production are also the other important economic activities in and around the area.

The town is highly endowed with resources for the development of industry but they are not fully exploited yet. The only large factory found in the city is Arba Minch Textile factory. Fish processing and packaging, grain mills, office and household furniture production, brick/block and tube production are some of the industrial activities in the city. The availabilities of the immense and untouched resources are typical opportunities for industrial development in the area. Lake Abaya and lake Chamo, the forty springs flowing in dense forest located to west of the lakes, the Nech Sar National Park with its amazing fauna and flora, the crocodile zoos and development center for production of exportable meat

and skins, fishery and fish market found around lake Chamo, the unique cultural cloths and artifacts are the major attractions of in-land and foreign tourists to the town and the areas around. Accordingly, many tourists visit the area annually and products and services are sold out. However, the lack of [standardized] hotels and other services have been the bottlenecks to the development of the sector. But, currently investments in hotel development (even though not sufficient) are making good opportunities to generate more income from the industry.

With regard to its infrastructures, the transport sector is serving as center for road transport to nearby *Woredas* and *Woreda* towns, other towns and regional and national capitals. Moreover, standardized air port and air transport services are found in it. This in turn creates a ground for the development of tourism, trade and agro-processing. There are different social institutions found in the town as well. It has a hospital, a health center, pharmacies and clinics. From education sector perspective, institutions from KG to higher institutions are found in it. In it there is one government university (AMU) and different government and private colleges and schools at different levels. It also has sufficient abattoirs service but it lacks public toilet, vacation areas, museum, and well equipped public libraries. There is also housing problem in the town. The population growth rate is high and the supply of housing service is low and there has been great gap of demand for and supply of housing in the town. To overcome the problem, the town government is undertaking huge activities in the development of housing services by constructing condominium houses. On the other hand, the town has sufficient water supply and has a reliable source from the natural reservoir of forty springs. As some reports in the municipality indicate, majority of the residents of the town get clean and adequate water supply. Moreover, the town has 24-hours electric power supply; modern digital telephone, fax, internet, and modern postal services, and asphalted main road.

However, the town is not with out problems. High Unemployment, poor quality inner roads, lack of poor sewerage system, severe shortage of housing, poor sanitation and health services, inadequate and low quality schools and training institutions, modern market centers, and lack of public halls are some of the main problems. To tackle the problems, the government at different levels, NGOs and private investors are currently undertaking important activities. Housing development projects are aggressively underway; micro and small enterprises are proliferating; financial institutions (especially the MFIs) are involving in the socio-economic affairs; investors are encouraged and huge capital is being injected in

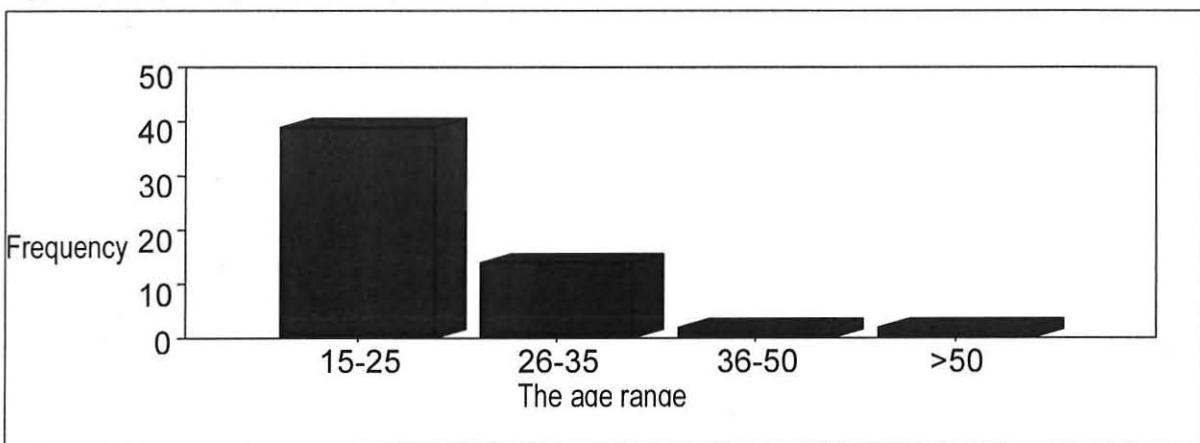
the investment activities in various socio-economic areas; and market centers, cluster buildings, inner roads, sewerage systems and many more infrastructures are being constructed.

3.1.2. Background Description of Respondents

In this study, 57 of the enterprises were actually randomly contacted for information through their managers. 53 (93%) of the respondents were males and the rest 4(7%) were females. This simply shows that females/women have got fewer roles in the management of the enterprises. It was also found out the female managers are found in specific sectors (because the sampled ones are found only in the handicrafts and food processing firms). Furthermore, the discussions and findings under the section describing the associations can better justify the facts.

Majorities (68.4%) of the respondents are found with in the age range of 15-25 and the other considerable number (24.6%) is found with in the age range of 26 and 35. The following graph provides summary of the age profile of the respondents.

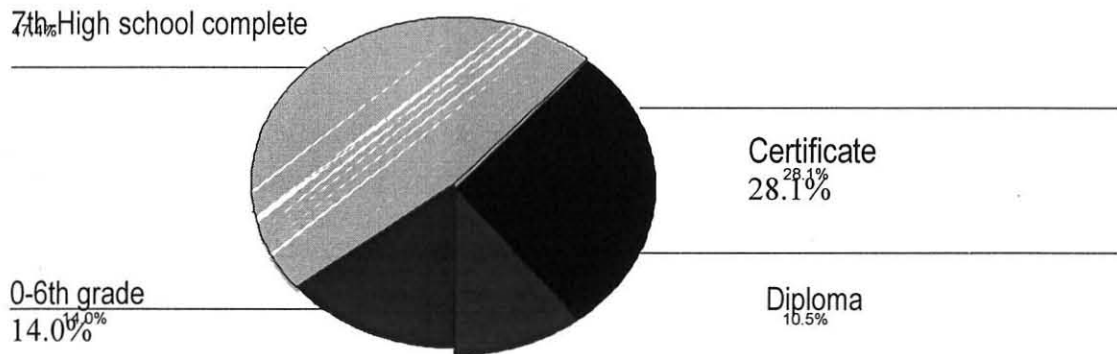
Fig.3.1.The age range of the sampled respondents



Source: Field survey, 2008

Out of the total respondents, 29 (50.9%) are single, 26 (45.6%) are married, and the rest are divorced. Moreover, all the respondent leaders have formal education. Nearly, half (47.4%) of the respondents falls with in the education level of 7th grade to high school complete. The next higher numbers (28.1%) of the leaders are certificate holders as illustrated below.

Fig 3. 2. The education level of the respondents



Source: Field survey, 2008

Furthermore, the respondents used to live and are currently living in Arba Minch town. This is consistent with the criteria the local authorities employ for the operators to engage in the business activities and get necessary support from the government. On top of these, 43 (75.4%) respondents want to live and work in the same area. This will also help retain much of the capital accumulated in the businesses.

In line with one of the criteria the regional and the local authorities currently employ for engagement in the business associations under the package and regular programs, the majority are new entrants as 26(45.6%) were unemployed followed by 11(19.3%) students who either completed or quit their education but who did not have other jobs before. From the rest of the respondents, 8(14%) were employees of other organizations; 10(17.5%) were self-employed and others were farmers and daily laborers. But now all are entirely engaged in the business works. Those who had their own jobs before are currently engaged in the same line of businesses. This tells us that experience can contribute its own role in running businesses. In general, as the interviewed officials indicated, it is the unemployed and the poor who must get preferential supports and encouragements to be engaged in the preferred business forms.

With regard to the main driving forces behind the business ventures, six main influences are identified. These include the pull forces of government-induced promotions, access to credit services, the need to

independently run one's own business and the desire to get use of the business opportunities created by the government. On the other hand, unemployment and fear of it, and the inability to continue education are found to be the other two pushing forces behind the entrepreneurs to embark on the business ventures. The following table shows the summary of the detail picture.

Table 3.1.Reasons of the founder-respondents to go in to the business work

No.	Reasons	No. of respondents	% of respondents
1.	Government promotion and encouragement	47	82.5
2.	Access to credit service	46	80.7
3.	Desire for independence	41	71.9
4.	unemployment and fear of it	37	64.9
5.	To use the business opportunity	35	61.4
6.	Inability to continue education	30	52.6
7.	Access to entrepreneurs	21	36.8
8.	Business hobby	17	29.8
9.	Business experience	15	26.3
10.	Employer bureaucracy	14	24.6
11.	To escape household activities	4	7
12.	To escape husband/male chauvinists	3	5
13.	To leave family businesses	0	0

Source: Field survey, 2008

Before starting the business work, except for few students who used to get remittances from relatives and for those who were employed in any other forms, the majority had no income source and was dependent on other people/ or parents/ or they were poor. Currently, for more than 90% the respondents, the business profits are the only source of income. But it is very few (2 individuals) who do have other means of income working on their part time. Currently, the average monthly incomes of the respondents are illustrated as follows.

Table 3.2. The ranges of monthly incomes of the respondents currently

Income level (in Br.)	Frequency	Percent	Cumulative percent
150-300	21	36.6	36.6
301-600	21	36.8	73.7
601-900	9	15.8	89.5
>900	6	10.5	100.00
Total	57	100.00	

Source: Field survey, 2008

As observed from Table 3.2, the modal group (37%) receives a monthly income that ranges between Br.150 and 300 .The same number earns an income range of Br.301-600 a month. It is only about one-fourth i.e.15 (26%) respondents who receive monthly income of above Br.600. The finding also indicates that the earnings for the majority lie with in the range of Br.150-600 a month. Though this is not a high level of income, it can be inferred that the livelihood of the chairpersons of the enterprise has changed. Accordingly, majority (75.4%) of the operators have earned better living now than before while the others (21.1%) claim that there is no change to their lives due to the business works. To the views of the majority, the main benefits the operators gained are employment, earning livelihood, and paying for tuition fees (for some) and so on.

Regarding residential houses, 39% of the respondents live in rented houses and 42% of them live with their parents. It is only 4(7%) who have their own homes and 2(3.5%) live in "Debal" (shared houses) while the rest did not specify where they live. This implies that the majorities still depend on their families for accommodation and others divert some of their incomes to rent of houses.

Concerning the supports the respondents make for other people, majority (71.9%) of them had no one dependent person to support before they start the business. It was only 16 individuals (28.1%) who had dependent persons to help. Out of these, 10 (62.5%) of them used to help 3 or more persons while the rest had 1 to 2 persons to help. Currently, the numbers of the respondents who have dependent persons to support is projected to 22 (38.6%) while still the majorities (61.4%) remain with out any one who is entirely dependent on their income.

Moreover, the majorities (78.9%) of the team leaders/owner-managers have the plans of expanding the businesses at hand and 70.2% rated doing one's own business as very good activities. This implies that the encouraging benefits the entrepreneurs have obtained or expect from the ventures.

3.1.3. Description of the Business Enterprises/Associations

From 1997EC to the date of the survey, about 124 Small and Micro Enterprises (SMEs, i.e. associations) had been operating in the town of Arba Minch. These enterprises have created job opportunities for more than 1100 poor and unemployed residents (apart from daily laborers) out of which the number of females is less. Out of the total employment of 1100, not more than 280 (less than 25%) are females. From these, about 45% of them are found in agro processing and municipal service sectors. In general, females have not reaped equal advantages as that of males from the business opportunities created. This may be due to lack of or weak promotion for females to engage on the businesses activities and make use of the opportunities opened.

Because of the employment opportunity created, the livelihood of the operators has been changed. As the survey result specifies, for the members, the monthly income ranges within the extremes of Br.80 and Br.1000 a month. Out of these, the majority fall with in the income range of Br.200-600 a month. According to the interview evidences, monthly salaries for all individual partners in each association are equally paid. Yet the sizes of the payments vary from enterprise to enterprise.

The associations /the SMEs/ also deserve appreciations on that almost half (48.4%) of the surveyed firms have created job opportunities for other residents than the partners. The number of the daily laborers they have employed is averaged at 4 persons per enterprise. However, the number of daily laborers per enterprise in the construction sector is found to be as high as 10 or more. The wage of the daily workers was reported at average amount of Br.10/day. In general, the enterprises have no one working on free-basis and all are paid. Moreover, all workers (including the associates) work for averagely 8.3 hours a day and all the workers were reported to be the town residents. Yet 15 (26%) respondents-operators reveal that the payments are complained to be low both by the associates and the daily laborers.

Furthermore, the sales trends of the enterprises were investigated. Slightly more than half (52.6%) of the respondents have found it increasing. The next higher number of the respondents (33.3%) agreed on the irregularity of the sales patterns. Sales trends in the remaining enterprises were found to be constant/same/ through out. The main reasons cited particularly for irregularity of the sales include the falling demands of the market, seasonality of demand and seasonality of production, and supply of competing products in the market.

The trends of the profits of the firms were also found out to be consistent with that of patterns of the sales. It was evaluated over month's time. Accordingly, out of the total enterprise-leaders surveyed, 31(54.4%) of them reported on the increasing trend of profits over months where as the next considerable number (17, i.e. 29.8%) witnessed the irregularity of the profits over the same period. The rest of the enterprises have experienced falling or stagnant pattern of their profits over time. In connection with these issues, information on the status of losses in the firms was sought out. As the majority (64.9%) of the respondent-leaders reported, the firms haven't encountered any losses at all or they have incurred it rarely yet. High challenges of losses were reported only in 3 surveyed firms. For the rest of the firms, the incidence of loss happens only sometimes. In general, the frequently raised causes for the losses are increasing cost of raw materials and costs of living, poor record keeping system, shortage of raw materials, breakage of machineries, market and related problems/demand related problems, and natural factors (rain, erosion and pests).

The profit generated from the sales of the products/services of the organizations are mainly expended on loan repayments, salary payment for the members, expansion of the firms and lastly on payment of income tax of the individual operators. In connection with these issues, for example, the sampled managers of the firms were asked whether they had/have savings. At the outset of the venture, it was only 12 (21.1%) respondent-leaders who had savings and the rest 45 (78.9%) of the managers had no accounts of savings at all. This finding is backed-up by the fact that the majorities (64.9%) of the entrepreneurs were unemployed and students and even the others used to generate their incomes merely for subsistence. Currently, more than 61% of the respondent-mangers do have savings accounts at Omo MFI and other social institutions. As they explained, even the trend of their savings since the business operations has been rising for 27 of the 35 (i.e. 77%) saving account holders. It is only 2(5.7%) respondents who experienced a falling saving account incidence while for the rest, their

saving trends go irregularly. In totality, the finding suggests that some amount of the income generated from the enterprises in the form of share of profit or salary goes to savings. Of course, those who have the savings today clearly put (as also referred documents state and the interview made with the Omo MFI co-ordinator shows) the only sources of their savings as being the principal-deducted savings by the enterprises and the salary they get from their organizations from which monthly compulsory savings of 20 Birr and voluntary savings (if any) are deducted.

In general, those progresses in the livelihood and savings of the owners depict a step forward move as the changes to the lives of the entrepreneurs are from practically nothing to some thing tangible now. Besides, for more than 75% of the surveyed entrepreneurs, their life conditions are better now than before because they have started to generate their own livelihood; they have started to support themselves and, some of them, their families; they generate better income and profit and some also save voluntarily by any means. But those who responded to the "no change" or "worsened" life have mainly connected the reasons to the alarmingly rising living costs and insufficient/subsistent/ income they generate from the ventures.

3. 2. Assessment of the Business Environment of SMEs

3. 2.1. Assessment of the Internal Business Environment of SMEs

3.2.1.1. Organization and Management

Organization structure is a framework that managers device for dividing and co-coordinating the activities of members of an organization. It involves division of work, grouping of workers and activities (i.e. departmentalization), design of organizational structure and delegation of authorities, and relationship building among departments and integration of activities for its effectiveness (i.e. co-ordination) (Plunket et al, 1987). Based on these general facts, the realities in the SMEs (associations) under investigation are examined as follows.

According to the organizational rules and regulations of the SMEs (set by the regional government), an SME run in association is led by a managing committee elected by the members at the general

assembly of the association. The committee is a decision making body made up of a chairperson (*Likemember*), a secretary and a cashier. Their appointments base on their educational status, experiences, willingness to obey the organizational rules and regulations and some other personal qualities. The committee chairperson is also the head of the assembly. The chairperson works on behalf of the association as well. For the associations with 10 or more members, sub-teams having 5 members are formed and managed by a sub-team leader and a sub-team secretary directly elected from the members of the sub-teams. Again these sub-team officers are directly accountable to the chairperson of the managing committee. The office bearers in the managing committee in turn are accountable to the committee which still is directly accountable to the general assembly of the members of the association. In short, these all relationships of authorities show the management systems in the associations. The system is similar for all kinds of associations, i.e. individual firms do not have their own separate organizational structures. Rather, as the interview results and existing documents witness, the associations solely depend on the associations' organizational regulation documents uniformly distributed by the regional government to all kinds of the associations. In other words, the document on organizational rules and systems are the general guidelines for decision making in each association. Apart from these, to date, the organizations do not use any formally sketched organizational structure. Moreover, departmentalization of activities does not exist at all in the firms. Clear and detailed duties and responsibilities of all the partners are not found in the associations as well. However, merely the chairperson him self/her self assigns tasks and activities to individuals or groups and the assignees will be responsible to discharge the duties. The assignments of activities to the individuals depend entirely on the intuition of the chairperson(s).

Moreover, in principle, while the general assembly decides on strategic issues, the managing committee lays down detail procedures and plans in accordance with the rules and regulations of an association. In reality, however, the results of the interviews showed that standardized and well thought-out plans are not developed in the organizations by the decision makers at any level. Rather, it is the business development agents in the sub-cities who develop business plans in consultation with the managing committee of the associations. Hence, the business plans are the only plan documents based on which the associations measure their performances through out time.

Records and record keeping systems in the associations/SMEs: Establishments of good record keeping system will help businesses in estimating cost and revenues, material requirements, financial

or material positions of the firms and even serve many more purposes. In line with this, the realities in the enterprises under investigation are shown as follows.

Except in a few (3.5%) associations where responses were not made, all the enterprises/associations use records-keeping systems. However, modern record keeping system is totally absent in the associations: use of computer systems, type writers, separate shelves for records and documents are some of the essential facilities totally lacking in associations. All the firms use traditional and manual ways of keeping records. Records of expenses and revenues and sales invoices are the major ones the firms use. Some of the firms (25%) also employ balance sheet and inventory record systems. However, various reports produced by experts on the firms show that the records are not properly handled; supporting documents are not well organized and documented. The respondents themselves also assure that they do not use standardized records of incomes and expenses. As some of respondents clearly put, the enterprises/entrepreneurs employ any ordinary leaves of paper to keep records of their costs and incomes. The respondents attributed the failure on record keeping to inadequate skills and training. Various reports in the SMEs development offices also show the same result. Moreover, poor follow up (from the development agents) on the performances and situations of the organizations are cited as the indirect causes of the limitations. In this regard, it is easy to predict what follows. With the absence or inadequate records, the firms will have no basis to estimate their costs and correct problems; cash flows may not be managed as desired and material and financial positions of the firms can not be determined easily. It also paves ways for misuse and likely misrepresentation of resources of the organizations. Even auditing the firms will be difficult with such poor record keeping systems.

Risk and Risk Management in the Associations: Risk management consists of all efforts to preserve the assets and earning power of a business. Risk avoidance, risk reduction, risk assumption, risk transfer and risk retention are the common means to control risks. According to Williams et.al (1985), risk avoidance refers to the technique of refusing to engage in a risky business, and risk reduction is meant to lessen the probability of risk occurrences. Secondly, whereas risk assumption is the risk controlling technique in which the entire responsibility is taken for any risk/loss, risk transferring is the technique of safeguarding businesses through purchasing policies. Finally, risk retention is the method

in which a firm itself pays for its losses. Hence, questions regarding how the organizations manage risks were posed and the results are discussed as follows.

As responses from the surveyed firms show, dominantly a combination of using guard-keeping, risk reduction and assuming whatever risks coming to the firms are the usual practices in the associations. Insurance policy purchases are only used for machineries and other costly equipment obtained through leases. According to the information obtained from key informant from Omo MFI, the policy for the hire-purchase leases is covered by a joint fund kept by the lessee and the leaser. The views of some respondents also show that their engagement is in a less risky business and they can easily afford to manage it through any means.

However, to the observation of the researcher, some of the built shades are far from residential areas; and their nature and places of building have also been important causes of risk. (The detail is found in the section that deals with the working premises and other infrastructures). Added to their unsuitability for night guarding, as stated in one report, the guards are not well equipped. Additionally, for example, one report produced on vegetable and fruit producing enterprises indicated the problem of getting some important inputs like pesticides timely which has been reflected in the damage of products (including green pepper, tomato and other vegetables) by insects/pests. To cite more examples, due to poor follow up and untimely delivery of necessary medication and other services, one enterprise engaged on cattle fattening totally stopped its operation because of the deaths of all the cattle /bulls/. The other was the total ruin happened to one bee keeping firm by fire purposely set by unknown person(s). The other case is the frequent erosion damage to agro-firms farming by the side of river / around Kulfo river which is the only area the urban farming takes place) at time of rain falls. Apart from these, the weak record keeping systems can have its own part in routing the way to the mis-use of the firms' resources. Henceforth, the cumulative effect of the factors will have a direct bearing both on the productivity and safety of the properties of the firms.

3.2.1.2. Internal Resources

Social capital: Social capital is defined as the feature of social or economic organizations including trust, networks, norms, reciprocity, and co-operation. Social capital facilitates co-ordination, co-

operation, and information flow. It also avoids market failures, reduces transaction cost, and serves many more purposes. The organizations which can have social capital include local organizations, co-operatives, associations and etc. Based on these arguments, the realities in the associations under investigation are discussed as follows.

As agreed by majority of the respondents (75.4%), working in association/ team work/ is evaluated to be highly important and recommendable. They also clarified their reasons for these particular responses. According to their views, the members have developed unity, brotherhood / sisterhood and harmony; they share experiences and skills and they have got mutual understanding and developed culture of team work. Unemployment problem is at least partially solved and social affinities are the other positive externalities appreciated. Punctuality, quality work, efficiency, motivation, division of work and improved work ethic are other cited benefits achieved yet. Because of the pool of the human resources in the associations, individual operators are mobilized to the tasks and duties which better fit his/her interest and skill so that majority of the individuals are satisfied with their jobs. The team members do support each other and there are mutual benefits, advices, closeness and improved social life, and developing common attitudes are other achievements appreciated in the team work. The partners also act on their common problems jointly. Not only they share ideas and profits but also they share risks and have shown culture of developing together, practically. Furthermore, through the associations, a lot of socio-economic benefits are obtained from the government. By the virtue of working in associations, the operators and/or the enterprises get multitude of government services and supports in terms of group-based loan, lease of machineries and equipment, BDSs, training, working premises and shades free of rent, privileges and priorities on market opportunities in public institutions and so on. The detail issues and investigations on these supports and services are found in the sections that deal with the external environments of the business enterprises. More than these, the associations have become the main channels through which HIV/AIDS awareness creation is carried out by the local government. In this case, on each format of situation analysis of individual enterprises by entrusted agents, there is a separate section with a title ""HIV/AIDS knowledge and its impacts on the operators" where information on the HIV/AIDS awareness of individual operators is periodically collected and reported to the respective body along with situation analysis results.

Furthermore, the operators (through the performances and multiple privileges of their associations) have played role models for others. For example, as understood from the views and responses of the

interviewees, many young partners come together and team up to do their own businesses jointly as their counterparts (the role models) have done it successfully.

On the other hand, those who mentioned the importance of team work moderately and those who did not trust (24.6%) have rationally put their reasons. Different reports also show same circumstances on some surveyed enterprises. As the information from these sources prove, some members bring and reflect the bad behavior they had before and there observed free riders; they manifest different outlooks; and there is difference of ideas among the individual members. On top of these, some individual members lack initiation and are not motivated to work in group. The other individuals dishonestly misuse the resources of the associations and they also do not obey their contractual agreements. As the information obtained from key informants and written documents indicates, disagreements and conflicts among the members of the associations on resources sharing (typically, on the share of profits) are the other big problems pointed out. In this case, the members usually want to share the profit/income generated at any time for their own personal consumption leaving savings and expansion issues aside. Especially, the situation is remarkable on holidays and on other especial occasions. Those with similar behavior also display poor saving habit. There are conflicts of interests and goals as well.

Moreover, the culture of spending time sitting and chewing chat, and wondering here and there leaving the work areas were some of the problems observed in some of the firms visited. Besides, for example, stiff quarrelling among all the very young partners including the managing body/officers/ was one of the real problems observed by the researcher him self in one block producing organization. The information the enterprise leader [Likemember] told the visitor proves the high frequency of the conflict. In line with this, for example, two managers contacted through personal visit quoted the situation in their firms as "*Min Mahiber new mabed new inji; ante wode kegn sitil innesu wode gira yilalu*" which is directly translated as "working in team is bad; the operators do not go with what you want and they rather go contrary to you ideas". This in turn heralds the difficulty of working in team and the challenges to manage, and the lack of harmony and conflict of goal in the team (especially, with the managers). The main reasons the enterprise leader-respondents clearly underscored here are the difficulty of harmonizing the different habits, interests and backgrounds, and the sustaining conflicts challenging the organizations. On top of this, the business (SMEs) situation analysts realized in their reports that

the disagreements and conflicts among the partners are among the main causes of the liquidation or collapse, halt or suspension of the operations of some enterprises.

Finance: Firms need finance to perform well and to grow. Particularly, sufficient start-up capital and working capital are important inputs of the SMEs. Insufficient financial resources dictate small firms to run inefficiently or incompetently. Accordingly, questions on finance issues were asked and documents were referred to investigate the realities with the firms.

Concerning the capital of the business organizations, for 30% of the sectors, the initial capital lies with in the range of Br 30,001-60,000. For this range of capital, the metal and wood work sector takes the lion's share followed by the regular business works where as start up capital of more than Br.60.000 goes only to the construction sector. The textile and garment sector assumes much of its initial capital to the maximum amount of Br. 5000. Regarding the working capital, the higher number of the enterprises (32%) falls with in the range of Br 5,001-15,000 while 26% of the SMEs have operating capital amount of more than Br 60,000. Both of these ranges of capital show that many firms improved their working capital ranges from less than Br 5000 range to Br 5001-15,000 range and from Br 30,000-60,000 range to more than Br 60,000. In this case, the working capital of more than Br 60,000 dominantly goes to the construction enterprises and the rest amount goes to the firms engaged on the metal and wood works. By the same token, majority of those firms which were found with a working capital range of less than or equal to Br 5,000 have entered a capital range of Br 5001-15,000. In general, the improvements in this capital accumulation can be through loan financing and/or profits of the firms. However, with regard to some of the internal resources of the SMEs, the highest problem is observed with operating capital. About 65% of the surveyed respondents reported it highly inadequate. According to the respondents, the acute shortage of operating capital is due to the inadequacy of the loans, inhibition of the firms to get other loan services from any sources until the loan grants from Omo MFI is fully redeemed. Market and production related problems are also the other cited constraining factors. These findings could evidence the fact that majority of the enterprises (39, i.e.68.4%) work /produce under capacity. These facts will be furthered in the discussions found under the external factors of the firms. Lastly, Table 3.3 summarizes the comprehensive ranges of capital of the firms.

Table 3. 3. The range of start up and operating capital of SMEs

	Capital range (in Br)					
	<= 5000	5001-15,000	15,001-30,000	30,001-60,000	>60,000	Missing
Start up capital by number of respondents	16	8	6	17	8	2
Working capital by number of respondents	6	18	8	7	15	3

Source: Field survey

Production tools and equipment: As various empirical literatures depict, SMEs mostly depend on manual production materials. Moreover, the SMEs are constrained to get access to modern technology. The availability, prices and problems of specification of the technology/ machineries or tools of production/ are also the other constraining problems. The technology of a small firm is made up principally of various categories of equipment, representing a key resource to be managed. Production machinery and equipment are obviously specific to the type of the enterprise. It is not only the availability of these resources that make the SMEs more effective and efficient but also the quality and suitability/user-friendliness matter. For the purpose of finding the fact with the enterprises under investigation, some questions were administered to the enterprise managers and the feedback is stipulated in the text that follows.

The users were identified first and 91% of the surveyed enterprises use various types of tools/machineries for production. Out of these, it is the enterprises in construction sector which dominantly use leased machineries or equipment from the government, particularly from Omo MFI. 13 of the surveyed construction enterprises use leased machineries and/or equipment for their production. Even 6 of the 10 who responded from metal and wood works sector make use of leased machineries and equipment to manufacture their products. The firms in handicraft sector also utilize the rented tools. Majority of the others use their own machineries or tools of production and it was reported as not applicable in some firms. In general, 40% of the surveyed enterprises make use of leased machineries/tools of production. Moreover; the respondents viewed the attributes of machineries/equipment as follows.

Table 3. 4. The attributes of the machineries/ tools as viewed by the respondents in the user firms

Attributes	Frequency	Percent	Valid Percent	Cumulative Percent
Modern and suitable	27	47.4	47.4	47.4
Somewhat good	2	3.5	3.5	50.9
Modern but not suitable	11	19.3	19.3	70.2
Out-dated	10	17.5	17.5	87.7
Unapplicible	5	8.8	8.8	96.5
Missina	2	3.5	3.5	100.0
Total	57	100.0	100.0	

Source: Field survey, 2008

According to the information in Table 3.4, to the majority's view (27 of 50 i.e.54%); the enterprises have got the machineries /equipment to be modern and suitable for use and production. Out of these, 19(70.4%) are the lessees. It is only 2(3.5%) respondents who found the tools to be some what good and it is 10(17.5 %) operators who noted the obsolescence of the materials. For 19.3% of the users, the modern machineries are not suitable. In conclusion, the leased equipment/machineries are almost effective as the majority is satisfied with their suitability and modernity. Yet the overall problems cited with regard to the resources are the shortage, frequent break down and frequent power interruptions. More than 40% of the respondents also noticed the problems of the machineries/equipment in that they are demanding much labor energy and therefore are tiresome for the operators to work on/with. Inaccessibility to get modern tools of production is the other major complaint among 25% of the surveyed enterprises. For example, 12 of the leaseholders or the others who directly or indirectly involve the government have noticed inadequacy in the machineries/ equipment. This can in turn be reflected in higher worker-machinery ratio which may create inefficiency to the work; under -capacity in operation and less productivity in the enterprises.

As to the opinion of 32 of the 51 machine/equipment users (i.e. 62.8%), the enterprises use same materials of same qualities with that of their counterparts. In particular, 15 of the 23 leaseholders (i.e.65%) responded same way. Therefore, it can be understood that many competing enterprises (especially those operating in associations) use same and standardized machineries for their productions/ operations. It is only 12 (23.5%) individuals who perceived their firms as being in a better

position than their competitors in their production/manufacturing materials. The rest are left in the category of less performance and other responses are missing or inapplicable.

Human Resources: In this case, the human resource and management techniques, rate of turn over, and the skills and experiences of the operators are evaluated based on the information obtained from primary and secondary sources.

i. Human Resource and Management Techniques in the Enterprises: As it is remembered from the previous discussions, from 1997EC to date, about more than 1100 (apart from the daily laborers) residents of the town of Arba Minch have engaged in the business works in 124 associations. Averagely, this shows the associations of 8 individuals per enterprise. Moreover, on average, each enterprise has employed 4 daily laborers.

On the other hand, in line with the rules of the associations, formally new entry to and exit of the existing ones base on the decision of the general assembly of the associations. With in the associations, however; each member/operator/ has equal voting right, the right to elect or to be elected for position, the right to equal benefits from the associations and the right to participate on the general assembly of the associations. Despite these democratic management styles of associations, there are also limitations. As it is remembered from the previous discussions and findings, associations do not have any separate unit or department that specifically deals with human resources affairs. Moreover, the associations do not have formalized, written procedures and long term planning practices to manage their human resources. Rather informal, unwritten and ad-hoc practices are used in the enterprises to manage the operators. In this case, as written in organizational regulation of the associations, it is the sub-group leaders who have to make close supervisions on the operators under their control. In this regard, however, there is no written statement found in the regulation document on how to motivate and handle, and make the team work effectively. With regard to the mechanisms employed in the associations to handle the owner-members and other workers, the views of the respondents are discussed as follows. Advising and simplicity in approach are the two basic ways cited to handle the human resources. Otherwise, as specified by some of the respondents, the owner-members are self-motivated because they own the firms.

ii. Payment schemes with in the firms: This is the other important issue with in the firms/associations. For the operators, the payments are monthly made based on the income the firms generate. As the key informants pointed out, even before the commencement of the operations of the firms, each individual member of an association gets some agreed amount of money monthly from the money borrowed. In general, according to the results of interviews held with the respective officials, regardless of the merits and contributions and/or authorities of any partner, all the members/partners including the office bearers are equally paid and no incentives are set apart for the key personnel. With regard to the daily laborers, they are paid fairly (from the firms' perspectives) being with in the capacity of the enterprises to pay.

iii. Skill and Experiences of the Members of the Associations: With regard to the skills of the team members, as majority (61.4%) of the surveyed leaders viewed, they all have similar skills and experiences in the given sectors. Except in the case of Metal and Wood works, and handicrafts sectors, it is dominant in other sectors as depicted in Table 3.5.

Table 3.5. The skills and experiences of the business associates by sector

The skills of the partners	The business categories of the SMEs by sector							Total
	Constr uction	Textile and garment	Metal and wood work	Urban agriculture	Agro processing	Handi crafts	Regular	
Similar	11	8	0	2	5	0	9	35
Different	4	0	12	2	0	2	2	22
Total	15	8	12	4	5	2	11	57

Source: Field survey, 2008

Moreover, relevant business skills and experiences of the partners of the associations were found out to be moderately adequate for majority of the firms (58%) followed by 33.3% of the firms in which business skills and experiences of the members are reported to be poor. Managerial skills and experiences with in the firms also have similar trend (except for the slight variation they have). These could be justified by the lower educational levels of the entrepreneurs. For example, as already clearly depicted in Figure 4.2, let alone the educational qualities of the ordinary partners, even the educational

levels of the office bearers (who are elected based on their educational levels and experiences) are not found to be satisfactorily competitive as the majority (more than 61%) have reached a maximum of high school level. Certificate holders only account for 28% and the diploma holders are as low as 10.5% of the surveyed respondents (chairpersons). Additionally, the fact that majority of the operators had no business exposure before (as the majorities were the poor and unemployed ones) and, relatively, the recency in the operation of the firms could put their impacts on the business qualities of the operators. Moreover, it implies that the operators get inadequate training services by any means (particularly, from the government). This fact can more be elaborated in the section that evaluates the services of the government to the firms. In general, the status of the internal resources of the enterprises is summarized in Table 3.6.

Table 3.6. The status of some internal resources of the business firms

No	Internal resources of the firms	No. of respondents (%) on status of the resources					Total
		Sufficient	Fairly sufficient	Insufficient	Absent	Missing	
1	Machineries/other tools	11(19.3)	26(45.6)	13(22.8)	5(8.8)	2(3.5)	57(100)
2	Operating capital	6(10.5)	14(24.6)	37(64.9)	0(0)	0(0)	57(100)
3	Managerial skill and experience	11(19.3)	28(49.1)	18(31.6)	0(0)	0(0)	57(100)
4	Business skills and experiences	5(8.8)	33(57.9)	19(33.3)	0(0)	0(0)	57(100)

Source: Field survey, 2008

iv. Turn over of the operators and the Consequences: At the outset of the establishments of the enterprises, more than 84% of the surveyed enterprises had at least 10 and a maximum of 15-membered-team to start their operations. It was only 9(15.8%) of the sampled enterprises which had a team of minimum 2 and maximum 5 members at their establishments. The later situation is reflected in regular business associations (Medebegna) and handicrafts sectors where as the former situation characterizes other sectors in the package program.

However, currently, more than half (52.6%) of the respondents reported that their enterprises operate with lesser number of members than required. Similarly, two report documents produced on 31 surveyed enterprises indicated that more than 58% of the surveyed firms run with inadequate members. According to these reports, members of the enterprises drop-out over time for various reasons including disagreements, misrepresentations, and switching to other better jobs. Some of the individuals withdrawing the membership fraudulently take out money from the firms for their own personal purposes. For example, as written in same reports, two organizations (from construction and weaving enterprises) with the incidence of misappropriations have encountered severe shortage of money even to pay for the owner-members and other workers. Moreover, delays in loan repayments and unnecessary costs of interests and others are the negative impacts of the unplanned leaves of the partners. Related to these facts, there are dual problems from the perspective of the associations: Timely reports are not made on those individuals who newly enter the associations in place of those partners who have left. Moreover, the new entrants are not timely and properly made to enter in to the agreements reached by the founding members. These new entrants are also required to pay any loan or other repayment defaults the exiting one(s) had. Moreover, various reports witness to the problem of poor follow up efforts made by enterprise development agents to fill the members or to go for legal actions and take corrective measures.

Moreover, the rate of the drop outs of the members of the associations was investigated by the researcher. Accordingly, out of the total surveyed enterprises, 36 of them (i.e.63%) have the experiences of dissociations of members from the associations. In these enterprises, the majority (66.7%) of the respondents found the rate of the turn over to be low. However, in the rest of the enterprises (27.8%), the rate of the drop-out was reported to be moderate. This also tells us that either there is sort of harmony (from the low turn over rate point of view) in the organizations or it is relatively rewarding environment for that the entrepreneurs are having no other better option to leave.

3.2.1.3. Working Areas/Premises

It is known that the availability of adequate and quality manufacturing/ sales areas is invaluable for the productivity of the enterprises operating in Small and Micro Scales. The location of SMEs, and type and

size of the premises are also other important requirements. Accordingly, important questions were posed to get feedback on the status of the working areas.

As majority of respondents (82.5%) reported, the enterprises sell their products where they produce or they only have sales area because they do not produce. Moreover, 80.7% of the enterprises have got the constructed shades/houses and land for production/sale for which the total cost is assumed by the municipality, i.e. the operators get the shades and the land freely from the town government. However, in general, almost half of the respondents (49%) agreed on the inadequacy of the working premises. (*Regarding the working premises, the detail issue is shown in the discussion part on external environment of the enterprises).

Furthermore, with regard to the working premises, the observation of the researcher on more than 15 enterprises/associations visited is discussed as follows. Some of the built shades/areas of work/ are found to be far from residential areas of the operators. Moreover, they are not found at average/appropriate distance from the market and it will be difficult for customers or visitors to access the areas on foot. Many shades/production buildings/ are also completely open (i.e. production takes place merely under a roof) and not well protected as they are not fenced and walled well. Moreover, as the shades are open, products and machineries lie on open field. As also indicated by some of the respondents, the shades/buildings leak in rains and some are unsafe and can easily be broken as they are made of "Sataras". By the very places of their operations, some enterprises are highly susceptible to erosion, theft, and rains as well. For example, as reports show, the agro-firms farming by the side of Kulfo River (which is the only area the urban farming takes place in the town) get their products frequently damaged by erosion at the time of rain falls.

3.2.1.4. Marketing Strategies and Marketing Mix in the Firms

In this case, marketing issues including market entry strategies, marketing mix, and customer/market-related issues of the organizations are discussed. Market entry strategies deal with the mechanisms the firms use to enter the market during start up. Firms may enter a market with different mechanisms: firstly, firms may enter a new market with a new product or an existing one. Secondly, the firms may enter an existing market with a new product or existing one. Besides, marketing mix is an important

element need to be considered in a business firm. A marketing mix is the specific combination of marketing elements used to achieve marketing objectives and satisfy the target market. It encompasses decisions regarding product, price, promotion and distribution.

i. Market Entry Strategies: As reported by 81% of the respondents, to enter a market, the firms use mechanisms of "market penetration" strategies in which the products they started to produce and the markets they started to serve were similar to the already existing ones i.e. the target markets and products of the firms /associations/ were similar to the target markets and products of the competing firms. But in 33% of the surveyed firms, a "market development" strategy was also employed in which the firms/entrepreneurs entered a new market with existing product i.e. the target markets of the firms/associations/ are new but they are to be served with products which are similar to the competing products in the market place. In this case, it can be understood that some of the firms also used a combination of both strategies. Out of the surveyed firms, it is only 14% of them which had come up with a new product to serve a new market.

In addition to the product and market related strategies to enter a market, 75% of the respondent-leaders indicated that the techniques of production or sales used were same to what had been used by others. It is only 25% of the respondents who noted that that their enterprises used new techniques of production or sales to enter the market.

ii. Marketing Mix: In this case, major issues related to products/production, pricing, promotion and distribution are discussed.

Products and their Attributes: As the survey result shows, 47.4% of the enterprises produce 2-5 types of products followed by 20 (35.1%) enterprises which produce more than five kinds. The rest (17.5%) of the firms produce only one type of product which is dominantly seen in the construction firms. Therefore, this implies that product diversity characterizes the enterprises.

With regard to priorities of the enterprises to produce and offer their products, the two basic product attributes they focus on is to produce at quality and to offer at fair price. In these cases, about 86% of the respondents agreed on these attributes as their firms' priorities to produce and offer. Along with this, a considerable number of firms (72%) provide additional services (like credit sales services) to the

customers. Relatively, a small number of the enterprises (45.6%) focus on providing products attractively (with attractive designs and appearances). From these all attributes, when orderly ranked, quality is the firms' center (prime factor) of production (as agreed by slightly more than 50% of the respondents). The next larger number of the firms (26.3%) put "fair price" first to produce and offer their products. So here it can be inferred that majority of the firms have more of quality orientation as the majority value quality at first in their production.

In line with the above facts, as noted by 81% of the respondents, the interests of the customers are the basis of the firms' production while the interest of the manager and product attributes are insignificant. The detail picture is shown as follows.

Table 3.7. The priorities of SMEs on their production

Priorities of the firm	Frequency	Percent	Valid Percent	Cumulative Percent
Interest of the manager	2	3.5	3.5	3.5
Customer interest	46	80.7	80.7	84.2
Attribute of the product	2	3.5	3.5	87.7
All are considered	2	3.5	3.5	91.2
Others	5	8.8	8.8	100.0
Total	57	100.0	100.0	

Source: Field survey, 2008

In connection with the above, 77.2% of the surveyed leaders pointed out that the customers coming to their premises usually get or purchase the products/services they want, and only 9(15.8%) respondents have realized that their customers only sometimes get what they desire. The firms' product diversification can contribute to this success directly as customers have alternatives to buy or to order.

Pricing and Pricing Strategies: The pricing bases of products of the SMEs are also inquired and the cost of the raw materials and/or inputs is the biggest factor based on which prices are set (agreed by 68.4% of the respondents). But 28% of the respondents put the basis in 'others' where the products are priced by the market it self or the price is set in agreement with the user customers. For example, Arba Minch Town housing project office (the biggest market/customer of the products and services of construction firms) sets the prices of the products of the firms. In this case, the firms are price takers. Moreover, about 18% of the respondents indicated that prices are determined just similar to the prices

set by the competitors. In either case, the firms feel bit of lack of transparency from the Town's Housing Project office as it computes all costs it self, and ultimately determines prices and marginal profits. They also lack autonomy here to determine prices of their products. In other sectors, however, the enterprises are relatively autonomous to determine their own price or at least they set it in agreement with their customers.

Promotion Activities: With regard to tools of promotion, it was found out that all the enterprises use personal selling strategy. Signboards (57.9%) and government-based-promotions (47.4%) are the other two major ways employed by enterprises as well. While 17.5% of the firms have a practice of using posters and brochures, it is only 15.8% surveyed firms which employ telephone calls to tell and sell their products.

Moreover, nearly half of the surveyed enterprises (i.e.49%) make credit service for their customers to encourage sales. Out of these, 18 (64.3%) firms provide it frequently; where as, the responses of 6(21.4%) respondents prove that the service is made in rare cases. The rest of the firms provide it sometimes. However, as experienced by 16 (57%) of the on-credit sellers, the big problem lies on the return of the credit, i.e. either the customers do not pay it on time or it takes longer time to get it paid. It has also become one of the reasons for the loss of some customers as they become afraid to come again. Because of the credit sales, some firms also get in to shortage of operating capital. Moreover, the on-credit-selling firms experience poor transparency from their user customer (typically, from the town housing development project office). This is because it is the office it self (but not the firms) which computes and deducts all costs and ultimately pay the profits to the firms in other way round (i.e. through Omo Micro Finance offices).

However, other promotion mechanisms and tools are too insignificant and even not employed at all in some enterprises. For example, according to the researcher's observation, some enterprises do not totally have sign boards and even the enterprises can not be recognized where they are or what they produce. Others do not bother to promote their firms/products because their produces are directly taken by fixed industrial customers (this is common in construction sector) and their profits and production are totally under the mercy of these organizations. In general, the overall promotion activities in the enterprises were found to be inadequate (as attested by 75% of the respondents which is shown in Table 4.9) while the rest evaluated its adequacy to be moderate.

Channels of Distribution and Sales Activities: Concerning the channels of product distributions, almost all (96.5%) the enterprises employ direct distribution channel in which they sell their products/services directly to the end users. Related to these distribution patterns of the enterprises, the customers directly come to the points of production/sale area/ to purchase or order products of their interest. But only 17.5% of the surveyed enterprises sell their products to retailers and very few (3.5%) use their own shops (sales shops) to distribute their products. What should not be forgotten is that pure services are sold directly to the end users.

Here it can be understood that majority of the enterprises do not use middlemen to distribute their products but they use direct distribution system. In short, the practice of marketing in the SMEs shows a direct pattern of selling products and their channel of distribution is short. At the same time, it was found out that joint marketing practice is not the culture of the firms. Business associations (at inter-firm level) are also absent for almost all the enterprises. Similarly, the financial capacity of the firms is limited as agreed in the majority of the firms. Therefore, the totality of these limitations can have direct bearings on limiting the scope of marketing products to customers (e.g. potential market at distance may not be accessed at least in the short run and the pattern of marketing will have the tendency of competing on the limited market in the locality). In this situation, graduating the firms may not be easy as well. This conclusion can also be backed up by the findings discussed in the sections that follow.

The achievements of the entrepreneurs on satisfying or meeting the interests of the customers (in that the customers get or purchase what they want), however, here can be attributed to their direct distribution route and/or direct orders from the customers.

iii. Market Information in the Enterprises: With regard to sources of information about customers, the following are the major cited media. Personal contacts of the partners of associations, observations from seasons of demand and market conditions, suggestions from customers, and market information services from local government bodies are the frequently cited means to get information about the customers. As specified by 40.4% of the surveyed respondents, their enterprises mostly incorporate suggestions of their customers for decisions. As to 28.1% of the sampled founders, the enterprises sometimes make use of suggestions from the customers. The rest of the enterprises use suggestions from customers rarely or they do not use them at all. On the other extreme, however, as the

respondents themselves and the concerned personnel interviewed proved, market research within the firms has never been attempted.

iv. Internal Market-related Resources and other Requisites: The effectiveness of the marketing functions of SMEs depends on the availability and adequacies of various requisite factors for marketing activities. Access to market, market information, product promotion, storage facilities, optimal inventory of inputs and outputs, production/working areas, skills on product adaptation to customers' needs and many more factors determine the success of marketing activities in SMEs. Accordingly, the standings of some market-related internal resources of the SMEs are evaluated as follows based on the views of the respondents.

Among others, business/product promotion (75.4%), market information (70.2%), physical inventory of outputs (67%) and physical inventory of inputs/raw materials (67%) are the first four most important lacking resources in the enterprises. Besides, the high shortages observed in the working/production areas (60%) and storage facilities (58%) can induce the low production, low productivity and profitability of the firms. But here what needs to be cautioned is that the absence in a few resources/activities (including storage facilities, inventories of inputs and outputs) may not necessarily show the absolute shortage but it may show that the specific resource(s) is/are not necessary or less important to some enterprises. In short, Table 3.8 summarizes the detail pictures of the resources/requisites as follows.

Table 3. 8. The level of market or product related internal resources /requisites of the SMEs

Market related Internal resources	Number of the respondents based on the criteria of evaluation (%)				Total
	Adequate	Moderate	Inadequate	Absent	
Access to market	10(17.5)	27(47.4)	20(35.1)	0(00)	57(100)
Production/market area	4(7.0)	19(33.3)	31(54.4)	3(5.3)	57(100)
Market information	5(8.8)	12(21.1)	40(70.2)	0(00)	57(100)
Skill on product adaptation	15(26.3)	29(50.9)	13(22.8)	0(00)	57(100)
Promotion activities	0(00)	14(24.6)	43(75.4)	0(00)	57(100)
Storage facility	8(14.0)	16(28.1)	25(43.9)	8(14.0)	57(100)
After -sales service	5(8.8)	16(28.1)	23(40.4)	13(22.8)	57(100)
Physical stock of raw materials	7(12.3)	12(21.1)	25(43.9)	13(22.8)	57(100)
Physical stock of outputs	0(00)	19(33.3)	27(47.4)	11(19.3)	57(100)

Source: Field survey, 2008

What we can observe here is the need to work further on capacitating the enterprises to properly serve the local markets and even go beyond serving merely that. This is because many of the important marketing-related resources are highly deficient as it is critically observed in market information, product promotion, sales/production areas, storage facilities, and stock of raw materials and outputs. Note that the statuses of some of these factors can be further understood in the related issues discussed under the internal resources of the firms; market, supply, finance and government-related factors. For example, majority of the firms use personal selling and short channel of distribution which in turn force them to sell their products to the markets confined to the locality. Some of the premises of the firms are found to be not at average distance from market concentration. The financial capacity of the firms is also weak. Finally, these all internal and external constraints of the firms do have their direct bearing on limiting the product-related- internal resources. Therefore, with these limited or insufficient resources, production, distribution, communication and selling will be retarded. At the same time, with these deficient resources, the total efforts of the business operators will remain with working

under capacity, running out of reputation, limited scope of expansion, limited competitiveness and working for lesser livelihood.

In general, the respondents identified/prioritized the following five major internal problems the firms have experienced. The respondents ranked the problems according to their level of significance:

- Shortage of finance /financial problem,
- Failure to develop a new market /customers ,
- Lack of managerial skill and experience ,
- Distribution and promotion problems of the products, and
- Failure to develop a new product

Additionally, the other problems the respondents stressed should not be overlooked. Lack of business skills and experience, dishonesty from some member-workers and lack of technical skills and talents are the other additionally indicated problems.

Lastly, 65% of the business enterprises were reported operating under-capacity. The main reasons could be their being under the mercy of the financiers/ limited loan/, inadequate working areas, lack of promotional activities, and undersupply of raw materials, lack of storage facilities, inadequate machineries and equipment and other factors that have been mentioned in different sections of the text. Obviously, these shortfalls will in turn culminate in to low income generating capacity of the entrepreneurs, low production capacity, limited market and low competition capacity of the firms. But the good thing they have here is the protection made for them by the local government in that all the government organizations and offices give priorities for the firms on bids to purchases or real purchases of the produces the firms produce and sell.

3.2.2. Assessment of the External Business Environment of SMEs

3.2.2.1. Firms' Linkages and Associations

Networks for information are central to the transfer of knowledge from person to persons, from firm to firm and from region to region. For example, contacts between producers and the market can be important source of product innovation. Where the small firms are unable to tap information from the

local or distant sources, government policies (particularly, the local policies specific to the milieu) can best suit to the network objective. It also facilitates networks among the local firms/Inter-firm linkages/.

3.2.2.1.1. Inter-Firm Relations and Associations

Inter-firm Linkages and Associations: Inter-firm associations/linkages refer to the associations made among two or more associations/the SMEs/ or among associations and other SMEs for a common objective including joint actions and practices: information and experience sharing, for backward and forward linkages, (Input-output linkages) and joint purchasing. With regard to this, views of the respondents and interviewees are put as follows. The leaders of the surveyed firms were asked whether their firms make linkages with any other SMEs and why. 49 of the 57 firms surveyed (i.e. 86%) interact with other SMEs of any type. Especially, as the responses of 35(61.4%) respondents indicate, the firms contact these SMEs for information and experiences sharing purposes. Moreover, 33(57.9%) respondents agreed on their firms' relations being for co-operation purposes. According to 22(38.6%) respondents, however, the firms sell their products to the other SMEs. It is only 21(37%) respondents who showed their firms' relations for the purpose of purchasing raw materials/inputs. In general, about more than 55% of the respondents agreed up on the totality of their firms' relations to be moderate; 30.6% said very weak and only 18.4% found their relations to be very strong. Those firms which have no or poor links with their counterparts /the other SMEs/ were justified as no reasons of interaction exist. Moreover, the lack of infrastructure (particularly, telephone services) and scattered nature of the enterprises (the associations) are the other challenges barring the interactions among the firms.

According to the interview results from the officials, the SMEs or the operators are merely recommended to have positive relations with similar firms in the same industry. In this case, however, the local authorities do not have different program on how to create/facilitate and strengthen the inter-firm relations and co-operations. But it was indicated that in some cases, the operators are encouraged to visit other similar enterprises in the town. As also observed, a few enterprises are established in a way market linkages are naturally developed. For example, few enterprises in construction sector, urban agriculture and the municipality services, and urban agriculture and agro processing firms are operating in the same area in a way they develop market linkages.

With regard to Inter-firm Associations (firm-to-firm associations), as agreed by a significant number of the surveyed firm leaders (86%), the SMEs have no membership in any business associations. Even

the interviewees (from A/M/T/Tr./I/T office and SMEs development office) agreed on the fact that almost all the enterprises have no associations at inter-firm level. Furthermore, the government has made no attempt to facilitating such kinds of organizations (associations at inter-firm level) yet except that it does associations at firm levels. This shows a big deficiency, because with the absence of associations, lots of socio-economic and other forms of organizational benefits and opportunities are lost. For example, had there been well strengthened and functioning associations at inter-firm levels, it could have helped member-firms pool efforts and resources for common purposes, facilitate joint marketing system, boost bargaining power and even attract distant buyers. Moreover, joint tendering, joint procurement of inputs, and joint finance sourcing are the likely outcomes of the presence of strong inter-firm associations. But these are the opportunity costs to the firms as they do not make use of the benefits of working/operating with other enterprises of any kind. For example, a few enterprises which have partnership at /membership in/ inter-firm associations have gained important benefits generated out of it. With it, they get benefits: experience sharing, exchange of ideas on how to modify or design new methods of works and products, resource exchanges and sharing, market and input supply facilitation, advisory services, flow of up-to-date information on market and other areas, and sharing of ideas and information. This in turn conveys an important message i.e. the multitude of functions and contributions the business associations (at inter-firm level) have for the firms. At the same time, it can directly or indirectly contribute to the economic base of the area.

In addition to the absence of the inter-firms associations in the locality, the SMEs council (consisting of representative individuals for the major sectors) at the town level is totally absent which could have been a bridge between the local authority and the firms and sectors at large. The absence of representative body of the firms/council of the firms/ at the town level conveys the disintegrated actions or poor joint actions the SMEs have with the government.

In general, the gap (in terms of the absence of inter-firm associations and council of firms) may be seen from the side of the government and even from the enterprises themselves. The local government could have easily facilitated the formation of the organization even if the firms overlook because they may be immature or they fall short of resources and experiences to do so.

3.2.2.1.2. Linkages of SMEs with Medium or Large Scale Private Organizations and NGOs

As reported by more than half of the respondents (54.4%), the surveyed enterprises have no linkages with medium and/or large scale private business organizations. But the rest of the enterprises involve the interactions for purchase of raw materials and inputs, information and experience sharing and sale of products. However, about more than 51% of those which have already had a net work of information and product exchange have moderate linkage where as it is very weak for about 26% of the enterprises and it is very strong for the rest.

Related to the involvement of NGOs in the business development activities and the interaction of SMEs with the organizations, the findings are discussed as follows. The interviewed officials agreed on fact that there exists an indirect involvement of very few NGOs in the development of the SMEs. In other words, the organizations have not come up with the prime objective of expanding the SMEs in the town. Rather, they are primarily engaged on conservation of the natural resources, helping and supporting the poor and other purposes than expanding/developing businesses enterprises in the town. To these ends, they sometimes direct a limited amount of their efforts to organize and support individuals illegally/informally engaged on the [uneconomical] use of the natural resources and those who are poor and the displaced ones. For example, African parks and Refugee Trust International sometimes work (to the very limited extent) on organizing the poor, orphans and the displaced people and facilitate trainings and necessary supports with the town SMEs development office and the town administration. They also organize individuals illegally/informally engaged on fishery and forest products marketing, and those who are engaged on car wash services on upstream (in Kulfo River) flowing to Chamo Lake. Sometimes, they also financially support the individuals to enable them to work in other areas of business activities.

However, out of the total surveyed enterprises, only 5(9%) enterprises were reported to interact with NGOs operating in the area. These firms sell their services to the organizations. Moreover, the organizations make a limited amount of financial supports (during start up of the businesses) and follow up services for the enterprises/members of the associations. In conclusion, the enterprises were reported to have moderate to strong linkages with the NGOs.

In general, what is observed in the area is an insignificant involvement of NGOs in supporting and developing the SMEs/associations. Here the reason is, as also agreed by the interviewed officials, the

poor- to-no joint work of the local government with the existing NGOs and the limited number of the organizations in the area. The regulation it self concentrates on the public institutions-associations (the SMEs) relationships and it does not focus on MLEs-associations (the SMEs) linkages as well. Moreover, as the interviewees indicated, the financial supports the NGOs make even can not induce the operators to start and run their businesses in association. Accordingly, one of the reasons cited for the liquidation of some enterprises from their very organizations was the insufficient amount of start up capital granted for enterprises through the NGOs. Because it is not sufficient and even the organized individuals perceive it as free grant, the individuals share the money for their own personal consumptions and finally their organizations collapse.

3.2.2.2. Institutions: Related to [Local] Government Actions and Enterprise Development

As the information obtained from policy and regulation documents, interviewees and respondent-operators clearly showed, all the surveyed business enterprises are linked to the government organizations and offices. All the operators agreed that the enterprises have various services-linkages with government institutions and offices. They have various marketing linkages. Moreover, various government organs at different levels contribute in various ways towards the development of the SMEs (associations). In relation to these issues, discussions made in the following sections elaborate the areas of linkage of the firms with the government and related details.

3.2.2.2.1. Local Government Services and Performances

i. Focus of the Government: Unemployment and poverty reduction in urban areas are the programs of the Ethiopian government and the regional government since the recent focus on urban development programs. Accordingly, since 1997EC, in Arba Minch town (one of the towns covered under the reform program in SNNPRS), the attempt to reduce poverty and unemployment has been carried out through the support and expansion of SMEs. So far, the expansion of all ranges of SMEs is encouraged in the town. However, because of the fact that providing comprehensive services and supports is difficult for all forms of business enterprises, the town government (in line with the SMEs development regulations of the regional government) has given special attention to supporting those enterprises which form and operate in associations. Accordingly, associations become the main required channels through which the government provides its multitudes of services for development of the SMEs. Operations of

businesses in associations are also the cases where each member is called for any loan default by any other member, and the association for any other member and the otherwise. To further the realities with the associations; the views of the respondents, interview results and information from the various documents are presented in the following sections.

Basically, the government views associations in two main categories: The regular ("Medebegna") enterprises and the enterprises embraced under the Package program. In the latter case, the enterprises are thought to use the local resources, and add value to products (because they are producing and processing products using the local resources). The main sectors prioritized under this program include construction, textile and garment, wood and metal works, urban agriculture, agro processing and the handicrafts sectors. The regular business enterprises are those operating out of these selected activities. While the enterprises/sectors under the package program receive 13 different types of services from the local government, the enterprises under the regular program make use of only four of them. All of these necessary conditions for the establishments and operations of the business enterprises are mandated to be accomplished at the level of the Arba Minch town administration and Omo MFI. Accordingly, the thirteen areas of supports include initiation/promotion, registration and organization of the unemployed residents; registration and licensing, training, BDS, supply of premises/land, credit service, machineries and technology, infrastructure provision, production and productivity improvement services, information, market linkages, raw materials supply and use, and following and graduating the firms to any form of business ownerships. Among these, only organization, registration and licensing, training, and credit services are supplied for the enterprises operating under the regular program. Moreover, as to the SMEs regulation of the regional government, the emphasized enterprises under the package program are prioritized and privileged (for market purposes) on construction and related services, subcontracts, office furniture, uniforms and clothing, food and food related products and on town and office cleaning services. Additionally, supply of agricultural hand tools production raw materials and prioritizing purchase of agricultural hand tools from associations; supply of land, office and machineries; training services and credit facilities are some of the major encouragements privileged to the enterprises.

According to the explanations of the key informants from A/M /T/T/In/T and SMEs development offices, all these services and supports are practiced and implemented totally according to the programs

designed by the regional government. The prioritized activities are uniformly implemented through out the region, one of which is in Arba Minch town. Accordingly, potential entrepreneurs are being attracted to the activities prioritized by the regional government. This can be good but the question is: are these activities (refer Table 3.15) really preferred and be more productive than other activities which can use local resources? In other words, in the design of the program (and even by the local authorities), there seems to be no room of flexibility to adapt the supports to some of the unique local resources. According to the information from the key informants, there have been no attempts made in the locality to identify the resources which can be more productive and highly marketable on sustainable basis. This implies that different activities that should be supported in the specified area do not get attention or they are underexploited. The good examples are tourism, fishery, banana and "Mango" production or processing which are prominent resource in and around the town but remain out of the program.

3.2.2.2. Joint Approach of the Local Government toward the Development of Associations

As the interviewed officials and documented information stipulated, there is joint agreement (first signed in 2007GC and revised in Sep 2008) among five key bodies of the regional government to act in an integrated approach toward the implementation of the development of SMEs in association under the package of urban development. The SNNPRS housing development project office, SMEs development agency, TVET co-ordination office, urban development office, and Omo MFI are the five key stakeholders of the of the agenda. Moreover, the system has been transferred down to all relevant lower level tiers of the government for implementation. Accordingly, Arba Minch town municipality, Arba Minch TVET College, Arba Minch town SMEs development office, Arba Minch town Housing development project office, and Omo MFI (branch, in Arba Minch Town) are the key entities jointly directing toward the achievement of the intended purposes at the level of the Town. To this end, the joined organ (through its committee having five members) functions having the following objectives:

- ✓ To facilitate, co-ordinate and implement the preparation and organization of efficient and quality firms /associations in construction sector,
- ✓ To devise strategies on how to create awareness and initiation for trainings, advices and supports, and management in the associations so as to make them more efficient and reliable,
- ✓ To provide eligible and reliable associations with necessary machineries/equipment, working areas and shades and finance timely and adequately,

- ✓ To facilitate the construction of clusters with all necessary facilities for the sustainable functioning of the firms/associations,
- ✓ To create conditions for associations to be direct participants and beneficiaries of the housing development program,
- ✓ To facilitate the ways the machineries and tools of production are maintained and renewed or manufactured in the region and supplied for the associations to support the firms/associations to expand and fully embark on development activities,
- ✓ To co-ordinate and implement the design, construction quality control, research and development on construction technology, product quality assurance and certification, and other related activities in the housing development program,
- ✓ To organize, co-ordinate and create awareness for other stakeholders on joint work toward the effectiveness of the program, and
- ✓ To facilitate conditions, and devise and implement mechanisms on how other associations out of the construction firms get use of the market opportunities created in the construction industry.

In short, the joint agreements make up local institutional infrastructure in that the five organs jointly work on common issues seeking common decisions regarding the associations. They deal with issues related to the demands of the firms for machineries / equipment, finance, working premises, training, maintenance of equipment and machineries and many more. But still the institutional infrastructure is lacking any one research organization and other key entities advocating the development of enterprises in the area. It is also deficient in that its prime concerns are found to be on a construction sector. SMEs councils are also lacking on joint decision making.

Yet each organ has its own roles and services in the facilitation and support to the development of the associations in the town. They make linkages with the SMEs as observed in the following sections.

ii. Government Services during the start up of the Associations

Organization of associations: As realized from the interviews conducted with the concerned officials, the SMEs development offices at different levels in the town carry out initiation/promotion and awareness creation, registrations and organizations of the unemployed residents and the poor residents of the town of Arba Minch to enable them to work in associations. The associations organized under the package or regular program are required to have a minimum of 10 and a maximum of 20

members to get basic services from the government. In either case, the following processes need to be passed before the full operations of the enterprises commence. The individuals are required to willingly come together to form a group based on their interest and inclination for the specific works and purposes of the organizations. Teamed-up individuals appealing to be organized are given short-time orientation on the criteria of organization and on organizational /associational rules and regulations. Permanent residence in the town for more than one year, willingness to work, mental health, unemployment, minimum of 15 and maximum of 65 years of age, being free from any form of debt, and ability to fulfill other criteria set by an association are the basic eligibility requirements from the individual candidates to form the organization. Yet in the organization process, except for the associations in construction sector, the skills and experiences of the individual members are not considered by the organizing body. After the eligibilities of the organization(s) is/are confirmed by the SMEs development offices at the sub towns, all the members are required to sign binding agreements to be governed by the rules, regulations, and requirements of the associations/organizations. At the same time, the SMEs development desk of the town certifies the organizations (associations) with legal personalities/certifications/ so that they will become independent persons from their owners.

Accordingly, more than 203 associations were organized from 1997EC to the date of the survey. However, only 124 associations had been in operation and their trends of are depicted as follows.

Table 3.9. The trends of SMEs development since 1997EC (a focus on the firms on actual operation)

Sector	Number of enterprises established and operating				Total
	1997	1998	1999	2000	
Construction	5	9	17	17	48
Wood and Metal works	2	1	9	0	12
Textile and garment	7	5	2	3	17
Urban agriculture***	9	13	21	6	49
Agro Processing	1	0	1	6	8
Handicraft	0	0	2	0	2
Regular	*	*	*	*	12
	Grand total				148**

Source: Compiled by the researcher from various documents in the SMEs development offices, 2008

*=The data for the specified years were not found

**=Of the total number specified, more than 23 firms (many of them are from urban agriculture sector) were operating some time before but not now they are not functional

***= The urban agriculture sector also includes the municipality services

As clearly shown in Table 3.9, the construction sector has shown an increasing trend over years followed by the agriculture sector. While the construction sector has almost evenly constituted all the selected activities under the sector (refer Table 3.15), the urban agriculture sector is dominated by the small scale vegetable and fruit production activities. However, as the interview result shows, many of the other firms in the sector have stopped operation because of market infeasibility/limited demand/ and business risks including fire risks, diseases and other factors. On the other hand, the handicrafts sector is highly underperforming. In spite of the vast business opportunities in the regular business works, very few (10%) associations have been in operation since 1997EC. This may be because of the limited government supports and services made for the sector or the entrepreneurs take other legal forms of business organizations in the same.

Shortly, out of the 203 associations organized, more than 47 associations were organized but up until the time of the survey, they had not started their operations and they were suspended off their operations. Moreover, more than 32 organized associations were totally collapsed at different times. The main indicated reasons (from reports and key informants) for the suspension and closure of the organizations are:

- disagreements and disintegration among the partners,
- lesser number of members than required,
- lack of work areas/premises and infrastructure,
- shortage and inadequacy of finance,
- fear of loss of market/demand,
- inability of the partners to find for one to pledge for loans,
- lack of willingness of the partners to take government supports (especially, training services), and
- bureaucracy from government offices.

These individual constraints are detailed in different sections of the discussion part of the whole text. Moreover, a number of business establishment opportunities have been lost for one big reason that the town residents who are stimulated/ promoted/ to run their own businesses in associations are not organized and oriented to the desired level. This is mainly attributed to the implementation bottleneck especially at the sub-town and Kebele levels. For example, Kebele administration offices (the appropriate government organ to provide supportive and clearance letters for individuals before their organizations in to associations) do not efficiently and properly serve the individuals who need to be organized. The offices are open only for a day in a week. Hence, they can not properly serve the prospective operators as the offices get busy with the accumulated works. Accordingly, this has been highly discouraging challenge for the operators as they do not get services at the time they want. The other problem found reported was that some members can not cover costs required to get organized. As cited in some reports, the costs to photocopy formalities and documents of organization and other related costs are some of the reasons that end organizational membership of partners and due to this some organizations/associations get collapsed or suspended.

Furthermore, lack of integration and common understanding among government offices and government enterprises on prompt settlement of the cases of SMEs were reported to be the other challenges to the effectiveness of the associations. The problems are also cited as some of the causes of stoppage of some enterprise and delay for others. For example, during the researcher's visit, the owner organizers of "Ahun Aye Ayine block producing enterprise" told the researcher that their enterprise had not been in operation for more than five months (to the date of the field survey). This in turn is caused by the conflicts of interests created between the municipality and Ethiopian Light and Power Authority (Arbaminch branch). The shades are already built; machineries are installed but the electric services have not been supplied yet because of cost and related problems. The operators also underlined that they are incurring additional costs of time, money and material. Necessary payments are required to be made for the government; they are wasting their time keeping the enterprise and they blame for being unemployed still. No remedies have been made yet except appointments and postponements of the cases. The bureaucracies with the respective offices were also found to be demanding the operators to incur costs of time, finance and energy. Due to these discouragements, some members are withdrawing and even the firm has reached on the verge of liquidation.

Licensing, tax registration and related services: According to SMEs development regulation of the regional and/or national government, the associations with legal personalities need to get business licenses and legal registrations for taxation. However, as the interviewee from the business licensing office pointed out, the SMEs are not obliged to have business licenses. Rather the office assumes that the SMEs themselves facilitate the issuances of licenses for their own affairs and benefits. For example, marketing affairs of the firms with public institutions and offices, and even with some other organizations require the firms to have business licenses first. With out licenses, the firms face difficulties to sell or bid to sell their products to those institutions and organizations. Therefore, from here it can be predicted that liberalism of the licensing office on licensing the associations will not come with out bureaucracies to the firms at future times. For example, in case the firms do not have the awareness on the benefits of having licenses, they may not be eager to get it. Because of this, they may face difficulties to make any kind of transaction or other dealings with the government office or other bodies because they do not have licenses and this in turn demands them to process the release of license and relevant experiences and requirements.

Moreover, according to the interviews conducted with the heads of tax administration offices, the enterprises are required to go to Hawassa for tax registration and renewal because the federal branch tax administration office is only situated in Hawassa city and, tax registration and renewal, and tax collection activities are not mandated to the Arba Minch town and Zonal tax administration offices. However, in reality, the enterprises (as legal persons) do not have any experience of tax payments. They do not pay profit taxes; and taxation on dividends has not been in place as well. Though the firms are required, in principle, to register for TOT (for a capital amount less than 500,000 Birr) and for VAT (for a capital amount greater than 500,000 Birr), these requirements are not practiced regardless of the time of establishments of the firms and their capital. In fact, the regulation privileges the associations and provides them with the first 6-months as free of tax period. In reality, however, taxes are not paid for more than six months and even it extends for undefined period. In this regard, the only income of the local government is the income tax collected on the monthly incomes of the individual operators.

Working areas/premises and cluster provisions: For the associations with legal personalities, development agents assigned from SMEs development offices in the sub-towns develop business plans for the associations (in consultation with the elected managing committee of the associations) so

as to facilitate provisions of working space and finance. The municipality supplies/is expected to supply/ buildings/shades, working areas, infrastructures and related facilities totally at its own cost i.e. the operators get these all services free of any charge of rent and they are expected only to work and succeed in the given business works. 81% of the leader respondents reported that their enterprises have got the constructed shades/houses and land for work for which the total cost is assumed by the municipality. The interview result also shows that all infrastructural facilities and utilities are provided by the same. Up on graduation, the firms are expected to submit the areas to the government.

Yet the sectors under the package program get priorities to secure the areas/shades as they also do in other services including training, BDS and others. In either case, the local government is sacrificing the income it could have secured from the land leases and rent of the shades or buildings to the encouragements of the business operators. It can also end up in sense of dependence of the business owners because almost all services are provided by the government free of any charge. Moreover, it weakens their culture of contribution to the income of the town. The practice is also contrary to the requirements of the regional SMEs development policy which obligates the target users to pay the rent/lease based on the type of the enterprise and capability to pay/productivity of the firms.

Moreover, almost half of the respondents (49%) agreed on the inadequacy and absence of the working premises from the government (refer Table 3.11). On the other hand, currently, there exist no clusters. However, the interviewed personnel underscored the importance of constructing clusters in the town. Four clusters are already underway. Four big clusters (one cluster in each sub-town) are being constructed by the joint sponsorship of the regional and zonal government, and the municipality. From the very plan, the clusters will be found with fully-fledged facilities and services. They are designed to have a strong global-based net works for information, production and marketing. Six buildings in each cluster are built and each cluster will have a store, an office, three production areas and one display and sales shop. All will be facilitated with internet connections, R&D, international services, one-stop-shop services, staffed with supporting personnel, and other necessary internal facilities and infrastructures. Finally, the users will be entitled to use the clusters free of charge for five years. What is expected from the entrepreneurs here is to work, to win and to graduate ultimately.

So far as clusters are concerned, there are four prioritized areas of specialization on production (including production of construction materials, textile and garment production, agro processing, and

wood and metal works) as required by the regional government. However, only three areas are focused in the town of Arba Minch. Specializations in textile and garment (in two clusters in Abaya and Sikala sub towns), agro processing (in a cluster built in Secha sub town) and metal and wood works (in a cluster built in Nech Sar sub town) are currently focused and worked on by the local authority. Of course, these activities are concluded to handsome opportunities to the expansion of SMEs in the town thereby inducing the efforts targeted to poverty and unemployment reductions. The local resources will also be exploited and economic base of the area will likely improve. But some problems the researcher observed in person were that two of the clusters are not established at average distance from the market and it will be difficult for customers or visitors to access the area on foot. Moreover, specialization in the production of construction materials is also overlooked unreasonably. But this would have been the area that can accommodate huge number of labor force and hence utilizes much of the local resources as the construction industry is immensely developing in and around the area.

Other Infrastructures: Water supply, electricity, market access and roads, telecommunication services, transport facility, business clusters, latrine and others are vital inputs to the flourish and development of the SMEs. In addition to the multiples of services, the government provides many facilities/utilities of infrastructure for development of the SMEs. Accordingly, the researcher opted to ask sampled managers of the SMEs on the availability and adequacy of these important factors of firms' development. The summary of the responses are displayed as follows.

Table 3.10. Supply of infrastructure to the SMEs' premises

Infrastructure elements	No. of respondents based on the evaluation criteria (%)				Total(%)
	Adequate	Moderate	Inadequate	Absent	
Power supply	24(42.1)	19(33.3)	6(10.5)	8(14.0)	57(100)
Telecommunication facility	12(21.1)	13(22.8)	10(17.5)	22(38.6)	57(100)
Water supply	19(33.3)	18(31.6)	9(15.8)	11(19.3)	57(100)
Access to main road	17(29.8)	19(33.3)	19(33.3)	2(3.5)	57(100)
Access to side-walk/footway	27(47.4)	18(31.6)	9(15.8)	3(5.3)	57(100)
Transport facility	15(26.3)	22(38.6)	20(35.1)	0(00)	57(100)
Latrine	21(36.8)	2(3.5)	13(22.8)	21(36.8)	57(100)

Source: Field survey, 2008

As we can observe from table 3.10 above, electric power is adequate as the opinions of 24 (42.1%) respondents indicate. In this regard, however, the problems cited among the producing firms are that there are frequent power interruptions (especially, in the manufacturing firms and others which do not operate with out power supply). Besides, due to the national level shortage of power in that year, there had been even total stoppage of productions for those firms for two or more days a weak. Regarding telecommunication service, about 39% complain for its complete absence and even the responses in about 18% of the firms indicated the inadequacy of the services. In this regard, the responses from key informants indicated that supply of telecommunication service to the premises of the firms is not a prime issue. Rather those who are capable can install the services themselves or buy and use cell phone. With regard to water supply and access to main road, and transport facility, more than 63% of the enterprises have got their adequacy and availability at least at average. Relative to the main roads, however, the accessibility of the enterprises through side-walks is much better in that 47.4% of the surveyed enterprises were reported to have adequate access to the side walks and even 31.6% of

them have evaluated the accessibility of the enterprises to be moderate. The observation of the researcher does also witness this fact, i.e. many of the shades of the associations are constructed almost by the side of the main roads found in the town. The interviewed officials also strengthen this truth. The other important ingredient is the firms' bondage with customers and it is rated at average by more than half (58%) of the surveyed leaders of the firms. Here, the reasons can be sited as that many of the firms are linked with the market and safeguarded by the local government. Lastly, to the premises of the enterprises, latrine service seems to be having severe shortage because many owner-manager-respondents (36.8%) claimed that the services are totally absent and even other considerable number of the firms (22.8%) was reported to have the services at inadequate levels. On the other end of the spectrum, the services are found to be remarkable in the premises of the firms as 37% of the respondents witnessed.

Lastly, for majority of the listed infrastructural facilities/ utilities, more than 63% of the firms are satisfied with them at least at average. But this does not mean that they are fully supplied. However, it tells us that there is a need for improvement. Specially, the very important thing yet overlooked is the telephone service. The same is true for the latrine facility. Apart from these regular facilities/services, clusters are totally absent in the town. But promisingly, the construction is under way now days.

Financial service provisions: After the tenure of the working premises are secured, the operators start to process to get loan services from Omo MFI. Finally, the institution releases the loans after making an hour orientation for the associates on the objectives of the institution, interest rate, loan return amounts and schedules, on savings, and on the idea of book-keeping in the associations. Based on the category of the business, machinery/equipment provision services are also facilitated (with the other jointly operating organs of the government in the town) and provided for the firms to embark on the real work. In this regard, the separate section that deals with external factors of finance and financial institutions will have some more insight on the financial services of the government.

iii. Government services during the operations of the associations: As already mentioned, since 1997EC to the date of the survey, about 124 associations in seven main business sectors have been in operation. From their early operation to their graduation, the associations are privileged to get a range of services and supports from the local government which are detailed in the following sub-sections.

Training services: Training services are given on technical, and business administration and entrepreneurship, and other areas. Arba Minch TVET College takes care of technical trainings while SMEs development offices and Omo MFI found in the town provide trainings related to business administration, entrepreneurship, and finance. Arba Minch TVET College is found on a forefront to provide demand-based short term technical trainings for the operators of the firms. The main areas of businesses the College concentrates its training services include constructions, food processing and preparation, metal and wood works, and dress making. According to the interview conducted with Vice Dean of the College, it provides the training services based on the request of the SMEs development desk which is required to identify the demand of the clients (the operators) prior to the provision of trainings. Moreover, the training services the College provides are flexible as it fits its services to the specific training demand. According to his views, the college also has sufficient resources and facilities to serve the emerging demands. Yet the effectiveness of the College in this regard depends much on the effort and performances of the SMEs development desk to bring the actual demands from the ultimate users. Apart from the training services, the College plays great role in assisting the operators on the specification and purchase of machineries and other equipment. It also provides training services on how to operate and /or maintain the machineries or equipment.

On the other hand, Omo MFI provides trainings on book-keeping and accountancy, and on management of cash. Moreover, it provides advisory and follow up services, and so on. The detail issues on the financial aspects of the services are discussed in the section that separately deals with external factors of finance and financial sources of the associations. In addition to its co-ordination activities with government and other bodies, the SMEs development desk provides various training services as those that are clearly stated in different sections and sub-sections that discuss about government supports and services. Table 3.11 can also have more insight as it identifies the status of various training services provided by SMEs development offices. However, the general views of the leaders-respondents are shortly discussed below.

The respondents-operators commented on the services of training and the frequently raised issues are written here. As some of them complained, the trend of training services seems to be made for trial; hence, the services are found to be insufficient. Moreover, training on how to operate and use modern machineries and other tools is inadequate. In addition to these issues, the respondents were asked

other important questions on training. Except for the 33.3% of the business enterprises/enterprise operators, the majority agreed on the relevance of any training services they get from the government. However, a considerable number of enterprises operators (40.4%) reported that they do not get training on their own demand and 24.6% rarely get it by their appeal. What is noted here is that the training services are provided merely by the arrangements of the local authorities. Similarly, it was found out that almost all the enterprises (96.5%) depend for training on the combined effort of the different bodies of the local government i.e. they have no alternative training means on their own payment or other ways. Ultimately, explaining the insufficiency and supply-driven nature of the training services, the enterprise respondents pointed out the types of training supports their enterprises currently need. Among others, the following are the frequently raised trainings services demands of the enterprises:

- Trainings on management skill ,
- Trainings on marketing skill ,
- Trainings on how to find and handle customers, and on how to increase sales turn over,
- Skill development on how to work in team (with people), and
- Training and skill development on records keeping systems and on cash management.

Business Development Services (BDSs) and related services: The BDSs provided, as designed in the SNNPRS's SMEs development policy, in Arba Minch Town include the areas of human resource management and leadership, business plan preparation, market administration, entrepreneurship, accountancy and book keeping, cost and pricing, loan and savings, financial and material resources handling and use, customer handling, product promotion, work area/space handling and use, market information, suitable technology, information provision on rules and proclamations on tendering/bids and taxation, raw materials handling and use, export markets and technical skills. All BDS in the form of advices are provided at the level of SMEs development office and Omo MFI at town and sub-town levels. As the information collected through interviews shows, the development agents provide BDSs twice in a year. Business development agents need to undertake a one month need assessment in the first half of the year prior to the BDSs provisions. The same process holds in the second half of the year as well. Ultimately, on the major identified problems, the agents turn into comprehensive advisory services of BDS for five consecutive months in the first half and in the second half of a year.

To support the foregoing facts, the service user enterprises were also inquired for information on the status of some of those services and the results are depicted as follows.

Table 3. 11. The level of services provided at the local government level (by the respondents' views)

N o.	Services provided	Number of respondents (%) on status of the services				Total
		Sufficient	Fairly sufficient	Insufficient	Absent	
1	Market information (market facilitation and accessing)	13(26.3%)	27(40.4%)	9(22.8%)	8(10.5%)	57(100%)
2	Business advice (Counseling on market and technological developments)	15(26.3%)	23(40.4%)	13(22.8%)	6(10.5%)	57(100%)
3	Suppliers information (Raw materials facilitation and accessing)	14(24.6%)	18(31.6%)	8(14.0%)	17(29%)	57(100%)
4	Facilitation and accessing suitable machineries/ equipment, & technology	9(15.8%)	12(21.1%)	12(21.1%)	24(42.%)	57(100%)
5	Business /product promotion	4(7.0%)	7 (12.3 %)	17(29.8%)	29(50.9%)	57(100%)
6	Incentive to start business	6 (10.5 %)	25(43.9%)	22(38.6%)	4 (7.0 %)	57(100%)
7	Business plan preparation	28(49.1%)	14(24.6%)	9(15.8%)	6(10.5%)	57(100%)
8	The provision of grace period on loans returns	11(19.3%)	27(47.4%)	13(22.8%)	6 (10.5 %)	57(100%)
9	Training on Entrepreneurship skills	9 (15.8 %)	10(17.5%)	19(33.3%)	19(33.3%)	57(100%)

10	Training on business management	15(26.3%)	8 (14.0 %)	19(33.3%)	15(26.3%)	57(100%)
11	Training on Marketing skills	11(19.3%)	8 (14.0 %)	27(47.4%)	11(19.3%)	57(100%)
12	Orientation and training services during organization	11(19.3%)	27(47.4%)	17 (29.8%)	2 (3.5 %)	57(100%)
13	Awareness creation on business rules and regulations, and on tendering/tender issues	9(15.8%)	14(24.6%)	19 (33.3%)	15(26.3%)	57(100%)
14	Provision of infrastructure	10(17.5%)	24(42.1%)	17 (29.8%)	6 (10.5 %)	57(100%)
15	Provision of production /marketing area	11(19.3%)	18(31.6%)	17 (29.8%)	11(19.3%)	57(100%)
16	Training on how to improve production and productivity	11(19.3%)	12(21.1%)	20 (35.1%)	14(24.6%)	57(100%)
17	Taxation and financial advices	13(22.8%)	21(36.8%)	17(29.8%)	6 (10.5 %)	57(100%)
18	Audit service	5(8.8%)	14(24.6%)	9 (15.8%)	29(50.9%)	57(100%)

Source: Field survey, 2008

As clearly observed from table 3.11, the BDSs are most appreciated in the area of the provision of business plans (49.1). Moreover, at least at moderate levels, services including market information, business advices, provision of grace period on returns of loans, and orientation and advisory services during the organization of associations are the four services which have got better appreciations than the others. On the other hand, business promotion service is the most lacking service from the government. Audit services, entrepreneurship skilling, management skilling, education and awareness creation services on business rules / regulations and on government tendering are the next four government-related services complained and perceived to be absent and/or minimally provided. However, as observed from the table, the absence of some services including provision of machinery and equipment (as also discussed before), and audit services may be attributed to their inapplicability, or their provision may be time-bounded so that the services might not be required. Moreover, as the interview result shows, an association is required to be audited by delegated auditors from Omo MFI at any required time by the association or the SMEs development desk. In general, the associations have a lot of co-operation with and control from the local government authority.

In line with the above survey results, according to the researcher's observation, the interview results, and secondary data source documents, BDSs and other supports provided for the firms by the government are not found to the level that can fully make the enterprises strongly compete with the already established firms of any size or the services may not achieve the expected target of the government. Here, it should not be only the government and its service providers that are blamed for the failure but also the users themselves are sometimes responsible. Accordingly, the following are the four major government related problems identified by the respondents (where the numbers of the respondents are put in percentage in the brackets).

- Lack of proper co-operation and attention (agreed by 90%),
- Bureaucracies from government offices during the start up of the firms (agreed by 74%),
- Bureaucracies to get various services during the operation (agreed by 66.7%), and
- Lack of transparency and corruption (pointed out by 37%).

These findings are further supported by various reports produced on the situations and problems of the enterprises under the package program. According to the reports, apart from the construction sector, others get lesser attention on different supports and services provided both at town and

sub- town levels. The other malfunctions are also related to implementation capacity problems and weaker responsiveness from different government organs (particularly, the government organs operating at the town level). In some cases, the informed/ initiated individuals in the town are not properly registered and organized; and lack of follow up services made by the experts to know where the weaknesses and strengths of the firms are and identify their needs are the other challenges from the side of the government. The problems related to working space, lack of well-organized one-center-service, shortage of required development agents, inefficient and improper treatments of the service-users (in some government offices), untimely provisions of raw materials and other inputs (particularly from government organizations), delayed shipment of products (this is particularly complained on the Housing development project office of the town) and hence unnecessary storage of the outputs are the major cited problems directly or indirectly facing the operating enterprises .

In addition to the government-related problems, there are some important problems identified from the side of the operators. As interview results and various documents stipulate, many business operators fail on return of loans on time; they hide information; there observed resistance from some service users to sit for training and even some demand pocket money/per diem allowance/ to get trained. At the same time, some others resist to get training service as they assume it consumes their time of work. Furthermore, as a report produced on 19 enterprises in one sub-town depicts, because of their frequent contacts and closeness with the experts (agents and facilitators), the enterprise operators do not make attention to the experts' advices and supports. On top these, in contrary to the requirements of the regional government; there have been no practices of making the operators share training and BDS costs (with fair considerations of capability to pay and duration of operations of the firms) to make them value the training services and even to reduce possible dependency feelings.

Inputs and outputs linkages services: Regarding these services, the SMEs development agents direct their efforts to search and find market and input suppliers in public organizations and offices in the town and link the operators to them. Similarly, supply of information to the associations [SMEs] is mainly confined to serve the purposes of supply and market linkages. For instance, the agents chase demands and/or search for offers of tenders in the public organizations and offices to

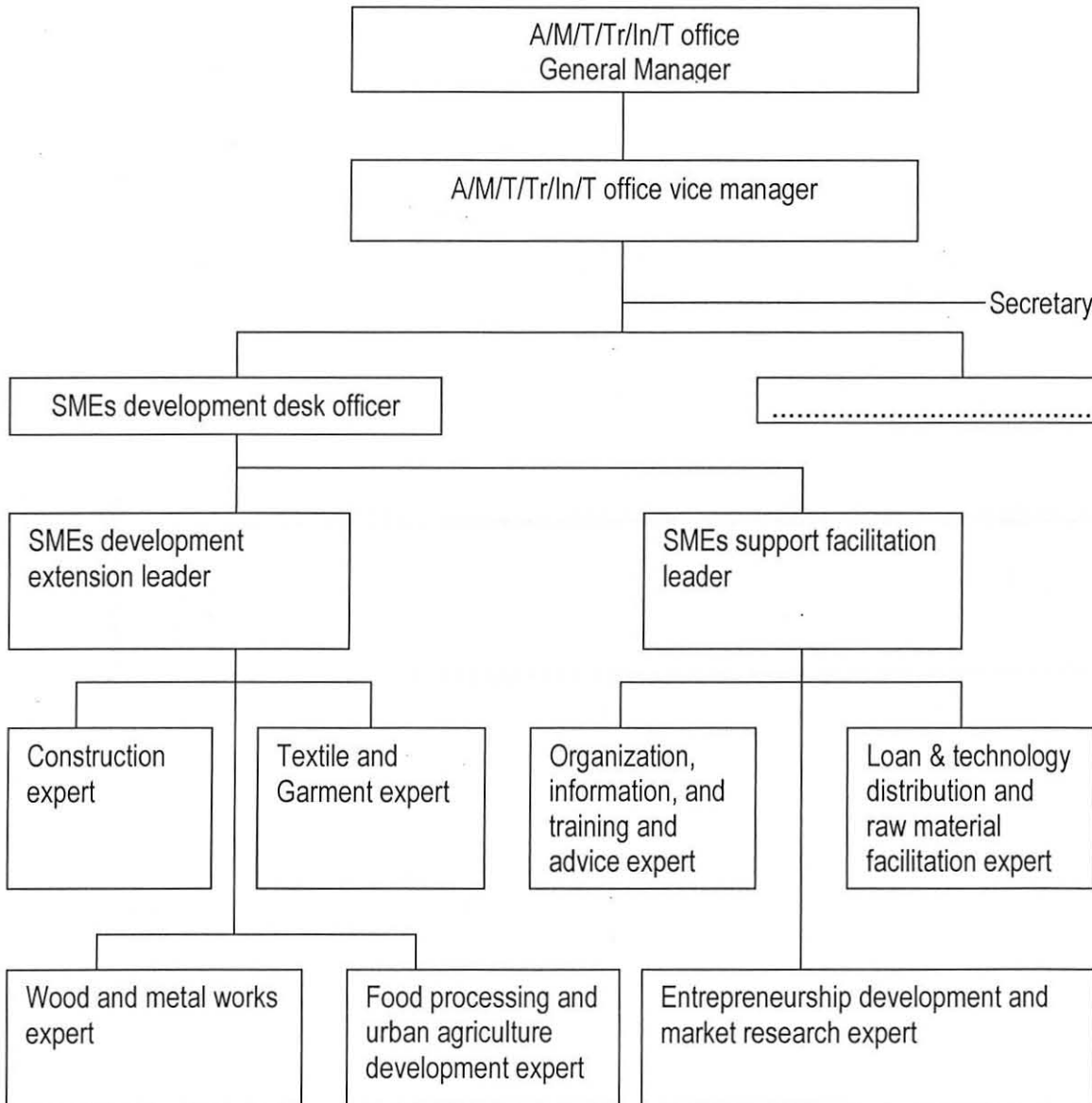
inform and link the associations to sell their products. Moreover, any public institution that wants to buy any product/service for not more than Br.300, 000 shall directly buy from associations or it has to offer bids to purchase products only from the associations. In short, the public institutions are legally forced to give market and supply privileges and priorities for the associations. In these regards, AMU, Arba Minch hospital, government schools, the town's housing development project, the municipality, government offices, the municipality, AMU, Arba Minch prison camp, government schools, Arba Minch textile factory and many others are some of the targeted market destinations and/or supply sources for the enterprises. All these organizations are operating in the locality. Generally, market facilitations and input sourcing are the major activities need to be carried out by SMEs development offices at different levels in the town. To these effects, the agents play brokerage role. With in the creation of input-output linkage, what is basically lacking (according to the views of the key informants) is that there is no practice of creating equitable distribution of market opportunities for the firms with different experiences and capacities of operation. For example, according to their views, all firms (the associations) are made equally participate on bidding or other forms of selling activities in the government institutions regardless of their capacity of operations and experiences. The sections that discuss about market and supply factors will also further the detail issues pertaining to the government institutions and offices.

Follow up services and graduation of associations: According to the SMEs development plan of the regional government, two years time after the establishments of the firms is the expected time set for the firms to graduate. The minimum net capital threshold for the firms to graduate to any form of business is Br.900, 000. The firms can graduate to any form of ownership including sole proprietorship, partnership, co-operatives or to share company. To this end, follow up and evaluation of the performances and financial positions of the firms need to be made jointly by Omo MFI and SMEs development offices in the town. Moreover, an agent will be in charge of serving 20-30 enterprises. However, it was found out that let alone graduating the firms, even any kinds of performance measurements and determination of the financial positions of the firms have not been attempted since the last four years.

3.2.2.3. [Human] Resource and Implementation Capacity of the Local Authority

When human resources inventory of SMEs development office (under A/M/T/Tr/In/T/ office) is analyzed; the implementation capacity at the town and sub town levels is questioned. The organizational chart of the SMEs development desk at the town level is shown below.

Fig.3.3. Organizational structure of SMEs development desk (at the level of Arba Minch town)



Source: Organizational chart of SMEs development office/desk, 2008

In support for the organizational structure, here below presented are the required personnel at different functions of the office at town and sub town levels.

Table 3.12. Arba Minch town SMEs development desk human resource profile

No.	Positions	Educational level and profession	
		Minimum Requirement	Actual
1.	SMEs development desk officer	BA in Economics, Management, accounting, sociology	BA in Economics
2.	Enterprises development Extension leader	BA/BSC in Engineering, Management, Economics	-
3	Construction Expert	Construction technology or related (BSC)	Management (Diploma)
4.	Woods, metal and bamboo works expert	Construction technology or related(BSC)	-
5.	Food processing & urban agricultural development expert	BSC degree in agro engineering, industrial engineering, Food processing technology, chemical engineering, management or related	Technician (Diploma)
6.	Textile and garment expert	Textile engineering/ technology	-
7.	Enterprise support facilitation expert	BA in management, Economics, Accounting or related	-
8.	Organization , information, training and advice service expert	BA in management, Economics, Accounting or related	Management (Diploma)
9.	Entrepreneurship development and market research expert	BA in management, Economics, Accounting or related	Accounting (Diploma)
10.	Loan &technology distribution and raw material facilitation expert	BA in management, Economics, Accounting or related	Management (Diploma)

Source: Human resource profile of SMEs development office in Arba Minch town, 2008

Additionally, in the SNNPRS's SMEs development policy, the prioritized sectors which are found to have/ create a value chain include:

- Food processing
- Textile and garment
- Leather and leather products,
- Metal, wood and bamboo works
- Construction works, and
- Handicrafts

For these sectors, BDSs are prioritized. Training supports are directed toward textile and garment, wood and metal works, food processing and preparation, construction and urban agriculture.

Even if the development of SMEs is supported at different levels of the government, the SMEs development desk at town level and its lower tiers at sub-town levels take key roles in determining the success of the firms. At the town level, one-stop-shop services including organizing associations, registering, market facilitation and accessing, training services, BDS, supply of manufacturing or sales areas, loan/credit supply, technology/equipment service, tax registration, information and advisory services are mandated to be provided. To realize these, there are two options designed by the regional government to fully staff executing personnel. In the first option, experts are represented and organized from SMEs development desk, urban development office, trade and industry office, association/cooperative works offices, urban agriculture and from loan providing institutions. In the second alternative, the town SME development office hires and fulfills, and trains its personnel to implement the expansion of SMEs. This is true in second level towns like Arba Minch. The second alternative is now being worked with in the town where the SMEs development desk and Omo MFI offices are expected to provide all possible one-stop-services.

As it can be observed from Table 3.12, tasks were identified and grouped in to divisions that can expertly be organized and executed. Professional requirements are also clearly identified. Detail activities in each department are also specified. Therefore, it will be the joint activities of these resources that can measure the effectiveness of the implementation of the plan. For this purpose, the researcher opted to see the actual practices in the town. The practices are clarified as follows.

As it is observed from the same table, the required human resource is not staffed to the desired level. For one thing, their education levels do not fit the required positions. Secondly, the personnel required at various posts / e.g. at posts of the SMEs development extension officer; woods, metal and bamboo works expert; textile and garment expert, and enterprises support facilitation officer/ are not yet placed. Therefore, the multiples of activities mandated to be discharged at these positions are now sacrificed due to the shortage of the resources. For example, the major activities identified to be executed in SMEs development extension office include the provision of one-stop-shop services, managerial and entrepreneurial skilling, information provision, training services, and products displays. Enterprises supports facilitation office is responsible for co-ordination, organization and networking all activities for effective implementation of services and supports specified under enterprise development program. But both these key departments are totally not functional today. At the same time, some other posts are still vacant and even in others, majority of the staffed personnel seemingly do not fit the required posts because their education levels are lower than required and secondly, for some, their professions are not related to the requirements of the jobs. In general, there observed high shortage of implementing personnel at town level.

Information from the interview made with the SMEs development desk officer also supports those facts. As to his views, there is high shortage of personnel at the desk level in relation to the tasks/works. Additionally, huge amounts of tasks are covered by few individuals in the office. All relevant office works cited before and field works [visit to enterprises, market searching and facilitation going to public institutions; settling training, raw materials, work space, shades and cluster buildings and so many more) are covered by the existing workers. As also observed, they all (including the officers) are highly tied with routine leaves to the field works and working on strategic issues and office works seem to be overlooked to some extent. Well-organized plans, organization of report results, work schedules, organized information for dissemination, organized data and files are among the highly lacking necessary resources. Many times, offices are observed to be left empty; schedules for client services are not posted and they do not exist; unplanned moves [ins and outs] are highly continual; disintegrated and overburden of works are some of the problems observed during the researchers' frequent visit to the desk and offices at the sub-towns. For example, during the visit, the researcher frequently heard such questions and complaints as "*Ahunis gira gebagn,min indemisera alawukim,ine sint sew hugne mesirat ichilalewu?, ahunis*

Yesira dirshaye mawek alchalkum" from the words-of-mouths of four randomly observed individual workers (at both town and sub-town levels). In direct translation, it is quoted as "I am confused; I don't know what to work; how can I cover these huge amounts of work alone? Now I don't know the amount of my duties". In addition to these; as the information from the workers themselves and some filed data documents show, assignments of field researches and reports are not timely made; they are jammed in to drawers uncompleted and are left for long within here. Moreover, plan documents are usually personalized and are not documented. Accordingly, it was even difficult for the researcher to get plan documents to see against the actual performances.

The officers interviewed also revealed that the desk is a dependent body on other government organ including the Mayer office, Zone administration and the Regional bureau for its overall operations. It does not have its own budget. Facilities and various services are also lacking. For example, at the level of the Arba Minch Trade, Industry and Transport office (in which the SMEs development desk is embraced), only a motor cycle is serving all workers and experts to/from service centers. Office facilities and utilities including telephone services are insufficient. No modern way of data compilation exists as well. Accordingly, the field workers are forced to walk on their foot to visit enterprises and other organizations at distances. Otherwise, they themselves cover transportation and telephone costs to contact enterprises and other government organizations. Moreover, there are no incentive packages and allowances for the workers.

As information from the officers additionally explains, there is huge and extended market potential for the enterprises. However, it is not yet exploited well. At the same time, the personnel is very limited; however, the increasing huge works need to be done with the market, the enterprises, government organizations and other concerned organs. Burdens of works are becoming beyond the capacity to accommodate as demands for enterprises creations are proliferating and subsequent activities are accumulated.

Along with those facts, it is also important to evaluate what is there with relevant offices at the sub-town levels. The SMEs development offices at the four sub towns are directly accountable to the SMEs development desk at the town level. The personnel profiles of the sub towns are demonstrated below.

Table 3.13. Human resources profile of the SMEs development office in the four sub towns

No.	Positions	Educational levels and professions		
		Minimum requirements	Actual	
			Sikala sub-town	Abaya sub-town
1.	Office manger	Diploma	Diploma	Management (Dip.)
2.	Administration officer /Personnel officer	12 th / 11 th complete or Dip. in personnel management, public admin, political science or related	-	-
3.	Secretary/ typist	12 th /10 th complete	-	-
4.	SMEs development desk officer	BA in Economics, Management, Accounting or related	-	-
5.	Enterprises support Extension service officer	BSc/BA in Engineering, Economics, Management, Accounting or related	-	-
6.	Textile and garment agent	BSc in Textile technology, Textile engineering or related	Textile (Dip.)	-
7.	Food processing agent	BSc in agriculture engineering, industrial engineering , Food processing technology, Economics, Management or related	-	Diploma
8.	Construction development agent	BSc in construction, industrial, civil or building technology	-	civil Eng. (Dip)
9.	Wood and metal works agent	Mechanical, industrial engineering or related	-	-
10	Cluster development agent	BA/BSc in Engineering, Management, Economics , Accounting	-	-

11	Enterprises support/service facilitation officer	BA in Management, Economics, Accounting or related	-	Diploma
12	Organization training and advisory and entrepreneurship expert	BA in Management, Economics, Accounting or related	Accounting (Dip)	Accounting (Dip)
13	Loan distribution, technology & raw material supply expert	BA in Management, Economics, Accounting or related	Diploma	Accounting (Deg)
		Minimum requirements	Actual	
			Secha sub-town	Necha Sar sub-town
14	Office manger	Diploma	Marketing (Dip.)	Accounting (Dip.)
15	Administration officer /Personnel officer	12 th / 11 th complete or Dip. in personnel management, public admin, political science or related	-	Accounting (Dip.)
16	Secretary typist	12 th /10 th complete	-	Certificate
17	SMEs development desk officer	BA in Economics, Management, Accounting or related	-	-
18	Enterprises support Extension service officer	BSc/BA in Engineering, Economics, Management, Accounting or related	-	-

19	Textile and garment agent	BSc in Textile technology, Textile engineering or related	Diploma	Textile technology (Deg.)
20	Food processing agent	BSc in agriculture engineering, industrial engineering , Food processing technology, Economics, Management or related	BSc in food processing tech.	Agro engineering (Dip.)
21	Construction development agent	BSc in construction, industrial, civil or building technology	Civil engineering (Dip.)	Construction technology (Dip.)
22	Wood and metal works agent	Mechanical, industrial engineering or related	-	-
23	Cluster development agent	BA/BSc in Engineering, Management, Economics , Accounting	-	Diploma
24	Enterprises support/service facilitation officer	BA in Management, Economics, Accounting or related	-	-
25	Organization, training and advisory and entrepreneurship expert	BA in Management, Economics, Accounting or related	Accounting (Dip.)	Management (Dip.)
26	Loan distribution, technology & raw material supply expert	BA in Management, Economics, Accounting or related	Accounting (Dip.)	Marketing (Dip.)

Source: Records on the profile of human resource from HRM office, 2008

As clearly shown in Table 3.13 above, many positions are vacant in all sub towns (except in the Nech Sar sub town, where relatively few vacant posts are there). These are either un-assigned or others quit the jobs. The officials' information from the towns and sub-towns also witness the high turnover of workers. The existing workers are overburdened with additional duties in some vacant posts or else the specified tasks (in the vacant posts) mandated to be accomplished expertly are either done inefficiently or they are totally overlooked. Except the relatively better functioning BDS center in Nech Sar sub town, one-stop-shop services are totally not functioning in all other sub towns. This is because there is shortage of personnel, agents and officers. As the officers themselves proved, the absence of one-center-services at centers in the sub towns has retained the inefficiencies of client services. For example, as they further specified, the service-users have not still escaped from lengthy bureaucracies. Many clients are ignorant of "where to begin" and "where to end" the process of services, as well.

Similarly, even the duties covered by the working personnel run out of their professions and specializations. For example, as observed from both Table 3.12 and Table 3.13, the very jobs demanding mechanical and technical skills are being totally run both by very irrelevant professions and lower educational levels than required.

Moreover, the centers fall short of office facilities (including telephone lines, computers and typing machines, and shelves); and the existing offices are sub-standardized and too narrow to provide services to group of clients. The layout of the offices is better still in Nech Sar sub-town. However, there is no transport service; secretaries are also absent and files or documents are highly disintegrated and are jammed in to individual drawers in the offices.

As per the set regulation on SMEs development, for 10,000 dwellers or 15 enterprises, one extension agent is planned to be assigned. But in reality, an agent in the town is expected to deal with all affairs of 20-30 enterprises. As also already said, the agents and other staffs run out of the limited responsibilities; occupied with routine field travels on their own foot or on their own transport cost for distances. Office works, promotion and organizations of new team, and other related activities are the other responsibilities expected of the same workers. Additional duties are also covered by the same. But they have no additional incentives in return, as they complain. Similarly,

as to the researcher's observation, some workers are confused with what to they do and there is no to little schedule of time for works. In addition to those problems, as indicated in different reports, there is a gap on the follow-up of the firms. Accordingly, training and service needs assessments, identification of problems, settlements of conflicts; identifying, filling and reporting of the drop-outs of some partners are not strongly worked on in some enterprises.

In general, the written SMEs development policy and package have good opportunity for the development of the SMEs sectors in the town. The programs and duties, as written in the policy, are decentralized even to offices operating at Kebele or sub town levels. A range of institutional infrastructures are well written in different modalities. But as it is observed from the previous findings, there seems to be high implementation bottlenecks. The public responsibilities transferred to the local government and particularly to the implementing bodies are not made with adequate transfer of resources. The local governance structures, particularly, government bodies ultimately implementing the SMEs development (i.e. the SMEs development and micro finance offices at the town and sub-town levels) are not well-strengthened and there appear to be capacity and resources shortages in the lower government tiers.

3.2.2.4. Finance and Financial Institutions

Small and micro businesses need money to finance a host of requirements. The capital required by these businesses basically include working capital [used to run the day-to-day operations of business organizations" and investment capital (which is a fixed capital including machineries and equipment). The adequacy of capital can also determine the efficiency and productivity of the firms. Concerning these, views of the enterprise operators and financiers were used for the purposes of investigating the actual practices with SMEs and financial institutions.

The operators were inquired for information on the sources to finance their businesses at the very start up. For except one enterprise, all the operators agreed that Omo Micro finance institution was the dominant source of their financial inputs to start their businesses. It was only very few operators (less than 18%) who additionally used money resources from savings and friends or relatives. Currently, the business organizations are mainly financed through sales income, loan

from Omo MFI and the savings the operators keep by any means. From the whole respondents, 52.6% of them have complained that the loans provided are not adequate. According to the responses of the sampled managers, however, the money borrowed are totally infused for the intended purposes of raw material purchases, maintenance and expansion of the enterprises, purchases of equipment and machineries, and for working capital. Moreover, the lending institution [Omo MFI] provides additional services of advisory and follow up (89%), grace period to return loans (84%), non-collateral and group-based loan services (98.3%), equipment and /or machinery leases (35%) and affordable interest rate (77.2%). The actual rate of interest is 10%. Lastly, slightly more than half of the respondents averagely evaluated the adequacy of those services to be moderate (50.9%) and other considerable number of the entrepreneurs (38.6%) rated inadequate.

To understand the creditworthiness of the borrowers, a question was also posed on how frequent they return the loans based on the schedule to return. Almost one half (49%) of the respondents return the loans always keeping the schedule and 26.3% of the borrowers mostly does with the schedule and the rest (24.6%) keep the promise sometimes.

In addition to the group-based loan services, the SMEs desk has recently started to provide loan guarantee scheme to the firms prioritized in the package program so that the financier confidently extends its loan services to the associations. But for the other associations, this privilege is denied and they are required to guarantee the loan with the collaterals of properties and the group or other individuals' salary are required to take care of it. Moreover, the ceilings of the loans are determined based on the type of the business (refer Table 3.15) and the borrowers should fulfill some basic requirements from the institution. They are required to be residents of the town for more than a year and they should have a motive and capability to work. The age range is required to be between 15 and 65. Youths who need to work and those who graduated from TVET are also emphasized. Business plan is the base for loans and those who have completed/settled their previous loans are guaranteed for other loans. Those who are not indebted in other organizations and those who are healthy and ethical (evidenced by supportive letters from their respective Kebele administrations) are required. For the loan to be timely provided, therefore, at least those requirements need to be fulfilled. In short, the loan services provided and their repayments are depicted as follows.

Table 3.14. The trend of loan disbursements and repayments since 1997EC

Year:	Disbursement(Br.)	Increment(%)	Repayment(Br.)	Increment(%)
1997	280,071 .00	-----	229,354.10	-----
1998	638,827.70	128	35,584.86	84.5↓
1999	1,187,945.45	86	-----	?
2000	2,910,979.10	145	55,955.00	?

Source: Records from Loan distribution, technology and raw materials supply expert office, 2008

Note: Amounts of loans distributed to and repayments made from the associations in the regular program were not found for the years 1997, 1998, and 1999EC. Therefore, they are excluded from computations in the discussions in these times. Moreover, the exact amount of loan repaid in 1999 was not obtained from the concerned office.

According to the information given in Table 3.14, the size of the loan distributions increases over the years. For example, it has shown annual increments of 128%, 86% and 145%, respectively over those periods. However, the repayment showed a falling trend from the first to the second year. Over the other years, the information is not available to elaborate more. Concerning the term of repayments of the loans, however, it is made on installment basis and the period is negotiable. Moreover, the terms of the loan settlement depend on the loan size and it varies from one year to a maximum of five years. In line with this, materials/machineries leases are provided by the institution. The bases for the leases are still business plans.

For the operators, basically there are two types of savings: compulsory savings and voluntary savings. Two types of compulsory savings are practiced in Omo MFI. One is deducted from the loan amount in advance and the second is monthly savings. For up to Br. 50,000 loan in the first round, 10% is deducted for saving and it will be 5% deduction if loan in the second round and above is granted. But if the loan grant in the first round exceeds Br. 50,000, the deducted amount will be 5% and 3% if it is in the second round and above. Secondly, each member of the associations is obliged to save Br.20 a month. Withdrawal on the compulsory savings is not allowed until all the borrowed money is fully settled. All decisions on voluntary savings are at the disposal of the operators and they can withdraw it at any time they want (if they have). Interest is

paid on both savings at the rate of 4%. According to the information from the interviewee, however [especially on the voluntary savings], the borrowers show very weak saving customs. More than that, even some of them make untimely loan repayments and compulsory savings.

Simultaneously with the lending services, additional services are provided for the user-clients. As the interviewee pointed out, training on accountancy and bookkeeping, financial and loan advisory services, follow up services, provision of grace periods ranging from 1 to 3 months [based on the type of the business] and monthly-based interest computations on savings are additional advantages provided for the members of the associations. Moreover, the maintenance costs of the machineries and /or equipment are totally covered by Omo MFI.

In general, the interaction of the service-users and the financier was found to be very strong as proved by 44% of the queried individual entrepreneurs. About 37% has a perception of a moderate linkage with it and the rest complained for a weak linkage.

Lastly, what is observed by the institution (from the views of the key informants) as a problem is that there is lack of loanable fund while the demand is high for the loans. The problem arises both from delay in fund releases from the center of Omo MFI and untimely/delayed repayments from some borrowers. Consequently, sometimes loan disbursements are made out of the time of demand. Due to this fact, during the early start up, some enterprises do not get loans on time. Shortage of personnel (especially at sub towns) to serve the increasingly growing user numbers and facility problems (e.g. absence of computers and shelves, and insufficient office facilities) are some of the internal problems the organization has had. Out side of these, she has discerned the poor savings (especially, on voluntary savings) custom of the operators, less working habits and the failure of some borrowers to make timely repayments. Of course, what it practically does is that it penalizes the users on their defaults to pay back timely. The financial penalty ranges base on the length of the delay: 1-3 months delay, 1%; 3-6 months delay, 1.5%; 6-9 months delay, 2%; 9-12 months delay, 2-5%; and over 12 months delay penalizes 3% of the size of the delayed loan size.

Moreover, the policy document on SMEs development reveals the ceilings for the initial loan grants for the firms as follows. The limit is made only for the 33 sub-sectors covered under/prioritized in a package program. The detail information is summarized in the Table 3.15.

Table 3.15. Loan ceilings for the sectors and firms under the package program

No.	Sectors	Loan ceiling (in Br.)
I	Textile and Garment	
1	Weaving	44,855
2	Dress making	163,724
3	Shoes and leather products	76,946
4	Hair making	163,724
II	Wood and metal works	
5	Metal works	64,835
6	Wood works	18,978
III	Agro processing	
7	Injera making	18,925
8	Baltena products	30,142
9	Bread, Anbasha and Difo bread	16,625
10	Milk and milk products	33,803
11	Honey processing and selling	11,147
IV	Construction	
12	"Blocket" production	154,553
13.	Pricast Bim production	268,000
14.	Sand production	149,625
15.	Construction service	15,200
16.	Electric installation	9,640
17.	Sanitary installation	14,301
18.	Finishing works	2,585
19.	Road and sewerage works	18,940
V	Urban agriculture and Municipality services	
20.	Solid waste collection and compost production	6,701
21	Small scale vegetables development	22,985
22.	Silk production and development	24,747
23.	Small scale ship fattening	17,600
24.	Dairy cattle development	126,266
25.	Cattle fattening	50,000
26.	Bees keeping	34,120
27.	Chicken production	86,762
VI	Handicrafts	
28.	Sindedo, kacha, Zenbaba and koba works	10,000
29.	Chele works	10,000
30.	Carpet works	10,000
31.	Brick works	10,000
32.	Bamboo works	10,000
33.	Design works on woods and stones	10,000

Source: In SNNPRS, Omo MFI modality of enforcement, 2008

In addition to the data demonstrated in Table 3.15, the Omo MFI implementation directive shows that it is only Br.2000 as maximum loan limit for individual borrowers and it is mandated both to the

Omo MFI and the SMEs development desk to jointly negotiate on the size of loan for regular business firms established in association. The regular [Medebegna] firms here refer to those sectors found out of the six business areas currently worked on by the government.

The new directive was issued and has been enforced since 1998 EC. It is also known that since then, there has been a remarkable over time increases in prices of products in the market place. This has a direct impact on the fates of the business enterprises. Especially, for the sectors embraced under the package program, there seem no room to relax the maximum limit of the loanable fund and it is limited. Accordingly, the loan limit does not seem that it goes with the on-going market situation. Currently, this may come with direct implication on the capacity of operation of the firms: they may not secure sufficient amount of inputs; potential profits may not be generated; business plans developed may not be accepted and the newly established (and even the experienced ones) businesses work below capacity. This is even witnessed by the reports produced on the situation analysis of the firms. One of the basic factors business development agents (the situation analysts) put for those associations which have not been in operation but found with legal personality and for those which were liquidated was the limit of the loan and its inadequacy to run the businesses. Even about 62.6% of the respondents further realized the inadequacy of the loan service from the financier. The respondents demonstrated that (except for the construction and handicrafts sectors) the majority of the sectors fall short of adequate loans. At the same time, the financier has had no practice of giving any loan until the borrowed ones are totally settled. The other practice the financier includes the inhibition of the firms to finance their businesses from any other financier/lender until they are cleared off their loan obligations from Omo MFI. This phenomenon also limits the firms to entirely depend on a single financier.

3.2.2.5. Suppliers Factors: Raw Materials and Inputs

The SMEs in the region (SNNPRS) are found to be inexperienced and weak to access raw materials, buy at quality, use properly, work closely with suppliers and other stakeholders, collect information, and make market assessment. Resource wise, they are found to be incapable as well. Accordingly, the regional government has enacted a plan in Sep.1999 EC to make all-rounded supports in accessing/supply and use of the raw materials. For this purpose, different stake holders

at government level have been made to assume assignments to stand by and support facilitation of raw materials needs of the enterprises. SMEs development offices, trade and transport bureaus, rural development offices, construction and design authority, mineral development and energy agency, government factories, and business development extension service centers (BDESC) are the main stakeholders selected by the regional government to support the SMEs in accessing, supply and usage of the raw materials. The BDESC is designed to have one-stop-shop (one-center-service center), skill development and information center. The one-stop-shop is designed to provide supports and assistances so as to solve problems related to the supply of raw materials. It works through business development facilitators on linking the SMEs with producers, and suppliers of raw materials. The business development service agents are also mobilized to provide advisory services on the supply and use of the raw materials.

In general, those parties which take part in the supports related to the supply and usage of the raw materials do basically provide services of co-ordination, training, facilitation of joint procurement and the establishments of enterprises-owned-suppliers; information, promotion and co-operation; raw materials accessing, licensing, supply of the raw materials and inputs, expansion of supply bases, provision of privileges and priorities to the SMEs on the supply of the inputs, skilling on the technology and designs, and passing down the systems. According to the plan documents on SMEs development, these all services are geared only to the enterprises operating under the 6 sectors in the package program.

When the Arba Minch town context is seen, according to the information from the sampled owner-managers, the majority (more than 67%) of the enterprises uses medium and/or large scale organizations/enterprises; 35.1% uses farmers; and 35.1% uses other SMEs to procure raw materials or other inputs for their production. In medium and large scale enterprises, the Arba Minch Town Housing Development project office, the municipality, bureau of agriculture, and other government and private organizations are included. From these suppliers of various products, some of them are found out of the town. This is stipulated by 24 (42%) of the enterprise managers.

With regard to the attributes of the inputs of raw materials, the respondents were asked about the cost, accessibility, quality of the raw materials and alternatives they have. For more than 91% of

the users, the cost of the raw materials ranges from average (33.3%) to high (57.9%). Concerning their accessibility, 52.6% agreed that the raw materials are fairly accessible and the others (24.6%) have very low access to it while for (17.5%) of the respondents/enterprises, the materials are highly/easily accessible and the rest did not say anything up on it. The quality of the raw materials is rated to be moderate (as agreed by 66.7% of the respondents) while 14% appreciated the high quality of the raw materials. The remaining individuals complained on the low quality of the inputs. Moreover, as explained by 49% of the respondents, the availability of alternatives to source the raw materials is low and 42% has got it to be moderate.

As the opinions of many users witness, the suppliers of the raw materials also provide additional services along with the mere sale of their produces. From among these, 23 (40.4%) get advice and information regarding the raw materials and 28(49.1%) agreed on the quality of the supply of the inputs. 33(57.9%) appreciated the on-credit purchase of the inputs of raw materials and 27(47.4%) have got services of timely delivery. Price discounts are also made for the firms as the information from 23(40.4%) respondents depicts.

However, it is only 8(14%) enterprises which have participated in the purchase of raw materials on bid and even this practice is very rare. The main reasons cited for not using bidding to purchase the materials include small size of the inputs of raw materials demanded, financial incapability to bid, fixed suppliers including Arba Minch tow Housing development project, and the inapplicability of bidding [financially] on the purchases.

Lastly, the sampled operators were requested to identify three major problems they have with regard to the supplies of raw materials they use for their operations. The three frequently cited problems by at least half of the respondents include

- i. The high and rising costs of the raw materials
- ii. Quality-related problems and
- iii. Untimely delivery

The cited problems are also well supported by the interview made with SME desk officer and various report documents collected from SMEs development offices. The (key) informant from the office has pointed out that the enterprises do not get raw materials adequately and timely. For

example, as stipulated in one report, since some enterprises operating in urban agriculture sector do not get pesticides and insecticides on time, much vegetables, green peppers, tomatoes and others products are damaged by insects and worms. Others could not get access to purchase raw materials from government organizations and they resort to buy from private suppliers at high cost. In the case of firms operating in constructions sector, sometimes raw materials like sands of different sizes are mixed up and become difficult to identify and to produce. The other big problems read from the reports are the shortage of human resources (the experts and agents) at the town and sub-town levels to deliver necessary supports and services related to the supply and usage of the raw materials. One-stop-shop (one-center-service centers) are not operational at sub town levels and even the BDS center functioning only in Nech Sar sub town is not well strengthened with required skills and facilities. Henceforth, full delivery of the services need to be delivered to the clients is questioned. In general, it can be understood that the regional government has launched a policy to support the birth and expansion of SMEs (especially, embraced under the package program) in a multitude of services one of which is services to support in the supply and usage of raw materials. It has used an integrated approach to support it. However, because of limited capacity to implement at the lower-tiers in the town, the opportunity is not exploited yet as desired

3.2.2.6. Market Factors

Customers of the SMEs: According to the SNNPRS's SMEs development program, the major ways market opportunities can be created for the SMES focus on the local market, the regional market, the national market and the international market. Therefore, different parties in different government structure are made responsible to facilitate and support the opportunities. This is particularly true in lower level tiers of the government and specifically in Arba Minch town.

Accordingly, a question was directed to investigate who and where customers of the SMEs are. Many leader-respondents (61%) concluded that the enterprises have the experiences of selling products for medium or large organizations (from any kind of ownership). More than 77% of these customers were reported operating in the town. [**Note that this percentage is calculated excluding 9% of the respondents who did not give response to the related inquiry]. In this regard, as the results of the interview conducted with the SMEs development desk further indicate and as cited by

the respondents themselves, government-owned organizations dominate the market of the SMEs. Currently, more than 50% of the sampled enterprises sell their products or services to government organizations and offices. Some of these are the potential markets for some other enterprises as well. They all operate in the town. However, some of these organizations/institutions are operating at national level and the resources (sales income) going in to the firms can directly boost the economic base of the locality.

A large number of the SMEs (81%) also have individual households as their customers. Out of these, the dominant number (35 i.e. 76%) is resident of the town. Other SMEs (38.6%) and farmers (28.1%) also make up the markets of the firms. Except the farmers, the majorities of the rest reside in the town. Table 3.16 summarizes the findings.

Table 3.16. The customers/markets of the SMEs by location

Entities	Location of the customers (√) [By number of respondents]			
	In the town	In Arba Minch Zuria woreda	Out of Arba Minch Zuria woreda	Abroad
Individual households	35	7	4	0
Other SMEs	14	6	2	0
Medium and large scale organizations	27	5	3	0
Farmers	4	10	0	0
Others	4	1	2	0

Source: Field survey, 2008

With regard to the market, however; as the interview made with the concerned officers pointed out, due to the absence of market research and information, the trends of the firms tends to concentrate on limited sectors and accordingly, the threat of market saturation in the local market is observed in some firms. However, currently, the size of the target markets for most of the enterprises (70.2%) is evaluated to be fairly adequate while for 9(15.8%), it is found to be sufficient. But the rest have got it insufficient. In short, the fact that the sales and profits show increasing trends in more than half (more than 52%) of the surveyed enterprises can support the report on moderately adequate nature of the market size. However, the challenges with regard to the market factors in the next

significant number of enterprises (33%) include the falling demands of the market for products, seasonality of demand and production, and supply of competing products in the market place. For example, these were reported to be the main reasons for the irregularity of sales patterns in more than 33% of the surveyed enterprises.

Competitive Factors: As all the sampled business operators demonstrated, the enterprises have firms producing similar or substitute products. Their counterparts are dominantly found with in the same business sectors either operating in association or privately or in other forms. Many competing firms and the associations are also increasingly coming in to the market place because of the prevailing market opportunities. The existence of competing illegal and/or informal firms is also cited by 16 (28.1%) of the respondents. On the other hand, large or medium scale competitors are few in number (evidenced by 14% of the respondents). Moreover, responses on the level of competition are shown in Table 3.17 as shown below.

Table 3.17. The level of competition from competitors of the SMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very strong	26	45.6	45.6	45.6
	Moderate	26	45.6	45.6	91.2
	Weak	5	8.	8.	100.0
	Total	57	100.0	100.0	

Source: Field survey

As Table 3.17 clearly shows, 26 (45.6%) of the business firms face very strong competition while for the other 26 (45.6%) respondents, the level of competition is observed to be medium and it is only 8.8% of them has got it weak. Similarly, a question was asked on the type of competition and 27 (47.4%) operators have found it fair while the next significant number (35.1%) attested the very healthy nature of competition. However, the rest complained that they face unhealthy acts from competitors. The main cited problems are the acts of the illegal business firms in that they are some times engaged in switching customers from the firms. In other cases, as depicted in

documented reports, some firms get in to conflict with their counterparts in which tensions and revenges have ended up in "bad-mouthing" and other illegal acts.

Promotion and related factors: The regional government plan documents on market supports to SMEs, and what the town government totally adopts, have put various promotional instruments need to be employed alternatively. Sign posting, business cards and flyers, news papers, magazines, Radio, Television, internet, display shops, free tests, Bazaars, exhibitions, symposiums, product samples to embassies and sending delegates to other places and overseas are the major tools identified by the regional government to be made for the SMEs. However, as already pointed out, the majority (81%) of the respondents agreed on the total absence to insufficient levels of the services. For example, to the researcher's observation too, some enterprises do not totally have sign boards and even the enterprises can not be recognized where they are or what they produce. The others do not bother to promote their firms/products because their products are directly taken by fixed industrial customers (common in construction sector) and their profits and production are totally under the mercy of these organizations. On the other hand, the FM radio in the region is not accessible to the entrepreneurs. Display shops are almost absent as indicated by the officials interviewed as well.

On top of these, as also discussed in the sections that follow, promotion of products of the SMEs out of the town (to other places in the region or in the country or to abroad) has been done little to no. This fact is also what the key informants (the vice manager of the town's bureau of Trade, Industry, and Transport and the SMEs development desk officer) indicated. According to their views, experience sharing (by the officials and concerned bodies) and promoting the firms and their products in other towns and cities or other places are almost none except that, annually, the regional government prepares exhibitions and bazaars at Hawassa so that only a few selected enterprises participate. Even these privileges are limited to the six sectors emphasized under the package program.

At the town level (local market), however, linking the enterprises with various government organizations and offices and selling their products have been done to the best possible capacities. According to the views of the interviewees in the SMEs development desk and A/M/T/T/In/T office,

for a number of potential business firms, there is huge market potential in the locality but it is not exploited yet mainly because of shortage of human resources, facilities and financial capacities, i.e. budget to implement.

The other related service provided by the government at different levels is recognizing and rewarding firms up on their successes. For example, so far, out of the business enterprises operating in the whole sectors, five associations (1, in 1999EC and 4, in 2000Ec) have won prizes standing first in the region from four sectors. The enterprises are Warka Wood and Metal Works Association (from wood and metal works sector), Gamo Andinet Association (from textile and garment sector), Siket Vegetable and Fruit Growing Enterprise (from urban agricultural sector), and Asdesach Precast Bim Producing Enterprises (from the construction sector).

In general, the enterprises get use of various government-based-promotions as recognized in 47.4% of the surveyed enterprises. However, as also remembered from table 3.11, about 80.7% of the surveyed entrepreneurs have got promotion services from the government to be insufficient or totally absent.

Channels of distribution: Related to the channels of distribution, because the firms use direct distribution practices, the customers directly come to the points of production/sale to purchase or order products of their interests. For example, 77.2% of the surveyed leaders pointed out that the customers coming to their premises usually get the products/services they want, and 9(15.8%) respondents have realized that their customers only sometimes get what they demand. The achievements of the entrepreneurs on satisfying or meeting the interests of the customers here are, at least partly, attributed to their direct distribution route because, with direct channel (as they also said) there is a direct order. Even their product diversification contributes to the success as customer get alternative products to buy or to order. But also because the markets (dominantly, the government institutions) are hunted by agents or assigned personnel from the SMEs development offices and that enterprises' products are made fit to demands of these markets, the customers will likely purchase what they want.

Lastly, the leader-respondents have indicated some expectations from and suggestions to the market. Related to their suggestions, some of the customers have to be honest on payback of the payables; provide clear suggestions and complaints; show co-operation and give moral and encouragements, visit the premises of the firms, and timely receive the products they order. Moreover, the need to improving the purchasing power of the customers was suggested as well. This is mainly associated with the prevailing rising living cost as these have put pressure on the demands for the products of the SMEs. For example, one of the major factors cited particularly for irregularity of the sales of the firms was the falling demands of the market. On the other hand, the increasing cost of raw materials and costs of life, and market and related problems were also among the major causes of losses of profit and inadequate sales cited by the respondents.

CHAPTER FOUR

Conclusions and Recommendations

4.1. Conclusions

Conclusions on Internal Environment of the SMEs: In associations, a managing committee takes the higher management positions. The document on organizational rules and systems serve as general guide for decision making and in establishing authority relationships. However, departmentalization of tasks, and job description and job specification do not exist with in the firms. Accordingly overlapping of tasks, distrusts and conflicts among the operators are the likely problems.

Among others, with in the associations, income statements are the dominantly used record of resources. However, the system lacks modernity. Moreover, the deficiency in skill and training, and poor follow up are the reinforcing factors. Shortly, with the absence or inadequate records, the firms will, therefore, have no basis to estimate their costs and correct problems; cash flows may not be managed as desired and material and financial positions of the firms may not be determined easily. It also paves ways to the misuse of resources of the organizations. Even auditing the firms will be difficult with the poor record keeping systems.

On the other hand, in majority of the SMEs, the team work is highly appreciated because of the benefits of joint actions (at firm level) in accessing and using resources, i.e. it is easy to finance the businesses; get different government supports and services and develop various socio-economic benefits. However, a small number of enterprises but with large number of operators (26%) are particularly featured by intricacies of problems need not be overlooked. Lack of follow up from agents, poor attention of the enterprising partners for the agents, reflection of bad behavior from some operators, conflict of interests over resources, differences in attitudes and goals, weak motivation of some operators in team work and misuse of resources by some other operators are the main problems in these associations.

Regarding other internal resources of the SMEs, there is high shortage of financial resources (except in the construction sector). Moreover, working premises are inadequate and/or absent in more than 50% of the firms. The inadequacy, frequent breakdown, unsuitability, and out-datedness of tools of production and equipment are also characterizing the enterprises. The inadequacies noticed in the machineries/ equipment can bring about higher worker-machinery ratio which in turn creates inefficiency to the work; under capacity in operation and less productivity of the labor force.

Human resources are the other crucial elements of the internal resources. Many have got employment opportunity both on permanent and daily work basis. In the firms, democratic but ad-hoc human resources management style is practiced. All partners in each association are equally paid depending on the payment capacity of the individual firms. But this does not justify the performances of each partner and even the mechanism is a poor way to boost competition with co-operation among the team members. In here, the diligent ones will be under-rewarded (and therefore they are dissatisfied) and the free riders and low performers will be over-rewarded. The skills and experiences of the operators also matter as far as the productivities of the firms are concerned. Both managerial and business skills and experiences are found to be fairly adequate in about half of the enterprises. Majority of the office bearers at the top positions do not also have adequate educational level that fit their posts. Moreover, more than half of the surveyed enterprises have been running with lesser number of partners than required because disagreements and conflicts among them, misuse of resources, and switching to other jobs.

With regard to marketing activities, majority of the firms employ market penetration strategy, i.e. the firms serve the existing market with the existing product or service. The production of the firms is customer-oriented. The dominant base of quoting prices for their products is the cost of inputs and raw materials. Except in the case of the construction firms, in all other sectors, the firms are autonomous to determine prices of their products by themselves or in agreement with their customers. But the major challenge in pricing activities is the increasingly dearing costs of inputs in the market place. In relation to promotion, personal selling, use of sign boards and credit sales are important promotion techniques used with in the firms. On the other hand, almost all the firms use direct way of distributing their products. This implies that there are no intermediaries. Because of this, the firms do get much of their market information directly from customers. In general,

promotion activities are found to be inadequate; and route of product distribution is short and confined to the local market; there are shortages of market information, working premises, storage facilities, and stock of raw materials and outputs for reserve keeping.

In short; shortage of finance, failure to develop a new market /customers, lack of managerial skill and experience, distribution and promotion problems of the products, failure to develop a new product, and inadequacy of business skills and experiences are some of the top internal problems identified with in the firms include.

Conclusions on External Environment of the SMEs: The associations make various linkages with private firms, and government and non-government organizations. At inter-firm level interactions for information, experience sharing, and co-operation characterize the firms. But horizontal marketing systems are limited, i.e. backward and forward linkages are not well developed. Lack of well organized government-based promotion, shortage of infrastructure, and the limited reasons of interactions of the firms can be the main causes of the limitations. Moreover, business associations at inter-firm level do not exist at the expense of multitude of socio-economic benefits for the firms and the locality. Additionally, the sale/market and supply linkages are very much limited with large or medium scale private firms. The involvement of NGOs is insignificant in these respects. On the other hand, the SMEs (associations) create linkages with public institutions for a number of reasons. The associations are the main required channels through which the government provides BDSs; market and supply, financial, and training services. However, lack of proper co-operation and attention, bureaucracies, and lack of transparency and corruption are the four major problems identified from all systems of the organs of the local government against the effectiveness of the services. Moreover, lack of implementation capacity, low attention of government offices for some sectors, and malfunctions of responsiveness are the other problems the firms face. On the other hand, one-stop-shop services are lacking and many other expert-driven services are totally absent or inefficiently executed at different levels because of shortage of human, material and financial resources. In short, the public responsibilities transferred down to the town level are not made with adequate transfer of resources.

Moreover, there are disparities of government services among the associations: the enterprises under the package program receive by far more services than the enterprises operating under the regular program. This phenomenon, therefore, can end up in the likely concentration of entrepreneurs/enterprises in the activities prioritized under the package program rather than in those activities found in the regular program. Besides, as many privileges and priorities go to the associations under the package program, the sole proprietors and entrepreneurs in other forms of business ownership will take lesser or reduced advantages out of the created opportunity and are suppressed particularly in the case of market opportunities, BDSs and other services.

For the associations, all the services and supports made from the government are implemented totally according to the programs designed by the regional government. The prioritized activities are uniformly implemented through out the region, one of which is in Arba Minch town, regardless of the unique resources the area is endowed with. Moreover, there are no attempts/focus in the locality to identify resources which can be more productive and marketable on sustainable basis.

The other important external factors are the local institutional infrastructures. The integration among five key government bodies in the town for joint actions toward the development of the associations/SMEs/ need to be appreciated in that it makes up an element of the local institutional infrastructure. The organs jointly decide on issues pertaining to the demands of the firms. However, the infrastructure lacks research organizations and other key entities advocating the development of enterprises in the area. The absence of business associations and council of SMEs do also make it incomplete. Moreover; the organ, as an element of the institutional infrastructure, does not give equal importance and weight to all sectors.

With regard to taxation, the tax payment requirements of the associations are found to be weak. Except the monthly income taxes collected from the individual operators, the enterprises (as legal persons) do not have any experience of tax payments. Regardless of the legal requirements, registration of the firms for TOT and for VAT is not yet practical. This implies that the firms are not obliged to pay taxes or the tax regulation is not stringent. Beyond that, registration for taxation and renewal require the firms to move to Hawassa city which further complicates the bureaucracy and the system. Moreover, the SMEs are not obliged to obtain business licenses. Therefore, from these

events it can be predicted that the tax liberalism/tax minimizing/ tendency of the [local] government weakens both the income generating power of the locality and the tax payment culture of the enterprises. Besides, the liberalism of the business licensing office on licensing the associations will not come with out bureaucracies to the firms at future times.

Concerning business premises and infrastructural facilities, the [local] government provides the firms with business premises and related infrastructures free of any cost. Infrastructures including main roads and side-ways, power and water supplies, and transport facilities are better functioning for some firms than for the others. However, the free provision of these facilities and utilities does not only weaken the income generating power of the local government but also it contradicts the requirements of the regulation. Moreover, no element of these facilities/utilities is optimally supplied. Among others, telecommunication service is the highly lacking communication infrastructure. Latrine facilities are also in a severe shortage. The working premises in almost half of the firms is either inadequate or absent. Cluster services have been totally absent so far and their buildings underway are promising.

With regard to finance, the firms dominantly get their start-up capital from Omo MFI. Even during the operation of the firms, in addition to the income and savings of the entrepreneurs, the same institution provides group-based lending, financial advices and material leases. Moreover, the enterprises under the package program have loan-guarantee scheme from the local government. However; shortage of loanable fund (from the financier), untimely loan disbursements from the borrowers, and ceilings limits to the loan size are the main problems limiting the financial services. The institution does not also allow firms to borrow from others until the borrowed money is fully redeemed. It also has implementation problem. Therefore, these all shortages and shortfalls have become the root causes for inadequacies in loaning services which in turn has brought about acute shortage of operating capital and under-capacity operations of the enterprises.

With regard to inputs of raw materials, large or medium scale organizations, other SMEs and farmers are the dominant suppliers of the inputs. However, the share of the government in the supply of inputs accounts only for slightly more than 25%. Implementation bottlenecks and lack of important service centers are the challenges to the effectiveness of services supporting the supply

and use of raw materials. Moreover, increasing costs, poor quality, untimely delivery, and under-optimal supplies of the resources are the major impediments on the supply side.

Related to market factors, the major customers of the SMEs are the medium and large organizations, individual households and farmers. Except the farmers, all the others are highly confined to the town. The possible causes of the confinement include the weak and infant promotion activities to out side the area, and the absence of joint marketing system can be the reinforcing factor. Therefore, the increasingly growing SMEs share the existing market resources in the area with existing products. More importantly, the efforts to find out and to serve the markets are highly concentrated on public institutions which are still operating in the locality. This is not only making the firms dependent but also it highly limits their capability to compete and to win in private and other sectors of the economy found in and out side the area. In general, with this trend of confined economic activities, economic base of the area may not be achieved as desired; reputation and experiences of the firms will be limited which will have a long run disadvantage. On the other hand, the complete priorities given in the government institutions and organizations contradict the free market economic system.

Moreover, basically costs of raw materials dictate the pricing strategies of the firms. Some industrial customers do also determine the prices in some sectors. The firms make use of government-based promotions. However, promotion of the firms to outside of the locality is almost absent. Yet the sales of about 50% of the firms are guaranteed by the protections, supports and priorities of the firms in public institutions, market hunts made by market experts or agents, direct orders from customers and personal contacts of the entrepreneurs. For the rest, falling demands of the market, seasonality of demand and production, and high supply of competing products are the major impediments to the success of their sales. Moreover, market information is poor among the SMEs. Similarly, acute shortage of manufacturing/market areas and storage facilities, sub-optimal stock of raw materials and outputs are the problems of the firms. With these limited or insufficient resources; production, distribution, promotion and selling efforts will be retarded. This will in turn bring the total efforts of the business operators to working under-capacity, running out of reputation; limited scope of market and expansion, limited competition and working for lesser livelihood. In this situation, graduating the firms may not be easy as well.

Generally, the fact that the firms assume huge number of the poor and the unemployed residents of the town, use some raw materials from the area, and bring about other positive externalities have had positive impacts on the development of the locality. However, facilities related to land/working premises and offices are made and submitted by the town municipality free of any charge. Moreover, any other infrastructural facilities and utilities, and other services are served freely from the local government. At the same time, there is loose pay payment pressures on the firms from the government. Because of the attention of the government on the expansion of SMEs in associations, other SMEs do not get similar attention in terms of market, BDSs, training, and many more services. The fact that privileges and priorities in government institutions go only to the associations not only suppress the performances of other business organizations but also the practice goes contrary to the system of free market economy. Moreover, many of the actions of the local government contradict the requirements of the regional government for the SMEs to pay rent, share training service costs and pay tax. In short, the income generating opportunity of the locality is missing at the expense of encouraging the expansion of the associations. At the same time, export base of the area has not been strengthened through the products of the firms.

In general, the SMEs development policy and package have made good opportunity for the development of the associations in the town. The programs and duties, as written in the policy, are decentralized even to offices operating at Kebele or sub town levels. A range of institutional infrastructures are well stated in different modalities. The public responsibilities transferred to the local government and particularly to the implementing bodies are not made with adequate transfer of resources, i.e. there are implementation bottlenecks with the local government in that government structures implementing the program are not well-strengthened and there are capacity and resources shortages in these tiers.

Therefore, all the flaws and shortfalls investigated in the areas of resources and important factors will culminate in to low income generating capacity of the entrepreneurs; low production/operation capacity of the firms (which is also complained in more than 68% of the surveyed firms), limited market and low competitive capacity of the firms.

4.2. Recommendations and Policy Implications

In urban areas of Ethiopia, income inequality, poverty and unemployment have been the main problems facing the citizens. Among others, promotion and development of SMEs (particularly; SMEs operating in associations) enables to overcome or at least reduce the problems of poverty and unemployment. They also create the economic base of an area. For the expansion and development of SMEs in collective operations, the regional government has launched an institutional infrastructure (to be implemented in different localities, particularly, in Arba Minch town) in terms of BDS, support to problems related to land, credit facilities, market, promotion, training, business management and etc. Accordingly, in the locality, job opportunities are created for many and local resources are exploited. However, intricacies of problems can retard the optimal outcome of the expansion of the business activities. This in turn (in the town of Arba Minch) demands the business environment to be assessed to investigate the existing problems for remedial actions and identify prospects to strengthen. To this end, based on the findings of the paper, the following recommendations and policy implications are pointed out:

- The under-capacity operations/productions of the SMEs should be capacitated by addressing the internal problems and short falls of the associations. To this effect, the following basic elements of the enterprises need to be considered.
 - ❖ Financial problems of the SMEs should be addressed by relaxing loan sizes and loan ceilings depending on the creditworthiness and performances of the firms. At the same time, searching for sources of funds to finance the businesses enterprise and lifting borrowing restrictions from other sources can solve the financial constraints of the firms. Voluntary savings need also be induced by any means and retained earnings for the associations have to be fixed. ✓
 - ❖ Being with in the master plan of the town, adequate provisions of working premises has to get serious attention. It would also be better if reserve areas and shades are prepared in advance based on average distance to and concentration of the market, accessibility to infrastructure and potentials of business establishments. Side by side, the infrastructural demand of the firms has to be optimally met.
 - ❖ Problems related to supply and uses of raw materials are critical. To act up on the prevailing problems of rising costs, poor quality, untimely delivery and lack of alternatives

supplies of the materials, it would be better if alternative sources are accessed; joint procurement systems are established; local sources are searched and facilitated; storage facilities are set up; and quality and delivery control systems are developed. Establishing and strengthening system of backward and forward linkages can also have its own role in making the supplies effective and sale of produces of the firms successful.

- ❖ With in the optimal capacity of the regional and local authorities to supply or facilitate the access to user-friendly and cost-fair tools and /or machineries of operations, the demands of the firms for the materials have to be met to enable them to fully exploit their potentials. Other means of financing the firms through donations and sponsorships are also the options the local /regional authorities have to take a close look. Strengthening management of the existing resources can also reduce the loss, breakage and thus stoppage of the operations.
- ❖ Among others, market issue is a significant problem need to be seriously dealt with. Among others, stabilizing the rising costs of items in the market place and strengthening the purchasing power of the community have to be what the local authority diligently works on. Involving the SMEs (associations) themselves on stabilization action (through supply and productions) is also the other important factor must be taken in to account. Additionally, the following points have to be incorporated in the agenda of business expansion and improvement of the local economic base:
 - ✓ Demand-driven productions and operations have to be practiced rather than simply allowing any establishments of ventures;
 - ✓ Markets of the SMEs should not be limited to the local community. Promotions and distributions of products to outside the area concerned have to be encouraged. Because of these, the locality can more be advantageous as additional resources are generated; and experiences and reputations of the firms are developed. On the other side, the level of demand in the local market should not be bypassed;
 - ✓ Linking the firms should not be confined merely to the local government institutions but their market linkages with NGOs, private organizations and other government enterprise/institutions in and outside the area are what have to be capitalized on. Moreover, promoting the importance and establishment of business associations

(at inter-firm level) is indispensable to boost economies of network and association side by side with associations at firm level.

- ✓ A system of fair and equitable market benefits need to be established in the public institutions for the privileged but competing firms depending on their experiences, previous advantages and their capacity of operations;
 - ✓ Tools of promotion of the firms and their products (through mass media, delegates, exhibitions and other means) have to be improved and developed;
 - ✓ Unique and marketable local resources have to be identified and get a weight (in addition to the prioritized activities by the regional government). So there is also a need to reconsider the regulatory framework regarding the limited activities it has prioritized for support and attention under the package program;
 - ✓ Development of new products and creation of new markets have to get emphasis;
 - ✓ Distribution channels should be enhanced (group marketing systems, formation of intermediaries need to be pronounced; display shops have to be established).
- The skill development and training need assessment techniques in the SMEs should be developed to identify and prioritize critical areas of BDS and support services.
- The local institutional infrastructure has to be strengthened and balanced in such a way that the most will be gained out of the system. In essence, it should incorporate participation of the SMEs, pressure groups, the local authority and various organs of the government, research institutions, NGOs and other private sectors.
- The supports and services of the local and regional government should also be fair and effective from the perspectives of the business community, the residents, and the [local] government. Accordingly, the following points need to be taken in to account:
- ❖ The supports provided and privileges given for the firms under the package program should not be designed in a way that other legal business ownerships are discouraged and discriminated and the associations alone are inflated in their establishments. Hence, the regulation on associations in these regards need to get revision considerations for fair and balanced development of the business sectors;
 - ❖ The provisions for associations should not also be made in a way that the income of the local authority is minimized and income contribution cultures of the enterprises/entrepreneurs to the locality are damaged. Rather, the enterprises should be

encouraged to pay taxes, rent/leases on the premises and shares and share costs on various services of the government with due consideration to the privileges to the firms, and their capacity to pay.

- ❖ The supports and privileges made for the firms should not be provided in a way they sustainably make them dominantly dependent on the government. To this effect, the government has to
 - ✓ Devise the ways how to gradually make the firms self-reliant and autonomous;
 - ✓ Take care of over-inducing the firms with incentives in their development process;
 - ✓ Carefully devise cost-sharing mechanisms with the firms.
- More importantly, the implementation capacity of the local authority should be strengthened. Accordingly, the following are important areas the government authorities should consider:
 - ❖ The human resources at the forefront to implement the plan need to be capacitated in terms of both qualifications (skills) and quantity (number);
 - ❖ Offices and office facilities, transport and telecommunication services should be fulfilled;
 - ❖ Incentive schemes, promotions, development and retention of the implementing personnel are also other important elements;
 - ❖ One-stop-shop services should be fully strengthened at the town and sub-town levels
 - ❖ The prevailing bureaucratic bottlenecks, poor co-operations and lack of transparency and corruption in government offices have to be tackled and joint actions of key government organs have to be strengthened.

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በከተሞች ኢንዱስትሪና ልማት ፓኬጅ (1998) ለጥቃቅንና አሰነስተኛ ተቋማት ልማት በርፍ የተዘጋጁ የተለያዩ አይነት አደረጃጀት መመሪያዎችና ማንዋሎች፣ አዲስ አበባ ፡ኢትዮጵያ

ANNEXES

Annex I: Questionnaire administered to SMEs/Associations leaders

ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF DEVELOPMENT STUDIES

INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT STUDIES (IRLDS)

Name of the researcher: Misganu Getahun

Dear enumerators: Now I am undertaking my MA (in RLDS) thesis work at AAU. This questionnaire will help the quality data input, from the customers of SMEs, for the research endeavor. Therefore, your genuine approaches for the respondents will significantly help gather rich and reliable data.

Accordingly, you are politely required to fulfill the following enumerator qualities:

- ***Politely, fairly, and equitably*** approach the respondents and brief the purpose of the study
- Try to get their full consent for the responses and tell the average time you spend with them
- Cover all the questions designed on the questionnaire

Dear respondents:

I am currently undertaking a research work (Thesis) in Arba Minch town for the accomplishment of MA degree, in RLDS, at AAU. The aim of the research is to assess the Small and Micro Business /SMEs in Associations/ Environment in Arba Minch town and show the implication it has in LED. Accordingly, this questionnaire is designed to gather all-rounded data, from the SME owners-leaders, to help the research purpose. As you are the prime stakeholder of the business sector, the genuine responses you give to individual questions are highly valued and are essential assets to the success of the study.

Note:

- The information/data you provide will be kept highly confidential
- Please give your responses from yourselves with out the influence of other individuals
- You will never be hurt because of your responses
- The output of the research work will contribute to the better performance of the SMEs

Thank you in advance for your co-operation!!

More instructions for enumerators:

*Clearly inform the respondents what are written on the cover page of the questionnaire

*For some relevant questions, please tell the respondents that it is possible to choose more than one alternatives given (if it applies)

*For their answers /choices, please use a "√" mark

Part I. General information on the Backgrounds of the business owner-leaders

1. Sex : Male Female
2. Age (in years) : 15-25 26-35 36-50 51-65 >65
3. Marital Status: Single Married Divorced Widowed
4. Educational level:
- No school Certificate
- 1-6 grade Diploma
- Grade7- High School complete Degree If others, specify _____
5. Your permanent residence:
- Before starting your business In Arbaminch town Out of Arba Minch town
- Currently In Arbaminch town Out of Arba Minch town
- Where do you want to live & work in the future? In Arbaminch town Out of Arba Minch town
6. Before starting your business, what was your work/engagement?
- Unemployed Permanent employee of other organization Farmer
- Student Daily laborer
- If other, specify _____
7. Your position in the organization you were working was (if any) _____
8. Please rank your major sources of income currently:
- 1st _____ 2nd _____ 3rd _____ 4th _____
- 8.1. What is your average monthly income from all source(s) now? _____
9. You work your business as : Par-timer Full-timer
10. You live in : Rented house Own house
- House of parents "Debal" House of a relative

Part II. Family Background

11. Did you have any person(s) to support before starting the business,? Yes No
12. Do you have any person(s) to support currently? Yes No

12.1. If your answer is "No" for both Q.11 and Q.12, the enumerator passes over to question No.13

12.2. If your answer is "Yes", please fill the following table the background of the persons you support

	Before starting business	Currently
Number of persons/families you support		
Number of persons you support but who have other income source		

Part III. Information on the business organization

13. Address of your enterprise: Sub city_____

14. Does your enterprise have legal business certificate/ license? Yes No

15. In what business area sector is your enterprise working? Name_____

16. The time of establishment of your business: Month _____, Year19 ____ EC

17. The **initial/start-up** capital of your business was (in Birr) _____

18. The estimated capital of your business **now** is (in Birr) _____

19. Is your manufacturing area similar to your sales area (sales shop) Yes No

19.1. If your answer is "Yes", please answer only Question No.20 &20.1.and leave Question No. 21&21.1. But if your answer is "No", please answer all the questions

20. The marketing/sales place where you work your business is

- Rented from government Rented from private individuals
- One's own Owned by relative
- Part of living home If others, specify_____

20.1. Please site additional ideas or problems you have on your sales /market area

During start up_____

Currently_____

21. The production/manufacturing premises/place of your business is

- Rented from government Rented from private individuals Part of living home
- One's own Owned by relative Others, specify____

21.1. Please site additional idea/problem you have on your business premises (land) / e.g. on the procedures of securing, using, etc/

During start up_____

During operation_____

22. What changes have been made to your business firms yet (if any)?

Buying new equipment Changes to method of production/selling

Changes to the working area Changes to the product/services

If other, specify _____

23. How do you rate methods of production/operation in your firm?

Efficient Medium Inefficient

24. The equipment (machineries, tools, and others) your business uses for production (if any)

Leased/rented from government

Owned by the partners If others, specify _____

25. The type of equipment (E.g. Machinery, tools, etc) you enterprise uses is :

Modern and suitable Modern and unsuitable

Traditional and outdated If others, specify _____

26. What problems does your firm has with regard to the business equipment and/or machineries?

27. How do you averagely rate, through *months*, the profit trend of your business (in Br)?

Increasing Not changed Fluctuating Decreasing

28. Please rank the areas on which the profit of your firm be expended on? (Please indicate at most six major areas!) **Note:** *1st* =largest area of expenditure and *last*= least area of expenditure

Area of income expenditure	Rank(as 1 st , 2 nd , 3 rd)
Savings	
Payment for employees and partners of the association	
Expansion of the business	
Fulfilling the internal facilities of the business	
Opening new businesses	
Loan repayment with its interest	
Rent of the working /business area or space	
Tax payment	
If others, please specify _____	

29. Did you have savings at the time you started your business? Yes No

30. Do you have savings currently? Yes No

31. If your answer is "Yes", please *rank* the major sources of your savings by putting "1st" for largest

and last for the smallest source 1st _____, 2nd _____ 3rd _____

32. What is the trend of your savings through time after you started your business?

Increasing Not changed Fluctuating Decreasing

33. Do you have workers(s) for your business?

Yes No

34. If your answer is "Yes", how many workers/partners did/do you have?

	Number of relative /family labor		Number of "Mahiber Abalat"		Employed labor
	Total	How many of them are paid?	Total	How many of them are paid?	Total
During start up					
currently					

35. Number of employed permanent workers who were paid during business start was _____

and number of daily laborers was _____

36 Number of employed permanent workers who are paid currently is _____

and number of daily laborers is _____

37. The **monthly salary** range of the association partners currently is:

Currently : Minimum Maximum

38. The **monthly salary** range of the employed permanent workers is:

Currently : Minimum Maximum

39. The **daily wage** range of the daily laborers is:

Currently : Minimum Maximum

40. What average hours per day do you work your business with those workers who are paid? _____

41. What average hours per day do you work your business with those workers who are not paid? _____

42. How many of your association partners do permanently live in Arba Minch town? _____

43. How many of your employees do permanently live in Arba Minch town? _____

44. How do you *averagely* evaluate the business skills of your partners of the association?

Very good Medium Poor Absent

45. Is there any partner's turn-over from your enterprise? Yes

No

46. If you say "Yes", how do you evaluate the rate of the turn-over?

High Medium Low

47. What complaints do you usually hear from your workers and partners?

From Works _____

From business partners _____

48. What mechanisms do you use to retain / handle your workers/partners in your enterprise? _____

49. Do you think that your business firm is producing /operating to its full capacity? Yes No

50. If you say "No", please specify your reason _____
51. Do you use any kind of record system to control your resources? Yes No
52. If you say "Yes", what kind of record do you use?
- Balance sheet Income statement
- Inventory records Sales invoices If others, please specify _____
53. Through your products /services, for which of the interests of the following do you give priority?
- Interest of the enterprise itself Interest of the owners
- The characteristics of the product Interest of the customers
54. How often have you encountered profit loss (if any)?
- Usually Sometimes Rarely No loss at all
55. If your answer is "Always" or "Usually" or "Sometimes", what basic reasons do you think for the failure/loss? _____

56. What are the main mechanisms used in your firm to control any kind of risk to your business?

- Lessening the probability of the risks
- Choosing not to engage in highly risky businesses
- Retaining the possible risks to occur
- Purchasing insurance policy
- Guard-keeping
- If others, please specify _____

57. Please evaluate the adequacy of your business resources listed in this table.

Rate	Highly Adequate	Moderate	Highly Inadequate	Absent
Facility				
Equipment and /or Machinery				
Working capital				
Inputs of raw materials				
Management expertise				
Others, please specify _____				

58. The following table contains some of the possible *internal* problems of your business firm, during its operation. Please rank them from most severe=1st to least severe=*last* (Please select 7 of them)

Possible internal problems	Rank
Dishonest from workers	
Lack of business knowledge & experience	
Lack of managerial experience & skill	
Lack of entrepreneurial skill	

Lack of finance	
Overburden of the business work	
Failure to develop a new product	
Lack of promotion	
Lack of distribution	
Failure to develop a new market/customers	
Failure to handle the existing customers	
Lack of market research and information	
Inadequate record	
Lack of technical competence	
If others, specify _____	

Part III. Information on Reasons to go to business

59. What are the reasons for you to start a business of your own? And please rank them.

<i>Reasons to start the business</i>	<i>Rank (1st, 2nd, -)</i>
Desire for independence (E.g. freedom and autonomy to decide on one's own business	
Desire to use business opportunity	
Business Hobby	
Previous work experience with same line of business	
Unemployment and fear of it	
Access to entrepreneurs	
Access to credit service	
Government promotion/motivation	
To flee the bureaucratic environment of previous employer	
To leave family business	
To work independently of male	
To free from house-hold activities	
Inconvenience to continue education	
If others, please specify-----	

60. What intention/ plan do you observe in your firm?

- To improve and expand the business To change the business to other form
 To quit business work To be employee of other organization
 Not yet determined If other, specify _____

61. How do you rate doing one's own business? Very good Moderate Poor

62. What was the profession of the person(s) whom you think played a role model for you to start business(if any)? _____

64. How do you evaluate working in team?

Very important and highly recommendable Important and Recommendable
Neutral Not important and not recommendable

65. For your answer, please write your reasons _____

66. The professions/skills of your partners/the team members are : Similar Different

Part IV. Networks and linkages

67. Does your enterprise make any linkage with any other small and micro business firms?

Yes No

68. If you say "Yes", for what purposes does your enterprise make a linkage with them?

Sale of product Purchase of raw materials Joint procurement
Information exchange *Mahiber* Joint marketing
Cooperation If others, specify _____

69. In general, how do you evaluate your linkage with the other small and micro enterprises?

Very strong Moderate Poor

70. If you say "No" for Q.67 and "poor" in Q.68, what reasons do you think?

(Please put them by order of the significance of the reason. E.g. 1st = most significant)

Scattered nature of the businesses Lack of infrastructures such as
Lack of trust Telephone, road, and others
Lack of co-operation No reason of interaction
If others, specify _____

71. In general, what major problems do you observe within the small and micro business sector?

72. Do you have any linkage with large and medium Private Business firms? Yes No

73. If your answer is "Yes", for what purposes does your enterprise make a linkage with them?

Sale of product Purchase of raw materials
Information exchange Sub-contract from them
Co-operation If other purpose, specify _____
Training

74. In general, how do you evaluate your enterprise linkage with medium and large scale private firms? Very strong Moderately Poor

75. What problems do you observe with regard to your relationships with medium and large Scale Private firms? _____

76. If your firm has any linkage with NGO(s), for what purposes do you think? _____

77. How do you evaluate your linkage with NGOs (if any)? Very strong Moderate Loose

78. What problems do you observe with regard to your relationships with NGOs? _____

79. Does your enterprise have any membership in any business association? Yes No

80. If your answer is "Yes", what advantages does your firm get out of it? _____

81. In general, how do you evaluate the interaction you have with the business association(if any)?

Very strong

Moderate

Loose

Part V. Information on Government related factors

82. Please make a "√" mark for any government support you get from the following list and evaluate each against its adequacy.

Rating scale: 1= Sufficient, 2= Moderately sufficient, 3= Insufficient, 4= Absent

Alternative Supports/services	How do you evaluate it? (√)			
	1	2	3	4
Information service (E.g. Market, suppliers, etc)				
Business advice (e.g. Market facilitation and accessing, etc)				
Raw materials facilitation and accessing				
Provision of suitable machineries and equipment, & technology				
Business/product promotion				
Incentive to start business				
Business plan preparation				
Incentive on the success of the business				
Loan service				
Grace period on return of loans				
Training- Entrepreneurship skilling				
Training –Management skilling				
Training –Market skilling				
Training and advising- on the organization and its rules, regulations and objectives (<i>Yeaderejajet siltena</i>)				

Education/ awareness creation on relevant government rules , regulations, and taxation				
Provision of infrastructure				
Provision of production or market area				
Training services to improve production & productivity				
Taxation and financial advices				
Audit service				
Legal services (E.g. Service on the settlement of legal disputes)				
If others, please specify _____				

83. How do you averagely evaluate the relevance of government training services to your business?

High

Moderate

Low

84. If you say "Low", what is the reason? _____

85. How often is training provided on the basis of your firm's inquiry from the government?

Usually

Some times

Seldom

Absent

86. What type of support and /or training does your enterprise currently need (if any)?

87. Please site the training services you/in your enterprise get on your /your enterprise/ own payment (if any)? _____

88. For what purposes does your enterprise make a linkage with public organizations and offices?

Sale of product

Purchase of raw materials

Information exchange

Sub-contract from them

Cooperation

Training

If other purpose, specify _____

89. How do you see your linkages with government organizations?

Very strong

Moderate

Poor

90. What problems do you face from the government /government bodies/offices?

(Rating scales: 1= Very high/ very serious, 2= Average,3= Low/Less severe

Rating	1	2	3	Examples and Explanations
Problems				
Bureaucracy)-during start up				
Bureaucracy)-during operation				

Unfair tax				
Loan related problems				
Lack of transparency				
Lack of co-operation				
Corruption				
Lack of attention				
Unfair regulation				
If others, please specify _____				

91. Please cite your major business problems from the local government :

- i. During start up 1st _____ 2nd _____ 3rd _____
 ii. During operation 1st _____ 2nd _____ 3rd _____

92. What expectations do you have from the /local/ government? _____

Part VI. Finance and inputs of raw materials

93. What are the sources of finance for your business?

No.	Sources of finance	Rank by the size of the fund from largest (1 st) to smallest(last)		Type of collateral
		During start up of the business	Currently	
1	Personal savings			
2	<i>Idir or Mahiber</i>			
4	Friends or relatives			
5	Bank(s)			
6	Micro Finance Institution			

94. Do you think that the loan you get is sufficient? Yes No

95. For what major purposes does your enterprise use the loan it gets? _____

96. What types of additional services do you get from the lending institutions?

Institutions	Banks	MFI	Friends & relatives	Local social institutions (<i>Idir and Mahiber</i>)
Services				
Advisory				
Follow up				
Grace period on the repayment				
Non-collateral Group-based lending				
Non-collateral individual- based lending				

Equipment leasing				
Fair interest rate				
Business plan preparation				
If others, please specify _____				

97. How do you rate the adequacy of the overall additional services provided by the lenders?

Very sufficient Moderate Insufficient

98. How often does your meet your loan repayment schedule?

Always Usually Sometimes No time

99. Please give reasons for your answer _____

100. In general, how do you evaluate the level of linkage your enterprise have with the lenders?

Very strong Moderate Weak Absent

101. What basic problems does your organization have from the lenders? _____

102. Who are the sources of inputs/raw materials for your business? -----

Area/place	In the Town	Rural areas of the Arba Minch Zuria Woreda	Out of Arba Minch Zuria Woreda
Suppliers			
The enterprise itself			
Farmers			
Other SMEs			
Large or Medium scale organizations			
Others ,specify _____			

103. Please rate the characteristics of the raw materials /inputs you use

Rate	High	Moderate	Low
Characteristics			
Price/cost			
Availability			
Accessibility			
Alternative			

104. Please rate the possible services your business gets from your suppliers of inputs /raw materials

Service Rate	Advice	Market information	Raw materials information	Price discounts	Sale on credit	Timely inputs supply	Quality input supply	Door-to-door delivery
High								
Moderate								
Low								
Absent								

105. Does your enterprise use bidding to purchase raw materials/inputs? Yes No

106. If you say "Yes", how often? Usually Sometimes Seldom

107. In general, how do you rate the level of bondage *between* your firm and your suppliers?
 Very strong Moderate Weak

108. What major problems does your enterprise have/face with the suppliers of raw materials?

Part VII. Market factors

109. How many types of products do you produce?
 Only one type 2-5 types More than 5 types

110. Does your enterprise have competitors regarding your products or services? Yes No

111. From which group are they and rank them (as 1st, 2nd, 3rd, ----)?
 Small & Micro enterprises Medium and large organizations
 Informal organizations Illegal firms
 If others, specify _____

112. How do you see the level of competition from your competitors?
 Very strong Medium Low

113. How do you evaluate the type of competition?
 Very healthy Medium Unhealthy

114. If your answer is "Unhealthy", please give your reasons of the problems

115. With what characteristics does your firm prefer to produce its products?

Characteristics	Give priorities to the characteristics as 1 st , 2 nd , 3 rd
Quality (Comfort, good performance, etc)	

Fair price	
Appearance and attractiveness	
Guarantees and /or after-sales service	
Proximity	
If others, specify i. _____	

116. In general, how do you averagely evaluate the way you offer your products (with its characteristics mentioned above) in relation to competitors?

Better Similar Lower

117. Based on what does your firm set price for its products?

Cost of the raw materials Season of production
 Similar to competitor's price competitor's price
 Above competitors Price If others, specify _____

118. What tools of promotion(if any) are used to promote your firm's products/premises?

Posters & brochures Demonstrations and exhibitions
 Tapelas Giving incentives for customers
 News papers Direct contact with the customers
 Radio Promoted by the government body in the locality
 Telephone contact If others, specify _____

119. In what major ways does your firm distribute its products to its customers?

From production area to consumers
 From production area to its own sales shop in other area then to ultimate consumers
 From Production area to retailers owned by others and then to consumers
 If other means, please specify _____

120. How do you rate, through months, the sales trend of your business?

Increasing Constant Decreasing

121. If your answer is "Constant" & "Decreasing", what are your reasons?

Seasonality of the production
 Seasonality of demand
 High supply of competing products
 Loss of market/falling market trend
 If other reasons, please site your reasons _____

122. How do you evaluate/compare your living conditions after you start your business?

Better

No change

Worse

123. Please reason out your answer _____, _____, _____

124. How often do customers get the products they want in the shop of your enterprise?

Always

Usually

Sometimes

Rarely

125. Please reason out your answer in Q.124 _____

126. How do you/your firm get information about your/its customers? _____

127. How do you evaluate the adequacy of the size of your target market?

Highly adequate

Moderately adequate

Highly inadequate

128. How often suggestions from customers are received for improvement in your organization?

Mostly

Sometimes

Seldom

No time

129. What additional services (e.g. after-sales services) does your firm provide for its customers? _____

130. What are the major complaints and problems your firm has from its customers/market (please specify it in relation to your products)? _____

131. Please, rate (make a "√" mark) the following factors of your firm with their availability

Factors	Highly sufficient/ Highly facilitated	Moderately sufficient / Moderately facilitated	Insufficient / Insufficiently facilitated	Absent
Access to market				
Market/Sales area/shop				
Manufacturing area				
Market information				
Skill on -product adaptation				
Training on how to deal with customers/ e.g. Handling customer /				
Market survey(by your business)-				
Business/product promotion				
Storage facility				
After -sales service				
Materials inventory-of input				
Materials inventory-of output				

132. What were the ways your firm employ to enter the market?

- With already existing Products/services
- With already existing Markets
- With already existing additional services
- With already existing techniques of production or selling
- With new Products/services
- Markets new markets
- With new additional services provisions
- With new techniques of production / selling
- If others, please specify _____

133. Who are your major customers?

Entities	Rank by size of your sale (Highest=1st, Least= last)	Location of the customers customers(√)			
		In the town	In Arbaminch Zuria woreda	Out of Arba Minch Zuria woreda	Abroad
Individual households					
Other SMEs					
Medium and large scale Organizations					
NGOs					
Farmers					
Tourists					
Others, please specify _____					

134. Is there any credit sales service for customers in your enterprise? Yes No

135. If you say "Yes", please specify any problem your firm face related to this service?

136. What do you expect from the market for the demands of your firms products to succeed?

Part VII. Infrastructure and other information

137. From the factors given in the following table, indicate the ones which are relevant to your business operation and rate their adequacy

Rate Factors	<i>Adequate/strong</i>	<i>Moderate</i>	<i>Inadequate/ Loose</i>	<i>Absent</i>
Light/power				
[Tele]communication facility				
Water				
Main road facility				
Side-walk/footway				
Transport facility				
Storage facilities				
Bondage with the customers				
If others, specify _____				

138. In general, indicate and rank **6 major areas** of your business problems from the list of factors put in the following table. Ranking as "1st, 2nd, 3rd ..."

Problems	Rank
Bureaucracies of government offices to get business licence	
Bureaucracies of government offices to get working area/land	
Bureaucracies of government offices to get loan services	
Bureaucracies of government offices to get training services	
Corruption from government officials	
Problems related to government policies, regulations, taxations and etc	
Shortage of business supports, cooperation and training	
Problem of market	
Problems related to raw materials and inputs	
Problems related to competition	
Problems related to loan	
Shortage of manufacturing/market area	
Shortage of Network with other organizations (on market, information,	

cooperation and others)	
Lack of trust among the SMEs	
Problems related to infrastructure	
Lack of working in clustering	
If others ,please specify_____	

139. In general, please suggest your own **solutions and expectations** for the major problems you observe regarding your business activities

*Your suggested **solutions** _____

*Your **expectations** _____

Thank you very much again !!!!!

Annex II: Checklists of questions administered to key informant from Omo MFI

ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF DEVELOPMENT STUDIES

INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT STUDIES (IRLDS)

1. How and in what ways do you support the growth and expansion of SMEs in associations in Arba Minch Town?
2. What ranges of credit services do you provide for the SMEs owners and /or associations in the town?
3. What are your requirements for the loan grant to SMEs operators/associations?
4. What are your future plans to help the success in the expansion of the SMEs in the town?
5. What additional and *especial* services and advantages do you provide for the borrowers/associations or operators? {e.g. On market information, training, follow-up, team-based loans, and others}
6. How do you go about the creditworthiness, success (e.g. market success) and follow-up of the enterprises?
7. Do you jointly work with the SME owners, business associations, government and non-government bodies to contribute to the success of the associations? In what ways do you work jointly?
8. What major problems do you face to serve your customers/operators from the SMEs/associations? What problems do you observe from the associations?
9. What other ideas, comments, suggestions and expectations would you forward with regard to the associations/SMEs?(e.g. For their better performances, improvement , and expansion, etc)

**Annex III: Checklists of Questions Administered to Key Informants from Arba
Minch TVET College**

**ADDIS ABABA UNIVERSITY
COLLEGE OF DEVELOPMENT STUDIES
DEPARTMENT OF RLDS**

Checklists of questions administered to the TVET colleges

1. In what ways (mandates of the college/school) do you encourage entrepreneurship and SMEs development in the town?
2. Do you undertake any market and business studies?
3. On what basis do you design your curriculum? Do you adapt it to the local conditions? How do you revise it?
4. How do you measure the effectiveness of the TVET program?
5. Do you have any mechanism on how to make a follow-up on the success of entrepreneurship and Enterprise development through the graduates/trainees of the program?
6. Additional ideas,suggestions and critics _____

DECLARATION

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

Misganu Getahun



November, 2008

Addis Ababa University

CONFIRMATION

This Thesis has been submitted for examination with my approval as an academic advisor of the candidate.

Tegegne Gebre Egziabher (PhD)

November, 2008

Addis Ababa University