ADDIS ABABA UNIVERSITY

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ROLE AND PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN IMPROVING THE STANDARD OF LIVING OF HOUSEHOLDS' LIFE: THE CASE OF FOUR SELECTED KEBELES OF GONDAR TOWN

BY:

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Abstract

Overcoming poverty can be possible through establishing MSEs which is one of the strategies adopted in all over the country. MSEs are very essential to create employment opportunities, increase income of households, absorb large labour force, easily adopted and flexible by MSE owners etc.

This study investigates the role and performance of MSEs in improving the standard of life of MSE owners in Gondar Town of Amhara Regional State. The main objective of the study was to assess the role of micro and small scale enterprises in the improvement of the standard of MSE owners in Gondar town of Amhara regional state. This study involves 235 questionnaires. In addition, key informant interviews as well as observations were also the other data collection instruments. The questionnaire was distributed to the sample respondents of MSE owners, which are involved in the sector.

Based on collected data, the researcher identified the role and performance of the sector as well as the challenges encountered to the MSE owners. Thus, the study revealed that the MSEs sector in terms of employment creation, ensuring their food security, or in improve the life of households become visible and seems potential. It also identified the major determinants of the performance of MSEs, Asset ownership, Income and Food Security situation of respondents and the most serious problems of the MSE sector in the study area: lack of capital and credit, lack production and selling space, lack of market for their products, and dissolving the already established MSE cooperatives etc. In order minimize and alleviate the existed problems, some policy implications are recommended.

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Abbreviations

MSE(s) - Micro and Small Enterprise(s)

ILO - International Labour Organization

MOTI - Ministry Of Trade and Industry

EBRD - European Bank of Reconstruction and Development

CSA -Central Statistical Authority

BDS - Business Development Services

GDP -Growth Domestic Product

SSMI - Small Scale and Medium Institutions

PASDEP - Plan for Accelerated and sustainable Development To End Poverty

QOL -Quality Of Life

UNDP- United Nation Development Program

OLS -Ordinary Least Square

2SLS - Two Stage Least Square

3SLS - Three Stage Least Square

MFI -Micro Finance Institutions

BPR - Business Process Reengineering

MSF - Micro and small Finance

SPSS-Statistical Package for Social Sciences

SACCO-Saving and Credit Cooperatives

CHAPTER ONE

Introduction

1.1. Research Background

In the 1950s and 1960s, micro enterprises were viewed as marginal and unproductive entities that avoid taxes and had little potential for growth of the enhancement of entrepreneurial capacity (Tegeene and mulat, 2004).). However, MSEs play a vital role in the progress of the economy of the developed nation due to the fact that it reduces the unemployment problems by using lower capital per employment, avoid extra costs for development of industrial infrastructure, reducing the risk of the investments, check imbalance between different sections of the economy and maximize the use of locally available resources (Syed and Mohammed, 2009). MSEs are believed to have a vital role in reducing poverty, creating employment opportunity as well as improving economic development in developing countries like Ethiopia. The Ethiopian MSE sector incorporates a variety of operators ranging from petty traders to small restaurant owners; shoe shine boys to small shoe making enterprises; peddlers in the street to grocery business operators etc (Haftu et al., 2009; Tegeene and mulat, 2004). Studies suggest that the micro enterprises is probably owned by one or two family members and its paid up capital is not more than 20,000 birr While small enterprises capital ranges from 20,000-500,000 birr (Haftu et al., 2009).

In today's world, improving the standard of living and quality of life of citizens is a hot issue particularly in developing nations. The development effort made by the Asian tigers (Taiwan, Hong Kong, Singapore etc) shows a successful achievement in the last three or four decades. However, it is not real in most developing nations like most African countries due to various factors such as poverty, war, illiteracy, age, capital, task environment etc (Meseret, 2009; Raija, 2004).

It is widely accepted that the micro and small scale enterprise sector has the potential to provide a livelihood for a considerably large number of people in least developed

countries such as Ethiopia. In Ethiopia, micro enterprises particularly are considered to be the sphere of the poor, rural and urban citizens (Zewde and Associates, 2002).

In this regard, Gondar town, which is found in the Amhara regional state of North Gondar zone, has been faced with economic, social and political constraints towards its residents. Like any other towns in the country as a whole and in the region explicitly, Gondar town has acute shortage of capital, working place, training, lack of accessibility to market to their products, etc by the small scale operators during their start-up and in the process of their operation.

In order to alleviate such problems, the federal government of Ethiopia has introduced its first MSEs development strategy which states that "Micro and small enterprises are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non-agricultural sectors. In recognition of the important role MSEs have to play in creating income and employment opportunities and in reducing poverty, the government drafted its first Micro and Small Enterprise Development Strategy in 1997 (MOTI, 1997)." Accordingly, the region based on the countries policy and strategy has design to implement the activities of MSEs such as metal and wood work, food processing, construction, urban agriculture, artisans, tailoring and retailer and others. This designed strategy recognizes the contribution of MSEs in the employment generation, increasing individual's income; in general, improving the quality of life of citizens.

1.2. Research Statement

It is known that MSEs play an important role in the contribution of employment generation, increasing income and standard of life of individuals, can stimulate the local economy by increasing the aggregate demand and allow for greater investment (Matewous cited in Liedhom and Mead in 1997; Tegegne and Mulat, 2004). These sectors are becoming the major source of employment opportunity, increasing the standard of living of individuals, reduce income inequality, to increase the per capita income as well as improving the nation's development and to reduce poverty. In addition,

the sector absorbs a large proportion of the labor force without demanding much capital, high level training and complex technologies (Meseret cited in Nigist, 2009).

In order to strengthen the indispensability of micro and small scale enterprises, Ethiopian government has adopted a small scale enterprise development strategy in 1997 and it is currently implemented all over the country.

Even though, micro and small scale enterprises are vital with regard to employment creation for several citizens in the urban and rural areas of the country, there are various challenges such as inadequate skill, lack of capital to run the business, lack of training, lack of working place, lack of access able market to their products etc are the most commonly observed constraints in the sector particularly in Gondar town. Small businesses and enterprises in Ethiopia are generally characterised by an acute shortage of finance, lack of technical skills, poor management, and lack of training opportunities, shortage of raw materials, poor infrastructure and over-tax (Eshetu and Zeleke, 2008).

The researcher focused on the role and performance of micro and small enterprises in improving standard of life, which is not yet deeply studied in Ethiopia. Some researches which are both qualitative and quantitative studies are conducted in the area. For instance, Mathewous (2009) has conducted a study on the role of small enterprises in urban housing and employment: a case of Kolfie Keranio sub city which emphasis in the employment generation and house development. Endalie (2009) has conducted on the contribution of micro and small scale enterprises for poverty reduction: in the case of two kebele's of Kirkos sub city in Addis Ababa which shows the overall contributions to the economy and to identify the problems on MSEs. Meseret and Asegedech (2009) has also studied the impact of micro and small enterprises on the livelihood of poor women and the performance of women involved in micro and small enterprises in Addis Ababa respectively. However, both Meseret's and Asegedech's study is emphasised in the women's area and all these and other similar studies did not encompass Gondar Town. Hence, the study tried to fill this gap by providing insight in to the town's micro and small scale enterprise's role in the improvement of the standard of living of the MSE owners in the town. The other justification is that to provide basic information and

special attention to the concerned bodies about the operator's constraints in the town. Having the constraints and gaps in mind, this study can be used to show the major roles, performance and problems on MSEs in the study area and to assist poverty reduction actors to improve the income or standard of living through providing some possible solutions in the major constraint areas which base the major findings. In general, this study addresses the role of micro and small scale enterprises in improving the MSE owners standard of life in Gondar Town of Amhara regional state.

1.3. Research Questions

The following research questions have been raised in order to undertake the research

- Do MSEs improve income, food security and standard of life of MSE owners in the study area?
- What is the magnitude of employment creation of MSEs in the town?
- Do the MSEs plays vital roles to the development of livelihood assets?
- What are the determinants and linkages among MSE performance, asset endowment and their income?
- What major constraints hinder the performance of MSEs in the area?

1.4. Objective of the study

1.4.1. General objectives

The general objective of the study is to assess the role and performance of micro and small scale enterprises in improving the standard of living of MSE owners found in Gondar Town of Amhara regional state.

1.4.2. Specific Objective

The research assignment will therefore seek to explore and investigate the following specific objectives:

- To show the role of micro and small-scale enterprises in improving income, food security and standard of living of individual.MSE owners..

- To assess the role of micro and small scale enterprises in the creation of employment opportunities.
- To evaluate the role of MSEs in the development of livelihood assets
- To assess the determinants and linkages among performance of MSEs, income, food security, and asset endowments of households.
- To identify the major constraints and problems of the sector in the town.
- To provide possible suggestion to the concerned bodies in order to tackle the existed problems.

1.5. Significance of the Study

The contribution of micro and small scale enterprises have given little attention by the classical development theory's such as the dependency and modernization theorists whose argument is that those enterprises are unproductive organizations. According to these theorists, starting from small enterprises could not be interlinked to medium and big industries or they could not serve as an input to the medium and larger industries. However, in recent years, this kind of ideologies seems irrelevant and small scale enterprises are the major bases of the long term development of most countries of the world.

The Network approach is the current philosophy which states that small scale enterprises are the base of the big one's and a linkage should be existed between the two. In many developing countries, these enterprises have created more employment per unit of scarce capital than larger counterpart businesses. That why the government of Ethiopia have given due attention to the small scale enterprises in order to achieve the new millennium development goals (Tegegne and Mulat, 2004).

Therefore, this study will benefit the study area operators through identifying the possible constraints which hinders the development of such sectors and to suggest the possible solutions to the existed problems. It also gives some suggestions to the policy makers and strategy designers, implementers and other management bodies for the sake of giving attention to the major problems existed in the town. Finally, it provides a base for other researchers in order to investigate further studies in the study area.

1.6. Organization of the Paper

This thesis is organized as follows. The first part is the introduction which deals with the general aspect of the study followed by statement of the problem, objectives and background description of the study area and the like. The second part is the literature review which deals with the secondary data that provides different detail information about the topic. It also deals about the role of MSE play in poverty alleviation or increase income of individuals throughout the country in general and Gondar city in particular.

The third part deals with the methodology part of the paper and it encompasses the study design, sampling technique and size determination, data collection techniques and method of data analysis.

The fourth part shows data analysis and presentation, and the final part of the thesis provides conclusion and Recommendations which are summarized and suggested by the researcher.

1.7 Scope and Limitation of the Study

In order to know whether MSE plays an important role in the improvement of standard of living in their life or their income level among poor people, comprehensive data may require, and all population lived in the city where the study had been taken place should get a chance to be part of the study. In this study, however, only MSE operators found in four kebeles had been studied out of the 20 kebeles due to constraints of time and budget. Though these four kebele's may not be representative hundred percent to the whole kebele, the researcher believed that this study will be a springboard for further study.

In spite of the intensive efforts, the given time for field work particularly remote areas such as Gondar was also too inadequate for qualitative and quantitative collection of data. Respondents were also reluctant to provide relevant information and in this case the researcher was encounter to collect the distributed questionnaire as well as to find secondary documents from MSE office.

1.8 Study Area

Gonder is one of the fourth largest cities in Ethiopia next to Addis Ababa, DireDawa, and Adama. Gonder was once the old imperial capital. It is located in the Semien Gondar Zone of the Amhara Region, north of Tana Lake on the Lesser Angereb River and southwest of the Simien Mountains *(Muthuswamy R and Mequente S. 2009)*.

After it was established by Emperor Fasilides around the year 1635, Gondar grew as an agricultural and market town. The town served as Ethiopia's capital until Tewodros II and after the invasion of Ethiopia by the Kingdom of Italy in 1936, Gondar was further developed under Italian occupation.

Gondar traditionally was divided into several neighborhoods or quarters: Addis Alem, where the muslim inhabitants dwelled; Kayla Meda, where the adherents of Beta Israel lived; Abun Bet, centered on the residence of the Abuna, or nominal head of the Ethiopian Church; and Qagn Bet, home to the nobility.

Demographically, Gondar has a total population of 194,773 of whom 97,625 are men and 97,148 are women. The woreda has an estimated area of 40.27 square kilometers, which gives Gondar a density of 4,836.70 people per square kilometer (CSA,2005).

Topographically, the city is mountainous with an elevation of 2133 meters above sea level and a latitude and longitude of 12°36′N 37°28′E12.6°N 37.467°E.

The city is composed of self employed household heads as well as cooperatives engaged in construction, food processing, urban agriculture, artisans and service providers, etc followed by government and NGO employees as well as unemployed citizens.

Any other social and economical problems observed in other city's are also the problems of Gondar city such as unemployment, HIV/AIDS, homelessness, prostitutions and the like. In order to minimize such kind of socio economic challenges, the city has designed various strategies within the framework of the regional government specifically and the country at large. Establishing MSEs is among such efforts which are given due attention by the city administration by setting visions and missions. Its vision is that to see the

urban dweller free from poverty through establishing an industry that ensures fast and sustainable growth as well as seeing a city which basis free market economy, and its mission is ensuring capable administrative by establishing and strengthen micro and small scale enterprises, by providing training and counseling, and widening micro and small scale enterprises for the sake of creating a suitable environment for entrepreneurs (investors) who plays a major role in the developmental activities.

In order to achieve the established goals, visions and missions; the MSE office has designed the following functions: Creating new job opportunities for unemployed citizens, Providing trainings which are related with vocational and commercial administrative issues, Creating favorable condition to become beneficiary of the existed loan, Create a market linkage, Making an effort to be users of the new technology, Create a favorable condition to be users of production and selling space, Providing business development services (BDS), Recognize the cooperatives and provide license for them, Provide trade license, renewed it and dispose it are among the most important functions of MSEs office in the city.

CHAPTER TWO

2. Review Literature

As far as the review of literature is concerned; definition of some terms and concepts, approaches to define the concept, characteristics of MSEs, factors affecting the sector, theorists view towards MSEs, empirical studies reviewed in abroad and country side, contribution and constraints of the sector, evolution, policy Environment, strategy of MSEs, quality of life, sources to finance and BDS (Business Development Services) are incorporated in order to provide some insight about the study.

2.1 Definition of some Terms/Phrases

Micro enterprises are those small business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high-tech consultancy firms and other high-tech establishments.

Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 50,000, and excluding high-tech consultancy firms and high-tech establishments.

Assets: The resources poor people possess or have access to and use to gain a livelihood.

Policies*, institutions and processes* (sometimes called transforming structures and processes). The institutions, organisations, policies and legislation that determine access to assets and choice of livelihood strategies.

Livelihood strategies. A way that poor people follow to build their asset and capabilities in order to improve their livelihoods. For instance, one may interested to follow rearing of animals, others may want to follow artisans etc.

Quality of life *is to the availability of resources to satisfy basic needs*. For instance, finding some kind of job in urban areas and some cattle or goats in rural areas. Quality in short is fit for purpose.

Food security is a concept that households are free from food shortage or the availability of food and one's access to it.

Livelihood asset (capital) in this context is that asset type which incorporates physical capital (access to house, working place), human capital (access to training), financial capital (access to saving and source of finance), and social capital (networking/membership/participation in various institutions…).

2.2 Approaches to Define MSE

There is no standard definition of micro, small, medium and large scale enterprises. The definition varies from country to country (Lepi, 2005, Wolday, 2007). For instance, in Ghana, there are a number of criteria which serve to define small scale enterprises. Among them, the number of employees employed in the sector is the major one and fixed asset is the other criteria. According to the survey conducted in Ghana, the number of employees in the small scale enterprises is less than 10 workers and in terms of fixed asset not more than 10 million cedis (the Ghanaian currency or money like our birr) for plant and machinery (Helmsing and Kolstee, 1993). Micro enterprise is one with fewer than ten employees; and a small enterprise is one with 11-50 employees (Annette, 2005).

According to Lois and Annette (2005), there were no well registered and documented data concerning enterprises in Ethiopia. The government of Ethiopia did not show interest in the micro and small scale enterprises until 1990s and an attempt was not made in quantifying its nature, there is currently no classification system of enterprises by size of firm, survival and growth rate etc**.** One of the first comprehensive collections of data on MSE sector was undertaken by the Central Statistics Authority (CSA) in 1996/97. According to this survey, there were almost 590,000 micro and 2,731 small scale industries found in the country.

The Ethiopian Proclamation number 124 of 1977 has an official legal definition for small scale industries. According to this proclamation, activities such as oil mills, garment factories, shoe factories, shoe polishing, candle making, steel works, bakers, grain mills metal works breweries etc are included under the small scale activities (Wolday et al., 1997).

As indicated above Wolday (2007) verified that various countries have different criteria to determine the size of their enterprises such as number of employees, assets employed, sales turnover or a combination of all these. The Ethiopian government, in its micro and small enterprise strategy (1997), defined MSEs based on the size of the capital and level of automation as follows.

> *"Micro enterprises are those small business enterprises with a paid up capital of not exceeding Birr 20,000 and excluding high-tech consultancy firms and other high-tech establishments and Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 50,000, and excluding high-tech consultancy firms and high-tech establishments (Welday, 2007, pp. 1)."*

2.3 Characteristics of MSE

Zewde and Associates (2002) identified that the MSE sector is characterized by a number of highly diversified activities, which can create job opportunity for a large segment of the population.

The characteristics of the informal sector (small and micro enterprises) have also been described as: it is easy to enter, it is financed mainly from personal and family resources, it requires low starting capital, it uses labour-intensive techniques, it relies on the non-formal school system such as apprenticeship and on-the-job training (Benjamin K cited in Aboagye and Gozo, 1986.)

Donald (1996) also identified the following distinguishing features, namely more labour intensive, more efficient, more equitable in distributing the income they generated, geographically more widely diversified, and more nurturing of entrepreneurs.

2.4 Factors Affecting the Survival of MSEs

Operators engaged in the micro and small scale enterprises are affected by several factors.

> Raija (2004) identified *the performance of small businesses as their ability to contribute to job and wealth creation through business start-up, survival and growth. Success is often equated with the achievement of clearly defined and measurable goals and objectives in all sectors of human life, which, on the other hand, may be of a subjective as well as a financial nature. Small firm performance is substantially influenced by the individual characteristics and behaviour of the owner, and task environment characteristics (Sandberg et al., 2002, 3; Chell & Baines 1998, 118; Pasanen, 2003, 25 cited in Raija, 2004, p. 2).*

According to survey conducted in the field, two thirds of new employer establishments survive at least two years, 44 and 31 percent survive at least four and seven years respectively. And businesses that survive at least four years have a good chance of surviving long term. "Survivability" of a business has been linked to several factors:

- **Ample availability of capital.** In most businesses, the key element for success is capital and availability of capital is directly linked to positive cash flow as well as to keep the business healthy.

- **Being large enough to have employees.** If tasks are performed by the owner/manager, he/she does not have enough hours in the day. Surely, employees are sometimes tough to deal with, but they really are necessary to the success of the business.

- **Age and education of business owner.** Older, more educated owners seem to have a better chance for business success than younger and less educated people. There is a believe that older people bring more maturity to a situation and those with more education also have more experience.

- **Reason for starting the business.** People start businesses for all kinds of reasons, but it takes a lot of zeal and determination to succeed. Someone who starts a business for the money won't try as hard and will tend to give up more

quickly than someone who is zealous about the business. This is particularly true in health care and service businesses, where you have to really want to help people as well as make a profit.

If a business person does have capital, employees, age/education and reason a person has a better chance of succeeding in the small business (Jean M, 2008).

2.5 Theorists View towards MSEs

Different theorists followed different perspectives in several related fields such as micro and small enterprises. The following development theorists follow their own ideologies. The classical development theories such as the modernization and dependency theory assume that the small or informal enterprises are generally unproductive. According to modernization theory, development is a gradual process which implies; for instance, agriculture is mechanized gradually and small, low-productive artisan workshops are replaced by large scale industrial enterprises through time. This theory assumes that the structure of the industry found in developing countries eventually will mirror what happened in Europe and USA, where large scale, capital intensive enterprises emerged. In large towns, there would be the concentration of production in order to exploit the urban labour and capital markets.

Hence, small, informal enterprises would eventually disappear, similar to what happened in Europe (Tegegne and Mulat, 2004).

The other theory, the dependency or dominance theory, views that larger national and international corporation dominate the world's economy. The head quarter of these large corporations has existed in the capital city of developed countries and their production units have been distributed to developing countries which have cheap production factors. They exploit cheap factor of production and enjoy with economies of scale and become more profitable than small local enterprises. Under this circumstance, small enterprises can survive either in direct dependency on large enterprises, as subcontractors to them, or as petty producers and traders operating in extremely competitive markets with little

possibility for growth and accumulation of capital to invest (Pedrson, 1989 cited in Tegegne and Mulat, 2004).

The recent theoretical perspective in the sector includes flexible specialization and network approach. 'Flexible specialization or production system is based on the manufacture of custom-made products by use of multi-purpose technology and flexible production methods operated by skilled workers (Helmsing, 2000 cited in Tegene and Mulat 2004).

> *Forms of production is characterized by a well developed ability to shift promptly from one process and/or product configuration to another (dynamic flexibility) and to check quantities of output rapidly up or down over the short run without any strongly deleterious effects on levels of efficiency (static flexibility) (Storper,1990 cited in Helmsing and Kolstee, 1993, pp.34).*

Flexible production system is suitable for small enterprise development, even though it is not to be ignored but also large firms can also adopt principles of flexible production (Ibid).

The network theory sees the production system as a system of specialized enterprises linked to other enterprises (as customers or as producers of inputs, investment goods or services), consumers or suppliers and the like. According to this view, the production system is networked to either the supplier or the customer direction. Networking implies local and external linkages such as suppliers, customers, employees, public authorities, family and friends, banks, business services, large enterprises, training institutions, sectoral and local business associations. In this context, the theory advocates for the enterprise to be dependent not only on other enterprises but also on the broader social network of the owner and his/her family (Tegegne and Mulat, 2004).

In addition to the network approach which is more relevant to this study is the sustainable livelihoods approach (SLA). It is a way to improve understanding of the livelihoods of poor people. It can be used in planning new development activities and in assessing the contribution that existing activities have made to sustaining livelihoods (Lasse, 2001).

This approach take people at the centre and it can incorporate natural resources, technologies, their skills, knowledge and capacity, their health, access to education, sources of credit, or their networks of social support. According to sustainable livelihood approach, there are six types of livelihood assets. Like **physical capital** including infrastructure (transport - roads, vehicles, etc. secure shelter & buildings water supply & sanitation energy communications). Human capital such as health, nutrition, education, knowledge and skills, capacity to work, capacity to adapt. **Social capital** such as networks and connections patronage neighbourhoods, kinship, relations of trust and mutual support, formal and informal groups, common rules and sanctions, collective representation, mechanisms for participation in decision-making and Leadership. The fourth one is that **Natural capital** such as land and produce, water & aquatic resources, trees and forest products, wildlife etc. The fifth livelihood asset type is **financial capital** such as savings, credit/debt, rremittances, pensions, wages and the final one is **Entrepreneural capital** (ability to create something new). Their access to these assets is strongly influenced by their vulnerability context, which is taken in to account the trends (such as, economic, political, technological), shocks (like epidemics, natural disasters, civil strife) and seasonality (includes prices, production, employment opportunities **(http://www.ifad.org/sla/index.htm**).

The current social, institutional and political environment, which affects the ways in which people combine and use their assets to achieve their goals which are considered to as livelihood strategies. A livelihood strategy in this study context assumes that MSE operators may follow their motive/interest in order to do their business, but policies or regulations may hinder to do or not to do their business (Ibid).

This new approach has three views towards poverty. The first is the realization that while economic growth may be essential for poverty reduction, there is no direct relationship between the two since it all depends on the capabilities of the poor to take advantage of expanding economic opportunities. Secondly, the poor themselves visualize that poverty is not just a question of low income, but also it encompasses other aspects such as bad health, illiteracy, lack of social services, etc., as well as a state of susceptibility and feelings of incapacity in general. Finally, it is now recognized that the poor themselves

often know their situation and needs best and must therefore be involved in the design of policies and projects intended to better to them (Lasse , 2001).

2.6 Empirical Literature

2.6.1 Research on other Countries

Micro and small enterprises play a vital role in the development of the countries in employment creation, increase income of individuals or improve standard of living of citizens and on the contrary many challenges have come across with the sector.

Dalitso and Peter (2004) in their study title '*the policy environment for promoting small and medium-sized enterprises in Ghana and Malawi'* find out that in the 1970s and 1980s, the two countries micro economic traits were common or similar. Both countries experienced difficult economic crisis due to internal and external factors. Unstable oil price was the dominant external factor. The major internal factors were policy biased towards industries over agriculture, inefficient public service, overvalued exchange rate and inflation. Due to the economic crisis in the early 1980s, the two countries were forced to make economic adjustments through the help of IMF and World Bank and they have started to implement the program. In this circumstance, their small and medium enterprises faced varieties of constraints. Access to finance remains a major challenge to small enterprises in Ghana and Malawi. Lack of access to appropriate technology, weak institutional capacity and lack of management skills and training, the existence of restricted laws, regulations and rules that hamper the development of the sector are the other challenges in those countries.

In order to minimize the constraints, Dalitso and Peter recommended that there is a need to amend the laws and regulations and the government should play a facilitator role rather than that of a regulator and provide a conducive framework within which the sector operators.

A study conducted in Indonesia revealed that low level of education, lack of market research and information on the opportunities of the business, lack of capital, lack of

infrastructure, poor environmental conditions and lack of effective marketing linkage are the constraints encountered by MSEs in Indonesia (Dipta, 2004 cited in Adil, 2007). However, Millions of people engage in this productive activity and small scale enterprises employ 88.6 % of people working in the private sector. They contribute significantly to the development as 39.4% of Gross Domestic Product comes from these enterprises (Rudjito, n.d).

The other scholar Ray (2010) who conducted a research in Kenya explored the contribution of Micro enterprises to the African countries GDP ranges from 15-70% and they can diversify goods and services, and significance proportion of households earns some or all of their income from micro and small enterprises. A recent study conducted in 2005 in Kenya shows that small and micro enterprises sector contributed by creating new jobs to citizens which accounts over 50 percent (Micheal et al., 2009). According to the same writer the constraints faced by the sector such as most lacks sufficient capital, little or no access to credit for expansion, most suffer from poor infrastructure, insecurity, extremely competitive market, and unfavourable institutional environment.

There were also previous empirical studies conducted from 1998-2007 in Egypt under the issue of 'micro and small finance and employment creation in Egypt in 2009' in the University of Cairo. According to the study, there were constraints encountered in the study area, like minimum outreach of the MSF due to much number of enterprises existed i.e., more than 3.5 million enterprises existed there, the number of NGOs dealing with MSF were low in number, low capacity of management and marketing skill etc are among the many constraints. On the other hand, this same study revealed that 80-90% of total new jobs in Canada are associated with small firms (http://www.mss.gov.eg/).

In Bangladish, the micro and small enterprises have high labour intensity, depends on indigenous skills and technology, contribution to entrepreneurship, development, innovativeness and the base to link the growth of industry. The SME, undoubtedly a predominant in the industrial structure of Bangladish, comprised over 90% of all industrial units. The various categories of small and medium enterprises contributed between 80 and 85 percent of the industrial employment (Ahmed, 2001, SEDF, 2003 cited in Syed and Mohammed, 2009). Their contribution in the countries GDP reaches

20-25 percent of the economy (Daniels, 2003 cited in Syed and Mohammed). However, the sector had severe problems in regulatory aspects, finance; contradict government policies and protection in investment incentives. In addition, problem of raw materials, power, land marketing, transport and technical facilities and finance was the other constraints in Bangladesh (Ranjit and Rashid, 1996, cited in Syed and Mohammed, 2009).

2.6.2 Research Reviews in Ethiopia

In Ethiopia, studies conducted in the sector indicates that the majority of the life of the households have improved and of course with a number of constraints. Accordingly, Endalie (2007) found that the income of individuals can grow progressively and thereby their living condition can be improved. Increase in income of individuals working in MSE can improve income distribution and increase the capacity of individuals to afford the payment for food, clothing, housing facility, medication, schooling and cultural ceremony. His study also shows the constraints or problems encountered by MSEs. The problems were high interest rate, inadequate markets for their products, absence of market for their products and market linkages problems, inadequate training and business development services, bureaucracies in licensing and credit, strict regulatory requirements during business start ups, inadequate production and shortage of places etc.

The other study conducted in Kolfie-Keranio by Matewous (2009) shows that MSE have not much in improving the standard of living of the members. In his study, he has shown that the major problem encountered was during the formation of associations. The top three problems are: inability to sell for other customers which accounts (72.7%), high money reservation by HAD (Housing Development Agency) which consists 56.8% and being under the influence of the government (34.1%).

The other researcher (Sertsewold (2007) indicated that there are a number of manufacturing enterprises growing fast and there are also constraints encountered by the operators. These problems are shortage of capital, lack of work premises (74.3%) and inadequate information on market (62.5%). On the contrary, the majority of small scale manufacturing enterprises which accounts 54.6% reported that their sales volume slightly

increased over time. This shows that the contribution of the sector becomes improved through time(Sertsewold, 2007). Adil (2007), in his main research, tried to summarize that government intervention, shortage of capital , location problem, lack of market and infrastructure development, and lack of display room (a place where products are put and displayed) etc were serious problems of the sector in the study area. Bureaucratic regulatory requirements, high collateral requirements are also investigated by him as a major constraint. The current statuses of the enterprises indicates that they struggling to survive (no less or no profit) which accounts 52.3% and the growth pattern consists only 16% while running to loss accounts 34.25% (Adil, "2007).

2.7 Contribution of MSEs

The conception of small scale industries can play an important role in development strategies focusing on the satisfaction of basic needs. It is based on the assumptions that the products consumed by the poor are more labour intensive; small scale industries specialize in their products, and they use simple techniques, they are easily adjustable or flexible if someone wants to change its business, raising agricultural productivity (Franciscco, 1991; Dereji, 2008).

Accordingly, the government of the federal democratic Republic of Ethiopia has recognized and paid due attention to the development of micro and small enterprises because they are important vehicles to address the challenges of unemployment, economic growth and equity within the country (http://www.ethiopia.gov.et).

Tegene and Mulat (2004) asserted that the contribution of MSEs has been acknowledged since recent time. MSE as compared to their larger counterpart businesses, they can create more employment per unit of scarce capital. In the 1950s and 1960s micro enterprises were viewed as marginal and unproductive entities that evaded taxes with little potential for growth or the advancement of entrepreneurial capacity. More attention was given to MSEs in the 1980s by donors and government agencies which are potentially a sustainable means of combining equity with efficiency in low income countries like Ethiopia.

2.7.1 Contribution of the Sector by Employment in Different Countries

Micro and small enterprises are the backbone of the economy of any country either developed or under developed. Undoubtedly, it creates a huge amount of job opportunities to the youngest section of the society especially to the women.

Table2. 1: Employment share of Micro and small enterprises

No.	Countries	Year conducted	Business type in employment creation in %	
			Micro	Small
1	Chile	2000	44.7	17.7
2	Guinea	1994	82	-
3	Pakistan	1988	59	15
4	Peru	2000	70.5	8.4
5	South Africa	2000	45.5	23.6
6	Tanzania	2000	54	-
7	Viet Nam	1999	65	-
8	Bulgarian	1999	22	15.3
9	Europe	2000	34.3	19

Source:http://www.ILO.org/wcmsp5/groups/public/---ed/norm---relconf/documents/meetingdocuments/wcms..

Note: MSEs includes self employment persons.

As can be seen from the above table, micro and small enterprises plays an important role in employment creation in different parts of the country. Most developing countries have the beneficiary of micro enterprises when they have compared with the developed nations such as Europe (see the above table).

According to Mulat et al (2006) the contribution of MSEs in the employment creation plays a significant role by providing goods and services for a fast growing population in Ethiopia. The sector plays a vital role in the Ethiopian economy, typically contributing over 99% of all enterprises, over 60% of private sector employment, and about 30% or so of exports. The 2003 survey indicated that 63% of the total establishments were located in urban areas while the remaining (37%) in rural areas, mainly grain mill services. Note that the value added generated by SSMIs accounts for about 2.6% of the national GDP and 24% of the industrial GDP during the period considered.

Ethiopian firms which are micro and small enterprises consist of greater in number and a large number of the population is engaged in this sector. Almost 1.3 million people were

engage in the micro enterprise manufacturing sector, among which 94,2% of whom were own-account workers. Only 98,000 persons were engaged in small (larger than micro) manufacturing enterprises. The economy of this sector is mainly the sector of self-employment. About 55% of this sector produces food and beverage, 23% of it is textiles and garments and 85% of the small scale e sector are grain mills (CSA, 2003 cited in Tilman, 2010).

The micro and small enterprise are informal sectors and hence the employment of this sector becomes growing faster than the formal sector. In the year 1999 to 2005, informal employment (defined as employment in firms fewer than 5 employees) increased by 144% as compared to 16% of the formal sector employment. In the year 2005, the informal sector urban employment was 71% (World Bank, 2009 cited in Tilman, 2010).

When we look the firms almost 98% of business firms in Ethiopia are micro and small enterprises, out of which small enterprises represent 65% of all business (Aregash, 2005 cited in Eshetu and Zeleke,2008).

2.8 Financing the MSEs

Financing the MSEs sector is crucial in order to strengthen and improve the standard of life of the operators. The responsibility of financing the MSE sector rests on the micro Finance institutions. Researches conducted in commercial banks in Ethiopia are not eager to finance the sector. Their collateral requirement and their minimum loan size are not often feasible for MSEs. Bank policies (public and private alike) make fixed assets collateral mandatory, thereby excluding MSEs from the credit market. The only formal institutions that are accessible to the micro and small enterprises are the Micro Finance Institutions (MFIs) for their household and domestic requirements. The objective of the MFIs is poverty reduction and the source of their loan fund is mainly provided by donors (Haftu et al, 2009; Zewde and associates, 2002). The credit and saving associations (SACCOs) are also the other sources of MSEs and they have high potential for mobilizing savings that could be utilized productively for MSE programs. The terms and conditions of SACCO lending are based on the lending policy and procedures and the by-law of the cooperatives (Haftu et al, 2009).

2.9 Measurement of Income

Income is regarded as a critical variable for measuring the impact of micro-enterprise credit services on both the assisted enterprise and the household. Income is a general indicator of enterprise stability or growth, and an important indicator of household welfare and poverty status. Long run increases in income contribute to an improved quality of life, because income provides the means to obtain improved nutrition, health, education, and overall socioeconomic status. Income can be defined as the monetized value of the flow of goods and services. Income for productive activities is often measured as net income, or inflows minus variable and fixed costs (also known as profits). Household income is often conceptualized within an accounting framework, and consists of the sum of inflows from all sources, including wage income, net income from entrepreneurial and farming activities, rental income, remittances received, government transfers, investment income, gifts, and other.

2.9.1 Assets and Expenditure as a Measure of Income

Asset is measure of household income in some contexts. An assumption is that because income is used to purchase assets, data on changes in assets can be used to draw some conclusions about changes in income (Kumar 1989). In addition, because assets represent sources of potential future income, assets may provide a more useful picture of the long-term economic status of the household than income does. Production (micro-enterprise assets, agricultural assets, land,) consumption (house, vehicle, furniture, personal luxury items, etc...), and liquid (financial investments, savings, cash) assets may be included in such assessments (Snodgrass, pers. com. 1996b cited in Anne I. 1996,).

Household expenditures categories might include: food, rent, transport, education, clothing, medical, household utensils, remittances paid out, taxes etc.

Total household expenditure is sometimes used as an alternative measure of households economic well being in place of income. Essentially, this approach looks at total household consumption expenditures on goods and services, or household resource use. Methods for gathering information on household expenditure come from the field of surveys known as household budget, consumption, or income and expenditure surveys

developed for socio-economic research on household welfare or nutrition. Household consumption refers to the total quantities of goods and service s consumed or used by a household in a given period. Consumption is typically measured by total expenditures, which track the value of money, time and assets spent on both food and non-food goods and services (Levin 1991 cited in Anne I. 1996). A major advantage of using expenditure is that it is considered to be in some ways a more reliable indicator of long run, overall household well-being than income is. Proponents argue that because expenditure represents actual consumption it gives a more accurate assessment of a household's economic status than does income, which represents potential future consumption (Anne I. 1996, cited in Kumar 1989). Expenditure may also be reported more accurately than income because such information is not as sensitive (Little et al. 1989 cited in Anne I. 1996)

2.10 BDS Instruments to Promote MSEs

According to Wolday (2002), Business Development Services (BDS) instruments that we use to promote MSEs in Ethiopia can be classified in to three major categories, These are:

a. Micro level BDS instruments
b. Meso level BDS instrument
c. Macro level instruments

a. Micro level BDS instruments

These can be provided directly to the MSE operators which are delivered by BDS providers such as training, extension (the delivery of any form of advice or material assistance outside a classroom); consultancy and counselling; developing commercial entities (involves the development of brokers who buy inputs or sell outputs on behalf of MSE operators); technology development and transfer (deliver useful technologies to a large number of end users, the MSE operators); information (an important instrument that support MSEs in order to respond to the demands of the market through trade fairs and exhibitions, distribution printed information) and business linkages (focused on sub-contracting, franchising and business clusters).

b. Meso-level BDS instruments

The objective here is that it facilitates the efficiency, effectiveness and sustainability of local or national BDS organizations to improve their services by capacity building or institutional development. Under this category, non profit membership organizations created or owned by MSE to represent their interest and provide their members with services (eg, chamber of commerce, \business association etc); service delivery organizations owned by agents to provide specific services to MSE and sometimes to represent their interest, for instance, government and semi-government organizations, NGOs commercial private sector enterprises like consultancy firms). The meso-level BDS have a great desire and motivation as well as clear vision and sustainable demand driven service providers, but not have a political agenda or interest.

C Macro-level instruments:

The goal here is that to create a favourable macro level policy environment to deliver BDS to MSE operators on sustainable basis in doing activities like:

- Ensuring to remove to entry and non-competitive behaviour in markets;
- Eliminate expensive and time consuming regulatory requirements such as licensing and registration;
- Reduce official and unofficial levies that discourage small enterprises from growing;
- Improve the legal framework of commercial transaction and the resolution of disputes that can affect transactions with unknown firms;
- Improve tax structure etc.

2.11 Evolution, policy Environment, Strategy and Responsible Bodies of Ethiopian MSEs

2.11.1 Evolution

Ethiopia has long history in the artisan activity which is part of the current MSEs and the development of modern artisan manufacturing enterprises took place mainly in the post WW II period. The evolution of sector falls into three phases: the import substitution

period of 1950s and 1974; the centrally planned economic system from 1974 to 1991; liberalization and market orientation since 1991.

Private sector industrial activities, consisting of MSEs, were discouraged by restrictive rules and policies through direct control that prevent access to credit and imported inputs by private enterprises during the second phase of the evolution. Since 1991, the manufacturing sector like MSEs shows positive outcome which has encouraged by the government. In this period a liberal investment code has been introduced, domestic price controls have been removed, the financial system has partially liberalized, tariffs have been reduced and non-tariff barriers have been removed. A reform which is part of public sector program has also been introduced and its main objective being to privatize SMEs which were nationalized in the 1970s.

2.11.2 Policy Environment

The policy environment faced by small enterprises determines in a greater part their ability to contribute the process of development through growth in their number, size and productivity. A policy environment which is conducive enables the programmes of direct support to small enterprises and assisting institutions to be effective. A step which is necessary towards a national strategy to facilitate the contribution of small enterprises is to analyse that policies can be reformed to encourage, not retarding their growth (Helmsing and Kolstee, 1993).

William summarizes that special attention to the policy environment for small enterprises is warranted. In designing economic growth strategies and highly profitable investment opportunities may be lose due to **policies are biased** against small enterprises(eg, import licences that are difficult for small firms to obtain); **market imperfection** constrain small firms' access to resources(foe example, the failure of financial intermediation to serve viable small investments); **social and cultural mores** prohibit the participation of certain groups in small business (women, for example).

2.11.3 MSE Strategies of Ethiopia

Recognizing the significance of this sector, the Ethiopian government issued and established the National Micro and Small Enterprises Strategy and the Federal Micro and Small Enterprises Development Agency in 1997 and 1998 respectively. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers (Mulu, 2009).

Recently, however, it has got recognition about the sector's economic role and its potential contribution to the country's economic development following Proc. No. 90/2003, where the development of the micro and small scale enterprise, are becoming a subject of national agenda. Now a days the government give emphasis and begun to pay due attention to the promotion and development of MSE's (**http://bahirdarcity.net/Investment%20cont.html.**)

As the MSE sector is highly diversified and characterized by an enormous number of problems of varied degree and complexity, it is not possible to address the whole range of MSE's operating in different sectors at the same time. The strategy, therefore, provided the following general principles for prioritizing beneficiaries, which might be adopted in every region and it s urban centres depending on the specific conditions and potentials:

- MSE's which are based on local raw materials and /or labour-intensive, local resource based.
- MSE's which have greater intra and inter-sectoral linkages.
- MSE's which are engaged in import substitution with a potential for export.
- MSE's engaged in activities that facilitate and promote tourism are among other things (Ibid).

The united nation policy review suggests that surveys have conducted to support of donors which is essential for the preparation of a national micro and small enterprise development promotion strategy. The strategy aims to create: long term jobs (through skill upgrading programmes for micro and small enterprises and encouraging the use of appropriate and modern technologies to improve their capacity to create employment);

strengthen cooperation between small enterprises; promote export (especially in areas where the country has a comparative advantage); Provide needed technical support for the graduation of small enterprises to medium and large scale enterprises and balancing preferential treatment between MSEs and large enterprises (http:www.unctad.org/en/docs/poiteipcm4.en.pdf).

> *The target groups of the strategy are: women; small manufacturing of foods; textiles; leather clothing, metal work, and crafts; self employment with a focus on school leavers, the disabled and the unemployed youth; small enterprises in nomadic disaster areas; agro-businesses and small scale farming and fishing; small builders/contractors; small exporters and small scale tourism-industry operators; start-ups and expanding firms* (Haftu et al., 2009 p.40).

These writers further investigated that the plan for Accelerated and Sustained Development to End Poverty (PASDEP) is the overall governments' development strategy document, existed in the period between 2005/06-2009/2010, it consider the small and micro enterprises sector are so essential for economic growth and poverty reduction. In addition to this, the Industrial Development Strategy as well as Urban Development Strategy also considers the sector as crucial factor for the development of the economy of the country. The strategy is also reflected in all regions: The regional micro and small enterprise development agencies particularly the regional bureau of trade and industry are responsible to the promotion and the coordination of the sector.

The strategy that is planned to implement follows five stages. These are need identification and implementation planning, awareness creation, resource identification, training of support agency staff and strength the business and entrepreneurial culture. The criteria for prioritizing MSEs for support are indicated by the strategy (MOTI, 1997).

2.12 Quality of Life/Wellbeing

Quality of life is studied in a number of different disciplines. In philosophy, QOL is reference for concepts of the good and defence of these concepts. In psychology, it explains the concepts of mental health and causes of subjective well-being and human development. In social science, QOL explains how government and markets contribute to better qualities of life and persons (Chan, 2005). This is the concern of this study. According to Habtamu project research: "*wellbeing is the state of being happy, healthy and*

satisfied. Quality referring to degree of excellence, grade, or distinguishing characteristics. Usually quality of life measures/indices include per capita income, life expectancy at birth, infant mortality rate, adult literacy rate and political and civil liberties (Habtamu, n.d, p.2)." Habtamu further explained the concept of quality of life/wellbeing in the Ethiopian context through citing Aklilu's and Desalgns study. "*It is to the availability of resources/goals/to satisfy basic needs. Well being has to do with having farm land, cattle, farm implements and a house in rural settings. It is having some job (employment) or business (some income) in the urban setting. Hence, those without land, ox/cattle, or income are poor ……. and their well being is in jeopardy (Ibid).*"

*The concept of q*uality of life interpreted in a different context. For instance quality of life in the Czech regions is understood as a total of social, economic, community and environmental factors, which enable to live a long, healthy and creative life in adequate social and economic conditions. This definition corresponds to the human development concept of the UNDP (Peter, et al. n.d).

Social indicators in the west have used in a variety of purposes, namely for policy making in governments and decision making for business. Quality of life studies from this perspective has served to identify and characterise the principal social problem that affect the quality of the population (Chan, 2005).

Table 2.2: subjective and objective social indicators

Objective social indicators	*Unemployment rate, poverty rate, working hours per week, per initial mortality rate*
Subjective social indicators	*Life satisfaction, job satisfaction, etc* *Relevance of life domain* *Perception of distributional justice* *Class identification*

Source: Chan, 2005

Quality of life is often measured using either subjective or objective indicators as it is indicated in the above table. Subjective indicators are derived from surveys of resident's perception, evaluation and satisfaction with urban living (Elsa, 2009). Subjective implies an individual opinion or feeling which is explored through asking a direct question either that individual satisfied or dissatisfied in his or her life style and it is measured by likert scale. The measurement scale is ranging from very satisfied to very dissatisfied. On the other hand, objective QOL is measured using objective indicators which are related to observable facts that are derived from secondary data or Objective social indicators are statistics which represents social facts independently of personal evaluations.

To conclude the above discussion studied by different scholars and reviewed from different sources, MSEs play a vital role in improving the standard of living of several households mostly in the developing nation. The major contributions of the sector is that it creates employment opportunity, source of income, improved food security, develop self confidence of the households, a powerful means for economic growth, provide an equitable distribution of the income, reduce the risk of investment and source of entrepreneurship/innovation etc. The policy environment in enhancing the sector has its own impact on the role and performance of the sector.
However, several constraints are encircled which hinders the growth of the sector, and the major ones are lack of capital to start the business, lack of working places, little access to credit, poor infrastructure, low management skill etc are some of them.

In general, the studies conducted by different scholars either local or international scrutinized that the small and micro enterprises have both contributions as long as the constraints. Contradictory ideas have risen in some studies. On the one hand, the inability of MSEs in improving the living standard of the poor and on the other side, there is an improvement in the life of individuals by MSE sector. For instance, Matewous (2009) in his study explored that 'the contribution of the enterprises do not make an effect in the standard of living.' Of course, problems encountered in some areas might be more sever than others and hence the result varies from place to place. On the other hand, Endalie (2007) found that the income of individuals can grow progressively and thereby their living condition can be improved. Therefore, such gaps are essential to this study to prove

the reality of the sector i.e., whether the sector has contributed for the improvement of the life of individuals or not in Gondar town. Several studies indicated that the nature of MSEs in improving individual's life or not are inconclusive and further study is needed in the sector. In addition, the study area is not well addressed by scholars and hence assessing or indicating the area can help other researchers to dig out the challenges of the sector and to provide possible remedies to the existed problems.

CHAPTER THREE

3. Research Methodology

In this part, the following methodological issues have been addressed in order to provide some background about the study. Points that have incorporated are study design, sampling technique and size determination, sources of data, data collection techniques, and method of data analysis.

3.1 Study Design

This study used survey design method that involves sampling. Survey design is more appropriate to this study which incorporates questionnaire, field observation and key informant interview in the study area. The survey study employs both qualitative and quantitative approaches to capture the wider data for the purpose of deep analysis and understanding the impact of MSEs in improving the standard of life. Survey is used for counting and classifying sets of events/ opinions and other items.

3.2 Sampling Technique and Size Determination

Micro and small scale enterprises which are found in Gondar town are categorized into three groups. These are trade associations, cooperatives and private traders. From these three categories, the cooperatives whose paid up capital is up to 500,000 birr had been selected for the purpose of this study. The reason for selecting the cooperatives is that they address the specified objectives in this research, i.e., they depend on the SMEs sector in terms of financial need, training and other facilitating requirements. In addition, SMEs branch office found in Gondar is providing much emphasis to the cooperatives as compared to the other two categories.

In the town, there are seven (grouped into six for this study purpose) major areas in which the MSE sector operates. These are food processing, urban agriculture, construction, wood and metal works, clothing, artisans and retailing activities. All these sector operators that need support from MSEs officials were taken into account in this study.

Both probability and non-probability sampling technique were applied in the selection process. Cluster sampling was more appropriate to consider all sectors which are found in different kebeles. Simple random sample was employed in order to select the sample respondents by taking their list from the sample areas. Purposive sampling was used to select the areas in which the MSEs Operators are highly concentrated. The major areas in which this study focuses were kebele 20, 18, 17 and 16 out of 20 kebeles.

In the selected kebeles, there are 76 cooperatives in the seven sectors (i.e.,ten food processing, fifteen urban agriculture, thirty-six construction, five wood and metal works, seven artisans and clothing, and three retailing and service cooperatives). Since the operators are diversified in nature (they are engaged in several sub sectors, for instance food processing consists baking injera, Baltena etc). This study has focused in the specified cooperatives purposively i.e., from construction (hallow blocks, pre cast and Koble stone), from food processing (Baking Injera), urban agriculture (plant and fruit producers and animal fattening), from retailing and service activities (retailers and carwash service providers), from artisans (leather and leather products), from wood and metal work (both workers) and from clothing (weavers). Out of the total population (1568) of the study area, 15% of the respondents were selected.

3.3 Sources of Data

In order to collect reliable data, both primary and secondary sources of data were the major focus of the researcher. To achieve the purpose of this study, the primary data were collected through questionnaire, interview and observation.

Secondary sources of data were gathered from different published and unpublished documents, books, electronic sources, magazines etc.

3.4 Data collection Techniques

To collect the quantitative and qualitative data, this study were employed the following main instruments namely questionnaire, interview and organizational document from

quantitative data collection techniques and field observation and key informant interview from qualitative data collection techniques.

3.4.1 Questionnaire

To collect relevant data from the selected samples a questionnaire which consist both open and closed ended questions had been applied. In order to get a reliable data from respondents both structured and unstructured (i.e., close ended and open ended type) questionnaires were prepared and administered to the target respondents. The questionnaire was prepared in English language; however, it was translated into the local language in order to make the questions clear, to avoid ambiguity as well as to be easily understood by the respondents. The data were collected by the researcher and other supporters who were briefly oriented on how to collect the data. Pre-test was administered in order to avoid difficulties that may arise and make some adjustments on the questionnaire.

One month time was dedicated in order to get documents as well as the distributed questionnaire despite 35 questionnaires were uncollected and the remaining 8 was not appropriately filled by the respondents and hence discarded from the study.

3.4.2 Key Informant Interview and Field Observation

The other data collection instrument was key informant interview which was essential to collect qualitative data. The information gathered through this instrument was used to triangulate information collected through other methods. The data was gathered by interviewing some government officials as well as MSE operators who have better knowledge and experience in the subject matter or in the field. In this study, the key informants were the main actors of the study area such as MSE managers, experts and the MSEs development program officer. Face-to-face interview was held about the various issues of the enterprise in order to identify the true nature of the problem. It was framed in the way that enables to collect information on the characteristic and problems encountered as well as the role they have in the developmental activities in the town.

In addition, observing their workshop (work area) was an important means of gathering information in the study area. This method was providing an exposure to the researcher to observe situations in the working areas and helps to the researcher to grasp basic information about the enterprise. The observation was focused only limited working areas such as one site from each sector.

3.5 Method of Data Analysis

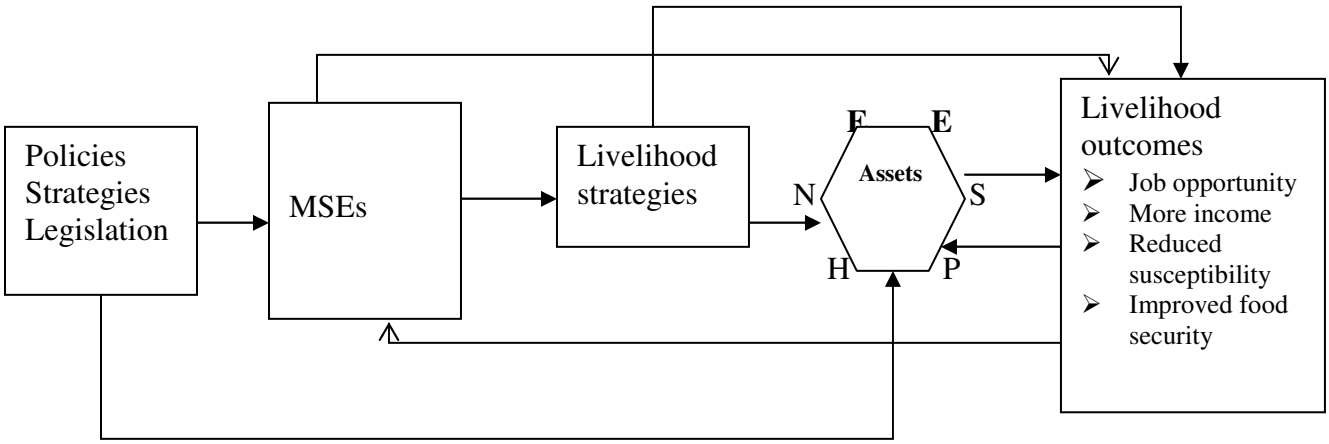
For the analysis of the data, both quantitative and qualitative methods were employed. Descriptive statistics (such as percentage, mean, frequency and cross-tabulation, one way ANOVA) were used in order to enhance and make meaningful analysis and interpretation of the research output. By using probit model, the food security of MSEs owners was also measured. This model is essential to measure the "before and after" food coverage of households.

The other most important method used to analyze the data is simultaneous equation approach. It is important to solve when dependent variables are affected each other or if there has been a problem of endogenity. As indicated in the conceptual framework on page 36, the most important dependent variables in the study are income, asset, MSE performance and food security. These variables affect each other (are endogenous). This means that independent ordinary least squares (OLS) cannot be used to estimate models where endogenous variables are included. This is because the relationship, specified by the equations, violates the OLS assumption of zero covariance (independent each other) between the disturbance term and the independent variables. A biased and inconsistent result can be produced if we use OLS and other single-equation estimates. Therefore, using simultaneous equations approach is essential. There are important methods of estimation for simultaneous equations. The major one is least square estimation method. As far as least squares approach is concerned, one may think of two- and three- stage least squares. Both methods can estimate some equations without specifying the complete system and both do not assume a specific distribution of the errors (WOOLDRIGE, 2001 cited in Bamlaku, 2010).

In most cases, the application of instrumental variables (such as 2SLS AND 3SLS) approaches have been substantially used when endogenous variables are of a similar nature (Ibid). In the case of qualitative data, which were obtained through interview and observation, a descriptive approach had been implemented.

3.6 Conceptual Framework

In this conceptual frame work, the major variables are MSEs performance, assets, income and food security. Livelihood strategies are strategies that can govern the behaviour of individuals whether they follow some interested business areas or not. Policies or rules have a direct impact on the performance of the sector and on others.



Source: Modified from Chambers R, and G.R. Conway, 1991

3.6.1 Model Specification:

As stated above the dependent variables affect each other in a cause and effect relationship, a simultaneous equation approach is employed. The model is specified as follows:

Income =f (Asset, age, sex, educational status, family size, MSEs, ε_1----------1

Asset= f (income, saving, MSEs, sex, age, educational status, ε_2) ----------2

Performance of MSEs= f (income, sex, educational status, age family size, saving, source of finance, training, rule/policy, early occupation ε_3)----------3

But food security is a binary variable and hence cannot be treated with three stages least square. It is analyzed using probit model. The model specification is:

Food security= f (income, asset, MSEs, sex, educational status, age, family size, community participation, ε_4) ----------4

3.6.2 Measurement of variables

Income:- is approached from expenditure side. This is because households are assumed to reveal their true behaviour when they are asked about their expenditure. Thinking that they will be reluctant to reveal their actual income, their expenditure on both food and essential non-food items are considered. And a monetary value is attached to each to have an aggregate indicator. In this study, it is assumed to be used to know who is more expended in the various expenditures across sectors and the more expended would mean the more income he/she has generated.

Food security:- is considered as a "yes" and "no" variable indicating whether households experience food shortages or not before and after they established their business.

Livelihood assets: - as indicated in the conceptual framework, there are six asset types one needs to consider as far as sustainable livelihood framework is concerned. These are human capital such as education, physical capital (such as building), natural capital (land), financial capital (saving), social capital (networks and membership in organizations) and entrepreneurial capital (ability to create something new to expand the business). For instance, from these livelihood assets, their financial capital (such as saving, source), their human capital such as (access to training), their natural capitals such as their working place, their social capital such as their participation and membership in various institutions have been taken into account.

Performance of MSEs:- Average net gains are considered to measure the performance of MSEs. Costs for inputs include labour, capital, equipment, energy (electricity), water usage and the like. Output is annual average profits accrued from the business. Based on the collected data, revenues minus costs provide us with net gains from the business.

Job opportunity: - owners of MSEs were asked what type of work they used to be engaged in before they commenced the business. If they were somehow jobless, it means that MSEs created an opportunity for them to get involved in productive activities.

CHAPTER FOUR

4. Data Analysis and Interpretation

This chapter deals with presentation and analysis of the data which have been obtained through questionnaire that involves demographic and socio-economic characteristics of the data collected from different sources.

4.1. Characteristics of Respondents

As main source of information, the respondent of this study were MSE operators who have been involved in various MSEs in the selected kebeles in Gondar. Their characters such as marital status, educational status with gender, age with sex, gender with sector type, and their family size (number of dependents) have been analysed.

Marital Status of Respondents

Sex and marital status of respondents are one of the indicators of demographic characteristics of the business enterprises. As presented in the cross tabulation in the Table below, among the total respondents who were supposed to provide response incorporates both male and female operators who are married, single, widowed and divorced. As it is indicated in the table, out of the total sample size, the number of married male operators comprises the highest number which is 62.4% and the number of females is 39.5%. On the other hand, the total number of male and female operators who are not married (single) accounts 36.6% and 34.9% respectively. The remaining 7% are widowed operators and 18.6% are divorced. From survey result, we can understand that the majority of the MSE operators are married. So, we can say that married households are more responsible in order to generate income for their livelihood. As a result, it has an implication in the creating of job opportunities to the responsible householders (see Table 4.1).

Table 4.1: Sex vs Martial Status of Respondents

Sex of Respondent	Count or %	marital status of the respondent				Total
		Single	married	Widowed	divorced	
Male	Count	37	63	0	1	101
	%	36.6	62.4	.0	1.0	100
Female	Count	30	34	6	16	86
	%	34.9	39.5	7	18.6	100

Source: own survey, 2011

Family Size of Respondents

The study also assesses the number of family members (dependents) with respect to gender in order to have some insight in to their responsibilities. In view of that, 32% (33) of male and 26.1% (23) of female respondents reported that they have no dependents, while 35.9% (37) of male and 45 (51.1%) of female respondents stated that they have 1-3 dependents. The next proportion of respondents consists of 26.2 % males and 24.6% females who have 4-6 dependents and the remaining 5.8 % of male respondents account individuals who have 7-10 dependents (see Table 4.2 below).

Table 4.2: Number of Dependents Across Gender

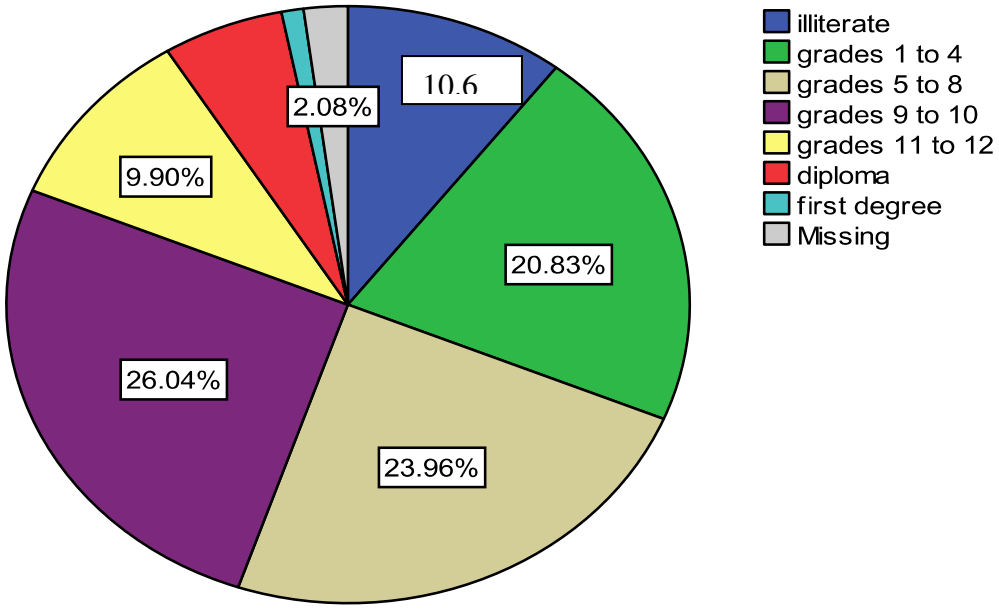
sex of the respondent	No. observation and %age with in sex	family size				Total
		No dependent	1-3 dependents	4-6 dependents	7-10 dependents	
Male	Count	33	37	27	6	103
	%	32.0	35.9	26.2	5.8	100
Female	Count	23	45	20	0	88
	%	26.1	51.1	22.7	.0	100
	% within sex	26.1	51.1	22.7	.0	100
Total	Count	56	82	47	6	191
	% within sex	29.3	42.9	24.6	3.1	100

Source: own survey, 2011

Respondents Educational Status

As stated in the literature part, one of the factors of business survivability is educational background of the operators. More educated owners seem to have a better chance for business success than younger and less educated people. There is a believe that older people bring more maturity to a situation and those with more education and experience. With regard to this issue respondents were asked whether they educated or not. When we look the educational status of operators in the figure below, 26.04% of respondents have completed at least secondary education (grade 9-10) and 23.96% of them have completed their junior secondary education (grades 5-8). Those individuals who completed grades 1-4 account 20.83%. Those respondents who have completed grades 11-12 account 9.9%. When we see their overall distribution, almost 50% of the respondents have attended grades 5-10, and very small proportion of the respondents (21%) are grade 11 and above (see figure 4.1).

Figure 4.1: Educational status of Respondents

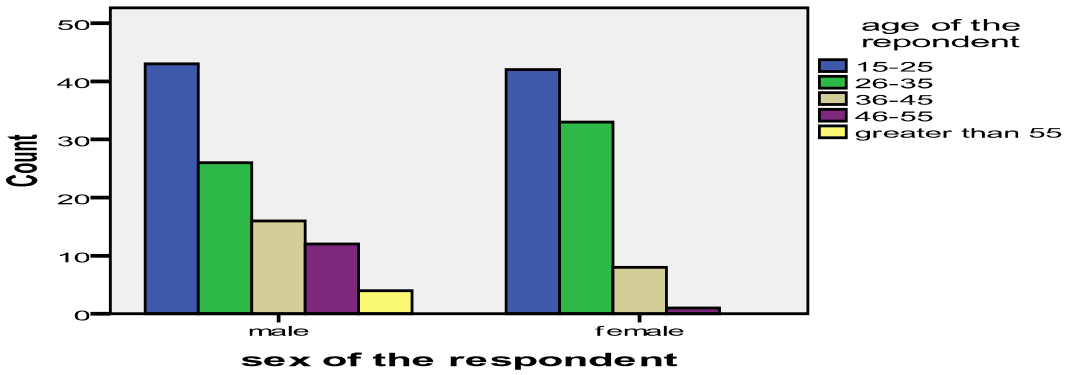


Source: own survey, 2011

Age of Respondents

With regard to age composition, the age group has been categorized into five. Those age groups who have distributed from 18-25 years of age are 50% of males and 49.4% of females. From the age group 26 to 35 consists of 44.1% males and the remaining 55.9% females, 36 to 45 years of age account 66.7% males and 33.3% females. Almost 92 % of males and 8 % of females are grouped under the age of 46 to 55 and the last group is those operators whose age category is above 55 years, which constitute 100% of male operators. When we see the aggregate number of operators in the sector, male operators have the highest proportion as compared to female operators, whose proportions are 55.6% and 45.4 % respectively. From the given analysis, we can generalize that most of the MSE operators are found in economically active working category i.e., from 18 to 55 years of age (figure 4.2).

Figure 4.2: Age vs sex of the respondents



Source: own survey, 2011

Sector Type

Division of labour might vary across sectors due to the nature of the task/work, the culture they developed as well as the motivation/interest to engage in that sector. If individuals are interested in some sort of task, they can join it and perform what they want. However, there are tasks which are not favourable to either males or females. For instance, baking Injera is culturally considered as the duty of females rather than of males. Working in areas which require physical strength, for example, metal work is

abandoned to males. As far as the engagement of respondents by sector types is concerned, the survey tries to show the operators distribution sector wise.

As can be seen from figure Table 4.3 below, the percentage of male and female varies across sectors. Male participation in the construction, urban agriculture, artisan and clothing, and wood and metal work accounts the highest proportion as compared to female, which is 54, 100, 68.8 and 100 percent respectively. Female participants have the highest proportion in the food processing (90.6%) and retail and service activities (53.3%), but nil in urban agriculture and wood and metal work businesses. This shows that those sectors which require physical strength are highly occupied by male participants and those sectors which need less physical strength are engaged by female participants.

Table 4.3: Sex of the Respondent's vs Sector Type

Sex of respondents	Count or %	sector types						Total
		Construction	Food processing	urban agriculture	retail and service activities	Artisan and clothing	wood and metal work	
Male	Count	54	3	20	7	11	8	103
	% within sector types	54.0	9.4	100	46.7	68.8	100	53.9
Female	Count	46	29	0	8	5	0	88
	% within sector types	46.0	90.6	.0	53.3	31.3	.0	46.1
Total	Count	100	32	20	15	16	8	191
	% within sector types	100	100	100	100	100	100	100

Source: own survey, 2011

4.2. The Role of MSEs in improving Income, Food security and Standard of life

4.2.1. Income

As it has been discussed in literature review part**,** total household expenditure is sometimes used as an alternative measure of households economic well being in place of income. A major advantage of using expenditure is that it is considered to be in some

ways a more reliable indicator of long run, overall household well-being than income is. Proponents argue that because expenditure represents actual consumption it gives a more accurate assessment of a household's economic status than does income, which represents potential future consumption (Anne I. 1996, cited in Kumar 1989).

Thus, Income is approached from expenditure side in this study. This is because households are assumed to reveal their true behaviour when they are asked about their expenditure. Thinking that they will be reluctant to reveal their actual income, their expenditure on both food and essential non-food items are considered. In this study, individual operators were asked to list down their expenses in order to know their income generating capacity. If households who have engaged in different sectors can expend more, then it is assumed indirectly that the income generating capacity of a household becomes increase and it results in the improvement of their life.

In this fact, , this study review as the overall average household expenditure of MSE owners found in Gondar Town in order to know their income in an indirect way. Therefore, as it is indicated below, those individuals who are engaged in artisan and clothing sector have the highest average overall expenditure which is 1875 Birr per month. The most probable reason could be due to the nature of their business type. Mostly, artisans consists the most valuable products which have the highest value in terms of their selling price. The next sector that has expended more is wood and metal work production that has an average expenditure of 1790 Birr per month. On the other hand, the least average expenditure is expended retail and service providers (which is 1381 Birr per month). The reason could be their business type, which implies that their products/services are not that much valued in their selling price (products are cheap).
To finalize, the more they have expended would mean the more income they have and hence artisan and clothing producers have more income generating capacity followed by wood and metal workers. Therefore, from this expenditure side, it is possible to say that the role of micro and small in increasing the income of households is better in the artisan and clothing sector, while lower in retail and service activities. At least 46% of citizens who were unemployed 29(15.9%), students 48(30.2%) have been benefited from the sector (see Table 4.13). From this one could concluded that many jobless and dependent

citizens can generate income and expended this much amount of money. It is the result of role of MSEs.

Table 4.4: Overall Average expenditure of MSE owners

Sectors	Food	Education	Clothing	Transport	Health	Rent	Leisure	Other exp.	Total
Construction	*672*	*228*	*93*	*178*	*128*	*179*	*85*	*127*	*1690*
Food processing	*596*	*245*	*73*	*93*	*161*	*141*	*90*	*99*	*1498*
Urban agri.	*872*	*180*	*90*	*133*	-	*280*	-	-	*1555*
Retail and service	*490*	*106*	*81*	*140*	*135*	*241*	*116*	*72*	*1381*
Wood and metal	*487*	*309*	*86*	*168*	*146*	*351*	*98*	*141*	*1790*
Artisan and clothing	*660*	*200*	*67*	*132*	*466*	*285*	-	*63*	*1875*

Source: own survey, 20

Differences/ similarities of expenditures across sector type

Differences or similarities of MSE expenditure across sector type is analysed by using one way ANOVA method and are as follows.

Tables 4.5 to 4.11 show that the different types of expenditures of individuals who are engaged in various sectors.

Table 4.5: Average Food Expenditures of the Respondent's in all Sectors

Expenditure Type	Sector Type	N	Mean	Std. Deviation	Minimum	Maximum	df	F	sig
food expenditure	Construction	100	672.8200	323.275	200.00	1800.00	5	5.093	.000
	Food processing	31	596.7742	155.956	100.00	1000.00			
	urban agriculture	20	872.5000	100.623	700.00	1000.00			
	retail and service	15	490.0000	151.421	250.00	800.00			
	Artisan and clothing	15	660.0000	209.761	200.00	1000.00			
	wood and metal work	8	487.5000	127.475	400.00	750.00			
	Total	189	658.1058	273.212	100.00	1800.00			

Source: own survey, 2011

Variation in the trend of expenditures in the households of the respondents can be used to indicate the increase or decrease of the capacity of the households to pay for different items. For this reason, those who expended more in one item may decrease in another due to the resource limitation or an opportunity cost. The result on Table 4.5 indicated that the mean monthly expenditure of households in all the MSE sectors. As it is clearly shown in the table, MSE operators who are engaged in the sector of urban agriculture have an average expense of 872 Birr, followed by the construction sector (672 Birr). Other MSE types such as artisans and clothing, food processing, retail and service providers, and wood and metal workers spent 660, 596, 490 and 487 Birr, respectively. This shows that households who are engaged in urban agriculture have the highest expenditure in terms of food and it has an implication on the buying capacity of the households. As is indicated in Table 4.5 above, the level of significance of their food expenditure between sectors is also proven by the one way analysis of variance (ANOVA). Hence, there is a statistically significant difference between the MSEs with regard to their mean food expenditure (P = 0.000).

Table 4.6: Average educational expenditures of the respondents in all sectors

Expenditure Type	Sector Type	N	Mean	Std. Deviation	Minimum	Maximum	df	F	Sig
Education expenditure	Construction	65	228.0000	170.975	20.00	800.00	5	1.011	.415
	Food processing	20	245.0000	159.158	100.00	700.00			
	urban agriculture	15	180.0000	41.403	100.00	250.00			
	retail and service	3	106.6667	60.277	50.00	170.00			
	Artisan and clothing	5	200.0000	227.293	55.00	600.00			
	wood and metal work	7	309.2857	221.743	5.00	700.00			
	Total	115	225.2609	162.732	5.00	800.00			

Source: own survey, 2011

In the case of educational expenditure, wood and metal workers accounts the highest proportion (309.2 Birr) and the next is food processors (228 Birr) followed by the

construction sector. Almost the average monthly expenditure of most of the sectors is less in the educational sector as it can be seen in Table 4.6. From this table one could see that wood and metal workers are better than other sectors in their educational expense because it seems that they have exerted their a little effort in order to improve their skill through learning. Hence, there is no statistically significant difference between the MSEs with regard to their mean educational expenditure (P = 0.415). In other words, it is statistically proven that there is similarity between MSEs in their educational expenditure.

Table4. 7: Average clothing expenditures of the respondents in all sectors

Expenditure Type	Sector Type	N	Mean	Std. Deviation	Minimum	Maximum	Df	F	Sig
Clothing expenditure	Construction	92	1119.891	1017.643	100.00	8000.00	5	.663	.652
	Food processing	27	881.481	425.2031	100.00	2000.00			
	urban agriculture	18	1091.666	383.194	700.00	2000.00			
	retail and service	15	976.666	816.102	200.00	3000.00			
	Artisan and clothing	16	806.2500	335.596	300.00	1500.00			
	wood and metal work	8	1031.25	613.501	50.00	2000.00			
	Total	176	1035.68	818.815	50.00	8000.00			

Source: own survey, 2011

Note: clothing expenditure is calculated in yearly bases

As far as the average clothing expenditure of the respondents is concerned, the construction sector takes the highest proportion (1119.8 Birr per year) followed by urban agriculture (1091.6 Birr), and wood and metal workers rank third in terms of this expenditure (1031 Birr per year). Similarly, retail and service activities expend 976.6 Birr, food processing also expend 881.4 Birr per year and finally artisan and clothing expended 806.2 Birr on the average per year. From this analysis, one could see that the yearly average clothing expenditure of MSEs operators have not shown such a higher difference. The one way ANOVA also shows that there is no statistically significant

difference between MSEs with regard to their average clothing expenditure (p-value 0 .652) (Table4.7).

Table 4.8: Average transport expenditure of respondents

Expenditure Type	Sector Type	N	Mean	Std. Deviation	Minimum	Maximum	df	f	sig
Transport expenditure	Construction	80	178.250	125.039	10.00	600.00	5	3.008	0.013
	Food processing	27	93.333	53.923	50.00	300.00			
	urban agriculture	17	133.529	62.444	40.00	250.00			
	retail and service	10	140.000	100.443	20.00	300.00			
	Artisan and clothing	8	132.500	42.342	70.00	200.00			
	wood and metal work	8	168.000	91.794	50.00	300.00			
	Total	150	152.360	106.684	10.00	600.00			

Source: own survey, 2011

Table 4.8 depicts the average transport expenditure of respondents. In this regard, the construction sector has the highest average expenditure followed by wood and metal work, which expend 178.2 and 168 Birr per month respectively. On the other hand, the lowest average transport expenditure has expended in those householders who have been engaged in the food processing sector, which is 93.3 Birr per month, and the next from the last are artisans and clothing producers, which embraces an average of 132.5 Birr. The result of the survey shows that their average transport expenditure in each sub-sector has almost closer average expenditure as one could see from Table 4.8. However, on the basis of one way ANOVA analysis, their difference between sectors in their average transport expenditure is statistically significance (p-value=.013).

Table 4.9: Average health expenditure of respondents

Expenditure Type	Sector Type	N	Mean	Std. Deviation	Minimum	Maximum	df	F	Sig
Health expenditure	Construction	50	128.700	100.690	10.00	350.00	5	4.322	.002
	Food processing	18	161.111	102.262	50.00	400.00			
	retail and service	6	135.00	76.354	40.00	200.00			
	Artisan and clothing	3	466.66	461.880	200.00	1000.00			
	wood and metal work	5	146.00	132.589	50.00	380.00			
	Total	83	148.49	136.938	10.00	1000.00			

Source: own survey, 2011

The result on Table 4.9 shows that the highest average health expenditure among sectors are registered by the artisans and clothing producers, which amounts an average of 466.6 Birr followed by food processors (161 Birr) per month. Wood and metal workers, retail and service providers, the construction and urban agriculture sectors rank third, fourth, fifth and six respectively (Table. 4.9). Any one could observe that there is some difference between MSEs in their health expenditure. Similarly, the level of significance of their health expenditure between sectors is also proved by the one way analysis of variance (ANOVA). Hence, their difference between them with regard to their mean health expenditure is significant (P = 0.002).

Table 4.10: Average rental expenditure of respondents

Expenditure Type	**Sector Type**	**N**	**Mean**	**Std. Deviation**	**Minimum**	**Maximum**	**df**	**f**	**Sig**
Rental expenditure(such as machine etc)	Construction	74	179.10	125.021	4.00	800.00	5	6.612	.000
	Food processing	26	141.15	46.761	10.00	200.00			
	urban agriculture	13	280.76	25.318	250.00	300.00			
	retail and service	8	241.87	135.328	35.00	500.00			
	Artisan and clothing	14	285.71	100.820	150.00	600.00			
	wood and metal work	7	351.42	294.416	150.00	1000.00			
	Total	142	204.00	132.248	4.00	1000.00			

Source: own survey, 2011

The survey result in table 4.10 shows the average rental expenditure of respondents such as machine and other equipment rents, which are related to their task. Accordingly, the wood and metal workers have the lions share in the average expenditure of their rent, 351.4 Birr, followed by artisans, 285.7 Birr per month. The third and fourth average rental expenditure has been taken by urban agriculturists and the construction workers, which amounts 280 and 179 Birr expended per month. The last among MSEs in their average rental expenditure is expended by food processors 141 Birr per month. This indicates that wood and metal workers take the highest share in the rental expenditure and the researcher has proved that there are machines which are highly expensive and could not be covered by their buying capacity. On the other hand, there are MSEs operators who did not have such expensive machines. Therefore, those operators who perform their task in such machines are forced to pay their rent or in the form of installation payment and others did not. The one way ANOVA result also shows that there is a significant difference among MSEs in their average rent expenditure (p-value= .000).

Table 4.11: Average leisure expenditure of respondents

Expenditure Type	Sectors	N	Mean	Std. Deviation	Minimum	Maximum	df	F	Sig
leisure expenditure	Construction	53	85.09	95.708	10.00	500.00		.	
	Food processing	15	90.66	50.209	50.00	200.00			
	retail and service	8	116.25	121.177	30.00	400.00			
	wood and metal work	6	98.33	56.715	50.00	200.00			
	Total	83	89.75	88.248	10.00	500.00	4	.251	.908

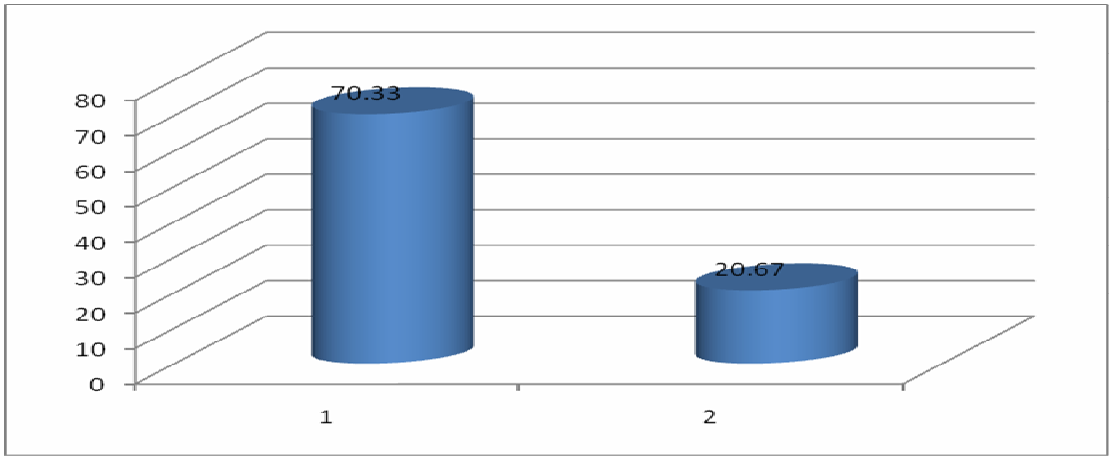
Source: own survey, 2011

With regard to average leisure expenditure, respondents were probing to indicate their leisure expense per month. In this case, retail and service providers expended the highest of all, which is an average of 116.25 Birr, and the next from the first are wood and metal workers 98 Birr per month. Food processing and the construction sector take the third and fourth place and their average monthly expense is 90.6 and 85 Birr in that order. One could see that there is no as such higher difference in their leisure average expenditure. It is also statistically proved that there is no significant difference among MSEs in their average leisure expenditure (p=0.908) (see Table 4.11).

4.2.2. Food Security

As it was discussed in the review literature, one of the major contributions of MSEs is increasing the income generating capacity of individual households or covering their food expenses. As clearly stated in Figure 4.3, a great number of respondents asserted that their food shortage was higher as compared to their status after they joined the MSE sector. In this respect, the highest proportion of respondents (79.3 %) replied that their food expense was not covered by their income before starting/joining MSEs, and only small proportion of the respondents (20.67%) stated that their food expenses were covered by their incomes before joining the enterprises.

Figure 4.3: Percentage of Income before Starting MSEs Operation and its Capacity to Cover their Food Expenses



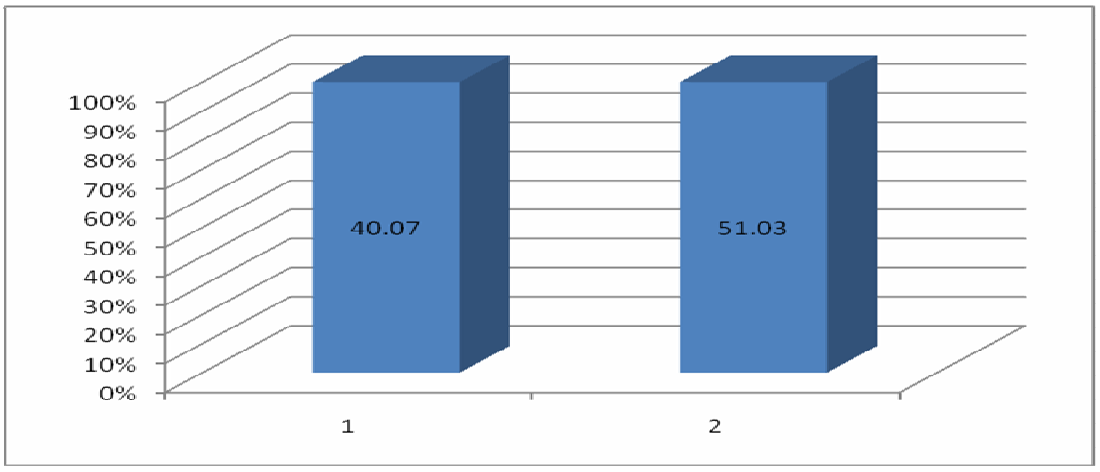
Source: own survey, 2011

Legend:

1= yes, 2= no

Similarly, after joining the MSEs sectors the same question was forwarded. In this case, almost a closer result has been observed, i.e. 51.93% replied that their food expense has been still uncovered, and 48.07% of the respondents reported that they have covered their food after they joined the MSE sector. As a result, it is possible to say that the rapid decline in the number of individuals who have been experiencing food shortage after joining the MSE sector. This is the result of increasing in their income and the creation of job opportunities to them. Therefore, in a relative sense, it is understood that the living standards of the households have improved after they joined MSEs (see figure 4.4).

Figure 4.4: Percentage of Income after starting MSEs operation and its Capacity to cover their food Expenses



Source: own survey, 2011
Legend: 1= yes, 2= no

The following result also shows the percentage of increment and decrement of operators' income in their food coverage before and after starting their business. If one disaggregates the data across MSEs, one can observe a mixed result. Results indicate that many MSEs managed to cover their food expenses after they began their business, but households which are engaged in urban agriculture showed a negative trend.

Table 4.12: Changes Respondent's Income Food Coverage Before and After Starting the Business

MSE	Before starting		After starting		Increase/Decrease (in % age)
	Yes	% age	Yes	% age	
	Count		Count		
Construction	20	21.1	56	59.6	38.5
Food processing	0	0	2	6.7	+6.7
Urban agriculture	12	60	6	30	30 (-ve)
Retail and service	2	16.7	9	69.2	+52.5
Artisan and clothing	2	14.5	9	56.3	+42
Wood and metal work	1	12.5	5	62.5	+50
Total	37)	20.7	87	48.1	+27.4

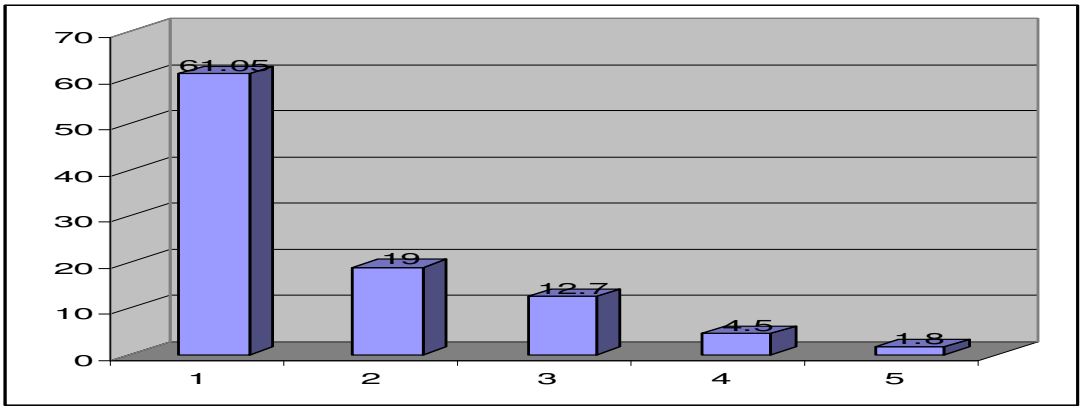
Source: own survey, 2011

As reported in Table 4.12, the highest increment is observed in retail and services by a total of 52.5 percentage points followed by wood and metal work 50 percentage points. The increment observed in the retail and service activities might be due to the current price increment of retail activities. The same is true for service activities in the fact that when price of other commodities increases, the service providers also increases their price setting (in this case, cash washers (see Table 4.12 above).

Figure 4.5 below shows that how MSEs operators solve their food expense before starting the current business. The highest proportion of the respondents, which constitute 61.5% of the total replied that their expenses were covered through cutting down the number of meals, and 19% the respondents reported that borrowing from relatives/friends. The next proportion (which is 12.7%) responded that their mechanism to cover their food expenses was through loan from money lenders. The remaining respondents reported that they got food aid (4.5%), and sold their properties (1.8%) (See Figure 4.5).

How MSE Operators Covered their Food Expenses (before Joining MSE)

Figure 4.5: how they cover their food expenses before joining MSEs



Source: own survey, 2011

Legend:

1= cutting down the number of meals
2= borrowing from relatives 3= Loan from money lenders
4= looking food aid
5= selling their properties

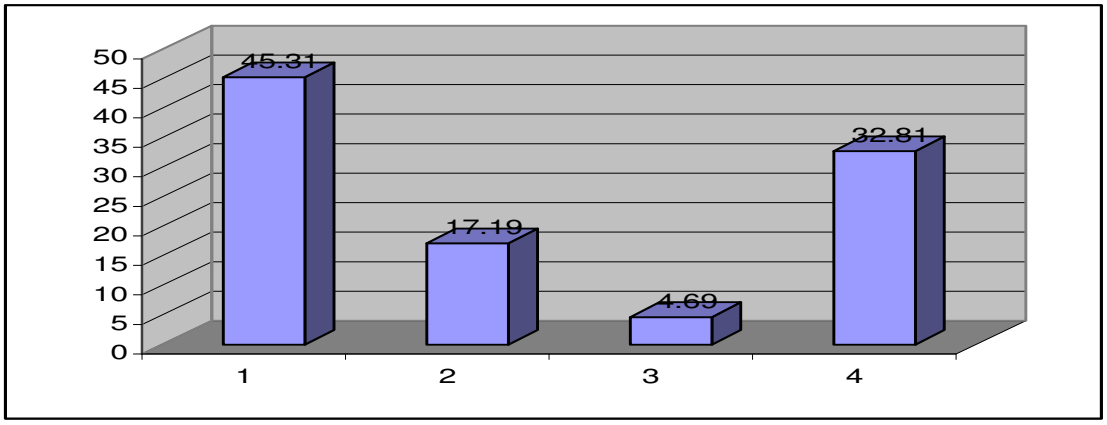
This survey result shows the majority of the respondents have agreed on cutting down the number of meals. This means if someone wants to eat variety of foods, he/she tries to choose only few or only one food item. In general, their choice indicates that in times of

food shortage their possible solution to cover their food expense before joining the enterprises was by reducing the number of meals from each meal category.

4.2.3. Improve Standard of Life

MSE operators were asked whether their life shows improvement after joining the MSE sector or not. As it is revealed in figure 4.6 below, a large proportion of individual respondents (45.31%) reported that their life shows a little improvement, while 32.81% of the respondents stated that their life after joining the sector does not show change at all. 17.19 And 4.69% of the respondents in that order replied that there is some improvement and high improvement. As it is indicated in Figure 4.5, the majority of the respondents' income before joining the sector was not able to cover their food expenses. However, after they joined the MSE sector their income shows an improvement which enables most to cover their food expense. Their income increment also enables them to improved life as well.

Figure 4.6: Percentage of Respondents life improvement after join MSEs



Source: own survey, 2011

Legend: 1=little improvement, 2=some improvement, 3=high improvement, 4=No change at all

4.3. Role of MSEs in Employment Generation

According to Liedholm and Mead (1999), earlier working experience has a good contribution in the creation and formation of small enterprises. A related work experience

provides a person a required skilled in order to start a new business in an efficient manner.

Table 4.13: Respondents view towards MSE job creation capacity vs earlier occupation

	your earlier occupation before you establish this business					Total
Do you think that SMEs are created job opportunities to you	Unemployed	student	Daily labourer	private similar business employee	Military	
Yes	29	48	55	16	23	171
No	0	7	3	1	0	11
Total	29	55	58	17	23	182
Percent	15.9	30.2	31.9	9.3	12.6	100

Source: own survey, 2011

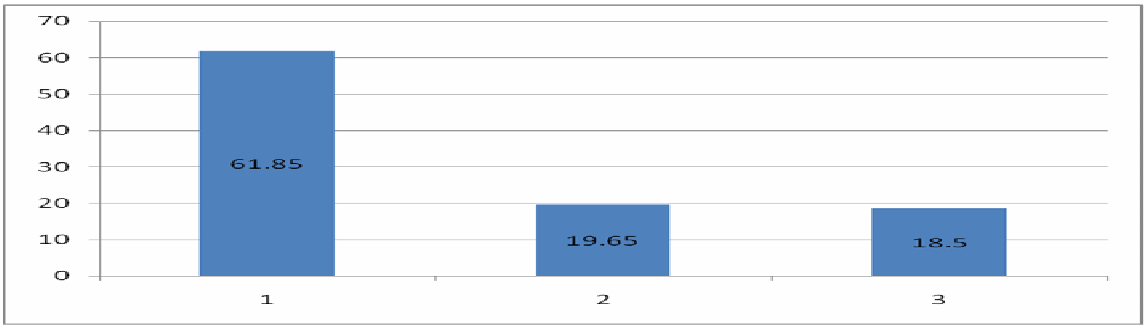
One of the basic targets of MSEs sectors are to create employment opportunities to several citizens and through time achieving the millennium development goals of the country by transferring from micro to small enterprises and further going to medium level enterprises and finally reaching to the larger industries. In this regard, respondents were asked whether they have earlier work experience or not as well as their view towards MSEs job creation capacity. As the survey analysis demonstrates in Table 4.13, a very large proportion of MSEs operators responded that the MSEs sectors have been creating job opportunities to several citizens. Operators who were unemployed before joining the MSE sector reported all that they have got job opportunities (29 said 'yes' and 0 said 'no'), and 48 (87.27%) of the operators who were students in their earlier occupation replied that the MSE has created job opportunities while only 12.73% of them reported that it did not create job opportunities to them. The number of daily labourers before joining the sector was 58 of this, 94.8% of replied that the sector has created job opportunities to them, while only 3 or 5.17% said it did not. This shows that majority of MSE operators did not have a granted earlier occupation. Hence, the sector has created job opportunities to most of them (see the above Table). In the field survey, key informant interviewees of MSE operators assured this fact and it is summarized in the following way (it is direct translation).

*"I was a jobless person before joining this sector and chewing chat and drinking local alcohol (such as 'Tela and Areki') was my day to day task." The other individual asserted that the above idea and continued his statement. "The benefit that I have got from this business is not as such beneficial, my stress becomes reduced after I have joined this sector, I am coming in the morning and return back in the evening so that this is enough for me)."(*These individuals were depending on their families and their means of income to drink traditional alcohols were by cheating their families or other neighbours).

Respondents Reasons/Motivating Factors to Join MSE

As it was discussed in the literature part, people start businesses for all kinds of reasons, but it takes a lot of zeal and determination to succeed. Someone who starts a business for the money won't try as hard and will tend to give up more quickly than someone who is zealous about the business. This is particularly true in service businesses, where you have to really want to help people as well as make a profit (Jean M, 2008). A livelihood strategy in this study context also assumes that MSE operators may follow their motive/interest in order to do their business. As it is revealed in Figure 4.7, a great number of respondents (61.85%) of 107 respondents) said that their major reason to join the MSEs sector was to get jobs, followed by 19.65% or 34 respondents who reported that their major reason for joining micro and small enterprises was to expand their business. The remaining (18.5% or 32) respondents replied that their major reason to join this sector was to start new business.

Figure 4.7: Percentage of Respondents Motivating Factor to Join MSES



Source: own survey, 2011
Legend:

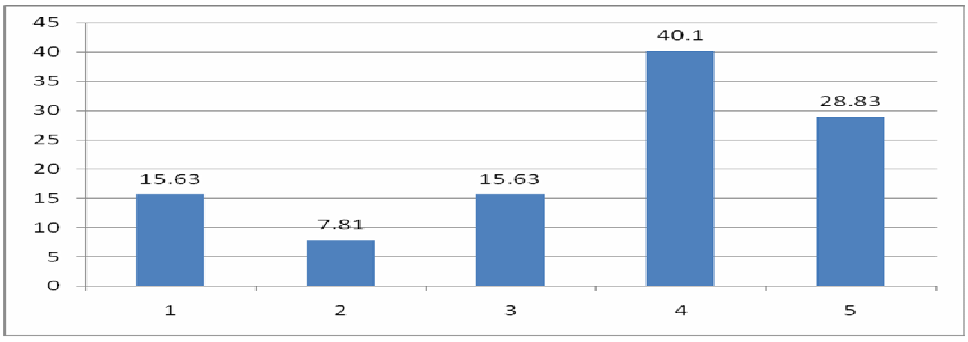
1=to get job 2=to expand their business 3=to start new busines

Respondents Satisfaction Level in their Job

In chapter two, we have seen that satisfaction has a great impact towards any human being. Individuals quality of life is measured either in subjective or objective indicators. Subjective indicators are derived from surveys of respondents' perception, evaluation and satisfaction with their living situation. Subjective implies an individual opinion or feeling which is explored through asking a direct question whether that individual is satisfied or dissatisfied in his or her life style and it is measured by Likert scale. The measurement scale is ranging from very satisfied to very unsatisfied. If individual operators are satisfied in their business/task, a significant outcome might be expected and if not, the opposite is true.

In order to assess such a feeling towards MSE operators, respondents were enquired about their motivation level. As it is clearly observed in Figure 4.8, a great proportion of individual respondents (40.1%) stated that their satisfaction level is somewhat high, 20.83% of the respondents responded that their satisfaction level is only slightly. A similar proportion (i.e., 15.63%) of the respondents replied that their satisfaction level is high. The remaining 7.8% agreed that their satisfaction level is very high. When we observe the aggregate satisfaction of individuals, almost 76.53% (the sum of 40.1%, 20.8%, 15.63%) of the households have ranged from somewhat satisfied, highly satisfied, and very highly satisfied in their business or task and it has a positive impact in their overall outcome.

Figure 4.8: Percentage of Level of Satisfaction in their current job



Source: own survey, 2011

Legend: 1=high satisfaction 2=very high satisfaction 3= high satisfaction,
4= some what satisfy 5= only slightly

4.4. Role of MSEs in the Development of Livelihood Assets

One of the goals of establishing MSEs is to develop and make accessible the livelihood assets (such as physical, natural, social, financial and human capitals) which contribute to the performance of MSEs owners. For instance, access of MSE owners to training (which is human capital) is one of the contributions of MSEs. Access to training could be existed after MSE owners have joined the sector.

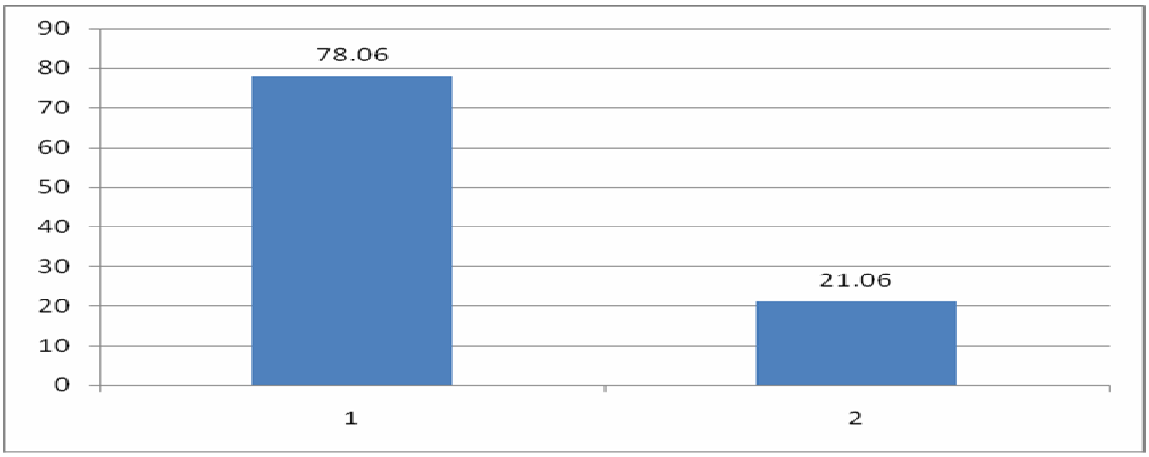
4.4.1. Human Capital

A. Training

The other type of sustainable livelihood approach is the human capital that includes education, skill and knowledge, training etc (http://www.ifad.org/sla/index.htm). One of the major purposes of establishing MSEs sectors by the regional states and the federal government is to provide the basic administrative and skill development tasks towards the MSEs owners. As it was discussed in literature part, training has provided at micro, meso and macro level BDS instruments. In the case of micro level, it can be provided directly to the MSE operators which are delivered by BDS providers such as training, consultancy and counselling; developing commercial entities (involves the development of brokers who buy inputs or sell outputs on behalf of MSE operators); technology development and transfer (deliver useful technologies to a large number of end users, the MSE operators); information (an important instrument that support MSEs in order to respond to the demands of the market through trade fairs and exhibitions, distribution printed information) and business linkages (focused on sub-contracting, franchising and business clusters) (Wolday, 2002). With regard to it, the MSEs office found in Gondar seems to achieve one of its targets, i.e., in providing training in order to develop the skill of MSEs operators. As it is revealed in Figure 4.9, almost 79% of the respondents replied that they were taking trainings prepared by the MSEs office while only 21.05% of the respondents did not take any training. MSE operators who were targeted in the key informant interview believed that they have got training in the following areas: how to run their business and how to save their money as well as how to administer their business. Some others said that they have taken some kind of orientation; however, it has collapsed after

some time. The MSEs officials who were administered in the interview assured the above fact, i.e., they have given BDS training, training on how to run their business, training on how to save their money and training on how to manage their business.

Figure 4.9: Percentage of Respondents who take Training or not



Source: own survey, 2011
Legend: 1= yes, 2= no

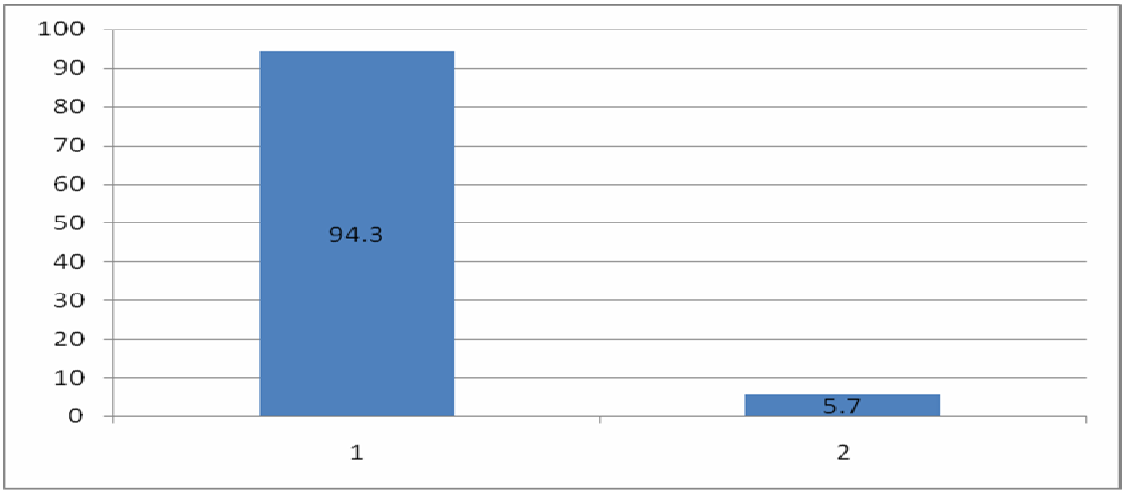
4.4.2 Physical and Natural Assets

A. own house

We have seen that physical and natural capital are among the six sustainable livelihood approaches that consist building, shelter, land etc. Any human being has unlimited wants but there are only limited resources which are not easily accessible to every person. The three most important basic needs of human being which are not tolerated are food, house and clothing. It is known that without food no one can survive, and next to it clothing is essential for a healthier person. In one way or another all are basic needs of any human being. With regard to their own houses, respondents were asked whether they have own houses or not. As can be seen from the figure below, 94.3% of respondents do not own houses and 0nly 5.7% of them have own houses. This shows that a large majority of MSE operators are exposed to rent from private owners or others and this increases vulnerability of MSE owners (Figure 4.10 below). Therefore, the contribution of MSE with regard to own house fulfilment is unsatisfactory in the fact that MSEs are found in

an infant stage and of course the problem of many other citizens who are engaged in other sectors.

Figure 4.10: Percentage of Respondents who have own houses

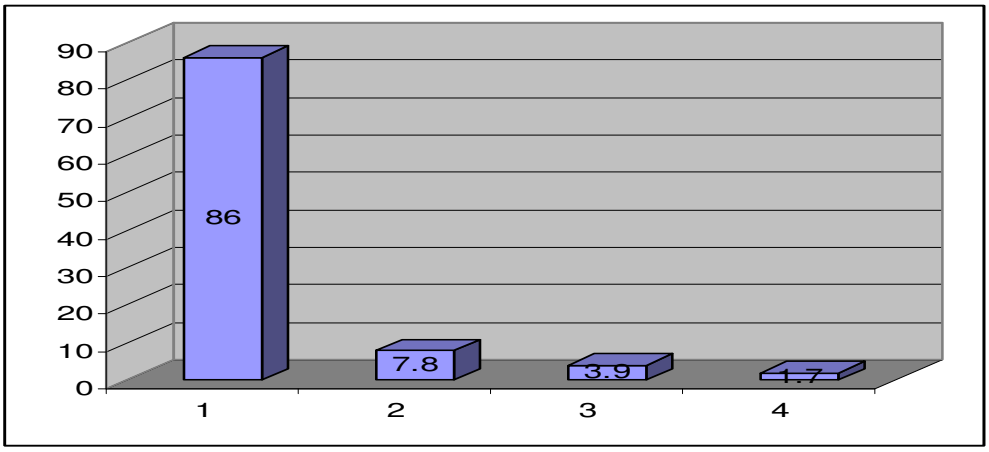


Source: own survey, 2011
Legend: 1= yes, 2= no

Where MSE owners Live?

As stated in Figure 4.10, a very great number of MSE operators do not have their own houses. With respect to this issue, as indicated in Figure 4.11, households were asked where they live. And it was found out that the majority of the respondents live in private rented houses (86%), those who lived with family's accounts 7.8%. The remaining 3.9% in kebele and the least 1.7% lived in inherited houses. This shows that the majority of the respondents are not owners of houses. And it has an implication on the living standard of their lives and this has an impact on their monthly income, which might be reduced for payment to their house rent.

Figure 4.11: Percentage of Respondents who Lived in Rented Private Houses, Inherited, and with family houses



Source: field survey, 2011

Legend: 1=private rented houses **3=in kebelle houses**

2=with families **4= in inherited house**

Land (Working places)

Efforts are made in order to assess whether individual operators should have fulfilled their natural capital which in other words means whether they have enough working place or not. In this case, Table 4.14 indicated that majority of the respondents (68.3%) reported 'no', which implies that their working place is not enough to carry out their activity and the remaining 31.7% replied 'yes', which means that their working place is enough to undertake their task/business. Respondents assume that even though they have enough working places, they did not feel that the place is their own in the fact that they have performed in an organized/grouped form. The working premises have been given by the government for a specified period, and that is why they feel that the working premises are not for themselves. As it was observed by the researcher, their working place was more than enough but they feel in that way.

Table 4.14: Respondents Working Place and their Reasons not to have Enough Working Places

Do you have enough working place?	Frequency	%age
Yes	60	31.7
No	129	68.3
Total	189	100.0
Reasons not to have enough working place		
Space problem in the town	26	24.3
Bureaucratic problem	40	37.4
I do not know the reason	41	38.3
Total	107	100

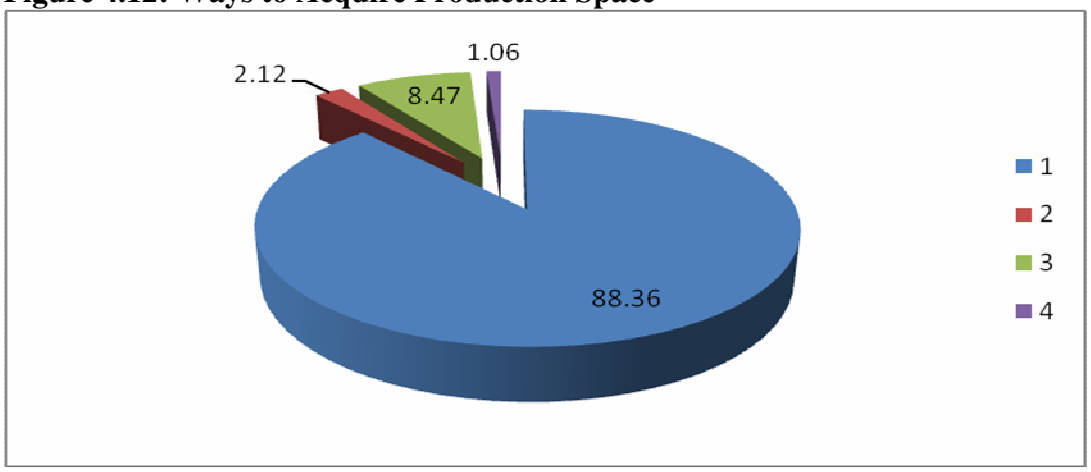
Source: own survey, 2011

Respondents have their own justifications/reasons for saying that their working premises are not enough. In this regard, a good proportion of respondents (37.4%) justified their reasons as bureaucratic problems and others (24.3%) stated that their reasons are related to space problem. While the majority of the respondents indicated that they did not know their reasons of not having working premises (see Table 4.14).

Ways to Acquire their Working Places

Land (Working premises) is one of the basic natural capital and essential resources to every human being in the urban as well as rural community. Agricultural products are the result of land; similarly, small and big industries are built on the basis of land. In this case, a couple of questions were forwarded to MSE operators how they have acquired their production space. A great number of the operators (88.36%) responded that their working place is provided by the government followed by operators who inherited land from their families (parents) that account 8.47 percent. The remaining 2.1% and 1% respectively responded that they have acquired through lease and owned it. This survey result demonstrated that the highest number of respondents has acquired working places from the government and this indicates that the government has given due attention to the MSEs operators particularly to those who are operating in the form of group base due to an assumption taken for their contribution in the overall development of the country (see Figure 4.12 below).

Figure 4.12: Ways to Acquire Production Space



Source: field survey, 2011

Legend: 1=provided by government, 2 and 4=through lease and owned, 3= inherited land

4.4.3. Social Capital (Network of MSE owners)

In chapter two we have also seen that sustainable livelihood approach take people at the centre and it can incorporate networks of social support. This net work is part of an asset (social capital) of people and it shows how households interact with other members of the society. In this case, participation and membership status (social capitals) in the local institutions have been analysed in order to see how far the MSEs operators have networks with other stakeholders for a common interest. Table 4.15 shows the level of participation/membership and community services.

Table4.15: Respondents who Involved/Participated in Political, Humanitarian and Community Services

	Political affairs		Member ship in humanitarian		Membership in community participation	
Respondents	Frequency	%	Freq	%	Freq	%
Yes	62	32.3	26	13.5	102	53.1
No	123	64.1	159	82.8	82	42.7
Total	185	96.4	185	96.4	184	95.8

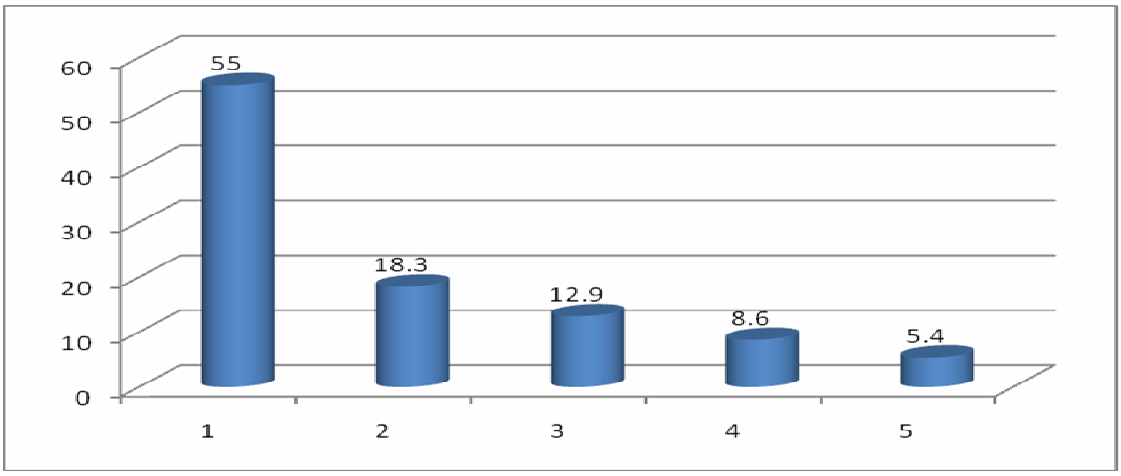
Source: own survey, 2011

The result of the above Table depicts that the number of respondents of all sectors are involved in the political affairs of the state as well as participate in the humanitarian and

community affairs. With regard to their political participation, the majority of the respondents responded that their political participation level is very low (said 'no') which accounts 64.1 percent or 124 respondents, and the remaining 32.3 percent or 62 respondents said "yes" which means they are involved in the political affairs of the country. This indicates that most of the respondents are reluctant in participating in the political affair of the country. Similarly, their participation levels in the humanitarian as well as community affairs, most respondents (82.8%) replied that they have been involved in the humanitarian affairs and only 13.5 percent stated that they have not been a member of it. On the other side, those respondents who participate in the community affairs account only 42.7 percent and those who did not participate in the community affairs constitute 53.1 percent (Table 4.15).

Respondents were also asked to show the level of their community participation. As it is demonstrated in Figure 4.13 the majority of respondents who have participated in the community affairs rests on the middle level (55%), which is in between the highest and the lowest range, whereas 18.3% of the respondents have been participated in a high level, while 12.9% of their participation is very high. On the other hand, the remaining 8.6% and 5.4% have participated in a low and very low manner in that order. When we see the social capital of MSE owners, the highest membership or participation has been observed in the humanitarian affairs followed by community participation. Their membership in both cases might be improved their communication in the society and it adds value and create goodwill to their product/services. This is a good opportunity to attract their potential customers.

Figure 4.13: Percentage of Respondents Community Participation Level



Source: own survey, 2011

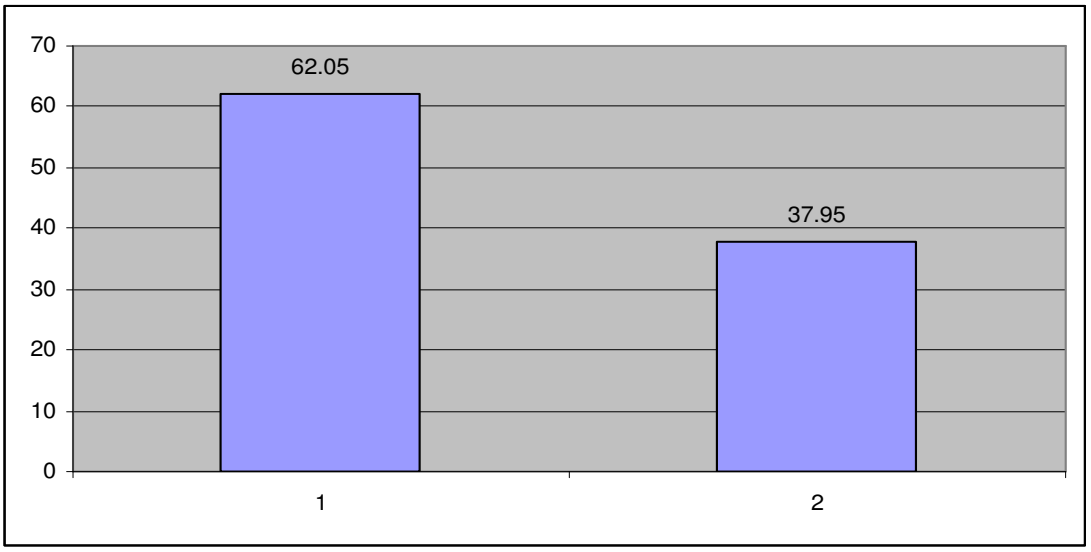
Legend: 1=Middle, 2=high, 3=very high, 4=low. 5= very low

4.4.4. Financial Asset

I. Saving

As it was stated in the sustainable livelihood approach, livelihood assets incorporate financial capitals (such as saving). Saving is a basic instrument in the improvement of households' life or in the poverty alleviation effort as it helps to smooth consumption. It is also usually the entry point for a potential user in interacting with financial service providers. However, the saving habit of the MSEs owners in the study area seems very low as it is indicated in Figure 4.14 below (because the majority of the respondents replied 'no'). Questions were also included to ask whether respondents had a saving habit or not. Accordingly, 68.2% of females and 55.9% of males did not have any saving habit in the formal institution in a cash basis. However, 44.1% of males and 31.8% of females reported that they have saved some amount of money. From this figure one could see that the majority of respondents do not a saving habit (in both sexes). This might be due to the inflation created throughout the country as well as the distribution of their income for various expenditures. Hence, due to low saving habit of MSE owners, the vital role of financial capital seems inadequate.

Figure 4.14: Percentage of respondents who saved or not saved Money

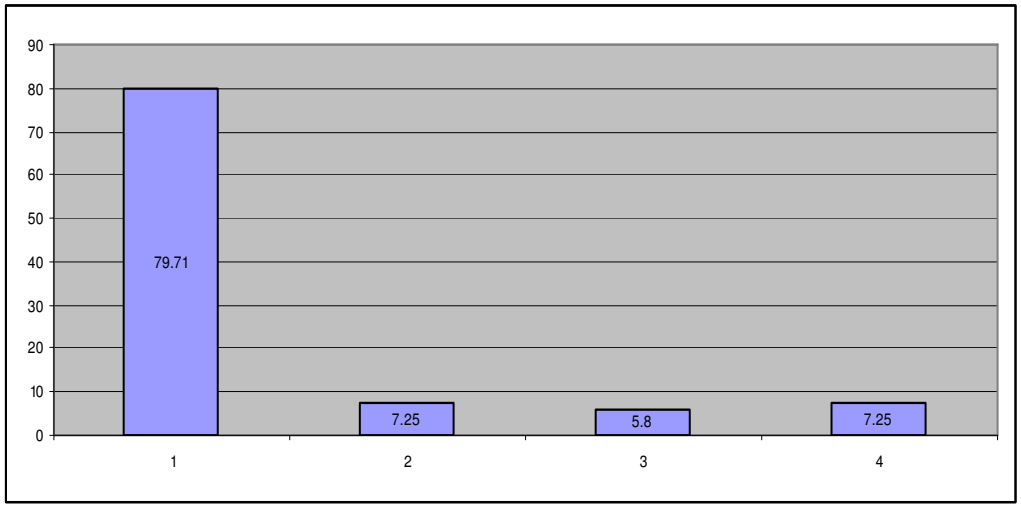


Source: own survey, 2011

Legend **1=yes,** **2=** **no**

On the other hand, 38% of respondents stated that they save some amount of money whether the amount of saving is high or low as it is shown in Figure 4.14 above. These respondents were asked the amount of money that they save in the formal institutions such as banks. Figure 4.15 indicates that 79.71 percent of the respondents reported that they have saved from 5 Birr to 200 Birr, while the amount of saved money from 201-400 and 601-1000 Birr accounts 7.25 percent, and the remaining 5.8 percent ranges from 401-600 Birr. From this figure anyone could understand that the saving habit of most of the respondents is poor and it has its own negative impact in the MSE owner's business development.

Figure 4.15: Amount of saved Money by Respondents



Source own survey, 2011

Legend: 1=from 5 to 200 birr, 2 and 4= 201 to 400 birr, 3= 401 to 600 birr

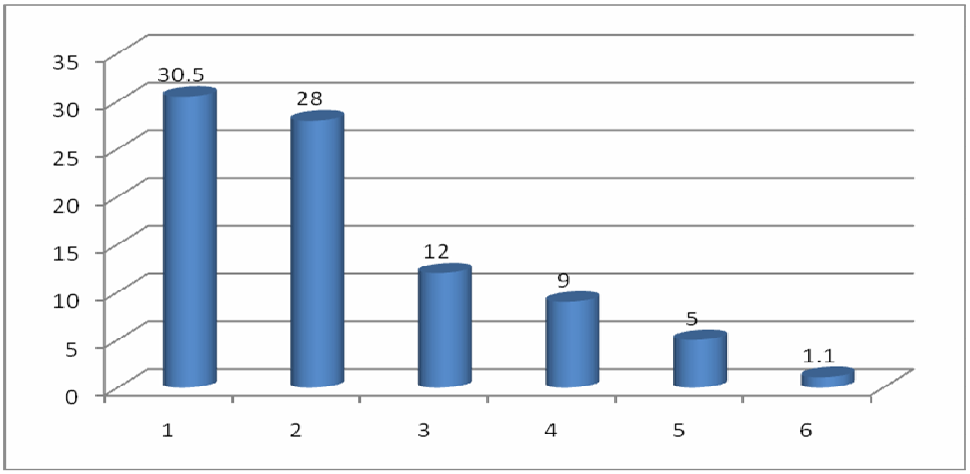
II. Source of their Finance

Starting a new business is a difficult task due to the fact that administering such a new task in terms of finance and human power, is a challenge for fresh entrepreneurs and this hinders their target. Those who succeed to begin their business usually use variety of sources to finance their business. In this regard, Figure 4.16 summarizes the main sources of financing their start up businesses.

As we have seen in the literature part, researches conducted in our country shows that commercial banks in Ethiopia do not finance the sector, because their collateral requirement and their minimum loan size are not often feasible for MSEs. Bank policies (public and private alike) make fixed assets collateral mandatory. The only formal institutions that are accessible to the micro and small enterprises are the Micro Finance Institutions (MFIs) for their household and domestic requirements. In this regard, questions were forwarded to MSEs operators with regard to the major sources of their capital in order to start-up their business/task. A vast majority of them have little intention to borrow from other sources such as from Banks. They indicated that their major source is from own saving, which accounts 30.6% of the total respondents. 28% of them replied that the major sources to start-up their business were loan from MFIs. Next

to MFIs the major source of their capital was from their families and friends, which comprises 12% of the total respondents, while loan from banks accounts only 9%. Equip (which serves as saving/collecting money in a traditional way) and selling personal properties accounts only 6%, and 1.1% and the remaining were the blend of all. From this survey one could see that their major source to start-up their business was their own saving followed by MFI (See figure 4.16).

Figure 4.16: Percentage of Main Sources of Finance to Start-up their business

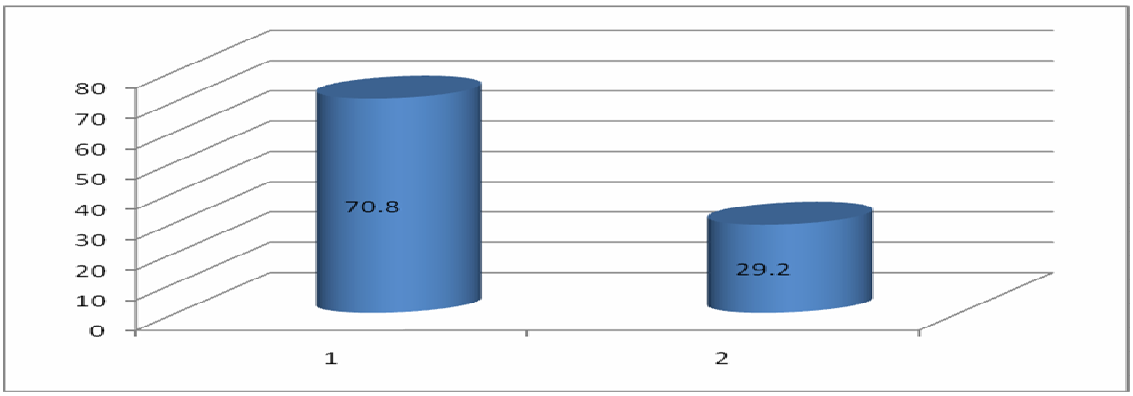


source: own survey, 2011

***Legend*: 1= my own save, 2= Loan from CBE, 3= Loan from Equib, 4= supported by family/friend, 5= selling personal properties, 6= Loan from MFI,**

To prove the above analysis, respondents were requested whether they have frequently taken a loan from Banks or MFIs. Most households responded that taking a frequent loan is not allowed and others feel that it has a double interest. As indicated in Figure 4.17, the vast majority of respondents which accounts 70.8% of them replied that they did not take a frequent loan from banks or MFIs. Only 29% of the respondents said that they have taken loans from such institutions. Some of the key respondents were interviewed informally about their frequent loan. The respondents' saying "*we did not take a frequent loan but ones from MFI.*" Most of the MSE owners indicated that they had taken a loan from MFI, not from commercial banks.

Figure 4.17: Percentage of Respondents who frequently have taken Loans from Banks or MFIs



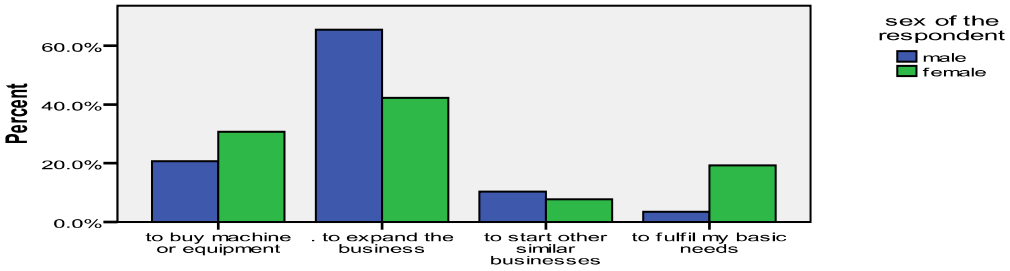
Source: own survey, 2011

Legend: 1= yes, 2= no

III. Purpose of taking the Loan

Micro and small enterprise owners may have a much better chance to succeed if they have integrated with the micro finance and other financial institutions such as banks or MFIs. Respondents were asked various questions with respect to the purpose of taking a loan from such institutions. Accordingly, 54.5% of the respondents responded that the most important purpose for taking a loan is to expand the current business; the second most important reason is for buying a machine or equipment (25.5%), and the other 10.9% said that the purpose of taking a loan is for fulfilling their basic needs. (See Figure 4.18). From this figure one could observe that the major purpose of taking a loan is to expand their business. This implies that they have a desire to continue in similar business.

Figure 4.18: purpose of respondents of taking a loan



Source: own survey, 2011

IV. Reasons of Respondents for not taking a Loan

As it is depicted in Table 4.16, questions were also forwarded about the reasons of not taking a loan from micro finance and other institutions. A whole variety of reasons were mentioned in the table below. The main ones are due to lack of collateral which consists of 46.6% of the respondents, and the remaining reasons are due to having enough capital (19.5%), due to fear of high interest (17.3%), and being afraid of repaying the loan (16.5%). This aggregate response indicates that the majority of respondents were not users of the loan delivered by banks and MFI institutions. The key informant interview conducted in the study area also indicates that MFI institutions have double interests if they have postponed the repaying date. Due to this fact, most of the MSEs operators fear to take loans from MFI institutions.

Table 4.16: Reason for not taking the loan from bank or MFI

Items (alternatives)	Frequency	Percent
Due to lack of collateral	62	46.6
Due to fear of high interests from banks/MFI	23	17.3
Afraid of repaying the loan	22	16.5
I have enough money	26	19.5
Total	133	100.0

Source: own survey, 2011

Benefits of Taking Training

Training is very essential to develop individual's competence as well as to increase the enterprises success. Most organizations provide long and short term training for their employees to improve their ability in performing their task effectively and efficiently.

As stated above, the majority of respondents reflected that they have taken a training provided by the MSEs officials. Respondents were asked about the benefits of taking such training. They stated that the training has the following benefits: Namely, 11.6% said that it helps them to run their business, 21.9% said that they have got enough skill. 8.9% of them said that they have improved their approach with their customers after the training and the remaining (58.2%) replied that they have got all the stated benefits (Table 4.17). From this analysis we can concluded that it helps to run their business, to

get enough skill, and to improve their approach with their customers. This implies that providing training is essential in order to improve the overall development of MSE operators.

Table 4.17: the major benefits of Trainings

Items	Frequency	%
It helps me to run my business properly	17	11.6
I have got enough skill	31	21.2
I have improved my approach with my customers after the training	13	8.9
I have got all the above benefits	85	58.2
Total	146	100.0

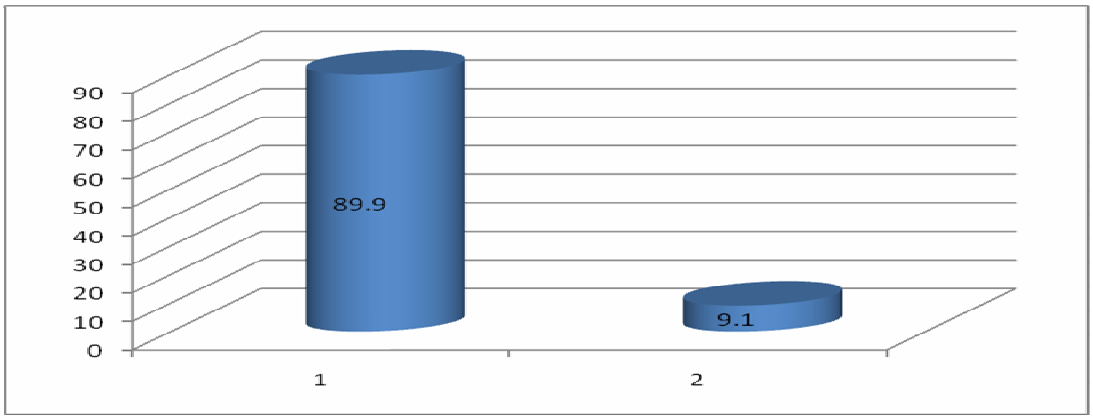
Source: own survey, 2011

Respondents Views towards MSE Rules/Regulations

In chapter two, this study assesses the recent recognition about the sector's economic role and its potential contribution to the country's economic development following Proc. No. 90/2003, where the development of the micro and small scale enterprise is becoming a subject of national agenda. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among urban dwellers. William summarizes that special attention to the policy environment for small enterprises is warranted. In designing economic growth strategies and highly profitable investment opportunities may be lost as policies are biased against small enterprises (e.g., import licences that are difficult for small firms to obtain); market imperfection constrain small firms' access to resources (for example, the failure of financial intermediation to serve viable small investments); social and cultural mores prohibit the participation of certain groups in small business (women, for example).

In this fact, rules which are derived in the area of MSEs are indicators in order to implement or not implement by major players (MSE operators). A great number of respondents (89.9%) have a positive outlook towards MSEs rules or policies out of the total respondents, and only 9.1% of the respondents replied that the rules/policies derived by the current government were not favourable to run their business (Figure 4.19).

Figure 4.19: Respondents Opinion on Policies/Rules

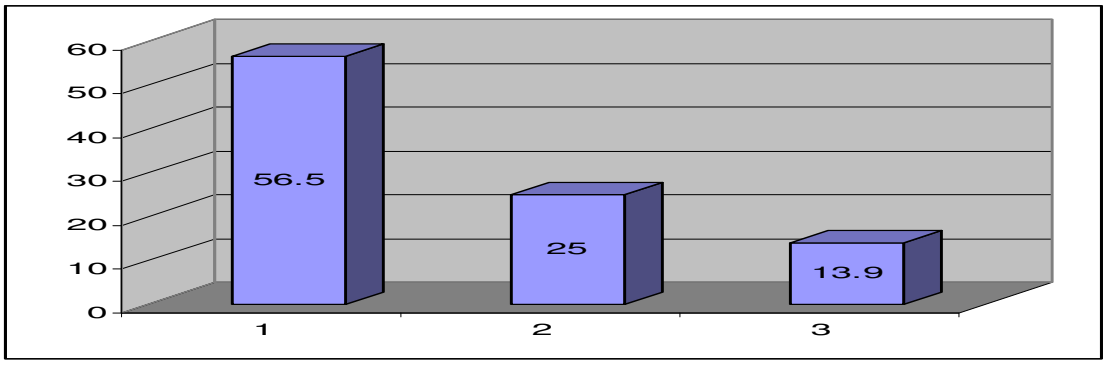


Sources: own survey, 2011

Legend: 1=yes, 2= no

Respondents were also asked to justify their major reasons about the rules/polices of the MSEs sector. The most likely reasons of the respondents to say the rules/polices are favourable to run their business which consist 56.5%, while rigid bureaucracies are reduced with the help of flexible rules 25%, and the remaining 13.9% of respondents stated that the rules were helping them to have a working place as it is shown in Figure 4.20 below.

Figure 4.20: Percentage of Respondents Justification to Say Rules/polices are Favourable



Source own survey, 2011

Legend

1= because the rules are helping me to have a working place
2= because rules are favourable to run my business
3= because rigid bureaucracies are reduced with the help of flexible rules

4.5. Determinants and Linkages of Income, MSE performance, Food Security and Asset Ownership

The most important factors that affect the performance and survivability of MSE are ample availability of capital, motivation of owners, age and educational status of owners and being large enough to have employees (Jean M, 2008). In order to identify the most determinant variables in this study, an attempt has been made by using three stages least square methods. Accordingly, the most determinant factors of income, MSE performance and asset summarized in Table 4.18, 4.19, and 4.20.

Table 4.18: Determinants of Income

Independent Variables	Coef.	Std.err.	Z	p-value
Sex of respondents	277.749	337.9175	0.82	0.411
Educational status	262.3557	138.4772	1.89	0.058
Age of respondents	-91.4924	23.77915	-3.85	0.000
Family size	164.2992	90.52748	1.81	0.070
Own house	714.6453	1334.022	0.54	0.592
Constant	-1749.584	1663.039	-1.05	0.293

Source: own survey, 2011

It was also seen that age, educational status and number of employees (in this case, families) of the operator's were one of the determinant factors of an income of MSE owners. As Table 4.18 illustrates, the most significant factors that determine their income are educational status, and family size. Both independent variables (education and family size) have a positive relationship with income (dependent variable). This means when educational status of households increases, their income increases significantly. Studies are also asserted that the more educated people become successful in their business. In addition, when family size increases, their income also increases. This could be due to the number workers increased in the business enterprises so that it adds value in to their income increment. Age also shows a significance relation with an income but the relationship is negative indicating that the increase in the age of operators affects income of them. Younger people are more energetic, motivated and interested than older people and hence they might become successful in their business. Studies

conducted in this area (determinant factors) assert that older owners seem to have a better chance for business success than younger ones. However, in this study shows the opposite result is observed (it affects negatively). This shows that studies conducted in this areas are inconclusive.

On the other hand, the most significance factors that determine on the performance of MSE are family size and saving. They have a positive relationship between the two most important determinant factors (family size and saving) and performance of MSEs, which implies that when family size increases, the probability increasing the performance of MSEs also increases. The most probable explanation could be more family size could mean more family labour to supply for the needs to improve the performance of the sector. The same holds true for saving which is the other most significance factor of MSEs performance. When individuals have saved some amount of money, the performance of MSEs becomes improved. More saving money would mean more capital that enhances the operation of the sector. The other significant factor is sex, age, and rules implemented in the sector which have a negative relationship with MSE performance. Being females and doing in physically strong tasks could decrease the probability of improving the MSE performance. This could be due to the nature of the task. In some sectors, it needs physical strength so that the number female operators engaged in such sectors leads to decrease the performance of the sector. Unfavourable rules also affect the performance of MSEs. Similarly, when the age of MSE operators decreases (younger), the performance of MSEs decreases significantly (age here is also shows a negative relationship with MSE performance). The most probable reason could be due to lack of experience in their early ages. On the other hand, variables such as educational status, source of finance, training and early occupation have a less likely impact on the occurrence of the event (in this case performance of MSEs) (see Table 4.19).

Table 4.19: Determinants of the Performance of MSEs

Independent variables	Coef.	Std.err.	Z	p-value
Sex (1=female)	-766.9182	194.9881	-3.93	0.000
Educational status	74.39443	73.79267	1.01	0.313
Age	-53.66781	14.18298	-3.78	0.000
Family size	213.0339	48.97806	4.35	0.000
Saving	476.5341	191.9329	2.48	0.013
Source of finance	35.9758	33.59845	1.07	0.284
Training	33.77732	81.715	0.41	0.679
Rule (1=unfavourable rule)	-1092.287	413.1394	-2.64	0.008
Early occupation	-13.09624	114.106	-0.11	0.909
Constant	2666.86	653.6313	4.08	0.000

Source: own survey, 2011

As indicated in the conceptual framework, we have seen the different asset types one needs to consider as far as sustainable livelihood framework is concerned. These are human capital (education, training), physical capital (such as building, house, working place), natural capital (land), financial capital (saving, sources of finance), social capital (networks and membership in organizations). In this study, all the above livelihood assets have been taken into consider for the analysis purpose. Based on three stages least square analysis revealed in this study, the most determinant factors of asset are income, MSE performance and saving.

Table 4.20: Determinants of Asset ownership

Independent Variables	Coef	Std.error	Z	**p-value**
Income	330.7572	167.8323	-1.97	**0.049**
MSE performance	37.18596	14.48487	2.57	**0.010**
Saving	*1296.941*	*365.3131*	*3.55*	***0.000***
Sex	*761.1226*	*598.59875*	*1.27*	***0.204***
Educational status	*295.4763*	*194.8832*	*1.52*	***0.129***
Age of the house hold head	*50.97127*	*37.17667*	*1.37*	***0.170***
Constant	***2314.384***	***151.88***	***1.49***	***0.136***

Source: own survey, 2011

As shown in Table 4.20 the most important determinant factors of asset ownership are income, MSE performance, and saving. All have a positive relationship with asset ownership, which implies that if income increases, asset ownership significantly

increases and the same holds true for MSE performance and saving. Others are not the determinant factors of asset ownership (Table, 4.20).

Table 4.21: Determinants of Food insecurity Status (using Probit model with endogenous regressors) (dependent variable)

Independent Variables	Coef.	Std.err	Z	*P-value*
Asset (instrumented)	*-.0003452*	*0.0001967*	*-1.76*	*0.079*
Income (instrumented)	*-531.8831*	*281.9601*	*-1.89*	*0.059*
Sex of respondents	*-.2117012*	*.6212506*	*-0.34*	*0.733*
MSE performance (instrumented)	*-501.9228*	*257.4739*	*-1.95*	*0.051*
Educational Status	*0.0876795*	*0.1343658*	*0.65*	*0.514*
Age of the respondent	*0.0633272*	*0.0176256*	*3.59*	*0.000*
Family size	*0.0592446*	*0.0842613*	*0.70*	*0.482*
Community participation	*-.3481816*	*.3497473*	*-1.00*	*0.319*
Constant	*-.1030853*	*1.56408*	*-0.07*	*0.947*

Source: Own survey, 2011

Note: Number of observation = 100
Wald chi2(9) = 51.36
Log likelihood = -2649.7008 Prob > chi2 = 0.0000

As it is shown in Table 4.21, the most considerable factor of MSE owners food security are asset, income, MSE performance and age of respondents. Here, asset, income and MSE performance are negatively related with household's food security. As it clearly shown in the above table, the probability of being food insecure significantly increases when the age of respondent's increases or the probability of food security significantly decreases when the age of respondents decreases. On the other hand, the probability of food insecurity these households decrease significantly when income of the households increases. The same thing holds true to the households who lead their life in the MSE sector. When households in MSE perform well, then the likelihood of households to be food insecure significantly decreases.

4.6. Problems and Challenges of MSE owners

In chapter two we have seen that MSE operators have faced a lot of problems when they have started their operation. Some of the problems are lack of capital or credit, lack of skill or knowledge to operate the business, shortage of energy or water etc. With regard to these problems respondents were solicited in order to put their problem in rank order. As a result, as it can be seen in Table 4.22, the major problem of most of the MSE

operators were lack of capital, followed by inaccessibility of credit, and lack of skill/knowledge or incapability is the other third major problem.

Table 4.22: Major problems of MSE operators in Rank order

Items (problems)	No. of Resp.	No. of Resp.	No. of Resp.	No. of Resp.	No. of Resp.	No. of Resp.	No. of Resp.	Total	Rank
1=lack of capital	147	26	3	4	1	0	0	181	**1st**
2=shortage of water	10	26	25	11	2	3	5	82	**3rd**
3=lack labour	4	17	18	7	10	8	5	69	**5th**
4=lack of skill	16	11	33	22	3	7	7	99	**4th**
5=interruption of power	0	12	13	8	13	3	2	51	**7th**
6=lackof equipment	8	12	24	6	4	2	5	61	**6th**
7=lack of credit	**4**	**73**	**35**	**11**	**3**	**3**	**2**	**131**	**2nd**

Source: own survey, 2011

Note: 1=1st means individuals who vote 1

2=2nd means individuals who vote 2 etc

No of Resp.= Number of Respondents

In the study area, the key informant interviewees were inquired concerning loan and loan related problems. They replied that loan is allowed only once and it has a double interest if the paying date is matured.

For simplicity, their response with regard to their problem is summarized in the following way.

- Lack of enough capital and credit to run their business
- The loan has double interest as mentioned earlier
- There is a fear to repay their loan
- Lack of raw materials (this is in the construction sector)

- Lack of market for their products.

On the other hand, MSE operators were requested whether they have got any official who might solve the problems they encounter. The questions were "Is there any support from MSE officials when you encounter any problem?" their response was "no, they did not accept our questions, for example, we have asked them to have enough market for our products. If you look this much product, it was produced before five months i.e., in July. This shows that the MSE officials did not give any response for us (5, January, 2011)." Even though the encountered problems were revealed by the MSE operators, it was disproved by the MSE officials in the sense that individual operators have a feeling of dependency or they always expected everything from the office. The office's major aim is to organize, license and provide training to them and after that the survivability is left to the operators.

Table 4.23: MSE owners challenge in their life

Items (challenges)	No of Resp.	No of Resp	No of Resp	No of Resp	No of Resp	Total	Rank
House renting	**100**	**44**	**13**	**6**	**2**	**165**	1st
Buying basic needs	**23**	**33**	**48**	**17**	**5**	**126**	3rd
Getting working place	**21**	**32**	**21**	**8**	**4**	**86**	5th
Getting educational access	**17**	**21**	**36**	**9**	**9**	**92**	4th
Getting market to my products	27	32	13	14	21	1o7	2nd

Source: own survey, 2011

Note: the calculation of Table 4.22 is similar to Table 4.23

NO of Resp.= Number of respondents

Human beings are struggling to overcome the various challenges encountered in his/her life. In view of that, house renting, getting market to their product and buying basic goods were the three major challenges of their life. As it was listed in figure 4.6, a high

proportion of respondents were reported that they did not have their own houses and it is also true as it is indicated in Table 4.23.

4.7. Interview Reports

In order to triangulate and familiarize about MSE and other similar issues, the researcher made interviews with the MSE officials in the area of their goal and achievement of MSEs, why they give due attention to the cooperatives, their selection criteria to form or organize associations (cooperatives), how they supervise or follow up the organized operators, their problems encountered, and their future plans. It is understood from the interview reports that there are goals towards MSEs development in the country in general and Gondar city in particular. In this case, MSE officials describe that the major goals of forming MSE sector are summarized as follows.

1 To reduce the number of unemployed citizens,
2 Supporting individual operators who have entrepreneurial skills,
3 Creating a favourable working environment to those operators who have entrepreneurial skill.

With regard to the major achievements of MSEs, one of the foremost accomplishments of the sector is it has reduced poverty in the city specifically and from the country at large through creating awareness and providing training, creating a favourable environment to provide loans (access loans), by providing working places, and Business Development Services (such as consultancy and counselling services, marketing and information services, technology development and diffusion, mechanisms which improve business linkages through sub-contracting, franchising etc).

The MSE sector has given much attention to the cooperatives. As far as their intention towards the cooperatives is concerned, the officials were justifying their reasons. Accordingly, the following points were raised by the officials.

1 The sector has given due attention to the cooperatives because our population increaseat a faster rate, in this situation the availability of working place is now so difficult to each individual. Therefore, strengthen such kinds of cooperatives is very essential.

2 In the developing countries like Ethiopia, supporting those group based individuals is very easy and appropriate rather than helping them in an individual manner,

3 The other reason is that to be efficient in terms of cost. Within limited capital and a plot of land, it is possible to organize individuals who have similar skill and knowledge in order to facilitate their task. If they have similar skill/knowledge, they can easily communicate and do their job in an efficient manner. As a result, doing cooperatively can be as best as doing individually.

The MSE office has also their own selection criteria in order to organize and form the MSE operators. Therefore, motivation, special skill/knowledge that they have, capacity to open job opportunities to others, they might be come upon through problems such as lack of loan, working place etc while they are working individually. Through observing the issues, these all and other similar criteria's has been taken in to account in the selection process.

Follow up and supervision are very essential in order to ensure the targeted goals of the MSE. If there is an effective follow up and supervision towards how to perform their task, the already established goal could be achieved. In this regard, officials were asked whether they have a follow up or supervision. According to their response they have follow-up and supervise the operators in order to differentiate their strength and weakness; they provide counselling to those new comers and BDS (Business Development Services) to the already existed one's, they provide training such as book keeping etc.

As far as their problem is concerned in the study area, the major problems of the operators were categorized in to three and these are:

1 Due to lack loan and working premises, the already established group based enterprises (cooperatives) have been dissolved,

2 Instead of work hard, expectation from the government is highly observed towards individual operators and they need every thing is done by some body else,

3 If they get a loan or credit from government, they use for other purposes rather than using the already established goal.

Finally, the future plans of the MSE office are:

A. Create a favourable environment to extend the sector, in which it should be a base for the developmental investors,

B. Creating urban-rural marketing linkages,

C. Producing competitive and export standard products which will be the base for foreign currency,

D. Support those young graduates who are graduated from TVET and other higher education institutions, organize them and join into their own work and avoid the feeling of expectations from others, and developing their confidence to become a responsible citizen to their country, support those young job seekers in order to be creative and transfer the country from agriculture to industrialization (agriculture lead industrialization) etc.

CHAPTER FIVE

5. Conclusion and Recommendation

5.1 Conclusions

In developing countries like Ethiopia, overcoming poverty and asserting sustainable development is possible through various ways such as creating MSEs throughout the country. When we come back to look the history of many European and Asian countries, their major root of development has been starting through the establishment of the micro and small enterprises, for instance, the Asian Tigers such as Taiwan, Singapore. As stated in the literature part, they have the basic instruments to alleviate poverty, to create employment opportunity, to increase income of individuals and to minimize the gaps as well as reduce inequalities among the poor and the rich. Using and consuming local market and raw materials as well as exploring indigenous knowledge and technologies are the other great benefits of micro and small enterprises.

Even though their contribution is indubitable, the survivability of the sectors might depend on several factors. Ample availability of capital, age and educational status of operators, motivation and reason of starting the business and other similar factors are the determinants of MSE sectors. These factors lead MSEs to the other problems like lack of management skills and training, lack of start-up capital and credit, lack of access to appropriate technology, weak institutional capacity and the existence of restrictive laws, regulations and rules are the most common constraints that hamper the development of the sector and the whole economy as well.

In the study area, lack of capital and credit are the most serious problems, and other restraints are fear of repaying their loan, lack of raw materials (such as cement, gravel, stone etc), lack of market for their products, production and selling space, lack of market for their products, production and selling space, even if they get the loan they use it for other purposes rather than using it the targeted goal, dissolving the already established MSE cooperatives etc.

Even though several constraints exist in the sector, it has created job opportunities for a great number of citizens and hence increased their income. Almost, 94 % of the MSE operators revealed that the establishment of the sector has created their employment opportunity. This shows that the rules and regulations of the country create a favourable condition to citizens and it is also asserted by a very great number of proportions (90.05%). Their reasons for saying so are due to the favourability of the rules to run their business (56.63%), rigid bureaucracies are reduced with the help of flexible rules (28.92%), and 13.86% of them provide their witness saying that the rules are favourable to them to have a working place.

Their food coverage capacity after they join the sector shows a great variation in their life. Almost 79% of all respondent's were not cover their food expenditure before joining the sector; however, this figure becomes reduced to 51.93%, which means 27.07% (79-51.93) of individual respondent's food coverage shows an improvement after they have joined the MSE sector. After joining the sector, their income shows an increment, resulting in the improvement of their life.

MSEs have also their own contributions towards the development of livelihood assets. For instance, human capital such as training which is given by the MSE office could create awareness towards how to run their business/task. However, in some livelihood assets such as physical capital (own houses), most of the respondents have not own houses and this might have a constraint in the business growth.

It was found out with probit model results that the most considerable factors of operator's food security are age, asset, income, and MSE performance. Respondent's age affects household's food security positively. It implies that when the age of respondent's increases, the probability of being food insecure significantly increases (this is contrary to the literature). Therefore, studies conducted in this area show inconclusive and needs further study. On the other hand; asset, income, and MSE performance can affect household's food security negatively, which implies that the probability of these household's food insecurity decreases significantly when the income of the households

increases. The same thing holds true, when households perform well MSE sector, then the likelihood of households to be food insecure significantly decreases.

Efforts have also made in order to identify the determinants or relationships of asset ownership, income, and the performance of MSEs by using three stage least square. Accordingly, income, MSE performance, and saving are found to be the most determinant factors of asset ownership. Income, MSE performance and saving affects asset ownership positively, which implies that when income increases asset ownership also increases and the same holds true for MSE performance and saving. In the same manner, the significant factors that affect MSE performance are sex, age, family size, saving and rules implemented in the organization. Educational status, family size and age of respondents are the most determinant factors of income.

By and large, the role of micro and small enterprises in creating employment opportunities, in increasing their income, in ensuring their food security, in general, in improving individuals/households standard of life seems potential and attractive even if the above specified constraints/challenges can hinder their overall development.

5.2 Recommendations

Ethiopian federal democratic republic government has paid due attention to the development of micro and small enterprises because they are important vehicles to address the challenges of unemployment, economic growth and equity within the country. Considering the well importance of MSEs in job creation, increasing income of households, reducing level of poverty, all stakeholders should make their own efforts in order to remove the constraints that have encountered in the MSE operators.

In line with the above conclusions, the most important measures that could be taken by all are summarized below.

- One could see from this survey that most of households have encountered problems in the area of production space, getting credit or loan, selling their products/services etc. Based on this, all stakeholders (regional government, NGOs, private sectors, etc) should exert their effort and take actions in order to minimize the observed problems through facilitating and providing working or production space, providing loan and creating marketing linkages.
- One of the major problems towards MSE operators is that they took loan from MFIs and they use it to other purposes rather than using the targeted goals. Therefore, due attention should be given in this area such as training in order to used it for the targeted goals. Before providing the loan, creating awareness is mandatory and essential in the area of how to utilize the loan.
- Double interest (which means paying more than one interest) is one of the fears of MSE operators that could have a high psychological impact in their future business growth. As it was identified in the field work, most of the interviewees stated that the existence of double interest made them feel uncomfortable when they think to borrow money from institutions. Therefore, in order to strengthen MSE operators, the borrower institutions should revisit the interest rate based on cost and affordability.
- One of the other critical problems of MSE office as well as operators was dissolving the already established businesses, and some others did not start their operation due to unfavourable nature of the working places. As much as possible,

both parties should consider other alternatives like producing appropriate products/services which are favourable to such places through marketing research rather than dissolving the cooperation and waiting without producing until favourable conditions come.

- As it is observed from the collected data, the saving culture of MSEs operators have also observed as a weaknesses even if their income determines; however, aggressive saving mobilization should be created in order to develop their saving habit.

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ADDIS ABABA UNIVERSITY
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ROLE AND PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN IMPROVING THE STANDARD OF LIVING OF HOUSEHOLDS' LIFE: THE CASE OF FOUR SELECTED KEBELES OF GONDAR TOWN

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DECLARATION

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

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