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MICRO AND SMALL-SCALE ENTERPRISES IN
HUMERA TOWN, TIGRAY REGION:
OPPORTUNITIES AND CHALLENGES

BY: TEKLIT BERHANE

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ADDIS ABABA

ADDIS ABABA UNIVERSITY
COLLEGE OF DEVELOPMENT STUDIES

**INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT
STUDIES (IRLDS)**

**OPPORTUNITIES AND CHALLENGES OF MICRO
AND SMALL-SCALE ENTERPRISES:
THE CASE OF HUMERA TOWN, TIGRAY REGION**

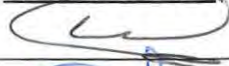

BY: TEKLIT BERHANE

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1. Waldemar T.
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2. Worneh Megatu
(ADVISOR)
3. Issac Paul
(EXAMINOR)

SIGNATURE


**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**Institute of Regional and Local Development
Studies (IRLDS)**

**Micro and Small-Scale Enterprises in
Humera
Town, Tigray Region:
Opportunities and Challenges**

By:- Teklit Berhane

Advisor:- Workneh Negatu (PhD)

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Addis Ababa

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ACRONYMS

ADB	Africa Development Bank
CSA	Central Statistics Authority
DeCSI	Dedebit Credit and Saving Institution
ECA	Economic Commission for Africa
FDRE	Federal Democratic Republic of Ethiopia
FeMSEDA	Federal Micro and Small-scale Enterprises Development Authority
ILO	International Labour Organization
IMF	International Monetary Fund
LDCs	Less Developed Countries
LED	Local Economic Development
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MSEs	Micro and Small-scale Enterprises
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Co-Operation
PVOs	Private Voluntary Organizations
SAP	Structural Adjustment Program
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
UNIDO	United Nations International Development Organization
USA	United States of America
USAID	United States Agency for International Development
WB	World Bank

Abstract

MSEs play the role of mobilizing fragmented as well as small-sized capital of individuals and channel it to the pool of investment. They utilize and adequately mobilize local resources. An effective mobilization of resources also leads to the creation of ample employment opportunity for skilled and unskilled work forces. MSEs satisfy the market demand of the poor as they offer relatively cheaper commodities to the market. Despite this fact, the MSEs are characterized by a range of problems that is hampering their day to day operation and the overall development of the sector. The objective of this study is to assess the opportunities and challenges of MSEs in Humera town. That is, it explores employment and income creation role, the opportunities that are utilized by the enterprises and the problems that inhibit the growth of MSEs. The findings indicated that, the activity of supporting institutions in terms of training, credit service arrangement, and availing work place were found to be very poor. The most crucial and leading constraints revealed by the study are infrastructural problems (electric power, water shortage and mobile telephone network), shortage of working capital, lack of work premise, and input price instability, in that order. Arranging training programs (including consultancy and supervision services), creating conducive link between MSEs and financial institutions, create business clusters (so as to manage the infrastructure, work premise and collateral problems) are indicated as better solutions.

CHAPTER ONE

1. INTRODUCTION

1.1 Background

In the 1950s & 1960s, policy makers (and economists) were in favour of large-scale capital-intensive industries since they generate ample income, which in turn was thought to increase investment rates. Small-scale businesses were considered irrational and backward. Micro enterprises were viewed as marginal, unproductive activities, with little potential for entrepreneurial development that did not contribute much to economic growth (Hayman, 1989; cited in Elias, 2005).

The issues of MSE and entrepreneurship development have since recently received great attention as priority areas crucial for stimulating economic growth both in the developed and developing world. These areas have actually aroused so much interest among donor agencies, government and NGOs, policy makers, development analysts, etc. In Ethiopia also, the MSE sector in general remained neglected for a long period until a shift was made to a market led economic system or post 1991 period which mean the strengthening of the private sector as a consequence of which MSEs which constitute the bulk of the sector were to be fostered and mushroomed (Andualem, 2004).

In most developing counties, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic

transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology.

The MSEs sector is also described as the national home of entrepreneurship. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full and to attain their goals. In all the successful economies, MSEs are seen as an essential spring board for growth, job creation and social progress at large (MoTI, 1997).

The government of the Federal Democratic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSEs development and promotion strategy in 1997. (Micro and small enterprises development strategy, 1997, Addis Ababa)

The primary objective of the MSEs strategy (as stated in the 1997 strategy) is to create enabling legal, institutional and other supportive environment for the development of MSEs. And the specific objectives include:

- Facilitate economic growth and bring about equitable development,
- Create long-term jobs,
- Strengthen cooperation between MSEs,
- Provide the basis for medium and large scale enterprises,

- Promote export, &
- Balance preferential treatment between MSE and bigger enterprises.

This is one step forward for the development of the sub sector. However, MSEs in our country have been confronted by various problems which are of policy, structural and institutional in their nature.

1.2 Statement of the Problem

In the 1950s and 1960s MSEs were viewed as marginal and unproductive sectors that evade tax and with little potential for growth or entrepreneurial capacity. In the 1970s and 1980s, however, MSEs received more attention from donors and governments as potentially sustainable means of combating equity with efficiency in the long run. MSEs can stimulate the local economy by increasing the aggregate demand and allow for greater investment. Since they are suitable to areas where it does not pay for medium and large firms, they contribute to decentralized development, regionally balanced growth and small town growth (Tegegne & Mulat, 2005).

Generally, there is an agreement that MSEs play a crucial role in a country's economic growth and development. As Andualem in Worku & Daniel, (2004) stated that the potential advantages of MSEs rest on certain rationales and assumptions. They are labour intensive and tend to use less capital per worker and are thus ideal for labour abundant-capital scarce countries. The small ones especially use existing local

and traditional skills and raw materials. They offer greater opportunities for employment not only for educated and technical manpower but also to the uneducated labour force. They can be established at locations that are least developed and help to increase income of poor households thereby improving distribution of income, and as a result help to minimize overcrowding in urban areas.

Though MSEs by their nature, have a great potential for growth and expand to higher stage, they are vulnerable to various risks that cause failures sooner or later.

This characteristic of the sector needs a closer follow-up. It needs an organised and systematic implementation of the strategy with adequate research to identify the opportunities of which they can use and to overcome the problems that hamper their development.

Ethiopia is a least developed country where a greater percentage of its population lives under poverty line. For the country to alleviate poverty, improve equity distribution, facilitate the ground for industrial development, to generate employment opportunity, build saving to develop endogenous entrepreneurs and assure sustainable development, MSEs will play a decisive role.

Thus the Ethiopian government paid due attention to the promotion and development of MSEs considering that they are important vehicles to address the challenge of employment, economic growth and equity in the country. The government has adopted a separate MSEs development and promotion strategy in 1997. The primary objective of

the strategy is to create an enabling environment for the MSEs which can facilitate the ground for medium and large scale enterprises to enhance economic growth of the country (MOTI, 1997).

However, these objectives could not be easily realised due to various problems and constraints. As of different research studies on MSEs in Ethiopia revealed that, although significant measures have been taken, the enterprises face serious obstacles and bottlenecks at different levels of their operations. Some of the most critical constraints include, among others, access to finance, lack of access to premises and land, lack of infrastructure, lack of training in entrepreneurial and management skills, lack of incentives, information on business opportunities, social and cultural factors, and inefficient tax administration (see in MoTI, 1997; Elias, 2005; Getachew & Getachew, 1997; Worku and Daniel, 2004; Gebrehiwot and Wolday, 2006).

In Ethiopia it is argued that deliberate effort to promote MSEs is relatively recent and numerous initiatives and interventions by government and nongovernmental organizations have been undertaken. However there is still a research gap with MSEs operating in small towns that indicate the advantages provided to and problems currently hampering them. Almost all of the studies were undertaken in major cities of Ethiopia including: Addis Ababa, Mekele, Desie, Bahirdar, Adama, Diredawa, and Hawasa. In addition, the degree and existence of opportunities and constraints of MSEs may differ from region to region and cities and towns as well. This is because of infrastructural, geographical, administrative responsiveness, and other differences.

This thesis focuses on Micro and Small Enterprises (MSEs) development in Humera town, in Tigray region, and it attempts to explore the growth trend of the MSEs and their role in contribution to unemployment reduction in the area. In addition, it will spell out some of the opportunities acquired and core problems inhibiting the effective development of MSEs and forwards approaches that enable to promote and benefit the MSEs in the town.

Thus, undertaking a detailed town specific research that identifies the opportunities and constraints of MSEs is necessary. The research result is that patchy in terms of detail, especially on issues of employment, finance (trade credit), Marketing, infrastructure, training, and other related issues. It is to partially fill this information gap that this study is conducted a comprehensive survey of MSEs in Humera town.

1.3 Research Objectives

General Objective

The general objective of the research is to assess and evaluate the opportunities and challenges of MSEs in Humera town.

Specific Objectives

- To assess the role of MSEs in creating employment and income sources in the study area,
- To assess the business development service (BDS) provided to MSEs,
- To identify the major problems/constraints that MSEs face,
- To draw policy and development implications.

1.4 Research questions

The study will clearly focus to answer the following questions:

- 1- To what extent is the contribution of MSEs in the study area helps in creating employment and income sources?
- 2- What are the responsiveness of supportive institutions to serve and strengthen the MSEs sector?
- 3- What are the problems/constraints that MSEs face in the course of their business activities?

1.5 Significance of the Study

To enhance the development of MSEs sector and enable it to play the expected socio-economic role in the development of the country, it has become strategically important aspect of government's employment generation poverty reduction and economic growth agenda. This study is, therefore, designed to identify the problems hampering the sector

and the activities provided for strengthening the existing MSEs development.

The out put of the study will provide significant information for the local and regional decision makers of the region that will enable them to design particular and appropriate intervention measures for the support and promotion of MSEs.

1.6 Scope of the Research

The study is focused geographically at Humera town in Tigray region particularly on the MSE sector operators. However, since the sector cover many economic activities, it is difficult to incorporate all the activities in the sample design. Therefore, the study is limited in assessing the opportunities and constraints of sample 85 MSE operators which are engaging in the business areas of beauty saloon, coffee and juice house, restaurant, tyre repair and garage, metal and wood-work activities.

1.7 Organization of the Paper

The first chapter introduces background, statement of the problem, research objectives, research questions, and methodology. The second chapter discusses the literature review related to MSEs including definitions, roles and importance, opportunities and constraints of the sub-sector. The third chapter assesses the situation of MSEs in Ethiopia and the MSEs Development Strategy frame work. The fourth

chapter attempts to analyze the survey result including the characteristics of business owners, employment contribution, product and market, training, business capital, and major problems. The final chapter presents the conclusion policy implication and recommendations based on the findings of the survey.

CHAPTER TWO

2. RESEARCH METHODOLOGY

2.1. Sampling Design

According to the data obtained from Humera town Trade, Industry and MSEs Office there are 219 operators of the target business areas. The survey has incorporated a sample of 85 MSE operators which accounts 39% of the target population found in the town. The sample size of each activity has purposely arranged as follows: 20 from metal and wood works, 14 from coffee and juice house, 16 from beauty saloon, 10 from tyre repair and garage, and 25 from restaurants. For each business activity, the sample units were selected by using simple random sampling.

Table 2.1 Distribution of MSEs by business activity

Type of activity	Total population	Sample Respondents	Sample seize in Percent
Metal and wood works	53	20	37.7
Coffee and juice house	26	14	54.8
Beauty saloon	31	16	51.6
Tyre repair and garage	18	10	55.5
Restaurant	105	25	23.8
Total	219	85	38.8

Source: Humera Trade, Industry and MSEs Office (2008)

2.2. Data Source and Method of Collection

The study used both primary and secondary data for research analysis. The primary data was obtained from the sample survey respondents and key informants. The data from the sample respondents was collected by enumerators. The secondary data was also collected from woreda and regional MSEs agency annual reports, and CSA, MoTI, FeMSEDA bulletins. The questionnaire was involved both close-ended and open-ended questions to make the data comprehensive and complete and to explore the necessary information on the opportunities obtained and sought and constraints that hinder the development of MSEs in the town. Interview guideline was used to undertake a discussion with the focus group and key informants.

2.3. Background of the Study Area

Humera Town is the Administration Seat of the Western Zone of Tigray National Regional State with a population Size of above 26,344 (CSA 2008).

Western Zone is one of the seven Administrative Zones of Tigray Region which consists of four Woredas including Humera. According Ethiopian Central Statistics Authority report, from the total area of the zone 78% is low land and only 1.1% is considered to be high land, and the rest 21.9% estimated to be medium. The Zone have annual rain fall ranging from 550 to 900 mm per annum.

Humera town lies 980 km North West of Addis Ababa through Gondar and 1355 km through Mekele city (capital of Tigray region). The town is

characterized by the lower altitude ranging from 500-700m above sea level and its temperature reaches up to 46⁰c. Humera is bordered by Eritrea in North and Sudan in North West direction. This unique location feature provides the town to have a strong economic, administrative, social and cultural interaction with the neighbor countries peoples.

The town is administratively divided in to two 'kebeles'. Most of the processed goods and other economic services such as input for construction works, household facilities and for daily consumption are produced and provided by Micro and Small scale enterprises of the town.

CHAPTER THREE

3. LITERATURE REVIEW

3.1. Definition of Micro- and Small-scale Enterprises

Defining the term MSEs is very important to undertake a study and explore the opportunities and constraints/challenges of operators of the sector. However, as different literatures noted, there is no single, uniformly accepted and clear-cut definition of MSEs.

Solomon, 2004; Davies, 2003; Wolday, 2002; (cited in Adil, 2007), indicated that, there is often confusion in what is meant by micro, small, medium or large-scale enterprises. As a result of this there is no universally agreed definition used to distinguish between each of them, that the challenge for the promotion and policy intervention is alleged to start from the definition itself.

Due to the multitude character of MSEs, different countries used different indicators to categorize or determine the size of enterprises. The most common are number of employees, invested capital, total amount of asset, sales volume and production capacity (ILO, 2004).

Definition of micro, small or medium enterprises depends on the objective of policies and programs in individual countries. The type of industry, commerce and service sectors and economic situations in a country in general also explain variations in the definitions. The case of some countries is presented under;

The first attempt to overcome the definition problem was by UK Bolton Committee (1971). As mentioned in Andualem (2004:39), the committee recognized the diversity of the sector and documented three essential characteristics of enterprises firms. In view of that,

- I- a small firm is managed by its owner in a personalized way,
- II- it has a relatively small share of the market in economic terms, and
- III- it is independent in the sense that it does not form part of a large enterprise and its ownership is relatively free from outside control in its principal decisions.

According to the committee in manufacturing small-scale firm is defined as a firm with 200 employees or less, in construction 25 employees or less, in retailing and miscellaneous services turnover of Birr 50,000 p.a. or less.

Storey, 1994 (cited in Sertsewold, 2007) also stated three distinguishing features between large and small firms. First, the greater external uncertainty of the environment in which the small firm operates and the greater internal consistency of its motivations and actions. Second, they have a different role in innovation, small firms are able to produce something marginally different, in terms of product or service, which differs from the standardized product or service provided by the large firms. Finally, the greater likelihood of evolution and change in the small firms which become large undergo a number of stage changes.

Alternatively, the international organizations (WB, USAID, and UNIDO) also provided definitions to small-scale firms on the basis of their programmes to support the sector. The following are their working definitions:-

- World Bank (1978) – Firms with fixed asset (excluding land) less than US \$250,000 in value are small-scale enterprises.
- USAID (1990) – Firms with less than 50 employees and at least half of the output is sold are small-scale enterprises.
- UNIDO definitions – Firms are classified into two that is for developed countries and developing countries. Firms with 5-19 workers are considered as small-scale enterprises for developing countries whereas firms with less than 99 workers are small-scale enterprises for developed countries.

Because of the multitude behaviour and diversity of the small-scale enterprises there is no universally best way to define the sub sector. Thus, in countries such as USA and Canada, small-scale businesses are defined in terms of the number of paid employees. Accordingly, firms with fewer than 500 employees are regarded as small-scale businesses (ILO 2004).

This lack of uniformity in defining small-scale enterprises also exists in developing countries. Most of these countries use number of employees to categorize firms as small-scale enterprise. Therefore, in developing countries small enterprises are usually considered to have fewer than 50 workers (ILO 2004). For example in Malaysia, Singapore and

Thailand the number of workforce is under 50. In addition, in Mauritius, small industry is defined as a unit employing less than 25 workers, and in Congo a small enterprise and medium-sized enterprises are defined as those employing 5-19 persons and 22-99 persons respectively (Andualem 2004).

To generalise, the definition of size (micro, small or large) can be based on different parameters including: number of employees, capital investment, product or service turn-over, sales volume, net worth, range of markets, or even amount and type of energy used in production (Hyman, in Tegegne and Helmsing, eds, 2005). The writers contend that out of these parameters, *number of employees* is the most commonly used criterion. For developing economies, small firms will generally mean those with 10-50 workers whereas micro enterprises are roughly with fewer than 10 workers. MSEs can therefore be taken as those firms with 1-50 workers.

3.1.1. Definition of MSEs in Ethiopia

The definitions of small, medium and large enterprises vary from country to country. Even with in the same country it may vary from one branch of business to another. Generally enterprises are classified according to the number of persons they employ, the value of their assets, the production capacity and the technology used, and the volume of their sales. The most commonly used quantitative measure for an SME is the number of people employed by the enterprise though

there are no definite number internationally agreed up on for classifying enterprise in to small, medium and large.

In Ethiopia, there is often confusion in what is meant by micro, small, medium or large-scale enterprises. There is no universally agreed definition used to distinguish between each of them.

There is a need to have agreed national definitions not only for research purpose but also for consistency of legislation and for focusing discussions of policy makers as well as financial and enterprise promotion agencies to tailor appropriate measures to particular sectors. By considering the Ethiopian situation, MSEs may be defined in the following way (Hailey, 1991; in Worku & Daniel, eds, 2004).

- (a) Micro-enterprises: Are business activities that are independently owned and operated; have a small share of market; and employing ten or less workers and capital reaching up to 20,000 Birr.
- (b) Small businesses: Are those enterprises that employ 11-49 employees. They share the same characteristics with micro-enterprises in other aspects.
- (c) Medium Scale enterprises: Are those enterprises which have a relatively higher share of the market, are independently or jointly owned and managed by the owner or by appointed executives, and employ 50-99 persons. Those enterprises that employ more than 100 persons would be considered as large enterprises.

The Ethiopia Ministry of Trade and Industry (MOTI) has developed definition for formulating Micro and Small Enterprises Development Strategy (1997). Accordingly, MSEs were defined as follows:

- *Micro enterprises are those business enterprises, in the formal and informal sector, 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 500,000 and excluding high tech consultancy firms and other high tech establishments.*

3.2. Theoretical Review on MSEs

Classical development theories such as modernization and the dependency theories views MSEs as low productive activities. In modernization theory, development is seen as a process where agriculture is gradually mechanized and where small low productivity artisan workshops are substituted by large scale mechanized industrial enterprises with high production. Small enterprises are believed to disappear eventually.

The dependency theory views large national and international corporations shaping the world economy. These corporations exploit cheap factors and enjoy economies of scale and are more profitable than small scale enterprises. Under this circumstance, the theory views

that small enterprises survive either in direct dependency on the large enterprises or as a sub-contractors as a petty producers or traders operating in extremely competitive markets with no possibility to earn profit sufficient to invest and grow (Anderson, 1989; cited in Tegegne and Mulat, 2005).

Recently, the views on micro and small enterprises have changed since large scale industrialization schemes which have been practiced in many parts of Africa and other developing countries resulted in a poorly integrated or enclave economy (ECA, 2002). The early attempt at industrialization could not be realized in developing countries due to specific characteristics (low capital and saving, lack of modern technology, high population growth, inadequate skilled manpower, etc.). The World Bank assessment of the performance of public (large scale) manufacturing enterprises has been that they are of unsuitable scale and design, have weak links with the domestic economy, have high costs of production, depend on foreign exchange and imported inputs are poorly maintained and keep large unutilized capacity (World Bank, 1989).

Since the 1970s, small industry promotion has gained further impetus from the perceived failure of large plants to create enough productive jobs to absorb a significant share of the rapidly growing labour force in many developing countries (Snodgrass and Biggs, 1996). At the time, MSEs in general were given a great emphasis both in developed and developing countries. They are considered to be one of the most important means in poverty alleviation and raising the welfare of the poor which depend on their incomes, their access to information and

other services and also their ability to withstand crises. During the 1980s & early 1990s, MSEs began to enjoy more esteem and prestige than ever before, no small thanks to its ability to invest new products and to create new jobs (Siropolis, 1998; cited in Sertsewold, 2007:2)

In most developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology.

The MSEs sector is also described as the national home of entrepreneurship. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full and to attain their goals. In all the successful economies, MSEs are seen as an essential spring board for growth, job creation and social progress at large (MoTI, 1997).

3.2.1. Opportunities for MSEs Development

From a number of directions donor agencies and development analysts are converging in small enterprises development as a (potential) priority area in development policy in general, and in Africa in particular. First of all, changing perceptions about state, market, and society are having substantial impact on the political economy of development.

Second, experiences with structural adjustment have shown that macro-economic adjustments do not always achieve the desired supply responses, especially as regards private investment.

Third, during the eighties there was a growing realization that non-agricultural activities in the rural areas and small towns play a much more substantial role than hitherto surmised. In view of the relatively restricted labour absorption in high input agriculture, these activities acquire more significance.

Fourth, the inability of the urban manufacturing, trade and service sector to provide a satisfactory rate of growth in employment, combined with rapid growth of city populations has put inordinate pressure on urban labour markets.

Finally, the appropriate technologies may give small enterprise advantages in terms of greater efficiency in resource use and of environmental effects relative to imported technologies (Romijn & Wilder, 1991; cited in Helmsing & Kolstee, 1993).

The MSEs and their role in economic systems have been discussed in many different contexts. Ozcan (1995) have cited the following opportunities for MSEs development. First, the approaches of local economic development policies emphasising bottom-up development have promoted small firms. The transformation of the relative power of central governments and local governments as well as the relation of government to local entrepreneurs and other agents have each been

3.2.3. Trends towards privatization

International cooperation policies started to promote small enterprises during a time of profound change in the role of the state in African economies. The call for “more government” in the 1970s and “less government” in the 1980s were replaced by calls for “better government” in the 1990s. Structural adjustments and the trend toward privatization pushed the bloated public service in African countries to downsize and to create enterprises to give their departing members employment. There now appears to be a consensus on the validity of actively fostering the small enterprises sector as a source of economic growth (English & Henault, 1995)

It is argued that recent trends towards privatization and the declining role of the government in the economy have created a better business environment and have encouraged the growth of the small firm sector. Helmsing and Kolstee (1993) have argued that the tendency toward privatization and deregulation of the economy would encourage potential entrepreneurs to start up.

The desire to alleviate the economic crises of many African countries coupled with the pressure exerted by international institutions have prompted the change in government policy to a more liberal economy in which state owned enterprises are no longer wholeheartedly supported. Accordingly the structural adjustment programme (SAPs) sponsored by the World Bank and IMF have been implemented in many LDCs. Under these programmes, the development of private sector as an alternative to the inefficient state sector has been advocated and various incentives

have been offered. The small enterprise sector was often considered to have particularly strong potential (ibid).

3.2.4. Sectoral migration

It is argued that the migration of population from rural to urban areas might provide an expansion of the increase in the number of small firms. Rural-urban migration is implicitly a migration from the agricultural sector to the secondary and tertiary sector or alternatively to a period of unemployment. Given the limited ability of the urban formal sector to absorb the rapidly increasing urban labour force, the newcomers are often pushed to actively seek work in the informal sector or small firm activities (Colman and Nixon, 1986).

New small firms can also be formed by entrepreneurs who were previously working in the public and government sector. Employees laid off by large formal enterprises as the result of restructuring might find their way into the small firm sector (Osei, et al. 1993).

As Elleithy and Nixon (1998) stated that the emergence of small firms in might be explained by:

1. the push effects of the poor economic performance, which is manifested in high unemployment rates;
2. the decline in large state-owned firms;
3. the more favourable government policy towards encouraging the private sector;
4. the declining role of the agricultural sector and the increase in the number of people dependent in the

available land, that have led to a movement from agriculture to other economic sectors, particularly to small manufacturing enterprises.

3.3. *Role and Importance of MSEs*

From the viewpoint of economic history, the mechanisms through which know-how and capital are accumulated are still too little understood to enable the conditions for the creation of MSEs to be precisely defined. However, there is general agreement regarding the spontaneity of their emergence in an environment psychologically and materially favourable to individual endeavour. In most cases, only at a latter stage do the authorities and various public or private institutions at central or local level begin to provide some degree of material support for the development of the MSEs sector and move to foster its multiplier effect in terms of employment and income generation (Regnier, 1998).

Since the 1970s, small enterprises promotion has gained further impetus from the perceived failure of large plants to create enough productive jobs to absorb a significant share of the rapidly growing labour force in many developing countries. It is widely claimed that, relative to large firms, SMEs are more efficient, more labour intensive, and geographically more widely dispersed than large enterprises. Promotion of SMEs would therefore enhance both efficiency and equity objectives (Snodgrass & Biggs, 1996).

In general, in the World Bank (1978) document, the role and importance of small-scale enterprises is presented as follows:

“Small-scale enterprises provide outlets for the talents and energies of enterprising, independent people, many of whom would not fulfil their potential in large organizations. Small firms often flourish by serving limited or specialised markets that are not attractive to large companies. They provide a seedbed for entrepreneurial talent and a testing place for new industries. They supply dynamism, and contribute to competition with the economy. They enhances community stability, do less harm to the environment than large factories, stimulate personal saving, promote agro-industrial linkages, improve rural welfare, and generally raise the level of popular participation in the economy”

The ministry of trade and industry (MoTI) of Ethiopia in its MSEs development strategy (1997) stated the role and contribution of the sector as a powerful tool for rapid economic growth in developing countries. The document revealed that, in most developing countries MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effort for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology. The MSEs sector is described as the national home of entrepreneurship. In all the successful economies, MSEs are seen as an essential spring board for growth, job creation and social progress at large.

Generally, there is an agreement that small and medium enterprises play a crucial role in a country's economic growth and development. Their potential advantages rest on certain assumptions and rationales. They are labour intensive and tend to use less capital per worker and are thus ideal for labour abundant-capital scarce countries. The small

ones especially use existing local and traditional skills and raw materials. They offer greater opportunities for employment not only for educated and technical power but also to the uneducated labour force. They can be established at location that are least developed and help to increase income of poor households thereby improving distribution of income, and as a result help to minimise overcrowding in the urban areas (Worku & Daniel, eds, 2004).

3.3.1. Development of MSEs as seedbed for entrepreneurship development

Entrepreneurship traits include initiative, managerial ability, innovative ideas and drive. Education and training are needed to assist a person to become a successful entrepreneur. A reasonable level of entrepreneurship is necessary for successfully running MSEs that are large in size or relatively modern, or involve relatively complex decision making relating to production or sale or both. Also, a certain level of entrepreneurship is necessary for properly managing enterprises (ILO, 1996).

The rationale for the development of small-scale enterprises is based on Schumpeterian thinking about the fundamental role of *entrepreneurship* and management skills in development. The scarcity of both these resources in developing countries highlights the potential role of the small-scale sector in two complementary aspects: as a training ground and seed-bed for medium and large-scale sectors, and as an efficient user of existing indigenous entrepreneurial and

management skills which would otherwise remain unused (Page, 1979; cited in Harper, 1985).

3.3.2. Employment generation and poverty alleviation role

After the “employment crises” era in the 1970s, “small is beautiful” movement was inspired by E.F.Schumacher. Following this, the World Bank developed sector policy paper on small enterprises in 1978. The policy paper put the efficiency of small enterprises in their labour absorption as:

In most developing countries only a fraction of the new job seekers can be employed in agriculture. The scarcity of capital severely limits the number of new non farm jobs that can be created, because investment cost per job are high in modern industry. An effective development policy should seek to increase the use of labour relative to capital, to the extent that it is economically efficient (World Bank, 1978).

The small business sector is also seen as an important force to generate employment and more equitable income distribution, to achieve competition, exploit niche markets, enhance productivity and technical change, and through all of these stimulate economic development.

Micro and small enterprises are considered as part and parcel of the huge component of Local Economic Development (LED), which involves utilization of local raw materials, labour, entrepreneurship, market and the like, to improve the living conditions of operators and other beneficiaries through employment and income generation (Helmsing,

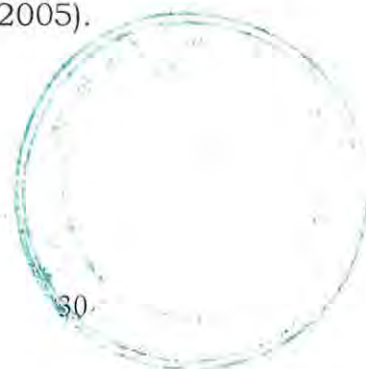
2005, cited in Daniel 2007:15). In addition, it is hoped that MSEs can alleviate poverty as they are owned and operated by low income groups of society.

The world development report confirms that the informal sector plays a prominent role in providing employment (absorbing one-third of the economically active population) and incomes. In many SSA countries the informal sector has been estimated to account for more than 75% of urban employment (Becker et al., 1991; cited in Elias 2005:96).

According to Wickware (cited by van der Loop, 2000; in Elias 2005), for example, MSEs hosts 70% of employment in Accra, 61% in Addis Ababa, 56% in Dar es Salam, and 46% in Kampala, indicating the relative importance in LDC cities and urban areas at large.

The relative importance of MSEs was augmented by the urban population dynamics. The population of urban Africa (SSA), in particular, is increasing at a fast pace. Over the last three decades, SSA has been transformed by urban growth and urban population of the region is growing at 6% a year (World Bank).

Given the current rapid rural-urban migration and deficiency of the formal sector to absorb this migration, MSEs have become important urban economic activities and providers of urban employment. Today, in Ethiopian towns and cities, MSEs and the informal sector in general are not only the predominant income generating activities but also the basic means of survival (Elias, 2005).



3.3.3. MSEs for efficient use of resources and improvement of regional balance

Evidence from a number of developing countries reinforces that “small enterprises with a lower level of investment per worker tend to achieve a higher productivity of capital than do the larger, more capital-intensive enterprises.” Generally as firm size increases: (1) capital investment per worker rises, (2) value added per worker rises, (3) the wage rate rises, and (4) value added per unit of capital falls. Thus one way to foster the creation of more urban jobs per unit of capital invested is by encouraging investment of small-scale enterprises, which is generally more labour intensive than large units (World Bank, 1978).

The potential of MSEs also help stem migration to metropolitan areas, to use agriculture/agribusiness/industrial linkages to increase rural labour productivity and income, and to engage very poor people in employment, ownership and decision making through cooperative and community-based projects. Establishment of outlying small-scale production units to serve markets of limited radius or as sub contractors to large industries could help significantly to reduce industrial concentration and the corresponding mounting cost of municipal services (IBID).

3.3.4. Socio- economic contribution of MSEs

According to Lied Holm and Mead (1999), MSEs have the potential to contribute in a number of important ways to the poverty reduction and development process. Among the most significant of these are the following:

A. contribution to household income and welfare

- Providing income maintenance for those with few options.
- Provides a basis for growth in income and welfare through asset accumulation, skill development, and access to more rewarding economic opportunities.
- Providing employment

B. contribution to self-confidence and empowerment of the individual

- Recognition of the dignity of the individual
- Spreading the vision that change is possible

C. contribution to social change and political stability

- Providing new opportunities for the poor
- Providing new opportunities for women
- Providing new opportunities for those in rural areas and in isolated locations.

3.3.5. MSEs and Women in Socio-economic development

Research shows that although many women own or run micro enterprises (and in many cases form the majority of micro-entrepreneurs), few of them enter the formal sector, and, as a result, only a small number of women's micro-businesses graduate into MSEs.

The reasons for this vary from country to country. In general, the existence and persistence of customary and traditional practices, which, in some cases, result in discriminatory laws, create a multitude of obstacles for women entrepreneurs in addition to those normally faced by all SME entrepreneurs. It is therefore important for developing countries to identify the types of support measures that may be necessary to promote women's entrepreneurship and facilitate their full contribution to the development of their countries (Helmsing, 2005).

In Africa, studies conducted on the participation of women in business enterprises at various levels suggest that most women have been and still are active in the unwaged sector of the economy where they retail petty commodities such as knitwear, baskets, pots as well as fruits, vegetables and other foodstuffs. Most of the entrepreneurs used labour-intensive methods of production in activities such as bread making, tailoring and uniform making, agricultural production and processing (Helmsing & Kolstee, 1993).

As a result of liberalization, most African governments support programs for small scale entrepreneurship that they need to do more to generate local manufacturing capacities in order to satisfy the demands and needs of their populations for goods, commodities and services that are necessary for a decent standard of living (ibid).

The FDRE in its National MSE Development and Promotion Strategy 1997 designed a strategy framework with particular emphasis that would be given to the advancement of women MSE operators.

In Ethiopia, according to the nationwide urban informal sector survey by the CSA (2003), there were 799,358 MSE establishment employing 997,380 persons, of which 60 percent were female. On the other hand, the 2002 nationwide survey of cottage/handcraft manufacturing establishments by the CSA identified 974,676 establishments engaging 1,306,863 people compared to the 98,136 industrial workers employed in the large and medium enterprises in 2002. Among the persons engaged, 74 percent were women for MSEs, of which about 94 percent were active owners, partners or family workers while 4.3 percent were employees (Welday Amaha, 2006).

3.4. Problems of MSEs in General

In most countries the small scale sector tends to be neglected by government policy makers. They frequently lacks access to institutional credit, and grate difficulty in obtaining necessary permit and licenses (and consequent resort to extra official channels), probably outweigh the fact that small-scale enterprises pay fewer taxes and lower wages (World Bank, 1978).

Other problems of MSEs include: poor access of obtaining imported and domestic materials or inputs, inadequate cash or credit for commercial and timely purchases, inferior quality of raw materials and intermediate processing which reduces the value of finished products, remoteness which combined with cash deficiencies, lack of access to improved technologies, problems in infrastructural and service availability such as power supply, water and sewerage, and roads are common in most cases (ibid).

As quoted in E.P. English and G. Henault (1995); A.O. Sangowawa, vice-president of ADB in 1990s, presented a very interesting diagnosis of the historical importance and difficulties facing MSEs in Africa:

...small enterprises have to be fostered because of their great potential and value in creating employment, achieving equitable income distribution, alleviating poverty, build up local technological base, promoting participation of vulnerable groups, particularly women, in the development process providing training ground for entrepreneurial and managerial skills, providing opportunities for use of own capital resources, and acting as ancillaries to large scale enterprises. Although many African governments have realized the importance of small enterprises and the need to develop them few have launched comprehensive and effective policies to promote them. The lack of an appropriate institutional framework and of adequate infrastructures, inadequate financing schemes and inefficient information systems are some of the important obstacles which still hamper the organized development of small enterprises in Africa (English & Henault, 1995).

Most MSEs require small amount of initial and working capital, except in certain cases where the MSEs are relatively large, or use modern or improved technologies. Even in the later case, capital requirements may only be moderately large. Yet, shortage of capital for MSEs, particularly the smaller ones, was usually raised by the proprietors from their own sources (family, saving, sale of property and jewellery). They also raise working capital and expand capital from their own sources, including any profits made. Hence, giving their limited means and usually low

profits, they were always haunted by inadequacy of capital, particularly working capital. The access of such enterprises to institutional credit was limited because of traditional (security orientation, collateral requirement) lending methods and also, not frequently, corrupt practices. For the rural enterprises, moreover, bank branches were not always within easy reach (ILO, 1996).

3.5. Empirical Literature

3.5.1. Historical background of MSEs in Ethiopia

The issue of MSEs and entrepreneurship development have since recently received greater attention as priority areas crucial for stimulating economic growth both in the developed and developing countries. These areas have actually aroused so much interest among donor agencies, governments and NGOs, policy makers, development analysts, etc...

According to Andualem, (cited in Worku & Daniel, 2004), in Ethiopia, the MSE sector (and the private sector in general) remained neglected for a long period until a shift was made to a market led economic system (post 1991) which meant the strengthening of the private sector as a consequence of this small enterprises which constitute the bulk of the sector were to be fostered and mushroomed.

In Ethiopia it could be argued that deliberate effort to promote MSEs is relatively recent. In line with its ideology, policies and regulations of the Derg regime aimed at curtailing (if not eliminating) the private sector. In general, the restrictive policies on license finance and investment as

well as the legal bureaucratic requirements of the regime discouraged the participation of MSE operators (Gebrehiwot & Wolday, 2006).

Following the regime change in 1992, drastic measures, intended to transform the command economy to a market-led one, many of which are bound to affect MSEs, were taken. The main macroeconomic reforms and restructuring that, directly or indirectly; affect the development of MSEs include: adoption of market economic policy; deregulation of domestic prices; devaluation of the local currency; privatization of public enterprises; decentralisation of and devaluation of power and the formation of regional states; formulation of a new labour law; financial sector reforms including the opening of private banks, insurance companies and microfinance institutions (ibid).

The importance of the micro and small enterprises sector in Ethiopia, particularly for the low income, poor and women groups, is evident from their relatively large presence, share in employment and small capital requirement. These are sufficient reasons for governments and other stakeholders in development to be interested in MSEs (Gebrehiwot & Wolday, 2006). The authors also viewed that, however, in the context of many developing countries, particularly countries in transition including Ethiopia, MSEs are also seen as an emerging private sector, forming the basis for private-sector-led growth. In Ethiopia, at the level of policy and strategy, these roles of MSEs have received recognition. They are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development.

3.5.2. Economic and social contribution of MSEs in Ethiopia

The MSEs sector has made invaluable contributions to the economic and social life of Ethiopian society. It has provided employments, incomes, skills, goods and services, etc. to millions of Ethiopians who would otherwise have been neglected by the large enterprises. The MSEs have also very important output linkages with agriculture to which they provide tools, equipment, services, etc as well as input linkages with it and manufacturing from which they obtain raw materials, spare parts, etc. (Getachew & Getachew 1997).

The sample survey, conducted in 48 major towns, by the Central Statistics Authority (CSA), 1997, showed that there were 584,913 and 2,731 informal sector operators and small scale manufacturing industries respectively that absorb 739,898 labour forces. The MSEs sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. This indicated that the sector is a quick remedy for unemployment problem (MoTI, 1997).

According to the Ethiopian CSA (1997) survey, the whole labour force engaged in the informal sector activities and small scale manufacturing industries was more than eight fold (739,898 persons) to that of the medium and large scale manufacturing industries (90,213 persons).

3.5.3. MSEs development and promotion strategies in Ethiopia

Designing and implementing appropriate economic policies, strategies, and legal and regulatory framework are prerequisites for creating an enabling environment to promote MSEs.

In Ethiopia, at the level of policy and strategy, the roles and importance of MSEs have received recognition. They are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development. See, for example, the poverty reduction strategy (MoFED 2002), the Industrial Development Strategy (Ministry of Information 2003, Amharic), the Micro and Small-Scale Enterprises Development Strategy (MoTI 1997), and the Food Security Strategy (FDRE 2002). Reflecting this, numerous initiatives and interventions, by government and donors alike, have been underway (Gebrehiwot and Wolday, 2006).

The 1997 strategy stresses that various policy, structural and institutional related problems and bottlenecks have constrained the role of MSE sector in and contribution to the national economy. Thus primarily it aims at creating enabling legal, institutional and other supportive environments for the development of MSEs. The specific objectives of the strategy include: facilitating economic growth and bring about equitable development; creating long-term jobs; strengthening cooperation between MSEs; providing the basis for medium and large scale enterprises; promoting exports; and balancing preferential treatment between MSEs and bigger enterprises.

The intended MSEs support include creating legal framework; improving access to finance; introducing different incentive schemes; encouraging partnerships; providing training in entrepreneurship, skills and management; improving access to appropriate technology, information, advice and markets; and developing infrastructure.

The industrial development strategy, issued in 2003, also recognises the promotion of MSEs as an important instrument to create productive private sector and entrepreneurship, hence accords it due emphasis and priority. It promises to every effort to support this sector through provision of infrastructure (working premises and land), financial facilities, supply of raw materials, training, etc. Federal and regional governments are expected to coordinate the support services (MoFED, 2006).

3.5.4. Challenges/Constraints of MSEs in Ethiopia

In most developing countries, small businesses face a wider range of problems and constraints. They relate, among others, to the legal and regulatory environments, access to markets, finance, business information, business premises, the acquisition of skills and managerial expertise, access to appropriate technology, access to quality business infrastructure, and discriminatory regulatory practices (MoTI, 1997).

In Ethiopia's situation, although the economic policy of the country paid due emphasis for entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related

to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment, and many others, which need proper attention (ibid).

According to Andualem (in Worku and Daniel, eds, 2004), although significant measures have been taken by the government of Ethiopia, MSEs still face serious obstacles both at the operation and start-up level. Some of the most critical constraints raised at different forums include, among others, access to finance, lack of access to premises and land, lack of infrastructure, lack of training in entrepreneurial and management skills, lack of incentives, lack of information on business opportunities, and cultural and social factors particularly deficient entrepreneurial culture, excessive and trivial corruption. However, the degree of severity of constraints varies from business to business.

3.5.5. Tigray regional state program to support MSEs and beneficiaries

Generally, programs designed to provide assistance to MSEs have the objective of helping the already established enterprises to survive by reducing the constraints, and increasing the rate of new start-ups by eliminating barriers that hinder people from starting out in business.

In urban and rural areas of Tigray region, there are a large number of MSEs which are engaged in different kinds of business activities. Although these sectors have a significant contribution to the overall economic activity of the region, they remain beset with many problems

that constrain their effectiveness. To solve the problems, the regional state has undertaken direct programmatic support for MSEs development and promotion. However, due to its limited capacity, it could not give support to each sub sector and beneficiaries.

So, the regional government sets some criteria which give priorities to some selected sub sectors of MSEs and beneficiaries that:

- Uses domestic raw materials and are labour intensive
- Are export oriented and could generate foreign currency
- Can expand and improve tourism

Based on the above criteria, the regional state also gives further priorities in different sportive package programs such as BDS facility, accesses to credit, technology transfer, training, provision of land for working premises and the like for the enterprises and beneficiaries that:

- Engaged in food preparation, waving, tailoring, textile, hide and skin products, metal work, and hand craft.
- Are employed youth, technical and vocational graduates, self employed individuals, and individuals who introduce new innovation
- Are women owned
- Found in naturally disaster areas
- Engaged in construction
- Engaged in foreign trade competition
- Engaged in agro-business activity
- Engaged in natural resource conservation (Tigray Region MSED, 2004).

The regional government provides different supportive packages to the MSEs. The packages has presented in the following table:

Table 3.1 Supportive packages to MSEs in different years

No.	Type of support	2005	2006	2007	2008
1	Loan	95,000,000 Birr to 14054 MSEs	108,000,000 Birr to 24040 MSEs	151,300.000 Birr to 30943 MSEs	110,000,000 Birr to 29528 MSEs
2	Training	18,885 operators	16,954 operators	37,154 operators	68,000 operators
3	Provision of work premises	To 5,714 MSEs	To 3,358 MSEs	To 8,487 operators	To 6,000 operators
4	Market linkage	To 8,682 MSEs	To 6,938 MSEs	To 18,146 MSEs	To 27,625 MSEs
5	Technology transfer	To 2,500 MSEs	To 3,397 MSEs	To 3,800 MSEs	To 4,200 MSEs
6	B.D.S	To 2,000 MSEs	To 2,000 MSEs	To 3,000 MSEs	To 4,800 MSEs

Source: Tigray Region Trade Industry and MSEs Office (2008)

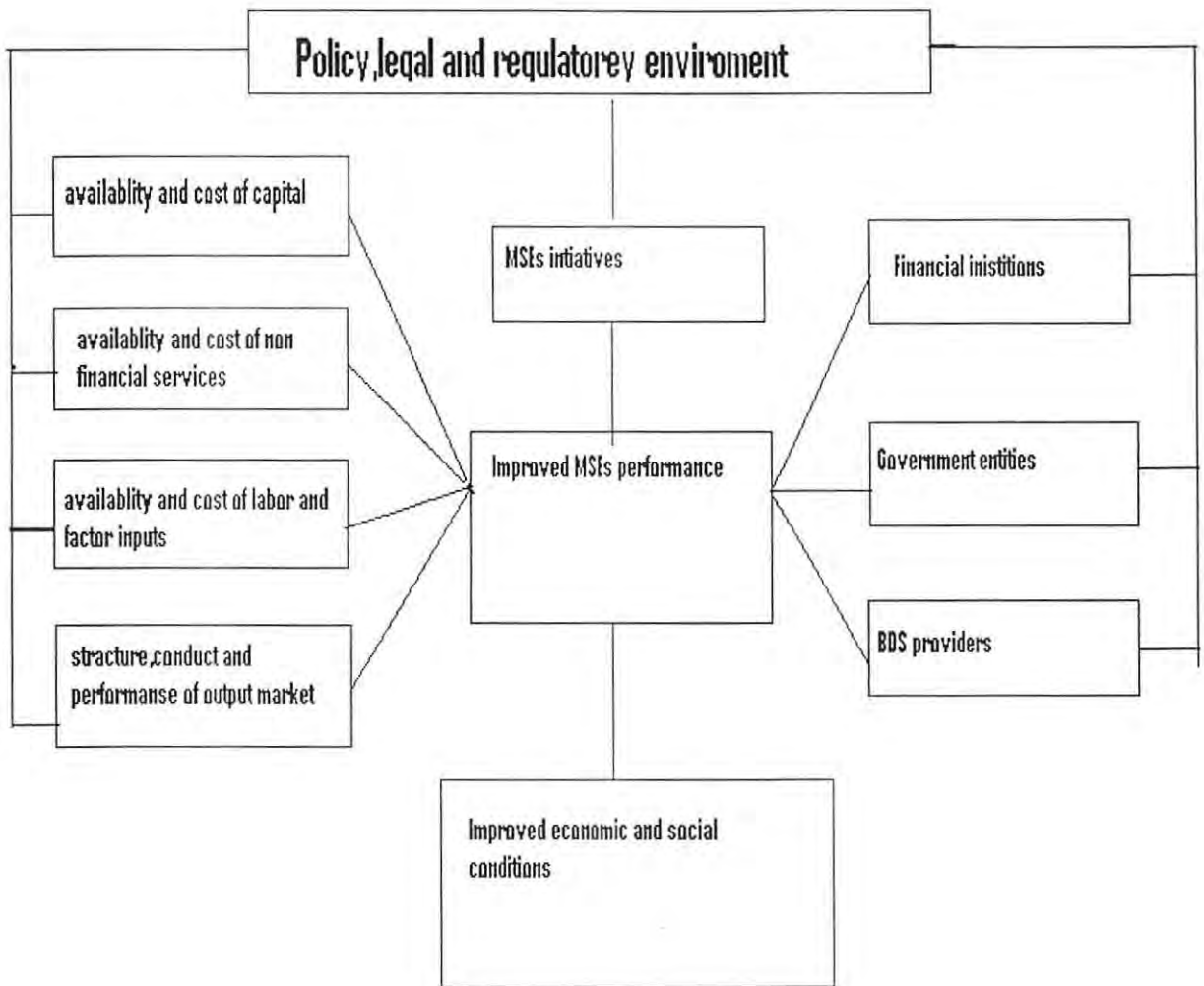
To provide the above support packages the government established one stop services in 40 towns of the region which currently the number of towns increased to 83 towns. Under each one stop service there are

extension workers to provide the above support in collaboration with the one stop service and other key stake holders.

3.6. Analytical framework for MSEs development

The performance of small enterprises is affected by a myriad of factors as indicated in figure 1. On the one hand, small enterprises need required inputs (e.g. capital, labour, material, and purchased services) to produce goods and services. The availability and cost of these inputs has a direct bearing on the performance of the firms. Small enterprises also need to be able to sell their goods and services at a price sufficient to earn an adequate return on investment. As such, the performance of firm is dependent on the nature of relevant markets and industries in which they compete. As noted in the diagram, small enterprises as well as factor inputs and output markets are affected by a broad range of policies, laws and regulations. (Oldsman E. and Hallberg K. 2003)

Figure 3.1. Determinants of MSEs Performance



A discussion of the critical causal relationship between activities carried out through the MSEs and desired outcomes with respect to intermediary institutions, and economic and social conditions is presented below:

- **Financial institutions.** MSEs may need access to finance at various stages of their development, including seasonal or revolving lines of credit to meet short-term financing requirements, or intermediate or long-term debt for land, buildings, equipments, and permanent increases in inventory. In response to these needs, financial institutions should provide available credit services to MSEs.
- **Government entities.** MSEs operate within a policy, legal and regulatory environment established by government (i.e. executive, legal and judicial branches). Thus government agencies have to formulate new policies, reduce tax and regulatory burdens, and streamline various procedures in order to provide greater resources and reduce the burdens on MSEs.
- **BDS providers.** MSEs may require various forms of outside assistance to address specific needs related to planning, production, operation and other business processes. In this regard, BDS providers have to take steps to help the MSEs to develop new services, expand their operations, and strengthen their performance.

CHAPTER FOUR

4. Assessment of MSEs Situation in Humera

4.1. Socio Economic Characteristics of MSEs Owners

The MSEs owners' personal characteristics include various demographic factors such as sex, age, marital status, family size, and literacy level. The sex composition shows that most (61.2%) of the owners of MSEs in the locality are male, whereas the rest (38.8%) are female owners. This result exhibits the common feature of gender imbalance in owning and controlling productive resources in the country. Furthermore female participation as owner is absent particularly in metal and wood work, and tyre repair and garage activities.

Table 4.1 Distribution of MSEs operators by activity type and gender

Activity type	Male		Female		Total	
	No.	%	No.	%	No.	%
	Metal & Wood works	20	100	-	-	20
Coffee & juice house	-	-	14	100	14	16.5
Beauty salon	8	50	8	50	16	18.8
Tyre repair & garage	10	100	-	-	10	11.8
Restaurant	14	56	11	44	25	29.4
Total	52	61.2	33	38.8	85	100

Source: Survey data 2008

On the other hand, female ownership also dominantly observed in coffee and juice house business activities which accounted 100 percent. Female participation as owner in MSEs in beauty saloon and restaurant businesses comprises 50% and 44 percent respectively.

Table 4.2 has presented distribution of MSEs by age category and age, accordingly the average of respondents is 35.7. Most of the MSEs owners are young, which represent 82.3 percent are below 40 years. The minimum age reported in the study area is 23 years. On the other hand, only 4.7 percent are above age of 50 years.

Table 4.2 MSEs owners distribution by sex and age category

Age category	Male		Female		Total	
	No	%	No	%	No	%
20 – 30	9	10.6	14	16.7	23	27.1
31 – 40	24	28.2	13	15.3	37	43.5
41 – 50	15	17.6	6	7.1	21	24.7
Above 50	4	4.7	-	-	4	4.7
Total	52	61.2	33	38.8	85	100
Average age	37		32		35.7	

Source: Survey data 2008

The table above revealed that 27.1 percent of the MSEs owners in the study area are between the age category of 20 and 30 years, while about 43.5 percent are with in the age category of 31 and 40. About 24.7 percent of the respondents are between 40 and 50 years age

category. In regard to gender distribution the mean age of male owners is greater than the female owners, which represented 37 and 31 respectively. In general, the study result indicated that almost all of the MSEs owners are in the productive age group.

The other characteristic issue treated in this study is marital status. The survey result shows that 36.5 percent are married. About half of the MSEs owners, which represent 50.58 percent, are unmarried and the rest 13 percent are either divorced or widow.

Family size is also assessed as one component of personal characteristic of the owners. Thus, 60 percent of the owners are belonging to 1-3 family size. Beside about 35 percent and the rest 4.7 percent are reported with family size of 4-6 and 7-9 respectively. The average family size of the owners is 3.3 persons.

Table 4.3 Family size of MSEs owners

Family size	Frequency	Percent
1 – 3	51	60
4 – 6	30	35.3
7 – 9	4	4.7
Total	85	100
Average family size	3.3	

Source: Survey data 2008

The other factor on which the attempt made to study is the opportunities to formal education of MSEs owners. The survey result

shows that almost all (about 99 percent) of the MSEs are owned by individuals with at least some formal education. A good proportion (60 percent) of the operators has at least in high school education and above grade 12 (including TVET certificate and collage diploma). Those with above high school education constitute about 20 percent. Where as only 10.6 percent of the MSEs owners have education levels of grade 4 and below.

Table 4.4 Education levels of owners

Education levels	No.	%
No formal education	1	1.17
1-4	8	9.4
5-8	25	29.4
9-12	34	40.0
Certificate	12	14.1
Diploma	5	5.9
First Degree	-	-
Total	85	100

Source: Survey data 2008

As table 4.4 above revealed that, only 1.17 percent of the respondents have not attended formal education while 9.4 percent are reported with

education level of grade 1-4. The survey result also showed that 29.4 percent of the MSEs owners are between 4-8 grade education levels. Considerable proportion (40%) of the owners reported education level of 9-12 grades. Those owners attained and certified in technique schools constitute 14.1%, and the rest 5.9% of the total sample MSEs were collage diploma graduates.

The other issue in this survey was obtaining some information on owners' occupation status before getting in their current business. The survey result has presented in the following table below.

Table 4.5 MSEs owners occupation status before entering their current business.

Previous occupation	No.	Percent
Unemployed	21	24.7
School leavers	30	35.3
Paid employees	17	20.0
Farmers	7	8.2
Military	6	7.1
Others	4	4.7
Total	85	100

Source: Survey data 2008

A significant proportion (35.3%) of the MSEs owners indicated that they were students before heading to their current business. Respondents who worked as paid employees' accounts 20% and those 24.7% were

unemployed. The survey result also showed that 8.2% and 7.1% of the respondents were farmers and x-military in that order. It is true that employees and owners offer technical capability to the enterprise depends not only on his (her) prior experience as entrepreneur but also on the training background both in the formal in the formal education and technical education.

4.2 Business Characteristics of MSEs

4.2.1 Respondent's business inception period

The survey data below reveals that out of the total 85 respondents, only 20% of the enterprises started their business before the year 2003, while the rest 80% of them after 2003. That is, 30.6% started between the year 2004 - 2006, and about 49.4% of the enterprises business inception period was 2007 - 2008. This implies that since the recent five years there seem better opportunity or condition of entry for the potential entrepreneurs to business activities and MSEs have alarmingly flourishing in the study area. This result may indicate the increasing focus of the government on MSEs development and infrastructural development in the area/region.

Table 4.6 Year of business establishment

Year	No.	Percent
Before 1998	4	4.7
1999-2003	13	15.3
2004-2006	26	30.6
2007-2008	42	49.4
Total	85	100

Source: Survey data 2008

4.2.2. License entitlement status of target MSEs

Generally, during the survey time, about 81 percent of the total respondents had legal business licenses, while the rest 18.8 percent were operating their businesses without having legal licenses. When we see by activity type, 75% of the MSEs entrepreneurs operating metal and wood works, 64.3% in coffee & juice, 87.5% in beauty saloon, 70% in tyre repair & garage, and 92% in restaurant activities have license. Furthermore, almost all of the not licensed businesses ages of establishment were less than two years. This shows the Humera Trade, Industry and MSEs office do not properly control and register the new business entrants.

4.2.3. Respondents' reasons to choose the current business

Why and how the MSEs owners started the current business is another important question that the operators were asked. The table 4.2.2 shows why MSEs owners got into their respective specific business activities.

As we can see in the table below 30.6 % of the respondents replayed that their preferences emanated from high profit expectation. The other 27% MSEs reason to establish their current business was because of having skill and previous experience in related activity. Business start up capital requirement was also another reason for the 18.8% owners. Lack of better alternatives and business transferred from family constitute 16.5% and 7.1% respectively.

Table 4.7 Reasons to choose the current business

Reasons	No.	Percent
Thought would be profitable	26	30.6
Skill/experience in related activity	23	27
Capital requirement matched with the money I had	16	18.8
No alternatives	14	16.5
Transfer from parents/relatives	6	7.1
Total	85	100

Source: Survey data 2008

The first reason suggests that many MSEs picked their choice of current businesses were based on consideration of better profit in that activity. The second reason also suggests that their choice was based on comparative advantage on skills and previous experiences. On the other hand, from the third reason, a good number of MSE operators got in to the specific business by matching their limited capital with initial capital requirement, and as activities of last resort by individuals searching for ways to sustain themselves.

4.3. Work premise situation and input availability

The survey questionnaire was also asked ownership of the working premise that is currently operating. As a result, a significant proportion (70.6 percent) of the respondents, reported that their operating work premises were rented from individuals and 7.0 percent were rented from government. On the other hand, those operating in their own work premise and family owners accounts 13% and 9.4% respectively

Table 4.8 Work premise ownership of MSEs

Ownership	No.	Percent
Rented from private	60	70.6
Own work place	11	17.0
Family owners	8	9.4
Rented from government	6	7.0
Total	85	100

Source: Survey data 2008

Regarding to the business premise rent, about 44.6% of the total respondents paying monthly rent between 500 – 1000 Birr and 14.8% of the total number were monthly paying more than 1000 Birr. The other proportion 13.5% and 27% of the target respondents monthly paying between the ranges 100 – 300 Birr and 301 – 500 Birr respectively. Table 4.3.2 also revealed that near 60% of the target MSEs were paying monthly more than 500 Birr for work premise.

Table 4.9 Range of monthly business premise rent payment

Rent in Birr	No.	Percent
100-300	10	13.5
301-500	20	27.0
501-1000	33	44.6
> 1000	11	14.8
Total	74	100

Source: Survey data 2008

The respondents were also asked whether they have access to enough inputs. The result is presented in the following table:

Table 4.10 Assessment on the availability of enough inputs in the area

Business type	Yes		No	
	No.	%	No.	%
Metal & wood works	8	40	12	60
Coffee & juice house	11	78.6	3	21.4
Beauty salon	9	56.3	7	43.7
Tyre repair & garage	3	30	7	70
Restaurant	17	68	8	32
Total	48	56.5	37	43.5

Source: Survey data 2008

As it can be seen in Table 4.10, slightly more than half (56.5%) of the total target MSEs answered as they obtain enough inputs in the area; while the remaining (43.5%) MSEs responded no enough inputs in the area. In regard to the type of business activity, 78.6 percent of MSEs engaged in coffee & juice business activity responded that, they can obtain enough inputs from the market in their surrounding, followed by 68 percent of MSEs operating restaurants which have that access.

On the other hand, those businesses necessarily use industrial inputs do not obtain enough inputs from surrounding market. The survey result revealed that only 40% of the metal & wood work operators and 30% of the tyre repair & garage operators indicated that they get enough input availability. Thus, the MSEs that use agricultural material inputs for the operations have better input market access from their locality and its surrounding areas than those who use industrial

4.4. Performance of MSEs

The performance of an enterprise can be evaluated in terms of profitability, productivity, sales volume, expansion rate, employment contribution, etc. But it is costly and time consuming to undertake a detail assessment of all variables related to performance. Therefore, this paper is limited to see the performance of MSEs, in terms of employment contribution, capital level, income level and welfare status of MSEs.

4.4.1. Employment contribution of MSEs

The MSEs in the study area were assessed with respect to their employment generation. In this topic the combination of workers employed, education levels of the employees, and the average number of employees is discussed below.

Table 4.11 Terms of employment in the MSEs

Type Of Employment	No	Percent
Permanent	39	12.5
Temporary	213	73.7
Family (w/o cash payment)	37	12.8
Total	289	100%

Source: survey data 2008

As it can be shown in table 4.11 above, during the survey time there were 289 persons employed in the total 85 enterprises. From which the greatest proportion (73.7%) of the total hired workers were temporary employees. whereas, the rest 13.5% and 12.8% were permanent employees and unpaid family workers respectively. Note that, the permanent employees indicated in this study are those paying monthly income tax (payroll tax) to the tax authority.

Table 4.12 shows that the total number of employees (excluding the owner) hired by the MSEs during the survey time. The mean number of employees per business activity was 3.21 persons. More over when we examine each activity separately, the MSEs who operating restaurants were absorbed a higher average of employment (4.88 persons per each enterprise). Tyre repair and garage, metal and wood works, and Beauty saloon have also good employment contribution which accounted average of 3.7, 3.15& 3.06 persons per each enterprise. The least employment contribution was observed in coffee and juice house business activity which was 1.28 persons.

Table 4.12 Average number of employees by business activity

Business Activity	Frequency	percent	Average No. of Employees
Metal and Wood works	63	21.7	3.15
Coffee and Juice House	18	6.2	1.28
Beauty saloon	49	17.0	3.06
Tyre repair and garage	37	12.8	3.7
Restaurant	122	42.2	4.88
Total/Average	289	100	3.21

Source: Survey data 2008

Further more, the study also assessed the employees' education, sex and age. In regard to employees' education levels, more than half of them were reported to be educational levels of less than grade 8. Whereas, about 27.2% were between grade 9-12, and only 4.3% of them have certificate. In general the MSEs are playing their role of generating employment and absorbing a large number of work forces as compared to big enterprises. Beside the contribution of MSEs in creating employment for women is considerable, accounting for 37.3% of the total employment generated.

The employees were also assessed by age. The data shows that, more than half (52.2%) of the employees are between 21-30 years of age. the rest 29.8% & 18% of the employees are in the age levels of 15-20 & 31-40 respectively. There was no employee reported with age of greater than 40 years old.

Table 4.13 Employees distribution by age

Age category	No	Percent
15-20	86	29.8
21-30	151	52.2
31-40	52	18.0
>40	0	0
Total	289	100

Source: survey data 2008

4.4.2. Capital and income status of MSEs

Table 4.14 summarizes that range of start up capital and current working capital of the sample MSEs. The data finding revealed that about 44.8% of the sample MSEs started their business with less than 5000 Birr capital. In line with this, 28.2% and 18.8% of the MSEs had starting capital of Birr 5000-10,000 and 10,000-20,000 respectively. A very small proportion (8.2%) of the MSEs reported that their start up working capital were in between the range of 20,000-50,000 Birr, whereas no one was observed with more than 50,000 Birr initial capital.

Table 4.14 Range of start up and current capital of MSEs

Range of Capital	Start up capital			Current capital		
	No	%	Cumulative percentage	No	%	Cumulative percentage
0-1000	2	2.4	2.4	-	-	-
1001-5000	36	42.4	44.8	25	29.4	29.4
5001-10.000	24	28.2	73.0	19	22.4	51.8
10.00-20.000	16	18.8	91.8	20	23.5	75.8
20.001-50.000	7	8.2	100	15	17.6	92.9
>50.000	-	-	100	6	7.1	100

Source: survey data 2008

Regardless the ages of enterprise and amount of capital, generally, their capital shows an increasing trend. For instance no one reported with less than 1000 Birr current capital and 7.1% of the samples have reached to capital of more than 50,000 Birr. Moreover, the number of MSEs who own capital of 20,000-50,000 Birr currently (at Survey time) has grown from 8.2% to 17.6%. It is believed that one of the reasons for capital growth of MSEs is an increase in purchasing power and demand of the society. The economic activity of Humera town dominantly drives by the amount of harvest and price of sesame and sorghum. In the past five years the total production and prices of these products have increasing from year to year. Therefore this circumstance may be the cause for that capital growth of MSEs.

Table 4.15 Monthly net income of MSEs

Birr	Frequency	Percent
< 500	4	4.7
501-1000	36	42.4
1001-1500	29	34.1
1501-2000	11	12.9
2001-5000	5	5.9
Total	85	100

Source: survey data 2008

The survey result in table 4.15 shows that significant proportion of the MSEs (42.4% and 34.1%) overage monthly net income were reported in range of Birr 501-1000 and 1001-1500 respectively In addition the percentage of MSEs who obtain net income of 1501-2000 Birr and 2000-5000 Birr per month account 12.9% and 5.9% in that order. In regard to type of business the highest amount of average monthly net income was reported in restaurant, followed by garage and metal and wood works. The restaurants in Humera town have better market access, because a large number of laborers flow for searching daily works.

4.5. Source of Capital

MSEs need finance to invest in new equipment and machineries, reach out to new markets and products, and cope with temporary cash flow shortages as well as to innovate and expand their businesses. The enterprises may use different types of sources of finance. However, the main sources such as own savings, fund from family or relatives, private money lenders, microfinance and banks were observed in this study. Accordingly the sample MSEs were asked whether they ever used these sources and receive credit form each of the above listed sources of finance in their operational period. The result have summarized below.

Table 4.16 Source of finance used by MSEs

Source of finance	Frequency	Percent
Own saving	69	81.2
Family/relatives	33	38.8
Dedebit Microfinance	29	34.1
Private money lenders	16	18.8
Banks	0	0

Source: Survey data 2008

Own saving is the dominant source of business finance which is used by 81.2% of the MSEs surveyed. Families/relatives and Dedebit microfinance institution have also a significant contribution in lending

business finance for MSEs, they accounted 38.8% and 34.1% in that order. It can be noted that, a good proportion of the MSEs (18.3%) were received credit from private money lenders, where as no one of the respondents used bank as a source of finance. The constraint that inhibits the MSEs for bank credit is lack of collateral. Therefore, the banks should evaluate their credit policy and/or its way of implementation in special focus of MSEs.

4.6. Business Growth Strategy and Training Needs of MSEs

In general every business enterprise has its own mission and purpose of existence, but all works towards profit. In this study, it is tried to assess the general growth strategy of the sample MSEs particularly in terms of their habit of keeping business recording, their business strategy and main factors for business growth, and the type of the training they and/or their employees need.

4.6.1 MSEs habit of business recording

The following table 4.17 revealed that, 80% of the total respondents claimed that they do not keep separate business records, whereas only 20% of the sample enterprise was applying the system standard of business recordings.

Note: The recording system accepted in this study is, any method of recording that shows daily, weekly or monthly sales, expenditure and profit of the business.

Table 4.17 MSEs habit of keeping separate business recording

Business activity	Yes		No	
	No	Percent	No	Percent
Metal and wood work	2	10	18	90
Coffee & Juice house	-	0	14	100
Beauty saloon	9	56.3	7	43.7
Type of repair and garage	-	0	10	100
Restaurant	6	24	19	76
Total	17	20.0	68	80.00

Source: Survey data 2008

When we see the practice of keeping separate business records by type of business activity, more than half (56.3%) of the entrepreneurs who own beauty saloon businesses have better habit of keeping business recordings and about one-fourth of the restaurant owners were also exercising business recording in their daily business transaction, followed by metal and wood works which accounts 10% of their counter parts. No one of the sample MSE, owners who ran coffee and juice house as well as tyre repair and garage businesses were recording their transaction. In general the majority of the MSE, owners did not record their daily or monthly expenditures and sales. There fore, the regional and woreda MSE, office and other supportive institution should coordinate training to fill this gap.

4.6.2. Business growth strategy and training needs of the MSEs owners

The respondents were also asked whether they have or not business growth strategy manner in the next three years and to indicate the strategy in specific manner. Accordingly, the majority (90.6%) of the MSE, answered as they have a growth strategy. Where as a small number of them (9.4%) were planned to shift in to other business type.

Table 4.18 Owners' business strategy for next three years

Type of the strategy	Frequency	Percent
Increase skilled employees	31	36.5
Improving product/ service quality	62	72.9
Add new type of product	25	29.4
Introduce/add new machineries	19	22.4
Shift to other business	8	9.4

Source: Survey data 2008

The most selected business growth strategy was improving product quality which constitutes 72.9%. In addition increase skilled employees, adding new product type and introduce/adding new machineries were also indicated as next three years business strategy by 36.5%, 29.4% and 22.4 respondents respectively.

Training is one of the essential elements for MSEs growth and development as well as for success of their strategy. Therefore, the study tried to assess the training needs of MSEs owners and for their employees.

Table 4.19 Main training needs of MSEs

Type of training	Frequency	Percent
Book keeping and finance related	62	72.9
Technical skill	59	69.4
Marketing Management	35	41.2
Other	18	21.5

Source: own survey 2008

The table 4.19 summarized the main training needs indicated by the sample MSEs. Book keeping and finance related training is mentioned by 72.9% of the owners as a main training need for themselves and their employees. Technical skills and marketing management are also significantly selected by 69.4% and 41.2% respondents respectively following bookkeeping. In addition to these three types of trainings mentioned above, other trainings such as health and sanitation are also cited by 21.5% MSEs.

4.7. Business Support Opportunities

Small business assistance efforts are characterized by multiple offices and serving in many aspects. The government assistance to MSEs may have three main categories aiming at: sponsoring dynamic and innovative new start-up ventures, maintaining and strengthening the existing small businesses and lastly widening small business opportunities. To this effect the government has adopted a separate policy statement for MSEs and set up departments in over all charge of industry and a host of institutions dealing with or extending support to MSEs.

The sample MSEs were asked whether they obtain any support by government or other stakeholders institutions during their course of business operation. The following table presented the source of business support obtained by sample MSEs at their business start up period or after.

Table 4.20 Business support obtained by MSEs

Type of support	Frequency	Percent
Training	32	37.6
Credit	29	34.1
Work place	15	17.6
Rehabilitation fund	9	10.6
Market free of competition	9	10.6

Source: survey data 2008

As looking at the result obtained from the respondents' answers to the structured question, 37.6% of them obtained any kind of training from government or other institutions. The MSEs who used credit service and got work place constitute 34.1% and 17.6% respectively. The supports of rehabilitation fund and market arrangement free of competition also cited by 10% respondent each.

In general, the study result revealed that the overall MSEs supporting activity of the town is poor. So the concerned supportive institution should strengthen their activity to grow and develop the enterprises. However, the support should be based on proper study that identifies their right needs.

4.8 Major Constraints of MSEs

MSEs constitute the bulk of private sector in cities and towns of Ethiopia as well as in Humora (the study area). As we seen in this study's previous analysis, they have tangible contribution in improving welfare and creating (absorbing) employment especially for the young age group. In general they have significant role in the overall economic development of the town.

However, the MESs often complained that their further promotion and development are constrained by various factors of problems. The detailed discussion and analysis on the most crucial and major factors constraining the promotion and development of the MSEs in Humera town are presented below.

The respondents were asked to rank three major constraints that are hampering their current operation. More than half of the respondents (44.7%) has cited infrastructural related problem (such as electric, water and telephone services) as the first serious problems confronting their current operation.

Table 4.21 current problems of MSEs in rank

Type of problem	Rank in number and percent			
	1 st	2 nd	3 rd	Total
Infrastructural related problems (electricity, telephone road, water etc)	38(44.7)	26(30.6)	14(16.5)	78(91.8)
Shortage of working capital	23(27)	24(28.2)	29(34.1)	76(89.4)
Lack /inconvenient work premise	17(20)	15(17.6)	5(5.9)	37(43.5)
Input price instability	0(0)	13(15.3)	16(18.8)	29(34)
Shortage of in puts /spare parts /	7(8.2)	6(7)	3(3.5)	16(18.8)
High level of tax	-	-	9(10.6)	9(10.6)
Increasing competition	-	-	4(4.7)	4(4.7)
Shortage of demand for product	-	1(1.2)	2(2.3)	3(3.5)
Government regulatory problems	-	-	-	-

Source: survey data 2008

In addition about 30.6% and 16.5% of the sample MSEs ranked these infrastructural related problems as second and third serious problems respectively. In sum 91.8% of the sample respondents have indicated this problem in to 1-3rd ranked problems.

The survey result in table 4.21 above shows that, shortage of working capital was also mentioned by significant proportion (89.4%) of the sample enterprises. More over, its seriousness was reported by 27% respondents as first rank problem as well as 28.2% and 34.1% as second and third rank respectively.

Next to the first two major problems frequently mentioned, lack / inconvenient work premise and input price instability were also listed out with the top three main problems facing the MSEs. Regardless of the ranks, lack /inconvenient work promise was reported by 43.5% respondents, fallowed by the problem of input price instability which constitute 34% of the total. In addition to these three top problems mentioned above, a number of respondents also reported that shortage of inputs / spare parts and high level of tax were also indicated as major constraints by 18.8% and 10.6% MSEs in that order. A very small proportion of the sample respondents (4.7% and 3.5%) also indicated the increasing competition and shortage of demand for their product as current facing problems. None of the sample MSEs was complained with government regulatory problems.

In general, the first top five problems confronting the MSEs in their daily business operation were;

1. infrastructural related problems
2. shortage of working capital
3. lock /inconvenient work premise
4. input price instability
5. shortage of inputs / spare parts

The sample enterprises were asked to indicate the degree of constraint for each business facility. Infrastructural related problems (such as electric power, access to water, work premise and mobile network) were one of the assessment areas. The study result shows that infrastructural related problems as a major constraints are indicated by majority of the MSEs for electric power, access to water, work place and mobile network facilities.

Access to business infrastructural facilities are very crucial elements for production and business operations of enterprises. This is the fact that, however, Humera town has not yet interconnected with the hydroelectric power of the country. The power access is provided using old generator. Moreover the residents complained that, the service is providing in shifting system (12 hours per day). In addition, the continuous defect of the generator also affecting to continuous power interruption.

In the town access to water supply is also in a very poor condition. The town is found in a very lower altitude, its temperature is ranging from

36° C – 46° C. Therefore this high temperature exacerbates the need to water consumption.

premise. When they clarify this problem; the municipality did not avail a separate product and market areas for each type of activity.

In regard to capital, it is true that any business enterprise require some amount of initial and working capital under its start up, operational and expansion stages. Thus the MSEs use different types of sources of finance. As it can be seen in table 4.16 the main sources of finance used by the sample MSEs were own saving and fund from families/relatives. Yet, shortage of capital was raised as main constraints of MSEs business growth and development. Therefore, the banks should contribute their part in giving reasonable credit to MSEs.

The problem of in put price instability was also mentioned with the main constraints. This incidence was a result of general price instability occurred though out the country in 2008.

Although these problems are common for all enterprises, the seriousness and effect of the constraint differ from one activity to the other. To assess these differences, I conducted discussion with five key informants selected from each type of business. They clarified that the shortage of and continuous interruption of electric power is seriously affecting the metal and wood work, beauty saloon, and tyre repair and garage types of activities. In regard to water shortage, it is a serious problem especially for restaurant, and coffee and juice house

businesses. But, they said that, the problem of mobile telephone network is common to all business activities.

The other issue of discussion with the focus group was the problem of shortage of working capital. They said that it is one of the leading problems confronting them, but the seriousness and amounts of capital required may differ one from the other type of business. The other main problem is lack / inconvenience of work premise. This problem is very serious to those operating their business in rent and this problem is aggravated by shortage of electric power.

CHAPTER FIVE

5. Conclusion and Recommendation

5.1 Conclusion

Though a multitude of problems generally challenge the operation of business activities in the area, the MSEs are contributing their part towards the economic development of the town. For example, they are playing an important role in providing jobs and income generation to many people; they are satisfying the market demand of the poor as MSEs offer relatively cheaper commodities to the market. In addition to this, they mobilize fragmented capital of individuals that would remain unutilized. They create wide linkages with different local material suppliers as they moderately use local material inputs. Furthermore, they increase the local government's income through taxation.

Currently the MSEs are integrated in the development process of the country. The government has formulated specific strategy, policy and packages for development and promotion of MSEs. Accordingly the credit facilities, trainings and other supports. Despite this fact, the study has identified a range of problems that are currently challenging the operation and very survival of MSEs in the area. The general problems faced by MSEs call for concerned stakeholders to play a leading role through creating opportunities for the enterprises.

This paper was sought to assess the employment contribution, opportunities and constraints of Micro and Small-scale enterprises in Humera town. The survey result shows that the absolute number of MSEs has growing fast. Their contribution in generating new jobs and absorbing skilled and unskilled work force is significant and promising. Their contribution in producing and providing products and services to consumers is encouraging. In general they are playing a good role in mobilizing local finance and human resource that leads to poverty alleviation and equitable growth.

The MSEs operating in Humera are dominated by male owners. Almost all of the owners and employees are in the productive age group. About 90% of the owners' education is greater than grade four and majority are in grades 9-12. Most of the MSEs owners were students and unemployed before entering their current business. Better profit expectation and having related experience of the owners are frequently mentioned reasons of establishing their current businesses.

Since the past five years the number of MSEs establishment in the town has grown significantly. Majority of the entrepreneurs do not have their own work premise so that they are paying high rent. In regard to availability of inputs, the businesses that necessarily use agricultural material inputs have better market availability than those who use industrial material inputs.

The study also proved significant growth between initial and current capital of the MSEs. Moreover, they indicated changes in working

capital; asset accumulation, cash deposit, and business expansion are some of the changes made by the MSEs. Their average monthly net income is was 1000 Birr. For majority of the owners' source of business finance is observed own saving, surprisingly no one used bank as a source of business finance.

The MSEs in Humera are also very poor in using book keeping. Almost all of the respondents have business growth strategy; specifically improving product quality is the most frequently observed strategy. With regard to training need, book keeping and technical skill trainings are cited as main training needs for the owners and their employees.

The other issue assessed in this study was the activity of supporting institutions to strengthen and develop the MSEs, in terms of training, credit service arrangement, and availing work place which were found to be very poor.

Though the general MSEs activities are encouraged, they complained various factors of problems that are constraining their day to day activities. The most crucial and leading constraint revealed by the study are infrastructural problems (electric power, water shortage, and mobile telephone network problems are cited in that order). Shortage of working capital was indicated in the second rank constraint by most of the MSEs. In addition, lack/inconvenient work premise and input price instability are also cited in the third and fourth rank of leading constraints hampering the current operation of MSEs in the study area.

5.2 RECOMMENDATIONS

The local government and its agencies need to take the problems faced by the enterprises in formulating support strategy. A comprehensive package of support is necessary to address the problems of MSEs. A major prerequisite for the introduction of the support program is strengthening the institutional capacity of Trade, Industry and Agency for MSEs Development Office at woreda levels. Extension services, information provision, consultancy and training should be emphasized. Ways must be sought to ensure that MSEs benefit from the services of commercial bank, private banks and micro-finance institutions.

The following suggestions are believed to help in mitigating the problems of MSEs and create enabling environment to support them.

- Training programs on book keeping, marketing, and technical skill development should be developed on a wide scale. Simultaneously consultancy and supervisory services should be given continuously by the MSEs office experts. Complimentarily, programs should be arranged which is aimed at sharing of experience among the MSEs by the concerned institutions.

- Creating conducive environment and better link between the MSEs and financial institutions (commercial bank, private banks and micro-finance) is also crucial. This program could help them to mitigate the problem of working capital.

- Creating clusters – The MSEs in that area are operating their business fragmented. Therefore the local government should create clusters. This can help to solve the electric and water problems. Clustering also helps to overcome the problem of location in market area.
- The municipality (and its land management system) should consider work premises for MSEs. This is important for those who are operating on high rent premises and new entrepreneurs.
- The one stop service center that is aimed to register and support MSEs should be strengthened with adequate skilled man power, facilities and budget. This can help the MSEs to obtain good service delivery and governance. The local government should facilitate forums of discussion among government agencies, stakeholders and the MSEs.
- One of the constraints in the MSEs is shortage of inputs and its price fluctuation. To avoid these problems the government should coordinate and encourage co-operatives that provide input supply. In addition market linkages should be developed to make the MSEs competent in the market.

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Questionnaire

Introduction

This questionnaire is prepared to explore necessary information about the opportunities and constraints of MSEs operating Humera town. The samples who are assigned to give answer for this questionnaire are owners of enterprises. The questionnaire comprises socio-economic characteristics of enterprise owners, income and capital status of the business, characteristics of the employees, business supports accorded, and challenges that inhibit the day to day operation and further growth of the business.

- 1- Name of the interviewer_____
- 2- Date_____ Time_____
- 3- Respondents code_____
- 4- Type of the business_____
- 5- Name of the business_____

A. Personal information

- 1- Sex_____ Age_____
- 2- Religion_____
- 3- Marital status
A, married B, single C, other
- 4- Family size
A, 1-3 B, 4-6 C, 7-10 D, >10
- 5- Literacy level of the entrepreneur
A, none B, 1-4 C, 5-8 D, 9-12

E, TVET graduate F, college diploma G, degree and above

6- Residence of the entrepreneur before start this business

Region_____

Zone_____

Woreda_____

If other country, please specify_____

7- Previous occupation before heading this business

A, unemployed

B, student

C, worked as paid employee

D, operated another small business

E, Farmer

F, military

B. Background of the business

8- Form of ownership

A, Sole proprietor B, partnership C, other_____

9- Business start-up/year of establishment

Year_____ Month_____

10- Legal status

A, licensed B, not licensed

11- What was your reason to establish this business?

A, Skill in this activity

B, Parents/relatives in this activity

C, Thought would be profitable

D, Capital requirement matched what I had

E, Little/no regulatory restrictions

F, had no alternative

12- Ownership of working premise

A, Own work place

B, Family owners

C, Rented from government

D, Rented from individuals

E, Other_____

13- If your work premise is rented, how much is the rent per month?

A, < 100

B, 501-1000

C, 101-300

D, > 1000

E, 301-500

C- Information on employment

14- How many workers does the business currently employ?

Male_____ Female_____ Total_____

15- Number of the workers by age category

less than 15_____ 16-20_____ 21-30_____

31-40_____ above 40_____

16- Number of the workers by education level

illiterate_____ 1-4_____ 5-8_____

9-12_____ TVET certificate_____

collage diploma and above_____

17- Employment characteristics of the workers

permanent employees_____

temporary employees_____

Family members without payment_____

18- How much is the maximum and minimum monthly wage of the workers?

Minimum_____ Birr

Maximum_____ Birr

D- Product and market assessment

19- Where is the most source of your business inputs?

A, Western zone Tigray

B, Other zones of Tigray

C, Amara region

D, Sudan

F, Addis Ababa

G, Other_____

20- Do you obtain enough inputs for maximum production?

A, Yes

B, no

21- If your answer in **No. 20 is no**, specify the

reasons_____

22- How do you evaluate the demand for your product?

A, more than enough

B, Enough

C, Low

D, Very low

23- If your answer in **No. 22 is "low" or "very low"**, please specify the reasons?_____

24- What is your evaluation about the change in your products' sales volume over the last 12 months?

A. Significantly increased

B. Slightly increased

- C. No change
- D. Slightly declined
- E. Significantly declined

25- If your answer in **No. 24 is (either 1 or 2)**, specify the reasons

26- If your answer in **No. 24 is (either 3, 4, or 5)**, specify the reasons

27- Have you made any progress after you start this business?

- A, Yes B, No

28- If your answer in **No. 27 is "yes"**, which of the following have you succeed?

- Save money
- Build residence house
- Build work premise
- Business expansion
- Establish other business

If any other, please specify _____

29- If your answer in **No. 27 is "no"**, please specify the reasons shortly

30- Are you planning to expand/develop your business in the next three years?

- A, Yes B, No

31- If your answer in **No. 30 is (2. no)**, which of the following are the reasons for not doing so?

- market not growing
- planed to shift in other business
- lack of growth capital
- risk in price instability
- other _____

32- If your answer in **No. 30 is (1. yes)**, which of the following are you business expansion/development strategy?

- 1- Increase in existing product volume
- 2- Improving the existing product
- 3- Adding new product type
- 4- Adding new machinery or work premise

33- Do you follow formal accounting recording system for the business transaction?

- A, Yes B, No

34- If your answer in **No. 33 is (2. no)**, what is the reason? _____

35- What are the main factors that are vitally important for your business growth? Please specify only four in their ranking order

- 1- Financial credit
- 2- Skill improvement training
- 3-Business and financial management training
- 4- Suitable product market
- 5- Available inputs
- 6- Marketing information

E. Training and tax information

36- Have you or your employees ever received training?

A, Yes B, No

37- If your answer in No. 36 is **yes**, what is the type of training received?

- 1- Skill training
- 2- Marketing management
- 3- Financial management
- 4- Other _____

38- Specify and rank three main training needs for you and your workers:

- 1. _____
- 2. _____
- 3. _____

39- Please indicate the office if you ever receive any support.

Office name	Type of support	Year
1. Trade, industry and MSEs	_____	_____
	_____	_____
2. Finance and Economic Dev't	_____	_____
	_____	_____
3. Woreda administration	_____	_____
	_____	_____
4. Womens' affairs	_____	_____
	_____	_____
5. Youth affairs	_____	_____
	_____	_____
6. Municipality	_____	_____

7. TVET _____

8. Dedebit micro finance _____

40- How much do you know about the taxation system?

- A, Know well
- B, Confuse about
- C, know little
- D, Do not know

41- What is your evaluation on the fairness of taxation in this town:

- A, Fair
- B, Moderate
- C, Unfair

F. Information on business capital

42- How much was your business initial capital?

- A, 100-1000
- B, 1001-5000
- C, 5001-10,000
- D, 10,001-20,000
- E, >20,001

43- What was the source(s) of your business start-up capital?

- A, Own saving
- B, Transfer from family
- C, Individual money lender
- D, Sale of property
- E, Credit from bank
- F, Dedebit micro-finance

44- Have you ever obtained credit from DECSI after you started the business?

- A, Yes
- B, No

45- If your answer in **No. 44 is yes**, for what purpose do you used the credit?

- A, For business expansion
- B, To build residence
- C, For food consumption
- D, For other business
- E, Other_____

46- If your answer in **No. 45 is no**, what is the reason for not use of credit from DECSI?

- 1- High interest rate
- 2- Lack of collateral
- 3- Fear of inability to repay
- 4- No need for credit
- 5- I have credited from private money lenders
- 6- Process too difficult
- 7- I do not have any information about DECSI credit
- 8- Religious barrier

47- Currently how much is your business average monthly net income?

- < 100
- 101-500
- 501-1000
- >5000
- 1001-1500
- 1501-2000
- 2001-5000

48- How much is your business current capital?

- <1000
- 1000-5000
- 5001-10,000
- 10,001-20,000
- 20,001-50,000
- >50,000

49- Where do you save your money?

- In DECSI
- In bank
- Iqub
- At home
- other_____

G- General problems assessment

50- Market and product related problems

Item description	No pbm	Minor pbm	Major pbm
Inadequate input			
Shortage of demand			
Market information			
Price instability			
Market competition			

51- Tax and licence related problems

Description	No pbm	Minor pbm	Major pbm
Tax rate			
Tax administration			
Getting licensed			
Licence renewing			

52- Infrastructural related problems

Description	No pbm	Minor pbm	Major pbm
Electric supply			
Water supply			
Work premise			
Telephone access			

53- Capital and credit related problems

Description	No pbm	Minor pbm	Major pbm
Shortage of capital			
Access to bank credit			
Lack of collateral			
Credit institution bureaucracy			

54- Management and work force related problems

Description	No pbm	Minor pbm	Major pbm
Skilled personnel			
Employees salary			
Managerial skill			
Book keeping system			

55- Please list out three main problems that are currently hampering your operation. Please rank them according to their weight of constraints;

- 1st - _____
- 2nd - _____
- 3rd - _____

56- What is your advice for MSEs development and promotion that can be done by the government institutions, other stakeholders and the MSEs? Please specify

THANK YOU VERY MUCH

Declaration

This thesis is original work and has never been presented for a degree in any other university and that all sources of material used for thesis have been duly acknowledged.

Declared by

Name: Teklit Berhane

Signature: 

Date: 17/05/2010

Confirmed by

Name: Dr. Workneh Negatu

Signature: 

Date: 17/05/2010