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**MICRO AND SMALL ENTERPRISES AND THEIR
INFLUENCES IN ALLEVIATING URBAN POVERTY IN
NEKEMTE CITY
OROMIYA REGIONAL STATE**

BY: DANIEL WOLDEKIDAN ELFETA

A THESIS

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Acronyms

ADLI	Agricultural Development Led Industrialization
BDS	Business Development Service
CBN	Cost of Basic Need
DCI	Direct Calorie Intake
DFID	Department For International Development
ERD	Economics and Research Department
EDHS	Ethiopian Demographic and health Survey
EO	Experienced Operators
EUHS	Ethiopian Urban Household Survey
FDRE	Federal Democratic Republic of Ethiopia
FET	Food Energy Intake
FGT	Foster-Greer- Thoebecke
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HH	Household
HICES	Household Income, Consumption and Expenditure Survey
ILO	International Labour Organization
LED	Local Economic Development
MoFED	Ministry of Finance and Economic Development
MoI	Ministry of Information
MSEs	Micro and Small Enterprises
MWUD	Ministry of Works and Urban Development
NGOs	Non Governmental Organizations
NO	New Operators
NULG	Nekemte Urban Local Government
NUPI	National Urban Planning Institute
OCSSCO	Oromiya Credit and Saving Share Company
OECD	Organization for Economic Cooperation and Development

PASDP	Plan for Accelerated and Sustainable Development Program
PPP	Purchase Power Parity
RGO	Regional Government of Oromiya
SDPRP	Sustainable Development and Poverty Reduction Programme
SSA	Sub –Saharan Africa
ULG	Urban Local Government
UN ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
WMS	Welfare Monitoring Survey

Glossary of Local Terms

<i>Afaan Oromo</i>	the lingua franca of the Oromo people
<i>Buuddeena</i>	local food, usually prepared from ‘teff’ crop.
<i>Buutta</i>	sacrifice for made for religious ceremonies including Gada ceremonies
<i>Dabbaalli</i>	sharing a house of a friend, relative or parents
<i>Ganda</i>	lowest administrative unit or ‘ <i>kebele</i> ’ in Amharic
<i>Moti</i>	king
Uqqubi	traditional way of saving or rotating money
<i>Waaqefataa</i>	A belief in natural objects

Abstract

Poverty alleviation is top on the agendas of most developing countries to dignify their citizens with decent living conditions. To this end, the development of Micro and Small Enterprises (MSEs) has been recognized as an important tool to create employment opportunities for the poor thereby increase their income.

This study investigates the influence of group-based MSEs in alleviating urban poverty in Nekemte City, Oromiya Regional State. A sample was taken from 42 group-based micro and small enterprises which have been registered and supported by the City Trade, Industry, and Transport Department. Eight group-based MSEs were selected randomly by considering their geographical distribution and nature of activities in the city. Two MSEs which started business after three months were taken as a control against which to assess the effectiveness of MSEs on poverty alleviation. Various poverty indicators like, income, consumption expenditure, housing, asset creation, education, health, water, vulnerability and empowerment of women entrepreneurs were assessed.

The study utilizes various statistical tools like descriptive statistics, Chi-square tests, T-tests, and ANOVA tests to reflect the true nature of MSEs in alleviating poverty in the study area. The study also tries to examine the nature and structure of group-based MSEs in Nekemte town so as to identify the problems and opportunities that exist to support the development of the enterprises.

The study findings are that group-based MSEs in the study area have got various types support from the Nekemte City Municipality in the area of access to start-up capital through credit, work premise, and market access. However, some group-based MSEs are confronted with delays in the payment for their produce, quality work and market premise, and inadequate services like water and electricity. When it comes to the impact of group-based MSEs on alleviating poverty of operators and their households, the study finds that operators have showed improvement, in their income, consumption expenditure, and access to services like rented house, education, health, asset creation, averting vulnerability, and empowerment of women entrepreneurs.

The study underscores the need for appropriate support to keep the sustainability of such MSEs given their importance in improving living condition of operators and stimulating the local economy.

Key Terms: urban poverty, Nekemte city, group-based MSEs.

CHAPTER ONE: INTRODUCTION

1.1. Background to the Problem

During the 1950's and 1960s economic growth and modernization became the main policy objective in the newly independent less developed countries in view of eliminating income and social inequalities. To realize these objectives, all concepts had a tendency of equating growth with development and viewing growth in less developed countries as essentially a discontinuous process requiring a large injection of investment. In addition, during those decades, industrialization was conceived as the engine of growth which would pull the rest of the economy along behind it. A major means of fostering industrialization was through import substitution- particularly of consumer goods and consumer durables. GNP growth was the major emphasis to bring about development in the developing world (Thorbecke, 2000).

However, as a response to the above development strategies, developing countries had experienced increasing unemployment, income inequalities, widespread poverty, increasing urban congestion as a result of rural to urban migration, and rising indebtedness. To tackle such problems alternative development strategies were tailored during the next decade.

During the 1970s, however, GNP growth as an all encompassing indicator of development in the Third World countries had diminished, if not totally eliminated. Hence, ILO (1972) signaled that the primary objective of development should be to raise the standard of living of the poor through increased employment opportunities. The generation of new or greater productive opportunities was considered a means toward the improvement of the welfare of the poor. In this effort, since 1970s, the informal sector, also called MSEs, has a role of employment in furthering development have received greater attention. Therefore, the informal sector has got recognition in boosting employment opportunity, thereby increase income, and contribute to local economic development in the above cited decade (Tegegne and Mulat, 2005).

Particularly, interest in MSEs in sub-Saharan Africa has resulted from i) the failure of formal sector ii) predictions of increasing unemployment, underemployment and vulnerability among rapidly growing population; iii) the dynamism showed by some parts of the informal sector; iv) the hope that the dynamic end of the MSE sector will provide the seedbed for future formal sector development; and v) the high proportion of the population which relies on non-agricultural small-scale activities for survival (ILO, 1995; cited in Bevan, 1997).

In the mid 1980s, however, many developing countries in Africa, Asia, and Latin America have begun implementing important decentralization reforms in order to empower local authorities and strengthen cities and regions. The drive to decentralization process was accepted by donors as one of the most appropriate ways of reducing poverty, building sustainable development and implementing democracy in least developed countries.

Similarly, during the 1990s, developing countries, including sub-Saharan Africa, experienced deep-rooted institutional changes to reduce corruption and facilitate a successful transition from command economies to market economies. In addition, the decade witnessed deregulation and liberalization, poverty alleviation and improved socio-economic welfare. The role of institutions and state and market in development discourse, among others, took center stage (Thorbecke, 2000).

Likewise, in Ethiopia, the process of decentralization has been exercised since the downfall of the Derg regime in 1991. According to the country's Federal Constitution of 1995, the system of government in the country comprises nine Regional States which in turn are sub-divided into 66 zones, 550 woredas, and 6 special woredas. The woredas are considered the key level of local government (FDRE, 1995). Hence, Ethiopia recognizes local and regional entities as contributors to development in their respective areas and the nation as a whole (Tegegne, 1999).

Owing to the severity of poverty in the country, in the previous regimes, Ethiopia, after 1991, has been re-examining its overall development strategy and is currently implementing a new development approach which is expected to improve the living condition of its people. The development and poverty alleviation strategy focuses on promoting popular participation and

facilitating decentralization of economic management to Regions with the assumption that regional or local agents have better links with the grassroots and to materialize local development through community participation. A broad based Agricultural Development – Led Industrialization (ADLI) strategy in Ethiopia has been designed and is being implemented to maximize economic growth (Loop, 2002).

However, the rural-centred development strategy i.e., ADLI, has been implemented with a strong emphasis towards rural development with limited attention given to urban development. Nevertheless, an explicit concern for urban development is pronounced in the Second Five Year Development Program (1993-1997 E.C.), wherein the objectives of urban development are stated as "to enhance the role and contribution of urban centres towards economic development and therefore to improve the living conditions of their residents" (NUPI, 1998).

In addition, two important government development strategy documents - Sustainable Development and Poverty Reduction Program (SDPRP) which covered the years 2002/03 – 2004/2005; and Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) (2005/2006 to 2009/10) have focused on poverty reduction. The outcome of the former recognized that the living condition of people living in rural areas has improved, while the growth is limited for urban Ethiopia. In this regard, MOFED (2006:25) confirms that '...decline in national poverty is attributed to a decline in poverty in rural areas', and the decline is higher during SDRPR period. The head count, poverty gap, and poverty severity indices in 2004/05 for rural areas are lower by 13%, 31%, and 41%, respectively than the level in 1999/00. Stating the condition of poverty in urban areas, however, the document indicates that the decline in urban poverty between 2004/05 and 1999/00 is only limited to the depth of and severity of poverty; and the incidence of poverty in urban Ethiopia is not statistically significant. This, therefore, indicates the gap in alleviating urban poverty in the country.

However, in the already started development strategy- PASDEP (2005/2006 to 2009/10), it can be observed that the issue of urban development has got important attention; and urban areas are considered as engines of development, not only are they livable places of their residents, but also, capable of promoting the development of their surrounding rural areas. It is also stipulated in the program document that the significant part of the modern sector growth

in the country will take in urban areas (MOFED, 2006). Hence reducing urban poverty is the major component in the document.

1.2.The Problem

Urbanization in Ethiopia is a rapid process caused partly by increasing urban population through migration and high fertility rates. The average fertility rate for the country in 2005 is very high, estimated at 5.4 births per woman, which is high by African standard (Africa 5.1; sub-Saharan Africa 5.6 births per woman). The annual population growth rate for the country is 2.73 % in the same year. It is estimated, in the year 2004/05, 16% of the country's total population, or about 11.7 million people will live in urban areas. The urban population growth rate in the country is about 4.4% per year (EDHS, 2005). In addition, recent urban growth has been unprecedented, mainly as a result of rural-urban migration, resulting in growing welfare and housing problems for the urban poor, and increasing urban unemployment. The average urban unemployment is estimated to be 26%, and reaches up to 40% in larger urban centers (MOFED, 2006). According to the 2004/2005 HICES results, about 35% of the nation's urban population is living below the poverty line. Urban poverty in the country is manifested by: inadequate infrastructure, sub-standard houses and inadequate settlement services, limited employment opportunities, shortage of potable water, absence or inadequate drainage channels, inadequate health and educational services (Solomon and McLeod, 2004).

Reducing poverty calls for rapid and sustainable pro-poor growth. This requires good governance, prudent macro-economic management, competitive markets and a vibrant private sector, efficient institutions and sustainable use of natural resources. Hence to gradually reduce and alleviate urban unemployment and poverty, policy makers and researchers are exploring and experimenting with new anti- unemployment and poverty strategies to improve the well being of the poor (UNDP, 1993).

Although poverty reduction needs a multidimensional effort in various sectors, boosting economic capacity through employment creation is considered as an important component. In this regard, MSEs have been recognized as important tools to engage the poor in income generation since they are operated at local level with small amount of start-up capital (UNDP, 1993). Similarly, Seleshi (2001) concludes that MSEs are seedbeds for medium and large

enterprises, they mitigate the effect of income inequality, and they encourage, channel and mobilize individual savings, and are a host of entrepreneurship development.

Contrary to the positive view towards MSEs, they suffer from below capacity production, provide poor working conditions, evade tax, and avoid social security payments. These shortcomings of MSEs are emanated from limited access to markets, credit, and better technology (Dijk van, 2000, Tegegne and Mulat, 2005).

However, having realized the role of MSEs in reducing poverty through employment and income generation, and stimulating the growth of medium and large scale enterprises, Ethiopia has put in place various strategies since 1997. According to the 1997 MSE strategy document, the primary objective is to create enabling legal, institutional and other supportive environment for the development of MSEs. Industrial Development Strategy of Ethiopia 2003 cited in MoI (2003), also stressed the significance of micro and small enterprises with the expectation that they can facilitate economic growth and brings about equitable development, creating long-term jobs; provide the basis for medium and large scale enterprises, among others. To enhance the performance of MSEs, support will be made in the area of infrastructure (provision of work premise and land), financial facilities, supply of raw materials, and training.

On top of that, the Urban Development Policy document of Ethiopia, which was ratified by the Council of Ministers in 2006, strives to make urban development accelerated, equitable, and sustainable. MSEs focus income improvement, houses, access to education and health services, access to water, roads, electricity, and other social services, for urban poor, by sharing with the middle income urban dwellers is considered. The document further stresses that urban development in Ethiopia be centered on the development and flourishing of Micro and Small Enterprises with the view that MSEs become valuable tools to decrease urban poverty and enhance the potential of the sector to bring about sustainable urban development. In addition, MSEs can promote rural-urban linkage, and attract the private sector, and promote urban economic integration (MWUD, 2006). The above conducive policy environment for MSEs stresses the significance of the sector for poverty alleviation in particular and urban development in general in the country.

Although there are various works done by researchers on the nature and structure of MSEs for promoting local economic development, and consequently acknowledge the contribution of MSEs to poverty reduction, they are limited to produce empirical evidences to demonstrate the role of MSEs in alleviating urban poverty. For example, Tegegne and Mulat (2005) and, Elias (2005) have come up with the role MSEs play in promoting local economic development in various small towns of Amhara Region and Awasa, respectively, in Ethiopia. In addition, Tambunan (2006) has identified the role MSEs play in the economy of Indonesia.

However, this study is meant to examine the influence of MSEs on poverty alleviation in Nekemte City zooming in especially on household heads operating in the MSEs. The study is also focused on group-based MSEs with the view that income improvement and asset creation can strengthen social and economic capacity from within, rather than through external aid. In addition, the social capital which generates from group activity in MSEs will increase the living standard of operators since working in group raises productivity and improve the bargaining power of operators in the face of market irregularities, inadequate infrastructure (work premise, land, water, electricity, etc.), lack of credit, inadequate supply of raw materials, and other regulatory problems. In light of issues stated above, this study utilizes a case study approach on eight group-based MSEs in the study area. Hence major question in this study is what is the nature and structure of group-based MSEs? And to what extent are they improving the welfare of operators?

1.3 Objectives of the Study

1.3.1. General Objective

The overall objective of the study is to assess the role of group-based Micro and Small Enterprises in alleviating urban poverty in the study area.

1.3.2 Specific Objectives

The specific objectives of the study set out to:

1. Examine the nature and structure of group-based MSEs in the study area.
2. Examine economic (income/employment) significance of group-based MSEs in determining

income poverty alleviation in the study area.

3. Explain impact of MSEs on poverty indicators like operators' access to food, water, housing, education, and medical facilities, asset creation, and vulnerability.
4. Explore impact of MSEs on empowerment of women entrepreneurs.
5. Identify the major problems encountering group-based MSEs in the study area.
6. Suggest alternative solutions to improve the performance of group-based MSEs in the study area.

1.4 Research Questions

This thesis tries to answer the following questions:

1. What is the nature and structure of the eight MSEs selected for this study?
2. What is the economic (income/employment) significance of the study MSEs?
3. Do the MSEs have a role in alleviating poverty indicators like operators' access to food, water, housing, education, and medical facilities, asset creation, and vulnerability?
4. Does involvement of women in the MSEs promote their empowerment?
5. What are the major problems affecting the MSEs under investigation?
6. What additional/alternative strategies can be instituted to improve the performance of group-based MSEs in the study area?

1.5. Significance of the Study

Currently in Ethiopia, like in many developing countries, urban poverty has attracted the attention of various stakeholders like government, development practitioners, NGOs, researchers, and community at large because of the seriousness of the issue impacting on healthy functioning of urban centers in terms of economic, social, political, and environmental conditions of their residents in particular and the region in which they belong at large. Among the many measures to tackle urban poverty, providing residents with reliable employment through job creation has got crucial attention to boost the income/wealth creation of poor sections of residents. Therefore, this study, which focuses on group-based MSEs and urban poverty alleviation, will complement the efforts being undertaken by various scholars to investigate the problem and suggest solution to tackle urban poverty in the study area.

Moreover, the writer can cite two additional reasons for selecting the study area. First, the writer believes that the city is one of the neglected urban centers in Ethiopia in terms of various socio-economic infrastructure and services despite it being one of the oldest indigenous urban areas and endowed with natural and human resources (as it is discussed in Chapter Three of this study). Secondly, the city is selected because the writer has personal experience in frequently visiting the city and the city manifests all sorts of urban poverty like lack of basic services: potable water, housing, urban infrastructure.

Generally, this study will help to understand the situation of urban poverty in the study area with special reference to those of the group-based MSEs and help to tailor appropriate strategies to improve the welfare of operators. In other words, the study will give insight for both practitioners and researchers about the opportunities and challenges group-based MSEs have in reducing poverty thereby stimulating the local economic development. Moreover, the challenges they are facing currently will be understood and practitioners and researchers will come up with appropriate solutions to them.

1.6. Research Methodology

1.6.1 Research Design

This study utilizes survey design to investigate the role of MSEs in alleviating urban poverty in Nekemte city. The method is characterized by involving probability and non-probability sampling techniques and questionnaire (open and open ended) as an instrument to collect data. Hence, the study enjoys both probability and non-probability sampling. In the case of probability sampling, stratified random sampling is involved to select the seven enterprises from the sample frame the researcher has got from the Municipality. The stratification was done by disaggregating the 42 total group-based MSEs in the six sub-administrations of Nekemte. When it comes to non-probability, operators from one enterprise are purposely sampled because of large size of operators. With regard to questionnaire, open-ended and close ended questions are administered to approach the relevant respondents.

The required data from the selected MSEs was collected using different but complementary approaches such as questionnaire, Focus Group Discussions, interviews with key informants

(community business heads, kebele leaders, city municipality officials, and regional urban development officials), personal observation, and document investigation. Focus group discussions were made with people who are involved in their businesses.

1.6.2. Sampling Techniques

The sample frame for this study is utilized from the Municipality Trade, Industry, and Transport Office which is accountable to the Nekemte City Mayor. Within that Office, there is a Micro and Small Enterprise Organizing Unit which is in charge of facilitating financial and technical assistance to the group-based micro and small enterprises. Accordingly, since April 2006, there are about 42 group-based MSEs established and doing business. The total number of operators in these 42 MSEs is 430 individuals. All the registered group-based enterprises are engaged in quarrying and gravel production, metal work, wood work, textile, and service provision, among others.

Eight of them were selected using stratified random sampling after disaggregating the MSEs in the six sub-administration of the study area. With this, therefore, care has been taken for their geographical distribution in the 6 sub-administration of the city; and their importance to the improvement of income of the operators and their households, the requirement of better skill, and nature of activity. After taking one enterprise from each sub-administration to ensure their representation in the existing sub-administrations, the rest two are selected purposely. Accordingly, Gravel Production Enterprise is included in this study, though it is not located in the sub-administration of Nekemte, and Cafeteria Enterprise is considered in this study purposely to diversify the type of group-based MSEs in the study area and to ensure their representation. Table 1.1 presents a summary of the sampled enterprises and their characteristics.

Table 1.1 Summary of the characteristics of sampled enterprises

No	Name of Enterprise	Trade mark/local name given by the community	Location in sub-city	Total population	Number of Sampled households
1	Metal work (new)	<i>Biiftuu Guddina</i>	Qesso	8	8
2	Wood work	<i>Boonnenuus</i>	Derge	6	6
3	Food preparation	<i>Bikiltu</i>	Burka Jato	13	13
4	Leather and Leather product	<i>Kooket</i>	Bekenise Kese	6	6
5	Sale of Fruit and Vegetable	<i>Buurqqaa</i>	Beke Jema	10	10
6	*Gravel production	<i>Dirre</i>	*Duune Kaanee	30	15
7	*Cafeteria Service	<i>Abdii</i>	Derge	10	10
8	Metal work (old)	<i>Siifan</i>	Cheleleki	7	7
Total				90	75

* Purposely taken enterprises

Source: Adapted from Municipal Micro and Small Enterprise unit, Nekemte City (2007)

Table 1.1 shows the 8 enterprises selected for this study. These are metal work, wood work, sale of fruits and vegetables, food production, leather and leather production, cafeteria service, and gravel production.

According to the Table, the sample size is 75 households involved in various group-based micro and small enterprises in Nekemte city. The rationale for consulting all households in each enterprise (except for gravel producers) is simply because poverty alleviation or welfare of the worker is better analyzed based on income he/she earns from the enterprise and expenditure he/she makes for various basic and non-basic needs to sustain life. This is with the view that all the sampled households have different household size and the amount of consumption expenditure will vary accordingly. Hence, measurement will be made whether or not the income the worker gets alleviates poverty. The sample size (75) is also small cognizant to collect relevant data from the manageable number of respondents considering time constraints.

1.6.3 Sources of Data and Data Collection Tools

Relevant data were gathered from primary and secondary sources. With regard to the primary data close-ended and open-ended type questions are prepared and translated into *Afan Oromo* (Lingua franca of Oromo people). The questions contain information on basic characteristics of households, nature and structure of enterprises, consumption expenditure on food, water,

housing, education, health, vulnerability, and empowerment of women (Annex I); and were administered by the writer with the view of collecting quality data instead of hiring enumerators. Moreover, interview guide questions were also prepared for leaders of the enterprises and officials in Trade, Industry, and Transport Department of Nekemte City (Annex I). Again the researcher conducted interviews with selected (relevant) officials in the MSEs and the Municipality.

Two Focus Group Discussions (FGDs) were conducted, each containing eight people on the various conditions of enterprises and poverty in the sampled enterprises. The first FGD participants were selected from each enterprise and consisted of Chairpersons of the respective enterprises. The discussion in this category was focused on nature and structure of MSEs with the view of complementing the data gathered through questionnaire on MSEs. However, the second FGD participants are still from the eight enterprises so as to ensure their representation and they were selected for the researcher by their Chairpersons, because they can better explain the nature of poverty than the rest members of the group. Generally, the FGDs complement the already administered questionnaire and assist to triangulate the collected data. These different but complementary methods of data collection are used to reflect the true nature of the problem under investigation

Lastly, secondary data are gathered from official statistical sources (eg, MOFED, CSA, publications, and Nekemte City Municipality documents) books, journals, internet sources, research findings of various scholars on the topic under investigation, and other publications.

1.6.4. Data Analysis

The analysis of the data utilized both quantitative and qualitative methods in order to describe the data. Statistical Package for Social Sciences (SPSS) versions 11.0 is employed in this regard. The study utilizes descriptive statistical tools like frequency tables, cross-tabulations, averages, and percentages to facilitate meaningful analysis and interpretation of research findings. Chi-Square tests, T-tests, and ANOVA tests are used to test the statistical significance of differences between means of different groups are also utilized. On that basis, the meanings and implications of outputs are described, defined, and explained.

1.7. Limitations of the Study

This study was limited by financial and time resources to thoroughly investigate the role of MSEs in alleviating poverty in the study area. Due to shortage of time, this study only focused on eight, government induced, group-based MSEs. However, there are various self-induced MSEs. The reason for ignoring the self-induced MSEs was the difficulty in getting their lists which would help for sampling. In addition to time, finance and data were short in dealing thoroughly with this study. Respondents also show a tendency of underestimating their income, though their real income is revealed when they are asked about the expenditure they made on various consumable items. Hence it needs careful observation of such data. Regarding information on saving and loan repayment, the study only used the data from chairpersons of each enterprise, instead of triangulating from OCSSCO Nekemte Branch. This is mainly because of lack of data from the microfinance.

Another limitation of this study is it limited to wider applicability in different urban centers in the Region or Ethiopia as a whole. This is mainly because of the limited number of sample respondents selected for this study and the study only contacted MSE operators who are government motivated, instead of private MSE operators in the study area.

1.8. Organization of the Thesis

This thesis is organized into six chapters. The first chapter provides description of the problem, objectives and methodology of the study, while the second chapter provides review of literature which comprises conceptual/theoretical literature and review of empirical literature on the topic under investigation. Chapter three provides background of the study area. Chapter four provides major findings on the background of households and their operators and the nature and structure of sampled MSEs. Discussion of findings on the impact of MSEs in alleviating poverty is in chapter five. The last chapter will make conclusion and recommendations.

CHAPTER TWO: REVIEW OF LITERATURE

This chapter reviews pertinent works that deal directly with the issues under investigation in this study. It is divided into two major parts. The first part focuses on the conceptual/theoretical literature, while the other part concentrates on empirical literature.

2.1. Conceptual/Theoretical Literature

In the 1950s and 1960s, thinking about and action on development were dominated by the modernization approach, which focused on rapid economic growth and capital formation (Hulme and Tubner, 1990; Webster, 1990). The approach also promotes the diffusion of development impulses from industrialized countries to developing countries without recognizing local efforts of developing countries to develop themselves. This was the period characterized by output maximization irrespective of the distributional effects and persistently growing poverty, inequality, and rampant unemployment.

In the same decades cited above, developing countries had experienced different development paradigms which had bearings on economic development. Although they were different, economic development models were influenced by two dominant schools of thought: development from above and development from below (Zewdie, 1985).

The development from above school of thought viewed development as essentially emanating from core growth centers and trickling downwards and outwards to the peripheries. It is basically derived from policy models of national growth which are based on efficiency rather than equity. It is center-down, urban-based, and unbalanced growth development paradigm (Elias, 2005; Zewdie, 1985). Moreover, according to Weaver (1981), cited in Elias (2005), the top-down approach aims to achieve functional integration wherein leading regions expand into lagging regions and resources, the latter regions are made accessible to the former ones.

Although it was recognized that the outcome of development from above approach showed a significant improvement in the economic growth of developing countries in the periods 1950-1975, as it is measured in per capita GDP, as a consequence of empirical evidence, there had

been a growing concern over the reduction of poverty and inequality throughout the developing countries (Zewdie, 1985).

The issue of inequality and poverty, therefore, called for the introduction of new or alternative development approach which hoped to answer the development problems of Third World countries. As a result, development from below approach, took over the dominance in the development discourses and practices since the mid 1970s (Chambers, 1994). The essence of the development from below strategy is to focus on enhancing regional development in the interest of equity rather than efficiency, basic needs satisfaction, employment for all, and the participation of all citizens in development of their respective jurisdiction (Stohr, 1981).

Based on the above cited development strategy (bottom-up), local economic development emerged with the view that effective development policies and development initiatives can be implemented in sub-regional or local level, instead of in the realm of nation-state (Guimaraes, 1998).

Since the end of 1970's in the political agenda as well as in the academic literature, there has been a strong link between local economic development and the problems of increasing unemployment, poverty and economic decline which affected not only the Third World, but also the highly industrialized countries of Western Europe, North America, and even Japan (Birkholzer, 2005).

Although there are differences among scholars in the definition of Local Economic Development, there is a great deal of similarities in the component of defining LED.

According to Helmsing (2005: 29), LED is defined as:

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

Similarly, Birkholzer (2005) defined LED by adopting two analytical perspectives in economic- descriptive and political. From a descriptive perspective, LED tends to cover all economic activities which happen at local and regional level and/or have any impact on the localities. Based on this perspective, the locality is seen as an economic actor in its own right. In traditional economic thinking, however, the locality exists more or less only as a place or space where other economic actors like enterprises, industries, investors, authorities, etc compete and use or exploit their natural and human resources. However, from a local economy view point, the localities, i.e., the villages, towns, cities and regions are understood as 'living organisms' or 'communities'.

Helmsing (2005) provided three categories of Local Economic Development: *i) community based economic development; ii) business or enterprise development; iii) and locality development.*

Specifically, community-based economic development comprises stimulation of the local economy through household participation in various economic activities. Community members act in the local economy in three ways: as consumers, as micro-entrepreneurs and as workers, (Helmsing, 2005).

Micro and Small Enterprises, therefore, are considered as part and parcel of the huge component of Local Economic Development, 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. In addition, it is hoped that MSEs can alleviate poverty as they are owned and operated by low-income groups of a society. The next part of this section thesis therefore tries to review theoretical and empirical literature linked with MSEs.

2.1.1. Micro and Small Enterprises

2.1.1.1. Approaches and Theories of MSEs

According to ILO (1969) the primary objective of development is to raise the standard of living of the poor through increased employment opportunities. The generation of new or greater productive opportunities was considered a means toward the improvement of the welfare of the poor. In this effort, since 1970s, the informal sector also MSEs, has been recognized as a source of and role of employment and income in furthering development.

In sub-Saharan Africa, MSEs dominate the urban economic activity mainly because of i) the failure of formal sector ii) predictions of increasing unemployment, underemployment and vulnerability among rapidly growing population; iii) the dynamism showed by some parts of the informal sector; iv) the hope that the dynamic end of the MSE sector will provide the seedbed for future formal sector development; and v) the high proportion of the population who rely on non-agricultural small-scale activities for survival (ILO, 1995; cited in Bevan, 1997). In most African countries today there are large numbers of people engaged in economic activities that generally go unrecorded in the official statistics. According to ILO (1986), MSEs contribute about 40 to 60 % of urban labour force are employed and quite likely contributes 25 to 33% of urban income.

Similarly, Tegegne and Mulat (2005) argued that micro enterprises have been receiving crucial attention by donors and governments since 1980s. The major reason is the potential they bring equitable income distribution and use local resource efficiently. In addition, they can stimulate the local economy by increasing aggregate demand and allowing for greater investment.

Likewise, Bromley (1978) argued that the concept of the MSE sector has got recognition in development literature since 1970s. Since then, three contending approaches have emerged to explain the concept. These three approaches are: a) social marginality, b) state regulation and c) small scale enterprises.

The concept of social marginality in the MSE sector relies on the assumption that people need resources to survive. It postulates that the MSE is people's own creation as a response to the various economic distresses in the process of unbalanced industrialization. As a result, people get involved in such informal sectors for economic survival.

The State regulation approach, on the other hand, has been seen as a way of counter-attacking the institutional rigidities of the legal and social environment. Proponents of this perspective stress that the informal economy plays a profound role in national capital accumulation and restructuring of the world economy (Casteless and Portes; cited in Tebarek, 1997).

Lastly, the small firms approach emerged in the late 1980s, and gives particular attention to small firms or micro enterprises due to their low visibility, limited start-up costs, and ease of entering and exiting markets.

In addition, the concept of MSEs has also been related to the role they play in the economic development of a particular nation. In explaining the existing roles that MSEs play, two schools of theories of MSEs have emerged- the classical and the modern (Tambunan, 2006). The classical theory on MSEs postulates that in the course of economic development, reflected by the increase in per capita real income, the economic share of MSEs would decline steadily. Those of large and modern enterprises, on the other hand, would take off rapidly and finally dominate the economy. The theoretical implication of this school of thought is that, poverty and the importance of MSEs are positively correlated: the economic share of MSEs increase as the poverty rate, i.e., percentage of population living under the poverty line increases. In other words, this view of the classical theorists' support the argument that the higher the proportion of people in state of poverty the more will be the contribution of MSEs in reducing such poverty (Ibid).

However, the classical theory on MSE has been criticized on the ground that it neglects economic growth of MSEs through networking and agglomeration/clustering. In other words, classical views on MSEs focused on the relationship between level of income and the growth of MSEs. As a response to the above apparent shortcoming of classical views, new /modern

theory emerged which seems to focus on agglomeration and networking effects of MSEs and their ultimate development of local economy (Ibid).

The modern theory, as opposed to classical view on MSEs, has been connected with the issue of flexible specialization which emerged in 1980s. Proponents of this view postulate that the major reason for the emergence of the notion of flexible specialization is the long debate over how to interpret the new global pattern of production caused by globalization forces and industrial restructuring. These have changed the way in which production and labour are organized. And global production has undergone a transformation from Fordist (mass production) to non-Fordist production. Hence, flexible specialization is one of the distinctive features of such transformation (Piore and Sabel, 1984 cited in Tambunan, 2006). These same authors have identified three organizational characteristics of flexible specialization: a) flexible and specialization: firms in the community form part of a bounded community from which outsiders are largely excluded. b) high level of competitive innovation: there is continuous pressure on firms in the community to promote innovation in order to keep an edge on their competitor. c) high level of cooperation: there exists limited competition among firms in the community over wages and working conditions, encouraging greater cooperation among them.

The main argument of the flexible specialization thesis is that MSEs can grow faster than large enterprises with the process of development and they are significant sources of invention, innovation, and efficiency. They have been found to be capable of standing the competition with large enterprises, and even to improve their current relative position in several instances (Tambunan, 2006).

Moreover, in the flexible specialization literature, new technologies promote the relative viability of MSEs, and reduce scale economies and lead to smaller efficient plants and firms. The need to increase the ability of industry to meet rapid changes in demand promptly, cheaply, and efficiently has also created a new role of MSEs in developed economies (Tambunan, 2006).

This new role can be used as an argument against the proposition of classical theorists stating that in the long run the economy will be dominated by large enterprises, in terms of employment and output. This flexible specialization literature, therefore, suggests that in the course of economic development, the economic share of MSEs would increase. Table 2.1 summarizes the core issues in the approaches and theories discussed above.

Table 2.1 Summary presentation of approaches to and theories of MSEs

Approaches and Theories	Major Characteristics
Social Marginality Approach	MSE is people's own creation as a response to the various economic distresses in the process of unbalanced industrialization.
State Regulation Approach	The informal economy plays a profound role in national capital accumulation and restructuring of the world economy
Small Scale Enterprises Approach	Emerged in late1980s, and gives a particular attention to small firms or micro enterprises due to their low visibility, limited start-up costs, and ease of entering and exiting markets.
Classical theory	In the course of economic development, the economic share of MSEs would decline steadily. poverty and the importance of MSMEs are positively correlated
Modern theory	Flexible specialization thesis is that MSEs can grow fast or even faster than large enterprises with the process of development and they are significant sources of invention, innovation, and efficiency. This flexible specialization literature, therefore, suggests that in the course of economic development, the economic share of MSEs would increase.

Source: Adapted from Bromley, 1978; Tebarek, 1997; and Tambunan, 2006.

2.1.1.2. Definition of MSEs

The definition of MSEs is a controversial issue with no general consensus on the part of various sectors of the society. Anderson (1982; cited in Getachew and Getachew, 1997) classifies manufacturing activities in three phases: predominant household manufacturing, replacing workshops and factories, and finally large-scale production.

A study of small-scale enterprises has indicated more than 50 definitions in 75 countries (ILO, 1987; cited in Getachew and Getachew, 1997). Financing agencies measure it in terms of fixed assets, net worth or value added. Labour economists take the number of people engaged. Traders might consider the volume of sale and manufacturers prefer to consider the energy use and other yardsticks.

However, according to Taye (1997), enterprises are usually divided into four levels: micro, small, medium, and large. However, there is no universally accepted definition of the different levels of enterprises. The definition varies from country to country based on the level of economic development of the country. Classifying enterprises in the above four category can be based on a firm's assets, sales, or number of employees working in the firm. Accordingly, an enterprise considered small in one country may be medium or micro in another country.

Similarly, The World Bank (cited in Rudjito, 2004) uses number of employees, total assets, and annual sales for classifying enterprises as micro, small, medium, and large. For the Bank, micro enterprises are defined as firms with total assets and sales of about US\$ 100,000, and able to employ 10 persons. Small enterprises are individuals or firms with total assets or annual sales of between US\$ 100,000 up to US\$ 3 million and employ 10-15 persons.

The importance of MSEs, including medium enterprises in contributing to job creation and output growth and sustainable development is now widely accepted in developing and developed countries. Their development can deepen the manufacturing sector and foster competitiveness. It can also help achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution. With this advantage of MSEs, therefore, can reduce poverty and help as a seedbed for development of medium and large scale enterprises in urban settings (Ibid).

2.1.1.3. Importance of Social Capital

The importance of social capital has been well identified by various scholars, and the role it plays in production and marketing process is highlighted. In this regard, Feldman and Assaf (1999) pointed out that countries may be endowed with similar natural, physical, and human capital resources, but achieved very different levels of economic success. This is because in countries where better economic success registered, there will be a social capital which holds people and societies together in order to foster economic development. Hence in the words of Grootaert and Bastelaer (2001), the traditional composition of natural capital, physical or produced capital, and human capital needs to be broadened to include social capital for effective economic development.

The issue of social capital has been popularized, however, after the works of Robert Putnam's (1993) study of voluntary associations in Italy, which led to the conclusion that high density of voluntary association in the developed regions was responsible for their economic success. Putnam viewed social capital as a set of horizontal associations between people which foster cooperation for the mutual benefit of the community. In addition, he viewed memberships in horizontal associations as a source of trust and social ties conducive to economic performance. Furthermore, Putnam claimed that associations instill in their members habits of cooperation, solidarity, and public-spiritedness. However, he also pointed out his fear about the ineffectiveness of social capital stating that groups segregated by class, occupation, or ethnicity may build cooperation and trust only among group members, perhaps even encouraging distrust between members and non-members. This work of Putnam focusing on horizontal relationship of members of association is considered the first view on social capital.

The second stage in the evolution of social capital, however, was contributed by Coleman (1988), who added value on the work of Putnam. Coleman argues that social capital also operates in a vertical relationship characterized by a hierarchical structure and unequal power distribution.

The third view on social capital is presented by North (1990) who gave emphasis on the factor which help develop social capital i.e., institutions. He stated that social capital encompasses formalized institutional relationships and structures such as government, political regime, rule of law, and the court system. North contended that it is institutional change at this magnitude that shapes the way societies evolve over time. With a particular focus on human cooperation, he argues that historically, institutions are fertile grounds which create a hospitable environment for cooperative efforts so as to bring about economic growth. Hence North admits the role of human cooperation which will be developed by effective institutions leading to economic well-being.

Likewise, Fukuyama (1995) stressed the relationship between social capital and industrial organization: he argues that where trust doesn't extend beyond the family, the supply of capital and qualified managers is more limited, constraining the scale of private firms. More generally, he argued that higher-trust societies are better able to implement efficient

organizational innovations, when changes in technology or other factors make existing organizational forms. Economic transactions are embedded in social relations. This concept of embeddedness focuses on how personal relationships and networks of connections generate trust in economic life.

From the works of the above cited scholars, it is clear that social capital is considered as a resource which enhances economic development. It is also manifested in our day to day life. For instance, group-based lending money from micro finance institutions, operating in certain enterprises in a group capturing market opportunities can be cited. In this study the significance of social capital is underscored since the enterprises owned by entrepreneurs are operated in group, hence there is trust and embeddedness of skills in the process of production, taking credit from micro finance, and making use of market opportunities.

2.1.2. Concept of Poverty

Although the wider attention for discussion of poverty came to stage after WWII, poverty had been the issue of discussion by economists, though the subject has not been, , the exclusive preserve of economists. Beginning about 1900, some of the best applied economic research was on consumer-demand and family-budget studies, which were motivated by a concern with poverty and related nutritional problems. Similarly, during the 1930s, much of the profession's effort was devoted to public and private measures to alleviate poverty, especially that caused by the massive unemployment that dominated the decade (Mills and Hamilton, 1994).

The 1960s, however, witnessed a vast outpouring of literature on the subject, much of it was written as though poverty had just been invented or discovered. This was because of a rapid improvement in the availability of data on poverty, and a rapid growth of concern with poverty during the 1960s among economists, public officials, and the general public (Mills and Hamilton, 1994). In addition to the availability of data on the subject, there has been a paradigm shift in the development approach from mere economic growth to wider components of development to redress the issue of wider spread poverty in developing countries.

Poverty is defined by various scholars in different ways and the concept of it is inconclusive, though there is a considerable degree of similarities. The difference in the definition emanates

from the context it uses to define it. The context for conceptualizing poverty include: social, political, cultural, institutional and environmental issues.

According to Grunwald et al. (2004), the analysis of poverty has shifted from an income-based understanding of poverty to a multi-dimensional challenge. Poverty is seen as denoting people's exclusion from socially adequate living standards and as encompassing a range of deprivations. The dimensions of poverty cover certain distinct aspects of human capabilities namely, economic (income, livelihoods, decent work); human (health, education); political (empowerment, rights, voice); socio-cultural (status, dignity); protective (security, risk, vulnerability).

The 1997 Human Development Report (UNDP, 1997:2) also describes poverty as follows:

Poverty is much more than low income. It also reflects poor health and education, deprivation in knowledge and communication, inability to exercise human and political rights and the absence of dignity, confidence, and self-reliance...From a human development perspective, poverty is seen as a denial of choices and opportunities for living a tolerable life...poverty manifests in the deprivation of lives of people.

For Forchheh (2003), poverty, in broad terms, is the lack of basic means to live in dignity. Poverty is when the ability of the poor to improve their quality of life is constrained by lack of resources or assets, both physical and human (lack of education and skill). He further characterizes poverty as a human condition that is characterized by chronic deprivation of the resources, choices, capabilities, security and power required to have a high or better standard of living and other civil, economic, social, political and cultural rights.

The variation in conceptualizing poverty leads to differences in understanding the meaning and thus definition of it. This in turn leads to differences in the methods and indicators used to estimate the numbers of people living in poverty, the extent of their deprivation, and ways of measuring change in their situation. Poverty is, therefore, a socially constructed concept with powerful qualitative and normative components and, as such, is a relative concept (DFID, 2002).

In its modern sense the concept of poverty goes beyond lack of income and therefore, encompasses other dimensions. World Bank (2000); cited in Tassew and Daniel (2002), define poverty as not only lack of income but also vulnerability and powerlessness. Accordingly, there are at least four dimensions of poverty. These are lack of income, low level of achievement in education and health, vulnerability to risks and some sort of insecurity and voicelessness.

Various International Organizations have also defined poverty. For instance, ILO notes that poverty is a vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy (ILO, 2003). For OECD (2001), poverty comprises a multidimensional deprivation of human capabilities, including consumption and food security, health, education, rights, voice, security, dignity and decent work. The World Bank, on the other hand, on top of material deprivation, poverty is low achievements in education and health. The Bank also broadened the meaning of poverty further including vulnerability and exposure to risk, and voicelessness and powerlessness (World Bank, 2001).

Amartya Sen, cited in Todaro and Smith (2004) argues that income and wealth are tools which help the poor in accessing various consumption items. However, both income and wealth are not ends in themselves rather they are tools. Sen hence argues that rather what a person does with the commodities of given characteristics that they come to possess or control determines the level of poverty of an individual. In other words, freedom of choice, or control of one's own life, is itself a central aspect of most understandings of well-being.

From the above definitions of poverty material and non-material deprivations characterize poverty. Hence in this study, poverty is defined as lack of income which will help to support consumption of various basic and non-basic items, inadequate access to education, health, housing; social exclusion, vulnerability to risks and lack of empowerment.

2.1.2.1. Measuring Poverty

Measurement of poverty involves three crucial components in which all used at once or separately to effectively reflect the nature/extent of poverty. These are absolute, relative, and participatory measurements.

The idea of absolute poverty is conceived as the inability to secure the minimum basic needs for survival. It is a threshold below which living becomes mere physical presence. Hence, income is the most common measure for absolute poverty. Absolute poverty is based on the idea of economic deprivation- that people need to consume a minimum level of goods to survive (Beard, 2001). In addition, absolute poverty is considered as an international poverty line which doesn't know national boundaries that takes into account differing price levels by measuring poverty as any one living on less than USD 1 a day in PPP dollars (Todaro and Smith, 2004). The absolute concept of poverty allows for easier measurement overtime but depend on the specification of an absolute poverty line based on survival criteria. A person is considered to be in absolute poverty if he/she lacks resources to obtain enough food, clothing and shelter to maintain a tolerable standard of physical health.

Relative poverty is a situation of relative deprivation that depends on the general style of living in a society. It is a problem of an affluent but unequal society. In this argument basic needs may be met but those at the very bottom have less access to other social expectations. It results in the exclusion of those at the bottom from the customary standard of living of that society (UN ESCAP, 2000).

Another way of investigating the level of poverty is based on the premise that people are the best judges of their own situation and that their opinions should ultimately be the decisive factor in defining welfare and poverty. This type of poverty is referred to as subjective/participatory poverty. It implies that that poverty is subjective judgments people place on what constitutes a socially acceptable minimum standard of living in their society (Ibid).

The above explanations and definitions indicate the complexity and relativity of the concept of poverty. Because it is too complex and relative in nature, it has been defined, perceived, and measured in different ways and it cannot be reduced to a single dimension of human life.

Though it has been common for many countries to establish an income-based or consumption-based poverty measures, the method is criticized for its limitation to reflect all aspects of human poverty. Quantitative measures provide a rather limited picture of the extent of poverty in a society. As a concept, human poverty includes many aspects that cannot be measured.

Therefore, qualitative measures could better tell what volume of statistics could never do how poverty is measured in real life terms (Alcock, 1997).

Burkey (1993) contends that attempts of some people to define poverty in terms of the inability of the poor to meet basic needs i.e. those things that an individual must have in order to survive as a human being; is still found incomplete since there always be perceived needs even after basic needs could be satisfied.

Measuring poverty Level

There are several measures of poverty; all of them belong to the so-called Foster-Greer-Thorbecke (FGT) poverty indices (Foster et al. 1984).

$$P = 1/n \sum (Z - Y/Z)$$

Where, α = poverty aversion parameter

Z = the national poverty line for the household

q = the number of poor households in the sample

Y_i = expenditure/ income per adult values of the poor household i.e., for those falling below the poverty line

n = the total number of the sample

These index changes, when different values are given to α i.e., when $\alpha=0$, p produced to head count or incidence. When $\alpha= 1$, it reduces to poverty gap. As α increases more and more weight is given. Head count index

One of them is the simple and popular index widely known as the head count index. Others are the poverty gap and squared poverty gap measures. All these measures need a poverty line for their computation. Three methods are used in poverty line estimation. These are the direct calorie intake method (DCI), the food energy intake method (FEI), and the cost of basic needs methods (CBN).

Head count index (incidence of poverty): the head count index represents the proportion of the population whose consumption falls below the poverty line, that is, the share of the

population that cannot afford to buy a basic basket of goods and essential non-food items. It is denoted by P_0 , which is the proportion of persons or households falling below the poverty line in a given group.

Poverty Gap Index (depth of poverty): this provides information on how far household's average per adult income/consumption is from the poverty line. This measure helps to estimate the total resources needed to bring all the poor to the level of the poverty line. It is denoted by P_1 . This is the average distance below the poverty line expressed as a proportion of that line (Ravallion, 1992).

$$P_1 = 1/n \sum (Z - Y_i/Z)^1, \text{ when } \alpha = 1$$

Squared Poverty Gap Index (Poverty severity): this takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. That is, a higher weight is placed on those households further away from the poverty line. In other words, it is an indicator of the lowest poor given more weight to lower poverty gaps.

$$P_2 = 1/n \sum (Z - Y_i/Z)^2$$

2.1.2.2. Urbanization and Urban Poverty

Urbanization has been considered as one of the progressive processes that human beings ever invented knowingly or unknowingly. This is mainly because urban centers are one of the key forces underlying technological innovation, economic development and socio-political changes.

Similarly, Singh (1999:29), acknowledge cities as the most important places in the space because they have the capacity:

to organize, facilitate, and articulate various human activities such as production, exchange and consumption for material goods and services. They are the spatial foci for organization of various other social processes including polity and governance, leisure and pleasure, art, science and culture. Moreover, urban centers have now increasingly gaining importance as the mediators in the local-regional-national- global interconnectedness.

Likewise, Tegegne (1999) also highlights that although urbanization has a role to play in countries' development, in many countries emergence of urban centers has been spontaneous and consequently led to extreme concentration of activities in limited centers with inadequate facilities, poor absorptive capacities and weak linkages with rural areas.

Lipton (1977) came up with his urban-bias thesis and argued that investment in urban areas is undermining rural development, the mainstay of many developing countries. Ever since then, urban areas are equated with the luxury place of small group of national elites and wealthy individuals. Hence this has led to the diversion of attention to rural areas in many developing countries. However, rural areas are still the manifestation of some of the worst poverty. The focus to the rural areas leads to the neglect of the urban dwellers and urban poverty persistently observed in those regions.

Urban poverty in developing countries is intricately linked to the process of urbanization. In sub-Saharan Africa, rapid urbanization resulted in host of problems, including unemployment and underemployment, deteriorating infrastructure, inadequate service delivery capacity, overcrowding, environmental degradation, and an acute housing shortages. This is partly because of the rapid expansion in urban population without concomitant expansion of basic services and employment opportunities. In addition the observed urban poverty is compounded by weak urban government structure, with very limited capacity to stimulate economic growth, mobilize resources and provide the most basic services (Fantu, 2003).

As a result of high levels of rural to urban migration and high rates of population growth, cities and towns in developing countries are suffocated with the provision of adequate services like housing, jobs, potable water, schools, clinics, hospital beds, for extra people each year (DFID, 2002).

Berner et al. (2005) similarly, identified manifestation of poverty as lack of income and assets to attain basic necessities, voicelessness and powerlessness in the institutions of state and society, and vulnerability to adverse shocks, linked to an inability to cope with them.

Baharoglu and Kessides (2003) identified five dimensions of urban poverty together with the causes and possible consequence of each dimension. These are income, health, education, insecurity (physical and personal), and empowerment. Income poverty can be caused by dependence on cash for purchase of basic and non-basic goods and services, employment insecurity and unskilled wage labour. The possible consequence of this income poverty: inability to afford housing and land, which lead to poor asset creation, inability to afford essential public services of adequate quality and quantity, poor human capital, and depreciated social capital resulting from domestic violence and crime. Similarly, health poverty can be caused by congested living conditions, which will lead to exposure to various diseases; and the result will be poor physical and mental strength, in turn leads to inability to earn sufficient income. Aspect of poverty on education is caused by constrained access to education as a result of lack of money for school expenses. The possible consequence of lack of education can be lack decent job and other.

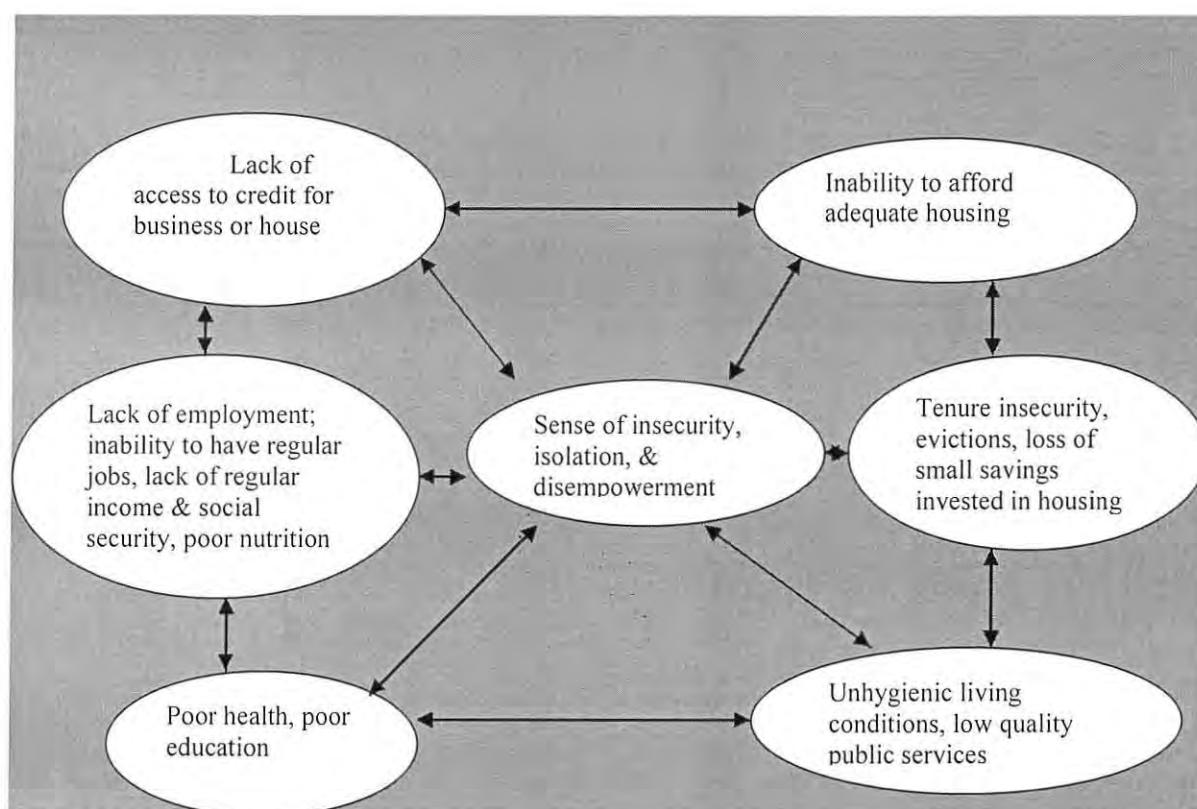


Fig2. 1 Cumulative Impacts of Urban Poverty

Source: Adapted from Baharoglu & Kessides (2003)

Fig.2.1 shows the cumulative consequences of urban poverty on living conditions of the poor. Sense of insecurity, isolation and disempowerment are both a cause and consequence of deep-rooted poverty in urban areas. In the above figure, poor health and education leads to lack of employment/income which leads to lack of access to credit which in turn leads to low access to housing. Furthermore lack of housing leads to tenure insecurity (migration and loss of asset) which leads to loss of the small savings. Poor savings in turn lead to inadequate access to public services.

2.1.2.3. Urban and Rural Poverty: The Difference

Urban poverty is rapidly growing and its characteristics differ from rural poverty largely because of the high level of monetization of the urban economies. Unlike the rural areas urban poverty is defined in terms of individual poverty rather than community level poverty. Wealth is described in terms of occupation and the urban poor tend to have relatively narrow asset base tied to money economy. Thus income, consumption level and employment status serves as the base of urban poverty analysis (DFID, 1998).

Likewise, Baker and Schuler (2004) argue that there are unique dimensions of urban poverty when compared with rural poverty. Reliance on cash economy (commoditization), overcrowded living conditions (slums), environmental pollution, social fragmentation (poor community and inter-household mechanisms for social security, relative to those in rural areas), crime and violence, traffic accidents, among others are some of the different manifestations of urban poverty hence understanding of it should take care of such dimensions.

On the other hand, Masika et al. (1997) argued that conceptualizing urban poverty as a separate category from rural poverty is problematic because of different yardsticks for defining urban in different countries. The urban-rural divide is more a continuum rather than a rigid dichotomy. Moreover, there is an important connection between rural and urban poverty, as household livelihood or survival strategies have both rural and urban components. The urban poor in developing countries is characterized by unemployment, failure to send children

to schools, lack of access to health facilities, poor sanitation, inadequate access to potable water, electric service, and poor housing or homelessness.

2.2. Empirical Literature

2.2.1. Significance of MSEs

The informal sector represents an important part of the economy and certainly of the labour market in many countries, especially developing countries, and thus plays a major role in employment creation, production and income generation. In countries with high rate of population growth and/or urbanization, the MSEs sector tends to absorb most of the growing labour force in the urban areas (Husmanns and Mehran, 2005).

Similarly, MSEs are important pulling centers of economic and employment growth world wide. They can spark off socio-economic revival, as they need little to operate, but can contribute much; they: i) work with minimum, simple, and inexpensive equipment and inputs, often available locally; ii) use limited space; iii) operate with basic technical and management skills; iv) adapt swiftly, and v) create quick self-employment and jobs much needed by the innumerable job seekers (Husmanns and Mehran, 2005).

Governments of developing countries have been supporting them through various programmes, like credit schemes and provision of training (Tambunan, 2006). According to Wangwe (1999), the economic contribution of the micro and small enterprises sector in Tanzania was about 20-30% of the GDP, and they consist of more than 1 million enterprises engaging 3-4 million persons, that are about 20-30 % of the labour force of the country.

In Kenya, according to the National Baseline Survey of 1999, micro and small enterprises, there were 1.3 million such enterprises employing 2-4 million Kenyans, equivalent to 15% of total employment and contributing 18% of the GDP of the country. Moreover, the MSEs sector in Kenya is very dynamic with rapid investment rates and enterprise growth (Kimuyu, 1999).

In Burkina Faso, based on the 1990 survey on MSEs, there were 90,000 established micro enterprises. Between 1985 and 1992, the sector is estimated to have contributed 30% of the

GNP which exceeded agriculture (20-45%) and the modern secondary sector (23-86%) in the same period. Moreover, the MSEs sector employs 77% of the non-agricultural population and 8.6% of the total active population of Burkina Faso (UNCTAD, 2005).

The micro and small enterprises constitute an important segment of the Indian economy, contributing around 39% of the country's manufacturing output and 34% of its exports in 2004/2005. The sector also provides employment for around 29.5 million people in rural and urban areas (Ibid).

According to Wickware (1998; cited in Loop, 2000), MSEs have a significant contribution in creating employment opportunities for the poor in urban areas. Accordingly, he estimates the percentage of people engaged in such sectors in some sub-Saharan cities during the 1990s as: Accra - 70%; Addis Ababa - 61%; Dar es Salaam - 56%; Kampala - 46%; and Harare - 17%. Hence MSEs have important employment share in the economy of those cities.

Besides the above cited advantages or significance of MSEs, they are also confronted with various problems which seriously hamper their productivity. The next sub-topic discusses the major problems affecting MSEs.

2.2.2. Problems of MSEs

The MSEs sector represents a challenge to policy-makers with regard to issues such as: improvement of the working conditions and legal and social protection of the persons employed in the informal sector; increasing the productivity of informal sector activities; training and skills development; organizations of informal sector producers and workers; development of appropriate regulatory frameworks; government reforms; urban development (Husmanns & Mehran, 2005).

ILO (2002) identified major constraints encountering micro and small enterprises owned by women. The research output categorized the constraints in three levels: micro level, meso level, and macro level. At micro level women owned enterprises faced: human capacity problems on the part of women and inappropriate attitude. Human capacity problems are manifested by lack of general level of education, technical and business management skills including the sophistication to work with financial institutions. With regard to inappropriate

attitude, some women in the MSE sector are said to have limited commitment in the business as well as limited motivation to develop their activities to more sustainable and profitable levels.

At Meso-level, the MSEs owned by women experienced limited access to support services, including credit, technical and management training, advice and marketing. The problems arise from limited capacity and outreach of existing institutions as well as the women's inability to afford to pay for the services. Moreover, little is known about the impact of initiatives and best practices in supporting MSEs.

At macro-level, reproductive role of women is considered as a major factor for women entrepreneurship to start and run MSEs. Moreover, national strategies for poverty alleviation and business development do not have concrete initiatives for addressing the marginalization of women MSEs.

2.2.3. MSEs in Ethiopia

2.2.3.1. Definition of MSEs in Ethiopia

In Ethiopia, the idea of MSEs development emerged as a promising agenda in 1980s. A variety of reasons have been cited for the surge in the interest of MSEs development. These are: MSEs help as a better way for poverty reduction; a platform for sustainable development and productivity; and important actors within the trade sector and a platform for economically empowering people. MSE sector also plays an important role in providing income and services to people who cannot get employment in the formal sector (Schorling, 2006).

Owing to the recent introduction (though the practice is age - old) of the concept of micro and small enterprises in Ethiopia, the definition for the concept of MSEs is unfolding. The existing definitions of the concept can be viewed from two perspectives: qualitative and quantitative. The qualitative definition of micro and small enterprise, refers to those which are inherently subjective, broad based and less precise than the quantitative ones and tend to be of limited use and their value is only in that they offer conceptual flexibility and breadth of purpose. On the other hand, the quantitative definition clearly defined parameters which

include: number of employees, sales turnover, assets, capital, net worth, and specific industry-wide measures (Hailey, 1991; cited in Andu-Alem, 1997).

According to the Ethiopian Ministry of Trade and Industry, micro enterprises are those small business enterprises within a paid-up capital of not exceeding Birr 20,000 and employing about 10 workers (excluding high technical consultancy firms and other high tech establishments). On the other hand, small enterprises bear all the features of micro enterprises and are those business enterprises within a paid-up capital of above Birr 20,000 and not exceeding Birr 500,000 and employing 11-15 workers, (excluding high technical consultancy firms and other high tech establishments).

In Ethiopia, according to the CSA 1996/97 survey, there were almost 590,000 MSEs in the country, of which 99.4% were micro-enterprises with fewer than 10 employees, accounting for 88.2% of private sector employment. The micro enterprises are very small and on average, they employ one and a half workers (this includes the owner and perhaps an occasional helper), and earn an annual operating surplus of Birr 1,300. Sole proprietors operated 82% of urban enterprises; of the total employment in these urban micro-enterprises, family members accounted for 60% (Stevenson and St-Onge, 2005).

The average micro-enterprises have capital of Birr 3,528, a yearly production value of Birr 2,300 and an annual surplus of Birr 1,300. Although significantly more productive and profitability than micro enterprises, small scale industries are also very small, with an average of slightly more than three employees, Birr 18, 934 in annual operating surplus, capital of Birr 38,354, and production value of Birr 68,800 (Ibid).

According to the CSA (2002) nation wide survey, on the other hand, there were 974,676 cottage/handicraft manufacturing establishments engaging 1,306,865 people. Out of the total of these establishments, 63.3% were in rural areas while the remaining 36.7% establishments were located in urban areas. Moreover, about 87.3% of those cottage/handicraft establishments commenced their operation with total capital of less than 250 Birr, whereas 0.4% of those establishments started operation with initial capital of 5,001-10,000 Birr. The remaining 12.3 percent had initial capital ranging from 251 to 5,000 Birr (CSA, 2003). The same survey of

CSA indicates that about 37.2% and 26.9% were started operation for the first time from own savings and assistance from friends and relatives, respectively.

In the area of small scale manufacturing industries, the CSA survey indicates that in 2002 there were 31,863 small scale establishments in Ethiopia of which 62.8% were located in urban areas and the remaining 37.2% were in the rural areas.

Generally, the above statistics indicate that MSEs have a significant contribution to the economy and social sectors of the country through employment generation, increasing income of operators. Keeping this in mind, this study will reflect on the significance of MSEs in Nekemte city.

2.2.3.2. Problems Facing MSEs in Ethiopia

Ethiopian MSEs are confronted by many problems, according to CSA (2003). The major obstacles experienced by small scale manufacturing industries were the irregular supply of raw materials and a shortage of suitable working premises. The lack of working premises was also found to present difficulties for the informal sector operators who, faced with insignificant capital, were often impeded from the start. The problems of raw material shortages, lack of working capital and effective marketing practices faced by small manufacturing industries resulted in the failure of these businesses to expand.

The CSA (2003) survey also revealed major problems confronting the cottage/handicraft manufacturing establishments. Lack of capital (41%), cited as the major factor followed by absence of adequate skills (5.8%). In addition, absence of market demand, shortage of supply of raw materials and lack of working capital were cited constraints. Likewise, the major obstacles in the small scale manufacturing sector, according to CSA (2003), were absence of market demand, followed by lack of supply of raw materials, problems in government regulations (in getting license, working premise). In light of the above constraints this study tries to identify the major problems affecting group-based MSEs under investigation.

2.2.3.3. Policy Environment for Ethiopian MSEs

Until 1997, there were no organized policy and support systems catering for the development of the MSE sector, so structural, institutional, and policy barriers were not being addressed. Premises, markets, finance, supply arrangements, regulatory barriers and legitimization of entrepreneurial activity are among the most urgent.

According to the National Micro and Small Enterprises Strategy (cited in Gebrehiwot and Wolday, 2004:8) which was issued in 1997, the primary objective of the MSE strategy in the country is to create conducive legal, institutional, and supportive environment for the development of MSEs. The specific objectives of the strategy set out to:

- 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 exports, and
- Balance preferential treatment between MSE and bigger enterprises.

In line with the above policy objectives, the intended support to promote the MSE sector include creation of legal framework; improvement of access to finance; introduction of incentive schemes; encouraging partnership; provision of training in entrepreneurship, skills, and management; improving access to appropriate technology, information, advice and markets; and improved infrastructure (Gebrehiwot and Wolday,2004).

With the above cited policy objectives towards the flourishing of MSEs, it is possible to understand the attention paid by the present government of Ethiopia to encourage the sector so as to alleviate poverty and stimulate economic development of a particular local area and the country in general.

2.2.4. Poverty Situation of Ethiopia

Ethiopia is one of the world's poorest countries by any standards. According to a recent World Development Report, the country has the lowest GNP per head in the world, and its Purchasing Power Parity adjusted GNP is ranked 200th out of 206 countries (World Bank,

2000). Human development indicators of the United Nations Development Program also attest to the seriousness and extent of poverty in the country. Human Development Index for example, of Ethiopia is the sixth lowest out of 175 countries in the world. Similarly, the HDI ranks Ethiopia 91st out of 94 developing countries (UNDP, 2003).

The poverty experienced by many Ethiopians is reflected in a range of well being measures of the population. For example, the life expectancy at birth in the country is approximately 46 years, which is substantially lower than the average 77 and 67 years recorded for countries with high and medium human development indices respectively.

Previous analysis of poverty in Ethiopia has generally focused on rural rather than urban areas. This is understandable in light of the fact that around 85% of the population lives in rural areas. Although urban Ethiopia generally experiences a relatively better living condition when compared to the rural areas, poverty remains a problem in urban areas (Tadesse, 1999).

The literature dealing with poverty in Ethiopia until the early 1990s was limited, reflecting the lack of an appropriate and household survey data that would allow the comparison of welfare across time. However, since the early 1990's periodic household surveys have been conducted that have facilitated the analysis of both urban and rural poverty (Tesfaye, 2006).

In this regard, according to MOFED (2006), there have been three major sources of information on poverty in Ethiopia. Firstly, a series of Welfare Monitoring Surveys (WMSs) have been undertaken every three years since 1996 to track household characteristics and the non- income dimensions of poverty. Secondly, the Household Income, Consumption, and Expenditure Surveys (HICESs) are undertaken every five year to measure income poverty. Thirdly, Participatory Poverty Assessment (PPA), recently introduced, assesses people's views on poverty issues and programmes.

Tadesse (1996) analyzed poverty in Ethiopia using the 1994 Ethiopian Urban Household Survey (EUHS). He used the surveyed information on the demographic and consumption behavior of 1500 households randomly selected from seven urban centers in the country. The study was limited to food poverty in recognition that satisfaction of basic food requirements

remains a major problem for poor households. Food poverty line estimates were obtained in accordance with the food energy intake method whereby total expenditure on food is regressed on calorific consumption. The findings confirm the hypothesis that there is abject poverty in urban Ethiopia, with 39% of the urban population living below the food poverty line. The analysis indicates that the highest incidence of poverty was recorded for Awassa city, followed by Addis Ababa, Dessie, Mekelle, Jimma, Bahir Dar, and Dire Dawa.

Dercon (1997), using information from CSA and HICES 1995/96 came up with total poverty line for Ethiopia Birr 1075 per adult per year, or about US\$ 0.45 per day per adult, which is clearly below the international standard used US\$1 per day per adult. Dercon further estimated the poverty situation of the country using food poverty line of three different indicators. Accordingly, he measured moderate poverty with 2750 Kcal per day per adult; relative arbitrary or just poverty with 2200Kcal per day per adult; and extreme poverty with 1650 Kcal per day per adult.

Based on the level of poverty line used, 25 to almost 66 percent of the population in Ethiopia were poor in the cited year. Using the poverty line defined by the cost of obtaining 2200 Kcal with a non-food correction, about 47% were poor. Poverty gap, percentage of total consumption needed to bring the entire population at least at this poverty line (2200Kcal), was 13%.

However, more comprehensive data on poverty is provided by MOFED (2006). The document indicates that in Ethiopia, the level of real total per capita household consumption expenditure, obtained by dividing real household consumption expenditure by family size (average family size in 2004/5 was 4.8), stood at 1256 Birr (US\$ 146) in 2004/2005 with food accounting for 577 Birr and the rest 678 Birr for non-food. The document further indicated that compared to that of 1999/00, real total per capita household consumption expenditure increased by 19% in 2004/05. The reason for the increase, according to MOFED, was mainly due to an increase in real non-food expenditure by 50%. In 2004/05, real per capita food expenditure declined by 6% compared to 1999/2000 and by 5% against that of 1995/1996. The decline in real food expenditure was witnessed mainly in rural areas.

However, the national average level of calorie consumed per adult is higher in 2004/05, which was 2746.4 Kcal per day per adult, than the level indicated during the previous two surveys: 1995/96 and 1999/2000, which were 1954.0 Kcal and 2606.2 Kcal per day per adult, respectively. When commenting on the improvement, the document stated that the households have shifted to cheaper calorie sources when food became relatively expensive. The level of real total per adult household consumption expenditure, which is used to calculate poverty, was 1,542 Birr. This magnitude is also higher than the level in 1999/2000 and 1995/96 by about 16% and 17% in real terms, respectively.

When discussing the national poverty trend, MoFED (2006), the three poverty indices, incidence, depth, and severity have been showing a substantial decline. The following table illustrates the national poverty trend.

Table 2.2. Trends in total poverty indices at national level

National Level	Indices			Changes in the indices (%)		
	1995/96	1999/00	2004/05	1999/00 over 1995/96	2004/05 over 1995/96	2004/05 over 1999/00
Head count Index	0.455	0.442	0.387	- 2.7	- 14.8	- 12.4
Poverty gap index	0.129	0.119	0.083	- 7.7	- 35.4	- 30.0
Poverty Severity Index	0.051	0.045	0.027	- 12.2	- 47.1	- 39.8

Source: *Adopted from MOFED, 2006*

Based on the above table, the 2004/2005 poverty head count index is lower than the index in for 1999/2000 by 12% while the poverty gap and severity indices are lower by 30% and 39%, respectively.

However, this study utilizes data from head of households, also operators of the MSEs selected for the study, on income, consumption, and expenditure to determine the role of MSEs in alleviating poverty of households of operators. Moreover, non-income poverty measures (though they are influenced by level of income) will also be undertaken on access to education, health, vulnerability, and empowerment of women entrepreneurs.

2.2.5. Urban Poverty in Ethiopia

Solomon and McLeod (2004) linked the existing urban poverty in urban Ethiopia to rapid urbanization which has resulted from high rates of natural increase and rural-urban migration. The accelerated urban growth is reflected by rapid spatial expansion of the existing urban centers as well as in the emergence of new towns. This is mainly because of the inadequate growth of the urban economy. As a result cities and towns in Ethiopia presently are facing:

... acute and even worsening housing shortage, insufficient solid and liquid waste management, poorly developed access roads, notoriously clogged and smelly drainage channels, serious shortages of potable water, inadequate health and educational services and a growth of unemployment and poverty. pp. 8.

2.2.6. Urbanization in Oromiya Region: An overview

Urbanization in the region had occurred due to three various historical factors: a) Southward expansion of Emperor Menelik in the late 19th Century; b) the Djibouti-Addis Ababa railway line, and c) Italian occupation, Haile Sellasie's administrative reform, emergence of construction of major link-roads, and the villagization and cooperative movements in late 1980s. However, prior to these, several city-like settlements had developed as market centers, which were part and parcel of the then important caravan trade, as political centers of Oromo landlords as *Buutta* ceremonial (RGO, 1999). The emergence of Nekemte City also complemented with *Buutta* ceremonial or a selected place for *Gadaa Hobbo* (as it is discussed Chapter Three of this thesis).

Emperor Menelik's military expansion during the second half of the 19th Century had resulted in the emergence of garrison centers in Oromiya region. Military strategic importance for defense against possible enemy attacks was an important consideration in the selection of those sites. As a result the development of such towns resulted in horizontal expansion, infrastructure extension, among others.

The emergence of several towns like Dukem, Bishoftu (Debre Zeit), Mojo, Adama (Nazareth), and Metehara were due to the introduction of Djibouti-Addis Ababa rail way line. They evolved as railway stations. However, their growth has also benefited them for being centers of public administration and trade (Bekure, 1999). Besides, the Italian occupation (1936-1941) of Ethiopia witnessed the consolidation of the then existing urban centers like Jimma

and emergence of new urban centers. Most of the new ones, however, were developed along the highways which were the results of the Fascist Italian objective.

Bekure (1999) slightly indicated that urbanization in the 20th Century in Ethiopia, including Oromiya region, showed the introduction of modern elements in the economy of urban centers as a result of Italian occupation. The urban economy showed commercial agriculture, industry, and services.

Moreover, Assefa, 1993; cited in Fekadu (2004) indicated that the five years Italian occupation of Ethiopia led to the construction of a network of roads and established regional administrative centers. Urban centers such as Alemgena, Sebaeta, Tefki, Sululta, and Sendafa were among urban centers that crystallized during Italian Occupation. Fekadu (2004) argues that the development of transport and communication had laid the foundation for the emergence of urban centers in Oromiya region.

When it comes to the role of urban centers in Oromiya, administrative and commercial activities are the two well cited activities. According to CSA 1994 survey, trade and catering are the most important industrial divisions which account for 19.5% and 15.5% of the total economically active population, respectively. And they are followed by public administration which had a share of 9.7%. On the other hand, manufacturing accounted for a significant share of 9.7%, and agriculture and related activities accounted for 18.5 %, which explained the semi-rural nature of most urban centers in the region (CSA, 1998).

2.2.7 Urban Poverty in Oromiya: An overview

Although there are no adequate studies on urban poverty issues in the region, studies on urban poverty in the country in general is also attributed to urban centers in Oromiya region. Most of the urban centers of the region are characterized by poor urban infrastructure and services like inadequate and deteriorating housing conditions, poor road networks, widespread unemployment, and other manifestations of urban poverty.

Having realized the pervasiveness of urban poverty in the region, the document of the regional state seems given more attention to the alleviation of poverty in urban Oromiya. According to

the document, poverty alleviation requires the promotion of self employment in the informal sector which should go hand in hand with a strategy of increasing employment opportunities through, among other things, public works programmes related to the development of urban infrastructure and facilities. The initiation by Municipalities of public works programmes which, while providing urban services create employment opportunities are essential. Depending on the financial resources of Municipalities, public works programmes such as the construction of low-cost housing, urban up-grading and renewal projects, the construction or rehabilitation of Municipal services such as abattoirs, market stalls, waste collection and disposal, public toilets, recreational areas, the construction and maintenance of Municipal roads and drainage canals as well as social infrastructure that may be undertaken by Municipalities with the active involvement of communities (RGO, 1999).

2.2.8 MSEs in Oromiya Region: Significance

Cottage/handicraft and small scale manufacturing establishments have a significant contribution for economic and social development in the region. According to CSA 2001/2002 survey, there are 190, 640 number of cottage/handicraft establishments in the Oromiya region. This covered 30.91% of the total manufacturing establishments in the region. In urban Oromiya, however, the total initial capital paid by these establishments was 25, 473,006 Birr. In addition, the sector during the survey employed 110, 713 persons in urban Oromiya. Gross value of production by industrial group was 305,549,000 Birr in the 2001/2002 Fiscal year, while value added by industrial group in urban Oromiya in the above cited fiscal year was 101,805,000 Birr. Estimated value of fixed asset by cottage/handicraft establishments in urban Oromiya was 16, 637,000 Birr (CSA^a, 2003).

Regarding small scale manufacturing industries in the region, during the 2001/2002 CSA survey, value and percentage distribution of investment by these industries was 26,155,665 (27.62%). In addition, value and percentage of fixed assets created by these industries was 141,295, 385(29.69%). Furthermore, according to CSA^b, (2003), value added by industrial group was 146,302,821 (40.76%).

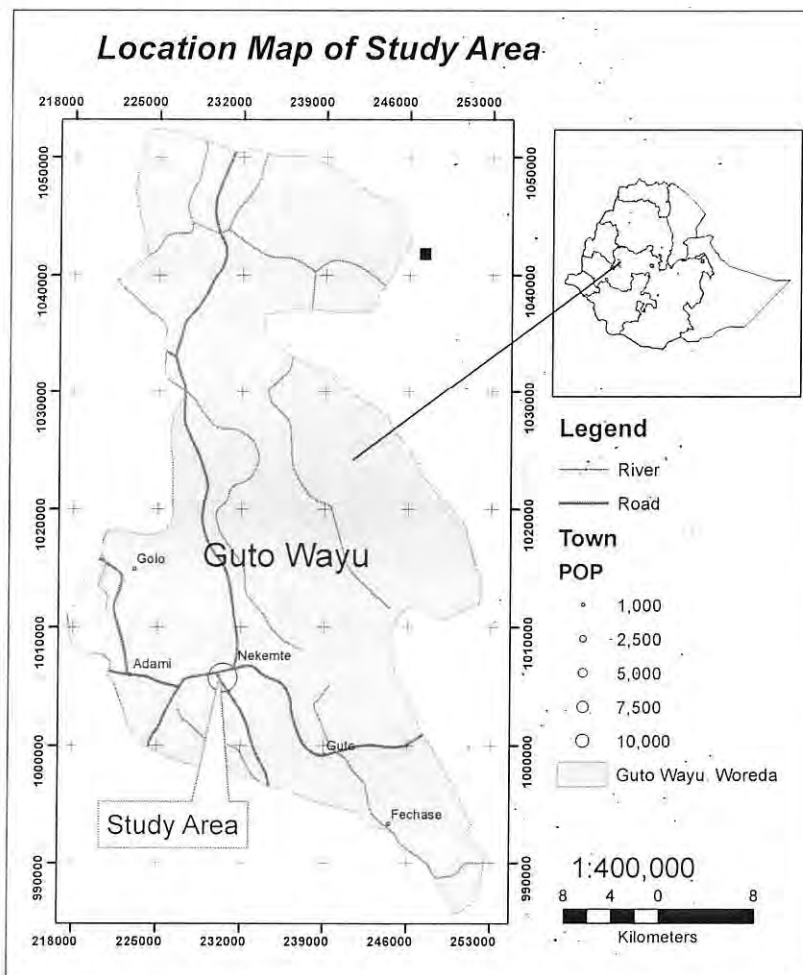
The above survey result of CSA indicates that informal sector (MSEs) play crucial role in contributing to asset creation, employment generation, value added to the GDP of the region. Hence supporting the growth of such sectors has a paramount significance for alleviating poverty in urban Oromiya.

In sum, this chapter dealt with both conceptual/theoretical and empirical works relating to development and poverty issues in both urban and rural areas. The incidence of poverty is rapidly increasing in urban areas in response to rapid urbanization. Measures to ameliorate the existing problems are immense and multifaceted. However, MSE development is believed to enhance the employment of urban dwellers so that they can improve their income and asset creation. This study investigates the impact of such new measures- group-based MSEs in alleviating urban poverty in Nekemte City, Oromiya National Regional State. In this regard, the next chapter gives an overview of the study area.

CHAPTER THREE: DESCRIPTION OF THE STUDY AREA

This part of the paper provides background of Nekemte city from the point of view of physical, historical, and socio-economic and institutional perspectives. Most of the description is in the city; however, efforts have made to include the conditions of the East Wollega zone in some parts to provide a complete glance at the condition of Nekemte City. This is with the view of linkage in economic conditions and the city being commercial and institutional capital of the zone it will attract or help develop economic potential of its environs.

3.1 Location and Area



Map 1 Location Map of the Study Area and its Environs

Source: GIS and Remote Sensing Department Lab., Science Faculty, AAU.



Figure 3.1 Satellite Image of Nekemte City

Source: *Europa Technology, Google Earth, 2007*

Figure 3.1 shows the satellite image of Nekemte city and its surrounding area. Hence, it is possible to recognize that the city has an elongated shape following the high way road running from Addis Ababa (Finfinne) to Western most point of the country. The image complements the map indicated above in providing clear structure, if not details of the internal structure of the study area.

Nekemte is located at about 333 kilometers West of Addis Ababa (*Finfinne*). Its absolute location ranges between $9^{\circ} 04$ N latitude and $36^{\circ} 30$ E longitude. Altitudinally, Nekemte is found within the range of 2170 to 1960 meters above sea level which shows that it experiences Dega (*Bada*) and Woyina Dega (*Bada-dare*) agro- climatic condition.

However, with regard to relative location of Nekemte, it is located in Oromiya National Regional State, and is the Capital of East Wollega zone. Nekemte is a transportation node for the roads moving from Addis Ababa (*Finfinne*) to Assosa (Capital of Benishangul Gumuz

National Regional State), Nekemte- Bure, Gojjam, Nekemte- Bedelle, Illu Abba Bore and Jima. Hence, it is strategically located in the Western part of Ethiopia (Map 1).

3.2 Topography and Climate of Nekemte

The physical relief of the City is registered under three slop structures: sloppy (steep slope), rugged (ups and downs), and plain. About 68.4% is considered as medium sloppy, 26.1% is ragged, and 5.5% is plain. Hence, much of the land of the city is sloppy which impedes swift expansion of the city (Nekemte Development Vision, 2005; Nekemte City Administration, 2003 and 1978).

Since Nekemte is closely located in the Southwestern highlands of the country where heavy rain fall almost throughout the year is experienced, it has five rainy months in one year, from May to September. Annual range of rainfall for Nekemte ranges from 1500- 2200 mm. Its annual temperature range varies from 14⁰-26⁰c (Ibid).

3.3 Natural Resources in East Wollega Zone: Overview

East Wollega zone, in which Nekemte is a capital, is known with its natural and man made forests, namely, out of the 215, 967 ha forestland, 128, 724 ha is covered by natural high forest, while 87,243 ha is man made forest. Regarding the wildlife, some of the rare animals are buffalo, hippos, lions, Oryx, and bushbuck (Nekemte Development Vision, 2005).

3.3.1 Rivers and their Economic Potential in the Zone

The zone has over 70 middle and large rivers which have an immense potential for irrigation, hydro electric power generation, and fishery. The rivers in the East Wollega Zone categorized under two major Basins of the country - Blue Nile Basin and Gibe-Omo Basin. Rivers of the zone which make up the Blue Nile Basin include: Dhidhessa, Anger, Fincha'a, Amertii, Neshe, among others. On the other hand, rivers Gibe, Wama, Tato, Jalelle, Wajjaa, Chokorsa, make- up the Gibe-Omo Basin. The rivers in the zone have little economic significance for the population of the zone and the region at large. However, recent Industrial Potential Assessment of the zone, most of the rivers have immense potential for irrigation, fishery, hydro-electric power (Nekemte Development Vision, 2005).

Table 3.1 Some of the rivers in East Wollega Zone and their potential for irrigation and fishery

No.	Name of the river	Potential (in hectare)
1	<i>Anger</i>	> 1500
2	<i>Wama</i>	1500
3	<i>Dhidhessa</i>	1000
4	<i>Bidiruu</i>	1000
5	<i>Dhabana</i>	1000
6	<i>Uke</i>	1000
7	<i>Gibe</i>	1000

Source: Adapted from *Nekemte Development Vision '97 (Bulletin)*, 2005

Table 3.1 shows the potential of some rivers of the zone for cultivating crops of different types, generating electricity, and fishing. For example, River Anger has a potential of greater than 1500 ha for such activities.

3.3.2. Minerals in the Zone

East Wollega zone has paramount mineral resources. However, the potential is not yet mentioned quantitatively.

Table 3.2 Distribution of Major Minerals in the zone

No.	Type of Minerals	Site (Location)	Industrial Use (Potential)
1	Lignite	Leqa Dullecha, Arjo	Power, gas
2	Feldspar	Different areas in the zone	Ceramics, glass
3	Mica	Different areas in the zone	Electricity utensils
4	Gold	Sassiga, Gaba Senbata, Kolobo	Ornament
5	Silica	Different areas in the zone	Glass work
6	Iron	Abe Dongoro, Gudaya Billa	Steel plant
7	Mineral Water	Sibu Sire, Nunnu Qamba, Wayu Tuqa	Mineral water
8	Salt	Abay Chomen, Konen, and Malka Bowa	Table salt
9	Granite	Gutin, Arjo, Anger Dhidhessa	Construction
10	Basalt	All areas in the zone	Construction
11	Marble	Aleltu	Construction
12	Limestone	Wayu Tuqa, Jerdega, Wama Hagelo, Sassiga	Construction
13	Clay	Sassiga, Sibu Sire, Guduru	Construction

Source: Adapted from *Nekemte Development Vision '97 (Bulletin)*, 2005

Table 3.2 shows the major type of minerals found in the zone with their site (location) and the purpose they serve in industrial activities. However, these minerals are not yet adequately used for economic purposes and improving the living conditions of the zonal people in general and Nekemte City in particular. Manufacturing industries in Nekemte City, largest city in the zone, in its infant stage and virtually unable to process these minerals.

3.4 Agriculture in the Zone

Most of the population (88.4%) of East Wollega zone is engaged in agriculture. However, the practice is traditional using oxen and archaic implements. The zone is in the production of food crops like, maize, wheat, barley, sorghum, teff, and oil seeds like; nigger seeds (*nuugi*), linseed, groundnut, sesame, peanut, rape seed as well as cotton, kenaf, coffee, chat and the like (Nekemte Development Vision, 2005).

The zone is also known by its convenience in animal rearing. However, the practices up to the present are very traditional. The following table shows the population of animals according to the data collected in 2003.

Table 3.3 Animal husbandry in East Wollega zone

No.	Kind of Animals	Population	Percent
1	Cattle	1359762	59.9
2	Sheep	192297	8.4
3	Goat	125624	5.5
4	Pack animal	96669	4.2
5	Poultry	501187	22.0
Total		2275539	100

Source: Adapted from Nekemte Development Vision '97(Bulletin), 2005

Table 3.3 shows the potential of the zone in various kinds of animals. However, they are not utilized properly to improve the living conditions of the population of the zone in general and Nekemte city in particular.

3.5 Demographic Characteristics of Nekemte

Based on Central Statistical Agency (2005), medium variant projection of 1994 population, in 2005 the total population of Nekemte was 84,506 of whom 42,121 male and 42,385 were female. According to the City's Strategic Plan, 2003, population growth rate of the city is 4.11 % per year and this growth rate may continue in the foreseeable future given high young age

population, high growth rate, and high rate of rural to urban migration. The average size of a household of the city is estimated to be 6. The following figure shows trends in population growth of the city.

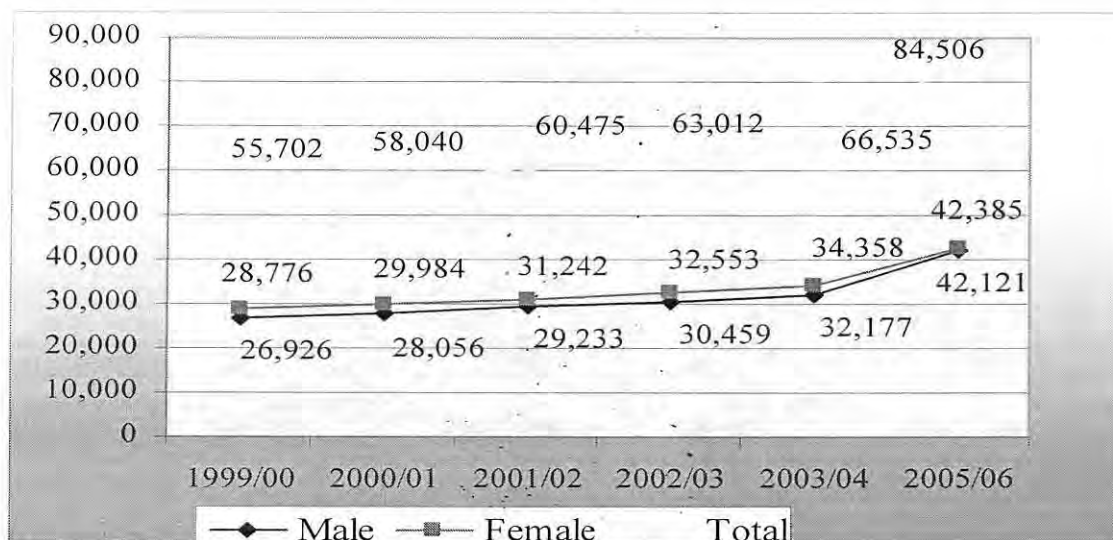


Figure 3.2 Trends in the Population Growth of Nekemte City

Source: Prepared based on Nekemte City Administration, 2003.

Figure 3.1 shows the actual figure of population growth of Nekemte City (1999/00 2005/2006). It is possible to understand from the figure that female population is slightly larger than male population. The difference between the two seems to lessen in the year 2005/06. However, the major concern in this study is the Nekemte’s population is increasing and it will have much more assignments to facilitate employment opportunities, basic service urban infrastructure. Furthermore, Nekemte is expected to pull the surrounding rural population and other resources and diffuse skilled man power and improved technology which can tap the immense resources in the zone in particular and in the western region in general.

3.6 Socio-economic conditions of Nekemte

3.6.1 Trade and Industry

Owing to its strategic location as a transportation node in the center of Western Ethiopia, Nekemte has been a center of trade for the region; hence trade is one of the major income sources of the urban dwellers. There are about 942 formal or licensed activities and some 130

businesses running without license out of which 24 are wholesale trades, 591 retailers, 356 service providers, 100 small scale industries and 1 farm venture. These figures exclude those who have investment licenses from the Nekemte investment office (Nekemte City Administration, 2003).

The commercial activities mainly depend up on the export of crop products, like grain, oil seeds, and cattle and cattle products to the neighboring zones, regional states, and Finfinne. Moreover, Nekemte has four open market places with three main market days in a week: Tuesdays, Thursdays, and Saturdays. On top of that, the city has about 510 market stalls engaged in informal businesses. However, the structure, level, and growth of the economy of the City cannot be fully described and measured for inadequacy of data (Ibid).

3.6.2 Manufacturing Industry

Manufacturing industries in Nekemte are limited to small scale industries like grain mills, oil processing, coffee hullers, wood works, and certain traditional handicraft activities. Hence, medium and large scale industries are virtually non-existent in the city. Manufacturing activities at present are in their infancy stage and are mostly based on obsolete technologies. They are categorized as small scale manufacturing primary products, most of which are facing severe challenges of obsolescence and lack of spare parts.

However, at present, the Municipality supports about 42 micro and small enterprises involved in various activities like trading fruits and vegetables, metal work, gravel production, leather and leather product activities, etc, in the six sub-administrations, 8 of which are the subject of this study.

3.6.3 Infrastructure and Services

Basic infrastructure of the city include: transport and communication, electric power, water supply, educational and health institutions, financial institutions, and housing.

3.6.3.1 Road Networks

The road network of Nekemte, in 2003, totals about 123.62 kilometers. This includes 12.5 km. asphalt road, 25.64 km gravel, 3.3 km paved stone and 82.18 km dry weather road. However,

the internal road network in the city is very poor at present. Table 3.2 shows all types of roads providing services at present in the city.

Table 3.4 Trends in the situation of all types of roads in Nekemte

Type of road	1999	2000	2001	2002	2003	% in 2003
Asphalt	12.5	12.5	12.5	12.5	12.5	10.11
Gravel	17.1	17.1	17.1	17.9	25.64	20.74
Paved Stone	2.8	2.8	2.8	3.3	3.3	2.67
Dry weather road.	60.85	64.85	66.50	73.13	82.18	66.48
Total	93.25	97.25	98.9	106.83	123.62	100.00

Source: *Nekemte City Administration, 2003*

Table 3.4 shows of the total 123.62 kms of road network, 82.18 (66.48%) is dry weather road; 25.64 (20.74%) gravel; 12.5 (10.11%) asphalt; and 3.3 (2.67%) paved stone. This indicates the conditions of roads in Nekemte city is in the way of distant area.

When it comes to public transport, daily maxi, midi, and mini-bus services connect Nekemte with Finfinnee, Beddele-Jimma, Gimbi-Denbi-Dollo, Asossa, Bure-Gojjam and several towns within the zone (East Wollega). According to East Wollega zone Trade and Transport Department, the average number of vehicles/ public transport crossing the city per day is about 57 local and 14 cross- country with passengers of about 1140 and 840, respectively indicating Nekemte's accessibility to other centers. Moreover, there are about 70 Taxies giving intra-urban services in the city.

3.6.3.2 Communication

Communication networks play a crucial role in facilitating rapid dissemination of information relating to markets, resources, and technology with maximum possible speed and accuracy. Nekemte has communication services that include: telephone, mobile, fax, telex, internet, and postal services.

3.6.3.3 Electric power

The study area is supplied currently with hydro electric power; though prior to the year 2000 Nekemte had been supplied with electric power provided by 4 diesel generators. The current

hydro electric power is nationally interconnected hydroelectric system and has the potential capacity of 40 MW (mega watt). However, the actual utilization capacity of the city does not exceed 2MW (Nekemte Development Vision, 2005). The huge unutilized electric power of the city in the future can be used as an important support for the development of various economic activities that need huge power supply, including small, medium, and large enterprises.

3.6.3.4 Water Supply

Nekemte has been supplied with water from River Hadya which is about 7 Km, near to Wollega University (currently under construction) from the center of the city. Supply capacity at the source of this river is 1400 M³ per day. However, out of the total population of the city only 60% is supplied with potable drinking water, whereas 40% of the population remain with unsafe drinking water supply and are dependent on water sources like unprotected well, rivers, and ponds. Hence the city population has inadequate access to quality water (potable water) simply because of lack of capacity of the Municipality in developing additional quality water wells (NekemteCity Administration, 2003).

3.6.3.5 Education

According to Nekemte Urban Local Government Strategic Plan (2003/04-2000E.C.), the study area has 5 KGs, 12 primary schools, 2 general secondary schools (grade 9-10), 1 preparatory school, 1 government owned and 5 privately owned teachers' colleges, 2 business college (private), 2 nursing colleges (1 government and 1 private) are functioning in the city till 2003 (Nekemte City Administration, 2003).

3.6.3.6 Health Services

Public health facilities in the study area include; one government owned hospital, one health center, and one drug shop providing services to urban dwellers and the surrounding rural population. Private health institutions also include: eight clinics, three pharmacy, five drug shops and eight rural drug shops. In 2003 health coverage of the city was 15.03%, which indicated lower health service coverage in Nekemte urban local government (Ibid).

3.7 Historical Background of Nekemte: An overview

Although historical sources are sketchy as to when exactly Nekemte was founded, available sources indicate that it was founded by 'Moti' Bekere Godana who lived the year between 1841- 1868 (Tesema, 1976; Abebè, 1957, cited in Solomon, 1979). At the time when *Moti* Bekere became victorious over the surrounding clans in Wollega and established the Empire of *Leqa Nekemte* by abolishing the then existing *Gada* administration in Eastern Wollega; he subsequently laid to the foundation of urban Nekemte (Solomon, 1979). Other sources indicate that Nekemte was founded in 1865 and the city is now 142 years old (Nekemte Administration, 1978). Hence the city is one of the oldest urban centers in Ethiopia, even older than *Finfinne* (Addis Ababa), the national capital and seat of Oromiya National Regional State.

With regard to the meaning of the name Nekemte, although it is originated from *Afan Oromo* (lingua franca of Oromo people), there seems a difference in meaning. For some elders, Nekemte means to be 'in row' or 'arrayed in line', indicating lining-up of houses and shops along the road side. However, for others the name Nekemte denotes naming and selecting as a center for the celebration of '*Nekemte Geda Hobo*' ceremony. Since at the time Nekemte was founded the people were administered by the Gada System, egalitarian administrative rule of the Oromo, and the celebration of coronation of abba Gada made in 8 years at once at various places of Wollega and Nekemte was one of those places recommended for the celebration of the coronation ceremony of the type of Gada called Hobo. Accordingly, to this context, the name Nekemte means 'engaged or betrothed for' or 'recommended' for the place of celebration (Nekemte Administration, 1978).

According to the Strategic Plan of Nekemte City (2003), the municipality of the city was founded in 1934 after seven years of Fascist Italian invasion of Ethiopia, and designated as a city in 1942. The first city plan was drawn in 1967. Currently the city has no recent master plan. The total area of the city at the time of establishment was about 18 acres of which 11 were owned by few landlords. Gradually due to the population size and government attention as administrative capital for Wollega Province, the city drew better attention for development.

During the Era of Emperor Haile Silassie I, the city was characterized by having inadequate urban infrastructure and services like roads, poor housing conditions, absence of electricity, potable water, educational and health institutions. However, the city has since experienced tremendous improvements in having various urban infrastructure and services, among others, construction of various government buildings, like Commercial Bank of Ethiopia, Nekemte Public Hall, Public Library, Diesel Electric Power, Nekemte Teacher's Training Institute, now up-graded to Nekemte College of Teacher Education, Nekemte Nurses Training, various Secondary and Primary Schools construction, Wollega Museum, asphalt roads, to name some (Nekemte Administration, 1978). Most of the infrastructure in the city is witnessing the works done during the Derg regime.

At present, Nekemte is an Urban Local Government. The administration of self-rule by the city has been incorporated among the 20 selected cities in Oromiya Regional State and reformed recently in accordance with the proclamation No. 65/2003. The proclamation is enacted, and hence Nekemte Urban Local Government (NULG) is entrusted with the objectives to facilitate standardized urban space for development, work and residence; to streamline the operation and organization of urban local governments on the bases of good governance and democratic principles so as to enable them create huge development capacity for the development of the Region and improvement of the living standard of its residents (Nekemte Administration, 2003).

3.8 Institutional Issues

Urban *gandoolee* or *kebeles* are the smallest urban administrative units established pursuant to the Proclamation No. 47/67 during the ex-regime. There were 12 urban *gandas* in Nekemte accounted to the municipality prior to the reform, which were entrusted to the responsibility to administer the urban dwellers in their jurisdiction in accordance with the proclamation and regulations of the Regional Government.

However, according to the new reform (Proclamation No. 65/2003), which acknowledge Nekemte the power of self-rule accountable to the Oromiya Region Government, the study area divided into six Urban Local Administration, having administrative structure of

chairperson, administrative clerk, and other small supplementary regular works. The six divisions are named:

Table3.5. Name of Local Administrative Units of Nekemte

No.	Present Name	Former Name
1	<i>Bakkanniisa Qasee</i>	01 & 04
2	<i>Dargee</i>	02 & 10
3	<i>Qassoo</i>	05 & 08
4	<i>Calalaqii</i>	03 & 12
5	<i>Bakkee Jamaa</i>	06 & 09
6	<i>Burqaa Jaato</i>	07 & 11

Source: *Adopted from Nekemte City Strategic Plan, 2003*

Gandoolee/ kebeles 01 and 04 before the reform changed in to the present *Bakkanniisa Qasee*, after the reform; the rest also follows this trend.

Generally, this chapter provided an overview of background of the study area and its environs in view of the research topic at hand. Nekemte and its environs is endowed with various natural and human resources ranging from favorable climatic conditions and untapped mineral resources; and large number of population. In addition, the city is a transport node for Western Ethiopia which makes it a center of commerce and service provision for the region. Nekemte is also center of governmental, private, and Non Governmental Organization. However, urban services and infrastructure are at their early stage of development. And its linkage with hinterlands is poor, manifested by deteriorated and sleepy small urban centers around it. Small, medium, and large manufacturing industries are little or non-existent in the city and/or in the surrounding environs. At present time, however, efforts are being made to stimulate the socio-economic conditions of the city which are witnessed by creating conducive environment for investment, organizing MSEs, opening up of University and other educational institutions (to integrate research and development), among others. The next chapter, however, provides empirical findings on the sampled MSEs and their operators.

CHAPTER FOUR: EMPIRICAL RESULTS AND DISCUSSIONS

4.1. Characteristics of Respondents

The data for analyzing and discussing major findings were mostly primary and some secondary, which were obtained from the fieldwork in eight sampled group-based MSEs in Nekemte city. During the fieldwork, an attempt has been made to examine empirical conditions of group-based MSEs with theoretical and conceptual constructs which were discussed in the review of literature. The first section of this chapter contains a summary description of the background of operators and their households and the next part will discuss about the nature and structure of the sampled MSEs.

Personal characteristics of operators (also owners) of MSEs focused on sex, age, marital status, size of the respective households, ethnicity, religion, level of education, and earlier occupation and current income. Accordingly, this part of the study presents summary of the above cited characteristics of the surveyed population in the eight enterprises.

4.1.1 Sex and Age of Respondents

Table 4.1 Distribution of respondents by sex and age

Attributes	Item	Frequency	Percent
Sex	Male	50	66.7
	Female	25	33.3
	Total	75	100.0
Age(Grouped)	19-24	36	48.0
	25-29	27	36.0
	30-35	12	16.0
	Total	75	100.0

Source: *Own survey, 2007*

Table 4.1 shows distribution of respondents by sex and age. From the 75 sampled respondents 50 (66.7%) are male and the rest 25 (33.3%) are female. However, the distribution of both sexes is not uniform across the enterprises, some enterprises are entirely male, whilst, others like in the Sale of Fruits and Vegetables and Food Production ('*buddeen*' making) are entirely female. The involvement of women in such enterprises is encouraging to ensure the economic empowerment of women. In addition, Table 4.1 reveals grouped age of respondents.

survey respondents are in the age category of 19 to 35 years. Given the percentage 48% and 36% for the age group 19 to 24 and 25 to 29, respectively, it can be deduced that the majority of owners of enterprises are in the working age group and they are young. Hence involvement of youth in productive sectors through MSEs can be taken as one way of reducing urban youth unemployment in the study area.

4.1.2 Marital Status and Household Size

Table 4.2 Distribution of respondents by marital status and household size

Attributes	Item	Frequency	Percent
Marital Status	Never Married	36	48.0
	Currently married	37	49.3
	Widowed	2	2.7
	Total	75	100.0
Household Size (grouped)	4 and below	65	86.7
	5 and above	10	13.3
	Total	75	100.0

Source: *Own survey, 2007*

On marital status and household size, Table 4.2 shows the frequency and percentage for those who have currently married, never married and widowed; and the grouped household size of the respondents. Concerning the marital status of HH, the value for the categories is almost equal given 49.3 % and 48% for the two respectively; and the percentage for widowed is 2 (2.7 %). The closeness in the percentage of those who currently married and not married supports the view that MSEs are operated by every member of society and important tools in alleviating poverty among different sections of the society. Regarding the household size, the same table shows majority of respondents have the household size of 4 and below (86.7%). Operators with the household size of 5 and above, on the other hand, constitute 10 (13.3%). The maximum number of HH in the sampled households is 1 and the minimum is 6 (Annex II, 1). The criteria for grouping operators' HH 4 and below and 5 and above is with the view of the plan of the country to reach 4 persons per household in the year 2015. This reduction is also part of the effort of reducing large household size in view of reducing the unprecedented population growth (2.74 % growth in urban areas) in the country. The reduction of household size will have an important impact in alleviating poverty at household level given the reduced consumption expenditure per person.

4.1.3 Ethnicity and Religion

Regarding the background of operators of group-based MSEs, in terms of ethnicity and religion, from Table 4.3, it is revealed that 71 (94.7%) of operators are Oromo, with the rest Amhara. The domination of Oromos is simply because the study is located in Nekemte City where Oromos dominate. It can also be understood that MSEs are operating in the local areas and mostly benefiting the local people in terms of income generation and employment creation. In other words, involving local people in MSEs will help to tap the existing human/cultural and natural resources to bring about economic development and alleviate poverty. In addition, the domination of Oromos in the MSEs will support the argument that local economic development is meant to ensure the participation of the local people in their jurisdiction's economic affairs.

Table 4.3 Distribution of respondents by ethnicity and religious background

Attributes	Item	Frequency	Percent
Ethnicity	Oromo	71	94.7
	Amhara	4	5.3
	Total	75	100.0
	Protestant	45	60.0
Religion	Orthodox	23	30.7
	Islam	5	6.7
	Catholic	1	1.3
	<i>Waaqefataa</i>	1	1.3
	Total	75	

Source: Own survey, 2007

Table 4.3 also indicates the religious background of respondents. Operators of the sampled enterprises show diversity in terms of their religious backgrounds. However, two religions are dominantly followed by the entrepreneurs. Protestant followers are by far dominant - 45 (60%), while Orthodox followers are 23 (30.7). Islam followers are 5 (6.7%); with Catholic and *Waaqefataa* making 1(1.3%) each. From the religious background of respondents, it is possible to learn that the MSEs are operated by various people regardless of their religion. Furthermore, operators in the study MSEs peacefully operate in their MSEs, while tolerating their religious difference. With this MSEs have a crucial social dimension in allowing people to operate together and improve their living standards.

4.1.4 Educational Status

The questionnaire also included information on educational level of respondents so as to identify the respondents based on their level of education. Table 4.4 shows educational background of respondents.

Table 4.4 Distribution of respondents by their level of education

Item	Frequency	Percentage
Illiterate (cannot read and write)	7	9.3
Can read and write	2	2.7
Primary and first cycle (1-4)	9	12.0
Primary and Second cycle (5-8)	21	28.0
General secondary school (9-10)	15	20.0
Vocational and technical Diploma	16	21.3
Collage diploma (non vocational)	5	6.7
Total	75	100.0

Source: Own survey, 2007

From Table 4.4 it can be observed that the level of education of the respondents is relatively high. Of the 75 respondents, 36 (48%) have attained primary level (first and second cycle, 1-8 grades) and above, with 16 (21.3%) and 5 (6.7) having attained vocational and technical diploma and college diploma, respectively. Only 7 (9.3%) are illiterate (cannot read and write), while the remainder 9 (12%) are in the primary and first cycle (1-4) category.

From the above statistics it can be observed that though the MSEs are operated by people who attained relatively high level of education in the context of knowledge necessary for MSEs, there are also people who have no formal education. Hence, the involvement of operators with various educational backgrounds supports the argument that MSEs can be operated by people who have little education. On the other hand, the study also identified operators who have college Diploma, who have graduated from TEVT colleges. Generally, enhancing the skill of operators, given their formal education base, through various and sustainable trainings is possible to strengthen and further develop the MSEs. On top of that, the diversity in the level of education shows the accessibility of the poor (who have low level of education) to involve in such sectors and involve in the productive activities.

4.1.5 Earlier Occupation of Respondents

With regard to previous work experience of the respondents, respondents were asked about the type of activities they were doing before operating the current enterprises.

Table 4.5 Distribution of respondents by their earlier occupation (before owning current enterprise)

Occupation	Frequency	Percent
Daily laborers	10	13.3
Students	19	25.3
House wives	12	16.0
Employee of private business	16	21.3
House maid	3	4.0
Petty trader at home	9	12.0
Unemployed	6	8.0
Total	75	100.0

Source: *Own survey, 2007*

Table 4.5 shows that about 50 (66.7%) were engaged in various activities ranging from housewife to employee of private businesses, while the rest 25 (33.3%) were either students or unemployed. In light of the data, the MSEs under investigation are business sectors operated by people from various work experience or unemployed. Hence, operators contribute their various experiences in running their respective enterprises. This is, therefore, the true nature and advantage of MSEs in involving people without requiring specialized and professional talent, which has an important bearing on poverty alleviation efforts in the study area.

4.1.6 Income level (current)

Table 4.6 Distribution of respondents by their perception of income level

Item	Frequency	Percent
Decreased	17	22.7
Increased	36	48.0
At the same level	21	28.0
Don't know	1	1.3
Total	75	100.0

Source: *own survey, 2007*

It is generally agreed that MSEs are expected to boost the income level of owners thereby owners improve their income conditions relatively from what they have been earning early. Accordingly, Table 4.6 indicates that of the 75 respondents, 36 (48%) reported an increase of their income; 17 (22.7%) reported a decrease; 21(28) are at the same level; and only 1 (1.3%) she/he doesn't know whether income decreased or increase, indicating an improvement in their earnings.

4.2 Nature and Structure of the Enterprises

As discussed in the background of the study area in Chapter Three, the study area has no or little medium and large scale enterprises. However, there are various micro and small enterprises which are run by private entrepreneurs (self-motivated) in Nekemte city. Nevertheless, this study entirely focused on group-based, government motivated, MSEs in Nekemte city which are mainly established with the objective of alleviating poverty in the city, in the short run and to build a foundation for medium and large scale enterprises that will strengthen the local economy. Time and again, the overriding objective of this study is to gauge the role of group-based MSEs in reducing poverty in the study area, but the purpose of this part of the study is to examine the major characteristics of the enterprises with the aim of providing a clear picture about the MSEs. Therefore, attention is given to type, ownership, dynamism in terms of workers and capital, source of training and market information, savings, tax issues, infrastructure, source of raw materials, and major problems affecting the performance of MSEs under study.

4.2.1 Type of Enterprises

The 8 types of MSEs in this study are described in this part of the study and they have different characteristics.

i) Sale of Fruit and Vegetables Enterprise (*Buurqqaa*)

This micro enterprise is run by 10 people with initial capital of 7670 Birr borrowed from Oromiya Credit and Saving Share Company (OCSSCO), Nekemte branch. The enterprise is established in April 2006 and located in Baka Jamaa sub-administration of the city. From the

total of 10 persons 9 of them are female. The enterprise average current capital reached 9800 Birr.

ii) Food Production Enterprise (*Biqiiltuu*)

This enterprise is named '*Biqiiltuu*', established in December 2006. It is located in Wollega University and supply '*injera*' (*buuddeena*) to the university cafeteria, which serves regular students of the University. The enterprise has 13 women operators, who got a start-up capital of 5798.00 Birr from OCSSCO. They are selling 1 (400 gm) *buddeen googaa* for a price of 1 Birr. The Municipality Trade Industry and Transport Department has been supporting them by providing premise for production and facilitating their access to credit. Major problems their enterprise face, according to chairperson of the group is, shortage of potable water and delay in payment for their produce by the University. The current capital of the enterprises is 3,700.00 Birr.

iii) Gravel Production Enterprise (*Dirree*)

This enterprise is named as *Dirree and* established in December 2006. It is located at about 7 km south of Nekemte, where the place originally used for the purpose of quarrying by the same people. The enterprise employs 30 people from which 3 are women. The enterprise is engaged in producing four sizes of gravel: 00, 01, 02, and 03 types. The numbers indicate the size of the gravel, of which 00 size very small in size, while 03 indicates large size. The production is for Nekemte City condominium houses development project which is under implementation. Operators' sale their products with the price of 110 Birr per $1m^3$, though according to operators the price of similar products in private producers is 170 Birr per $1m^3$ for all types of gravel. According to the MSEs organizing Unit of Nekemte Urban Local Government, this price is set by the regional government housing agency.

As indicated above, the production area is located about 7 kms south of Nekemte City the place called *Duune Kaanee*. The enterprise loaned initial capital about 100,000 Birr from OCSSCO for the purchase of stone crusher. The machine crashes $4m^3$ per hour and operators use the machine for 5 hours production per day. In general their machine produces $20m^3$ gravel per day, though the machine has the capacity of working for 8 hours per day. The reason for limited production time, though the capacity of the machine allows, is that operators

commute from Nekemte City which is about 7 Kms far from the production area and operators supposed to go back on foot. During an interview with the Chairperson of the enterprise, the enterprise currently has a capital of 103,000.000 Birr.

iv) Metal Work (New) Enterprise (*Biiftuu Guuddinaa Metal Work*)

This enterprise is located in *Bakkee Jamaa* sub-administration of the city, around the Bus Station. The enterprise is owned by 8 persons and produces various metal products such as windows, doors, bread beaker, and bbm. Of the 8 persons, 5 were hired workers in private metal work enterprises before joining this group and the other three were students and working in other activities other than metal work. Initial capital of the enterprise was 12,000 Birr which was loaned from OCSSCO. It is one of the best performing enterprise with current capital of 40,000 after repayment of loan. Price determination and raw material purchase have been done by experienced members of the enterprise. Major consumer (market) of most of their produce is Wollega University, which is under construction.

v) Metal Work (Old) Enterprise (*Siifan Metal Work*)

This enterprise is named as *Siifan Metal Work* and is located in *Calalaqii* sub-administration of the city. The enterprise has been in operation since April 2004. The enterprise was established by vocational and technical education students who had completed their training with diploma. This enterprise produces windows, doors, griddle pumps, BBM, and other metal products. The enterprise purchases raw materials from local market. Initially the number of this group was 12 and now, during the survey, only 7 persons are in operation. Unlike Metal¹ (the one discussed earlier) enterprises, most of the operators have come from school; have never worked in private enterprises, hence according to the MSEs Organizing Unit of the Municipality, they are inexperienced. Initial capital for this enterprise was from operators pocket and it was 600 Birr. According to the Chairperson of the enterprise, current capital of this enterprise is estimated 20,000 Birr.

vi) Leather and Leather Product Enterprise (*Kooket*)

This enterprise is named as *Kooket* Leather and Leather product enterprise, established in April 2006 and located in Bakkanniisa Qasee sub-administration of the city. This enterprise is the only one of its kind in the study area and started business with initial capital of the 12,000 birr, which was loaned from OCSSCO. Regarding training, operators have received technical training for 21 days on ways of producing different types of leather products. The unique character of this enterprise is that it uses raw material from national market (Addis Ababa), unlike the other 7 enterprises which use local raw materials. Among the products they produce are belts, bags of different types, and open foot wear (*shebet*).

Two problems cited by operators of this enterprise are increasing price of raw material which is about 13.50 Birr for 1 square feet of leather which was 9 Birr per 1 square feet. The reason for the increase in the price of leather is the ceiling set by Ethiopian Leather Association which sales leather with the minimum amount of 3000 square feet with the price of 9 birr per 1 square feet. According to chairperson of the enterprise, the capacity they have now is to purchase maximum of 200 square feet. Hence they have no the capacity to meet the above ceiling and compelled to purchase from retailers with the price of 13.5 per a square feet. Another problem is interest rate of the micro finance (OCSSCO), which is 10%. Also cited is the absence of grace period for repayment of loan. The enterprise now lacks market and has a total capital of 6650.00 Birr. In addition, the number of operators of this enterprise has decreased from 10 (at time of establishment) to the current 6. The reason for shrinking in the number of operators, according to Chairperson of the enterprises, is lack of profit.

vii) Cafeteria (*Abdii Enterprise*)

This enterprise is located in Technical and Vocational College of the city and was established in 2004 with initial capital of 3000 Birr which is loaned from OCSSCO. The number of operators of the enterprise is 10. Currently the enterprise has 9000 Birr capital. The enterprise has no market problem since it is the sole provider of cafeteria service for Nekemte Technical and Vocational College.

viii) Wood Work Enterprise (*Boonnenuus*)

The enterprise is named as Boonnenuus and located in *Darggee* sub- administration of the city and established in April 2006. This enterprise started operation with initial capital 5798 Birr loaned from OCSSCO. Currently the enterprise has a total capital of about 80,000 Birr, according to the chairperson of the group. The enterprise produces various types of furniture for offices and household durables, bee hive, and the like. It also has various machineries and equipments which facilitate the production process. Initially, the members of this enterprise were 10, but now have been reduced to 6 persons, mainly because of lack of profitability and the tendency to start their own individual work. The operators have received training from vocational and technical college and specialize in wood working. The raw material for their enterprise is purchased from local suppliers, which have a positive backward linkage in utilizing local raw materials. According to the Chairperson of the enterprise, and researcher's observation during the survey, enterprise is well equipped with various machineries which facilitate the production process.

4.2.2 Ownership

The eight sampled enterprises are owned by the operators in the form of associations. Each enterprise has a chairperson, vice-chairperson, secretary, and cashier. Seven of them, except Sale of Fruits and Vegetables Enterprise, own all assets (machineries, and other materials) and share what they earn equally after deducting 30% of their gross sale to loan repayment. As for the Sale of Fruits and Vegetables, operators run their business in the same premise (market place) and access loan from OCSSCO and share the loaned money among ten of them equally for purchasing what they sale for-profit. Moreover, they sale fruits and vegetables individually and earn their income individually. Therefore, it is inevitable to have difference in income of the operators of this enterprise. Similar to the organizational structure of the seven enterprises, this enterprise also has chairperson, secretary, vice chairperson, and cashier. And yet, there is a strong sense of cooperation in many aspects of their enterprise like, maintenance of the work premise, helping one another in times of ill health, ceremonial services, and in other social matters.

4.2.3 Benefits of working in group

Working in group has various advantages in addition to improving income of the poor with the principle of social capital. As discussed in review of literature, Putnam (1993) observes that high density of voluntary association is responsible for economic success. He viewed memberships in horizontal associations as a source of trust and social ties conducive to economic performance. Furthermore, associations instill in their members habits of cooperation, solidarity, and public-spiritedness. On the basis of the advantage of horizontal association, during the survey respondents were asked about the advantage they get from working in groups. Figure 4.1 illustrates the most important reasons/benefits operators gain from working in group/association.

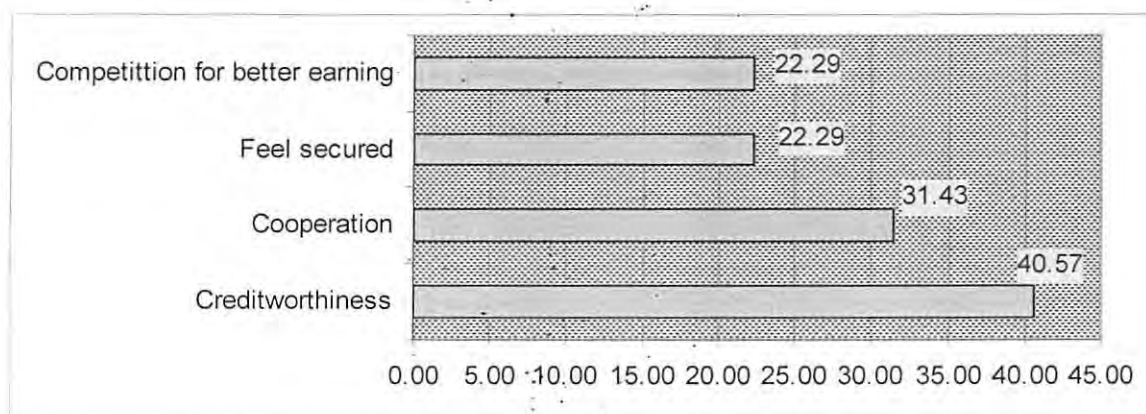


Figure 4.1 Advantages of working in group

Source: Constructed based on the survey data

Creditworthiness (40.57%), cooperation (31.43%), security (22.29%), and competitions (22.29 %) were the benefits operators get from working in groups. When it comes to creditworthiness, group collateral is one of the collaterals OCSSCO uses to give loan for to potential operators. Hence associations or groups have an important advantage in this regard. According to the MSEs Organizing Unit of Nekemté city, credit facilitation is also made with the knowledge of the Municipal's Trade, Industry, and Transport Department. Another important advantage cited by operators was cooperation among them. This partly means members are tolerated not to involve in work if they are ill, or injured, and other social problems. The advantage of cooperation employed while working in association is non-

existent or seldom exists in private enterprise, since the motto of private business is dominantly profit maximization.

Working in association also has a significant contribution to competitiveness among and within enterprises as in the case of Sale of Fruits and Vegetables Enterprise. This is manifested by learning from innovative individuals in the enterprises and acquiring improved production skills. Feeling sense of security is also another advantage cited by entrepreneurs while working in group. Hence apart from economic advantages, working in group has social advantages which can address non-income poverty since they reduce exclusion of the poor from day-to-day social affairs.

4.2.4 Changes in the Enterprises (contraction and expansion)

Contraction and expansion of the sampled enterprises was also examined in light of additional job creation and increasing capital. The major objective here is to understand the sustainability and development of the enterprises so as to support the income of other potential entrepreneurs including those in the enterprises. In addition, the development of enterprises under study will contribute their share in the economic development of the study area.

4.2.4.1 Changes in the number of employees

Table 4.7 Number of operators of enterprises: Initial and Current

Type of Enterprise	Initial number (when started)	Current Number	Number (%) Decreased
Sale of Fruit and Vegetables	10	10	No change
*Wood work	13	6	7(53.8%)
Metal Work (new)	8	8	No change
Cafeteria	10	10	No change
*Leather and Leather product	10	6	4(40%)
*Metal Work (old)	10	7	3(30%)
Food Production	13	13	No change
*Gravel Production	40	30	10 (25%)
Total	114	90	24 (21%)

* Enterprise that showed contraction of number of operators.

Source: *Own survey, 2007*

Table 4.7 shows the change in the enterprises, i.e. the ability to contract and expand which is measured by employee of the 8 enterprises. Generally, the enterprises do not show an increase in employment generation. From the eight enterprises four of them showed a decrease in the in the number of operators, while the remaining half remained constant. The greater decrease was experienced in the *Boonnemius* Woodwork Enterprise, 7 (53.8%) decrement; followed by *Kooket* Leather and Leather Product Enterprise 4 (40%); *Siifan* Metal Work Enterprise 3 (30%); and *Dirre* Gravel Production Enterprise 10 (21%). In sum, 24 operators left the eight enterprises, which reduced the total number of operators to 90 from 114. During the survey, enterprises which showed contraction were asked for reasons why the number of operators decreased. Accordingly, about 80% responded that it is due to lack of profit of the enterprises, 6% responded fear of bank repayment (increasing interest rate), while 14% have resigned and have started their own business individually. Based on the above data, the overwhelming majority (80%) have chosen lack of profitability as a reason for decrease in the number of operators. Hence this will have a negative effect on the employment creation of the MSEs.

In addition, the decrease in the number of operators has a potential problem on the sustainability of the enterprises, though they perform well as it is witnessed in the following chapter of this thesis which deals with the impact of the enterprises on poverty alleviation. Since the MSEs by their nature are labour intensive, the decrease in the number of operators leads to low productivity of such enterprises. Another consequence of the decrease in the number of workers is the burden carried by the active operators in repaying the loan taken from micro finance. Contrary to the above implication, the decrease in the size of operators may be considered as a positive aspect of MSEs in the sense that they are sectors where operators start their own business independently, after strengthening themselves in terms of wealth and skill when they were operating in group.

However, in this study, active operators did not respond that the decrease in the number of operators was not due to conflicts/ misunderstandings between and among groups, rather simply because of the expectation of leavers in terms of profit.

4.2.4.2. Changes in terms of capital

In addition to dynamism in the number of operators, attention has also given to the contraction and expansion of capital of the sampled enterprises.

The important sources of finance/capital open to micro and small scale-enterprise in developing countries are usually personal savings, banks, micro finance institutions, loan from friends and relatives, system of rotating savings (*Uqqubi*), inheritance, and suppliers' loan. However, this study found out that almost all (7) enterprises have started their business through micro finance loan. This is an important support made by the government of the region which facilitates safe access of operators to loan so as to improve their living conditions, thereby improving the economy of the local area. With regard to working capital, the study found out that operators use various sources of finance which are cited above. Source of finance from friends, and suppliers of inputs made 75% and 50%, respectively; own saving: 37.5%; and from OCSSCO: 25.0% respondents utilize for the purpose of running their business (Annex II, 2).

Table 4.8 Initial and current capital

Type of Enterprise	Initial capital (in Birr)	Current capital (in Birr)	Actual change (in Birr)
Sale of Fruit & Vegetables	7670.00	9800.00	2130.00
Wood Work	15,000.00	80,260.00	65260.00
Metal Work (new)	12,000.00	40,000.00	28000.00
Cafeteria	3000.00	9000.00	6000.00
*Leather & Leather products	12,000.00	6650.00	-5350.00
Metal work (old)	600.00	20,000.00	19400.00
*Food Production	5798.00	3,700.00	-2098.00
Gravel Production	100,000.00	103,000.00	3000.00

* Enterprise that experienced contraction of capital

Source: *Own survey, 2007*

Table 4.8 shows the change in the capital of enterprises between the period of commencement and during the survey. Six of the eight sampled enterprises have shown expansion of capital. However, Food Production Enterprise and Leather and Leather Product Enterprise have experienced contraction in capital. The reason for decrease in the case of Food Production Enterprise may be due to the early period between commencement of the business and time of

the field survey. The time is only 3 months for making profit. In addition, food production is less profitable than the rest enterprises. In the case of the latter enterprise, according to Chairperson and Secretary of the enterprise, the major reason is lack of domestic market and the increasing cost of raw material. In all, most of the enterprises under study show element of growth in terms of capital accumulation, which will help them in the future to other stage of enterprise (medium and large scale).

4.2.5. Savings

According to Otero (2003), savings are an alternative source when respondents need cash, without diverting funds from the business. Savings also present an opportunity to introduce the borrower to the formal banking sector.

Table 4.9 Type of savings

Item	Frequency	Percent
Compulsory	1	1.3
Voluntary	18	24.0
Both Compulsory & Voluntary	56	74.7
Total	75	100.0

Source: *Own survey, 2007*

There are two types of savings in OCSSCO - compulsory and voluntary. Based on the survey, however, 56 (74.4%) of the respondents save by both will and compulsory saving required by the micro finance, 18 (24%) save by their own will (voluntary) and by compulsion (Table 4.9). This is because OCSSCO is introducing the operators to the culture of saving which may facilitate expansion of their enterprises.

Operators of the sampled enterprises were also asked about the source of money for their savings. Hence, all the respondents' answer was entirely from the enterprises they are engaged in. Therefore, it is possible to conclude that MSEs help to develop the culture of saving as well as increased saving capacity of operators. In addition, from the total of eight enterprises, 7 (87.5%) of them save in Oromiya Credit and Saving Share Company (OCSSCO), while 1 saves its earned money in *uuquubii* (Annex II, 3). However, during the FGDs respondents were not hiding the savings they have. Currently, the amount of savings they have is small

mainly because they have to repay the loan they took from OCSSCO for starting their business.

Purpose of Saving

It is obvious that saving is an important component of business activity because it enables operators to invest for the future and acquire appropriate return. Saving also helps to avert problems of loss or shutting down one's own business. During the time of the field survey, including the FGDs, respondent were asked about the major purpose of their savings. The purpose of savings in the enterprises under study is presented below.

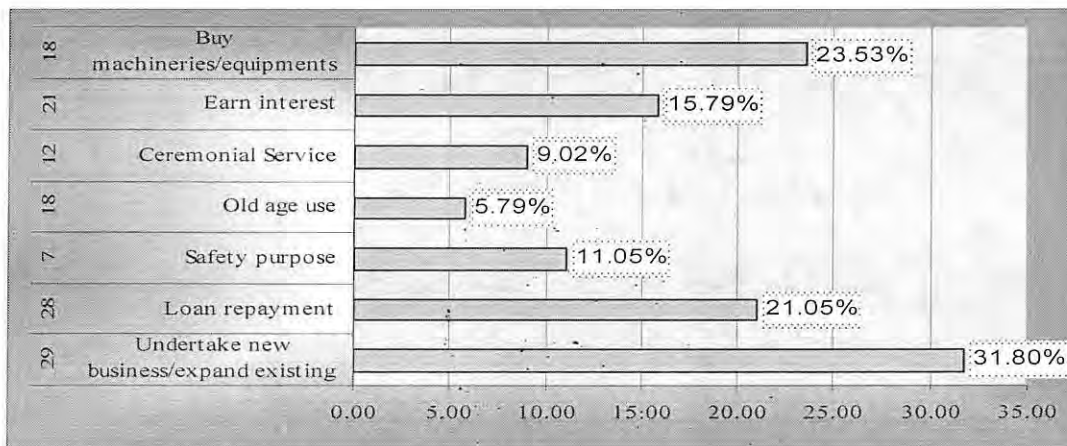


Figure 4.2: Purposes of Saving

Source: Constructed based on survey data

Operators of the enterprises are aware of the importance of saving because it can help in further investment and can be a shield against the collapse of their business. Hence, according to Figure 4.2, 29 (31.8%) cited the major purpose of saving as to undertake new business and/or expand the existing business; buying machineries/equipment for production purpose makes 18 (23.53%). It is possible to conclude that about 55% of respondents have been saving to expand their business through adding new and efficient machineries and acquiring better skill in the production and marketing processes. Moreover, 28 respondents also save for the purpose of repaying loan borrowed from the micro finance in the study area. This makes about 21%. In addition, about 15%, 11%, 9%, 6% of respondents save for the purpose of earning interest, safety (protect theft), ceremonial(wedding, holidays,etc) services, and old age use, respectively.

4.2.6 Tax Issues

According to Trade, Industry, and Transport Department of Nekemte city, up until now, there is no form of taxation imposed on the MSEs operating in the form of association. This may be an important incentive made for these enterprises so that they can flourish and contribute to economic growth of the urban local government of the city.

4.2.7. Source of Training and Market Information

Schulz 1961 (cited in Mulat & Wolday, 1997) linked individual's duration and quality of education with human capital, which will lead to greater productive capacity. Hence, training/education is expected to improve the capacity of individual's so as to respond to better incentives and use market information effectively. According to Mulat and Wolday (1997), training comprises various aspects: formal, technical, and vocational training for various individuals who left school or so. Some training is linked directly with the MSE labour force, while other serves as an indirect route for MSE development. Generally speaking, training applies to any transfer of knowledge, skills or attitudes organized to prepare people for production activities, or to change their working behavior. The various training approaches emerged to enhance the development of MSEs can be categorized into three: pre-service training, skill upgrading, and assisting disadvantaged areas or groups.

However, based on the survey, 70 (93.3%) of operators in the eight enterprises received training from the Municipality before starting their business. Respondents also reported that there has not been additional training received since then. In addition to the above training, respondents have received (trainings) experiences from various sources. Hence 25 (33.3%) responded that they acquired skills from experienced members of the group (apprenticeship), while 22 (29.3%) from vocational school (earlier); 0 (0%) received training from Business Development Service (BDS); Earlier when working in the private business: 10 (13.3%); and 15 (20%) of respondents have never received training (Annex II, 4). On top of that, during FGD respondents underscored that the training they received is inadequate for producing various types of products, though the training they received from the Municipality is important to start business.

Respondents were also asked about the source of market information since this sort of information is crucial both in buying inputs and selling outputs of their enterprise. Table 4.10 provides sources of market information.

Table 4.10 Source of information for market

Item	Fréquency	Percent
From friends in similar business	7	9.3
From customers	30	40.0
Visiting markets & asking the price of items	38	50.7
Total	75	100.0

Source: *Own survey, 2007*

Table 4.10 shows various sources of information on market. Hence, the study found out that in the study area there is no Business Development Service provider, which is a crucial source of MSEs development. BDS includes: a variety of non- financial services such as labour and management training, extension, consultancy, and counseling, marketing and information services, technology development and diffusion; and mechanisms which improve business linkages through sub-contracting; franchising; and business cluster (Gebrehiwot and Wolday, 2004). The Table shows that 68 (90.7%) respondents accessed to market information through customers, requesting operators to produce a certain product, and visiting markets and asking the prices of similar products and fixing the value of their products accordingly. The remaining 7 (9.3%) receive information from friend who are involved in similar business.

Based on the above findings, operators in the sampled enterprises have no central market information providing body or institution, though the policy on MSEs in the country encourages the development of BDS which can support the flourishing of MSEs. This, therefore, shows the policy- implementation gap in the area of BDS encouragement in the study area. As indicated above, majority of operators receive information through informal process which complements the significance of social capital. On top of that, during FGD on MSEs operators indicated that they waste time and energy while visiting markets in search of information on the price of inputs and outputs

4.2.8. Infrastructure

Table 4.11 Basic infrastructure of enterprises

Item	Frequency	Percent
Electricity only	3	37.5
Water & electricity	1	12.5
Neither of the two	4	50.0
Total	8	100.0

Source: *Own survey, 2007*

Infrastructure like electricity, water, roads, market place/center improvement, and communication service is important for the effective development of business enterprises. Micro and small enterprises are in serious need of such infrastructure for the smooth running of their operations. The study found out that about 4 (50%) of the MSEs lack access to electricity and water in the production place and market place. Although these two facilities are basic for all enterprises, the shortage is acute for food production (*buuddeena*) and leather and leather products since both are water thirsty. Moreover, 3 (37.5%) of the enterprises lack electricity, and only 1 enterprise has both water and electricity.

During the FGD on MSEs respondents also indicated that though they have got work premise, place of market and production, the houses in which they operate are covered with plastics (as in the case of Sale of Fruit and Vegetables), in open air (as in *Siifan* Metal Works (old) and *Biiftuu Guddina* Metal Works (New)); and *Boonnemius* Wood Works have no market center where it can display products for market.

Table 4.12 Availability of storage facilities

Item	Frequency	Percent
Yes	16	21.3
No	59	78.7
Total	75	100.0

Source: *own survey, 2007*

Likewise, 59 (78.7%) of the study enterprises have no storage facilities where produce can be kept in safe and convenient place before reaching to the market and returning back, if not sold.

The remaining 16 (21.3%) have storage facilities. On the other hand, though MSEs under investigation have got work premises from the Municipality, shelters for market place have been constructed by the operators.

Table 4.13 Involvement in participatory planning and implementation

Item	Frequency	Percent
Yes	2	25.0
No	6	75.0
Total	8	100.0

Source: *Own survey, 2007*

Table 4.13 shows the distribution of sampled MSEs whether or not they ever have been involved in participatory planning or implementation of infrastructure which have an impact on their MSEs. Accordingly, 2 (25%) MSEs were involved, while 6 (75%) were not involved in any participatory planning and implementation regarding infrastructure development in the study area. Therefore, it is possible to conclude that improvement of MSEs in the study area didn't take into consideration the input of operators, which otherwise help MSEs to have appropriate benefit from the infrastructure.

Generally, almost all enterprises contacted lack basic infrastructure. For example, *Biiiftuu Guuddinaa* Metal Work Enterprise and Sale of Fruits and Vegetables Enterprise are located near to the Bus Station and suffer from dust and wind which obstruct effective business transaction. This is because the enterprises have no house which can stand dust and strong wind. Moreover, *Biqiiltuu* Food Production Enterprise located in the compound of the newly opened university, Wollega University, is seriously affected by shortage of potable water, electricity, and storage facility for prepared food (*buiddeena*) and place of preparation. In addition, *Boonnenuus* Wood Work Enterprise has no marketing shop where operators access their products to consumers. In addition, their studio is far from the center of the city.

4.2.9 Source of raw materials

Table 4.14 Sources of raw material

Item	Frequency	Percent
Local market (purchase)	7	87.5
National market (purchase)	1	12.5
Total	8	100.0

Source: *Own survey, 2007*

Most of the MSEs utilize domestic raw materials as an input. It is obvious that utilization of local raw materials has important backward linkages; they encourage suppliers of raw materials to produce more. Seven (87.5%) of the enterprises use local raw materials and most of them purchase their respective raw materials from local suppliers. However, gravel producers use raw material in the outskirts of the city without any payment or tax to the Municipality. Only 1, the Leather and Leather Products enterprises, purchase raw materials from the national market, i.e., from Ethiopian Leather Association in Addis Ababa.

4.2.10 Major Problems Affecting the MSEs

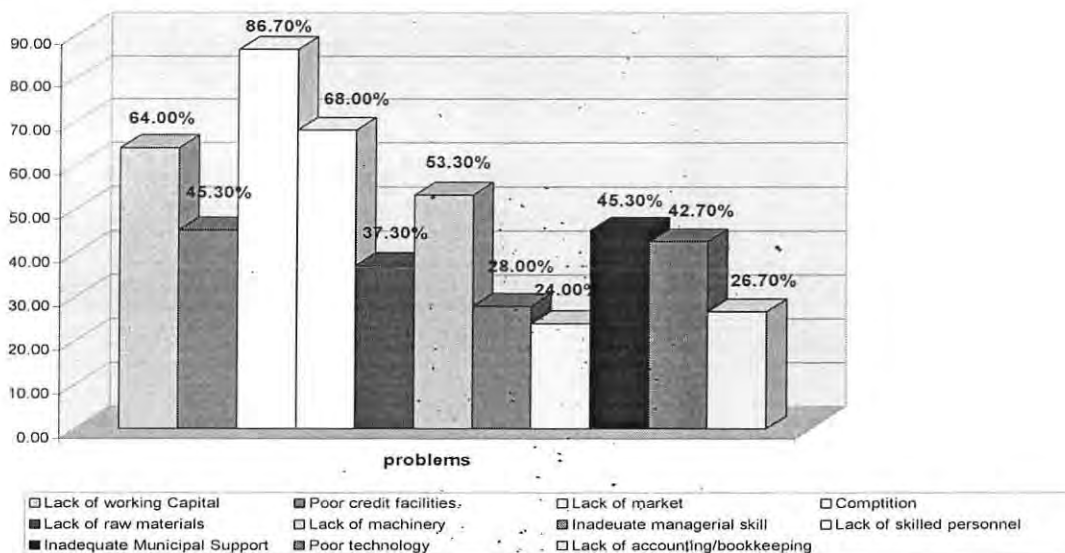


Figure 4.3. Major Problems facing the MSEs

Source: *Constructed based on survey data*

The survey questionnaire contained one question which sort for major problems facing/affecting the enterprises. Eleven different problems were identified with different frequencies. Figure 4.3 shows the percentage (to what extent) distribution of these problems. Based on the figure, four major problems cited by operators are: lack of market contained 86.7%, stiff competition with private and experienced enterprises owners (68%), lack of working capital (64%), and utilization of back ward machineries (53.3%).

Other problems cited were poor credit facilities and inadequate Municipal support contained 45.3%, poor technology (production system) 42.7%; lack of raw materials 37.3%; inadequate managerial skills 28%; lack of accounting or bookkeeping system 26.7%; and lack of skilled personnel 24%.

The major cause of marketing problem is competition with other MSEs and with medium and large scale enterprises, imported similar items, and limited consumer awareness of the products/services of the MSEs under study.

The enterprises under study, however, are well integrated with their consumers for the reason that the Municipality made appropriate efforts to sale their products to various institutions in the city. For example, gravel producers sale various sizes of gravel to the Housing Development Agency in Nekemte; metal work and food production enterprises sale their products to the newly built University. Similarly, cafeteria owners, owing to their location in the Technical and Vocational Training Institute(TEVE), have got access to market; the wood work enterprise also produces various types of modern bee hives which it sales to Agricultural Research Institute in the study area and surrounding Peasant Associations. Leather and leather product enterprises and sale of fruit and vegetables have not benefited from such arrangements and are exposed to stiff market competition from similar enterprises.

Although most of the enterprises cited above are well integrated to market or customers, they still face delay in payments of what they sale. For example, during the field survey, gravel producers complained that the Municipality Condominium Housing Project Coordinator delayed of payments for loaded gravel and slowed loading of produced gravels.

In sum, the sampled enterprises have different characteristics discussed above from the point of view of type of enterprise, ownership, benefits of working in group, dynamism in terms of number of operators and capital, source of training and market information, savings, tax issues, infrastructure, source of raw material, and major problems facing the enterprises. In general, the above discussed nature and structure of enterprises have various opportunities and problems. Some enterprises have more returns than others. Likewise, some are also labour and capital intensive. Some enterprises also show serious lack of infrastructure. With regard to training and market information provision this is inadequate. Apart from the training operators received from the Municipality before commencing operation, they have never got additional training since then. In this regard, this study found out that there is no business development service in the study area which can provide services on the development of their enterprises.

Moreover, the enterprises under investigation have no clustering of any type i.e. location cluster, market cluster, labour division cluster, innovative cluster, among others. In addition no enterprise exports its output so as to access global market, though it is argued that MSEs can access the global market and acquire better capital and technology. According to van Dijk (2000), urban MSEs can compete in a global economy through clustering, networks; inter firm relations and flexible specialization. Moreover, he argues that clustering of MSEs improve their competitiveness, defined as the capacity of a firm to survive, gain, maintain, and expand its market share on product markets.

CHAPTER FIVE: INFLUENCE OF MSEs ON POVERTY

The literature part of this thesis briefly discussed the expectation that MSEs can improve the living conditions of owners/workers through employment, income, and asset creation. Studies indicate that increased enterprise income/ profits can help reduce poverty, though the connection between the two is not always assured. Likewise, this study investigates whether or not the above stated scenario is true of Nekemte city. Improvement in the welfare of the households involved in the MSEs may be observed from consumption expenditure various basket of goods. It is obvious that these variables may not solely be affected by income. Hence, this chapter investigates the impact of MSEs on improving the living conditions of operators and their households.

Variation in the trend of income between households who started business during the past three months and those who started a year ago is used as a tool for analyzing the role of MSEs in poverty alleviation. Two groups of households are used to compare their welfare after starting business. The control group comprises 28 head of households who operate in the two recently (three months) established enterprises (*Biqiiltuu* Food Production Enterprise and *Dirre* Gravel Production Enterprise). The second group (study households) is the rest six enterprises which have 48 head of households. The year of establishment of the study group ranges from the year 2004- 2006. Based on these two groups (control and study), the study tried to measure the influence of MSEs from the perspective of income improvement, consumption expenditure on food, water, asset building, house rent, education, medical facilities, aversion of vulnerability, and empowerment of women entrepreneurs.

5.1 Impact of MSEs on Income

Table 5.1 Monthly incomes of respondents (Grouped)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
100-150	28	37.3	37.3	37.3
151-300	9	12.0	12.0	49.3
301-450	21	28.0	28.0	77.3
451-600	17	22.7	22.7	100.0
Total	75	100.0	100.0	

Source: *Own survey, 2007*

Table 5.1 shows average monthly income of the sampled MSE operators in the study area which ranges from 100-600 Birr per month. Basing on valid percentage indicated in the table, most of the respondents 28 (37.3%) earn 100-150 Birr per month on average. The percentage of operators who earn 301-450 Birr per month is 21 (28%), while those earning 451-600 Birr are 17 (22.7%).

To prove the level of income of respondents compared to earlier income, they were asked about their income. Accordingly, 48%, 22.7%, 28%, and 1.3% of operators of the enterprises responded increased, decreased, remained at the same level and he/she do not know whether increased or decreased, respectively. Therefore, MSEs can help the poor to have their own income which may help to improve their living conditions. Based on the survey, about 48% of the respondents acknowledged improvement of their income as a result of operating in the MSEs (see Table 4.6, pp. 58). Ungrouped income of respondents is shown in Annex II, 5 and 6).

Table 5.2 Average monthly income

Item	N	Mean	Median	Mode	Std Error of mean	Std. Deviation	Min.	Max.
*EO	47	444.6809	450.0000	150.00	19.12965	131.14630	200.00	600.00
*NO	28	126.7857	150.0000	600.00	4.79896	25.3937	100.00	150.00
Total	75	326.0000	350.0000	150.00	21.56824	186.78648	100.00	600.00

Source: *Own survey, 2007*

*EO= Experienced Operators

*NO= New Operators

Table 5.2 indicates the difference in income of the two groups, given the mean monthly income of 444.9 and 126.8 Experienced Operators (hereafter EO) and New Operators (hereafter NO), respectively, which shows the positive impact of MSEs under study in improving the income level of operators.

Furthermore, to measure the impact of MSEs for the progress of income improvement, a comparison was made between EO and NO using Chi-Square Tests.

Table 5.3 Chi-square tests on trends of income.

Item	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	75.000 ^a	3	0 .000
Likelihood Ratio	99.106	3	0 .000
Linear-by-Linear Association	57.005	1	0 .000
N of Valid Cases	75		

a. 1 cells (12.5%) have expected count less than 5. The minimum expected count is 3.36.

Source: *Own survey, 2007*

According to Table 5.3, the result of the test shows a significant difference in earnings between the two categories at 5 % level of significance. Hence the result supports the argument that MSEs can improve the income level of operators through creating employment opportunity.

Although the statistical analysis above shows variation in income per month, it is important to note that respondents can hide the true income they earn due to various reasons. The issue of hiding income may be understood from the expenditure they made on various food and non-food consumable items. In the following analysis, the consumption expenditure of operators exceeds the income they earn. Hence, focusing on consumption rather than income is crucial measure to understand the poverty level of respondents and/or to understand the contribution made by MSE sector in alleviating poverty in the study area.

5.2 Influence of MSEs on Consumption Expenditure

The study tries to explain the role of MSEs on improving utilization of various consumable items of operators through expending on different basic commodities. Hence in the following analysis focus has been made on food, water, house rent, and household durables (asset).

5.2.1. On food expenditure

Table 5.4 Mean monthly expenditure on food

Item	N	Mean	Std Error of Mean	Medjan	Mode	Std. Deviation	Min.	Max.
EO	47	344.8936	19.37774	300.00	300.00	132.84712	100.00	760.00
NO	28	318.5714	18.90760	300.00	400.00	143.33887	50.00	600.00
Total	75	313.6000	14.73721	300.00	300.00	127.62794	50.00	760.00

Source: *Own survey, 2007*

To explain the impact of MSEs on consumption trend of food among operators, average monthly expenditure on all sorts of food items has been used between EO and NO. Table 5.4 indicates mean monthly expenditure of about 344.9 and 318.6 Birr for EO and NO, respectively. To test the significance of the mean difference between the two categories, T-test was employed.

Table 5.5 One-Sample Test (T-Test) on Food Expenditure

Test Value = 0						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Total Food Expenditure per Month	21.259	74	0.000	335.0667	303.6616	366.4718

Source: *Own survey, 2007*

The results indicate that the variation is significant at 5% confidence interval. The difference, therefore, indicates that those who started operating MSEs prior to current operators spend more money on food items. This in turn may indicate the betterment of EO in getting access to consumable food items given the more spending money on food. It is, therefore, safe to conclude that MSEs smooth income of operators so that they have better consumption of food.

5.2.2 Expenditure on Water

The survey results indicate that 81% of respondents buy water for domestic consumption. This in turn indicates that the above cited percentage of operators of the enterprises under study have access to potable water, which is shared tap, privately owned, and public tap. The rest (19%) responded that they use water from wells and rivers. However, the issue in this study is whether or not the income operators get enables them to purchase water. To witness the impact of MSEs on water consumption expenditure of operators, both mean expenditure comparison and Chi-Square tests were employed. Accordingly, the mean expenditure comparison shows difference between EO and NO, as it can be observed from Table 5.6.

Table 5.6 Mean Monthly Expenditure on Water

Item	N	Mean	Std	Median	Mode	Std.	Min.	Max.
		Error of mean		Deviation				
EO	43	11.2791	0.73763	10.0000	10.00	4.83699	0.00	30.00
NO	21	8.0000	0.71381	7.0000	5.00	3.27109	3.00	13.00
Total	64	10.2031	0.57829	10.0000	10.00	4.62629	0.00	30.00

Source: *Own survey, 2007*

The mean value of 11.27 and 8.0 for EO and NO respectively shows slight difference in water expenditure between the two categories. Hence the mean value shows more expenditure for EO category. However, to further test the existence of statistically significant variation between the two categories Chi-Square tests were employed (Table 5.7).

Table 5.7 Chi-Square Tests on Water Expenditure.

Item	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.883 ^b	1	0.170		
Continuity Correction ^a	1.212	1	0.271		
Likelihood Ratio	1.931	1	0.165		
Fisher's Exact Test				0.189	0.135
Linear-by-Linear Association	1.853	1	0.173		
N of Valid Cases	64				

a. Computed only for a 2x2 table

b. 0 cells (.0%) have expected count less than 5. The minimum expected count is 8.53.

Source: *Own survey, 2007*

The Chi-Square test, therefore, does not show statistically significant variation at 95% confidence level (Table 5.7). Therefore, based on this test, income gained from MSEs is unable to show variation on expenditure of water between EO operators and NO.

5.3 Housing and expenditure on housing

Housing is one of the basic necessities for decent life. Therefore, it has been used as an indicator of poverty in various poverty related research outputs or literature. Based on the survey at hand, majority of operators 43 (57.3%) of MSEs have houses which are rented from private owners; 15 (20%) rented from *gandaa*; about 11(14.7%) owned privately; and 6 (8%) of respondents live in *dabbaalli* (use their parents/families house or live together with

relatives) (Annex II, 7). Leaving aside those who own privately and living in *dabbaalli* since they do not pay for house rent, monthly mean expenditure and ANOVA test have been employed to explain the impact of MSEs on access/ utilization of housing units by operators.

Table 5.8 Mean monthly expenditure on house Rent

Item	N	Mean	Std. Error of Mean	Median	Mode	Std Deviation	Min.	Max.
EO	42	52.8810	3.88716	60.00	70.00	25.19166	2.50	80.00
NO	16	19.3750	4.45171	20.00	2.50	17.80683	2.50	60.00
Total	58	43.6379	3.63916	50.00	70.00	27.71500	2.50	80.00

Source: *Own survey, 2007*

Table 5.8 provides mean monthly expenditure of EO and NO for house rent. The mean comparison, therefore, shows there is a difference between EO and NO in average monthly expenditure for house rent. The higher the rent, the better will be the house in terms of facilities and convenience for living. Furthermore, ANOVA has been employed to test the statistical significance of mean monthly expenditure on house rent between the two groups. Table 5.9 below shows the result of the test.

Table 5.9 ANOVA Test on house rent

Item	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	13.534	2	6.767	15.256	0.000
Within Groups	24.397	55	0.444		
Total	37.931	57			

Source: *Own survey, 2007*

Hence, the test shows presence of difference in mean monthly expenditure on house rent and it is statistically significant at 95% confidence level. From the above statistical presentation one can conclude that income generated from MSEs has a significant contribution to help operators to rent house.

However, Annex (II, 7) also shows majority 64 (85.3%) of MSEs operators do not have ownership to the house they are living now; hence they are insecure. Respondents have also asked their perception about the adequacy of services from house they rent, either from private

renters or *gandda*; hence 64.7% responded the service they are getting is inadequate, while 35.3% responded adequate (Annex II, 8). In addition, operators were also asked about services/facilities like, type of floor, electricity, kitchen, toilet, and bathing. However, accessibility for such services is inadequate or non-existent, eg, bathing.

5.4 Expenditure on Household Durables

The survey attempted to assess the impact of MSEs on households' accumulation of assets which may be expressed by expenditure made on household durables. This is because ownership of durable household assets is regarded as one of the most important indicators of improvement in households' welfare. As a result, the mean expenditure of EO and NO is indicated in Table 5.10. Making comparison (using various statistical tests) between the two categories is impossible because for EO the value is mean annual expenditure, while for NO it is over the last three months.

Table 5.10 Average expenditure on household durables

Item	N	Mean	Std Error of Mean	Median	Mode	Std Deviation	Min.	Max.
EO	26	189.6538	41.57603	110.0000	40.00	211.99697	10.00	970.00
NO	5	55.0000	12.64911	50.0000	25.00	28.28427	25.00	100.00
Total	31	167.9355	35.96300	100.0000	40.00	200.23352	10.00	970.00

Source: *Own survey, 2007*

The table, however, shows amount of expenditure made by the two categories of operators and it can be concluded that MSEs enabled them to make significant expenditure on household durables like, bed, radio, blanket, other clothes. In other words, operators of the two categories have made significant expenditure for procurement of personal assets. In addition, operators have owned in group all the production and marketing equipments. The implication here is that operators show increasing trend in acquiring various equipments which will increase their asset creation thereby alleviate their poverty.

5.5 MSEs on Education

Table 5.11 Average school expenses

Item	N	Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Min.	Max.
EO	11	204.55	80.660	120.00	100.00	267.521	60.00	1000.00
NO	17	117.35	9.862	110.00	100.00	40.663	55.00	200.00
Total	28	151.61	32.385	115.00	100.00	171.367	55.00	1000.00

Source: *Own survey, 2007*

It is common knowledge that in developing countries, Ethiopia included, that access to education by students coming from poor households is limited as compared to those coming from well to do families. In other words, it is assumed that households with higher income level have more choices and broader opportunities for access to education. It is true that in Ethiopia, education from primary to general secondary (1-10 grades) is free from school fee, but they are not without cost to the family. Purchase of stationery materials and the like need money for sending children to school. During the survey operators of MSEs under study were requested to comment on expenditure made on sending children to school. Table 5.11 indicates that the mean annual expenditure by households on education. Accordingly, the mean value for EO was about 204 Birr, whereas, for new operators was about 177 Birr, depending on the number of children going to school. In addition, there are also some operators who pursue their education using the income they generate from their enterprise.

Respondents were also requested about the number of children currently attending school. Hence, 24.3% indicated 1 child; 13.5% 2 children and 1.4% send 3 children to school (Annex II, 9). In addition, respondents were asked about perception of their expenditure on household members attending school currently. Accordingly, 9.2% decreased; 76.9% at the same level; and 13.8% responded that their access to education has been increased (Annex II, 10).

Therefore, about 86% responded that their involvement in the MSEs has no impact on their access to education during the time of surveys, while about 14% witnessed an increasing trend in their access to education because of their involvement in MSEs. In sum, it is not safe to conclude that income generated from MSEs has impact on the education of operators and their households, since the current expenditure on education is generated from the money generated

from MSEs. This is partly because earlier money expenditure made had probably been acquired from relatives, friends, and the like, but now from the MSEs. In general impact of MSEs on education is best explained by the number of school age children currently attending school and the trend of school enrollment i.e., whether or not enrollment is improved rather than the money expended on students attending school.

5.6 On Medical Facilities

Income generated from MSEs is expected to facilitate access of operators and their families to medical facilities. Therefore, respondents were asked about their access to these facilities. About 51(68 %) visited health institutions over the last 12 months while, the rest 24 (32%) did not visit. From those who have visited (including their household members), 86.7% responded that the source of money for their access to medical facilities was income generated from their MSEs; while about 11%, 4.4% from household saving (not from MSE), and borrowing from friends, respectively (Annex II, 11). Based on the survey data, all those visited health institutions believe that their access to Medical facilities in the last 12 and 3 months have been improved and feel that they have enjoyed better access to medical facilities (Annex II, 12). In addition, Table 5.12 shows the mean annual and monthly expenditure on medical facilities for experienced and new clients, respectively.

Table 5.12 Average medical expense

Item	N	Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Min.	Max.
EO	32	361.72	55.587	270.00	200	314.449	45	1350
NO	19	190.95	31.194	140.00	100	135.973	40	460
Total	51	298.10	38.326	200.00	200	273.704	40	1350

Source: Own survey, 2007

According to Table 5.12 the mean annual expenditure for EO was 361.72 Birr, while for NO was about 191 Birr, showing a statistical difference between the two categories. Therefore, it is possible to conclude that MSEs have improved access of operators to medical facilities owing to the fact that the source of money for about 89 % of the operators was income generated from their MSEs.

5.7 MSEs on Averting Vulnerability

In a broad sense, vulnerability refers to a state of being exposed to risk of any potentially harmful events. In other words, it is the possibility of becoming or remaining materially poor in the future. A person is poor simply because he/she does not possess sufficient resources to ensure against all the risks whose possible consequences are deemed as socially intolerable, like dying of starvation (Cafiero and Vakis, 2006). During the survey, therefore, operators of MSEs were asked about the state of vulnerability after they were engaged in micro and small enterprises. The questions were two: a) whether or not there is risk of food shortage today than starting operation in MSEs; and b) whether there will be risk of unemployment and lack of income ever more than the last 12 months or three months.

From the total (75) operators, about 14 (18.7%) of operators are uncertain about their food security status in the future; while 61 (81.3%) will not be vulnerable to food shortages because they are involved in MSEs (Annex II, 13). From the finding, therefore, few operators (18.7%) are not confident in the future in their enterprises regarding the income generated from MSEs in affording purchase of food. Similarly, from EO category about (8) 17% feel that they will be exposed to unemployment, thereby lack income to support their living. Contrary to this, 40 (83%) are confident in getting employed and their income will not reduce (Annex II, 14).

On the other hand, from NO category, about 6 (21.4%) responded risk of food shortage in the future though they have MSEs; while about 22 (78.6%) responded that they will never fear lack of income, indicating they will not be exposed to food shortage in the future. However, the response for unemployment and lack of income in the future seems higher which is about 12 (42.9 %); while (16) 57.1% they will not be exposed to lack of income as a result of unemployment (Annex II, 15 and 16).

It is possible to conclude, basing on the above statistics that MSEs can avert sense of insecurity towards harmful events like starvation and lack of unemployment/ income. The percentage of exposure to risk of employment/income in the future is higher among NO 12 (43%) than EO 8 (17%); indicating experienced operators have the confidence in their MSEs

in providing them with better income or employment. On the other hand, new operators doubt about income and/employment generated from their MSEs. In the area of food security, the risk of exposure to food shortage seem similar, but the risk somewhat lesser for experienced entrepreneurs. 17% in the EO indicated their doubt on MSEs, while 21% in NO indicated risk of facing food shortage in the future.

5.8 MSEs on Empowerment of Women Operators

It is widely understood both in theoretical and empirical grounds that women have little control over decision making pertaining to economic, social, cultural and political matters against their male partners, particularly in developing countries. Women are responsible for household and family food security, are home managers, nurture their families especially children, the aged and the sick. Women have heavier workload burden compared to men and perform all these tasks in the face of multiple constraints. Women constitute majority of the workforce in certain sectors of the economy, but their business have also influences, in one way or another, the structure of all our economies. For Schorling (2006), Gender inequality starts early and keeps women at a disadvantage throughout their lives; eg, girls are more likely to drop out of school and to receive less education than boys because of discrimination, education expenses, and household duties.

Gender inequalities have negative implications for development outcomes and families well-being. Although, empowerment of women have a multidimensional issue touching economic, social, political, and cultural aspects, the study focused on economic empowerment of women leading/influencing perhaps other components of empowerment of women.

It is assumed, however, that involvement of women in MSEs increases household income and give them self-esteem and confidence thereby improve household status. In this study, as indicated earlier in this chapter, women entrepreneurs constitute about 25 (33%). And yet, two MSEs (Sale of Fruits and Vegetables, and Food Production) are almost entirely run by women. Their association also helped them involve in various social affairs which improves their bargaining power in the face of economic, social, and other matters of their daily life. Hence this is an important encouragement for women entrepreneurs involving in economic affairs.

During the survey, married entrepreneurs were asked about their status of decision making in selling and producing various items and decision on the income they earn from their enterprises. This was to examine their decision making power in such affairs. The following frequency table shows the involvement of women in selling and expending earned income from their respective enterprises.

Table 5.13 Decision on selling/producing and household expenditure of the earned income

Item	Who sell own products?		Who spend the income you earned?	
	Frequency	Valid Percent	Frequency	Valid Percent
Husband only	16	43.2 %	1	2.6 %
Only wife	21	56.8 %	-	-
Husband and wife equally			21	55.3 %
Mostly husband			16	39.5 %
Mostly wife			1	2.6 %

Source: *Own survey, 2007*

Table 5.13 indicates, from among the married women about 57% of them involve in selling and producing various products in their respective enterprises; while husbands constitute 43.2%. When it comes to decision on spending on earned income, however, about 55% responded that they decide equally or by the consent of both husband and wife. However, about 40% of the respondents indicate that decision on the spending of household consumption is mostly done by husbands. The 'mostly husband' decision may seem difficult, but it means that sometimes women are able to decide on expenditure of household matters. And yet, 2.6% constitute entire decision of wife on household spending.

Apart from the above frequency table which is attributed to entire married women entrepreneurs, to explain the statistical significance of the impact of MSEs on empowerment of women, comparison has been made between those who have started MSE recently and those of the experienced one. The results of the cross tabulations are presented below.

Table 5.14 Decision on producing and selling products (Cross tab)

Tem		Husband only	Only wife	Total
EO	Count	10	8	18
	% within study groups	55.6%	44.4%	100.0%
	% within who do you sell own products	62.5%	38.1%	48.6%
	% of Total	27.0%	38.1%	48.6%
NO	Count	6	13	19
	% within control group	31.6%	68.4%	100.0%
	% within who do you sell own products	37.5%	61.9%	51.4%
	% of Total	16.2%	35.1%	51.4%

Source: *Own survey, 2007*

Table 5.14 shows cross tabulation between New Operators (control group) and Experienced Operators (EO) pertaining to the production and selling of items among married entrepreneurs. Hence about 37% of new operators are married men involved both in production and selling of products, while married women constitute about 62%. On the other hand, experienced producers constitute about 62% are husbands, while women constitute 38%. The involvement of married women in selling and producing different items seems slightly higher for experienced operators with the value of about 38%, whereas for new operators the percentage is about 35%.

To further investigate the statistical significance of the involvement of women in selling and producing various items within enterprises, Chi-Square test has been employed and the result of the test is presented below.

Table 5.15 Chi-Square Tests on Decision on selling products

Item	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	2.165 ^b	1	0.141		
Continuity Correction ^a	1.298	1	0.255		
Likelihood Ratio	2.186	1	0.139		
Fisher's Exact Test	-	-	-	0.191	0.127
Linear-by-Linear Association	2.107	1	0.147		
N of Valid Cases	37				

a. Computed only for a 2x2 table

b. 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.78

Source: *Own survey, 2007*

Based on the Chi-Square tests, in Table 5.15, there is no statistically significant difference at 95% confidence level between the New Operators and Experienced Operators concerning the involvement of women in selling and producing marketable items. Hence advancement of time, while staying in the MSEs has no significant influence on the empowerment of women in selling and producing items.

The study also tried to investigate the decision on the spending of income earned from own enterprises by comparing the two categories (EO and NO) to explain the role of MSEs on the empowerment of women. Accordingly, cross tabulation has been employed and the result is presented below.

Table 5.16 Decision on spending income earned (Cross tab.)

Decision on spending of Earned Income						
		Husband only	mostly husband	husband & wife equally	mostly wife	Total
New Operators	Count	1	8	11	0	20
	% within study groups	5.0%	40.0%	55.0%	.0%	100.0%
	% within who decide on spending	100.0%	53.3%	52.4%	.0%	52.6%
	% of Total	2.6%	21.1%	28.9%	.0%	52.6%
Experienced Operators	Count	0	7	10	1	18
	% within study groups	.0%	38.9%	55.6%	5.6%	100.0%
	% within who decide on spending	.0%	46.7%	47.6%	100.0%	47.4%
	% of Total	.0%	18.4%	26.3%	2.6%	47.4%

Source: *Own survey, 2007*

Table 5.16 shows decision on spending of income earned from enterprises. Within the New Operators 55% of currently married operators decide equally (with discussion) on spending of household matters; while the figure is 55.6% for Experienced Operators. Hence in the two groups the decision making power of women on spending matters of the income generated is almost equal. However, women in new enterprise decide on the household spending equally with their husbands than women in the experienced entrepreneurs.

Apart from the above cross tabulation on decision making power of women entrepreneurs efforts have been made to test the existing difference between NO and EO using Chi-Square analysis so as to explain the role of MSEs on empowerment of women entrepreneurs. The following table shows the result of the Chi-Square test.

Table 5.17 Chi-Square Tests on decision on earned income

Item	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.015 ^a	3	0.569
Likelihood Ratio	2.782	3	0.427
Linear-by-Linear Association	0.734	1	0.392
N of Valid Cases	38		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .47.

Source: *Own survey, 2007*

Table 5.17 shows the Chi-Square tests result on the decision making power of women on their income earned from their MSEs. The result reveals that the existing difference on the issue between NO and EO is not statistically significant at 95% confidence level.

Understanding the above cited statistical analysis on women empowerment begs caution. Although tests employed may show insignificance using 95% level of confidence for selling and producing and decision making on spending of households, this does not mean that MSEs have contributed nothing for economic empowerment of women entrepreneurs. The most important reason for cautiously understanding the result of the tests is the influence of culture in explaining women's decisions, because they prefer their husbands to be decision makers. Husbands, on the other hand, are being considered bosses and major decision makers on household consumption expenditure and even involvement of wives in MSEs.

Generally, in this part of the thesis efforts have made to examine the influence of group-based MSEs on alleviating poverty of operators and their households. The various statistical tools employed show the existing relationship between EO and NO categories in terms various types of poverty indicators. On top of that, during FGD on poverty issues, operators pointed out the relevance of the enterprises in alleviating poverty, if not they entirely freed them from poverty. They have great hope that their involvement in MSEs will improve their living conditions more than what they have achieved now. In addition, they are planning to diversify their income by developing various strategies while they are in the MSEs. They are also planning to enhance their capacity and resort to other productive activities, such as buying cars, producing various materials marketable in the surrounding rural areas. Therefore, it is possible to conclude that engagement of the poor in MSEs enhances the wellbeing of operators and develop their entrepreneurial skills.

In addition to the FGD with operators, the researcher had a chance to interview the respective official of the Municipality on MSEs they organized. According to the Official, every necessary effort have been made and will be made to the extent that the MSEs become stronger, capable of developing their bargaining power in the market and production process thereby develop their MSEs. At present, they are exempted from tax of all types (sale tax, VAT, excise tax, etc), this is one of the many incentives the Municipality is making to them.

CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

Throughout this study, efforts have been made to examine the influence of group-based MSEs in alleviating urban poverty in Nekemte city. Moreover, the study tried to find out the characteristics of enterprises from the point of view of nature and structure. It is indicated that MSEs are considered as major tools for involving the poor to employment opportunities, income generation thereby improve the living condition of the operators. In addition, MSEs can stimulate local economic development through utilizing the local raw material, skill, market, business development service, and instill the spirit of entrepreneurship (innovation), among others. However, this study has identified major problems affecting the performance of group-based MSEs and the immediate consequence on alleviating poverty in the sampled enterprises.

The studied enterprises motivate the study area's economy through utilization of local resource, which reinforce backward linkages with local suppliers; create some tangible goods which add to the city's economic base, develop the spirit of entrepreneurship; and group-based MSEs tap the opportunity of cooperation and competitiveness through the principle of social capital. Moreover, the major objective of this study, the sampled group-based MSEs create employment opportunities and income improvement for the skilled and unskilled people in the city who would have been neglected by large enterprises.

The studied enterprises at present have important market-integration. However, the market they have now is strongly supported by the Municipality, which connected them as suppliers of various materials for Wollega University construction, and Nekemte condominium houses construction project, and agricultural research institute, which all are consumers of what the MSEs produce. In addition, the MSEs were accessed to initial credit from microfinance institution in the study area. On top of that, they have got work premise and are exempted from taxes.

Based on household level analysis of influence of MSEs on poverty alleviation, the sampled group-based MSEs in Nekemte city have shown an increasing trend in improving

the living conditions of operators. The poverty indicators used for the analysis are income, consumption expenditure on food, water, asset, housing, education, health, vulnerability, and empowerment of women entrepreneurs. Based on various statistical tools (frequency, cross tabulations, mean, Chi-square, ANOVA, and T- tests) the study showed that there is statistically significant variation between EO and NO categories, for most of poverty indicators, witnessing the positive contribution of MSEs in alleviating poverty of operators.

However, major problems encountered by the enterprises in poverty alleviation in this study are worth to mention. First the enterprises: the major problems identified by the survey are: lack of Business Development Service (BDS), which otherwise support the performance of the enterprises. Another problem is lack of additional credit to expand the existing business. Furthermore, stiff market competition, particularly for Leather and Leather Product entrepreneurs and Sale of Fruit and Vegetables is also highlighted. Unlike the rest of the enterprises, these two are not connected with market opportunities. It is important to note here that competition at local level can be taken as a positive aspect so long as it boosts the innovative capacity of operators so that they come up with quality products. In addition, most of the studied entrepreneurs lack adequate infrastructure to support their activities. Among others, lack of storage facilities, water, electricity, adequate work premises and obsolete equipment were identified.

6.2. Recommendations

Based on the major findings discussed in this study, a number of policy recommendations have been drawn with the view to improve the role of MSEs in reducing urban poverty. It is hoped that the recommendations will have an important bearing on local economic development.

- ✦ Marketing improvement effort for MSEs should focus on finding out what consumers want; planning and developing products / services to satisfy these wants; and determine the best way to price, promote, and distribute them.
- ✦ Market research is required so as to have a clear vision of what the market will look like in the future. In developing a vision of the market, Municipality should think about a longer-term perspective. To achieve sustainable market,

concerted efforts need to be made so that the MSEs work with private actors who have market incentives to promulgate new and innovative ideas through research and development.

- ✦ Regarding payment delay for the produced products, efforts should be made by consumers to pay for products as soon as they are delivered. In this regard, the Municipality should play a facilitator role to enhance the bargaining power of MSEs in such matters.
- ✦ MSEs are the breeding grounds of indigenous entrepreneurs because of their low capital requirements, their use of indigenous raw materials and technologies as compared to large-scale enterprises. These special features, coupled with their labour intensity, enable them to generate a lot of employment opportunities for the poor and unemployed people of the study area. Thus the Municipality of Nekemte City should continue to support these enterprises especially in the provision of basic infrastructure, additional credit facilities, and market opportunities.
- ✦ To create an enabling environment for MSEs at local level Government of the Sub City should provide an enabling environment to facilitate cooperation between different partners like NGO's, entrepreneurs, training centers, Chamber of Commerce, Banks in enhancing capacity building in such area as: training for MSEs, marketing, promotion of products, through trade fairs, information concerning business development services, credit schemes, information concerning business analysis, market diagnostic, market development, and association building.
- ✦ Regarding Infrastructure, the study found out that most of the MSEs are working in an environment where infrastructure and services are inadequate. Acute problems with regard to water, electricity, storage facilities, and place of

promoting/advertising produces were identified. Therefore, the provisions of such infrastructure are urgent and the concerned government bodies should alleviate such problems of the MSEs.

- ✦ Business development service facilities should be made accessible to MSEs. Concerted efforts by private and public sector should be made to realize this.
- ✦ Regarding poverty, majority of houses of the entrepreneur, as it is discussed in preceding chapter are rented either from private owners or *gandua*, hence they do not show ownership. Lack of their own house is mainly associated with lack of income that will support the construction of their own houses. Therefore, operators should be encouraged to expand so that their activities would support their capacity to construct their own houses.
- ✦ As for women entrepreneurs, it is assumed that one way of empowering women is to involve them in income generating activities. In the preceding chapter, efforts have been made to gauge the effectiveness of MSEs on empowerment of women. Their involvement should be supported in all activities aimed at improving their work premise, provision of infrastructure, facilitation of access to additional credit, sustainable market opportunities, and additional training.
- ✦ Research agenda for the future: Poverty alleviation/reduction calls for an integrated approach touching various economic, social, environmental, and institutional factors. Hence, the writer believes that MSEs alone cannot alleviate poverty or improve the welfare of operators. Therefore, searching for income diversification of the poor, in addition to MSEs could be one of the research agendas.

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Annex I: Research Questionnaire

Addis Ababa University
 Graduate and Research Programme
 Department of Regional and Local and Development Studies

Questionnaire

Dear Respondent,

This questionnaire has been designed to examine the influence of Micro and Small Enterprises (MSEs) in alleviating urban poverty and to identify and explain the existing problems with regard to the performance of such enterprises in an effort to improve the living conditions of operators in Nekemte city. The information you are going to provide will be used purely for academic purpose. Therefore, you are kindly requested to give genuine response.

General Information

MSE Name/Type..... Date.....
 Respondent No..... Time.....
 Sub-city
 'Ganda'

Part I. Household Composition and Characteristics

S. No	Name of the member	Q.1.1 Sex M=1 F=0	Q1.2.Rel ation to the head of the HH (Code A)	Q1.3. Age in years	Q1.4. Educ ation (Cod e B)	Q1.5. Marita l Status (Code C)	Q1.6.Ethni city of head of HH(Code D)	Q1.7.Rel igion (Code E)	Q1.8. Main Occupatio n (Code F)
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10									

Code A
(Relationship with HH head)

- 1= father
- 2= mother
- 3= wife
- 4= sister
- 5= son
- 6=daughter
- 7=husband
- 8=brother
- 9= other, specify

Code B
(Education)

- 1= never any schooling
- 2= traditional (religious)
- 3= literate (reading and writing)
- 4=primary & first cycle incomplete
- 5=primary & first cycle complete
- 6= primary & second cycle incomplete
- 7= primary & second cycle complete
- 8=General secondary school incomplete
- 9= General secondary school completed
- 10= preparatory incomplete
- 11= preparatory complete
- 12= vocational/technical
- 13=college diploma
- 14=first degree
- 15=post graduate

Code C
(Marital Status)

- 1= never married
- 2= married
- 3= widowed
- 4= divorced

Code D
(Ethnicity)

- 1= Oromo
- 2= Amhara
- 3= Tigrae
- 4= Gurage
- 5= shinasha
- 6= other specify_____

Code E
(Religion)

- 1=Orthodox
- 2= Protestant
- 3= Catholic
- 4= Muslim
- 5=waqqefata
- 6= other specify_

Code F
(Main Occupation)

- 1=employed
- 2=own account worker
- 3= unpaid family worker
- 4= unemployed
- 5= pensioner
- 6= student
- 7= farmer
- 8= self employed (Handicraft)
- 9= trader
- 10= daily laborer
- 11= service provider

Q1.9. The size of your household is:

- 1= 1
- 2= 2
- 3= 3
- 4= 4
- 5= 5
- 6= 6
- 7= 7
- 8=8
- 9=9
- 10= 10

Q1.10. What was your earlier occupation before you are a member (owner) of this enterprise?

- 1=daily labourer
- 2= student
- 3= housewife
- 4= employee of private business
- 5=housemaid
- 6=petty trader at home (preparing food and drink, etc)
- 7= unemployed
- 8= other, specify _____

Q1.11. How do you evaluate your previous income and your income after the owner of this enterprise?

- 1= increased
- 2= decreased
- 3= has no change
- 4= other, specify _____

Q1.12. What is/are the most important advantage(s) of working in group as the owner of enterprise? (Provide your answer in order of decreasing)

- 1= creditworthiness _____
- 2= helping one another in times of problems, eg, illness, tiredness, etc _____
- 3= feel secured _____
- 4= competition for better earning among us _____
- 5=other, specify _____

Part II. Sources of Household Income

Q.2.1. What was the major source of your household's income for the last 12 Months? (Circle one or more)

- 1= Urban agriculture
- 2= Relief
- 3= Self-employment
- 4= Others, specify _____

Q. 2.2. If your answer for Q.2.1 is 1(Urban agriculture), what was the most important source of income? (Circle one or more).

- 1=cereal crop production
- 2= cash crop production
- 3= horticulture production
- 4= sale of animals/ animal products
- 5= animal products
- 6= tree farming
- 7= grass production
- 8= rent out animal
- 9= share from land cultivated by others

Q.2.3. If your answer for Q.2.1 is 2 (relief), which one of these was most important? (Circle).

- 1= food aid
- 2= food for work programme
- 3= cash for work

Q. 2.4. If your answer for Q.2.1 is 3 (self-employed), which one is/are the most important ones? (Circle)

- 1= petty trading (fruits and vegetables)
- 2= food processing/production ('buuddeena' making, brewery, alcohol, cafeteria etc)
- 3= store keeping (shops)
- 4= selling of fire wood, charcoal, animal dung
- 5= handicraft/blacksmith/ metal work, wood work, etc.
- 6= other, specify _____

Q.2.5. Your income over the last 12 months has been:

- 1= decreased
- 2= increased
- 3= at the same level
- 4= don't know

Q.2.6. If your income has been decreasing, what is/are the reason (s)?

- 1= sickness of one or two household members
- 2= poor (lower) market price
- 3= low agricultural production
- 4= lack of market because of other producers (competitors)
- 5= other, specify _____

Q2.7. If your income has increased, what is the major reason (circle one)?

- 1= access to market
- 2= get job
- 3= access to market and getting job
- 4= able to buy
- 5= undertake new business
- 6= expand existing enterprise
- 7= other specify _____

III. Information on Micro and Small Enterprises

Q3.1. Which type of business do you own?

- 1= Wood/furniture works
- 2= Textile works
- 5= Cafeteria service
- 6= Sale of fruit and vegetables

Q3.8.Initial total number of employees in the enterprise

- | | | |
|------|--------|--------------------------|
| 1= 1 | 7= 7 | 13= 13 |
| 2= 2 | 8= 8 | 14= 14 |
| 3= 3 | 9=9 | 15= 15 |
| 4= 4 | 10= 10 | 16= other, specify _____ |
| 5= 5 | 11=11 | |
| 6= 6 | 12= 12 | |

Q3.9. Current number of employees of the enterprise:

- | | | |
|------|--------|--------------------------|
| 1= 1 | 7= 7 | 13= 13 |
| 2= 2 | 8= 8 | 14= 14 |
| 3= 3 | 9=9 | 15= 15 |
| 4= 4 | 10= 10 | 16= other, specify _____ |
| 5= 5 | 11=11 | |
| 6= 6 | 12= 12 | |

Q3.10. If the number of members/ employees of the enterprise have been decreasing, what is the most important reason?

- 1= lack of profitability of the existing business
- 2= disagreement with one or more member(s) of the group
- 3= fear of bank repayment
- 4= starting individual's profitable business
- 5= death and illness
- 6= other, specify _____

Q3.11. What is/are the possible and actual problems you face in your business? (*Provide your answer in decreasing order*)

- 1= lack of capital-----
- 2= lack of credit facilities-----
- 3= lack of market-----
- 4= competition-----
- 5= lack of raw materials-----
- 6= lack of machineries/ equipment-----
- 7= lack of managerial skills-----
- 8= lack of skilled personnel-----
- 9= inadequate Municipal/NGO support-----
- 10= poor technology/lack of improvement-----
- 11= lack of accounting (bookkeeping) system-----
- 12= other, specify _____

Q3.12. In your opinion, how are the above cited problems of your micro-enterprise could be improved?

Q3.13. What is the source of your initial capital for your business? (Provide your answer in decreasing order)

- 1= own savings-----
- 2= transfer from family-----
- 3= credit from friends-----
- 4= credit from Cooperative Bank of Oromiya-----
- 5= other banks found in Nekemte-----

Q3.14. How much is your average monthly gross income? (In Birr)

- 1= 100-200
- 2= 201- 300
- 3= 301- 400
- 4= 401-500
- 5= 501-600
- 6= 601-700
- 7=701-800
- 8=801- 900
- 9= 901-1000
- 10= 1001-10,000
- 11= other, specify _____

Q3.15. What is the source of information for your market/business activities (media type)

- 1= from friends involve in similar business
- 2= from business development service in the city
- 3= from customers
- 4= visiting markets and asking the price of items produced

Q3.16. Did you receive training as to how you conduct your business?

- 1= yes
- 0= no

Q3.17. How many hours do you spent in your business per day?

- 1= 1-5
- 2= 6-12
- 3= 12
- 4= other specify _____

Q3.18. Does your enterprise have various compartments like, store, shop, studio, etc?

- 1= yes
- 0= no

Q3.19. Does your enterprise have basic infrastructure like:

- 1= water only
- 2= electricity only
- 3= water and electricity
- 4= nether of the two

Q3.20. How much do you sale your produce per week?

- 1= 100 birr
- 2= 101- 300 birr
- 3= 301- 500 birr
- 4= 501- 700 birr
- 5= 701- 1000 birr
- 6= other, specify _____

Q3.21. What is your enterprises net earning (profit) per week/ month?

- 1= 50- 100 birr
- 2= 101- 300 birr
- 3= 301- 500 birr
- 4= 501- 1000 birr
- 5= other, specify _____

Q3.22. How do you share your income among the group?

- 1= equally
- 2= based on performance in work
- 3= sale our products individually and get our own share
- 4= other, specify _____

Q3.23. Where did you receive skill/ training for your enterprise?

- 1=learn from experienced member of the group
- 2= learn from vocational school
- 3= the municipality train us before starting the business
- 4= business training centers in the town
- 5= no training received
- 6= other, specify _____

Q3.24. Does your enterprise have any accounting system in which the enterprise registers all financial aspects of your association?

- 1= yes
- 0= no

Q3.25. How do you payback the money your enterprise borrowed from Cooperative Bank of Oromiya?

Q3.26. Where do you get raw materials/ inputs for your enterprise?

- 1= local market (purchase) 4= local areas (no purchase)
2= regional capital (purchase)
3= national market (Addis Ababa) (Purchase)

IV. 'Financial and Physical Security'

Q4.1. What is the source of your finance in times of shortage of finance?

(Rank in decreasing order)

- 1= loan from saving and credit groups in the community-----
2= own savings (private) -----
3= borrow from friends-----
4= from micro-finance institutions-----
5= credit from private business
6= other, specify _____

Q4.2. Are you a member of traditional financial institutions like 'Iqub'?

- 1= yes 0=no

Q4.3. If your answer for Q4.7 is 1(yes), for what purpose you have been using the money?

(rank in decreasing order)

- 1= business start ups-----
2= business expansion-----
3= purchase of household durables-----
4= purchase of food items-----
5= child education-----
6= health expenses-----
7= purchase of clothe-----

Q4.4. Did you encounter any theft of your money or asset in the past 12 months?

- 1=yes 0=no

Q4.5. If your answer for Q4.4 is no (0), how did you protect theft in your community?

- 1=through village and neighborhood watch committees
2= local police
3=I can defend my self
4= watchman
5=others, specify _____

V. Information on market place improvement (for business creation)

Q5.1. Did you make any improvement to your marketing place house in the past 12 Months?

1=yes

0=no

Q5.2. If your answer for Q5.1. is yes (1), what type of improvement you undergone?

1=improving the design of settlement by creating space for basic services (for tap water, electricity, etc) and marketing activities.

2= improving homesteads and housing quality

3= simple amendment of place of market/ place of production

4= other, specify _____

Q5.3. What was the major purpose of such improvement?

1= so as to allow home based economic activities?

2= commercial redevelopment of central location of own business

3= to allow my house more rooms for household members

4= others, specify _____

Q5.4. Was there any infrastructural development (roads, market expansion, electricity, etc) by Municipality or Non- Governmental Organization in the past 5 years?

1=yes

0=no

Q5.5. If your answer for Q5.4. is yes, what is the specific purpose of such infrastructure for your enterprise? Explain

Q5.6. Did you involve in any participatory planning and implementation for settlement up-grading?

1= yes

0=no

Q5.7. How do you involve in the development of your local economy?

1= being as a consumer of food and non-food items

2= being as owner of micro-enterprise (producer and employer)

3= being worker/employee

4= other, specify _____

VI. Information on Savings

Q6.1. Do you save?

1= yes 0= no

Q6.2. If your answer for Q6.1 is yes (1), what type of saving is it?

1= compulsory

2= voluntary

3= both compulsory and voluntary

4= other, specify _____

Q6.3. What was the amount of your first saving? _____ Birr.

Q6.4 What is the amount of your current saving? _____ Birr.

Q6.5 What is your source of money for saving? (Circle one or more)

1= From business (micro and small enterprise)

2= Borrowed from friends/money lenders/ relatives

3= Income from employment

4= Other, specify _____

Q6.6. Where do you save? (Circle one or more)

1= In micro finance institution

2= 'Iqub'

3= Cooperative Bank of Oromiya

4= At home (under the roof, safe box)

5= With friends/ relatives

6= In the form of durable materials

7= Lending to others with higher interest ('arata')

8= Others, specify _____

Q6.7. For what purpose you have been saving?

1= Loan repayment

2= To undertake a new business (to expand the existing business)

3= For safety purpose (protection from theft or damage)

4= Old age use

5= Ceremonial service (wedding, holidays)

6= To earn interest

7= To buy machineries, animals or basic items

8= Other, specify _____

Information on Non-income Poverty

Part VIII. Information on Housing

Q8.1. Type of Ownership the house in which you and your family member are living:
(circle your choice)

- | | |
|------------------------------|---|
| 1= owned (private) | 4= rented from kebele house owners |
| 2= rented from the kebele | 5= squatter, rent free without permission |
| 3= rented from private owner | 6= 'debal' |
| | 7= other, specify _____ |

Q8.2. If your house is rental, how much you have been paying _____

Q8.3. Do you get adequate service from the house you rented?

- 1= yes 0= no

Q8.4. If you and your family have faced problems in your rented house, would you explain _____

Q8.5. If you have been getting adequate services from the house you rented, what are those positive aspects which make the house and owner of the house comfortable?

Q8.6. How many rooms does your house have?

- | | |
|------------|----------------------|
| 1= 1 room | 3= 3 rooms |
| 2= 2 rooms | 4= 4 rooms |
| | 5= more than 4 rooms |

Q8.7. Wall type of your house:

- | | |
|-----------------|---------------------------|
| 1= mud | 7= wood and thatch |
| 2= wood | 8= reed and bamboo |
| 3= mud and wood | 9= blocket |
| 4= bricks | 10= others, specify _____ |
| 5= stone | |
| 6= wood and mud | |

Q8.8. Construction material for floor

- | | |
|-----------|-------------------------|
| 1= earth | 3= wood |
| 2= cement | 4= plastic tile |
| | 5= other, specify _____ |

Q8.9. Material from which the roof is made:

- | | |
|-----------------------|--------------------------|
| 1= corrugated sheets | 5= concrete |
| 2= plastic | 6= others, specify _____ |
| 3= reed/bamboo | |
| 4= thatch/dried straw | |

Q8.10. Construction material for ceiling:

- 1= has no ceiling
- 2=fabrics
- 3= chip wood/hard board
- 4= wooden
- 5= concrete
- 6= others, specify _____

Access to basic housing services

Q8.11. Supply of drinking water

- 1= tap inside the house
- 2= tap in the compound (shared)
- 3= tap in compound (Private)
- 4=outside compound (shared tap)
- 5= outside compound (public tap)
- 6= unprotected water source (well, spring, river, etc)
- 7= other, specify _____

Q8.12. Did you buy water?

- 1= yes
- 0= no

Q8.13. If your answer for Q8.12 yes (1); how much was your expense for buying water per month? _____ Birr

Q8.14. Would you explain problems you or member of your household faced in getting access to water. _____?

Q8.15. Main source of light

- 1= electricity (meter private)
- 2= electricity (meter shared)
- 3= kerosene lamp
- 4= others, specify _____

Q8.16. Kitchen

- 1= I have no kitchen
- 2= shared kitchen (traditional kitchen)
- 3= shared kitchen (modern)
- 4= private kitchen (modern)
- 5= private kitchen (traditional kitchen)
- 6= other, specify _____

Q8.17. Toilet

1= no toilet

2= shared (pit)

3= flush (shared)

4= private (pit)

5= other, specify _____

Q8.18. Bathing facility

1= none

2= shower (private)

3= bathtub (private)

4= shower (shared)

5= bathtub (shared)

6= others, specify _____

Q8.19. Would you explain problems faced in connection with those basic services: toilet, kitchen, bathing and how you overcome such problems _____

IX. Information on Vulnerability

Q9.1. Did the household ever experienced food shortage?

1= yes

0=no

Q9.2. If your answer for Q9.1 is yes (1), how many meals did you eat per day at the worst time of most recent food shortage?

1= three times

2= two times

3= one time

4= no regular meal time

Q9.3. Did you sell any of your most valued possessions in the worst year? (For example, jewelry, furniture, etc).

0= no

1= yes

2= I don't want to tell

Q9.4. Has the household received food aid in times of food shortages?

0= no

1= yes

2= I don't want to tell

Q9.5. Do you feel that for your household, there is more or less risk of food shortage today than there was in the past 12 months?

1= yes

0=no

Q9.6. Did your household member migrate at the worst period?

1= yes

0=no

Q9.7. Were you unemployed over the last 12 months?

1= yes

0= no

Q9.8. Did your income decreased over the last 12 months?

1= yes

0= no

Q9.9. Do unemployment and lack of income affect you or your family ever more than the previous 12 months?

1= yes

0= no

Part X. Information on Access to Education

Q10.1. How many children in your household are school age children (5-17)? _____.

Q10.2. How many of these children currently attended school? (Total No in a school) _____.

Q10.3. The number of your family attending school for last twelve months:

1= decreased

2= stayed the same

3= increased

Q10.4. If your answer for Q10.3 is decreased (1), what is the reason for so?

1= lack of income for school tuition

2= lack of access to school in the area

3= lack of interest to attend school

4= needed for help in the business activity

5= needed for help in non- business activity

6= others, specify _____

Q10.5. If your answer for Q10.3 is increased (3), what is the reason for so?

1= access to new school building in the surrounding

2= income improvement in the household

3= increase in the awareness of the household towards education

4= others, specify _____

Q10.6. what is your average educational expense per year for the household per year?
(amount in Birr) _____

Q10.7. How does the amount your household spent on school and school expenses for this current school year compared with the amount you spent in the last academic year.
Did the amount

- 1= decreased
- 2= stayed the same
- 3= increased

Part XI. Information on Health

Q11.1. During the last 12 months, was there any occasion in which you or a member of your family needed medical attention?

- 1= yes
- 0= no

Q11.2. If your answer for Q11.1. is yes(1), provide your answer in the following box/tick your answer

		yes	no
1	Adequate health service/well staffed		
2	Availability of drugs		
3	There are adequate extension health works		

Q11.3. Where did you get the money to pay for these medical costs?

- 1= business profit
- 2= from household saving
- 3= business profit and household saving
- 4= borrowed from friends
- 5= loan
- 6= other, specify _____

Q11.4. What was the average household medical expenditure for the last 12 months?
(Amount in Birr) _____

Q11.5. Do you think your access to medical facilities in the last 12 months improved?

- 1= yes
- 0= no

Q11.6. If your answer for Q11.4 is 1(yes), what is/are the major reason(s)?

- 1= profit from own business
- 2= access to money from community organization
- 3= borrowed from a friend
- 4= sold household asset
- 5= others, specify _____

Q11.7. In the past 12 Months was any ill or injured member of the household not taken for medical attention or treatment because of the household lacked the money to pay for it?

- 1= yes
- 0= no

Part XII. Information on Empowerment

Q12.1. Is anyone in your family a member of any association?

1= yes

0=no

Q12.2. If your answer for the above question is yes, he/she belongs to:

1= council

2= youth association

3= women association

4= trade association

5= cooperative associations

6= other, specify _____

Q12.3. (only for married and live together). Who have the power in the house hold?

1= husband only

2= mostly husband

3= husband and wife equally

4= mostly wife

5= only wife

Q12.4. How to spend the income you have earned?

1= husband only

2= mostly husband

3= husband and wife equally

4= mostly wife

5= only wife

Q12.6. How you sell own products?

1= husband only

2= mostly husband

3= husband and wife equally

4= mostly wife

5= only wife

Interview Guide

I. To officials in the Municipality

- Q1.** When was the Municipality established?
- Q2.** Has it gone through different structural reforms? What changes are made in its internal organization? What does the current restructuring program brought about? Could you briefly describe the internal organizational structure of the Municipality?
- Q3.** How is the hierarchical relationship upward with the 'zonal' and 'regional' structure and downward to 'kebele' and 'sub-kebele' administrative structure?
- Q4.** What is the role kebeles their duties and responsibilities? How does the Municipality works with them? Is there a clear power relationship?
- Q5.** Could you briefly describe the internal organizational structure of the Municipality that is in use currently?
- Q6.** How is the hierarchical relationship with sector bureaus? Does the Municipality have desk for sector activities? For whom are these sector bureaus accountable to? Does the Municipal government works closely with these sector bureaus to address the needs of the community?
- Q7.** Do you get budget subsidy from the regional state? If so what is the amount and how is the budget appropriate?
- Q8.** What is the source of revenue for the Municipality? How is the local government capacity to administer taxes? What efforts are being made to diversify the tax base of the locality?
- Q9.** Are there industries and enterprises in the town that directly do not pay tax to the local municipal government? What are these enterprises?
- Q10.** Is it possible for the local government to formulate tax laws and also determine tax rates within their own jurisdiction? If not, why?
- Q11.** How is revenue expenditure conducted? Do you have procedures and rules?
- Q12.** Does the revenue generated by the Municipality cover the required expenditure? If not how is the deficit recovered?
- Q13.** For what purpose does the higher proportion of the Municipality's revenue is expended?

- Q14.** Does the Municipality have fund development activities from its own revenue? What efforts does the Municipality conduct to bring about development to the town? In which type of development activity is the Municipality engaged? What constraints do they have?
- Q15.** Does the Municipality participate the community, NGOs, private small and medium business enterprises, investors, social organizations and other development actors in the development of the town and decision making process?
- Q16.** How income generation of the community encouraged or supported by the Municipality? What problems and opportunities identified in such effort so far?
- Q17.** Does the Municipality have recognized written rights and duties given by the regional state or other higher body to exercise its authority? The federal and regional constitution does not mention of Municipal government, and then is there a legal instrument or registration given to Municipality to administer the town?
- Q18.** Does the Municipality has a discretion and full autonomy in decision making concerning budget appropriation, development initiative taking place, revenue generation and planning without the need for approval and consultation of higher government bodies?
- *Would you elaborate this with the current decentralization process and power devolution given to the local governments.*
- Q19.** What services does your office deliver to the town with the view to address urban poverty alleviation? What constraints did you identify in the service delivery? What does the human capital and financial capacity looks like. Are there private organizations involved in such activities?
- Q20.** Is the Municipality of the town involved in housing unit construction, and settlement up-grading activities? What achievements are made? How does your office planned to address the poor communities in the town? Are there other collaborating NGOs who are involved in such activities? How does your office prepared to recognize the role of housing and settlement up-grading for the development of home-based economic activities?

- Q21.** Is there a restriction on maximum project cost amount that municipalities should undertake? If so, why? Has any problem occurred due to this restriction especially in the area of basic service delivery?
- Q22.** How do you see the economic development of the town? What problems exist? What potentials does it have for development and/or eradication of urban poverty? Is there a natural resource endowment in the town and its periphery that can be put into use for economic development? What cultural taboos, faith, beliefs and work habits including gender issues exist that affects the flourishing of socio-economic activities of the town?
- Q21.** What investment potentials are there which will involve the communities in the town? What promotions are so far done? What incentives are there?
- Q22.** Do you have urban agriculture in the town? If there is, how is it institutionalized? How the Municipality does regulate the activity? Does it have a policy support?
- Q23.** What does the urban-rural linkage looks like? How does it support the urban economic development of Nekemte?
- Q24.** How is election of executive committee and other Municipal government officials including the Mayor are undertaken? What procedures does it follow in the elections for zonal administrations? If not, why? How does kebele officials assigned?
- Q25.** It is known that Nekemte has been capital of East Wollega Zone for long years, but currently, another zonal center is in place at Shamboo-zonal center of Horo Guduru Wollega. So, what advantages does this shift have in easing burden for Nekemte town and promoting local economic development? Or what disadvantage does this shift have against the development of the town?
- Q26.** To what extent is the civil service reform applied in the Municipality? Is there any attempt to tackle bureaucratic bottlenecks for efficient and faire customer service delivery and transparency?

Interview Guide

II. To MSE Organizing Unit of the Municipality

- Q1. What are the objectives of forming group-based MSEs in the town?
- Q2. What criteria were used to organize MSEs in Nekemte Town?
- Q3. What type of support did your office made for group-based MSEs?
- Q4. What are the major problems the MSEs face?
- Q5. What progress your organizations acknowledge about the MSEs in the town?
- Q6. How your organization define poverty and what strategies should be adopted to alleviate it?
- Q7. Does the MSE pay tax for the municipality? Why?
- Q8. What are the future plans of your office towards group-based MSEs?
- Q9. Would you describe your future plan in an effort to improve the living conditions of additional community members in the town through MSEs?
- Q10. How do you explain your staff quality (education) and quantity (size)? Do you notice any unnecessary bureaucratic chain which hinders your service to your clients?
- Q11. How do you explain the overall contribution of your organization for community economic development thereby community members alleviate their poverty and contribute for economic development of Nekemte town?

III. Focus Group Discussion (FGD) Guide Questions for Community Members

- Q1. What is poverty for the group? (Discuss and give relevant examples in your life overall issues surrounding poverty).
- Q2. Discuss about the situation of your income, employment, situation before and after you is a member of this enterprise?
- Q3. What are the benefits and drawbacks of being working in group?
- Q4. How do you describe the relationship between income increase, getting self-employed and poverty alleviation?
- Q5. What do you expect from the Municipality? Be it in expanding your business, getting access to micro-finance institution, legality of your business, marketing issues, and access to basic needs.

Q6. What does your community contribute to the economic development of the town or neighborhoods? How you are planning to incorporate other poor people and improve their living condition?

Q7. Do you continue being the member of this enterprise? Why?

Annex II: Tables of Descriptive Statistics

1. Household Size (Ungrouped)

Item	Frequency	Percent
1	34	45.3
2	11	14.7
3	10	13.3
4	10	13.3
5	6	8.0
6	4	5.3
Total	75	100

2. Source Working Capital

Sources of Working Capital	Frequency(No. of Enterprises)	Percent
Loan from saving & credit groups in the community	2	25.0
Own savings (private)	3	37.5
Borrow from friends	4	50.0
From micro finance institutions	2	25.0
credit from private business	4	50.0

3. Places of saving

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Uqqubi	1	1.3	12.5	12.5
OCSSCO	7	9.3	87.5	100.0
Total	8	10.7	100.0	

Source of money for saving

Item	Frequency(No. of Enterprises)	Percent
source of money for saving	8	100.0

4. Sources of Training

Sources of Training	Frequency	Percent
Skills learned from experienced members	25	33.3
Skills learned from vocational schools	22	29.3
Skills learned from municipality b/f starting the business	70	93.3
Skills from business training centers in the town	0	0
From Private employers	10	13.3
No training received at all	15	20

5. Average Gross Monthly Income (Total respondents)

Amount in birr	Frequency	Percent
100.00	13	17.3
150.00	15	20.0
200.00	1	1.3
250.00	7	9.3
300.00	1	1.3
350.00	7	9.3
400.00	3	4.0
450.00	11	14.7
500.00	1	1.3
550.00	1	1.3
600.00	15	20.0
Total	75	100.0

6. Average gross monthly income

Item	N	Mean	Median	Std. Deviation	Min.	Max.
Control Group	28	126.7857	150.0000	25.39373	100.00	150.00
Study Group	48	444.6809	450.0000	131.14630	200.00	600.00

7. Type of ownership of the house

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Owned(private)	11	14.7	14.7	14.7
Rented from the 'ganda'	15	20.0	20.0	34.7
Rented from private owner	43	57.3	57.3	92.0
'Debal'	6	8.0	8.0	100.0
Total	75	100.0	100.0	

8. Do you get adequate service from the house you rented?

Item	Frequency	Percent
yes	24	35.3
no	44	64.7
Total	68	100.0

9. How many of this children currently attending school?

Number of Children	Frequency	Percent	Valid Percent	Cumulative Percent
0	45	60.0	60.8	60.8
1	18	24.0	24.3	85.1
2	10	13.3	13.5	98.6
3	2	2.6	1.4	100.0
Total	75	98.7	100.0	

10. The number of your family attending school

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Decreased	6	8.0	9.2	9.2
Stayed the same	50	66.7	76.9	86.2
Increased	9	12.0	13.8	100.0
Total	65	86.7	100.0	

11. Medical Expenses: profit from own business as major reason

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	40	53.3	88.9	88.9
no	5	6.7	11.1	100.0
Total	45	60.0	100.0	

12. Do you think your access to medical facilities improved?(Total)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
yes	51	60.0	100.0	100.0
System	24	40.0		
	75	100.0		

13. Do you feel that that your household, there is more or less risk of food shortage today than there was in the past 12 months? (For EO)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
yes	8	17.0	17.0	17.0
no	40	83.0	83.0	100.0
Total	48	100.0	100.0	

14. Do unemployment and lack of income affect you or your family ever more than the pervious 12 months? (For EO)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
yes	8	17.0	17.0	17.0
no	39	83.0	83.0	100.0
Total	47	100.0	100.0	

15. Do you feel that that your household, there is more or less risk of food shortage today than there was in the past 12 months? (For NO)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
yes	6	21.4	21.4	21.4
no	22	78.6	78.6	100.0
Total	28	100.0	100.0	

16. Do unemployment and lack of income affect you or your family ever more than the pervious 12 months? (For NO)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
yes	12	42.9	42.9	42.9
no	16	57.1	57.1	100.0
Total	28	100.0	100.0	

Additional

Expenditure of household durables (12 and 3 Months)

Amount in Birr	Frequency	Percent	Valid Percent	Cumulative Percent
.00	30	40.0	49.2	49.2
10.00	1	1.3	1.6	50.8
25.00	2	2.7	3.3	54.1
40.00	4	5.3	6.6	60.7
45.00	1	1.3	1.6	62.3
50.00	2	2.7	3.3	65.6
51.00	1	1.3	1.6	67.2
60.00	3	4.0	4.9	72.1
80.00	1	1.3	1.6	73.8
100.00	3	4.0	4.9	78.7
120.00	1	1.3	1.6	80.3
130.00	1	1.3	1.6	82.0
180.00	1	1.3	1.6	83.6
200.00	2	2.7	3.3	86.9
230.00	1	1.3	1.6	88.5
250.00	2	2.7	3.3	91.8
300.00	1	1.3	1.6	93.4
400.00	1	1.3	1.6	95.1
500.00	2	2.7	3.3	98.4
970.00	1	1.3	1.6	100.0
Total	61	81.3	100.0	
System	14	18.7		
	75	100.0		

Average Monthly Food Expenditure (total)

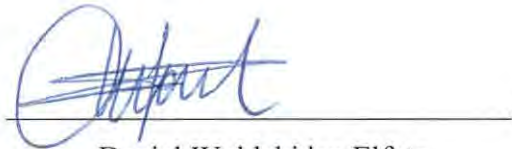
Amount Birr	Frequency	Percent	Valid Percent	Cumulative Percent
50.00	1	1.3	1.3	1.3
100.00	3	4.0	4.0	5.3
150.00	2	2.7	2.7	8.0
160.00	1	1.3	1.3	9.3
180.00	2	2.7	2.7	12.0
200.00	6	8.0	8.0	20.0
240.00	2	2.7	2.7	22.7
250.00	4	5.3	5.3	28.0
260.00	1	1.3	1.3	29.3
270.00	1	1.3	1.3	30.7
280.00	3	4.0	4.0	34.7
300.00	13	17.3	17.3	52.0
350.00	6	8.0	8.0	60.0
360.00	1	1.3	1.3	61.3
370.00	1	1.3	1.3	62.7
375.00	1	1.3	1.3	64.0
380.00	1	1.3	1.3	65.3
390.00	1	1.3	1.3	66.7
400.00	10	13.3	13.3	80.0
450.00	6	8.0	8.0	88.0
480.00	1	1.3	1.3	89.3
500.00	2	2.7	2.7	92.0
600.00	3	4.0	4.0	96.0
645.00	1	1.3	1.3	97.3
650.00	1	1.3	1.3	98.7
760.00	1	1.3	1.3	100.0
Total	75	100.0	100.0	

12. Do unemployment & lack of income affect you or your family ever more than the pervious 12 or 3 months? (Total)

Item	Frequency	Percent	Valid Percent	Cumulative Percent
yes	20	26.7	26.7	26.7
no	55	73.3	73.3	100.0
Total	75	100.0	100.0	

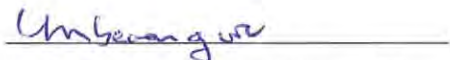
DECLARATION

This Thesis is my original work and has not been presented for a degree in any other university and that all sources of material used for this thesis have been duly acknowledge.



Daniel Woldekidan Elfeta

This thesis is submitted for examination with my approval as an advisor of the candidate.



Ignatious Mberengwa (PhD)

July 2007