ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

CHALLENGES AND CONSTRAINTS OF MICRO AND SMALL ENTERPRISES IN ADDIS ABABA: THE CASE OF TWO SUB-CITYS' INDUSTRIAL ZONES.

BY

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ACRONYMS

AAMSEA –Addis Ababa Micro and Small Enterprises Agency

AMFI-Addis Micro Finance Institution

BDS – Business Development Service

CSA -- Central Statistical Authority

ECA – Economic Commission for Africa

GTZ – German Technical Cooperation

HAD – Housing Development Agency

ILO – International Labor Organization

MFIs—Micro Finance Institutions

MoTI -- Ministry of Trade and Industry

MSEs -- Micro and Small Enterprises

SMEs – Small and Medium Enterprises

SSEs -- Small Scale Enterprises

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CHAPTER 1: INTRODUCTION

1.1 Background

Extreme poverty and unemployment has been a critical problem and concern for developing countries. This coupled with the growing population and limited expansion of the modern sector has constrained the capacity of the economy to absorb the multitudes of unemployed people.

The 1980's and early nineties have witnessed the increasing inability of formal manufacturing enterprises and state bureaucracies to create enough jobs. It has become increasingly obvious that after more than three official "decades of development", marginal, micro- and small-scale enterprises (MSEs) have neither been absorbed by large-scale economic activities, nor even significantly displaced by them (Dignard and Havet, 1995). As a result, both the urban and rural poor have come increasingly to rely on informal economic activities. Among the most typical aspects of these activities are self employment, Micro and Small Enterprises (MSEs) and Women's initiatives in these realms.

Experiences with conventional development strategies that emphasize large-scale interventions have revealed that such approaches may have serious limitations; in addition, the changing economic conditions- especially since the early 1980s-have further heightened the need to reexamine these strategies. For that effect, micro- and small-scale enterprises in both formal and informal economic sectors are now being proposed as a new alternative for achieving sustainable socioeconomic development (Pederson, 1989; Ozcan, 1995; Bromley, 1985; Snodgrass and Biggs, 1996; Tegegne and Mulat, 2005).

Both in the developed and developing world, the issue of MSEs development as an integral part of the local economic development is a recent area of invention that has put on top line strategy level (Adeya, 2006). In Ethiopia, too, considering the extent of poverty and unemployment as well as realizing the potentials that micro and small enterprise have in development, the government as well as other development practitioners have given due attention to the sector very recently (Etsegenet, 2000). Andualem (2004), further, draws attention to the fact that MSEs in Ethiopia were neglected for a long period until shift was made to market -led economic system post 1991. In all the circumstances, however, how important the sector to the economic development of the country is swallowed and constrained by the challenges MSEs operators still face which are both internal and external to their enterprises. Though it is business-as-usual to talk about the problems of MSEs, this paper, principally, tries to spotlight the major issues which are still untapped by different bodies.

1.1.1 Definition of Micro and Small Enterprises (MSEs)

Defining the size of the enterprise is very important to study and understand the problem of MSE operators. However, "there is often confusion in what is meant by micro, small, medium or large-scale enterprises" (Solomon, 2004:28). As a result of this there is no universally agreed definition used to distinguish between each of them (Davies, 2003; Wolday, 2002) that the challenge for the promotion and policy intervention is alleged to start from the definition itself. Due to this, different countries used different criteria such as: number of employees, assets employed capital, sales turn over, or combination of the above factors to determine the size of the enterprises (Wolday, 2002). For example, in United Kingdom the Bolton Committee Report (1971); as mentioned in Andualem (2004: 39) recognized the diversity of the sector and documented three essential characteristics of small firms. In view of that, I) a small firm is managed by its owner in a personalized way, II) it has a relatively small share of the market in economic terms, and III) it is independent in the sense that it does not form part of a larger enterprise and its ownership is relatively free from outside control in its

principal decisions. Definitions of nine categories of small firms as defined by United Kingdom standard is listed below.

Table 1 Definition of MSEs in Different Economic Sectors in UK

Small firm type	Definition
Catering	All firms with exclusion of multiples and Brewery managed public house
Manufacturing	200 employees or less
Construction	25 employees or less
Road transport	5 vehicles or less
Retailing	Turnover & 50,000 p.a. or less
Wholesaler trade	Turnover & 200,000 p.a. or less
Motor trades	Turnover & employees p.a. or less
Mining	25 employees p.a. or less
Miscellaneous services	Turnover & 50,000 p.a. or less

Source: Andualem Tegegne (2004: 39)

While in Middle East, according to United Nations (1970) study the definition regards type of technology (see in Andualem, 2004). Accordingly, any industrial establishment that uses modern technology and that employees 50 or more persons is usually regarded as large while small scale manufacturing covers all which employ 5-49 persons.

In Ethiopian case also, there was no clear-cut definition that helps to distinguish different scales of enterprises (Fasika and Daniel, 1997). Moreover, the differences in the meaning of MSEs taken by different institution have made difficulty in accessing information about the operators. Recently, however, the government defined MSEs through Ministry of Trade and Industry (MoTI, 1997), in its Federal Micro and Small Enterprise Strategy (1997), based on the size of

capital and level of automation is as follows:

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

2. Small Enterprises are those business enterprises with a paid-up capital of above birr 20,000 and not exceeding birr 500,000 and excluding high tech. consultancy firms and other high tech. establishments.

In addition, due to the similarity of the characteristics of informal sector activities and micro enterprises, they are also often lumped together and the strategy treated them as micro enterprises (MoTI, 1997). This again created difficulty in differentiating the sector, identify and promote them in line with the development objective of the country.

In general, from the above sample country definitions it is apparent that there exists problem of inconsistency in the definitions across and within boundaries. This leads to the fact that without a common definition for small scale enterprises, making comparative analyses and empirical studies on the sector will be difficult. For the purpose of this paper, however, the definition given by the Federal Micro and Small Enterprise Strategy is used when referring MSEs from now on wards.

1.1.2 Characteristics of MSEs

In order to appraise and realize the challenges and constraints of MSEs as well the intervening institution face in the effective and efficient promotion of the sector, a due consideration should be given for their characteristics that will help determine the package of policy measures and institutional assistance necessary to sustain their growth.

Along the line of the above case, the features that distinguishes MSEs from larger scale enterprises include: greater owner influence and dominance of one-person, more subjective decision due to centralization of decision making, relatively close contact of the top management employees at lower levels, timely feedback, more financial matters due to difficulty of attracting funds etc... Furthermore, in quantitative language MSEs constitute the bulk of the population and mostly the operators are located in rural areas and lack access to basic infrastructure. Operators also prefer the informal sector because it is free from government bureaucracies and ease of entry. In present day Ethiopia, although significant measures have been taken, Small Scale Enterprises (SSEs) still face serious obstacles both at the operation level and start-up level.

1.1.3 Views on Micro and Small enterprises

There is a wide range of theoretical formulations and empirical analyses concerning small firms though there are intersections and common grounds among these approaches. Generally, however, there are two approaches to the emergence and expansion of MSEs and the increase in the number of people engaged in such activities. One approach perceives this as an outcome of improved opportunities for people (including the poor and disadvantaged) to participate in "ways that empower and nourish" them. According to the second approach, on the other hand, it is an indication of failure of an economy to provide productive jobs, forcing people to "take refuge in activities that provide only minimal subsistence support" (Liedholm and Mead, 1999). Additionally, classical and recent views on MSEs have also conflicting outlooks on their emergence and importance which are presented below.

1.1.3.1 Classical views

Classical development theories describe small firms in connection with the macro-economic structure and its development (Ozcan, 1995). Furthermore, the development of these firms was only attributed to the new forms of economic and

technological diffusions brought by the world capitalist economy. Modernization theory, for example, views development as a process where primitive agriculture is gradually mechanized; and small and low productivity is substituted by large scale mechanized industrial enterprises with high productivity (Todaro, 1996; Abadi et. al, 2006). This view undermines the potential of small enterprises as low productive firms. The theory also assumes that the industrial structure in Third World Countries will show parallel development to what has happened in Europe and USA. And hence as production is concentrated in towns to exploit urban and agglomeration economies small enterprises is believed to disappear eventually.

Other classical theories like dependency theory again views large scale industries, national and international corporations as the only means for changing the world economy (Pederson, 1989). The assumption that these corporations headquartered in the capital cities of developed countries while their production units spread over countries where there are cheap factors of production enable them exploit cheap factors of production and enjoy economies of scale and perceived to be more profitable than small local enterprises. Moreover, this theory regards small enterprises survival in direct dependency on large scale enterprises since they cannot be able to compete in the market as they lack capital to invest.

Like wise, some approaches even consider small firms as a function or outcome of underdevelopment that exists in the developing world (Ozcan, 1995). Ozcan further highlights that in contrast to the developed countries, in developing countries small firms are often thought as primitive.

1.1.3.2 Recent views

Recent views furnish more positivism to the nature and significance of MSEs in the world economy. Much attention has been increasingly given due to serious problems with 'the rigidity of long-term and large scale fixed capital investments in mass production systems that precluded much flexibility of design and

presumed rigidities in labor markets' (Ozcan, 1995:14). The effect brought strikes and labor disruptions in the late 1960s and early 1970s. Flexibility refers to an ability to survive, and an artisan capacity to respond to new design requirements and new market signals with fragmented and flexible use of labor in firms. According to the pioneers of flexible organization-Piore and Sabel (1984), however, the flexible ability of firms in the past was constrained by macro-regulations. Hence, it is observed that the suitability and adaptability of small firms to changes in demand for their market created new opportunities and these opportunities make small firms engage in diverse quality of production for niche markets (Abadi et al. 2006). Cognizant of this fact has provided a new way of looking at small enterprises and the promotion of SMEs in developing countries as agents of economic development (Bromley, 1985).

1.1.4 Size and diversity of the MSEs in Ethiopia

Micro and small enterprises cover both the informal and formal sectors of the Ethiopian economy. About 50% of the urban workforce is engaged in the informal sector meaning home based or individual establishments operated by the owner with few or no employees (Gebrehiwot and Wolday, 2004).

A survey by the Central Statistical Authority (2003)[1] portrays that there were 974,676 cottage/handicraft manufacturing establishments engaging 1,306,865 people. In contrast, large and medium scale enterprises employed only 98,136 people. From those cottage/handicraft manufacturing establishments 616,696 or 63% were in rural areas while the rest 357,979 or 36.7% were situated in urban areas. Among those engaged in this industry, about 94.2 % were active owners, partners or family workers. The rest found to be employees constituting only 4.3%. The same survey shows that 73.7% of the work forces are women.

The CSA survey also come up with the report that about 87.3 % of the cottage/handicraft manufacturing industries started their operation with a total capital of less than 250 birr while 12.3% began with the amount ranging from 251

to 5,000 birr. The rest 0.4% pursued their operation with a capital ranging from 5,001-10,000 birr.

Coming to the context of Small-scale enterprises, CSA (2003)[2] made the same survey in 2001/2002. The survey summarizes number of establishments, number of persons engaged, gross value of production, value added, operating surplus, fixed assets and investment (See Annex 2). Accordingly, there was 31, 863 small scale manufacturing industries in Ethiopia. Of which 19,994 (62.75 %) were found in urban areas and the rest 11,869 (37.25 %) in rural areas. From those found in rural areas all of them (100%) were involved in grain milling services. Also, the structural distribution of small scale manufacturing industries (both urban and rural) pertaining: number of establishments, number of persons engaged, gross value of production, value added, operating surplus, fixed assets and investment in fixed assets were concentrated on grain milling services on the same year and they constitute 85.44% of manufacturing industries in urban areas.

As is also designated in the survey small scale manufacturing industries comprises 97,782 employees and among them 46.85%, 42.18%, 8.74%, 1.28% and 0.95% were paid permanent employees, unpaid family workers, seasonal and temporary workers, unpaid apprentices and paid apprentices, respectively(Table 2). Additionally, among all the employees 91.3% (89,274) were male whereas 8.7% (8,508) were female.

Table 2 Number of Persons Engaged by Sex and Type of Worker 2001/2

Type of Worker	Sex of Worker					
	Male		Female		Both sex	
	No	Percent	No	Percent	No.	Percent
Unpaid Family Worker	35,339	39.58	5,907	69.43	41,246	42.18
Unpaid Apprentices	1219	1.37	33	0.39	1.252	1.28
Paid apprentice	907	1.02	21	0.25	928	0.95
Permanent paid Employees	43,265	48.46	2,547	29.94	45,812	46.85
Seasonal and Temporary Worker*	8,544	9.57	-	-	8.544	8.74
Total	89,274	100.00	8,508	100.00	97,782	100.00

Source: CSA (2003)

* All seasonal and temporary workers are taken as male.

1.2 Statement of the problem

Nonetheless, there exists a general agreement that MSEs play a crucial role in country's economic development through application of labor intensive technology, the use of existing local and traditional skills, generation of foreign exchange and exploitation of niche market (Rogerson,2001), among the many others contribution, the challenges and constraints the operators face has been multi-dimensional. Moreover, a striking finding from surveys across Africa shows that less than 1% of firms 'graduate' from the micro-enterprise seedbed and become established enterprises which employ more than 10 workers. This questioned and initiated debates around the role of small enterprises in the national economy made over the past three or four decades (Andualem, 2004).

On the other hand, albeit to the written vast area of literature on the subject, most are clouded with clarity of demarcation and classification. This is believed to stem from the stingy challenges and multiplied negative effects that are inspired by improper treatment, in one hand, and discouraging environmental conditions which they are surrounded with, on the other. Similarly, challenges of the enterprises can spring from the clash between sector policy and the general economic policy of a country. This means that both the internal and external environment MSEs passes through highly determines the role they play in mobilizing the national economy.

In Ethiopianizing the issue at hand, although significant measures have been taken for the development of MSEs, they are yet confronted with series obstacles both at the operation and start-up level. In different articles and forums held at different times concrete but still unresolved problems with regard to MSEs were raised as a point of discussion. The critical constraints identified by many, among others, include: lack of access to finance, premises and land, lack of information on business opportunities, and social and cultural factors particularly deficient entrepreneurial culture, excessive and trivial corruption (Wolday, 2002).

The problem of the study areas is not far, but it is basically unique from the above elements. The closure as well as liquidation of more than 50% of the MSEs in Lafto industrial zone found in Nifas Silk Sub city appears mainly exasperated by lack of market, lack of enough production space, lack of infrastructural developments and lack of capital in bold terms in decreasing order of magnitude, respectively. Researches stabilizes the fact that "In Ethiopia the main problems are the scarcity and high cost of land for industrial use, the absence or inadequacy of water disposal services and an inappropriate administration for infrastructure services." (ECA, 2001:23). However, do scarcity and high cost of land really affects the development of MSEs is not dealt by many. Hence, whether production space factors the activities of MSEs is investigated in this study.

The study goes further to Ras Imiru industrial zone where all the enterprises in the zone are fully operative unlike to Lafto industry zone and considered the impact of location on the performance and growth of MSEs which local researchers have given less weight, but still impeding MSEs in distant areas. In this conjuncture, the study tries to assess how important it is to consider factors like location and production site, market access, capital, government intervention, infrastructure, training and experience of the operators etc... before hand prior to rushing into the decision of establishing industrial zones. Disregarding these elements will not only multiply the challenges but also hamper the development process of the country unless and otherwise proper care has taken to meet the aim they are formed.

1.3 Objective of the study

The general objective of this study is to appraise the challenges and constraints of micro and small enterprises in two industrial zones: Ras Imiru and Lafto found in Arada Sub-city and Nifas silk lafto sub-city, correspondingly.

Under the umbrella of the general objective, the specific objectives of the paper are:

-To assess the impacts of location on the performance and growth of MSEs
-To explore the impact of government intervention in the development of MSEs, and
-To assess the impact of business development service and experience on the enterprises success

1.4 Research Questions

The major objective of this study, which is identified above, is thought to be achieved by way of seeking answers to the following questions:

1. What impact does location has on the performance and growth of MSEs?
2. What government interventions result impact the development of MSEs?
3. How does business development service as well as experience of the entrepreneur affect the success of the enterprises?

1.5 Research Hypothesis

The regression model and descriptive analysis were used to assess challenges and constraints that impede the performance of MSEs in the two industrial zones. Thus, considering evidences from empirical and theoretical literature, the following hypothesis was developed to be tested by the study:

H1: The influence of demographic characteristics of individuals (i.e. young age) is significant for performance of MSEs;

H2: The influence of high level of education will be positively associated with performance of the entrepreneurs.

H3: The influence of government intervention (for example, government regulation and sales restriction) will be negatively correlated with business performance of MSEs.

H4: Strategic business location will have a positive impact in the

performance of MSEs;

H5: Business Development Service (workshops, Trainings, Advise, Business Counseling, and Mentoring etc.) will have a significant positive coefficient;

H6: The influence of previous experience in the sector will be significant in the equation;

H7: The influence of access to capital will have a positive impact in the activity of MSEs in the study areas.

1.6 Significance of the study

It is hoped that the study will serve as a stepping stone for others who need to pursue further studies on the subject. Most importantly, it is expected to signify the challenges of MSEs from the outset that government bodies and other Non-Governmental Organizations (NGO's) can take pre-caution ahead and provide the necessary requirements to promote the sector accordingly. Especially, the problems identified as they are of the same types with the rest sub cities industrial zones, will be expected to deliver an important yardstick for policy makers. The solution, as well, is expected to provide life giving remedy on how to tackle the problems from the scratch.

1.7 Limitation of the study

In due course of processing the research the following limitations were occurred. First and fore most, lack of organized information about the how many of MSEs and variety of activities involved the sector by those government bodies happened as a very challenge of this paper. By the same token, how many of them do still survive in the business was unknown by the surrounding extension workers at the time pilot survey was conducted which again borne a repercussion

effect at the time the main survey was done. In line with this, in assessing the challenges of MSEs in the study areas, especially, in Nifas Silk Lafto Sub City Industrial Zone, those enterprises that were liquidated and closed their business were not the residents of the area that data collection was tiresome as a matter of fact. Thirdly, being limitedness of the scope of the study in two industrial zones among those 23 industrial zones the study might have a generalization impact due to less representative of the sample. Above all is, it might be difficult to appraise the impacts of MSEs on the operators and local economic development since the recency of the activity in those areas is a few years (not more than two years) reminiscence.

1.8 Delimitation of the study

The study is delimited to assessing the challenges and constraints of MSEs. It is conducted in two sub-cities in Addis Ababa - Arada and Nifas silk Lafto sub-cities. In these sub cities, there are about three industrial zones in Nifas silk Lafto sub city and only one in Arada sub-cities. . One industrial zone is selected form each sub-city - Ras Imiru, the only industrial zone in Arada sub-city and Lafto industrial zone among the three were the focus of this study.

1.9 Organization of the paper

The paper examined the challenges and constraints of Micro and small enterprises in two industrial zones in Addis Ababa. In due process, the reports of the paper are logically organized in the following manner.

The paper is structured into six sections. The first section draws attention to the background of study. In line with this, it primarily spotlights the motive behind the emergence of Micro and Small Enterprises as a development strategy pursued with the definition, characteristics, size and diversity of the sector in Ethiopia. Subsequently, it also embraces problem statement, objective, research questions, significance of the study, delimitation and limitation of the study in that order.

The second section offered review of related literatures on the subject and in that regard theoretical formulations, approaches and promotion strategies of MSEs are dealt well. Empirical researches made both in local and other countries in connection with the challenges and constraints of the sector are also incorporated in this section.

The third section of this paper explained the different methodologies employed to collect the data and the data analysis tools used for the study. The fourth section introduces the study area in detail. Afterwards, data analysis and discussion of the results proceed as the fifth section of the paper. The last section concludes the spirit of the whole discussions and draws some conclusions and gives policy recommendations accordingly.

CHAPTER 2: REVIEW OF RELATED LITERATURE

2.1 Theoretical Reviews

Since the 1980s, the recognition of MSEs is realized, there have been developed different theoretical approaches used for promoting the sector. Different measures, as well, have been taken as a result of the serious limitation produced by large scale development strategies in pulling off sustainable socio- economic development. Simultaneously, as the development community moved into this period, interest in SMEs remained strong but the approach grew increasingly c'tical. Analysts began to question whether SSI (Small Scale Industry) had ever met the high expectations of its proponents and wonder what could realistically be expected of it (Snodgrass and Biggs, 1996).

Snodgrass and Biggs also acknowledged that despite the various measures taken by different bodies to develop the sector, the returns to SME promotion programs are likely to be low in low and middle income countries. The repercussion for the failure of various programs raised an issue as to what means should be implemented to help the sector developing. Among those who continue to argue for promotion of SMEs, lively controversy proceeds concerning the form that such support should take.

This section, however, generalizes all the theoretical approaches in broad categories which count on the means these enterprises sustain and build up themselves to higher level and contribute for the development of a country in alleviating poverty. These approaches can be well divided as-- traditional and modern approaches.

2.1.1 Traditional approach

The traditional approach to MSEs development deals with direct and subsidized provision of financial and non- financial services (Hallberg, 2000). It is based on the former analysis of the economic rational for SME intervention which suggests an SME development strategy as "private sector development strategy" due to the fact that they are small and, hence, they face different constraints. Further, cognizant of the fact that those types of institutions and instruments best suited to their needs is underprovided by distorted market as well they are inherently disadvantaged by the unfettered operation of markets necessitated the need for directed support for SME development in the eyes of former economists (Hallberg, 2000, and Hill, 2006).

However, this approach which is based on assistance-oriented schemes did not yield expected results; instead it became a distorting factor (Rodriguez, 2006) and the outcome necessitated a search for more valid approach (Gebrehiwot and Wolday, 2006). Even those intermediary organizations that carry out actual assistance programs to micro-enterprises focus on social welfare which is important but is also too constraining. In the same conjuncture, Beardsly (1982), and Smith and Tippett (1982) have shown that assistance programs focusing too heavily on such goals are inefficient in the long run and create dependency (in Tinker, 1995).

The traditional approach on the other hand faced criticism from gender point of view. For example, Rodriguez (2006) in her article -gender equity in micro and small rural enterprises- regards the traditional approach as ineffective for the development of MSEs. Experiences also suggest going beyond the traditional approach in strengthening of micro and small rural enterprises.

This approach conceives enterprises as ends per se, defined in terms of their economic profitability and their internal performance, based upon a "male oriented" image of the entrepreneur, who is competitive, risk taker and knowledgeable about the business environment (Rodriguez, 2006: 2).

For example, as Rodriguez noted, the traditional model gives little attention to the distribution of benefits; however, such distribution is a key in the case of rural enterprises established and managed by women. Adding-up, the traditional approach faces two types of problems in promoting MSEs. The first is an unresolved structural problem (i.e. educational gaps, employment generation crises and mismatches between employment generations and human resources); the second is intrinsic to the conceptual model of small-scale entrepreneurial promotion, which does not respond to the characteristics and demands of the rural environment, to gender equity and to the diversity of the rural population. In short, it is a promotion approach that tries to extrapolate small firms the same logic of the large-scale entrepreneurial model.

2.1.2 Modern approach

In the early 1990s big strides were made in turning experience from credit programs for small businesses into a well-defined set of best practice principles that could be widely replicated, leading to improved levels of impact, sustainability and cost-effectiveness (ILO, 1997). The new approach gears towards "with in" development of individuals or operators "creativity, drive and commitment" rather than government actions as a key in setting up, operating and developing business. Moreover, it stresses in three important aspects -- business environment, financial services and business development service (BDS) (Hallberg, 2000).

Hallberg further stated that the new approach to SME development has emerged in parallel with the revolution in microfinance which recognized the insufficiency of the financial sector to bring financial services to the poor. Hence, to achieve long-term viability of microfinance institutions, the approach emphasizes institutional strengthening, cost-effective delivery and management, and the charging of interest rates sufficient to cover the costs of small-scale lending. In the same vein, since SMEs need different types of services, institutions, and delivery mechanisms than larger firms, the proponents of the new approach agree that government can accelerate market development by promoting innovation and building institutional capacity.

The new approach, therefore, combines strategies to strengthen the entrepreneurial capacities of a large portion of the rural population, with strategies to improve managerial and other technical capacities of small and medium entrepreneurs (Rodriquez, 2006). Hallberg (2000) summarizes the essence of the modern approach and market oriented SME interventions (see Annex 3).

2.1.2.1 Business Environment

As said earlier, business environment in the new approach is critical for the SME development and these include:

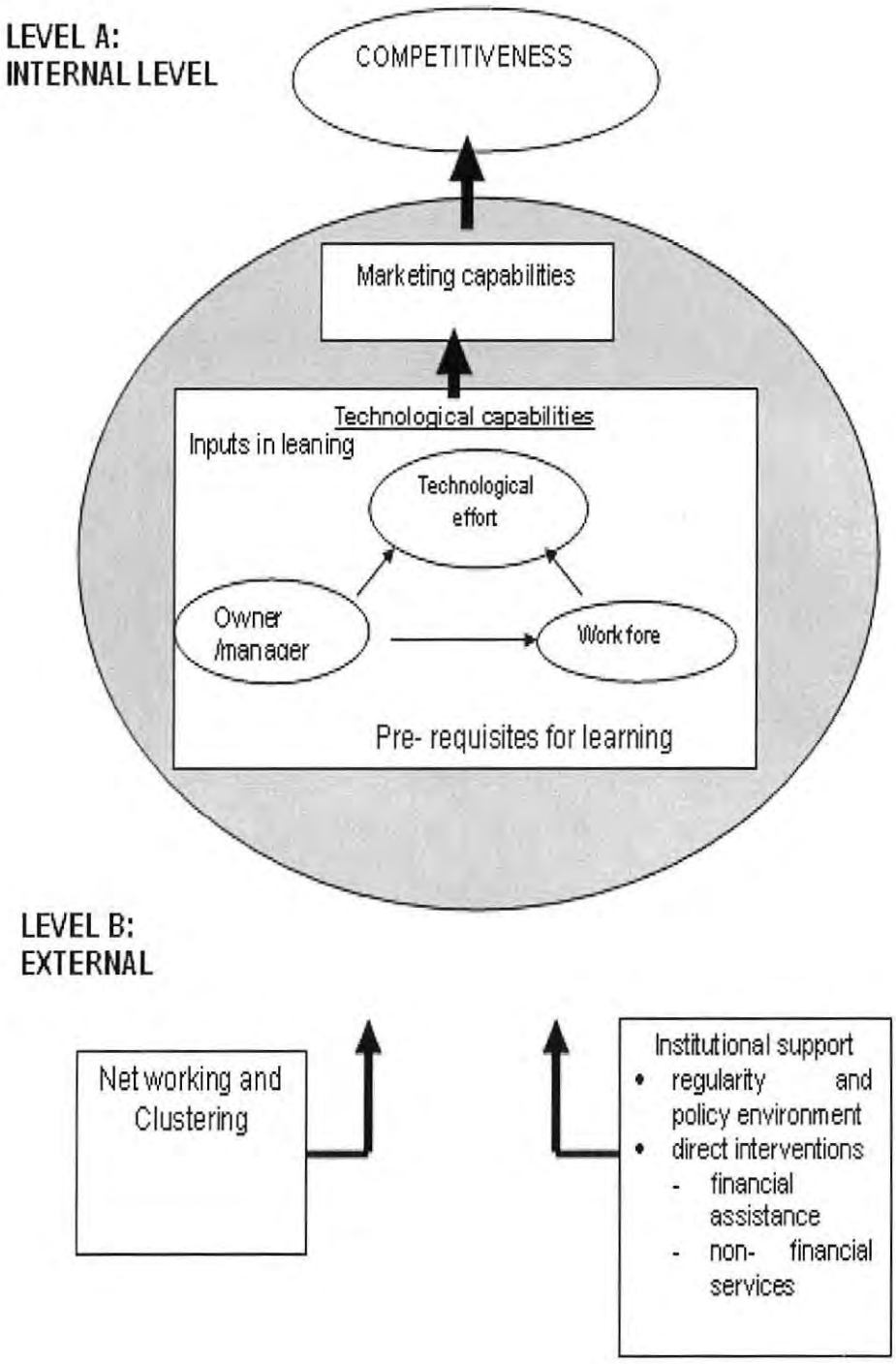
> *...barriers to entry and non-competitive behavior in markets where SMEs are potentially competitive; expensive and time-consuming regulatory requirements such as licensing and registration; official and unofficial levies that discourage small enterprises from growing and becoming formal; Zoning regulations that restrict SME operations and entry into high-income markets; Infrastructure that opens access to information and markets, particularly transportation, market facilities, and communications infrastructure (Hallberg, pp: 9-10)*

Pertaining to the business climate for SMEs, two main arguments exist (White, 2003). Firstly, small enterprises occupy a unique position in the investment climate, which influences their capacity to reduce poverty and contribute to economic growth. Governments, civil society, business organizations and international donors are often divided on what a sound investment climate for small enterprise growth looks like. Some claim that what's good for enterprises of all sizes is good for small enterprises (ECA, 2001); others are concerned with the disadvantages small enterprises face in an investment climate that is more favorable to large enterprises. While there are divisions on how best to address this issue, it is clear that small enterprises face proportionally greater costs and obstacles than large enterprises.

On the same perspective of the modern approach, some discuss that the economic performance of SMEs can be hampered or fostered by different factors. Some are internal to the enterprise, while others belong to the economic and social environment in which they operate. A report by ECA (2001) shows a strategic framework depicting the main elements and links that are important for SME development in Africa (figure 1).

As shown in figure 1 below, the frame work discerns among factors that are internal and external to the enterprises. The large circle in the center of the diagram embraces 'technological capabilities' which are the root internal prerequisites and courses that might direct to improved output and innovation in enterprises. They are identified as knowledge, skills and efforts required for firms to bring about an indigenous process of technological development. The success of these integral efforts that lead to in-firm technological learning, however, counts on two main factors: (I) the educational background and prior working experience of the founder/manager and (II) the skills and working conditions (including remuneration levels, job security, etc) of the workforce, with the former affecting the latter (ECA, 2001: 12).

Figure 1Frame work to support SME Development



Source: ECA (2001)

The convenience of the internal factor without accompanied efforts to assimilate with the external factor is mostly the burden which small businesses carry alone. According to ECA report this situation is stronger in developing countries where the regulatory and policy environment often constrains SMEs in attracting the capital required for subsequent technological learning. Moreover, research has shown that capability building and competitiveness also depend on factors external to the firm (ibid).

2.1.2.2 Business Development Service

Business development services (BDS), as an integral part of the new approach, include a wide variety of non-financial services such as labor and management training; extension, consultancy, and counseling; marketing and information services; technology development and diffusion; and mechanisms to improve business linkages through subcontracting, franchising, and business clusters. These services form an important part of the "market support structure" that helps build SME competitiveness. Wolday (2002) explained that similar to the revolution in microfinance, there occurred a revolution in BDS. It is a radical shift from the focus on the supply driven and subsidized BDS to limited MSE operators, to a focus on the development of demand-driven vibrant BDS market to a large number of MSEs. According to him, the new approach has been an effective instrument of raising outreach, quality and sustainability of BDS, geared towards increasing their impact on the performance of micro and small enterprises. He tabulated the differences between the traditional and modern BDS in the table below.

Table 3 Traditional vs. Market Development BDS

	Traditional intervention of BDS	Market Development intervention of BDS
Vision	A non- profit or government organization provides quality BDS to MSE.	Encourage others to provide quality services for which MSE are willing to pay full cost.
Objective	Provide quality service that MSE can afford	Encourage others to provide quality services for which MSE are wiling to pay full cost
Point to intervention	"First Tier"; direct provision though a single, local institution.	"second Tier" facilitate, regulate, and develop products for and work with more than one supplier
Duration of involvement	Permanent: donor- funded programs must continue if services are to be available to MSE	Temporary: withdraw as markets develop
Subsidies	Support free or low - cost services are to be available to MSE	Support assistance to suppliers or temporary grants to clients. Justified in the short run if market development impact outweighs market distortion impact.

Source: ILO (2001) Background Reader: Business Development Services. 2nd Annual Seminar. Turin, Italy, 10-14 September, 2001.

As is clear from table 3, the emerging strategy for BDS, focuses on developing markets for services that are appropriate to and demanded by SMEs, rather than on the direct provision of BDS by governments and donors. However, we say so, the opponents of BDS; for instance, Snodgrass and Biggs, (1996) argue that there has been much waste of resources in programs offering this type of intervention in many countries of the third world and such programs has a particularly low success rate, especially, in sub- Saharan Africa. Malcom Harper, a well- known and long- time advocate of SME Promotion programs (see for example Snodgrass and Biggs, 1996:144), also compromises that:

> *technical assistance, as opposed to credit, a has a limited role to play..... There is little that outsiders from a formal environment can do for those who are in the informal sector, and the numbers are so vast that even if it was possible to run a cost effective program, it would only reach a very small proportion of the*

potential target group. Most people who operate micro enterprises are already managing their limited resource rather well and it is difficult for any program to achieve better results than could achieved by the micro-entrepreneurs themselves, if they were be given the resources used by the program and allowed to use them as they wished (1989:187 - 188).

The report by ILO (1997), conversely, back-up the thought that SMEs do not always know what is in their interests and do not necessarily have a complete knowledge of all the factors pertaining to their business. Interventions based on an external analysis of SME needs may encourage them to use their potential to a higher level and upgrades their skill in developing business. Yet, critics even go further to the extent that the promotion of BDS is very expensive, uneconomic and due to their failure to reach large number their impact is limited (Young, 1987). Concerning training Dijk (2000) also brings up Nelson's (1977) critique which is even stronger:

- *these are failed investments in generic business training with a standardized content*
- *the programs are often too much supply driven and lack a more market-oriented approach*
- *too little attention is given to the quality of the trainers*
- *there are insufficient investments made in training follow-up and hence there is a limited proven impact of many existing programs (pp. 43)*

Dijk (2000) equally proposes a different approach under the side line of the new approach, that would be demand led, assuming that entrepreneurs know what they want. For effective promotion he stresses on training that would needs to be: "more market-oriented and demand driven (satisfy the needs of the target group), participatory, relevant and focused, complemented with follow up

activities and based on cost recovery" (pp. 43). Though it takes time to develop such services, new efforts to provide BDS according to these lines are yielding emerging principles of good practices in training (ibid).

Dijk's opinion challenged owing to most SME projects seemingly claim to be based on needs; however, there are many examples of project interventions in which the identification of needs is in practice something of uncommitted attempt to justify an approach that the BDS organization had in mind all along (ILO, 1997). In all the circumstances, hence, as the starting point for the design of any intervention intended to promote SME development is an assessment of their needs and perceptions, it is important for those designing interventions for SME development to be clear about what is meant by SME needs.

> *The situation is complicated because discussions of SME needs are increasingly characterized by the use of different terms, which may serve to confuse rather than clarify the issues. These terms include felt or perceived needs*; objective, logical *or real needs*; *and demand (ILO, 1997).*

By and large, since MSE operators may not necessarily have a complete knowledge of all the factors pertaining to their business, interventions based on external analysis of SME needs with full participation of entrepreneurs themselves help encourage them to use their potential to a higher level.

Ending, it is the researcher's contention in all the circumstances that the modern approach for the development of MSEs is an effectual measure that have to be promoted as it deals with pivotal factors like business environment, business development services and the emerging form of financing as a determinant factor for their success. Although markets may work less well in developing than in developed countries, it is usually better to limit government intervention and escape some of the problems of government actions by asking it to do less (Snodgrass and Biggs, 1996).

Besides, in order to widen the coverage and impact of government programs, the focal point of the new approach in granting opportunity to the private sector to deliver services and diverting governments attention on allocation of public resources on facilitating market transactions and investing in public goods and accelerate market access is imperative if MSEs are used as a development strategy. If a policy seems likely to be biased against SMEs and also appears as a significant constraint, it should be taken as a strong candidate for a reform proposal.

Above all, the principle of 'combination and interaction' which is based on integrated set of interventions should be adopted as a teaching experience from Indian perspective since it dramatically reshaped and extended Indian Small Industry programs(Snodgrass and Biggs, 1996). In view of that, Staley and Morse (1965:351 – 85) argue that policies toward small industry should be based on a positive, developmental attitude, seeking to aid by promoting efficiency, adaptation to new circumstances and growth, rather than by protecting absolute types of production against more modern methods. They proposed a compressive ten part promotional package:

- Industrial advisory services
- Training of entrepreneurs (managers & supervisors)
- Industrial research services
- Development finance
- Factory sites and buildings (industrial states)
- Common facility services
- Facilitation of materials and equipment procurement Marketing aids
- Labor relations services
- Inter firm contract and assistance

They clearly regarded on integrated service delivery program as the primary tool for developing SMEs learned form Indian experience. Inclusion of other factors that slow down the activities of MSEs, particularly, location and work space should be added up and can serve as supplementary to the existing framework of the new approach. As a final point, as mentioned previously, the starting point for the design of any intervention intended to promote SME development is an appraisal of their needs and perceptions; hence, it is important for those designing interventions for SME development to be clear about what is meant by SME needs.

2.2 Empirical Reviews

This section tries to review empirical works of different scholars, researchers and practitioners in the challenges and constraints of MSEs both from local researches as well international works. It specifically gives concern for researches that comply with the general objective of the research. In the same conjuncture, research findings concerning the impact of location and space on the activities of MSEs, the impact of legal and regulatory frameworks in the performance of MSEs, and the impact of training and experience are reviewed.

2.2.1 Researches in other countries

To begin with, Stevenson and St-Onge (2005) have investigated a mechanism so as to support growth-oriented women entrepreneurs in Tanzania. Correspondingly, they assessed the constraints of MSEs. They found out that there are two levels of constraints facing these enterprises in Tanzania: those acting as barriers to general operations and those impeding growth. These are - low level of education of the entrepreneurs; lack of managerial, marketing and production skills; use of rudimentary technology; low-skilled work base; lack of access to credit; tiny purchasing power of their consumers/clients; and regulatory constraints stemming from the difficulties of obtaining legal status. This study though could explore the important constraints of MSEs, it did not explore the impact of location in the MSEs development. Moreover, it only focuses on women entrepreneurs, which is dissimilar with this study where most of the manufacturing enterprises are owned and operated by male entrepreneurs.

Similarly, Nyaundi (2004) tried to explore MSEs development in Kenya. Keeping the enormous role played by MSEs in many developing countries like Kenya as it is, Nyaundi identified at length the constraints impeding the sector such as: inhibiting legal and regulatory framework, limited access to credit, poor access to

markets and technology, poor physical infrastructure, poor entrepreneurial capacity, high cost of business development service (BDS) and inability to access relevant information. What is lacking here as well is the impact of location in the activities of MSEs is neglected.

Lisaniler (2004) on her part studied 'Challenges in Small Medium Enterprises (MSE) Development: North Cyprus' in Turkey. The study concluded that challenges in the development of North Cyprus (NC) Small and Medium Enterprises are common to all developing economies and these are; limited domestic market, infrastructure and limited access to credits where the banks in the city request a guarantee from those enterprises as high as 150%. Low capitalization and labor productivity, dominance of the government sector and problems in accessing information are also found to be the major challenges of MSEs. With specific reference to NC Lisaniler investigated current major challenges: Political Uncertainty, instability, and isolation, lack of focused strategy and legislation towards the MSEs and lack of Competition among enterprises as a result of high government involvement. The challenges and constraints of MSEs as agreed by many are both internal and external. However, this study gives less emphasis to the internal aspects of the enterprises like managerial skill, entrepreneurial skill, education and capital which materially affect performance of MSEs.

The role of MSEs in economic development of Indonesia is also investigated by Dipta in 2004. It is generalized from the study that low level of education, lack of market research and information on business opportunities, lack of capital, lack of infrastructure, poor environmental conditions and lack of effective marketing link are the challenges faced by MSEs in Indonesia. This research also lacks to stipulate matters of location and policy impact as crucial elements that influence the activities of MSEs.

On the other hand, Ajibefun and Daramola (2003) studied the determinants of technical and allocative efficiency of Micro-enterprises in Nigeria. The paper examines using cross-sectional data collected on 180 micro-enterprises selected from bricks making, metal fabricating and sawmilling enterprises. They came up with the conclusion that the level of education of enterprise owners is highly significant in affecting the level of efficiency of the micro-enterprises, while the age of enterprise owners was found to be negatively related to their level of efficiency. These variables are important factors that government policy should address so as to improve the current level of efficiency in the sector.

Reinecke (2002), as well, tried to review works of different scholars on the impact of policy environment on the creation and improvement of jobs within small enterprises in developing countries, in his working paper – 'Small Enterprises, Big Challenge'. The review summarizes current research on the impact of the policy and regulatory environment in small enterprises. It concluded that, despite small enterprise support policies in many countries, the overall economic policies are still often biased in favor of larger enterprises. Moreover, the cost for small enterprises to comply with existing regulations is often unnecessarily high. To create a level playing field for enterprises of different size classes, he agreed that, regulations should be clear and the process of implementation transparent and fair. No matter how valid Reinecke's conclusion seems, the stepping stone for that is based on point of reference of other workers that inability to use primary data may mislead to erroneous conclusion which this paper tries to close the gap. Additionally, as said earlier, the challenges for MSEs are both internal and external that this work may not comprehensively figure out the over all challenges of these enterprises.

Different researches & international exposure has shown the relevance of education and/or training and its direct linkage with productivity. As shown in ECA (2001), a research carried out in Tanzania, Uganda and Zimbabwe depict that the most technologically advanced, productive and competitive SMEs are those run by well educated entrepreneurs. If not, they grow up in families where

there was a prior record of entrepreneurial activity, and had been employed before venturing into their own business.

Schiffer and Weder in 2000 have conducted a world wide survey with reference to the interaction between firm size and the business environment. The paper draws on a new private sector survey covering 80 countries and one territory to study the question whether business obstacles are related to firm size. They stated that small firms seem to have advantages over larger firms, for instance, they may be less affected by excessive regulations because they can more easily slip into informal arrangements. However, the main finding affirmed that there is indeed a bias against small firms. In the overall world sample, small firms report more problems than medium-sized firms, which in turn report more problems than large firms. In particular, smaller firms face significantly more problems than larger firms with financing, taxes and regulations, inflation, corruption and street crime. Some of the most severe perceived impediments to doing business affect firms of all sizes, and consequently call for across-the-broad policy improvements. The recommendation goes in the direction of policy improvements in order that the playing field is leveled.

Loop (2000) on his part studied the challenges of MSEs in the globalization world in his work ' impact of globalization on the organization of production, micro and small enterprises and labor, with special emphasis on Africa'. He concluded that globalization is a challenge for micro and small enterprises since it has a pronounced impact on different aspects of society and since it affects finance and trade networks particularly deeply, the production systems will be affected well. It seems, however, that challenges for SMEs are multi-dimensional and the internal environment of enterprises like managerial skill, entrepreneurial skill, education and capital are not investigated in Loop's work.

Liedholm and Mead (1999) studied the determinants of small firm survival and growth in Africa and come up with a conclusion that small enterprises with initial

size and which are male-owned have higher survival and growth likelihood. The same study pointed out that growth likelihood is higher for younger firms. They presented a summary of the relationship between firm age, size, location and gender, and survival growth likelihood of MSEs based on econometric results of research works undertaken in four South African countries (Table 4).

Table 4 Key Determinants of MSE Survival and Growth

Factors of growth(firm characteristics)	**Survival Likelihood (Higher if MSE is :)**	**Growth Likelihood (Higher if MSE is :)**
Age	Older	Younger
Past growth	Growth in past	-
Initial size	Smaller	Smaller
Sector	Not in trading	In particular sectors that vary by country
Location	Urban, not in home	Urban, Not in home
Gender	Male-owned	Male-owned

Source: the dynamics of micro and small enterprise in developing countries, world development, vol, 26, no. 1, p. 66

In preparation for the World Development Report, Brunetti (1997) et al. conducted a worldwide private sector survey which incorporated a part on government-related obstacles to doing business. Entrepreneurs were asked to rate a list of 15 obstacles for their seriousness. This paper presented the results of almost 4000 entrepreneurs' responses in 69 countries using a detailed regional breakup into 22 regions. Four of these regions encompass OECD countries, six regions transition countries and the remaining twelve developing countries. The paper presents the results of regulation related obstacles among the highest in the world.

Snodgrass and Biggs (1996) in their effort to study "Industrialization and the Small Firm – Patterns and Policies" also substantiated the idea that though the great majority of developing country governments say they favor SME, and

undertake a range of credit and other programs intended to promote them; their policies tend to be biased in favor of large enterprises and against SMEs, to a greater or less extent. "Policy reform to reduce this bias can make significant contributions to important social goals such as the creation of productive jobs; the development of entrepreneurial, managerial, and labor skills; greater equity, in both size distribution and regional terms; and, most significantly, to industrialization and income growth" (pp. 151). Moreover, evaluations of SME precaution programs show that many of them are of limited value. Elkan (1956), therefore, has suggested that more emphasis on policy reform and less on programs to promote SMEs might improve the outcome. A fundamental alternative of this view asserts that the greatest need is for deregulation to reduce or eliminate existing policies that are biased against SMEs.

Ebony Development Alternatives (1995), on the other hand, studied the common characteristics of MSEs that successfully graduated from the micro-enterprise seedbed into the formal economy in Southern Africa. Here, location and sector are found to be a decisive element of growth next to access to market, capital and entrepreneurial ability of the operators.

McPherson (1995), as cited in Rogerson (2001), has conducted a study on the hazards of small firms in Southern Africa. The research points specific features of those small enterprises that are most likely to either survive or close. In so doing, the key determinant factor the study came up with firm survival was location with home-based enterprises exhibiting higher hazards and greater closure rates than enterprises which were located in commercial districts. Accordingly, proximity to growing markets appears to be a significant determinant of an enterprises survival prospects. On other African countries, too, experience in small enterprise failure regards that location matters and is a critical determinant for business success (Rogerson, 2001).

As is explained in Liedholm and Parker (1989), results of analysis of survey on small scale manufacturing enterprise in Sierra Leone, further substantiate the

prime role of location to firms' success. The study indicate that none of the enterprises in the smallest rural area expanded at all; in localities with 2,000 to 20,000 inhabitants, 13 percent of the surviving firms added workers, while in the larger localities with 20,000 or more inhabitants, the percentage of firms growing was 31 percent. The following section specifically deals with local research works of different scholars made in Ethiopia.

2.2.2 Researches in Ethiopia

To start with, Elias studied the role of micro and small enterprises in local economic development with special reference to Awassa, the capital of Southern Region of Ethiopia in the year 2005. The general objective of the study was to describe the role micro and small enterprises play in local economic development vis-à-vis to exploring the major problems associated with the environment of MSEs. For this purpose, about 120 MSEs have been included in the study which resulted that lack of capital, absence of government support, lack of credit facilities, and the prevalence of poor technologies respectively are major challenges indicated as per their order of significance.

Additionally, lack of markets, competition, raw materials, managerial skill, and skilled personal were also found to be the challenges MSEs faced in Awassa. However, by virtue of the fact that the paper is a descriptive study it lacks to pin down why things are they are. Further, in this study, the impact of location in the performance of MSEs is not investigated.

GTZ-Ethio-German Micro and Small Enterprises (MSEs) Development project prepared MSE Success Story Album and Business Success Tips (Yared et al. 2005) to document the patterns which contributed to the success of MSEs. It was prepared by members of the GTZ - MSE project by conducting survey in 5

cities in Ethiopia: Amhara, Adama, Addis Ababa, Bahir Dar, and Mekelle. They identified 16 successful entrepreneurs in collaboration with city chambers, women Entrepreneur Associations and Regional Micro and small Enterprise Development Agencies of the respective cities. In line with this, they recognized factors that contributed for the triumph of these entrepreneurs. Among other things, it is realized that most of the entrepreneurs work in strategic business location which add up for their business performance. Mulat & Wolday (1997) suggest that the social isolation, physical remoteness, and lack of education of groups in disadvantaged areas often confront with special barriers that require outside intervention to establish viable income generating activities.

Amenu (2005) in his thesis work - Characteristics and Determinants of Rural Micro Enterprises in Konso special Woreda of Southern Region of Ethiopia – made regression analysis to identify the determinant factors that affect rural enterprises. The regression result showed that family size, educational states of household head, proximity of household residence for rural road and provide market are significantly influencing the rural micro enterprise engagement. Similarly, those who are found on road lines are the ones whose survival rate is higher than those who take their products for markets in specific days of the week.

The same report by ECA (2001) depicts bad and good practices of 13 African countries pertaining to governments' effort to foster the economic performance and competitiveness of SMEs and construction of functional and high-quality basic infrastructure. The report concluded that in Ethiopia the main problems are the scarcity and high cost of land for industrial use, the absence or inadequacy of waste disposal services and an inappropriate administration for infrastructure.

Furthermore, ECA (2001) presented a summary of the current state of the regulatory environment in 13 African countries with the objective of providing an overview for Africa. It tried to assess the policy environment whether it is enabling and disabling and if changes have occurred. The conclusion drawn from

the report states that regulatory and policy environment vary across Africa. "In countries such as Cameroon, Ethiopia, Gabon, Nigeria, Senegal and Uganda, evidence from the mission reports shows that the environment in which SMEs operate proves to be a major handicap for their expansion and growth." (ECA, 2001: 19). The table below summarizes the regulatory environment in 13 African Countries.

Table 5 Regulatory environment in African countries: current state and recent changes

country	Current state			Changes		
	Enabling	Variable	Disabling	Improved	Same	Deteriorated
Cameron			✓		✓	
Cote d' voire		✓		✓		
Ethiopia			✓		✓	
Gabon			✓		✓	
Kenya		✓		✓		
Mauritius	✓			✓		
Morocco		✓		✓		
Namibia		✓		✓		
Nigeria			✓		✓	
Senegal			✓	✓		
South Africa		✓		✓		
Tunisia	✓			✓		
Uganda			✓		✓	

Source: ECA (2001)

A study on, ' Policy Impact and Regulatory Challenges of Micro and Small Enterprises (MSEs) in Ethiopia', by Gebrehiwot Ageba and Wolday Amha (2001) presents a systematic analysis of the policy and regulatory changes, their impact on development of the MSE sector in Ethiopia and the constraints. The finding goes towards that although there have been serious attempts by the government to liberalize and improve the policy and regulatory environment of the MSE sector, which resulted in increase in investment and competition and improvement in the licensing procedures, the study indicates there is divergence between policies and directives issued and their actual implementation on the ground. Furthermore, capital shortage, inadequate business premise, inadequate/uncertain market and high taxes are found to be the major constraints to expand MSEs in Ethiopia. Even though these look like, among others, major constraints of MSEs in Ethiopia, the study discounted to explore another crucial element that might affect development of these enterprises - educational training and experience - which is proposed for study in my account.

Fasika and Daniel have made a study in 1997 on financing micro and small enterprises in urban Ethiopia. The survey consists of a sample of 1500 households in seven major urban centers of the country namely: Addis Ababa, Mekele, Dessie, Bahir Dar, Dire Dawa, Awassa and Jimma. The survey found out that existence of asymmetric information and lack of bankable collateral explained lack of access to formal credit to the sector and this remained a big constraint for the development of MSEs. Though lack of access to credit is the critical obstacle to the development of SMEs the secondary data obtained from the Ethiopian Urban-economic Survey to arrive this conclusion lessens the credibility of the study. Moreover, issue of location and infrastructure is not dealt well in their work which this paper is supposed to assess.

Regarding work space for MSEs Getachew & Getachew (1997) in their work – Micro and Small Enterprise Development in Ethiopia – figure out that most of the micro enterprises operate in very congested places without having space for machinery and equipment, shortage, etc. With respect to the need for proper

premises for micro-enterprises, they suggested avoiding biased favoritism in land allocation towards the larger enterprises and an efficient land acquisition mechanism with fast implementation needs to be established.

Furthermore, Hayat (1997) studied the constraints to women entrepreneurs in the informal sector in Addis Ababa markets. With respect to the location of the markets, she fined out location as an important variable to explain variations in earnings as a result of differences in demand conditions. Hence, those with favorable business location will be benefited more and their sales income is found to be higher. Snodgrass & Biggs (1996) explained that those enterprises that gets far away from the business area is subjected to high transportation costs and limitations in the flow of information may contribute to market imperfection and fragmentation.

In these and other studies the challenges and/or constraints of MSEs is not treated as a separate study. In fact, it would be unrealistic to skip the role MSEs play especially for developing countries. However, most studies tried to situate the challenges in connection with the contribution they made and as a result clouded ideas in the parts of the reader lest to happen. To this effect, this paper focuses on the challenges and constraints of the sector separately. In particular, it tries to prove the impact of policy, training and experience, and location. It should also be understood that MSEs studied are established/motivated by government's initiation in industrial zones which is different from the above studies and are supposed to have market linkage with Housing Development Agency(HAD) which is responsible for the current condominium construction project.

CHAPTER 3: METHODOLOGY

The method that is implemented for the research is a case study. It is used deliberately because it is efficient to achieve the objectives of the research. Hence, adopting this method will enable the researcher to investigate deeply the major challenges and constraints of MSEs under the selected sub-cities.

3.1 Sampling Technique and Sample Size

There were about 23 industrial zones in the ten sub-cities in Addis Ababa. Among them were selected two industrial zones in different sub-cities namely; Ras Imiru industrial zone in Arada Sub-city, and Lafto industrial zone in Nifas-silk lafto sub city. Hence, the sampling method that will be employed is non-probability sampling technique. Non-probability sampling method is selected due to the fact that the problem was widely seen in Lafto industrial zones and, in doing so; comparative analysis was made with Ras Imiru industrial zone to assess the impact of location that points the gap between them. Being the case probability sampling method was not used in its weakness of generalizability since the problem is spotted in bold in some zones comparable to others vis-à-vis to the issue under investigation. But in specific cases to select operators from the two zones random assignment i.e. probability sampling method was employed. In Ras Imiru zone there were about 90 industrial zones where as in Lafto there were about 100 industrial zones. From both industrial zones 40% of their respective enterprises were contacted since it could be a better representative of all the enterprises. That is a total of 76 enterprises: 36 from Ras Imiru and 40 from Lafto were surveyed.

3.2 Data collection

To discover the challenges and constraints of MSEs in the case areas, three methods of data collection were used.

3.2.1 Questionnaire

To collect the necessary information from the sample population, 2 sets of questionnaire containing both open-ended and closed-ended types were designed and administered to operators in both industrial zones. This method of data collection is used because of the nature of questionnaire for a wide coverage of many respondents and it can be easily quantified and analyzed.

3.2.2 Interview

As it is helpful to air out the research problem intensively and to generate valuable alternative possible solutions, interview was used since it is a best resort that comprehensive information will be gathered. In this course of action, extension workers from each selected zones and government officials from Micro and Small enterprise development departments were chosen. Interview was framed in a manner that all respondents could provide valuable information on the challenges and constraints of MSEs and give solution on how to exploit the opportunities created much further. For questions that need auxiliary explanations, in depth interviews were held to identify the problems from the scratch.

3.2.3 Observation

The other data collection method that was implemented in this study is field observation. It was employed since the researcher can get the chance to practically see the problem in reality. Hence, the working environment of industrial zones in each sub-city are observed and reported. Simultaneously, the place where these operators stock up their finished products as well raw materials were also observed. Furthermore, to what extent the sites provided by the city administrator in the industrial zones is occupied by the operators was checked and administered in the observation check list assuming that it indicates convenience of the operators with the business environment. As book keeping is one means of assuring the literacy level of operators, it was also checked out.

During the time of observation, infrastructural developments in the working sites were assessed.

3.3 Data Organization and Analysis

The information that is collected from the questionnaire and observation was organized and analyzed by giving value against each choice to show how many of the respondents belonged to a given response. Then after, qualitative analysis for each quantitative value given is done. In analyzing the data from the questionnaire for open-ended questions, from interviews, common terms and expression, recurrent ideas, and similar responses given by the participant was used. In the observation check list, too, similarly observed enterprises will be taken and qualitative analysis will be given based on the list.

3.4 Statistical Tools

In this study, statistical tools like, mean, mode, ratio and percentage were employed to analyze the data that was collected from questionnaire and interviews. Regression analysis was also implemented as it shows the relationship between variables and to explore the impact of certain variables on the other.

3.5 Model specification

Multiple regression analysis, as aforementioned, is the method to be used in the study since it is a best method to indicate the relationship between variables. According to Mwamje and Gotu (2001: 162) regression analysis as a descriptive tool is used to:

- find the best linear prediction equation and evaluate its prediction accuracy;
- control for other confounding factors so as to evaluate the contribution of a specific variable or a set of variables; and
- find structural relations and provide explanations for rather complex

multivariable relationships

The essence of the model on a data set is to establish whether there is sufficient evidence to suggest or indicate a relationship between one dependent variable(Y) and several independent variables (Xi's). The relationship between y and (X1, X2, X3.....xp) can be formulated as a linear model written:

$$Yj = Bo + B1X1j + B2X2j + B3X3j + ...+BpXpj + ej$$

Where:

$Yj = j^{th}$ value of Y, that is average sales per month (in Birr) for the past 6 months
Bi, j =0, 1 ...P= the population of partial regression coefficients (or simply the regression coefficients),
$Xij = j^{th}$ value of the Xi^{th} explanatory /independent variables (see next section)
$ej = j^{th}$ value of the random disturbance or error
Bo = the Y-intercept (the regression constant)

It is assumed that the equation provides an acceptable approximation of the true relationship between Y, the response variable and the explanatory variables (X1, X2, X3...Xp), that fall within the range of the survey data.

For the purpose of testing hypotheses about the values of model parameters, the linear regression model also assumes the following:

- The error term has a normal distribution with a mean of 0.
- The variance of the error term is constant across cases and independent of the variables in the model. An error term with non-constant variance is said to be heteroscedastic.
- The value of the error term for a given case is independent of the values of the variables in the model and of the values of the error term for other cases.

3.6 Definition of the variables used in the regression equation

A. **Age (young)** (continuous variable). In the regression equation it is assumed that age of the respondent (being young) will have a significant positive coefficient. This is because they are known to be more proactive, dynamic, innovative, and risk takers than other parts of the adult population.

B. **Education level** (ordinal variable with values 0 = Illiterate, 1= below secondary school, 2= Secondary school complete, 3= Diploma, 4=University degree). As is said before education is presumably related to knowledge and skills, motivation, self-confidence, problem soling ability, commitment and discipline. The regression equation, however, assumes that education has insignificant effect on sales since MSEs absorb less educated entrepreneurs who are unable to join in formal sector.

C. **Experience in the sector** (a dummy variable where 1= the respondent had previous experience in the sector and 0= the respondent do not have previous experience in the sector). The regression equation assumes that entrepreneurs who have previous work experience will have high probability to increase their sales since they may have sector-specific know how and adaptation with the business environment.

D. **Skill in the sector** (a dummy variable where 1=the respondents have skill in the sector and 0= have no skill in the sector): the regression equation supposed that operators who have acquired skill through training, experience, or education will have high chance of increasing their sales than those who do not have.

E. **Capital** (continuous variable). The regression equation assumed that initial capital has direct relationship with sales. In that regard it is

hypothesized that those enterprises that have relatively higher capital will have higher sales volume than those that have less.

F. **Location** (dummy variable where 1= enterprises in Ras Imiru zone and 0= enterprises out side this zone): in the equation it is assumed that enterprises in Ras Imiru zone have access to raw materials, market and transportation that enables them increase their sales as it is found in strategic position.

G. **Government intervention** (a dummy variable where no/minor influence from the government =0 and 1 for those enterprises with government influence). The regression equation assumes that those enterprises that have government influence (for example, government regulation and sales restriction) have less probability of selling their products than those who don't.

H. **Business Development Service** (a dummy variable where 1= enterprises with business development service, 0= for those enterprises without this service). In the equation it is assumed that entrepreneurs who have got business development service (workshops, Trainings, Advise, Business Counseling, and Mentoring etc.) have high propensity to increase their sales than those who don't.

CHAPTER 4: DESCRIPTION OF THE STUDY AREAS

In 1994, Ethiopia has adopted a new constitution that organizes the country under a federal structure. Currently, the country is divided into nine National Regional States and two Special City Administrations, namely Addis Ababa and Dire Dawa. Under this constitution, the states, mostly organized on ethnic and language lines, enjoy great autonomy. In particular, the states can "formulate and execute economic, social and development policies, strategies and plans, ... administer land and other resources, ... levy and collect taxes", etc. (Federal Negarit Gazeta, 1995).

Addis Ababa, the capital city of Ethiopia, is situated at 2408 meters above sea level. It is located at 9° 02' North latitude and 38° 45' East longitude. Until recently, Addis Ababa was organized into 28 woredas (districts) and more than two hundred kebeles. However, in 2002, the provisional government of the city has implemented a new structure that organizes the city into 10 sub-cities which constituted 183 urban and 20 rural kebeles throwing out weredas. These sub-cities are known as – Arada sub-city, Lideta sub-city, Nifas silk lafto sub-city, Bole sub-city, Addis Ketema sub city, Kolfe keranio sub-city, Akaki kality sub-city, Yeka sub-city, Gullele sub-city and Cherkos sub-city (See the map of Addis Ababa in Annex 5). The number of kebeles has also been reduced to 103.

According to the organizational structure of the city administration, the kebeles report directly to the sub-cities. The sub-cities shoulder many of the responsibilities of the weredas and some of the responsibilities of city administration, which make them center of the public administration for Addis Ababa residents.

4.1 Arada sub-city and Ras Imiru Industrial Zone

Arada was founded together with the establishment of Addis Ababa during the reign of emperor Minilik II when the Arada St. George Church was built and the Menilik monument was erected. Studies indicate that during the establishment of Addis Ababa, many foreign merchants like the Arabs, Armens, and Turks etc settled in Arada and started business activities there. Therefore, it is one of the earliest settlements in the city.

Arada has been the nucleus of the city since the establishment of Addis Ababa and hence became the heart of the city where most of its frontal land could be used for business activities and is now becoming a Central Business District (CBD) area (Arada Sub-city Information Bureau, 2006). Moreover, with the increase in population overtime, there is no empty space or open field that will be used for further services.

Arada sub city is also located almost at the middle of Addis with a total area of 900.7 hectares inhabiting ten kebeles (See Annex 6). It had a total population of 330,053 in 1998 E.C. It boarders with Gulele sub-city from north, Yeka sub-city from the east, Cherkos sub-city from south, Lideta sub-city from south west and Addis Ketema sub-city from west. Within this sub city formerly established and known areas are found. Among them are: half side of Merkato, Gojam Berenda, Piazza, Georgis, Atikilt Tera, Arat Kilo, Sidist Kilo, and Jan Meda. Arada sub-city only contains urban kebeles while most of the other sub cities hold rural kebeles at their peripheries (Plan and Economic Office of Arada Sub city, 2004).

Table 6 Population and area of each Kebele in Arada sub-city

Number	Kebele	Area in hectares	Population in 1998 E.C
1	01/02	151	38923
2	03/09	95.3	38539
3	04/05	6	35262
4	06	66	21106
5	07/08	111	41097
6	10	39.4	22489
7	11/12	91	33148
8	13/14	133	42398
9	15/16	108	35267
10	17	100	22454
	Total	**900.7**	**330053**

Source: Plan and Economic Office of Arada Sub city (2004).

Ras Imiru industrial zone is found at 04/05 kebele which has 6 hectares and contains a total population of 35262 in 1998 count. This kebele covers Talian Sefer, Atikilt Tera and Gojam Berenda. In this industrial zone there are about 90 micro and small enterprises containing co-operative associations, sole proprietorship and partnership. Co-operative associations take the largest share in this zone with 28 associations. In this industrial zone there are no enterprises involving in construction production materials and the major activity in this zone are metal works and wood works.

Ras Imiru is the only industrial zone in Arada sub-city. This zone contains enterprises operators from all the kebeles in Arada sub-city. For all development activities going on in each kebele, materials necessary for the construction purpose are given to the respective enterprises that come from their kebeles. In that regard, moreover, priorities are given to MSEs in this industrial zone for any development activity in the sub-city (Arada Sub-city Information Bureau, 2006).

4.2 Nifas Silk Lafto Sub-city and Lafto Industrial Zone

As indicated earlier, Nifas silk lafto sub-city is one of the tenth sub-cities in Addis Ababa with a total population of 348,673 and a total area of 5819.76 hectare (Cultural and Information Bureau of Nifas Silk Lafto Sub-city, 1996). It has a population density of 75.46 per square km (See Annex 7). It is margined with Akaki Kality sub-city in east, Kirkos sub-city in North, Bole in North east, Kolfe Keranio in West and Oromia region in South.

Table 7 Population of each kebele in Nifas Silk Lafto sub-city

Number	Kebele	Population in 1998 E.C
1	01	10,401
2	02	25,204
3	03/04/05	48,659
4	06/07/08	49,431
5	09/14	45,516
6	10/18	51,049
7	11	27,159
8	12/13	30,418
9	15	27,159
10	16/17	33,677
	Total	**348,673**

Source: Cultural and Information Bureau of Nifas Silk Lafto Sub-city (1996).

Formerly, this sub-city had 21 Kebeles- 18 urban kebeles and 3 rural kebeles (Cultural and Information Bureau of Nifas Silk Lafto Sub-city, 1996). Presently, however, many of them are merged together and formed only 10 kebeles. This sub-city by itself can be considered as industrial zone since it is a place where many factories and garages exist. Moreover, it harbors about 27 Non-governmental organizations.

Lafto industrial zone is found in Lafto area in Kebele 15. Specifically, it is found at the left side where the straight asphalt road to Lafto ends. The total population of this kebele as of 1998 report was 27,159. In this industrial zone there are

about 100 enterprises in different fields and the major activities are construction materials production enterprises, metal works and wood works. Unlike Ras Imiru industrial zone there are combinations of operators and enterprises that come from other sub-cities especially Cherkos sub-city. Moreover, since this is the third industrial zone found in Nifas silk lafto sub-city, work distribution from each kebele, as opposed to Ras Imiru, is based on auction among many other private enterprises.

CHAPTER 5: ANALYSIS AND INTERPRETATION OF RESULTS

5.1 Entrepreneur and company information

5.1.1 Age, Gender and Martial status of operators

The demographic characteristics of an individual has important role on the entrepreneurial behavior and performance of business enterprises. Rutashobya and Olomi (1999) in their study on Tanzania found four factors that influence entrepreneurial ability and among them found demographic and personal characteristics: age, martial status, gender, educational level, size, ownership style and others

In view of that, questions were arranged to assess the demographic characteristics of MSEs operators in the two industrial zones. The survey results indicate that mean age of the surveyed operators is 30 and the age range extends from 20 as a minimum age to 55 years. Looking at the age category of the operators, 42 (55.3%) of the operators are found with the age category of 26-35 indicating that this sector absorbs highly the labor force population. The next largest percentage, 26.3% (20 out of the 76 operators) is within less than 25 years old which signifying that most MSEs are run and owned by young entrepreneurs Only 3 operators (3.9%) were found with the age category of 46 to 56.

With regard to the martial status, the majority of the respondents (61.8%) were not married followed by 38.2% who are married. Among those who are married the majority (58.6%) are found with the age category of 25-35. Subsequently, the majority (53.2%) of those who are not married are found within the same age category. There is no one who is not married with the highest age category of 46-56.

Table 8 Age, Gender and Marital status of entrepreneurs

			Martial status		Total
			married	not married	
Age category	<25	Count	4	16	20
		% within Martial status	13.8%	34.0%	26.3%
	25-35	Count	17	25	42
		% within Martial status	58.6%	53.2%	55.3%
	36-46	Count	5	6	11
		% within Martial status	17.2%	12.8%	14.5%
	46-56	Count	3	0	3
		% within Martial status	10.3%	.0%	3.9%
	Mean age of the operators				**30.13**
	Minimum age				**20**
	Maximum age				**55**
Gender	Male		23	37	60
			38.3%	61.7%	78.9%
	Female		6	10	16
			37.5%	62.5%	21.1%
Total		Count	29	47	76
		% within Age category	38.2%	61.8%	100.0%
		% within Martial status	100.0%	100.0%	100.0%

Source: Own survey (2006)

Coming to gender of the entrepreneurs 78.9% (60) of the operators were male while the rest 21.1% (16) were females demonstrating females participation in these business is considerably less. The low level of involvement on the side of females may be accredited to the fact that this sector requires strong physical force. Other determinant factors like socio-cultural attitude that women can not engage in this sector also constrains women participation. Referring the findings of Wolday and Gebrehiwot (2004) also substantiates that women participation in the manufacturing MSEs is very low. The survey result also points that among those 16 females 10 of them and out of the 60 males 37 (61.7 %) were not married.

5.1.2 Type of Enterprises and ownership in each industrial zone

As can be seen from the table below wood works and metal works seem to be preferred way of business in both industrial zones for 39 (out of 76) enterprises - 15 and 24 in Lafto and Ras Imiru zones, respectively. This can be an indicative of the fact that such enterprises do not demand high capital and as well may not require sophisticated skills as construction materials production. Coming to the context of ownership style, all the construction materials production enterprises owned by co-operative associations were only found in Lafto industry zone. Whereas 28 (71.8%) of enterprises with wood and metal works were largely owned by co-operative associations in both industry zones. This number is even higher in Ras Imiru industrial zone with 91.7 %(22) of the enterprises with co-operative associations of the total 24 associations.

The motive behind the high co-operative ownership rate in both zones may be attributed to the fact that government officials have put forward formulating associations as a primary criterion to give production sites. What's more, the focus of the Housing Development Agency (HDA) to form market linkage with associations has also initiated these enterprises to seemingly exist as associations. This fact was evident in the time of data collection where a limited number of operators much below the criteria to form association were found in their site.

Partnership style of ownership in both industrial zones is insignificant with 3 (2 in Lafto and 1 in Ras Imiru) in wood and metals works and wood works, respectively. Regarding metal works production only 50% of the enterprises in Ras Imiru zone were owned by sole proprietorship and the other half with co-operative. Where all metal works production (5 of them) in Lafto industry zone were occupied by co-operative associations alone.

Table 9 Type of enterprise and ownership in each industrial zone

Enterprise type			Name of industrial zone				Total	
			Lafto Industry Zone		Ras Imiru Industry Zone			
			Count	% age	Count	% age	Count	%age
Construction materials production	Type of ownership	co-operative association	11	100.0%			11	100.0%
	Total		**11**	**100.0%**			**11**	**100.0%**
Wood and metal works	Type of ownership	Sole proprietorship	7	46.7%	1	4.2%	8	20.5%
		co-operative association	6	40.0%	22	91.7%	28	71.8%
		partnership	2	13.3%	1	4.2%	3	7.7%
	Total		**15**	**100.0%**	**24**	**100.0%**	**39**	**100.0%**
Metal works only	Type of ownership	Sole proprietorship	0	.0%	3	50.0%	3	27.3%
		co-operative association	5	100.0%	3	50.0%	8	72.7%
	Total		**5**	**100.0%**	**6**	**100.0%**	**11**	**100.0%**
Wood works only	Type of ownership	Sole proprietorship	2	22.2%	3	50.0%	5	33.3%
		co-operative association	7	77.8%	2	33.3%	9	60.0%
		partnership	0	.0%	1	16.7%	1	6.7%
	Total		**9**	**100.0%**	**6**	**100.0%**	**15**	**100.0%**

Source: Own survey (2006)

For the sake of simplicity the following figure presents type of enterprises in each zone.

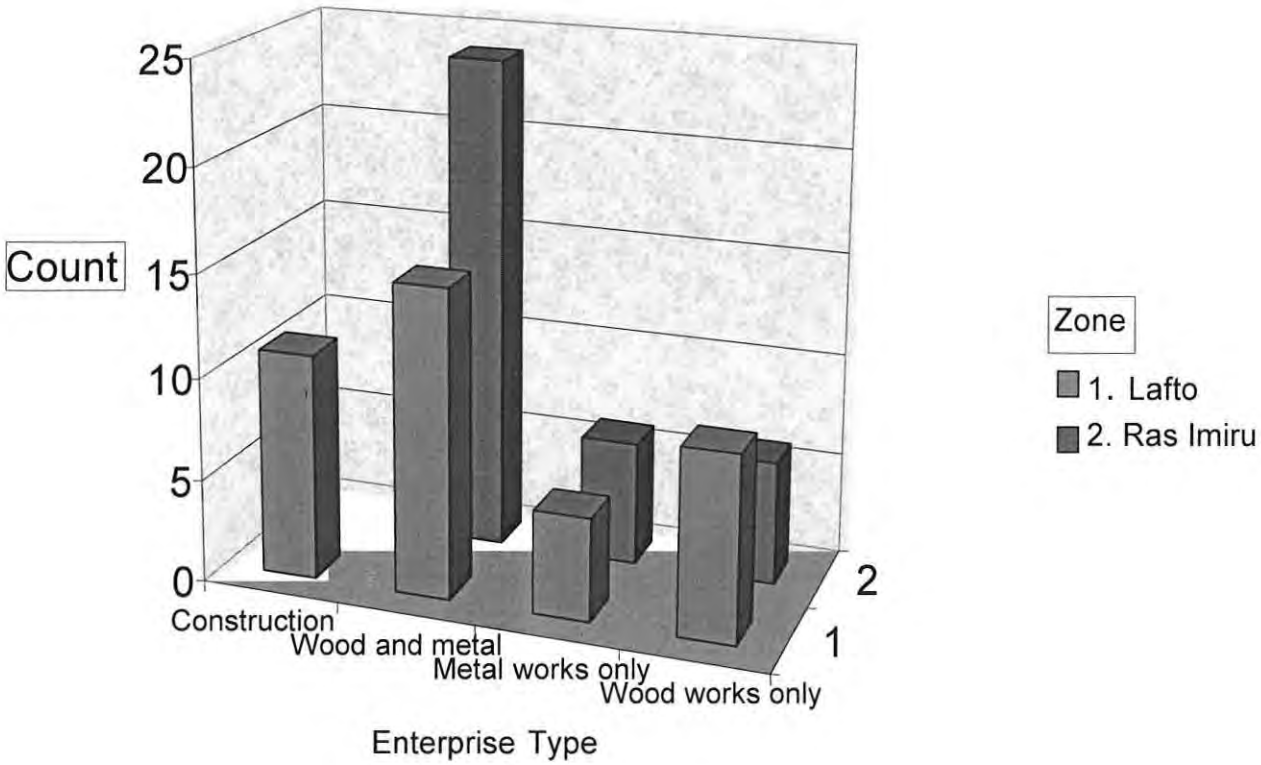


Figure 2 Type of enterprise in each industrial zone
Source: Own survey (2006)

Yet the largest share (77.8%) of wood works only in Lafto industrial zone is taken by co-operative associations. The rest (22.2%) were owned by sole proprietorship. Wood works production only in Ras Imiru were mainly (50%) owned by sole proprietorship followed by 33.3% and 16.7% in co-operative and partner ship. For the sake of simplicity, types of owner ship of enterprises are displayed below in pie charts. The following figure depicts type of ownership of enterprises in both industrial zones.

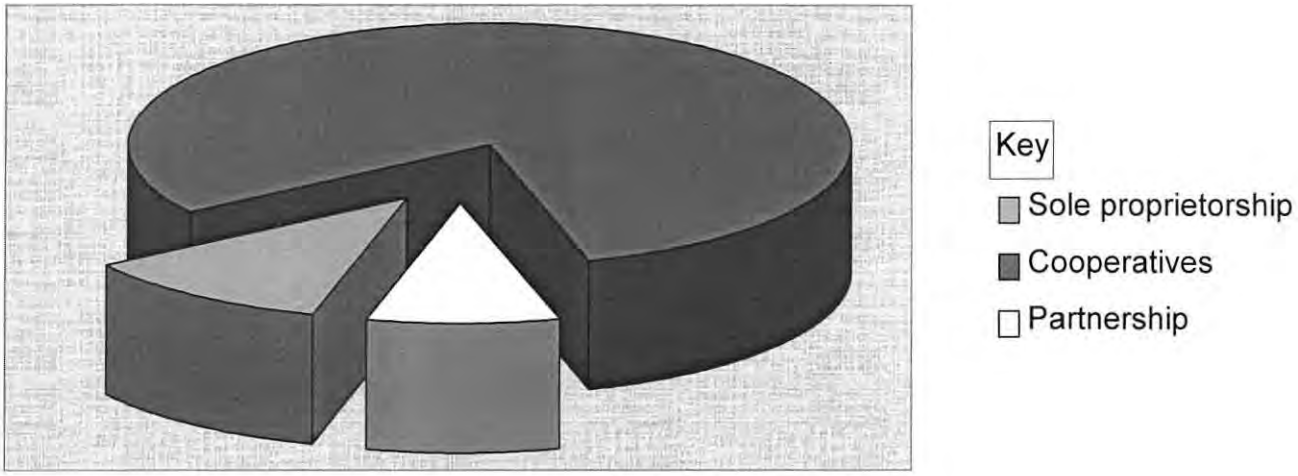


Figure 3 Ownership of enterprises
Source: Own survey (2006)

5.1.3 Education and Previous occupation

Education and background experience are indispensable for the growth of enterprises. Different researches & international exposure has also shown the relevance of education and/or training and its direct linkage with productivity (ECA, 2001). The survey results for the level of entrepreneurs' education showed that almost half (46.1%) of them have completed secondary school followed by 35.5% below secondary school. Only one individual in Lafto has got degree. Less number (14.5%) of individuals have attended higher education and got diploma with almost equal share in both industrial zones. This could be indicative of the fact that the sector does not require any special skill to get involved in it. Hence, it is widely claimed that, relative to large firms, MSEs are more labor – intensive; that is, they employ more labor relative to capital than large enterprises producing similar products.

The sector draws large number of individuals (46.1%) who have completed secondary school pointing towards that MSEs are alternative ways for those who cannot or possibly do not want to continue further education. Even in many

African countries the largest share of young population of which the uppermost are school leavers employ themselves in this sector since they fail to enter the labor market (Mulat and Wolday, 1997). The other factor can also be attributed to the ease entry and less educational requirement of the sector as most of them employ labor intensive technologies.

Table 10 Education level and previous experience of entrepreneurs

		Name of industrial zone				Total	
		Ras Imiru Industry Zone		Lafto Industry Zone		Count	Col %
		Count	%age	Count	%age		
Education level	Below secondary school	13	36.1%	14	35.0%	27	35.5%
	Secondary school complete	18	50.0%	17	42.5%	35	46.1%
	Diploma	5	13.9%	6	15.0%	11	14.5%
	Degree			1	2.5%	1	1.3%
	Other			2	5.0%	2	2.6%
	Total	36	100%	40	100%	76	100%
Occupation before starting this business	Unemployed (after leaving school)	2	5.6%	1	2.5%	3	3.9%
	Unemployed (retrenched from a public sector)			2	5.0%	2	2.6%
	Daily wage laborer			4	10.0%	4	5.3%
	In school (learning)	1	2.8%	2	5.0%	3	3.9%
	Working in public sector			2	5.0%	2	2.6%
	Employed in similar business	27	75.0%	12	30.0%	39	51.3%
	Employed in unrelated business	5	13.9%	7	17.5%	12	15.8%
	Running unrelated business	1	2.8%	5	12.5%	6	7.9%
	Working on unpaid family business			1	2.5%	1	1.3%
	House wife			3	7.5%	3	3.9%
	Other			1	2.5%	1	1.3%
	Total	36	100%	40	100%	76	100%

Source: Own survey (2006)

However we say so, it is interesting to learn that prior experience has a considerable contribution for accelerating the business performance. This being the case that a good proportion of (51.3%) operators had past experience and been employed in similar businesses before starting these businesses. Out of

39, 27 of them were, however, in Ras Imiru zone and the remaining 12 in Lafto (See the graph below). This appears the fact that a highly energetic work is conducted in Ras Imiru zone as opposed to Lafto where a large number of associations bunged due to lack of experience in job they involved. The rest of the entrepreneurs (15.8%) have found these businesses either alternative or profitable since they were primarily running or employed in another business.

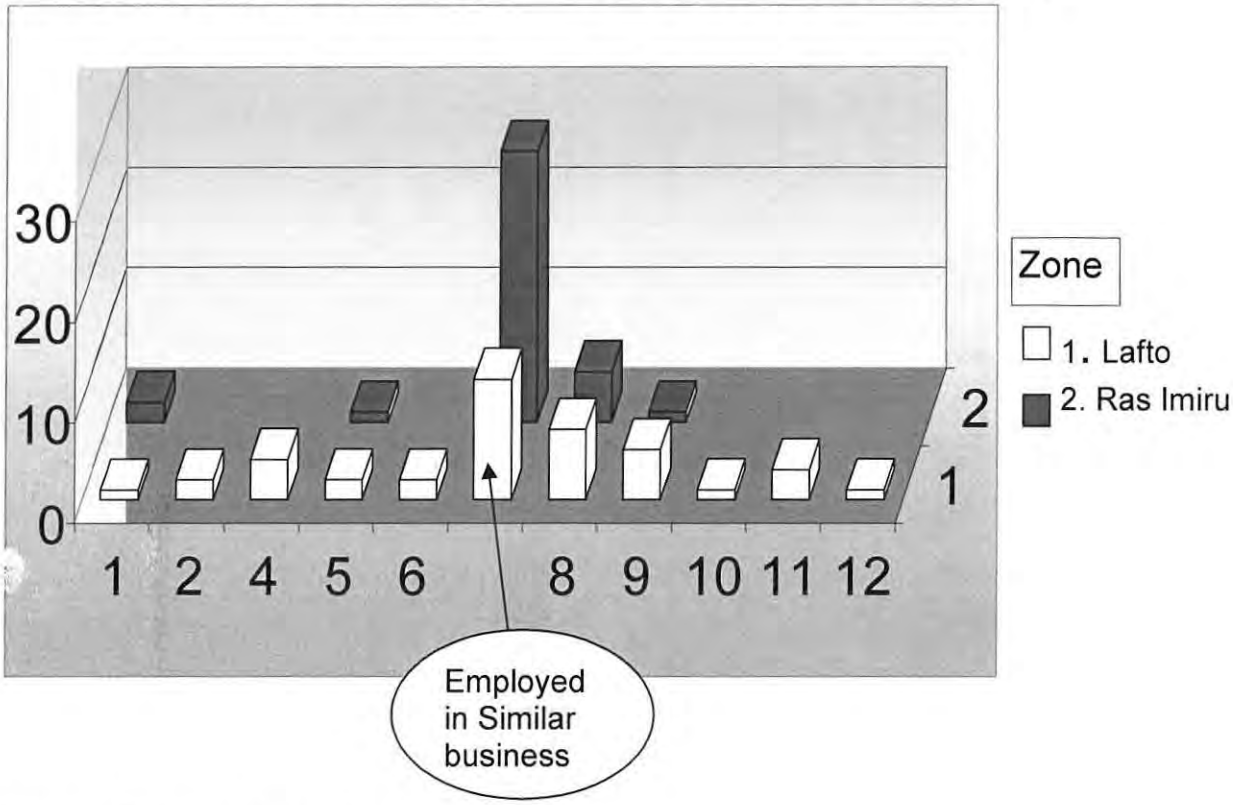


Figure 4 Previous experiences
Source: Own survey (2006)

5.1.4 Initial and total capital of enterprises

As stated earlier defining the size of enterprises is very important to study and understand the problem of MSE operators. Based on the definition of Ministry of Trade and Industry (MoTI, 1997), the results from the survey show that over half, 56.6% (43) of the total enterprises are micro enterprises since their capital is less than 20,000 birr. This number is disaggregated to 23 and 20 in Lafto and Ras Imiru industrial zones respectively. The remaining percentage (43.4%) is assigned to Small enterprises. The next largest percentage (19.7%) of capital of

enterprises was found between 20000-48249 ranges (See the graph below). Only one enterprise (1.3%) in Lafto industrial zone has the highest capital range between 246000-274249 while no one has this capital in Ras Imiru zone.

Table 11 Initial capital

Initial capital	Name of industrial zone				Total	
	Lafto Industry Zone		Ras Imiru Industry Zone			
	Count	%age	Count	%age	Count	%age
<20000	23	57.5%	20	55.6%	43	56.6%
20000 - 48249	4	10.0%	11	30.6%	15	19.7%
48250 - 76499	1	2.5%	4	11.1%	5	6.6%
76500 - 104749	3	7.5%	0	.0%	3	3.9%
104750 - 132999	4	10.0%	0	.0%	4	5.3%
133000 - 161249	4	10.0%	1	2.8%	5	6.6%
246000 - 274249	1	2.5%	0	.0%	1	1.3%
Total	40	100.0%	36	100.0%	76	100.0%

Source: Own survey (2006)

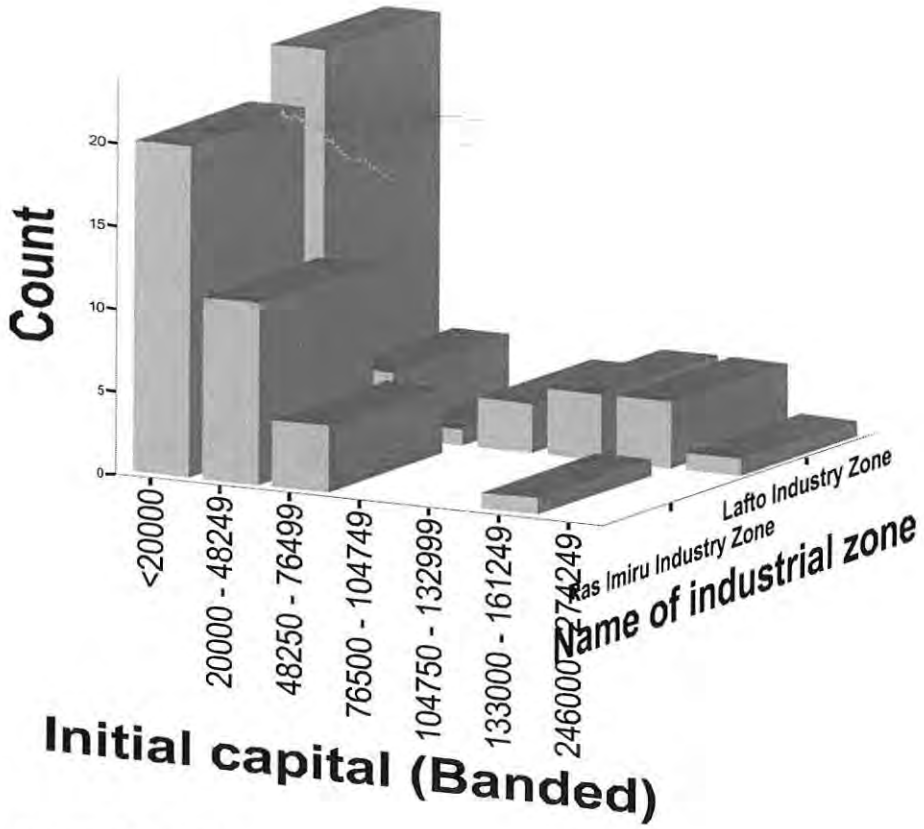


Figure 5 Initial Capital
Source: Own survey (2006)

Current capital of enterprises was asked to know the change in growth of enterprises in terms of size of capital. In that regard current capital of the enterprises put in use to observe the change from initial capital. The table below explains the fact that the same percentage of micro enterprises (56.6%) are still in the same category. In comparison to reports from initial capital there is no as such an increase in the current capital. Ceteris paribus, this might be an indicative of the fact that there are some constraining factors for growth of capital as most of the enterprises are established in more or less same time period. This complies with surveys done across Africa that shows less than 1% of firms 'graduate' from the micro-enterprise seedbed and become established enterprises(Rogerson,2001). Only one enterprise in Lafto has got more than 358,989 capital in birr.

Table 12 Current Capital of enterprises

Total capital (Banded)		Name of industrial zone		Total
		Lafto	Ras Imiru	
<= 20000.00	Count	21	22	43
	Col%	52.5%	61.1%	56.6%
20001.00 - 48249.00	Count	6	8	14
	Col%	15.0%	22.2%	18.4%
48250.00 - 76498.00	Count	1	4	5
	Col%	2.5%	11.1%	6.6%
76499.00 - 104747.00	Count	3	1	4
	Col%	7.5%	2.8%	5.3%
104748.00 - 132996.00	Count	3	0	3
	Col%	7.5%	.0%	3.9%
132997.00 - 161245.00	Count	4	1	5
	Col%	10.0%	2.8%	6.6%
161246.00 - 189494.00	Count	1	0	1
	Col%	2.5%	.0%	1.3%
358989.00+	Count	1	0	1
	Col%	2.5%	.0%	1.3%
Total	Count	40	36	76
	Col%	100.0%	100.0%	100.0%

Source: Own survey (2006)

5.1.5 Sales of enterprises in each industrial zones

As shown in Table 13 below 75 %(36) of monthly sales of all enterprises are found with in the category of 501-13250. This number is aggregated to 20 in lafto and 16 in Ras Imiru. The second largest percentage (12.5%) of enterprises sales range is between 13251-26000. the table also indicated that sales made above the range of 13251-26000 is dominated by Ras Imiru zone operators than Lafto. Other things remain the same, it can be said that enterprises in Ras Imiru zone has a better chance of making sales as they are found in a strategic location.

Table 13 Average monthly sales during the past 6 months

Average monthly sales (Banded)		Name of industrial zone		Total
		Lafto	Ras Imiru	
<= 500	Count	1	1	2
	Col%	4.5%	3.8%	4.2%
501 - 13250	Count	20	16	36
	Col%	90.9%	61.5%	75.0%
13251 - 26000	Count	0	6	6
	Col%	.0%	23.1%	12.5%
38751 - 51500	Count	1	2	3
	Col%	4.5%	7.7%	6.3%
64251+	Count	0	1	1
	Col%	.0%	3.8%	2.1%
Total	Count	22	26	48
	Col%	100.0%	100.0%	100.0%

Source: Own survey (2006)

5.1.6 Sales of enterprises and capital in each industrial zones

Many studies showed that MSEs do not get enough rate of return which makes them earn less profit. The survey result also shows a good proportion of the enterprises (52.1%) get a less than 30% rate of return on their capital. This percentage is higher in Lafto where 68.2% of all the enterprises get less than 30% rate of return on their capital. Closure of many enterprises in Lafto industrial zone may be indicative of the fact than they earn less profit as well demand for their products is minimal. In Ras Imiru zone, however, the largest proportion of enterprises get more than 30% rate of return on their capital. More over, in general the largest percentage in rate of return is earned by enterprises in Ras Imiru industrial zone compared to Lafto industrial zone.

Table 14Sales of enterprises and capital in each industrial zone

Sales/capital in percent		Name of industrial zone		Total
		Lafto Industry Zone	Ras Imiru Industry Zone	
<= 30	Count	15	10	25
	Col%	68.2%	38.5%	52.1%
30 – 358	Count	6	12	18
	Col%	27.3%	46.2%	37.5%
359 – 686	Count	1	2	3
	Col%	4.5%	7.7%	6.3%
687 – 1015	Count	0	1	1
	Col%	.0%	3.8%	2.1%
1671+	Count	0	1	1
	Col%	.0%	3.8%	2.1%
Total	Count	22	26	48
	Col%	100.0%	100.0%	100.0%

Source: Own survey (2006)

Attempt has also been made to realize the relationship between sales and capital in both industrial zones (See the line graph below). As can be understood from the survey enterprises with less than 20000 capital had constantly sold between 500 and 20000 monthly sales in average during the past 6 months. A much observed relationship in the survey clarifies that as capital increases from 20000 birr to 70000 birr sales also increases to 51500 birr in average per month. However, with a decrease in capital, sales also increase up to 64251 birr per month in average during the past 6 working months. Generally, it can be said that in order to make sales greater than 20000 birr more capital (i.e. greater than 20000) should be involved signifying that sales will also increases with increase in capital.

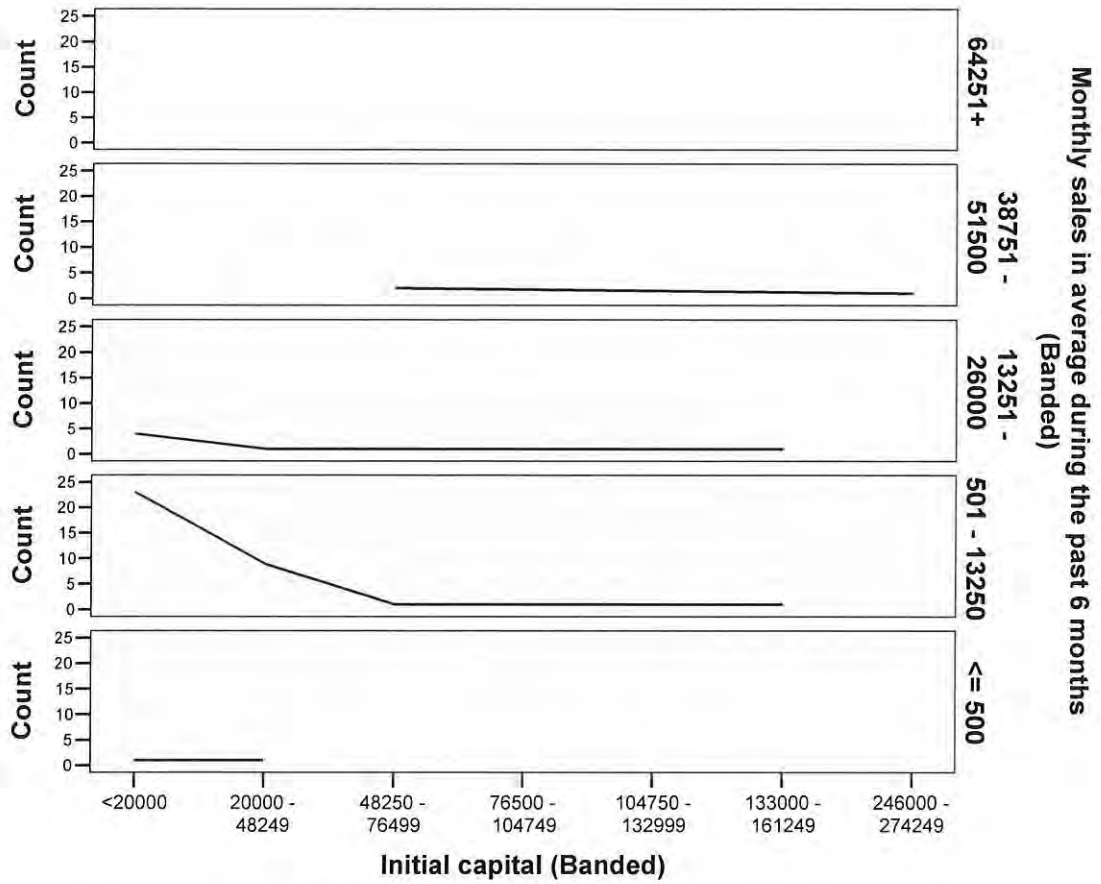


Figure 6Capital and sales relationship
Source: Own survey (2006)

Comparison of capital with crude sales volume might mislead and urged us to conclude that higher capital leads to higher sales disregarding the rate of return sales on capital. Hence, it would be logical to calculate sales of enterprises with their capital. Doing this might point out the status of the enterprises simultaneous to the general market situation. The rate of return table, hence, shows the largest proportion (52.1%) of enterprises get less than <30% rate of return weigh against their capital. The next higher percentages (37.5%) get from 30-358% return on their capital. Only 5 enterprises' rate of return is greater than 358%. It is interesting to comprehend a basic teaching point from the survey that exhibit rate of return of enterprises is irrespective of their capital in this sector. All enterprises with larger capital fall under the minimal rate of return as opposed to micro enterprises that earn the highest rate of return

indicated in the survey. This acts in accordance with the study made by Liedholm and Mead (1999) in Southern Africa who find out that growth is independent of firm size. In general, it is agreed by many that the low rate of return attributed to the sector which totally count on market access is the explanation given to a liquidation and closure of many enterprises in many of the industrial zones in Addis Ababa.

Table 15Rate of return of enterprises

Rate of return (Sales/capital)		Total capital (Banded)								Total
		<= 20000	20001-48249	48250-76498	76499-104747	104748 - 132996	132997-161245	161246 - 189494	358989+	
<= 30	Count	10	8	1	2	1	1	1	1	25
	Col%	37.0%	66.7%	33.3%	100.0%	100.0%	100.0%	100.0%	100.0%	52.1%
30 – 358	Count	13	3	2	0	0	0	0	0	18
	Col%	48.1%	25.0%	66.7%	.0%	.0%	.0%	.0%	.0%	37.5%
358 – 686	Count	2	1	0	0	0	0	0	0	3
	Col%	7.4%	8.3%	.0%	.0%	.0%	.0%	.0%	.0%	6.3%
686 - 1015	Count	1	0	0	0	0	0	0	0	1
	Col%	3.7%	.0%	.0%	.0%	.0%	.0%	.0%	.0%	2.1%
1671+	Count	1	0	0	0	0	0	0	0	1
	Col%	3.7%	.0%	.0%	.0%	.0%	.0%	.0%	.0%	2.1%
Total	Count	27	12	3	2	1	1	1	1	48
	Col%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Own survey (2006)

5.1.7 Raw materials used, primary source of inputs and primary customers

The sector employs more labor and domestic raw material more intensively than the other sectors. The survey result for the type of raw materials used also confirms that more than half (55.3%); that is, 42 out of 76 enterprises use locally produced raw materials contrasting to 5 enterprises that use only imported raw materials. Out of those 5 enterprises 4 of them are from Ras Imiru while the remaining 1 is from the Lafto. The rest 29 enterprises (38.2%) make use of both locally produced and imported raw materials.

Wholesaler or large retailers found to be the major (71.1%) source of inputs followed by government projects, smaller and same size retailers, and large producers with 17.1%, 7.9% and 3.9% respectively. Regarding principal customers of the enterprises, private users (40.8%) and government projects (39.5%) are found to be the chief customers with almost equal share. Subsequently, smaller and same size retailers, larger producers, and wholesalers with 6.6%, 5.3% and 3.9% in that order. The prevailing gap between wholesalers as source of input and wholesalers as customers leads towards the notion that there is less back ward and forward linkage between the enterprises and wholesalers.

Table 16 Raw Materials used, primary customers and source of inputs

		Name of industrial zone				Total	
		Lafto Industry Zone		Ras Imiru Industry Zone		Count	Col %
		Count	Col %	Count	Col %		
Type of raw materials used	Locally produced raw materials	22	55.0%	20	55.6%	42	55.3%
	Imported raw materials	1	2.5%	4	11.1%	5	6.6%
	Both	17	42.5%	12	33.3%	29	38.2%
	Total	40	100%	36	100%	76	100%
Primary source of inputs	Wholesaler/larger retailer	21	52.5%	33	91.7%	54	71.1%
	Larger producers	3	7.5%			3	3.9%
	Smaller and same size retailers	4	10.0%	2	5.6%	6	7.9%
	Government Projects	12	30.0%	1	2.8%	13	17.1%
	Total	40	100%	36	100%	76	100%
Principal customers	Government projects	19	47.5%	11	30.6%	30	39.5%
	Wholesalers /larger retailers	1	2.5%	2	5.6%	3	3.9%
	Larger producers	2	5.0%	2	5.6%	4	5.3%
	Smaller and same size retailers	5	12.5%			5	6.6%
	Smaller & same size producers	2	5.0%	1	2.8%	3	3.9%
	Private users	11	27.5%	20	55.6%	31	40.8%
	Total	40	100%	36	100%	76	100%

Source: Own survey (2006)

The government project namely Housing Development Agency (HDA) was the major source of input especially for construction materials production enterprises

by providing cement and working premises. This being the case that it consumes all the products of construction materials production associations. These associations are predominantly restricted to sell products to other consumers than HDA. As indicated in the review part, the modern theory for MSEs discourages government regulations that restrict SME operations and entry into high-income markets which limits operators to produce with their full capacity. Hence, unless and otherwise MSEs have got autonomy on matters affecting their business it would be vain to say they contribute to the development of a country.

5.2 General Business Environment

5.2.1 Market situation and status of enterprises

The data produced from the survey indicates that by over half of the enterprises market absence seems one constraining factor for all in general. This is consistent with CSA (2003) report on small scale manufacturing industries survey which found out absence of market as a first major problem faced during the survey period. As indicated in the table 65% of industries in Lafto said they do have market problems while this is said by lesser percentage (52.8%) in Ras Imiru (See the graph below). The difference might arise from the fact that Ras Imiru is in a strategic location where market can be easily obtained from the surrounding business districts (Merkato and Piazza) as opposed to Lafto which is found at the out skirt of the city. Likewise, research by Mead & Liedholm (1998); mentioned in Rogerson (2001), come up with proximity to growing markets as a significant determinate of an enterprise's survival prospects.

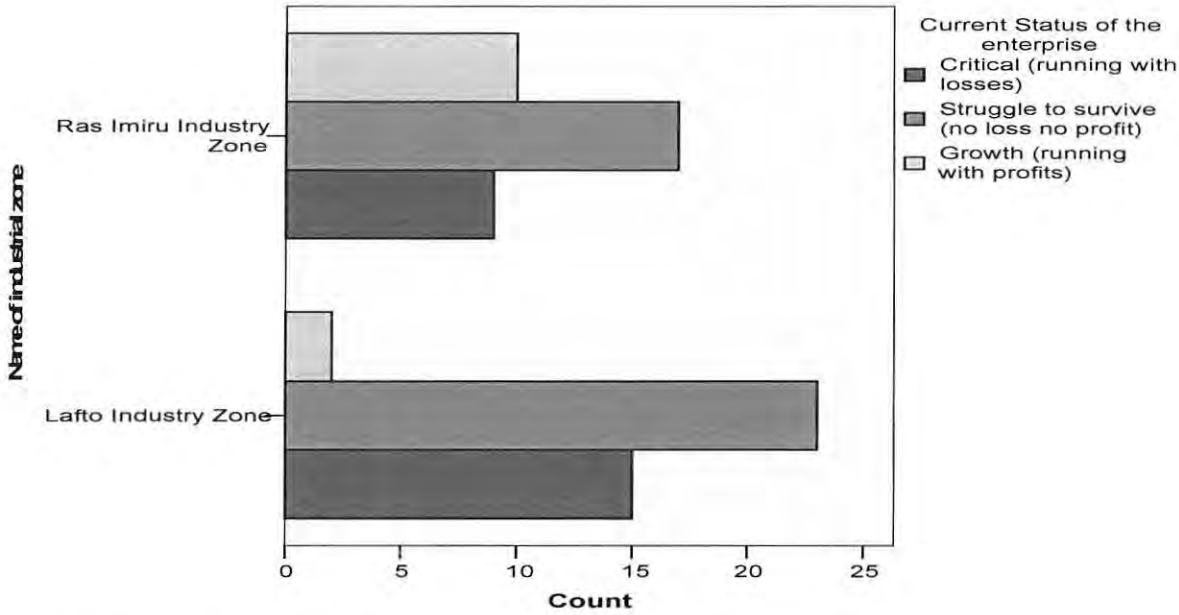


Figure7 Current status of enterprises
Source: Own survey (2006)

It is interesting to know the explanation for lack of market from the respondents and in that regard three major justifications among many others were given - market saturation, financial constraint, and absence of display/show room for their products. The majority (64%) of the respondents in Lafto provided market saturation as a major reason for lack of market tracked by absence of show/display room (24%) and financial constraint (8%). Market saturation, however, is not a rationale for Ras Imiru zone operators which may be backed by the above premise. Hence, absence of show room rather than market saturation is a principal reason with 61.9%, market saturation 28.6%, financial constraint and other causes with same percentage 4.8%.

Table 17 Market situation and status of the enterprises

		Name of industrial zone			
		Lafto Industry Zone		Ras Imiru Industry Zone	
		Count	Col %	Count	Col %
Market access	Yes	14	35.0%	17	47.2%
	No	26	65.0%	19	52.8%
Reason for lack of market	Market saturation	16	64.0%	6	28.6%
	Financial constraint	2	8.0%	1	4.8%
	Absence of show/display room	6	24.0%	13	61.9%
	Other	1	4.0%	1	4.8%
Trend of sales the past 6 month	Increasing	3	8.3%	7	20.0%
	Stayed the same	13	36.1%	15	42.9%
	Decreasing	13	36.1%	7	20.0%
	Difficult to forecast	7	19.4%	6	17.1%
Current Status of the enterprise	Critical (running with losses)	15	37.5%	9	25.0%
	Struggle to survive (no loss no profit)	23	57.5%	17	47.2%
	Growth (running with profits)	2	5.0%	10	27.8%

Source: Own survey (2006)

In connection with market demand, trend of sales was asked that in Ras Imiru the largest percentage (42.9%) replied trend of sales stayed the same. In similar cases, 36.1% of the respondents in Lafto replied their sales trend stayed the same. The second largest percentage (20%) for trend of sales in Ras Imiru zone replied that their sale is increasing form time to time while only 8.3% of the enterprises in Lafto said the same and 36.1% replied decreasing and a lesser percentage(20%) in Ras Imiru zone. The remaining 19.4% for Lafto and 17.1% for Ras Imiru showed that it is very difficult to forecast the sales situation as their sale goes up and down and sometimes it is based on seasonal situations. Still the impact of location can be associated with the gap difference replied by operators for the increasing trend of sales in Lafto and Ras Imiru with 8.3% and 20%, respectively. This also applies for the current status of the enterprises as growth happens for only 5% of the enterprises in Lafto contrasting to 27.8% for Ras Imiru.

As revealed in the table below on the side of government bodies, Micro and small enterprise agency plan (1998), it can be verified that they are even unable to achieve their plan to find market linkage for MSEs in Addis Ababa for the year 1998. This may also be considered as extra basis for lack of market in MSEs.

Table 18 Micro and small enterprise agency plan (1998)

Activities	Indicator	Metal & wood works		construction	
		Planned	Actual	Planned	Actual
Market linkage	person	2300	1741	2750	2485
Training	person	19700	816	18025	748
BDS service	person	1095	284	1205	466

Source; Micro and Small Enterprise Agency (1998)

5.2.2 Constraints to the business

Generally speaking it can be concluded from the data that shortage of capital is the major constraint to the business with 46.1% followed by inadequate market with 34.2%. Zonal comparison, however, do not give the same report as such due to some factors like the one mentioned above. In Lafto Industry zone, for example, the majority 20 (50%) of the enterprises approved inadequate/uncertain market as a major constraint to their business which may be the very cause to the closure of many enterprises in the zone.

Table 19 Constraints to the business

The most important constraint to growth/expansion		Name of industrial zone		Total
		Lafto Industry Zone	Ras Imiru Industry Zone	
Shortage of capital	Count	11	24	35
	Col%	27.5%	66.7%	46.1%
Shortage of inputs	Count	1	2	3
	Col%	2.5%	5.6%	3.9%
Inadequate or uncertain market	Count	20	6	26
	Col%	50.0%	16.7%	34.2%
Inaccessibility of credit	Count	1	2	3
	Col%	2.5%	5.6%	3.9%
Borrowing cost (interest and other costs)	Count	1	0	1
	Col%	2.5%	.0%	1.3%
Inadequate business support services	Count	2	0	2
	Col%	5.0%	.0%	2.6%
Disagreement among members	Count	4	1	5
	Col%	10.0%	2.8%	6.6%
Other	Count	0	1	1
	Col%	.0%	2.8%	1.3%
Total	Count	40	36	76
	Col%	100.0%	100.0%	100.0%

Source: Own survey (2006)

Secondly, shortage of capital reported by 11 (27.5%) of the respondents (See the graph below). Contrary to this, market does not seem a sever constraint than capital in Ras Imiru zone. 66.7% (24 out of 36) replied shortage of capital as the most important constraint to the growth/expansion of their business. As they can provide their products to the nearby customers in Merkato and Piazza they give less attention to the market as a problem. However we say so, they reported market as a second problem by 16.7% (6) of the total respondents implying that market problem is a general to both enterprises. In third place disagreement among members of association could be cited as a problem for the growth of their business with 10% and 6.6% in Lafto and Ras Imiru zone correspondingly.

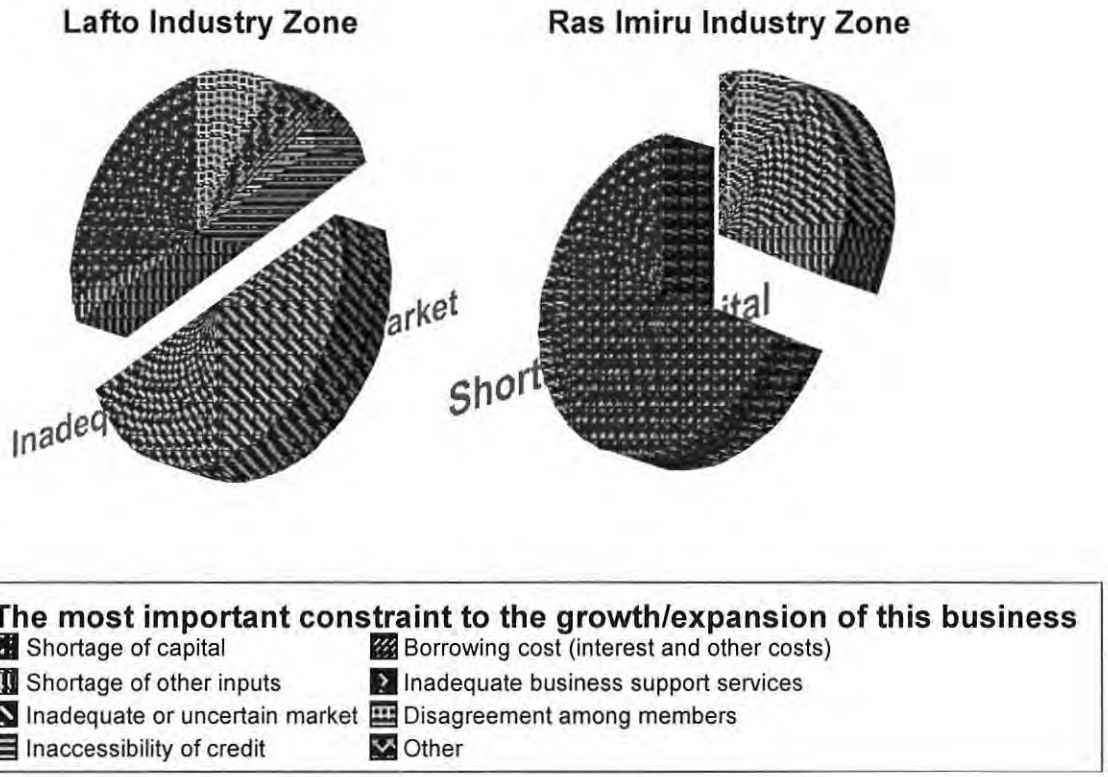


Figure 8Constraints to the business
Source: Own survey (2006)

5.2.3 Challenges of obtaining start up capital

As mentioned in the previous section, shortage of capital is found to be the first major constraint to all enterprises in general. In line with this, what challenges have been faced was the question that follow out. Out of 76 enterprises 52 of them were borrowed money from government micro-finance institutions namely Addis Micro Finance Institution. They inquired to state the challenges faced in start up financing if any. Accordingly, a good proportion (28.8%) of the enterprises replied that borrowing process is too difficult and one-fourth of the enterprises said high collateral requirement as a huge challenge to obtain

financing. This coincides with a study made by Fasika and Daniel (1997) who have made clear that lack of information and bankable collateral explain lack of access to formal credit for MSEs. Lack of confidence of repaying the money back to the borrowing institutions was also reported as challenge for obtaining start up financing in a third place. Interest costs and problems among co-operative members again reported with 11.5% of the enterprises each. The remaining (7.7%) were unable to know where to get finance. Only one enterprise has given another answer out of the given domain with 1.9%.

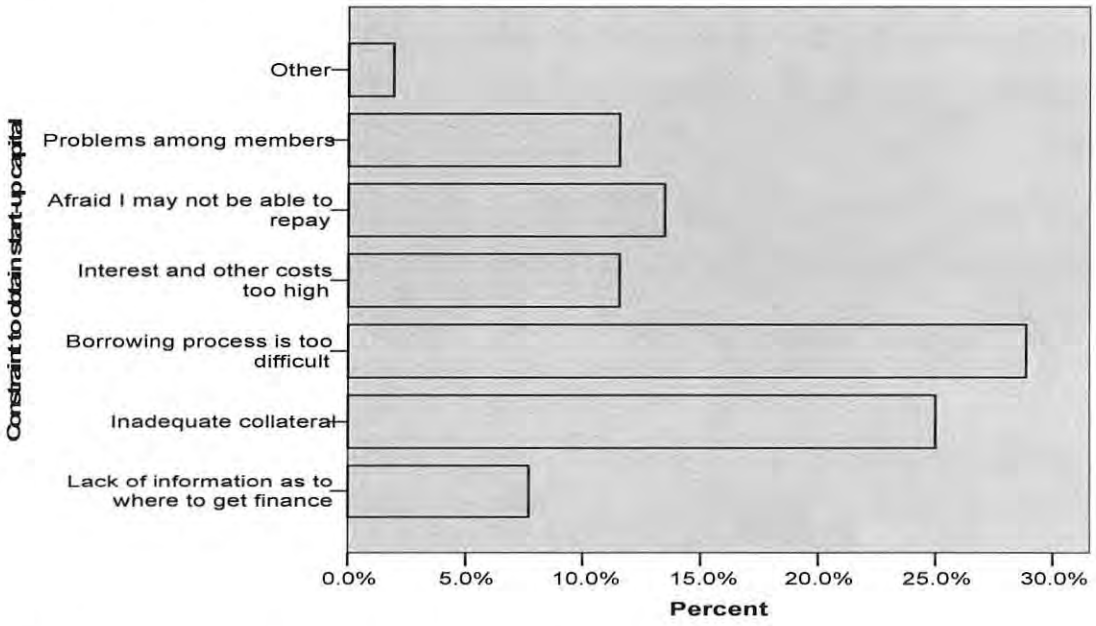


Figure 9 Constraint to obtain start-up capital

Source: Own survey (2006)

5.3 Impact of Infrastructure and Location on the two industrial zones

5.3.1 Business premises

In the initial stage of operation MSEs cannot meet the expense of business premises, Business Development Services (BDS) and initial investment. Moreover, finding a secure place to work which is affordable, well-located and with flexibility to accommodate business expansion is a challenge to all enterprises. As can be illustrated from Table 20 below, 49 (64.5%) of the

enterprises rented their business house from the government. 18 (23.7%) of the enterprises get their premises given by the government for free short-term stay till the completion of condominium house project. 7 enterprises leased their business house from the government for five years. The remaining 2 enterprises have provided other answer out of the domain. The involvement of the government in providing business premise with less rent expense should be appreciated as this remained a big constraint for MSEs operators for a long period of time.

How did you acquire the building/premise?

Table 20 Ownership of business premise

		Frequency	Percent
Valid	Rented	49	64.5
	Leased	7	9.2
	Given by the government	18	23.7
	Other	2	2.6
	Total	76	100.0

Source: Own survey (2006)

In assessing how much infrastructure related obstacles enterprises face, questions related to working premises, availability of electricity, transportation, and telephone were raised. In that regard, sizeable number of enterprises (about 80%) in each zone replied that they do not have enough production space for producing and storing their products. Inadequacy of availability of electricity was not found to be a problem for both industrial zones. However, the response in Lafto industrial zone for lack of electricity as a problem is higher than that of Ras Imiru (15% with that of 8.3% in that order). Some enterprises in Lafto told that they are forced to share electricity with their neighbors and lack of power happens when they use electricity simultaneously.

Table 21 Availability of infrastructure

			Name of industrial zone	
			Lafto Industry Zone	Ras Imiru Industry Zone
Inadequacy of production space as a constraint to the business	No	Count	8	7
		Col %	20.0%	19.4%
	Yes	Count	32	29
		Col %	80.0%	80.6%
Inadequate availability of electricity as a constraint to the business	No	Count	34	33
		Col %	85.0%	91.7%
	Yes	Count	6	3
		Col %	15.0%	8.3%
Inadequacy of availability of transportation as a constraint to the business	No	Count	5	26
		Col %	12.5%	72.2%
	Yes	Count	35	10
		Col %	87.5%	27.8%
Inadequacy of availability of telephone as a constraint to the business	Yes	Count	6	7
		Col %	15.0%	19.4%
	No	Count	34	29
		Col %	85.0%	80.6%

Source: Own survey (2006)

Concerning inadequacy of availability of transport, considerable numbers of enterprises (87.5%) in Lafto industrial zone have responded that they do have a problem of transportation as a constraint to their businesses while only 27.8% in Ras Imiru responded the same (See the graph below). Access to telephone is less likely a problem to the enterprises since the introduction and expansion of mobile phones have made communication faster.

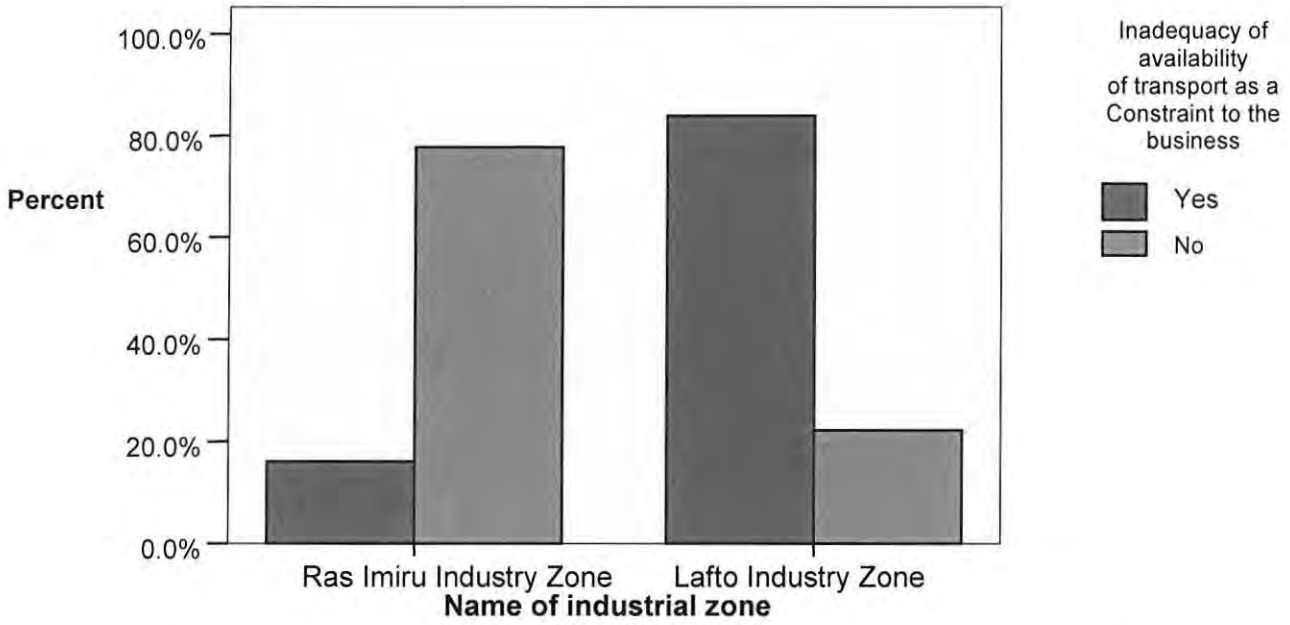


Figure 10 Inadequacy of availability of transportation as a constraint to the business
Source: Own survey (2006)

By and large, one basic conclusion can be drawn based on the above data which tells that lack of production space is a problem common to all enterprises. Whereas electricity is not considered as constraint to both zone enterprises. Concerning transportation, those in Lafto face a huge problem of transportation as they are in the outskirt of the city, and on the contrary since Ras Imiru operators are at the center where transportation is obtainable the do not report this as a problem. This implies that location is influential to business activity.

5.3.2 Production space

According to the representative of the enterprises, even though the recommended working place by manufacturing experts for pre-cast beam is 3,000m^2 and bricks production is greater than 2,000m^2, the mean working space for construction is 869 m^2 for construction materials production.

Table 22 Premise in m2

Enterprise type		Premise in m^2
construction materials production	Mean	869.09
	Minimum	700
	Maximum	1100
	Range	400
wood and metal works	Mean	72.92
	Minimum	40
	Maximum	160
	Range	120
metal works only	Mean	77.27
	Minimum	40
	Maximum	150
	Range	110
wood works only	Mean	76.53
	Minimum	60
	Maximum	180
	Range	120
Inadequacy of production space as a constraint to the business	Yes	15
	%age	19.7%
	No	61
	%age	80.3%

Source: Own survey (2006)

This is quite evident in Lafto industrial zone where construction materials production enterprises store raw materials and outputs out side their production compound. Moreover, most enterprises of this type are left with uncovered shades for their bricks to stay in shaded area for about 15 days which adds more strength to the brick. Before it gets to construction purpose it should also get water each day for 28 days. This nature of production process creates crowdedness whenever additional outputs produced. Other evident premise which led to the conclusion of lack of production space especially in metal and wood work enterprises is that many of them constructed roost/nesting box in their business either to store their raw materials or to station their office up there.

Hence, it would be realistic to say that the production space they get is not enough and this remains a constraint to these enterprises.

5.3.3 Distance traveled for inputs in the two industrial zones

As indicated from the survey report the result for distance traveled in km to acquire input is 2-5 kms for all Ras Imiru zone operators since they can easily access it from the nearby market – Merkato. Where only 12.5% in Lafto said they travel 2-5 km to get inputs and the rest (87.5%) travel more than 5 km to obtain raw materials. This designate Lafto Industry zone is far away from the market center. A good proportion enterprises (62.5%) travel 11-15 km and only two enterprises that produce construction materials travel 16-20 and 31-35 km since they buy white sand from Langano and Dukem and red sand and pebbles from Kaliti.

Table 23 Distance traveled for inputs

Name of industrial zone	Distance traveled in km		Enterprise type				Total
			construction materials production	wood and metal works	metal works only	wood works only	
Lafto Industry Zone	2-5	Count	2	2	1	0	5
		%age	18.2%	13.3%	20.0%	.0%	12.5%
	6-10	Count	1	3	1	3	8
		%age	9.1%	20.0%	20.0%	33.3%	20.0%
	11-15	Count	6	10	3	6	25
		%age	54.5%	66.7%	60.0%	66.7%	62.5%
	16-20	Count	1	0	0	0	1
		%age	9.1%	.0%	.0%	.0%	2.5%
	31-35	Count	1	0	0	0	1
		%age	9.1%	.0%	.0%	.0%	2.5%
	Total	Count	11	15	5	9	40
		%age	100.0%	100.0%	100.0%	100.0%	100.0%
Ras Imiru Industry Zone	2-5	Count		24	6	6	36
		%age		100.0%	100.0%	100.0%	100.0%
	Total	Count		24	6	6	36
		%age		100.0%	100.0%	100.0%	100.0%

Source: Own survey (2006)

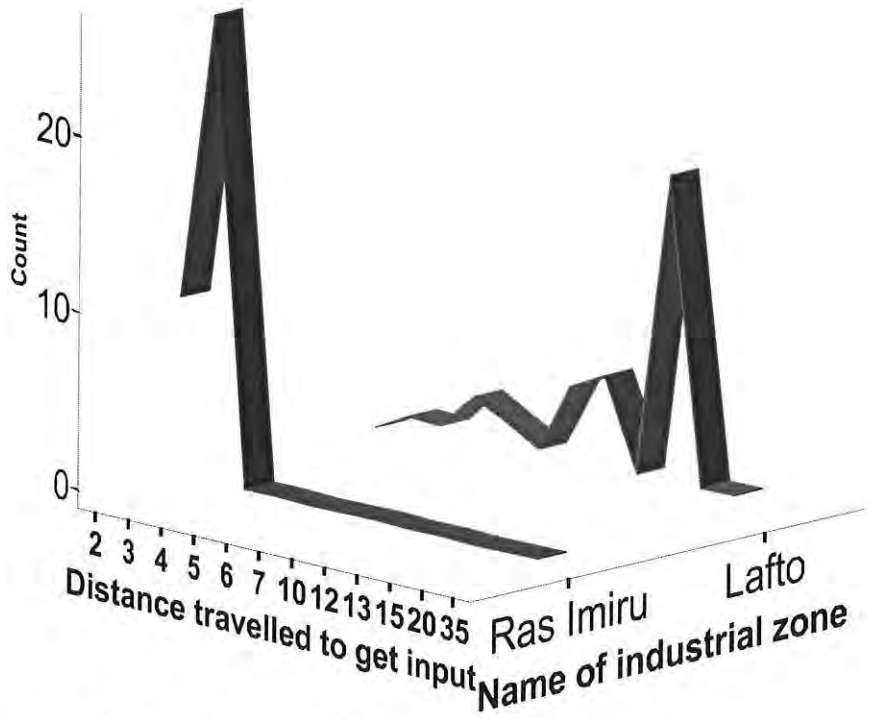


Figure 11 Distance traveled for inputs
Source: Own survey (2006)

5.3.4 Location impact on supplies provision

As described beforehand, Lafto Industry zone is found at the outskirt of the city and this possibly creates a problem in obtaining raw materials easily as well quickly from the market center. The above table illustrates that the largest part (62.5%) of the enterprises in Lafto travel 11-15 km whereas all enterprises in Ras Imiru travel only 2-5%. In view of that, enterprises in the two industrial zones were invited to put the extent of the difficulty of obtaining supplies if they considered that a problem.

Table 24 Impact of location

		Name of industrial zone			
		Lafto Industry Zone		Ras Imiru Industry Zone	
		Count	Col %	Count	Col %
Difficulty in obtaining Supplies	No problem	9	22.5%	26	72.2%
	Minor problem			2	5.6%
	Moderate problem	6	15.0%	6	16.7%
	Major problem	4	10.0%		
	Very severe problem	21	52.5%	2	5.6%
Total		40	100.0%	36	100.0%

Source: Own survey (2006)

Where only 22.5% of the enterprises in Lafto replied they do not have problem in obtaining supplies, the largest percentage (72.2%) of enterprises in Ras Imiru have answered the same, however. Conversely, only 5.6% of the enterprises in Ras Imiru explained obtaining supplies is a very severe problem, whilst this number is even higher by over half (52.5%) of enterprises in Lafto. This is a clear indication that Ras Imiru zone is found at strategic place where raw material supplies can be obtained easily as opposed to Lafto industry zone. See the report in the chart below for comparative analysis of the problem.

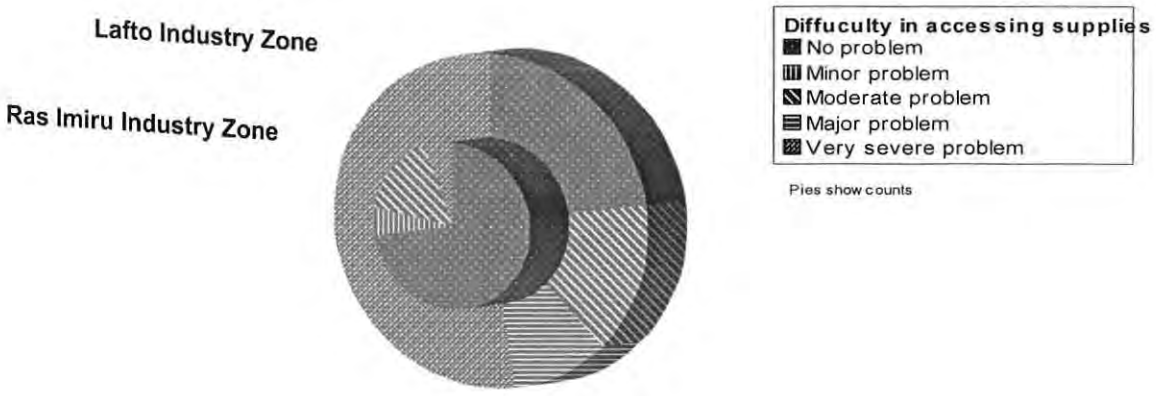


Figure 12 Difficulty in accessing supplies
Source: Own survey (2006)

5.4 Challenges in Rules and regulations

5.4.1 Rules and regulations

Questions concerning the impact of rules and regulations were asked instantaneous to the extent of the problems. In that regard, bureaucratic regulatory requirements/burden of the government appears a very sever problem for construction material producers and metal works by 45.5% and 63.6% of the respondents correspondingly. The second highest percentage (36.4%) in construction material producers pointed bureaucratic burden/requirements as moderate problem. In line with this, most of the cooperative association needed to have business license which enable them to be active participant in the competitive market and act privately, but they are restricted to hold that. About one-third of Wood and metal works and Wood works only enterprises have explained that they do not have faced any bureaucratic regulatory burdens. From this it can be generalized that construction materials production enterprises comparable to others are in sever influence of the government.

In relation to the intervention of government projects especially the Housing Development Agency; surprisingly, 100% of construction material production enterprises have replied that they do face a very sever problem on that. Contrarily, 100% of metal works only and wood works only have answered they have no problems on their side. Even 94.9% of wood and metal works enterprises have agreed they encountered no problem being under the influence of government projects.

Inability to sell their products for customers other than the Housing Development Agency is again pointed by 100% of construction materials production as a very sever problem. This seems no problem for wood works and metal works and wood works only by 94.9% and 92.3% in that order. This is due to the fact that they can provide their products to any customers other than the Housing

Development Agency contrasting to construction materials enterprises. For metal works only enterprises the rules appear equivocal since some are allowed to sell their products to any customer while others not. The survey also indicates that 33.3% of the enterprises reported they are not permitted to sell their products other than the housing development agency while the rest 66.7% said they can sell their products to any customer.

Some of the respondents have been providing their products to the Housing Development Agency and in that connection problem of high money retention by the agency occurred on them. Still this was reported as a problem for construction materials producers to the extent that it is a major problem for 27.3% and very sever problem for 72.7% of the enterprises. Even 51.3% and 45.5% of the enterprises replied as a sever problem for wood and metal works and metal works only in that order. Only 20% of wood works only enterprises reported money withholding (reported 25% of sales made to HDA) as a very sever problem while one-fourth of the enterprises have said they do not have a problem in that regard.

Table 25 Challenges in rules and regulations

Challenges	Extent of the problem	Enterprise type							
		construction materials production		wood and metal works		metal works only		wood works only	
		Count	Col %	Count	Col %	Count	Col %	Count	Col %
Bureaucratic regulatory requirements or burden	No problem	2	18.2%	29	74.4%	4	36.4%	11	73.3%
	Moderate problem	4	36.4%	1	2.6%			3	20.0%
	Major problem			2	5.1%				
	Very sever problem	5	45.5%	7	17.9%	7	63.6%	1	6.7%
Being under the influence of government projects	No problem			37	94.9%	11	100.0%	15	100.0%
	Very sever problem	11	100.0%	2	5.1%				
Inability to sell for other customers (private users)	No problem			32	94.1%	6	66.7%	12	92.3%
	Major problem			1	2.9%				
	Very sever problem	10	100.0%	1	2.9%	3	33.3%	1	7.7%
High money retention by housing agency	No problem			3	7.7%	1	9.1%	12	80.0%
	Moderate problem			8	20.5%	2	18.2%		
	Major problem	3	27.3%	8	20.5%	3	27.3%		
	Very sever problem	8	72.7%	20	51.3%	5	45.5%	3	20.0%

Source: Own survey (2006)

5.4.2 Challenges in predictability of rules and regulations

If challenges faced in unexpected rules, laws or policies which materially affect the enterprises were assessed and on that regard a huge number of construction materials production enterprises (63.6%) and metal works only enterprises (54.5%) have commented it as a challenge with which their activities are affected. However, this was not a challenge for higher share of enterprises in

wood and metal works (64.1%) and wood works only (66.7%). As shown previously, construction and metal works enterprises reported they face highly bureaucratic requirement or burden. Here also, they have shown that such a problem influences their enterprises.

With regard to the degree of predictability of changes in laws, rules and policies 53 out of 76 enterprises pointed that the changes are unpredictable. The extent of unpredictability with completely unpredictable is shown highly in construction materials producers, wood and metal works, metal works only and wood works only with 45.5%, 35.9%, 72.7% and 40% correspondingly. Only one enterprise from wood and metal works has said laws and regulations are completely predictable. From Wood works only enterprises, only two enterprises explained highly predictability of laws and regulations. In accordance with this entrepreneurs explained that inability of the government to keep the promise it made when they first organized and through time various rules which impede the performance; for example, restriction to make sales more 30000 birr by a single enterprise. By the same token, inconsistency of the rules as well their discriminative nature is cited

Coming to the fairly predictability of laws and regulations, from each enterprises less number – 2 out of 11 in construction, 15 out of 39 from wood and metal works, 1out of 11 enterprises from metal works and 2 out of 15 from wood works only - have replied described that laws and regulations concerning their enterprises are fairly predictable.

Table 26 Challenges in predictability of rules and regulations

			Enterprise type			
			construction materials production	wood and metal works	metal works only	wood works only
Challenges in unexpected changes in rules, laws or policies which materially affect the enterprise	Yes	Count	7	14	6	5
		Col %	63.6%	35.9%	54.5%	33.3%
	No	Count	4	25	5	10
		Col %	36.4%	64.1%	45.5%	66.7%
Total	Count		11	39	11	15
	Col %		100.0%	100.0%	100.0%	100.0%
Degree of predictability of changes in laws, rules and policies relevant to the business	completely predictable	Count		1		
		Col %		2.6%		
	Highly predicable	Count				2
		Col %				13.3%
	Fairly predictable	Count	2	15	1	2
		Col %	18.2%	38.5%	9.1%	13.3%
	Fairly unpredictable	Count	3	7	2	5
		Col %	27.3%	17.9%	18.2%	33.3%
	Highly unpredictable	Count	1	2		
		Col %	9.1%	5.1%		
	Completely unpredictable	Count	5	14	8	6
		Col %	45.5%	35.9%	72.7%	40.0%
Total	Count		11	39	11	15
	Col %		100.0%	100.0%	100.0%	100.0%

Source: Own survey (2006)

5.5 Experience, Skills and Business Development Service (BDS) Training

5.5.1 Experience and Skills

Education has parallel correlation with growth and productivity of a firm. Education for business is vital from the point of view of efficient use of market information and ability to analyze their future effects in the business. The survey

result also indicates that educational practices or experiences operators got have strongly supported entrepreneurial career of greatest number of enterprises (73.7%) or either influenced their entrepreneurial career positively (13.2%). However, only 13.2% (10 out of 76) has explained they do not get any benefit from the education or experience the attained. This implies that neither they get education which complies with their business activity nor they attend any education/experience useful to their business.

Table 27 Educational and business experience

		Count	Col %
How has education influenced your entrepreneurial career?	Strongly supported my entrepreneurial career	56	73.7%
	Influenced my entrepreneurial career positively	10	13.2%
	Had no influence on my entrepreneurial career	10	13.2%
Experiences acquired from business or education career	Technical training	42	55.3%
	Business management	3	3.9%
	Business skills training	2	2.6%
	Entrepreneurship	7	9.2%
	Marketing management	1	1.3%
	Accountancy and bookkeeping	11	14.5%
	Other	10	13.2%

Source: Own survey (2006)

To assess the gap between the training provided by the government and skills MSEs are in need of, experiences that have been acquired and were useful for their business were questioned. In line with this, over half (55.3%) of the respondents found their technical training or experience functional to the business they run. The next highest percentage (14.5%) of the respondents found their accountancy and bookkeeping skill valuable subsequent to entrepreneurship, business management, business skill and marketing management with 9.2%, 3.9%, 2.6% and 1.3% in that order. It is interesting to know many of them lack or require training in marketing management, business skill training, accountancy and entrepreneurship which now a days is considered as a fourth factor of production.

5.5.2 Business Development Service (BDS) Training

According to the survey data over half (56.6%) of the respondents have not get business development service, which is given to the remaining enterprises. Of those who attained the service (i.e. 33 out 76) 26 of them (78.8%) have gained technical training while this service is not reached to 21.2% of the enterprises. Business management and business skills training, however, were not arranged for 66.7% of the enterprises in both cases. Still marketing management and accountancy and bookkeeping were not provided for over two-third (69.7%) and over half (54.5%) of the enterprises respectively.

If training is appropriately managed it can assist lot of people who are inadequately skilled or lack the skills required for their business growth (Mulat and Wolday, in Wolday et al. 1997). However, those trainings provided to MSEs are conceived as useless or insufficient by 30.3% (10 out of 23) of the enterprises. Meanwhile, all of them were given a chance to opt out which training was particularly useful to their business. 69.7% of the enterprises have confirmed that technical training they get helped them in comparison to others. Accountancy and bookkeeping was given second place by 12.1% of the enterprises. Business skill training, marketing management, business management have got third, fourth and fifth place with 9.1%, 6.1% and 3%. Surprisingly, a greater number of enterprises (60.6%) have put in plain words that they are not willing to share the cost of the training with the government.

Table 28 Business Development Service

		Count	Col %
Did you receive any business support service(BDS)	Yes	33	43.4%
	No	43	56.6%
Technical training	Yes	26	78.8%
	No	7	21.2%
Business management	Yes	11	33.3%
	No	22	66.7%
Business skills	Yes	11	33.3%
	No	22	66.7%
Marketing management	Yes	10	30.3%
	No	23	69.7%
Accountancy and bookkeeping	Yes	15	45.5%
	No	18	54.5%
Were these services useful?	Yes	23	69.7%
	No	10	30.3%
Willingness to share the cost of the training	Yes	13	39.4%
	No	20	60.6%
Which kind of business support services would have been highly valuable?	Technical training	23	69.7%
	Business management	1	3.0%
	Business skills training	3	9.1%
	Marketing management	2	6.1%
	Accountancy and bookkeeping	4	12.1%

Source: Own survey (2006)

As explained above a considerable number of enterprises - 78.8 %(26 out of 33) have given technical training though only 69.7% have found it functional. Further more, the survey report shows that the majority of the enterprises do not get the training they necessitate with the exception of technical training. Business management training, for example, was not provided for 22 enterprises (66.7%). However, 14 (63.6%) of those who have not obtained this training pointed it would have been useful for their business if they get this training. Likewise, among those who have not got business skill training, 15 (68.2%) showed the relevance of business skill training to their business. This also applies for enterprises that do not acquired marketing management and accountancy and bookkeeping but 69.6% and 72.2% of them indicated these training useful for the performance of their business. We can observe gap between the need of the entrepreneurs and the trainings provided from the table below.

Table 29 Trainings given and benefit from the training

		Were these services useful?					
		Yes			No		
		Count	Row%	Col %	Count	Row %	Col %
Technical training	Yes	21	80.8%	91.3%	5	19.2%	50.0%
	No	2	28.6%	8.7%	5	71.4%	50.0%
Business management	Yes	9	81.8%	39.1%	2	18.2%	20.0%
	No	14	63.6%	60.9%	8	36.4%	80.0%
Business skills	Yes	8	72.7%	34.8%	3	27.3%	30.0%
	No	15	68.2%	65.2%	7	31.8%	70.0%
Marketing management	Yes	7	70.0%	30.4%	3	30.0%	30.0%
	No	16	69.6%	69.6%	7	30.4%	70.0%
Accountancy and bookkeeping	Yes	10	66.7%	43.5%	5	33.3%	50.0%
	No	13	72.2%	56.5%	5	27.8%	50.0%

Source: Own survey (2006)

In line with the above matter, one general conclusion can be drawn with the indication that the trainings given are either not based on the needs or lacks consultation of those enterprises to whom it is offered. As said in the literature review part, for effective promotion of MSEs, training has to be more market-oriented and demand driven (satisfy the needs of the target group), participatory, relevant and focused, complemented with follow up activities and based on cost recovery (Dijk, 2000). A more general conclusion can also be extracted that there is less outreach and coverage of the business development services provided by the government implying there needs to be done more on coverage and demand oriented type business development service. For the sake of simplicity bar graph is constructed to plainly exhibit the gap in the training needs of the entrepreneurs with regard to business management training.

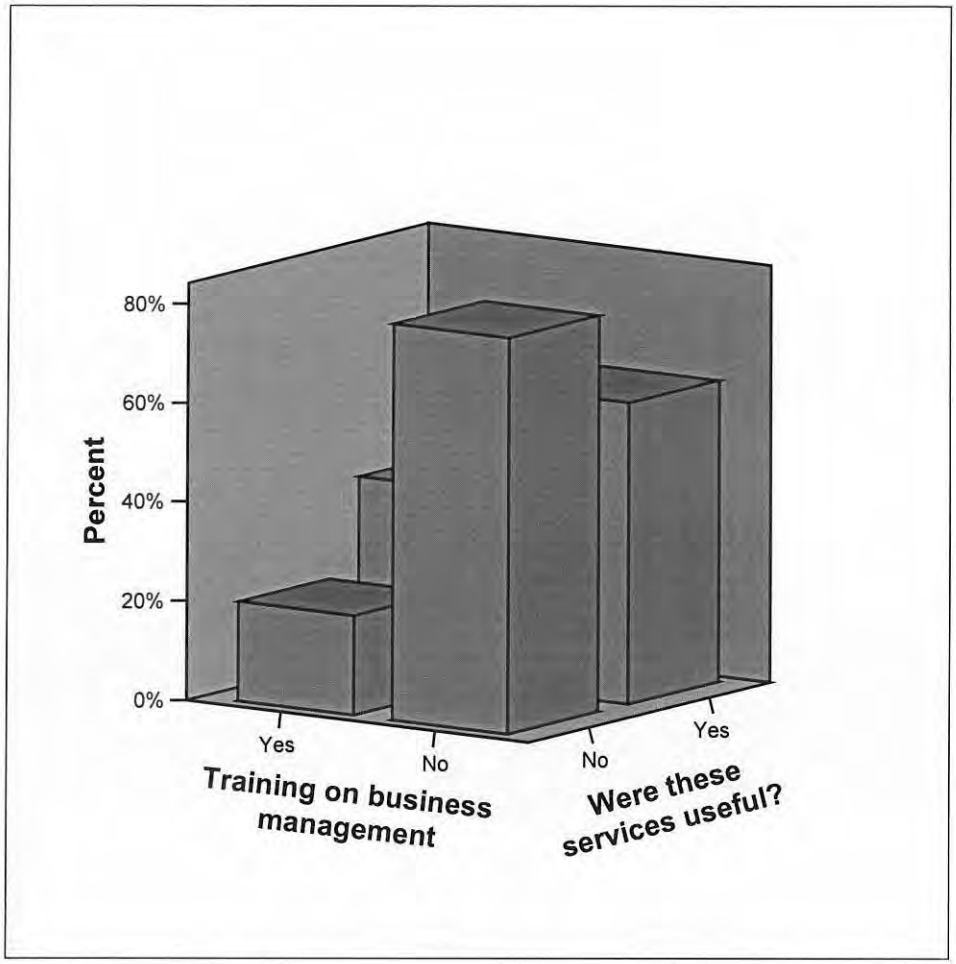


Figure 13 Business management and it usefulness
Source: Own survey (2006)

As illustrated from the above graph, from those enterprises that trainings on business management is not provided, 63.6% reported that it would have been helpful if they could get training in this type of training. Likewise, among those who have not get training in business skill, marketing management, Accountancy and bookkeeping; 68.2%, 69.6% and 72.2% of all the enterprises have reported that it would have been useful if they are trained with this determinant skills. This calls for the re-examination and well thought analysis for training needs of MSEs.

5.6 Regression results

A set of several independent variables are thought to influence sales of MSEs. These, among others, are demographic (education, age, sex); previous experience and skill in the sector; capital (current working capital and source of finance); location of enterprises (where assumption of access to raw materials, transportation, market and information situated Ras Imiru industrial zone than Lafto Industrial zone and that is thought to have influence in sales volume); type and ownership of enterprise; government regulation (influence in sales restriction and payment withholding in the form of retention are observed major ones); enough production space and access to Business Development Service.

Table 30 Regression results

Coefficients(a)					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	14683.900	2625.467		5.593	.113
Age	-496.519	82.904	-.309	-5.989	.105
Firm age	-12142.267	920.035	-.804	-13.198	.048
Education	-1891.812	387.706	-.136	-4.880	.129
Location	5815.107	873.348	.243	6.658	.095
Capital	.184	.007	1.757	24.637	.026
BDS	4054.077	638.457	.192	6.350	.099
Previous experience	-22156.128	1981.501	-.795	-11.181	.057
Technical skill	352.742	719.010	.017	.491	.710
High licensing bureaucracy	1884.758	541.126	.216	3.483	.178
Government intervention	22329.808	1730.448	.931	-12.904	.049
a Dependent Variable: Monthly sales in average during the past 6 months R-squared= 1.000, Adjusted R-sqaured=.999, F=857.8, Significant at .027					

Source: Own calculation (2006)

The regression result revealed that age has a significant relationship with sales of the enterprises. However, the relationship is negative indicating that the increase in the age entrepreneurs affects sales of the enterprises. This is because young are known to be more proactive, dynamic, innovative, and risk takers than other parts of the adult population. Education is estimated to increase the ability of the entrepreneur to cope with problems and seize opportunities that are important to the growth of the firm. Many authors in the area also found a positive relationship between prior level of education and firm performance in a modern environment. The regression result, however, indicated that the variable education has a no relationship with respect to sales in the sector.

Firm age and previous experience are also significant with sales, but it is surprising to see that they are negatively correlated indicating that firm age as well experience of entrepreneurs are independent of sales in the enterprise. This complies with Geroski (1995) who studied determinants of firms' growth and come up with a notion that firm growth tends to decrease with firms age and size. Technical skill in the business, on the other hand, found to be insignificant in the regression result. This may be due to the fact that MSEs, by virtue, do not need a sophisticated skill as such since they employ labor intensive technology.

The variable capital is the most significant factor that determines sales of enterprises indicating that the increase in sales is due to high capital or vice versa. Business Development Service and location are also significant with a positive sign. According to the survey data over half (56.6%) of the respondents have not get business development service indicating less outreach and coverage of the services provided by the government. One general conclusion can be drawn that though it has less outreach those entrepreneurs who have get the service exhibit positive correlation with their sales.

The variable location is among the significant factors which influences the performance of entrepreneurs. It is then assumed as a dummy variable where 1 is given for Ras Imiru zone enterprises as they are established in strategic location and 0 for Lafto Industrial zone enterprises. And it is indicated that location has a positive significance with sales of the enterprises. In that regard Ras Imiru zone enterprises have had high propensity to increase their sales than those in Lafto. Government intervention, in general, is highly significant with a negative sign pointing towards the essence that the increasing intensity of government intervention will result a decreasing effect in sales.

5.7 Observation reports

Observation backed by photo and video cameras was made in the two Industrial zones namely: Ras Imiru Industrial Zone in Arada Sub city, and Lafto Industrial Zone in Nifas Silk Lafto Sub city.

To start with the working environment of Ras Imiru zone, it can be surely said that the place is alive with activity and the sound of hammers on metal. Out of the 90 enterprises there were about 80 (the rest went for field work) when the observation is made. During the time of observation, enterprises in this industrial zone were fabricating metal and wood products: iron boxes, steel shelves, charcoal stoves, milling machines, school desks, condominium stairs including door and window, wood made boxes, and many more. A study made on this zone by Abadi et.al (2006) also explained the working environment as such "...there are active and concentration of enterprises..." (pp. 39).

There is also constructed internal roads in the zone where by lorries can get into easily- load and unload- the inputs and outputs with out any problem, which still put as a serious constraint in the performance of MSEs in Lafto. There was repeated turnover of different lorries carrying items in and out of the compound. The place is hot, though operators are unable to get toilet and water services.

The researcher had a chance to look into the reports given by the extension agents in Lafto industrial zone to Addis Ababa Micro and Small Enterprises Agency (AAMSEA). As indicated in the report, basic problems to the zone are: lack of infrastructure, internal road problem, unavailability of toilet rooms, and flow over of floods to the business houses.

As it can be concluded from Lafto industrial zone, it is realistically far away from the center which makes operators unable to get their input with the right price as transportation cost is very high to them. Unlike to the Ras Imiru Industrial zone in the Arada Sub-city, lack of sufficient transportation and road network seems a critical problem for Lafto industrial zone. This being a problem since there is only one-way route to reach the zone.

The other seemingly constraining factor that was observed in the zone which attribute to high cost of transportation is that the road is not built. This creates heavy trouble, especially in summer time, for trucks coming to deliver raw materials and to transport outputs to the market, as the road would be smeared by stingy mud. Even if the road is breaking down, the power supply in the zone is consistently at best. Even this is reported by almost all of the enterprises in the two industrial zones that power supply is not a problem to them. However we say so, it was not uncommon to observe some closed houses that did not get power. Some are seen while trying to install electric lines sharing with their neighbors.

5.8 Interview reports

Interviews were constructed to 4 extension agents 2 from each industrial zone. Questions are arranged in the manner that prove the problems and provide solutions for the study zones, in particular and MSEs in Ethiopia in general (See annex 1). It is understood from the interview reports that there are there policies and strategies on MSEs development in Ethiopian, in general, and in Addis Ababa, in particular. There are also institutions that are in charge of the execution of policies and strategies. However, the extension agents described that the institutional structure was not helpful to successfully promote MSEs earlier before. Even though little adjustments are made, some explained that like lack of monitoring and mentoring of entrepreneurs, be deficient in execution of policies that help develop the sector at lower level, inconsistency with the promise made to them, and delays in giving rapid solution for the problems of the operators still remained a challenge that impede the execution of policies and strategies.

Extension agents also described that wood and metal works associations took the lions share in all industrial zones. In line with that they explained the challenges in organizing and associations like that of registration of one individual in one or more associations and formation of associations with out having a proof those individuals have skill in the business they run. Since the time for formation of enterprises coincided with the 1997 election operators presumably regarded themselves as a propaganda tool and were not as such cooperative with the government officials. Some used their business house as storage, some rented the house and others owned the business premise which they thought they will sale it in the future.

Addis Micro Finance Institution (AMFI) has been a prime support for MSEs in providing financial support. In line with this they described that MSEs are getting the support they are in need of since they face challenges in credit provision. Regarding the problems of MSEs in their zone, extension agents described lack

of market, lack of infrastructure; lack of display/show room and lack of capital the major problems. This constrained enterprises to operate with their full capacity, especially in Lafto Industrial zone. They reported that the government is trying its level best to alleviate the current problems MSEs are facing in the zone. For lack of market, efforts have been made by government projects to establish market linkages with MSEs. Regarding the business premise they owned extension agents are unsure what future prospects do these enterprises MSEs have. Moreover, no special treatment has been made for disadvantaged industrial zones which are relatively far from the center. Clustering is supposed to benefit enterprises in exchanging ideas and experiences. However, they could not observe agglomeration of economies which can be exploited from cluster formation and zoning. By and large, when they describe general situation of MSEs in view of the goal set by the government in promoting and assuring their sustainability, they concluded that little has been achieved due to the above problems they faced.

CHAPTER 6: CONCLUSION AND RECOMMENDATION

As indicated earlier, it has become increasingly obvious that after more than three official "decades of development", marginal, micro- and small-scale enterprises (MSEs) have neither been absorbed by large-scale economic activities, nor even significantly displaced by them. Hence, both in the developed and developing world, the issue of MSEs development as an integral part of the local economic development is a recent area of invention. In Ethiopia, too, considering the extent of poverty and unemployment as well as realizing the potentials that micro and small enterprise have in development, the government as well as other development practitioners have given due attention to the sector very recently.

Despite the various measures taken by different bodies to develop the sector, the returns to SME promotion programs are likely to be low in low and middle income countries. As a result, the development of MSEs, which is considered to be one of the prerequisites for building strong industrial base, are yet confronted with series challenges and constraints both at the operation and start-up level. The modern approach along with integrated MSE development program which gears towards "with in" development of individuals' "creativity, drive and commitment" rather than government actions as a key in setting up, operating and developing business could be a remedy for current diseases of MSEs since it centers on -- business environment, financial services and business development service (BDS)

This study focused on MSEs in two industrial zones – Ras Imiru and Lafto – found in Arada and Nifas silk lafto sub-cities in Addis Ababa, correspondingly. A total of 76 enterprises, 36 from Ras Imiru and 40 from Lafto industrial zones were incorporated in the study with a primary objective of assessing the challenges and constraints of MSEs in general.

As indicated in the analysis part, 56.6% (43) of the total enterprises were micro enterprises and the rest 43.49(33) were small enterprises at the start-up stage. The analysis from their current capital indicated that the same percentage (56.6%) of micro enterprises is still in the same category without registering any changes over the past three year's time. Ceteris paribus, this implies that MSEs are either unable to grow by themselves or have faced challenges from the business environment that inhibited them to improve their capital.

Description results from the survey indicated current challenges and constraints of MSEs in the two zones. In line with that, it can be concluded that shortage of capital (46.1%) is the major constraint to the business followed by lack of market (34.2%). Zonal comparison, however, do not give the same report as such. In Lafto Industry zone, for example, the majority 50% (20) of the enterprises approved inadequate/uncertain market as a major constraint to their business while 66.7%(24) of enterprises in Ras Imiru stated lack of capital as their major constraint. The difference stems from the impact of location since Lafto industrial zone found at the outskirt of the city and for that matter market inaccessibility urged operators to give precedence for lack of market than lack of capital as their primary constraint.

In line with shortage of capital, difficulty in the borrowing process of MFIs(28.8%) and high collateral requirement (25%) found to be the core challenges in obtaining financing. Concerning infrastructure, inadequacy of availability of transport, is reported as a constraint by a considerable numbers of enterprises (87.5%) in Lafto industrial zone while only 27.8% in Ras Imiru responded the same. Due to this, 87.5% of the enterprises in Lafto travel more than 5 km to obtain raw materials whereas all enterprises in Ras Imiru travel only 2-5 km demonstrating location impact on performance of MSEs. This also remained a very severe problem for accessing supplies for 52.5% of the enterprises in Lafto. Likewise, a sizeable number of enterprises (about 80%) in each zone replied that they do not have enough production space for producing and storing their products.

Bureaucratic regulatory requirements or burden, government intervention (especially Housing Development Agency), inability to sell for other customers (private users), and high money retention by the agency found to be the major challenges for MSEs in the zones. In that regard, bureaucratic regulatory requirements/burden appears a very sever problem for construction material producers and metal works by 45.5% and 63.6% of the respondents, correspondingly. In relation to the intervention of government projects especially the Housing Development Agency; surprisingly, 100% of construction material production enterprises have replied that they faced a very sever problem given that they are restricted to sell their products for customers other than the Housing Development Agency.

Business Development Service was provided for 43.4% of the total entrepreneurs and out of those who had BDS 69.7% of the them have confirmed that technical training they get helped them more though many of the enterprises had a prior experience in the sector. Those enterprises that did not receive training on business management, business skill, marketing management, and Accountancy and bookkeeping, 63.6%, 68.2%, 69.9% and 72.2%, in that order, reported that it would have been helpful for their business performance if they could get training on such skills. In line with this, one general conclusion can be drawn with the indication that the trainings that are given were either not based on the needs or lacks consultation of those entrepreneurs to whom it is offered.

It was found out with the regression result that respondents' age (being old), firm age (old age), and government intervention influence sales of enterprises. The facts that firms' age affects sales may be attributed to the characteristic that young firms are risk takers than old firms and as a result they are less concerned about growth but survival. Technical skill and level of education of the entrepreneurs have no relation with sales of the entrepreneurs. Hence, the study found no evidence to support a common perception linking formal education with

higher incidence of business success and growth. On the other hand, acquiring Business development service, being in strategic location and capital exhibited a positive relation with sales of entrepreneurs. By and large, government intervention, shortage capital, location disadvantage, lack of market, lack of infrastructural developments, and lack of display room, in bold remained a serious problems of MSEs in the study area.

RECOMMENDATION

The MSEs in developing countries; especially, in Ethiopia play a crucial role in country's economic development through application of labor intensive technology, the use of existing local and traditional skills, generation of foreign exchange, exploitation of niche market and creation of job opportunity among the many others contribution. However, these contributions of the sector can be functional if and only if the multi-dimensional challenges and constraints MSEs still facing are curtailed by leveling the playing field and creating conducive business environment.

Based on the above findings of the survey, the following recommendation for this paper goes towards the impression that:

1. The government should adopt well thought policy interventions and development programs that consent to the development of Micro and Small Enterprises (MSEs). It should also build favorable business environment and situate a level playing field for MSEs by means of avoiding restrictions imposed on their business activities. Compromising biases and reconciling clashes between sector policy and the general economic policy of a country would also help decrease challenges of MSEs. As said earlier, although markets may work less well in developing than in developed countries, it is usually better to limit government intervention and escape some of the problems of government actions by asking it to do less.

2. MSEs need different types of services, institutions, and delivery mechanisms than larger firms. Hence, more should be done to increase the outreach and coverage of Business Development Service through institutional strengthening and capacity building of support organizations. Particularly, targeting on strengthening Micro Finance Institutions including commercial firms to provide finance for MSEs would also accelerate the provision of easy access to finance. For effective promotion of MSEs, moreover, training has to be more market-oriented and demand driven (satisfy the needs of the target group), participatory, relevant and focused, complemented with follow up activities and based on cost recovery.

3. Special attention should be given for those enterprises found in remote and disadvantaged zones through providing infrastructural developments, market linkages, trainings on marketing skill, transportation facilities, and display rooms. Priority should be given to MSEs for any development activities going on in the sub city as is done in Arada sub-city. Moreover, providing bazaars, exhibitions, etc should be facilitated on the part of the government as a proxy for searching market for MSEs. In so doing, equal treatment should be provided for in the provision of business premises so that they can be equally competitive in the market.

4. The purpose of zoning should go further than setting aside land for specific uses. Zoning can be an important tool if it is carried out with flexibility and with a developmental attitude rather than for the purpose of any rigid master plan. As clustering and specialization contribute to the emergence of agglomeration economies, ways must be sought for industrial zones to exploit economies of scale through strengthening the associate capacity of MSEs.

5. As indicated in the survey women involvement in the manufacturing micro and small enterprises is very minimal. Hence, socio-cultural attitude that women can not engage in this sector should be compensated through

promoting culture of equality and entrepreneurship among the society. Measures directed toward encouraging women's participation in the sector need to be strengthened if MSEs are considered to build economic contribution through employment and entrepreneurship.

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Annex 1

Research questionnaire

Addis Ababa University

Regional and Local Development Studies

Dear respondent, my name is Adil Yassin and I am doing a research as part of the MA program I am studying in Addis Ababa University. The topic of my research is 'Challenges and constraints of micro and small scale enterprises: The case of three sub-cities industrial zones.' In so doing, your zone is one of the focus areas of my study. This questionnaire is, thus, designed to obtain information about your perceptions, opinions, experiences and particular knowledge regarding the challenges and constraints you have faced in starting and maintaining your business. Hence, I would like to thank you in advance for giving me your valuable time to fill this questionnaire.

TO BE FILLED BY THE ENUMERATOR

ID1		Sub city

1. Nefas Silk Lafto Sub-city
2. Arada Sub-city

ID2		Kebele

ID3		Name of the industrial zone

1. Lafto Industrial Zone
2. Ras Imiru Industrial Zone

ID4		Business House number

ID5		Telephone

ID6		Enterprise type

1) Construction materials production
2) Wood and metal works
3) Metal works only
4) Wood works only

ID7	

The respondent is _____

1) Owner 2) Employee

3) Cooperative manager 4) Cooperative worker

(Note: if the respondent is not the owner, the information he/she will give is about the enterprise)

A. ENTREPRENEUR & COMPANY INFORMATION

A1	

Type of ownership of the enterprise

1) Sole proprietorship 2) Cooperative 3) Partnership

A2	

Gender of the operator

1) Male 2) Female

A3	

Age of the entrepreneur (in years)..?

A4	

Are you married? 1) Yes 2) no

A5	

How many dependents are you responsible for?

A6	

What is your level of Education?

1) Illiterate
2) Below secondary school
3) Secondary school complete
4) Diploma
5) University degree
6) Others (specify) _____

A7	

What were you doing immediately before you started this enterprise?

1) Unemployed (after leaving school)
2) Unemployed (retrenched from a public sector)
3) Unemployed (retrenched soldier)
4) Daily wage laborer
5) In school (learning)
6) Working in a public sector
7) Employed in similar business
8) Employed in unrelated business
9) Running unrelated business
10) Working on unpaid family business
11) House wife
12) Others (specify)
_____

A8	

Does your institution have enough production space for running the business?

1) Yes 2) No

A9	

Do you start work after getting the site?

1) Yes 2) No

A10	

What is your major reason for not starting business after receiving production site?

1) Lack of enough production space
2) Farness of the industrial zone from market center
3) Inaccessibility of credit
4) Lack of premises
5) Problems among the members of the cooperative
6) Lack of infrastructure in the zone
7) Other (specify) _____

A11	Year	Month

When was the business established?

A12. How many workers did you have when you **started** the business and **now?**

A12.1	
A12.2	

At the start

Now

A13	

What is the largest number of temporary workers your association hired?

A14	

How much was your start-up capital?

A15	

What type of raw materials do you use for the production process? (The answer should be provided based on source of raw materials)

1) Local produced materials
2) Imported materials
3) Both
4) Other(specify)_____

A16		Who are your principal sources of inputs?

1. Wholesaler/larger retailer
2. Larger producers
3. Smaller and same size retailers
4 Smaller and same size producers
5. Government Projects
6. Other (specify) _____

A17		Who are your secondary sources of inputs?

1. Wholesaler/larger retailer
2. Larger producers
3. Smaller and same size retailers
4 smaller and same size producers
5. Government
6. Other (specify)_____

A18		Who are your principal customers for your products?

1. Government projects
2. Wholesalers /larger retailers
3. Larger producers
4. Smaller and same size retailers
5. Smaller & same size producers
6. Export markets
7. Institutions
8. Private users
9) Other (specify) _____

A19		Who are your secondary customers for your products?

1. Government projects
2. Wholesaler /larger retailer
3. Larger producers
4. Smaller and same size retailers
5. Smaller & same size producer
6. Direct export
7. Institutions
8. Other (specify) _____

A20		Is demand for your products seasonal? 1) Yes 2) No

B. GENERAL BUSINESS ENVIRONMENT

B1		Current situation of enterprise:

1) Critical (running with losses)
2) Struggle to survive (no loss no profit)
3) Growth (running with profits)

B2. How serious are the following problems to your business? (Use code: 0 = no Problems, 1 = minor problems, 2= moderate problem, 3= major problem, 4 = very severe problem)

B2.1		Difficulty in obtaining supplies
B2.2		Delays in the delivery of goods by the housing development agency
B2.3		Poor management
B2.4		Payment withholding by the housing development agency

B3		What is the most important factor that gives your competitors an advantage over your business?

1) Better access to raw materials
2) Better product reputation
3) Better access to credit
4) Better location
5) Better access to business information of the association
6) Better social network
7) Better skill/training
8) lower cost
9) Better capital
10) Strong relationship among members
11) Other (specify) _____

B4		Do you think you have enough market for your products/services at **current** level of production?

1) Yes 2) No

B 5		If yes, do you intend to expand?

1) Yes 2) No

B 6		If No, why?

1) Market saturation
2) Financial constraint
3) Skill constraints
4) Managerial problems
5) Absence of show/display room
6) All
7)Other(specify)_____

B 7		Which one of the following is the most important constraint to the growth/expansion of this business?

1) Shortage of capital
2) Shortage of skilled labor
3) Shortage of other inputs
4) Inadequate or uncertain market
5) Inaccessibility of credit
6) Borrowing cost (interest and other costs)
7) Inadequate business support services
8) Disagreement among members
9) Other (Specify) _____

B8		What are the normal working hours per day in your business_ hours?
B9		What are the normal working days per week in your business ___ day?

B10		Do you keep records for your income and expenses? 1) Yes 2) No

B 11		How much was your monthly sales in average during the past 6 months?

B 12		How was the trend of your sales during the past 6 months?

1) Increasing 2) Stayed the same 3) Decreasing 4) Difficult to forecast

B 13		During the past 6 months, how much profit per month did you make in average?

B 14		How was the trend of your profit during the past 6 months?

1) Increasing 2) Stayed the same
3) Decreasing 4) Difficult to forecast

B 15		How do you distribute/ share your profits to workers of the enterprise?

1) Salary payment 2) Work position 3) Equally sharing the profit
4) Based on property share 5) Do not get profits 6) Based on Quantity produced 7) other (specify) _____

B 16		Do you think that the profit you get is proportional to the value you add on your products? 1) Yes 2) No

B17		Is there any profit you get from clustering?

1) Yes 2) No

C. FINANCE

C1		How you raised the start-up capital?

1) Money borrowed from family or friends
2) From government projects
3) Micro-credit institutions
4) Co-operatives
5) Informal money lenders
6) NGO's
7) Private source
8) Others (specify)_____

C2		Was it rather easy to obtain financing from borrowing institutions?

1) Yes 2) No

C3		If No, what has been the major constraint to obtaining start-up funding?

1) Lack of information as to where to get finance
2) Inadequate collateral
3) Borrowing process is too difficult
4) interest and other costs too high
5) MFI do not release money quickly
6) Afraid I may not be able to repay
7) Problems among members
8) Other(specify)_____

C4. Have you ever received credit for this business from the following? [Code: 1 = Yes, 2 = No]

C4.1		Formal banks
C4.2		Micro finance institutions
C4.3		Government projects
C4.4		NGOs
C4.5		Iqub
C4.6		Money lenders
C4.7		Suppliers
C4.8		Saving & Credit association
C4.9		Friends/relatives

C5. If this business took a loan(s) from MFIs this year or last year...,

C5.1		How long did it take you to get the most recent major loan? __days
C5.2		What was the amount of the most recent major loan? __ Birr
C5.3		What was the amount paid in interest? __percent
C5.4		What was the duration of this loan? __ Years
C5.5		What type of security, if any, was provided?

C6. If you have borrowed from an MFI, [Code: 1 = Yes, 2 = No]

C6.1		Is the loan amount adequate?
C6.2		Is the repayment period (term to maturity) adequate?
C6.3		Was it disbursed timely?

C7		If you have not borrowed from an MFI, what is the reason?

1) No MFI operates in this area
2) I am not aware of MFI loan facilities
3) My business's size is beyond MFI
4) Difficult to form group
5) MFI provide short term loans
6) High collateral
7) Own capital
8) Asked but not yet given
9) High interest
10) Other (specify) _____

D. INFRASTRUCTURE

D1 | | Where is the location of the enterprise?

1) Commercial district
2) Road side
3) Out skirt of the city
4) others (specify) _____

D2 | | How did you acquire the building/premise on which you started this business?

1) Owned it
2) Inherited
3) Bought
4) Rented
5) Leased
6) Given by the government
7) Other (specify) _____

D3 | | How big is your premise in sq. m?

D4 | | Do you think you have enough production space for manufacturing and storing your products?

1) Yes
2) No

D5 | | Is the rent you pay for your premise appropriate?

1) Yes
2) No

D6	

Is electricity very important to your business?

1) Yes 2) No

D7	

Do you get enough electric service with out any continuous break down?

1) Yes 2) No

D8	

Do you think there is adequate availability of transportation in your zone?

1) Yes 2) No

D9	

Do you have adequate supply of telephone in your business?

1) Yes 2) No

D10	

What type of telephone service do you have at your business?

1) Private telephone line 2) Public telephone line

3) Mobile phone 4) None

D11	

What destination do you go to get your inputs (in km)?

E. LAWS, RULES AND REGULATIONS

E1. Rank (on a four-point scale) the severity of each of the followings as constraints to your business [Code: 0 = no problem, 1= minor problem, 2 = moderate problem, 3 = major problem, 4 = very severe problem]

E1.1		Regulations on business start-up
E1.2		High licensing beaurocracy
E1.3		Being under the influence of government projects
E1.4		Inability to sell for other customers (private users)
E1.5		High money retention by housing agency
E1.6		Bureaucratic regulatory requirements or burden
E1.7		Weakness in legal enforcement of contracts
E1.8		High collateral requirements
E1.9		High interest and other borrowing costs

E2 | | Do you regularly have to cope with unexpected changes in rules, laws or policies which materially affect your enterprise? 1) Yes 2) No

E3 | | In your opinion, what is the degree of predictability of changes in laws, rules and policies relevant to your business?

1) Completely predictable 3) Fairly predictable 5) Highly unpredictable
2) Highly predicable 4) Fairly unpredictable 6) Completely unpredictable

E4 | | Do you design your products by yourselves? 1) Yes 2) No

E5 | | Who sets the price of your products?

1) Market
2) Set by the association
3) Set by the government
4) Negotiate with buyer
5) Market and negotiate with buyer
6) Set by the government and Negotiate with buyer

F. EDUCATION, SKILLS AND TRAINING

F1		How has education/experience influenced your entrepreneurial career?

The educational institutions I attended _____

1) Strongly supported my entrepreneurial career.
2) Influenced my entrepreneurial career positively.
3) Had a negative influence on my entrepreneurial career.
4) Impeded my entrepreneurial career.
5) Had no influence on my entrepreneurial career.

F2		Looking back to your education/experience/practices/skills have you acquired from your business/education career?

1) Technical training
2) Business management
3) Business skills training
4) Entrepreneurship
5) Marketing management
6) Accountancy and bookkeeping
7) Others (specify) _____

F3		Did you receive any business support (workshops, Trainings, Advise, Business Counseling, Mentoring etc.) before or during the start-up phase of your business?

1) Yes 2) No

F4		If yes, on which particular subjects have you been trained, mentored or counseled? (Code: 1= Yes, 2=No)

F4.1		Technical training
F4.2		Business management
F4.3		Business skills
F4.4		Marketing management
F4.5		Accountancy and bookkeeping

F5		How long is the duration of apprenticeship (In months)?

F6				Which institution provided these services? (Multiple responses is Possible)

1) Chamber of commerce
2) Former employer
3) Young entrepreneur club
4) NGO's
5) Government
6) Other (specify) _____

F7		Have these support services been helpful for you and your business?

1) Yes 2) No

F8		If Yes, which kind of business support services would have been highly valuable for you (chose from the question no. F4)?

F9		Are you willing to pay for (share the cost of) training?

1) Yes 2) No

QUESTIONNAIRE FOR KEY RESPONDENTS

1) Are there any policies and strategies on MSEs development that is practically implemented in Ethiopian, in general, and in Addis Ababa, in particular?
2) Is there any institutional structure that is in charge of the execution of policies and strategies?
3) If your answer is yes for question no. 2, do you think the structure is helpful to successfully promote MSEs? If you say yes, but you believe it is not appropriate can you explain the major problems of the structure?
4) What are the major challenges that impede the execution of policies and strategies?
5) What type of associations took the lions share in all industrial zones in general?
6) Can you explain how MSEs associations are organized? What are the major challenges that you faced in organizing these associations?
7) From which government bodies do MSEs get support principally?
8) Do you think MSEs get the support they are in need of?
9) Could you explain the major challenges in credit provision and return?
10) Do all registered institutions get production sites and premises?
11) Why do you think the already registered and delivered institutions leave their production sites in some of the industrial zones?
12) What are the major constraints that impede MSEs to operate with their full capacity?
13) Do all industrial zones have equal infrastructural facilities?
14) What are the problems cited by government bodies for support questions raised by MSEs institutions and associations?
15) What efforts have been made by governments to search for market linkages for MSEs? What problems have occurred in doing so?
16) What future prospects do MSEs have in the future regarding the building premesis they owned?

17) Is there any monitoring and evaluation program of MSEs in the institutional structure? If yes how is that implemented? And what are the achieved results in the process?

18) What special treatment you made for disadvantaged industrial zones which are relatively far from the center?

19) What are the achieved results in cluster formation and zoning? How are they benefited?

20) How do you describe the general situation of MSEs in view of the goal set by the government in promoting and assuring their sustainability?

Annex 2

Distribution of Establishments, Gross Value of Production, Value Added, Operating Surplus, Fixed Assesses and Investment in Fixed Asset by Industrial Group: 2001/2002 (1994.F.Y)

	Number of establishments		Number of Personal Engaged		Gross value of production		Val+ue Added		Operating surplus		Fixed assets		Investment in fixed Assets	
	No.	%	No	%	Value	%	Value	%	Value	%	Value	%	Value	%
Manufacture of food products except grain service	693	2.17	2,593	2.65	73,499,167	8.04	73,499,167	4.61	18,840,425	4.84	29,682,632	3.97	4,307,592	3.01
Grain mill service	27, 232	85.44	82,868	84.75	691,370,901	75.65	693,370,901	75.65	307,394,947	79.02	662,173,924	88.50	123,435,34	86.32
Manufacture of textiles	23	.07	81	.08	2,272,818	.25	2,272,818	.25	959,680	.25	1,215,321	.16	40,653	.03
Manufacture of wearing apparel, dressing and dyeing of our	962	3.02	1,996	2.04	16,619,759	1.82	8,791,551	1.90	7,277,601	1.87	3,497,908	.47	915,780	.64
Manufacture of luggage, and footwear	15.05	.05	59	0.6	363,362	.04	140,389	.03	110,364	.03	311,344	.04	53,218	.04
Manufacture of wood & of products of wood and cork, except furniture; manufacture of articles of straw and plastic material	167	.52	663	68	4,952,672	.54	2,203,271	.48	1,499,590	.39	5,350,937	.72	1,750,930	1.22
Manufacture of paper & paper product	4	.01	31	.03	1,302,566	.14	1,056,865	.23	997,794	.26	377,088	.05	17,500	.01
Publishing, printing & reproduction of recording media.....	228	.72	694	.71	12,911,839	1.14	5,975,777	1.29	5,215,664	1.34	12,604,331	1.68	2,936,763	2.05
Manufacture of chemical & che.pr	2	0.1	11	.01	521,730	.06	267,570	.06	190,601	.05	66,717	.01	-	-
Manufacture of other non- metalic mineral product	106	.33	480	.49	9,481,928	1.04	3,946,092	.85	3,357,244	.86	2,285,125	.35	510,517	.36
Manufacture of fabricated metal products, except machinery and equipment	1,306	4.10	3,898	3.99	53,826,607	5.89	31,233,401	6.73	28,090,881	7.22	11,806,762	1.58	3,609,402	2.52
Manufacture of machinery and equipment N.E.C	30	.09	106	.11	924,171	.10	461,282	.10	350,816	.09	302,675	.04	164,402	.11
Manufacture of parts and accessories for motor vehicles and their engines	5	0.2	26	.03	212,952	.02	117,666	.03	73,686	.02	730,407	.10	720,113	.50
Manufacture of furniture; manufacturing N.E.C	1,099	3.45	4,275	4,275	45,660,874	5.00	19,748,678	4.26	14,669	3.77	17,498,086	2.34	4,534,030	3.17
TOTAL	31,863	100.0	97,781	100.0	913,921,346	100.00	463,816,587	100.00	389,030661	100.00	748,200,261	100.0	142,996,001	100.00

Adopted from Hallberg (1999: pp 17)

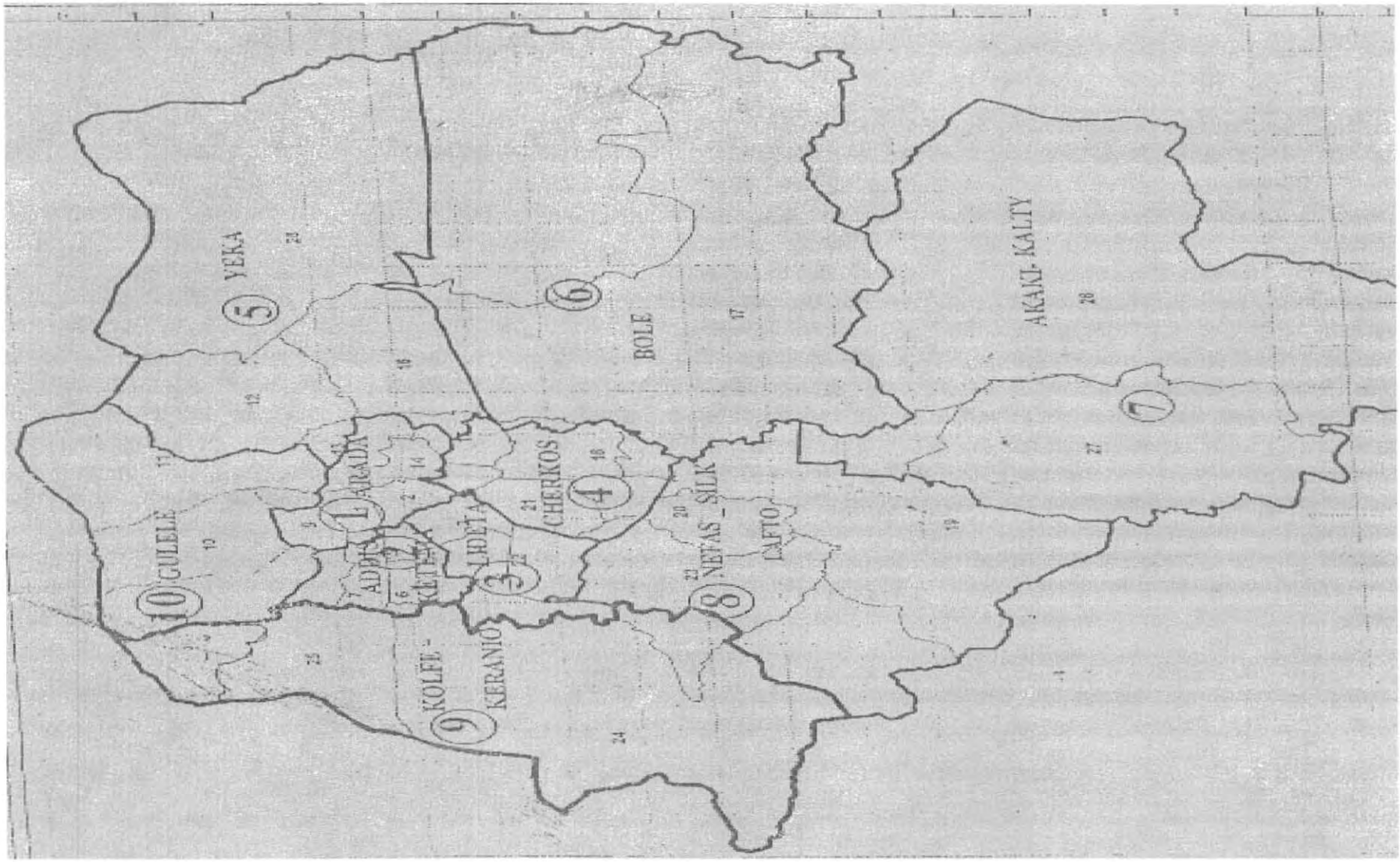
Annex 3. Market Oriented SME Interventions

	Open Access to Marketers, Accelerate Marketer Development	Invest Public Goods, Build Intuitional Capacity	Reduce and Rationalize Traditional Public Intervention
Business environment	• Competition policy • Licensing and registration requirement, administrative fees • Commercial transactions law • Intellectual and commercial property rights • Tax, labor legislation • Government procurement • Flexibility in the implementation of regulations.	• Infrastructure (transport, ports, market facilities, communications, information technology) • Information (markets, standards, technologies) • Monitoring of SME performance and impact policies and interventions • Public/ private partnerships at local level to improve business environment.	• Reconsider policies that reserve certain sectors for small-scale enterprises or grant them special protection • Seek greater neutrality across firm sizes in tax and labor legislation and enforcement.
Financial services	• Financial sector competition policy • Collateral legislation • Prudential regulation and supervision • Interest rate ceilings • Regulations governing leasing, venture capital, equity markets	• Innovation in loan products, leading methodologies, delivery mechanisms, risk assessment methodology (e.g. Credit bureaus, registries • Training and T A to financial institutions serving SMEs.	• Reduce direct lending through public financial institutions • Reduce SME lending (portfolio) requirements on financial institutions • Eliminate subsidized credit lines and credit guarantee schemes.
Business development services	• target subsidies for market development to specific market failures • Information on service providers, impact of services. • Enforce competition in service markets.	• innovation in products (especially for the smallest firms), delivery mechanisms • development of performance and impact indicators • training and TA to private BDS to public goods (e.g. information, labor and management training)	• increase cost recovery for publicly - provided or subsidized services • improve management and cost control in public BDS institutions • Condition budgetary allocations to the achievement of impact. • reduce duplication across agencies in service provided • use the private sector to deliver service • privatize when financially sustainable

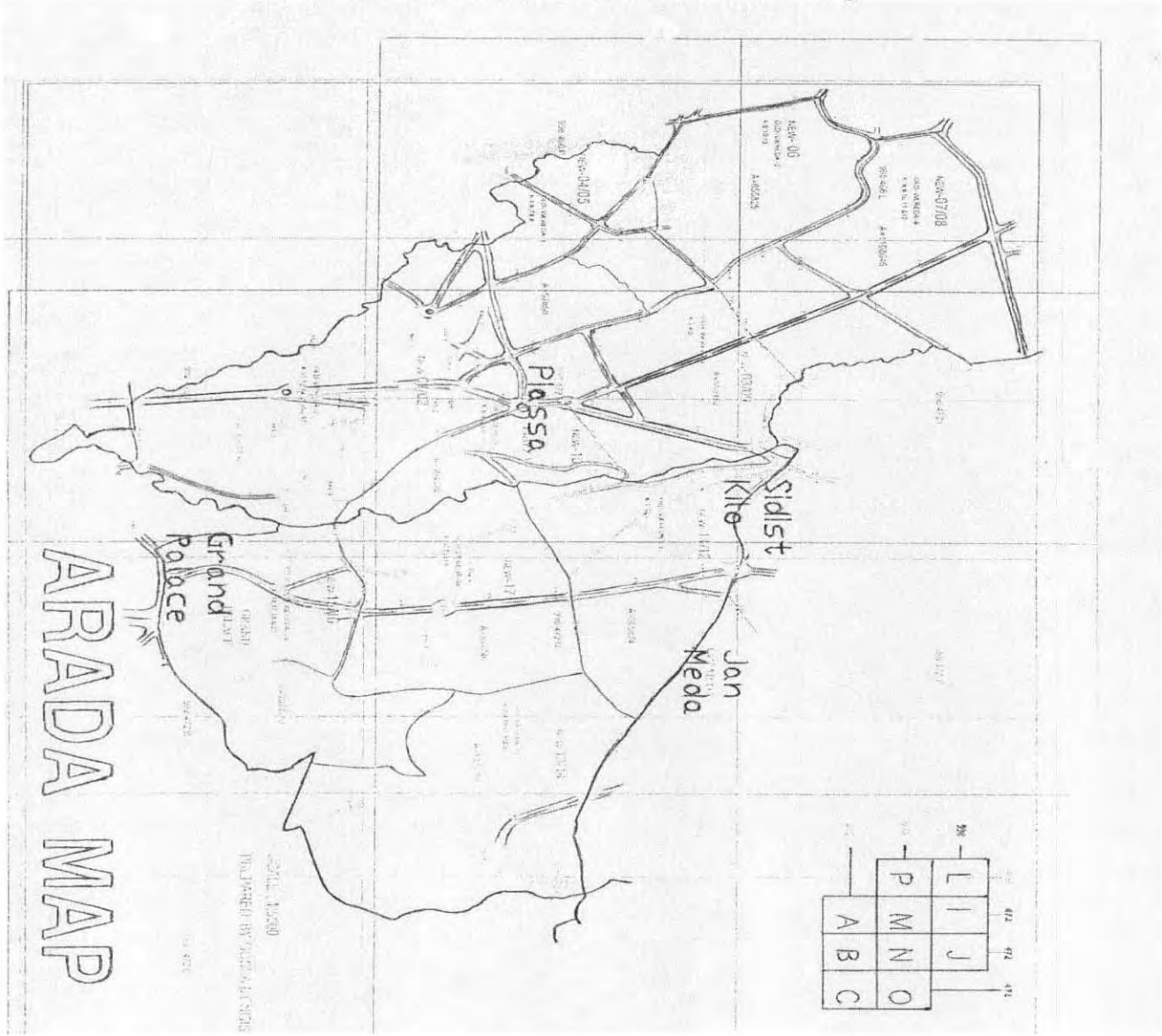
Annex 4 Permanent employees as percentage of total by industrial group 2001/2002 (1994 E.F.Y)

INDUSTRIAL GORUP	No. of Establishment	Number Of Persons Engaged	Permanent Employees	Permanent Emp. As % Total Persons Engage
Manufacture of food products except grain mill service	693	593	1,118	43,12
Grain mill service	27,223	2, 868	41, 136	49,64
Manufacture of textiles	23	21	41	50.62
Manufacture of wearing apparel, dressing and Dyeing of for	962	1, 996	423	21.19
Manufacture of luggage, handbags and footwear	15	59	29	49.15
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plating material	167	663	243	36.65
Manufacture of paper and paper product	4	31	17	54.84
Publishing, printing and reproduction if recording media	228	694	260	37.46
Manufacture of chemicals and chemical products	2	11	7	63.64
Manufacture of other non- metal products	106	480	184	38.33
Manufacture of fabricated metal products, except machinery and equipment	1,302	3,898	929	23.83
Manufacture of machinery and equipment N.E.C	30	106	38	35.85
Manufacture of parts and accessories for motor vehicles and their engines	5	26	18	69.23
Manufacture of furniture; manufacturing N.E.C.....	1,099	4,275	1,369	32.02
TOTAL	31,863	97,781	45,812	46.85

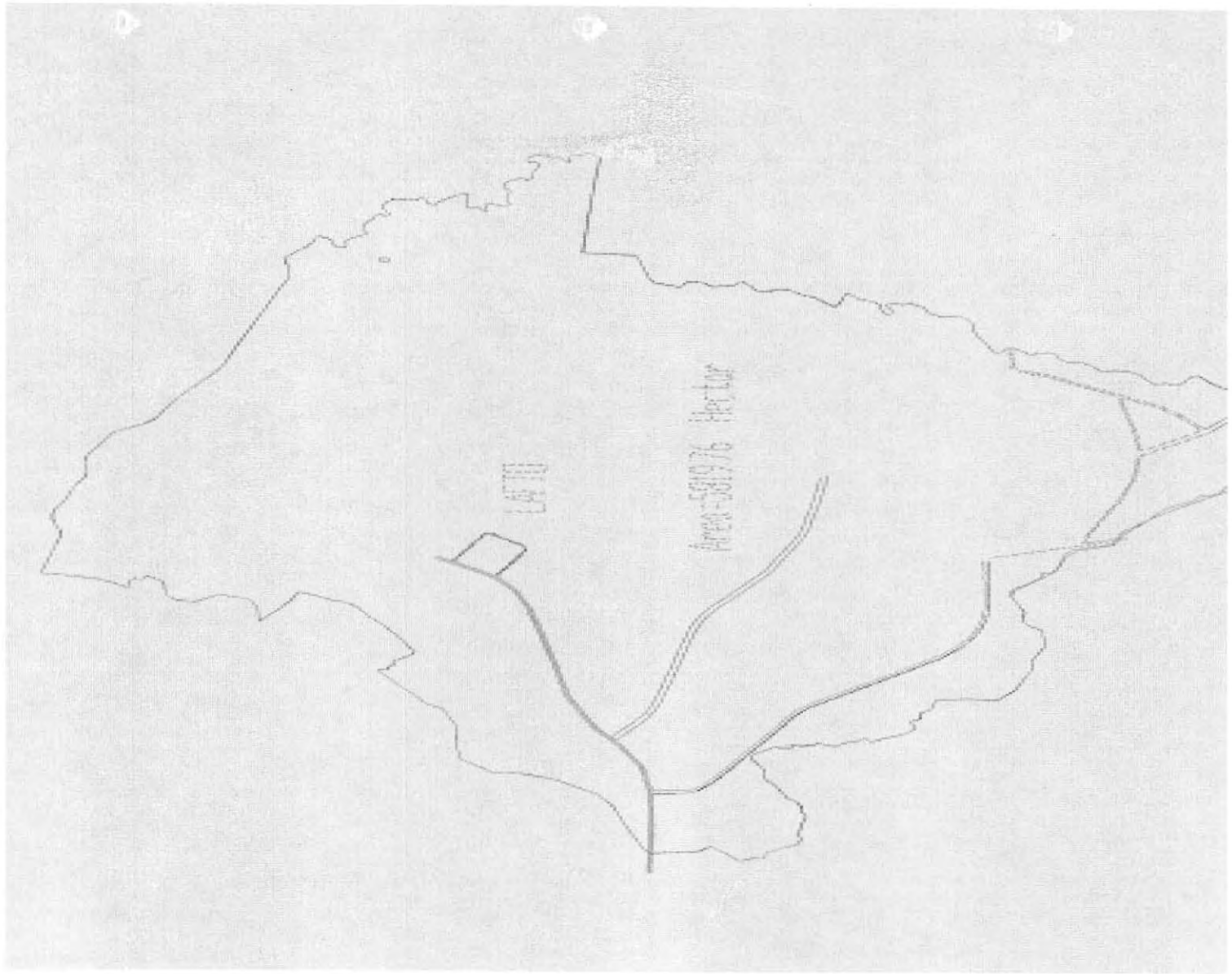
Annex 5. Map of the ten sub-cities in Addis Ababa



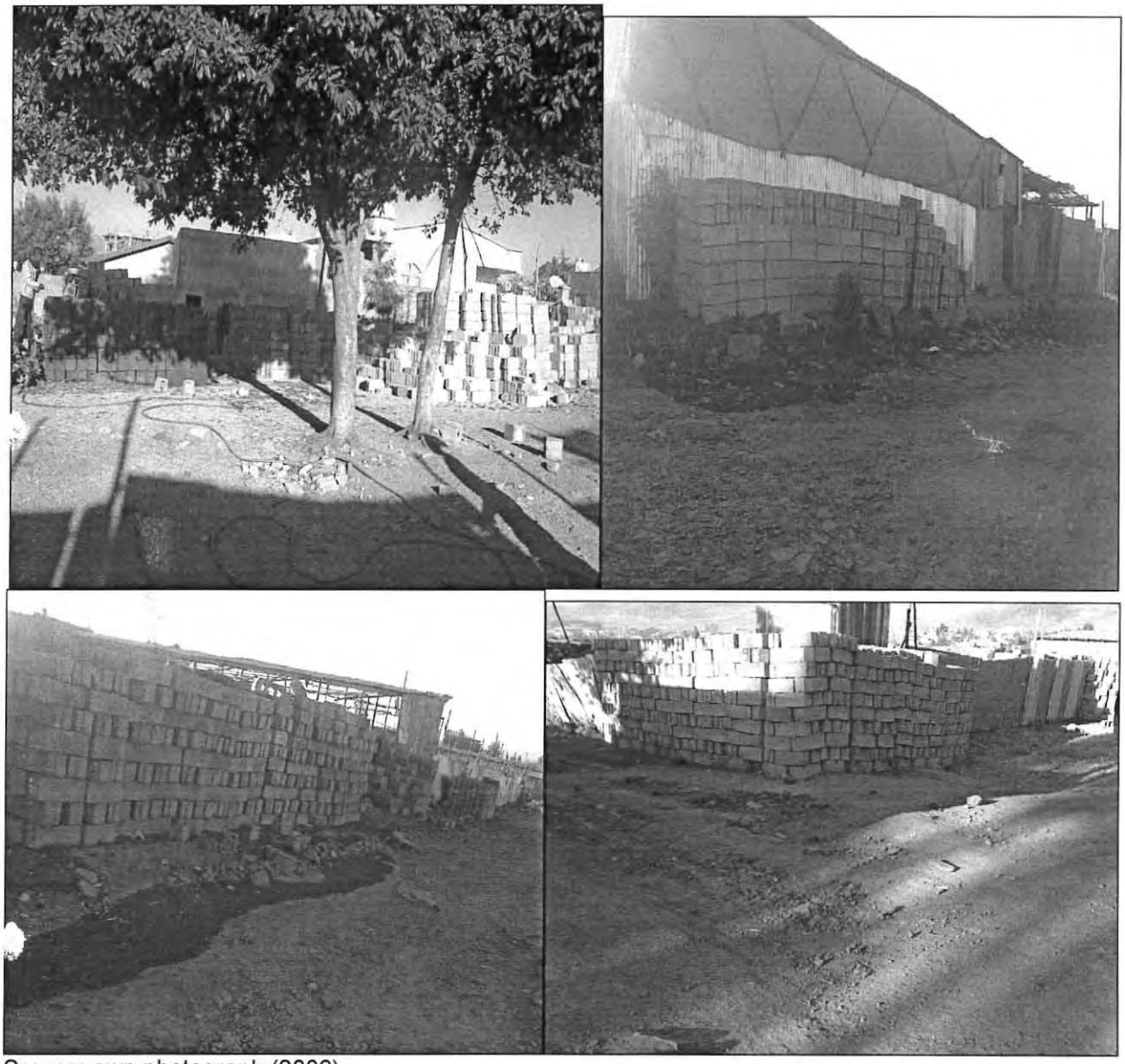
Annex 6. Map of Arada Sub-city



Annex 7 Map of Nifas SilK Lafto Sub-city

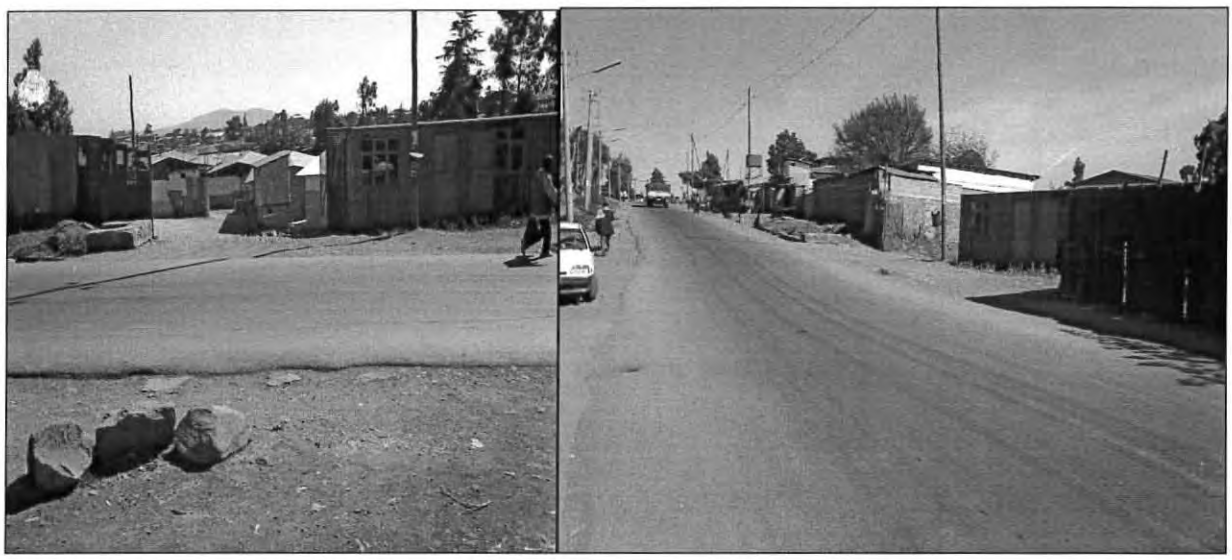


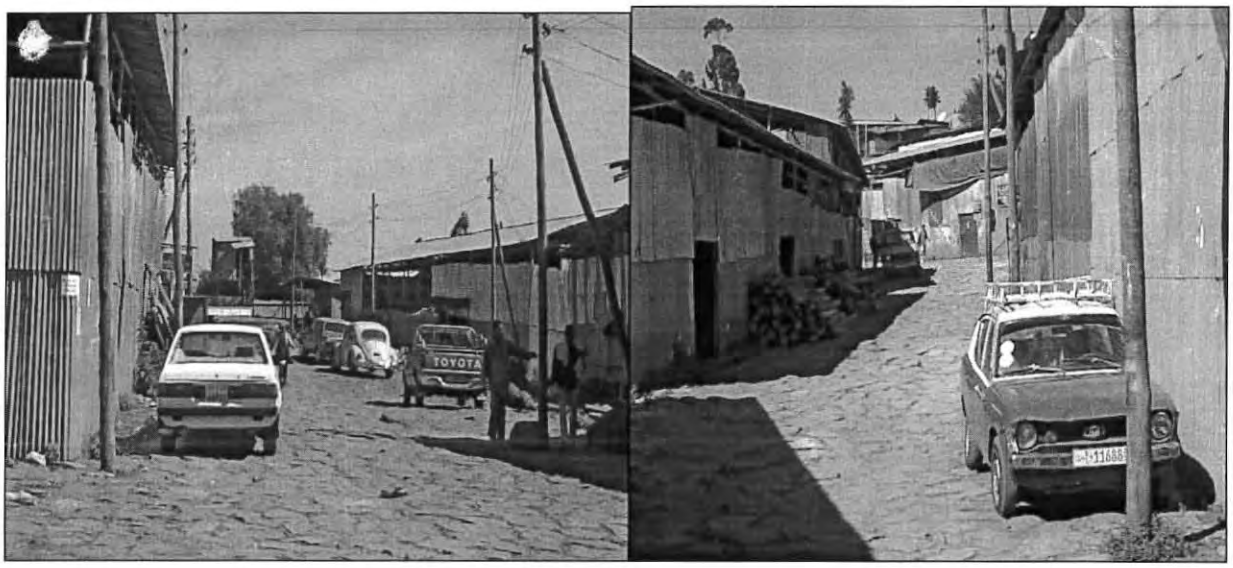
Annex 8 Pictures showing how construction materials production enterprises in Lafto Industry zone store their output outside their production compound due to shortage of production space.



Source: own photograph (2006)

Annex 11. Photos showing setting of the Ras Imiru zones





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 dully acknowledged.

Declared by:

Name: Adil Yassin

Signature: _____

Date: 30-5-2007

This thesis has been submitted for examination with my approval as a university advisor.

Confirmed by:

Name: Dr. Mulat Demeke

Signature: _____

Date: _____