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Assessment of Effectiveness of Institutional Support for Micro and Small Enterprises Development: The Case of Nefas-Silk Lafto Sub-city in Addis Ababa.

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Abstract

Assessment of Effectiveness of Institutional Support for Micro and Small Enterprises Development: The Case of Nefas-Silk Lafto Sub-city in Addis Ababa.

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Addis Ababa University, 2012

The purpose of this study is to analyse effectiveness of institutional supports for micro and small enterprises development in Nifas Silk Lafto Sub-city of Addis Ababa city administration. These institutional supports include training, credit services, working premises, marketing place, market linkage and tax incentives.

The research employed both qualitative and quantitative approaches. Data collection techniques used comprise: MSEs workers survey questionnaires, key informant interview guide, focus-group discussions guide, and format for secondary data collection. The data collected have been analyzed using descriptive statistics. Results were presented using tables and figures.

The findings indicated that institutional supports for micro and small enterprises play a significant role for their growth. On the other hand it was also found that institutional supports for micro and small enterprises face different problems. Therefore based on the findings of the study it was concluded that institutional supports for micro and small enterprises have both positive and negative impacts on MSEs growth in the sub city. Thus the study has recommended that the gaps in strategies such as continues awareness creation in society towards the MSEs commodities, building the capacity of support institutions, strengthening the linkage among the MSEs operators are very important. Moreover, encouraging the involvement of other actors and there is a need for serious follow-up for timely corrections for those of the enterprises who misuse the institutional supports offered by different stakeholders so as to bring growth for the enterprises and the nation as whole.

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Acronyms/Abbreviations

AACA	Addis Ababa City Administration
ACSI	Amhara Credit and Saving Association
BDS	Business Development Service
CSA	Central Statistics Agency
ECA	Economic Commission for Africa
EDRI	Ethiopian Development Research Institute
ETB	Ethiopian Birr
FeMSEDA	Federal Micro and Small Enterprise Development Agency
FGD	Focus Group Discussion
GIZ	German International Development
LDCs	Less Developed Countries
MoTI	Ministry of Trade and Industry
MSMEs	Micro, Small and Medium Enterprises
NGOs	Non-Government Organization
SMEs	Small and Micro Enterprises
SSMEs	Small Scale Manufacturing Enterprises
TEVT	Technical Education and Vocational Training
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
OECD	Organization for Economic Co-operation and Development
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax

CHAPTER ONE

1. INTRODUCTION

1.1 Background

The Micro and Small Enterprise (MSE) sector plays an important role in providing people with livelihood and income generating opportunities, providing income and services to people who cannot get employment in the formal sector (Schorling, 2006). Accordingly Micro and Small Enterprises serve as a source of employment generation; a means for poverty alleviation, efficient utilization/mobilization of indigenous resources, and furnishing the ground for utilization of labor-intensive technologies; a seed bed for entrepreneurship; and a stimulant for local capital accumulation (Mkandawire, 1999 cited in Elias, 2005). Studies also indicate that micro, small and medium enterprises (MSMEs) play a vital role in economic development, as they have been the primary sources of job/employment creation and output growth, not only in less developed countries (LDCs) but also in developed countries (Tambunan, 2006).

The potential advantages of a dynamic MSE sector have generated high expectation in many developing countries about the contribution of this sector to job creation and poverty reduction. Add to this the optimism that the full development of the MSE sector can foster competitiveness in the economy and achieve a more equitable distribution of the benefits of economic growth in both the developed and developing economies. Such conditions have motivated many governments to put in place national policies to stimulate the growth of this sector in service, distribution and manufacturing economic activities (Tegegne and Meheret, 2010).

Consequently Ethiopia has promoted and developed MSE sector as important vehicle to address the challenges of unemployment, economic growth and equity in the country (MoTI, 1997). Accordingly the sector has created 709,083 employment opportunities for about 2 million people with a working capital of 1.4 billion ETB (FeMSEDA, 2011). However, MSEs are confronted with various problems, which are of structural, institutional and economic in nature. Lack of capital, market and working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia paid due emphasis for entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and many others, which therefore need proper attention and improvement (Schorling, 2006).

As a result different institutions are providing support such as training, credit services, working premises, market places, market linkage and tax incentives to MSEs to build their capacity. This study, therefore, aims to assess effectiveness of these supporting packages for MSEs growth in the sub city.

1.2 Statement of the problem.

Literature shows that different scholars have addressed different aspects of MSEs: the employment generation capacity of MSE particularly centring on food processing enterprises in Nifas Silk Lafto sub-city (Assegdech, 2007); and the role of MSEs in reducing youth unemployment in Addis Ababa (Temesgen, 2007). However, other empirical studies taken at national level indicated that a quite large proportion of MSEs remained stagnant in the sense that they failed to grow overtime and their

expansion of employment generation impact was not as it was supposed to be (EDRI, 2003 cited in Lisanetwork, 2007).

Studies also conducted on the constraints [problems] and determinants of growth of enterprises mainly motivated on rural micro enterprises and small scale manufacturing enterprises. Some of these are: research conducted by (Amenu, 2005) focused on the determinants of rural micro enterprises: the case of Konso in southern region and (Estegenet, 2000) dedicated on growth determinants of rural micro enterprises in Baso Worena Woreda, North Shoa; In addition to this, the study conducted on urban MSEs done by (Kassaw, 2001) and (Solomon, 2004) engrossed on the growth determinants of small scale manufacturing enterprises (SSMEs) in Addis Ababa and (Endeshaw, 2005) effort on the growth determinants of SSMEs in Bahir Dar town. None of these studies addressed the effectiveness of support packages provided to the MSEs in the sub city by different agents.

On the other hand, various governmental and non-governmental organizations are providing various institutional supports such as training, credit services, working premises, market places, market linkage and tax incentives to build the capacity of micro and small enterprises in Ethiopia in general and in the sub-city in particular. The importance of knowing the effectiveness of these support packages enables concerned bodies to evaluate strategies designed for MSEs growth and hence improve the performances of MSEs in the sub city.

Therefore, the purpose of this study is to examine the effectiveness of MSEs support packages (training, credit, working premises, market linkages, and tax incentives) in improving MSEs growth in Nifas Silk Lafto sub-city of Addis Ababa city administration.



1.3 Research Questions

- To what extent did the trainings bring the required change for MSEs development?
- Do the credit services provided for MSEs contribute for the development of enterprises?
- What is the contribution of working place provision for the MSEs growth?
- To what extent did the market linkage provide benefit for MSEs development?
- What is the role of tax incentives for MSEs development?

1.4 Objectives of the study

The study has the following general objective and five specific objectives.

1.4.1 General Objective

The overall objective of the research is to assess the effectiveness of institutional support packages for micro and small enterprise development in the Nifas Silk Lafto sub city.

1.4.2 Specific objectives

1. To assess the effectiveness of training services for MSEs growth;
2. To investigate the efficiency of credit services for MSEs development;
3. To assess the efficacy of provision of working places and marketing for MSEs growth;
4. To assess the efficiency of market linkages for MSEs growth and;
5. To examine the effectiveness of tax incentives for MSEs development.

1.5 Methodology

This section deals with description of the study area, research design, method of data collection and method of data analysis.

1.5.1 Description of the Study Area

Nifas Silk Lafto Sub-city is one of the ten sub-cities of Addis Ababa city Administration with twelve woredas (former kebeles). The sub-city has a population of 316,108 out-off which 167,216 are males and 148,892 are females (CSA, 2007). According to the informant from Nifas Silk Lafto Sub-city there are 1890 Micro and Small Enterprises in the sub-city: Metal & Wood Work (396), Textile & Garment (52), Production of Construction Materials (354), Food Preparation and Processing (269), urban agriculture (120), Cobblestone (194), Municipality works (60), and others (445).

1.5.2 Research Design

In this study, both qualitative and quantitative methods with a cross-sectional research design were employed. Triangulation of various methods was used to address the weakness of some methods and benefit from the strengths of others (Dawson, 2002).

1.5.3 Methods of Data Collection

The study was employing different methods: survey method, key informant interview, focus group discussion and secondary data analysis for collecting both primary and secondary data/information.

Survey Method: This method has a scientific characteristic of being logical-careful implementation of logical understanding, deterministic-attempting to explain the reasons for and sources of observed events, and characteristics, general-conducted for understanding the larger population, parsimonious-obtaining the greatest amount of

understanding from the fewest number of variables, and specific-involving specific operationalization of variables (Babbie, 1998). As a result survey method was employed to logically generalize about the institutional support from the sample for the population.

Sampling frame: According to the informant from Nifas Silk Lafto sub-city there are 1,890 Micro and Small Enterprises in the sub-city: Metal & Wood Work (396), Textile & Garment (52), Production of Construction Materials (354), Food Preparation and Processing (269), Urban agriculture (120), Coble stone (194), Municipality works (60), and others (445). These enterprises host 17,657 members of which 11,286 are males and 6,371 are females.

Sampling technique: Purposive sampling technique was employed to select the sub-city as it is at the forefront from all sub-cities and towns in Ethiopia in the Third Cities Week day by ceremonies /festivities at Mekele from December 7 up to 9, 2011. In this festival Nefas Silk Lafto sub-city got award in the MSEs creation of the highest job opportunities for their dwellers. Then proportionate stratified systematic sampling was employed to choose the respondents stratified from each type of enterprises.

Sample size: Sample size determination involves three criteria-level of precision, confidence interval and degree of variability. It also depends on the type of sampling technique-proportionate or disproportionate employed in the study. This study used a proportionate sampling in which sample size is determined as follows:

$$n = \frac{pq (Z_{\alpha/2})^2}{e^2}$$
$$n = \frac{(0.3*0.7) (1.96)^2}{(0.05)^2}$$

$n=323 + 10\%$ (contingency)

$n= 355$

Where n = required sample size

z = confidence level at 95% (standard value of 1.96)

p = proportion of the sample accounted for the study

$q= 1-p$

e = margin of error at 5% (standard value of 0.05)

Instrument: Structured questionnaire was employed to collect data/information. It has been pre-tested and modified accordingly before actual field work. Then data was collected by trained data collectors under the supervision and timely correction of the researcher.

Key Informant Interview: Key informant interviews are effective methods of collecting information when investigators are interested in understanding the perceptions of participants to phenomena or events (Berg, 2001). Key informant interview was conducted with Addis Ababa City Administration Micro and Small Enterprises Development Bureau Process owner; Sub-city MSEs development coordinator; Woreda MSEs development coordinators; representatives of GIZ, USAID, UNIDO; and six Chair persons from Metal & Wood Work, Textile & Garment, Production of Construction Materials, Food Preparation and Processing, Coble stone, and Urban farm MSEs using an instrument of interview guide.

Focus Group Discussion: Focus Group Discussion (FGD) is a dynamic method with a synergistic group effect allowing one participant to brainstorm collectively with other members of the group to generate a far larger number of ideas, issues, topics, and even solutions to a problem than through individual conversations (Berg, 2001). Subsequently six FGDs were conducted with members of Metal & Wood Work,

Textile & Garment, Production of Construction Materials, Food Preparation and Processing, Coble stone, and Urban farm MSEs using checklists as an instrument.

Secondary Data Analysis: This involves the systematic use of printed or written materials for investigation that involves the collecting and analysing of the work of others previously produced in the field in question, use of archival sources such as government documents, and reanalysis of data sets mainly official statistics (Yeraswork, 2010). Accordingly previously done researches particularly by United Nations Industrial Development Organization (UNIDO), government documents and official statistics specifically from Federal Micro and Small Enterprises Development Agency were reviewed critically.

1.5.4 Methods of Data Analysis

Data and/or information gathered through survey method were analysed using descriptive statistics. Alternatively information obtained through key informant interview and focus group discussion was analysed qualitatively mainly through content analysis. Furthermore data and/or information collected from secondary sources was analysed quantitatively and qualitatively to substantiate the results of primary data.

1.6 Significance of the Study

This is a critical study of the effectiveness of various institutional supports provided by different governmental and non-governmental organizations. Thus it is important to evaluate the offered institutional supports so as to scale up the strong and appropriate institutional supports, and propose options for those supports which have problems to overcome their weaknesses. It is also useful for the management bodies of the MSEs under consideration as well as other operating under similar conditions

in improving their performance through appropriate and relevant measures. The information would also provide a good lesson for new MSEs to be established at the very beginning. Furthermore, it is helpful for the researchers, governmental and non-governmental organizations for policy formation, planning and development of MSEs at city and country level.

1.7 Scope of the Study

This study will contribute to the understanding of MSEs system, problems and constraints on the smooth performance of MSEs. The study was concentration on effectiveness of institutional supports for MSEs performance, identification of problems encountered in the operations and the extent of MSEs satisfaction with service provided by institutions in Nifas Silk Lafto sub-city. In the sub-city there are twelve woredas and several types of micro and small enterprises in Nifas Silk Lafto Sub-city. As there are some constraints such as including only six woredas and six types of MSEs (Metal & Wood Work, Production of Construction Materials, Textile & Garment, Food Preparation and Processing, Coble stone and Urban farm) which was caused by time and finance.

1.8 Limitation of the Study

Although efforts were made to investigate the effectiveness of institutional supports in Nifas Silk Lafto Sub-city, there were some limitations. Some of these limitations are coverage of the study, i.e. out-of twelve woredas study covers only six *woredas* (former *Kebeles*); limited coverage of the enterprises, i.e. from several types of enterprises only six types of enterprises were taken under study; these limitations were caused by time and financial constraint. Moreover the study wouldn't address the internal factors that affect the development/growth of MSEs.

1.9 Organization of the paper

This paper was organized into four chapters. The first chapter deals with introduction while the second chapter deals with review of related literatures. The third chapter which is the main part of the study deals with results and discussion. Finally the last chapter deals with conclusion and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter presents basic concepts, theoretical framework, and the role of micro and small enterprises, constraints of micro and small enterprises, institutional supports for micro and small enterprises and conceptual framework of the study.

2.1 Basic Concepts

As definitions given to micro and small enterprises (MSEs) differ from country to country, MSEs may mean different things to different people and used interchangeably with various implications and from time to time (USAID, 2001). Some countries define MSEs quantitatively based on capital (assets) or employment. For instance, in most European countries, which are member states of European commission, define Micro enterprises as those enterprises that have less than 10 employees and with annual turnover of less than 2 million Euros; whereas small enterprises are enterprises with less than 50 employees and less than 10 million Euros (European Commission, 2009). On the other hand, countries such as Tanzania and Ghana define micro enterprises as those enterprises that have one to four employees (Masakure et. al. 2007; Kishebuka, 2005).

Other countries define MSEs qualitatively by setting criteria's about the nature, production and managerial responsibilities, type of technology and equipment use, type of market supplied (local, national or international), etc. of the enterprises (Allal, 1999). Countries such as, India classify small scale industries based on their close integration with local communities, dependency on nearby markets for output and supply, lack or restricted access to capital from organized capital market, relative little

specialization in management, no special bargaining strength in buying and selling, etc. (Assefa, 1997).

In general, Size of employment and capital investment are mostly used criteria's to define Micro and small enterprises (MSEs). However, lack of universally accepted and consistent definition, i.e. only ad hoc working definitions, led to confusion and failure to distinguish between segments. As a result, the definitions have significant implication on the structure of interventions and promotional support that could be provided to the sector (UDEEC, 2002). This study, however, use the modified operational definitions of micro and small enterprises in Ethiopia which were based on the following; Number of workers employed in the enterprise; the total assets of the enterprise excluding building cost; The jobs that the enterprise engaged this are two types: - Industry (manufacturing, construction and mining) and service sector (small trade, transport, hotel and tourism, information technology and maintenance works); The expected inflation rate in the coming five years; and foreign exchange rate are the major criteria for setting the strategies (FeMSEDA, 2011).

Micro Enterprises are those small business enterprises which have five numbers of employees including the owner and family members, and with a total asset of not exceeding ETB 50,000 for service rendering enterprises and 100,000 ETB for industrial and excluding high tech consultancy firms and other high tech establishments.

Small Enterprises are those business enterprises which have six to thirty numbers of employees including the owner and family members, and with a total asset between 50,001 up to 500,000 for service rendering enterprises and 100,001 up to 1,500,000 ETB for industrial sector and excluding high tech consultancy firms and other high

tech establishments and if the numbers of workers are in dilemma capital have priority (Ibid).

Institutional support is a support provided by different organizations such as government, non-government and private for the development of MSEs in the form of training, credit services, working premises, market linkage and tax incentives (AACA, 2011).

Growth/development is the steady process by which the productive capacity of the enterprise is increased over time to bring about change in the output and income. Growth of MSEs can be measured in several ways, including growth in sales, profits, or number of workers (McPherson, 1994).

2.2 Theoretical Framework

There are various theories developed by different scholars to explain the contribution of different factors and actors for micro and small enterprises growth or development. Some of these are the entrepreneur in theories of the firm, theories of entrepreneurial choice, and theories of stages of development.

2.2.1 The Entrepreneur in Theories of the Firm

In static theories of competitive equilibrium, the size of the firm is determined by the efficient allocation of given resources, including entrepreneurial resources, under given technologies. Accordingly, the observed firm size is the efficient size, in the sense that long run costs are minimized at that point. Growth follows from the assumption of profit-maximizing behavior and from the shape of the cost functions. A firm will grow until it has reached the size where long run marginal costs equal price, which is assessed as the "optimum" size of the firm (Lucas, 1978).

Thus, (Lucas, 1978) equates the firm with the entrepreneur or manager and he assumes that a firm's output is a function of managerial ability as well as capital and labor. Lucas postulates therefore one production technology subject to constant returns to scale, and a separate managerial technology with diminishing returns to scale or "span of control." Managers with higher abilities (i.e., higher efficiency levels) will have lower marginal costs and therefore will produce larger outputs. However, firm expansion will be limited due to decreasing effectiveness of the manager as the scale of the firm increases. An implication of the Lucas model is that, for a small business to grow, the small business owner must be willing and able to relinquish many day-to-day control functions and delegate those tasks to an enlarged, specialized management team (Papadaki and Chami, 2002).

According to Lucas' theory, the variation in levels of business acumen is the major determinant of business growth (as well as of business formation and dissolution). Alternatively, as proposed by (Kihlstrom and Laffont, 1979), the major determinant of business growth is the differing taste for risk among individuals. Thus, Kihlstrom and Laffont assume that production technology is risky, and that entrepreneurs who have the ability or propensity to take risks in the face of uncertainty will produce more output. Firm size is therefore limited by the entrepreneur's willingness to take risks (Papadaki and Chami, 2002).

The theories discussed above are static. They say little about how an industry and the firms within it evolve over time and they ignore the fact that individuals can learn their business acumen by operating businesses over time (Ibid).

Jovanovic, 1982 addresses these deficiencies by developing a model of the firm life cycle based on learning. According to Jovanovic's life cycle model, individuals differ in their entrepreneurial abilities (as in Lucas), but they are unsure of their abilities. In

his model, production technology is risky (as in Kihlstrom and Laffont), partly because individuals are uncertain about their abilities and partly because production is inherently risky. His model also assumes that individuals learn about their abilities over time by observing how well they perform in a tough business world. Individuals who find out that they have underestimated their abilities in one period will expand output in the next, while those that overestimated their abilities will dissolve their business (Papadaki and Chami, 2002).

Jovanovic's model has a rich set of empirical implications. Young firms have accumulated less information than older firms about their managerial abilities. Consequently, younger firms have more variable growth rates than older firms because they have less precise estimates of their true abilities. For the same reason it follows that there will be more exits among younger firms, but also that among surviving firms, younger firms will grow faster than older firms. As younger firms tend also to be smaller firms, Jovanovic argues that the same observations hold for small firms as well. Surviving small firms are expected to grow faster than larger firms and to have more variable growth rates (Ibid).

2.2.2 Theories of Entrepreneurial Choice

In theories of entrepreneurial choice, people have certain characteristics that are associated with the propensity for entrepreneurship. Individuals who have more of these characteristics are more likely to become entrepreneurs than those who have fewer. An individual chooses to create a new business so as to maximize his expected utility. Utility, in turn, is a function of entrepreneurial or wage income, and of attitudes that affect the utility that the person derives from entrepreneurial activity, such as one's taste toward work effort, risk, independence, working close to customers, etc. Income, in turn, depends on the individual's ability to generate profit,

such as managerial abilities to raise capital, and abilities to perceive new market opportunities and to innovate (Papadaki and Chami, 2002).

Theories of small business growth have extended analysis of the decision to start a business to that of the decision to grow the business. According to (Davidsson, 1989, 1991), firm growth is an indication of continued entrepreneurship. Davidsson notes that economic theories take the willingness to grow a business for granted, by assuming profit maximization. However, empirical evidence suggests that small business owners are reluctant to grow even if there is room for profitable expansion and that profitable firms of different sizes co-exist within industries. Thus, Davidsson argues that growth is a choice of the owner-manager and that profit maximization is only one of the possible motives for business growth. Davidsson draws from psychological theories of motivation, which recognize that individuals differ in their motivational make-up. According to the "Need for Achievement" motivation theory, individuals differ in the degree they strive for achievement satisfaction. If profit is used as a measure of success, then the striving for achievement coincides with the behavior predicted by profit maximization, but he stresses that the latter is neither the sole nor the dominant motive for growth (Ibid)

Indeed, in empirical models of small firm growth, the characteristics of founders of businesses were linked to their growth aspirations (Davidsson 1989; Kolvereid, 1990), and the growth performance of their ventures (Kimberly 1979; Cooper et al. 1994).

2.2.3 Theories of Stages of Development

This theory states that there are five stages of growth of a firm: existence, survival, success, takeoff, and resource maturity. In each stage of development a different set of factors is critical to the firm's survival and success (Papadaki and Chami, 2002).

2.2.3.1 Existence

In this stage the main problems of the business are obtaining customers and delivering the product or service contracted for. Some of questions raised here are can we get enough customers, deliver our products, and provide services well enough to become a viable business; can we expand from one key customer or pilot production process to a much broader sales base; and do we have enough money to cover the considerable cash demands of this start-up phase (Churchill and Lewis, 1983).

Enterprise establishment has some requirements. While some of the requirements are fulfilled by the entrepreneur per se others will be fulfilled by other organ. It is to fill such gaps that institutional support is necessary at this stage. Different supports such as start-up capital and entrepreneur skill are provided by governmental organizations, non-governmental organizations, community based organizations, faith based organizations, and private organizations.

2.2.3.2 Survival

In reaching this stage the business has demonstrated that it is a workable business entity. The key problem thus shifts from mere existence to a relationship between revenues and expenses. The main issues raised here are can we generate enough cash to break even and to cover the repair or replacement of our capital assets as they wear out; and can we at minimum generate enough cash flow to stay in business and to finance growth to a size that is sufficiently large to earn an economic return on our assets and labour (Churchill and Lewis, 1983).

Once enterprises are established they should not be abandoned, rather supported to make them survive and profitable. To do this again different organizations provide various institutional supports like market linkages and tax exemptions.

2.2.3.3 Success

The decision facing owners at this stage is whether to exploit the company's accomplishments and expand or keep the company stable and profitable, providing a base for alternative owner activities. Thus a key issue is whether to use the company as a platform for growth or a means of support for the owners as they completely or partially disengage from the company. Behind the disengagement there might be a wish to start up new enterprises (Churchill and Lewis, 1983).

This is a very important stage of enterprise development. At this stage enterprises can be supported by different institutions so that they can be successful at the micro and small enterprise level, and may aspire to transfer into medium sized enterprise.

2.2.3.4 Take-off

In this stage the key problems are how to grow rapidly and how to finance that growth. As a result the most important questions are can the owner delegate the responsibility to others to improve managerial effectiveness of the fast growing and increasingly complex enterprise; and will there be enough cash to satisfy the great demands growth brings (Churchill and Lewis, 1983).

At this stage the enterprise grows rapidly and become more and more complex. As a result the prevailing system of management should be changed accordingly, for instance, hiring a skilful and qualified manager. Moreover there should be enough capital to make that enterprise function in its full potential. Hence this enterprise should get credit services from different organizations.

2.2.3.5 Resource maturity

The greatest concerns of the company at this stage are, first, to consolidate and control financial gains brought on by rapid growth and, second, to retain the advantages of small size, including flexibility of response and the entrepreneurial spirit. The

enterprise must expand the management force fast enough to eliminate the inefficiencies that growth can produce and professionalize the company by use of such tools as budgets, strategic planning, management by objectives, and standard cost systems (Churchill and Lewis, 1983).

Here the enterprise is fully transformed from the micro and small enterprise level to medium sized enterprise. As a result the entrepreneur's initial entrepreneurial ability should not be deteriorated rather it should be scale-up to higher level of innovation. Alternatively the entrepreneur should work hard to sustain the growth of that enterprise or company by fulfilling various necessary inputs such as skilled manpower, finance, and raw materials.

2.3 Role of Micro and Small Enterprises

Micro, small and medium-scale enterprises (SMEs) make important contributions to economic and social development. In many countries they have been the major engine of growth in employment and output over the last two decades. In developing countries they are seen as a major 'self-help' instrument for poverty eradication. In transition economies, they provide the best illustration of the changes in ownership structures, business culture and entrepreneurial behavior over the past decade. In all economies, many micro businesses and self-employed persons operate outside the 'formal' sector. One of the major challenges to governments in designing institutional, organizational and regulatory frameworks is therefore to encourage entrepreneurs to engage in legitimate activity. In pursuing this goal, governments have moved away from earlier, rather simplistic, approaches, recognizing that SMEs not only create jobs but play a wider role in social, economic and political development. They are OECD increasingly seen as central to creating a democratic society and developing an 'enterprise culture' (2004).

The importance of small and medium- sized enterprises (SMEs) in contributing to job creation and output growth is now widely accepted in both developed and developing countries. Of particular interest is the process of expansion of these enterprises from very small into medium size, as it is when they become medium-sized that growth-oriented SMEs make their most tangible contribution to economic growth and job creation. However, in many developing and least developed countries (LDCs) there is evidence of a “missing middle”: a shortage of middle-sized growth-oriented SMEs that could make an important contribution to development. This “missing middle” is generally attributed to hidden and largely inadvertent biases in the economic policies of these countries that militate against the gradual and organic growth of their enterprises. The lack of coherent SME development strategies, which take into account the three dimensions of enterprise evolution (i.e. start-up, survival and growth) and the different needs of enterprises in their various stages of evolution, is another important contributory factor (UNCTAD, 2005).

Generally micro and small enterprises serve as a source of employment generation; contribute to poverty alleviation; help in efficient utilization/mobilization of indigenous resources; furnish the ground for the utilization of labour intensive technologies; serve as a seed bed for entrepreneurship; and stimulate local capital accumulation (Tegegne and Helmsing, 2005). Small and Micro Enterprises (SMEs) also play an important economic role in many countries. In Kenya, for example the SME sector contributed over 50percent of new jobs created in 2005 but despite their significance, SMEs are faced with the threat of failure with past statistics indicating that three out five fail within the first few months (Bowen, Morara and Mureithi, 2009).

In recent years, the significance contribution and the potential of the MSMEs sector has been recognized in Ethiopia. Accordingly, the government has adapted the new

micro and small enterprises development strategy to promote the sector. The policy document highlighted the crucial contributions of the sector in Ethiopian economy and the government's commitment for improving their constraints (MoTI, 1997). The White Paper on the promotion of the MSME sector is an important step, which indeed shows government's attention to the promotion of and development of the sector. However, while the document paper gives much attention to the potentials contributions of the sector, regrettably there is no clear and systematic approach to alleviate constraints of the sector. Many challenges still exist. The existing reality shows that the development prospect of the sector is constrained by several factors including the high competition from international and domestic large firms (Eshetu and Mammo, 2009).

The role of the MSE sector in employment creation, economic growth and poverty alleviation (as opposed to being viewed as marginal and unproductive, tax evader, and with limited contribution to economic growth) has received the recognition it deserves (Gebrehiwot and Wolday, 2006). Hence these days micro and small enterprises in Ethiopia serve as a source of employment generation, and hence poverty alleviation; mobilization of fragmented capital of individuals that would otherwise remain unutilized; utilization of local resources (inputs) and hence reinforcing backward linkages with local suppliers; income generation to local governments through taxation; satisfying the market demands of poor as MSEs offer relatively cheaper commodities to the market; and development of atmosphere of entrepreneurship in the area (Elias, 2005).

2.3.1 Employment generation and poverty alleviation

The MSEs by expanding entrepreneurship provide employment and thus sustainable income. Thus micro and small enterprises development is one of the enduring

approaches of poverty reduction (Tegegne and Meheret, 2010). MSEs provide new income-earning opportunities for various segments of population. As a result they absorb the labour with limited formal training which minimizes the pressure of unemployment (Liedholm and Mead, 1999). Furthermore the Micro and Small Enterprise (MSE) sector plays an important role in providing people with livelihood and income generating opportunities, providing income and services to people who cannot get employment in the formal sector (Schorling, 2006). More specifically MSEs play a significant role in reducing youth unemployment (Temesgen, 2007).

2.3.2 Mobilization of fragmented and unutilized capital of individuals

Different individuals may have different capitals such as human, social and financial in a fragmented way. When they joined their hands through MSEs they can use these resources/capitals both effectively and efficiently. For instance, MSEs help to mobilize the unutilized, underutilized and idle family savings spent on unproductive activities and unproductive assets like gold (Assefa, 1997).

2.3.3 Utilization of local resources/inputs

Unlike large-scale industries which depend on imported capital goods, MSEs use less-import-intensive, local resources and have stronger backward linkages. Therefore, MSEs can have positive effects on trade balance since small enterprises use indigenous materials and can provide export potential for niche products (Wangyal, 2005).

2.3.4 Satisfying the market demands of poor

Micro and Small Enterprises produce relative cheaper goods and services locally using labour-intensive methods satisfying the needs of people (particularly the poor). Hence it contributes to the variety of consumer goods. Besides, they develop a pool of

skilled and semi-skilled workers that will be a basis for future industrial expansion (Abraham, 1997). Moreover, MSEs inject competition into the economy and provide checks against monopoly (Andu-Alem, 1997).

2.3.5 Development of entrepreneurship spirit

MSEs are institutions of indigenous entrepreneurial and managerial capabilities. The unskilled workers develop their entrepreneurial and managerial talents by exercising in small businesses that are relatively easy to start and manage. The most successful ones become owner and manager of larger enterprises (Kapur, 1994 cited in Abraham, 1997). It also gives recognition to the dignity of the individual and spread the vision that change is possible (Liedholm and Mead, 1999).

2.3.6 Transfer and adoption of technology

MSEs use simple and multipurpose machinery and equipment. Since machinists easily master the machines, they will be able to modify or adapt to suit domestic needs. The modification and adaptation can ultimately replace the machinery and equipment that was imported previously (Abraham, 1997).

2.4 Constraints of Micro and Small Enterprises

The MSEs program faces numerous challenges that need to be overcome in order to ensure smooth functioning and sustainability. The challenges come from the nature and adequacy of the support services, the status of the business in terms of expansion and competition, the attitudes of the beneficiaries towards entrepreneurship, etc (Tegegne and Meheret, 2010). The major constraining factors are:

2.4.1 Lack of finance

MSEs lack investment capital for buying machinery and equipment, and to run the business. This is mainly due to the unwillingness of banking institutions to provide

loans to small-scale entrepreneurs as most of them are unable to provide adequate collateral/security for loans. MSEs are also considered as involving high risk factor, not dependable and involve high administrative costs (Psaila, 2007). Alternatively high interest rate, short repayment period, lack of other source of finance, inefficiency of financial market, procedures and lack of knowledge about bank regulations and services are the main challenges to get access to credit (Rudjito, 2003).

In terms of finance it has been found that it is one of the most pressing constraints of the micro and small enterprises industry. Financial availability, however, in the form of loan is not enough. There is a serious demand and supply gap. This is manifested in the form of financial requests that roll over to other years in different regions. Indeed, it was found that many MSEs are registered and licensed but cannot start operations because of lack or shortage of micro-credit. It was realized that this problem has been a serious brake in the start-up of new MSE firms by individuals, partnerships and cooperatives in the four cities (Tegegne and Meheret, 2010).

2.4.2 Lack of working premises

MSEs are exposed to insecurity concerning location and rarely acquire suitable location where they get easy access to markets. For the newly emerging MSEs, land acquisition through lease system decreases the chance of MSEs who aspire to start. The transaction cost of securing premises is also prohibitive (Andu-Alem, 1997).

The availability of business premises in adequate quantity and at convenient locations is a serious challenge in the implementation of the MSE development strategy. According to the policy document, there is an intention of allocating 4900 hectares of land for the development of the sector in different cities and towns of the country. The provision of land for expansion has been implemented and the study showed that a sizeable land has already been allotted in different regions. The competing use of land

in urban areas and its scarcity in cities constitute significant constraints for MSE development. As a result, a policy shift towards availing buildings on rent basis is noted. The demand, however, still lags behind the supply and there is a challenge of getting land at the required locations (Tegegne and Meheret, 2010).

2.4.3 Lack of entrepreneurial, managerial and other skills

Lack of innovation and managerial capability are among the basic constraints to the growth of the sector. This is due to reward to skilled labour has not been attractive and the training, promotional and other provisions to manage their human resources are inappropriate. Lack of incentive mechanism for workers, who are usually, paid fixed or low salaries regardless of their contribution to increase the performance and profitability of the enterprise and poor record keeping are the major managerial problems faced by enterprises. Furthermore, the technology MSEs used is out-dated, unhygienic and inflexible that obsolete technologies of production hinder the growth of the enterprises (Assefa, 1997).

The micro-entrepreneur view of the MSE literature indicates that one of the reasons for operators to join the MSE sector is for its flexibility and earning opportunity. Thus operators are believed to be entrepreneurs with the spirit and determination to develop their business. However, operators joined the sector for lack of options and due to high unemployment which do not support the entrepreneurial view. Despite this, however, it is quite possible for operators to turn themselves into entrepreneurs once they are in the business. This, however, could be achieved if MSE members and owners tend to be creative and innovative in firm-decision making, including exploring alternative sources of credit, entering the competition arena for markets and firm inputs, applying private sector criteria of profitability to evaluate successes, etc (Tegegne and Meheret, 2010).

MSEs quite often have difficulty in identifying, locating, and evaluating new or improved equipment, materials, etc. Apart from basic machinery, small firms face difficulty in locating and acquiring technology that suites their need. Absence of any form of sharing resource among entrepreneurs is also the other managerial weakness (Wangyal, 2005).

In addition, lack of entrepreneurial skill in MSEs is due to the formal education system which prepares students for paid employment. The existence of very few vocational institutions leads to low level of innovation in almost all sectors of the economy. Moreover, on job training is the norm and usually considered sufficient to obtain the knowledge and skills required for undertaking various economic activities in the informal sector (Blunch et. al. 2001).

2.4.4 Lack of infrastructure

Poorly developed infrastructures hinder the development of new commodity and resource markets as well as inhibiting the efficient operation of existing ones. Therefore, shortages of infrastructures have been major constraints to the growth of enterprises and development of the sector (Vincent, 2006).

2.4.5 Lack of access to market

Marketing related problems is one of the prominent problems of MSEs. This is because the MSE operators lack basic marketing skills and MSEs concentrate on similar commodities, which lead them to fierce competition since they lack resources to undertake market researches and obtain market information (Ishengoma and Kappel, 2008). The other reason is, most entrepreneurs produce and try to sell their products or services around homestead, thereby limiting their market to individual buyers or the immediate neighbourhood. Often these practices stem from lack of

information about market opportunities or access to markets (Getachew and Getachew, 1997; Zewdie and associates, 2002). These factors result in lack of demand, which is a primary problem for the enterprises.

MSEs need markets in order to survive and sustain. The effort in different parts of the study cities to provide market linkage, particularly with government institutions, has helped these businesses to gain a continuous demand for their products. Two problems crop up from this arrangement, however. First, not all of the enterprises are beneficiaries of this market linkage policy. It is only those businesses whose products are demanded by government institutions, such as prisons, universities and housing agencies, which are able to gain from such arrangements. Second, though regional governments try to convince institutions to form market linkages, the latter have options to invite private sector participants as well. Under this circumstance, MSEs which were dependent on government institutions will find it increasingly difficult to sustain themselves (Tegegne and Meheret, 2010).

2.5 Institutional Supports for Micro and Small Enterprises

SMEs can benefit from two types of support. On the one hand, there is the government's role in creating an enabling regulatory and policy environment. On the other, there is direct support through private and public agencies that provide financial assistance and technical services to SMEs (ECA, 2001).

Different institutional supports are provided in Africa. For instance, in Zambia supports are provided for micro and small enterprises. Of the institutions providing support of some kind to small enterprises, 55 per cent are NGOs. Other business support comes from cooperatives, church organizations, research institutions and development banks, which together account for 31 per cent. Private sector organizations account for only 3.4 per cent of total business support institutions.

Table 3.7: Role of the Enterprises

Role	No of Responses	Per cent
Employment generation	319	50
Poverty alleviation	86	13.5
Transfer and adoption of technology	101	15.8
Mobilization of fragmented and unutilized capital of individuals	66	10.4
Utilization of local resources/inputs	13	2
Development of entrepreneurship spirit	53	8.3
Total	638*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

Out of the surveyed MSEs workers, table 3.7 points out that 50% of the responses show that individuals establish their enterprises mainly for employment generation. This implies that the major role of most of the enterprises is employment generation. This was also substantiated by key informants and focus group discussion participants as they pointed out that MSEs play a significant role for creating employment opportunities and generating income.

The other general information considered in this study is the major problems of the enterprises. Previous research findings show that most of micro and small enterprises face lack of start-up capital, working places and market accesses (Gebrehiwot and Wolday, 2006; Tegegne and Helmsing, 2005; Tegegne and Meheret, 2010).

Table 3. 8: Major Problems of the Enterprises

Problems	No of Responses	Per cent
Lack of working place	227	35.6
Lack of start-up capital	68	10.6
Lack of access to raw materials	17	2.7
Lack of skill	28	4.4
Lack of market	298	46.7
Total	638*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

As it is indicated in table 3.8 out of the surveyed MSEs workers, 298 (46.7%) of the respondents face a problem of lack of market and 227 (35.6%) lack working place. This shows that the majority of the enterprises face a problem of market. Key informants and focus group discussion participants also substantiated the survey results that most of the enterprises are suffering from lack of market due to various reasons such as negative attitude of customers towards MSEs goods and services, and limited capacity of the enterprise owners, woredas and sub-cities in finding market linkages.

The other general information considered in this study is the mechanism of overcoming the problems faced by the enterprises. Previous research findings show that most of the enterprises overcome various problems through different mechanisms (Gebrehiwot and Wolday, 2006; Tegegne and Helmsing, 2005; Tegegne and Meheret, 2010).

Table 3. 9: Mechanisms of Overcoming the Problems

Mechanisms	No of Responses	Per cent
By myself/ourselves	90	23.4
Assistance from the family	41	10.6
Assistance from Friends	26	6.8
Institutional support	228	59.2
Total	385*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

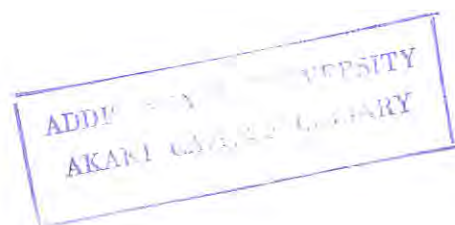
As it is shown in table 3.9 out of the surveyed MSEs workers, 228 (59.2%) of the respondents overcome their problems through institutional support and 90 (23.4%) by their own effort. This shows that the majority of the enterprises overcome their problems through institutional support. Key informants and focus group discussion participants also underlined the significance of different types of institutional supports for overcoming various problems faced by micro and small enterprises.

The other general information considered in this study is the type of institutional support employed for overcoming the problems of the enterprises. Previous research findings show that different institutional supports were provided for micro and small enterprises to solve their problems (Tegegne and Meheret, 2010).

Table 3.10: Type of Institutional Supports

Type	No of Responses	Per cent
Training	166	24.8
Credit services	138	20.6
Provision of working premises	188	28.1
Market linkage	58	8.7
Tax incentives	119	17.8
Total	669*	100

Source: Own Survey, (2012)



* The total number is greater than 319 due to multiple responses

As it is pointed out in table 3.10 out of the surveyed MSEs workers, 188 (28.1%) of the responses show that their enterprises get a support of working premises, 166 (24.8%) get training and 138 (20.65%) get credit services. This shows that the majority of the enterprises get an institutional support of working premises. This was also substantiated by key informants and focus group discussion participants by arguing that most of the MSEs operating in the sub-city have got working premises. However, particularly focus group discussion participants pointed out that although most MSEs have got working premises, they are facing various constraints/problems such as limitation of the space to accomplish their activities.

3.3 Institutional Support for Micro and Small Enterprises

3.3.1 Training

Training plays a pivotal role in the effectiveness of micro and small enterprises in a certain country. Previous research findings show that most of the enterprises took some kinds of trainings either before or after starting the business (Tegegne and Meheret, 2010).

The first variable considered in assessing the effectiveness of training as institutional support was the type of training. According to Key Informant Interviews, generally there are two types of trainings provided in Nifas Silk Technical and Vocational College, Higher 20 Technical and Vocational College, Gofa Technical and Vocational School, and Woreda 6 Technical and Vocational School. The first type of training is in-service trainings for those of individuals who were working MSEs business previously and the other one is those who would like to join directly one of technical and training colleges. In Nifas Silk Lafto sub-city 5,469 individuals benefited from such trainings up to 2011.

Table 3.11: Types of Training

Types	No of Responses	Per cent
Management and leadership	137	18.1
Entrepreneurship	169	22.4
Technical skill	148	19.6
Marketing	125	16.6
Technology adoption	92	12.2
Bookkeeping	84	11.1
Total	755*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

As it is indicated in table 3.11 out of the surveyed MSEs workers, 169 (22.4%) of responses show that respondents get a training of entrepreneurship skill, 148 (19.6%) get technical skill and 137 (18.1%) get management and leadership. This shows that the majority of the members of the enterprises get entrepreneurship training. Key informants and focus group discussion participants also argued that once individuals who are establishing different enterprises get entrepreneurship training it will be easy for them to handle the business.

The other variable considered in assessing the effectiveness of training as institutional support was the benefit of the training. As table 3.12 shows, out of the surveyed MSEs workers, 255 (41.8%) of the responses show that different trainings benefit their enterprises in increasing efficiency, and 198 (32.5%) in improving production skill. This shows that the majority of the enterprises benefit from the training for increasing efficiency. Key informants and focus group discussion participants also underlined the significance of training for increasing efficiency. They argued that various types of trainings offered to MSEs workers are contributing for the efficient use of raw materials, initiation for work, and financial management.

Table 3.12: Benefits of Training

Benefits	No of Responses	Per cent
Better management of the enterprise	74	12.1
Production skill improvement	198	32.5
Increasing efficiency	255	41.8
Finding market linkages	83	13.6
Total	610*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of training as institutional support was the problems of the training. As it is pointed out in table 3.13 out of the surveyed individuals MSEs workers, 217 (30.6%) of the responses have shown that they face a problem during training as it is not supported by practice, 186 (26.2%) for not demand driven, 157 (22.1%) for lack of appropriate trainers and 149 (21%) for not specific to the sectors. This shows that the majority of the enterprises workers in relation to trainings face a problem of not supported by practice. This was also substantiated by key informants and focus group discussion participants by pointing out different problems in relation to trainings such as lack of skills of trainers, not knowing the regulations of MSEs, low participation of the enterprise members and lack of finance to engage directly after training. They further said that some of the trainees have a better knowledge of practice than some of the trainers; and on the other hand most of the trainers have ample theoretical knowledge. Consequently, there is disagreement between the trainers and the trainees.

Table 3.13: Problems of Training

Problem	No of Responses	Per cent
Lack of appropriate trainers	157	22.1
Not demand driven	186	26.2
Not specific to the sectors	149	21
Not supported by practice	217	30.6
Total	709*	99.9

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of training as institutional support was solutions for problems in offering the trainings. As it is indicated in table 3.14 out of the surveyed MSEs workers, 319 (40.7%) of the responses have proposed a solution for the problems in offering trainings to be supported by practice and 216 (27.6%) to be demand driven. This shows that the majority of the enterprises' workers have proposed a solution for the success of the trainings to be supported by practice. Key informants and focus group discussion participants also underlined the significance of supporting the training with practice. Moreover they have indicated some solutions in relation to trainings such as experience sharing from peers, building the capacity of the trainers through refreshment trainings and assigning cabinets to follow-up those members of the enterprise who are not using this institutional support appropriately.

Table 3.14: Solutions for problems in offering Training

Solution	No of Responses	Per cent
To be demand driven	216	27.6
To be supported by practice	319	40.7
To be sector specific	103	13.2
Assigning appropriate trainers	145	18.5
Total	783*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

3.3.2 Credit Services

Getting credit services plays a significant role for the effective functioning of micro and small enterprises in a certain country in which most of the individuals lack start-up capital. Previous research findings show that most of the enterprises lack start-up capital and they took credit from micro finance institutions (Gebrehiwot and Wolday, 2006). According to Key Informant Interviews, credit services are provided based on their performance and amount of savings in the preceding six (6) months. After the newly established enterprise is evaluated for its performance and saved for 6 months, it will get 60% of its savings from microfinance institutions mainly Addis Saving and Credit Association. The enterprise is expected to payback the credit within five years by paying 20% every year.

The first variable considered in assessing the effectiveness of credit services as institutional support was source of start-up capital. Previous research findings show that most of micro and small enterprises took some credits before or after starting the business (Ibid).

Table 3.15: Source of Start- up Capital

Source	No of Responses	Per cent
Loan from Micro Finance	257	42.6
Members contribution/own saving	282	46.8
Help of friends and family	64	10.6
Total	603*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

As it is shown in table 3.15 out of the surveyed MSEs workers, 282 (46.2%) of the responses have shown that their enterprises get the start-up capital from members contribution/own saving and 257 (42.6%) from micro finance institutions in the form

Business and professional associations generally have very little capacity to undertake business support although the business chambers have started to do so. The majority of NGOs provide vocational and technical training, including basic business management and accounting/bookkeeping, leadership skills and general training in entrepreneurship. A number of them also provide credit as part of the package with business training (UNCTAD, 2005).

Although the MSEs, in relation to large firms, are relatively more labor-intensive, more efficient, and more equitable in distributing the income they generate, more widely dispersed geographically, more nurturing of entrepreneurs; there are no economic and political conditions favorable to develop them. The survey report of (CSA, 2003) indicates that MSEs in Ethiopia face a wide range of constraints and problems such as unfavorable regulatory environment, limited access to markets, lack of finance, business development services (BDS), information, business premises, the acquisition of skills and managerial expertise, restricted access to appropriate technology, and limited access to quality business infrastructure (Gebrehiwot and Wolday, 2006). Currently the government amends SMEs strategy with the objective of that in addition that the sector play alleviating poverty & reducing unemployment, to help out the sector to play its pivotal role as a base to medium and large scale industry (Konjit n.a). Hence, there should be institutional supports mainly in trainings, credit services, and provision of working premises, market linkages, and tax incentives for the development of micro and small enterprises.

2.5.1 Training

In most parts of Ethiopia, two types of training are provided for MSEs: technical and business training. Extension workers provide business training while regional or city TVET colleges provide technical training. The duration of the training varies

depending on the type of training. In Amhara region, training in cobble stone work is given for 15 days while training in tailoring is given for one month. Business training is of shorter duration and is usually given for 3 or 4 days. It is not clear how these short trainings impart the necessary skills for the trainees. In general how it is difficult to transfer human capital in short courses (Shreiner, 2001). It is not also clear how trainings are tailored to the needs of the adult trainees (Tegegne and Meheret, 2010).

On the other hand, there seems to be negative attitude, behavior and positions towards micro operators in Ethiopia. Although there are some positive developments taking place currently, they are still harassed and evicted from their premises on the pretext of “urban development”. The micro enterprise operators are disadvantaged through increasing unequal competition in markets on which they depend for survival. An additional barrier is the overarching mindset that entrepreneurship cannot be taught, that it is a creative and innovative way of thinking that comes inherently to some people and not to others. While it is true that some individuals are gifted with creativity to develop new ways of doing things, creativity alone is not sufficient. Ideas must be matched with skills and an understanding of business practices – and these are things that can be taught to help burgeoning entrepreneurs create successful businesses (Gebrehiwot and Wolday, 2006).

2.5.2 Credit Services

Theoretically, MSEs may get financial supports from various institutions such as all levels of government including parastatals, NGOs, community based organizations, development and business associations, private institutions and foreign donor agencies. However, the commitment of these institutions and the degree of cooperation among them largely determines the effectiveness of the support system for MSEs development (MoTI, 1997).

However, in Ethiopia credit is usually given by micro-finance institutions. The regional government or city administration facilitates by providing a revolving fund or acting as collateral for MSEs. Dedebit micro-finance, Amhara Credit and Saving Association (ACSI), Oromia micro-finance and Omo micro-finance are the main financing agencies in Tigray, Amhara, Oromia and the Southern regions. Regions charge different interest rates for the micro-credit provided. In Hawassa, the Omo micro-finance charges 10% interest rate, which is much lower than the interest rate charged by ASCI and Dedebit. A lower interest rate is advantageous to micro-business. However, the challenge is how to provide funds for micro-business at an interest rate that is affordable while at the same time beneficial to lenders (Salmon, 2004) (Tegegne and Meheret, 2010).

2.5.3 Working Premises

Until recently, MSEs in all cities of Ethiopia were provided land by the municipality to be used as working space. Lately, it was observed that the provision of land had put high pressure on the land resources of the cities. There is now a shift from providing land for MSEs to providing premises for rent. While such strategy is useful to alleviate the pressure on land, it has its own financial implication (Ibid).

2.5.4 Market Linkage

Support services for marketing are required to connect companies' products and services with regional and international markets. In Africa the experience is variable, with some countries having a good and relatively efficient network of institutions providing marketing services (Mauritius, South Africa and Tunisia), whereas some others have none (Cameroon, Gabon and Senegal), or ones that work poorly (Ethiopia, Kenya and Uganda). All in all, it seems that marketing services are more

widespread in Africa than technology-related ones, but overall effectiveness tends to be low in both cases (ECA, 2001).

There is broad agreement that SMEs can become effective creators of employment, innovation, income and growth. However, many of them do not realize their full potential because they lack access to markets, finance, technology, and business skills. Globalization and liberalization have compounded these traditional problems of access. Production is now knowledge-based and competition occurs on the basis of both continuous innovation and price. Entrepreneurs need to muster design, have extensive knowledge of markets and technology, and become innovative. Best practice points to the need to support linkages and networking as a key mechanism to facilitate the development of SMEs (UNCTAD, 2005).

In Ethiopia, market linkage is an attempt to create demand for MSE products so that they can sustain their operation. The major form of market linkages is to link MSEs with government institutions and projects. As a result, MSEs are linked with condominium house construction projects, universities, prisons, hospitals etc. These government institutions contract out some of their activities to the MSEs. For instance, MSEs provide food for universities and prisons. MSEs also provide the main construction inputs, such as pre-cast beam, hollow blocks, for government condominium houses. Other efforts include organizing bazaars and trade fairs in cities and towns to popularize the products of the MSEs (Tegegne and Meheret, 2010).

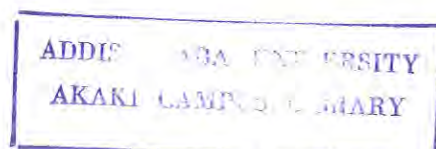
In terms of training, the nature, relevance and adequacy, are not well thought out and coordinated. In many cases training programmes are for a short period of time which may not be adequate to impart skills. The relevance of training for the specific type of job also needs to be evaluated. In this regard, the comment made by key informants in

the Amhara region that training provided by technical colleges is not well integrated into practice is instructive (Ibid).

2.5.5 Tax Incentives

Small businesses are a unique phenomenon for the tax system: besides wage earners, who generally are only subject to income tax withholding, they form the bulk of taxpayers in the tax net. At the same time, however, small businesses are the major contributors to the informal economy operating outside the tax net. The decision to operate outside the formal economy can be motivated by manifold reasons and is not always linked primarily to taxation. However, the majority of empirical studies on the growth of the informal economy conclude that tax and social security contributions are key factors discouraging MSEs to operate in the formal sector. This is not an antagonism. In many developing and transition countries, micro and small enterprises (MSEs) are the most rapidly growing business segment. Their characteristics and also their tax compliance attitude vary significantly. On the one hand, a large number of MSEs register with the tax authority voluntarily or as a result of enforcement actions. On the other hand, high costs, difficult formalization procedures, or the expectation of gaining a comparative advantage from not complying with tax obligations drive many small businesses into operating in the informal economy (World Bank Group, 2007).

However, in general, some empirical studies taken at national level indicated that a quite large proportion of MSEs remained stagnant in the sense that they failed to grow overtime and their expansion employment generation impact was not as it was supposed to be (EDRI, 2003 cited in Lisanetwork, 2007). This raises a question on the efficiency and effectiveness of various institutional supports provided by different organizations. Hence this study will strive to address such problems.

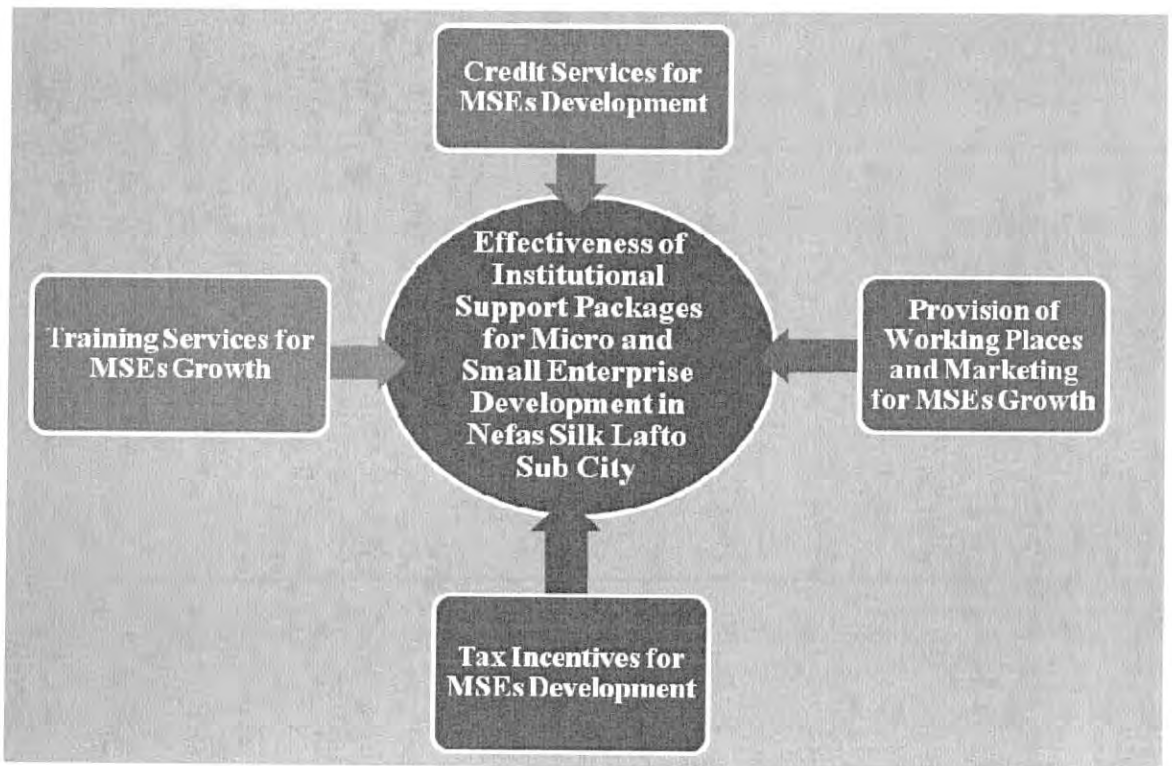


2.6 Conceptual Framework

Theoretically, MSEs may get financial and non-financial supports from various institutions such as all levels of government including parastatals, NGOs, community based organizations, development and business associations, private institutions and foreign donor agencies. However, the commitment of these institutions and the degree of cooperation among them largely determines the effectiveness of the support system for MSEs development (MoTI, 1997).

As indicated in the following diagram, the conceptual framework of this study is within the assessment of effectiveness of various institutional support packages provided for micro and small enterprises development in Nifas Silk Lafto Sub City. These support packages include various types of Training Services, Credit Services, Provision of Working Places, Market linkage and Tax Incentives for the MSEs development in the study sub city.

Figure 2.1: Schematic Conceptual Framework of the Study



Source: Adapted from Rudjito, 2003; Psaila, 2007; Tegege and Mihret, 2010; and FeMSEDA, 2011.

Training is an institutional support provided to build the capacity of entrepreneurs and workers in the enterprises in various skills such as managerial skill, entrepreneurial skill and production skill.

Credit service is an institutional support provided to build the capacity of entrepreneurs in finance.

Working premise is an institutional support provided to the entrepreneurs to get access for working places.

Marketing is an institutional support provided to link the entrepreneurs with various opportunities of getting access to markets.

Tax incentive is an institutional support provided to make the entrepreneurs to compete with the prevailing market.

CHAPTER THREE

3. RESULTS AND DISCUSSION

The findings of this study is presented in three sections: background information of the respondents, general information of micro and small enterprises, and institutional supports for micro and small enterprises-training, credit services, provision of working premises, market linkages, and tax exemptions.

3.1 Background Information of Respondents

Knowing background information of the individuals engaged in micro and small enterprises helps to work towards those actively involved groups in the sector. One background variable considered in this study is sex/gender. Previous research findings show that females dominate in certain MSEs like food processing, and textile and garment (Asegedech, 2007; Rahel, 2009) whereas males dominate in construction related MSEs specially in package business categories that is supported by MSE sector offices (Tegegne and Meheret, 2010). This study, however, considers different types of MSEs.

Table 3.1: Sex/Gender of Respondents

Sex/gender	N	Per cent
Male	204	63.9
Female	115	36.1
Total	319	100

Source: Own Survey, (2012)

Accordingly as it is indicated in table 3.1 out of the surveyed MSEs workers, 204 (63.9%) of the respondents are males and 115 (36.1%) are females. This shows that the majority of the respondents are males due to the emphasis of the government on construction related enterprises which is consistent with the previous studies.

The other background variable is age. Previous studies show that most of the individuals engaged in micro and small enterprise business are youths particularly from 21-30 years old (Tegegne and Meheret, 2010). As it is stated in table 3. 2 out of the surveyed MSEs workers, 163 (51.1%) of the respondents are within the age group of 15-24 and 122 (38.2%) are within the age group of 25-40. This indicates that the majority of the respondents are in age group of 15-24. This implies that most of them are potentially at the age where they are economically active and also likely to participate extensively in this sector. This is due to the fact that youths, these days, after they graduate from TEVT, they become organized into cooperatives and engage in MSE business.

Table 3. 2: Age of Respondents

Age group	N	Per cent
15-24	163	51.1
25-40	122	38.2
41-65	34	10.7
Total	319	100

Source: Own Survey, (2012)

The other background variable is marital status. Previous studies show that most of the individuals engaged in micro and small enterprise business are married (Zewdie & Associates 2002; Rahel, 2009), and this was the case for this study. As it is shown in table 3.3 out of surveyed MSEs workers, 165 (51.7%) of the respondents are married

and 130 (40.8%) are unmarried. This shows that the majority of the respondents are married. One possible explanation can be due to increase in their income and/or to get assistance for their business. Key informants and focus group discussion participants also pointed out that when individuals start a certain business they need assistance; and following that where their income is increased they want to marry each other.

Table 3.3: Marital Status of Respondents

Marital Status	N	Per cent
Unmarried	130	40.8
Married	165	51.7
Divorced	16	5.0
Widowed	8	2.5
Total	319	100

Source: Own Survey, (2012)

The other background information is educational status. Education is important for development issues especially for their participation in productive activities and to grow their enterprises. Previous research findings show that most of the individuals engaged in micro and small enterprise business are either those who acquire skill through experience without going college (Tegegne and Meheret, 2010), or those who are TVET graduates (Rahel, 2009). As it is pointed out in table 4, out of the surveyed MSEs workers, 162 (50.8%) of the respondents are graduated from TVET and 81 (25.4%) hold diploma. This shows that the majority of the respondents are TVET graduates. This may be due to the fact that the curriculum for TEVT is suitable for MSE business.

Table 3.4: Educational Status of Respondents

Educational Status	N	Percent
Reading and writing	2	0.6
Primary 1 st cycle (1-4)	29	9.1
Primary 2 nd cycle (5-8)	25	7.9
Secondary education (9-10)	3	0.9
Preparatory (11-12)	14	4.4

TVET	162	50.8
Diploma	81	25.4
Degree & above	3	0.9
Total	319	100

Source: Own Survey, (2012)

3.2 General Information of Micro and Small Enterprises

Understanding general information of the micro and small enterprises helps to identify appropriate institutional supports to be provided for full-fledged functioning of those enterprises. One of the general variables considered in this study is type of enterprise. Previous research findings show that most of the enterprises established in Ethiopia are construction related labour intensive enterprises (CSA, 2010).

Table 3. 5: Types of Enterprises

Type	N	Per cent
Cobblestone	76	23.8
Construction	81	25.4
Food processing	39	12.2
Metal and Wood work	92	28.8
Textile and Garment	10	3.1
Urban agriculture	21	6.7
Total	319	100

Source: Own Survey, (2012)

As it is indicated in table 3.5, out of the surveyed MSEs workers, 92 (28.8%) of the respondents are engaged in metal and wood work, 81 (25.4%) in construction and 76 (23.8%) in cobblestone. This shows that about 75% of the respondents are engaged in three sectors: metal and wood work, construction and coble stone. This was also substantiated by key informants and focus group discussion participants by arguing

that the government has given priority to those of individuals who would engage in construction, cobblestone, and metal and wood work activities.

The other general information considered in this study is the reason for establishing the enterprises. Previous research findings show that most of the enterprises are established for poverty alleviation and employment creation (Tegegne and Helmsing, 2005; Temsgen, 2007; Lissanework, 2007).

Table 3.6: Major Reasons for Establishing the Enterprises

Reason	N	Per cent
Desire for independence	90	28
Family/friend inspiration/tradition	4	1.3
Loss of job opportunity	98	30.7
To get a better income	127	40
Total	319	100

Source: Own Survey, (2012)

As it is shown in table 3.6 out of the surveyed MSEs workers, 127 (40%) of the respondents' major reason for establishing their enterprises were due to getting better income and 98 (30.7%) were due to loss of job opportunity. This shows that the majority of the enterprises are established in getting better income and securing job. Key informants and focus group discussion participants also underlined the significance of MSEs for self-reliance and creating employment opportunities.

The other general information considered in this study is the role of the enterprises. Previous research findings show that the role of most of micro and small enterprise businesses are poverty alleviation and employment creation (Elias, 2005; Tegegne and Helmsing, 2005; Temsgen, 2007; Lissanework, 2007).

of loan. This shows that the majority of the enterprises source of start-up capital comes from members contribution/own saving. Key informants and focus group discussion participants pointed out this is due to several criteria set for getting credit services from microfinance institutions.

The other variable considered in assessing the effectiveness of credit services as institutional support was problems in relation to credit services. As it is pointed out in table 3.16 out of the surveyed MSEs workers, 285 (44.9%) of the responses have shown that their enterprises face a problem of too much criteria in getting credit services and 176 (27.7%) high interest rate. This shows that the majority of the enterprises face a problem of too much criteria to get credit services. Key informants and focus group discussion participants also pointed out different problems in relation to credit services such as considering as if it is government's obligation, uncomfortable with the preceding six (6) months savings and unable to pay back within the time frame (five years).

Table 3.16: Problems in relation to credit services

Problems	No of Responses	Per cent
Unable to get on time	108	17
High interest rate	176	27.7
Short repayment period	66	10.4
Too much criteria	285	44.9
Total	635*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of credit services as institutional support was reasons for not paying the loan on time. As it is indicated in table 3.17 out of the surveyed MSEs workers, 194 (35.7%) of the responses have

shown that reasons for not paying the loan on time is due to short repayment period and 146 (27%) because of lack of access to markets. This shows that the majority of the enterprises do not pay their loan on time due to short repayment period. Key informants and focus group discussion participants also pointed out this is due to that some members of the enterprises use the money for consumption purpose and mismanagement of the money they took from micro finance institutions.

Table 3.17: Reasons for not paying the loan on time

Reasons	No of Responses	Percent
Lack of access to markets	146	27
Using the money for consumption purpose	56	10.4
Lack of raw materials to produce more	75	13.9
High wages	69	12.8
Short repayment period	194	35.9
Total	540*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of credit services as institutional support was measures to solve credit service related problems. As it is shown in table 3.18 out of the surveyed MSEs workers, 186 (40.3%) of the responses have shown that lengthening loan repayment period should be taken as a measure of solving credit service related problems and 159 (34.5%) by creating market linkages. This shows that the majority of the enterprises have indicated that lengthening loan repayment period as a measure of solving credit related problems. Key informants and focus group discussion participants also pointed out some solutions in relation to credit services such as creating awareness for their families' to be bail for their families and/or relatives while taking credits and the workers themselves to use the credit efficiently and effectively for the intended purpose.

Table 3.18: Measures to solve credit service related problems

Benefits	No of Responses	Per cent
Creating market linkages	159	34.5
Accessing raw materials	78	16.9
Reducing interest rates	38	8.2
Lengthening loan repayment period	186	40.3
Total	461*	99.9

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

3.3.3 Working Premises

Provision of working premises contributes a lot for the effectiveness of micro and small enterprises in a certain country. Previous research findings show that most of the enterprises get working premises especially in their infant stage (Tegegne and Meheret, 2010).

According to Key Informant Interviews, working premises are provided in two ways through lease and shade. Provision of working premises through lease has created some problems like transferring their plot of land for the third party. Hence currently the government is working towards constructing shades and give for the enterprises with fair price rent. The size of the shade varies from 200 m² to 800m². If an enterprise has started and run by itself, it will get the priority of getting shades. Most of the shades have fulfilled with basic infrastructures like water supply, roads and electricity. If an enterprise is working in private owned or rented houses, it will get the priority of getting market linkages. It is believed that provision of working premises are contributing in building the economic capacity of the enterprises as they are competing with those who are paying high rent prices from private renters.

The first variable considered in assessing the effectiveness of working premises provision as institutional support was the working place. As it is pointed out in table 3.19 out of the surveyed MSEs workers, 181 (56.8%) of the respondents' working place is rental from government, 70 (21.9%) is rental from private and 68 (21.3%) is privately owned. This shows that the majority of the enterprises working places are rental houses given by government. This was also substantiated by key informants and focus group discussion participants by pointing out that in Nifas Silk Lafto sub-city more than 500 shades are provided by the government for the MSEs that benefits greater than 5000 persons.

Table 3.19: Type of working place

Place	N	Per cent
Owned	68	21.3
Rental from government	181	56.8
Rental from private	70	21.9
Total	319	100

Source: Own Survey, (2012)

The other variable considered in assessing the effectiveness of working premises provision as institutional support was the benefits of getting working premises. As it is indicated in table 3.20 out of the surveyed MSEs workers, 279 (53.6%) of the responses have shown that minimum rent is a benefit of getting working premise and 205 (39.3%) for easy access of the market. This shows that the majority of the enterprises getting working premises have benefited by minimizing their cost (rent). This was also substantiated by key informants and focus group discussion participants by boldly indicating that enterprises pay very low amount of rent for the shades, 4 birr for those who engaged in construction related and metal and wood work activities and 2 birr for the other type of enterprises per m².

Table 3.20: Benefits of getting working premises

Benefits	No of Responses	Per cent
Easy access of the market	205	39.3
Minimum rent	279	53.6
Minimizing the cost of production	37	7.1
Total	521*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of working premises provision as institutional support was the problems with working places. As it is shown in table 3.21 out of the surveyed MSEs workers, 233 (73%) of the respondents show that shortage of land is a problem within the provided working premise and 69 (19.5%) high rental price. This shows that the majority of the enterprises face a problem of shortage of land in their working premises. Key informants and focus group discussion participants also pointed out such problems really threatening those enterprises engaged in construction related and metal and wood work activities. Moreover key informants and focus group discussion participants pointed out other problems in relation to provision of working premises such as developing dependency syndrome.

Key informants and focus group discussion participants also pointed out some solutions in relation to provision of working premises such as bringing attitudinal change for those who are transferring their plot of land for the third party and for those who develop dependency syndrome.

Table 3.21: Problems with working premises

Problems	N	Per cent
Shortage of land	233	73
Lack of infrastructure	24	7.5
High rental price	62	19.5
Total	319	100

Source: Own Survey, (2012)

3.3.4 Market Linkages

Creating a market linkage plays a pivotal role in the effectiveness of micro and small enterprises in a certain country. Previous research findings show that most of the enterprises have got market linkages particularly at the beginning stage (Ibid).

According to Key Informant Interviews, there are different types of market linkages with government institutions and projects mainly housing construction. There are also opportunities for those enterprises engaged in cobblestone road construction from local development committees of housing cooperatives. They also get opportunities of getting government institutions' clubs, constructing schools, health posts and other offices in the sub-city.

The first variable considered in assessing the effectiveness of market linkages as institutional support was the BDS. Previous research findings show that most of the enterprises took some kinds of trainings either before or after starting the business (Getachew and Getachew, 1997). In this study also out of the surveyed MSEs workers, 178 (55.8%) of the respondents get business development service (BDS) while 141 (44.2%) do not.

Table 3.22: BDS providing institutions

Institutions	N	Per cent
Government	178	75.4
Donors/NGOs	12	5.1
Business partners	8	3.4
Professional association	38	16.1
Total	236*	100

Source: Own Survey, (2012)

* The total number is greater than 178 due to multiple responses

In relation to this, workers were also asked about BDS providing institutions. As it is pointed out in table 3.22 out of the surveyed MSEs workers who get BDS, 178 (75.4%) of the responses have shown that their enterprises get this service from government and 38 (16.1%) from professional association. This shows that the majority of the enterprises get BDS services from government. This was also substantiated by key informants and focus group discussion participants by arguing that government strives to provide BDS particularly before they start their business.

The other variable considered in assessing the effectiveness of market linkages as institutional support was the focus of BDS. Previous research findings show that the focus of BDS is on training the members of the enterprises how to run their business efficiently and effectively (Ibid).

Table 3.23: Focus of BDS

Focus	No of Responses	Per cent
Advising and Consultancy	132	35.4
Training	201	53.9
Maintaining the enterprises sustainability	40	10.7
Total	373*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

As it is indicated in table 3.23 out of the surveyed MSEs workers, 201 (53.9%) of the responses have shown that the focus of the BDS was training the workers to develop effective and efficient business plan for their enterprises and 132 (35.4%) in the form of advising and consultancy. This shows that the majority of the BDS offering institutions focus on training the workers how to develop efficient and effective business plan. This was also substantiated by key informants and focus group discussion participants.

The other variable considered in assessing the effectiveness of market linkages as institutional support was the place for selling goods and services. As it is shown in table 3.24 out of the surveyed MSEs workers, 176 (55.2%) of the respondents sale their goods and services at the working place and 68 (21.3%) at nonspecific place. This shows that the majority of the enterprises sell their goods and services at the working places. This was also substantiated by key informants and focus group discussion participants.

Table 3.24: Place for selling goods and services

Selling place	N	Per cent
Marketing centre	33	10.3
Working place	176	55.2
At your own residence	42	13.2
Not specific	68	21.3
Total	319	100

Source: Own Survey, (2012)

The other variable considered in assessing the effectiveness of market linkages as institutional support was marketing opportunities. Previous research findings show that most of the enterprises in Ethiopia get marketing opportunities from government institutions and condominium housing projects (Tegegne and Meheret, 2010).

Table 3.25: Marketing opportunities for your enterprise

Marketing opportunities	No of Responses	Per cent
Expansion different health and educational institutions	153	41.1
Infrastructures mainly road	166	44.6
Condominium housing	24	6.5
Private hotels and others	29	7.8
Total	372*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

As it is pointed out in table 3.25 out of the surveyed MSEs workers, 166 (44.6%) of the responses have shown that their enterprises get market opportunities from infrastructures mainly road and 153 (41.1%) from expansion of different health and educational institutions. This shows that the majority of the enterprises' get market opportunities from infrastructures mainly road. Key informants and focus group discussion participants also pointed out that MSEs get market opportunities of road construction both from government and housing cooperatives committees.

The other variable considered in assessing the effectiveness of market linkages as institutional support was the means of the market linkage. Previous research findings show that enterprises get market opportunities through various means (Ibid).

Table 3.26: Means of a market linkage

Means	No of Responses	Per cent
Through government institutions	152	36.3
Through exhibitions and bazaars	123	29.4
Through promotion (self-effort)	144	34.3
Total	419*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

As it is indicated in table 3.26 out of the surveyed MSEs workers, 152 (36.3%) of the responses have shown that their enterprises means of market linkage is through government institutions, 144 (34.3%) through promotion (self-effort) and 123 (29.4%) through exhibitions and bazaars. This shows that the majority of the enterprises' means of market linkages is government institutions. This was also substantiated by key informants and focus group discussion participants.

The other variable considered in assessing the effectiveness of market linkages as institutional support was the type of institutions for market linkage. Previous research findings show that most of the enterprises get market opportunities from government institutions (Ibid).

Table 3.27: Type of institutions for market linkage

Institutions	N	Per cent
Building clinics and maintenance	18	11.8
Condominium houses	74	48.7
Private organizations	38	25
Maintenance of government offices	22	14.5
Total	152	100

Source: Own Survey, (2012)

As it is shown in table 3.27 out of the surveyed MSEs workers who get their market linkages through government institutions, 74 (48.7%) of the responses have shown that the woreda and sub-city have created linkage to condominium houses construction projects and 38 (25%) to private organizations. This shows that the majority of the enterprises' get market linkages from condominium houses construction projects. This was also substantiated by key informants and focus group discussion participants. However, they pointed out some problems in linking MSEs to condominium houses construction projects such as the participation of similar

enterprises frequently at the bids and the non-participation of the others. To address such problems measures are taken both at the woreda and sub-city levels by prohibiting frequently participated enterprises and encouraging non-participating enterprises to participate. Such measures give chances for those which were not participating previously so as to exist in the market. On the other hand they pointed out that when they took such measures they sometimes face a problem of quality goods and services.

The other variable considered in assessing the effectiveness of market linkages as institutional support was benefits of exhibitions and bazaars. As it is pointed out in table 3.28 out of the surveyed MSEs workers, 319 (46.7%) of the responses have shown that their enterprises is benefited from exhibitions and bazaars in getting customers and 240 (35.1%) in selling goods and services. This shows that the majority of the enterprises benefit from exhibitions and bazaars in getting customers. This was also substantiated by key informants and focus group discussion participants.

Table 3.28: Benefits of Exhibitions and Bazaars

Benefits	No of Responses	Per cent
Getting customers	319	46.7
Selling goods and services	240	35.1
Showing goods and services	124	18.2
Total	683*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of market linkages as institutional support was the volume or amount of sales on exhibitions and bazaars. As it is indicated in table 3.29 out of the surveyed MSEs workers who respond that their enterprises benefit from exhibition and bazaar in selling goods and services, 134

(55.8%) of the responses show that the volume of sale is less significant and 78 (32.5%) is significant. This shows that the majority of the enterprises volume or amount of sale on exhibitions and bazaars is not significant. This was also substantiated by key informants and focus group discussion participants as bazaars and exhibition are mainly prepared for MSEs to get customers primarily. Hence it is believed that bazaars and exhibitions are contributing in promotion and exchanging addresses between customers and enterprises.

Table 3.29: Volume or amount of sales on exhibitions and bazaars

Sales	N	Per cent
Less significant	134	55.8
Significant	78	32.5
Very significant	28	11.7
Total	240	100

Source: Own Survey, (2012)

3.3.5 Tax Exemptions/Incentives

Tax exemption plays a pivotal role in the effectiveness of micro and small enterprises in a certain country. Previous research findings show that most of the enterprises were exempted from paying tax particularly when they start the business (Gebrehiwot and Wolday, 2006). According to Key Informant Interviews, tax exemptions were provided for three years for private and group enterprises; and only the 10% dividend for cooperatives. However, in 2011, the government has decided that all enterprises should pay taxes. However, it is believed that tax exemption will make enterprises competitive with their counterparts. Accordingly while some benefit from such provisions others not. However, recently the government has noticed that such kind of provisions should be revoked.

The first variable considered in assessing the effectiveness of tax incentives as institutional support was tax exemption time. As it is shown in table 3.30 out of the surveyed MSEs workers, 127 (39.8%) of the respondents get tax exemptions for a year, 112 (35.1%) for two years and 80 (25.1%) for three years. This shows that the majority of the enterprises are exempted from paying tax for one year. However, key informants and focus group discussion participants pointed out that MSEs are not paying tax until 2011.

Table 3.30: Tax exemption time

Time	N	Per cent
one year	127	39.8
two years	112	35.1
three years	80	25.1
Total	319	100

Source: Own Survey, (2012)

The other variable considered in assessing the effectiveness of tax incentives as institutional support was benefit of tax exemption. As it is pointed out in table 3.31 out of the surveyed MSEs workers, 204 (63.9%) of the respondents use the benefits tax exemption for expansion of the enterprise, 62 (19.5%) for competing with the existing market and 53 (16.6%) for saving to new investment. This shows that the majority of the enterprises benefit from tax exemption in expanding their enterprise. This was also substantiated by key informants and focus group discussion participants. Moreover they pointed out that tax exemptions helps them to compete with the existing market.

Table 3.31: Benefits of Tax Exemption

Benefits	N	Per cent
Saving for new investment	53	16.6
Expansion of the enterprise	204	63.9
Competing with existing market	62	19.5
Total	319	100

Source: Own Survey,(2012)

The other variable considered in assessing the effectiveness of tax incentives as institutional support was problems of tax exemptions. As it is indicated in table 3.32 out of the surveyed MSEs workers, 196 (61.4%) of the respondents face a problem of not paying tax after exemption period and 64 (20.1%) for not transforming into the medium enterprise. This shows that the majority of the enterprises face problems in relation to tax exemption not paying tax after exemption period. This was also substantiated by key informants and focus group discussion participants by mentioning different problems in relation to tax exemption such as distorting the market, not collecting the required amount of tax for government expenditure, and not initiated to transform into medium enterprise not to pay tax.

Table 3.32: Problems of Tax Exemptions

Problems	N	Per cent
Not transforming into the medium enterprise	64	20.1
Distorting the prevailing market	23	7.2
Not using for the intended purpose	36	11.3
Not paying tax after exemption period	196	61.4
Total	319	100

Source: Own Survey, (2012)

The other variable considered in assessing the effectiveness of tax incentives as institutional support was solutions for tax exemption related problems. As it is shown in table 3.33 out of the surveyed MSEs workers, 138 (43.3%) of the respondents show

that their enterprises tax exemption related problem is solved through advising and counselling, 117 (36.6%) by taking remedial action and 64 (20.1%) with follow-up. This shows that the majority of the problems in relation to tax exemption are solved through advising and counselling. This was also substantiated by key informants and focus group discussion participants by assigning cabinets in all twelve woredas to bring attitudinal change through consecutive training, advising and counselling. As a result these days most of the enterprises are registered for VAT.

Table 3.33: Solutions for tax exemption related problems

Solutions	N	Per cent
Follow-up	64	20.1
Advising and counselling	138	43.3
Taking remedial action	117	36.6
Total	319	100

Source: Own Survey, (2012)

One variable considered in assessing the effectiveness of institutional support in general was the choice of the most beneficial institutional support. As it is pointed out in table 3.34 out of the surveyed MSEs workers, 225 (36.4%) of the responses have shown that their enterprises have benefited much from the provision of working premises, 144 (23.3%) from tax incentives and 107 (17.3%) from training. This shows that the majority of the enterprises favour the institutional support of provision of working premises. This was also substantiated by key informants and focus group discussion participants. However, while some institutional supports benefit construction related enterprises others benefit more non-construction related benefits.

Table 3.34: More Beneficial Institutional support

Supports	No of Responses	Per cent
Training	107	17.3
Credit services	99	16
Provision of working premises	225	36.4
Market linkage	43	7
Tax incentives	144	23.3
Total	618*	100

Source: Own Survey, (2012)

* The total number is greater than 319 due to multiple responses

The other variable considered in assessing the effectiveness of institutional support in general was the future plan of the enterprise. Previous research findings show that most of the enterprises want to graduate after they reach some level of capital, for instance, 500, 000 ETB (Tegegne and Meheret, 2010).

Table 3.35: Future plan of your enterprise

Future plan	N	Per cent
To be transformed into medium enterprise	179	56.1
To close the enterprise	-	-
To expand the enterprise	140	43.9
Total	319	100

Source: Own Survey, (2012)

As it is indicated in the above table 3.35 out of the surveyed MSEs workers, 179 (56.1%) of the respondents have shown that their enterprises future plan is to be transformed into medium enterprise and 140 (43.9%) for expanding the enterprise. This shows that the majority of the enterprises' future plan is to be transformed into medium enterprise. This was also substantiated by key informants and focus group discussion participants.

CHAPTER FOUR

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

This study is designed to assess the effectiveness of institutional supports (training, credit services, working premises, and market linkage and tax incentives) for micro and small enterprises in Nifas Silk-Lafto sub city in Addis Ababa. The study has employed triangulated method of survey research method, key informants, focus group discussions and secondary data analysis. Accordingly, the major findings of the study are presented as follows:

The theoretical benefits of MSEs are tremendous. In particular, their suitability for capital scarce and labour abundant countries, such as Ethiopia, has been repeatedly stressed in the international literature. The Ethiopian government's objective to promote the sector to serve as a basis for industrialization, reducing poverty and creating employment is in the right direction. This study also has shown that MSEs are contributing a lot in employment creation and income generation in Nifas Silk-Lafto sub city in Addis Ababa which is consistent with previous studies. However, MSEs are facing different constraints such as lack of finance, limited space of working premises and lack of market linkages.

This study has shown that institutional support as a mechanism of improving the growth/development of micro and small enterprises is mandatory. It was found that different institutional supports have solved various problems of different MSEs. For instance, training has helped various MSEs to be efficient in managing different resources, credit services make different individuals capable to start their business

after they are organized and trained, working premises let most enterprises to compete within the existing market as their rent is fair, market linkages make them to get market access, and tax exemptions let them to compete with the prevailing market and repay their loans timely.

However, different stakeholders should watch out when providing various institutional supports not to be misused. For example, selected and phased assistance might do the trick of fostering independence among the enterprises.

The universal application of assistance also needs to be changed and sector specific assistance needs to be promoted. This is fruitful both in terms of using scarce resources and bringing a meaningful change in business operation. A culture of entrepreneurship has to be fostered and promoted if micro and small enterprises are to sustain and graduate from small business status.

Besides the challenges and determining factors for the growth of enterprises the government policies encourage and empower the women and youth participation in economic activities. External opportunities such as expansion of town, infrastructure facilities and institutions also help enterprises to have better market opportunity. On the other hand, support for women and youth to get special training opportunities that includes entrepreneurship/business skill, developing self-confidence, health education (protecting them-selves from transmittable disease) and right related subjects (politically) that encourage women and youth entrepreneurs to grow their enterprises.

Independency is the better outcome that the women got from their engagement in micro and small scale enterprises. Being able to work and the capability to cover any expenses at any time needed without waiting for their husband's income.

4.2 Recommendations

It was found that institutional supports are contributing for the development/growth of micro and small enterprises. However, different stakeholders should watch out when providing various institutional supports not to be misused. Hence more work is expected from members of the enterprises, chairpersons of the enterprises, MSEs woreda coordinators, sub-city MSEs process owner, and city MSEs bureau heads in order to effectively implement various institutional supports for MSEs growth and development. Thus, the researcher recommends the following:

It was found that training is one of the important institutional supports in this study. However, in the provision of training there are some problems such as being not supported by practice and a passive participation of MSEs. Hence, it is recommended that all partners should work jointly to get a maximum benefit from this institutional support.

The use of external finance or credit service is found to have a positive contribution for enterprise growth. Therefore, adequate provision of finance should be the main element in the development programs. The provision of finance based on their saving amount and saving habits encouraged more to take loan since they mostly lack economic resources and unable to give collaterals. However, in accessing credit services there are some problems such as being not enough. Hence, it is recommended that all partners should work jointly to get a maximum benefit from this institutional support.

Almost, most operated enterprises have limited market scope. They sell their products only to buyers who come to their work place. It limits their market demand which is

the main factor to the growth of enterprises. Therefore, efforts must be undertaken to create market linkages with institutions and organizations or other businesses in collaboration with government. Furthermore, marketing trainings must be given to enterprises not to make them dependent only on the market linkages created by the NGO or government, to enable them to find other market opportunities.

It was found that tax exemption is one of the important institutional supports in this study. However, in the provision of tax there are some problems such as not used for intended purposes and provision of working premises is one of the important institutional supports too. However, there are some problems such as not enough for all MSEs and cooperative enterprises have a positive impact on the growth of operated enterprises. However, cooperatives duty is limited to sharing of workplaces, encouraging members to save money and to get access to loan and training. Besides these activities, the cooperative can undertake the following activities: It can avoid competition for limited market in cooperation with government since collective bargaining has an advantage. In addition, it can create linkages with raw material suppliers or can buy raw material in bulk from wholesalers to reduce input costs for its members. Hence, it is recommended that all partners should work jointly to get a maximum benefit from this institutional support.

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Appendices

Appendix I. Research Methodology Template

<i>Objective</i>	<i>Indicator</i>	<i>Parameter</i>	<i>Method</i>	<i>Instrument</i>
Assessing the effectiveness of training services for MSEs growth.	Training	Production skill Accounting skill Marketing skill Managerial skill	Survey KII FGD Secondary Data Analysis	Questionnaire Interview guide Checklist
Investigating the efficiency of credit services for MSEs development.	Credit service	Amount Payback period Interest rate	Survey KII FGD Secondary Data Analysis	Questionnaire Interview guide Checklist
Assessing the efficacy of provision of working places for MSEs growth.	Working places	Availability Accessibility	Survey KII FGD Secondary Data Analysis	Questionnaire Interview guide Checklist
Assessing the efficacy of market linkages for MSEs growth.	Market access	Linkage Exhibitions Bazar	Survey KII FGD Secondary Data Analysis	Questionnaire Interview guide Checklist
Examining the effectiveness of tax incentives for MSEs development.	Tax incentive	Saving amount Investment Transformation into Medium Enterprises	Survey KII FGD Secondary Data Analysis	Questionnaire Interview guide Checklist

Appendix II. Data Gathering Instruments

A. Micro and Small Enterprises' Workers Questionnaire

Dear Respondent,

The purpose of this research is to critically examine the effectiveness of institutional supports for MSEs development/growth in Nifas Silk Lafto Sub-city. The questions are specifically aimed at assessing the efficiency and effectiveness of trainings, credit services, working places provisions, marketing accesses, and tax incentives. Your true and honest responses will highly contribute for assessing the efficiency and effectiveness of institutional support for MSEs development/growth; and the findings of the research would contribute for planning and policy formulation.

Thank you in advance for your cooperation in answering the questions.

Questionnaire ID _____

Date of Interview _____

Direction: Circle the respondents' choice for close-ended questions and write their responses for open-ended questions on the space provided. For open ended questions try to probe the perspective of the respondents as much as possible.

I. Background information of respondent

1. Sex

A. Male

B. Female

2. Age _____

3. Marital status

A. Unmarried B. Married C. Divorce D. Widowed

4. Educational level?

- | | |
|--|------------------------|
| A. Reading and writing | E. Preparatory (11-12) |
| B. Primary 1 st cycle (1-4) | F. TVET |
| C. Primary 2 nd cycle (5-8) | G. Diploma |
| D. Secondary education (9-10) | H. Degree & above |

II. General information of the micro and small enterprises

5. Type of enterprise you are working?

- A. Textile and Garment
- B. Metal and Wood work
- C. Construction
- D. Urban agriculture
- E. Food processing
- F. Municipal services
- G. Coble stone
- H. Others, specify _____

6. What was your major reason for establishing the enterprises?

- A. Desire for independence
- B. Family/friend inspiration/tradition
- C. Loss of job opportunity
- D. Opportunities created by NGO
- E. To get additional income
- F. Other (specify) _____

7. What is (are) the role(s) of your micro and small enterprises? (multiple response in a rank order is possible).

- A. Employment generation

- B. Poverty alleviation
- C. Transfer and adoption of technology
- D. Mobilization of fragmented and unutilized capital of individuals
- E. Utilization of local resources/inputs
- F. Development of entrepreneurship spirit
- G. Other (specify) _____

8. If your response for Q 7 is A (employment generation) for how many individuals your enterprise create an employment opportunity currently?

- A. Male _____ B. Female _____ C. Total _____

9. What major problems you faced when you have started this enterprise? (multiple response in a rank order is possible).

- A. Lack of working place
- B. Lack of startup capital
- C. Lack of access to raw materials
- D. Lack of skill
- E. Lack of market
- F. Other (specify) _____

10. How did you overcome your problems? (multiple response is possible)

- A. Assistance from the family
- B. Assistance from Friends
- C. Institutional support
- D. Others, specify _____

11. If your response for Q 10 is institutional support, what was the type of supports? (multiple response is possible)

- A. Training

- B. Credit services
- C. Provision of working premises
- D. Market linkage
- E. Tax incentives

III. Trainings

12. Type of trainings you have participated (multiple response is possible)
- A. Management and leadership
 - B. Entrepreneurship
 - C. Technical skill
 - D. Marketing
 - E. Technology adoption
 - F. Book keeping
 - G. Others, specify _____
13. What kind of benefits you get from the trainings?
- A. Better management of the enterprise
 - B. Production skill improvement
 - C. Increasing efficiency
 - D. Others, specify _____
14. What problems you observe in the process of offering the trainings? (multiple response in a rank order is possible)
- A. Lack of appropriate trainers
 - B. Not demand driven
 - C. Not specific to the sectors
 - D. Lack of committed trainees
 - E. Others, specify _____

15. What solutions you propose for the success of trainings?
- A. To be demand driven
 - B. To be supported by practice
 - C. To be sector specific
 - D. Others, specify_____

IV. Credit Services

16. What was your source of capital when you started your business? (multiple response in a rank order is possible)
- A. Loan from Micro Finance
 - B. Members contribution/own saving
 - C. Help of friends and family
 - D. Loan from informal institutions
 - E. Remittance
 - F. Others (specify)_____
17. Problems in relation to credit services? (multiple response in a rank order is possible)
- A. Unable to get on time
 - B. High interest rate
 - C. Short repayment period
 - D. High collateral requirement
 - E. Others, specify_____
18. Do the enterprise payback the credit on time?
- A. Yes
 - B. No

19. If your response for Q 18 is No, what is (are) your reason(s)?
- A. Lack of access to markets
 - B. Using the money for consumption purpose
 - C. Lack of raw materials
 - D. High wages
 - E. Others, specify _____
20. What possible measures have been taken to solve the problems in relation to credit services? (multiple response in a rank order is possible)
- A. Creating market linkages
 - B. Accessing raw materials
 - C. Reducing interest rates
 - D. Lengthening loan repayment period
 - E. Others, specify _____

V. Working Premises

21. The work/production/ place you are working is
- A. Owned
 - B. Rental from government
 - C. Given by the government
 - D. Rental from private
 - E. Other (specify) _____
22. What kind of benefit did you get from such support/provision of working premises/? (multiple response in a rank order is possible)
- A. Easy access of the market
 - B. Having ample show room
 - C. Minimum rent

D. Minimizing the cost of production

E. Others, specify _____

23. What problem do you have with your working premises? (multiple response in a rank order is possible)

A. Shortage of land

B. Less accessibility to transport

C. Shortage of power

D. Shortage of water

E. High rental price

F. Other (specify) _____

VI. Marketing

24. Have you received business development service?

A. Yes

B. No

25. If your response for Q 26 is Yes, who provided the service? (multiple response in a rank order is possible)

A. Government

B. Donors/NGOs

C. Business partners

D. Private commercial provider

E. Professional association

F. Friends or family

G. Other, specify _____

26. What was the focus of business development service?

A. Advising and Consultancy

B. Training

- C. Linking and informing
 - D. Maintaining the enterprises sustainability
 - E. Others, specify _____
27. At what place you sale your products or services?
- A. Marketing center
 - B. Working place
 - C. At your own residence
 - D. Others, specify _____
28. What are the different marketing opportunities for your enterprise?
- A. Expansion different health and educational institutions
 - B. Infrastructures
 - C. Condominium housing
 - D. Local NGOs
 - E. International NGOs
 - F. Others, specify _____
29. How did your enterprise have a market linkage?
- A. Through government institutions
 - B. Though exhibitions and bazaars
 - C. Through promotion
 - D. Others specify _____
30. If your response for Q 31 is A (through government institutions), what are the institutions and/or projects?
- A. Hospitals
 - B. Condominium houses
 - C. Universities

D. Others, specify_____

31. What kind of benefits you get from exhibitions and bazaars? (multiple response in a rank order is possible)

A. Getting customers

B. Selling goods and services

C. Showing goods and services

D. Others, specify_____

32. If your response for Q 34 is B (selling goods and services) what was the change of the volume or the amount of sales?

A. Less significant

B. Significant

C. Very significant

VII. Tax Incentives

33. For how many years your enterprise exempted from paying tax?

A. one year

B. two years

C. three years

D. others, specify_____

34. What kind of benefit did you get from the tax incentive? (multiple response in a rank order is possible)

A. Saving for new investment

B. Expansion of the enterprise

C. Competing with existing market

D. Others, specify_____

35. What problems encountered in the provision of tax incentives?

A. Not transforming into the medium enterprise

- B. Distorting the prevailing market
- C. Not using for the intended purpose
- D. Not paying tax after exemption period
- E. Others, specify _____

36. What possible measures have been taken to solve the problem?

- A. Follow-up
- B. Advising and counseling
- C. Taking remedial action
- D. Others, specify _____

VIII. Concluding Questions

37. Which institutional support benefited better your enterprise? (multiple response in a rank order is possible)

- A. Training
- B. Credit services
- C. Provision of working premises
- D. Market linkage
- E. Tax incentives
- F. Others, specify _____

38. What is your future plan of your enterprise?

- A. To be transformed into medium enterprise
- B. To close the enterprise
- C. To expand the enterprise
- D. Others, specify _____

39. Lastly what is your suggestion to effectively implement various institutional supports for the development/growth of MSEs?

Thanks for your time and patience!

B. Interview guide and/or checklist

I. Background information of the individuals engaged in MSE business

- Sex/gender
- Age group
- Marital status
- Educational status

II. General information of micro and small enterprises

- Type of MSEs
- Role of MSEs
- Problems encountered
- Solutions for the problems

III. Trainings

- Type of trainings
- Number of beneficiaries
- Is it demand-based/driven
- Contribution of the training for the development/growth of enterprises
- Problems encountered in the provision of this institutional support
- Possible measures taken to solve these problems

IV. Credit Services

- Types of credit services
- Amount of Credits
- Payback period
- Interest rates



- Contribution of credit services for the development/growth of enterprises
- Problems encountered in the provision of this institutional support
- Possible measures taken to solve these problems

V. Provision of Working Places

- Availability of working places
- Number and size of working places
- Number of beneficiaries
- Infrastructures of working places
- Contribution of working premises for the development/growth of enterprises
- Problems encountered in the provision of this institutional support
- Possible measures taken to solve these problems

VI. Marketing Supports

- Dissemination of relevant marketing information
- Linking with government institutions and projects
- Organization of trade exhibition, bazaars and fairs
- Contribution of market supports for the development/growth of enterprises
- Problems encountered in the provision of this institutional support
- Possible measures taken to solve these problems

VII. Tax Incentives

- Amount of savings from tax exemptions
- Investing the savings
- Number of MSEs transformed into Medium enterprises

- Contribution of tax incentives for the development/growth of enterprises
- Problems encountered in the provision of this institutional support
- Possible measures taken to solve these problems

Appendix III. List of Key Informants and Focus Group Discussion Participants

I. List of Key Informants

Sub-city MSEs Coordinator Ato Yibgeta Shikur

Woreda 1 MSEs Coordinator Ato Dula Galalcha

Woreda 3 MSEs Coordinator Ato Engidawork Kasahun

Woreda 5 MSEs Coordinator Ato Woldemedhin Tsegaye

Woreda 7 MSEs Coordinator Ato Endalkachew Deresa

Woreda 9 MSEs Coordinator Ato Anberber Mekonen

Woreda 11 MSEs Coordinator W/ro Awot Aregay

Chairperson of Selam Lewotatoch MSE Ato Mulu Adera

Chairperson of Addis MSE Ato Dawit T/Tseyon

Chairperson of Andinet MSE W/ro Senit Abera

Chairperson of Elshaday MSE W/ro Hiwot Kassa

Chairperson of Ra-eyi MSE Ato Ayana Beka

Chairperson of Arbegnoch MSE Ato Ayele Yalew

II. List of Focus Group Discussion Participants

Name	Woreda	Type
Selam Lewotatoch	1	Production of Construction Materials
Addis	3	Wood and Metal Work
Andinet	5	Textile and Garment
Elshaday	7	Food Preparation and Processing
Ra-eyi	9	Construction of Cobblestone road
Arbegnoch	11	Urban Agriculture

Declaration

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

Name: **Edossa Keno**

Signature: _____



Date: 25th May, 2012

