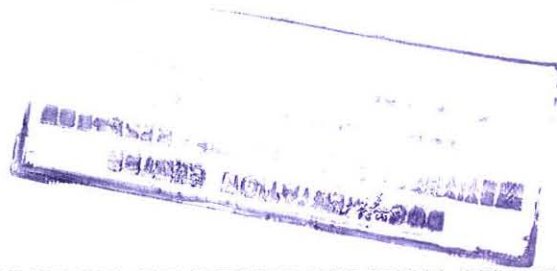


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ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES

THE ROLE OF SMALL ENTERPRISES IN URBAN HOUSING DEVELOPMENT AND EMPLOYMENT: THE CASE OF KOLFE-KERANIO SUB-CITY



A THESIS SUBMITTED TO COLLEGE OF DEVELOPMENT STUDIES FOR THE
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BY
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Title
*The Role of Small Enterprises in Urban
Houseing Development and Employment. The
case of Kolfe- Keranio Sub-City*

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Abstract

Small enterprises play the role of mobilizing fragmented and small sized capital of individuals in the community and channel such resources to the pool of investment in the locality which is likely lead to the creation of ample employment opportunities.

Though promotion of small enterprise development is important, knowing the enterprises role in local economic development, their characteristics, main problems and factors affecting their performance have got a paramount importance. In the study, enterprises were categorized into two, good and bad performers, purposively based on their performances in their respective sub-sectors. By providing inputs for the housing construction and by creating employment opportunities for less skilled individuals play their vital roles. Forming associations with unrelated individuals and shortage of start up capital were the core problems during the start up stage. Being under the influence of the government, lack of production space, difficulty of obtaining supplies and delay in the delivery of goods are the top four problems at the operation stage. Access to credit, technology and relationships among members are some of the major factors affecting the performances of the enterprises.

Having only one market linkage with the housing agency, high money withholding and not being allowed to diversify or expand their businesses were the major reasons for the death of most of the enterprises in the study area. The agency wants to control the enterprises in every aspects of their activity and does not let them to be independent and is the one to determine the fate of the enterprises. Most of the individuals participating in the enterprises have their own private job and this collides with the essence of establishing enterprises for the youth and unemployed section of the society. In one side, the government tried to support the enterprises by providing trainings, working area, loans, the required machines and supplies. On the other side, do not let them to diversify, improve or expand their operation. This act of the housing agency remembered the Amharic idiomatic expression of '**endayamahe tiraw endaybela gifaw**' literally means invite him to come but does not permit him to eat.

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LIST OF ACRONYMS AND ABBREVIATIONS

AACACIB	Addis Ababa City Administration Culture and Information Bureau
AAHDPO	Addis Ababa Housing Development Project Office
BPR	Business process Reengineering
Cms	Centimeters
E.C	Ethiopian Calendar
EC	European commission
EEA	Ethiopian Economic Association
EU	European Union
ETB	Ethiopian birr
GDP	Gross Domestic Product
HCB	Hollow concrete Block
HDA	Housing Development Agency
IHDP	Integrated Housing Development Program
Kg	kilo gram
MOWUD	Ministry of Works and Urban Development
MSEs	Micro and Small Enterprises
MTI	Ministry of Trade and Industry
NGOs	Non Governmental Organizations
SPSS	Statistical packages for Social Science
UN	United Nations
UNIDO	United Nations Industrial Development Organization
US	United States
USAID	United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small enterprises are major features of the economic landscape in all developing countries today. The contribution of these enterprises to the creation of jobs and to the alleviation of poverty has been recognized by many Third World governments. They have been given prominence in many development plans as well as in the strategies of many donors.

In most developing countries, the contribution of small enterprises to employment and income appears to have been increasing over time. To some observers, this is an encouraging sign: markets are working; people are finding opportunities to participate in ways that empower and nourish many people, particularly those that are otherwise most disadvantaged. To other observers, however, these increases in the number of people engaged in these enterprises are a sign of failure of the economy that provide only minimal subsistence support (Liedholm & Mead, 1999, p1).

In recent years, when the economies of most industrialized countries have shown various signs of stagnation and structural decline, small enterprises have been regarded as generators of new growth, as primary sources of technological change and, via job creation, as one of the major factors in maintaining socioeconomic stability (Giaoutzi and Nnijkamp, 1988, p2). Small enterprises usually use more of what a country possesses and less of what it lacks. These enterprises utilize locally available resources (whenever possible), create more employment opportunities by employing local unskilled and semi-skilled labors, and contribute to regional distribution of industries. Moreover, their need of a well developed infrastructure and foreign exchange requirement is minimal.

Small enterprises have increasingly become the focus of attention by public policy-makers in a number of countries with very different political traditions. Storey (1994) tries to give several explanations for this, notably technological changes, increased levels of unemployment, the growth of the service sector, changes in cultural attitudes and value systems are some of them.

There are three central respects in which small firms are different from large firms: uncertainty, innovation and evolution. The sources of uncertainties for small firms are associated with being a price taker, their limited customer and product base and having a diverse objective as compared to large firms. The second key area of difference between the two is their role in innovation. Most innovations are considered to be the 'brain child' of entrepreneurs' in small enterprises through the introduction of totally new products. The third area of difference being the likelihood of evolution and change in the smaller firm (the small firm is going to become larger as being comparable to the transition from a caterpillar to a butterfly) (Wynarczyk *et al.* 1993).

Housing is one of the basic human needs along with food and clothing. Mankind has been developing different kinds of shelter with the changing civilization and time. Notwithstanding the rapid stride in the field of building technology, the provision of shelter to millions at affordable cost remains a distant reality in most of the developing countries in the world. Lal (1995, p1) identified several factors that contribute to unaffordable housing to masses. Some of the factors include high cost of construction, scarcity of building materials, lack of knowledge on cost effective construction technologies, unavailability of adequate land for undertaking mass housing programs. According to the same author, the problem of housing has been worsening due to i) exponential population growth; ii) fast rate of urbanization ;iii) inadequate addition to the existing housing stock; iv) large scale migration of the poor from villages and smaller towns and v) obsolescence of existing housing stock on account of its proper maintenance.

Sub-Saharan Africa hosts the largest proportion of urban population residing in slums (71.9%). In another way, 166 million out of a total urban

population of 231 million are classified as slum dwellers. The region has the second largest slum population in the world after South Central Asia, which has 262 millions making up 58% of the total population in that region. 924 million people world wide or 31.6 percent of the global urban population lived in slums in 2001. In the next thirty years, this figure is projected to rise to almost 2 billion unless substantial policy changes are put in place (UN-Habitat, 2003).

One of the key problems found in the city of Addis Ababa is shortage of housing. There is a shortage of 300,000 houses. Moreover, the quality of the currently available houses is very low. Another problem of the city concerns the fact that a larger part of the city consists of decaying and slum areas. It is estimated that 150,000 of the houses under the city administration are situated in slum areas. About 80% of these houses are made of wood and mud and are on average 40-50 years old (AAHDPO, 2007).

The City Government of Addis Ababa has designed an Integrated Housing Development Program (IHDP) that aims at significantly improving the quality and quantity of accommodations available to the residents of the city. The program also considers the very high unemployment problem of the city (32.1%) and wide spread prevalence of the informal sector in the city. The program recognizes the potential role of the construction sector in creating employment opportunities and in inducing the development of Micro and Small Enterprises (MSEs). The IHDP is designed to create large employment opportunities, promote the development of Micro and Small Enterprises; there by increasing income (AAHDPO, 2007). In light of the aforementioned problems, the study would like to assess the roles, the challenges and the performances of the enterprises that are engaged in the construction sector.

1.2 Statement of the Research Problem

Small enterprises play a significant role in contributing to household income and welfare, developmental objectives and social change (Liedholm and Mead, 1999). Micro and Small enterprises (MSEs) have been recognized as major contemporary sources of employment and income in a growing number of

developing countries. Large portion of people both in developed and developing countries are engaged or work in small scale enterprises. According to the Ethiopian Ministry of Works and Urban Development (MOWUD), the total number of employment opportunities that have been created by IHDP program in the year 2000 E.C alone has reached more than half a million, out of which 45% is in the capital, Addis Ababa. Recently, the contribution of these MSEs for employment opportunity is very high. According to the report of Addis Ababa City Municipality (2007), a sum total of 172,765 people were employed or secured job opportunity between 1996 and 1998 E.C.

Having the above facts and the importance of small scale enterprises in relation to employment opportunity for many unskilled and semiskilled populations, they remain confined to different internal and external challenges in addressing housing development and unemployment problems. MSEs in the capital as well as in the country as a whole are constrained by several factors. Some of the major constraints that have inhibited the development of the enterprises include investment and financial problems, shortage of raw materials, lack of skilled labor, infrastructural problems, market problems, technical and managerial problems and policy constraints. Despite the aforementioned constraints, the enterprises are still the “back bone” for the housing sector. The questions that emerge are, what are the major factors that affect the performance of the enterprises, how these problems hinder the performance of the enterprises, the degree of their effects in creating employment opportunity are some of them. Attempts will be made to answer these questions in the results section of the study.

The government of Ethiopia has developed Micro and Small Enterprise Development Strategy in 1997E.C. However, researches in the areas of the contribution of small enterprises to employment generation and local economic development are limited and appear more general. This study is therefore designed with the aim of contributing a better analysis of the role of small enterprises in employment generation and housing development. It also reflects specific sectors of construction enterprises independently. This is so because

though all categories of small scale enterprises have common constraints, each has its own typical problems.

1.3 Objectives of the Study

➤ General objective

The general objective of the study is to assess the role of small enterprises in urban housing development and employment in Kolfe-Keranio sub-city of Addis Ababa.

➤ Specific Objectives

The study seeks to achieve the following specific objectives:

- a) To identify the nature of the small enterprises participating in the construction sector in the sub- city.
- b) To assess the constraints or the challenges which hinder them from achieving their role.
- c) To assess the performance of the small enterprises in the construction sector.
- d) To examine the economic contribution of the enterprises in terms of employment creation.

1.4 Research Questions

The following four research questions were posited to undertake the research:

- a) What are the fields (sub –sectors) of housing constructions in which the enterprises are involved in the sub-city?
- b) What challenges hinder them from performing their role?
- c) What are the major factors that affect the performance of the enterprises?
- d) What is the magnitude of their employment generation?

1.5 Definitions of Key Terms and Concepts

The key terms and concepts used in this study are defined below.

- *Small enterprises* are enterprises with a paid-up capital above Ethiopian Birr (ETB) 20,000 and not-exceeding ETB 500,000 excluding high tech. firms and consultancy services.

- *Condominium houses* are collective residential high rising buildings with common elements while owning a housing unit individually.
- *Housing* is a shelter with the surrounding environment such as infrastructure, services, social articulation, and its adequacy and affordability.
- *Sub-city* is a collection of Kebeles and it is a sub-part of the city in the administration structure of the city.
- *Kebele* is the sub-part of sub-city in the administration structure of the city.
- *Performance of enterprise* is measured in terms of two variables average monthly income of enterprises and scale of production.

1.6 Significance of the Study

This study can make modest contributions in two major areas: knowledge generation and practical utility of the findings. With respect to knowledge, there is a major gap in small enterprises studies as far as their role in housing development is concerned. It will reveal the extensive use of small enterprises in the development of housing and in the generation of employment. The second contribution of the study would be in the usage of the results by various stakeholders at various levels. It will provide relevant information about small enterprises in the construction sector for governmental as well as non governmental organizations. The study can also be used by policy and decision makers to improve the existing national and regional level policies and strategies on the sector to establish and strengthen the necessary system support unit for sustainable development of small enterprises. The study has made an effort to provide evidence that can be used and incorporated into policies and programs of intervention to use strategically and promote small enterprise as a strategy for housing development.

1.7 Scope of the Study

The scope of the research was limited to investigate the nature, economic impact and challenges of small enterprises in the construction sector. Though

the existence of other sectors like food preparation, textile and garment, petty trade are recognized, they are not the focus of this study. The scope is also limited to only registered enterprises in the name of cooperative associations in the construction sector by Addis Ababa City Administration Housing Development Agency. The general construction sector has 10 sub-sectors and this study is limited only to the three sub-sectors: hollow block, pre-cast beam and metal and wood manufacturing.

1.8 Research Methodology

1.8.1 Site Selection and Sampling Techniques

The study area (Kolfé-Keranio sub-city) is one of the sub-cities found in Addis Ababa and is selected purposively. The reason for selecting this sub-city was the availability of large proportion of housing construction undergoing on the area (at the time of the survey, more than hundred blocks of condominium houses were under construction in one site, which was the largest size in the city). The construction sector was selected due to its direct relevance in the housing development and its role in involving many enterprises both in type and number. Under the construction sector, there are eight sub-sectors which have two main categories, namely direct involvement on the construction site and production in manufacturing centers. Under the first category: wall construction, electrical installation, sanitary installation, finishing works and site works are included, and in the second category: hollow-block (HCB), pre-cast beam, stonework and gravel productions are identified.

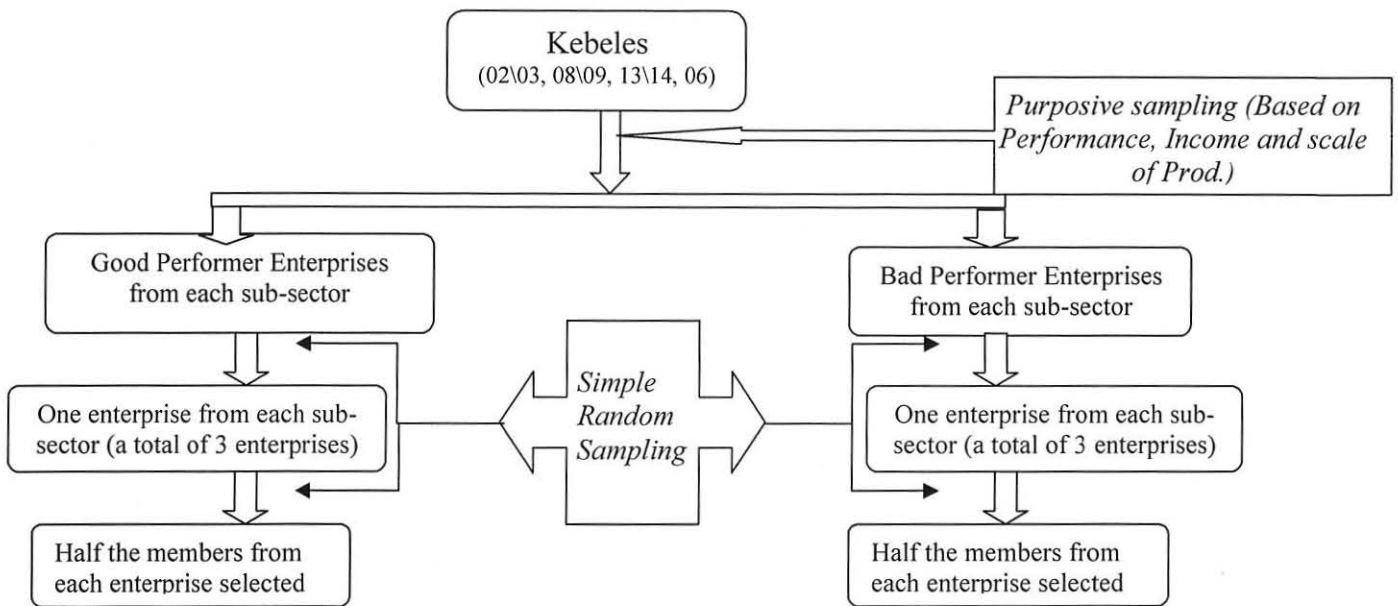
Based on intensive discussion with the Department of Housing Development of the sub-city, only some of the enterprises in the second category (production in the manufacturing centers) were selected. Hollow block only, and pre-cast and hollow block (in combination) producers were selected and moreover metal and wood producers were also incorporated in the study. These sub-sectors were selected due to their dominance both in the demand of their products and the amount of people engaged in these activities. In order to select the enterprises from the above respective sub-sectors their degree performance (measured in terms of scale of production and income) was used

as a criterion based on the intensive discussion made with an expert on micro and small enterprise of the sub-city and the data collected from the Housing Development Agency.

For the purpose of this particular study, samples of small scale enterprises that are engaged in three sub-sectors (metal and wood, hollow block only, pre-cast beam and hollow block) have been selected from four Kebeles of Kolfe-Keranio sub-city of Addis Ababa. The selection was made purposively on the basis of their degree of performance (measured in terms of their scale of production and income generated). At the time of the study, there were a total of 23 enterprises engaged in the above selected sub-sectors. Out of the 23 enterprises, five of them were engaged in metal and wood production, ten of them were participating in the manufacturing of pre-cast and hollow block and the rest, eight, were engaged in hollow block production only. Finally, a total of six enterprises (two enterprises from each sub-sector, one being good & the other bad performers) have been identified in Kebele 02/03 of Ayertena, Kebele 06 of Bethel, Kebele 13/14 of Wingate area, Kebele 08/09 of Kolfe area. At the end, half of the members from the categories of each sub-sector were selected randomly. The total sample size was 44(Figure1.1).

In order to confirm the validity of the information gathered from the respondents, the researcher tries to triangulate the information provided by cooperative workers by consulting cooperative managers on issues of like the enterprises financial status, sales level. This is mainly because cooperative workers may not have sufficient information or knowledge about such matters.

Figure1-1 Sampling procedures



Source: Prepared by the author (2009)

1.8.2 Data Collection Instruments

In order to achieve the objectives of the study, data were collected from secondary sources (such as books, theses and reports) and mainly from primary sources through the following instruments:

a) Questionnaire

To collect the necessary information from the sampled population, two sets of questionnaires: one containing closed and open ended type questions and the other only open-ended types were prepared and administered to the respondents and government bodies. The data were collected by the researcher and other data collectors, who have been briefly introduced to the purpose of the research and the contents of the questionnaire.

b) Interviews

The other data collection method that was used in this research was unstructured interviews. These were conducted with extension agents in the MSE development offices of the sub-city, Kebele administrations and with the officer in the sub-city Housing Development Agency (HDA). This helped to take

into account the different points of view about various aspects of enterprises in the construction sector.

c) Observations

In order to get the chance to practically see the problem in reality, field observation was conducted. This gave the researcher a good insight to see the problem at hand and the working condition of various enterprises. The observation result was used in order to give suggestions and comments throughout the discussions of the findings. During the observation; the way of finished products stocked, utilization of various machineries, accumulation of raw materials, adequacy of the working premises, infrastructural problems of the premises, availability of license and bookkeeping were observed.

d) Focus Group Discussions

To air out the problem at hand and to generate valuable alternative solutions on the subject matter, three focus group discussions were made by combining the enterprises in their respective sub-sectors. This was done basically to get a good insight for the issues at hand and it may create an environment that helps to share experiences among members of the enterprises in their respective sub-sectors. The group members were given open floor to briefly discuss and point out suggestions on how to handle the problem.

1.8.3 Data Organization and Analysis

The information that was collected using questionnaires was organized by coding each choice to differentiate and categorize the respondents belonging to variance responses. The categorized data were analyzed by slicing them based on similarities, differences, increases, decreases and exceptions. Recurrent ideas, similar responses and comments from interviews and group discussions were also analyzed.

1.8.4 Statistical Tools

The statistical package SPSS version 11 was used in order to systematically analyze the organized data. Descriptive statistics were used extensively. In addition, measures of central tendency, like mean and frequencies were also used.

1.9 Limitations of the Study

Lack of adequate time and shortage of finance were critical problems faced in conducting this research.

1.10 Organization of the paper

Studying the nature, the challenges and performance of small enterprises in the construction sector is the theme of this research. The paper is presented in six chapters. The first chapter deals about introduction of ideas about small enterprises, statement of the problem, objectives, research questions, methodology, and significance of the study and limitations. The second chapter presents review of relevant literatures. It begins with conceptual framework of the research, definitions of micro and small enterprises from different perspectives, challenges and contribution of these enterprises. The third chapter presents the background of the study area. The main characteristics of the respondents and the enterprises are dealt in chapter four. Problems and performances of the enterprises in the construction sector are exhaustively discussed in chapter five. The last chapter summarizes the main findings of the research work and includes conclusion and recommendations about the sector under study.

CHAPTER TWO

REVIEW OF LITERATURES

2.1 Conceptual Framework

The conceptual framework of this paper, as depicted on Figure 2.1, revolves around the contribution played by the enterprises in the construction sector, the problems they faced, the factors affecting their performances and on their future prospects. The performance of small enterprises is affected by factors such as access to business information, relationships among members, area of the working premises, access to credit, training and education and technology. These factors are the most significant factors that make enterprises relatively to be bad or good performers. In other words, having or not having one or more of these factors made enterprises advantageous or disadvantageous in fulfilling their objectives. The performance of the enterprises in turn is affected by start up and/or operational level problems. The performance of the enterprises has its own impact on the contribution or role (employment, income and provision of products) played by the enterprises. The contribution made by the enterprises has its own outcomes of like income to the enterprises and individuals and moreover for the construction of low cost houses. The determining factors on performance and the contributions made by the enterprises have their own input in deciding the prospects of the enterprises.

Small enterprises (SEs) are well placed to have important economic, social and political roles in employment creation, resource utilization and income generation and in helping to promote change in a gradual manner. Socio-economic factors affecting SEs arose during the industrial revolution, with notions of entrepreneurial importance gaining favor by the mid-twentieth century. The behavior of the individual was highlighted as a possible major factor contributing to entrepreneurship and SE development. However, it has been primarily during the past four decades that attempts to design programs

to promote SEs as part of national development plans have been implemented (Nelson, 1987, p1).

Economic development has been closely associated with industrialization. Despite much talk about the importance of small firms for employment creation, large firms still accounted for more than half of private sector employment. In the United States for example, between 1973 and 1988, despite a widespread belief to the contrary, small manufacturing firms did not consistently create more jobs than large firms (Snodgrass & Biggs, 1996).

Micro and Small Enterprises (MSEs) have increasingly become the focus of attention by public policy makers in a variety of countries with very different political traditions. Giaoutzi, Nijkamg and Storey (1988,p) tries to give the reasons as technological changes, increased levels of unemployment, the growth of the service sector, changes in cultural attitudes and value systems as the major ones.

Ethiopia with urban population of 10.8 million, which is about 15% of the total population, has a much lower rate of urbanization than most developing countries. Most urban centers suffer from a variety of urban malaise including inadequate infrastructure, housing and services, limited employment opportunities and weak institutional mechanisms for good urban governance and sustainable urban development (Tegegne &Mulat, 2005, p61).

About 81.1%of the population of Addis Ababa is economically active. But only 70.6% of the economically active people were employed. When we see incidence of poverty,49.5% of the population live below poverty line in 1997E.C.In 1994,1995 and 1996 about 50,46, and 40% respectively of residents of Addis Ababa were absolutely poor(Tadesse,2000).

In order to make small scale economy to be generally capable of contributing to lasting growth in developing countries, it must be formalized; links must be incorporated such as more comprehensive credit systems, reliable regulatory systems and functioning institutions are vitals. Accordingly, small enterprises will become not only a means of livelihood for the poor groups but also an important pillar of economic future (Kenneth&Simon, 1999).

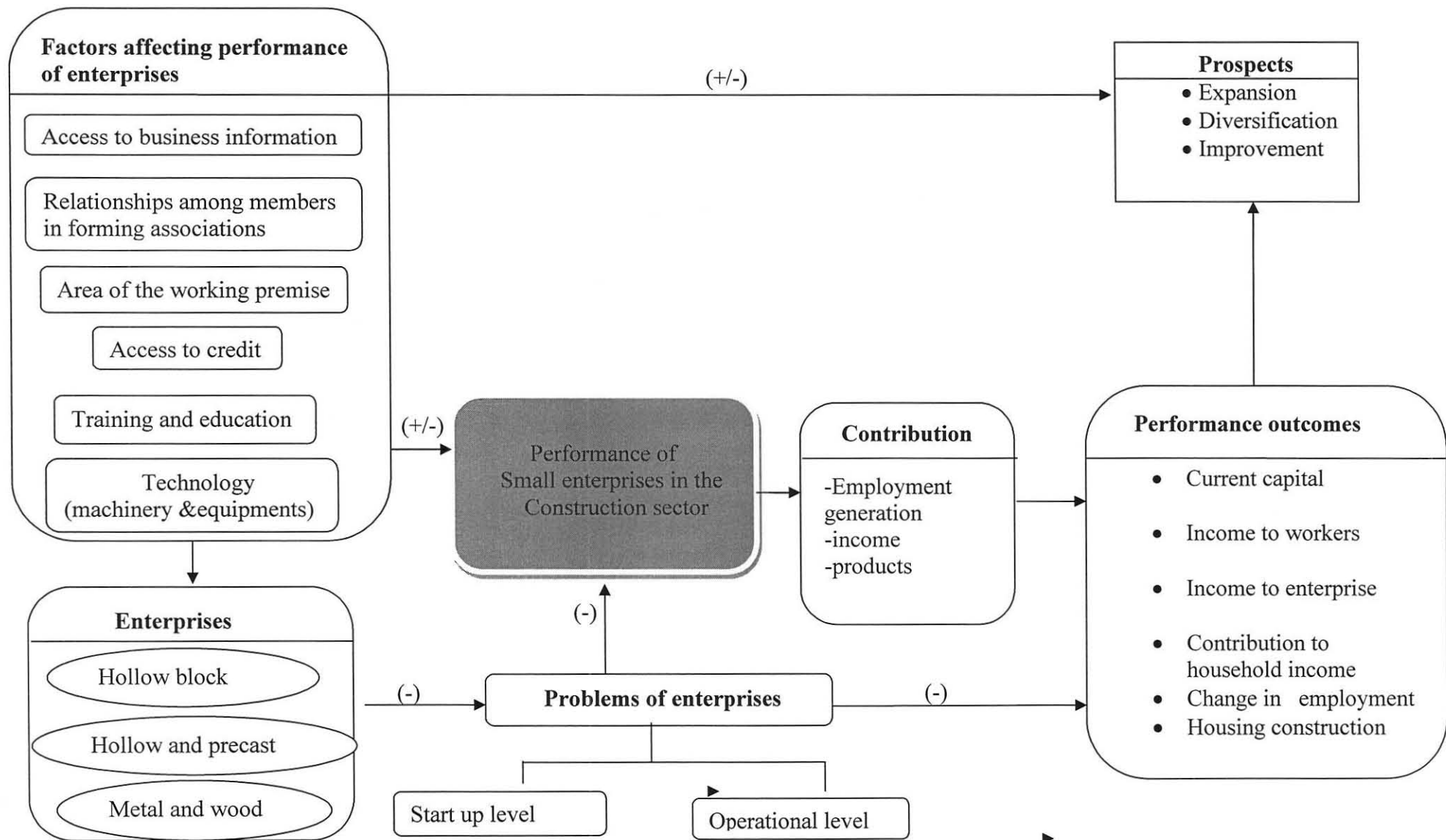


Figure 2.1: Conceptual framework showing the contribution and the factors affecting the performance of small enterprises.

Source: Adopted from Dereje Lemma(2008)

2.2 Definitions of Small and Micro Enterprises

There is no single, uniformly acceptable definition of a small firm. This is because a small firm in a particular industry is likely to have much higher levels of capitalization, sales and possibly employment, than a 'small' firm in other trades. Definitions, therefore, which relate to 'objective' measures of size such as number of employees, sales turn over, profitability, net worth when examined at a sectoral level, mean that in some sectors all firms may be regarded as small, while in other sectors there are possibility of no firms which are small (Storey, 1994, pp8-9).

a) Bolton Committee Definition

The Bolton Committee (1971) attempted to overcome the above problem by formulating what they called an 'economic' definition and a 'statistical' definition. The economic definition regarded firms as being small if they satisfied these criteria:

- ❖ Having a relatively small share of their market place;
- ❖ managed by owners in a personalized way, not through the medium of a formalized management structure;
- ❖ Being independent, in the sense of not forming part of a large enterprise.

Given this 'economic' definition, Bolton then devised a 'statistical' definition which was designed to address three main issues. The first was to quantify the current size of the small firm sector and its contribution to economic aggregates such as gross domestic product, employment and innovation. The second purpose was to compare the extent to which the small firm sector has changed its economic contribution over time. Thirdly, to enable a comparison to be made between the contributions of small firms in one country with that of other nations.

The definitions used by the Bolton Committee are shown in Table 2.1. The table illustrates the use of different definitions of a small firm in different sectors. It also shows that the criteria upon which the judgment of 'smallness' was made also varied sectorally. Thus in two groups of sectors—manufacturing and construction, and mining and quarrying—the criterion was employment, in

three service sectors the criterion was sales turnover; in one sector-catering- it was based upon ownership. Finally, in road transport it was based upon the physical assets of the business-the numbers of vehicles.

Table 2.1: Bolton Committee definitions of a small firm

Sector	Criteria	Definition
Manufacturing and construction	Employment	200 employees or less
Mining and quarrying		
Retailing and miscellaneous services	Sales turnover	Turnover of £50,000 or less
Motor trades	Sale turnover	Turnover of £100,000 or less
Wholesale trades		Turnover of £200,000 or less
Road transport	Physical assets	Five vehicles or less
Catering	Ownership	All excluding multiples and brewery- managed houses

Source: Bolton (1971)

➤ **Critiques on the Bolton Committee Definitions**

Following the Bolton Committee, there have been a number of criticisms on both its 'economic' and 'statistical' definitions. Taking the 'economic' definition first, the Bolton criterion that a small business is managed by its owners in a personalized way and not through the medium of a formal management structure is almost certainly incompatible with its 'statistical' definition of small manufacturing firms which could have up to 200 employees. Whilst Bolton recognized that some small firms may 'have one or more intermediate layers e.g. supervisors or foremen to interpret their (owner-manager) decisions and transmit them to employees' it still regarded small firm owners as taking all the principal decisions and exercising the principal management functions(Storey,1994, p10).

The second questionable aspect of the Bolton 'economic' definition is the emphasis upon the inability of the small firms to affect its environment -most

notably its inability to influence, by changing the quantity which it produces, the price at which a product or service is sold in the market place. In practice, however, many small firms provide a highly specialized service or product and often do not perceive themselves to have clear competitors. As a result, they can maintain higher prices and higher profits than the general large industries (ibid, p10).

Storey (1994, p10) tries to point out the criticisms of the Bolton Committee 'statistical' definitions of small firms. The first is that there is no single definition, nor even any single criterion of 'smallness'. The second criticism is that three different upper limits of turnover, as depicted on the Table are identified for the different sectors. These make the definition too complex to enable comparisons to be made. The third criticism of the definition based upon monetary units is that they make comparisons over time very difficult. They also make international comparisons more difficult. The fourth criticism of the Bolton committee definitions is that they treat the small firm sector as being homogenous.

b) European Commission Definitions

To overcome a number of the above problems, following the lead of the European Commission (EC), the term 'small and medium enterprise' (SME) has been coined. The SME sector itself is disaggregated into three components:

- ❖ Micro-enterprises: those with between 0 and 9 employees
- ❖ Small enterprises: those with 10 to 99 employees
- ❖ Medium enterprises: those with 100-499 employees.

The SME sector is therefore taken to be enterprises-except agriculture, hunting, forestry and fishing-which employ less than 500 workers. Currently, the EC definitions are well more appropriate than those of the Bolton committee. The EC definitions are exclusively based upon employment, rather than a multiplicity of criteria. The second benefit is that the EC definition recognizes that the SME group is not homogeneous, in the sense that distinctions are made between micro, small and medium-sized enterprises (ibid, pp13-14).

c) World Bank, USAID and UNIDO Definitions

World Bank, USAID and UNIDO provided different definitions in cognizant with their programs.

World Bank (1978):- firms with fixed asset (excluding land) less than US\$ 250,000 in value are small scale enterprises.

USAID (1990):-firms with less than 50 employees are considered as small scale enterprises.

UNIDO (2003):- Classified into two, which is for developing and developed countries: - firms with 5-19 workers are considered as small scale enterprises for developing countries where as firms with less than 99 workers are small scale enterprises in developed countries.

d) Definitions from Different Perspectives

More than 50 different definitions of small enterprises are identified in 75 countries. There are no lower limits to the size of a SE (which includes the formal and informal sectors represented by self-employed, family undertakings, sole-owners, partnerships, companies and cooperatives); however, a problem does arise when attempting to establish an acceptance on upper limit for the definition: financiers often talk in terms of upper levels of fixed assess, net worth or value added; labor officers may refer to the total number of persons employed; traders might use a ceiling limit in sales volume; service personnel: may use the total number of customers: Manufacturers may prefer to use maximum levels of energy required for production, or different criteria may be combined in attempting to set the limit at which the enterprise ceases to be "Small" (Nelson, 1987,p2).

2.3 Differences between Small and Large firms

Wynarczyk *et al.* (1993) argue that small and large firms are fundamentally different from each other. They attempt to identify those characteristics of the small firm, other than size per se, which distinguish it from the large enterprises. They argue by three central respects in which small firms are different from large firms: uncertainty, innovation and evolution.

A) Uncertainty

The first is the uncertainty associated with being a price taker. The second source of uncertainty for small firms is their limited customer and product base. The third dimension of uncertainty relates to the much greater diversity of objectives of the owners of small firms compared with large. Many small business owners seek only to obtain a minimum level of income, rather than maximizing sales or profits. The central distinction, then, is the greater external uncertainty of the environment in which the small firm operates (ibid).

B) Innovation

According to the same authors, the second key area of deference is their role in innovation. It is the ability of the smaller firm to provide something marginally different, in terms of product or service, which distinguishes it from the more standardized product or service provided by larger firms. Small firms are more likely to introduce fundamentally new innovations than larger firms (ibid).

C) Evolution

The third area of difference between large and small firms is the much greater likelihood of evolution and change in the smaller firm to become larger firm. The evolution is comparable to the transition from a caterpillar to a butter fly, seen it to be not a singe-stage change but rather a multiple-stage change (ibid).

Relative to large firms, MSEs are:

- *More labor intensive*:- employ more labor relative to capital than large enterprises
- *More efficient*: - use fewer resources per unit of out put
- *More equitable* in distributing the income they generate
- *More widely dispersed geographically*: are more likely to operate in towns and villages, as well as in less developed regions
- *More nurturing of entrepreneurs*: expand their tiny firms into successful medium and large enterprises (Liedholm & Mead, 1999 p3).

2.4 The Diverse Characteristics of MSEs

The characteristics of MSEs confirm the heterogeneity of the enterprises and have important implications for those responsible for designing and implementing MSE assistance programs. The implications can be categorized into two. First, different types of MSEs have different contributions to make to the process of development. Some types of enterprises are partially effective in combating poverty, while others can make major contribution in terms of economic growth. Second, different categories of MSEs face different problems, and therefore can best be supported by different types of assistances. Understanding of these differences makes it possible to focus on appropriate categories of enterprises in offering assistance (Liedholm & Mead, 1999, p85).

Liedholm and Mead (1999) grouped MSEs in four major categories:

I) New starts: - These are enterprises just getting under way. The needs of this group for support are significantly different from those of enterprises that have been in existence for some time and that have managed to overcome many of their start-up problems. According to the authors, two objectives are advanced for programs designed to provide assistance to these newly established enterprises 1) increasing the rate of start ups, eliminating barriers that hinder people from starting business 2) helping to survive, reducing the high death rate among those just getting under way (ibid, pp85-89).

II) Non-growing enterprises: - These are enterprises that have survived the perils of start up but have not added to their employment since they were first established. According to the same authors, those enterprises that do manage to survive the difficult start up years, most do not grow. In other words, among the universe of existing enterprises, the largest category is made up of non-growing enterprises. Among the most important characteristics of such survival enterprises are the following: very small size, averaging only about 1.2 workers per enterprise, exclusively rely on family labor (unpaid family members), simple management techniques, and the income generated is low (ibid, pp90-92).

III) Small growers: - These are enterprises that have been in existence for some time and have added to their work force since starting, but have grown only in small amounts. Compared to those that had not grown, a higher percentage of the owners had previously either run another business or worked for some one else in the same line of work, fewer had previously been unemployed. The owners of these enterprises have a more commercial, business like approach to the enterprise (ibid, pp92-94).

IV) Graduates: - These are enterprises that started from a very small base and have made to reach at least the middle ranges of the small enterprise spectrum. Only about 1% of all micro and small enterprises starting out very small succeed in 'graduating' with ten or more workers, these are important groups since they provide substantial numbers of jobs and a major source for future intermediate enterprises. Some of the characteristics of these enterprises include: engaged in full time activities, operating the same number of months per year and days per month, contribute at least half of the household income (ibid, pp94-98).

2.5 Roles or Contributions of Small Enterprises

The role which MSEs play in the economy varies from nation to nation and reflects the cultural background of the different countries. In the US economy, for example, MSEs are considered to be the cornerstone of a free market economy. MSEs don't only play a different role in different countries, but also in different time periods in different industries in a national economy (Giaoutzi, Nijkamp & Storey, 1988).

Though a multitude of problems generally engulfs the operation of business activities in the area, SEs are contributing their part towards local economic development. Elias (2005, p117) cited the roles of these enterprises as:-

- 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;
- Creating, to some extent, tradable goods, and hence reinforcing the local economic base;
- Satisfying the market demands of the poor as MSEs offer relatively cheaper commodities to the market;
- Developing the atmosphere of entrepreneurship in the area.

Nelson (1987, p 7) tries to summarize the contributions of small enterprises as:

- ❖ Accounting for over one-half of paid employment with the capacity to employ even more;
- ❖ Creating jobs at relatively low capital cost;
- ❖ Providing a vehicle for introducing a more equitable income distribution;
- ❖ Developing a pool of skilled and semiskilled workers as a basis for future industrial expansion;
- ❖ Improving forward and backward linkages between economically, socially and geographically diverse sectors of the economy;
- ❖ Providing opportunities for developing and adapting appropriate technological approaches;
- ❖ Promoting especial sub-contracting arrangements and acting as ancillaries to large-scale enterprises;
- ❖ Adapting flexibility to market changes

According to Elias (2005), the partnerships among the three development actors (refers to Local Economic Development) namely: local governments, micro and small enterprises, and community based organizations are established to utilize and manage indigenous resources particularly to generate employment and stimulate the economic base of a well defined area. He pointed out that MSEs play the role of mobilizing fragmented as well as small sized capital of individuals in the community and channels such resources to the pool of investment in the locality. Also adds effective mobilization of resources is likely to lead to the creation of ample employment opportunities.

Some data can be cited for selected countries to indicate the relative importance of SE in different regions. In the United States for example, small

enterprises with 100 or fewer employees accounted for about 34 percent of employment and provided more than half the jobs in construction and in the wholesale and retail trade. In Japan, small establishments with fewer than 100 persons engaged, accounted for 76.2% of total employment in the private, non-farm sectors. In the United Kingdom, 20.5 percent of manufacturing jobs were in firms with 20-99 employees. An estimate for Brazil indicates that small establishments with 5-99 employees accounted for 43.6 of total employment and 29.6 percent of the value of production in the manufacturing industry (Nelson 1987, p.6).

2.6 Constraints of Small Enterprises

Though small enterprises play roles in local development, they have faced multifaceted problems. According to the Central Bureau of Statistics (1999) in Kenya, 61.5% of the surveyed enterprises reported lack of markets and having too many competitors, lack of product publicity and lack of credit were their primary and major constraints. Poor management of inventories of raw materials, lack of transport (i.e. lack of roads, high transport costs and poor road conditions), and shortage of raw material inputs (i.e. lack of and / or high cost of raw materials) are secondary constraints as cited in the document. Problems such as harassment by local authority officials and troubles in obtaining business licenses as well as lack of worksites (i.e. problems of inadequate business premises or high rent) and labor unavailability and worker dishonesty were other typical problems. In general, the survey categorizes the problems into four. These relate to markets, finance, transport and legal / security concerns.

Peter and John (2000) indicated that lack of working capital is the most important reason for business closure for more than one third of enterprises. Lack of credit is the second severest problem faced by MSEs, the first one being lack of demand for products or services. Their findings confirm that credit plays a crucial role in enterprise performances. Elias (2005) indicated that lack of capital, absence of government support, lack of credit facilities and the prevalence of poor technology are the range of problems challenging the

operation and the survival of MSEs. For him, the other equally important problem of the sector includes shortage (lack) of land, escalating rate of rent and lack of trainings.

2.7 Services needed by Small and Micro Enterprises

Reinecke and White (2004) regarded an integrated service delivery program as the primary tool for developing MSEs. They proposed a comprehensive service packages which they taught compulsory for small business promotions. The package contains

- ❖ Advisory services and training of entrepreneur/managers
- ❖ Research and Development services
- ❖ Provision of sites , buildings and Common facility services
- ❖ Facilitation of materials and equipment procurement
- ❖ Marketing aids
- ❖ Labor relations services, In addition, the authors recommended also the government should establish suitable general environments for MSEs.

2.8 Housing and Small Enterprises in Addis Ababa

Housing is universally considered as the second, most important essential human needs after food. There was a housing backlog of about 300,000 housing units in Addis Ababa. The problem is exasperated by the increasing rate of new household formations. In order to alleviate the housing problem in the city by constructing condominium houses, the Addis Ababa City Government has designed a Grand Housing Project in which redevelopment of the dilapidated inner city is given emphasis (AAHDPO, 2004).

The Housing Development Project Office and the Housing Agency were established to replace one third of the inner city dilapidated houses per year and transfer to the residents at a subsidized rate. The main target groups are tenants residing in Kebele houses, which make up almost 90% of the inner city housing units. For the city administration, the key problems of providing adequate housing are the difficulties in getting adequate investment fund. The main source of financing was expected to come from foreign long term loans and grants and the establishment of a housing fund where the return on the

initial financing will lead to a sustainable revolving fund. The other financial source is the direct sales or down payment of the houses to be built and transferred to a potential buyer where the money is to be put in to a revolving fund scheme. (Ethiopian Economic Association, 2007, p.256).

Although the plan of Addis Ababa City Administration was to build a total of 150,000 houses which is 50,000 condominium housing units per year starting from 2004/05, the performance on the same year was not encouraging as only 12,000 housing units (8percent of the plan) were built and transferred to urban dwellers. Various factors have been attributed to it; including the confusion following the May 2005 election, escalating construction material prices, and ambitious plan disregarding the reality on the ground in terms of the availability of raw materials, production capacity of domestic industry and skilled man power availability (EEA, 2007p.257).

The Grand Housing Project's second most important objective is generation of employment opportunities for the city's youngsters and testing of TEVT (Technical and Vocational Training) on the ground. As depicted in Table2.2, the total employment generated by the program in 2004/5, 2005/6 and 2006/7 was 43.9 thousand, 57 thousand and 11.8 thousand respectively, totaling 112.8 thousand.

Table2.2: Employment generation of the Grand Housing Project by respective years, Addis Ababa

Construction Period	Permanent		Temporary		Total		Total
	Male	Female	Male	Female	Male	Female	Employee
2004/05	7839	1436	12321	22347	20160	23783	43943
2005/06	9650	1770	13673	31905	23323	33675	56998
2006/07							11827
Total							112,768

Source: AAHDPO, 2007

According to the Ministry of Works and Urban Development (MOWUD), the experience of Addis Ababa City Administration condominium housing construction will be scaled up and rolled out to other major towns in the

country in order to mitigate the housing problem and to reduce the level of unemployment in the country, MOWUD has proposed Urban Development and Industry Package. In this package, there is a program for MSEs. Moreover, the eight sub-sectors in the construction sector have their own individual packages (MOWUD, 2007).

The construction sector package consists of individual packages for eight sub-sectors that are engaged in the construction activities. In each individual sub-sector packages issues like constraints of the specific sub-sector, proposed solutions to address the constraints, the sub-sector human resource requirements, legal issues, working premises, the type of the necessary equipments and machineries for the particular sub-sector, raw materials, start up capital, trainings and market linkages are exhaustively discussed (urban industries and development package, 2006).

2.9 Micro and Small Enterprise Development Strategy of Ethiopia

The government of the Federal Democratic Republic of Ethiopia has formulated a national MSE development and promotion strategy, which is based on systematic approach to alleviate problems, faced by MSEs and promotes their growth. The basic objective of the national strategy framework is to create an enabling environment for micro and small enterprises. The specific objective of the strategy include: - facilitating equitable economic growth and development, creating long term employment, strengthening cooperation among MSEs. The implementation of the strategy is planned to follow five stages. These are awareness creations, needs identification and implementation planning, resource identification, training of support agency staffs and straightening the business and entrepreneurial culture (MTI, 1997).

The Addis Ababa MSE development agency was established in 2002 and has served as a model for other regions. The agency targets unemployed youth and assists both new entrants to the labor market as well as those wishing to develop existing business. The agency provides different kinds of services such as work/trade premises, credit, marketing, business development services, technology, information and counseling and license/legal support. The agency

has prominent position in the city government and work with different kinds of stakeholders (World Bank, 2007).

2.10 Characteristics of the Construction Sector

The construction industry is one of the important sectors for community based economic development. The construction industry utilizes huge amount of labor. The major part of construction raw materials are obtained from local area. On the job skill training and upgrading improve employability of the poor segment of the society. It also plays important role in providing basic services and settlement upgrading (Helmsing, 2005).

In European Community (EU) economy, construction industry plays important role particularly on capital formation and employment. In these countries construction sector, small and micro enterprises accounts for 97% of the business. In EU construction industry, 93% or 2.37 million enterprises are “micro” businesses. Ninety seven percent of the total small enterprises are widely dispersed geographically. The sector accounts for 10% of the EU gross domestic product and approximately 50% of gross fixed capital formation and create 26 million direct and indirect employments. In UK SME accounts for 98% of the business base, 58% of employment but only 37% of output (James, 2005).

In many third world countries nearly half of the total construction output is in civil engineering projects. The products of this sector differ widely. The sector was previously ignored from the economic activity in the underdeveloped countries but now has got the attention it deserves. The other significant characteristic of construction sector is the completed products are not mobile or are fixed in particular location. Large amount of construction activity in the developing countries economies is executed within the informal sector. Construction activity show high yearly and even monthly fluctuation in developing countries (Wells, 1986).

2.11 Review of Researches in Ethiopia

An effort was made to review relevant literatures /researches made on the area with in the context of Ethiopia. Accordingly, Workneh (2007) in his study

entitled 'The constraints of Micro and Small Scale Enterprises in employment opportunity in Addis Ababa' concludes that the primary constraints for the sector are infrastructural related problems. According to him, the majority of the 'hollow block' manufactures are suffered from poor infrastructural facility of their location. The absence of adequate trainings in the areas of business management and the bureaucratic structure of HDA are secondary problems based on the study.

Adil (2007) in his study entitled 'challenges and constraints of Micro and Small Enterprises in Addis Ababa' The case of two sub-city's industrial zones tries to summarize the major challenges faced by the enterprises engaged in the construction sector. According to him, inadequate or uncertain market, difficulty in the borrowing process and high collateral requirements are also pinpointed by him as core challenges. Bureaucratic regulatory requirements, government interventions, and inability to sell for other customers are also categorized as constraints for the enterprises.

Sertsewold (2007), his main research objective being 'to assess and evaluate the growth trends, opportunities and problem of MSEs' found out that the small scale manufacturing enterprises are growing fast in their absolute number and the major problem of most operators in starting their businesses were shortage of capital, lack of working premises and inadequate information on market. He also adds training programs, capacity building, and provision of necessary information play a significant role in the performance of the enterprises.

Daniel (2007), on his research of the influence of MSEs on poverty alleviation, the major problems identified by his survey were lack of business development service (BDS), lack of additional credit to expand their business were mentioned .He argues that competition at the local level can be taken as a positive aspect as long as it boosts the innovative capacity of the operators so that they come up with quality products.

CHAPTER THREE

DESCRIPTION OF THE STUDY AREA

3.1 National Governance Structure

Ethiopia has adopted a new constitution that organizes the country under federal structure in 1994 and currently the country is divided into nine regional states and two special city administrations, namely Addis Ababa and DireDawa. The states are divided into Woredas (local administration districts). Currently there are 556 Woredas that are coordinated by 66 zonal administrations. Each Woreda is organized into several Kebeles, the lowest administrative offices (AACACIB, 1999).

Addis Ababa is the capital and the largest city of the country. It has been given by the constitution a special status that authorizes it to exercise higher level of autonomy. Even though the Addis Ababa administration is accountable to the federal government of Ethiopia, it is mainly governed by a charter that insures its autonomy.

3.2 General Overview of Addis Ababa

Addis Ababa is a dwelling place for 2.3 million inhabitants. The city was organized into 28 Woredas and more than two hundred Kebeles. However, in 2002, the provisional government of the city has implemented a new structure that organizes the city into 10 sub-cities throwing out the Woredas. The number of Kebeles has also been reduced to 99. Consequently, the Kebeles report directly to the sub-cities (AAHDPO, 2007).

Addis Ababa is the seat for many continental and international institutions and embassies. The total area of the city is 223.6 Km² and 540Km² in 1984 and 1993 E.C respectively. The city population grew at 2.5% between 1970 and 1998E.C. Rural-urban migration was the main cause of this population growth. Sex ratio in the city is 93 male to 100 female. Dependency ratio is 28%, of which twenty five percent is contributed by <15 age group and 3% is contributed by old age group (>65) (AACACIB; 1998).

As far as the economic condition of the city is concerned, in 1997 E.C, the three sectors (service, industry & agriculture) contribute 77, 22 and 1 percent respectively of the city's economy. The city's economy grows on average at about 6% in real terms between 1988 and 1996 E.C fiscal years. For the same period, the city's GDP rose from birr 7.4 billion to 11.7 billion in absolute terms. The real GDP per capita of the city increased from birr 3,317 to birr 4,172 for the above mentioned years, registering a 3% average growth rate. About 24% of the city formal labor force is engaged in industry sector. On the other hand, about 60% of the human resource of the city is engaged in the informal sector. This sector is the main source of income for the majority of the poor in the city. More than 50% of the residents of Addis Ababa live in absolute poverty (AACACIB, 1998).

Micro and Small Enterprise development is one of the priority areas of work for Addis Ababa City Administration. In the city, there are about 127,318 informal enterprises which employ about 167,000 labor forces. In addition there are 51,684 cottage and small industries employing 83,000 workers. There were 137,000 licensed MSEs up to 1998 E.C. The city administration has an agency which gives various services for this sector (AACACIB, 1998). The total number of employment opportunities that have been created in this program in the year 2000 E.C. alone has reached more than half a million, out of which 45% is in the capital, Addis Ababa (MOWUD, 2008).

As far as the housing condition of the city is concerned, the housing shortage is among one of the most critical problems of the city. As per the study of the city government, there was a shortage of 300,000 houses in March 2004. In addition to this the quality of the available housing was very low. The total houses found in the city (387,000) of which 84.4% (326,676) of them are used for residential purposes, satisfying only 59.4% of the housing demand in the city. From the existing houses, 25% do not have toilets, 26% don't have kitchen and more than 30% of them are studios (AAHDPO, 2007).

With regard to the health sector, there are 37 hospitals in the city. From these 24 are administered by the city administration. There are a total of 500

clinics. Concerning the education sector, literacy rate is 89%. There are 566 kinder gardens, 458 elementary and 96 secondary schools. From these, 46.6% are private, 19.4% are governmental and the remaining 38% are public and non-governmental. About 54.5% of students are enrolled in governmental schools. There are five technical colleges and 247 technical institutions. From these 89% are owned by private and non-governmental organizations. Gross enrollment is 96.7% in elementary schools and 81.9% in secondary schools. Student classroom ratio is 1 to 56 in primary schools and 1 to 76 in secondary schools (AACACIB, 1998).

The location of the study area, Kolfe-Keranio sub-city is located in the South East of Addis Ababa with total area coverage of 65,133,389 square meters. The total population size of the sub-city is 420,000 and out of which 217,935 are females and the rest 202,065, are males.

3.3. Micro and Small Scale Enterprises under the Construction Sector of Kolfe - Keranio Sub-City

Under Kolfe-Keranio sub-city of Housing Development Agency (HDA), there were a total of 144 associations established as MSEs until the end of 2000 E.C in the construction sector. These enterprises were established under eight major sub-sectors in relation to housing development. But out of the 144 enterprises, only 23 of them are now operational and the rest 121 enterprises are not operational or closed. Table 3.1 depicts the field of works, year of establishment, the number of sub-sectors established in the respective years, the total number of associations and members participating in the sub-cities micro and small enterprises.

Table3.1: The profile of MSEs in Kolfe-Keranio sub-city

Field of work	Year of establishment	No. of associations	Total no. of associations	No. of members		Total no. of members
				Male	Female	
Wood & metal works	1997	20	77	508	64	572
	1998	27				
	1999	29				
	2000	1				
Pre-cast and hollow block			5	59	14	74
	1997	5				
Hollow block	1997	11	13	154	31	185
	1998	2				
Pre-cast beam	1997	7	7	104	6	110
Stone work & gravel	1997	6	6	45	4	49
Agro-stone production	1999	4	4	46	5	51
Electric installation	1997	7	20	197	27	224
	1998	4				
	1999	6				
	2000	3				
Sanitary installation and plumbing	1997	2	12	126	16	142
	1998	2				
	1999	4				
	2000	4				
Total			144	1239	167	1406

Source: Kolfe- Keranio HDA office (2000E.C.)

Figure3.1a Map of Addis Ababa

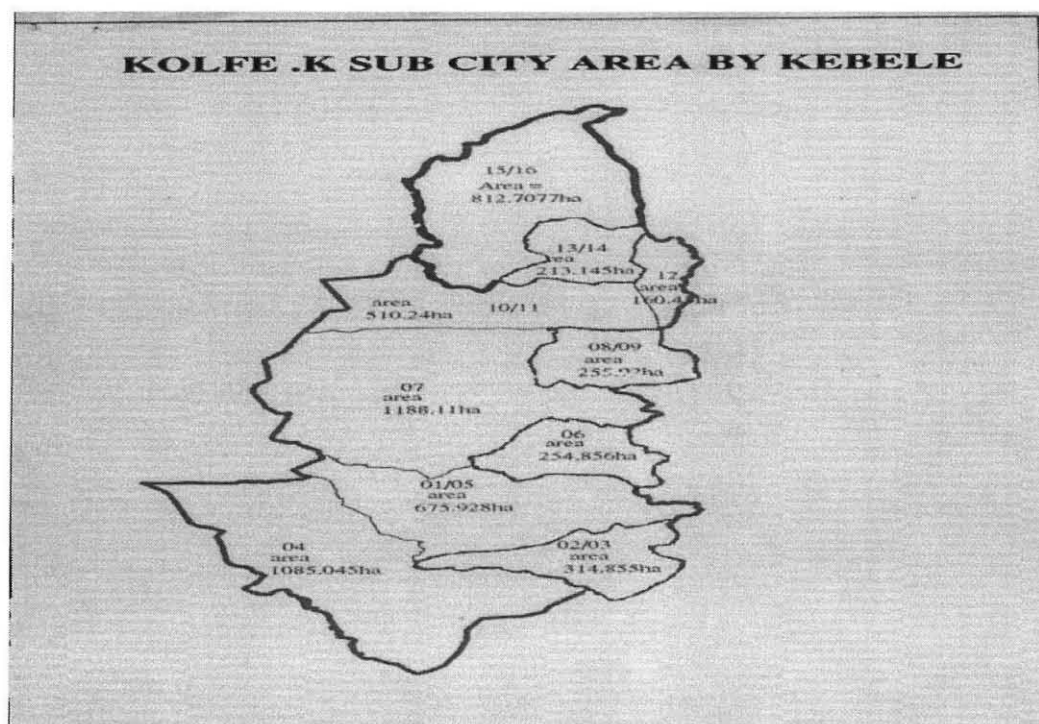
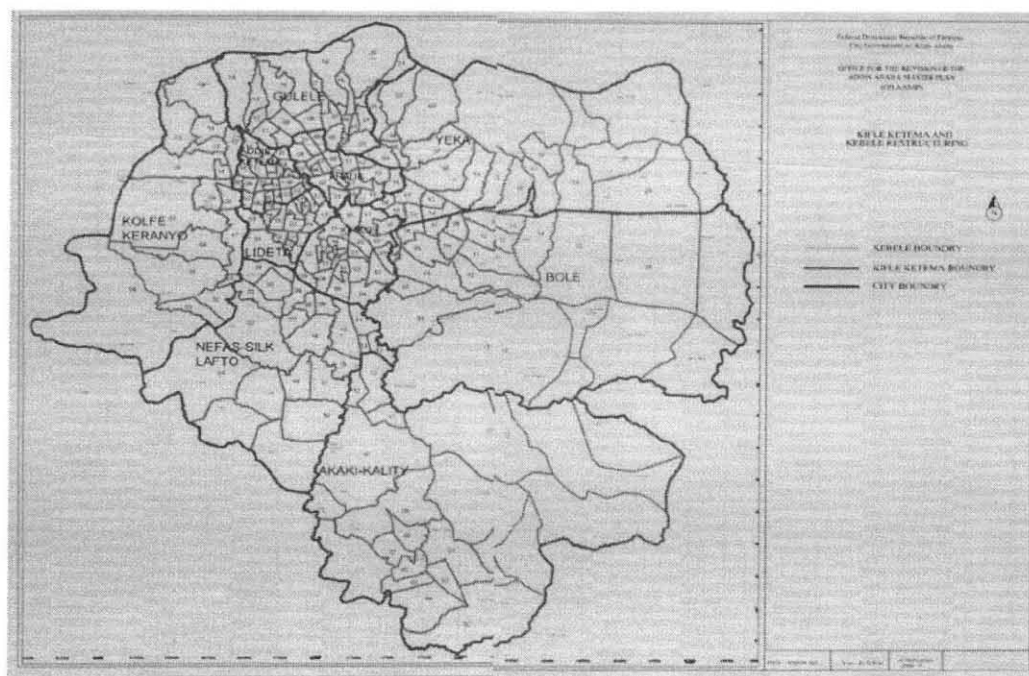


Figure 3.2b: The study area with the selected Kebeles(marked in blue)
Source: Kolfe-Keranio sub-city HDA

CHAPTER FOUR

THE CHARACTERISTICS OF ENTERPRISES IN THE CONSTRUCTION SECTOR

This chapter tries to present the types of the enterprises, the profile of the respondents in terms of age, sex, marital status, experience and the reasons behind establishing the enterprises. The contributions of the enterprises to the respondents, their source of start up capital and forms of ownership is also discussed. Moreover, matters of price determination, raw materials and profit distribution are also assessed.

4.1 Socio-Demographic Characteristics

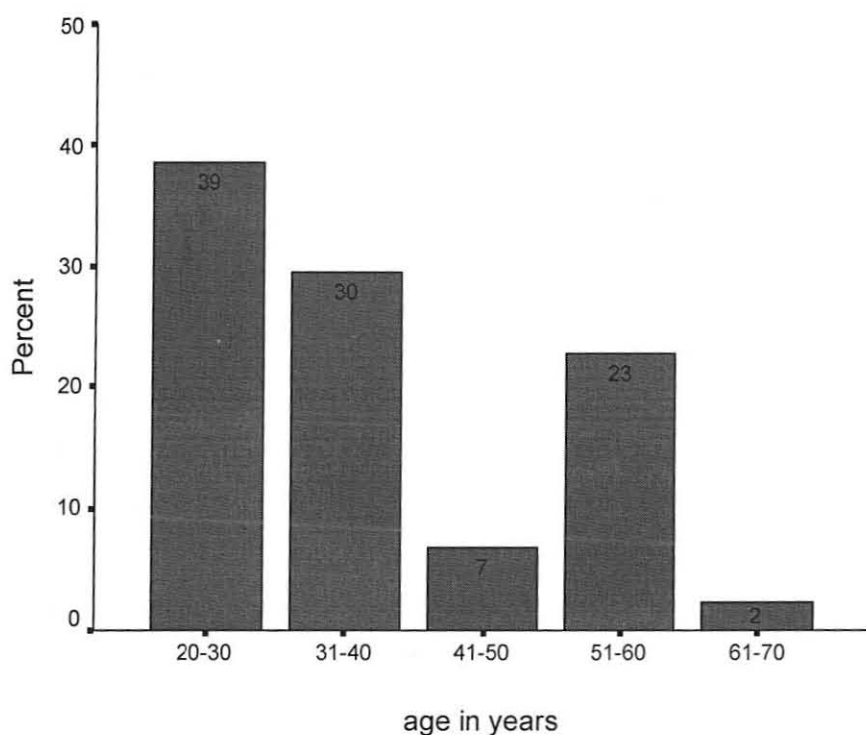
I) Age Structure of Respondents

The demographic characteristics of operators play significant role for enterprise performance. The entrepreneurial behavior and the performance of the business enterprise can be influenced by the age of the entrepreneurs. For example, those at young age have a better probability in adopting new situations and have a greater affinity to create or search for new ideas. However, it is also believed that experience plays a great role in operating business efficiently than having knowledge. This is to say, though young people could be effective in running business, better experience comes through age (Storey, 1994).

In light of this, questions were prepared to assess some demographic characteristics of the respondents. As presented in Figure 4.1, the result indicates that the majority of the respondents are found in the age category of 20-30years. This range accounts for 17(38.6%) of the respondents. The next category (31-40) accounts for 13 or 29.5% of the respondents. The age ranging in between 51-60 accounts for 22.7% or 10 respondents and stands third in terms of rank. The remaining two categories (41-50 and 61-70) have a percentage of 6.8% and 2.3% respectively. The survey result indicates that majority of the operators (38.6%) are young people who are between 20-30

years old. This shows that the nature of the work during pre-cast beam and hollow block manufacturing as well as metal and wood works need strength in moving the beam or the block here and there, in mixing up the ratios like sand, cement and water manually & more over in cutting the metals. Moreover, the three sub- sectors highly absorb youths in between the stated age (20-30). This is because of the fact that the government gives much more attention to create employment opportunity, facilitate the formation of associations and the provision of loan and relevant trainings were open and available for the youth section of the society.

Figure4.1: The Age profile of respondents



Source: own survey (2009)

II) Sex Composition and Marital Status of Respondents

As depicted in Table 4.1, the majority of the respondents 36 or (81.8%) of them are males and the rest (8) or 18.2% are females. When we look at the gender segregation and marital status situation of the operators, majority of them (52.3%) i.e. 21 males and 2 females are married. Almost all of the males (90%)

are married in the age categories of 51-60. Relatively less marriage is seen in the age category of 20-30. The survey result indicates less participation of females in the construction sector than males. This may be due to the reason that, the sector needs more physical strength to produce and move the products and the lesser exposure of females to the sector in the society. Appropriate measures should be taken by stakeholders to improve the participation of females. For instance, if there are machineries which need less power to manipulate, females may have the interest to participate.

Table 4.1: Sex and marital status of respondents in the respective age categories

Age	Sex composition				Married				Unmarried			
	Male		Female		Male		Female		Male		Female	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
20-30	13	36.1	4	50	3	14.3	1	50	10	66.7	3	50
31-40	9	25	4	50	5	23.8	1	50	5	33.3	3	50
41-50	3	8.3	0	0	3	14.3	0	0	0	0	0	0
51-60	10	27.8	0	0	9	42.9	0	0	0	0	0	0
61-70	1	2.8	0	0	1	4.8	0	0	0	0	0	0
Total	36	100	8	100	21	100	2	100	15	100	6	100

Source: own survey (2009)

As can be seen from Table 4.2, the percentage of males participating in each sub-sector is greater than females. Females show a slight tendency towards wood and metal works than the other two sub-sectors. This may show that, wood and metal works need a relatively less physical strength and stamina than the two sectors so females like to participate in this sector.

Table4.2: Number and sex of respondents in the respective sub-sectors

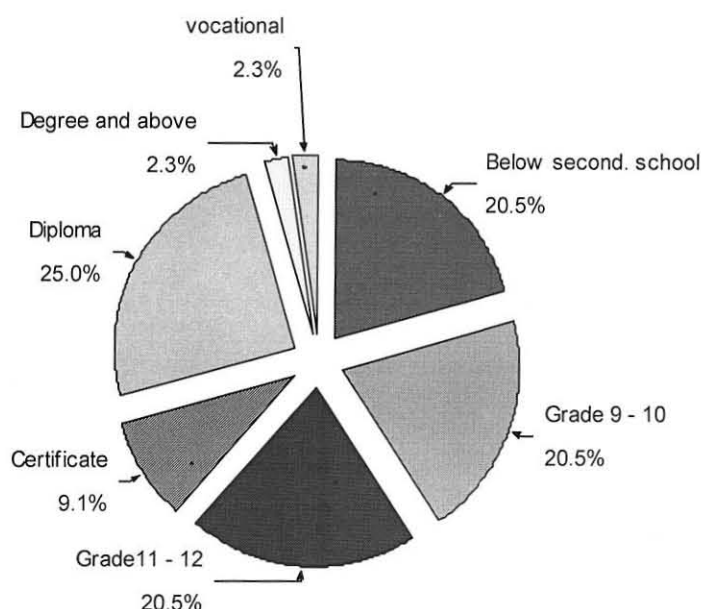
Sub-sector	Sex composition			
	Male	Percent	Female	Percent
Hollow block only	13	36.1	2	25
Precast+ hollow	15	41.7	2	25
Metal and wood	8	22.2	4	50
Total	36	100	8	100

Source: own survey (2009)

III) Educational Status of Respondents

The survey results for the level of respondent's education indicated that 25% of the respondents have diploma. Respondents in the categories of (grades 9-10, grade 11-12 and below secondary school) each category has 20.5% of the respondents. 9.1% percent of the respondents have certificates in various types of constructions fields. As we can see from Figure4.2, the majority of members in each sub-sector have attended at least primary level of education. This shows that at even less level of education, there exists an employment opportunity and it indicates that the sub-sectors can absorb the unemployed section of people who lack adequate educational level. This implies that adequate training in the areas of business management and similar technical trainings should be given to strength their performance.

Figure 4.2: Educational levels of respondents

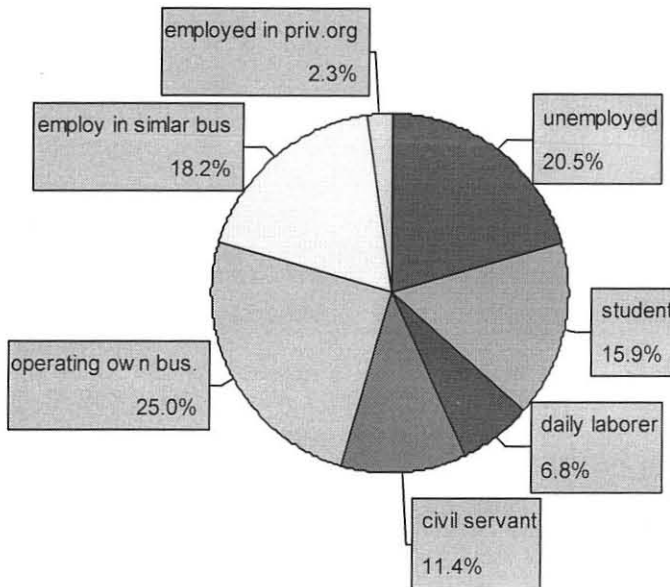


Source: own survey (2009)

IV) Previous Experience, Qualifications and Types of Employment

As MSEs are believed to reduce the unemployment situation, many youths are engaged in different sub-sectors of the construction sector by forming an association. Before this opportunity was created most of the youths were unemployed after finishing school. However, due to the establishment of many technical and vocational schools many have got a chance to train within two years and engaged in their fields as entrepreneurs as well as employed in many technical organizations.

Figure4.3: Previous experience of respondents



Source: own survey (2009)

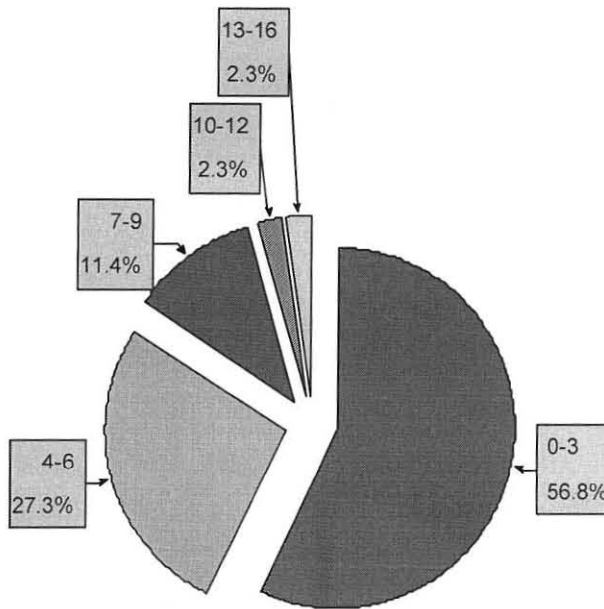
As depicted in the above Figure, 15.9% of the respondents were students. 25% of the respondents came from their own micro businesses. 20.5% were unemployed. About 6.8% of respondents were daily laborers. 18.2% was working in similar businesses. About 11.4% of the respondents came from governmental institutions. 2.3% were working in private firms. The results show the enterprises create employment opportunities for individuals who come from various walks of life. In doing so, the previous experience where they were engaged helps them to function well for 70.5% (31) of the respondents in matters where technical skills are required to produce outputs and in financial matters. For 29.5% (13) respondents, their previous experience has no relation with the work they are engaged in now and does not help them in any way.

V) Dependents of Respondents

The study tried to assess the number of dependents of the respondents in order to get some insight on their responsibilities. Accordingly, 56.8% of the

respondents have 0-3 dependents that need their full support. 27.3% or 12 respondents each has 4-6 dependents, 11.4% (5) of the respondents manage 7-9 dependents, the remaining 4.6% of the respondents give full support from 10 up to 16 family members. This shows most of the respondents have family members that need their full support in every aspect and moreover there are individuals who are involved indirectly with these enterprises (Figure 4.4).

Figure 4.4: Number of dependents of respondents



Source: own survey (2009)

4.2 Reasons of forming Enterprises and Associations

There are two thoughts concerning on the number of people engaged in micro and small enterprises. The first one perceives it as improvement or good sign of the economy. While the second one associate it with making people less productive by engaging in less productive activities (Liedholm and Mead, 1999). In the context of this, an attempt has been made to throw light on this issue. Accordingly, respondents were asked to respond their main reason to join these group based enterprises. Almost 32 percent of the respondents reported that

they have joined the enterprises to create their own job, followed by those who joined the enterprises to get additional income (25%). Those who respond to create job and to get additional income add up to 13.6%.11.4% of the respondents answered the reason to join the enterprises was to change their previous business. The remaining respondents which account for 18.1% together reported a blend of answers of the above responses in one way or another (Table 4.3).

Table4.3: Reasons of respondents for forming enterprises

Type of Reason(s)	Frequency	Percent
To get additional income	11	25
To create job	14	31.8
To change the type of business	5	11.4
Cooperation is better	1	2.3
To create job and to get additional income	6	13.6
To change the type of business and to get additional income	3	6.8
To create job and cooperation is better	2	4.5
To change the type of business and cooperation is better	2	4.5
Total	44	100

Source: own survey (2009)

The oldest firms are of 5 years of age while the youngest firms started two years ago. Out of the six enterprises, four of them were established in 1997E.C in conjunction with the National Election at that period and the beginning of low cost housing construction. At the time of the campaign season of the election, the government was highly promoting the establishment of enterprises. The remaining two enterprises were established in 1996 and 1999E.C.In cognizant with the above facts, the study tries to assess the reasons behind forming cooperative associations. Accordingly, the primary reason for 47.7 %(21) of the respondents to form associations were both initiation from the government and their own interest.36.4% or (16) of the respondents form associations based on their interest only with out any

initiating body.15.9% of (7) respondents answered the reason to form associations was the initiation from government bodies.

4.3 Selection of a Particular Sub-sector

Respondents' reason to join or establish enterprise was examined in the above section. After a decision has been made to establish or join enterprise, another decision is expected to be made as to which sub-sector of the construction shall be joined. Based on this, respondents were asked about the factors which drove them to join or establish the particular sub-sector.

Table4.4: Reasons of respondents to choose a particular sub- sector

Respondents reason	Frequency	Percent
Having related experience and the sector has a good return	14	31.8
Having related experience	10	22.7
Influenced by officials	15	34.1
After getting training believed to join the sector	5	11.4
Total	44	100

Source: own survey (2009)

About 31.8% of the respondents responded that they have chosen the particular sub-sector because of their related experience with the sector and having expectation of getting good return. About 34% of the respondents are influenced by governmental or non-governmental officials to join the current sub-sector. Having only related experience with the particular sub-sector influenced 22.7% of the respondents. The remaining 11.4% of the respondents are influenced after getting training and decide to join the sector (Table 4.4).

4.4 Forms of Ownership of Enterprises

It was known that all the enterprises sampled in this survey are group based. It is one requirement by concerned officials to establish and run enterprises. Partnership is the single most dominant (100% of the enterprises) form of ownership among the sampled firms. The minimum number of partners legally required was 10. Now it is down to 3. Ownership based on partnership give better chance of experience sharing and development of enterprise culture. All of the enterprises under study are established as cooperative associations. The

establishments of enterprises as a group were highly encouraged by the HDA of the sub-city for the provision of training, facilitation of loan, provision of production site as well as the required supplies and machineries. In terms of legality, all of the enterprises under study have got licenses from concerned government institutions and all have financial recording system. Obviously, the quality may vary from enterprise to enterprise. The legality and financial record keeping practices is an indication of monitoring and evaluation by concerned offices and the requirement set by stakeholders to provide access to premise and start up capital on credit.

4.5 Sources of Start-up Capital and Collateral

The start up capital for enterprise establishment could be money borrowed from micro-credit institutions or member's contribution or family/friends support. For the enterprises under concern, 72.8 % (32) of the respondents get initial capital from micro finance institutions only, this shows significant support of the government in the provision of loans. About 9% of the respondents get money from two sources: micro finance institutions and family members. Only 2.3% of the respondents get the initial capital from three sources (micro finance institutions, family members and contributing from own saving). About 11.4% of the respondents get financial sources from non-governmental organizations. 4.5% of the respondents join the enterprises by contributing money from their own savings. Lower rate of contribution may lower sense of ownership. Efforts have to be made to raise the proportion of members' contribution to start an enterprise (Table 4.5).

Table4.5: Sources of start up capital

Source	Frequency	Percent
Micro finance institution	32	72.8
Micro finance and family members	4	9
NGO's	5	11.4
Own contribution	2	4.5
Micro finance+family members+own contribution	1	2.3
Total	44	100

Source: own survey (2009)

In order to get the start-up capital, respondents present different types of collaterals. About 45% (20) of the respondents present their colleague members as collateral, but 18.2% of the respondents make use of a 'civil servant' as collateral. About 11.4% of the respondents were not asked any thing to present as collateral. About 9% (4) of the respondents have borrowed from the institution (Addis Credit and Saving Institution) through the guarantee of both the sub-city's HDA and a colleague member from their own enterprise. For the other 9% of the respondents, the sub-city's HDA itself was their collateral. 6.8 % of the respondents present their house's map to get loan. As indicated above the HDA itself was collateral for some members, this is a good motive for individuals who have nothing to present but want to borrow money (Table 4.6).

Table4.6: Types of collaterals presented by respondents

Type of collateral	Frequency	percent
Colleague member	20	45.5
Civil servant	8	18.2
No collateral needed	5	11.4
Housing agency+colleague member	4	9
Housing agency	4	9
Plan of a house	3	6.8
Total	44	100

Source: own survey (2009)

4.6 Working Premise

Concerning the working premise, all of the surveyed enterprises reported that their working premise is owned by the government and given temporarily with small rental price (2birr per m²). The area of the premise ranges from 100m² - 3194m². Because the enterprises are bounded by a contract, the government has a full mandate to take the land. In consistent with this fact, all of the surveyed enterprises are in fear of (not secured) losing the land sometime in the future. The fact that land price is high in the city and construction enterprises require relatively larger working premise, some mechanism have to be designed to provide their own working land.

4.7 Types and Suppliers of Raw Materials

Micro and Small enterprises are well known for their utilization of locally produced raw materials. From the surveyed enterprises, 1/3 of them use only locally produced raw materials where as 2/3 of the enterprises indicated, they employ both imported and locally produced raw materials. No enterprise under study uses only imported raw materials. The higher proportion of the enterprises, which uses imported and locally produced raw materials, is may be due to shortage of locally produced raw materials associated with the ever growing construction industry in the country. The higher proportion of using locally produced raw materials will have significant impact on poverty alleviation and local economic development.

The fact that the enterprises under study involved in different types of sub-sectors, they used different types of raw materials from different sources. The most dominant source of raw material for all of the enterprises is small retailers. Six of the enterprises involved in the study use this source. Government organization (Housing Development Agency of the sub-city) and small retailers are primary source of raw materials for the three enterprises that are involved in hollow block and pre-cast and hollow block manufacturing. Only one enterprise out of the six uses three sources (small retailers, government organization and small producers). Small retailers for the other one enterprise are the only source for its demand of raw materials. The remaining

one enterprise uses small retailers, small producers and whole sellers for its source of raw materials (Table 4.7).

Table 4.7: Types of raw material suppliers

Type of suppliers	Frequency
Small retailers	1
Small retailers, small producers and whole sellers	1
Small retailers, government organization and small producers	1
Small retailers and government organization	3
Total	6

Source: own survey (2009)

The surveyed enterprises were also asked about whether they get the necessary inputs needed for production on credit basis or not from input providers. About 2/3 of the enterprises get inputs (cement and iron bars) on credit basis from the sub-city's housing agency. The rest 1/3 of the enterprises don't get input on credit basis from any source. Availability of the necessary inputs or raw materials on credit basis from input providers improves the performance of the enterprises, especially in cases where shortage of working capital occurred. On the same notion, the enterprises were asked on what basis they sell their products. Out of the six enterprises, 4 enterprises which are engaged in hollow block only, and pre-cast beam and hollow block production sell their products only for the housing agency on credit basis which will be paid sometime on the future. The remaining two enterprises (wood and metal producers) sell the products on cash and credit basis for HDA and other customers.

4.8 Types of Customers

In this study, attempt has been made to identify the principal buyers of the product of the enterprises in the construction sector. The majority of the enterprises provide the products for the government housing projects. They account for three enterprises. Only one of the enterprises sells its products for government housing projects and institutes (schools). The other one enterprise

sells the products for government projects and private users. The remaining one sells to government projects, private users and as well as for institutes. This indicates every enterprise has engagement with government projects, that is to say the project creates market for these enterprises. In other words, it shows the effort of the government to help enterprises to grow their business. Though the government creates market for the enterprises, the enterprises especially precast and hollow block sub- sectors are forced to sell their products only for government projects, because the government is the source of raw materials. This measure makes the enterprises not to do their operation independently as well as not to sell their products for other customers. Support should be geared towards making enterprises to function independently.

4.9 Price Determination and Profit Distribution

Prices determined by the forces of market are more preferable not only to these enterprises but also for the whole economy. In the case of this study, out of the six enterprises, four enterprises that are engaged in hollow block production only and hollow and pre-cast manufacturing indicated that the price for their products is determined by the government as a buyer for its housing projects. This condition requires frequent price adjustment for the products with the corresponding raw materials price increase. It is unlikely to expect such responses from concerned government offices. As a result, price determination by government significantly affects the enterprises under consideration, when raw materials and production costs increase above the product's price. One enterprise indicated that the price of the products is determined by government and the enterprise itself. For the remaining one enterprise product price is decided by both the government and the market.

As the establishment of the enterprises that are engaged in construction sector based on group, profit distribution among members is based on their agreement. The surveyed enterprises were asked on what basis or criteria they distribute the profit earned. Accordingly, out of the six enterprises; four of them indicate that the profit is distributed equally among members. Those who share profit based on the work position account for two enterprises.

4.10 The Contribution of Enterprises to Workers

The incidence of poverty was about twice as high for workers of small enterprises than for workers in larger enterprises. For micro and small enterprise workers, the contribution of income generated from these enterprises is not sufficient to support their families and ultimately leave poverty behind (Reinecke and White, 2004). In line with this, the respondents' perceptions about the economic contribution of the enterprises was asked. Accordingly, about 81% (36) of respondents working in these enterprises reported, there is no major effect in their standard of living. In other words, the enterprises help them to get hand to mouth income which can cover only minimum daily subsistence need. About 4.5% of the respondents reported their life changed significantly due to generating additional income from the enterprises. On the other hand 11.4% of the respondents perceived working in these enterprises will have future prospect than its current contribution. The remaining 3.1% responded, they can not put the contribution in clear terms (Table 4.8).

Table 4.8: Respondents' perception about contribution of enterprises

Respondents Perception	Frequency	Percent
It has no effect	27	61.4
Hand to mouth	9	20.5
Significantly improved their lives	5	11.4
Good for the future	2	4.5
Difficult to tell	1	2.3
Total	44	100

Source: own survey (2009)

4.11 Supports Needed from the Government

Since micro and small enterprise development requires appropriate type of intervention by concerned bodies (governmental or non-governmental organizations) efforts were made to assess what type of assistance the surveyed enterprises needed from the government. Such interventions should be based on sound need analysis. Separate questions were forwarded for the

respondents to know the type of assistance that they currently need from the local government. Accordingly 18.2% of the respondents indicated that they need enough working premises for production and storage from the government. About 16% of respondents are in need of other market linkage other than government projects.13.6% need trainings and apprenticeships, the other 13.6% need price improvement and payment facilitations. The remaining respondents need various kinds of assistances from the government(Table 4.9).

Table4.9: Kinds of assistances needed by respondents from the government

Kind of assistance needed	Frequency	percent
Provision of enough working premises	8	18.2
Provision and facilitation of credit	4	9.1
Trainings and apprenticeships	6	13.6
Provision of raw materials	2	4.5
Marketing support	5	11.4
Machineries and technological improvement	3	6.8
Market linkage with other parties	7	15.9
Price improvement and payment facilitation	6	13.6
Provision of infrastructure	3	6.8
Total	44	100

Source: own survey (2009)

4.12 The Contribution of Enterprises to Housing Construction

The surveyed enterprises in the construction sector plays a paramount role in the provision of the necessary materials such as hollow blocks, pre-cast beam, doors and windows that are needed for constructing condominium houses. The ultimate role played by the construction sector enterprises that are engaged in different sub-sectors is implementing the strategy of constructing low cost houses for the low income section of the society. In cognizant with this fact, the enterprises play a vital role in constructing thousands of houses for the residents of the city. According to Table 4.10 in the specified construction

periods a total of more than 65,000 thousand houses were constructed by these enterprises participating in different sub-sectors.

Table4.10: Number of condominiums constructed in 2004/05-2006/07

			Number of housing unit by type					
Constr. period	No. of site	No. of block	Comm. house	studio	1bed room	2bed room	3 bed room	Total
2004-2005	102	954	1734	5970	11239	11715	1730	32388
2006/07	13	1100	3300	6600	13200	6600	3300	33000

Source: AAHDPO (2007)

CHAPTER FIVE

MAJOR PROBLEMS AND PERFORMANCE OF SMALL ENTERPRISES IN THE CONSTRUCTION SECTOR

5.1 Main Problems of Enterprises

Understanding start-up and operation level problems is vital in designing appropriate small enterprises promotion policies and programs. The nature of the enterprises is so diversified and may pose problem in identifying sub-sector problems and hinder to propose a generalized solution for the whole enterprises. With this fact, it is advisable to conduct sector specific research. This research will play its share in this regard as it mainly concerned with construction sector small enterprises.

5.1.1 Start-up Level Problems of Enterprises

One or a multitude of problems could be faced by enterprises at the start up level. The survey attempted to categorize the problems in to two parts.

I) Problems Associated with Forming Associations

One of the usual problems encountered respondents at the start up phase was problems in forming associations. The formation of cooperative associations is made by government bodies at the Kebele or sub-city level. About 11.4 %(4) of the respondents indicated that the organizing bodies did not give them trainings on the basic concepts of cooperatives. 22.7% (10) of the respondents reported that they were organized on sectors which were not assessed by market survey and the organized individuals were not related in any ways (age, experience, education). About 36.4 %(16) of respondents reported that there was no major problems in forming associations. This was due to the promotion and the support of the government for individuals forming enterprises. As indicated in Table 5.1 the remaining respondents face blends of problems at the start up phase of forming cooperative associations.

Table5.1: Problems of respondents in forming associations at the start up phase.

Types of problems	Frequency	Percent
Not getting training on basic concepts of cooperatives	5	11.4
Organizing unrelated and unskilled individuals	3	6.8
Organizing unrelated individuals in sectors not assessed by market survey	10	22.7
Not getting trainings and organizing unrelated individuals	2	4.5
Un integrated work and not getting trainings	8	18.2
No major problem	16	36.4
Total	44	100

Source: own survey (2009)

During focus group discussions, respondents indicated that every related activities like provision of trainings and working premises, facilitation of loan in a short period of time and as well as the required machines and supplies were made relatively on time. Since the time of forming associations was the same year with the National Election of 2005, the government offices were deliberately open themselves for such services to get acceptance especially from youths and unemployed section of people.

The government offices especially the sub-city made association of individuals from different Kebeles. In each Kebeles in the sub-city there are three extension agents assigned for mobilizing and organizing individuals. During the interview made with these extension agents, they indicated that their primary job is organizing individuals to form associations and giving trainings on accounting and bookkeeping. They indicated that there was a problem in forming associations since the individuals came from different Kebeles there was a problem of trust among themselves. They were unrelated and did not have common interest towards the formation of associations. But for the respondents in the enterprises, the government offices were highly engaged in forming associations only not considering whether the formed enterprises were effective in doing their intended job.

According to the respondents, after the election season was over the government offices did not give attention for them. In addition the respondents indicated the organizing bodies did not make any effort to know whether the associated individuals have their own private job or not. They indicated that some enterprises were established by a single individual by associating its own group just to fulfill the requirement set by the sub-city (minimum of 10 members to form an association). Some respondents indicated that the newly formed Kebele administration through the 'BPR' is now tries to alleviate such kinds of problems. The HDA officer was also pointed out this problem. According to him, during the establishment of the enterprises the government was only focusing on establishing as many enterprises as possible without giving due attention whether the formed enterprises meet their intended goal (for the unemployed section of the society). He tries to suggest this problem as one of the reason for the death of many enterprises in the sub-city.

II) Problems Encountered after Getting the Production Area

Respondents were also asked to know whether they started work after they established the enterprises and got the production site. Out of the 44 respondents, 14 or 31.8% did not start work after getting the production site. Out of these 14 respondents, 35.7 % (5) of the respondents indicated that the reason for not starting work after getting the site was shortage of start-up capital. 21.4 % of the respondents reported that lack of knowledge on how to produce was the major problem at the start up phase. 14.3 % (2) the respondents reported that lack of knowledge about production, shortage of capital and lack of space were the problems encountered during the start up phase. The remaining respondents showed a mixture of responses (Table 5.2).

Table 5.2: Problems encountered after receiving the production site

Types of problems	Frequency	Percent
Lack of knowledge about production	3	21.4
Shortage of start- up capital	5	35.7
Delay of the loan	1	7.1
Lack of knowledge of production and lack of infrastructure	1	7.1
Lack of knowledge of production and lack of enough production space, shortage of capital	2	14.3
All of the above mentioned problems	2	14.3
Total	14	100

Source: own survey (2009)

5.1.2 Major Problems of Enterprises at the Operation Stage

In order to design appropriate intervention strategies for the growth and efficiency of small enterprises, identification of operational level problems has got a paramount importance. In the survey questionnaire, group of problems were provided to be ranked by respondents on a five point scale as 0-no problem, 1-minor problem, 2-moderate, 3 -severe and 4-very severe.

Table5.3: Major constraints of small enterprises at the operation stage in the construction sector

Type of Problems	Rank of Problems									
	No problem		Minor Problem		Moderate Problem		Severe Problem		Very severe problem	
	Freq.	Per.	Freq.	Per.	Freq.	Per.	Freq.	Per.	Freq.	Per.
Complex bureaucracy of licensing	29	65.9	15	34.1	-	-	-	-	-	-
High collateral requirements	37	84.1	7	15.9	-	-	-	-	-	-
High interest rate	27	61.4	17	38.6	-	-	-	-	-	-
Being under the influence of government	-	-	-	-	-	-	29	65.9	15	34.1
Inability to sell for other customers	12	27.3	-	-	-	-	-	-	32	72.7
High money retention by HDA	-	-	-	-	19	43.2	-	-	25	56.8
Bureaucratic regulatory burden during bus. activities	-	-	-	-	34	77.3	-	-	10	22.7
Procedures for starting up enterprises	34	77.3	10	22.7	-	-	-	-	-	-
Difficulty of obtaining supplies	12	27.3	-	-	22	50	10	22.7	-	-
Delay of products taking by contractors	-	-	30	68.2	14	31.8	-	-	-	-
Lack of production space	12	27.3	8	18.2	-	-	14	31.8	10	22.7
Delay in the delivery of goods	12	27.3	-	-	22	50	10	22.7	-	-

Source: own survey (2009)

Inability to sell for other customers, high money retention by HDA and being under the influence of government, bureaucratic regulatory burden during business activities and lack of production space are categorized as very severe problems. Considering problems that are ranked as severe: being under the influence of government (65.9%), lack of production space (31.8%), difficulty of obtaining supplies and delay in the delivery of goods put in sequence. Considerable number of respondents indicated that they have no problem in high collateral requirements (84.1%); procedures for starting up enterprises (77.3%), complex bureaucracy of licensing (65.9%), and High interest rate (61.4%). From this result, the government need to make appropriate remedy in opening the door for the enterprises to sell their products to other customers and should give a room to free themselves from too much government influences (Table 5.3).

1) Raw Material Related Problems

The interplay between the two inter-related problems, expensiveness and problem of physical availability, were the major constraints for the surveyed small enterprises. The inflationary situation in the economy mainly on construction materials such as cement and iron bar was reflected by the respondents. 45.5% of the respondents indicated that the main problem related with raw materials was expensiveness. The problem of shortage of supply was reported by 31.8% of the respondents. Shortage of supply and expensive prices are major problems for 22.7% respondents.

The HDA gives raw materials (cement and iron bars) for the enterprises on a credit basis. As indicated by the respondents they didn't have the freedom and the capacity to purchase raw materials based on the market price. The government gives the raw materials to the enterprise by subsidizing the selling price. For example cement was sold at birr 105 at the time of the survey. The respondents take this advantage as a good effort from the government but they claim that provision of raw materials by the government give a full mandate for the government to control the enterprises in every aspect of their activity

ranging from deciding the selling price to the extent of determining on their fate of survival or death.

Some respondents indicated that getting the required raw materials in quantity and as per the schedule is another problem. They indicated that it may take 15 – 30 days to process. But for the officer in the HDA some of these complaints are acceptable. For him, the amounts of raw materials rendered to the enterprises are not as per the interest of the enterprises but it is based on the amount of products needed by HDA. For example the HDA give them 50 quintals of cement to produce on average 3400 units of blocks. He claimed that if the enterprises were not monitored in their production activity, they would produced more than the specified quantity and as result the quality of the products would be low. The HDA made a standard for the amounts of hollow blocks produced per 50 kg (1 bag) of cement .According to the officer about 26, 84 and 18 units of hollow blocks of size 20, 10cms and slave blocks expected respectively from one bag or 50 kg of cement. As far as pre-cast beam is concerned 4 pre-cast beams are set as a standard per 70 kg of cement.

The enterprises production activity is highly dependant on the raw materials provided by the HDA. If there is no housing construction they are forced to cease their activity. This makes them out of work for months and as a result it makes them to be desperate. The HDA does not permit them to purchase their own raw materials to produce for other customers because of the fact that their working capital is not enough to do so and in addition their capital is under the control of HDA. This makes them fully attached with the HDA in every aspect of their activity. The officer in the HDA was asked about the reason for not giving the enterprises a full mandate on their capital. He pointed out that there is a problem of trust on the enterprises. Some enterprises use the money for other purposes out of the intended goal. He also pointed out the reason for not letting the enterprises to produce for other customers is that because there are raw materials of the HDA (cement and iron bars) in the working premises of the enterprises if we let them to do for other parties there may be a possibility of using these raw materials. Moreover, he

indicated the enterprises may sell the raw materials such as cement. He pointed out these as the second reason for the death of the enterprises and being out of work for months. But for the respondents in the enterprises the above argument is not acceptable. They propose a solution. They indicated in order to control the raw materials the HDA can make inventory of the raw materials used for the housing projects and moreover, the HDA has its own technical supervisor assigned for each enterprise (hollow block, and pre-cast and hollow block), the supervisor can monitor whether the number of products produced are in consistent with the standards set.

The respondents indicated that if the HDA let them to oscillate production among customers, their production activity would not be seasonal rather it would be throughout the year. If the HDA needs products, they will stop production for other customers and sell only for HDA and if the HDA does not need they will switch to other customers by purchasing raw materials based on the market price. But the HDA does not let them to do any other activity other than for its housing projects. If the enterprises in hollow block and pre-cast beam and hollow block production are engaged in other activities other than the HDA projects, the punishment can range to the extent of losing the production space given for them. Due to this reason, most of the enterprises in the sub-city are closed and some are out of work for months. These have their own consequence on the amount of interest paid for the capital they have borrowed from micro credit institutions. Because they did not work consistently throughout the year they can not pay the money borrowed with its interest on the specified date. But as far as wood and metal producers are concerned, they are free of these burdens. They don't get any raw materials from the HDA. They have only problems of expensiveness and availability on the raw materials they used.

II) Equipment Related Problems

Modern and well functioning equipments help to improve the quality and quantity of products of small enterprises. Almost all enterprises under study use both manual and electrically driven equipments for their activities.

Enterprises in the construction sector face different problems in relation with machineries and equipments. Based on the survey result, it was reported by 27.3% of the respondents that the low production capacity of their machinery is the main problem. Not getting the right type of machinery and incompatibility with their skill are problems reported by 18.2% of the respondents. Breakage and no support on how to manage new machineries are problems for the other 18.2% of the respondents

Table 5.4: Equipment related problems of respondents

Type of problem	Frequency	percent
Problem in selecting the right type of machinery	3	6.8
Incompatibility with experience and skill(very heavy and needs a great power)	3	6.8
No support on how to manage new machineries	4	9.1
Production capacity is very low	12	27.3
There is no problem at all	4	9.1
Not getting the right type of machines and incompatibility with experience and skill	8	18.2
Not selecting the right type of equipment and problem of access to various technological types	2	4.5
No support on how to manage new machineries and breakage of some parts	8	18.2
Total	44	100

Source: own survey (2009)

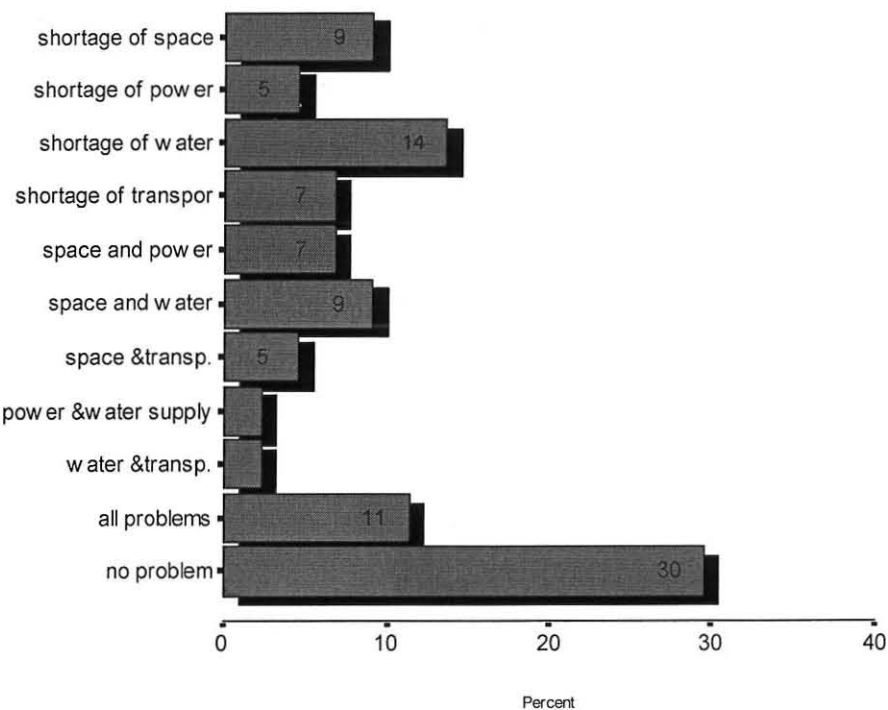
In depth trial was made in cognizant with the problems respondents will face if they want to improve the equipments. Accordingly, 75% of the respondents indicated that shortage of capital will be the major constraint. The rest 25% perceived shortage of capital and skill will be their challenges for hindering the improvement (Table 5.4).

III) Working Premises Related Problems

Availability of adequate working premise is crucial factor for production. This is strengthened by relatively large working space demand by sectors involved in

the construction activity. Out of the 44 respondents, 14% of the respondents indicated that shortage of water supply is the main problem. A problem of shortage of space for production and storage, power supply, water and transportation facility reported by 11% of the respondents. About 7% of the respondents showed that shortage of space and water are their main problems. Shortage of space for production and storage was reported by 9.1% of the respondents. Shortage of space and water supply is indicated by another 7% of the respondents. 2.3% the respondents each report that shortages of power and water supply and a problem of transportation facility and water supply are their major problems. Shortage of space and transportation was reported by 9% of the respondents. Nearly 30% of respondents did not have working premise related problems (Figure 5.1).

Figure 5.1: Problems related to working premises



Source: own survey (2009)

Respondents during discussions indicated that they did not feel security as far as their working premise is concerned. The HDA bound them with a

commitment to give the premise in any time if the government wants to do so. They are not allowed to be engaged in other activity other than production of blocks and beams. If they are found in activates out of the proposed scope, the land will be taken so they are always in fear of losing their space. All of the enterprises in general and hollow block and pre-cast beam producers in particular want to diversify their operation by engaging in other sectors. According to the respondents, the reason for diversification is to minimize the risks and to be operational at all times especially during low demand from the agency. Some respondents indicated the premise is not enough for production and storage. Due to this they are forced to use area out of the boundary of their premise and create problems with the surrounding community. In cognizant with this fact, two enterprises 'Dilbetegel' and 'Addis construction' has a problem associated with working premises. Dilbetegel's land is proposed by the sub-city to build a health clinic. As far as 'Addis construction' is concerned the Kebele wants the premise to build a library and told the enterprise to leave the land with out giving alternative working space. Due to this the enterprise is in a huge conflict with the Kebele administration and it is almost on the verge of ceasing its operation.

IV) Problems with Linked Enterprises

The surveyed enterprises have market linkages to sell their products and as well as to buy the necessary raw materials. In cognizant with this, respondents were asked to point out the major problems associated with the linked enterprises.

Table5.5: Problems associated with linked enterprises

Type of problem	Frequency	Percent
Not paying at the right time	10	22.7
Not paying at the right time, not ordering the right amount and no sustainable market	21	47.7
Not paying at the right time and quality problem	5	11.4
Not willing to work with associations and no sustainable market	5	11.4
All of the above problems	3	6.8
Total	44	100

Source: own survey (2009)

As depicted in the Table5.5, 47.7% of the respondents indicated that the linked enterprises(esp. the housing agency) do not pay on time, do not order the right amount and the linkage is not sustainable. Delay of payment is the major problem for 22.7% of the respondents. About 11.4% of the respondents perceive that the linked enterprises do not want to work with enterprises and the linkage is not sustainable. The remaining respondents indicated a blend of responses.

During focus group discussions with hollow block only and pre-cast beam and hollow block producers, most of their problems were similar. Most of the respondents pointed out, their major problem was being restricted to sell their products for government projects only. In other words, any product they produce is delivered to only to government projects (basically condominium houses and schools) at a specified price, quantity and quality dimensions. They reveal that the root cause for the death of many enterprises in the sub-city is due to unavailability of market to sell for other customers.

For most of the respondents creating market by the HDA is a good sign of the government for encouraging enterprises. However, the HDA forces them to sell only for its projects at all times of the year. Moreover, the selling price was settled by the agency. According to the respondents, the profit they get from a unit of blocks or beams is not encouraging as compared to the cost incurred.

For instance, for a single 20 cm unit of block they incur a cost of birr 4.30 but the selling price (at the time of the survey) was birr 4.50. But the market price ranges between birr 5.50 to birr 7.00 with lower quality of product than the enterprise. As far as pre-cast beam is concerned, as the technology is relatively new in the Ethiopia context, it is needed in the housing project only. As the dimensions are in cognizant with the need in the housing projects, make the product to be needed and sold for the HDA projects only. As the selling price is concerned, beams with a height of 5 and 4 meters were sold at birr 360 and 225 respectively. The selling price was not adjusted with the situation in the market.

The respondents indicated that the HDA should adjust the price of the products in consistent with the market. They argue that even if the HDA provides raw materials with minimum price, temporary labor costs are rising with time. This makes the cost of production to be higher. But for the HDA officer, this argument is not somehow acceptable. He argues the government thinks, members of the enterprises are the ones that produce the products. They should produce the products by themselves so they don't need to pay money for labor cost. In addition the rent price for the premise is so minimum that (2 birr per m²) they are almost free of charges. He also adds though the enterprises pay money per unit bases for temporary workers for transporting the products from the site to the trucks, the transportation cost to take the products to the housing projects is covered by the agency. He also argues that if we increase the selling price of the products, the ultimate effect will be the rise on the cost of building the houses as a result the general public can't afford to purchase the houses. He adds though consistent adjustments are needed, the selling price is reasonable due to the above reasons. But for the respondents in the surveyed enterprises, the houses are constructed at the expense of them by making the most disadvantaged.

The above problems are so discouraging that leads to the decreasing of employed people in the respective sub-sectors and most of the cases the enterprises are compelled to lay off many temporary workers .As the researcher

tried to see, the enterprises in the two sub-sectors have a potential to satisfy the demand of both government projects and other customers who want to make agreement with the enterprises as they produce quality products than private producers.

Respondents in wood and metal production indicated their main problems were high money withholding by the agency and display areas for showing the products they produce. Especially 'Endenewhiwot' enterprise has a problem of displaying the products produced. The respondents indicated in addition to the display rooms, exhibitions and bazaars are useful. In cognizant with this, during the survey period the researcher has got the chance to see the exhibition prepared by the sub-city for micro and small enterprises that are engaged in various sectors. In that exhibition the researcher tried to get the view of some enterprises. Accordingly, most of them indicated that the exhibition gave them the chance to expose themselves to the general public on what activity they are engaged. The other enterprise (Kal Wondemamachoche) has an advantage as far as display rooms are concerned. The enterprise rented its own room for displaying the products.

Respondents indicated though the government gives them priority in its strategy, the corrupted system of the agency did not let them to do as they want. Especially respondents in wood and metal production indicated, when the agency wants doors and windows, it outsourced the work on closed auction basis. This system opens the door for corruption and more over disregards the enterprises from the system. They also indicated that if they got the chance to win the auction, they are asked by the agencies staffs to give money or otherwise their products will be considered as 'out of the standard'. Though they are in a better position as compared to the other two sub-sectors, as far as market is concerned (they are allowed to sell to other customers in addition to the agency) the enterprises complained delay and withholding of money by the agency is the other problem. The agency does not pay them on time. Due to the above problems, the respondents in the surveyed enterprises are not willing to work with the agency. The Researcher tried to get the insight of the agency.

Accordingly, the agency believes withholding of the money is done for two reasons. One is that the agency is considered as a bridge through which Addis Credit and Saving Association recover the borrowed money from the enterprises. Second the agency has to get the money spent for delivering raw materials (cement and iron bars).

5.2 Performances of Enterprises in the Construction Sector

5.2.1 Start-up Capital of the Enterprises

The total amount of money or physical asset used by enterprises to start production is considered as a start-up capital for this research. As indicated in the introductory section, the study was conducted between two groups of enterprises: good and bad performer enterprises. The criterion used was their performance, measured in terms of scale of production and income generated. As Storey (1994) pointed out, one of the major factors that determine the performance of enterprises is their start up capital. In cognizant with this, the study tries to know the start-up capitals of the two groups in their respective sub-sectors.

Table 5.6: The start-up capital of the surveyed enterprises

Name of the enterprise	Sub-Sector	Start up capital	Ratio
DilBetegel	hollow block	120,000	2.2
Mestawot		54,000	
Tirigne	hollow block and precast	166,000	1.8
Addis Construction		94,000	
Kal Wondimamacoche	metal and wood	40,000	1.1
Endnewhiwot		35,000	

Source: own survey (2009)

As depicted in the Table5.6, all of the enterprises in the study have a paid up capital of more than 20,000 that make them to be small enterprises in the context of Ethiopia. Moreover the Table shows, the enterprises in the respective sub-sectors have a start up capital of 2.2, 1.8, and 1.1 times their counterparts. The lion share of the start up capital was used to purchase production equipments. According to the respondents, the amount of start-up

capital was one of the major factors that affect their performance as indicated in section 5.3.

5.2.2 Current and Working Capitals of the Enterprises

Another performance indicator of enterprises is current capital. The current capital of the surveyed enterprises ranges between 55,000 to 420,000.

Table5.7: Current and Working capitals of enterprises in birr

Enterprise Name	Ratio	Current Capital	Working Capital
Dilbitegel	2.3	210,000	40,000 – 48,000
Mestawot		90,000	23,000 – 28,000
Tirigne	3.8	420,000	63,000 - 72,000
Addis Construction		110,000	28,000 – 33,000
Kal Wondimamacoche	3.1	175, 000	35,000 – 42,000
Endnewhiwot		55,000	11,500 – 13,000

Source: own survey (2009)

The enterprises current capital is assessed from two sources (housing agency and the enterprises). Due to the fact that, the enterprises that are engaged in hollow block only and pre-cast beam and hollow block manufacturing sell their products only for the housing agency, efforts were made to triangulate the information collected from the two sources. As depicted in Table5.7, the current capitals of the good performer enterprises in the respective sub-sectors are 2.3, 3.8 and 3.1 times as compared with their counterparts. To determine the working capitals of the surveyed enterprises respondents were asked to indicate the amount of money required to get raw materials and to make other business payments within a period of one month. As depicted in Table 5.7, the enterprises differ in the amount of the working capital they dispose on monthly basis. The good performer enterprises make use of a relatively large amount of working capital on monthly basis than the bad performers in their respective sub-sectors.

5.2.3 Average Monthly Sales and Incomes of Enterprises

Average monthly income is the other possible performance indicator of enterprises. Because the amounts of sales are determined by the market situation and by the progress of the housing construction, there may be irregularity in sales. In order to get their income level and scale of production, the housing agency was consulted and the information was triangulated between the two sources (the enterprises and the agency). The result of the survey is indicated in Table5.8.

Moreover, the study tried to assess the respondent's perceptions on the reasons for change in sales and income of the enterprises in the past six months. The result shows, 65.9% of the respondents indicated income and sales are decreasing in the past six months mainly due to the fluctuation of demand by the housing projects. About 15.9% indicated increasing, due to forming other market linkages other than the housing agency (wood and metal producers). 13.6% reported no change. 4.5% could not tell in clear terms about the change.

Table 5:8 Average monthly sales and income of enterprises

Enterprise Name	products	Average monthly income in birr	Ratio	Average monthly sales(in number)
Dil Betegel	Hollow block only	19,200-22000	3:1	4000-4500
Mestawot		5850-7000		1300-1550
Tirigne	Hollow block and pre-cast	52,800-55000	2:1	5080-6000
Addis Construction		25,720-28200		2025-3000
Kal Wondimamacoche	Doors and windows	25700-30000	3:1	40
Endnewhiwot		7400-8500		11

Source: own survey (2009)

As depicted in Table5.8, the enterprises in their respective sub-sectors have a difference in their monthly income and sales. The good performers in their

respective sub-sector have a more than 2-3 fold income and sales than the bad performers.

5.2.4 Employment Generations by the Enterprises

Generation of employment is one of the performance indicators of MSEs. At the start, the surveyed enterprises were created a total employment for 79 persons. From these 18.2 percent were female employees; mean employment at the start was 13 persons per enterprise. The maximum and minimum number of employment per firm at the start was 19 and 10 respectively.

Table5.9: Total employment created by enterprises at the start

	Number of Employment	count of enterprise	Percent
	10	3	38
	13	1	16.5
	17	1	21.5
	19	1	24.1
Total	79	6	100

Source: own survey (2009)

Out of the 79 employment opportunities created, three enterprises created 30 or 38% employment opportunity, each one share 10 peoples. The rest three create 13,17and19 opportunities respectively (Table 5.9).

Current employment indicates the number of workers (temporary and permanent) found in the enterprises at the time of the survey. Compared to total employment at the start, current employment was showed changes. Much of the changes were seen in the two sub-sectors (hollow block only and pre-cast beam and hollow block). This was partly because of the nature of the sub-sectors, that is to say the sectors need relatively many individuals to move the products from the production site to the storage, to mix the ratios of cement and sand. The total employment created by the six enterprises at the time of the survey varies from 124-131. Out of this, 75 of them were permanent employees or members of the enterprises. The rest 49-56 covers temporary daily laborers. From these 43 or 33% covers female workers. Mean employment

per firm was 21.3. The maximum and minimum employments per firm were 41.5 and 10.5 respectively. The range was 30(Table 5.10).

Table5.10: Number of employment opportunities created currently

Enterprise name	Employment		Total
	Permanent	Temporary	
Dilbetegel	10	7	17
Mestawot	13	14	27
Tirigne	24	15 – 20	39-44
Addis Construction	13	5-6	18-19
Kal Wondimamacoche	5	5-6	10-11
Endnewhiwot	10	3	13
Total	75	49-56	124-131

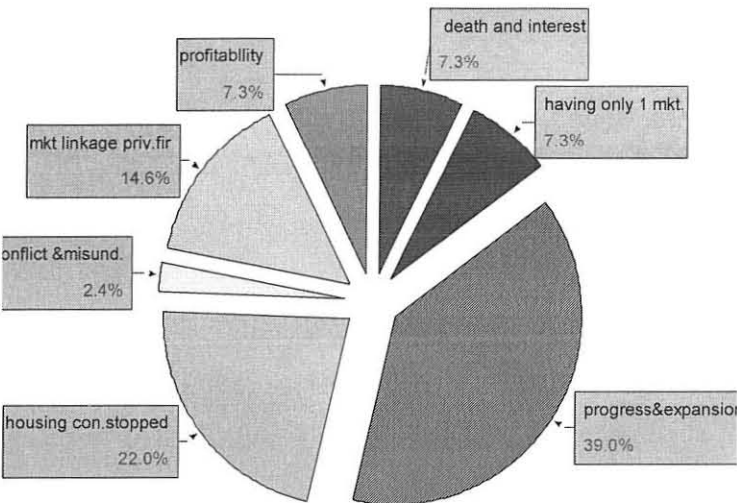
Source: own survey (2009)

The researcher tried to see whether the members of the enterprises participate in the actual work or not. Except in the two enterprises participating in wood and metal production, in the remaining 4 enterprises most of the actual work was done by temporary workers. This may be seen from two perspectives. The first one is the enterprises create employment opportunities for additional workers. Second, it indicates members of the enterprises may have extra work and may consider working in the enterprises as their secondary work. The second perspective may collide with the essence of establishing MSEs (for youths and unemployed section of the society).In cognizant with this, the researcher tries to know whether members of the enterprises have extra work or not. Accordingly, 56.8% of members in hollow block, precast and hollow block manufacturing enterprises have extra work and sees the income generated from the enterprises has only subsidizing effect for the household income.

5.2.5 Reasons for Changes in Employment Size

Efforts were also made to get the general view of the respondents about the causes for the change in the employment size in their respective enterprises. 39% of them indicated that the progress and expansion of the housing construction was the primary reason for the variation. But the sluggishness of the housing construction was the cause for the 22% the respondents. Death and interest of workers, having only one market linkage (with the HDA especially in hollow block and pre-cast producers) and profitability of the business, each worth 7.3% of the respondents. For 14.6% of the respondents, having market linkage with private firms was the reason for changing the employment size. Conflict and misunderstanding among members of the enterprises was the cause for change for 2.4% of the respondents (Figure 5.2).

Figure 5.2: Reasons for change in employment size



Source: own survey (2009)

5.2.6 Educational Levels of Workers in the Enterprises

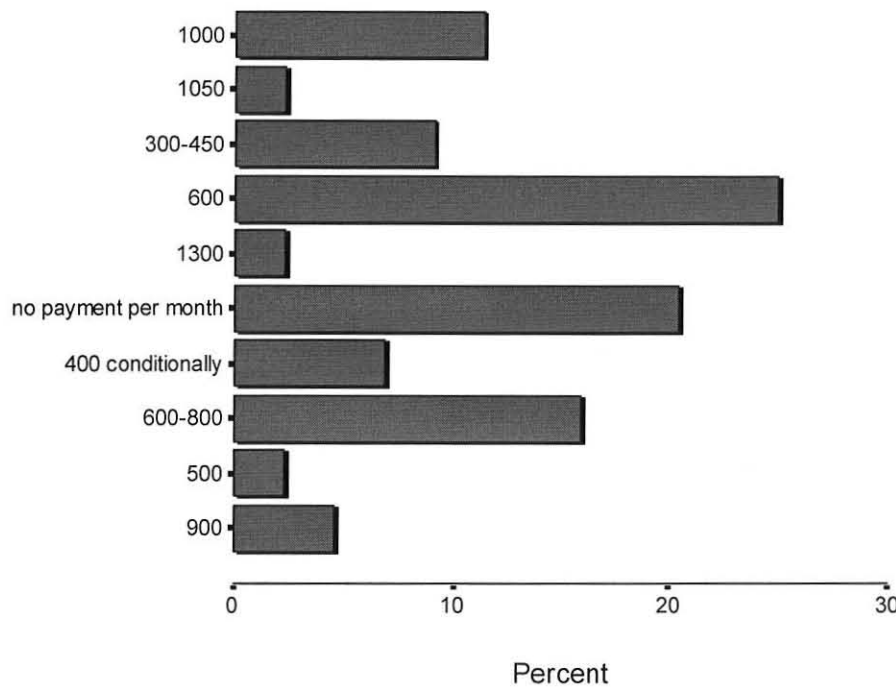
Micro and small enterprises are known for the creation of job opportunity for less skilled workers. As indicated on Figure 4.3, about 80% of the respondents were above primary education level. In other words, even if most of the respondents don't have the necessary technical skills for the job, they are

relatively in a better position in their academic knowledge. But as far as technical knowledge is concerned, two of the enterprises 'Tirigne' and 'Kal Wondemamachoché' are good examples that show how differences could be made (by acquiring the necessary skill) in the performances of enterprises in their respective sub-sectors. Some members in these enterprises are graduates from technical institutions and as a result have the necessary skills for the production process. The study tried to investigate the types of trainings, if there are any, acquired by the respondents from the HDA and various institutes. Accordingly, about 45.5% of respondents attended technical trainings on their respective sub-sectors. 34.1% of the respondents have taken trainings on accounting and financial recordings. The remaining respondents 20.5% did not take any training from any institutes. This shows the government's effort to enrich the respondents with the necessary skills but the effort was not enough. Additional trainings and refreshment courses are necessary in order to upgrade their skills.

5.2.7 Monthly Income of Members of the Enterprises

Apart from the number of jobs created by enterprises, income gained by members of the enterprises is an important measure of performance. Cooperative members respondents were asked to estimate their average monthly income from their respective enterprises.

Figure 5.3 Average monthly income of members of the enterprises



Source: own survey (2009)

About 25% (11) of the respondents indicated that they earn 600 birr per month. Almost 16% of the respondents get on average 600-800 birr. 20.5% of the respondents indicated they did not earn income on monthly basis but on daily basis, and they can't determine their monthly income due to fluctuation and seasonality of the work. 13.7% of the respondents get income of birr1000 and above. When we see the income of female members, out of the eight female members, three of them earn income with in the range of 300-450 birr, two of them get 600 birr and the other two get 400 birr, and the remaining one get 500 birr. This indicates females are with in the lowest income range in the construction sector (Figure 5.3).

The contribution of the operators' income from the enterprises to the household income was also asked. Accordingly, 31.8% of the respondents indicated that the income earned covers less than half of the household income. The income earned is insignificant for almost 30% of the respondents.

The income contributes about half of the household income for 22.7% of the respondents. 15.9% reported the income generated covers more than half of the household income (Table 5.11).

Table 5.11: Contribution of enterprises to household income

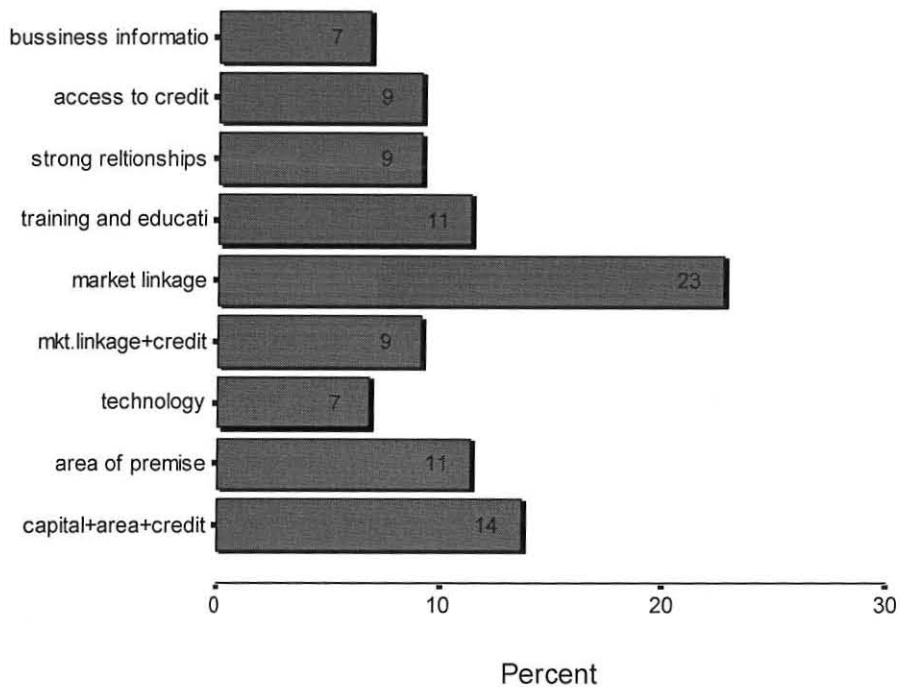
Contribution to household income	frequency	percent
Provided more than half of the household income	7	15.9
Provided less than half of the household income	14	31.8
Provided about half of the household income	10	22.7
It covers insignificant amount	13	29.5
Total	44	100

Source: own survey (2009)

5.3 Factors Affecting the Performance of Enterprises

Respondents were asked about their view on the factors which are most influential and give competitors an advantage over their enterprise and moreover affecting their performance. The result is presented in Figure 5.4. Accordingly, 23% of the respondents indicated that the most influential factor that affects their performance is the market linkage. This was due to the policy of the government to sell their products on a settled price only for the housing agency. This was highly reflected by enterprises that are engaged in hollow block and pre-cast beam production. The combinations of the amount of start up capital, area of the working premise, and access to credit affect the performance of their enterprise for 14% of the respondents. Training and education is the most influential factor affecting performance for 11% of the respondents. Another 11% reported, area of the premise is the factor for their performance to be relatively good or bad as compared to their competitors.

Figure5.4: Factors affecting the performance of enterprises



Source: own survey (2009)

5.4 Perceptions of the Public towards the Enterprises

Respondents of the enterprises were asked about the general opinion of the public towards their enterprises. As depicted in theTable5.7, 22.7% of the respondents reported that the public consider them as politically affiliated with the government and do not produce quality products. The general public has got positive outlook towards the enterprises for 20.5% of the respondents.20.5% of the respondents indicated that the public consider them as politically affiliated with the government.

Table5.12: The Perception of the public towards the enterprises

Perceptions	Frequency	Percent
Don't produce quality products	4	9.1
Underestimation (not considering as work)	3	6.8
Not making profit	3	6.8
Politically affiliated	9	20.5
positive out look	9	20.5
Don't produce quality products and politically affiliated	10	22.7
Don't produce quality products and underestimation	6	13.6
Total	44	100

Source: own survey (2009)

5.5 Prospects of the enterprises

Respondents were asked about what they intend to do in the future. Accordingly, 34.1% of the respondents indicated improvement of the methods of production, expansion of the existing work and diversification are the proposed plans for the future. For about 22.7% of the respondents, scaling up or expansion of the existing job and moreover improving the methods of doing the actual works are their future plans. 15.9% of the respondents reported they want to be engaged in a diversified activities in order to minimize risks and to diversify the income generated. Improvement of the existing methods of production and diversification are their future plan for the remaining 27.3% of the respondents.

CHAPTER 6

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Summary and Conclusion

Micro and small enterprises play a greater role in the reduction of poverty through the creation of employment opportunities for many people. The contribution of these enterprises to income and employment generation was recognized few decades earlier. They are also serving as important source of income for the large majority of less educated and less skilled segment of the population. Recently, the Ethiopian government has given due attention for the development of enterprises in different sectors. Moreover such measure is considered as the most effective mechanism to reduce poverty and unemployment in the country. In spite of the measures taken by the government to improve the efficiency of micro and small enterprises, their performance is not comparable to the high demand of job seekers. This is mainly due to the constraints at the start up and operational levels.

This study has mainly focused on the recently established construction sector enterprises in Addis Ababa with particular reference to Kolfe-Keranio sub-city. The study focused on these sector enterprises mainly because it is a newly established sector that focuses on the construction of low cost housing. Six enterprises that are engaged in three different sub-sectors have been selected based on their performance. A total of 44 sampled respondents were involved in the study. The general objective of the research was to assess the role of small enterprises in housing construction and employment.

As far as the findings of the research are concerned, with regards to the profile of the respondents the majority of them are within the age categories of 20-30 years. About 80% of the respondents are above primary level education. For about 31.8% of respondents, the main reason to join the enterprises was to create their own job. The oldest firms are five years of age and the youngest was established two years ago. Out of the six enterprises, four of them were established in 1997 E.C in conjunction with the national election campaign

period (because the government at that time promised to promote the proliferation of enterprises) and the beginning of low cost housing construction. About 47.7% of the respondents indicated that the driving force for forming associations were initiation from the government and their own interest. About 60% of the respondents reported that the contribution of the enterprises do not make major effect in the standard of living. Partnership is the single most dominant form of ownership. The majority of the respondents have dependants who need their full support. For more than 70% of the respondents, their sources of finance were money borrowed from micro finance institutions. Almost all of the enterprises have financial recording systems.

Two thirds of the enterprises are using imported and locally produced raw materials. Most of the enterprises provide their products to the government low cost housing projects. The government usually decides the selling prices for the products produced by the enterprises that are engaged in the production of hollow block and pre-cast beam. Most of the respondents seek assistance from the government which includes, among others, provision of enough working premises, facilitation of credit, market linkage with other parties, price improvement and payment facilitation are the major ones. For About 34.1% of the respondents, influence made by government officials was the major reason to be engaged in a particular sub- sector.

As far as the main problems of the enterprises are concerned, 22.7% the respondents indicated that organizing unrelated individuals in sectors not assessed by market survey was the major problem encountered during forming associations. At the operation stage, the top three problems: inability to sell for other customers (72.7%), high money retention by HDA (56.8%), and being under the influence of the government (34.1%) are ranked as very severe problems by the respondents. The skyrocketing of prices is considered as the main raw material related problems in the enterprises in addition the low capacity of production is stated as the main problem as far as production equipments are concerned. Shortage of capital is the main hindrance factor for improving the production equipments. As far as problems related with working

premises are concerned, 30% of them indicated there is no major problem. The rest, i.e. 70%, indicated various answers such as shortage of space, problem of accessibility for transportation and shortage of water. About 47.7% of the respondents indicated, not paying at the right time and not ordering the right amount and moreover not having sustainable market are the major market related problems.

The start up capital of the surveyed enterprises ranges between 35,000-166,000. Current capital ranges between 55,000-420,000 where working capital between 10,000-60,000. At the start up stage of the enterprises, mean employment was 13 workers per enterprise. Current mean employment is 21.1, workers per firm. The majority of the enterprises show increase in their employment. About 25% of the respondents get an average monthly income of birr 600. For about 31.8% of the respondents, the enterprises provide less than half of the household income.

Over the past six months, the sale and the income of the enterprises were decreasing due to the fluctuation of the market. Concerning the perception of the public towards the enterprises, 20.5% of respondents think that the public perceive them as politically affiliated with the government. As far as factors affecting the performance of enterprises are concerned, 23% of the respondents indicated that the most influential factor that affects their performance is the market linkage. This is due to the policy of the government to sell their products on a settled price only for the housing agency. The amount of start up capital, area of the working premise, and access to credit, training and education also play their own role in varying degrees in affecting the performance of enterprises.

In general, as the findings of the research reveal the government institutions particularly HDA are the ones that determine the death and survival of the enterprises. This is due to the fact that the agency wants to control the enterprises in every aspects of their activity and does not let them to be independent and stand by themselves. It seems the

government wants the continuous attachment of the enterprises at all times with it in every aspects such as in market linkages, provision of raw materials and working premises. Since the enterprises that are engaged in hollow and pre-cast beam production are not allowed to sell for other customers other than the HDA, they are on a verge of dying. This act has its own consequence on the rise on the interest of the borrowed money and as a result the enterprises can not pay the loan and moreover the micro credit institutions can not recoup their money. Due to the fact that the HDA decides on the selling price of the products and force the enterprises to sell with minimum prices as compared to the market, the enterprises do not get what they should deserve to get.

As far as the individuals participating in these enterprises are concerned, most of them have their own work and consider working in these enterprises as their secondary job. This collides with the essence of establishing MSEs for the youth and unemployed section of the society in other words do not meet its intended target. In addition to the market problem, high money withholding as a monitory activity by the agency makes the enterprises in (hollow and pre-cast) out of working capital. In one side, the government tried to support the enterprises by providing trainings, working area, loans and as well as the required machines and supplies with subsidized prices. But on the other side, do not let them to diversify, improve and expand the enterprises by forbidding not to produce or sell their products for other customers and this act made the enterprises not to operate with their full capacity.

6.2 Recommendations

The advantage of small enterprises lies with the fact that they are requiring relatively less start up capital, using locally produced raw materials and labor intensive technologies .These advantages can be maximized if all stakeholders

in the sector work collaboratively to solve their various constraints and if conducive internal and external environments are created.

Based on the findings of this research, the following recommendations are made

- ❖ The existing government policy should be revised to provide appropriate policy interventions in the activities of small enterprises in general and the construction sector MSEs in particular. In line with this, the adjusted policy should give them a room to sell their products to other customers. In addition the policy should also let them to do other activities other than their primary work for risk minimization and income diversification during times of low demand of the primary products.
- ❖ The bureaucratic structure should be adjusted and suited to enterprises and this should not be the means of time wasting.
- ❖ The government should create appropriate mechanism to provide their own working land for the enterprises in the sector as most of them do not have their own production space. Sustained contribution of enterprises depend largely on the availability of appropriate working area
- ❖ Adequate training in the areas of business management, accounting and technical trainings should be given by the concerned institutions and agencies.
- ❖ As the main buyers of the products of the small enterprises in the construction sector are government low cost housing projects, planning and implementation of the projects should take into account the condition of the enterprises in the construction sector. Because they are the main engines for the success of the project, not addressing their problems could result in the interruption of the implementation of the housing project. In cognizant with this the government should sniff the problems of the enterprises in consistent with the surrounding environment. For example the selling price of the products should always

be adjusted with the prevailing market condition so the enterprises get what they should deserve to get.

- ❖ The creation of association of enterprises in the construction sector should be facilitated. This will help enterprises to solve problems jointly, to share skills, to share services to each other and to join and promote themselves to medium and large enterprises.
- ❖ Permanent institutions that will deliver technological support on a sustained basis should be established.
- ❖ Targeted firm level interventions need to be provided. They are vital mechanisms to insure effective allocation of resources by MSEs in order to grow and expand their operation.

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RESEARCH QUESTIONNAIRE

ADDIS ABABA UNIVERSITY

RURAL LIVELIHOODS AND DEVELOPMENT STUDIES

Dear respondent, the topic of my research is the role of Small Enterprises in Urban Housing Development and Employment: the case of Kolfe-Keranio Sub-city of Addis Ababa. In so doing your Kebele as well as your enterprise is one of the focus areas of my study. This questionnaire is, thus designed to obtain information about your perceptions, opinions, experiences and particular knowledge regarding the role played by your enterprise in housing construction, the constraints you have faced in maintaining your business and creating employment opportunity for others. The information you are going to give will help to assess the role of small enterprises in housing development and suggest possible solutions. As such the quality of this study depends on the information provided by you. Whatever information you provided me will be kept strictly confidential and will not be shown to other persons. Please use a tick "✓"

May I begin the interview now?

Date and Time: _____

Respondent number: _____

Part I. DEMOGRAPHIC CHARACTERSTICS

1. sex of the owner: ☐ Male ☐ Female
2. Age in years? _____
3. Marital status: ☐ Single ☐ Married
☐ Divorced ☐ Widowed
4. What is your level of education?

☐ 1. Illiterate	☐ 5. 11-12
☐ 2. Read and write	☐ 6. Certificate
☐ 3. Below secondary school	☐ 7. Diploma
☐ 4. 9-10	☐ 8. degree and above
9. Other (specify if any) _____
5. Number of dependents _____

PART II CHARACTERISTIC OF THE ENTERPRISE

To be filled by the enumerator:

Kebele _____

1. The respondent is?

- | | |
|---|--|
| ☐ 1. Owner | ☐ 4. Employee |
| ☐ 2. Cooperative manager | ☐ 5. Cooperative worker |
| ☐ 3. cooperative manager and owner | |

A. ENTREPRENEUR AND COMPANY INFORMATION

1. How is the organizational structure of your SE organized?

- ☐ 1. Sole proprietorship
- ☐ 2. Family based (relatives)
- ☐ 3. Shareholder with friends
- ☐ 4. Entrepreneur with spouse
- 5. Other type (specify) _____

2. When was this enterprise established? _____

3. What were you doing before you started this enterprise?

- ☐ 1. Unemployed
- ☐ 2. Daily usage /abuses
- ☐ 3. students
- ☐ 4. Working in government institution
- ☐ 5. Employed in similar business
- ☐ 6. Operating own business
- ☐ 7. Working on rapid family business
- 8. other (specify) _____

4. Is the previous experience enables you to function the present business?

- | | |
|---------------------------------|--------------------------------|
| ☐ 1. Yes | ☐ 2. No |
|---------------------------------|--------------------------------|

5. If the answer is "Yes" for the above question, in what way?

6. Have you got any training in production of construction inputs before you started the actual activity? ☐ 1. Yes ☐ 2.No
7. What type of production activity you got training before you started the activity?
- ☐ 1. Hollow block ☐ 3. Metal
- ☐ 2. Wood ☐ 4. Pre-cast beam
5. other (specify)_____
8. Does your enterprise have enough production space for running the business? ☐ 1. Yes ☐ 2. No
9. Do you start work after getting the production site?
- ☐ 1. Yes ☐ 2. No
10. If your answer is "No" for the above question, what is your major reason for not starting business after receiving production site and explain the reason why?
- ☐ 1. Lack of adequate knowledge about production
- ☐ 2. Lack of enough production space
- ☐ 3. Shortage of capital
- ☐ 4. Lack of premises
- ☐ 5. Lack of infrastructure (electricity, road etc...)
6. other (specify) _____
11. Does the nature of the work invite more laborers if enough supply of inputs and customer available?
- ☐ 1. Yes ☐ 2. No
12. How many workers did you have when you started the business and now?
- At the start _____ Now _____
13. What is the largest number of temporary workers your association hired?
- _____.
14. How is the employment situation in this enterprise?
- ☐ 1. Temporary ☐ 3. Self employed
- ☐ 2. Permanent ☐ 4.unpaid family laborer
5. other (specify)_____

15. How much is your monthly payment by the enterprise? _____
16. Is your monthly income sufficient to support you family expense?
☐ 1. Yes ☐ 2. No
17. Do you believe that this job opportunity improves your standard of living than the previous life? If Yes, in what ways?

18. How much was your start-up capital? _____
19. What type of raw materials do you use for the production process?
☐ 1. Locally available materials ☐ 3. Both
☐ 2. Imported inputs
20. Who are your principal sources of inputs?
☐ 1. Whole sellers
☐ 2. large producers
☐ 3. Smaller retailers
☐ 4. Smaller producers
☐ 5. Government projects
☐ 6. Other (specify) _____
21. Who are your principal customers for your products?
☐ 1. Governmental projects ☐ 6. Direct export
☐ 2. Whole sellers ☐ 7. Institutions
☐ 3. Large produces ☐ 8. Private users
☐ 4. Smaller retailers ☐ 9. Other (specify) _____
☐ 5. Smaller producers
22. Is demand for your products seasonal?
☐ 1. Yes ☐ 2. No
23. What type of relationship does the enterprise have with the Kebele administration?
☐ 1. Registration and license ☐ 4. Provision of trainings
☐ 2. Technical and material supports ☐ 5. Loan provisions
☐ 3. Advisory and counseling service

24. What type of relationship does the enterprise have with the sub-city?

- ☐ 1. Registration and license ☐ 4. Provision of trainings
☐ 2. Technical and material supports ☐ 5. Loan profusion
☐ 3. Advisory and counseling service 6. other _____

B. GENERAL BUSINESS ENVIRONMENT

1. How is the current status of the business activity of the enterprise?

- ☐ 1. Strongly processing (running with profits)
☐ 2. Strongly declining (running with losses)
☐ 3. Struggle to survive (no loss, no profit)

2. Is the enterprise has any plan to be intended in the future?

- ☐ 1. Expanding the existing business
☐ 2. Start extra business
☐ 3. Continuing the business at the present situation
☐ 4. Changing the business activity

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

1.	Difficulty in obtaining supplies
2.	delays in the delivery of goods by the housing development agency
3.	Poor management
4.	Payment with holding by the housing development agency
5.	Lack of enough production space
6.	delay of taking the product by contracted projects

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

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

5. Do you think you have enough market for you products or services at current level of production?

☐ 1.Yes

☐ 2. No

6. Do you have a linkage with other similar or different enterprises in relation to market? ☐ 1. Yes ☐ 2.No

7. If your answer for the above question is "Yes", in what ways? _____

8. Do you think the market condition affects you level of production?

☐ 1. Yes

☐ 2. No

9. Do you think the market condition affects employment opportunity?

☐ 1. Yes

☐ 2.No

10. If there is "No", future plan. Why?

☐ 1. Market saturation

☐ 2. Financial constraint

☐ 3.skill constraints

☐ 4. Managerial problems

☐ 5. Absence of show/display room

☐ 6. Shortage of raw materials

7. Other (specify) _____

11. Which of the following is the most important constraint to the growth/ expansion of this business

☐ 1. Shortage of capital

☐ 6. Shortage of other inputs

☐ 2. Shortage of skilled labor

☐ 7. Inaccessibility credit

☐ 3. In adequate or uncertain market 8. Other _____

☐ 4. Borrowing cost (interest and other costs)

☐ 5. Disagreement among members

12. Do the constraint /s have its/ their own effect on your employment number? ☐ 1. Yes ☐ 2.No

13. Is your response for the above question is "Yes", how it affects? explain

14. During the past 6 months, how much profit per-month did you make on average? _____
15. How much was your monthly sales on average during the past 6 month?

16. How was the trend of your sales during the past 6 month?
☐ 1. Increasing ☐ 3. Decreasing
☐ 2. Stayed the same ☐ 4. difficult to forecast
17. How was the trend of your profit during the past 6 month's .Select your choice from the above question? _____
18. How do you distribute/share your profits to workers of the enterprise?
☐ 1. Salary payment ☐ 3. Equally sharing the profit
☐ 2. Work position ☐ 4. Based on property share
☐ 5. Do you get profit ☐ 6. Based on quantity produced
19. Do you think that the profit you get is proportional to the value you add on yours products? ☐ 1. Yes ☐ 2. No
20. Do you have other income other than generated from the enterprises?
☐ 1. Yes ☐ 2. No
21. Why did you choose this particular type of enterprise?
☐ 1. The sector has good return
☐ 2. Because I saw my friends
☐ 3. Other activities are occupied
☐ 4. I could not have sufficient capital to establish other business
☐ 5. Other (specify)
22. What are the major problems of the enterprises in relation to equipment?
☐ 1. Breakage ☐ 3. Lack of availability
☐ 2. Expensiveness ☐ 4. other (specify) _____
23. What is the major problem that hinders the change (improvement) of equipment?
☐ 1. Shortage of capital
☐ 2. Shortage of operating skill
☐ 3. Shortage of supply ☐ 4. Other (specify) _____

24. How much is the contribution of the enterprise to your household income?

- ☐ 1. Provided all of the household income
- ☐ 2. Provided more than half of the household income
- ☐ 3. Provided less than half of the household income
- ☐ 4. Provided half of the household income

25. What type of assistance do you need from the local government to improve the efficiency of your enterprise?

- ☐ 1. Managerial training
- ☐ 2. Facilitation of credit
- ☐ 3. Marketing support
- ☐ 4. Provision of infrastructure
- ☐ 5. Access to land
- ☐ 6. other (specify) _____

26. Who sets the price for your products?

- ☐ 1. Set by government
- ☐ 2. Market
- ☐ 3. Other (specify) _____

27. Which of the following are constraints to your enterprise, give points for each (0=no problem, 1=minor problem, 2=moderate problem, 3=major problem, 4=very severe problem)

- ☐ 1. Complex licensing bureaucracy
- ☐ 2. Being under the influence of government projects
- ☐ 3. High interest rate
- ☐ 4. High collateral requirements
- ☐ 5. Impossible to sell for other customers
- ☐ 6. Other (specify) _____

28. What are the major problems or challenges you encountered in operating the business?

- ☐ 1. Lack of markets
- ☐ 2. Lack of credit facilities
- ☐ 3. Poor technology
- ☐ 4. Lack of skilled personnel
- ☐ 5. Lack of capital
- ☐ 6. Competition
- ☐ 7. Lack of raw materials

29. How is the public perceive your enterprise?

- ☐ 1. Do not produce quality products
- ☐ 2. Underestimation
- ☐ 3. Not making profits
- ☐ 4. Politically affiliated
- ☐ 5. Positive outlook

C. FINANCIAL INFORMATION'S

1. How did you get the start up capital?

- ☐ 1. Money borrowed from family or friends
- ☐ 2. From government project's
- ☐ 3. Micro-credit institutions
- ☐ 4. Informal money lenders
- ☐ 5. NGO's
- ☐ 6. Formal bank's
- ☐ 7. Co-operatives
- 8. other (specify) _____

2. Was it rather easy to obtain financing from borrowing institutions?

- ☐ 1. Yes
- ☐ 2. No

3. If "No" what has been the major constrains to obtain start-up capital?

- ☐ 1. Lack of information as to where to get finance
- ☐ 2. Inadequate collateral
- ☐ 3. Borrowing process is too difficult
- ☐ 4. Interests are other costs too high
- ☐ 5. MFI don't release money quickly
- ☐ 6. problems among members
- ☐ 7. Afraid of, I may not be able to repay

4. Did you get any training on financial records or transaction from the lending institutions?

- ☐ 1. Yes
- ☐ 2. No

5. If your response for the above question in "Yes", what kind of training you got? explain _____

6. Do you think availability of enough loans will create more employment opportunity? ☐ 1. Yes ☐ 2. No

D. INFRASTRUCTURE

1. How did you acquire the production site on which you start this business?

☐ 1. Owned it	☐ 4. Rented
☐ 2. Inherited	☐ 5. Leased
☐ 3. Bought	☐ 6. Given by the government

7. Other (specify) _____
2. How big is your premise in Sq. m? _____
3. Do you think you have enough production space for manufacturing and storing your products? ☐ 1. Yes ☐ 2. No
4. If your response is "No" for the above question how could it will be solved?

5. Does the size of the production space affect your employment creation capacity? ☐ 1. Yes ☐ 2. No
6. If your answer for the above question is "Yes", how it affects? explain

7. Do your get enough electric service with out any continuous breakdown?
☐ 1. Yes ☐ 2. No
8. Do you think there is adequate availability of water in this area?
☐ 1. Yes ☐ 2. No
9. is there adequate transportation facility around your enterprise?
☐ 1. Yes ☐ 2. No

E. EDUCATION, SKILLS AND TRAINING

1. How has education/experience influenced your entrepreneurial career?

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

2. Looking back to your education/experience/practice skill, have you acquired from your business education career?

☐ 1. Technical training ☐ 2. Business management

☐ 3. Business skills training

☐ 4. entrepreneurship

☐ 5. Marketing Management

☐ 6. Accountancy and Bookkeeping

7. Other (specify) _____

3. Did you receive any business support (workshops, training, advice business counseling, monitoring etc.) before or during the start up phase of your business? ☐ 1. Yes ☐ 2. No

4. If "Yes", on which particular subject have you been trained, monitored or counseled? (code: 1= Yes, 2 =No)

	4.1	Technical training
	4.2	Business management
	4.3	Business skills
	4.4	Marketing management
	4.5	Accountancy and bookkeeping

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

☐ 1. Yes

☐ 2. No

6. If yes, which kind of business support service would have been highly valuable for you (choose from the question No. F4). _____

QUESTIONNAIRE FOR KEY RESPONDENTS

1. Are there any policies and strategies on MSEs development that is practically implemented in Ethiopia, in general and in Addis Ababa, in particular?

2. Is there any institutional structure that is in charge of the execution of policies and strategy?

3. If your answer is "Yes" for question No 2, do you think the structure is helpful to successfully promote MSEs?

4. What are the major challenges that impede the execution of policies and strategies?
5. From which government bodies do MSEs get support principally?
6. Could you explain the major challenges in credit provision and return?
7. Why do you think the already registered and delivered institution leave their production sites in some of the industrial zones?
8. What are the major constraints that impede MSEs from playing their role?
9. What are the problem cited by government bodies for support for questions raised by MSEs institution and associations?
10. What efforts have been made by governments to search for market linkages for MSEs? What problems have occurred in doing so?
11. What future prospects of MSEs have in the future regarding the building premises they owned?
12. Is there any monitoring and evaluation program of MSEs in the institutional structure? If yes how is that implemented? And what are the achieved results in the process?
13. How do you describe the general situation MSEs in view of the goal set by the government in promoting and assuring their sustainability?

THEMES ON FOCUS GROUP DISCUSSIONS

The objective of the group discussion is to air out the challenges and constraints of micro and small enterprise from stakeholder, in general and the impact of policies and regulations, the impact of location and space, and the impact of education and training, in particular. In that connection, issues in the focus group discussion as they are initiated by the research will be deal in the form of the following questions:

- ❖ What are the challenges of promoting MSEs on the side of the government?
- ❖ How do you think these challenges would be solved? What are the major constraints of the MSEs operators?

DECLARATION

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

Errors, misinterpretation and weakness in clarification that might appear this thesis are all mine.

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