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Addis Ababa University  
College of Business & Economics  
Department of public Administration & Development Management

Performance of Micro and Small Enterprises and their Role in  
Enhancing Local Economic Development: A Case Study in Gullele  
Sub City of Addis Ababa

A thesis

Submitted to Addis Ababa University, Department of Public Administration & Development  
Management, in Partial Fulfilment of the Requirements for the Degree of Masters of Arts in  
Public Management and policy

By: Munira Sherefa

Advisor: Bamlak Alamerew (Ph.D)

June, 2012  
Addis Ababa

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**Approved by Board of Examiners**

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Chairperson, School of Graduate Committee

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Advisor

\_\_\_\_\_  
Signature

\_\_\_\_\_  
External Examiner

\_\_\_\_\_  
Signature

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Internal Examiner

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Signature

## **Dedication**

For my Parents

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## **List of Abbreviations and Acronyms**

AACAIB	Addis Ababa City Administration Industry Bureau
BDS	Business Development Service
CBO	Community Based Organizations
CED	Community Economic Development
CSA	Central Statistical Authority
EPRDF	Ethiopian People Republic Democratic Front
ETB	Ethiopian Birr
FAO	Food and Agricultural Organization
FeMSEDA	Federal Micro and Small Enterprises Development Agency
GTP	Growth and Transformation Plan
HDA	Housing Development Agency
ICMA	International City/County Management Association
ILO	International Labor Organization
LED	Local Economic Development
MFI	Micro Finance Institute
MoTI	Ministry of Trade and Industry
MoUDC	Ministry of Urban Development and Construction
MoWUD	Ministry of Works and Urban Development
MSEs	Micro and Small Enterprises
NGOs	Non-Governmental Organization
SSMI	Small scale manufacturing industries
UK	United Kingdom
UNCEF	United Nation Children Emergency Fund
UNHCR	United Nation Higher Commission Refuge
USA	United State of America

## ***Abstract***

*Local economies often get developed with the participation of government, non-government organizations, and the community at large. Among the community, micro and small enterprises operators have the capability to strengthen the local economy through mobilizing local resources. This research explores the performance of Micro and Small enterprises and their role in enhancing local economic development in Gullele Sub-City, Addis Ababa. The analysis was based on primary and secondary data collected through administrative type of questionnaires and key informant interviews from the operators, government officials, and enterprise representatives. Contribution of MSEs is viewed in terms of the enterprises' performance by using their capital, profit, and employment creation. To see their impact, the study also review contribution of MSEs in light of economic improvement of the operators through household income and saving habit, household's expenditure to food, education, health, durable and non-durable assets. Finally, discussion was held with operators regarding the challenge and opportunities the enterprises and operators are facing now. The results indicate that, MSEs show improvement in their capital and profit. The enterprises' performance in terms of employment, capital and profit varies based on the sector in the study area. Construction and wood and metal works need high initial capital, they are labor intensive and have higher profit margin than the textile and the food and beverage sub sectors. Hence, this shows their contribution to local economic development is encouraging. Most of the operators are performing without appropriate training even if training is provided by the government. Nonetheless, the operator's living standard, income, food consumption, education, health, durable, and non-durable household assets are increasing. Most of the operators have a plan to expand the business either in the same line or to have a branch and diversify the business which has a greater impact to the local economic development. However, there is still much untapped potential for improvements in this respect beyond what has been achieved so far. Major constraining factors for realizing such potential include lack of technical and entrepreneurial skills, lack of sufficient capital, affordable access to raw material and input and lack of market to their product.*

# CHAPTER ONE

## Introduction

### 1.1 Background of the Study

Micro and Small Enterprises (MSEs) sector is described as the natural home of entrepreneurship. MSEs have the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as essential springboard for growth, job creation, and social progress. Studies conducted by Endalkachew, (2008) also shows that the small business sector is an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity, and bring technical change through the combination of all of these measures, to stimulate local economic development.

Although the emergence of MSEs is viewed differently, the sector is playing a significant role in promoting local development through the creation of employment opportunities and utilization of local resources. In recent years, when the economies of most industrialized countries have shown various signs of stagnation and structural decline, MSEs are being recognized as generators of new growth, primary sources of technological changes and job creation, as one of the major factors in maintaining socio-economic stability (Giaoutzi, Nijkamp & Storey, 1998).

Under the prevalence of extreme poverty, unemployment and coupled with the growing urban population, the modern and formal sector of the economy could not absorb the multitudes of unemployed people who are more of unskilled (Workneh, 2007).

Among many, one of the contributions of MSEs is the development of the local economy through providing job and entrepreneurship for the local people. Local economic development may be defined as increasing the local economy's capacity to create wealth for local residents. Local economic development (LED) is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve quality of live for all (Helmsing, 2003).

Economic development can occur through local job growth, which causes unemployed labor and land to be used. But economic development also occurs by shifting employed labor and land to more productive uses, for example better jobs.

To reduce the existing level of urban unemployment and urban poverty through the development of the local economy to a certain level, the recent Ethiopian government has designed MSEs development program under its urban industrial development package in 2005. In 2009 the program has a target to reduce 80% of urban unemployment by creating permanent employment opportunity and to reduce 20% of urban unemployment by creating temporary employment opportunity, and thereby to reduce urban poverty (ibid).

In Ethiopia, although MSEs exist for longer periods, they have got the attention of policy makers, academicians, and researchers very recently. The work of Andualem (2004) indicated that MSEs in Ethiopia have been neglected for long period until shift was made to market- led economic system. However, since 1991 the EPRDF government has been giving attention to the sector. As a result, in 2003 the Addis Ababa city administration developed a business plan for the first time in garment, dry food, metal and woodworks sub sectors. Later on in 2005 an overall MSEs development program was designed for the entire country (Addis Ababa city administration MSEs Development business plan 2003 and MSEs development program 2005).

Gulelle sub city is among the ten sub cities and located in the Northern border of Addis Ababa which is topographically mountains in nature. The sub city has a total population of 267,381 in ten wereda's. Micro and small enterprise operated when the city administration develop a business plan on MSEs throughout the city in 2003 when the city administration develop a business strategy on MSEs.

Indeed there is no doubt about the contributions of MSEs development interventions to national development in general and local economic development in particular, but what matters is to what extent urban citizens are becoming a beneficiary in such program intervention.

Therefore, this study is concerned with assessing the impact of MSEs development intervention being executed by the government in enhancing local economic development.

## **1.2 Statement of the problem**

From its genesis, micro and small enterprise is believed to have higher potential for local economic development in an overarching manner. However, MSEs are not a panacea, but they are more promising approach than other instruments we have for employment opportunities for local economic development (Barr, 2004). Not mere operation but operation with care and precaution make it effective mechanism of local economic development. In this regard, there are three critical issues to consider such as MSEs programs need to target the poorest section of the society having clear institutional mission of serving the most disadvantaged (Greeley, 2006; Hashemi and Rosenberg, 2006).

While most governments have renowned the potential of MSEs to create employment and contribute to poverty eradication for local economic development, in many cases this potential is not being rewarded (Reinecke and White, 2004). A study carried on MSEs' problems by Liedholm and Mead (1999) showed that three categories of constraints are predominant in MSE sector. Access to capital, problems of market, and access to raw materials and intermediate inputs are the main problems (Philipos, 2006).

Studies show that most MSEs working in developing local economies countenance the same challenges and contribute to the local economic development. According to the ILO report (2005) some of the constrictions are: unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises (at affordable rent); low ability to acquire skills and managerial expertise; Low access to appropriate technology; and Poor access to quality business infrastructure are some of it (ILO, 2005).

Ethiopian MSEs are also challenged by many of these problems. According to the CSA Report (1994-1995), the major obstacles experienced by small-scale manufacturing industries were the irregular and inconsistent supply of raw materials and a shortage of suitable working premises.

The Ethiopian government adopted the national Micro and Small Enterprise Development Strategy the first time in November 1997. The policy identified a number of constraints hampering the development of this sector. The policy serves as guideline to all stakeholders to stimulate the establishment of new enterprises and enabling the existing ones to grow and become more competitive. This policy identified un-favorable legal and regulatory

frameworks, underdeveloped infrastructure, poor business development services, limited access to finance, ineffective and poorly coordinated institutional support as the key constraints (MSEs strategy for Ethiopia, 1997).

Of course, any program has its own objectives that can be used as a parameter to evaluate its impact on the beneficiaries at the end, likewise the currently being executed MSEs development program of Ethiopia has a clear target of unemployment reduction. By creating 80% permanent employment and 20% temporary employment opportunities as well as poverty reduction target (which enhances local economic development, which is not explicitly stated in the program by the year 2009). The reviewed empirical studies reveal that there is a gap with regard to impact assessment of enterprises' performance in terms of employment opportunities, income, profit and capital in light with local economic development. In addition, the reviewed empirical studies with regard to the sector focused on socio-economic determining factors of MSEs success and its major challenges and constraints (Philipos, 2006; Workneh, 2007; Solomon, 2004).

Most studies, in academic and non-academic institution, focus on factors that hinder the growth of MSEs and the outcome of the program in aggregate forms. Regarding the role of micro and small enterprises in the process of local economic development, empirical studies fail to investigate level of performance and how the program intervene in an individual level though the program designed to change the life of those individuals who involved in the program.

For instance, the study conducted by Workneh (2007) with the objective of analyzing factors that hinder the performance of MSEs found that lack of capital, lack of markets, bureaucratic regulatory requirement, problem of business development services and inappropriate locations are still major problems of the sector. But the researcher did not see how MSEs contribute for local economic development in the process of employment creation, income generation, and asset holdings.

Philipos's (2006) study, focus more on the impact of business development services (BDS) for MSEs development in enterprise level and found that BDS is in its early stage in MSEs. The researcher also tried to identify the challenges faced by MSEs in BDS program in Addis Ababa. Some of the factors identified are: low level of MSE operators' awareness for majority of BDS, unwillingness to pay for BDS, lack of diversity of BDS providers and service and lastly limited knowledge of BDS intervention. The researcher holdup to see

MSEs contribution in the development of the local economy using their performance, employment, income and an asset.

The research conducted by Solomon (2004) also tried to analyze growth determinants of MSEs and found that product diversification is a major determinant factor for the growth of small enterprises. The finding reveal that business experience is associated with new start-ups calls for the promotion of the culture of apprenticeship and intern experience sharing for the young as a possible area of intervention in employment generation schemes to minimize the extent of unemployment. However, the study failed to investigate how MSEs can empower the local economy.

From the above mentioned studies, it is possible to learn that the contribution of MSEs in enhancing local economic development is not studied very well.

Therefore, this study tries to assess the impact of MSEs both on enterprise and individual\household\ level in the context of local economic development taking Addis Ababa Gullele sub city as a case.

### **1.3 Objective of the study**

The general objective of the study is to analyze the role of MSEs in enhancing local economic development (LED) in the case of Gullele Sub city of Addis Ababa.

Specifically this study seeks to:

- analyze the performance of MSEs (in terms of capital, employment and profit) operating in Gullele sub-city
- Examine the role of MSEs in improving the wellbeing of the household
- Identify the challenges and opportunities of the selected enterprise for promoting local economic development in the sub city.

### **1.4 Research Questions**

Based on the above objectives, the following questions are set for investigation.

- What are the contributions of MSEs in generating employment opportunities to the local people in the sub city?
- Are MSE actors contributing for local economic development?
- What are the changes scored by MSE operators in terms of income, saving and asset holding after they engage in the activities?
- What is the level of their education, health, and living standard observed in the MSEs operators?
- What are the challenges and opportunities for MSEs in enhancing local economic development in the study area?

## CHAPTER TWO

### **Literature review on Local Economic Development and Micro and Small Enterprises**

#### **2.1 Defining Local Economic Development**

Concerning the definition of local economic development (LED), different authors use different words with the same meaning for local economic development. A common definition of LED is the process in which partnership between local government, the private sector and the community established to manage local and access to external resources to stimulate the economy of a well-defined territory (Meyer stamer, 1994 in Tegegne, 2011).

On the other hand, Blakely (1994) define LED as “process by which local government and/or community-based groups manage their existing resources and enter into new partnership arrangements with private sectors, or with each other, to create new jobs and stimulate economic activity in a well-defined economic zone”.

Helmsing (2003) in Tegegne (2011) also explained LED in the same way. According to Helmsing the main objective of local development is to create or expand job opportunities available for local people. Moreover, the term local indicates more emphasis given for endogenous development instead of relying exclusively on exogenous factors. Local actors are the principal actor in LED. Thus, it needs partnership among and between government, private sectors, and community and community organization (Miehlradt and McVay 2006).

Even though there were different approaches of LED in the past, the new approach which Helmsing (2003) calls it as “the new generation of LED”. According to Helmsing, the new generation of LED promotion is characterized by multi-actor; multi sector and multi-level. For him, the former implies the success of LED depends on active involvement of public, private and nonprofit actors.

The multi sector indicates importance of the public, private and community sectors of the economy in LED (ibid). This shows that not only public sector but also private and community sectors have significant contributions for local economy in making goods and services available for current as well as future consumption. The final point- multilevel- refers to LED success requirement that not only depend on local initiatives but also considers

opportunities and threats of global change. He describes the local initiatives by categorizing into three: community based economic development; enterprises development; and locality development.

## **2.2 Local economic development approaches**

Concerning local economic development approaches, there are two broad strategic orientations as mentioned on Tegegne (2011). These strategies are discussed by Tegegne (2011) and summarized as follow.

### **2.2.1 The market-driven approach**

The market-driven approach, focus on the pursuit of economic growth, investment attraction, and courting high profile business. This approach has a number of benefits; it addresses the goals of individual self-reliance, entrepreneurship, expansion of the market, competitiveness, reduction of unemployment and sustainable growth (Rogerson, 2000 in tegegn, 2011). The various interventions in market-driven approach include:

1. Location (general tax incentive, enterprise zones, industrial parks),
2. Pro-globalization (sister cities program, export promotion, foreign trade zones, attraction of international direct investment),
3. General entrepreneurial (venture capital provision, targeted tax incentive),
4. Entrepreneurial mercantile (business incubators, equity participation, local development corporations, and
5. Human capital (employment training, human capital initiatives) (Rogerson, 2000 in Tegnene).

### **2.2.2 Pro-poor LED approach**

There are different dimensions in pro-poor LED. The first relates to the role and functions of municipality or the meso-level intervention in poverty reduction. It is understood that municipalities are well placed to undertake local planning in the area of poverty alleviation in association with the private sector, NGOs and CBOs (Pieterse cited in Tegegne, 2011). The poverty reduction roles of municipalities involve facilitation, coordination, planning and programming, implementation and monitoring of different infrastructure.

On the other hand pro-poor LED can be measured based on community-based economic development. Helmsing (2003) cited in Tegegne (2011) has noted that community economic development has five broad aims:

- To stimulate a sense of community;
- To promote self-help and empowerment;
- To contribute to the generation of (self-)employment;
- To improve living and working conditions in settlements; and
- To create public and community services.

Helmsing (2005) notes that most CED activities in Africa have related to the following components as mentioned in Tegegne (2011) these are creating local safety nets, housing improvement and settlement upgrading, basic service delivery; micro-enterprise programs. CED enterprises are based on a consideration of the relationship between economic factors and other community elements such as housing, education, the natural environment, health and the arts.

### **2.3 Definitions and concepts of Micro and small enterprises**

Universally there is no common definition of MSEs and different countries use different words based on the conditions of MSEs and countries economy. The statistical definition of MSEs varies by country, and is usually based on the number of employees or the value of assets. The lower limit for MSEs is normally set at 5 to 10 workers and the upper limit at 50 to 100 workers. Since these limits can vary in different countries, one should not overly concern about the lack of consistency in employment-based definition of MSEs. For example, a 50-employee firm in USA would be considered as smaller than a 50-employee in Bolivia due to the relative size of their economy.

Due to this, different countries use different criteria such as number of employees, assets, employed capital, sales turn over, or combination of the above factors to determine the size of the enterprises (Adil, 2007). For example in United Kingdom the bolten committee report (1971) as mentioned in Andualem (2004), recognized the diversity of the sector and documented three essential characteristics of the firm. In view of that:

1. A small firm is managed by its owner in a personalized way,
2. It has a relatively small share of the market in economic terms, and

3. It is independent in the sense that it does not form part of a large enterprise and its ownership is relatively free from outside control in its principal decisions.

Definition of the nine categories of small firms as defined by United Kingdom standard is listed below.

**Table: 2.1 Definition of MSEs in different Economic sectors in UK**

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

Source: Adil (2007)

In Ethiopia, country wide used definition of MSEs is based on level of paid-up capital/fixed asset, size of employment, using high tech establishment and consultancy services. This categorization is important for functional and promotional purposes to achieve the desired levels of development. In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. However, two mostly used definitions of MSEs are the definition by Ministry of trade and industry (MoTI) on the basic criteria of capital investment and on the other hand by central statistical authority (CSA) that uses employment and favors capital intensive technologies as a yardstick.

The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997.

According to the MoTI:

- Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments.
- Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments.

CSA also categorized MSEs in to different scales of operation depending on the above mentioned yardsticks. According to CSA, a micro enterprise is one with fewer than 10 workers; those with 10-50 workers constitute small enterprises while medium and large scale enterprises are those with more than 50 employees. (Association Ethiopian Micro Finance Institution, 2009)

Currently, the revised MSEs strategy that divided MSEs in terms of product and service defined in the following ways.

- Micro Enterprises are those enterprises having 5 workers including family members and its total asset not exceeding Birr 100,000 for manufacturing enterprises and Birr 50,000 for service providing enterprises.
- Small enterprises are those enterprises having 6-30 workers and its total capital not exceeding Birr 1.5 million for manufacturing enterprise and Birr 500,000 for service providing enterprises.

## **2.4 Socio-economic importance of MSEs**

MSEs have a number of socio-economic importance for both developed world in developing countries. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, that are of adequate quality and are reasonably priced, to a large number of people particularly in rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (Workeneh, 2007).

### **2.4.1 Employment creation**

The major problems that the current world faces are unemployment, inequality, and poverty. Developing countries in general and African countries in particular have been experiencing high unemployment rate paralleled by increasing urban poverty.

To reduce employment micro and small enterprises make undoubtedly a huge contribution, especially in the developing world. Most studies conclude that small enterprises are more labor intensive than larger ones, and some even finds that the smaller firms also produce more output (or value added) per unit of capital and thus generate more output as well as employment for a given investment than do larger firms (Haggblade and et al 1990).

When we look at the share of employment in MSEs and large industries for lower and higher income countries, 62%, and 38% of employment opportunity in lower income countries created small scale and large scale enterprise respectively. However, the share of employment in MSEs in higher income countries is still considerable and it accounts for 41% of the total employment and the rest Workneh (2007)

### **2.4.2 Poverty reduction**

The broad definition of poverty includes the lack of access to basic health care, clean water, sanitation, and education. In other words, the poor are by definition under-serviced. In many developing countries, governments are unable to provide adequately basic services.

In this point poverty reduction can be correlated with job creation. Here poverty refers to the poverty of the MSE operators themselves. Most operators are very poor, and are found at the floor of the economic status. The chance to operate their own business at a very low startup capital, and expand from that point will help them support themselves and their family. This intern will operate to a reduced nationwide poverty (Benyam Aragaw, 2008).

The ILO Director-General's report to the 2003 International Labor Conference called Working out of Poverty outlined eight ILO activities that contribute to poverty reduction with regard to MSEs. These are vocational training, entrepreneurship development, and microfinance, cooperatives, reducing discrimination, working to end child labor, ensuring income, and basic social security, and work safety.

The Director General's report focused considerable attention on small enterprise development. The report noted that poor people need to be entrepreneurial to raise the income

needed to survive. Furthermore, all eight of the ILO's poverty reducing activities is related to micro and small enterprises, either principally or more peripherally (ibid).

## **2.5 Theories on micro and small enterprises**

Different views have been developed and discussed in the area of micro and small enterprise's role and their function. Among them, labor surplus theory, output demand theory and firm growth theories are the major theories and discussed below.

### **2.5.1 The labor surplus theory**

Among different theories developed for MSEs, labor surplus theory focuses on labor related issues. The labor surplus theory, called the main theory, which goes back to the seminal work by Lewis (1955), argues that the driving force behind MSE development is excess labor supply, which cannot be absorbed in the public sector or large private enterprises and is forced into MSEs in spite of poor pay and low productivity.

Arguably, the MSE sector develops in response to the growth in unemployment, working as last option for people who are unable to find employment in the formal sectors. According to this theory, MSEs are expected to grow in periods of economic crisis, when the formal sector contracts or grows too slowly to absorb the labor force. However, when formal employment grows, the MSE sector is assumed to contract again and thus develops an anti-cyclical relationship with the formal economy.

However, there are some empirical problems with the unemployment theory of the growth and development of MSEs. First, there is lack of reliable and adequate data for researchers to test the hypothesis that MSEs absorb surplus labor from the public sector or large private enterprises and the hypothesis that increases in labor demand by MSEs has taken place before or after structural adjustment. Second, for the MSE sector to function as a place of last resort, it must be easily accessible. However, many studies have shown that this is only the case for a handful of MSE activities ( Murinde, and et al, 2006). It is also sometimes argued that MSEs concentrate on trade because this requires less capital and knowledge than production. While it may be true that production requires more investment capital than trade, small scale trade is likely to require more working capital than small-scale production in order to secure a certain income.

This is partly because value added is lower for the trader than for the producer, and partly because, in small-scale production, the customer will often be required to pay for the

materials in advance, while the small-scale trader will have to give credit (ibid). Therefore, there are several limitations to the extent to which the MSE sector can function as a place of last resort during crises.

### **2.5.2 The output-demand theory**

This theory assumes that a precondition for the development of MSEs is that there is a market for their products and services. Therefore, the MSE sector will tend to develop a cyclical relationship with the economy as a whole. However, MSEs will also develop in competition with large enterprises in the formal sector, and their development will be constrained by formal sector monopolies. Structural adjustment and other policies that limit such monopolies, and attempt to create more competition, will therefore be advantageous to the MSEs, because this may allow them to capture market shares from the large enterprises. Proponents of structural adjustment and stabilization policies tend to base their arguments on this theory.

Empirical studies based on the output-demand theory tend to focus on the upper end of the MSE sector, particularly the manufacturing enterprises and the larger, more resourceful and successful MSEs, which have a potential to grow into the formal economy. These studies propose strengthening of the MSEs through networks or via the creation of forward linkages with the formal economy, for example franchising and sub-contracting (Murinde et al, 2006). This approach has not had much success in Africa due to problems of poor infrastructure and lack of trust between both parties. This creates an unstable environment and reduces the efficiency of the formal sector and access to factor markets for MSEs (ibid).

### **2.5.3 The firm growth theory**

The firm growth theory known asserts that MSEs are more likely to disappear and be replaced by modern large-scale industry. This theory has, however, been shown to be inaccurate in the sense that MSEs do not normally compete directly with large enterprises; rather, they often tend to remain micro and small, co-existing with large multi-national companies, which phenomenon the World Bank (1989) has identified as the ‘missing middle’ (Ryan, 2005).

The most obvious activity where these niches exist is in distribution to areas or income groups where their costs would be prohibitively high for large enterprises. However, in a literature survey on macro analyses of micro enterprises in developing countries, Liedholm

and Mead (1993) came to the conclusion that macro-level empirical evidence indicates that, as aggregate per capita income increases, there is a systematic pattern of evolution of MSEs towards larger firms based in larger localities, producing more modern products. Nevertheless, critics of this view argue that analyses on MSE development must take account of differences in their efficiency, the type of influence MSEs exercise in society, linkages between small and large enterprises, the changing roles of women entrepreneurs, differences in the level of education in the labor force and other socio-economic differences (Murinde et al, 2006).

In general, each of the three theories has been modified into some variants; however, one of the important elements common to all the theories and variants is the proposition that the growth of MSEs can contribute to poverty reduction or in other word enhance the local economy.

## **2.6 Measuring the performance of Enterprises**

Firm performance can be measured using different indicators, like profitability, growth in employment, production level, or even sales. In addition, firms also have their own indicators of measuring their performance (McPherson, 1996). All these indicators however have their advantages and disadvantages. Profitability, for example, has the problem that most of the small firms do not keep records, and do not easily share income information. On the other hand, some firms may not grow, but may diversify into other activities as a strategy to avoid risk. Firms also measure their performance in terms of the stock of materials that are held, the regional coverage of markets, and the level of specialization on specific products.

Literature suggests four main categories of factors that are affecting the performance of business enterprises such as: human capital, personal characteristics, family characteristics and business characteristics (Loscocco et al., 1991; Daniels and Mead, 1998; McPherson, 1996). In terms of human capital, literature suggests that the more skills and experience entrepreneurs bring into the enterprise the more successful the business enterprise. Others contend that personal characteristics exemplify entrepreneurial traits including the degree of risk-taking behavior and the motivation to achieve the highest levels.

Loscocco et al. (1991) argue that small business owners may also benefit from intangible success from family members, although heavy family responsibilities may also have the negative effect of detracting the entrepreneur from the business activity. Business

characteristics also play an important role in determining business performance. For example, the industry or the product market in which the enterprise operates may influence business outcomes.

The other business characteristics that play an important role in determining performance are size, age and location of the business. Size is associated with economies of scale. McPherson (1996) argues that location of business (where located at home, at a market or industrial or commercial area) has strong influence on survival chances and growth of African MSEs. These various factors that influence performance of enterprises may influence female-owned and male-owned enterprises due to gender biases.

## **2.7 Challenges Faced by Micro and Small Enterprises**

To achieve the desired objectives for MSEs, there are a number of constraints that hinders the attainment of the enterprises. A number of constraints can be recognized as impeding Micro and small enterprises. A major inhibition is connected to the confined access to resources especially finance, market and skill.

There is a scarcity of working capital, as formal credit institutions are not accessible to this sector. On the other hand market is said to be restricted because the goods and services are fabricated to content the needs of the poor which have a very low income and purchasing power, the demand generated within the sector is not satisfactory. Lack of better technology, managerial and other technical skills may also be an obstacle to the growth of micro and small scale businesses enterprises. (Endanchyelem, 2000) These constraints result in the development of small businesses producing the same things and competing with each other to sell into the same small local market.

The inexistence of institutional regulation in the economy of small businesses may influence various settings of the work process. For example labor may be tacit, lacking social benefits and paid under the minimum wage. Workers tend thus to be downgraded, taking fewer benefits, less wages and working under inferior working circumstances than those universally accepted in the formal economy (Tsegereda, 2002)

An additional challenge related to MSEs is the difficulty of obtaining reliable statistics and thus lacking a proper insight to address the problems in this sector. Competition in most small enterprises markets is fierce due in part to ease of entry and large number of participants and in part to the small size of many markets served by small sector enterprises. Lack of

specialized skills leads micro-enterprises to become concentrated in similar activities, which results in market saturation.

## **2.8 Micro and small enterprises for local economic developments**

Due to its benefits in socio economic development MSEs get the attention of the government for enhancing the local economy. Local economy can be developed in the course of poles a part ways using local resources. Amongst different performer in the course of action of local economic development, MSEs can play a pivotal role in the advancement of LED.

In Developing countries like Ethiopia the involvement of MSEs for the enlargement of local economy is momentous. The present government gives an immense concentration for the escalation and development of MSEs for enhancing local and national economy in its five plans called Growth and transformation plan (GTP).

In the industrial sector, GTP has laid down two strategic directions: the expansion and development of micro and small industries and the development of medium and large industries. The MSE component of the GTP and that of LED are very identical and similar. As mentioned in Tegegne (2011) GTP targets for micro and small scale enterprises are the following:

- Provide comprehensive support to micro and small scale enterprises so that they create employment opportunity for about 3 million people. Achievement of this target will enhance citizens' income, contribute to a rise in domestic saving, and enhance the benefits of women and youth from the sector so as to reduce unemployment and poverty.
- Provide Training of Trainers for 10,000 professionals in the sub-sector;
- Provide capacity building and basic skills training for about 3 million operators in the areas of entrepreneurship, technical and vocational skills;
- Prepare and develop 15,000 ha of land for working premises and construct shades and buildings for MSEs.
- Provide micro credit and marketing information and work with producers to identify bottlenecks and provide support where solutions are identified.

## **2.9 Empirical Literature Review on LED and MSEs**

### **2.9.1 Experiences in MSEs**

Studies show that Micro and small enterprises have massive contributions for reducing poverty especially in urban area. Scholars have been conducting a scientific research and get ample results in the area of MSEs. Due to this ample area of concern the researcher of this paper can review other countries experience and Ethiopian cases.

Evidence implies that the micro and small enterprises have played a major role in the growth and development of least developing countries in Asia and Africa. For instance the study conducted by Geetha Nagarajan (2008) from IRIS center, University research cooperation international in Bangladesh focuses on micro enterprise related on economic growth in Bangladesh. The study clearly shows the growth oriented medium sized enterprises among the MSEs have a high propensity to apply technology and training and serve specialized niche markets.

Riba (2005) in his study in four developing countries found that among the factors that have contributed to the success of MSEs is a high incidence of cooperative inter-firm relationships, which have rendered individual firms less susceptible to risks, foster mutual exchanges of information and know-how between firms and created a rich pool of collective knowledge.

As to Geetha (2008) one contribution of MSEs is enhancing the living conditions of the households. Micro and small enterprises profits are used for making household welfare improvements. The level of improvements do not significantly differ either by type of buyer or by magnitude of micro enterprise profits. MSEs can make a clear contribution to economic growth through increased incomes and business-related investments and in order to do that program intervention is essential (Markarius and Samuel, 2009). To that end improving access to micro finance and training especially in well developed areas can help more than fostering their performance and increase the contribution they make for economic growth.

Lesson from the neighbor Kenya in 2009 by Makarius & Samuel in the name Management of Business Challenges among Small and Micro found how MSEs manage the challenges they face. The researchers found that future business are seen in the early stages of business life and that understanding them has a productive value. It is also clear that infant businesses need

as much support and help in their early years when their motivation is high as well as in their maturity phases when their innovations are low.

The researchers found the five top challenges that MSEs face are competition, insecurity, debt collection, lack of working capital and power interruption (Makarius & Samuel, 2009). While the challenges facing small business do not include capacity concerns such as input availability and labor costs, frequent mention of political uncertainty, unfavorable laws, in addition to high taxes indicate that government and its regulation are major obstacles to MSE operations.

### **2.9.2 MSE Experience in Ethiopia**

For poverty reduction approach for the incumbent government, MSEs get the attention of the government and develop different strategies in different times. The sector gets the attention of the government in Ethiopia because it gives a tremendous benefit for the society at large. To this effect, the government has formulated a National MSE Development and Promotion Strategy in 1997, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs.

The overall objective of the 1997 MSE strategy was to create an enabling environment for MSEs, with specific objectives to facilitate economic growth; bring equitable development; create long-term jobs; strengthen cooperation between MSEs; provide the basis for medium and large-scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises (MoTI, 1997).

The strategy targets support measures and beneficiaries such as small manufacturers in food, textiles, leather, clothing metal works, and crafts; self-employment (focus on school leavers, disabled and unemployed youth); start-up and expanding firms (focus on women-owned); small enterprises in nomadic and disaster areas; agro-business and small scale farming and fishing.

As the strategy clearly stipulates the provision of meaningful supports require the vigorous and synchronized efforts of the various development actors including government bodies, non-governmental organizations, business associations, private enterprises, foreign agencies and similar other government.

Federal and Regional Micro Enterprises Promotion Agencies aiming at providing the above services and coordinating efforts of the various stakeholders. Even though, it might require substantiating with figures and facts, these efforts are not only inadequate but also fragmentary or uncoordinated. Moreover, the strategy does not address the informal sector and promotional measures do not target it. Mechanisms to link the two sectors do not exist (ILO, 2006).

But recently in March 2011, a task force headed by the Ministry of Urban Development and Construction (MoUDC) and the Federal Micro and Small Enterprises Development Agency (FeMSEDA) published a new strategy for the development of MSEs. The strategy identified and analyzed key MSE development constraints namely, financial, training/consultancy, market, and infrastructure, and technology transfer, institutional and cross-cutting issues.

According to the new strategy (2011), the overall vision of the strategy is to create a “competitive” MSE sector that lays the groundwork for industrial development. To realize this vision, three objectives have been identified, which are:

- To increase the employment and wealth creation capability of MSEs,
- To enable the MSE sector to become more competitive and link with agricultural development and
- To ensure MSE development by creating a large entrepreneurial base in towns and cities throughout the country.

The major output of the new MSE Development Strategy is the creation of support packages that relate to the areas identified as constraints to the sector. The target areas for the new strategy are manufacturing sector (textile, leather and leather products, food processing and beverage, metal works and engineering, wood work including, agro-processing), construction, trade, services and urban agriculture.

The strategy has defined three stages of development (i) Start-up, (ii) growth and (iii) maturity and has developed a specific set of interventions and support packages for each stage.

The key principles are to:

- Sustain growth path through accumulating capital in a short period of time;

- Create a fertile breeding ground for “developmental investors”
- Strengthening the limited capital and technology of MSEs;
- Create “developmental investors” and “developmental politics” in cities;
- Make industry and city development areas as a direction of government priority;
- Develop the capacity of youth skills and their job creation ability,
- Improve the saving culture of university and TVET graduates and assign them in the sector;
- Ensure “industrial extension services” in TVETs will provide sustainable human capacity and technology development, based on the specific industry development strategy direction.

### **2.9.3 Empirical studies on Ethiopian MSEs**

Due to its contribution for economic development of the low income people micro and small enterprises get the attention of academicians. Philipose Ageze (2006) revealed that BDS (Business development service) in Ethiopia is at an infant stage. The service is more of donor side or supply driven in nature that is not initiated by the operators. The program didn't achieve a good level of performance in developing high quality, diverse and competitive market. The researcher also try to identify the challenge faced by MSEs in BDS program in Addis Ababa some of them are low level of MSE operators' awareness for majority of BDS, unwillingness to pay for BDS, lack of diversity of BDS providers and service and lastly limited knowledge of BDS intervention.

The researcher concludes that in Addis Ababa it has weak supply and demand status. As a way forward Philipose recommend that the intervention should be designed based on market development principles to stimulate BDS demand and supply condition.

Workeneh (2006) in his study entitled Constraints of micro and small enterprise in addressing employment opportunity found that MSEs operators in Addis Ababa face lack of adequate training, unfavorable regulatory policy of the government institutions, problem of premise, and inadequate training in the area of marketing and bookkeeping affect the performance and contribution of the sector.

Solomon Worku in his thesis work entitled Socio Economic Determinants of Growth of Small Manufacturing Enterprises revealed that business experience is associated with new start-ups calls for the promotion of the culture of apprenticeship and intern experience

sharing for the young as a possible area of intervention in employment generation schemes to minimize the extent of unemployment. Solomon also found that the extent of business product diversification is related with the employment growth of enterprises. It is possible to create awareness of enterprises to follow a strategy of diversifying their products through training, mass media, or through experience sharing opportunities.

The above referred and some other researches try to find out the employment creation, local economic growth, and factors that hinder the noble performance of MSEs for local economic development. However, these researches are more specific for example Philipose finding raise one issue of the component of MSEs that is BDS. The finding of Worekneh focuses on the challenge faced by the enterprise during their performance. Lastly the finding of Solomon covers only about product diversification and business expansion. However, these researches are failed to investigate the performance of MSEs operators in enterprise level and poverty level of these operators in the household level.

#### **2.9.4 Local economic development in Ethiopia**

In Ethiopia, the past governments followed centralized form of administration and the development schemes are planned without the involvement of the local people. The central government arranges and executes the local economic actions very intimately so that the local people did not have an opportunity to participate in the local economy.

The recent government embarked on federal and decentralized forms of government since 1990s. Woreda and urban governments figure prominently in the Ethiopian governance system. These local governments have authority and autonomy to undertake social and economic development as underlined in the different regional constitutions.

Ethiopia's decentralization has provided space and opportunities for local governments to determine their future and spearhead their development (Tegegne and Clacey, 2011). In other words, the decentralized structure in Ethiopia has created an enabling environment to undertake LED in Ethiopia. In addition, the fact that cities have their own budget empowers them to implement local economic development from their own sources.

Concerning local economic development in Ethiopia an assessment was done recently with the government and affiliate of united nation. Applying a pilot program, a number of findings

are gained. One of the findings was that local participation especially micro and small enterprises have a potential strength in the local economy (ibid).

The study shows that LED program have create positive benefits and best practices in different localities. The positive benefits are local poverty reduction, provided good and services to the community, introduced locally owned and managed development approach, encourage developmental local government, contributed to improving local businesses environment and helped to mobilize resource (Tegegne and Clacey, 2011).

Some of the best practiced noted in different localities include resource mobilization from civil society, supporting businesses expansion and retention, forming partnership between new and existing firms, fostering market linkages, supporting technology transfers, undertaking city promotion activities, forming wider stakeholders forums and helping the emergence of entrepreneurial talent(ibid).

More over the study finds that enterprise development component has also introduced an innovative micro finance strategy that created access to the poor in the form of revolving fund. By focusing on the poor, the cooperatives and single MSEs, the approach seems to have weaknesses of targeting, marginalizing individual entrepreneurs, limited networking, and poor marketing linkage.

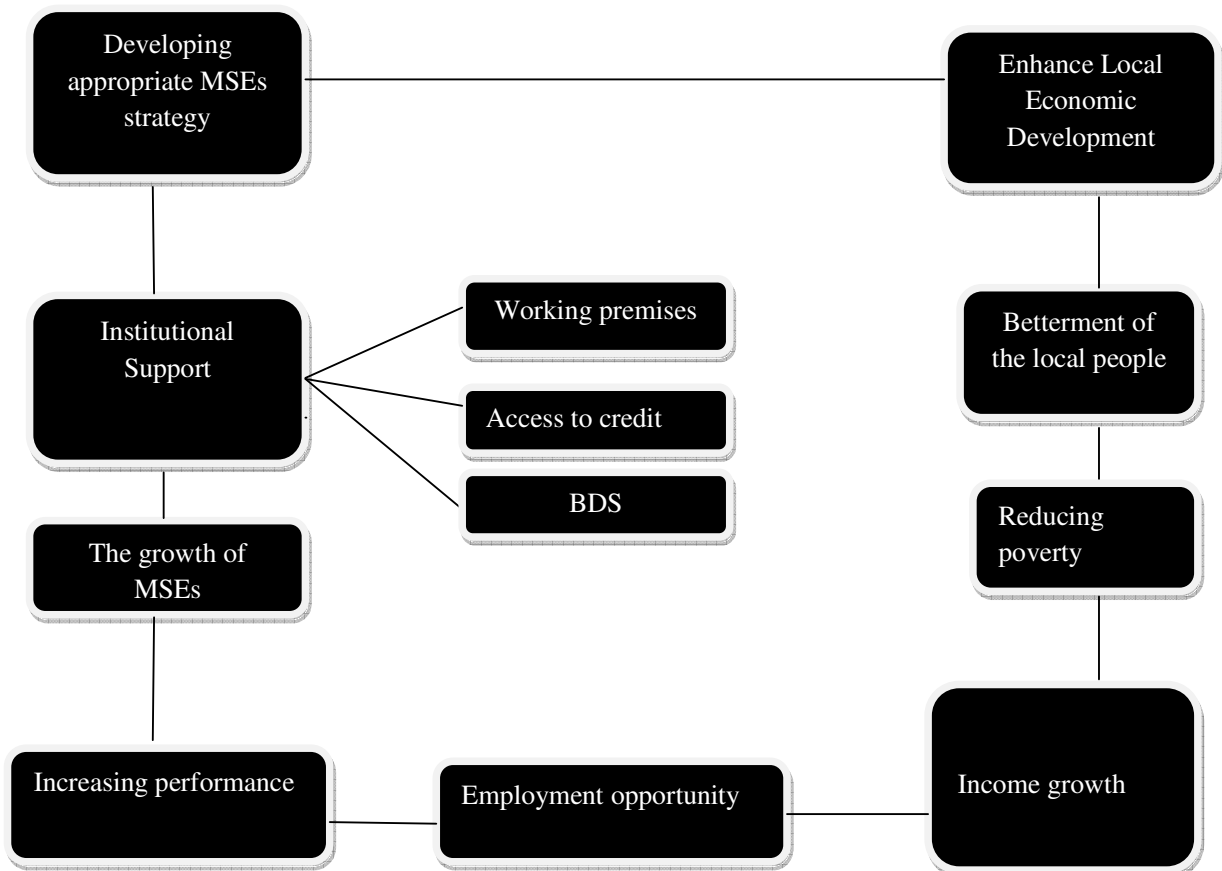
The report concluded that the pilot program has shown that LED is beneficial, appropriate, and useful for Ethiopian cities. And also to perform more proper policy, strategy, and institutions are essential. There is thus a need to scale up LED to other localities, strengthen and sustain LED in the existing localities and build a national umbrella that requires localities to embark on local economic development initiatives.

Therefore, this research tries to bridge this gap through studying different operators engaged in diversified sectors in the construction, woodworks and metal works, food and beverage and textiles sub sectors. Will try to analyze which sectors are performing in their full capacity and utilize the local resource to generate employment opportunity to this specific area and which sector is more contributing to the local economic development and perform well. More over this research tries to see the life standard, health, and educational level in household level in addition to performance of the enterprises participating in MSEs. In order to see the contribution made by this sector for local economic development.

## 2.10 Conceptual framework

Developing the local economy in different ways diversified actors working in the community has duties and responsibilities. Local economic development mostly emanate from the local resources so that participation of the local people in different economic activities enhances the achievement of local economy. Among the member of the communities, MSEs operators have a potentials to grow the local economy using workable MSEs strategies.

Micro and small enterprises comprise immense potential in the course of national economic development in general and local economic development in particular. In the course of local economic development the task of MSEs is supplementary so that to make meaning full contribution they should get short term and long term support from diverse stakeholders.



**Figure 2.1** Conceptualizing the role of MSEs for local economic development

Source: - prepared by the researcher based on the concept of MSEs and LED

The local government or agencies ought to lay a ground to ease the enhancement of MSEs operators either through providing institutional support or creating linkage with stakeholders and other non-governmental support agencies in different direction. For example offering business development services (BDS) improve the performance of the enterprise, its access to markets, and its ability to compete. BDS also address specific constraints to MSE growth and development. These are training and technical assistance, access to markets, technology and product development and input supply. The local government also accountable to provide working premises so that the operators enlarge their working potential through time. Financial problem, especially during starting period, is among the many problem that can be faced in micro and small enterprises so that the government in its policy and also other stakeholders should address such problems to grow the MSEs.

BDS, providing working premises and access to credit have a potential to grow MSEs and the enterprises will be well organized using such institutional support from different stakeholders. MSEs that acquire essential institutional support have a potential to develop efficiency in their output so that they perform their tasks systematically and in well-organized ways.

Since well organized, efficient and highly latent organization provides employment opportunity for the local people that address employment problem in the locality and or increase its employment creation share over other sectors. Hence, unemployment problem is one of the predicaments in the society and well functioned MSEs have a potential to resolve such a problem once again.

Therefore, the local people will generate their own livelihood and have income in due course this people will save as well as pay the necessary taxes for the government. Through in course of action the efficient and potentially well-organized MSEs use and develop local resources (Human and Material) for the purpose of Local economic development. Since, micro and small enterprises expected to provide an opportunity for enhancing the income of the operators, the living condition of the actors will improved through time if the local resources used in an efficient ways.

The income generated from the local people coming from the enterprises serves the development of the locality meanwhile they pay taxes for the local government which is the foremost source of local development. Taxes coming from such actors and institute increase

the rate of development in the locality and it also increases the participation of the resident in the process of local development. Since MSEs are one of the many actors in the course of local economic development, using different strategies in the advancement of MSEs direct the local economy development very well-organized.

## **CHAPTER THREE**

### **Description of the Study Area and research Methodology**

#### **3.1 Description of the Study Area**

##### **3.1.1 Physical Description**

Addis Ababa, the capital city of Ethiopia, diplomatic capital for African and home of regional headquarters like UNDP, UNCEF, FAO, UNHCR, ILO, and others is located at the geographical center of the country. Astronomically, it lies between 8<sup>0</sup>55' and 9<sup>0</sup>05' North latitude, and 38<sup>0</sup>05' East longitudes (AACAIIB, 2004).

The sub city is located in the Northern border of Addis Ababa which is topographically mountains in nature. Most part of these mountains are covered by forests mostly eucalyptus trees. These forests are part of the green areas reserved in the city and have both economic and environmental benefit. The sub city is surrounded by Kolfe Keraniyo sub city in the west, Yeka sub city in the East, Arada and Addis Ketema Sub city in the south and Oromia regional state in the North.

##### **3.1.2 Demographics**

Based on the preliminary 2007 census results, Addis Ababa has a total population of 2,738,248, consisting of 1,304,518 male and 1,433,730 female. The city is fully urban, with no rural dwellers within the city's administrative boundaries. Addis Ababa contains 22.9% of all urban dwellers in Ethiopia, with an estimated area of 530.14 square kilometers (204.69 sq km); this chartered city has an estimated density of 5,165.1 inhabitants per square kilometer (13,378/sq km). For administrative purpose currently the entire city is divided in to 10 sub city. In those 10 sub cities a total of 99 kebeles are currently found. The 10 sub cities found in city with their respective population size are Akaki Kaliti (181292), Nefas Silik Lafto (316108), Kolfe Keraniyo (428654), Gullele (267381), Lideta (201613), Kirkos (667381), Arada (212009), Addis Ketma (255092), Yeka (346384) and Bole, (308714).

Gullele sub city is one of third populated sub city in Addis Ababa. Currently for administrative purpose the sub city is divided in to 10 Woreda's and providing basic public services at local level.

**Table 3.1: Population of Gullele sub city by Wereda (2012)**

<b>Sub city</b>	<b>Total</b>	<b>Male</b>	<b>Female</b>
	267,381	129,239	138,142
Wereda 2	20,918	10,350	10,568
Wereda 3	28,110	13,239	14,871
Wereda 5	24,484	12,200	12,248
Wereda 7	37,012	17,553	19,459
Wereda 8	31,933	14,865	17,068
Wereda 9	32,693	15,476	17,217
Wereda 10	23,701	11,322	12,379
Wereda 1	29,169	14,014	15,155
Wereda 4	13,263	6,105	7,158
Wereda 6	26,098	14,115	11,983

Source: CSA. Census (2007)

### **3.1.3 Economic and Social Conditions**

Currently, the most common problems found in the sub city are unemployment, housing problem, poor quality of education, and health problem, and inadequate market infrastructure, problem of waste disposal and shortage of recreational center for the youth. (Gullele sub city Strategic plan, 2008). Migration is also the other problems seen in the sub city. According to the data from the sub city trade and industry bureau, Kebele textile and garment sub sector, mainly weaving is highly concentrated in the sub city. Shiromeda, Kechene and Addisu Gebiya weavers are the common example found in the sub city. Most of the populations of the sub city fall in medium and lower living standards, who actually are mainly imaged in low standard informal activities (Gullele sub city strategic plan, 2008).

## Addis Ababa

## Gullele

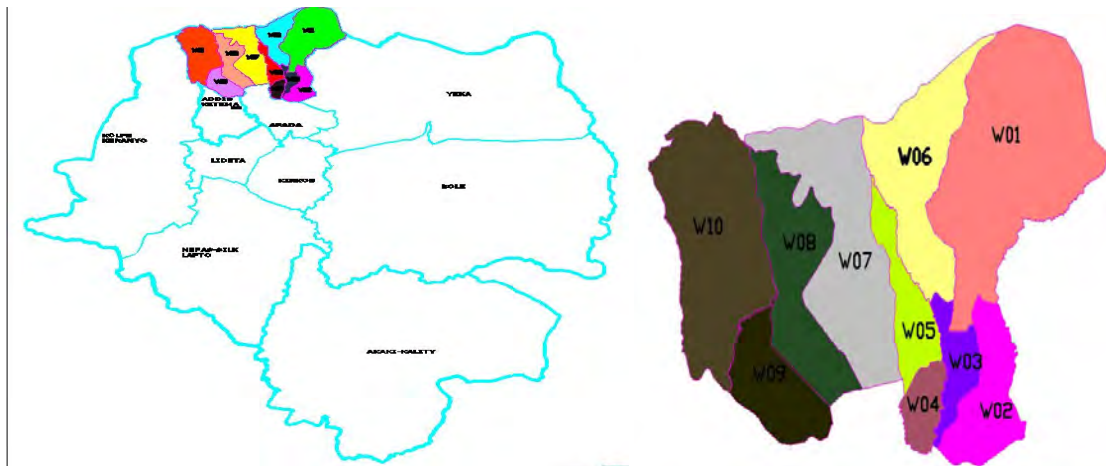


Figure 3.1: Map of Addis Ababa and Gullele sub city

Source: Gullele sub city urban plan and information preparation office

### 3.2 Research Methodology

This study employed both quantitative and qualitative methodology. In order to come up with more rich and comprehensive information, both first hand and secondary sources of data were consulted. The rationale for the integrated approach is due to the fact that understanding the affairs of the sector demands multifaceted approaches. Since MSEs sector operators are formally registered and their numbers are somehow known, systematic sampling technique was employed to get a better response from respondents taking their list from the Gullele sub city of MSEs team office.

The research has a cross-sectional study design. Such a design is preferred because of the limitations in material resource and time available for the research. With regard to the nature of investigation it employed a post-test research design, that baseline data on the conditions of the respondents was not collected prior to the intervention specifically for the purpose of this study. The baseline data were collected after the intervention was already implemented. It was collected from program participants through questionnaire, in-depth interviews, and key informants interviews.

The study tried to assess the performance of MSEs and their role in enhancing the local economy in Gullele sub city of Addis Ababa.

### **3.2.1 Sampling techniques**

#### **3.2.1.1 Sampling Frame**

To select a sample for the study, sampling frame is required for selection of different sampling units. Since one of the characteristics of MSEs Sectors are having registration and the exact number of operators is somehow known. The researcher follows systematic sampling method and purposive sampling technique for primary data collection. The researcher employed systematic sampling from construction, textile, food and beverage and woodworks sectors. These sectors were selected with the consultation of the wereda officials and data obtained from the organizational profile of different enterprises operating in the sub city. The wereda officials told the researcher and the researcher analyzed from the data that these sectors have ample experience on micro and small enterprise activities and majority dwellers are engaged in these sub-sectors. The sample survey also shows that most operators working in micro and small enterprises are engaged in these sub sectors and have different manifestations. The list of weredas with the corresponding number of enterprises and the list of individuals working in the selected weredas was the sampling frame. Initially four weredas were purposely selected from the sub city considering number of enterprises, the number of individuals who are engaged in MSEs in the selected wereda and weredas which are not adjacent in their location to get necessary information from different corner of the sub city. Therefore, four weredas selected namely wereda 1, wereda 3, wereda 7 and wereda 9.

#### **3.2.1.2 Sample size**

The study population was composed of MSEs operators in the 25 enterprises working in construction, Textile, Food and beverage and wood and metal works operating in the sub city. Probability sampling technique of systematic sampling method was applied for selection of operators for data gathering through questionnaire. The total number of the respondent for questionnaire selected in the following ways:

**Table 3.2: Number of sample population**

Wereda	No. of Enterprises	Population	Sample population	sample population of the field			
				Construction	Textile	Food and beverage	Woodworks
1	75	1147	67	17	45	4	1
3	47	467	27	7	12	3	5
7	75	384	22	9	1	11	1
9	19	238	15	9	2	1	3
Total	216	2236	131	42	60	19	10

The total population for the sample size was determined with consideration of representativeness. In consideration of representativeness at first, the sample size was determined using the formula below adopted from Cohen (as cited in Belayneh, 2005).

$$a) \text{ No} = \frac{z^2 pq}{d^2}$$

$$b) n = \frac{\text{No}}{1 + \frac{\text{No}-1}{N}}$$

N

Where: No- desired sample size when population size is > 10,000

n- desired sample size when population size is < 10,000

z- value of standard score at a desired confidence limit (in this case 95% i.e. 1.96)

p- intended proportion of the population to be included in the sample(0.1 in this case

q- 1-p (0.9 in this case)

N- size of total population

d- error margin (0.05 in this case)

Using the above formula the sample size was determined as approximately 131 at first. In second consideration of the cost of data collection, processing, and analysis; given limitations in available time and material resources the sample size was settled to be 131. Such determination was made to reconcile manageability with representativeness. From the totality of 2236 operators in the frame, a sample of 131 operators is systematically selected using the

above formula. Moreover, out of 216 MSEs in the study area 25 enterprise representatives were purposively selected.

Information gathered through questionnaire may not answer all necessary evidence on micro and small enterprises in the study area. The researcher develops interview and case studies to get more facts about the study. Interview was designed for officials from the sub city and case study was developed for operators who are working currently and have better knowledge in the study area. During conducting interview, the researcher purposively selects the interviewee because having experience and knowledge in the area helps to understand the problem and development in the area. In case studies, the researcher also applies purposive sampling from the operators who have a long time experience and closely working in MSEs.

### **3.2.2 Data Source and Collection Procedure**

#### **3.2.2.1 Primary Data collection techniques**

##### **3.2.2.1.1 Questionnaire**

The study employed quantitative methods as an important means of generating the required primary information from the field. The quantitative method was functional through administrating a household based survey using a standardized questionnaire. The questionnaire contains questions or variables that discusses the level of education, some demographic and social characteristics such as age, household size, types of occupation, the employment status and source and amount of both initial and current capital of the business, major problems and assistance that the operators needed from the government in the area of MSEs operation and the like. In order to collect the necessary information (responses), both closed and open ended questions was developed and incorporated in the questionnaire. The questionnaire was designed in English language and has been administered to respondents in a face to face interview.

##### **3.2.2.1.2 In-depth interview**

An in-depth interview was held among purposively selected members or operators of the MSE sector and government officials from different offices and authorities to identify their views, characteristics and ascertain the contribution of MSEs for local economic development. Furthermore, during the interview session, an interview protocols or checklist was set forth to track and channel the interviews to the point of discussion.

#### **3.2.2.1.3 Case Study**

Case study method is among the viable qualitative strategies in understanding scenarios at micro-level. In the context of this study, a simple narrative case of the individuals who have solid experiences of engaging in MSEs was investigated to bestow knowledge and reconcile possible discrepancies in the research. In doing so, since the individuals may not have blue print document that tells the story, personal interview techniques was put forwarded to ease flexibility and the flow of information.

#### **3.2.2.1.4 Observation**

The other data collection method that was considered during the study was field observation. It was used because the researcher can get the chance to see the problem in reality. Hence, observation was under taken while respondents were doing their activities and to examine how they can manage their resources.

#### **3.2.2.2 Secondary Data Collection Techniques**

As long as the type of data required for the study is both primary and secondary in its nature, a growing body of literature, such as journal articles, working papers and other relevant works on the stipulated research problem was consulted primarily via internet sources. It is worth noting however that CSA data such as, year 2009 employment and unemployment survey and 2006 labor market survey and also the micro and small enterprise development strategy and other related written reports have been used vehemently throughout the course of analysis and interpretation of the study.

#### **3.2.3 Method of Data Analysis**

The data analysis was undertaken right after the data collection from the field. A tabulation plan was developed during the course of the study so as to enable the researcher to investigate the role of MSEs in local economic development and speed up the process of analysis. In the study, statistical tools such as mean, mode, ratio, and percentage was employed to analyze the data that has been collected from questionnaire and interviews.

### **3.3 Significance of the study**

Information which is gathered and analyzed in this study provides empirical findings on the role of MSEs for enhancing local economic development. The findings of this study are believed to show the relationship that exists between the operators involved in MSEs and their socioeconomic characteristics. Other researchers who might be interested to conduct further study on similar study on similar subjects may also use it. Moreover, the findings of the study may serve as a source of information for persons who need to know about the relationship between types of occupation do, and the relative amount of income they generate as they participate in the MSEs. Moreover, the results obtained from this study may serve as a benchmark for policy making, evaluation and for developing strategies that address the issues of MSEs sector in local economic development.

### **3.4 Scope and limitation of the study**

Local economic development and MSEs are multi-dimensional and dynamic concepts which are the interaction of various forces. The dynamic and complex nature of the sector requires subsequent research so as to clearly understand the role and challenges the MSEs operators face in this sector of the economy. This study may not be inclusive enough to encompass all variables related to MSEs and LED.

The study is limited to individuals operating MSEs activities or establishments in four wereda found in Gulelle sub city. Moreover, due to limited human, financial and material capital, the study was restricted to a limited number of individual operators who are participating in the informal sector activities during the survey period.

### **3.5 Organization of the study**

The report of the research is organized in five chapters as major parts. Up until here the first chapter has introduced the research. The second chapter is concerned with review of relevant literature. Under the second chapter theoretical literature review and review of previous works on empirical matters of the subject area by other researchers is included. The third chapter first describes the study area and methodology for conducting the research. The fourth chapter focuses on characteristics of the study sample; and then presents the data, the major findings and discussion of this research. The fifth chapter draws conclusions and proposes some recommendations.

## CHAPTER FOUR

### Data Analysis and Interpretation

The following section of this chapter presents the result and discusses on findings of the performance and role of MSEs in local economic development.

#### 4.1 Demographic characteristics of the respondents and overview of MSEs in the study area

Sex, age, marital status, and education are among the most important demographic variables that can characterize MSEs operators. As far as sex of the respondents is concerned, a result indicates that there is low proportion of women compared to men in the MSEs. The research done by Alemakef (2010) in the sub city also reveals the same result. In the sub city the proportion of men in MSEs covers 62.6% and women constitute only 37.4%, demonstrating that there is a clearly observable gender gap (Table 4.1). There are some constraints for this variation such as cultural norms regarding ‘appropriate’ works of men and women.

Most of (67.7%) the operators belong to the age group between 15-45 years suggesting that they are in the productive age category. About 21 % are found in the age group of 15-24 years, the age group from 25-45 constitutes 45.8% of the total respondent, and the remaining 25.95% are found in the age group of 46-65 years. The results also show that MSEs in the study area are creating a fertile ground mostly for the youth and adults by providing employment opportunities.

**Table 4.1 Age of the respondent**

Sex	Age					Total	Percent
	Below 15	15-24	25-45	46-65	Above 65		
Male	0	16	39	22	5	82	62.6
Female	0	12	21	12	4	49	37.4
Total	0	28	60	34	9	131	<b>100</b>

Source: - Own field survey, 2012

The marital status of the operators shows that 46.56% of the respondents are single and 51.14%, 1.53%, and 0.76% of them are married, divorced, and widowed, respectively. Married households are, therefore, mostly engaged in the MSEs than others. This could be due to the fact that married people have pressure and responsibility to earn income than unmarried ones. The proportion of widowed and divorced individuals is also not that large in the demography of the sub-city.

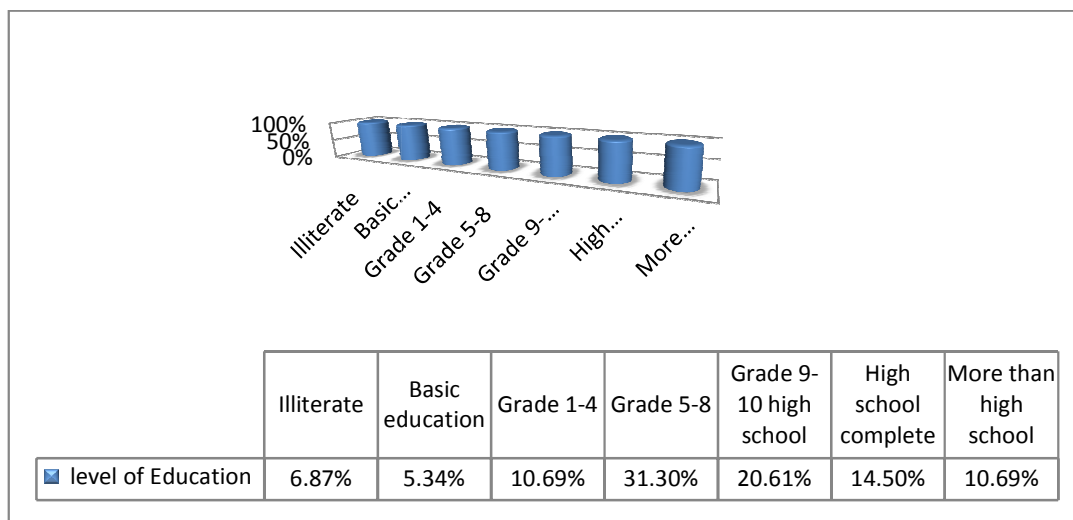
**Table: 4.2 Marital status of the Respondents**

<b>Marital status</b>	<b>Frequency</b>	<b>Percent</b>
Single	61	46.56
Married	67	51.14
Divorced	2	1.53
Widowed	1	0.76
Total	131	100

Source: - Field survey 2012

For enhancing the productivity of MSEs, education and skills are important. Respondents were asked whether they have attended formal education or not. While, 93.13% of the respondents have attended formal education; only 6.87% did not attend any formal education.

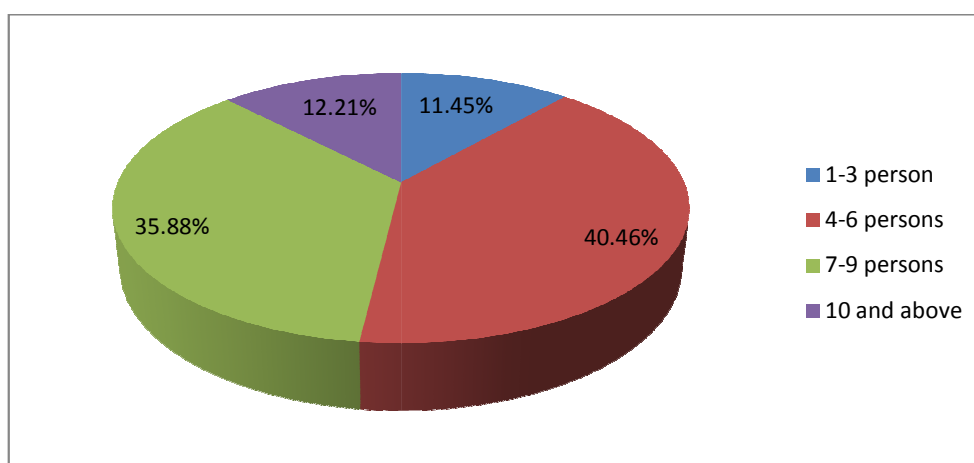
Therefore, the lion's shares of respondents have attended formal education but their level of achievement is relatively low. About 5.34% got basic education, 10.69% attended the first cycle (Grade 1-4) of formal education. Most of the operators (31.3%) attended primary education (Grade 5-8), 20.61% grade 9-10, and 19 respondents, 14.5% constitute of the total respondents complete high school. Only 10.69% of the operators are more than high school or have a certificate and above. Figure 4.1 shows that the level of education of the respondents.



**Figure 4.1: Level of education**

Source: - Field survey 2012

The number of individuals living with household and generate income from MSEs indicates the living standard of the family. As indicated in Figure 4.2 most of the operators in MSEs have family size of more than one person. About 11.45% of respondents have a family size of 1-3 persons, 40.46% of the respondents have a family size of between 4-6 persons and the rest 35.88% and 12.21% have a family size between 7-9 and above 10 persons respectively. The phenomenon of MSE to carry such large family is a remarkable achievement in the sub-city. As long as family integrity is concerned, this result shows that MSE have a great role to play in the Ethiopian society in general the Gullele sub-city in particular.



**Figure 4.2: family size**

Source: - Field survey (2012)

## 4.2 Training and skills to perform Micro and Small Enterprise activities

Training is very important to enhance the skills and capacities of operators in the MSEs to produce and provide better services and products. Ryan (2005), linked individual's duration and quality of education with human capital, that will lead to greater productive capacity. Therefore, training or education is expected to improve the capacity of individuals so as to respond to better incentives and use the market effectively. According to Mullat and Wolday (1997), training comprises various aspects: formal, technical, and vocational training for various individuals who left school. Some of these trainings are directly linked with the Micro and Small Enterprises labor force. In general training helps to transfer knowledge, skills, or attitude that enables people to prepare for production activities, or to change their working behavior. There are various training approaches to enhance the productivity of MSEs. They can be categorized in to three: - pre service training, skill upgrading, and assisting disadvantaged areas or groups.

The survey result in this study found out that most of MSEs operators perform their daily activities with very limited formal and informal training given to them. Out of the total respondents, only 57 (43.5%) of them have attended training, while the majorities 74 (56.49%) of the operators did not take any training related to what they are doing. Among the respondents, 47.37% and 52.63% of the operators received formal and informal training respectively. Note that the majority of the respondents replied that they have at least basic education.

**Table 4.3: Vocational or technical skills**

	<b>Type of activities</b>	<b>Formal</b>	<b>Informal</b>	<b>Total</b>	<b>Percentage</b>
1.	Wood works	4	4	8	14.03
2.	Electricity	3	2	5	8.77
3.	Metal works	2	2	4	7.01
4.	Auto mechanical work	3	1	4	7.01
5.	Food processing	3	5	8	14.03
6.	Masonry	5	3	8	14.03
7.	Commercial/ marketing	4	7	11	19.3
8.	Tailoring	1	4	5	8.77
9.	Other	2	2	4	7.07
	<b>Total</b>	<b>27</b>	<b>30</b>	<b>57</b>	<b>100</b>

Source: - Field survey (2012)

From Table 4.3, it is possible to conclude that most MSEs operators in the study area have received limited training to enhance their skills.

Operators were asked during interview how trainings have been provided for them from governmental and non-governmental institutes. They responded that formal and non-formal trainings designed to the operators do not directly target low level skilled operators. Most of them complained that, trainings are often given for the leaders of each enterprise. Moreover, the respondents indicated that some trainings designed by governmental or non-governmental organizations were not related to the actual situation of entrepreneurs. Please see the inset how a key informant woman substantiates this part.

“Nebiyat started Micro and Small Enterprise three years after she failed to continue her regular education. She had some experience on fast food preparation at home that encouraged her to join food and beverage sub-sector with her close friends. They have seven members and were working in a premise provided to them as they could not afford to rent. She said that, she did not get any training in the area of her preference and working condition. The sub-city sometimes prepares short term trainings for entrepreneurs and calls them to participate but mostly their leaders participate in such training with a pretext not to interrupt the member from their regular work. However, Nebiyat states that “If we get an opportunity to involve in a training that goes with my preference and job related, we will achieve better result and enhance our income through time”

### **4.3 Types and ownership of enterprises**

As shown in Table 4.4, wood and metal works (32%) and construction (36%) seems to be a preferred type of business in the study area. This can be an indicative of the fact that such enterprises are selected for the construction of housing development in the sub city. Virtually all the construction, wood work and metal works in the sample are owned by co-operatives which constitute 32% for wood work and metal work and 36% for construction. Whereas 4 (16%) of textile enterprise and 1 (4%) of food processing enterprises owned by cooperatives. In general 20 (80%) of enterprises in the study area categorized under co-operative and 5 (20%) of enterprises in the study area classified under partnership enterprises types.

The motive behind the high co-operative ownership rate in the study area might be attributed to the fact that government officials have put a precondition for the associations to be formed

to get the necessary support from them. Moreover, the idea is also to create a market linkage with the housing development agency (HDA). This fact was evident at the time of data collection where some of the operators could only fulfill part of the precondition to formally establish as association.

**Table 4.4: Type of ownership of enterprises**

Type of ownership	Type of ownership					
	Partnership		Co-operative		F	%
	F	%	F	%		
Textile	4	16%	1	4%	5	20%
Wood & Metal works	0	0	8	32%	8	32%
Construction materials prod.	0	0	9	36%	9	36%
Food processing	1	4%	2	8%	3	12%
Total	5	20%	20	80%	25	100%

Source: - Field survey (2012)

#### 4.4 Raw materials used and primary sources of inputs

The sector engages more labor and local raw materials more intensively than other sectors. The survey result for the type of raw materials used also confirms that most of, (48%) the enterprise uses locally produced raw materials. There are also high numbers (44%) of enterprises that use both locally produced and imported raw materials for their production and limited number (8%) of the enterprises use imported materials only. Locally produced materials are used mostly in textile and food and beverage. Adding values to locally produced materials that is directly in line with government transformation plan. It should be further encouraged to be replaced in all sectors to achieve self-sustenance in production of goods and services by MSEs

More than three quarters of the enterprises uses small retailer as their source of inputs. All textile and food and beverage MSEs get their input from smaller enterprises. Government projects also contribute as an inputs and score 12% of the total input demand of the enterprises. Only the construction sub-sector uses wholesalers for their inputs. This result

indicates that horizontal transaction is a common relationship between small businesses with low level of linkage with larger enterprises.

**Table 4.5: Raw materials used and primary sources of inputs**

		Textile		Metal and wood work		Construction		Food and beverage		Total	
		f	%	f	%	f	%	f	%	f	%
Type of materials used	Locally produced raw materials	3	12	3	12	4	16	2	8	12	48
	Imported raw materials	0	0	1	4	1	4	0	0	2	8
	Both	2	8	4	16	4	16	1	4	11	44
	Total	5	20	8	32	9	36	3	12	28	100
Primary source of inputs	Wholesalers/large retailers	0	0	0	0	1	4	0	0	1	4
	Large producers	0	0	1	4	1	4	0	0	2	8
	Smaller and same size retailer	5	12	6	24	5	20	3	12	19	76
	Gov. projects	0	0	1	4	2	8	0	0	3	12
	Total	5	20	8	32	9	36	3	12	25	100

Source: - Field survey (2012)

#### 4.6 Principal customer of micro and small enterprises

The output of the enterprises need potential customer for the development of the enterprises. As all businesses the MSEs also have a targeted market or sometimes very specific market niche. There is good understanding that having a good and reliable (potential) customer will make enterprises to be more productive and profitable and the operators motivated to produce more. Table 4.6, shows the principal customer of the enterprises. Accordingly, government project namely Housing Development agency (HDA) has been targeted as the major customer especially in the construction sub-sector. To date the HDA appears to be a reliable customer for one or more reasons that this research is not investigating through.

**Table 4.6: Principal customer of micro and small enterprises**

Types of Customers	Textile		Metal and wood work		Construction		Food and beverage		Total	
	f	%	F	%	f	%	F	%	f	%
Gov. projects	0	0	5	20	6	24	0	0	11	44
Wholesalers/large retailers	0	0	0	0	0	0	0	0	0	0
Large producers	0	0	1	4	1	4	0	0	2	8
Small & same size retailer	3	12	0	0	0	0	2	8	5	20
Small & same size producers	0	0	1	4	1	4	0	0	2	8
Private users	2	4	1	4	1	4	1	4	5	20
Total	5	12	8	32	9	36	3	12	25	100

Source: - Field survey (2012)

## 4.2 Performance assessment of MSEs

### 4.2.1 Initial and Current capital of the enterprises

Defining the size of enterprises is very important to understand their underlying problem. Based on the definition of the new strategy the results from the survey shows that, most of the enterprises (68%) have initial capital below 100,000 ETB. More importantly 24% of the enterprises have an initial capital of less than 25,000 birr. The percentage is higher in food processing and textile sub-sector because such enterprises use less initial capital and use labor intensive technologies instead. Compared to Textile (20%) and food processing (12%), wood work and metal works have higher initial capitals. For Example 75% of wood and metal work enterprises and 88.9% of the construction sub-sector in the study area have an initial capital of more than 25,000 birr. This implies that starting wood work and metal work MSEs need higher initial capital compared to other enterprises.

**Table 4.7: Initial capital of selected enterprises**

Initial Capital in Birr	Type of Enterprises								Total	
	Textile		Wood work		Construction		Food processing		F	%
	F	%	F	%	f	%	F	%		
< 25,000	1	20%	2	25%	1	11.1%	2	66.7%	6	24%
25,000-50,249	0	0%	1	12.5%	0	0%	1	33.3%	2	8%
50,250-75,249	2	40%	1	12.5%	3	33.3%	0	0%	6	24%
75,250-100,00	1	20%	2	25%	0	0%	0	0%	3	12%
100,001-200,000	0	0%	1	12.5%	4	44.4%	0	0%	5	20%
200,001-300,000	1	20%	0	0%	0	0%	0	0%	1	4%
300,001-400,000	0	0%	1	12.5%	1	11.1%	0	0%	2	8%
400,000-500,000	0	0%	0	0%	0	0%	0	0%	0	0%
More than 500,000	0	0%	0	0%	0	0%	0	0%	0	0%
Total	5	100%	8	100%	9	100%	3	100%	25	100%

Source: - Field survey (2012)

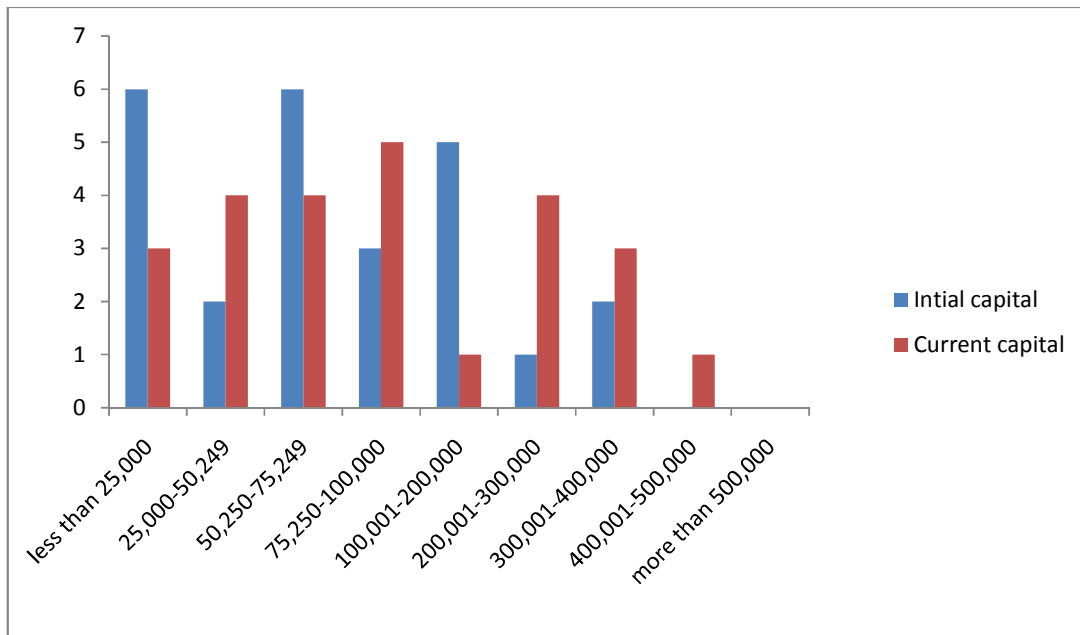
In order to understand the periodical growth of MSEs, it was necessary to inquire the initial and current capital of enterprises. The following (Table 4.8) demonstrates the magnitude and direction of capital growth.

**Table 4.8: Current capital of selected enterprises**

Total Capital	Type of enterprises								Total	
	Textile		Metal and wood work		construction		Food and beverage		F	%
	f	%		%	f	%	f	%		
< 25,000	0	0	1	12.5	1	11.11	1	33.3	3	12
25,000-50,249	1	20	0	0	2	22.22	1	33.3	4	16
50,250 – 75,249	0	0	2	25	1	11.11	1	33.3	4	16
75,250 – 100,000	0	0	2	25	3	33.33	0	0	5	20
100,001 – 200,000	0	0	1	12.5	0	0	0	0	1	4
200,001 – 300,000	2	40	1	12.5	1	11.11	0	0	4	16
300,001 – 400,000	2	40	1	12.5	0	0	0	0	3	12
400,001- 500,000	0	0	0	0	1	11.11	0	0	1	4
More than 500,000	0	0	0	0	0	0	0	0	0	0
Total	5	100	8	100	9	100	3	12	25	100

Source: - Field survey (2012)

that the result shows that there is a positive change in current capital from the initial one. Currently, 88% of enterprises in the study area have a capital of more than Birr 25, 000 which was 76% at the beginning. In terms of enterprises, construction sub-sector and wood and metal work make a substantial increment. Therefore, enterprises show improvement in terms of their current capital. From the above data, we also understand that more enterprises have a capital of between Birr 25,000 – 100,000. Therefore, according to the new micro and small enterprise strategy, most of the enterprises are found at micro level.



**Figure 4.3: Initial and Current capital of micro and small enterprises**

Source: - Field survey (2012)

## Case study 1

### **Giving up from being seasonally unemployed**

A 21 years old young person was interviewed while he was in his working place around Shegole. He completed his vocational education in 2002 E.C. and got a two year diploma from one of the government institution in surveying. Right after he finished his school, life became so difficult because he could not get job immediately. He knew that he did not want to be a burden to his family rather he wanted to support them. In his own word “sayemar yastemarugn welajochen medegef nebere felagote”. To this effect, he searched for vacancy in his technical skill for few months but to no avail and then he lost patience to get a job that fits him as per his wish. Consequently, he started to search other options. One of his friends told him about the cooperative in their own **wereda**. It was his friend's idea that helped him to contact the cooperative.

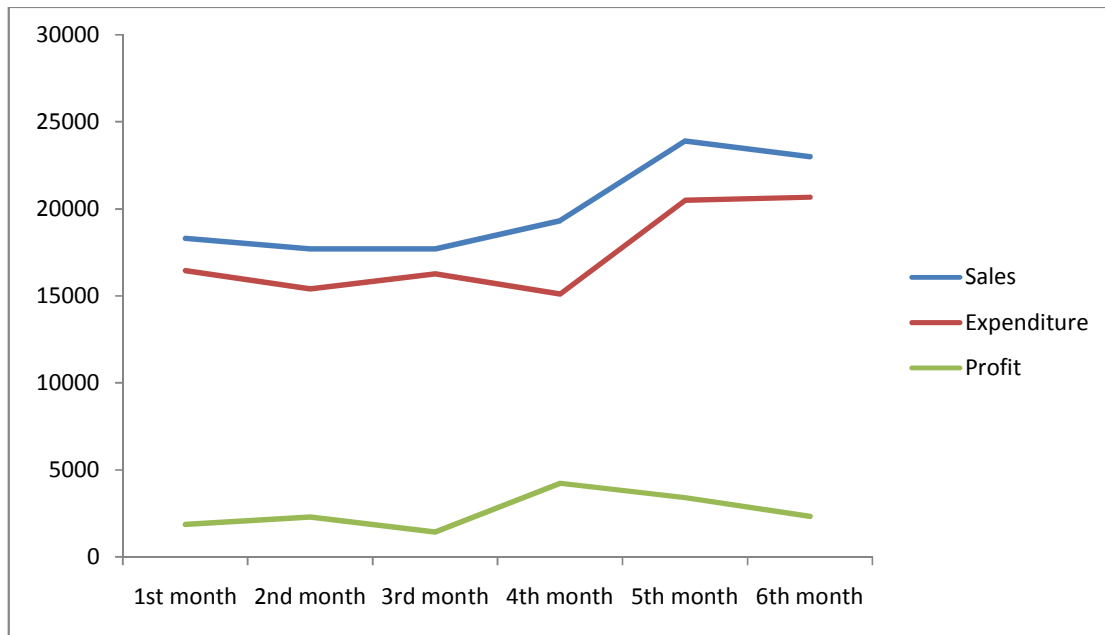
The cooperative members were in need of potential employee and decided to recruit him in a wage base. This condition had been continued for five months with weekly wage of Birr 180. After five months they saw his potential and decided to give him an opportunity to join as a full member. Now, his skill is developed from scratch to a wood work designer and hoping to develop it further.

When he compares his life before starting the job, it was very difficult for him to depend on his family to provide him everything even transportation cost to go to school. However, now he has his own income amounting to 400 Birr per week and it satisfies his basic needs.

### **4.2.2 Performance in terms of Profit of the MSEs from the Business**

The prime objective of Micro and Small Enterprises scheme is to enhance the living conditions of the operators through the profits they earn. Researchers like Geetha (2008), asserted that one contribution of MSEs is enhancing the living conditions of the households. The information gathered from the enterprises shows that profit is diversified throughout enterprises and professions. The summary of average enterprises sales, expense and profit/loss for the last six months shows there is variation among the sectors. The following tables show the average mid-year sales, expenditure and profit of the enterprises of each sub-sector separately.

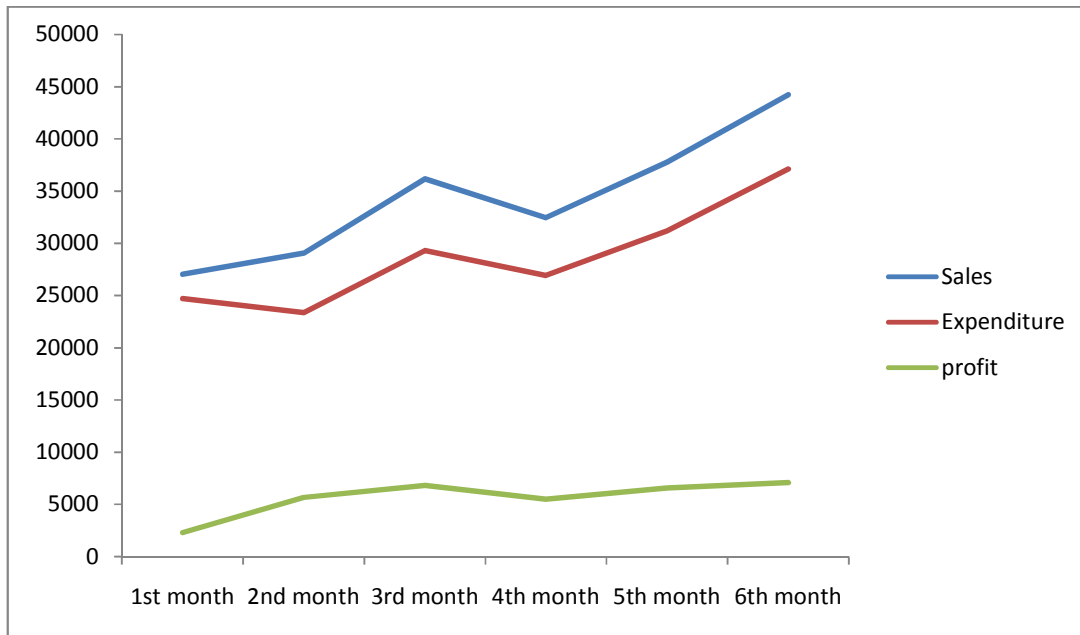
Findings of the study show that sales, expenditure, and profits of the textile sub-sector in the study area show fluctuation. The fourth month is considered to be a pick point for profit that is Birr 4234. This month is probably related to religiously celebrated holydays that households often spend most. But in general, the average sales, expenditure, and profits of the textile enterprises in the study area show encouragement. The overall result indicates that operators working in this sub-sector are generating income that helps to enhance local economic development in the study area.



**Figure 4.4: Average sales, expenditure, and profit of textile sub sector**

Source: Field survey (2012)

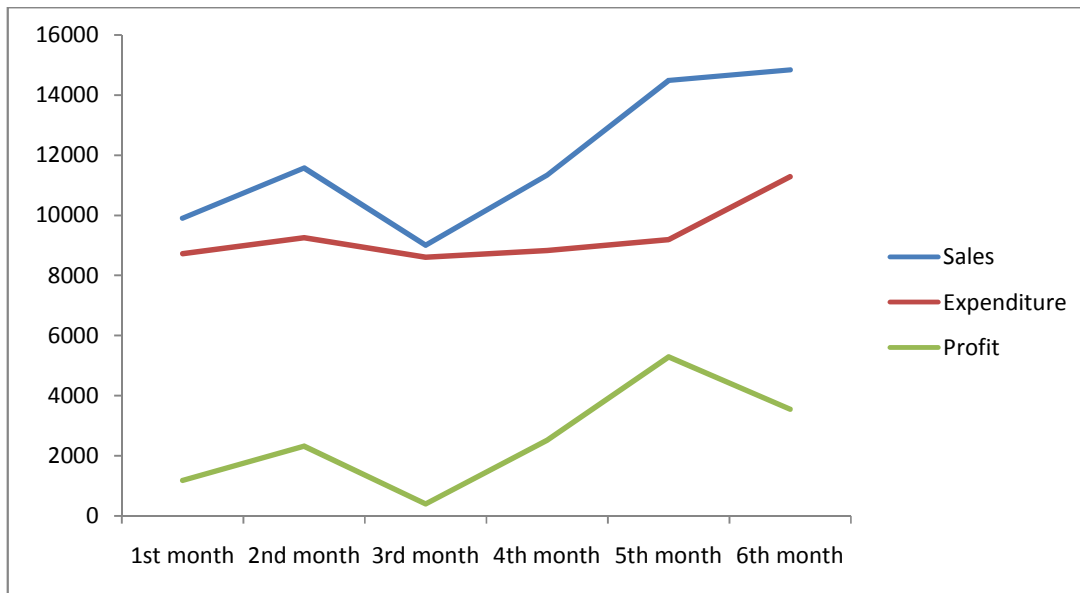
The construction sub-sector in the sub-city have got a great emphasis due to the fact that its labor absorbing capacity is high and serves as an input to the sub-city's housing development agency. The following data shows the average expenditure, sales and profit in this sub-sector depict an increment except on a few months. During data collection, high amount of profit was recorded during the third month. Expenditure also shows a fluctuation in different months of the study period. As respondents said, fluctuation on expenditure was seen due to market price fluctuation in raw materials which have direct influence on the net profit. . The minimum profit recorded during the study period is Birr 2321.1 and maximum profit scored in this sub sector was Birr 7093.3 on average.



**Figure 4.5: Average sales, expenditure, and profit of construction sub sector**

Source: -Field survey (2012)

Results of the analysis in Figure 4.6 portray that average sales, expenditures and profits of food and beverage enterprises in the study area show increment. The maximum profit was recorded during the fifth month and the least profit was shown the third month.



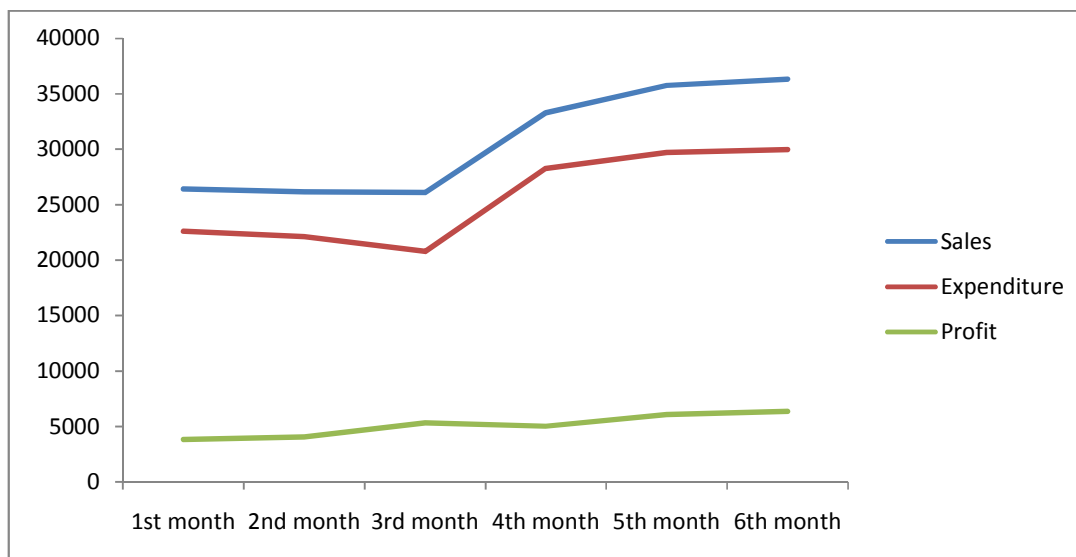
**Figure 4.6: Average sales, expenditure, and profit of food and beverage sub sector**

Source: Field survey (2012)

The food and beverage enterprise in this sub-city is the least performing sub-sector. During data collection, the researcher observed that most of the operators were women working in uncomfortable working conditions. In addition, respondents said appropriate market to their product and lack of commitment among some members hinder them to do further. An old lady working in food and beverage sector was asked about the status of the business and responded in the following way, which may help us to understand the issue better.

W/o Askale, one of Micro Enterprise entrepreneur said “our enterprise is consisting of 9 women mainly organized to produce and sale ‘Enjera’ to local communities. The business idea was from the woreda administrative bodies. Besides, they provide us working premise and facilitate a loan from Addis micro finance institute. At the start of the business, some of our members took a training, some of whom later quit the business. The major difficulty at the moment is finding appropriate market to our produced ‘Enjera’. As you can see most of these members are not educated and are not capable of searching potential market. Moreover, leaders of the members are not coming regularly and the representative from the woreda always gives us hope but we did not get solution to our problem yet”.

Wood and metal works is the other better performing sub-sector next to construction. This sector is also relatively labor intensive. The sales and expenditure decreased for the first three months and started to increase the remaining three months during the data collection period. However, in all months its profit has been increasing except in one month. The minimum profit was Birr 3810 in the first month and maximum profit was Birr 6336.25 in the last month.



**Figure 4.7: Average sales, expenditure, and profit of wood and metal works sub sector**

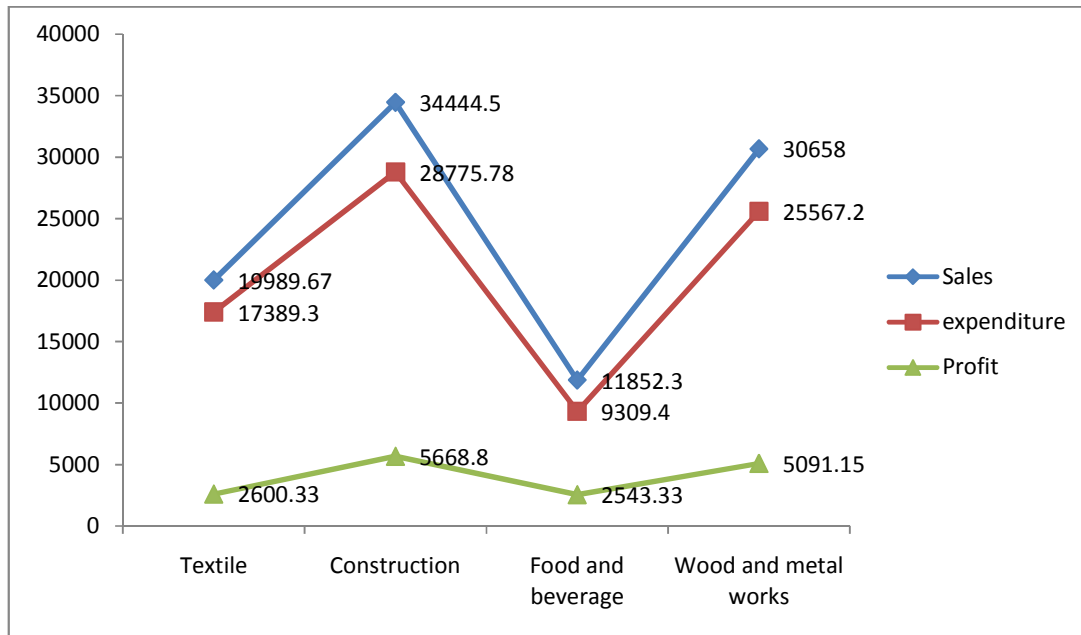
Source: Field survey (2012)

It can be seen in Figure 4.8 that each sector has different financial status. The total sales of the enterprises increase gradually except in few months. All the enterprises sales was Birr 81,640 during the first month of the activity and it increased through time and reached Birr 118,368, with roughly 45% increment at the end of the sixth month. The highest sales recorded at the end of the six month was in the construction sub-sector, which was Birr 44,222.22 and the lowest sales was recorded from food and beverage sub-sector at the third month. During interview with the representative of the enterprises, it was observed that, the construction sub-sector has high amount of sales because the inputs used usually have high cost compared with other sub-sectors.

Similar results are also recorded regarding expenditure. The highest expenditure (Birr 37,128.9) was recorded from the construction sub-sector and the lowest expenditure was recorded from food and beverage sub-sector at the third month. On average the highest profit (Birr 7,093.33) was recorded in the construction sub-sector at the six month and the minimum profit (400 birr) was also recorded from food and beverage sub-sector at the third month.

These findings support the information obtained from officials and representatives of the enterprises. They mentioned that highest sales, expenditures, and profits were recorded in the construction sub-sector because of many reasons. The construction sub-sector needs highest capital to run. Besides, the inputs used to manufacture, which is a production cost, needs high

amounts of cash. Huge amount of labor force together with the support of the government for the promotion of the sub-sector makes high amount of sales, expenditure, and profit.



**Figure 4.8: Financial status of selected MSEs**

Source: Field survey (2012)

In terms of sector record, from Figure 4.8, we can understand that on average, the construction and wood and metal works have bigger amount of sales and expenditure compared to the textile and food and beverage sub-sector. The highest amount of sales (Birr 34,444.5) recorded from the construction sub-sector followed by metal and wood work (Birr 30,658) in average for the past six months. Those who have scored the highest sales also score the highest expenditure. The construction and wood and metal works sub-sectors spent (Birr 28,775.78) and (Birr 25,567.2) respectively and it considered as the highest expenditure while Textile and food and beverage sub-sector score the least amount during data collection period.

Similar to expenditure and sales, the construction sub-sector has got the highest profit in the mid- year results compared to the other sub-sectors. Next to construction sub-sector, Metal and wood work sub-sector score the second highest profit. The least amounts of profits scored from food and beverage sub-sector.

During interview with officials and representatives of the enterprises, there is a high amount of labor force and money flow from the construction and metal and wood work sub-sectors that justifies the highest sales and expenditure scored compared with the other sub-sector. The highest profit achieved from the construction sub-sector, as representatives and officials explained, is because the study area has a well-known market linkage compared to other sub-sectors.

#### 4.2.4 Performance in terms of Employment Opportunity

Employment creation is one of the target areas in which the government and policy makers focus for the establishments of MSEs. Creating employment for those poor people can improve their living conditions and enhance the local economy in different ways. Helmsing (2003) cited in Tegegne(2011) has explained LED is the central aim of local development in creating or expanding job opportunities available for local people. Amongst the objectives of the government of Ethiopia in its MSEs development policy, creating ample job opportunities for those who are unemployed work force in different parts of the country is one. Several studies also show that there are a number of job creation opportunities in Addis Ababa through MSEs so that the operator's life condition would be improved through time, though different supporting mechanisms are needed. In this case, the role of MSEs in creating employment opportunity to selected respondents' member of the enterprise and additional workers are discussed below.

**Table 4.9: Role of MSEs on self- employment of the operators**

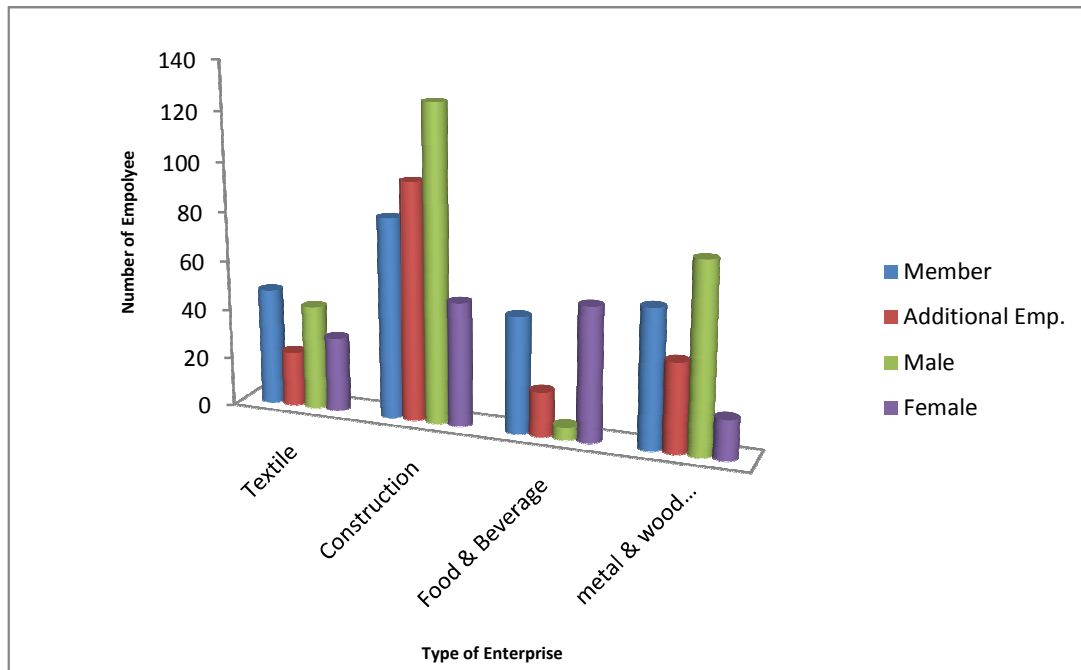
<b>Out of the total 131 respondents</b>	<b>Frequency</b>	<b>Percentage</b>
Respondents who had permanent employment before MSEs	42	32%
Respondents who have permanent employment after MSEs	117	89.3%
Gross increase after operation	75	57.25%
Amount of increase attributable to MSEs operation	71	54.2%
Amount of increase not attributable to MSEs operation	4	3.05%

Source: Field survey, 2012

Only 32% of the respondents had permanent employment before they joined the MSEs, and the rest 68% had no permanent employment. After joining the MSEs 89.3% of the respondents reported to be permanently employed, while 10.7% of them remain not to have

permanent employment. This shows that 57.25% of the respondents who were not permanently employed before they joined MSEs have got permanent employment after they started to participate in MSEs. Four respondents (3.05%) who did not have permanent employment before MSEs, but currently permanently employed, got the employment opportunity in institutions other than the one created through MSEs. This indicates that MSEs have created self-employment opportunity for 54.2% of the respondents in the study area.

In terms of enterprises, representatives were asked about the conditions of employment opportunities in their enterprises. Most of the enterprises responded that their employment creation potential is improving through time, though the pace is not as expected. In the 25 study enterprises, 225 employment opportunities have been created permanently for those who are members of the enterprises in the study period. Majority of jobs are created for men group and women still lag behind. Among 225 job opportunities for members of the enterprises, 59.11% of jobs are occupied by men and the rest 40.89% is by women entrepreneurs.



**Figure 4.9: Employment in terms of sector and sex**

Source: - Field survey (2012)

Analyzing the result shows that in terms of enterprises, most of the jobs are created from construction sub-sector which constitutes 44.58% from total new jobs. Wood and metal

works (23.41%) and Textile (17.38%) are also other job creation areas for those who are unemployed before. All food and beverage sub-sectors in the study area create a job for those who are women and members of the enterprises which is 23.41%.

MSEs also create permanent and temporary jobs for non-members of the local communities. The study reveals that 54 permanent and 118 non-permanent jobs are created for those non-members of the enterprises in the study periods. From the total employment created for local community who are not members, the construction enterprises constitute a lion share (55.81%) of employment creation. Wood and metal work follows by (20.93%) while Textile and Food and beverage sub-sector constitute 12.79% and 10.46% respectively.

Concerning non-permanent job creation, construction sub-sector constitutes a lion's share in job creation while male dominate in having employment opportunity. From the total job created for non-members temporarily, men constitute 68.64% and women constitute 31.36% of the total non-permanent job created. As to the sub-sector temporary employment creation, the construction sub-sector creates for 74 individuals who are not members of the enterprises.

## **Case Study 2**

### **The boy who sacrifices his education to sustain his mother's life**

Dawit was born in Addis Ababa around shiromeda, as the second son for his mother. He said that his mother takes sole responsibility to fulfill the family's livelihood. The source of income for the family was petty trading on the street. The worst time came to the family when his mother became seriously ill. This happened before two years when he was a grade seven student and his elder brother, grade twelve. During this critical time, the family used what their mother saved earlier for their daily needs. Eventually the situation got worse from bad. It was at this time that Dawit wanted to provide his family with additional income.

As he said in his own words: "I decided to quit my education even though my elder brother was the one responsible to replace my mother's position. It wasn't the right time for him to do that because he was in grade 12. I quit my schooling and joined one of the cooperative that is participating in micro and small enterprise specifically engaged in the wood work and metal work as an errand boy."

He admitted that it wasn't easy to find a job which made him capable to support his family in a short period of time. To his luck a person who is their neighbor supported him to join the already existing micro and small enterprise as a paid worker.

In the cooperative, he worked as a messenger for few months and then he became a member. Currently as assistance, he can be able to generate a weekly income of 150 Birr. Though, he quit his school, he has got a skill that helped him support his family. When he recalls that time, had he not secured this opportunity, his mother might have died due to lack of finance needed to follow up her medicine and moreover, his brother wouldn't be able to finish his education.

Now he is serving the cooperative as an assistance machinist and wants to upgrade his skill till he masters the skill. Then he has a plan in mind to start a business with his friend Abdu, who is also in their coop. In order to do that, as he said, they've already started saving. And also he has a plan to continue his education come next year in the evening session.

### **4.3 Contribution of MSEs for economic improvement of the operators**

Poverty can be said to exist in a given society when one or more persons do not attain a level of material wellbeing deemed to constitute a reasonable minimum by the standard of that poverty (Getachew, 2009). Micro and small enterprises help low income or marginalized people in the economy to improve their and their household's income, improve enterprise management and increase their productivity for local economic development. These effects were evident from a number of impact studies of the activities of the enterprises. Similarly, this study identified the impact of micro and small enterprises activities on income, employment creation, asset creation, food consumption, education expenditure, health expenditure and saving as discussed below.

#### **4.3.1 The role of MSEs for enhancing income generation**

The 2003 International labor conference stated that poor people need to be entrepreneurial to raise the income needed to survive. Moreover one of the eighths ILO's poverty reducing activities related to micro and small enterprises is ensuring their income (ILO 2003).

Micro and small enterprises fulfill a critical function from an economic and social perspective in that they create income earning opportunities for a large number of low income individuals. It has provided jobs to many people who would have been unemployed

otherwise. It also improves their capabilities and incomes for the operators and enhances the local economy. However, the process of generating jobs and income in this sector remains inefficient and majority of the operators are to be found in MSEs.

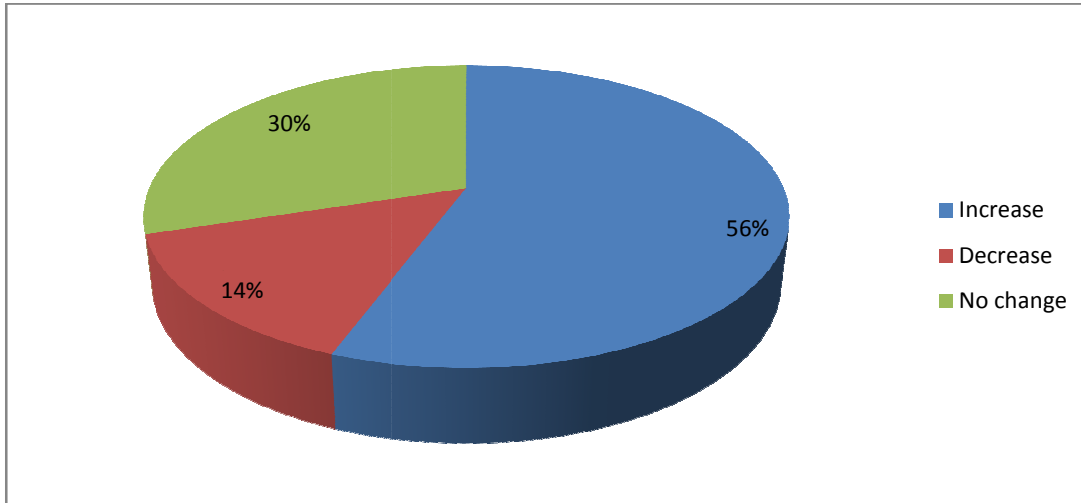
**Table 4.10 Monthly incomes of MSEs operators**

Type of enterprises	Monthly income	
	Min	Max
Food and beverage	500	1850
Construction	650	3100
Textile	500	1000
Wood and metal works	850	2100

Source: Field survey (2012)

According to the result obtained in this study, the maximum amount of monthly income generated from the enterprises is Birr 3100.00 which is from the construction sub-sector. The minimum monthly income that is coming from the food and beverage sub-sector, Birr500.00 is the lowest monthly income of the operators. The data also shows that the operators have got Birr 966.42 per month in average for all enterprises of the survey in the study area.

The survey result reveals that the income condition of MSEs operators shows an increment compared to their previous income. Thus, about 55.7% responded that their income condition has increased compared to the same time one year ago. While only 14.5% responded that their income has decreased, the remaining 29.8% said that there is no change in income of the household in comparison to last year (Figure 4.10).

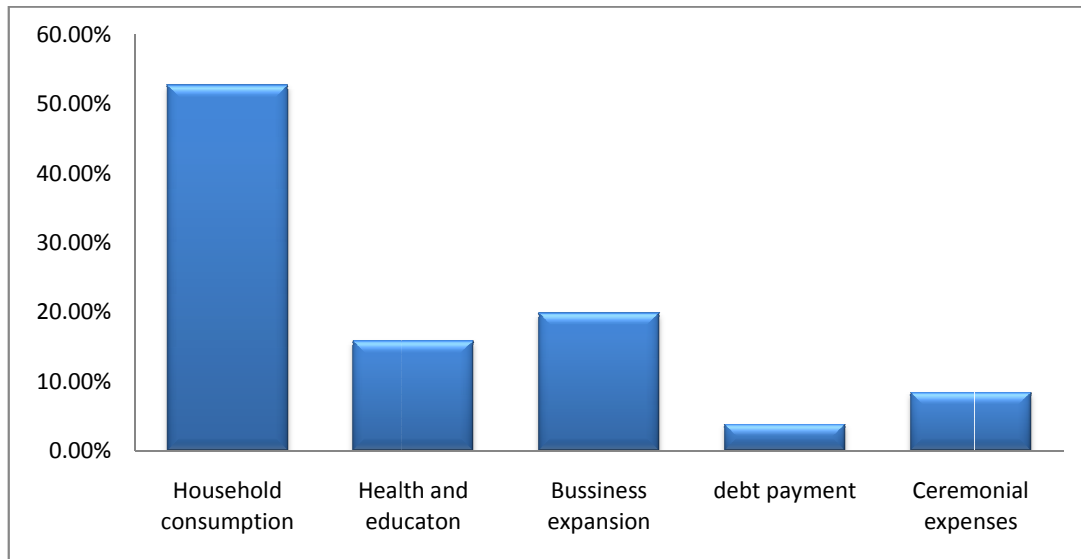


**Figure 4.10: Income conditions of operators**

Source: - Field survey (2012)

Attempts were made to investigate the level of importance of the use of the income from MSEs activities or establishments. Accordingly, the survey result reveals that most MSEs operators use their income from the business for household consumption (52.67%). Expanding their business is the second major choice of the respondent and it constitutes 19.85% of the total respondents. Health and education (15.27%) is the third largest expenditure for the household.

Berner (2003), states that one of the first things that the poor do with new income from micro enterprises is to invest it in their children's education. About 19.85% of the MSEs operators utilize income from their enterprises for expanding their businesses and the rest 8% utilize it for ceremonial activities. Therefore, food and nonfood consumption (like education and purchase of household assets) become an important area of expenditure of MSEs operators and it leads the development of the local economy by enhancing local market linkage.



**Figure 4.11 Utilization of income from the business**

Source: - Field survey (2012)

### **Case Study 3**

#### **The strive to independence**

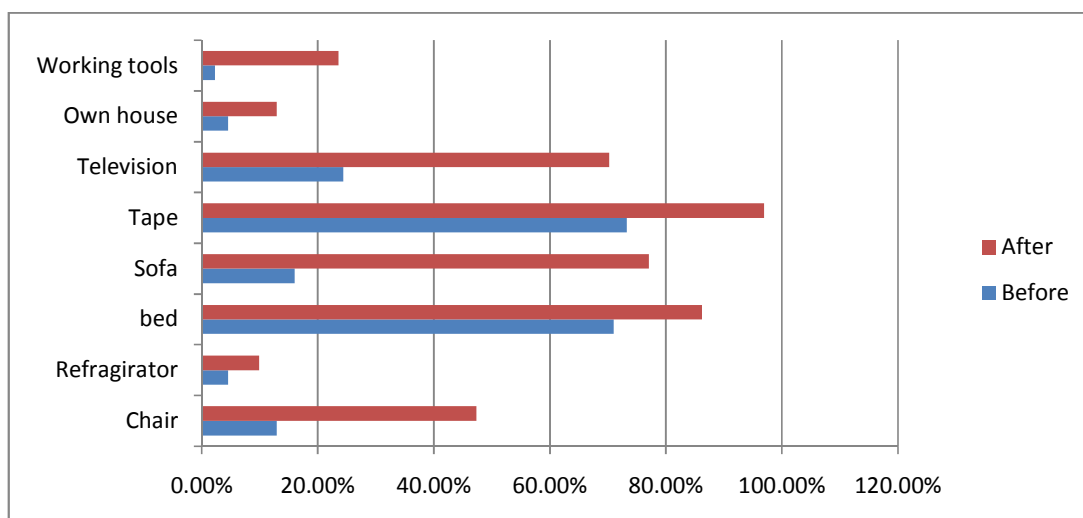
Yeshihareg Fentahun, a 28 years old housewife, living around Adisugebeya, was busy while I arrived at her working place. She was selling fast foods for different people. Yeshihareg is married for more than 10 years, with two children and a husband living in a rented house. For more than half of her marital life, Yeshihareg was a house wife. Her responsibility was mostly on working in the household and looking after their children. Her husband was the only breadwinner of the household working as a street sweeper. A monthly income of 340 birr rarely covers the essential needs of her household. As life was becoming so difficult for the member of this household, she started to work as a servant in different houses. Often she used to work more than 8 hours a day, excluding her daily home chores that made her health condition deteriorated. Yeshihareg claimed 70 Birr per month in the two houses she was offering her service. It was six years ago that when Yeshihareg and her close friends reached on a consensus to establish an enterprise that helped to improve their livelihoods. They went to wereda administration to fulfill the required criteria that paved the way to get the necessary support from the government in order to setup a micro enterprise. The support was in the

form of acquiring working premises and financial loan. Consequently, Yeshihareg and her colleagues established a micro food and beverage enterprise with initial capital of 5000 Birr and started to deliver fast food for local people with affordable price. Currently, that very enterprise has grown to accommodate twelve members, six male and 6 female working as a full time employees. The capital has grown up to 50000 birr and diversified the product with the help of the government support. The loan they got from the woreda has helped them buy different machine and change their production system from manual to mechanical. This enabled them to start supplying a much better quality product to the clients with a reasonable price. Yeshihareg recalls, “I’m very happy to be part of this member. Since, I became part of this cooperative, I started to fetch 700 birr per month sustainably to my family, besides my health condition is becoming better and better. To tell you my current household condition, my husband is able to get his driving license through a 100 birr saving I made, and my two boys are attending their education in a private school paying 340 birr per month for both of them. Moreover I have got the capacity to provide them a verity of food which their friends are usually bringing to school. She said, “God bless relatively I don’t have a worse problem as before” ”.

Lastly to the question I asked, “What do you want to say finally?” Yeshihareg wishes “to get the loan on my own from government as we got in the form of cooperative and have my own similar business so that I create more employment opportunity to those who are unemployed as I had been before”.

#### **4.3.2 Impact of MSEs on Household Asset Holding**

Micro and small enterprises can contribute a number of benefits for those who are working in the sector in many different ways. Among the benefits that the sector provides to the operators, enhancing the household expenditure through time is the major one. Possession of durable household assets such as a shelf, bed, sofa, chair, refrigerator, television, and the likes are regarded as one of the most important indicators of improvement of the household welfare. These variables indicate the utilization of income, and savings to purchase durable assets. The following figure shows some changes on the household asset holding expenditure.



**Figure 4.12: Impacts on asset holding of the household**

Source: Field survey (2012)

Therefore, as indicated in Figure 4.12, very few numbers of the operators have had basic durable household assets prior to their engagement in the MSEs. About 12.98% and 4.58% of the operators had modern chair and refrigerator respectively. In Addition, about 70.99%, and 16.03% of the operators had bed and sofa before joining MSEs. On the other hand 73.28%, 24.43%, and 2.29% of the respondents had tape recorder, television, and working tools. Moreover, very few, 4.58% of the operators had their own house before starting a work in MSEs. However, as shown in the survey result, after the establishment of MSEs, the possession of both durable and non-durable household assets shows a significant change. For example, the percentage of household having durable assets such as chair and refrigerator increased from 12.98% to 47.33% and 4.58% to 9.92% respectively. The possession of modern bed and sofa also increased from 70.99% to 86.26% and 16.03% to 77.10% respectively. From the above result, it is shown that the assets of the household particularly (in having durable assets like modern bed and sofa) showed an increase after the household joined the MSEs. Similarly, 96.95% and 70.22% have tape recorder and television, respectively as compared to 73.28% and 24.43% before the business. Here again, the possession of the above assets increased after the participation in the MSEs. Moreover about 12.98%, and 23.6%, have their own house and working tools respectively. Some household asset like refrigerator has a slight change even after they join the MSEs. This is mainly because this household appliance is relatively considered as luxurious and may not be a priority by the respondents. In contrast, not having this appliances and assets show the living

standard of the MSEs operators. From the above result, it can be possible to conclude that, micro and small enterprises enable the operators to make a significant expenditure on both durable and non-durable household assets. Therefore, once again from the above result, it is possible to conclude that, MSEs sectors in improving the living condition and reducing poverty, is indispensable.

#### 4.3.3 The role of micro and small enterprises in household savings

During the time before respondent joined the MSEs the mean monthly amount of saving by their household was Birr 109.39 with standard deviation of 120.86. After the respondents joined the MSEs, the mean monthly saving amount of their household is Birr 232.21 with standard deviation of 97.49. The difference between these two mean is Birr 122.82.

**Table 4.11: comparison of saving before and after joining MSEs at different amount levels**

Amount of saving per month (in Eth. birr)	Frequency of households before MSEs	Percentage of saving before MSEs	frequency of households after MSEs	Percentage of saving after MSEs
0	43	32.82%	5	3.82%
1-100	45	34.35	18	13.74%
101-200	14	10.69	33	25.19%
>201	29	22.14%	75	57.25%
Total	131	100%	131	100%

Source: Field survey (2012)

The household of 43 respondents (32.82%) had no saving before the respondents joined the MSEs activities. The household of 59 respondents (45.03%) had a monthly saving of Birr 200 or less before joining MSEs operation, and household of 29 respondents (22.14%) had a monthly saving amount of more than Birr 200. In comparison, after the respondents joined the operation, only 5 respondents (3.82%) of household have no saving. Whereas the household of 51 respondents (38.931%) have a monthly saving of Birr 1-200, and the household of 75 respondents (57.251%) have a monthly saving of more than Birr 200. Hence, results indicates working in MSEs helps the operators to save more and saving condition of the operators also improved through time. Among many ingredients, local economic development can be enhanced through saved amounts generated from the local people.

**Table 4.12: current saving place and systems used by the respondent**

<b>Saving place/system</b>	<b>Frequency</b>	<b>Percentage</b>
MFIs only	19	15.97%
Iqub only	1	0.84%
At home	1	0.84%
MFIs and formal banks	7	5.88%
MFIs and Iqub	54	45.38%
MFIs and at home	24	20.17%
MFIs and other people	2	1.68%
MFIs, formal banks and Iqub	9	7.56%
MFIs, formal banks and at home	1	0.84%
MFIs, Iqub and at home	1	0.84%

Source: Field survey, 2012

Out of the households of 131 respondent who have a periodic saving, 19.85% (26 household) save only in the microfinance institutions; 1.53% (2 households) uses only Iqub (a traditional rotational group based saving system) to save; and 1.53% (2 households) saves in their house only. Moreover, 3.053% (4 households) are reported to save both in microfinance institutions and formal banks; 32.06% (42 households) use Iqub in addition to saving in microfinance institutions; 28.244% (37 households) save in microfinance institutions in addition to saving in their house; and 3.053% (4 households) save in the microfinance institutions and in the hands of other people. 6.87% (9 households) use combination of formal banks, Iqub, and microfinance institutions; 1.53% (2 households) saves in formal banks, at house and microfinance institution; and another 2.29% (3 households) save in their house, Iqub and microfinance institution. Most operators use MFI and other traditional saving system so that it is used as a revolving fund to other people in the locality and it helps to contribute to local economic development in the study area.

#### **4.3.4 Impact of MSEs on Household food consumption**

Consumption pattern and frequency of meals are the two food security outcome indicators (Devereux et al). Micro and small enterprise operators were asked to indicate the frequency of food consumption per day and changes that occurred in their food habit. Accordingly, 83.97% responded that their households consume food three times per day, 9.16% consume food twice a day and 6.87 from the total respondent saying that they consume a food more than three times per day.

**Table: 4.13 Impact on household food consumption**

Number of times the HH consume meals per day	Is your daily meal improved?		Total	percent	If improved, is it due to MSEs business?		Total	Percent
	Yes	No			Yes	No		
Twice	9	3	12	9.16	7	2	9	6.87
Three times	94	16	110	83.97	87	7	94	71.76
More than three	8	1	9	6.87	7	1	8	6.1
Total	111	20	131	100	101	10	111	84.73

Field survey, 2012

From Table 4.13 result, it can be observed that the number of times different households' food consumption per day varies from twice to three times. Regarding the improvement in the food condition of the operators concerned, 111 (84.73%) responded that the food consumption of their household shows improvement in the last 12 months despite inflation. However, 15.26% said that there is no change in the consumption patterns of their households. None of the respondent has said, their food consumption in the last 12 months has worsened than before. Income and profit stands first for the improvement of food consumption pattern of the household, whereas income from other sources is the other. Therefore, from the above result one can understand that the contribution of income from micro and small enterprises contribute to meeting the food needs of the poor.

#### **4.3.5 Impact on Education Expenditure of the households**

Recent theoretical models routinely portray human capital investment (e.g. education) as primary engine of economic growth. For an individual, to create choices and opportunities, reduce the burden of poverty, and build empowerment, education is a crucial element in poverty alleviation and economic growth both at household as well as national level. However it is clear that in

most developing countries, access to education for school age children coming from poor households is limited as compared to those coming from well to do families. In other words, it is assumed that households with higher income have greater choices and opportunities for

access to education. It is true that currently in Ethiopia basic education (primary and secondary education) is free of charge but this does not mean it is without cost for poor families. The family spends money for school uniforms, stationary and teaching materials...etc.

In the survey, an attempt has been made to investigate the impact of the MSEs sectors in improving household's access to education. Therefore, as indicated in Table 4.14 about 73.28% of the MSEs sector operators reveals that they have school age family member in their household where as 26.72% of the operators in the study area have no family member attending school.

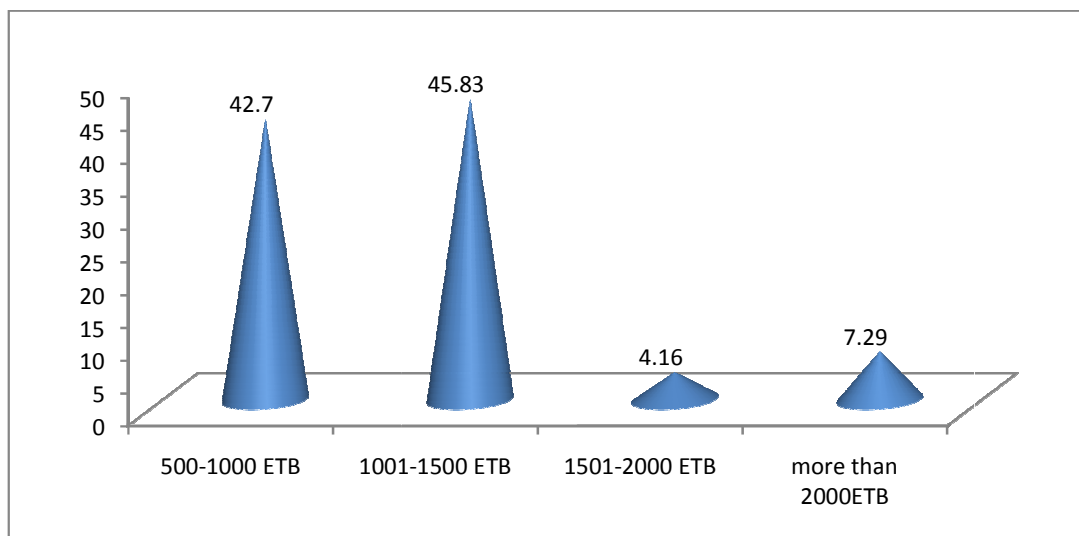
Among households having school age family member, 90.63% of them attend school. Only few (9.37%) respond that their school age family member cannot attend school because of health problem and completion of 10<sup>th</sup> grade.

**Table: 4.14 Availability and Attendance of School age Households Member**

Availability of school age HH member	Are all attending school		Total	If no reason	
	Yes	No		Completed %	Health %
Yes	87	9	96	55.6%	44.4%
Total	87	9	96		

Source: Field Survey (2012)

As indicated in the figure 4.13, expenditure on education is the third largest of the MSEs operators next to food and non-food consumption. Figure 4.13 also substantiates this assertion. Accordingly, 41.7% of the operators spend from Birr 500-1000 for education per year, 45.83% pay between Birr 1001-1500 each year, and 4.6% from Birr 1501-2000. Similarly the remaining 7.29% pay more than Birr 2000 per year for education of their family members.



**Figure: 4.13 Expenditure on education**

Source: - Field survey (2012)

Regarding the educational condition of the households in the MSEs sectors, 86.2% of the operators reveals that the educational condition of their households is improved and 13.79% responded that there is no improvement in the education of their household members. Income from the MSEs businesses has become the main reasons for the improvement of the education.

#### **4.3.6 Impact on health condition of the households**

One of the manifestations of poverty is high malnutrition and general lack of access to health care. Better health can also be a complimentary strategy in poverty reduction. Better health improves people's productivity, there by adding significant value to include generalization. People work harder when healthy; avoid expense by not having medical bills. Therefore, health programs are valuable complimentary strategies (Ozcan, 1995).

Regarding health condition, respondents were asked to indicate whether or not there is sick or injured person in the households in the last 12 months and their sources of medical expenditures. Hence, table 4.15 indicates that 47.33% of the household in the MSEs had a sick or injured person in their household in the last 12 months whereas 52.67% did not face any health problem. Out of the respondents who encountered a health problem, 46.8% of the respondent has said that the source of money for their access to medical facilities was from own saving, 29.8% cover their medical expenses from income generated from the MSEs business, 10.7% cover their medical expenses through loan from friends and relatives and

12.7% of the operators get medical facility free of charge from government institutions. For those who did not get medical treatment, traditional treatment at home is the major option. Therefore, it is possible to conclude that MSEs have relatively improved access of operators to medical facilities owing to the fact that the source of money for about 76.6 % of the operators was from the business and own saving generated from micro and small enterprises.

**Table: 4.15 Summary of the health condition of the MSEs operators**

	Source of money to get treatment					Total
	Yes	Business profit	Savings	From friends & relatives	Free of charge from government	
Availability of sick/injured member of the HH in the last 12 months	62	29.8	46.8	10.7	12.7	100

Source:- Field survey (2012)

#### **4.4 Challenges and prospects for the development of MSEs in the study area**

##### **4.4.1 Challenges faced by MSEs in the study area**

Micro and small enterprises have a potential to support the development of the nation in general and local economy in particular. Their contribution has to be known in different parts of the world so that states develop different policies and strategies to strengthen and enhance the role of MSEs in the process of nation buildings. A large number of people especially economically vulnerable actively participate in MSEs and get necessary support from such sectors. Though they have a lot of contribution for the development of local economy, a lot of factors are challenging them.

As mentioned by Tsegereda, a number of constraints can be recognized as impeding Micro and small enterprises. A major inhibition is connected to the confined access to resources especially finance, market and skill. There is a scarcity of working capital, as formal credit institutions are not accessible to this sector. The production of the enterprises is mostly confined to targeting low income people who have low level of purchasing power. The productions have low level of standard and this condition leads the production market into a limited market sphere and lack trust in the eyes of better income societies.

Survey result also shows that there are a number of problems that the MSEs operators face both at the start-up of the business and during operation. As table 4.16 depicts, shortage of capital (28%) is the most difficult problem affecting the enterprises at the beginning. The second and the third largest problems are shortage of market and lack of credit facilities which accounts to 24% each. The other problems include inadequate skills, lack of raw materials, and the likes. However, one enterprise responded that they didn't face any problems while starting their business.

**Table 4.16 Problems Encounter at Business startup**

<b>Problem</b>	<b>Frequency</b>	<b>Percent</b>
Lack of working premises	1	4
Lack of raw materials	0	0
Lack of Information	0	0
High price of raw materials	2	8
Pressure from government regulation	0	0
Inadequate skills	2	8
Shortage of market	6	24
Lack of sufficient capital	7	28
Lack of credit facilities	6	24
No problem	1	4
	25	100

Source: - Field survey (2012)

Working with actual potential and contributing to the development of local economy has a number of challenges for those who are working in MSEs in the study area.

**Table: 4.17 Challenge that hinder MSEs to perform in their full capacity**

<b>Problem</b>	<b>Frequency</b>	<b>Percent</b>
Lack of working premises	4	8
Lack of raw materials	0	0
Lack of Information	0	0
High price of raw materials	5	20
Pressure from government regulation	0	0
Inadequate skills	0	0
Shortage of market	6	24
Lack of sufficient capital	7	28
Lack of credit facilities	3	12
No problem	0	0
	25	100

Source: - Field survey (2012)

From the above result it can be observed that lack of sufficient capital (28%) is the acute problem for those who are working in MSEs in the study area. Shortage of market and high price of raw material are followed by 24 % and 20% respectively. The noble performance of MSEs operators can be directly related to the development of financial sectors. MSEs Sector is constrained, among other, by lack of market and finance. Micro and small enterprises are described as having a “deficient market and finance structure” or “being undercapitalized” (Baldwin Rafiqzaman and Chande, 1995 as cited in Alemakef, 2010).

The other challenge faced by MSEs is lack of appropriate assistance from the government officials. During field survey, the researcher observed and conducted an interview with wereda officials who are entitled to support the MSEs operators in their administrative weredas. According to wereda officials, the working premises of the operators and administration office of the wereda has greater distance and there is no transportation or per diem for assistances entitled to support the operators. This makes the follow up very weak and some operators failed to work in the area there by increasing the turnover of the wereda administrative officers. On the other hand no mechanism was developed to support for those operators who perform weak as compared to the successful ones and this lead some operators to fail to continue.

### **Most Important type of assistance the MSE operators require**

As discussed in detail in the previous section a number of problems and obstacles affect the productivity and income of the micro and small enterprise operators in the study area. The MSEs operators strongly demand assistance from both governmental and non- governmental bodies to solve their problems and enhance productivity. To this end, the micro and small enterprise operators were asked to indicate the major type of assistance to be offered to them. As indicated in the survey, the operators specify various kinds of assistance that should be provided to them. Among these various forms of assistance; marketing stands first which accounts 32% of the total enterprises followed by access to bank loan access to working premise and getting training on balance sheet which accounts 16% each. Access to working premises, working buildings and related assistances are mentioned by the enterprises working in the study area.

**Table: 4.18 the most important type of assistance the MSEs operators require**

<b>Assistance</b>	<b>Frequency</b>	<b>Percent</b>
Access to working premises	4	16
Assistance with marketing	8	32
Access to bank loans	4	16
Favorable rules and regulation	0	0
Right to property and work	0	0
Access to raw material	2	8
Technical assistance	2	8
Training on balance sheet	4	16
Other	1	4
Total	25	100

Source: Field survey (2012)

#### **4.4.2 Prospects for the development of MSE in the study area**

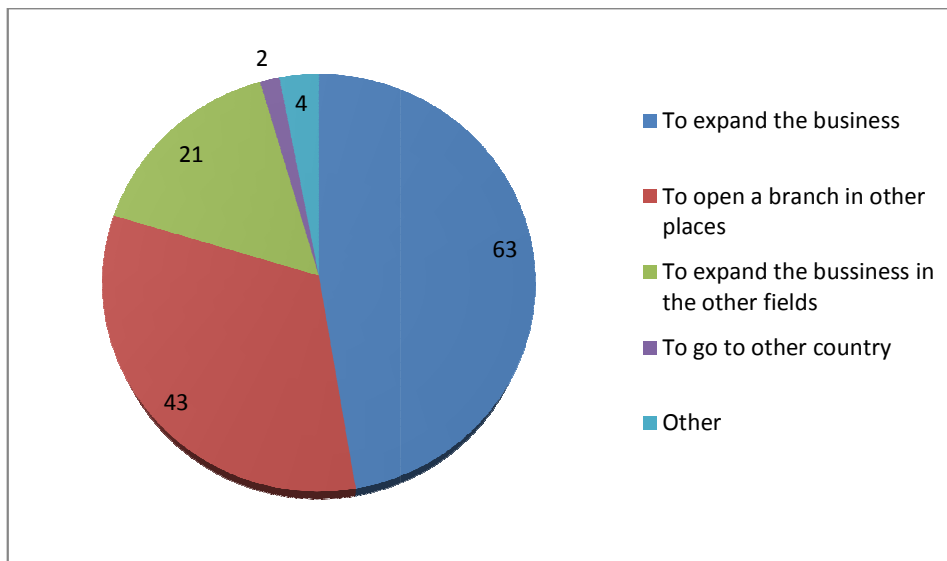
In strengthening the contribution of MSEs for local economic development in the form of employment opportunity, income generation and technical assistance from government have been facilitated. The incumbent government due attention for the growth and development of micro and small enterprises through different mechanisms and develop workable strategy for the sector, is playing a positive role. Among different mechanisms from the strategy, in providing necessary supports for entrepreneurs, facilitating market linkage, provision of working premises and different kinds of business development services might be considered as some of the working strategic mechanisms.

The five-year Growth and Transformation Plan also gives particular attention to the expansion and strengthening of micro and small-scale enterprises. The sector is believed to be the major sources of employment and income generation for a wider group of the society. The major objective of this program, which is creating and promoting MSEs in urban areas, envisages reducing urban unemployment rate, increasing household income level, and significant contribution to the local economy. According to the Ministry of Works and Urban Development (MoWUD), a total of 176,543 MSEs were established in 2009/10 employing 666,192 people. It shows that micro and small enterprises is given due attention in growth and development plan and it's also considered as one of the opportunities the sector gets from the government. Through time the micro and small enterprises changes into small industrial level and hence government from federal to local administration should attempt to supports the growth of the sector.

According to an interview made with officials from the sub-city, the officials said, the government is providing the necessary support for the growth of MSEs in urban areas. Since unemployment is the major obstacle for the urban societies, as official said, appropriate MSEs strategies has been developed to satisfy the urban dwellers to support local economy through employment creation, income generation and enhancing entrepreneurship. The local governments, especially sub-city, provides working premises for the entrepreneur because having working land was one major obstacle for the growth and development of the sector. Providing working premises, as officials said, alleviate the problem of startup capital of the entrepreneurs.

During an interview made with the enterprise's representative and operators most respondents said that the working environment made them to do more, though a lot of actions are expected from the government and non- governmental organizations. They said that if market linkage, capital and working premises problems are solved, they will provide their maximum effort for the development of local economy.

The operators were asked whether or not they have an intention to expand their businesses in the study area which directly support the development of the local economy, the operators responded and summarized in the following ways.

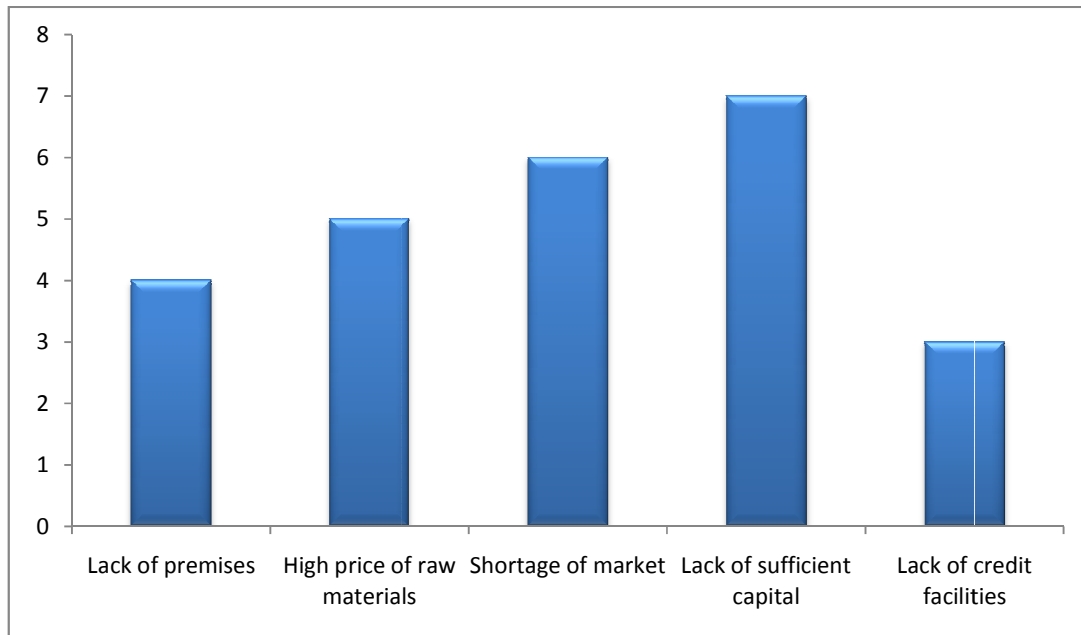


**Figure: 4.14 Future plans for the operators**

Source: Field survey (2012)

From Figure 4.14, we can assume that most of the operators want to expand their business in the locality so that local economic development can be achieved through such enterprises. 48.09% of the operators want to expand their business in the same line while 32.82% of the respondents also plan to open a branch in other places. To contribute to the local economy it is also better to diversify the activities of such enterprises so that employment opportunities and related benefits emerge through time. In this regard, 16.03% of the respondents want to expand their business in other fields so that they will contribute to the development of the locality. But different obstacles hinder their activities/ operations, these obstacles are diverse and have different impacts for each enterprises and operators. Figure 4.15 shows the main

obstacles that are faced by the MSEs enterprises in process of local economic development in the study area.



**Figure: 4.15 Major obstacles of the enterprises for future prospects**

Source: Field survey (2012)

From the above result, we can assume that lack of sufficient capital is the major problem for the enterprises for their future prospects. Among 25 enterprises studied in this finding, 28% of the enterprises claim that capital hinders them not to go as per their plan. 24% of the enterprises also said shortage of market in their locality affects the implementation of their plan and deter the attainment of their enterprise's future growth. High price of raw materials (20%) also affects the attainment of the enterprise's future plan. Lack of premises and credit facilities are also mentioned by the enterprises which constitute 16% and 12% of the studied enterprises respectively.

## **CHAPTER FIVE**

### **Conclusions and recommendations**

#### **5.1 Conclusions**

Although the emergence of Micro and Small Enterprises (MSEs) is viewed differently, the sector is playing a significant role in promoting local economic development through creation of employment opportunities and utilization of local resources. In recent years, when the economies of most industrialized countries have shown various signs of stagnation and structural decline, MSEs are being recognized as generators of new growth, primary sources of technological changes, job creation, and one of the major factors in maintaining socio-economic stability. In Ethiopia, too, considering the extent of poverty and unemployment as well as realizing the potentials that micro and small enterprises have in local economic development, the government and other policy implementers have given due attention to the sector very recently.

The good performance of micro and small enterprises is related with creating employment opportunity. The study revealed that micro and small enterprises are showing progress in their capital, sales and profits so that they provide employment opportunities for those who would have been unemployed otherwise. Generating income and enhancing the level of saving for the entrepreneurs is another role play by the MSEs. Through these benefits, the local economy of the study area highly likely develops as time goes.

Micro and Small Enterprises in Gullele sub city are also witnessing potential development for the local economy. A critical component to achieve these enterprises mission, which is also a broader development objective of the society, is their ability to reach the poorest and most disadvantaged section of society, so that the local economy is most likely to happen through such enterprises. The proportion of respondents who were poor by the time of program entry was substantial, but higher level of involvement of the poor and poorest section of the society in the program makes their life encouraging. This is evident as the proportion of respondent with income above poverty line, most of them even above moderate poverty, is quite significant.

Micro and small enterprises have increased the income of households of the operators. Increasing in income has a lot of implications for the household and the local economy. Increasing income implies at least maintaining the welfare status of the operators.

The employment opportunities created following micro and small enterprise utilization of operators is encouraging and it practiced through enterprise forms. Such practice enhances the development of local economy through organized forms. But the enterprises face a number of challenges in the process of local economic development. Limited productivity resulted from lack of technical and entrepreneurial skills; lack of affordable access to raw materials and inputs; lack of sufficient capital; lack of market and appropriate assistance for the products of micro and small enterprise makes the enterprises not performing in their full capacity.

Micro and small enterprises have improved savings of the respondents' through increasing the operator's income and furthermore they can also save part of their income. This improvement is not only in terms of amount of saving but also in terms of bringing some operators who did not have savings before MSEs. Most of the respondents do not opt to save 'only in the microfinance institutions'. It shows other saving forms and institutions have merit in some respects than saving in microfinance institutions only. Because other forms of saving are accessible and easy to entry than micro finances. Such saving habit have most likely to contribute to the development of the local economy. If micro and small enterprises have to be self-sustainable, they have to mobilize enough amount of capital through savings that can be borrowed by other communities.

After joining MSEs programs, mean monthly expenditure of the respondents have increased in food, clothing, housing furniture, health, education, and service items. Such improvements show the improvement of operator's income and contribution for the development of local economy in different aspects.

The study shows that the enterprises sales capacity and expenditure is somehow increasing, and also their profit earning is going up during the study period. When we are looking the enterprises performance in terms of sectors, the construction sub-sector scores the highest profit compared to the others. In addition, highest sales and expenditure is recorded in construction sub-sector which shows high business transaction. The other way of analyzing MSEs performance is, in terms employment opportunity creation to the local community. In

the study area 225 employment opportunities has been created to founding members of the enterprise and 54 permanent and 118 temporary employment opportunities are created. Conversely, the number of female employees is still lagging behind. Therefore, government policy makers should give due attention to women entrepreneurs and special support and emphasis for those disadvantaged part of the community. Generally speaking the construction sub-sector is performing well for various reasons and contributing to local economic development compared to other sectors.

The other manifestation of local economic development is through reducing the level of poverty and providing income generating opportunities. In the study areas, Micro and small enterprises fulfill a critical function from an economic and social perspective in that they create income earning opportunities for a large number of low income individuals.

## **5.2 Recommendation**

- It was observed during the field work that a number of operators come together to form association without interest. Those individuals who have interest to work in the MSEs are merged with few uninterested people who have other motive behind. This condition hinders the effort of interested people because the non- motivated individuals take advantages at the expense of others. For instance some non-motivated individual forms an association to get working premises without any interest to work in the area and later on they fail to proceed. Some associations have also family members who are not working in the MSEs but registered only for the purpose of getting assistance from the government. Therefore, in order to avoid such kind of problems due emphasis should be given at the time of group formation. The officials working in MSEs should allow the operators to form an association based on their preference and interest, getting background information about the operators and follow up after formation is necessary. Currently, the office is focused on the number of people forming the association instead of how they impact the local economic condition of the dwellers.
- Training helps transfer of knowledge, skills or attitude that enables people to prepare for production activities, or to change their working behavior. One way of assisting MSEs is in terms of providing training that helps them boost their production, help increase the quality of the final product and boost their performance. However, in the

study area, only a limited number of operators are taking training in their operating field. Even if the training provided to the operators is important, the training is not targeting all operators in a given enterprise. Therefore, representatives of the enterprises should be aware to share the knowledge they are getting from training sessions to the rest of the association in the form of training for trainers and other operators, who impact the development of the enterprise in particular and local economic development in general.

- The development of MSEs in the study area needs various improvements in general and the working areas of the operators in particular. The working areas are located far from administration offices and market. The working area lacks basic infrastructure such as road so that potential customers cannot easily be able to access them. Governmental and non- governmental organizations should facilitate sustainable market linkage between the producer and potential customers.
- The officers entitled to support the operators also fail to reach them due to lack of transportation or necessary allowance or any motivational mechanism to provide them with the necessary advices. Due to these factors, officers are not able to follow up how the operators are doing their job in terms of the training provided to the entrepreneurs. Responsible bodies should act to tackle such problems by providing transportation or motivational mechanism for the officers who provide necessary advice and follow up.
- One of the findings in this research is a very limited participation of women in the MSEs sector in the study area. Though different affirmative actions are applied to motivate women to participate in MSEs, due consideration should be given to increase their participation. Though enough is stated at the policy level to encourage women to participate in the MSEs, aggressive awareness raising mechanism, provision of special credit window and women focused special training is mandatory to increase their number. This will create a better conducive environment for women to play a major role in local economy development.

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**Appendix 1: questionnaire used in the research**

**Research questionnaire**

**Addis Ababa University**

**Public administration study**

Dear respondent, my name is Munira Sherefa and I am doing a research as part of the MA program in Addis Ababa University. The topic of my research is “Performance of micro and small enterprises and their role in enhancing local economic development. In Gullele sub city, Addis Ababa”. In doing so, your wereda is one of the focus areas of my study. This questionnaire is, thus, designed to obtain information about your perception, opinions, experience, and particular knowledge regarding the specific business. Hence, I would like to thank you in advance for giving me your valuable time.

**To be filled by the MSEs Operatores**

**Section I. Identification**

1	2	3	4	5	6
sub-city	wereda	Type of business	Owners age	Place of work	Remark
Gullele					

**Section II. Demographic Characteristics of the Operator**

1. Sex
  - Male----- 1
  - Female ----- 2
2. Marital Status?
  - Single -----1

- Married-----2
- Divorced -----3
- Widowed-----4
3. Are you a family leader?
- Yes ----- 1
- No ----- 2
4. What is your level of education?
- Illiterate -----1
- Basic education -----2
- Grade 1-4 -----3
- Grade 5-8 -----4
- Grade 8-high school -----5
- High school complete ----- 6
- More than high school ----- 7
5. Do you have children?
- Yes -----1
- No -----2
- 
6. How many family members do you have? \_\_\_\_\_
7. Have you received any vocational/technical training?
- Yes-----1
- No -----2
8. If your answer is “yes” for the above question, in what type of profession?
- Woodwork -----1
- Electricity ----- 2
- Metal work ----- 3
- Auto mechanical work ----- 4
- Food processing ----- 5
- Masonry ----- 6
- Marketing ----- 7
- Tailoring ----- 8
- If other specify ----- 9

9. How did you acquire the skill you are applying in your jobs?

- Self-taught-----1
- Family-----2
- Apprentice-----3
- Formal training-----4
- Vocational/technical training-----5
- Other/specify-----6

**Section III: Information on employment**

10. Where did you work before you engage in the current job?

- Unemployed-----1
- Seasonal unemployed-----2
- Informal sector operator-----3
- Government organization-----4
- Non-governmental organization-----5
- Other specify-----6

11. Were you permanently employed before you started to work in this enterprise?

- Yes ----- 1
- No ----- 2

12. Are you currently a permanently work in this enterprise?

- Yes -----1
- No -----2

13. How much is your wage or salary? \_\_\_\_\_

14. For what do you use your income most importantly?

- Household consumption ----- 1
- For health and education ----- 2
- For ceremonial ----- 3
- Business expansion ----- 4
- Debt payment ----- 5

15. How is your income condition after you start the business?

- Increased----- 1
- Decreased ----- 2

Stayed the same ----- 3

16. Do you save form what you earn per day/week/month?

Yes ----- 1

No ----- 2

17. Do you have other source of income?

Yes ----- 1

No ----- 2

18. How much did/does your household save per month?

Before MSEs: \_\_\_\_\_

After MSEs: \_\_\_\_\_

19. Where does your household save?

MFI only -----1

Iqub only-----2

At home only -----3

MFI and formal bank -----4

MFI and Iqub -----5

MFI and home -----6

MFI and other people -----7

MFI, formal bank and Iqub-----8

MFI, formal bank and home -----9

MFI, Iqub and home ----- 10

Others (specify) \_\_\_\_\_

**Section IV. Information on improvement of living standard and expenditure of HHs**

20. Do you have the following assets before or after you own this business?	Before the business	After the business
Chairs		
Table		
Refrigerator		
Shelf		
Bed		
Sofa		
Radio		
Tape Recorder		
Television		
Jewelery		
House		
Working tools		
Others/specify		

21. How many times do your family members eat per day?

Twice per day ----- 1

Three times per day ----- 2

More than three times per day ----- 3

22. In your opinion what does your current household diet condition looks like?

Worsened -----1

Stayed the same -----2

Improved-----3

23. If improved do you think that it is due to this business?

Yes-----1

No-----2

24. During the last 6 months was there a time when it was necessary for your household to eat less because of lack of food or money to buy food?

Yes-----1

No -----2

25. If yes how is the household solve the problem?

Borrowed from friends-----1

Borrowed money or food at low cost-----2

Sold personal property-----3

Migrating to other place to get job-----4

Reducing number meals per day-----5

Others/specify-----6

#### **Section V. Access to education and Health**

26. Do you have school age household member?

Yes-----1

No -----2

27. If yes are all of them attending school?

Yes-----1

No -----2

28. If not what is your main reason?

-----

29. What is your average educational expenditure per year?-----Birr

30. Do you think that your household access to education improved?

Yes-----1

No-----2

31. Is there any household member sick or injured during the last 12 months?

Yes -----1

No-----2

32. If your answer is number `` 1'' for the above question are they treated in hospital or home?

33. If you said hospital, where did you get the money?

- Saving-----1
- Business profit-----2
- From relatives-----3
- From friends-----4
- Free of in charge from government-----5
- Others/specify-----6

34. If they do not get treatment, what is the main reason?

- Lack of money to pay-----1
- High cost of medical treatment-----2
- Long distance of health institution-----3
- Free of in charge from privateer-----4
- Others /specify -----5

35. Do you believe that the income that you get from this job allow you to finance all costs of the house hold?

- Yes, most of the time-----1
- Sometimes-----2
- Rarely-----3
- No-----4

36. At last how long have you continuously lived in this sub city?

## A question for chief of the Enterprise

### Section I. Back ground of the respondent

1. Name of the organization-----
2. What is your status in the organization-----
3. How long you work as a current status-----
4. Type of the enterprise-----
5. What is your level of education-----
6. Sex -----
7. Age -----
8. Wereda -----
9. Marital Status -----
10. Ownerships of the enterprise  
Sole proprietorship -----1  
Partnership -----2  
Cooperatives -----3
11. How many employees do the enterprise have :

No	Working condition	Sex of the worker	
		Male	Femal
1.	Temporary		
2.	Permanent		
3.	Family member		
4	Unpaid worker		

### Section II. Information on Capital

12. How much was the initial capital of your enterprise?-----birr
13. How much is your current Capital? -----birr
14. How much is your working Capital?-----birr

15. What was the major source of this capital?
- Own saving-----1
  - Borrowing from MFI -----2
  - Borrowing from MFI & own saving -----3
  - Donation-----4
  - Inheritance-----5
  - Borrowing from Bank-----6
  - Borrowing from individuals on terms-----7
  - Borrowing from friends -----8
  - Others/specify-----9
16. Do you have enough capital to run the business?
- 1-----Yes
  - 2-----No
17. If your answer for question number 5 is ‘No’ how do you solve this problem?
- Borrowing from family or friends -----1
  - Borrowing from other MSEs -----2
  - Borrowing from Government affiliated institutes -----3
  - Borrowing from Bank -----4
  - Borrowing from Non-Governmental institutes -----5
  - Borrowing from Informal Financial institute-----6
  - From local micro financial institute -----7

**Section III. Production, Sales and expenditure**

18. How much is your production capacity (In birr)?
- 
- 
- 
19. How much are you currently producing (In birr)?
- 
- 
20. If you are not producing with full capacity what hinders you to do that?
- Lack of premises/spaces-----1

- Lack of raw materials nearby -----2
  - Lack of information -----3
  - High price of raw material--- -----4
  - Pressure from government regulations-----5
  - In adequate skills-----6
  - Shortage of market-----7
  - Lack of sufficient capital-----8
  - Lack of credit facilities-----9
  - Other specify-----10
21. How much is your monthly sales for the past six months (In birr)?
- 1<sup>st</sup> -----
  - 2<sup>nd</sup> -----
  - 3<sup>rd</sup> -----
  - 4<sup>th</sup> -----
  - 5<sup>th</sup> -----
  - 6<sup>th</sup> -----
22. How was the tendency of your sales during the past six months?
- Increasing -----1
  - Stayed the same ----- 2
  - Decreasing ----- 3
  - Difficult to forecast ----- 4
23. If the answer for question 11 is “1”, what are the reasons?
- Access to working place-----1
  - Access to rented building -----2
  - Assistance in marketing -----3
  - Access to bank loans-----4
  - Favorable rules and regulations-----5
  - Appropriate customer -----6
  - Better access to raw materials-----7
  - Technical training to the operator-----8
  - Training on balance sheet and accounting-----9
  - Other/specify-----10
24. If the answer for question no 11 is “3”, what are the reasons?
- Inadequate managerial skill-----1

Problems with workers-----	2
Government regulations-----	3
Too much corruption in the enterprise-----	4
Unable to cope with social responsibility-----	6
Cultural influence-----	8
Shortage of working capital-----	9
Limited capacity to produce trade or give service-----	10
Lack of raw market-----	11
Lack working place -----	12
Lack of raw material-----	13
Health problem-----	14
I don't have a problem-----	15
Other/specify-----	16

25. How is the tendency of your income during the past twelve month?

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

26. If the answer for question no 14 is “3”, what are the reasons?

Heavy government tax -----	1
Government rules and regulations-----	2
Unfair competition from large enterprise-----	3
Unfair competition from other small enterprises-----	4
Inadequate supply of raw material-----	5
Lack adequate working place-----	6
Lack of production equipment-----	7
Lack of working capital-----	8
Lack of credit facilities-----	9
Shortage of market-----	10
Other/specify-----	11

27. If the answer for the question number 14 is “1”, what are the reasons?

Access to adequate working place-----	1
---------------------------------------	---

- Assistance with marketing -----2
- Access to bank loans-----3
- Favorable rules and regulations-----4
- Property right and work-----5
- Better access to raw materials-----6
- Technical training to the operator-----7
- Training on balance sheet and accounting-----8
- Other/specify-----9

28. How much is your monthly expense for the last twelve month?

Type of expense	Amount of expense in month					
	1	2	3	4	5	6

-----

29. How was the trend of your expense during the last six months?

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

**Information on Inputs**

30. Do you frequently face shortage of raw material?

- Yes-----1
- No-----2

31. If the answer for question number “21” is “1” what did you do?

- Attempt to get other options -----1

- Waiting to avail the material -----2
- bounding to other jobs -----3
- Becoming seasonal unemployed ----- 4

32. What type of raw materials do you use for the production process?

- Local produced material -----1
- Imported materials ----- 2
- Both ----- 3
- Others (specify) ----- 4

33. Does your business enterprise located in good market site?

- Yes.-----1
- No-----2

34. If not, what have been your actions to solve the problem?

- Opening at different place-----1
- Advertising/promoting/ business card-----2
- Common market premises-----3
- I haven't been taking any action-----4
- Other (specify if any)-----5

35. Who is your primary source of inputs?

- Wholesalers and large retailers -----1
- Large producers -----2
- Smaller and the same size retailer -----3
- Government project -----4
- Other specify -----5

36. Who are your primary customers?

- Government projects -----1
- Wholesalers/ large retailer -----2
- Large producers -----3
- Smaller and the same size retailer -----4
- Smaller and the same size producers ----- 5
- Private users -----6

37. For which market have you been producing your product(s)?  
 For local market-----1  
 External market inside the country-----2  
 External market outside the country-----3
38. Is there any significant change in your product outreach in the past three years?  
 Explain-----
39. Do you have market linkage with external firms who engage in the same or related business?  
 Yes -----1  
 No -----2
40. If yes, what type of market linkage do you have with external firms?  
 Sub-contracting-----1  
 Out-sourcing-----2  
 Other (specify if any) -----3
41. In periods when your revenues are higher, do you invest more in this business?  
 Yes, most of the times-----1  
 Some times-----2  
 Rarely-----3  
 No-----4
42. What is your plan in the future?  
 To expand the business in the same line -----1  
 To open a branch in other area/place -----2  
 To expand the business in other field-----3  
 To go to other country and work -----4  
 Other (specify) ----- 5

## Appendix 2: Key informant interview guide used for Government officials and enterprise representatives

### Key informant interview guide used for interviewees from office of MSEs of the sub city

Thank you for your cooperation to the interview

Date of interview \_\_\_\_\_

Name of the Organization \_\_\_\_\_

Name of interviewee \_\_\_\_\_

Position in the institution \_\_\_\_\_

Time of interview: Started at \_\_\_\_\_

Ended at \_\_\_\_\_

1. What are the assistance and services you provide for the MSEs sector operators?
2. What are the functions that the office provides for MSEs operators in the sub city?
3. What is the total number of people served by the office related to micro and small enterprises?  
Male \_\_\_\_\_  
Female \_\_\_\_\_  
Total \_\_\_\_\_
4. What are the selection criteria and screening mechanisms of your office to select MSEs operators? (**Check against:** Group mechanism, Age, Sex, Type of Business, Business Location, Permanent Residence, Character Assessment, and Letter of Recommendation by other Socio-Political Institutions)
5. What measures do you take to serve the poorest of the poor?
6. What are the roles of MSEs operators in reducing poverty in Sub City?
7. Can you explain how MSEs associations are organized? What are the major challenges that you faced in organizing these associations?
8. From which government bodies do MSEs get support principally?

9. Do you use any affirmative action to privilege women operators?
10. How do you monitor the activities of MSEs in your sub-city?
11. How does the office measure the performance of the enterprises working in the sub-city?
12. How do women operators compare with men operators in the activities of MSEs?
13. How do you view MSEs activities in your Sub-city?
14. What are the sources of fund for the services your office provide?
15. Do you get any support from other governmental and non-governmental institutions?  
[If Yes] What type and how? [If No] Why?
16. What problems did/are you face/facing in your office in the operation of MSEs in the sub city?
17. Which of the problems are solved? Explain how?
18. Which of the problems are not solved? Why?
19. How do you describe the general situation of MSEs in view of the goal set by the government in promoting and assuring their sustainability?
20. What are the areas that MSEs operators participate in local developments?
21. How do you evaluate the participation of MSEs with regard to local development?
22. Do you think that MSEs operators have a potential to enhance local economy?

Thank you again for your cooperation

Special Note on the Interview:

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### Appendix 3: Guide line question for selected respondent of MSEs

#### Guide line question for case study

1. Age                      Sex
2. Your source of income before joining MSEs
3. How much was your income at that time
4. What kind of problem are you facing before joining MSEs
5. What was the reason to start that business/job
6. How do you describe your life before starting MSEs
7. How do you join MSEs (who told you that)
8. How do you describe your current income compared to the previous one
9. Can you tell me your current living condition
10. What kind of support do you want from the government
11. What do you want to say at last

### Appendix 4A: summary table on Socio-demographic characteristics of the respondents

Summary table: Socio-demographic characteristics of the respondents

		Frequency	Percent
<b>Sex</b>	Male	82	62.6
	Female	49	37.4
	<b>Total</b>	<b>131</b>	<b>100</b>
<b>Age</b>	Below 15	0	0
	15-24	28	21.37
	25-45	60	45.8
	46-65	34	25.95
	Above 65	9	6.92
<b>Educational Status</b>	1. Illiterate	9	6.87
	2. Basic education	7	5.34
	3. Grade 1-4	14	10.69
	4. Grade 5-8	41	31.3
	5. Grade 8-high school	27	20.61
	6. High school complete	19	14.5
	7. More than high school	14	10.69
	<b>Total</b>	<b>131</b>	<b>100</b>
<b>Marital Status</b>	1. Single	61	46.56
	2. Married	67	51.14
	3. Divorced	2	1.53

	4. Widowed	1	0.76
	<b>Total</b>	<b>131</b>	<b>100</b>
<b>Having Children</b>	Yes	73	55.73
	No	58	44.27
	<b>Total</b>	<b>131</b>	<b>100</b>
<b>Family Leader</b>	Yes	103	78.63
	No	28	21.37
	<b>Total</b>	<b>131</b>	<b>100</b>
<b>Type of enterprise</b>	Textile	5	20%
	Wood metal work	8	32%
	Construction	9	36%
	Food processing	3	12%
	<b>Total</b>	<b>25</b>	<b>100%</b>
<b>Ownership of the enterprises</b>	Partnership	6	24%
	Co-operative	19	76%
	<b>Total</b>	<b>25</b>	<b>100%</b>

Source: survey, 2012

#### Appendix 4B: age and family size of the respondents

	Minimum	Maximum	Mean
Age	15	63	31.03
Family Size	1	12	5.66

Source: computed by Researcher

#### Appendix 5: Average sales, Expenditure and Profit of selected enterprises

Months	Textile			Construction			FB			MW		
	sales	expenditure	Profit	sales	Expenditure	Profit	Sales	expenditure	Profit	Sales	expenditure	Profit
1st month	18308	16440	1868	27027.8	24706.67	2321.1	9900	8716.7	1183.33	26404	22593.8	3810
2nd month	17700	15394	2306	29055.6	23361.11	5694.5	11566.7	9250	2316.67	26134	22096.9	4036.87
3rd month	17700	16254	1446	36155.6	29327.22	6828.3	9000	8600	400	26088	20777.5	5310
4th month	19330	15096	4234	32428.3	26927.44	5500.9	11333.3	8816.7	2516.66	33263	28266.9	4995.62
5th month	23900	20486	9854	37777.8	31203.33	6574.5	14483.3	9193.3	5290	35750	29691.9	6058.13
6th month	23000	20666	17840	44222.2	37128.89	7093.3	14833.3	11280	3553.33	36313	29976.3	6336.25
Total	119938	104336	37548	206667	172654.7	34013	71116.7	55857	15260	183950	153403	30546.9
Average	19989.67	17389.33	6258	34444.5	28775.77	5668.8	11852.8	9309.5	2543.33	30658	25567.2	5091.15

## Appendix 6: List of key informants

### Interviewees

<b>Name of Key Informant</b>	<b>Institution And Position</b>
Nurush Endale	Senior Marketing officer, A.A.MSEs development Bureau
Fekadu Tolossa	Market development Officer, Gullele Sub city
Berhanu Sahele	MSEs Coordinator of work process, Wereda 9
Aserar Bereka	Model MSEs representative Wereda 7

## Appendix 7: Name of selected MSEs in the study area

No	Name of the enterprise	Member			Additional employees	
		M	F	Total	M	F
1	BehebretEnedeg	10	0		3	2
2	Sekate	7	4		3	2
3	SertoMadeg	2	11		4	1
4	Ethioka	5	5		3	2
5	GulleleyagerBahel	1	2		1	1
		25	22		14	8
6	Belecheta	8	1		5	1
7	Sera ledeget	12	7		4	2
8	EdegetHulegeb	6	1		9	5
9	Lalibela	9	3		11	1
10	Yetegelferea con.	11	0		10	5
11	Teret	2	1		8	5
12	United	3	1		0	0
13	Ejeleje	4	7		8	7
14	Felagot	3	2		8	1
		58	23		63	27
15	Kemesha	2	3		0	6
16	BegeziyabarYabekal	0	25		1	5
17	hedase		11		2	4
		2	39		3	15
18	general wood & metal work	3	1		1	0
19	Lewet	10	1		4	0
20	Dobe	8	2		8	2
21	Deteme	10	2		9	1
22	Edeget	8	0		2	1
23	Ra'eye	1	2		6	2
24	Rich	3	0		12	2
25	TerehgerehBela	5	0		0	0
		48	8		42	8
		218	176		202	108

## Declaration

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

Name: Munira Sherefa Muzeyen

Signature: \_\_\_\_\_

Date of submission: \_\_\_\_\_