ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

THE CONTRIBUTION OF MICRO AND SMALL ENTERPRISES (MSEs) IN LOCAL ECONOMIC DEVELOPMENT:

THE CASE OF METAL AND WOOD WORK MSEs IN MEKELLE CITY OF TIGRAY REGIONAL STATE

BY

MIZAN G/MEDHIN

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A thesis submitted to the school of graduate studies of Addis Ababa University in partial fulfillment for the requirement of the Degree of Master of Arts in Regional and Local Development Studies

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Abbreviations and Acronyms

ADLI	Agricultural Development Led Industrialization.
BDS	Business Development Service.
BoFED	Bureau of Finance and Economic Development
CSA	Central Statistics Authority.
DFID	Department for International Development
ECA	Economic Commission for Africa.
FDRE	Federal Democratic Republic of Ethiopia.
FGD	Focus Group Discussion.
GDP	Goss Domestic Product.
GNP	Gross National Product.
IDP	Integrated Development Plan.
ILO	International Labor Organization.
LED	Local Economic Development
MoWUD	Ministry of Works and Urban Development
MSEs	Micro and Small Enterprises.
NGOs	Non Government Organizations.
RGDP	Regional Gross Domestic Product.
TBoTI	Tigray Bureau of Trade and Industry.
TVET	Technical and Vocational Education Training.
UNIDO	United Nations Industrial Development Organization.

Abstract

The objective of this study is to investigate the contribution of MSEs in local economic development in Mekelle urban local government, Tigray regional state. Sample was taken from 486 metal and wood work MSEs which have been registered by Mekelle town trade and industry office. 102 micro and small enterprises (MSEs) were selected randomly by considering their year of establishment and type of ownership (68 individually owned and 34 cooperative enterprises). In the study various local economic development indicators like employment creation, income generation, local input and market linkage, taxation and contribution to local community development were assessed. It has also assessed the characteristics of the enterprises and the constraints that faced the enterprises during operation.

The study employed different methods of data collection instruments, a questionnaire survey covering a total of 102 sample enterprises were conducted in the town. Besides, focus group discussion and interviews with MSE operators as well as the support office experts have undertaken.

The findings of the study found out that the majority of metal and wood MSEs in the study area engaged due to background skills and experience. The sources of finance for the start-up were their personal savings. With regard to the contribution of the MSEs to local economic development, the study found out that the enterprises are contributing a lot in terms of job creation, re-investment of their profits, utilize inputs from local suppliers, produce for local market, generating income (tax) to local government and contribute to the local community by raising money for roads, education and health.

The survey also revealed many constraints to the MSE, such as limited access to finance (loan), work premises, less availability of market, low entrepreneurial and technical capacity and low follow up and support services which all together have negative influence to the development of the enterprises.

CHAPTER ONE

Introduction

1.1. Background

Micro and small enterprises (MSEs) are major features of the economic development in all developing countries today. Many third world governments have recognized the contribution of these enterprises to the creation of job and to the alleviation of poverty. They have been given prominence in development plans as well as in the strategies of donors. Inmost developing countries, the contribution of MSEs to employment and income appears to have been increasing over time. This is an encouraging sign: that markets are working, people are finding opportunities to participate in ways that empower and nourish many people, particularly including those that are otherwise most disadvantaged. To other observers, however this increase in the numbers of people engaged in MSEs is a sign of failure of the economy to provide productive jobs, people are forced to take refuge in activities that provide only minimal subsistence support (Lied Holm and Mead, 1999).

According to Stokes (1992), employment opportunities in MSEs increase in two different ways: as new businesses are started, and through the expansion of existing enterprises. The distinction between these two is important since there is reason to believe that jobs arising from an expansion of existing enterprises are more likely to reflect an entrepreneur's response to a business opportunity: more workers are taken on only when a market opportunity has been identified, based at least in part on the experience of the enterprise. While some new start-ups are clearly similar in orientation; a large percentage of the new starts reflect the push of people who must find any source of income to keep themselves alive, rather than the pull of identified and profitable

business opportunities. Most MSE jobs come into existence through new starts; about three-fourth of all existing job openings in MSEs originally came into being in this way, with the remainder resulting from an expansion of existing enterprises (stokes, 1992).

Even though MSEs can be major provider of jobs, limited initiatives have been introduced to promote the sector as employment creator and income generator to the urban population. Governments in developing countries were not given emphasis to the MSEs sector in order to reduce the increasing trend of unemployment problem (Ibid).

In Ethiopia, there were 974,676 micro and 31,863 small enterprises establishment, which accounted for 99.40% and 0.46% of the industrial establishments respectively. Large and medium enterprises (i.e. employing more than 10 workers) were 642, accounting for the remaining of 0.11%. Micro and small enterprises provided employment opportunities to 877,370 (89.65%) individuals and 8,929 (0.91%) respectively. Large and medium enterprises, on the other hand, accounted for about 9.34% and 0.10% of industrial employment respectively.

In addition, about 47% and 42% of the MSEs were engaged in manufacturing and petty trading respectively. The remaining 11% were employed in traditional informal activities (services, agriculture, transport, construction, mining etc). Furthermore, the average capital of micro and small enterprises amounted to 3,528 Birr and 38,354 Birr, respectively. In terms of number of workers, the average employment was 1.5 persons for micro enterprises and 3.3 for small enterprises (CSA, cited in Gebrehiwot and Wolday, 2004).

The economic activity of the study area Mekelle is largely dependent on micro and small enterprises. The majority of the inhabitants (65%) livelihood depends on the informal businesses. In addition the private

sector capital investment in the last ten years by formal enterprises is about 60 % out of the total investment in the region (Mekelle Administration, IDP, 2006).

In addition, there are also around 23,655 micro and small businesses in the city operating with out licenses but only under take registration. Out of these, 47% are male operators and the remaining 53% are females. In terms of sectors the majorities are engaged in petty trade, services and manufacturing activities (TBoTI, MSEs census study report, 2007).The trend of the MSEs in the city is promising as far as the number of MSEs increases from time to time. However, the rate of unemployment is 21.6% which is high (IDP, 2006).

1.2. Statement of the Problem

In Ethiopia, the size of the labor force continues to grow more rapidly than the ability of the economy to provide new employment opportunities. Unemployment, particularly urban unemployment is one of the critical problems in the country. The rate of urban unemployment in the country was 26.4% in medium towns and 40% in large urban towns in the country (Federal urban development package, 2005).

Mekelle being one of the major towns in Ethiopia has a high proportion of unemployed citizens. Mekelle has 20% unemployment rate and 61% of the people living below poverty line (Ibid)). Particularly in recent years, the problem of unemployment is aggravated in the town because of rapid migration of people from various parts of the region, high natural growth rate of the population and limited job opportunity generated by the private sector and government. On the other side, due to expansion of governmental and private higher educational institutions large number of young educated (4250 both diploma and degree) labor force is being unemployed due to lack of employment opportunities (TBoTI, 2008).

The government of the Federal Democratic Republic of Ethiopia (FDRE) has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the urban areas of the country. To this effect, the government has formulated a national MSE development and promotion strategy that enlightens a systematic approach to alleviate the problems and promote the growth of MSEs (Ministry of trade and industry, 1997).

The Micro and small enterprises development strategy has started implementation recently in our country to reduce urban unemployment poverty and bring local economic development (Ibid). Due to this, promoting MSEs has been taken as a tool in Mekelle town like other towns of Ethiopia. One of the priority areas is the metal and wood work sub sector. As the result of this, many metal and wood work enterprises have flourished in the past five to six years. The question is whether these enterprises really contribute to Local Economic Development (LED) in terms of employment creation, income generation, use of profits, linkages (input and market linkage) and others? What are the challenges they face in their operation?

Many studies conducted on micro and small enterprise was focused mainly to the problems they faced. The contribution to local economic development has not been yet carried out adequately in the study area. In addition, this sub-sector is the future economic base for the manufacturing industry in the region as well as in the city. This paper therefore, tries to explore and describe the role of MSEs in local economic development.

1.3. Objectives of the study

1.3.1. General objective

The general objective of the study is to asses the role of micro and small enterprise in local economic development (LED) in Mekelle town with a special reference to metal and wood work MSEs.

1.3.2. Specific objectives

The specific objectives are: -

1. To examine the nature and characteristics of the metal and wood work MSEs.
2. To examine their contribution to local economic development (LED) in terms of employment, income, use of profits, linkages (input linkage, market linkage and farm sector linkages), taxation and contribution to local community development.
3. To assess the major constraints (internal and external) of the metal and wood work MSEs in the study area.

1.3.3 Research questions

The research questions that this study seeks to answer are the following.

1. What is the nature and characteristics of the metal and wood work MSEs?
2. What is the contribution of these MSEs to local economic development in terms of:
   - Employment creation?
   - Income generation?
   - Use of profits and linkages?
   - Taxation and,
   - Contribution to local community development?
3. What major internal and external problems are faced by the metal and wood work MSEs in their operation?

1.4. Scope of the study

The study is limited to metal and wood work micro and small enterprises in Mekelle town. According to the Ministry of trade and industry (1997) MSEs are those business enterprises with a paid up capital of less than 500,000 Birr excluding Consultancy firms and other high-tech establishments. For this study this scope of definition is considered.

1.5. Research methodology

1.5.1. Data type and sources

The research has relied on both qualitatitive and quantitative types of data in order to answer the research questions and thereby arrive at valid and reliable conclusions. Concerning sources of data, both Primary and Secondary sources have been used in generating valuable and relevant data.

Primary Source: - Being the main input for the analysis Primary data have been collected through fieldwork survey. Information on the status of employment, income, capital and empirical data have been collected from the MSE owners/managers, micro and small enterprise members and MSE support office, through questionnaires, interviews and focus group discussions.

Secondary Source: - In this study, secondary data are collected from officially published materials. To mention some, the researcher has referred publications on MSE policy and directives in order to have background knowledge about the attitude towards and support of the government to the sector. Reports, statistical bulletins, brochures and other materials have been used for other necessary information. In addition, the researcher has used literature related to MSEs and local economic development used as theoretical and conceptual frame of the study.

1.5.2. Study design

The study is a cross-sectional method that involves sampling. This design is more appropriate for this study since it involves sampling various segments of a population at point of time.

1.5.3 Sampling techniques and size

For the study the researcher has used a sample survey method. The sample survey has focused on the licensed metal and wood work micro and small enterprises. For sampling, lists of all licensed metal and wood work MSEs (sample frame) have been taken from Mekelle town trade and industry office. Accordingly, as per June 2007, it is identified that there are about 486 Metal and wood work enterprises established and actively doing business in the town. Out of these, 34 of them are cooperatives and the remaining large numbers (452) are individually owned enterprises. Hence, samples are taken from this population.

With available time and cost, 20% of the total population (enterprises) is used as a sample. Accordingly, from the 486 total numbers of licensed metal and wood work enterprises the researcher has taken a sample size of 102 enterprises. All of the cooperatives (34) were taken purposely to compare with the individually owned MSEs and 68 enterprises were selected from the individually owned MSEs using systematic random sampling.

Since the cooperative MSEs were newly established enterprises (established in 2003/04 and after) in order to make the comparison with individually owned enterprises, the enterprises are categorized based on the year of establishment. It was found out that those enterprises established before 2003/04 are 210 whereas those established in 2003/04 and after are 276 (including the cooperatives). Then, in order to facilitate the comparison 34 enterprises from each category have been taken as a sample. The above explanation is summarized in the table below.

Table 1.1 Number of enterprises and sample size

Year of establishment	No of MSEs by ownership		Sample MSEs taken	
	Individually owned MSEs	Cooperatives	Individually owned MSEs	Cooperatives
Before 2003/04	210	-	34	-
2003/04– 2006/07	242	34	34	34
Sub-total	452	34	**68**	**34**
Total	**486**		**102**	

1.5.4. Data collection instruments

In the fieldwork, mainly four data collection techniques namely questionnaire, focus group discussion and interview and observation have been used to collect the required quantitative and qualitative data.

i. Questionnaire

Structured type of questionnaire (closed and open ended) with 49 questions has been prepared as an instrument to gather information from the MSE owners (managers) concerning the issues under study. In addition, five enumerators have been recruited to collect the data. Furthermore, due attention has been given the questionnaire to be clear, relevant and unambiguous to the respondents. Double-barreled and biased questions have also been avoided.

ii. Focus group discussion

In this case, two focus group discussions (FGD) were conducted, each group containing eight people (i.e. one with individually owned MSEs, other with cooperative MSEs) to enrich the information about the study. Some of the issues of discussion during the FGD were:-

- Concerning employment creation and income generation.
- Their contribution to local economic development.
- The problems that affect the enterprises.
- The proposed solutions to solve the problems.

iii. Interview and observation

Interviewing is the other most important data collection instrument of the study. It was conducted with enterprise owners (managers), in various issues of the enterprises (listed below). So, the researcher has met and interviewed a total of 9 owners (leaders) of the MSE operators, parallel with observation of their workshops. These owners(leaders) were selected randomly 6 from individually owned and 3 from cooperatives Besides, interview has also been conducted with four MSE support office experts (key informants) of the Mekelle trade and industry office and with one senior UNIDO expert who supports metal and wood work MSEs in Mekelle town. The researcher prepared a check list (a list of issues) that help to persuade the discussion. The general issues encompass the following points:-

- What are the government policies and incentives regarding MSEs promotion?
- What are the contributions of the MSEs to local economic development?
- What kinds of supports are provided to MSEs? And what strengths and limitations are prevailing?
- What kinds of challenges (internal and external) are faced the MSEs?
- What kinds of Measures have to be taken to solve the challenges?

1.5.5. Method of data analysis

This study has attempted to catch required information by using different techniques of data collection from different sources. The method of data analysis used for the study is descriptive type. This means that raw data have been organized into different data files. The different questions from the questionnaire have been entered in to a computer. Finally, both the secondary and primary data collected have been analyzed with descriptive statistical tools such as tables, percentages and averages for summarizing the data.

1.6. Significance of the study

There are many MSEs in Mekelle town. Some of them are new establishments and the majorities are existing enterprises. Their potential to create employment and to generate income makes them crucial economic instrument. Hence, this paper has a significance to provide relevant information to policy makers and local development planners working on the development and creation of enabling environment for MSEs. Furthermore, recently the role played by MSEs in local economic development has gained a new attention in academic research. In this case, the study will provide additional information about MSEs in Mekelle for interested researchers in the sector.

1.7. Limitations of the Study

This study was faced with different limitations. Firstly; it was limited by time resource to study thoroughly the role of MSEs in local economic development in the study area. Secondly, in some of the enterprises the owners (managers) was not found. In this case data was collected through the acting managers and finance heads. Thirdly, respondents also show a tendency of underestimating their income and capital; this is because they fear tax and other related problems.

1.8. Organization of the thesis

This thesis is organized in to five chapters. The first chapter is an introduction deals with background of the study, research problem, objectives and methodology of the study. The second chapter provides review of literature which comprises conceptual/ theoretical literature and review of empirical literature on the topic under investigation. Chapter three, deals with the description of the study area. Chapter four, deals with analysis and survey results of the study. Finally, chapter five will wind up with conclusions and recommendations.

CHAPTER –TWO
LITERATURE REVIEW

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

2.1. Theoretical / Conceptual Literature

2.1.1 Micro and small enterprises

2.1.1.1 Conceptual definition of MSEs

In many cases, Micro and Small Enterprises termed as informal sector. They show the informality of labor relation and work organization. However, the definition of informal sector varies depending on national circumstances and practices. The basic distinctions between formal and informal activities depend on the manner in which they produce and exchange. Among several definitions in different organizations and countries, some are described as follows:

The ILO's adjusted definition "informal sector is understood to refer to every small scale unit producing and distributing goods and services and consisting of independent seller, employed producers in urban areas of developing countries some of whom employ family labor and, or a few hired workers or apprentices which operate with very little capital, or none at all, which utilize a low level of productivity. They are for the most part unregistered and unrecorded in an official statistics, they tend to have little or no access to organized markets, to credit institution, or to many public service" (Macharia, 1997).

With slight elaborations of the ILO's West African countries defined informal sector: "Self-owned enterprises, which may employ family

workers, and employees on an occasional basis and those, which are not registered under specific forms of national legislation, and enterprises of informal employers who may employ one or more employees on a continuous basis and who comply with the size of the establishment is below a specified level of employment and /or non-registration of the enterprise or its employees" (Grath Mc and king 1999).

A study conducted by ILO (1993), in Ethiopia asserted that: "An enterprise is in the informal sector if it has one or more of the following properties: owner management with less than 10 wage employees including the case of single person enterprise of self employment, engagement of members of the family of the owner and a significant part of the work force outside of a formal contract, considerable dependence on indigenous or traditional technology, lack of need for skill acquired through formal training, lack of proper accounting system and formal management structure, orientation for subsistence rather than growth, lack of fixed location, and the absence of significant dependence on formal financial institution as sources of credit."

The (CSA) Central Statistical Authority (2002) defined the sector as "household type establishment/activities/, which are mainly engaged in marketed production, are not registered companies or co-operatives, have no full written book of accounts, have less than 10 persons engaged in the activities and have no license."

Micro and Small Enterprises defined in several countries with in their different purpose and intention. The definition in use, depend on the purposes these definitions are required to serve the policies, which govern the sector. In spite of certain similarities in the definitions, there is no single definition that is universally applied. The reason behind the absence of common definition is that (Dirk 1994, cited in Efrem 2005) "there are different groups of small /medium/ enterprises, different with

respect to technology, the nature of raw materials, and to their markets. The different classes of enterprises are different with respect to their developmental advantages, and with respect to the impact of policy and policy change. Thus it is problematic to speak small and medium enterprises in unspecified manner."

There is no common definition for micro and small enterprises. However, the parameters generally applied by most countries, singly or in combination are: capital investment in plant and machinery, number of workers employed and volume of production or turnover of business (Hewaliyang, 2002). A quantitative definition in each nation's context has advantageous; it makes to target macro policies to specific group of enterprises. It facilitates the provision of technical assistance and the channeling of benefits under various policies, fiscal and financial concessions, and other incentives.

In Asian countries (Hewaliyang, 2002) appears that the more precise the definition, the more effective has been the transaction of policies intended to benefit the sector in actual results. Generally, there are qualitative, comparative and a quantitative criterion's to define micro and small enterprises. Qualitative sides are their internal management structure, decision-making processes, financial practices, training styles, and attendant risk factors.

The comparative factors have to do with the way micro and small enterprise are studied vis-à-vis large enterprises in the corporate sector. They are small sized in comparison with the large entities in which they share a given economic space. Where as for quantities criteria number of employment, sales turnover and invested capital usually used to measuring standards. So that, micro and small enterprises come in varying sizes and in one country may well be larger than the 'big' companies in another (Hewaliyang, 2002).

It is also being noted that there are discrepancies with countries in naming the sector. Countries name it in Small-Scale Industries (SSI), Micro and Small Enterprises (MSEs), Small and Medium Enterprises (SMEs).

In Ethiopia, Micro and Small Enterprises defined according to Federal Micro and Small Enterprises' Strategy, (Ministry of Trade and Industry, 1997) based on the size of capital and level of automation as follows: -

> *"**Micro Enterprises** are those small business enterprises with a paid-up capital of not exceeding birr 20,000 and excluding high - tech consultancy firms and other high tech establishments. Where as **Small Enterprises** are those business enterprises with paid-up capital of above 20,000 and not exceeding birr 500,000 and excluding high tech consultancy firms and other high tech establishment."*

In the strategy (1997) document, it can conclude that the definition made to be limited in this stage is in order to address all the needy enterprises with in the limited resources. Definition can be improved or will be expanded later when resource allows making intervention broadly. In this study therefore, the existing definition considered as departing point to all discussions on micro and small enterprises.

Finally according to Taye (1997), enterprises are usually divided in to four levels: micro, small, medium, and large. The definition varies from country to country based on the level of economic development of the country. Classifying enterprises in the above four category can be based on a firm assets, sales, or number of employees working in the firm. Accordingly, an enterprise considered small in one country may be

medium or micro in another country. Let us see the definition of MSEs in different countries in the table below.

Table 2.1. Definition of MSEs in different countries.

Country	Category of industry	Criteria
Ethiopia	Micro-enterprise	Capital below Birr. 20,000
	Small-enterprise	Capital between Birr 20,000-500,000
Ghana	Micro enterprise	1-4 Workers employed
	Small-enterprise	5-29 workers employed
Germany	Small and medium enterprise	<500 employees
Indonesia	Small and medium enterprise	<100 employees

Source: Hailay Gebretinsae, (2003:21)

2.1.1.2 Theories of Micro and small enterprises

The concept of Micro and Small Enterprises has also been related to the role they play in the economic development of a particular nation. In explaining the existing roles that MSEs play, two schools of theories of MSEs have emerged. These are the classical and the modern theories (Tambunan 2006).

The classical theory on MSEs postulates that in the course of economic development, reflected *by* the increase in per capita real income, the economic share of MSEs would decline steadily. Those of large and modern enterprise, on the other hand, would take off rapidly and finally dominate the economy. The theoretical implication of this school of though is that, poverty and the importance of MSEs are positively correlated: the economic share of MSEs increase as the poverty rate, i.e., percentage of population living under the poverty line increases. In other

words, this view of the classical theorists' support the argument that the higher the proportion of people in state of poverty the more will be the contribution of MSEs in reducing such poverty (Tambunan 2006).

However, the classical theory on MSE has been criticized on the ground that it neglects economic growth of MSEs through networking and agglomeration/clustering. In other words, classical views on MSEs focused on the relationship between level of income and the growth of MSEs. *As* a response to the above apparent shortcoming of classical views, new /modern theory emerged which seems to focus on agglomeration and networking effects of MSEs and their ultimate development of local economy (Tambunan 2006).

The modern theory, as opposed to classical view on MSEs, has been connected with the issue of flexible Specialization that emerged in 1980. Proponents of this view postulate that the major reason for the emergence of the notion of flexible specialization is the long debate over how to interpret the new global pattern of production caused by globalization forces and industrial restricting. These have changed the way in which production and labor are organized. And global production has undergone a transformation from Fordist (mass production) to non-Fordist production. Hence, flexible specialization is one of the inactive features of such transformation (piore and Sabel, 1984 cited in Tambunan, 2006). These same authors have identified three organizational characteristics of flexible specialization:

a. Flexible and specialization: firms in the community form part of a bounded community from which outsiders are largely excluded.
b. High level of competitive innovation: there is continuous pressure on firms in the community to promote innovation in order to keep an edge on their competitor.

c. High level of cooperation: there exists limited competition among firms in the community over wages and working conditions, encouraging greater cooperation among them.

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

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

2.1.1.3 Characteristics of micro and small enterprises

Micro and small enterprises share similar characteristics. The two main features are their small scale of operation and labor-intensive mode of production. Further more, the other common characteristics of the sector according to the Netherlands Ministry of foreign affairs small scale enterprise policy document (1986) are the following: -

- The small -scale enterprises generally work and produce for the local market.
- Small-scale enterprises are to large extent solely run by the owners themselves and members of the family.
- Women account for a relatively high proportion of owners or workers in the MSEs.
- Personal savings or family money provides the primary source of capital for the establishment of MSEs.

- Most micro and small enterprises keep incomplete and inadequate accounts.
- Micro and small enterprises are easy to start with less skill and less capital.
- Finally they have less access to formal channel for the provision of credit and other forms of support.

2.1.1.4. The socio-economic contribution of Micro and Small Enterprises

MSEs have great contribution to social and economic development. According to Lied Holm and Mead (1999), MSEs have the potential to contribute in a number of important ways to the poverty reduction and development process. Among the most significant of these are the following: -

a. Contribution to household income and welfare
   - Providing income maintenance for those with few options.
   - Providing a basis for growth in income and welfare through asset accumulation, skill development, and access to more rewarding economic opportunities.
   - Providing employment.

b. Contribution to self-confidence and empowerment of the individual.
   - Recognition of the dignity of the individual
   - Spreading the vision that change is possible.

c. Contribution to social change, political stability.
   - Providing new opportunities for the poor.
   - Providing new opportunities for women.
   - Providing new opportunities for those in rural areas and in isolated locations.

In addition, according to wolday (2002) although the contribution of MSEs on employment, production and poverty alleviation is generally recognized, the MSEs, have also the following specific roles, they are: -

- Source of Entrepreneurship.
- Center of innovation.
- Means of realizing equitable income distribution.
- Users of local raw materials.
- Source of foreign exchange.
- Tools of exploiting niche market.
- They are flexible during economic changes.
- They use more labor-intensive technology compare with large firms.
- They improve backward and forward linkages, and are the basis for medium and large-scale enterprises (promote inter-sect oral linkages).

2.1.2 Local Economic Development (LED)

The experience of 1950s and 1960s, when many third world nations did realize their economic growth-targets but the levels of living of the masses of people remained for the most part unchanged, signaled that some thing was very wrong with this narrow definition of development. An increasing number of economists and policy makers now demand for the idea change of GNP and the elevation of direct attacks on widespread absolute poverty, increasing inequitable income distributions and rising unemployment. In short, during the 1970s, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality and unemployment with in the context of a growing economy (Todaro, 2000).

In the same decades cited above, thinking about and action on development were also dominated by the modernization approach that focused on rapid economic growth and capital formation (Hulme and Tubner, 1990; Webster, 1990). The approach also promotes the diffusion

of development impulses from industrialized countries to developing countries without recognizing local efforts of developing countries to develop themselves. This was the period characterized by output maximization irrespective of the distributional effects and persistently growing poverty, inequality, and rampant unemployment.

Development must therefore be conceived of as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. Development in its essence must represent the whole scope of change by which an entire social system tuned to the diverse basic needs and desired of individuals and social groups with in the system moves away from a condition of life widely perceived as unsatisfactory towards a situation or condition of life regarded as materially and spiritually better (Todaro, 2000).

Earlier development approaches were essentially top down approach and highly centralized. They were national in scope and as well as sectoral in nature. They were prepared with no input from the intended beneficiaries. As a result they were not capable of addressing, regional and local problems (Tegegne, 2006). Hence, this sub title will discuss about the background, definition and theoretical aspects of local economic development (LED).

2.1.2.1 Background and definition of LED

Recently development initiatives seem to have shifted from the national level to local level. The shift started in developed country in 1980s when local economic development (LED) emerged and later shifted to the developing countries where, liberalization, structural adjustment and privatization left nation states less able and less willing to intervene in their own economies (Tegegne, 2006).

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

LED has more links with the global rather than the national. This is because with globalization the nation state has lost its importance and economic development has become localized leading to the emergence of the Locality or region as the economic space. Globalization such as the emergence and expansion of TNCs, the growing of information and communication technologies; the expression of financial markets have all lead to making the nation states insignificant and economic activity to be undertaken in the localized places- leading to the emergence of world class cities from where production and management is controlled (Tegegne, 2006).

LED is a local development using local resources - human, institutional and physical. It is based on variables controlled from the area rather than on the allocation of outside resources from the national level. It is the process by which actors with in a locality work collectively with public, business and non – governmental sector partners to create better conditions for economic growth and employment generation. Through this process they establish and maintain a dynamic entrepreneurial culture and create new community and business wealth in order to enhance the quality of life for all in the community (World Bank, 2001).

Helming *(2001)* distinguished between two sets of forces of change in the context of local economic development. The first set *refers* to fundamental changes in development policy. These are i) structural adjustment and liberalization policy ii) no longer believing with state and

state-led development iii) aid fatigue and decline of aid necessitating alternatives. The second set *refers* to globalization which consists of i) space reducing technologies in transport and communication ii) technological and managerial changes in the production of goods and services and iii) the growing volume of people capital and firms that are mobile across the globe (Helm sing, *2001).*

Guimeras (1998) laments that; LED has no adequate model and theory to lead its development. He mentioned that the reasons are that localities are open, small and more dynamic making more variables to enter in the development process. Then it becomes difficult to isolate the most important factor leading to development.

Although there are differences among scholars in the definition of Local Economic Development, there is a great deal of similarities in the component of defining LED. According to Helm sing (2001), LED is defined as:

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

Similarly, Birkholzer (2005) defined LED by adopting two analytical perspectives in economic- descriptive and political from a descriptive perspective, LED tends to cover all economic activities that happen at local and regional level and/or have any impact on the localities. Based on this perspective, the locality is seen as an economic actor in its own

right. In traditional economic thinking, however, the locality exists more or less only as a place or space where other economic actors like enterprises; industries, investors, authorities, etc compete and use or exploit their natural and human resources. However, from a local economy viewpoint, the localities, i.e., the villages, towns, cities and regions are understood as 'living organisms' or 'communities'.

2.1.2.2 Theories of Local Economic Development

Three distinct paradigms of local and regional development can be recognized (Hinder ink J and Titus M.J, 1988, cited in Tegegne, 2006). The first considers development of regions as the Junction of national economic development. Great value is attached to regional planning as instrument in the development process. This paradigm is labeled as functional regional development in the 1960s, policy makers became interested in the spatial dimension of development and the regional aspect of policy making and planning. As a result, public funds were allocated on the basis of not only national criteria but also on regional ones as well. Attention was focused not only on the metropolitan areas and commercialized agriculture regions but also on stagnant zones, peripheral areas and resource frontiers. But the development objectives of national policy were subordinated to national (economic) aims. Regions were conceptualized as open system whose development will promote their functional integration into the national economy

The second paradigm is labeled as dependent regional development though development is seen in terms of national (economic) aims, regional development, to this paradigm, can only be brought about through structural change which the existing relations of dependency. Therefore policies should be geared not only to economic growth but also to changing the political order too-at national, regional and local level. The paradigm argues that the existing strategies are found to reinforce

the existing power structures and as a result the expected economic and social transformation could not come about (Tegegne, 2006).

The third paradigm is 'territorial development'. This paradigm conceives regions territorial entities that should develop in their own way and according to their own interests. Consequently regional development is seen as a process of development from which brings about improvement in living condition within the territory concerned. The territorial development paradigm emphasizes the negative effects of centralizing tendencies and bureaucratic control, which stifles local action and participation at grass-root level. The theoretical foundation of this paradigm is weak. This is seen from weak theorization on selective territorial closure. The agropolitan development is the most concrete example of territorial closure. The agropolitan development is the most concrete example of territorial development (Tegegne, 2006).

This paradigm rejects the openness of regions and the subordination of regional development objectives to national objectives. Its supporters advocate the use of regional resources for the benefit of the regional population, the development of an integrated and diversified agro-industry economy geared to regional needs, the decentralization of planning and decision making as well as grass-root participation.

In general, developing countries had experienced different development paradigms that had bearing on economic development. Although they were different, two dominant schools of thought influenced economic development models: development from above and-development from below (Nelson, 1995).

The development from above approach relies on the hypotheses that development is geared by external demand thus being externally it entertains the industrial and deliberate urbanization strategy which is

accompanied by capital intensive and so hesitated technology. The concept of such an approach revolves around the idea that growth takes place in selected spatial entities and Spreads out ward. This concept is embodied in various theoretical approaches of Hirsch man's polarization and Friedman's core-periphery constitutes the most outstanding ones. The main proponents of this approach argue that growth should start on few selected centers (Nelson, 1995).

The second approach is development from below school: This school gives a special emphasis to strategic rural development. It strongly adheres to the basic concept of the creation of indigenous dynamic development impulses with in the rural hinterland. It does not only argue for the reversal of strategies and options that favor urbanization and agglomeration *of* Industries but also stresses that the direction of development options has to be reversed in space. The main argument of this school is that development strategies and efforts should emanate internally from the natural and socio-economic and political factors that shape the local community in such a way that it benefits the locality and enhances development. Some theoretical approaches that advocate and support the development from below approach include the idea of agropolitan development, selective spatial closure and integrated rural development (Ibid).

2.1.2.3 Initiatives and actors of Local economic development

Rogerson 1995, (cited in Tegegne, 2006), indicated that there are three methods to promote LED. These are i) attraction of inward investment or traditional boosterism ii) the industrial district model iii) local level economic activities and survival strategies. Similar to these strategies, Helm sing *(2001)* identified three initiatives to promote local economic development. These are: community economic development, enterprise development and locality development.

Community economic development applies to both urban and rural setting. The essence is to facilitate household diversification of economic activity as the principal way to improve livelihood and reduce poverty and vulnerability. In rural areas, agricultural activities become less important and non-agricultural and non-farm activities become important. In urban areas, micro enterprises, urban agriculture are some of the activities in which the poor engage (Helm sing, 2005).

According to Helm sing (2005) community based economic development has a number of aims. These include stimulating a sense of community, promoting self-help and empowerment, improving living and working conditions in settlements and creating public and community service. The components of community economic programs are local safety nets, housing improvement and settlement upgrading basic service delivery, stimulating community economy.

Enterprise development in the form of clusters is considered as a significant form of LED initiatives. Once a cluster is set in what comes after is a form of LED that is active collective efficiency. The advantage here is local producers may specialize among themselves; the second is the creation of private regulatory and support institutions and the third is local collective action of local producers towards both central and local government to lobby for public support institutions and in the area of vocational training, technology development or a local transport terminal.

An important issue in enterprise development is the target groups. The four target groups are i) attracting firms from else where ii) formation of new firms iii) expanding existing firms and iv) innovation and graduation of MSEs. Various incentives given to firms include-financial service, business development services (BDS), capital programs e.g. provision of infrastructure (Helm sing, 2001).

Micro and Small Enterprises, therefore, are considered as part and parcel *of* the huge component *of* Local Economic Development, which involves utilization of local raw materials, labour, entrepreneurship, market and the like, to improve the living conditions of operators and other beneficiaries through employment and income generation. In addition, it is hoped that MSEs can alleviate poverty as they are owned and operated *by* low-income groups of a society.

Locality Development refers to overall planning and management of economic and physical development of the area concerned. It involves the development of infrastructure and relevant economic and social overhead capital. Locality development considers both the export and non-basic sector. Locality development corresponds to the management of the entire local territory: built up physical infrastructure; economic and social overhead capital. The components include physical planning and development controls, urban planning and design, infrastructure, socio-economic overhead capital (Helmsing, 2001).

LED initiative is a 'forum' of partnership between the three development actors. In this forum, the actors come into an interaction in the mobilization of indigenous resources and efforts to arrive at a desired level of economic development. The three actors (i.e. the local government, the private sector and the community) do have their own peculiar as well as common (joint) roles/contributions toward local economic development (Helm sing 2005).

Local government represents the public sector. All bureaucratic, administrative, political and economic activities of the local government constitute the public sector. Government intervention is justified on both efficiency and equity grounds. Government action is needed especially in conditions where the market is not able to operate efficiently (market failure) because of monopolistic behavior, risk/uncertainty, positive and

negative externalities, free-riding, etc. Therefore, local government (and the public sector at large) is involved in the provision of public goods (for efficiency reasons). Moreover, the government has the commitment to provide access to certain goods and services regardless of people's ability and willingness to pay for equity reasons (Elias 2005, cited in Tegegne 2005).

The private sector is the one that generally creates jobs and generates investments by producing tradable goods. The private sector has a big stake in local economic development (LED) and also brings in a range of resources including management skills, technical knowledge and access to finance.

The community sector is the one that includes non-government and community based organizations, plays a significant role in LED promotion because it serves as a bridge by which access is gained to particular groups of population in a locality, which are generally difficult to reach. The community sector also has other valuable features to LED promotion including: (i) focus on target groups (focus on consumer preferences), (ii) flexibility and responsiveness, (iii) minimum level of bureaucracy, (iv) heterogeneity, (v) ability to experiment, innovate and pioneer untied development approaches, and (iv) deep commitment to a clearly defined mission. Moreover, the community sector can also be directed involved in LED promotion through participation in policy formulation (Elias, cited in Tegegne 2005).

2.1.3.4. MSEs and Urban-Rural linkages

When urban economics grow, they impact in a positive way the economies of rural areas (especially the farm sector) by providing market for rural products. The movement of people from rural area will also reduce the burden of population pressure on limited farm land. Increasing urbanization creates a potential market for a variety of high-value agricultural products and raw materials from the rural area, and

increases the income of rural products. Increased rural incomes and purchasing power, on the other hand, create strong demand for industrial products and urban-based services as well as enhancing investment to increase agricultural production and productivity. This will have a positive spillover effect on the over all economic growth in both urban and rural areas (UNDP, 2004).

Urban-rural linkages are natural courses of interdependence between urban and rural areas to complement each other. They are manifestations of the visible flows of people, commodity, capital, technology and information across the two spatial units. Spatial system is the pattern in which population, functions, and economic activities etc are distributed and organized in a geographically defined area. As development can not take place in a spatial vacuum it is important to understand this spatial system in order to design appropriate policies and strategies. Spatial development is mainly concerned with the establishment of balanced territorial development and settlement patterns that faster over all development of a region (Tibebu, 2003).

Different studies made on urban-rural linkages show that the dimensions and classification of linkages vary based on the objectives and scopes of the study. For instance Tacoli (1998) divide urban-rural linkages in to the following categories.

i. **The spatial linkages:-** This means the flows of people, goods, money, information, etc across the rural-urban continuum.
ii. **Sectoral linkages:-**This assumes the availability of non farm activities in the rural areas and the existence of farming activities with in the urban proper. A sharp dichotomy of urban and rural settlements often assumes that the livelihoods of their inhabitants can equally being divided into two main mutually exclusive sectors. Accordingly, agricultural activities are for the

rural areas while manufacturing and services are for the urban areas.

iii. **The linkages between urban and rural sectors:-** This is expressed in the marketing of urban (manufacturing) products in the rural areas and the sell of rural (agricultural) products in the urban markets.

In addition as it has been also indicated by Tacoli 2003 (cited in Tegegne, 2006), There are different types and levels of inter-sectoral linkages. They operate of household level and at the level of local economies, and include backward and forward production linkages between agriculture and manufacturing. Backward production linkage is manifested as agriculture absorbs inputs like machinery, farm tools, fertilizer etc. produced by local small scale industries. Forward production linkage refers to the supply of agricultural raw materials for processing and distribution. In this case, MSEs in general and the manufacturing sector in particular are the enterprises which create linkages between rural and urban areas, specially with the farm sector products in processing as well as providing agricultural inputs to increase production.

2.2 Empirical literature

2.2.1 Significance contribution of MSEs in different countries

Governments of less developed countries have been supporting for micro and small enterprises through various programs such as credit schemes, entrepreneurship training technology support etc. (Zaid and Torben, 2003) to develop the sector and to contribute significantly in the economy. Let us see some of the significant contribution of the sector in different countries.

According to Todaro (2000) the informal sector is a major provider of urban jobs in many Asian countries. Among individual countries for which statistics are available, the figure reaches 50% in India, 45% in Indonesia, 35% in Malaysia, and 60% in Pakistan. In case of Latin

American countries 61% in Bolivia, 55% in Argentina, 56% in Brazil and 69% in Paraguay.

Besides, ILO (1998) survey report of 17 African countries found that the informal sector contributes on average 20% of GDP and 61% of the sub-Saharan urban labor force employment. For instance, in the years between 1980 and 1985 the employment share of MSEs for Kenya and Ghana was around 40% and 80% respectively, out of the total urban employment.

According to Staley and Morse (1985), 81% of the manufacturing establishments in the United States in 1970 had small enterprises with less than 100 employees. These establishments employed 25% of all manufacturing employees and produce 23% of the total value added by manufactures. The relative importance of small enterprises in West Germany and United Kingdom was also greater, 27% and 26% of all manufacturing employees respectively. The percentages of small enterprises employment are even higher like in New Zealand 62%, Argentina 52% and Japan 56% (Staley and Morse, 1985). Hence, this shows that micro and small enterprise are contributing significantly even in developed countries.

In 2000, china had more than 20.85 million small-scale enterprises, with 128.2 million employees and generating 2,720 billion dollar in added value, and 9.14 percent increase every year of the small-scale enterprises (china today, 2002).

The micro and small enterprises constitute an important segment of the Indian economy, Contributing around 39% of the country's manufacturing output and 34% of its exports in 2004/2005. The sector also provides employment for around 29.5 million people in rural and urban areas (Tsegabu, 2006).

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

According to Wangwe (1999), the economic contribution of the micro and small enterprises sector in Tanzania was about 20-30% of the GDP, and they consist of more than 1 million enterprises engaging three-four million persons, that are about 20-30 % of the labour force of the country.

In Burkina Faso, based on the 1990 survey on MSEs, there were 90,000 established micro enterprises. Between 1985 and 1992, the sector is estimated to have contributed 30% of the GNP which exceeded agriculture (20-45%) and the modern secondary sector (23-86%) in the same period. Moreover, the MSEs sector employs 77% of the non-agricultural population and 8.6% of the total active population of Burkina Faso (UNCTAD, 2005).

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

2.2.2 Micro and small enterprises in the Ethiopian economy

The Ethiopian MSE sector is characterized by highly diversified activities. This can create job opportunities for a substantial segment of the population. It employs a large segment of the labor force outside of agriculture. The sector plays vital role in the supply of basic consumer

goods to the society, and in a poor country like Ethiopia MSEs play crucial role for capital accumulation.

According to the CSA survey of 1997 there were a total of 584,913 micro enterprise operators and 2731 small scale manufacturing activities. By the time, the 2003 survey was conducted the number has increased significantly to 974,676 micro enterprises (cottage and handicraft) and 31,863 small scale manufacturing enterprises and this is expected to be much higher when the result of the CSA survey of 2006 is published. The persons engaged in the micro enterprise-manufacturing sector were about 1.3 million (94.18%were active owners indicating large degree of self- employment); and in the small manufacturing establishments 97 thousand employs respectively.

Women comprise 73.74% of those employed in the micro enterprises sector and 9% in the small scale-manufacturing sector (CSA, 2003). More than 65% of all females in cottage /Handicraft manufacturing industries (micro enterprises) were engaged in processing of food products and beverages.

The average gross value of production and value added per person engaged in micro enterprises in urban areas were Birr 2,619 and Birr 865 respectively, while for rural areas this comes to Birr 901 and Birr 349, respectively. In addition, 87.03% of the surveyed micro enterprises started their operation with a total capital of less than Birr 250 while only 0.38% commenced operation with a capital ranging from Birr 5001 to Birr 10,000(CSA, 2003).

Most of the micro enterprises in manufacturing activities (55% of the total) are engaged in food and beverages (of which 65% are women), followed by textiles (23%); Whereas in the small scale manufacturing sector 85% are grain mills,4%metals, 3.5% furniture, 3% wearing apparel

and 2% food products and rest in other sectors. When it comes to ownership,74% of micro producers,17 % of small scale and 0.2% of medium and large manufacturing businesses (CSA, 2003).

The average annual labor cost per establishment for small scale manufacturing sector was about Birr 2,347. The highest and the lowest labor cost within the manufacturing sector were 38,486 and Birr 1,574, in the chemical industry and manufacture of wearing apparel sector respectively (CSA, 2003).

MSEs absorbed the large pull of the countries less skilled labor force. In this regards, 47.3% of the male and 29.37% of the female employees in small-scale manufacturing have completed primary (grade 1-6) education, while 44% (out of which 38% male and 6% female proportion) of the total have completed grade 7-12. Moreover 1.60% of the males and 3.53% of the females have attained educational level of above grade 12 (CSA, 2003).

Out of the total small scale manufacturing establishments,27,223 (85.44%) constituted manufacture of grain mill services. This activity constitute 84.75% the number of persons engaged, 75.65% of the gross value of production, 79.21% of the value added, 79.02% of the operating surplus and 88.5% of the total fixed assets. Besides, micro and small enterprises accounted for about 97% of the establishments and 19 % of the gross value of production in the manufacturing sector; while the share of small scale manufacturing sector was 2.9 % and 8 % respectively (CSA, 2003).

The results of the CSA survey in the above paragraphs indicated that the sector plays crucial role in the social and economic life of the country. It provides productive employment to a large proportion of the population, probably next to agriculture. For a poor country like Ethiopia the potential role of the MSE sector is immense. Since micro and small scale business require small startup capital, the sector plays important role in

alleviating poverty in the short term and through their ability for capital accumulation, MSEs have great potential for poverty eradication in the medium term.

2.2.3 Constraints of Micro and Small Enterprises in Ethiopia

The constraints identified by various studies on micro and small enterprises in Ethiopia are associated with market, Finance, skill labor, infrastructure, raw material, technology and rules and regulations. The details are explained below.

Financial Constraint

Gebrehiwot and Wolday (2004) contend that most MSE require rather small amount of initial and expansion capital as well as working capital. Except in certain cases where the MSE, are relatively large, or use modern or improved technologies even in the later cases. Capital requirements may only be moderately large. Yet shortage of both types of capital is often a major constraint faced by MSEs. The initial capital for starting up MSEs is usually raised by the proprietors from their own sources (family saving, sale of property). They also raised working capital and expansion capital from their own sources, including any profit made and from individual money lenders.

Market problem

According to Andualem (1997), MSEs in Ethiopia, usually market constraints and the inability to sell their products and services are listed as one of the most serious obstacles to the starting of business and growth beyond mere subsistence level. The CSA (2003) report which is based on 31,863 small scale manufacturing industries all over the country, of which 19,996 (62.75%) are located in urban and the remaining were in rural areas, showed that 48% of the total establishments have faced a problem of demand or access to market. This demand problem has prevailed because of existence of weak or absence of interlinkage mechanisms with other medium or large

enterprises and existence of weak or absence of appropriate marketing channels, open markets, exhibitions trade fairs, display centers etc which MSEs would have used to market their outputs (CSA 2003).

Lack of skilled labour

This seems a less important constraint to MSEs considering the wide spread unemployment or underemployment in Ethiopia MSEs generally use simple technology which does not require highly skilled workers. However, as Assefa rightly points out, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities (Assefa 1997). In fact, efficient use of improved technologies requires upgrading of workers skills. Hence, technology and skill are two sides of the same coin. Skill is being handed down from one generation to the next as family tradition or through apprenticeship in many traditional MSEs, and such skills remained stagnant because of lack of basic education among the participants and the absence of appropriate training facilities. Hence, the need for development and upgrading of skills remained grossly unfulfilled for MSEs in Ethiopia (Andualem 1997). In line with this, MSEs have also a critical problem of entrepreneurial knowledge to lead their businesses.

Equipment and Technology problem

According to Assefa (1997), MSEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and MSEs competitiveness. In this regard, Wolday and Gebrehiwot (2004) contend that the small-scale enterprise sector in Ethiopia is constrained by poor production and implementation of proper technologies that are appropriate to the sector.

Physical infrastructure problem

Poor infrastructure is one of the major problems of micro and small enterprises. This category includes lack of or high cost of business premise or location, poor electric power and transport. The poor state of

roads in general remains a major problem for many MSEs. The supply of most utilities is unreliable and costly (Economic Commission for Africa, ECA, 1996).

Limited access to raw material and supplies

Shortage of raw materials is also frequent problems faced by Micro and small enterprises. According to Assefa (1997) this problem may arise from a shortage of working capital, which effectively ties the enterprise to high priced, unreliable or low quality supplier. They may not know the right source and best price of the inputs they want due to limited access to information.

Limited access to information and advice

Inadequate access to appropriate, relevant and easily understandable information and advice is one of the most important problems of MSE. Such information and advice revolves around identifying the type of activity about necessary inputs and market information, regulation and legislation, accounting, managerial advice, market, referrals to appropriate bodies and interlinkage information. Accordingly, the survey by the CSA shows that 21.28% and 13.82% of the respondents identified lack of information to identify type of activity and lack of information about appropriate machinery respectively (CSA 2003).

2.2.4 The MSE development strategy in Ethiopia

The industrial development strategy of the federal government of Ethiopia, issued in 2003, clearly states that the private sector will be the engine of industrial development. It also indicates that Promoting MSEs is one of the important instruments to create productive private sector and entrepreneurship and that the government will give due emphasis and priority to promote this sector. The strategy also stresses that every effort will be made to support this sector by providing infrastructure (working premises and land), financial facilities, supply of raw materials, training, etc. Federal and regional governments are expected to

coordinate the support services through the already established MSE development agencies. There are attempts to revise the current national micro and small enterprises strategy of Ethiopia (FDRE, 2003).

The primary objective of the existing MSE strategy (issued in 1997) is to crate enabling legal, institutional and other supportive environment for the development of MSEs. The specific objectives include:

- Facilitate economic growth and bring about equitable development,
- Create long-term jobs,
- Strengthen cooperation between MSEs.
- Provide the basis for medium and large-scale enterprises.
- Promote exports, and
- Balance preferential treatment between MSE and bigger enterprises.

The fundamental principles that guide interventions by stakeholders (government, private sector, NGOs, Chambers and others), as stated in the strategy are as follows:

- Support to the MSE operator will be based on the Agricultural Development Led Industrialization (ADLI) and private sector development.
- All support to the MSE sector should be designed to be all-round.
- Support services should as much as possible is based on fees (cost sharing).
- Addressing marketing problems of MSE operators will be given due consideration.
- Emphasis will be given to the advancement of women.
- The staff of the support institutions should be adequately skilled and trained.
- Supporting institutions: the Ministry of Trade and Industry, Federal Micro and small Enterprise agency, Regional Micro and

small Enterprise Agencies, NGOs and Chambers should provide solid services to the MSE operators.

- The private sector will be involved in the supply of commercial BDS to MSE operators.
- Facilitate cooperative ventures.

The intended supports to promote the MSE sector include creating legal framework, improve access to finance, introduce different incentive schemes, encourage Partnerships; provide training in entrepreneurship, skills, and management; improve access to appropriate technology, information, advice and markets; and develop infrastructure. Due attention is also given in the strategy to strengthen private sector associations and chambers. Based on the national strategy, regional governments have developed their own regional MSE development strategies.

2.2.5 Micro and small enterprises in Tigray region

The sector is not thoroughly studied and no recent clear data is available at hand. However, the study made by CSA (1989) indicated that there were 106,889 micro and small enterprises. Out these 36,096 were cottage industries and 70,793 were informal sectors. Of which 67,340 (63%) were located in the rural areas and the remaining 39,549 (37%) were located in the urban areas. 77% of the enterprises had a capital of less than Birr 250 and only 1.1% had a capital of greater than Birr 5,000. The enterprises had created a job opportunity for 138,352 people of which 66% were women.

Of the total small scale industries, around 51.5% were engaged in food and beverages, 38.7% engaged in textile and the remaining on hides and skins processing, metal and wood work and construction material production. The total capital invested in this sector was estimated to be Birr 42 million and as compared to the overall investment dominantly they were operated by human labor. With regard to the regional gross

domestic product (RGDP), the sector was contributed at that time Birr 88.5 million gross value of production (CSA, 1989).

2.2.6. LED Practices in Urban Ethiopia

Following the demise of the command economic system in Ethiopia, scope of development programs has been extended to include the role of private sector in economic activities. However; despite some positive progress and continued effort towards enhanced involvement of relevant stakeholders in the development process, the role of different actors in decision- making and planning process is still minimal.

The ongoing decentralization process that devolves major government functions to lower tiers of government is the other conducive environment that paves the way for undertaking of enhanced LED programs in Ethiopia. These days, local governments are given adequate power to formulate and execute their own development policies and strategies as well as to own their local affairs. For effectiveness of decentralized development process, extensive capacity building supports are also being provided to local governments.

The increasing attention given to urban developments in the country is also believed to make a significant contribution towards flourishing LED in urban Ethiopia. These days, urban affairs are receiving growing government attention and this attention is expressed in different government measures towards strengthening managerial capacity of municipal governments in the country. The initiatives of stimulating local economic development in urban Ethiopia have gone beyond the provision of enabling institutional and policy frameworks; actual economic development programs had been designed and implemented in some cities. For instance, in Addis Ababa and some regional cities and town, various economic development initiatives were pursued aggressively during the last three years (MoWUD, LED strategy, 2006).

The multifaceted efforts of the Addis Ababa city government to create employment opportunities through enhancing MSEs, condominium housing development projects and neighborhood development programs resulted in encouraging outcomes. These job creation and poverty alleviation initiatives were complemented with capacity building efforts through skill training, technical and managerial supports, access to finance, working space and market outlets, efforts are also going on to replicate the lessons drawn from Addis Ababa to other cities and towns in the country . Supporting MSEs and job creation programs is one of the components of the LED strategy in urban Ethiopia followed by the government to reduce urban unemployment and accelerated urban based employment in linkages with rural development and delivery of housing and basic services. In the last three years (2004/05-2006/07) about 96,000 MSEs were strengthened and some 280,000 jobs have been created (MoWUD, LED strategy, 2006).

2.2.7. LED Practices in Mekelle city

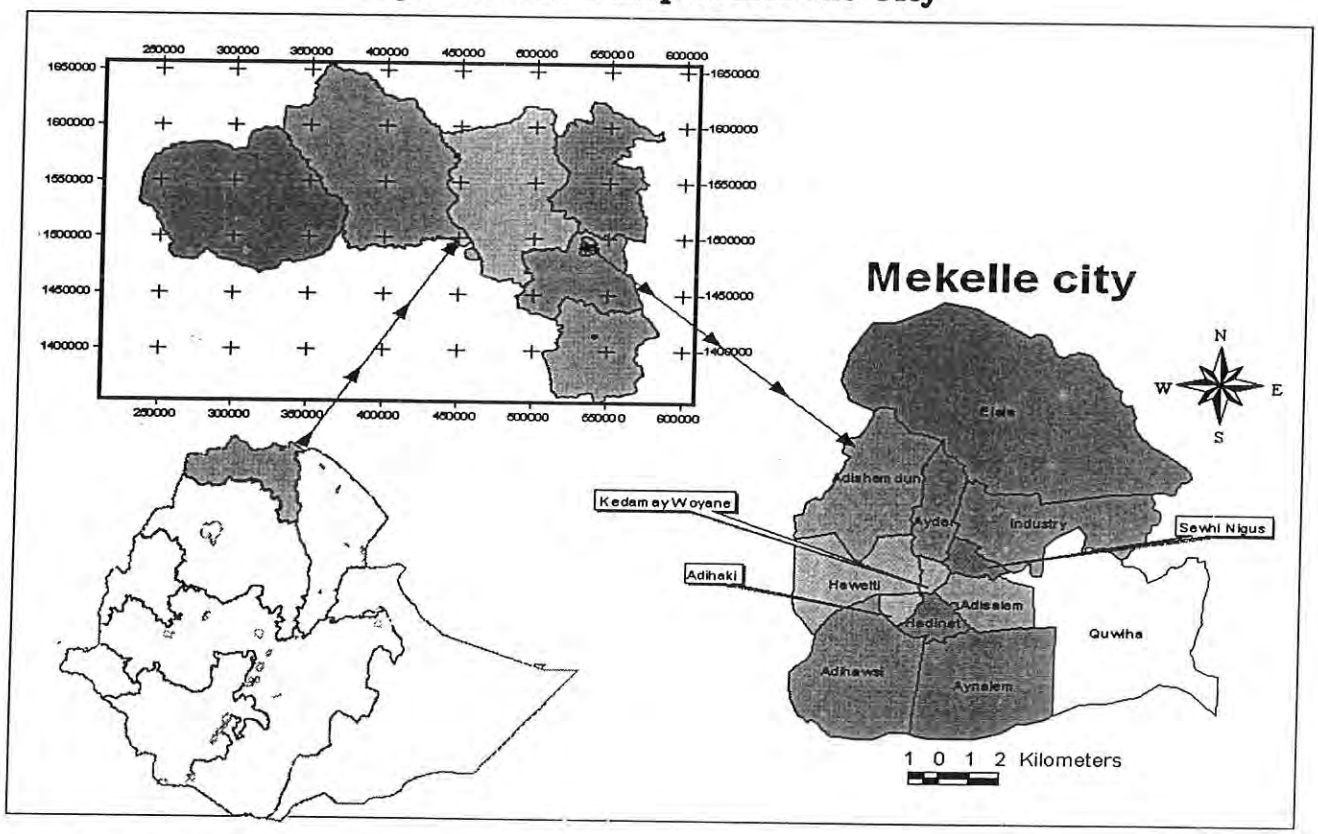
Local Economic Development in terms of public work programs such as the construction of low-cost housing, public toilet, recreational areas, the construction and maintenance of municipal roads and drainage canals, construction and maintenance of schools etc. are undertaken by the municipalities with active labor and money contributions of the communities and MSEs. LED in terms of MSEs development strategy has also some practices in doing housing projects (condos), local road construction with the objective of job creation and solving housing problems in the town. According to Mekelle trade and industry office document (2008), there are a total of 97 cooperative MSEs which have engaged in housing and road construction. These have created for 1269 direct jobs for their members. On the other hand, about 2700 indirect causal jobs are also created due to the housing and road construction projects.

CHAPTER THREE

DESCRIPTION OF THE STUDY AREA

This chapter reviews the background of Mekelle city from the point of view of location, population, administrative, economic, social and financial infrastructures and economic activities of the city.

Fig.1: Location map of Mekelle City



Source: Tigray BoFED, GIS Department.

3.1. Location and population characteristics

Mekelle is located in the northern most part of Ethiopia at a distance of 778 km from Addis Ababa. It is situated at an average altitude of 2200 meters above sea level and its geographic coordinates are 39^0 28^1 east altitude and 13^0 28^1 longitude. The temperature of the city ranges from a mean minimum of 12.8°c to a mean maximum of 27.2°c , thus, the climate of Mekelle is "Weynadega" with annual average temperature of

20°c. The rainy and dry seasons are the two main seasons in Mekelle. The rainy season starts in mid June and lasts in mid September and the average annual rainfall of the city ranges from 50 to 250 mm (Tigray investment office, 2006).

The population projection according to the Tigray bureau of finance and economic development (TBoFED, 2005) has indicated that the total population of Mekelle is 230,000. Of the total, 48.6 percent are male and the rest 51.4% are female. The age composition of the population depicts that 41 percent constitute children aged less than 15 years, 4 percent persons aged 65 and above and the rest 55 percent account for ages between 15-64 years.

The average population growth of the city is 4.8 percent. It is also be lived that out of the total population, migration accounts for 36 percent. This rapid population growth is attributable to a combination of factors including continued migration from the rural areas, natural growth and exportation and displacement of a significant population following the Ethio-Ertitrean border war (TBoFED, 2005)).

Regarding ethnic composition, Tigrigna speaking account for 96 percent while the remaining 4 percent are Amhara, Oromo, Saho and others. The population is also composed of a variety of religions, with a reported 91.3 percent orthodox Christian, 7.7 percent Muslim,0.5 percent catholic, 0.3 percent protestant and 0.2 percent others. The total surface area of the city (both built up and expansion) is about 60 km^2 in 2005. In 2006 indicating rapid urban sprawl to the horizontal (Ibid).

3.2. Administrative Situation

Apart from being the capital city of Tigray regional state, the city of Mekelle has been given a status of special zone by the council of the

region. It is thus one of the six zones in the region which has zonal power and city council of representative.

According to proclamation No 65/2003 the government of the National Regional state of Tigray, the responsibility and function of the Mekelle administration and the municipality have been clearly demarcated. The municipality has acquired a physical, financial and administrative autonomous power from this proclamation in a certain degree.

Since 2003, the city has been administered by a mayor council system. Thus, the state functions of the city have been authorized under the supervision of the manager. According to the new system, the manager has a contractual relationship with the council of the municipality, but yet he remains under the direct supervision of the mayor. Moreover, power is clearly separated among legislators, executives and judiciaries of the city. The highest political body of the city is therefore the council of the people's representatives that has 181 members directly elected from all kebeles of the city.

Mekelle has been restructured in to seven kebeles (sub-cities) that have their respective elected council, executive committee and social court. The kebeles are important tires of the city administration with the respective local people. On the other hand the city municipality has opened seven branches at different parts of the city (at sub-city level) which are organize to give pubic services at proximity.

The mayor- council system of administration introduce so far helps the city to have relative autonomy which there by assists to serve investment in various ways. It enables the city administration and the municipality to have more power and commitment to encourage private sector by providing required land, infrastructure, and other public services.

Being the capital of the region, the city is the center of regional, federal and international organizations. There are also a chamber of commerce and women entrepreneurs association, organizations of the business community, in the city. The organizations do collaborate with the city administration as well as the municipality in fostering private investment and micro and small enterprises.

Having said this, however, there are certain short comings of the city governance. Among others, law deference of the city administration to up the fast growing development, turnover of municipal officials (managers) and inability of the civil servants in considering themselves as public servants and change agents are manifested as being problem of the city government.

3.3. Infrastructure facilities

Huge investment in economic infrastructure is a precondition for establishment and expansion of small enterprises. Industries are un thinkable with out sufficient and standardized infrastructure facilities. Some basic infrastructures in Mekelle are provided by federal and /or regional agencies while most city services are the preoccupation of the municipality.

Roads, electricity, telecommunication and water supply are the most important infrastructure facilities that city should own in order to attract investment and small business development. This, as being corner stones for business activities, the current situation of the infrastructure facilities in Mekelle is described below.

3.3.1. Urban road network

According to 2006 infrastructure inventory report of Mekelle municipality, there are 5 kinds of roads available in the city, i.e. main arterial, sub-arterial, local and unclassified roads. The roads in total are of 280 km in length, and each cover 20.9 km (7.5%), 24.8 km (8.9%),

71.2km (17.4%) and 114.3 km (40.8%) respectively. Besides, from the total length of the roads in the city 38.7 km (13.8%) asphalt and the rest is either gravel or earthen type (Mekelle Administration, IDP, 2006).

The inventory report (2006) also indicates that a total of 29.7 km drainage line is constructed along the roads so far. The drainages are of closed and open ditches. The closed dishes cover 18.1 km (60.9%) of the total and the open dishes cover the remained 11.6 km (39.1%).

The total extension of road network shown above can be taken as a good beginning. But despite its importance in enhancing small business, the road infrastructure coverage is remained inadequate. Especially, the share of the asphalt road is minimum (13.8%) indicating that the quality of the roads in the city is so good in supporting smooth flow of investment activities and flourishing micro and small enterprises (Ibid).

Concerning transportation facilities, there is a medium bus station and a fright terminal in the city. The bus station can accommodate about 60 fleets per day and the fright terminal can do so 150 trucks at a time. There are also hundreds of taxis and horse driven carts that help transport people and goods with in the city. Moreover, the city consists of an international standard airport that gives daily airline services to passengers (Ibid).

3.3. 2. Electric power

For several years Mekelle used to get power supply from diesel generator of low capacity, which was destructed totally when derg abandoned the city in 1989 (1981 E.C.). At present, however, Mekelle is connected to national hydroelectric power grid, and thus a round-the-clock hydroelectric power supply is available in the city.

3.3.3. Telephone service

Since 1991, telecommunication services in Tigray have expanded and Mekelle is served with full automatic and digital phone lines of capacity 5000 and 4000, respectively. Since 2002 internet networks and mobile phones are also made functional (Mekelle Administration, IDP, 2006).

3.3.4. Water supply

Piped water from boreholes is the basic source of water supply in the city. However, the current water supply could not cope with the highly horizontal expansion and industrial growth of the city. The city administration, together with the regional government, is making on effort to have short-run and long-run solutions to alleviate the problems (Mekelle Administration, IDP, 2006).

3.4. Social services

3.4.1. Health service

Health service in Mekelle is provided by both government and the private sector. There are government owned 3 health centers, 3 clinics, 1 hospital and 1 pharmacy. NGOs and private investors also own 3 medium hospitals, 8 clinics and 8 pharmacies. 1 governmental referral hospital is also on the way to start functioning. Hence, the health coverage of the city is encouraging. However, the quality of the service provided is below standard and requires improvement ((Mekelle Administration, IDP, 2006).

3.4.2. Education

Education institutions in Tigray, particularly in Mekelle, are being expanding at a faster rate. So far, there are 15 kindergartens (all non-governmental), 21 primary schools (7 non-governmental), and 5 secondary schools (2 non-governmental) in the city. Further more, there are 2 technical schools, 1 university and 5 collages giving training

/education to middle-high level professionals. The increment of educational institutions at all level is encouraging. However, the quality of the education provided is questionable and requires due attention (Mekelle Administration, IDP, 2006).

3.5. Finical institution

Being a capital of Tigray region, governmental and private financial institutions do concentrate in Mekelle. The over all development of the city also has its own role in attracting financial institution. Thus, till this moment, there are 3 banks (with 3 branches) and 1 insurance company owned by the government and 5 banks and 4 insurance companies owned by the private sector in the city. In addition, there is one micro finance institution which provides credit and saving service to micro and small enterprises (Ibid).

CHAPTER FOUR

ANALYSIS AND SURVEY RESLULTS

This chapter deals with four sections. The first section contains a summary description of the background (characteristics) with regard to respondents. The second section describes the characteristics of enterprises; and the third section refers to the contribution of the MSEs to local economic development. Finally, the fourth section discusses the constraints of MSEs.

4.1. Characteristics of respondents

The demographic characteristics of an individual has significant role in the entrepreneurial behavior and performance of business enterprises. Zaid and Torben (2003) in their study of Mekelle found different factors that influence entrepreneurial ability and among them found demographic and personal characteristics: age, sex, marital status, educational level, ownership style and others.

4.1.1.Sex and marital status of respondents

According to the survey study, all of the respondents 102(100%) are males. The involvement of females in the sub-sector is not encouraging to ensure the economic empowerment of women. The level of participation of females in the sector is low because the sector demands more physical force and the socio-cultural attitude do not encourage women to get engaged in such sector. This is consistent with the findings of Wolday and Gebrehiwot (2004) that the participation of women in the manufacturing MSE sector is very low. The implication of this study shows that there is less contribution of women to the local economic development in the study area in relation to owning and leading manufacturing enterprises.

With regard to marital status 52% are found to be unmarried (single), followed by 48% married (Annex 2.3). The value for the marital status of respondents is almost similar. The closeness in the percentage of those

who are not married and married support the view that MSEs are operated by every member of society and are important tools in contributing local economic development among different sections of the society.

In terms of religious background, the majority of the respondents (81%) are orthodox. Catholic and Muslim followers are 16% and 3%, respectively (Annex 2.4). From the religious background of the respondents, it could be realized that the MSEs are operated by various people, regardless of their kind of religions.

4.1.2. Age of respondents

Age distribution of the MSE operators is one of the indicators of the demographic characteristics of the business enterprise. In view of this, respondents were asked about their age. The following table shows the age distribution of the MSE owners/managers.

Table 4.1. Age distribution of respondents

Age Category	Type of enterprise ownership				Total	
	Individual owners		Cooperatives			
	Frequency	%	Frequency	%	Frequency	%
18-24	6	8.80%	13	38%	19	18.6%
25-30	38	55.80%	15	44%	53	52.0%
31-40	16	23.70%	6	18%	22	21.4%
Above 40	8	11.70%	-	-	8	8.0%
Total	68	100%	34	100%	102	100%

Source: Survey data

As shown in the above table 4.1, the majority owners (managers) of the enterprises are in the working age group. Accordingly, 18.60% are in the age group of 18 to 24 years, 52% are grouped between 25 to 30 years, and 21.4% are between 31 to 40 years. Finally, the remaining 8% are above 40 years of age. So, it can be concluded from the above information that the majority of the MSE owners (managers) are in the economically active age category. This implies that it is very important to enhance the economic development of the study area.

4.1.3. Educational level

Many literary works indicate that education increases the stock of human capital which in turn boosts labor productivity and reduce poverty. Education is indispensable for the growth of enterprises. Different researchers have also shown the relevance of education and/or training and its direct linkage with productivity and development (ECA, 1996).From this view point, the survey instrument included information on education level of respondents so as to identify their skills on the basis of their level of education. Table 4.2 shows educational background of the respondents.

Table 4.2. Distributions of respondents by level of education

Education level	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
1-6	4	6%	-	-	4	4%
7-8	6	10%	-	-	6	6%
9-10	21	30%	17	50%	38	37%
11-12	33	48%	11	32%	44	43%
Diploma	4	6%	6	18%	10	10%
Total	68	100%	34	100%	102	100%

Source: Survey data

From table 4.2 above it can be observed that the majority's education level of the respondents is from grade 9 to 12 (80%). Of the total 102 respondents, 4% and 6% are having educational level of 1 to 6 and 7 to 8 grades, respectively. The remaining 10% have attended diploma level. When we compare the individual owners with the cooperatives in terms of education level, all of the managers (owners) of the cooperative enterprises have completed secondary school and above. It can be clearly observed from the above data that the majority of the MSE operators have less than diploma level of education. This implies that they need higher level of education to run the manufacturing industry, to cope with new ideas and technology, which is an important element in contributing to the local economic development of the study area.

4.1.4 Earlier occupation of respondents

According to Liedholm and Mead (1999) study, small business shows that operator's background experience has a considerable contribution to the formation and growth of an enterprise. A related business oriented experience gives a person the required technical skill necessary for starting and running the business efficiently. With regard to previous work experience of the respondents, they were asked about the type of activities they were doing before being engaged in the current enterprises.

Table 4.3. Distributions of respondents by their earlier occupation

Earlier occupation	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Unemployed	-	-	6	18%	6	6%
Student	10	14.70%	21	62%	31	30%
Private similar business employee	58	85.30%	7	20%	65	64%
Total	68	100%	34	100%	102	100%

Source: Survey data

From the above table 4.3 it can be observed that the majority of the respondents totaling 64% were engaged in private similar business employees and 30% were students. The remaining 6% of the respondents were unemployed. Comparing these enterprises, the majority of the individual owners 85.30% were private business employees, but for cooperatives 62% were students. This shows business operators contribute their previous experience to running their respective enterprises. This implies that the advantage of MSEs in involving people without requiring professional skill has an important role in employment opportunities in the study area.

To this end, the important points that could be learned from this section are the following.

- It is male dominated sub-sector.
- The MSE operators are mostly economically active age group.
- Most of the MSE operators are less than diploma level of education.
- The majority of the MSE operators have similar background experience of business enterprise.

4.2. Characteristics of the enterprises

4.2.1 Year of establishment

The time of the establishment of an enterprise is one of the indicators for the characteristics of a business enterprise. Because the year of experience in the business has its own influence on the performance and growth of the MSEs. Table 4.4 below shows the year of establishment of the sample MSEs.

Table 4.4. Establishment year of the enterprises

Year of establishment	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
2003/04-2004/05	34	50%	34	100%	68	66.7%
1995/96-2002/03	34	50%	-	-	-	33.3%
Total	68	100%	34	100%	102	100%

Source: survey data

From the above table about 66.70% were established between 2003/04 and 2004/05. The remaining 33.30% enterprises were established from the years 1995/96 to 2002/03. From this, one can conclude that the majority of the metal and woodwork MSEs are recent establishments. This implies that metal and woodwork enterprises are flourishing in the study area due to the favorable economic conditions of the government.

4.2.2. Location of the enterprises

Liedholm and Mead (1999) have presented evidence from five countries indicating that most small enterprises are operating out side home premises and in the larger localities generate more economic profits. In addition, according to TBoTI (2008), in the MSEs census study found out that most of the MSEs in the region are located out side home with rental work premises. In line with this, the survey result is presented in table 4.5.

Table 4.5. Location of the enterprises

Location of enterprise	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
With home premises	12	17.60%	-	-	12	11.7%
Independent(own) premises	15	22%	12	35.3%	27	26.3%
Independent(rent) premises	41	60.4	22	64.7%	63	62%
Total	68	100%	34	100%	102	100%

Source: survey data

Table 4.5 above indicates that the majority of the enterprises 62% are located and fully operated with independent (rental) premises, where as the remaining 26.3% and 11.7% are located with independent (own) premises and within home premises of the operators, respectively. This shows that the majority of the metal and woodwork sample enterprises are operating with rental workplace which implies that it is inconvenient (instable) for the operators because the owners of the work premises increase the rental price from time to time.

4.2.3. Ownership of the enterprises.

Ownership of the enterprises shows the characterstics of the business enterprises. All of the surveyed MSEs are legally established business enterprises. These are classified as sole proprietorship and cooperatives.

Table 4.6. Form of ownership of the enterprises

ownership	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Private (sole)	68	100%	-	-	68	66.6
Cooperatives	-	-	34	100%	34	33.4
Total	68	100%	34	100%	102	100%

Source: survey data

Table 4.6 above clarifies the ownership structure of the sample MSEs from the surveyed data. Considering the types of ownership of the enterprises, 66.6% of the respondents establish their business in the form of sole proprietorship, which means the enterprises are owned by single owner. The remaining 33.4% are cooperative form of ownership. From this, sole is the dominant ownership in the sub-sector. This type of ownership most of the time, is preferred by MSEs because of the confidence they create on their business. However, the implication is that the enterprises operating individually cannot make use of economies of scale to market (i.e. in selling and purchasing of goods). In addition, they cannot enhance their capacity in terms of their sharing knowledge (skill), finance and labor.

4.2.4 Motives for engaging in the business

In the study, why the enterprise operators started the current business is another important question that the respondents were asked. The table below shows the major reason for the operators who started their business activities.

Table 4.7. Reasons for starting the business

Major reason	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Background Skill	58	85%	34	100%	92	90%
Expecting income	10	15%	-	-	10	10%
Requires low capital	-	-	-	-	-	-
Total	68	100%	34	100%	102	100%

Source: Survey data.

The above table shows that the majority of the respondents (90%) were engaged in as per their background skill and training (Table 4.7); the rest of the respondents (10%) were engaged in the business expecting good income and profit. The focus group discussion and interview made with the MSE operators also confirm that their background skill led them to start their own business. This implies that having previous job experience and skill supports for the MSE operators in running their enterprise efficiently.

4.2.5. Source of initial capital

Enterprises need finance to establish and expand their business. MSEs could have different sources of initial capital. These may include own (personal) savings, microfinance, family, friends and others. According to Wolday (2002), the major source of initial (start-up) capital for MSEs in Ethiopia is their personal savings, followed by loans from microfinance and moneylenders. Besides, MSEs do not use banks since banks require high collateral for their loan. Table 4.8 shows the source of capital for the MSEs.

Table 4.8. Source of their initial capital of the MSEs

Source	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Own saving	46	67%	24	71%	70	68%
Loan from MFIs	12	18%	10	29%	22	21%
From Family	10	15%	-	-	10	11%
From other	-	-	-	-	-	-
Total	68	100%	34	100%	102	100%

Source: Survey data.

According to this study (table 4.8 above), about 68% of the MSEs start up capital comes from their own savings. The table also shows that 21% and 11% of their initial source of finance comes from Micro finance institutions and their families, respectively. The main reasons for not taking loan from MFI were fear of loan and collateral problems. When we

compare the individual owners with cooperatives, in both cases, the initial source of capital at the start-up was largely from their own savings. From this survey result, it is clear to understand that own saving is the dominant source of finance for the MSEs, whereas the microfinance institution is contributing less amount as a source of initial capital. The result of this survey is similar to other related MSE studies. For example, according to Tigray bureau of trade and industry (2007), and Elias (2005) in Awassa have found out that the main source of finance for MSEs at start up was their own savings.

4.2.6. Capital status of the enterprises

The capital of MSEs is studied from two perspectives: initial capital and current capital. Initial capital refers to the amount of capital in which a business was started. Current capital, on the other hand, refers to the level of capital currently attained by the business.

Table 4.9. Initial capital of the enterprises

Initial Capital category	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
5000-10000	10	29%	18	53%	21	62%	49	48%
10001-15000	14	41%	12	35%	7	21%	33	32%
15001-20000	6	18%	4	12%	6	17%	16	16%
20001-25000	4	12%	-	-	-	-	4	4%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

As indicated in table 4.9 above the size of the initial capital in the MSEs for starting a business ranges between 5,000 and 25,000 birr. However, most of the MSEs (48%) have initial capital between 5,000 and 10,000 birr. For the MSEs established in 2003/04 and after, the majority of the individual owners (53%) and cooperatives (62%) have an initial capital between 5000 and 10000 birr; for the MSEs established before 2003/04 it was between 10,001 and 15,000 birr.

Table 4.10. Current capital of the enterprises

Current Capital category	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
5000-10000	-	-	7	20.5%	7	20.5%	14	14%
10001-15000	-	-	10	29.5%	9	26.5%	19	18%
15001-20000	4	12%	5	15.0%	3	9.0%	12	12%
20001-50000	9	26%	12	35.0%	13	38.0%	34	33%
50001-100000	7	20.5%	-	-	2	6.0%	9	9%
100001-200000	14	41%	-	-	-	-	14	14%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

Availability of accurate information on current capital like that of initial capital is very difficult. This is because of fear of taxation by the MSEs and socio- cultural problems. Table 4.10 above shows that the current capital of MSEs ranges only from 5000 birr to 200, 000 birr.

The majority of the MSEs (56%) have a current capital of birr 20,001 to 200,000. when it is compared to the initial capital there is significant change (increase). For the MSEs established in 2003/04 and after, The majority of the MSEs current capital of the individual owners (35%) and cooperatives (38%) is almost under the same range, which is between 20,001 to 50,000 birr. However, for those MSEs established before 2003/04, the majority (41%) have a large amount of current capital, which ranges from 100,001 to 200,000 birr. Finally, from this we can understand that there is a capital change or accumulation, which contributes to the local economic development that can lead to re-investment and expansion of the enterprises.

4.2.7. Initial number of employees

The study tries to see how much initial number of employees was created during the establishment of the enterprises by the individually owned MSEs and cooperatives. Table 4.11 shows the initial number of employees by the enterprises.

Table 4.11. The initial number of employees by the MSEs

Initial no of employees	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Two	40	59%	-	-	40	39%
Three	18	26%	-	-	18	18%
Four	10	15%	-	-	10	10%
Five	-	-	-	-	-	-
10-12	-	-	34	100%	34	33%
Total	68	100%	34	100%	102	100%

Source: survey data

For the individually owned enterprises, the majority 85% were 2 to 3 initial employees, whereas for the cooperatives 10 to 12 self-employees. In this case, cooperatives had more self-employees at start-up than the individually owned enterprises. The total initial number of people employed in the sample MSEs was 510.The average employees for the individually owned were 2.6 and for those of cooperatives 10.5.

4.2.8 Support provided at start- up

With regard to supports, respondents were asked whether they got any support from the government during the start-up of their enterprises.

Table 4.12. Support provided at start-up of their enterprise.

Response for Support	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Yes	17	25%	34	100%	51	50%
No	51	75%	-	-	51	50%
Total	68	100%	34	100%	102	100%

Source: survey data

Table 4.12 above illustrates that the majority of the individually owned enterprises (75%) have said they didn't get any business development support from the local government. However, in the case of cooperatives, all of the enterprises have received support from the government MSE support office. For the type of support received, 25% of individually owned enterprises have received credit. In the case of cooperatives, all of

the enterprises have taken training, credit, market and work premise (70.6%) supports. Table 4.13 below shows the type of support received by the MSEs.

Table 4.13.Type of support received by the enterprises at start up.

Response to type of Support	Type of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Training	-	-	34	100%	34	33%
Credit	17	25%	34	100%	51	50%
work premises	-	-	24	70.6%	24	23%
Market	-	-	34	100%	34	33%
Total	68		34	100%	102	

Source: survey data

From the above table we can observe that more focus was given to the cooperatives than the individually owned enterprises. In addition, the information obtained from the interview of experts and discussions of the individually owned enterprises have also confirmed that there was less attention for the sole proprietorship as compared to the cooperatives. The reason is that the local government encouraged and supported MSEs in cooperatives (group) form than individual bases. This is due to the assumption that cooperatives created more employment opportunities than individually owned enterprises.

To sum-up, the important points that could be learned from this section are the following.

- Majority of the sample MSEs are recent establishments.
- Most of the enterprises work in rental work premises.
- Majority of the MSEs are sole proprietorship form of ownership.
- The source of start-up capital was mainly from own savings.
- Start-up support by the government is largely provided for cooperatives than individually owned MSEs.In the next section, the contribution of the sample MSEs to local economic development is analyzed and presented from the point of view of different indicators.

4.3. The contribution of the MSEs to local economic development (LED)

The literature part of this thesis briefly discusses the contribution of the MSEs to the local economic development through creating employment, income, using local inputs, producing and expanding local markets, asset creation and being flexible during economic changes. Studies also indicate that MSEs contribute a lot to LED in terms of re-investment of their profits, creating forward and backward linkages and generating income to the local government (taxation).

Likewise, this study investigates whether or not the above stated scenario is true in Mekelle city (the study area). Based on this, the study tries to examine the role of the MSEs in LED from the perspective of employment, income, use of profits, linkages (inputs and market) taxation and contribution to the local community development in constructing schools, health centers and roads.

4.3.1. Employment Creation

Employment creation is one of the most important issues in increasing the income of people, in improving their livelihood and thereby promoting local economic development. In line with this, MSEs can effectively create and maintain employment in both urban and rural areas. According to the Ministry of trade and industry (2007) revised MSE strategy, MSEs have proven to be the major employment resources in urban areas of developing countries. MSEs which are fairly labour intensive, create employment at relatively low capital cost. The MSEs sector is not only regarded as important force to generate employment but also effective mechanism of equitable income distribution as they have the potential and the diversity to absorb different segments of a society with different economic, social, cultural, spatial and political background. In addition, Wangwe, in his study of MSEs employment implication in Tanzania also

revealed that MSEs are more amenable to spread to small towns and useful in absorbing the huge portion of the migrant labor force from rural to urban areas (Wangwe, 1999). Along the line of this argument, this study tries to see how much job opportunity was created by the individually owned and cooperative enterprises. All of the sample MSE respondents replied that they have created jobs. Table 4.12 below illustrates the number of employees by the enterprises.

Table 4.14. Number of employees by the enterprises

Nº of employees	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
3-4	3	9%	22	65%	-	-	25	24.5
5-7	7	20%	12	35%	-	-	19	18.5
8-9	5	15%	-	-	7	21%	12	11.5
10-12	19	56%	-	-	27	79%	46	45.5
Total	34	100%	34	100%	34	100%	102	100

Source: Survey data

The minimum and maximum numbers of employees by the MSEs indicated in table 4.14 above are 3 and 12, respectively. The average size of employment for individually owned enterprises is about 4.5, and for that of the cooperatives are 10.2. The majority (45.5%) of the MSEs have 10 to 12 numbers of employees (employees for self business). However, enterprises established after 2003/04 cooperatives have more employment opportunities (self employed) than the individually owned MSEs. Those individually owned enterprises established before 2003/04 have also created large number of employment. This shows that time (more experience) has its own contribution to the number of employment as compared to the individually owned enterprises established during 2003/04 and later on. In addition, the total number of employees at the

beginning was 510 in comparison with the current employees which are 816 of the sample enterprises. The number of employees has changed (increased) by 306(37%) (Annex 2.4).

Generally, this implies that the MSEs are contributing a lot to the local economic development in terms of employment creation to the local community. Similar studies made by ILO 1996 (cited in Todaro, 2000) also reveal that the share of the urban labour force engaged in informal sector activities in developing countries is growing, and now ranges from 30% to 70% the average being 50% of urban employment (For example, 50% in Nigeria, Senegal, India and Ghana).

Table 4.15. Type of job created by the enterprises in average

	Type of ownership by establishment		
	before 2003/04	2003/04 and after	
Type of job created	individual owners	Individual owners	cooperatives
Permanent	4.2	3.1	10. 2
Casual	6.4	4.3	-
Average	5.3	3.7	10. 2

Source: survey data

From table 4.15 above we can realize that the cooperatives have more permanent (regular) employees (i.e. self-employed) than that of the individual owners. In terms of casual (temporary) employees individual owners have more average employees than the cooperatives. In general, those individually owned enterprises established before 2003/04 have still greater average number of employees (5.3) as compared to those established after 2003/04 which is 3.7. Besides, for the case of individually owned enterprises the terms of employment show that the MSEs are more dominated by casual workers (5.35) than that of permanent (3.65).The reason is that individually owned MSEs pay wages based on the market of their activity; hence, to reduce costs they employ

more casual workers. The implication of having more casual workers is that MSEs have less formal and sustainable employment characteristics. But, for the case of cooperatives they are working for self business in the form of association, not for wage as primary objective.

In reference to the status of the employees profession, all of the cooperative self-employees are skilled (TVET graduates), whereas in the individual owners they have both skilled and unskilled (through experience) workers.

Table 4.16. Professional status of the employees in average

Profession Status	Type of ownership by establishment		
	before 2003/04	2003/04 and after	
	Individual owners	Individual owners	cooperatives
Skilled	4.6	2.63	10.2
Unskilled	6.0	4.87	-

Source: survey data

Table 4.16 above points out that, individually owned enterprises established before 2003/04 have an average of 4.6 skilled and 6.0 unskilled labor employees, whereas those enterprises established in 2003/04 and after have 2.6 skilled and 4.87 unskilled employees. In the case of cooperatives, they have an average of 10.2 skilled labor members. From the above data it is obvious that individual owners of the enterprises established for a long period of time (before 2003/04) have better or more average number of skilled and unskilled employees as compared to those established after 2003/04.

For the individually owned enterprises, the average unskilled employees are greater than the skilled employees; this implies that products manufactured with unskilled labour would affect the quality and productivity. This in turn can negatively affect the local economic development of the area to enable the products to compete in the market.

This is because of unskilled labour produce less quality of products and less productivity.

The work statuses of the employees for this study are classified as full-time, part–time, full-time for self business and unpaid family workers. Full-time employees are employees who work greater or equal to 5 days per week (permanent employees), having some benefits such as paid better wages, sick leave, bonus etc. However, part-time employees work less than 5 days per week (occasional employees) and are paid low wages than the full-time, and have no benefits like the full time employees.

Table 4.17. Average number of job created by work status

Work Status	Type of ownership by establishment			Average
	before 2003/04	2003/04 and after		
	Individual owners	Individual owners	cooperatives	
Full time wage	4.2	3.1	-	3.65
Part time wage	6.4	4.3	-	5.35
Full time for self business	1	1	10.2	-
Unpaid family worker	2.1	1.5	-	1.8

Source: survey data

From the Table 4.17 above we can understand that in the case of individually owned MSEs there are 3.65 average full-time wage workers, 5.35 part time wage earners and 1.8 unpaid family work status. However, in the case of cooperative MSEs all of the cooperative members are full-time workers for self- business. From this, it is possible to conclude that the majority of the employees by the individually owned enterprises are part-time wage workers as compared to that of the cooperatives which are all full-time for self-business. In addition, although the large number of employment is wage based (full and part-

time), a small average size of the enterprises is noted to be characterized by the employment of unpaid family labor.

4.3.2 Income generation

ILO 1996 (cited, in Todaro 2000), have shown that the informal sector are generating almost one-third of urban incomes. Similarly, Department for International Development, DFID (2000) in its Enterprise Development Strategy revealed that, through out the developing world, few poor people have salaried, institutional employment. Instead, they depend largely upon income earnings from occasional low paid wage labour, self employment or employment from micro and small enterprises. The MSEs that dominate the urban economic activity are the source of domestic income. In Kenya, for example, MSEs account numerically for 98% of all enterprises, 80% of which employ fewer than five workers earn their income from this sector.

There are two dimensions of income. The first is enterprise income or income to the owner and the second is income to the employs. When enterprises increase their income they expand their business and this in turn enhances the local investment. As Leidholm and Mead (1999) (cited in Zaid and Turben) indicate that as MSEs income increases, it leads to transformation to medium level enterprises, resulting in the increase of employment, business income tax and increase investment to the local areas. Table 4.16 below shows the average monthly income of the enterprises.

Table 4.18. Average monthly income of the enterprises

Average monthly income	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
3000- 5000	8	24%	20	59%	27	79%	55	54%
5001-7000	4	12%	14	41%	7	21%	25	24%
7001-9000	6	17.5%	-	-	-	-	6	6%
9001-11000	10	29%	-	-	-	-	10	10%
11001-13000	-	-	-	-	-	-	-	-
13001-20000	6	17.5%	-	-	-	-	6	6%
Total	34	100%	34	100%	34	100%	102	100%

Source: survey data

The minimum and maximum average monthly incomes indicated in table 4.16 above are 3000 birr and 20,000 birr, respectively. The majority of the sampled enterprises 55 (54%) earn monthly income in the range of 3000-5000 birr. When we compare the individual owners to cooperatives those established in 2003/04 and after, almost all earn between 3000 to 7000 birr which is less, comparing with those of established before 2003/04, who earn (64%) between 7001 to 20, 000 birr. In this case, long time establishment has its own positive influence in generating good income. This is because of more experience in the business which provides for an opportunity to build its capacity to develop its enterprise and generate good income. The survey shows that majority (54%) of the enterprises earn less average monthly income (3000-5000 birr); this implies that it contributes less to LED. And hence, it needs to support more to increase their income and generate additional employment and expand their business.

Similarly, a study made by Elias (2005) the role of MSEs in LED in Awassa also indicated that though MSEs are not willing to declare the size of their monthly incomes, however, the average monthly income of MSEs at large is about 2500 birr which is very small as compare to this finding.

4.3.3 Profitability and use of profits

Respondents were asked whether their enterprises are profitable or not, and regarding their use of profits. Table 4.19 below shows the profitability of the enterprises.

Table 4.19. Profitability of the enterprises

Response for profitability	Type of ownership by establishment						Total	
	before 2003/04		2003/04and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Yes	34	100%	30	88%	23	68%	87	85%
No	-	-	4	12%	11	32%	15	15%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

Out of the 102 respondents, 85% replied that their enterprises are profitable, and the remaining 15% responded not profitable. The major reason for those enterprises which responded that their firms are not profitable is lack of market demand (due to high competition to win in price and quality) and unfavorable work place (far from the center of the town).For those enterprises established in 2003/04 and after, only 12% of individual owners said their business is not profitable as compared to the large number of cooperatives (32%).The reason is that majority of the cooperatives have started their work in recent years. However, all of the enterprises established before 2003/04 are profitable as compared to those established after 2003/04.

Table 4.20. Use of the profit by the enterprises

Use of the profit	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Re-invest	22	65%	26	76%	5	22%	53	58%
Save	-	-	-	-	18	78%	18	20%
Both	12	35%	8	24%	-	-	20	22%
Other	-	-	-	-	-	-	-	-
Total	34	100%	34	100%	23	100%	91	100%

Source: Survey data

Table 4.20 above shows that the majority of the enterprises 53(58%) reinvest their profits. On the other hand, 20% and 22% said that they save and, save and reinvest their profit respectively. Majority of the individually owned enterprises (65% and 76%) reinvest their profits as compared to those of the cooperatives (22%) which are less. The reason is that majority of the cooperative MSEs are established in recent years.The implication of this result to LED is that first re-investment of profit increases the investment growth of the small enterprises in the study area. Second, this leads to increase additional job opportunities to the local community. As a result of this, the community can benefit from income (wage) directly, indirectly through taxation (increase in social services) and increase access to availability of products.

4.3.4. Average wage monthly paid per labor

The second dimension of income is income to the employs paid in the form of wage. In assessing how much average monthly wage paid per labor, questions related to amount of wage and duration of wage paid were raised. In this regard, the individual owners of the enterprises 66.7% pay wages for their employees. However; those enterprises owned by cooperatives 33.3% do not pay wages; rather they divide the profits depending on the performance of their enterprise.

Table 4.21. Average wage monthly paid per labor

Average wage category	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
300-500	-	-	20	59%	-	-	20	29.4
501-600	7	21%	8	23%	-	-	15	22.0
601-700	27	79%	6	18%	-	-	33	48.6
Total	34	100%	34	100%	-	-	68	100

Source: survey data

Table 4.21 above indicates that the average monthly wage paid for the employees in the study area ranges from 300 to 700 birr. The majority of the individual owner MSEs (48.60%) pay wage between 601 to 700 birr per month. The remaining 29.4% and 22% MSEs pay 300 to 500, and 501 to 600 birr, respectively. The majority (79%) of those enterprises established before 2003/04 pay better wages than the enterprises established after 2003/04.In addition, when this wage is compared to the lower level governmental salary standard of civil service (i.e. minimum 357 birr) we can say that the majority of MSEs pay more wages than that of the civil service. Moreover when this wage is compared to the international poverty line standard in terms of income for individual (i.e. reaching one dollar per-day per-person), the majority of the employees obtain above one dollar per day (above 10 birr per day).

Basically, this implies that the enterprises are contributing to local economic development in generating income (wage) to their employees and hence reducing urban poverty in the study area. However, the level of wage was small in light of the current market price increase. Literature also reveals that MSEs contribute to poverty alleviation; poor people usually work in the informal sector and earn income. Hence the development of these enterprises helps the poor (Macharia, 1997).

Table 4.22. Duration of wage payment for employees

	Type of ownership by establishment							
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives		Total	
Duration	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Monthly	10	29%	6	18%	-	-	16	16%
weekly	24	71%	28	82%	-	-	52	51%
During good income	-	-	-	-	34	100%	34	33%
Total	34	100%	34	100%	34	100%	102	100%

Source: survey data

From table 4.22 above, we can observe that 16% of the MSEs pay monthly wages. On the other hand, the majority of the enterprises (51%) pay wages on weakly bases. The remaining 34(33%), which are the cooperatives, pay wages for individuals when there is good performance of their enterprises achieved (i.e. when good income was obtained). The survey shows that large part of the individually owned MSEs employee's income was determined on the basis of the productivity or income of the enterprises rather than the number of hours worked at the workplace.

4.3.5 Linkage of the enterprises

As it has been indicated by Tocoli 2003 (cited in Tegegne, 2006) there are different types and levels of inter-sectoral linkages. They operate at household level and at the level of local economies, and include backward and forwarded production linkages between agriculture and manufacturing. In line with this argument, the linkages in terms of input, farm sector and market linkages of the study MSEs are assessed in this section.

4.3.5.1 Raw material (input) linkage

In this case, the local linkages of the enterprises could be examined in terms of the sources for their raw material inputs. The sources were designated as local, regional and national.

Table 4.23. Raw material (input) linkage

Source of Input	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Local market	25	73%	29	85%	34	100%	88	86%
Regional market	6	18%	3	9%	-	-	9	9%
National market	3	9%	2	6%	-	-	5	5%
Total	34	100%	34	100	34	100%	102	100

Sources: Survey data.

In terms of inputs, 86% of the MSEs receive their inputs from the local market (Mekelle) while 9% receive from the regional markets (table 4.23). Due to lack of financial and managerial capacity all of the cooperative MSEs purchase inputs from the local market. Only very few or 5% of the MSEs receive their inputs from the national market particularly from Addis Ababa. From this it is clear to conclude that the MSEs use raw materials from local market. This implies that there is a positive contribution to LED, because there is possibility of generating income and employment in other sectors (such as, expansion of input (equipment) supplier enterprises and food processing businesses around them).

4.3.5.1. Major suppliers of the raw materials

With regard to the major supplier of the raw material input for the operations of MSEs, 81% is supplied by local traders, 12% by medium and large enterprises. The remaining 7% is provided by small enterprises. Table 4.24 below shows the major supplier of the raw material inputs for MSEs.

Table 4.24. Major supplier of raw material inputs

	Type of ownership by establishment							
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives		Total	
Suppliers	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Medium enterprises	-	-	7	20%	5	15%	12	12%
Local traders	30	88%	24	70%	29	85%	83	81%
Small enterprises	4	12%	3	10%	-	-	7	7%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data.

From this we can understand that the enterprises have input market linkages with the local traders (business enterprises established locally, which supply different inputs to the local area).Besides, they contribute

to the local economy in creating employment and paying taxes to local government. The implication of the above findings reveals that there is integration among the different local business enterprises (i.e. between the producers and input suppliers) in the study area. This may contribute a lot to local economic development through multiplier effect which enhances the development of enterprise in the study area.

4.3.5.2. Farm sector linkage

Empirical evidences show that farm sector is an important source of market for small enterprises. For instance, a study made by Tegegne and Mulat (2005) have noted that most small business (82%) rely on both farmers and town dwellers as their customers for their products. Similarly,Tsigabu (2006) in his study indicated that small manufacturing enterprises in Mekelle have created linkages with farm sector in doing agricultural inputs (12,100 smoker for beehives, 5230 water pumps, 60,000 beehives and 75,000 farm tools) to farmers.

The linkages of the MSEs with the local farm sector undertake three major dimensions. First, the MSE provides inputs for the farm sector. Second, the farm sector is a major provider of raw material. Third, the farm sector is the major market of the MSEs product.

Table 4.25. Provision of inputs for local farmers

Input provision	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
yes	20	59%	21	62%	24	70%	65	64%
No	14	41%	13	38%	10	30%	37	36%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data.

As it can be seen from the above table 4.25, out of the total respondents, 64% said that they provide inputs for the local farm sector in terms of

farm tool products and maintenance service. The remaining 36% have replied that they didn't have linkages with the local farm sector. The finding of the analysis implies that the MSEs contribute to the farm sector that increases the local agricultural productivity. This enforces the backward linkage. In addition, this linkage stimulates the MSEs as a source of market for their products.

Table 4.26. Use of farm product as input by the MSEs

	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
Responses	Frequency	%	Frequency	%	Frequency	%	Frequency	%
yes	14	41%	11	32%	10	30%	35	34.4%
No	20	59%	23	68%	24	70%	67	65.6%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

In terms of the farm product (such as timber) used by the metal and wood work MSEs, the majority (65.6%) of the MSEs said they do not use the farm products as input for their operation; only 34.4% uses farm products (table 4.26).This indicates that the forward linkage of the farm sector to the business enterprises is very poor. In addition, most timbers used were imported from abroad. This implies that MSEs have less contribution to strengthening forward linkage (i.e. using farm products as input). This is an area that needs more attention for the future in order to enhance the linkage.

4.3.5.3. Market linkage

Another important dimension of linkage created by the MSEs is producing for local market. According to the federal MSEs strategy, MSEs provides mass consumption goods for the local community both for urban and rural areas with reasonable prices and facilitates urban-rural linkages through its products (Ministry of trade and industry, 1997). Similar study undertaken in Awassa by Elias indicated that, most

of the MSEs products are produced to the local markets i.e. in the locality and its hinter lands (Elias, 2005). In line with this, we can see the survey results whether the products of the MSEs have a market linkage with the locality.

Table 4.27. Major markets for the products

Market for the products	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Local market	24	71%	31	91%	29	85%	84	82%
Regional market	10	29%	3	9%	5	15%	18	18%
Export	-	-	-	-	-	-	-	-
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

Table 4.27 above shows that the majority (82%) of the MSEs Products or services are sold in the local market (i.e. Mekelle and its surroundings) while 18% are sold in the regional market (the whole of Tigray region). None of the MSE products or services is exported (out of the region). Comparing the individual owners to the cooperatives, in both cases, the majority of their products are provided for local market. In this case, there are two implications to LED of the study area. In the first case, the MSEs satisfy the market demands of the local community as they provide relatively cheaper products to the market. The second case is that MSEs would be contributing a lot if it had been also producing exportable products and hence reinforcing the local economic base. However, in the second case the finding of the study shows no export of products.

Furthermore, table 4.28 below shows that 50% of the MSE customers are urban dwellers and 18.6% are the government agencies. On the other hand, the market contribution of the farmers was 31.4%. This indicates that the urban dwellers are taken as the major source of market for the MSEs followed by farmers.

Table 4.28. Customer of the products /Services/

Customers	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Urban dwellers	24	70%	20	58%	7	21%	51	50.0%
Farmers	10	30%	10	30%	12	35%	32	31.4%
Government	-	-	4	12%	15	44%	19	18.6%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

Table 4.28 above shows that the customers for most of the individual owners are the urban dwellers as compared to those of the cooperatives. However, in case of cooperatives the majority of the customers are government agencies, such as municipalities and sectoral offices. The main reason for this was government attempt to provide market support is largely given for the newly established cooperatives rather than the existing individually owned MSE operators. Besides, the focus group discussion made with the individual MSE owners verifies this conclusion.

4.3.6. Contributions of MSEs to the community

According to Helmising (2001) one of the initiatives to promote LED is enterprise development. MSEs therefore are considered as component of the local economic development in urban areas. In addition to employment creation, these business enterprises contribute to LED in mobilizing resources for constructing schools, health centers and community roads together with the local government and community institutions (Blakely, 1994). In light of these arguments, it is analyzed the contribution of MSEs to the local economic development provided for the local community in terms of raising money for road, health and education, and training youths.

Table 4.29. MSEs Contribution to the community

Responses	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Yes	34	100%	25	74%	-	-	59	58%
No	-	-	9	26%	34	100%	43	42%
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

Table 4.29 above shows that 58% of the MSEs contribute to the communities local economic development while the remaining 42% do not contribute. The majority of the individually owned MSEs contribute largely to the local community as compared to the cooperatives which do not. This is because cooperatives are newly established MSEs and have less financial capacity. Table 4.30 below shows the nature of contribution to the community.

Table 4.30. Nature of contribution to the community

Nature of contribution	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Raise money for road	10	29%	5	20%	-	-	15	26%
Raise money for service (health, education)	18	53%	17	68%	-	-	35	59%
Train youths	6	28%	3	12%	-	-	9	15%
Total	34	100%	25	100%	-	-	59	100%

Source: Survey data.

With regard to the nature of contribution, table 4.30 shows that 26 % contributed money for local roads, 59 % for constructing health and education services and 15 % provided training for unemployed youths. This implies that the MSEs contribute a lot to the local development by expanding community roads, social services (health centers and

education). Similar findings study made by ECA (2007) also indicated that small enterprises in Tanzania, Nigeria and Uganda participate in socio-economic development of their locality such as in constructing schools, health centers, roads and water activities.

4.3.7. Generating income (tax) to the local government

A tax is a compulsory contribution of the wealth (payment of money) of a person or an enterprise for the service of the public provided by the government. Such public services are roads, power, water, security, education etc (Mehari, 2006).Income generating to the local government in the form of taxation is one of the contribution of the MSEs to the local economic development. With this regard, respondents were asked whether they are paying tax or not, and the amount of tax they paid. Table 4.31 below shows the contribution of the MSEs to tax payment.

Table 4.31. Contribution of the MSEs to tax payment

	Type of ownership by establishment							
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives		Total	
Paying tax	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Yes	34	100%	34	100%	-	-	68	66.7
No	-	-	-	-	34	100%	34	33.3
Total	34	100%	34	100%	34	100%	102	100%

Source: Survey data

Out of the sample 102 MSE operators, 66.7% of the MSEs pay business taxes, while 33.3% do not pay taxes. When we compare the individually owned enterprises with that of cooperatives, all of them are paying taxes, but the cooperatives do not. The reason is that cooperatives are not considered as business organizations (i.e. not profit makings). They are believed to be associations for the benefit of their members. From this we can understand that individually owned MSEs contribute more to the local economic development than cooperative MSEs.

Table 4.32 shows the average business income taxes paid by individually owned MSEs annually to the local government. The majority (32%) of the MSEs have paid between 500 and 1000 birr.

Table 4.32. Annual average payment of tax by the MSEs

	Type of ownership by establishment						Total	
	before 2003/04		2003/04 and after					
	Individual owners		Individual owners		cooperatives			
tax amount	Frequency	%	Frequency	%	Frequency	%	Frequency	%
500-1000	2	6%	20	58%	-	-	22	32%
1001-1500	4	12%	6	18%	-	-	10	15%
1501-2000	8	23%	2	6%	-	-	10	15%
2001-2500	2	6%	3	9%	-	-	5	7%
2501-3000	4	12%	3	9%	-	-	7	10%
3001-4000	14	41%	-	-	-	-	14	21%
Total	34	100%	34	100%	-	-	68	100%

Source: Survey data

The majority (41%) of the individually owned MSEs established before 2003/04 pay tax between 3000 and 4000 Birr. However, in the case of MSEs established after 2003/04 they pay between 500 and 1000 birr. This indicates that enterprises which were established before 2003/04 pay more tax than those established after 2003/04. In general, MSEs are contributing a lot to LED by generating income to the local government through taxation which is very important to finance and expand the urban services, such as water, power, housing, etc. According to Elias (2005), the study made in Awassa also reveal the same finding that MSEs are generating income in the form of tax to local governments.

In summary, the important issues that could be learnt from this section is that the MSEs are contributing to the local economic development in terms of job creation, income generation, re-investment of their profits and strengthening linkages. Besides, the enterprises participate in community development in terms of constructing schools, health centers and roads. Furthermore, generating income to local government

(taxation) is also another important contribution made by the enterprises. Despite this, MSEs face some constraints that affect their development. These are discussed in the next section.

4.4. Major problems facing the MSEs

In most developing countries, MSEs face a wide range of challenges and they are often unable to address the problems they face on their own even in effectively functioning market economies. The challenges related among others are access to market, finance, work premises (at affordable rent), lack of skill and access to appropriate technology (ECA 1996). In Ethiopia, specifically, as stated in the review of related literature MSEs have been confronted by many of these problems. According to Zaid and Torben (2003), wolday and Gebrehiwot (2004), the major obstacles experienced by MSEs were lack of working capital, market, work premises, business information among others. In line with these findings the problems of the MSEs are assessed in this section.

Micro and small enterprises are faced with different types of problems that may arise from within the enterprise itself (internal) and from the external situation in which they operate. Table 4.33 below presents the most important external problems in the sub-sector.

Table 4.33. Major external problems of the MSEs

Problems	Type of ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Working premises	30	44%	5	4%	35	34%
Market problem	12	18%	4	12%	16	16%
Finance	22	32%	21	62%	43	42%
Others	4	6%	4	12%	8	8%
Total	68	100%	34	100	102	100%

Source: Survey data

The three main problems cited by the operators in descending order are: lack of finance (42%), lack of working premises (34%) and lack of market (16%). The first major problem for the individual owners is lack of

working premises (44%). But for the cooperatives it is lack of finance (62%). The findings of this study are similar to other related MSE studies. For instance, Gebrehiwot and Wolday (2004) have noted that lack of finance and market are the most important problems to the MSEs in Ethiopia, among others. Similarly, ECA (1996) has also indicated that, MSEs in Africa are facing constraints of finance, business premises, market and available infrastructures.

In the FGD it was mentioned that First, there is no credit service for youth. Second, the amount of loan provided for is very small (below 5000 birr). Third, group collateral is another problem for the enterprises (i.e. no individual base credit with machinery collateral). Finally, the grace period is very short (3 months). Furthermore, the FGD revealed that support provided for MSEs was not integrated, such as credit with training, work place, etc. and most of the training given to MSEs was business training, while technical trainings are limited.

With regard to the internal problems, Lack of technical skill (36%), lack of book keeping (27.50%), and lack of management (23.5%) are the major problems facing the enterprises. The others are commitment to work (8%) and disagreement problems (5%). Table 4.34 below reveals the major internal problems facing the MSEs.

Table 4.34. Major internal problems facing the MSEs

Types of Problems	Type of ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Book keeping	28	41.5%	-	-	28	27.5%
Management	14	20.5%	10	29%	24	23.5%
Technical Skill	26	38.0%	11	32%	37	36.0%
Commitment to work	-	-	8	23%	8	8.0%
Disagreement	-	-	5	16%	5	5.0%
Total	68	100%	34	100%	102	100%

Source: Survey data

From table 4.34 above, one can observe that the major common problems for individually owned and cooperative MSEs are management and technical skills. However, book-keeping 41.5% is a critical problem for individually owned MSEs other than the cooperatives; the reason is that in case of cooperatives there is an accountability to the members; so, it is a mandatory to have book keeping records, but not for individually owned onse. Besides, individually owned enterprises assume that it is simple to manage the records. On the other hand, commitment to work 23% and disagreement problem 16% are unique problems of the cooperative MSEs as compared to that of individually owned MSEs.

Table 4.35. State of bookkeeping (records)

Response	Type of ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Yes	20	29%	26	76%	46	45%
No	48	71%	8	24%	56	55%
Total	68	100%	34	100%	102	100%

Source: Survey data

From the above table, one can understand that the majority of the MSE operators (55%) do not keep record of their financial transactions. The majority of the individual owners of the MSEs (71%) do not have records as compared to the cooperatives (24%).Some of the reasons mentioned by the respondents for their not keeping records are less awareness in the importance of book keeping and less knowledge in financial management.

4.4.1 Supports provided by the local government

With regard to supports, respondents were asked whether they have got any support or not from the local government. Table 4.36 shows their response to the support provided by the local government.

Table 4.36. Supports provided by the local government

	Type of ownership				Total	
	Individual owners		cooperatives			
Responses	Frequency	%	Frequency	%	Frequency	%
Yes	8	12%	34%	100%	42	41%
No	60	88%	-	-	60	59%
Total	68	100%	34%	100%	102	100%

Source: Survey data

Table 4.36 above shows that the majority of the supports provided by the government are to the cooperatives (100%) as compared to the individual owners (12%). The majority of the individually owned MSEs (88%) replied that they did not get business development supports. On top of this, during FGD respondents revealed that some of the training support they received is in adequate for producing various types of products. Further more, due to less integration with TVET centers technical training is not given to existing individually owned MSEs by the TVET institutions.

4.4.2. Follow-up support by the MSE office

Follow up and consultation services through visiting (touring) to MSEs are important supports to assure the sustainability of the enterprises. It is possible to know the strength and weakness (real problems) of the enterprises through observation. With this regard respondents were asked whether follow-up supports are provided or not by the local MSEs support office. Table 4.37 below presents the follow-up support result.

Table 4.37 Follow –up support by the MSE office

Response	Type of ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Always	-	-	5	15%	5	5.0%
Nothing	21	31%	-	-	21	20.5%
Usually	6	9%	4	12%	10	10.0%
Sometimes	41	60%	25	73%	66	64.5%
total	68	100%	34	100%	102	100%

Source: Survey data

From table 4.37 above, it can be observed that most of the respondents 66(64.50%) receive follow up and consultation support sometimes, while 20.50% receive nothing, 10% usually, and 5% answered they receive always. 31% of the individual owners replied that there is no follow-up and consultation support as compared to cooperative MSEs. From this, it is clear to understand that the follow-up support by the MSEs office is weak in individually owned MSEs. The focus group discussion made with the MSE operators also confirms this conclusion.

This section has revealed that the major problems faced by MSEs are lack of finance, work premises, lack of market for their product, lack of technical and managerial skills. In addition, it was also noted that there is less follow-up service and poor integration of supports provided for the enterprises in the study area. Therefore, it is possible to conclude that solving those challenges could enhance the enterprises capacity, and their contribution to the local economic development.

Chapter Five

Conclusions and Recommendations

5.1 Conclusions

Micro and small enterprises (MSEs) are among the major economic activities in Tigray region next to agriculture, especially in urban areas. They are the major source of livelihood for the Urban Population. MSEs are playing a great role in contributing to local economic development such as employment creation, income generation, input linkage with the local suppliers, market linkage and income generating (taxation) to local governments among others.

Throughout this study, efforts have been made to examine the contribution of the metal and woodwork micro and small enterprises in local economic development in Mekelle city, the capital of Tigray region. Moreover, the study has tried to find out the characteristics of the enterprises. Furthermore, the study has identified major problems encountered by the enterprises in their operation.

The study focuses on metal and woodwork micro and small enterprises. About 102 sample enterprises have been covered by the survey study. Based on this, the findings and results of the survey can be summarized as follows:-

- In terms of the characteristics of the enterprises, most of them (66.70%) are recent establishments, established between 2003/04 and 2004/05.
- The majority of the enterprises (62%) are located at independent (rent) work place. With regard to motives to engage in their business, 90% of the MSEs joined the current business due to having background skilled and experience.

- In terms of their initial capital, 68% of the enterprises use their own savings, followed by 21% getting loan from micro-finance institutions. This shows that the MFIs are contributing less in providing loan to start a business of metal and woodwork enterprises.

In this study, these micro and small enterprises are contributing to local economic development particularly in the following areas:-

- Employment creation and income generation.
- Re-investment of their profits, hence increase local investment.
- Create linkages with local suppliers.
- Producing for local market demand and hence satisfying the local needs and creating market linkages.
- Contributing to the local community by raising money for roads, education and health services.
- Generating income to local government through taxation.

Based on the above points, the study concludes that the individually owned enterprises have great contribution to the local economic development as compared to the cooperative enterprises. However, in terms of support provided by the government more attention was given to the newly established cooperatives than the existing individually owned MSEs.

It has been observed that local traders, small and medium enterprises in the city serve as the major supplier of inputs for micro and small enterprises. Most of the metal and wood products of the enterprises produce usually for local markets. Most of the customers of the MSEs are urban dwellers and farmers. However, the enterprises have less forward linkage with the farm sector in using local farm inputs.

The major problems encountered by the enterprises can be categorized into two types: external and internal. With regard to external problems the major challenges identified by the survey are lack of working premises, lack of market for their product (less demand) and finance (credit) facilities to expand their business. Another problem is, unlike the cooperative MSEs, less attention of government support has been given to the individually owned enterprises such as business development services and financial supports. In addition, the majority of the enterprises (including the cooperatives) do not get adequate follow-up (consultancy) support by the MSEs support office.

The problems faced by the MSEs are not only from the external side but also internal (from the MSE owner /manager themselves). One of the critical problems is having less technical skill. Another challenge is less knowledge on book-keeping. In addition, how to manage a business (management problem), is also a third critical problem of the enterprises. Furthermore, for the case of cooperatives lack of commitment to work or poor working culture and disagreement among the members of the group are unique problems of the MSEs.

Currently, in terms of technical training support, the technical and vocational education and training (TVET) centers are not providing training for the individually owned MSEs at large. Since the TVET centers are ruled by the regional level directly, they have no integration with the local administration.

In sum, it is understood from the study that the contribution of the sample micro and small enterprises in promoting local economic development seems promising, though too much is yet to be done to ensure the realization of the immense development potentials of these enterprises.

5.2 Recommendations

Based on the major findings discussed in the analysis a number of policy recommendations have been drawn, with the view to improve the role of micro and small enterprises contribution to local economic development and reduce urban poverty.

.Strengthening linkage with the farm sector

From the survey result and analysis the majority of the sampled micro and small enterprises have linkages with farm sector. However, significant number of MSEs (36% surveyed MSEs) didn't have any linkages with the local farm sector. Hence, to improve this, the local government has to give more attention to strength the linkages with the local farm sector. For example, strengthen producing farm inputs in the local MSEs, promoting the MSE products to local farmers through exhibition and other methods.

. More attention should be given to the existing MSEs

The survey study shows that the majority of the supports provided by the government are to the cooperatives as compared to the individually owned MSEs. However, individually owned MSEs are contributing a lot to the local economic development than that of the cooperatives. Therefore, these enterprises should be given more support in order to graduate to medium level enterprises. Because these enterprises are the future industrial (economic) bases of the city.

. Giving emphasis on export of products

Based on the findings of the study, all of the sample MSE Product's are provided for local market (i.e. with in the region). There are no products exported out of the region. Therefore to reinforce the local economic base, more focus should be given by the local government to export their

products out of the region through market assessment (research) and promoting the products of the enterprises in national exhibitions and through Medias.

. Provide workplace (premises)

The study has found out that one of the critical problems for the MSEs (especially for individually owned MSEs) is availability of work premises. Almost all are working in rental houses (workshops). Therefore, the local government has to provide work premises for the enterprises together (i.e. convenient workplace) and provide them with the necessary services such as electricity, road, water and telephone.

. Widening access to finance (loan)

Based on the study, lack of finance in the form of credit is the major constraint for the sampled micro and small enterprises to expand their workshops. Besides, the majority of the MSEs start-up capital was their own savings. Hence, the existing Dedebit Credit and Saving Institution has to improve its service delivery in terms of widening the ranges of collaterals, providing access credit to young cooperative MSEs, making longer grace periods and increase the amount of loan provided for group based lending. In addition, the regional government (local government) has to promote the establishment of other alternative micro-finance institutions so as to create competition and improve access to credit service for the urban MSEs. Finally, establishing guarantee fund for MSEs like in the rural credit package is also another way.

. Strengthening the market support

One of the constraints for the metal and woodwork enterprises is lack of sufficient market. Even though there are some supports and linkages with the city's condominium housing construction project and agriculture and rural development bureau, this has to be strengthened

and widened to all enterprises. In addition, the following market supports should be given.

- Create linkages with large enterprises found in the city. For example, some of the accessories made by Mesfin industrial engineering, Messebo Cement Factory could be done by MSEs through sub-contracting.
- Enhance the capacity of the MSEs through new technology support and training to produce quality product.
- Market promotion and advertising works for the MSEs product should be strengthen using exhibition and other methods.

. Provide managerial and technical trainings

Business management and technical skills are necessary for the growth and development of MSEs. The study has found out that the majority of the MSE operators have lack of technical skills and managerial problems, such as poor financial record keepings. Hence, the following intervention has to be undertaken by the local government of Mekelle City to enhance the capacity of the MSEs.

- Business management training (such as planning, marketing, record keeping, etc.) has to be given based on the need of the enterprises.
- For the case of technical training, the government owned technical and vocational education training (TVET) centers have to be given intensive training not only for the high school leavers but also for the existing micro and small enterprises (metal and woodwork enterprises). Equal opportunity should be given to the existing enterprises with newly entrants.

. Conducting continuous follow-up and assessment

One of the important instruments for the development of MSEs is follow - up support service. The survey found out that the majority of the MSEs

were not visited by the support office extension workers. This situation has to be changed in order to:-

- Know the real Change bring by the enterprises and to take measures that affect the growth of the MSEs.
- Identify the best performers (best practices) and scale up to others.

. Provide integrated supports

Based on the focus group discussion conducted with cooperative enterprises, supports provided were not integrated with different offices, such as business training with credit and work premises, etc. Hence, their works in which they are engaged have lack of sustainability. Therefore, the local government of the city has to be integrated any supports provided for cooperative MSEs in order to enhance their capacity and ensure sustainability of the enterprise.

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Annex 1. Research Questionnaire

To be fill by the manager (owner) of the enterprises, through enumerators

This questionnaire has been prepared to examine the contribution of micro and small enterprises to local economic development and to identify the problems of the micro and small enterprises in Mekelle town. The information you are going to provide will be used purely for academic purpose. Therefore, you are kindly requested to give genuine response.

Note: - For those close-ended questions you are kindly requested to encircle the number (choice) in each question that holds your opinion. And for multiple answers in a single question, it is possible to rank more than one choice. In the open-ended type of questions,you write your opinion precisely in the space provided.

Part 1. Back ground information of respondents

1. Sex :- 1. Male 2. Female

2. Age :-_____ years.

3. Education status
   1. Illiterate
   2. 1-6
   3. 7-8
   4. 9-10
   5. 11-12 (TVET -Certificate)
   6. Diploma
   7. Degree

4. Martial Status
   1. Never married
   2. Married
   3. Widowed
   4. Divorced

5. Religion
   1. Orthodox
   2. Muslim
   3. Catholic
   4. Other, Specify

6. What was your earlier occupation before you are a manager (owner) of this enterprise?

1. Unemployed
2. Student
3. Daily laborer
4. Housewife
5. Private similar business employee
6. other specify_____

Part 2: Characteristics of the enterprise

7. Type of sector engaged_____
8. Address: - kebele _____
9. Year of establishment (E.C) _____
10. Where is the location of your enterprise?
    1. with home premise
    2. Independent (own) premise
    3. Independent (rental) premise
    4. other, specify_____
11. What is the form of ownership of your enterprise?
    1. Private (sole)
    2. Partnership
    3. Cooperative
    4. Other, specify ____
12. Legal status of your business
    1. Licensed
    2. Not licensed
    3. On process to be licensed
    4. Other, specify_____
13. The initial total employees (member) of the enterprise?_____
15. If the number of employees (member) of the enterprise have been decreasing, what is the most important reason?
    1. Lack of profitability of the business_____
    2. Disagreement among the group ___
    3. Death and illness _
    4. Other, specify ____

2.1 The process of establishment (start- up)

16. The major reason to engage in this business?
    1. Background skill (education) ____
    2. Expectation of good income_____
    3. Requires low startup capital _____
    4. Other, specify_____

17. What is the major source of your initial capital in Birr?

1. Own contribution
2. Loan from dedebit micro finance
3. Credit from family
4. Other, specify ____

18. Do you get any support from government during start up of your enterprise?

1. Yes
2. No

19. If your answer for Q18 is 1(yes), what kind of support?

1. Business management Training
2. Credit facilities
3. Work premises
4. Market linkage
5. Other, specify____

Part 3. Contribution to local economic development

3.1. Employment creation

20. Do you feel that your enterprise create jobs?

1. Yes
2.No

21. If your answer for Q N0.20 is 1 (yes), **Indicate the number and types of jobs**? Fill in the table below.

N0.of jobs created21.1	Sex (21.2)		Type of job created 21.3		Status of the profession(21.4)	
	M	F	permanent	casual	skilled	Unskilled

22. Describe the number of jobs created by work status

Work status	Number
Full time wage (40 hours+, 5 days+	
Part-time waged (<40 hours, <5 days	
Casual piece work	
Full time for self/business	
Part time for self/business	
Unpaid family work in family business	
Other specify	

3.2 Income generation

23. How much is your average monthly gross income of your enterprise? (In birr) _____

24. Do you pay wages for employees (members) of the enterprise?

1. Yes 2.No

25. If your answer for Q N0. 24 is 1 (yes), how much is the average wage paid per Individual per month?_____birr.

26. How do you pay the wages for most members /employees?

1=Monthly
2 =Wage/weak
5= other (specify)_____
3. Wage /day
4. Piecework

27. is your enterprise profitable? 1. Yes _____ 2.No ___

28. If your answer for Q N0. 27 is 1 (yes), how do you use the profit?

1. Reinvest 2.Save 3.Both 1 and 2 4. Other, specify___

29. If your answer for Q N0. 28 is 2 (N0), what is the major reason?

_____

3.3. Resources mobilization (Capital accumulation)

30. How much was your enterprise initial capital (in Birr)? _____

31. How much is your enterprise current capital (in Birr)? _____

3.4 Local raw material linkage

32. Where do you get mainly the inputs (raw materials) for your enterprise?

1. Local market (purchase)
2. Regional market areas
3. National market
4. Other specify_____

33. The major suppliers of your raw materials are?

1. Large and Medium enterprises
2. Local traders
3.Small enterprises
4. Other, specify ____

3.5. Farm sector linkage (input support)

34. Do you provide inputs for the local farmers?

1. Yes 2.No

35. If your answer for Q N0. 34 is 1 (yes), in what aspect?

1. Fertilizer provision
2. Credit service
3.equipment Product /maintenance
4. Other, specify___

36. Does your enterprise use farm products as input? (E.g. wood).

1. Yes 2.No

3.6. Market linkage

37. Most of your products/ services/ are provided for

1. For local market (Mekelle town)
2. For regional market (the whole of Tigray)
3. For the national market
4 for export (out of the region)
5. Other specify _____

38. Most of the customer of your product (service) is?

1. Urban dwellers
2. Business organizations
3. Farmers
4. Government agencies
5. Other specify_____

3.7. Contribution to the community

39. Do you make any contribution to the community?

1. Yes 2.No

40. If your answer for Q No 39 is yes, describe the nature of your contribution to the Community?

1. Raise money for road construction in the community
2. Raise money for service provision (health, education) in the community
3. Train youth from the community
4. Other specify _____

3.7. Tax payment

41. Does your enterprise pay tax?

1. Yes 2. No

42. If your answer for Q N0. 41 is 1 (yes), how much do you pay (average) annually? in birr_____.

Part 4. Problems faced currently

43. What is/are the external actual problems face your enterprise? (Provide your answer in order 1st, 2, 3,)

1. Lack of market _____
2. Lack of finance _____
3. High competition _____
4. Lack of raw materials _____
5. Lack of working premises_
6. Lack of machineries/equipment___
7. Inadequate government support __
8. Other, specify ____

44. What is/are the internal actual problems face in your enterprise? (Provide your answer in order 1, 2, 3 …)

1. Lack of management _____
2. Lack of technical skill____
3. Lack of commitment to work _____
4. Disagreement among members _____
5. Lack of book keeping (accounting)__
6. Other, specify _____

Part 5. Other related issues

45. Does your enterprise have any accounting system in which the enterprise registers all financial aspects of your business?

1. Yes 2. No

46. If your answer for Q 46 is 2(No), why? _____

47. Did you get any support from the Government such as credit, work place etc?

1. Yes 2. No

48. Did you get consultancy (follow-up) service by the MSE-support office?

1. Always 2. Nothing 3.Usually 4. Some times

49. Comment (if any)_____

_____

Annex 2. Descriptive Data Analysis

Annex 2. 1. Sex of the respondent

Sex	Types of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
M	68	100%	34	100%	102	100%
F						
Total	68	100%	34	100%	102	100%

Annex 2.2. Age of the respondent

Age	Types of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
18-24	6	8.80%	13	38%	19	18.6
25-30	38	55.80%	15	44%	53	52.0
31-40	16	23.70%	6	18	22	21.5
Above 40	8	11.70%			8	8.0
Total	68	100%	34	100%	102	100%

Annex 2.3. Marital Status

Marital Status	Types of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Single	30	44%	23	73.50%	53	52%
Married	38	56%	11	26.50%	49	48%
Widowed						
Divorced						
Total	68	100%	34	100%	102	100%

Annex 2. 4. Religion of the respondent

Religion	Types of enterprise ownership				Total	
	Individual owners		cooperatives			
	Frequency	%	Frequency	%	Frequency	%
Orthodox	56	82%	27	79%	83	81%
Muslim	2	3%	1	3%	3	3%
Catholic	10	15%	6	18%	16	16%
Total	68	100%	34	100%	102	100%

Annex 2. 5. initial and Current no of employees

enterprise type	initial	current	change
Cooperatives	340	340	0
Individual owners	170	476	306
Total	**510**	**816**	**306**

DECLARATION

This thesis is my original work and has not been presented for a degree in any university, and that all sources of materials used for the thesis have been duly acknowledged.

Mizan G/medhin G/meskel

Date 18/06/2001

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

Tegenge G/egziabher (PhD)

Date 18/06/2001