

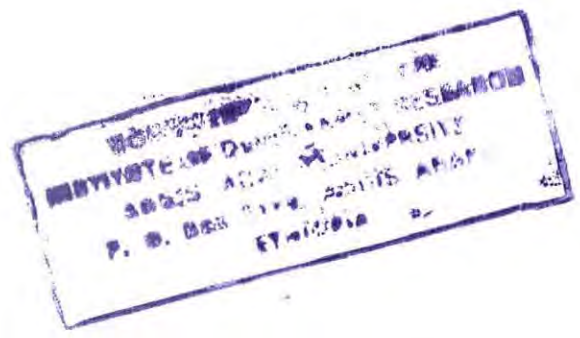
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ADDIS ABABA UNIVERSITY
GRADUATE SCHOOL OF DEVELOPMENT STUDIES
CENTER FOR REGIONAL AND LOCAL DEVELOPMENT
STUDIES

THE LIVELIHOODS REALITY OF MICRO AND SMALL
ENTERPRISE OPERATORS: EVIDENCES FROM WOREDA
ONE OF LIDETA SUB-CITY, ADDIS ABABA, ETHIOPIA

BY
MULUGETA YOHANES FIRASEW

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JUNE, 2011
ADDIS ABABA

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Addis Ababa University
Graduate School of Development Studies
Center for Regional and Local Development Studies

**The Livelihoods Reality of Micro and Small Enterprise Operators:
Evidences from *Woreda* One of Lideta Sub-city, Addis Ababa,
Ethiopia**

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**A Masters Thesis Submitted to the Center for Regional and Local
Development Studies, Graduate School of Development Studies,
Addis Ababa University**

**In Partial Fulfillment of the Requirements of MA Degree in Urban
Development and Urban Challenges in East Africa**



THE
MBL4
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**Urban Development & Urban Challenges in East
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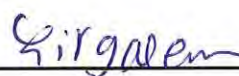
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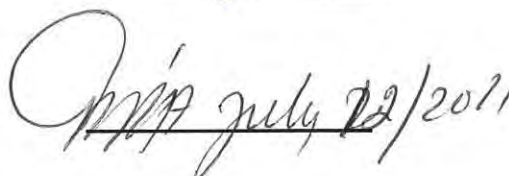
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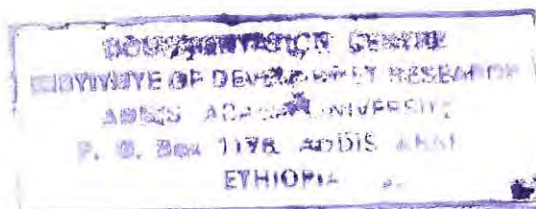


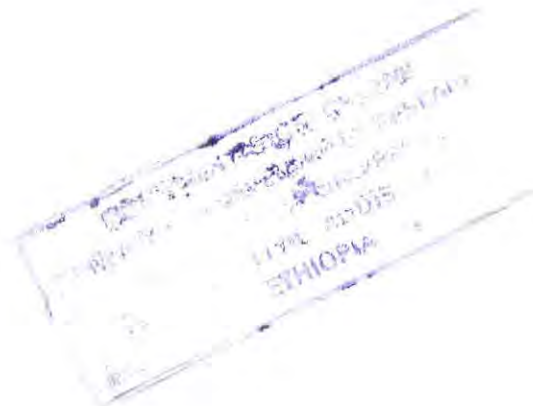
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Acknowledgement

At the very onset, I need to praise the Almighty God (*Abeka Aketeme Betebale Gize.....*), who did and completed all my work at my favour. I am also indebted to thank the following individuals and institutions:

- Dr. Yirgalem Mahitame - for his thorough academic and scholarly advice accompanied with patience throughout the research process.
- The Norwegian (NORAD's) NOMA Program - for providing me a fellowship during my stay at Trondheim, Norway and here in Ethiopia.
- Dr. Degefa Tolossa (Academic Coordinator of NOMA Program at AAU) - for his overall and unlimited support.
- The Department of Public Administration and Management, School of Business and Public Administration, Addis Ababa University (AAU)- for granting me a leave to pursue my graduate study.
- W/o. Dagmawit Moges (My former classmate at AAU and currently Director of Addis Ababa City Micro and Small Enterprises Development Agency) and her subordinates at various levels- for their unreserved facilitation and cooperation during the field work.
- All my professors, friends and classmates at Norwegian University of Science and Technology (NTNU) and AAU especially Dr Rita K. (NOMA Program Advisor at NTNU), Dr. Bedilu and his wife Tigist, Kefyalew, Dessalegn, Idah, Adrian, George, Edward, Mekbib, Fekadu, Befkadu, Habtamu, Zelalem, Banchi and Elleni for their encouragement, moral support and sharing everything they have with me.

Lastly, All My Respondents- for their willingness to be participants of the study, besides to being patient while I and my assistants were undertaking a long interview with them.

Mulugeta Yohanes Firasew

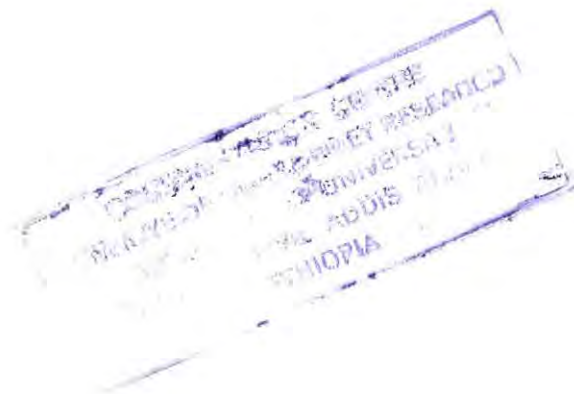
June, 2011.

To

The Late *Fresew*, my grandfather, who foreseen all things with faith

&

The Late *Ermyias Tesfaye (Ermi)*, my brother who passed away at the city of Manchester, England, and the Late *Emebet Admasu (Emu)*, a very little sister whom I missed due to a fatal car accident



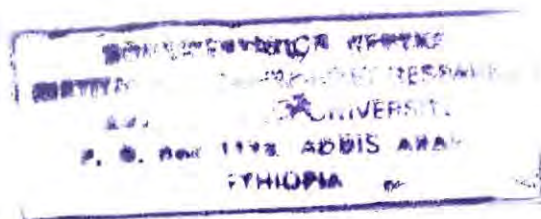
Glossary

Gullit: A petty trading activity usually undertaken at road sides and sometimes at designated places.

Idir : A widely prevalent sort of funeral grouping in Ethiopia, where resources are mobilized and pooled to get emotional and material support up on a death of the member himself, his dependants or relatives.

Iqub : A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis .In such schemes, each member is entitled to receive the collected lump sum once as per his contribution.

Kebele: The former name of the lowest level of local administration. Now these units are renamed *Woreda* to form a sub city, an arrangement peculiar to Addis Ababa city.



Acronyms

AACMSEDA	Addis Ababa City Micro and Small Enterprises Development Agency
BDSs	Business Development Services
Br	Birr (Ethiopian Currency)
CBOs	Community Based Organizations
BPR	Business Process Reengineering
CSA	Central Statistical Agency
CSOs	Civil Society Organizations
DFID	Department for International Development
E.C	Ethiopian Calendar
EPRDF	Ethiopian People's Revolutionary Democratic Front
FDRE	Federal Democratic Republic of Ethiopia
FGD	Focused Group Discussion
FMSEDA	Federal Micro and Small Enterprises Development Agency
GTP	Growth and Transformation Plan
HDPO	Housing Development Project Office
HLCLEP	High Level Commission on the Legal Empowerment of the Poor
ICs	Informal Conversations
IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
KIIs	Key Informant Interview
LDCs	Least Developed Countries
MFI	Micro Finance Institution
MoFED	Ministry of Finance and Economic Development
MSEs	Micro and Small Enterprises



MSEDO	Micro and Small Enterprises Development Office
MSEDS	Micro and Small Enterprises Development Strategy
MTI	Ministry of Trade and Industry
MWUD	Ministry of Works and Urban Development
MWW	Metal and Wood Work
NGO	Non Governmental Organization
NPO	Non Participant Observation
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PIPs	Policies, Institutions and Processes
ROSCAs	Rotating Saving and Credit Associations
SLF	Sustainable Livelihoods Framework
TVET	Technical and Vocational Education and Training
UL	Urban Livelihoods
UNFPA	United Nations Fund for Population Affairs
UNIDO	United Nations Industrial development Organization
USD	United States Dollar



Abstract

This qualitative research was conducted at *woreda* 1 of the *Lideta* sub city in Addis Ababa, Ethiopia with the overall aim of assessing the overall livelihoods situation of MSE operators specifically by examining issues related to context, capital assets, role of institutions, policies and processes, and finally the livelihood outcomes of working in MSEs. The study targeted those cooperative MSEs engaged in metal and wood work activities. The data generated to meet these objectives were collected via semi-structured interviews, key-informant interviews, focused group discussion, and non-participant observations, while subsequent analysis was done in light of the Sustainable Livelihoods Framework (SLF).

The studied operators and their MSEs were vulnerable to many contextual factors with both facilitative (such as the prevalence of free market system, decentralization, federalist state structure, price ceiling, presence of general favorable policy environment and political leadership) and hindering (like market shortage, misconception of the society, inflation, high and increasing price of inputs and basic commodities, poor access to social facilities and infrastructure, tenure insecurity, inconvenient working place, and bureaucratic work procedures) roles.

In relation to their level and access to various types of capital assets, the operators have relatively better access to and level of social, political, and human assets. It is also found that, although not equal to the level of possession of the previously-indicated three types of assets, the operators own a significant amount of financial and physical assets.

A number of formal and informal governmental, non-governmental, private and commercial institutions have played helpful role during the establishment and operation of the studied MSEs through creating better policy environment, organizing the operators to form MSEs, credit and training provision, increasing the political capacity of members, and finally providing mutual support. Yet, some of the shortcomings associated with these institutions and with an adverse effect on the MSEs are inflexible working procedures, lack of commitment and responsiveness, and adopting unsuitable policies

In due course, it was found that the problems challenging the targeted MSEs were market, institution, operator, MSE and society related. The reported outcomes of this livelihood strategy were increased income and household asset ownership, better access to food and health services, increased exposure and level of technical and other social skills, becoming a law-abiding, self-confident, self-reliant, and productive individual with enlarged social and political capacity. The study mainly suggests such measures as alleviating the market problem of the MSEs; improving the provision and current state of public infrastructures; and increasing the capacity of executives and the operators themselves.

Chapter One

1. Introduction

1.1 Background of the Study

It is well known that the world has experienced the fastest rate of urbanization in the 21st century due to high rural-urban migration and high rate of natural increase in urban population. However, in most less developed parts of the world, unlike the developed world, this accelerated urbanization was not accompanied with a commensurate change in economic and social change and wellbeing (Potter and Llyold Evans: 1998). Mainly triggered by numerous interwoven “push” and “pull” factors (ibid), this uncontrolled urbanization has ended up with a wide –spread and chronic poverty in many of the urban centers of the developing world fueled by the effects of economic recession and structural adjustment (Massey: 1996, Rakodi: 2002, Satterthwaite: 2003, Wratten: 1995). Besides, the costs of this unprecedented urbanization on the global south have been manifested in fiscal, financial, efficiency and equity terms (Linn: 1982).

Though the incidence of urban poverty has fallen in most parts of the globe in the post World War II period, it has perpetuated widely in Africa to be an evident socio-economic problem, chiefly and specifically characterized by lack of purchasing power, inadequate access to social and economic amenities, few opportunities for formal income generation, poor health and nutrition, lack of asset ownership, casual employment and unemployment (Grant: 2006, Hope: 2004, Potter and Llyold Evans: 1998). These and other manifestations of urban poverty are highly deep-rooted and worst in Sub Saharan African region. Consequently, Sub-Saharan Africa, though the least urbanized region in the world and its urbanization rate has remarkably increased in the previous four decades (Clark: 1997, Potter and Llyold Evans: 1998), is regarded as the most impoverished area in Africa as well as in the world, where 45-50 percent of the population is living below poverty line (Fluitman: 2001, Yapa: 1996). This deteriorated state of life in urban areas of the region is a fair reflection of the poor living condition of the wider population of the region. For instance, in 2004, about 41.10 percent of the entire population of

Sub Sahara were earning below 1.08 United States Dollar (USD) per day (Chen and Ravallion: 2007).

Located in Sub Saharan region and with a predominantly rural and agrarian population, Ethiopia is one of the least developing countries in the world (Dercon: 1999) with a total population of 73,750,932 in 2007, of which 11,862,821 (16.8 %) live in urban areas (CSA: 2010). The incidence of poverty in the country is found to be extremely high. The United Nations Fund for Population Affairs (UNFPA) (2007), for example, estimated that, of the national total population of the country, 42.2 percent live under the national poverty line. Like urban dwellers of other Sub-Saharan nations, majority i.e. 4 million of the urban residents of Ethiopia living below the poverty line (Bevan: 2007, Degefa: 2008,). Many factors contributed for this 'urbanization of poverty' in Ethiopia the main ones being fast urban population growth, unemployment and lack of income, and weak urban governance and management (Asmamaw: 2004).

In developing countries, entrepreneurial activities and the associated Micro and Small Enterprises (MSEs) are particularly salient among the urban poor. These enterprises provide employment opportunity and source of income, by which these poor people withstand causes and seeds of extreme poverty. Consequently, encouraging and supporting the establishment and expansion of Micro and Small Scale Enterprises (MSEs) is one of the development paths opted by the governments of developing countries to reduce unemployment and the resultant poverty (Daniels and Mead: 1998). Governments of various least developed nations are allocating ample resources for promoting the MSE sector because they see MSEs as engines of employment, tools of alleviating poverty and improving equality (Gomez: 2008). Apart from the government focus and efforts, various national and international nongovernmental organizations (NGOs) have also spent considerable attention and resources, directly or indirectly, on boosting up MSEs due to their ability to grow tremendously at the peak of the economic crisis of the 1980s even exhibited unique strength in the face of recession (Ugandan Ministry of Finance, Planning and Economic Development: 2008). Thus, like elsewhere, MSEs in Sub Saharan Africa are assisted ,by governments and the donor community, through improved access to credit, vocational training and short trainings to entrepreneurs and their workers, and facilitating marketing services (Mulu: 2007).

Being cognizant of the aforementioned benefits resulting from the MSE sector, the current Ethiopian government has inculcated micro and small enterprise issue in its national development agenda (Mulu: 2007). After the adoption of the country's Micro and Small Enterprises Development Strategy (MSEDS), many such enterprises have been established and created job opportunity for significant number unemployed urban residents throughout the country. For instance, by citing the Ethiopian Ministry of Works and Urban Development (MWUD) (2009), Tegegne and Meheret (2010) found that 395,806 employment opportunities have been generated by the 71,568 MSEs created in four major regions of the country namely *Oromia*, *Amhara*, Southern Nations, Nationalities and Peoples Region, and *Tigray*. In the capital city alone, according to the Addis Ababa City Micro and Small Enterprises Development Agency (AACMSEDA) (2011), there are 6471 MSE establishments. The same source pointed that their higher role for poverty reduction and huge employment creation capacity are among the reasons for encouraging and supporting the establishment of MSEs in various growth-oriented sectors such as Construction, Textile and Garments, Metal and Wood Work, Urban Agriculture, Municipal Services, and recently Cobblestone Work.

1.2 The Problem Statement

The multifacetedness of poverty has been well recognized by many writers. In general ,it may take economic, political, social and cultural forms; and can be specifically manifested in urban areas by being either homeless or living in sub-standard dwellings lacking basic amenities, unemployment, food insecurity, absence or lack of access to various socio-economic services, limited or low participation in decision making and vulnerability to a number of shocks, risks and stresses(Degefa:2008).Measured and assessed in light of the above enumerated conditions and other conventional indicators, Ethiopia is one of the least developed nations in the world, where, like any other developing countries, poverty is pervasive and deep-rooted (Brown and Teshome: 2007). Accordingly, at national level, the proportion of people in Ethiopia who are absolutely poor (those whose total consumption expenditure was less than USD124.28 per year) during the year 2003 was 44%. Situations in rural areas are found to be more troublesome, where the proportion of people who are categorized as poor are estimated to be 45% (Asmamaw: 2004).Moreover, according to the Household Income, Consumption and Expenditure Survey of 2004/2005, urban poverty incidence has increased from 33 % in 1995/96 to about 35.1% in

2004/05 (Tegegne and Meheret: 2010). The incidence of poverty has shown a dramatic rising in recent years in most urban centers of the nation. For example, in 2005, it has increased to 41% in Addis Ababa, the national capital (Muzzini: 2008).

The government of the Federal Democratic Republic of Ethiopia has employed the promotion and development of MSEs as a tool and strategy that can have a profound effect on reducing urban poverty, creating employment and bringing about overall growth in the business sector (Tegegne and Meheret : 2010). In the government's Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), according to the Ministry of Finance and Economic Development (MoFED), it is shown that there is a plan to reduce urban unemployment via promoting MSEs (MoFED: 2006). The same issue of considering MSEs as a way of reducing urban poverty is also given equal emphasis in the national urban development policy, which is composed of two packages namely the Urban Good Governance Package and the Urban Development Package. One of the five major elements consisting the later one is the MSE development program, whose interrelated objectives were reducing urban poverty and unemployment by supporting MSEs; achieving fast growth through the creation of linkages between MSEs with medium and large enterprises; intensifying the development of MSEs and creating a base for further industrial growth; and promoting the economic linkages between rural and urban areas, according to a document from the MWUD (MWUD:2007). On the way, the development of micro and small businesses has been also considered as a path and vehicle to reduce poverty and create jobs for the increasing number of graduates from technical and vocational training institutions. Accordingly, the government has allocated and spent huge amount of resource for the expansion of the MSE throughout the country (Tegegn and Meheret: 2010) and even intends to spend more in the coming years of the actualization of the Growth and Transformation Plan (GTP) from 2003-2007 E.C (*Zemen Miazia*, 2003 E.C).

Especially after the launching of the MSE development program and strategy in Ethiopia, establishing and being engaged in MSEs has become one of the livelihood activities pursued by many urban poor. To help these enterprises become viable, the government of Ethiopia has taken various bold measures to make the overall environment suitable to these enterprises (AACMSEDA: 2011). Although the government has allocated huge amount of resources and

claims that it has achieved a remarkable success in the MSE sector, it was found that objective studies to investigate the impact of the sector to poverty reduction, job creation and business development were extremely rare (Tegegne and Meheret: 2010). On one hand, therefore, this study tries to fill this gap of lack of independent assessment of the poverty reduction and job creation role and impact of MSEs specifically by focusing on those variables that impede or facilitate the poverty alleviation role of MSEs.

On the other side, in reality, the success or failure of MSEs, hence their ability in enhancing the quality of life of their beneficiaries is dependent on a number of factors. Alternatively speaking, this means that, as a means of living or livelihood strategy, MSEs cannot exist and operate in a vacuum. Consequently, this condition implies a view that the detailed understanding of the poverty reduction role of MSEs and their livelihoods impact is possible by employing an approach that embraces all issues, factors and variables that affect them. While duly pointing such a tool, Degefa (2008) asserted that a framework named Sustainable Likelihoods Framework (SLF) permits the depiction of a situation in which a given context, access to different assets, policies and various local institutions affect people's livelihood activity, in this case working in MSEs, and the outcomes of the same activity. In close resemblance with the above opinion of Degefa, Meron (2005) claimed that the Livelihood Approach to poverty reduction provides a broadened understanding of the various factors that restrict or enhance livelihood opportunities.

When we see MSEs by the lens of this SLF perspective and in light of what is going in reality, clearly these enterprises are constrained or supported by a variety of factors related to the wider political, economic, social, and environmental contexts. In the same vein, the performance and effectiveness of MSEs is also contingent up on the existing policies, institutions, structures and processes, besides to level of personal initiation, entrepreneurial spirit and capability, and other owner or operator-related behaviors. The possession and access to various sorts of capital assets are also among the determinants shaping their success or failure. Finally, the livelihoods impacts of MSEs are the results of the continuous interplay between the above-indicated factors operating at different levels ranging from local to international. In a nutshell, therefore, on top of identifying the constraints that challenge MSEs as a livelihood strategy, this study was intended to holistically assess the livelihood situation of MSE operators by paying attention to their

vulnerability context, livelihood assets, transforming structures and processes, and livelihoods outcomes of MSEs on their operators by targeting those individuals organized in cooperatives and engaged in metal and wood work activity in *Woreda 01 of Lideta* sub-city of Addis Ababa city.

1.3 General Objective of the Study

The general objective of this study is to assess the overall livelihood reality and situation of operators working in metal and wood cooperative MSEs in *Woreda 1 of Lideta* Sub city of Addis Ababa.

1.4 Specific Objectives of the Study

This study will specifically address the following objectives:

- To identify those environmental and contextual factors that affect the establishment and current operation of MSEs by their owners.
- To determine the target group's access to and control of various types of capital asset.
- To assess the role and effect of various institutions, policies and processes on the targeted MSEs.
- To assess the livelihood outcomes of MSEs on their beneficiaries.

1.5 Research Questions

The research tried to address the following pertinent questions:

- What are the various contextual factors that facilitated or impeded the establishment and current operation of the studied MSEs?
- How is the level and access of the operators to numerous kinds of assets?
- What are the effects and roles of different institutions, policies and processes on the studied MSEs?

- What are the livelihood impacts and outcomes of working on MSEs?

1.6 Significance of the Study

This research is pertinent for a number of reasons, some of which are the following:

1. This study is basically targeted for the purpose of knowledge generation. As the matter under investigation is known for its resource scarcity, this research contributes its very best for the academic wealth by igniting the interest of other researchers to carry out similar studies on MSEs engaged in other activities at Addis Ababa or in other urban centers of Ethiopia.
2. So far, numerous researches have been conducted on the Ethiopian MSE sector predominantly relying on mixed methodology. In most of these studies, however, both the data collection and the subsequent analysis are carried on by employing quantitative approach by large. Since this research is conducted on purely qualitative basis, its importance lies on allowing further substantiation of the findings of those previous studies qualitatively.
3. Apart from serving the above-stated importance, those bodies dealing with and striving towards the improvement of the poverty reduction role of MSEs, especially stakeholders working in relation to metal and wood work , may use the outputs of this research.

1.7 Limitations of the Study

This research has faced a number of difficulties at various stages of the study process. Absence of literature explicitly related to the livelihoods situation of MSEs engaged in metal and wood work activities was the main problem challenging the research ,followed by a data mismatch (inconsistency) between what is reported by the MSE operators and officials. The data collection time was a period of the BPR-induced massive human resource re-placement and reshuffling in almost all *woreda*-level government sector offices of the city. This has complicated the field work. Additionally, some respondents were reluctant to spare their time to give the necessary data. Moreover, the respondents feared to express their idea freely during the first few days of

data collection. This problem was, however, resolved in the course of time, as the researcher developed friendly relationship with and trust from the MSE operators.

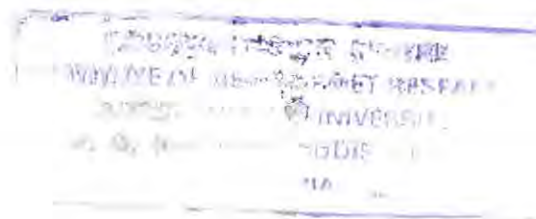
Here it must be noted that from the existing many areas of engagement of MSEs, the ones targeted for this research are those MSE operators working in the area of metal and wood work at *Woreda 1 of Lideta* Sub city of Addis Ababa. Therefore, care must be taken not to generalize the findings of this study to MSEs operating in other sectors and areas of Addis Ababa and elsewhere.

1.8 Scope of the Study

To begin with, this study is conducted in one of the *woredas* found in *Lideta* sub city of Addis Ababa. In other words, it would not provide an exhaustive account of the livelihoods reality of MSE operators in other *woredas* of *Lideta* sub city and other sub cities in Addis Ababa. Secondly, the studied MSEs are organized and established with the support of the WMSEDO after 2006, while leaving other MSEs which are self-initiated and set up before 2006. Thirdly, from the existing many areas of engagement, the ones targeted for this research are those MSE operators working in the area of metal and wood work. Lastly, from the four modalities of being organized to form MSEs, cooperatives are the focus of this research. Therefore, care must be taken not to generalize the findings of this study to MSEs operating in other sectors and localities of Addis Ababa city, besides to being cautious of the same on other modes of organizing MSEs.

1.9 Organization of the Research Report

This report is organized in to five chapters. The first chapter introduces the research. Chapter two provides the detailed review of concepts, theories, existing studies on the matter under investigation, and lastly the analytical framework. Chapter three is all about the methodology of the research and description of the study area. Thorough discussion of the livelihoods reality and empirical findings are dealt in the fourth chapter. The last chapter makes conclusions and forwards some preliminary suggestions based on the findings of the study.



Chapter Two

2. Review of the Related Literature

People, especially in the developing parts of the world, establish and run MSEs mainly to earn income and consequently bear up poverty, which can be explained in both income and non-income based aspects. Although people's ultimate goal in undertaking any livelihood activity is to escape poverty by enhancing their status of wellbeing, there are also circumstances on which they become more destitute. This reality clearly exposes the dynamic, multifaceted and complex nature of poverty. On the other hand, similarly, livelihoods, which are composed of assets (including both material and social resources), capabilities and activities required for a means of living (in this case being engaged in MSEs activities) and their outcomes are dynamic too and are constrained or supported by policy, institutional, structural, environmental and owner-related (personal) factors. This 'fluid' nature of both poverty and livelihoods is well accommodated by SLF, whose core principles are : a focus on people and communities rather than structures and the national context; a concern with seeing livelihood in holistic terms crossing sectors, spaces, actors and institutions; and a commitment to identifying the macro-micro linkages that are salient to understanding livelihoods (Rigg:2007). In the following sections of this chapter, therefore, an attempt will be made to discuss what poverty, MSEs, livelihoods are and the nexus between them (reviewing the poverty reduction role of MSEs) by critically examining empirical evidences of many developing countries including Ethiopia. Lastly, a detailed discussion of the analytical framework will follow.

2.1 Conceptual Framework

2.1.1 Poverty

The conceptualization of poverty and its alleviation has been remained an area of concern for numerous scholars and development agencies for a number of decades. To begin with, Chambers (1995) viewed it as lack of physical necessities, assets and income. He further stated that poverty includes, but is more than, being income-poor. Poverty can be distinguished from other dimensions of deprivation such as physical weakness, isolation, vulnerability and powerlessness with which it interacts.

Similarly, Wratten (1995) seen poverty from Conventional and Non-conventional perspectives. The conventional and the widely employed meaning of poverty makes a reference to the level of income or consumption. Accordingly, poverty is considered as a situation where the income or consumption of an individual is less than the level required to meet certain defined needs. This definition is especially suitable for urban areas, where lack of income is highly correlated with other causes of deprivation. Again conventionally, poverty is seen as absolute and relative, where the former refers to a condition in which a person fail to have sufficient income to satisfy a minimum level of nutrition and basic needs .Commonly used by the World Bank and many national governments, this absolute definition doesn't describe the extent of income inequality within society nor the fact that needs are socially determined and change overtime. The concept of relative poverty is more flexible, and allows for minimum needs to be refined with a change in the society's standard of living(Devas :2004 cited in Degefa(2010), Wratten:1995).Because the underpinning factors that explain poverty cannot be addressed adequately by income and consumption-based or absolute and relative ways, supplementary social indicators such as life expectancy, infant mortality, nutrition intake, literacy, access to health facilities and drinking water, etc are frequently employed to define poverty,. However, still the idea here is to have a standard scale so that different places and population groups may be contrasted. Although they best suit to make comparisons among various countries, places and population groups, the above-indicated definitions and ways of measuring poverty inevitably miss the salient aspects of poverty. In other words, the income-based definitions have been criticized due to their failure to capture accurately the diversity and relativity of needs and entitlements coexisting within urban and rural populations. Moreover, they view poverty from the perspective of external professionals rather than from that of the view of the poor themselves (Wratten: 1995).

On the other hand, the non-conventional approach of defining poverty recognizes its multidimensionality. As a result, poverty is generally considered as a situation in which the underprivileged do not have adequate food and shelter, lack access to education and health services, are exposed to violence, and find themselves in a state of unemployment, powerlessness and vulnerability to numerous risks, absence or inadequate socio-political access and participation(Asmamaw:2004).By summing up the peculiar manifestations of poverty from both approaches, poverty can be conceptualized comprehensively as a situation characterized by lack

of basic needs, deficiency in income and consumption, limited command and access over resources, lack of basic security and vulnerability, and social inequality and exclusion.

An attempt also has been made by international organizations to explain what poverty is. The United Nations High Commissioner for Human Rights (UNHCR), for example, defined poverty as

a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.¹

Viewed from the angle of this definition, a vast majority of least developing countries (LDCs) in Africa, Latin America and Asia can be bracketed in to the category of poverty afflicted nations (Ibid).

A working definition of poverty that this study used, and the one that could probably captures and recognizes the role and contribution made by MSEs is provided by Vandenberg (2006) and his colleagues at International Labor Office (ILO) as follows

Poverty is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work.

Most importantly, the ILO remarks that poverty is a “vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy” (ILO: 2003 cited in Vandenberg: 2006). In a more detailed manner, Vandenberg (2006) indicated that poverty can create a reinforcing, inter-generational cycle in which the condition of being poor is itself a barrier that prevents an escape from poverty. Such a process is multi-dimensional. The lack of income prevents parents from giving their children a proper education to earn higher income in the future. It forces some parents to send their children into the labor market, depriving the latter of even a basic education. The lack of adequate health care increases susceptibility to disease and injury that, in turn, reduces work time and work power. Furthermore, the lack of income results

¹ Retrived from <http://www.unhchr.ch/development/poverty-02.html> on January 12, 2001.

in an inability to invest in productivity enhancing farm or non-farm (small enterprise) techniques and technologies. These are the characteristics of chronic poverty, a situation in which people remain poor year after year, generation after generation with little opportunity to exit poverty.

2.1.2 Livelihoods

The different meanings of livelihoods given by various writers are not mutually exclusive, as all address and emphasize capital assets and income earning activities. For instance, Rigg (2007) wrote that a 'livelihood is the way that a household or an individual gets by. Similarly, Ellis (1999) wrote that *'the activities, the assets, and the access towards them jointly determine the living gained by an individual or household. A livelihood is, therefore, about money, food, labor, employment and assets.* Likewise, the International Food Policy Research Institute (IFPRI) (2002) underscored that livelihoods are composed of human capabilities, assets, and means of income and living. Similarly, Livelihood refers to the group of activities that a household or an individual regularly carries out and the entitlements it claims in order to support and prolong a given standard of living (Dessalegn and Aklilu : 2002 cited in Meron :2005). In few words, a livelihood comprises the capabilities, assets (encompassing both material and social resources) and activities required for a means of living.

Equally to livelihoods, its 'sustainability' has been also conceptualized by numerous scholars, all stressing the need for prudent resource utilization while ensuring intra-generational and inter-generational equity. In connection with this, while elaborating sustainable development, Chambers and Conway (1992) explained that

A livelihood is sustainable when it can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in short and long term' as well.

Not unlikely, IFPRI (2002) holds a view that livelihoods are considered sustainable if they can recover from stress and shocks while not destroying the natural resource.

The idea of SL is embedded in almost all policies and programmes designed to alleviate poverty. Said in other words, SL can act either as development objective when it is assumed that the goal

of SLs is to enhance the sustainability of people's livelihoods, with a particular focus on the livelihoods of poor men, women and households; or as a precondition to development, where a sustained livelihoods serves to improve and consolidate poor people's access to and control over assets, thereby improving their livelihoods, and helping to make them less vulnerable to shocks and stresses (such as illness, joblessness and natural catastrophes) which could otherwise end up in downward cycle of indebtedness and impoverishment (Farrington et al :2002).

2.1.3 Micro and Small Enterprises (MSEs): What They Are

The MSE sector everywhere is characterized by highly diversified activities which can create livelihood opportunities for a substantial segment of the population. This implies that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders. Hence, in order to channel all necessary support and facilities to this diversified sector, a definition is needed to categorize the sector accordingly.

However, coming up with a universally applicable definition of MSEs is found to be difficult (Storey: 1995 cited in Kayanula and Quartey: 2000). This is so because the criteria and ways of categorizing enterprises as small, micro and medium varies from country to country and from organization to organization. The absence of such uniform definition of MSEs has created a difficulty. In line with this, for instance, Tegegne and Meheret (2010) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector, the High Level Commission on Legal Empowerment of the Poor (HLCLEP) (2006) argued.

After indicating that volume of capital, size of employment, market share, growth performance and annual and monthly turnover are some of the common criteria used widely, Tegegne and Meheret(2010),reported that, in addition to these criteria, enterprises can be categorized on the basis of past growth performance as new-starts, no growth firms, small growth firms and graduates. The other categorization distinguishes enterprises as livelihood (survival) enterprises

and growth oriented enterprises. The typical characteristics and points of demarcation between these two sorts of enterprises is that

The livelihood (survival) enterprises are the ones in which the entrepreneur is pushed to. These are activities undertaken to support family income and they could be seasonal or part-time. They require no skill or no skill and the entry barrier is minimal. As a result, they involve highly overcrowded activities. Earnings from these enterprises and activities are used to support survival and the enterprises have potential for making short term impact on poverty. The growth-oriented enterprises and activities require skills restricting entry. Entrepreneurs are attracted to them by consideration of profits and out of choice. Surplus is re-invested and they form the basis for growth and sustainable development (Harvie: 2003 cited in Tegegne and Meheret: 2010).

Apart from the above typology, different countries use different points of criteria to distinguish these business enterprises from other economic entities within their national boundary. The following few paragraphs try to present some of the characteristics and nationally applicable definitions of MSEs used by numerous governments and organizations.

In their extensive study carried out to assess the policy environment for promoting Micro and Small Enterprises in Ghana and Malawi, Kayanula and Quartey (2000) shown that in Malawi, the official definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees and turnover. An enterprise is defined as small scale if it satisfies any two of the following three criteria, that is, it has a capital investment of USD 2,000 –USD 55,000, employing 5 - 20 people and with a turnover of up to USD 110,000 (using 1992 official exchange rate). The same authors narrated that some of the key characteristics of small enterprises are mobilizing funds which otherwise would have been idle; being a seed-bed for indigenous entrepreneurship; their labor intensiveness; employing more labor per unit of capital than large enterprises; promoting indigenous technological know-how; using mainly local resources, thus have less foreign exchange requirements; catering for the needs of the poor and; adapting easily to customer requirements (flexible specialization). On the other hand, the above-

stated research indicated that SMEs in Ghana and Malawi can be broadly categorized into urban and rural enterprises, where the former can be further divided into 'organized' and 'unorganized' enterprises. The organized ones tend to have paid employees with a registered office whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops.

In Kenya, by referring the 1999 MSE National Baseline Survey, Ronge et al (2002) defined MSEs as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people. More specifically, according to them, micro-enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define MSEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above-indicated writers emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based; and lastly they claimed that the term MSE incorporates firms in both the formal and informal sectors.

In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MTI) uses capital investment, the Central Statistical Agency (CSA) uses employment and favors capital intensive technologies as a yardstick. The definition used by MTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997. According to the MTI, Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments. Small enterprises

are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments. On the other hand, CSA categorizes enterprises into different scales of operation on the size of employment and the nature of equipment. To CSA, establishments employing less than ten persons and using motor operated equipment are considered as small scale manufacturing enterprises. Enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non-power driven machines whereas the informal sector is defined as household type establishments or activities, which are non registered companies and cooperatives operating with less than 10 persons. All enterprises employing ten or more workers are grossly considered as medium and large enterprises (CSA: 1999b and 2000 cited in Tegegne and Meheret: 2010; MTI : 1997).

Operators working on MSEs in Addis Ababa, like everywhere in Ethiopia, are engaged in different activities. The document prepared by the AACMSEDA entitled '*Inception Report on Micro and Small Enterprise Development in Addis Ababa*' (2011) reveals that, due to their high employment creation capability, existence of ample market, short period of return on investment, local raw material utilization, and higher role in poverty reduction, six sectors are selected for intervention. These are Garment and Textile, Metal and Wood Work, Dry Food Preparation, Construction, Municipal Services, and Urban Agriculture. Almost a year before, Cobblestone Work is added to the list. From these, those cooperative associations working in the metal and wood work sector and their operators are targets of this research.

Like national governments, in addition to recognizing the potential and contribution of MSE sector for poverty alleviation, many multilateral and bilateral development agencies and donors have also defined MSEs on a way that suits their institutional interest. Said specifically, the operational definitions used vary from donor to donor and from agency to agency. In fact, the way those donors and development agencies define MSE has a bold implication for their overall assistance abroad and domestic activity related to the sector. For instance, the World Bank's classification of enterprises is done based on the number of labor, level of total asset and volume of annual turnover. Hence, a micro enterprise employs 1-10 persons, possess a total asset of less

than USD 100,000 and its annual turnover should be less than USD 100,000 while the small one employs 11-50 people, must have a total asset estimated between USD 100,000 - USD 3,000,000 and an annual sales volume of USD 100,000-USD 3,000,000.²

2.1.4 The Role of Micro and Small Enterprises in Poverty Reduction

By now it is clear and agreeable that poverty, both in urban or rural areas, is all about lack of basic needs, low or inadequate level of income and consumption, poor command over resources, and high level of social exclusion, inequality and vulnerability. Before reaching in to such multifaceted understanding of the concept of poverty, poverty was viewed in terms of level of income in the late 1950's and 60's. Then onwards, however, the trend of defining it began to incorporate other non-economic aspects. Likewise, on the other hand, according to Green et al (2006), one important innovation, since the late 1980's and early 1990's, in development research and policy has been the refocusing of the goals of development strategy from an exclusive concern with economic growth to 'growth with poverty reduction' through MSE development. As a result, the 80's and 90's were typically decades on which the number of MSEs has been in sharp acceleration and a corresponding pronounced interest was vested in the enterprises from local to international donors. Parallely, again during these decades, the role played by MSEs, through the various socio-economic benefits emanating from the sector, was found to be eminent in the overall development effort and process of nations. In other words, by generating larger volumes of employment as well as higher levels of income, the SMEs will not only have contributed towards poverty reduction, but they will also have enhanced the welfare and standard of living of the many in the society (Mukras:2003).

As shown above, central to the problem of poverty is the availability of work. Work, secured either as owner or employee in MSEs, allows people to produce for themselves (i.e. food) and earn the money needed to buy goods and services. It is also from work that wealth is created which, through taxation, allows governments to fund pro-poor services such as health care, clean water and education (Vandenberg:2006).

² <http://www.ec.europa.eu/enterprise/enterprisepolicy/smedefinition/smeuserguide> cited in Tegegne and Meheret:2010).

Current international thinking is also in tune with a view that acknowledges SMEs as a tool to fight poverty in the long run. The United Nations Industrial Development Organization's (UNIDO) approach to this is worth mentioning here:

Poverty reduction is simply not going to happen by government fiat but only through private sector dynamism". The evidence directly linking SMEs and poverty reduction is considerably less robust than that linking them to economic vitality, even in the most developed economies. There are suggestions of greater employment opportunities for poor, low skilled workers, increased skills development, and broader social impacts. The movement to support MSE development internationally reflects a return to promoting poverty reduction by investing in private sector-driven strategies by all of the major multilateral agencies. Poverty Reduction Strategies (PRSs) currently being formulated in many developing countries places a more pronounced emphasis on the contribution that the private sector will have to make – compared to the over-reliance on the social agenda that characterized earlier PRSs.³

In conformity with the above view advanced by UNIDO and as an organization concerned to the condition of labour, the ILO's approach to poverty reduction through small enterprise development is based on the promotion of the four elements of decent work, namely, productive, remunerative employment; rights at work; social dialogue; and social security. This strategy focuses on the needs of poor people who are part of the micro and small enterprise economy, as owner/operators and workers, as their dependants, as the unemployed who may benefit from job creation, and as customers. While further consolidating the above-shown approach, Vandenberg (2006) suggested that the ILO's existing strategy for poverty reduction through small enterprises must emphasize the fact that Small enterprises make a positive contribution to poverty reduction when they provide employment, adequate levels of job quality, and low-cost goods and services used by the poor; entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through small enterprise development; and vibrant enterprises, competitive markets and a fair globalization can make a significant impact on poverty reduction.

³ Retrived from <http://www.un.org/ecosoc/docs/stats/UNIDO.pdf> on April 15, 2001.

Nevertheless, there are two polarized thoughts, according to Agyapong (2010), in relation to the role and contribution of MSE to economic growth and poverty reduction: the *Anti-MSEs and Pro-MSEs*. At the very onset, the Anti-MSEs are skeptical about the efficacy of MSEs in promoting growth and reducing poverty. They argue that MSEs may not exploit economies of scale; their productivity is minimal as they rarely undertake the fixed costs associated with research and development. In line with these shortcomings and pessimism, Admassie and Matambalya (2002), for instance, concluded that high level of technical inefficiency, which reduce their potential output levels significantly, characterize the Tanzanian SMEs. The *Anti-MSEs* strongly oppose such an argument that small businesses are more labor intensive and are better at creating jobs than large firms. Furthermore, they hold a view that the net job creation of MSEs is not necessarily significant and frequently lower than for larger enterprises as the majority level of job creation is accounted by large enterprises. Those employed in larger enterprises, unlike those engaged and absorbed in MSEs, are offered better jobs in terms of wages, benefits, working conditions, opportunities for skill enhancement, and job security. (Biggs:2002; Hallberg:2001 cited in Agyapong 2010, Brown et al. and Rosenywig cited in Tegegne and Meheret(2010)). To sum up, proponents of this thought strongly question the role played by MSEs to minimize the incidence of high level poverty in most developing economies through employment creation, income generation and multiplier effects on other sectors of the economy.

On the other extreme, the *Pro-MSEs*, whose stand and arguments are also shared by national governments of the global south, donor countries and development agencies, are of a view that MSEs facilitate economic growth and help to reduce the high poverty level widely experienced by the majority of the countries of the developing world. The *Pro-MSEs* have argued that MSEs speed up competition and enhance entrepreneurship and thus have economy wide benefits in efficiency, innovation and productivity growth. Thus direct government support of MSEs can help countries reap social benefits. Second, MSMEs are generally more productive than large firms but are impeded in their development by failures of financial markets and other institutions for capital and other non financial assistances. Thus, pending financial and institutional improvements, direct government support of MSEs can boost economic growth and

development. Finally, the growth of MSEs boosts employment more than the growth of large firms because MSEs are more labour intensive. So subsidizing MSEs may help reduce poverty.

Although there are few studies that consolidate the validity of the view claimed by the *Anti-MSEs*(Maliti and Mnenwa:2008),the majority of researches carried out so far in many developing nations amplify the positive role played by MSEs towards economic growth and poverty alleviation. In his work where he assessed the roles of microfinance and entrepreneurship in poverty alleviation by taking and analyzing Bangladesh, Bolivia, and India as case studies,Vincent ⁴argued that microenterprises contribute significantly to economic growth, social stability and equity and the sector is one of the most important vehicles through which low-income people can escape poverty. In most developing countries, microenterprises and small-scale enterprises account for the majority of firms and a large share of employment. Equally, the same writer concluded that provision of micro finance, through the resultant micro enterprises, allows significant improvements in quality of life for the micro entrepreneurs of least developed countries around the world by stabilizing the cash flow of their economic activity and bringing security to the enterprise. To him, this allows them to better manage spending, which often generates savings; and this provides better standards of living to their family, and dependents in terms of housing, nutrition, health and education. Similarly, by reviewing numerous case studies and empirical work on the changing role of MSEs in the development process and the access of MSEs to formal and informal finance including microfinance, Green et al (2006) attested that a dynamic and growing sector of MSEs can contribute to the realization of a wide range of development objectives such as the attainment of income distribution and poverty reduction, employment generation, mobilization of savings and production of goods and services that satisfy the basic needs of the poor. They further argued that, by citing the World Bank (2001b), that improving the access of the poor to financial services enables these agents to build up productive assets and enhance their productivity and potential for sustainable livelihoods.

⁴ Retrived from

<http://www.google.com/search?hl=en&biw=1268&bih=808&q=Vincent%2CG.%28not+dated%29.Sustainable+Micro+Entrepreneurship%3A+The+Roles+of+Microfinance%2C+Entrepreneurship+and+Sustainability+in+Reducing+Poverty+in+Developing+Countries.&btnG=Search&aq=f&aql=&aql=&oq=> on January 13, 2011.

In their paper aimed to examine relevance of SMEs as a means of generating employment and reducing poverty in Nigeria, Adeyemi and Aremu (2011) concluded that the SMEs, which account for over 75% of employment in the country, are engines for the development of entrepreneurial capabilities and indigenous technology which will generate employment in the country. After identifying insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies (water, roads etc), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, cut-throat competition as problems that Nigerian MSEs are facing, they generally suggested the inculcation of such enterprises in the poverty reduction efforts and process of developing countries since doing so brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development ,employment creation, and generating foreign exchange and smoothening out the adverse balance of payment situation.

Empirical studies from other developing countries also revealed similar findings. For instance, aimed at assessing the role of small businesses in poverty alleviation and identifying the critical socio-economic factors influencing the contribution of small businesses to poverty alleviation, a research was carried out by Maliti and Mnenwa in 2008 in Dar es Salaam, Tanzanian capital. Drawn on a data generated by a cross-sectional survey on 225 small businesses in the three districts of the city, they concluded that these ventures have a pivotal role in poverty reduction as they found out that 87% of the sampled respondents ranked small businesses as their main source of income while 60% reported an improvement in their level of standard of living. They further identified that gender, education, motivations, and sources of initial capital and activities of owners before starting their business were some of the factors shaping the contribution of such businesses to poverty alleviation. Another research undertaken in the same country by surveying 160 micro enterprises showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to business operations of micro enterprises, although there is a variation in sector (the service sector than the trade), firm

characteristics (profitability and years of operation are positively correlated with the constraints) and owner characteristics (Fjeldstad et al:2006).

Drawing on a study conducted in the urban centers of four Western African countries namely Benin, Burkina Faso, Niger, and Togo to identify key factors shaping the micro-enterprise sector, explores the needs, characteristics, motivations, and success factors for micro-entrepreneurship in the region, together with some of the impediments to the growth and success of micro-enterprise ventures. Roy and Wheeler(2006) indicated that MSE provide a substantial source of employment, thereby contributing to get rid of poverty, to the urban poor. According to them, the main reason for the urban poor to be absorbed in the MSE is due to the fact that the formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason many have had to look for alternative means to generate a livelihood. Hence, participation in the informal sector is often the only option available as a source of income, and so the sector has absorbed many of the unemployed who have been neglected by the formal sector in the region. The researchers pointed that the income generated from being engaged in MSEs primarily used to satisfy the poor's own physiological needs and those of their family, and then to provide a home and security for the household. They specifically claimed that MSEs help the urban poor by making them financially secure which in turn limits or reduces the misery, vulnerability and material and non-material hardships that come with poverty. Furthermore, the same study identified that level of training of micro entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary resources and/or technologies; level of planning; vision for the future; and the entrepreneur's level of poverty are among the factors contributing to success of MSEs while lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners are some of the factors inhibiting the growth and development of the micro-enterprise sector in the countries studied.

2.1.5 Previous Studies on the Ethiopian MSE Sector

Eshetu and Zeleke (2008) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random

sample of 500 micro, small and medium enterprises from 5 major cities in Ethiopia. According to this research ,that lasted from 1996-2001,the factors that affect the long term survival of micro ,small and medium enterprises in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment .This is so because the findings of the study revealed that businesses that failed, during the study period ,were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as *Iqub*⁵ was critically helpful for long-term survival. Businesses that did not participate in *Iqub* schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study.

In their study, based on the survey-covering 123 businesses units in four *Kebeles* of *Nifas Silk-Lafto* and *Kirkos* sub cities of Addis Ababa ,and aimed to investigate the constraints and key determinants of growth, particularly in employment expansion, among women-operated MSEs, ,Paul and Rahel (2010) found out that the studied enterprises registered 25% increment in the number of total employment they created since their establishment with an average annual employment rate of 11.72%.With regard to the sources of initial capital of the studied enterprises, the study indicated that ,the main ones were loan from MFI(66.7%),personal savings/*Iqub*(17.5%),and loan from family/friends(17.1%).Moreover, the concrete problems that the targeted MSEs faced at their startup were lack of capital(52.8%),skills problem(17.9%) and lack of working space(17.1%). According to the same research, the subsequent growth of women's enterprises is jeopardized by barriers such as marketing problems, due to the presence of competitors with identical products, change in demand and absence of market linkages (87%); lack of enough working space (71.5%) and lack of availability of enough loan access (62.2%).Other constraints identified include raw material accessibility and shortage of working capital.

⁵ A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis .In such schemes, each member is entitled to receive the collected lump sum once as per his contribution.

With having an objective to assess the impact of group-based MSEs on poverty alleviation, Daniel (2007) conducted a research in *Nekemte* city of the *Oromia* Regional State of Ethiopia. According to this study, 48% of the surveyed respondents are of a view that their income has increased while 22.7 % said that their income has decreased as a result of their engagement in the studied MSEs. The study further indicated that the studied respondents consumption expenditure has increased after they start to work in MSEs, which has resulted in the improvement of the operators consumption and ownership of water, housing, household assets, education and medication. The same study showed that MSEs have a protective role on averting vulnerability of their members to risks such as food shortage, unemployment and lack of income. Most importantly, the research pointed that MSEs have helped for the economic empowerment of women. Lastly the study identified that Lack of market, stiff competition, lack of working capital, raw material shortage and poor managerial skills are among the problems that MSEs are encountering.

Drawing on a data generated from 133 samples working in the construction and garment and textile MSEs, Getahun (2009) carried out a research in *Gullele* sub-city of Addis Ababa city to assess the impact of MSE intervention on urban poverty reduction by examining the level of employment creation, change in income and living standard of the beneficiaries in terms of education, health, household assets and clothing. The study found out that the studied MSEs have created a permanent and temporary employment opportunity. The income and expenditure of the beneficiaries of the MSE program has shown an increment, according to the study. The respondents believed that their engagement in the MSEs has resulted in an improved health and clothing, and increased ownership of basic household assets such as table, chair, bed, radio and tape recorder. After identifying lack of finance, inadequacy of production space and lack of training as bottlenecks that hamper the poverty alleviation role of MSEs, the study stressed the need for a real commitment from all stakeholders especially government, micro finance and educational institutions, NGOs and CBOs.

Mainly relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia namely *Adama*, *Hawassa*, *Bahirdar*, and *Mekelle*, Tegegne and Meheret's research (2010) was conducted with the intention of assessing the contribution of the MSE strategy to

poverty reduction, job creation and business development. The researchers indicated that the national urban development policy is the root of the MSE program and strategy; and MSEs are of the five pillars of the urban development package of the urban development policy. According to them, the government of Ethiopia planned, via its MSE program, to create employment opportunities for about 1.5 million urban residents by availing services such as provision of credit and premises, business development services, market linkages and equipping MSEs with appropriate modern machineries and equipments. In relation to the implementation modalities of the strategy, they outlined that as per the MSE strategy, implementing offices were set up from kebeles to regional level; and cooperatives, private limited companies and private ownership were the organizing forms practiced by the main government executive agency i.e. the Micro and Small Enterprise Development Office (MSEDO). They also stated that other government sector offices such as the office of Youth and Women are also involved in the task of organizing. More importantly, they found that some of the support services provided to the studied MSEs were credit provision, provision of working premises, training, and market linkage especially with government institutions (such as universities, prisons, hospitals) and projects (like condominium housing construction projects).

On the other side, the same writers concluded that MSEs provided job opportunity, hence increased income for a remarkable number of unemployed urban dwellers especially the youth. This increased income, the researchers continued, has brought a change in the operator's consumption level of services such as education, health, and transport. This study also shown that the main problems challenging the MSEs were related to access to land, place of work, market shortage and access to finance and electricity. 60 % of the interviewed operators reported that, due to numerous reasons, they do not cooperate with other firms in the same line of operation, while the majority of the respondents do not positively rate or are dissatisfied with the various support and services offered by the MSEDO and other sector offices. With regards to prospects of graduation, 60 % and 40 % of the respondents were optimistic and pessimistic respectively. The raised causes for this gloomy prospect were business were not growing (33%), lack of finance (13 %), lack of market (11%), and lack of working space (4 %).

This study uncovered that there was remarkable change in the asset ownership level of household durables such as TV and radio. But, the observed change on productive asset possession like housing and vehicles was minor. In addition to declaring that Declaring that the MSEs were the major source of income, 63 % of the operators use their income generated from the MSEs for household maintenance purposes where as only 9 % said that they use the income for business expansion, investment or saving. Furthermore, there was 100 % change in the income and saving level of the operators, though this improvement in income is weakened by the rising inflation. Lastly, in relation to perception about their livelihood, 62 % of the interviewed respondents consider themselves non-poor as they are becoming self-sufficient and leading independent life (40.2 %), able to support family (18.5 %), and are able to generate income (11.8 %).

In his research entitled 'Micro and Small Enterprises in the Construction Sector in Addis Ababa: The Case of *Arada, Gullele, Kirkos* and *Yeka* Sub cities', Dereje (2008) studied the nature, characteristics, economic performance, opportunities and challenges of MSEs in the construction sector based on 125 sample enterprises. The results of the study revealed the following characteristics of MSEs: most of the enterprises are managed by youngsters; loan and membership contribution were the main source of their start-up capital; profit is shared equally among members; and have received business development services (BDSs). With regard to the constraints of the MSEs, the study identified problems such as shortage of capital, lack of raw materials, absence of government support, lack of market, lack of credit facilities and high interest rate. The same research showed that, since their establishment, the capital and job creation capacity of the enterprises has shown a significant increase.

Studies were also conducted specifically with a purpose of identifying the problems that MSEs encounter. For instance, Workneh's (2007) research undertaken in *Kolfe Keraneo* sub-city of Addis Ababa indicated that lack of capital, lack of market, unfavorable policy, and inadequate infrastructure, absence of adequate and relevant training, bureaucratic structure and procedures are among constraints faced by MSEs. The researcher suggested a sustainable and non-politicized support to the studied MSEs i.e. block manufacturer enterprises. Similarly, Adil's (2007) research carried out in Addis Ababa's two sub-cities' industrial zones showed that

inappropriate government intervention, shortage of capital, location disadvantage, lack of market and lack of display room are the major challenges that obstruct MSEs.

In reality, literature on MSEs in Ethiopia is scanty and most of the available studies were conducted for specific purposes or on specific aspects of MSEs. Current available researches, as the above-reviewed studies and other related works elsewhere show, studied MSEs as part of their prime target of assessing the impact of micro-finance, or about the major challenges facing the sector. Moreover, other studies have been also conducted in particular areas in line with the interest of certain governmental or non-governmental or civil society organizations (CSOs) or donors who commissioned the studies, and mainly tailored towards addressing gender concern specifically as well. Furthermore, only few studies (Daniel: 2007; Getahun: 2009; and Tegegne and Meheret: 2010) were conducted to assess the sector's contribution to poverty reduction. But, unlike these studies, this research tried to qualitatively assess the overall livelihoods situation of the MSE operators in a holistic way by targeting and deeply investigating those operators engaged in metal and wood work activities in *Lideta* sub city of Addis Ababa.

2.2 The Sustainable Livelihoods Framework (SLF)

According to Farrington et al (2002), Sustainable Livelihood can be both a means and end an end by itself. In the former case, the argument is that ensuring a sustainable livelihood leads to development or an improved standard of living while in the latter case it is considered as an end (goal) to be satisfied and achieved through various development interventions. Ensuring the inclusion and attainment of these 'goal' and 'means' aspects of Sustainable Livelihood should be the main components in assessing the impact of any intervention programs. The forthcoming last part of this chapter discusses the SLF, which is the analytical wing of the sustainable livelihoods approach to poverty reduction; and whose peculiar importance is the fact that it conforms to the idea that claims Sustainable Livelihood can serve both as an end and as a tool for impact assessment of any intervention especially designed and implemented for the poor.

Developed jointly by DFID and its partners first, the Sustainable Livelihoods Framework (SLF) is a tool that was devised originally as a means to analyze rural development problems and

informing the planning of interventions targeted towards poverty reduction (Lloyd-Jones and Rakodi: 2002). Livelihoods, in the SLF, refer to, besides income, encompassing

the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and manage to enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (Chambers and Conway:1992 cited in Meikle et al :2001).

The framework is claimed to be people-centered and most importantly it acknowledges the fact that poverty has many dimensions and the condition of poverty or wellbeing for households and individuals changes over time. Besides, proponents of SLF claimed it to be an approach that accommodates this multifaceted and dynamic nature of poverty holistically. In so doing, they added that, the approach relies on participatory methodologies that assess a range of livelihood activities that people draw on, strategies they employ and the various types of assets available and accessible to the poor in actualizing their livelihood strategies and overcoming vulnerability to numerous risks. Although SLF was initially designed for application in rural setting, nowadays it is becoming popular to understand the livelihoods of poor people in urban areas of developing countries of Africa, South Asia and Latin America (Degefa: 2008).SLF, as an analytical framework, focuses attention on the assets that poor men and women use and the strategies that they employ to make a living – rather than focusing on their needs, in the vein of previous development approaches such as ‘basic needs’(Ibid).

Some of the salient features of SLF that make it to be widely used in assessing the livelihoods reality of the poor are acknowledging the multi-faceted nature of poverty; recognizing that the poor develop diverse and changing livelihood portfolios addressing their perceptions of their own poverty, but do so within the context of pervasive vulnerability; drawing on (and replenish) capital assets; and having the success of their strategies facilitated or impeded by a range of policies, institutions and processes (PIPs) (Degefa:2008,Farrington et al:2002).

Many writers in the area of urban livelihoods agreed that SLF is an appropriate tool in finding out how a nexus of factors such as context, access to and possession towards various types of

asset, government policies and grass root level authorities influence, either positively or negatively, people's livelihood activities and the resultant outcomes (Degefa:2008; Lloyd-Jones and Rakodi:2002). However, in both urban and rural settings, the key elements of the SLF are: Vulnerability Context, Assets, Policies, Institutions and Processes (PIPs)), Livelihood Strategies, and Livelihood Outcomes. The detailed discussion of each component of the framework is presented below.

Vulnerability Context: This refers to '*the insecurity or well being of individuals or communities in the face of changing environments (ecological/social/economic/political) in the form of sudden shocks, long term trends or seasonal cycles*' (Mosser:1996 cited in Meikle et al :2001). The degree of vulnerability relates both to the level of exogenous threats to a household's, individual's or community's wellbeing and to their resilience to withstand and recovering from these external threats (ibid).

Capital Assets: These are the resources on which people draw in order to carry out their livelihood strategies. These resources include a broad range of financial (in the form of credit, remittances, cash, savings and pensions); human capital or sometimes termed as capabilities (skill, education, experience, training, being healthy); social and political capital (whose attributes are social and political networks, membership and access to various social and political groups, relationships of mutual trust and reciprocity. It should be noted here that there are writers like Baumann and Sinha (2001) cited in Farrington et al (2002) who recognize political capital as a distinct type of asset); physical capital (mainly consisted of physical infrastructure like transport, housing ,energy) and lastly natural capital, which incorporates land, water, forests and other stocks commonly used. The relative importance of these categories of assets varies between urban and rural areas. For instance, financial, human and physical assets are more critical in urban settings where as natural capital is highly crucial in rural areas than urban (Meikle: 2002). Assets are not always owned by the men and women who use them in their livelihood strategies – rather, they may have varying extents of access to and control over these assets. Issues such as access to assets and how the access of urban poor can be improved is key to the SL model (Degefa: 2008, Lloyd-Jones and Rakodi: 2002, Meikle et al: 2001).

Policies, Institutions and Processes (PIPs): These refer to a broad range of social, political, economic and environmental factors that determine people's choices and so help to shape livelihoods. Practically, they denote to institutions (established ways of doing things, such as social norms and belief systems); organizations that can be public, private, non-governmental and community based; and policies or legislation. They are relevant at all levels, from households to international. They are key in determining *access* to the various types of capital asset that the poor people use in pursuing their livelihood strategies either through acting as conduits to make assets available to them, or as hindrance to their access(Lloyd-Jones and Rakodi:2002).

Livelihood Strategies: These are the planned and deliberate activities on which people are engaged to build their livelihoods. Mostly they are consisted of numerous activities targeted to build asset bases and access to goods and services for consumption. Livelihood strategies include coping strategies designed to respond to shocks in the short term, and adaptive strategies designed to improve circumstances in the long term. Livelihood strategies are determined by the assets and opportunities available to men and women (which are in turn affected by PIPs and changes in the vulnerability context) as well as by the choices and preferences of the poor (Degefa: 2008)

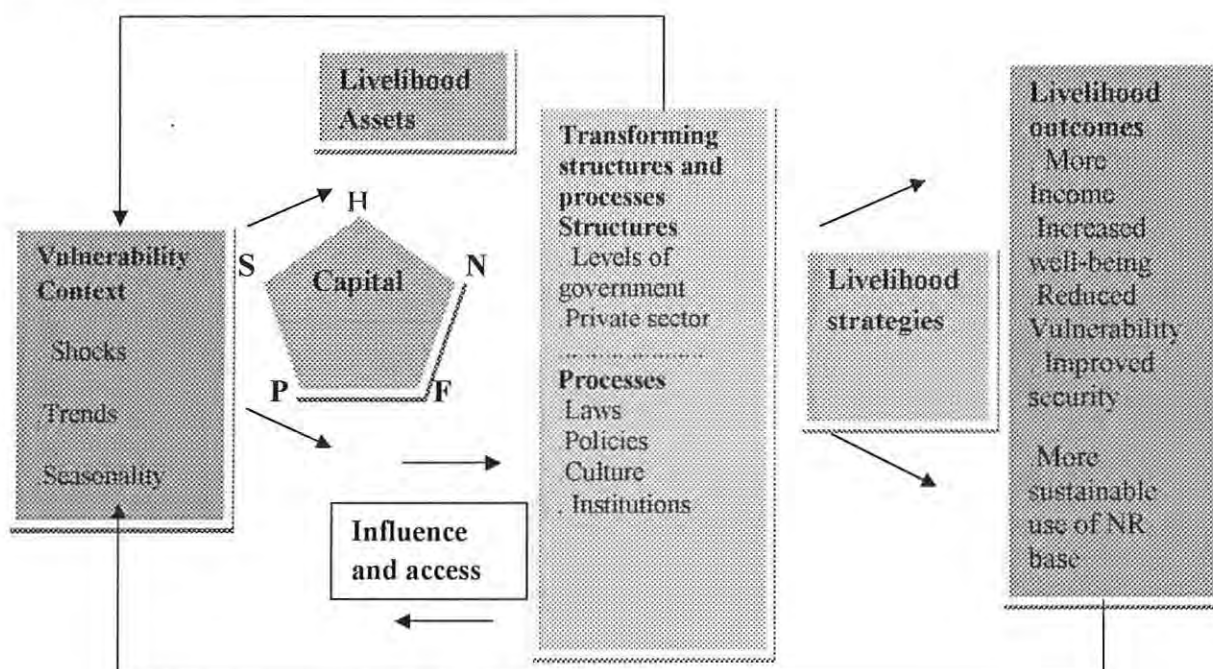
Livelihood Outcomes: As the term itself indicates, these are

the ultimate results of women and men's livelihood strategies and feed back into the vulnerability context and asset bases, with successful strategies allowing them to build asset bases as a buffer against shocks and stresses, as opposed to poor livelihood outcomes which deplete asset bases, thereby increasing vulnerability. Livelihood outcomes may therefore lead into either virtuous or vicious cycles (Meikle et al: 2001).

By the same token, Degefa (2010) argued that the final outcomes of any livelihood strategy can be desirable or undesirable depending on the way how the above-shown four elements of SLF interact each other. The hypotitcal model of SLF is shown diagrammatically in page 31.

Apart from the fact that the employment of the Sustainable Livelihoods Framework in urban context in general and in MSEs sector in particular is a relatively recent development, most of the studies carried out so far in Ethiopia, as reviewed above, strive to analyze the impact of MSEs on their owners as a livelihood activity in a fragmented manner. Arising from this reality, this study will try to study both the owners/operators and their respective MSEs in a holistic manner by addressing personal, institutional, environmental (political, economical, social) contexts and the underlying factors in light of the SLF.

The DFID Sustainable Livelihoods Framework



Where S = Social capital F = Financial capital N = Natural capital H = Human capital P = Physical capital NR = Natural Resource

The DFID sustainable Livelihoods framework: Adopted from Rigg (2007)

Chapter Three

3. Research Methodology and the Study Area

3.1 Research Methodology

As a salient part of any research process, methodology has been defined by many scholars coming from various disciplines, for example, by Kitchin and Tate (2000), as the coherent set of rules and procedures which can be used to investigate a phenomena or situation. For Mikkelsen (2005), a 'research methodology includes the tools and techniques of data gathering and analysis'.

The methodology for this research is purely the qualitative approach based on intensive fieldwork data collected through different techniques namely Structured Open-ended Interviews, Focused Group Discussion (FGD), and Nonparticipant Observation, Informal Conversations, and Individual Case History Narration. The combination of these qualitative data collection techniques is because 'separate' methods can end up blurring into one another in research practice (Crang and Cook: 2007) hence the combination of in depth interviews, FGDs, non participant observation and photography.

The justifications behind opting the qualitative approach for this research are given below:

1. It is argued that the goal and means of any urban poverty reduction intervention, including MSE program, must be sustainable livelihoods. In line with this, again, proponents of MSEs stress that establishing and running MSEs is a prime way of enhancing sustainable livelihoods. In short, as the aim of this study is to analyze the overall livelihoods condition and impact of MSEs by attempting to explore the deep livelihood-related experience of owners of MSEs, the underlying factors behind establishing and being engaged in MSEs, and the livelihoods impact of the same, the researcher has opted to employ the qualitative methodology. Moreover, other writers have also well noted the preferability of qualitative methodology, other than quantitative, for urban livelihoods research and analysis. For example, according to the view of Farrington et al (2002), for collecting data for such sustainable livelihoods analysis, qualitative methodologies are more suitable than quantitative because:

- A. there is difficulty in quantifying sustainable livelihood-related concepts and aspects such as vulnerability, social capital, or institutional processes and relations
- B. it conforms with the need to highlight the priorities and rationales of the poor in pursuing their livelihoods, which are issues that can only be extracted through qualitative approaches and discussions.

A qualitative participatory methodology was also employed by Fallavier et al (2005), in which they examined livelihoods, poverty and vulnerability situations in urban Zambia. Similarly, in his research in which he assessed the level and access to various capital assets, the livelihood activities, and the food security situations of the two impoverished communities in the Ethiopian capital, Addis Ababa, Degefa (2008, 2010) also used purely qualitative methodology.

2. In order to better understand the existing life reality of the MSE operators and the impact of MSEs on their operators, one has to rely and focus on the detailed analysis of the experience, value, perception, priority etc of the operators. Collection of data in such details can be better handled by the qualitative methodology. Synonymously, other writers argued that qualitative methodology enables researchers to collect data, in a detailed fashion, about aspects such as understanding of human perception, value, attitude, experience, behavior, and the reasons that govern such behavior (Crang and Cook:2007, Meron : 2005). While further reinforcing this nature of qualitative studies, Flick et al (2004) cited in Crang and Cook (2007) stressed that qualitative methodology has more contribution for the better understanding of human perception and social realities. In close resemblance with what is argued above, Abbott (2007) wrote that data generated quantitatively are not capable enough to give a whole and clear insight of the complexities of social realities and the truths of the vulnerable lives of those people trapped in poverty.

3. The other incentive for choosing it is the fact that it allows for few but focused samples as 'it is not the sheer number, or 'representativeness' of people approached which matters, but the quality and positionality of the information that they can offer' (Crang and Ian :2007).

3.1.1 Data Collection Techniques

For triangulation purpose, this research has utilized a variety of data gathering tools. In addition to Informal Conversations held with some of the targeted operators during and after lunch break on different issues, the following specific techniques were employed:

3.1.1.1 Structured Open-ended Interview

Apart from being the most widely used qualitative data gathering technique allowing the investigator to come up with rich and varied data(Kitchin and Tate:2000),practically interview involves the interviewer asking questions and the interviewee responding. The interviewer can ask questions in complex sequences, administer long questionnaires, clarify vague responses and, with open-ended questions, probe to reveal hidden meanings. In interview, furthermore, the personal contact between interviewer and respondent often results in more meaningful answers and generates a higher rate of responses (McLafferty:2003).Since interview data is always intersubjective, it is always made out of dialogue (Crang and Cook :2007) hence interviewing has been a primary means through which ethnographic researchers have attempted to get to grips with the contexts and contents of different people's every day, social, cultural, political and economic lives.

Interviews are of various classifications, generally ranging from the highly structured to the wholly unstructured. Specifically, according to Kitchin and Tate (2000), they can take a form of closed quantitative interview, interview guide, informal conversational interview and structured open-ended interview, the one employed in this study. In this type of interview, a series of highly structured and standardized open-ended questions, instead of closed, are asked to all interviewees, resulting in ensuring comparability of responses. The 'structuredness' of the questions here helps to make sure that all the intended aspects of an issue under inquiry are addressed. The 'openness' makes the respondents unconstrained to give whatever response they wish and think, since it is believed that open-ended questions better reflect a person's own thinking. All these features and advantages of structured open-ended interview are incentives for choosing it to be a technique for gathering data that meets the objectives of the study. These relatively lengthy in-depth interviews were administered on 20 operators by the researcher himself and two well trained interviewers, both with a bachelor's degree. The two interviewers

were closely supervised by the researcher while they were undertaking interviewing. One operator from every cooperative MSEs was interviewed in detail. Responsibility within the MSEs, number of years of working in the MSEs, age and gender are some of the issues taken in to account while selecting the interviewees for the detailed interviews.

In this study, structured open-ended interviews were used to collect detailed data from individual operators on context, access to and level of different types of assets, the effect and roles of institutions and policies, the outcomes of MSEs on them, and problems facing them and their respective MSEs.

3.1.1.2 Key Informant Interviews (KIIs)

According to Mikkelsen (2005), KIIs are interviews aimed at obtaining special knowledge and key informants are respondents, who are assumed to have special knowledge on a given issue. The information usually generated from key informants is of complementary nature. In this study, employees at sub city and *woreda* level Micro and Small Enterprises Development offices were contacted as key informants to further enrich the data gathered from MSE operators through open-ended structured interview and FGD. At WMSEDO, in addition to the office head, the extension agent officer of the MWW MSEs and the business development service officer were interviewed. The interviewers of KIIs were the researcher and one of the interviewers who conducted the earlier in-depth interviews. The general condition of unemployment and poverty in the area; trend in the number of MSE establishment and expansion; matters related to a range of support services provided to the MSE operators at the time of establishment and then onwards; institutional cooperation and working relationship; the level and effectiveness of operators participation on those matters affecting/related to their venture; viability of the MSEs; constraints challenging the sector; the overall impacts of MSEs on their operators or owners are some of the issues deliberated during the KIIs.

3.1.1.3 Focused Group Discussion (FGD)

Most of the time, in many qualitative studies, one-to-one interviews are supplemented by FGDs. Conceptually, a FGD is

consists of a set of three to ten individuals discussing a particular topic under a guidance of a moderator who promotes interaction and directs the conversation (Kitchin and Tate: 2000).

Focus group discussions have been proven instruments to illustrate and explore the intersubjective dynamics of thoughts, speech and understanding of the members of a group (Pratt: 2001). This study intends to employ this method because as such groups ‘can sometimes actively facilitate the discussion of otherwise “taboo” topics because the less inhibited members of the group “break the ice” for shy participants or one person’s revelation of “discrediting” information encourages others to disclose’ (Hollander:2004). If all goes well, she continues, ‘Not only do co-participants help each other to overcome embarrassment but they can also provide mutual support in expressing feelings which are common to their group (ibid). A three hours-lasting FGD, consisted of 10 participants at the beginning and 6 at the end, was held to explore the MSE operators widely held and practical views on/about their vulnerability context, capital assets, livelihood strategies, and the impact of their ventures on their livelihood. The researcher moderated the FGD while one assistant took care of the note-taking. While selecting the participants of the discussion, an effort was made to ensure diversity and representation in terms of gender, age, and duration or length of membership. Information on such issues like context, different capital assets, institutions and policies, and numerous constraints challenging the studied MSEs was collected by employing this specific tool.

3.1.1.4 Non-Participant Observations

This method involves the physical viewing of what is present and occurring at the site or geographical location of interest by the researcher. The observable phenomena may be physical features at the location of study or behaviors of the respondents the researcher intends to study. The observations can be made and visualized as photographs taken by cameras or be described if they are behavior and invisible in physical terms. To be an ‘observer’ of a ‘culture’ implies a detached sitting-back and watching of activities which unfold in front of the researcher as if she/he wasn’t there, a simple recording of these goings-on in field notes, tallies, drawings, photographs and other forms of material evidence and, through this, a striving to maintain some form of dispassionate, ‘scientific’ objectivity (Tedlock:1991). For this study, observations are

visualized by photography because it is a useful medium to convey strange and exotic customs and artifacts, but also a credible and realistic form of evidence (Rony: 2003). Via this technique, data was collected on the overall environmental context, the location of the working site and shades, and other physical capital of the operators.

3.1.2 Sampling Strategy and Procedure

The *Lideta* Sub-city is purposely chosen, among the 10 sub cities of Addis Ababa, as a study area for this research. This is because

- It is claimed, by the government of Ethiopia, that the MSE sector is a prime strategy to tackle poverty in urban areas. Like in other urban centres of Ethiopia, poverty is persistent in Addis Ababa, where the majority of the population are very poor (Degefa: 2010). If incidence of poverty is taken as a yardstick among the sub cities of Addis Ababa, *Lideta* sub city has the highest proportion of households under the relative poverty line (53%), making it the most impoverished sub city from the 10 sub cities of Addis Ababa, followed by *Addis Ketema* (47%) and *Arada* (29%) (Netsanet: 2009). Likewise, Yared (2010) indicated that *Lideta* was the only sub city in Addis Ababa that has experienced generally increasing level of poverty since the mid-nineties.
- One of the manifestations and contributors of poverty, especially in urban areas, is high rate of unemployment. The envisaged poverty reduction-oriented role and contribution of MSEs is attained through easing such high level of unemployment especially deep-rooted in urban centres of the country. If unemployment is seen as a factor behind poverty, again this sub-city (where the unemployment rate is 26.2 % in 2007, according to CSA: 2010) ranks only the second. In 2007, the same source documented that the first and third highest rate of unemployment is registered in *Addis Ketema* (27.2 %) and *Arada* Sub cities respectively. As a means of tackling this high unemployment level, thereby to reduce poverty, one of the most noticeable poverty alleviation effort exerted in all the above listed sub cities by the government since 2003 is the development of MSEs (Netsanet: 2009).

Woreda 1, among the *woredas* of the *Lideta* sub city, is again deliberately chosen for the study. The reason for choosing it is that, according to the official and experts of *Lideta* sub city

MSEDO, in terms of performance, the metal and wood work cluster named *Sahlu Chaka*, is rated as the most successful at sub city level. This cluster is found at *Woreda 1*. Furthermore, the same experts informed the researcher that some of the criteria of measuring performance of MSEs are number of customers, number of operators working.

Although there are different activities or sectors in which the MSE operators have been engaged in *Lideta* sub city, the one selected for this research is the metal and wood work sector because of the following rationales:

- There are 20 cooperative associations working in this sector, whose share in terms of membership is much more than other cooperatives working in other sectors. This has convinced the researcher to realize that it is possible to generate substantial data from this sector. The sector's 'popularity' in Ethiopia by absorbing significant number of operators via cooperative form of organization is also shown empirically by Meheret and Tegegne (2010).
- According to the official and experts of *Lideta* sub city MSEDO, in terms of performance, this sector is placed at the top. Based on this, the researcher concluded that the lesson and experience drawn from the detailed study of this relatively successful sector can help the concerned bodies in improving the performance of other sectors.
- Those cooperative associations engaged in this sector are located in one cluster at *Woreda 1* of the sub city. This made the sector more and easily accessible to the researcher.

According to experts of the WMSEDO, there are 20 cooperative MSEs that are engaged in the manufacturing of wood and metal products that have provided a permanent job and hence income generation opportunity for their 214 total members. Therefore, these 214 operators are the target population of the study from which 20 individual operators were taken as samples. The lengthy in-depth interviews were administered on these 20 sample operators by the researcher himself and two well trained interviewers. One operator from every cooperative MSEs was interviewed in detail. Responsibility within the MSEs, number of years of working in the MSEs, age and gender are some of the issues taken in to account while selecting the interviewees for the detailed interviews. In addition to the above 20 sample operators, a three hours-lasting FGD, consisted of 10 participants at the beginning and 6 at the end, was also held. Participants of this

FGD were selected based on criteria of gender, age, and duration or length of membership. However, those operators contacted through the indepth interviews were excluded from being participant of the FGD.

In precise words, after initially contacting the *Lideta* sub-city MSED0 to get preliminary information about the overall status, distribution, types and operation of MSEs in its jurisdiction, purposive sampling strategy was employed for selecting the target respondents for the indepth interviews and FGD based on the above-indicated sampling criteria. As clearly stated in Kitchin and Tate (2000), this type of sampling requires that the sample units are drawn based on the researcher's judgement and experience that are assumed to produce the intended results. Although such sampling strategy is claimed to be successful in meeting the purposes of qualitative methodology (Yared: 2010), it fails to be statistically representative of the selected and studied sub-city, and may not adequately depict situations in Addis Ababa or other urban centers. Therefore, the task of assessing the livelihoods impact of MSEs quantitatively and in a more statistically representative manner, both in Addis and other urban centers of the country, is left for future studies.

3.1.3 Data and Data Sources

The study has utilized both primary and secondary information accessed from various sources. The primary data was generated mainly through in depth-interview, which according to Kitchin and Tate (2000), allows a researcher to produce a rich and varied data set in a less formal setting and a more detailed examination of experiences, feelings or opinions. In addition to the above primary data generation tool, Key Informant Interviews, Focused Group Discussion, Informal Conversations, and Observation were also employed. Data gathered from primary sources was further substantiated by a critical review of secondary sources like books, articles, magazines, brochures and published and unpublished materials.

3.1.4 Data Analysis

After the fieldwork was completed, the collected data was duly transcribed manually. Then, the transcribed raw data was categorized into different pre-determined codes. These pre-determined codes are the explicit SLF components and sub-components. Therefore, most part of the analysis is done thoroughly in light of the Sustainable Livelihood Framework in order to portray the

multi-faceted effect and nature of the context in which the MSEs studied operate; and the livelihoods impact of MSEs on their operators. Codes emerged during the in-depth interviews and FGD are also used in some topics of the discussion. Uniquely informative and demonstrative statements by the respondents are included in the thesis as quotes in order to substantiate what has been commented and discussed before.

3.1.5 Validity and Reliability

Validity concerns the soundness, legitimacy and relevance of a research idea or theory and its investigation (Kitchin & Tate 2000: 34). Reliability on the other hand is “the repeatability or consistency of a finding” (ibid). As a qualitative study, this research is mainly interested in validity. The salience of validity than reliability in qualitative inquiries is well recognized as well. To mention one among others, for instance, Silverman: 1994 cited in Kitchin & Tate (2000) stressed the importance of validity in qualitative research when he wrote that qualitative research has to be more than ‘telling convincing stories’ and rigorous in nature so that its conclusions can be accepted more definitively.” It is shown in the introductory part of this research report that the purpose of this study is to explore the livelihoods situation and impact of MSEs; and these may not be easily replicated in other similar studies as to be reliable. Since a relentless effort has been made in the whole research process to ensure that the findings are representative of the concrete reality of the matter under investigation, the interest is therefore validity and quality of findings in relation with the facts on the ground. On the other hand, for the aim of meeting validity criterion, this research has used different combinations of data gathering tools, in addition to indicating other secondary sources with consistent findings. In line with this, Cope (2008) described that one way of ensuring validity in qualitative researches is triangulation (confirming results by consulting multiple and varied sources).

3.1.6 Ethical Considerations

All the research participants included in the study were duly informed about the purpose of the research and their willingness and consent was secured before the commencement of each interview. Although the researcher has tried to taperecord all interview sessions, it was impossible as the respondents were not voluntary. However, the researcher took the pictures of some of the individual interviewees with their knowledge and the FGD sessions. Regarding the

right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like 'one of the respondents', 'one of the participants of the FGD' were used in the study.

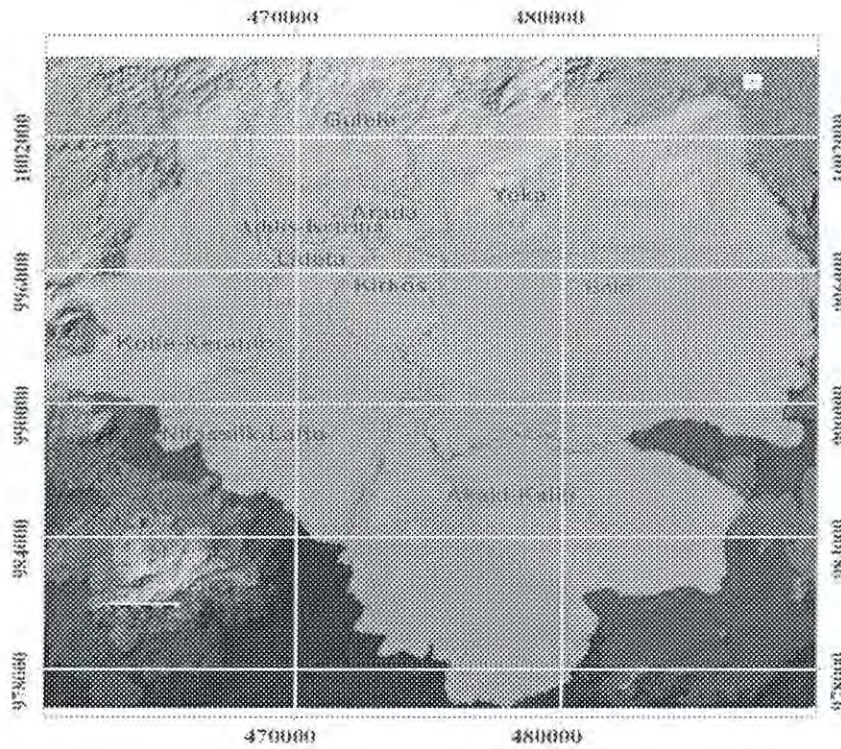
3.2 The Study Area Profile

Established in November 1887 by Emperor Menelik II and Empress Taitu, Addis Ababa is the capital city of Ethiopia, with a total population of 2,739,551(CSA: 2010). The city is home for people from various nations and nationalities of the country. However, the dominant ethnic groups in terms of number are *Amharas* (1,288,895), *Oromos* (534,547), *Guraghes* (447,777), and *Tigres* (169,182) (Ibid). Geographically, the city is located between 8⁰55' and 9⁰05' North Latitude and between 38⁰40' and 38⁰50' East Longitude, while its total area is 54,000 hectares. In terms of climate, due to its average elevation of 2,500 meters above sea level, it has a suitable climate and moderate weather conditions. Besides, for political and administrative reasons, this city is made to be structured at three tiers: City Government at the top, 10 Sub City Administrations in the Middle, and 116 *woreda* level administrations at the bottom (AACMSEDA: 2011, <http://www.addisababacity.gov.et>).

Poverty is one of the main challenges facing the majority of residents of Addis Ababa city (Netsanet: 2009) , evidently manifested in ,according to Degefa (2008), living in shanty homes lacking basic amenities, food insecurity, having limited participation in various decision making issues affecting their life, vulnerability to numerous environmental and economic risks and shocks, and high unemployment. With regard to the later, the city-wide unemployment rate in 2007 was 22.5 % (CSA: 2010).

The *Lideta* sub-city occupies a total area of 11 Sq.Km (Netsanet: 2009) with a total population of 201,713 in 2007 (CSA: 2010). Currently, the sub city has a total of 11 *woredas*. Netsanet (2009) reported that, among the 10 sub cities of Addis Ababa City, this sub city has been the one with the highest poverty incidence level (53 %) in 2008. The close assessment of housing conditions at the sub-city also reflects the same appalling image. For instance, according to the national census conducted in 2007, there were 44,351 housing units at the sub city of which 37,398 were made of wood and mud; 35,374 were 20 years or more since construction; 22,388 were rented

from the *kebeles*⁶; and 39, 485 units had no bathing facilities(CSA:2010). In short, the sub city is known for being congested slum (Netsanet: 2009). Similarly, the sub city has been also recorded as the one where the rate of unemployment is as high as 26.2 % in 2007(CSA: 2010).



Map of the Study Area

Source : Yirgalem Mahitame (2011)



⁶ The former name of the lowest level of local administration. Now these units are renamed *Woreda* to form a sub city, an arrangement peculiar to Addis Ababa city.

Chapter Four

4. Discussion of the Research Findings

This chapter is aimed at presenting the livelihoods condition of the MSE operators and other related issues. As shown in the previous two chapters, the analysis and discussion is explicitly done in light of the components and sub-components of SLF. Therefore, to put the discussion in proper manner, the data gathered has been presented and analyzed under the following four themes: Existing Contexts and Vulnerability Situations of the MSE Operators; Access to Capital Assets and Urban Public Facilities; Institutions, Policies and Processes; Critical Problems of MSEs; and lastly the Livelihoods Outcomes of MSEs.

4.1. Existing Contexts and Vulnerability Situations of the MSE Operators

The various livelihood activities of urban residents, mainly the poor, are predominantly determined by the wider context (economic, political, social and environmental) and the existing vulnerability condition related to that context (Meikle: 2002). In the same vein, the existing context dictates the availability, type, and accessibility of capital assets and even the objectives and outcomes of undertaking numerous livelihood activities (ibid). Taking this general truth in to account, the following sub-section of this chapter deliberates thoroughly contextual and vulnerability issues related to the studied MSE operators.

4.1.1 The Economic Context

Before the establishment of the studied MSEs, the severity and levels of unemployment and underemployment were extremely harsh in the studied area. Although it has declined significantly in recent days, still the majority of the interviewed officials and operators asserted that there are high number of unemployed and underemployed people especially the youth. Probably this acute absence or shortage of job opportunity can be the main motivating factor for the operators to make decision to establish their own enterprises. As the economic policy that the current Ethiopian government is pursuing (i.e. the free-market economic order) strongly favors

and encourages the active participation of the private sector, this has also further facilitated the establishment and smooth functioning of the same. The government assumes that these MSEs are the basis and homes for tomorrow's middle and large businesses that largely constitute the private sector. In line with this official thinking, the government has supported the creation and development of many MSEs operating in almost all parts of the country (FMSEDA: 2006), among which the studied businesses were also a part. These MSEs are the major source of income for their beneficiaries, through the employment opportunity they provided. The job creation capacity of MSEs for people who were unemployed before is well documented by other researchers too. For instance, Mukras (2003) in Botswana, Vandenberg (2006), Green et al (2006), Roy and Wheeler (2006) and Adeyemi and Aremu (2011) reported the same role of MSEs. However, according to the operators, the level of income they are making from their activity is hardly enough to cover all of their living expenses in an adequate manner, although the amount of income they are earning is incomparable with the one they were securing before being engaged in their current job. The pointed possible reason for this was high inflation.

According to official sources, so far, the *woreda* MSED0 has succeeded in organizing and establishing 20 cooperative MSEs that are engaged in the manufacturing of wood and metal products. These MSEs organized in the form of cooperative associations have provided a permanent job and hence income generation opportunity for their 214 total members. Based on the availability of orders (market), the enterprises also employ daily laborers on piece-rate payment terms. This fluctuation in the total number of employees of the MSEs, both permanent and temporary, is a function of availability of market. Despite the fact that it is envisaged that MSEs will have a ready-made market for their products through linkages with government projects and institutions so that they grow faster, the operators working in the studied MSEs complained that their products are rarely purchased by different government line offices exacerbating their already existing acute market shortage. Moreover, it was found that the general public holds a view that the MSEs organized by the *woreda* MSED0 are fully favoured by the government at the expense of other private business, in addition to perceiving that the products produced and supplied by them are of inferior quality. This wrong perception and attitude could be also an explanatory factor for the studied MSE's low market availability. However, the operators exposed that they have managed to secure alternative market opportunities from other private customers by using their personal social networks. Even the

researcher was able to observe when one of the operators makes such an effort to persuade his previous friend to buy their products. The importance of the same mode of market searching through social networks was also echoed during the informal conversations held with the operators.

On top of the above-explained inadequate or low market, the fierce competition experienced among those enterprises, both the private and the other MSEs working in the same cluster and elsewhere in Addis Ababa, engaged in the same business line has ultimately resulted in poor sales revenue. This competition mainly emanates from the fact that there are a large number of MSEs organized arbitrarily by the *woreda* MSED0 for the purpose of winning political support by the ruling party after the 2005 national election, as narrated by one respondent during interview as follows:

The woreda MSED0 has organized too many cooperative MSEs, for getting popular support especially after the 1997 E.C national election, in the same area of engagement without creating a market opportunity commensurating for such large number of enterprises. This has, obviously, created a 'crowded' situation during bidding'. [35, Male, Bachelor]

On the other side, it is frequently argued that competition fosters productivity and product or service quality (Daniel: 2007; Tegegne and Meheret (2010). Few of the operators believe that this is also true in their case.

The studied enterprises and their operators were also negatively affected by the usually happening sudden input price increment and inflation, as the following quote from the words of one operator shows:

Once up on a time, we reached a contract agreement with the Housing Development Project Office (HDPO) to provide and install doors and windows for the condominium houses being constructed then. While we were producing these items, the price of all raw materials especially iron rose up. When we inform the concerned officers at the HDPO about this irregularity to make price adjustment, they refused by indicating the fact that there is deviation between the original agreed up on price and the newly proposed one. Since we had a

contractual obligation as per the contract, we produced and supplied all the items with loss. Similarly, I remember a moment in which the project office requested us to provide the same products with a price that the same organization fixed in 1997 E.C, without considering the continuous input price rising. [29, Male, Bachelor]

Similarly, it was found that increasing price of transportation mainly resulted from low or inadequate supply of infrastructure and facilities and increasing fuel and spare-part prices has negatively affected the enterprises by draining their revenue.

4.1.2 The Social Context

Both the operators working in the studied MSEs and the people residing in the *woreda* came from different regions of the country. As such, they have difference in terms of ethnicity, language, culture, and religion. However, such heterogeneity didn't check the possibility of flourishing of social interaction and networkings formed for the attainment of various purposes like *Idir*⁷ and *Iqub*. Especially a strong social bond and cooperation manifested in the form of information exchanging and sharing, exchanging work equipments and tools, sharing meal at work places, and an endured mutual cooperation existed among the members of the studied MSEs. Borrowing money each other is also highly common among the studied operators. During the FGD, however, it was indicated that the arbitrary organizing of different persons with diversified socio-economic backgrounds in to one cooperative has weakened the level and sustainability of social capital among the group. Instead, therefore, the participants of the FGD suggested the organization of cooperatives on the basis of personal relationship between the members themselves. Contrary to what is narrated above, there are also instances when their current activity has resulted in deteriorating social life and interaction situations to the operators both at their home and work places from time to time. The likely cause for such social chaos and irregularities is market shortage experienced by the studied MSEs, as the following quote from the response of one interviewee clearly depicts:

⁷ A widely prevalent sort of funeral grouping in Ethiopia, where resources are mobilized and pooled to get emotional and material support up on a death of the member himself, his dependants or relatives.

Each member of the MSEs, be male or female, is expected to be at his work place. This means that he stays the whole day in his/her work place whether there is work or not. After spending the whole day in such idleness, she/he returns back to home. If the operator is male, his wife complains that he brought nothing or less to home, though he is assumed employed. If the operator is a married female, her husband complains in the same way. The disagreement between them becomes keen especially when children and domestic chores are not cared well. In the same way, the operators also, sometimes, do not agree and respect each other. Like the above husband and wife, they nag each other. The root cause of all this ill social interaction both within a family and work place is lack or absence of market. If there is ample market for our products, no one had a time to nagging and consequently all these problems were non-existent. [29, Male, Bachelor]

4.1.3 The Environmental Context

Degefa (2010) suggested that the environmental context can be addressed in terms of two relevant dimensions namely '*the physical location (in relation to access to basic urban amenities such as housing, roads, water, education, energy sources, etc.) and a locality's sanitary conditions*'. With regard to housing, the operators stated that most of them live in their family's home which is rented either from the *kebeles* or private land lords. The majority of the dwellings were characterized by their dilapidated nature, being located in crowded slum areas without adequate access to amenities such as clean water, drainage, sewerage, solid waste collection, and sanitation facilities. The operators indicated that their residential houses and neighborhood have limited or poor access to basic physical and social infrastructures like road, education, health etc. Living in such houses and environments has a serious effect on the health of the operators which in turn results in low productivity. However, the operators indicated that they were able to make some minor improvements to their houses by the income they generated from their activity.

The same deteriorated and worrisome condition was observed in relation to their working premise and 'shade'. Most of the shades are made of iron sheet walls roofed with a corrugated iron sheets making them highly susceptible for the risk of fire (see figure 4.1). Another situation that sharpens this risk of fire is the fact that the shades are constructed very near each other without leaving enough space in between (see figure 4.2). The location where the shades are

constructed is not suitable either for attracting market or for security purpose, as the site is located near to (almost 5 meters far) a river side, surrounded by trees (see figure 4.3). On one hand, the land is sliding from time to time. On the other hand, the operators stated that the river floods during the rainy season. Coupled with the contaminated water the river brings, this has exposed the operators to communicable diseases such as flu. The other equally raised burning issue, during the informal conversation, was absence of a fence. What complicated the construction of a fence for the cluster so far was the presence of the river and the resultant land sliding and flooding.

The working place of the operators is located far from the main asphalt road that crosses from *Tor hayloch* to *Mexico* area. The road leading to the working site of the operators is neither wide nor well maintained (see figure 4.4a and 4.4b). This poor state of the local road has hampered the accessibility of their working site by existing and potential customers. In addition, it has forced the operators to incur high transportation service cost, damaging their already meager and continuously declining income. The ‘seriousness’ of the problem was stressed by a respondent who said that:

We usually rent private cars to bring the raw materials here purchased from merkato, which is located fairly near to this site. But the owners of the cars request us to pay them 200 Br, which is an amount they charge for the same service if they go as far as Ayertena, one of the remotest neighborhoods found at the outskirts of Addis Ababa. The reason they gave us is the unsuitability of the road around our working area. [40, Male, Married]

The recently fixed price ceiling on commodities by the government of Ethiopia is warmly welcomed by the respondents. The operators indicated that the continuously increasing price of inputs such as varnish and glue has been checked by this government action. They also indicated that the materialization of this ceiling has also saved them from being ‘exploited’ by illegal merchants, who always increase prices of basic commodities unreasonably. As a result of the price ceiling levied on the above-shown inputs and basic commodities, the operators asserted that they are able to save a significant amount of money that would be illegally charged by those unethical traders.



Figure 4.1



Figure 4.2

The shades are made of temporary materials (Fig. 4.1) and located near to each other (Fig.4. 2) making them highly susceptible for the risk of fire and risk of robbery .



Figure 4.3 Risks such as flooding, land sliding and infections are attributable to the presence of a river very near to the cluster.

On the other hand, however, the operators attribute the sky rocketing price of commodities to the shortage or inadequacy of supply of commodities. Brilliantly enough, one respondent linked the issue with population increase. This is true since when there is ample demand for a given good or service, in this case higher population, it is likely that the price of that good or service becomes high.



Figure 4.4 a



Figure 4.4 b

The poor state of the local road has hampered the accessibility of the working site of the operators by existing and potential customers, in addition to making transportation cost high.

The other impediment, according to participants of the FGD, on the livelihoods of the operators is the one caused by increasing cost or price of transportation service especially the hardly affordable price of those private cars on which the operators load raw materials from places of supply, mainly *mercato*. The operators associate this expensive transportation service price with the unsuitability of the road facility. The operators agree that, if the road infrastructure around their cluster is maintained or improved, there would be a remarkable reduction on their expenses related to running their businesses.

4.1.4 The Political Context

The Micro and Small Enterprise Development Program is one of the components that constitute the urban development package of the national urban development policy adopted in the year 2006 (MWUD: 2007). It is after this time onwards that MSEs in almost all regions of the country begun to spawn. Obviously, the studied MSEs are, therefore, the fruits of this government's policy direction. Similarly, long before that, Ethiopia has been declared a federal state where there is power, resource and responsibility sharing among the federal government and regional states (FDRE Constitution: 1995). Furthermore, Article 41 of the constitution stipulates that

every Ethiopian has the right to engage freely in economic activity and to pursue a livelihood of his choice anywhere within the national territory.

Article 31 of the same constitution provides that citizens have a right to get organized for any purpose they are aspiring. Accordingly, the operators believe that their current cooperatives are organized in line with all these fundamental provisions of the FDRE constitution. The current political and administrative decentralization, where power is devolved to regional and local governments, has further smoothed their engagement to these businesses. This is so because of the presence of many local level government sector offices. The interviewed officers and operators indicated that the MSE sector has utmost support and is given a due attention from the political leadership situated at various levels, though there are deep-rooted problems in implementation. This is true not only in the studied area but also throughout the country at all tiers of government (Tegegne and Meheret: 2010). One of the pointed indicators of this is the fact that the MSED offices are organized separately and are accommodated with all the necessary human and physical resources and facilities. The other manifestation is that the MSE sector is designated a 'core process' status, a process coined as a result of the newly designed and implemented BPR at *woreda* level, according to the key informants. Here it should be noted that Tegegne and Meheret (2010) also pointed the same scenario where the MSE sector is given such 'core process' position. Nevertheless, officials at the WMSEDO and the studied operators exposed that they have observed lack of awareness on the part of the *woreda* level government line department heads about various issues and proclamations put in place by government in relation the MSE sector. As a result of this, most officials at *woreda* level show a bureaucratic

tendency in processing any case in relation to the studied and other MSEs. In relation to this one respondent said that:

although MSEs are allowed to compete in any bid estimated up to 500,000 Br. without a value added tax(VAT) certificate, we were even requested to submit the same for a work that worth 8000 Br.[32, Male, Bachelor]

To wrap up this part, as discussed in the preceding part, the prevalence of free market system, decentralization, federalist state structure, unemployment, price ceiling, presence of favorable policy environment and committed political leadership are few of the contextual factors supported and facilitated the establishment and operation of the studied MSEs. Oppositely, the livelihood activity of the operators was challenged by context-related problems and issues like market shortage, misconception of the society, fierce competition, inflation, high and increasing price of inputs and basic commodities, poor access to social facilities and infrastructure, tenure insecurity, inconvenient working place, and bureaucratic work procedures.

4.2. Access to Capital Assets and Urban Public Facilities

The livelihoods approach to poverty reduction echoes such thinking that the urban poor are not always assetless. This is because although the poor are lacking cash, saving and other material assets, are rich in possessing other non-material assets such as their health, experience, skill, training, knowledge, friends, family, and natural resources surrounding them (Rakodi: 2002). Proponents of the livelihoods approach firmly argued that there is a need to understand these assets in order to portray the various opportunities and constraints around them. Assets can be conceptualized as a stock of capital ‘...stuff that augments incomes but is not totally consumed in use’ (Narayan and Pritchett: 1999 cited in Rakodi: 2002). Some of the features of these assets is that they can be stored, accumulated, exchanged, or get exhausted and put to work to generate income or other modes of benefit (ibid). In general, assets are categorized into financial, human, physical, social, and natural. From all these types, significance and implication of natural capital in the context of urban areas is supposed to be less. This was also true in the studied MSEs. Instead, another asset namely political capital is found to be critical in relation to MSE operators. The forthcoming part will assess the level and access of the studied MSE operators to these different kinds of capital assets.

4.2.1 Financial Capital

According to Degefa (2010), FC denotes for those assets in the form of cash earned from income generating activities, savings, debit, credit and remittance income. Financial Capital is more salient in urban areas due to the highly monetized nature of urban economies (Rakodi: 2002).

It was found that, mainly ensuing from low market, the operators usually suffer of shortage of cash leading to their inability to cover their daily needs adequately. The other cause of this low cash presence at the disposal of the operators could be the increasing expense incurred by their respective MSEs in relation to purchase of raw materials and services such as transportation, in addition to cost of utilities consumed both at home and work place. The compulsory saving also adds to this decreased amount of cash at hand. The operators frequently mitigate this problem of cash shortage through borrowing and lending each other. The other mechanism of easing such cash shortage is through diversification of income generating activities.

Most of the interviewed operators live with their parents. Only two operators informed the researcher that their parents have received remittances from their sisters who are serving as house servants in Middle East Arabian countries. These respondents further indicated that maintenance and improvement of their housing and purchase of house hold durables are made possible by the money secured from these remittance sources. With regard to pension, since majority of the operators of the studied MSEs were unemployed before being engaged in their respective businesses, it was found that they have no any income derived from pension.

Debt is of many varieties, of which one can be the one secured from raw material suppliers. Use of debt or participation in it is a common practice in the Ethiopian MSE sector (Gebrehiwot and Wolday: 2006). Nonetheless, debt of any type was found to be almost nonexistent among the studied MSEs. This is because, due to their market problem, most potential debtors such as suppliers are reluctant to extend the same to the MSE operators.

The presence of affordable credit is essential for enterprise growth (Meikle: 2002). With regard to credit access and availability, there are both formal and informal sources serving the operators in the studied area. The former is consisted of loan from other fellow operators, relatives and friends. The credit generated from such sources, along with a loan secured from micro finance institution (MFI) and own savings, constitutes a portion of the start-up capital of the MSEs.

Addis MFI is the only formal source of credit used by operators, though there are other financial service providers like state-owned and private commercial banks. Even if many writers including Vandenberg (2006) support the already established opinion on micro-finance that holds a view that micro-finance is a useful way of channeling finance to the poor and overcoming the difficulties they face in securing credit from formal financial institutions such as banks, it was reported that the terms of credit of *Addis* MFI are not suitable to the operators as the MFI fixes short repayment period with higher interest rate i.e. 9 % in comparison with the interest rate of 6 % charged by the banks. The operators indicated that the indicated MFI charges them totally 13 % of the extended credit, of which 9 % is paid as interest on the loan, 3 % as service charge while the balance is accounted as insurance contribution. This high loan cost puts the affordability of the loan of the MFI demanding by the users. Obviously, such high loan cost further damages the already low meager revenue of the enterprises. On the other hand, the operators pointed that the short repayment period scheduled by the MFI put them in worrisome state as they face shortage of market resulting in their inability to repay the loan within the period stipulated by the MFI. Given the market problem of the MSEs, it is fair to suggest the MFI to effectuate a 'grace period policy'.

The operators had a prior saving, though incomparable with their current level. The operators indicated that they have saving account opened at *Addis* MFI in their own name. Here they appreciated the relentless effort of employees of the MFI in encouraging the operators to save through training provision and exercising an innovative and flexible modality of collecting the saving contribution of each operator as explained in the following way by one respondent during the in-depth interview with him

the employees of Addis MFI frequently come to our working shade and collect whatever we can give them starting from Br. 5.[28, Male, Bachelor]

It was also reported that the operators also save 30 % of the monthly revenue of their enterprise in the same MFI on the name of their MSE. In addition to the above narrated forms of saving, there is also a scheme called *Iqub*, where each member of it puts equal monthly contribution and the pooled amount is given to each contributor on rotating basis. The money accessed from *Iqub* sources is usually spent for undertaking other income generating activities by other family

members such as *gullit*.⁸ Such informal indigenous rotating saving and credit schemes have a remarkable role in further consolidating the already enriched social capital among the operators.

To wind up, the operators had better level of cash possession in comparison with past but it is declining as time passes because of the inflation, increasing price of inputs, basic commodities and services such as transportation. Similarly, the operators more or less have no remittance, pension, and debt. The main cause for lack of the latter, especially from suppliers, is the poor availability of market. However, the studied operators were able to mobilize ample credit and saving resources from formal and non-formal sources. In precise words, the operators have a fairly good level and access to financial capital.

4.2.2 Human Capital

Human capital refers to the skills, experience, knowledge and ability to work. Clearly financial capital, in terms of access to employment and earnings, is strongly dependent on adequate human capital. In turn, human capital is highly dependent on adequate nutrition, health care, safe environmental conditions, and education (Farrington et al: 2002). Accessibility to education and training provides people the opportunity to improve the value of their human capital (Meikle: 2002). Though usually used together, education and training are different concepts. The fundamental point of demarcation is that education, which is the basic element in human capital, makes contribution to asset enhancement in a broad or general manner while the role of training in doing so is in a specific and more immediately applicable way (Harper : 2002). As far as education is concerned, literacy especially basic education enhances and facilitates all other latter efforts to build human capital. In the same way, the ability to access, absorb and apply all employment-related skills is dependent on the educational base of those undergoing training (Ibid).

The data gathered, both primary and secondary, on the educational status of the studied operators reveals that all have completed either high school level or Technique and Vocational Education and Training (TVET) education at the nearby secondary schools and colleges. The fact that all the operators are literate has facilitated the skill acquisition process during trainings organized

⁸ A petty trading activity usually undertaken at road sides and sometimes at designated places.

and coordinated usually by the *woreda* MSED0 in partnership with other stakeholders such as St. Mary's University College, Addis Ababa *Tegbare Id* TVET College, Higher 4 TVET Institute and Productivity Improvement Center. The former provides business development, basic management and accounting trainings while the latter three conduct technical trainings. The fact that they are educated also has helped the operators to manage their affairs and finance both at their home and working place. Moreover, the operators thought that their increased literacy level impacted their political capital and decision making level positively.

The operators widely outlined that the very nature of their work i.e. labour and energy-intensiveness of metal and wood work has made them healthy and physically strong; whereas the income derived from their engagement has helped the operators in accessing improved medical and educational facilities for themselves and their dependants. The same supportive role of MSEs in maintaining the health of operators and their family are also indicated by other researchers. For example, Daniel (2007) reported that, among the majority who visited medical facilities over the last 12 months, 86.7 % of the operators responded that the source of funds for their access to medical facilities was income derived from their MSEs.

Most of the operators possess prior work experience and skill acquired via taking part in formal training programmes like from TVET institutions or gained as a result of working previously in similar area of engagement. Possessing prior work experience related to current activity has contributed positively to the overall performance and productivity of the operators especially by helping the operators to grasp skills fast and easily during practical training sessions. The presence of experienced members has also allowed for and resulted in skill sharing for the less experienced members, which has, again, a productivity improvement effect. In the same vein to the prior experience, the fact that they are organized and working as cooperatives has boosted up the negotiation and conflict solving capacity and skill of the operators. However, the operators exposed that whatever enormous are the merits of cooperative form of organizing in skill sharing, there are also times when conflicts are arising as the members who formed the cooperatives initially did not know each other. Accordingly, they suggested a caution must be taken while organizing cooperatives not to 'stack' people who are unfamiliar each other.

Harper et al (2002) suggested that training efforts become effective when they are in line with the needs, ideas and aspirations of the trainees. Moreover, Tegegne and Meheret (2010) noted

the inability of short trainings to impart necessary skills to the trainees. However, in opposition to these ideal conditions, failure to tune trainings with the needs, priorities, and educational attainment levels of the operators, short duration of the training sessions, unjustified discrimination while selecting trainees, are among some of the training-related shortcomings narrated by the operators. The presence of these drawbacks diminishes the effectiveness of the provided trainings. Interestingly, on the other hand, participants of the FGD pointed that too much reliance on government for everything, lack of commitment to be changed, lack of vision and absence of entrepreneurial spirit have contributed for their respective MSEs inability to develop and graduate fast.

Despite exhibiting some person-related behaviors (such as lack of commitment and vision, extravagantness), all the operators are literate, physically strong with a capacity to access medical facilities, have prior work-related experience and skill, and lastly have good access to training with all its shortcomings. All these are fair indicators of the substantial level of human capital possessed by the targeted operators.

4.2.3 Social Capital

In short, Social Capital is a resource embedded in social relationships, associations, networks, sharing, friendships, Reciprocity and moral support. In the absence or shortage of other types of assets, social capital is commonly used by the urban poor to survive on a day-to-day basis (Phillips: 2002).

The operators indicated that, despite they came from different socio-economic backgrounds, there exists a strong social bond and persistent interpersonal interaction. During the FGD and interviews it was repeatedly indicated that the studied operators participate actively in various informal social organizations such as *Idir* and *Iqub*. The main purpose for establishing the former is to mobilize and get emotional and material support up on a death of the member himself or his relatives. The latter is a voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis. In such schemes, each member is entitled to receive the collected lump sum once based on his contribution. The Sustainable Livelihoods perspective considers such indigenous rotating saving and credit and reciprocated support devices as constituents and examples of

'policies, institutions, and processes' and; are very decisive in the effort of creating, enhancing, and shielding other types of assets especially physical and social (Harper et al : 2002). Coming back to the experience of the operators, the cooperation between the operators even goes to the extent of exchanging tools, equipments, and sometimes labour freely and; they also rent machines each other. There are even instances where one cooperative MSE directs job orders to other cooperatives provided that it is not capable of producing the same due to various reasons. Very uniquely, in one MSE it was found that the members always have Sunday's breakfast together. The expense of this regular Sunday accommodation is covered by the income generated from the sale of use-less timber and other by-products. Most of the operators and their family members spend holidays together. This has served as cement in strengthening their already existing firm social interaction and sense of belongingness.

The operators unanimously agreed that their current work has created an opportunity to borrow money each other, which again deepens the social capital of the target group. Moreover, their engagement in MSEs has allowed them to meet, know, and introduce themselves to higher officers and lower level employees working in numerous governmental and private institutions like MFIs, banks, mass media, researchers, journalists etc. The role and contribution of trade fairs and bazaars in creating and sustaining such social interaction was underlined by the operators.

Tegegne and Meheret (2010) wrote that horizontal and vertical cooperation are the two types of partnership enabling and easing collective efficiency, transfer of innovation and opportunities for upgrading and growth among firms. The former, the same writers continued, allows similar businesses to be jointly involved in activities such as sub-contracting, purchase of raw materials, marketing and training where as the latter denotes to linkages which take a form of 'supplier-producer or input-output relations and the sub-contracting of phases of production cycles from vertical linkages'. In spite of this, it was found that cooperation and partnership particularly in market and raw material-related affairs was weak. The absence of such collaboration has been detrimental to the MSEs as indicated by one respondent in the following manner:

We (the MSEs) are losing a great deal of money that can be used for the growth of our respective establishments. This is mainly because of our unwillingness and inability to cooperate. For instance, if we jointly

purchase raw materials, we can have more negotiation and bargaining power over the suppliers. Obviously this results in substantial reduction of input prices. The money that we saved from such 'robbery' of raw material suppliers, via our cooperation, could be reinvested in our businesses. [43, Male, Married]

As shown above, to make a concluding comment on the nature and level of social capital of the operators, there is an enriched social relationships and support networks in the form of *Idir* and *Iqub*, borrow money each other in addition to exchanging and sharing information, equipments and tools. Likewise, the operators spend holidays together and share Sunday's breakfast. In conclusion, the operators have a big level of social capital.

4.2.4 Physical Capital

Physical Capital includes assets such as housing, tools and equipment that people own, rent or use and public infrastructure that they have access to (Farrington et al: 2002).

While land is generally considered as a natural capital, it is appropriate to see it as a physical asset that enables access to shelter and work premises in addition to possessing locational significance that provide access to other livelihood opportunities and investment potential (Payne: 2002). The urban land on which either the residences of the operators or their working shades are constructed was addressed in relation to its location and tenure security by the study group. To this end, the central location of the land on which the homes of most operators are built, on top of being a tenant of houses owned by the *kebele*, worsened the insecurity of tenure of the operators. According to official sources, *Lideta* is one of the sub-cities of Addis Ababa where massive large scale urban renovation and redevelopment projects are currently undertaken. Therefore, it is not surprising if all dwellers especially poor tenants residing in these central areas feel a risk of eviction and relocation with all its negative consequences on their livelihoods. Absence of real and perceived tenure security discourages tenants to maintain and improve their homes and neighborhoods. In contradiction with this appalling tenure security situation of their homes, the operators have an optimistic outlook on the tenure security of their working place since both their shades and the land on which the shades are erected belong to the government. Accordingly, it is right to assume that the dilapidated nature of the residential houses of the operators is mainly attributable to their sense of insecurity.

Housing Conditions

Housing is one of the crucial assets for urban poor, since it is used for both productive (earning income) and reproductive purposes in addition to serving as a shelter (Moser: 1998 cited in Meikle: 2002). In the urban context, the residential and work environment and health are needed to sustaining a means of living. Accordingly, access to water, sanitation, drainage and solid waste management turn out to be a top priority. Provision and access to sanitation, drainage, and solid waste management facilities and services has many advantages. First, it reduces the risk of exposure to water-born and related diseases. Secondly, it protects the urban environment and helps to keep the appearance of urban areas. Third, protects thereby allowing prolonged use of infrastructure, and lastly creates employment opportunity (Ali: 2002).

The residential houses of almost all operators are owned by the government and are managed by the *kebele* administration, a body responsible for renting houses in its jurisdiction and collecting rent from the tenants. The fact that their houses are owned by the government implies a sort of tenure insecurity to their tenants. Moreover, the same absence of tenure security can be cause of the dilapidated nature of the dwellings of the operators, as tenure insecurity, according to Payne (1996), results in lack of interest in housing improvement and neighborhood development. In other words, since the operators suspected that they might be evacuated from their houses, they are not stimulated to improve their dwellings. The operators argue that their sense of insecurity is further fuelled as their current neighborhoods are located in one of the city's commercially preferable central business districts, making such areas highly attractive for private investors and developers. In relation to the physical condition of the houses, the houses are dilapidated, indicated by the respondents that, and lack basic sanitation and sewerage facilities. Moreover, their surrounding neighborhoods are not adequately served with basic social facilities and infrastructure such as roads, transport, health and educational facilities. It is easy to think of the health burdens emerging from these poor environments. Ill health negatively affects the productivity and livelihood of the operators. Lastly, an attempt was made to assess the level of ownership of the operator's household assets. The operators believe that their engagement in this activity has changed their position of house hold asset ownership. However, the improvement is mainly related to basic home utensils and appliances such as TV set, sofa set, radio, mobile

phones and the like. This conforms to other researches findings like with Tegegne and Meheret (2010) and Getahun (2009).

Working Place Conditions

All the studied metal and wood work firms are located in one cluster. According to an official document from the FMSEDA (2006), ensuring improved access to infrastructure such as electric power, minimizing financial and time loss caused by sparse location of these mutually supportive businesses are some of the advantages expected to be realized in locating these MSEs in the same cluster.

A number of shades hosted by numerous MSE operating in wood and metal work are located in a cluster named *Sahlu Chaka*, the studied cluster. The operators informed the researcher that they secured their respective shades on rental basis from the *woreda* MSED, which charges only a subsidized and affordable rental price from the users of the shades. Almost all shades are supplied with basic facilities like telephone, power, toilets, etc. Whatever affordable the rent of the shades, the researcher observed that they are constructed of temporary building materials. Moreover, the paths between the shades are very narrow (see figure 2 on page 48). The operators pointed that this has a risk of fire explosion and; during the rainy season, the shade becomes extremely cold. Similarly, this nature of the shades eases the chance of theft of properties hosted inside the shades. Added to this poor condition, it was indicated that absence of selling place has aggravated the already existing 'inadequacy and crowdedness' of the internal working space of the shades. The participants intelligently argued that lack of selling place is a direct contributor for their inadequate market hence low income of the studied MSEs. Absence of selling place obviously narrows the chance to access new customers.

The studied MSEs own a variety of working machines, equipments and tools, most of which were purchased by the loan extended from *Addis* MFI. Welding machine, grinder, drill machine, screw driver, hammer, chisel, wrench, brush, planes, pock shave, back saw, brace, file, meter, try square, and clamps are some of the work-related machines and equipments owned by the studied MSEs(see figure 4.4 and 4.5 in the next page). The presence of these machines, tools and equipments has allowed the operators to produce competitive products in terms of quality and design, in addition to helping them to save their time. In other words, the presence of these

machines and tools has resulted in productivity improvement of the operators. So far, it is argued that access to and investment in production equipment directly generates income and enhances productivity (Rakodi: 2002).



Figure 4.5



Figure 4.6

Pictures showing some of the machines owned by the MSEs. The presence of different machines, tools and equipments has allowed the operators to produce competitive products in terms of quality and design.

The studied cluster and the shades in it are located very near to a river. The participants of the FGD raised that this has brought two clear problems to the MSEs and their operators. To begin with, since the river brings waste materials from other localities of the city, the chance of those residing and working on the sides of the river to acquire air and water diseases and infections is high(figure 4.7). Secondly, the river sides are prone to land sliding and flooding. It was raised by the operators that this has complicated the task of building a fence to protect the shades in the cluster (figure 4.8).

Since people look for sites with good access to livelihood opportunities, public services and amenities, location of an urban land becomes imperative in urban areas (Payne: 2002). Accessibility of a location, on the other hand, is the ease with which it can be accessed by different modes of transport (Brown and Lloyd-Jones: 2002). Divergent from these aspects, however, the studied cluster is situated far from the main asphalt road and the condition of the road leading to the cluster from the main road is extremely poor. This poor state of the road

condition of locality has culminated in high transportation service cost to the MSEs, in addition to making the cluster difficult for accessibility by the existing and potential customers (see figure 4.4a and 4.4b on page 49).



Figure 4. 7

The river brings a risk of infections, as it is polluted



Figure 4.8

The site is prone to land sliding and flooding

Concerning transport facilities, access to affordable and appropriate public transport is of paramount vitality in expanding the employment opportunities of the urban poor who need inexpensive access to areas of economic and commercial activity (Brown and Lloyd-Jones: 2002). Equally, the importance of physical capital especially infrastructure in enabling people to access, and directly support, income-generating activities is well recognized by writers on urban livelihoods such as Rakodi (2002). Housing which is close to employment opportunities or markets will improve residents' access to income-generating work and will reduce transport costs, which can be a significant expenditure and time-drain for the urban poor (Farrington et al : 2002). Since the location of both the residences of most of the operators and the raw material market place-*mercato*- is far from their working area, the operators could not benefit from reduced transport price. Correlated to this, the participants during the informal conversation told the researcher that the city-wide shortage of public transport, mainly originated by poor supply of buses and road infrastructure, has an adverse effect on their activity as the operators spent hours while waiting buses.

In most shades owned by the studied MSEs, the researcher noticed the presence of first-aid kit filled with some basic medicines. As a matter of fact, these kits help only the treatment of minor

injuries, while there is a likelihood of occurrence of major injuries and fatalities since the operators work long hours with and near to heavy power-driven machines and equipments. This necessitates the need for a well established health institution with adequate personnel and other logistics near to the cluster. This is especially true give the nature of the activity of the operators. Nevertheless, there are no such health facilities in close proximity to the cluster.

To condense the issue of level and access of the operator's capital assets in few words, it is found that the dwellings hosted by the operators were shanty, owned by the *kebeles* (implying tenure insecurity), poorly served with sanitation facilities and other public infrastructure. Being made of temporary materials, built near to a river, and inadequate road and health facilities are some of the situations characterizing the working place of the operators. The operators were in a good possession of varieties of work-related machines, tools, and household durables.

4.2.5 Political Capital

By citing Baumann and Sinha (2001), Farrington et al (2002) wrote that

the ability to influence political processes which determine decision-making and access is something which men and women can build up and draw on– and thus that, in addition to the five capital assets outlined in most SL models, political capital should be considered as a sixth capital asset. Broadly, Political Capital is defined as the ability to use power in support of political or economic positions and so enhance livelihoods.

In 2005, the Ethiopian People's Revolutionary Democratic Front (EPRDF) led government put in place the national MSEDS (MTI: 1997). Merera (2007) on his part remembered that, in the nation-wide election held in May of the same year, the ruling party was defeated completely even to secure a single seat at the capital, Addis Ababa though it announced that it has won the majority vote across the country, an issue well recalled and narrated by the operators too. The operators believe that this loss of vote was a big alarm to the governing party to undertake extensive public mobilization with the grand aim of regaining the previous popularity and acceptance among the residents of the city, especially from the youth. To further ensure this, many youth were made members of the ruling party. For the purpose of strengthening the loyalty of the newly recruited members, the participants of the FGD recalled that, they were made to be organized to establish MSEs. The idea that the ruling-party was actively engaged in

the organization of the city's youth to establish MSEs is also well versed by other commentators (*Fiteh Megabit 2, 2003 E.C*). The same source explicitly underscored that EPRDF used these massively established MSEs for the purpose of political expediency.

The operators on their part added that, due to their membership of the ruling party, they could easily approach local government officials, and are stimulated to actively participate in political, economic and other public affairs at *woreda*, sub-city and city levels. This accessibility and responsiveness of local government machineries to the demands of the MSEs can be taken as a fact on the ground because one can fairly assume that since the MSEDs is adopted by the EPRDF-led government, it is likely that the operators who themselves are affiliated to EPRDF would have a welcome by the main implementing agency i.e. WMSEDO and other government sector offices.

It is again indicated that the MSEs are supported and prioritized in relation to bidding competition and its requirement, market linkage and opportunity, training and credit provision (Federal Micro and Small Enterprises Development Agency : 2006). All these 'favours' contribute towards realizing the viability and sustainability of the MSEs. Ultimately, the continued exposure of the MSEs to these various supports especially the market linkage facilitates the livelihood enhancement of the operators through the income secured from the revenue enjoyed by this ready-made market created by the government.

On the other hand, the operators pointed that, again due to their membership, they are frequently invited to deliberate on draft government policies and strategies. This means that they are in a position to influence political decisions than non-operators. Besides, during the FGD, few operators boldly argued that their ability and chance to enjoy all the above-indicated 'supports' and the resultant economic and political advantages are rewards for their membership in the ruling party. As the operators are always keen to make certain the continuation of these advantages, the operators added that , they are committed in common party-related activities such as recruiting additional members, convincing and mobilizing the wider public during elections, taking part in rallies organized by the party they favour etc.... Therefore, the connection between the government and members of these MSEs seems a kind of 'give and take' relationship. Partly, these latter manifestations of augmented level of political capital owned by the operators can emanate from the strong political commitment and leadership devoted by the national government; or because of the 1995 FDRE constitution(Articles 10-44), which

guaranteed a firm legal base for the due respectation and protection of basic human, political, economic, democratic, social and development rights.

In exact opposition with what is discussed above, there are some scenarios damaging the high political capital possessed by the operators. The respondents affirmed that this occurs when pertinent decisions related to their area of engagement, training, mode of organizing members of MSEs, and the physical location of their working premises are made by government authorities operating at various tiers. This is a clear indicator of the fact that the ideas, priorities, and needs of the operators are not taken in to account and, thereby, lowering the political capital of the studied operators. However, as a final comment of this section, the studied operators have higher political capital as they are able to use their political power to promote and ensure the continuity of their current political and economic position through the ways shown above.

In a nut shell, what can be concluded from the above discussions is that the operators have relatively better access to and level of social, political, and human assets. Although not equal to the high level of possession of these three types of assets, it is also found that the operators own a significant amount of financial and physical assets.

4.3. Institutions, Policies and Processes

Operating at all levels from household to global, these three constitute the third component of the SLF (Rakodi: 2002). Institution denotes for those organizations and structures that can be public (political, law making or governmental) or private (commercial, CSOs, CBOs, and NGOs) where as Processes are those formal or informal policies, laws and social norms that influence or transform the mode of interaction between institutions and individuals (ibid). In relation to MSEs, Vandenberg (2006) wrote that

enterprises operate under a variety of policies, laws, and regulations that can be of either a supportive or hindrance role. MSEs are particularly affected because they can least afford the time and money needed to comply.

A number of formal governmental, non-governmental and private organizations are found to have a stake in the establishment, promotion and development effort and process of MSE

operating at the *woreda* in general and the studied MSEs in particular. Some of these institutions and their respective roles are discussed below.

- ❖ The *woreda* MSED0 role concentrated in the area awareness creation of the benefits of engagement in MSE activities, organizing the operators to establish MSEs, facilitating market linkages and loan and training provision to the organized MSEs. According to the participants of the FGD, who joined the MSEs latter, the office made them to be aware of the numerous advantages of being engaged in MSE activities and working in cooperatives. Still few of the participants of the FGD pointed that the office has created market linkage and opportunities, though it was not up to their expectation. The operators and their MSEs were beneficiaries of the income earned from these market opportunities created by the office, especially the one from the HDPO. Moreover, the operators added that the trainings facilitated and organized by the office itself and St.Mary's University College improved the record keeping and management skill of the operators. It was indicated that the start-up capital that enabled them to establish and run the MSEs was secured from *Addis* MFI. The provision of this credit was facilitated the office. On the other hand, the *woreda* Children, Women and Youth Office also organizes unemployed youth and women living in the *woreda* and send them to the MSED0, the interviewed experts recalled.
- ❖ The Productivity Improvement Center and TVET institutions namely Higher 4 and *Tegbare Id* contribution was mainly in the provision of technical training. The interviewed experts and operators unanimously agreed that these trainings increased the technical skill and capacity of the operators, in addition to making them familiar with the skill of operating different machines, tools and equipments. Furthermore, the skills derived from these trainings allowed the operators to design and produce quality and competitive products.
- ❖ There are also institutions which provide financial services to the operators of the studied MSEs. The Commercial Bank of Ethiopia *Lideta* Branch is the one where the operators keep their working capital. The bank is, according to one respondent, the safest place to keep their money. Putting their money, the same respondent added that, at the above-named bank avoided the risk of theft, mis-use and spending of the same. *Addis* MFI, is

the sole saving and loan service provider for all MSEs operating in the study area. The credit accessed from this MFI allowed the operators to set up their ventures. The participants of the FGD said that the aforementioned MFI frequently gave them advice on loan-related affairs, in addition to encouraging them to save.

- ❖ From the various governmental institutions providing market opportunity hence revenue for the MSEs, the Housing Development Project Office (HDPO) is the main one, according to the operators and the experts interviewed. The HDPO is an office undertaking a large scale integrated housing project that usually invites the MSEs in the manufacturing and supply of windows and doors for the massively constructed condominium houses.
- ❖ An NGO called the Good Neighbors conducts basic business and computer literacy training to the operators, again with the effect of enabling the operators to manage their establishments and resources effectively.

However, the extent of cooperation and partnership among the above-listed institutions was not satisfactory. This lack of harmonious relationship is mainly due to low commitment arising from lack awareness on MSEs related policies, strategies and regulations. These and other 'implementation capacity problems' are rampant in government sector offices. Apart from these shortcomings, bureaucratic work procedures and absence of consistency in the execution of policies were some of the challenges wasting the time of the operators. However, Vandenberg (2006) stressed the need for avoidance of administrative barriers and corrupt practices, if MSEs are to be a major contributor in poverty alleviation. Doing so or putting in place unbureaucratic and efficient procedures, according to the same writer, ends up in time savings so that the operators can concentrate on their regular activity instead of waiting in government offices.

The FGD participants pointed out the following implementation capacity problems widely observed in the side of the heads and lower level experts and employees of government sector offices:

- Lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor MSEs. The other

possible explaining factor for this non-responsiveness to the operators can be the fact that the heads of the *woreda*-level government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsible to the issues of the MSE operators, who are working in the most prioritized sector by the government, according to one of the interviewed officials.

- Exposing the ‘secretness’ of bid documents to bidders with whom they have illicit attachment. This chiefly arises from the personal intension of getting illegal benefit on the side of the employees or due to the unattractiveness and inadequacy of salary and other benefits of those employees in charge of bid processing. On the other side of the coin, it may be also because of feeble corruption prevention efforts exerted in those offices.
- Failure to abide decisions, rules, regulations, proclamations and policies put in place by higher level competent authorities and decision makers. According to the operators, the important regulation usually violated by lower-level executives is the one that dictates all bids valued 500,000 Birr or less be awarded to MSEs without competition. It is easy to assume that the market problem of the MSEs could be alleviated remarkably if bids worthing the above amount are directly awarded to MSEs.
- Treating MSEs discriminately and unequally as the following statement by one participant shows

Though there are many cooperative associations taking part in many bids, few cooperatives frequently win and are awarded the bid. In the same vein, if we (metal and wood work cooperative MSEs) and those cooperatives working in the construction sector submit an application for price adjustment due to input price increase, they (the officers at the HDPO and other woreda sector offices) accept the claim made by the latter. Anyone can witness this treatment and practice as corrupted, unequal and discriminatory. [Female, 27, Bachelor]

The operators hold a consensus that most policies of the government are rationally made and acceptable. However, the above-discussed and other problems in their implementation have hampered the smooth actualization and success of those informed policies, strategies, proclamations and procedures. Trainings and meetings organized by the ruling political party and its affiliated leagues and forums are key events that made the operators familiar with these MSE-related and other various policy, strategy, proclamation and procedure issues at large.

Though the advantages of lower interest rate for the growth of MSEs are documented by Tegegne and Meheret (2010), the high interest rate and shorter pay-back period policies of Addis MFI that ignored the market shortage experienced by the MSEs are challenging the overall growth and financial sustainability of the studied MSEs. Like the policies of Addis MFI, other financial institutions such as state-owned and private commercial banks working in the study area and elsewhere in the country pursue unsuitable policies towards MSEs. For instance, in order to provide loan, banks request collateral, which is a requirement rarely satisfied by most MSEs especially those at the start-up stage. These collateral-related and other policies practiced by banks have forced the MSE operators to look for the expensive and hardly affordable credit provision services of Addis MFI. In addition to the strict collateral requirement, lack of tenure security could be also the other reason for the inaccessibility of bank loan by the operators. This is because if there exists tenure security in relation to the operator's dwellings, it is likely that they improve their housing and this, in turn, permits the operators to access credit from banks, which usually look for collaterals such as houses in order to provide loan. In line with this finding, Payne (1996) wrote that secured tenure, via its collateral advantage, serves as a foundation for accessing credit.

The presence and deep-rootedness of all the above discussed and other implementation problems can justify the need to question the 'geniunity' of government's commitment to promote and develop the sector, making the interaction between the government and the MSEs a kind of 'give and take' relationship. If government's commitment was real, it would have been possible to alleviate all these problems.

In addition to the above discussed formal institutions, there are also informal indigenous institutions serving different purposes. These include organizations such as *Idir* and *Iqub*. The latter are a form of local revolving saving and credit scheme. Seen from the sustainable

livelihoods perspective, such Rotating Savings and Credit Associations (ROSCA) are examples of 'policies, institutions, and processes' and are very decisive in the process of creating, enhancing, and shielding other types of assets especially physical and social (Harper et al : 2002). As narrated in the previous parts of this chapter, these social entities are vital for their members in many ways. First, they create and strengthen social bond, reciprocity, mutual cooperation and generosity among their members. To add, they also act as a source of finance used for home improvement and maintenance in addition to enabling the purchase of household assets. The money accessed from the *Iqub* could be used as a source of start-up capital, may be re- invested in their respective MSEs and other income-generating activities on top of using as collateral to secure loan from MFIs. In conformity with this findings, these and other multiple potential advantages of these social institutions especially *Iqub* are well commented by Eshetu and Zeleke (2008) as follows:

Iqub schemes promote the viability of MSEs through enhancing own savings, conversion of savings into investment, reducing transaction costs in credit markets, and facilitating the sharing of knowledge and skills that are crucial for operating business efficiently, job creation and the expansion of small firms into viable enterprises. The schemes predominantly cater for small businesses and enterprises that have little or no chance of securing finance from formal financial institutions such as commercial Banks.

From the detailed analysis of this sub-part and part 1.4 (political context) of this chapter, based on whether they are encouraging or discouraging for the prior establishment or current operation of the studied MSEs, two camps of policies can be identified. Grand laws and policies such as the one that endorses free market economy, the FDRE Constitution of 1995 itself, which embodies provisions on human rights especially the right to choose one's livelihood, federalism and decentralization. Specific policies related to the MSE sector like the national urban development policy, the micro and small enterprise development strategy, and specific regulations prioritizing MSEs on bidding, market linkage, provision of credit and training are among the ones that fall in the former category with a positive contribution on the viability and sustainability of the studied MSEs. Converse to these encouraging policies are policies followed by banks and MFIs such as demanding collateral , high interest rate, and short pay-back period all affecting the MSEs hence the livelihoods of their operators.

As a conclusion of this part, to begin with, it can be argued that formal and informal institutions like the *woreda* MSEDOS, TVET institutions, numerous government sector offices, St Mary's University college, Good Neighbors, *Addis* MFI, political parties, *Iqub* and *Idir* are some of institutions which have played positive role during the establishment and operation of the studied MSEs through creating better policy environment, organizing the operators to form MSEs, credit and training provision, increasing the political capacity of members, and finally providing mutual support. In spite of this, some of the shortcomings these institutions have exhibited, and ultimately with a constraining effect on the MSEs, are red-tapism, lack of commitment, adopting unsuitable policies, and lack of coordination among the institutes. Secondly, while most policies were of facilitating nature, the policies of institutions such as banks and MFIs were found to be discouraging.

4.4. Critical Problems of MSEs

An official publication by the FMSEDA (2006) underscored that some of the bottlenecks that held back the accelerated growth of the metal and wood work MSEs are lack of working premises, financial problems, lack of training, shortage of market, poor quality of raw materials, and finally inadequate infrastructure. The studied MSEs faced numerous problems from different sources. Tegegne and Meheret (2010) underlined that these and other problems need to be surmounted to ensure sustainability and growth of MSEs. The challenges identified by this study are associated to the market, institutions, MSEs, societal, and lastly to the operators themselves.

4.4.1 Market-related Problems

The causes of market-related problems of MSEs engaged in metal and wood work are shortage or absence of marketing skills, poor quality of products, absence of marketing research, shortage of market information, shortage of selling places, and absence of sub-contracting(FMSEDA: 2006). Low market is the most severe problem mentioned frequently by the study group. Most of the operators indicated that, although they were promised to enjoy market linkage created with government projects and institutions, it was not adequate and satisfactory so far. The possible explaining reason for this may be lack of commitment and unwillingness to abide the MSE-related policies and proclamations by government officials and employees. This poor market can be linked to the low marketing and promotional efforts by the operators themselves. As a way

out of this poor market access, organizing bazaars and trade fairs at sub-city and city level is the widely held promotional and advertising strategy. Although organizing trade fairs is celebrated as innovative (Vandenberg : 2006), such approaches were criticized for staying for few days, avoiding or minimizing opportunity of bulk sale and meeting significant number of future customers. Likewise, the insufficient market may be also due to their inability to be competitive in terms of price, quality and design. Similarly, lack of market accompanied by lack of management skills and poor quality products are some of the problems challenging MSEs (*Fiteh Megabit 2*, 2003 E.C). Some operators during the FGD, however, said that the market opportunity created by the WMSEDO was up to their expectation.

4.4.2 Institution-related Problems

These problems mainly came from government sector offices at local level. Bureaucratic working procedures, and other bottlenecks associated with poor implementation capacity resulting from weak institutional capacity, lack of awareness about or failure to conform with MSE-related policies, strategies and proclamations etc, lack of commitment among the officials and their subordinates, absence of training to MSE extension agents and poor monitoring and follow-up are some of the shortcomings falling in this category. The experts at the WMSEDO indicated that the high turnover of employees working in this sector is because of the unattractiveness and inadequacy of the salary and absence of other incentive packages. The same key informants added that being over-burdened is the main cause of lack of commitment observed at the side of the WMSEDO higher officials.

4.4.3 Entrepreneur or operator-related Problems

Literature on MSEs suggests that, in order to ensure the development of their businesses, operators of such ventures are expected to be determined and possessing personal qualities like risk taking, being innovative and creative in exploring credit, raw materials and markets (Tegegne and Meheret:2010). In clear deviation from these entrepreneurial qualities, the identified problems of the operators are: lack of individual commitment and determination to be changed, looking up and expecting everything from the government or '*dependency syndrome*' (in the words of Tegegne and Meheret: 2010), and the extravagant behavior of most operators. The latter behavior of the operators is also duly identified in other sources such as *Fiteh*

(*Megabit 2*, 2003 E.C), where it is also indicated that the operators spent the borrowed credit mainly for satisfying their daily needs such as food other than using it for the intended purpose. According to official sources, it was indicated that the operators show a tendency to share out the lion's share of any revenue and usually waste their part in un-wise manner. In other words, the portion of income re-invested in the MSEs is very low. This has a serious implication for the future growth and development of the studied MSEs. On the other hand, since it is regulated that cooperative MSEs should pay tax if their members receive dividends (Tegegne and Meheret: 2010), this indicates that there is a gap between the regulation and its implementation. During the interview with one of the experts of the *woreda* MSED, it was indicated that the MSEs do not pay tax while their operators are receiving dividends whenever there is revenue.

4.4.4 MSE-related Problems

The studied MSEs bleak prospect for growth and getting graduated may stem from their lack of selling place, poor accounting and financial record keeping, lack of experience sharing from other successful (graduated) enterprises, and at last the disinclination of the members of the MSEs to work together in collaboration with their own fellow members and in partnership with other MSEs. The salience of the latter is stressed by Vandenberg (2006) who suggested that collaboration of the MSEs especially via establishment of Small Business Associations (SBAs) can provide stronger voice for the MSEs to fight drawbacks such as over-regulation, bureaucratic procedures, and corruption and related issues than would be possible by individual enterprises. Such SBAs can provide other kinds of support to their members such as availing information on market opportunities and condition, consolidating social networking, and even serve as a forum for undertaking dialogue for initiating policy reform and implementation (Ibid).

4.4.5 Society-related Problems

Supplementary incentives for the feeble market of the MSEs come up from the flawed perception of the society. The society assumes that the MSEs are excessively privileged at the expense of private businesses. Besides, it considers that the MSEs are mere crew of unskillful and amateurish workforce. Thus, the society is disinterested to buy the products manufactured by the MSEs. Getting rid of this wrong opinion to which the community is stucked calls for an intense public awareness on the matter given that, according to the document by the FMSEDA (2006),

the general public, especially private individuals are predicted as the future potential market for the products of MSEs engaged in metal and wood work.

The above enumerated constraints related to MSEs are experienced in Nigeria (Adeyemi and Aremu: 2011), Benin, Burkina Faso, Niger, and Togo by Roy and Wheeler (2006). The same challenges are also reported in relation to the Ethiopian MSE sector by researchers like Adil (2007), Daniel (2007), Paul and Rahel (2010), Tegegne and Meheret (2010), and Workneh (2007).

4.5 The Livelihoods Outcomes of MSEs

Any intended activities that individuals carry out to build their livelihoods are termed as livelihood strategies (Farrington et al: 2002). As a result, working in MSEs can be regarded as a typical sort of livelihood strategy. The end results of any livelihood strategy are its livelihood outcomes and can be either improved well being or impoverishment (Degefa: 2008).

It is acknowledged that employment allows people to make the money required to purchase goods and services necessary for life (Vandenberg: 2006). The studied MSE have created employment opportunity for significant number of people, who were previously job-less. The increased income or money generated from the MSEs and other sources such as *Iqub* has helped the operators to procure a range of household assets and durables. In comparison to the past, the operators possess more home utensils and durables. Furthermore, the money generated from the same source helped to improve the operator's access to nutritious food, health and education facilities. Nowadays, according to the operators, they have begun to purchase more food in terms of both quality and quantity. They added that their way and type of clothing has been improved after their engagement in these ventures. In not many words, the human capital of the operators has been more enhanced currently than the time before joining the studied MSEs. In addition to this, this activity has also enlarged the operator's opportunity to become trained at various work-related skills. This outcome of working in MSEs is also documented by Vandenberg (2006) who commented that MSEs offer skills and valuable experience for a large number of operators. The contribution of engagement in these business establishments in maintaining local security is also remarkable as long as most of the current operators were unemployed once up on a time, a situation compelling them to be criminals and juvenile delinquents. Apart from the above

desirable outcomes, availing money for starting other income generating activities is the other positive outcome of this livelihood activity.

Employment-based networks and associations such as the ones anchored in MSEs are hosts of enriched social capital (Phillips: 2002). As a result, a robust social interaction, sense of belongingness, mutual trust and collaboration among the members of MSEs are the other clear outcomes of this livelihood activity. Besides, working in the studied MSEs also allowed the operators to approach and know more people, thus again enlarging their social capital. Their engagement in the MSEs has also improved the political capital of the operators in such a way that they have begun to claim their rights, express their ideas and opinion freely and become active participants in various political and social affairs of their locality. Correspondingly, as the operators have work and begun to earn income from their activity by themselves, the degree of their self-confidence has also shown progress than before.

In the past, the operators were not active participants in political affairs of their neighborhoods. Contrary to this previous situation, their engagement in this activity presently has developed the political capacity and capital of the operators. As shown above, their level of participation in various public issues has increased tremendously. Their awareness of different government policies, rules and regulations has helped the operators to exercise and demand their rights, though some of the *woreda* level executives are sometimes not responsive to the claim and appeal made by the MSE operators. It was found that the operators were given frequent trainings on numerous government policies and strategies. As a result of taking part in such and other trainings, the capacity of the operators to freely express their thought and ideas has shown a remarkable improvement than before. Some respondents also indicated that they have begun to exercise their right to get organized in the form of associations for various purposes. The same right is clearly indicated in article 31 of the FDRE Constitution as follows '*every person has the right to freedom of association for any cause or purpose*'. Accordingly, this has helped, especially those operators who were not original members, to join political party of their choice. It is their increased political consciousness that led them to join the political parties, according to few operators interviewed.

It is indicated above that the members of the studied MSEs belong to different socio-economic categories in terms of ethnicity, culture, gender, language, family background, and religion. As

they work in such diversified environment, their capacity to work in culturally complex and multiple situations has increased than it was in the past. The operators stated that their culture of tolerance towards diversities of such and any kind has been boosted-up mainly due to their current activity.

Chapter Five

5. Summary and Recommendations

5.1 Summary

This research was conducted in *woreda* 1 of the *Lideta* sub-city of Addis Ababa city with the prime intent of assessing the overall livelihoods situation of MSE operators engaged in metal and wood work activities. Specifically, the study attempted to identify those environmental and contextual factors that affected the establishment and current operation of MSEs by their owners, to determine the target group's access to and control of various types of capital asset, to assess the role and effect of various institutions, policies and processes on the targeted MSEs, and lastly to assess the livelihood outcomes of MSEs on the beneficiaries. The data generated to meet the above objectives was collected qualitatively through in-depth interviews, key informant interviews, focused group discussion, non-participant observations, and informal conversations. The Sustainable Livelihoods Framework was employed to depict how the current livelihood outcomes of being engaged in MSE business are the end results of continuous interplay between vulnerability context, access to various types of capital assets, and transforming institutions, policies and processes. This chapter of the report is dedicated to present the major findings of research with workable suggestions.

In relation to the wider economic context, it was found that the studied MSEs and their operators were affected and vulnerable to economic shocks such as unemployment and underemployment, price fluctuating, fluctuating income (due to market fluctuation), inflation, increasing price of raw materials and transportation services, fierce competition from private operators and other MSEs hosted in the same cluster and elsewhere in Addis Ababa city, inadequate supply of basic commodities and inputs, and lastly high demand created from population increase. All the above-listed economic vulnerabilities affected the viability of the MSEs, hence livelihoods of the operators. The social context's effect on the studied MSEs was found to be hybrid. On one hand, it was found that engagement in the studied enterprises has resulted in enriched social interaction and networking exploited through mechanisms such as information sharing and exchange, exchanging equipments and tools, borrowing each other, and participating in *Idir* and *Iqub*. The same business was also reported to be a cause of social conflict, disagreement and nagging both

at work place (among fellow operators of the same cooperative) and home (between parents), on the other hand. At the root of this distorted social interaction was a predicament of market shortage. Vulnerability to the environmental context of the operators was addressed from the angle of assessing the existing situations both at home and place of work. The issue of accessibility, tenure security, access to numerous public amenities, and suitability of the location of the dwelling and work place were also dealt. Accordingly, the homes of the operators were reported to be sub-standard, lacking or with inadequate access to utilities and services such as drainage, sewerage, and waste picking. Added to this dilapidated nature of the houses is high tenure insecurity as the houses are rented from the *kebele* administration, a situation giving the right to the latter to evacuate its tenants. The operator's state and sense of insecurity goes deep given the fact that their neighborhoods are situated near to one of the sites where large-scale urban developments are undertaken. This tenure insecurity might have brought lack of interest among the operators to improve their shanty homes. The presence of such poor conditions at home and its immediate surrounding has a negative consequence on the human capital of the operators. The same issue of concern was also reported and observed in relation to the operator's working place and its location. The working shades of the MSEs are made of temporary materials, located far from the main asphalted road, served with poor road infrastructure, on top of being constructed near to a river side. Moreover, the shades are built very near each other. All these are situations making the shades susceptible to risk of fire, theft, flooding, and inaccessibility. Exposure to infectious diseases is a health hazard related with the presence of the river. As far as political context on which the MSEs were established and are operating is concerned, the following politics-related variables are raised to be the ones with encouraging role: the 1995 FDRE constitution that proclaimed a federal order and decentralization, ensured the realization of basic human rights; existence of a government that put in place numerous policies such as free market economy, urban development policy and the resultant micro and small enterprise development strategy with committed political leadership expressed through availing adequate human resources and other resources mainly to the MSE agency, and lastly through providing the MSE sector a 'core process' position in the recently implemented Business Process Reengineering (BPR).

From the above analysis, the economic and environmental contexts on which the MSEs were established and are operating seem to be dominated with factors that impeded the growth of the

enterprises. There is a need to work hard, by all concerned bodies, to avoid if not ease the difficulties arising from these discouraging contexts. Relatively speaking, the role of political and social contexts was positive, though there are issues that need to be improved.

The second objective of this research was to determine the operator's level and access to different kinds of assets. In relation to their financial capital, the absence of pension income and debt, few remittances, and low cash were found among the operators. Additionally, the studied operators accessed credit from both formal sources and institutions mainly *Addis* MFI, whose payback period and interest rate were rated as unfavorable given the market problem of the MSEs and non-formal sources such as borrowing from friends, relatives, co-workers. It was also indicated that the operators have access to formal saving facilities like *Addis* MFI and indigenous saving scheme called *Iqub*. Being literate, having prior work-related skill and experience, their good physical health status, and increased conflict solving skill are some of the promissory aspects raised in relation to the human capital of the operators, while occurrence of mismatch between the delivered trainings and the needs, priorities, and educational level of the operators, short duration of trainings, and finally developing a 'dependent' mentality, lack of commitment and vision and lack of entrepreneurial spirit are some of the issues with negative consequences. Then again, mixed results were identified on the social capital of the operators. The promissory aspects were presence of strong social bond actualized through borrowing each other, exchanging tools and ideas, having meals together, passing holidays together and taking part in bazaars and trade fairs. Lack of partnership and cooperation among the MSEs was a negative feature identified in relation to this capital. The analysis of the physical assets of the operators found out that the urban land on which both the operator's home and working shades are erected is owned by the state, a condition that resulted in an optimistic tenure security for the shades and pessimistic future in relation to the residential dwellings. The poor state of nature of the operator's homes accompanied with increased ownership of household durables and utensils was identified. Similarly, the clustered shades, as a result of their construction from temporary building materials and being located near to a river, are exposed to risks such as fire, flooding, security problem, and theft. On the other hand, the researcher observed a variety of machines, tools, and equipments that helped the operators to manufacture quality and competitive products. The poor road facility culminated in the inaccessibility of the cluster and increased transportation cost. The absence of health institution in close proximity to the cluster is a clear paradox given

the 'dangerous' nature of the activity of the operators. Probably uniquely added to the livelihood asset category of the operators is their enlarged political capital. Most of the contacted operators genuinely informed the researcher that they are members of the ruling party. Being so, according to the operators, has allowed them to easily access government offices, secure more chance to influence political processes as they actively participate in meetings, trainings, elections, rallies, public mobilization and lobbying, in addition to being able to enjoy various supports from the government like market linkage, credit access, etc. Oppositely, one can argue that this high political capital of the operators gets challenged when vital decisions critical to the operators such as area of engagement, mode of organizing to establish MSEs, and place of work are made by government officials.

This research was also aimed to assess the role of various institutions and policies on the studied MSEs. A number of formal political institutions (in this case, EPRDF and its affiliated leagues, forums), governmental executives like sector offices at various levels, commercial enterprises (*Addis* MFI, Commercial bank of Ethiopia *Lideta* Branch, St Mary's University College), non-profit organizations (like Good Neighbors), and informal structures like *Idir* and *Iqub* are some of the identified institutions in relation to the effort of promoting and developing the studied MSEs. The extent of coordination among these institutions was weighted as poor by the operators and key informants. Related to this, lack of awareness and commitment, bureaucratic procedures, inconsistency in policy, strategy and regulation execution, corruption, and discriminatory and unequal treatment are some of the shortcomings observed on the *woreda*-level government sector offices. With regard to the legal and policy framework, those with facilitating and encouraging contribution were the 1995 FDRE constitution(with all its provisions on human rights, federal state arrangement, decentralization), the urban development policy, the micro and small enterprise development strategy, regulations prioritizing MSEs in relation to market linkage, credit access etc. In contradiction with these supportive policies, the collateral requirement, high interest rate, and short pay-back policies adopted by banks and MFIs are of detrimental effect on the development of the MSEs.

While concentrating on the attainment of its pre-sated objectives, this research has also identified and categorized the critical problems of the MSEs in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems

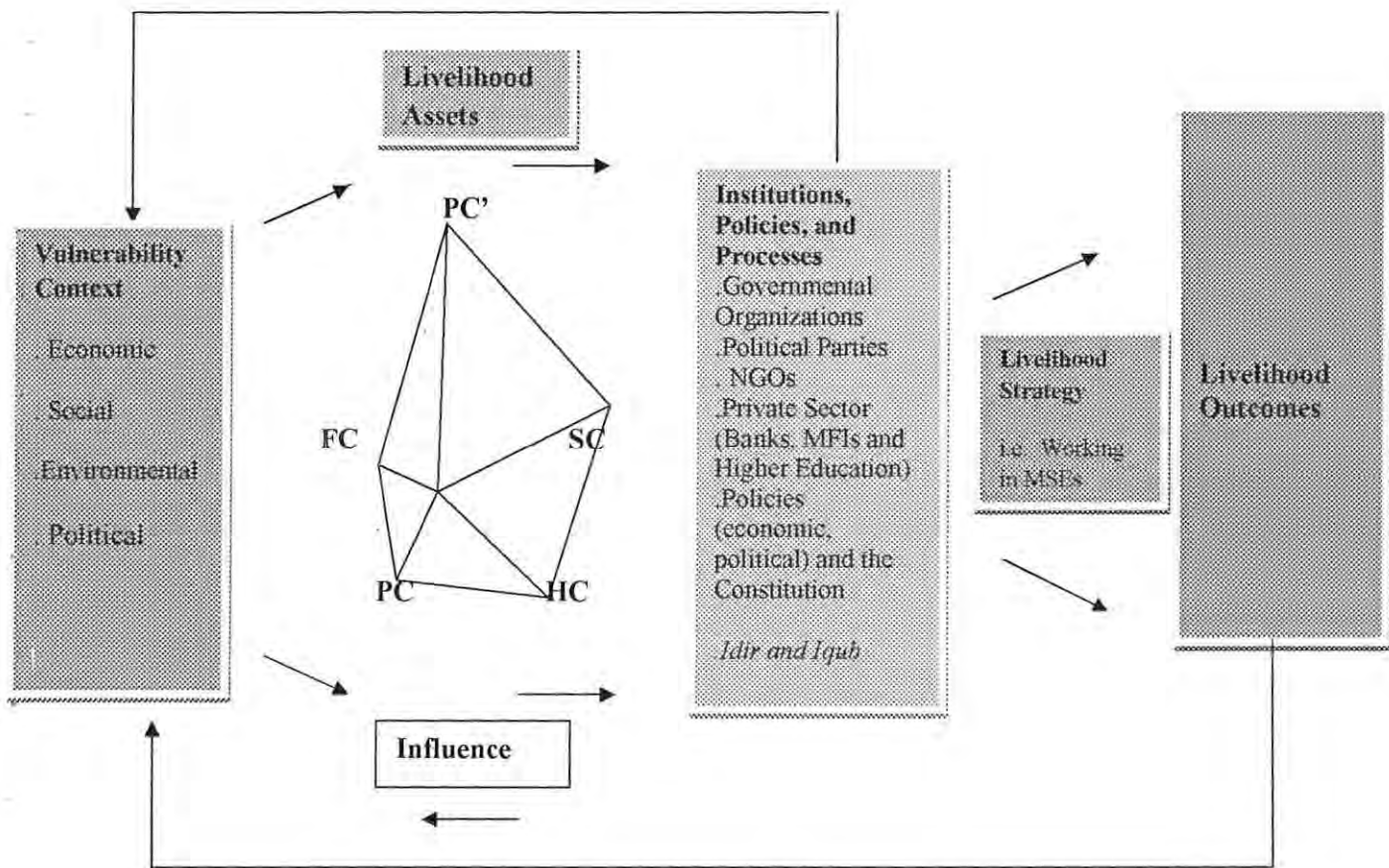
including bureaucratic bottlenecks, weak institutional capacity, lack of awareness and commitment, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up ; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs; and finally society-related problems such as its distorted attitude about the operators themselves and their products.

The following interrelated outcomes are reported to be results of the livelihood strategy pursued by the operators.

- ✓ Increased, in comparison to past, access to income from various sources such as MFI, *Iqub*, borrowing from co-workers due to the employment opportunity created by the MSEs.
- ✓ Increased ownership of household assets and appliances.
- ✓ Better access to nutritious food and health facilities
- ✓ Enlarged level and better access to acquisition of various types of skill such as technical, negotiation and conflict solving, and developed culture of tolerance.
- ✓ Improved local security conditions as the number of juvenile delinquents and crime rates has decreased significantly
- ✓ Availability of funds for other income generating activities
- ✓ Enhanced social capital and skill emerged from and manifested in the form of mutual trust and collaboration, knowing more people, having the ability to work with people with diversified socio-economic backgrounds, developing a culture of tolerance.
- ✓ Increased political capital as the operators begun to demand their rights, express their ideas freely, actively participate in various political activities and affairs, and are more aware of different government policies, strategies, rules and regulations at present than it was the case in the past.

- ✓ Increased self-confidence and sense of self-reliance as the operators are employed and begun to earn income from their employment in the MSEs. This outcome is also due to the fact that the operators possessed different types of skill.

Finally, in the second chapter of this report, the researcher indicated that the analytical tool for depicting the overall livelihoods situation of MSE operators was the SLF. Accordingly, the modified version of SLF can be re-drawn as follows.



The DFID Sustainable Livelihoods Framework: Adapted from Rigg (2007)

Where SC = Social Capital FC = Financial Capital PC' = Political Capital HC = Human Capital PC= Physical Capital

5.2 Recommendations

Based on the findings of the research, the following suggestions are worth mentioning to be addressed:

- ✦ Low market is frequently indicated as the explanatory factor for most problems faced by the studied MSEs. Therefore, it is necessary to solve this deep-rooted problem. Some of the ways of doing so can be:
 - Linking the MSEs with other private contractors working within or around Addis Ababa so that the operators are able to secure market opportunity.
 - Changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run.
 - Providing selling and display places in areas close to the shades.
 - Allowing those MSEs located and operating at *Lideta* sub city to participate in biddings opened in other sub cities of Addis Ababa
- ✦ Improved provision of public infrastructure and facilities such as roads, buses etc.
- ✦ Building the shades from durable materials, avoiding the 'nearness' of one shade to another, and constructing fence around the cluster helps to avoid risks such as flooding, fire, theft, and land sliding. In relation to the river, enforcing strong environmental regulations contributes to protect or minimize the dumping of waste materials on to it.
- ✦ The level of the capacity, awareness and commitment of officials and employees need to be increased. One possible way of doing this can be through trainings. Another can be strengthening the disciplinary, anti-corruption, follow-up and monitoring efforts of government sector offices.
- ✦ Increasing the capacity and skill of the operators through trainings, experience sharing from successful enterprises, and provision of advice and consultancy on the culture of saving. Having and developing the latter (culture of saving) is true, as it is what is

expected from the operators of MSEs by the government in the coming execution years of the GTP (Zemen *Miazia*, 2003 E.C).

- ✦ The flawed attitude of the public needs towards the operators and their products to be changed through extensive awareness creation efforts such as trainings, workshops, symposiums etc.
- ✦ The elimination or easing of the unfavorable policies of banks and MFIs in a way that suits the situation and needs of MSEs must be considered . Moreover, all the supports extended by the government need to be sustainable and lasting long, not implemented in the period before or during elections.
- ✦ Although it is officially claimed by the government that the MSE program was viable and successful in the near past and will be the same in the coming years (MoFED: 2011), the prescence of all the above-discussed problems may made some one to be skeptical of the long-run sustainability of the MSEs. Therefore, the sustainability of these establishments can be a possible agenda of future researchs.

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Appendixes

A. The Structured open-ended Interview

ADDIS ABABA UNIVERSITY

GRADUATE SCHOOL OF DEVELOPMENT STUDIES

CENTER FOR REGIONAL AND LOCAL DEVELOPMENT STUDIES

Dear my Interviewee,

I am a graduate student at the Center for Regional and Local Development Studies of Addis Ababa University. Currently, I am undertaking a research entitled 'THE LIVELIHOODS REALITY OF MICRO AND SMALL ENTERPRISE OPERATORS: EVIDENCES FROM LIDETA SUB CITY, ADDIS ABABA, ETHIOPIA'. The study aims to assess the overall livelihood situation and effect of MSEs on their beneficiaries/owners. To this end, I am approaching and interviewing individuals who are engaged in this activity. You are one of the respondents selected to participate on the study. I confirm you that the information that you share me will be kept confidential and only used for the research purpose. Thank you in advance for your kind cooperation and dedicating your time.

Mulugeta Yohannes Firasew

Time of Start of the Interview _____

Date of Starting the Interview _____

PART ONE: GENERAL QUESTIONS

A. Operator-related Questions

1. Name of the operator (optional): _____

Name of the MSE on which he/ she works _____

2. Sex _____ Age _____

3. Have you ever attended a formal schooling? Yes _____ No _____

3. Educational Level A. Primary School Completed
 B. Secondary School Completed
 C. TVET level
 D. Diploma E. Bachelors Degree

4. Ethnicity _____

5. Marital Status A. Married B. Single C. Divorced

6. If single, condition of parents in terms of

* Family size _____

*Educational level of your Father, Mother, Siblings

*Wellbeing Status in terms of housing, health, income etc

7. If you are married, what is the size of your own family?

8. If you are married, are all your family members living with you? Yes _____ No _____

B.MSE-related Questions

10. What were you doing immediately before starting this business? How much was your average monthly income? How do you compare it with the present level?

11. Did you have any prior work experience relating to this business?

12. If you had prior business experience, who owned that business?

13. When did this business start (Year) _____

14. Who initiated the idea of establishing this business?

15. Did your MSE employ new workers? If yes, what was the number and type of employment? How do you rate the trend in the total number of employees of this MSE i.e. is it increasing or decreasing and why so ?

16. Why did you prefer to start your own business?

17. What were the your most motivating factors to start this business?
18. How much did it cost you to set up the business? (ETB Birr) _____
19. What was your main source of start-up funding?
20. Have you developed, diversified, expanded, and changed your enterprise since establishment? How did you get the skills to diversify and develop your business?
21. Has there been any temporary closure of your MSE since its establishment? If yes, why?
22. Are you aware of government regulations affecting your business such as labor law, tax, safety and health, licensing, trade, others? If yes, have you tried to comply with those regulations? What problems did you face to comply with the regulations?

PART TWO: VULNERABILITY TO CONTEXT

1. Is this business your only means of income?
2. If yes, is the income you generate from it enough for covering all your living expenses?
3. If no, what are the other main sources of income?
4. If no, how important is each of the sources of income?
5. If no, which sources of income are mainly dominated by, men, women and both?
6. If no, is the revenue from a given source used for a particular purpose?
7. Who controls income within a household?
8. Do/ does income from your many/only activities/activity vary through the year periodically?
When will your income increases/decreases and why, and with what effects?
9. What was the rate/effect of the level of unemployment/employment/underemployment when you start this business?
10. What is the rate and effect of the current level of unemployment/employment/underemployment on your venture?
11. What are the effects of inflation, price fluctuations (especially the price control set by government few weeks before) on your business and livelihood?
13. What are/were the other economic factors affected, positively or negatively, your current business and your past decision to be engaged in this activity? From whom?
14. What are/were the other political factors affected, positively or negatively, your current business and your past decision to be engaged in this activity? From whom?

15. Do you/people have/had access to appropriate financial service institutions to enable you/them to invest now or save for the future? Does access to these vary by social group?
16. What major events in the past/present have impact/ed in your activity significantly?
17. In what ways have this impacted you either positively or negatively?
18. How you dealt with it to overcome its effects?
19. How recurrent are these events?
20. How do you evaluate the effect of the location of your work place on your health & activity?
21. How do you evaluate the past/present effect of the trend (increasing or decreasing) in the number of your competitors? What are the root causes of such trend?
22. How do you assess the level of social interaction and relationship among your competitors? Who are your main competitors? What kind of interaction and relationships? How it is manifested? What are its effects?

PART THREE: ASSET PROFILE OF THE BENEFICIARIES

A. Financial Capital

1. Which types of financial organizations exist in your area, both formal and informal?
2. What services do they provide (interest rates, collateral requirements, etc)?
3. Who – which groups or types of people – has access? What prevents others from gaining access?
4. How is your current level of savings and loans?
5. What proportion of your income goes to savings?
6. Do you or any member of your households received remittances or any other financial support from someone elsewhere?
7. Who controls remittance income when it arrives? How is it used? Is it reinvested in your business?
8. How do you express the effect of your business on your saving and credit level?

B. Socio-Political Capital

1. Are you a member of any social grouping (such as political party, leagues, forums, associations, federations)? If yes, what was the effect of these groupings on you?
2. What other sort of social groupings exist within the community and what are their main roles/functions?
3. What sort of socio-economic benefits do men and women derive from these groups?
4. How effective are these groups in meeting members' needs in times of need/crisis?
5. How often do people get support from other sources other than those within their communities? Which are some of these sources?
6. Do you think that your business has created a room for you to have a social interaction with other people? If yes, with whom? How sustainable this relationship is?
7. Do you share and exchange anything with those people living or working near to you?
8. From and How do you access work-related information such as about raw materials, market? What are the related problems, if any?

C. Human Capital

1. How do you express the impact of your activity on your health?
2. Have you taken any training related to your work? Who arranged? About what? And what were the problems observed?
3. How do you express the impact of the training on your work and MSE?
4. Have you faced any health problem (such as illness, injury) that hindered the smooth functioning of your activity?
5. What other skills did you learnt as a result of your engagement in this business?
6. What effect does your working place and location have on your health?
7. In general, how do you evaluate your current and past condition, level and access of health, education, training, and skill?

D. Physical Capital

Housing (Residence)

1. Is your house owned or rented?
2. Does your residence has access to water and sanitation and other facilities? Who provides these facilities? How safe and reliable?

3. How is the adequacy (size) of your shelter?
4. Do you rent out rooms?
5. Do you or one of your family members undertake any other business in your home or around?
If yes, what?
6. Have you improved (maintained) your house? If yes, what was your main source of finance for house improvement?
7. How do you evaluate your level of ownership of household assets before and after involved in this activity? If there is improvement, in which assets?

Housing (Working)

7. Is your working place/shade owned or rented? If rented, how you express the contribution of your business in paying your rent and expanding your activity? If owned, what support did you get from other stakeholders like city administration (at city, sub-city, and *kebele* or *woreda* level), MFIs, or NGOs? What problems did you face? From whom?
8. Does your place/shade has access to water and sanitation and other facilities? Who provides these facilities? How safe and reliable?
9. How is the adequacy (size) of your work place (shade)?
10. Is your work place located in a convenient location?
11. How do express the relevance of urban space to your activity?
12. Is your working space adequate /convenient to your activity?
13. How did you secure your place of working? Who helped/constrained you in so doing? How was the problem overcome?

Social Facilities

11. How do you assess the road infrastructure in terms of availability, accessibility, state of the facility?
12. How do you assess the transport facility and how is its availability, affordability?
13. How do you assess the Schooling facility in your neighborhood in terms of availability, affordability, physical accessibility, relevance, impact on your business? What are schooling-related problems?
14. How do you assess the health facility in your neighborhood in light of availability, affordability, physical accessibility, relevance, and impact on your business? What are health facility-related problems?

15. What tools and equipments do you own (work-related)? What effect do they have on your activity? How were they originally acquired i.e. from your own saving, loan from relatives, friends or MFIs, NGOs?

PART FOUR: TRANSFORMING STRUCTURES AND PROCESSES

A. Institutions or Organizations

1. How you evaluate the support/constraint emanated from political parties (national or local) to be engaged in this business?
2. How do you feel about the encouraging/discouraging role played by state executives functioning at various levels (both political and civil servants) to be engaged in this activity?
3. What was the role (positive or negative) and support of various MFIs, Banks, CSOs, and NGOs on establishing and running your venture?

B. Policies and Processes

1. What are the effects of various policies of government (economic, land, urban development, MSE development strategy) on your effort and decision to establish and run your business?
2. What are the effects of various policies of MFIs and Banks (lending requirements, interest rate, payment period, volume of loan) on your effort and decision to establish and run your business?
3. How do you assess the role played by gender, age and ethnicity in the establishment and operation of your venture?

PART FIVE: PROBLEMS RELATED TO YOUR ACTIVITY

Can you tell me, in a detailed manner, the major bottlenecks that you faced so far in relation to your activity? What solutions you recommend?

PART SIX: LIVELIHOOD OUTCOMES OF YOUR ACTIVITY

Please tell me, thoroughly, the overall impact of engagement in MSEs on your well/ill-being.

Time of End of the Interview _____

Date of Finishing the Interview _____

Interviewer's Name & Signature _____

B. Interview Questions to the Key Informants

ADDIS ABABA UNIVERSITY

GRADUATE SCHOOL OF DEVELOPMENT STUDIES

CENTER FOR REGIONAL AND LOCAL DEVELOPMENT STUDIES

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Mulugeta Yohannes Firasew

General Questions

1. Employee Name (optional): _____
2. Organization _____
3. Department _____
4. Position occupied _____

C. Focused Group Discussion Guide

- Past and presents trend in income, employment, unemployment, price, and competition
- Challenges related to MSEs and solutions
- Possession level, access to , and problems related to different capital assets
- Effect of institutions and policies on MSEs
- Livelihood outcomes of working in MSEs
- Future prospects

D. Socio-Economic Profile of the Respondents

No	Age	Sex	Marital Status	Educational Level	Interviewed via
1	28	Male	Single	10+2	Structured open ended Interview
2	31	Male	Single	12	Structured open ended Interview
3	34	Male	Married	12	Structured open ended Interview
4	31	Male	Married	Diploma	Structured open ended Interview
5	35	Male	Single	12	Structured open ended Interview
6	29	Male	Single	10+2	Structured open ended Interview
7	40	Male	Married	12	Structured open ended Interview
8	32	Male	Single	9	Structured open ended Interview
9	28	Female	Single	10+2	Structured open ended Interview
10	43	Male	Married	8	Structured open ended Interview
11	27	Female	Single	10	Structured open ended Interview
12	27	Male	Single	10+2	Structured open ended Interview
13	31	Male	Single	12	Structured open ended Interview
14	32	Male	Married	12	Structured open ended Interview
15	30	Male	Single	Diploma	Structured open ended Interview

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16	29	Male	Single	10+2	Structured open
17	33	Male	Single	11	Structured open ended Interview
18	25	Male	Single	10+1	Structured open ended Interview
19	27	Male	Single	10+1	Structured open ended Interview
20	35	Male	Married	12	Structured open ended Interview
21	38	Female	Married	BA	Key Informant Interview
22	28	Male	Single	BSC	Key Informant Interview
23	30	Male	Single	Diploma	Key Informant Interview
24	27	Female	Single	BA	Key Informant Interview

Declaration

I, the undersigned, declare that this research is my original work and has not been presented for a degree in any university, and that all the source materials used for the thesis have been duly acknowledged.

Mulugeta Yohanes Firasew

Signature _____

Date _____

This research has been submitted for examination with my approval as a university supervisor.

Yirgalem Mahitame (PhD)

Date _____