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ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF SOCIAL SCIENCE

**DEPARTMENT OF GEOGRAPHY AND ENVIRONMENTAL
STUDIES**

**Achievements and Challenges of Micro and Small Enterprises of
Addis Ababa: A case study of Yeka sub city**

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Ababa: A case study of Yeka sub city**

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Declaration

I declare that achievement and challenges of micro and small enterprise of Addis Ababa: a case study of Yeka sub city is my own work and that all sources that I have used or quoted have been indicated and acknowledged by means of complete references and that this work has not been submitted before for any other degree at any other institution.

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Acronyms

BoFED: Bureau of Finance and Economic Development

CSA: Central Statistical Authority

FEDB: Finance and Economic Development Bureau

IJBM: International Journal of Business Management

ILO: International Labor organization

MDG: Millennium Development Goal

MFI: Micro Finance Institution

MSE: Micro and Small Enterprises

MUDC: Ministry of Urban Development and Construction

SSA: Sub Saharan Africa

UN: United Nation

Amharic words

Iqub: traditional system of saving money

Woreda: District in a region under zone

Abstracts

In many part of developing countries, micro and small enterprises are extremely expanding and absorbing a large number of urban labor force.

The study has focused on achievement and challenges of micro and small enterprises in Yeka sub city of Addis Ababa city Administration. In order to attain the objectives of the study, a questionnaire survey covering a total of 68 enterprises conducted on five Woredas (Woreda 2,5,7,9 and 11) of Yeka sub city. To obtain representatives samples from these woredas and sub sectors of MSEs stratified sampling method are employed. The information gathered through questionnaires was analyzed by descriptive statistic such as percentage, pie chart, and cross tabulation.

The result of the study revealed that micro and small enterprises have created job opportunities for large number of urban unemployment especially for young and adult age group of the society. In this case there is a variation among the sectors in creating job opportunity. The construction sectors absorb large number of labor force than the other sectors.

On the contrary MSE faced a number of challenges such as shortage of capital, market competition, inadequate plot of land, and inadequate provision of credit are among the major one.

Finally to attain the intended objectives of MSE program in the study area carefully designed intervention like better access to credit, facilitating and strengthening market linkage among the MSE or other medium and large enterprises, provision of better infrastructures need to be conceded.

CHAPTER ONE

1. Introduction

1.1 Back ground

In recent years rapid population growth becomes a serious problem instead of being a potential for development in less developing countries like Ethiopia. With such a rapid increase in population size, Ethiopia's economy finds it difficult to meet the necessities of its people. This is due to unbalanced relationship between rapid population growth and economic growth. Economic development is far behind from the rate at which the population of the country is increasing. As a result large number of people especially young age group and women become unemployed. This has an adverse impact on socioeconomic condition of the society. This can be manifested by the occurrence of poverty, unemployment, low level of social services, poor living standard etc .These problems are critical issue for urban dwellers. Improving these social and economic issues are the major concern of many countries (Gashaw et al 2003).

Ethiopia has one of the highest unemployment rates worldwide. Currently the urban unemployment stands at 25 % (Minilik and Chinnan, 2012).However, the rate of unemployment in Addis Ababa is estimated to be (27%) which is even higher than the national unemployment rate (CSA, 2009).

Putting this fact into consideration different countries including Ethiopia adopt and formulated various strategies to improve the existing socioeconomic condition of the urban poor. One of these strategies is the establishment of micro and small enterprises. The government of Ethiopia launched a national micro and small enterprises development strategy in 1997. This strategy was formulated based on the experience of different countries like India, Japan and Malaysia (Konjit, 2011).

Micro and small enterprises play a vital role in every economy in less developing and more developed countries. For instance 50% of the

manufacturing products in Japan are produced by the MSE sector. On the other hand, when we look at the MSE in Ethiopia from 1998 -2002 the sector created a job opportunity for about 1.5 million people and 4 billion birr was provided for the operators in the sector in credit and 1.2 million people have got a training access (MUDC, 2012).

The socio economic profile of Addis Ababa revealed that from 2000 to 2004 EC 1,461 million birr was granted for the sector in credit. From 2001-2004 E.C a total of 393,859 new job opportunities was created. The highest 134,611 was recorded in 2001. But the total number of operators who benefited from the sector from 1996 to 2004 was about 854,911 (BoFED, 2013). With regard to financial support, it was facilitated and provided 491,586,029 birr for 29,102 operators between 1996 and 2000. Likewise in the study area 2832 enterprises have been established and have created permanent and temporal job opportunities for 37,189 operators (Yeka MSE office, 2014).

Thus this clearly manifests that how much the sector plays its role in resolving the problem of unemployment and in consequence improving the socio-economic conditions of the residents of Addis Ababa and the entire urban area of the country.

1.2 Statement of the problem

The Ethiopian government gives special attention for the development and promotion of micro and small enterprises to overcome unemployment, poverty and other socioeconomic condition of the urban poor. The development of this sector is vital not only to generate employment opportunity and reduce poverty but also it is the base for medium and large enterprises. The sector may serve as springboard for medium enterprises and gradually grow into large enterprise. According to Diriba (2013) MSE have a great value in Ethiopian socio-economic growth because they require small capital, promote intersect oral linkages base for medium and large scale enterprises which in turn increases domestic saving and investment.

At current condition of Ethiopia the importance of micro and small enterprises is very immense. This is because MSEs absorb large number of the unemployed than medium and large enterprises. The logic behind is that speedy growth in the labor and youth population is that a decreasing rate of labor absorption of modern and large enterprises.

As other urban center of Ethiopia, Addis Ababa also shares the problem of unemployment poverty and socioeconomic problem. These problems are aggravated by rural-urban migration from nearby areas of Addis Ababa. This creates a huge pressure on urban dwellers.

Even though the contribution of MSE for urban youth and women is undeniable, there are many problems that are related to the sectors. Lacks of inputs, capital, and corruption are few of them. However the types and extent of these problems are varying from region to region, city to city and even from woreda to woreda. It is obvious that the intervention of the government in the sector very essential. Without government support (starting from formulating policy to facilitating favorable working environment), it is difficult to accomplish the intended target for which the enterprises are established. Therefore, the activity or inventiveness of the nearest executive bodies which work in collaboration with MSEs operators are very indispensable for achievements of MSE. Otherwise there might be a failure of MSE. Some entrepreneurs prefer some woredas than the other on the bases of support and facilitation of nearest MSE agency.

Therefore this study try to assess the achievement of MSEs from the perspectives of job opportunity created by sectors and subsectors, stage of development of enterprises (from micro level to small or from small scale to medium) and on the other hand identifying the critical problem facing MSEs in the study area.

1.3 Objective of the study

The general objective of the study is to analyze the achievement and the challenge of micro and small enterprise in Yeka sub city of Addis Ababa.

The specific objectives of the study are to:

- assess the socio-demographic characteristics of entrepreneurs in the study area

- assess the employment opportunity being created by sub sectors of micro and small enterprises in the study area and
- analyzes the opportunity being created to transform to medium enterprises
- analyses constraints related to finance, marketing, infrastructure

1.4 Research Questions

This study attempts to answer the following questions

- How the socio demographic characteristics of entrepreneurs are explained?
- What are the role of MSEs in creating job opportunity by sectors and sub sectors?
- What are role of MSE in transforming the sector to medium enterprises?
- What are the constraints in relation finance, market, and infrastructure?

1.5 Scope the study

The scope of the study is limited to a manageable size because of time and resource constraints. Therefore, the population for the study is limited to active participants of micro and small enterprises registered in Addis Ababa specifically Yeka sub city. In this case construction, manufacturing, trade and services and urban agriculture sectors are the focus the study.

1.6 Limitation of the study

The limitation the study is unwillingness of some of the respondents of micro and small enterprises owners /operators and institutions to fill the questionnaires and interview. Furthermore the financial limitation hindered the researcher to investigate further areas in the study area.

1.7 Significance of the study

The findings of this study are expected to be significant for the following reasons. Government and other parties involved in the promotion of the development of SMEs may use the findings of the study as additional information to address the problems uncovered in the development of SMEs. Academics, consultants, and government agencies may therefore use the study as a stepping-stone for further study in the area at an advanced level. The result of the study may serve as an input for planning and policy formulation. The findings may also be considered as important additions to the existing knowledge and literature in the area for the public at large.

Chapter Two

2. Research Methodology and description of the study area

2.1 Back ground information of Addis Ababa and study area

2.1.1 Geographical location and area

Addis Ababa lies 9° 01'48" N latitude and 38°44'24' E longitude. The Yeka sub city is located in the north east of Addis Ababa at 9°01'00" and 9°06'00"N and 38°46'00" and 38°53'00"E. The city is located at the heart of the country at an altitude ranging from 2100 meter at Akaki in south to 3000 meter at Entoto hill in the north. The average altitude is about 2324 meter. The city occupies a total area of 540 km² (BoFED, 2013).

The city administration is divided into ten sub cities. From these sub cities the focus of the study area is Yeka sub city administration. The sub city is located in the north east of Addis Ababa. The total area of the sub city is 85.98km², which is the third largest sub city next to Bole (122.08 km²) and Akaki Kality (118.08 km²).In terms of density 4486.8 persons inhabit per square kilometer (FEDB,2010).

2.1.2 Climate of Addis Ababa

Addis Ababa has a humid subtropical mild summer climate that is mild with dry winter, mild rainy season and moderate seasonality. The mean temperature is 15.9 c°. Average annual rainfall is 1,184mm, of which about 80% falls between June and September, the months of July and August being the wettest. The hottest and driest months are usually April and May ([www.AA:climate](#) zone)

2.1.3 Population size and distribution

According to Addis Ababa Bureau of Finance and Economic Development the total population of Addis Ababa was estimated to 3,048,631 of whom 1,595,968 were female and the rest 1,452,663 were male. This is 3.71% of Ethiopian population of 84.3 million. The population size of sub cities varies

over space. Thus Kolfe Keranyo (15.66%), Yeka (12.65%), Nifas Silk (11.55%) and Bole (11.28%) have the largest share of population of the city. The remaining seven sub cities contribute the smallest share for the city. The rate of population growth of Addis Ababa is about 2.1% (BoFED, 2013).

In the city there is a wide gap of wealth disparity between the poor and rich. Economically dependent population was estimated to be 37.4%. Unemployment rate of the city has been decreasing from time to time hence the rate in 2003 was 32% and in 2009 declined to 27% (BoFED,2013).

Map

2.2 Research Methodology

2.2.1 Method of data collection

To obtain relevant data from different sources multiple data gathering techniques have been employed. Therefore, questionnaires, and personal observations were employed during data gathering stage. The questionnaires were distributed and collected data from micro and small enterprise's operators of the four sectors in the Yeka sub city. In addition, an interview was held with micro and small enterprises development agent officers.

2.2.2 Source of Data

Primary data

Both the qualitative and quantitative data were collected through structured questionnaire (both close and open ended), personal observation, and interview. The questionnaires were distributed to MSE operators of different sectors of selected woredas in the study area. In addition to this an interview was conducted with MSE development bureau and MSE developmental agencies. There was also a personal observation.

Secondary data

Secondary data obtained from Yeka sub city Micro and small enterprises development agency. Furthermore previously collected information or surveys were examined and taken into consideration. Studies conducted by governmental institutions, *Woreda* office documents (e.g *Woreda* Finance Reports) were used accordingly.

2.2.3 Research design

A case study design is used in the study. The case study method allows investigator to retain the holistic and meaningful characteristics such as organizational and managerial processes, and the maturation of enterprises.

2.2.4 Sampling frame and Procedures of sample size selection

To get representative samples the researcher adopts both random and non random sampling method. Five woredas are selected from 13 woredas of Yeka sub city using a simple random sampling technique. Stratified sampling method is used for grouping all the existing enterprises in the five woredas by sector and sub-sectors. The numbers and types of MSEs from different sub-

sectors are purposively determined in order to get representatives of each sub-sector and assess the overall achievement and constraints of micro and small enterprises.

The total numbers of enterprises in the four sectors (manufacture, trade and service, construction, urban agriculture) in the study area are about 680. Based on major sector, the population is classified into four groups. Thus the four strata with their representative sampling frame are arranged. Finally approximately 10% of the respondents from each stratum were selected proportionally as sample size. Hence the total sample size is found to be 68.

Table 1: Sample size from major sector of MSE and Woredas

Sub sector of MSE	Woredas											
	W 2		W 5		W 7		W 9		W 11		Total	
	SF	SS	SF	SS	SF	SS	SF	SS	SF	SS	SF	SS
Construction	30	3	60	6	30	3	40	4	80	8	240	24
Manufacturing	10	1	50	5	110	11	10	1	10	1	190	19
Trade and service	40	4	20	2	30	3	30	3	30	3	150	15
Urban agriculture	20	2	10	1	20	2	20	2	30	3	100	10
Total	100	10	140	14	190	19	100	10	150	15	680	68

* SF=sample frame, **SS=Sample size (10% of sample frame)

2.2.5 Method of data Analysis

The process of data analysis is carried out with the help of SPSS. Descriptive statistics such as frequencies, percentage, graph, pie chart, and ratio and cross tabulation are used. Descriptive statistical methods of analysis have been employed to analyze the data collected through survey. Major characteristics of enterprise owners and employees have been described. Analysis has also

focused on attempting to identify relationships between variables especially between key variables such as experience verses performance of enterprises.

Chapter three

3. Literature review

3. 1. Definition of Micro and Small Enterprise

A definition forwarded for MSE differs from country to country, depending on the stages of economic development and population. In USA and Europe MSE defined on the bases of number of employment and turnover. European Commission and Organization for Economic Cooperation and Development defines MSE as having below 250 employees (Habtamu, 2010).

In developing countries the definition is a little bit different from developed nations. For instance, in Tanzania to be MSE the major variables are level of employment and capital investment; in Zambia annual revenue and capital investment are major requirement. Likewise the definition given to MSE in Ethiopia includes the variables such as employment, capital investment, production capacity, level of technology and sub sector (World Bank, 2010)

According to Yordanos (2006:16) MSEs are defined based on size of capital and level of automation as stated below.

“Micro enterprises are those small enterprises with a paid up capital of not exceeding birr 20,000 excluding high tech consultancy firms and other high tech establishments.”

“Small Enterprises are those business enterprises with a paid-up capital of above 20,000 and not exceeding birr 500,000, and excluding high tech and other high tech establishments.”

Konjit (2011:6) summarized the difference between micro and small enterprises based on sub sector, employment and capital investment as shown in table below.

Table 2 Difference between micro and small enterprises

SN	Enterprise	Sector	hired labor	Capital
1.	Micro	Industry	≤ 5	≤ birr100, 000.00
		Service	≤5	≤birr 50,000.00
2.	Small	Industry	6-30	≤ birr1, 500,000.00
		Service	6-30	≤birr 500,000.00

Source: Konjit, 2011:6

In general there is no uniform definition given for MSE .The stage of development of the country or region and population are the major factors to be considered.

3.2 Theoretical Approaches on the Nature of Micro and Small Enterprises

In this part Different theoretical approaches are included to explain the nature development and of micro and small enterprise. The presences of different theoretical approaches concerning MSE indicate that there is no uniform and individual approach in the sector. Thus some of major models are outlined as follow:

The labor surplus theory

This theory argued that the motivating force behind MSE development is excess labor supply, which cannot be absorbed in the public sector or large private enterprises and is forced into MSEs in spite of poor pay and low productivity. The MSE sector develops in response to an increase in unemployment, and people who are unable to find employment in the formal sector prefer to join this sector. MSEs are expected to grow in periods of crisis, when the formal

sector contracts or grows too slowly to absorb the labor force (Christopher et al, 2006).

One implication of the labor surplus theory is that deagrarianisation, which relates the development of rural non-agricultural activities to the rural surplus labor, which, in turn, either supplements agricultural production with nonagricultural activities or migrants to the urban areas (Bryceson and Jamal, 1997).

The output-demand theory

This theory assumes that a precondition for the development of MSEs is that there is a market for their products and services. Therefore, the MSE sector will have a tendency to develop a cyclical relationship with the economy as a whole. But MSEs will also develop in competition with large enterprises in the formal sector, and their development will be guarded by formal sector monopolies. Structural amendment and other policies that bound such monopolies, and attempt to create more competition, will therefore be advantageous to the MSEs, because this may allow them to capture market shares from the large enterprises. Moreover a modified string of the output-demand theory links MSEs and the long-run development of the rural agrarian economy in an anti-cyclical relationship, to the loss of agricultural production (Christopher et al, 2006).

The firm growth theory

According to this theory, as a result of industrialization and economic growth, MSEs are likely to vanish and be replaced by modern large-scale industry. This theory has, however, been shown to be mistaken in the sense that MSEs do not normally compete directly with large enterprises; rather, they often tend to remain micro and small, co-existing with large multi-national companies (Ryan, 2005).

The Learning theory

A learning theory proposes managerial efficiency and learning by doing as key factors that determine firm growth. According to this model the potential entrants are assumed to know the mean and standard deviation of the costs of all firms but not of their own. Firms learn about their efficiency level after entry and update their prior expectations through experience. Those experiencing high cost decide to exit but those with better efficiency tend to survive and grow. The model also forecasts that firm growth is inversely related to size and age. This is because as firm ages and grows becomes more confident about its costs then the variance and mean of its growth rate should decrease (Mulu, 2007)

According to Minilik and Chinan (2012) learning theory has two sub divisions. These are passive learning and active learning model. In the passive learning model, a firm enters a market without knowing its own potential growth. Only after entry does the firms begin to learn about the distribution of its own profitability based on information from recognized profits. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. As a firm ages increase, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more feasible growth rates. In the active learning model, a firm explores its economic environment actively and invests to enhance its growth under competitive pressure from both within and outside the firm. The potential and actual growth changes overtime in response to the outcomes of the firm's own investment, and those of other actors in the same market. This model reveals, owners or managers could raise their efficiency through formal education and training that increases their endowments. Entrepreneurs or managers with higher formal education, work experience and training would therefore be expected to grow faster.

Organizational development approaches

The growth of an enterprise is assimilated to the life body, and the life cycle theory thought that as the life body would go through the life course from born, growth to death, the enterprise would also experience the process from generation, growth, aging and death (IJBM, 2009). The stages of development of SME categorized into four i.e. formation, early growth, expansion and stability (Habtamu,2010).The stage model comprising the biological-like phases of courtship, infancy, go-go, adolescence, prime, and stable. The Company is viewed as being similar to a living organism, going through normal struggles and difficulties. This theory states that a company learns to deal with these intermediary problems or it develops an 'abnormal disease' which discourage growth. The other assumption in this model is that what management of SME does or does not do with respect to current problems push the evolution to the next stage (Lidia,2006). They argue that greater knowledge of how SMEs involve and the major obstacles faced in various life cycle stages is strongly needed to fully understand their developmental processes and the types of assistance for their survival and growth (Habtamu, 2010).Companies progress through the life cycle by adopting the correct actions at the right times to solve the prevailing problems before moving onto the next stage (Lidia, 2006).

3.3. Characteristics of micro and small enterprises

As Robert et al (1985) easy of entry, reliance on local resource, family ownership, small scale operation, labor intensive, adopted technology and competitive market are among the major characteristics of MSE.

Similarly Tsegereda (2002) outlined the common characteristics of SME like small scale operation, labor intensive mode of production, low fixed cost, reliance on family labor, use personal and informal source of credit, and lack of wage employment. Furthermore, some of the major distinguishing differences between large and small enterprises are listed as follow.

Table 3: Major difference between large and small enterprises

characters tics	Large scale business	Small scale business
technology	Capital intensive	Labor intensive
management	Bureaucratic	Family based
capital	Abundant	scarce
Work hour	Regular	irregular
Financial service	Bank	Personal, informal
market	Often export	Rarely export
inventories	Large	small

Source: Tsigereda (2002:22)

In addition to the above major features of SMEs are providing job opportunity for the urban poor and increasing the income of the poor (Bereket, 2010)

3.4. Socioeconomic importance of micro and small enterprises

The critical social and economic importance of MSE is undeniable. Throughout the world they are considered to be the backbone of healthy economies. Their growth is a fundamental component of economic development. In many countries they comprise more than 40% of business and generally serve as the largest engine of job growth. In developing and transition economies MSEs often account for 20-90% of employment (Ruth et al, 2013).

According Yordanos (2006) 60% of the Addis Ababa dwellers are directly or indirectly benefits from MSEs. The average monthly income of half of the population of the city is around 340 birr while the vast majority 80% of Addis Ababa inhabitant subsists below poverty threshold. The employment crisis in Addis Ababa also is severing. More than one third of the workforce was seeking work.

The Ethiopian government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment

creation and private sector development. Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. These enterprises also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage earning opportunities for the poor, while raising national income (Minilik and Chinnan, 2012).

In developing countries the informal sector is the major providers of urban job. For instance, 50% in India, 45% in Indonesia, 60% in Pakistan, 55% in Argentina, 56% Brazil, 40% in Kenya, and 80% in Ghana (Bereket, 2010). Moreover the contribution of MSE to GDP in certain African countries like Tanzania, South Africa, Uganda, Egypt and Morocco are 30%, 56%, 25%, 54%, and 48% respectively (Ruth et al, 2013).

The other socioeconomic problem of most developing countries is poverty. Different kind of definition can be forwarded for the concept of poverty.

“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 (Paul, 2006:8).”

According to ILO report of 2001, the level of poverty in sub Saharan countries was 46.5%, which is the highest of the world, and the nation states are intended to reduce this value to 22.3% by 2015 to meet the MDG.

One of the MDG goals is poverty reduction through small enterprises. The major concern of world summit in Copenhagen in 1995 and New York in 2000 was the political will of different nation for reduction of poverty. The

importance of MSE for employment creation in poor countries in turn transformed into medium sized enterprise was the core issue (Paul, 2006).

From this perspective, it has been understood that MSEs play an important role in the economic process of developing countries. The entrepreneurs in MSE do not only create income for their household and families, but they generate income and employment opportunity for their apprentices and workers leading to bottom up transition out of poverty for entrepreneurs and workers (Yoseph, 2010).

3.5. Challenges of Micro and small enterprises

Although MSEs have much importance in different economic sectors, a number of serious constraints have hampered their role as expected. As a result different types of challenges in the sector restricted them to making low quality products for low return in the market. The major factors account for the poor performance of these businesses stated as follows.

3.5.1 Financial problem

According to Minilik and Chinnan (2012) MSEs have limited access to formal credit and depend on informal financial markets which were bounded by limited financial capacity and high interest. Sekitoleko (2008) point out a financial constraint to the growth of small scale business like lack of working capital, high interest payment, lack of financial control, and corruption are crucial factors. Besides these factors they have no worth to be pledged for collateral requirements for financial institutions especially banks.

According to Zeleke (2009), the majority of MSMEs in countries such as Ethiopia operate at under capacity due to lack of credit or over-regulation. This problem has been aggravated by the demand for collateral by commercial banks as a prerequisite for the approval of loan applications. Accordingly only 0.2% of small-scale operators were given loans by the Commercial Bank of Ethiopia at their start-up stage while 45% of them were supported by own

savings, 24% were supported by friends, and 20% were supported by relatives only 0.8% of operators raised finance from micro finance institutions.

3.5.2 Problems related to skill

Low level of formal education characterizes micro and small enterprises. Most entrepreneurs in this sector also lack vocational training. They use skill acquired through practices, by serving apprentices or passed down in the family (Robert et al,1985).As a result MSEs in developing countries are not competitive in global economy. To survive international competition MSEs require the management skill and production expertise to be able to match product quality requirement and scale up quickly (UN, 2008). Lack of specialized skills leads micro enterprises to become concentrated in similar activities which in turn lead to market saturation (Tsegereda, 2002).

Efficient managerial and technical skills are critical for the sustained growth and development of small businesses and enterprises in Ethiopia. The lack managerial skill is a serious threat to the continued survival and profitability of small businesses in developing economies. As a result, economic activities are conducted by managers with no managerial skills, lack the ability to prioritize objectives and utilize scarce resources optimally. Hence, managerial efficiency is a key ingredient of long-term survival and profitability in small businesses (Zelege,2009).

3.5.3 Problem related to market

The other serious problem of micro and small enterprises are the problem related to marketing. They faced the acute problem of marketing for their product. The problems are from such factors as small stock, lack of standardized products, inadequate market knowledge, and competition from technically more efficient units (Sekitoleko, 2008).

Marketing is an intuitive approach that exists among small firms. Marketing activity is founded largely on traditional practices and experiences. Any

attempt to formulating marketing plan using recognized marketing concept would seem to be non-existent in newly established firms. Small business marketing is entirely dependent on the depth of experience and knowledge of owners/managers. Information about market and customers is crucial for managerial decision. Due to lack of resources and expertise, many small firms do not conduct marketing research, keep records, make follow up on their customers and the study customers' characteristics and preference (Habtamu, 2010).

In addition to the aforementioned challenges of micro and small enterprises the enterprises attitude towards MSE like corruption, misutilization of government support, depend on government market are among the challenges in the sectors(Konjit,2010).

Small businesses and enterprises in Ethiopia are generally characterized by an acute shortage of finance, lack of technical skills, lack of training opportunities, shortage of raw materials, poor infrastructure and over-tax. Lack of access to finance is the most influential factor from among all adverse factors hindering the growth and development of the MSME sector in Ethiopia (Zelege,2009).

3.6. The policy Environment

Interventions may be delivered as programs or consist of certain policy interventions. Programmatic interventions targeting MSEs may include interventions to improve access to finance through the provision of credit, advisory services technical vocational education and training (TVET) and business skills training, while policy interventions focus on improving the framework conditions for MSEs and may involve labor market regulations, the instauration and enforcement of property rights, to mention just a few (IJB,2009).

MSE development program in Ethiopia was designed in 2005.The program is premeditated as a component of the urban industrial development package of the country. It is designed to support the development and expansion of the

sector and to make urban areas part of industrial development package and hence reduce urban poverty and unemployment in meaningful manner (Yoseph, 2010).

Thus the role of the state for the establishment and growth of MSE is very essential. The intervention of the state in the sector can be provision of credit, appropriate technologies, and technical assistance on both the demand and supply side (Tsigereda, 2002).

As Konjit (2011) stated the support of the government depend up on the importance of the sector in the economy. Hence the growth oriented sectors such as manufacturing, construction, trade and service, urban agriculture are selected for maximum support and the rest non-selected sectors will get minimum support.

3.7. The Microfinance and MSE

Since the mid 1990s, microfinance program and institutions have become an increasingly important component of strategies to promote MSE development in developing countries, and specifically to reduce poverty (Christopher et al, 2006). Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Asmamaw, 2014)

The main features distinguishing micro financing from mainstream financial institutions are; first the granting of smaller loans, averaging US \$100, although this varies by country. Second, poor women tend to be the primary market for MFI loans whereas mainstream financial institutions often avoid lending to the poor. Third, MFIs encourage their clients to start income generating activities and put off use of loans for personal consumption. Fourth, applicants for micro loans are not required ordinarily to have tangible collateral and finally, savings tend to be a precondition for accessing microcredit,

whereas this is not necessarily the case for mainstream financial institutions (Christopher et al, 2006)

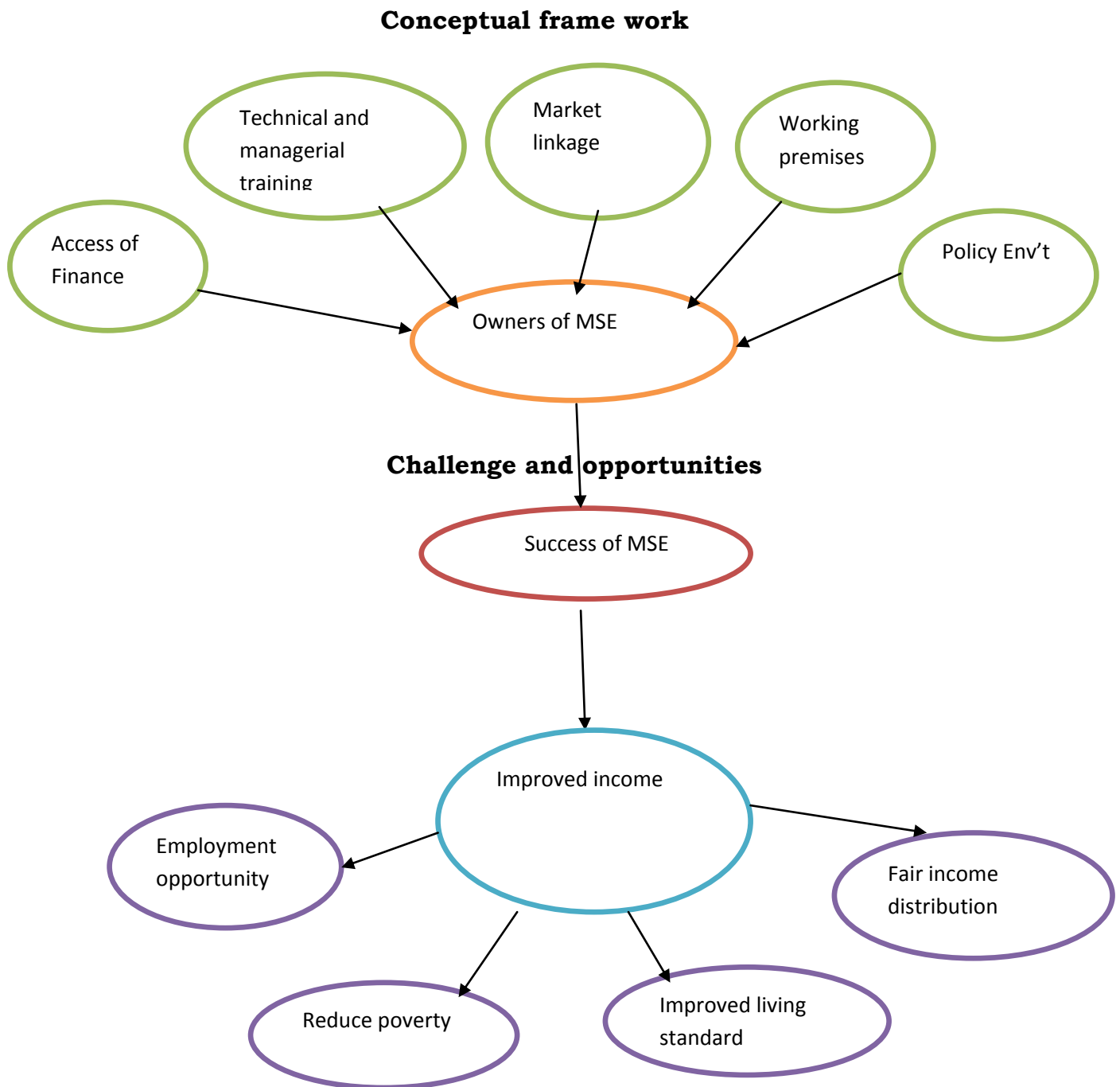


Figure 1: challenges and opportunities for the success of MSE

Chapter Four

4. Data Analysis, Interpretation and Findings

This section discusses the results of the whole survey using the survey tools presented in preceding sections of the report. These, among others, comprise the socioeconomic and demographic characteristics of the surveyed MSEs, profile of enterprises, types of supports, employment opportunity & their sectoral distributions, along with the challenges of MSE were analyzed.

4.1 Demographic characteristics of sample respondents

This part of discussion tries to provide a general characteristic of micro and small enterprises which is obtained from the responses of current survey. As a result the variables to be considered in this section are ownership, employment status, age, level of education and experiences of respondents.

4.1.1 Age of owners/operators

Table 4 shows that the largest proportion (30.9%) of owners /operators are found between 36-40 age groups and the smallest proportion (4.4%) are between 20-25 and above 45 age group. Those who are between 26- 30 and 31-35 age group accounted 25% and 26.5% respectively. This might indicate that the majority of young and adult age group of the population is benefited from the sector.

Table 4: Age of respondent

Age group	Frequency	Percent
20-25	3	4.4
26-30	17	25.0
31-35	18	26.5
36-40	21	30.9
41-45	6	8.8
Above 45	3	4.4
Total	68	100.0

Source: Own survey (2014)

4.1.2 Sex composition

As indicated in the below table, about 60.3% of micro and small enterprises in the study area are owned/managed by males whereas the remaining 39.7% of the enterprises are administered by females. This shows that the participation of the women in the sector is lower than men. Therefore the responsible governmental body such as women and youth affairs of Addis Ababa, Addis Ababa communication bureau and other organization who work in collaboration with MSE exert more effort to upgrade their participation in the sector so as to improve the socioeconomic status of women.

Table 5: Sex of enterprises owner/operators

Sex	Frequency	Percent
Male	41	60.3
Female	27	39.7
Total	68	100.0

Source: Own survey

4.1.3 Educational status of enterprise owners

When we observe the educational status of the owners, 32.4% have accomplished secondary education, 30.9% them have first degree 10.3% of them have diploma and 19.1% of them attended primary level while the rest represent 7.4% of the respondents can read and write.(table 6)

Table 6: Educational status of owner

Level of education	Frequency	Percent
Read and Write	5	7.4
Primary level	13	19.1
Secondary level	22	32.4
Diploma from TVET	7	10.3
Degree	21	30.9
Total	68	100

Source: own survey (2014)

4.1.4 Birth place of enterprises' owner/managers

As can be seen from the following pie chart, the birth place of majority of enterprises owner or managers (55.9%) are outside of Addis Ababa and the remaining 44.1% them are born in Addis Ababa. This indicates that those who are born outside of Addis Ababa participate in the sector than those who are born in Addis Ababa. Therefore the communication bureau of Addis Ababa which work in collaboration with MSE agency work on awareness creation so as to increase the involvement of the dwellers in the sector.

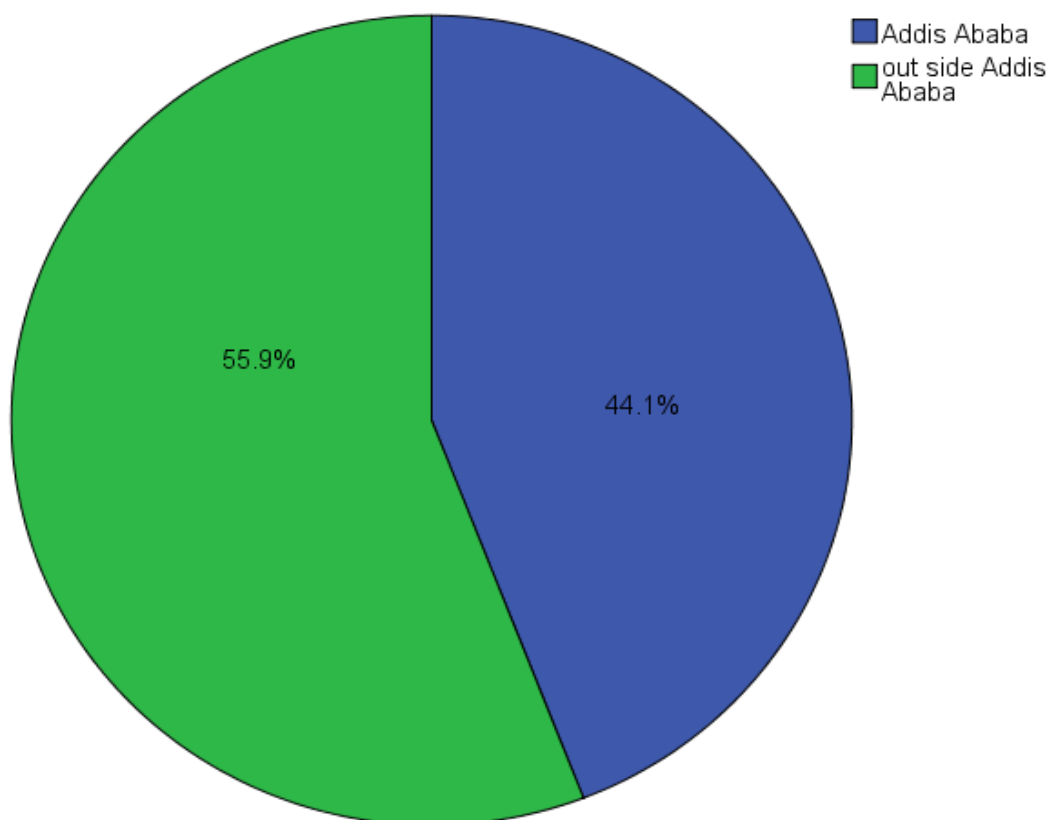


Figure 2: Birth place of owners of enterprises

4.1.5 Marital status of owners and house hold members

The marital status of the greater part of enterprises' owner and managers are single which comprises 52.4% and 45.5% them are married and their corresponding family size ranges from 3-4 person. This might illustrate that more people depend on those who are not married.

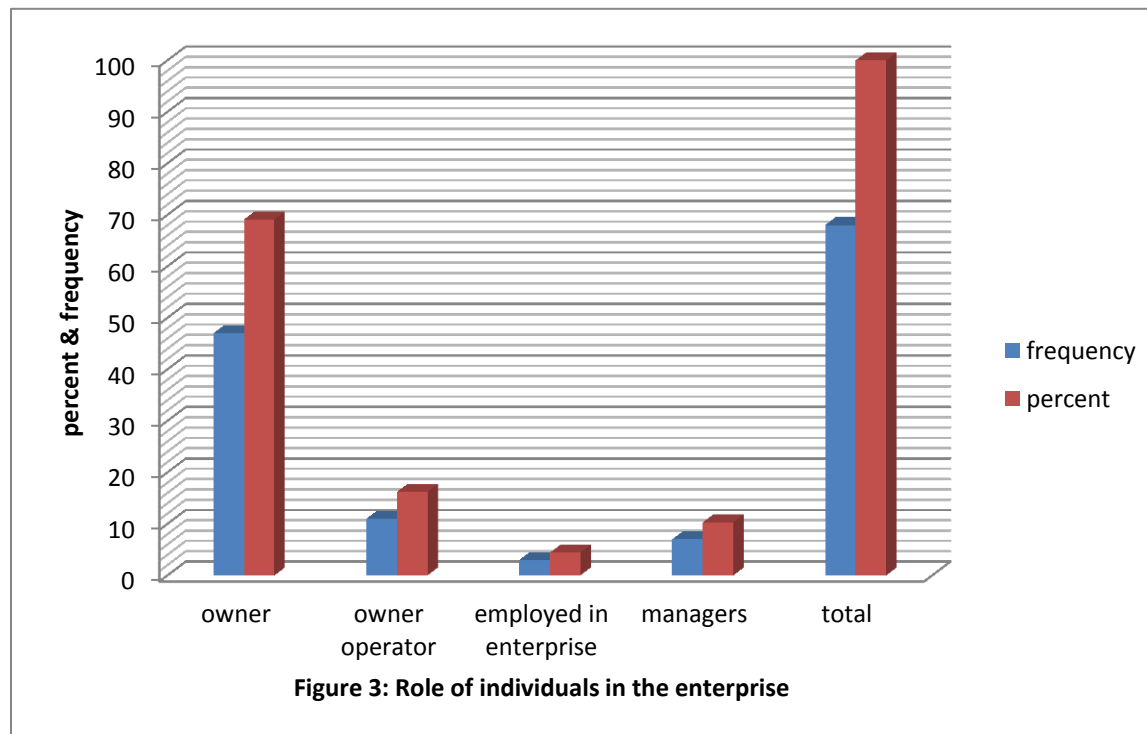
Table 7: Cross tabulation of marital status Vis-à-vis family size of enterprises.

Marital status	Count and percent	Family size of respondents			Total
		1-2	3-4	5-6	
Single	Count	7	22	13	42
	% within marital status of respondents	16.7%	52.4%	31%	100%
Married	Count	8	10	4	22
	% within marital status of respondents	36.4%	45.5%	18.2%	100%
Total	Count	15	32	17	64
	% within marital status of respondents	23.4%	50%	26.6%	100%

Source: Own survey (2014)

4.1.6 Role of individuals in the enterprises

Owner's personal profile determines the competitiveness and success of micro and small enterprises. Accordingly, the study manifests that about 69% of the respondents are owners, 16.2% of them are owner operators, 7% are managers and 4.4% them are employees in the enterprises (figure 3). Thus the majority of the MSE created job opportunity for owner entrepreneurs.



4.2 Characteristics and achievements of enterprises

4.2.1 Age of the business and stage of development

The relationship between firm age and growth in the MSE sector is particularly robust. Young MSEs grow substantially more rapidly on average than their older counterparts. Young MSEs are more likely to show high rates of growth compared with MSEs that have been in existence longer (Minilik and Chinan,2005).Hence as indicated in table 8, 6.2% of the enterprises owner/managers responded that their enterprises are between 1-2 years old and are newly established. The larger proportion of the enterprises whose age is more than three years was passed to the next higher stage of development i.e from micro to small enterprise. Thus 54.5%, 64.7%, and 62.5% them were between 9-11, 6-8,3-5 years and transformed to small scale enterprises from micro level. This might indicates that the younger the age of enterprises, the higher the stage of development. Thus this fact is supported by the learning theory of Minilik and Chinan(2012) i.e. younger firms have higher and more

feasible growth rate. On the other hand the firm theory as indicated in the literature part as a result of industrialization and economic growth MSEs are vanishes or they tend to remain micro and small. Accordingly, the majority of the enterprises were found at micro level (64.7%).

Table 8: Cross tabulation of age of enterprises vis-à-vis current status of enterprises

Age of enterprise	Count and Percent	Status of enterprises at current		Total
		Micro	small	
9-11	Count % within the age of the enterprises'	5 45.5%	6 54.5%	11 100.0%
6-8	Count % within the age of enterprises'	6 35.3%	11 64.7%	17 100.0%
3-5	Count % within the age of enterprises'	3 37.5%	5 62.5%	8 100.0%
1-2	Count % within the age of enterprises'	30 93.8%	2 6.2%	32 100.0%
Total	Count % within the age of enterprises'	44 64.7%	24 35.3%	68 100.0%

Source: own survey (2014)

4.2.2 Previous experience and current performance of enterprises

The majority of respondents (68.8%) have no experience related to the current business in which they were engaged in. However those who have related experience with the current business which constitute 66.7% achieved better than those who did not have experience. This indicates the lower the

percentages the higher the number of enterprises were transformed to the next higher stage of development and vice -versa. This fact is supported by active learning theory, which is stated as entrepreneurs with higher work experience and training would therefore expected to grow faster. The micro enterprises which are transformed to small enterprises accounts about 33% as compared to its counterpart i.e.no experience(31.2%).Therefore, prior experience has its own contribution for the achievement the enterprises(table 9).

Table 9:Cross tabulation of work experience vis-à-vis status of enterprises

Work experience related to the business	Count and percent	Status of enterprises at current		Total
		Micro	Small	
Yes	Count	24	12	36
	% within work experience	66.7%	33.3%	100.0%
No	Count	22	10	32
	% within work experience	68.8%	31.2%	100.0%
Total	Count	46	22	68
	% within work experience	67.6%	32.4%	100.0%

Source: own survey (2014)

4.2.3 Previous job of owners/operators

As clearly observed in table below, MSEs are creating job opportunity for a large proportion of people. As stated in the review literature of this paper under the labor supply theory one of the motivating force behind MSE development is labor supply which cannot be absorbed in public sector. Accordingly, 36.8% of the entrepreneurs were performed different activities, 14.7% the respondents were unemployed and 8.8% of them were engaged in school. This might indicate most of them did not have job previously. Therefore, MSEs create opportunity for those who have no job previously. On the contrary, 35.3% and 4.4% respectively stand for those who engaged in

similar activities and employed in government organization. Hence MSE has been creating a permanent job opportunity for the urban unemployment.

Table 10: Previous job of owners/operators

Previous job	Frequency	Percent
In school	6	8.8
On similar activities	24	35.3
Unemployed	10	14.7
Different activities	25	36.8
Employed in governmental organization	3	4.4
Total	68	100

Source: own survey (2014)

4.2.4. Attitude of individuals to MSE

On the same manner most of the owners of enterprises were motivated to start the business to be self employed (45.6%) and to generate self income (39.7%).The least percentage of entrepreneurs were initiated because of lack option. This shows that the attitude of people towards MSE has been changing from previously poor/low perception of individuals to the MSE (Figure 4).

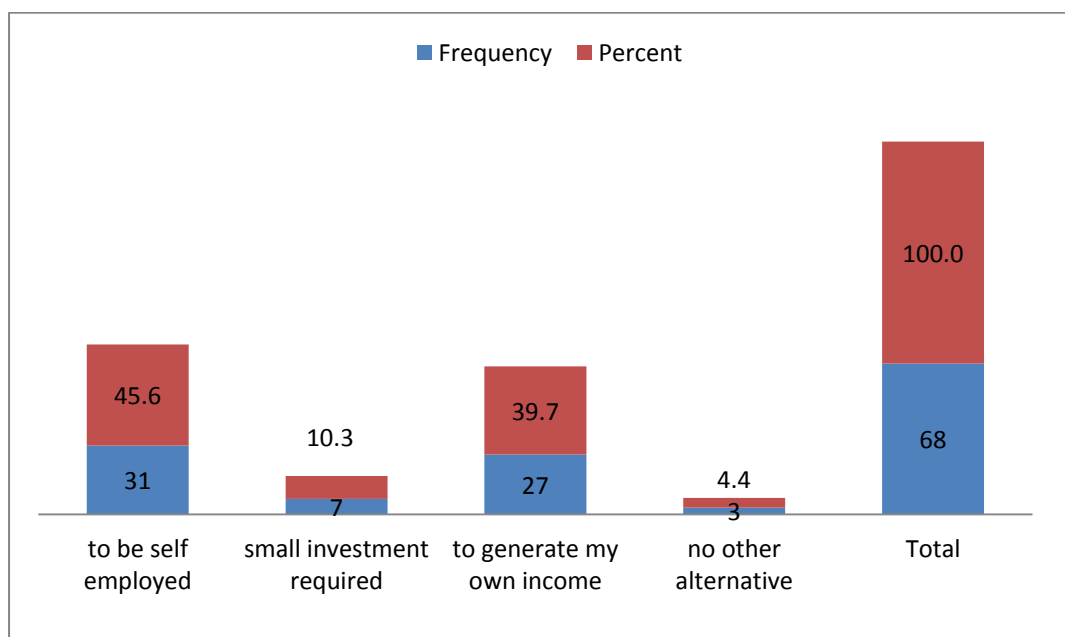


Figure 4: Motivating factor to start the business

4.2.5 Employment opportunity created by enterprises sector

One of the major contributions of micro and small enterprises is creating job opportunity for the large poor urban dwellers. Attempts were made by the researcher to assess the contributions made so far by micro and small enterprises in reducing unemployment. According to Yeka sub city MSE development agency, 37189 permanent employment opportunities is created from the year 2004 to 2014 in the four sectors.

The job opportunity created by sectors and subsectors are not uniform. As can be seen from table11, 77.8% of trade and service sector created permanent job opportunity for less than five individuals and followed by urban agriculture. As the number of permanent employees increases the contribution of the two sub sectors i.e. trade and urban agriculture is not worth mentioning. On the other hand the contribution of construction and manufacturing sectors are absorbing large number of permanent employees. Therefore, 47.4% of the construction sector, which is the highest, create a job opportunity for about 16-20 individuals and followed by manufacturing sector(22.1%).

On the contrary trade and service, and urban agriculture utilize the least numbers employees in the other sectors. Table 12 also clearly indicates the contribution of MSE by sector and in general. Thus the construction sector employees more labor force than the other sub sectors. i.e on average a single enterprise from construction sector create a job opportunity for about 16 persons. Similarly the manufacturing sector creates a job opportunity for eleven individuals. On the other hand, trade and service sector contribute the least.

Table 11: Cross tabulation of MSE vis-à-vis number of permanent employees

Enterprises sector	Count and percent	Number of permanent employees					Total
		<5	6-10	11-15	16-20	21-25	
		construction	Count	0	2	3	
	% within enterprises	0.0	10.5	15.8	47.4	26.3	100
Manufacturing	Count	5	4	6	4	0	19
	% within enterprises	23.3	21.1	31.6	21.1	0	100
Trade and services	Count	7	2	0	0	0	9
	% within enterprises	77.8	22.2	0	0	0	100
Urban agriculture	Count	2	1	0	0	0	3
	% within enterprises	66.7	33.3	0	0	0	100
Total	Count	14	9	9	13	5	50
	% within enterprises	28	18	18	26	10	100

Source: Own survey (2014)

Table 12: Job opportunity created by MSE and sub sector

Major Sectors of MSE	Number of Enterprises (NE)	Employment opportunity (EO)	Ratio (NE/EO)
Construction	1838	29794	1:16
Manufacturing	464	4984	1:11
Trade and services	406	1620	1:4
Urban agriculture	124	836	1:7
Total	2832	37189	1:13

Source: Yeka MSE office (2014)

4.2.6 Current status of enterprises

Respondents were asked how they measure the status of their business since their beginning to current .Accordingly 85% of them responded that the status their businesses at current are growing rate. The remaining 11.8% and 2.9% of the respondents replied that their businesses are at stagnant/no change/and at declining rate respectively (figure 5).The organizational development approaches viewed the MSE as being similar to living organism going through normal struggle and difficulties(Lidia,2006).Therefore the enterprises would experiences the process from generation, growth, aging and to death.

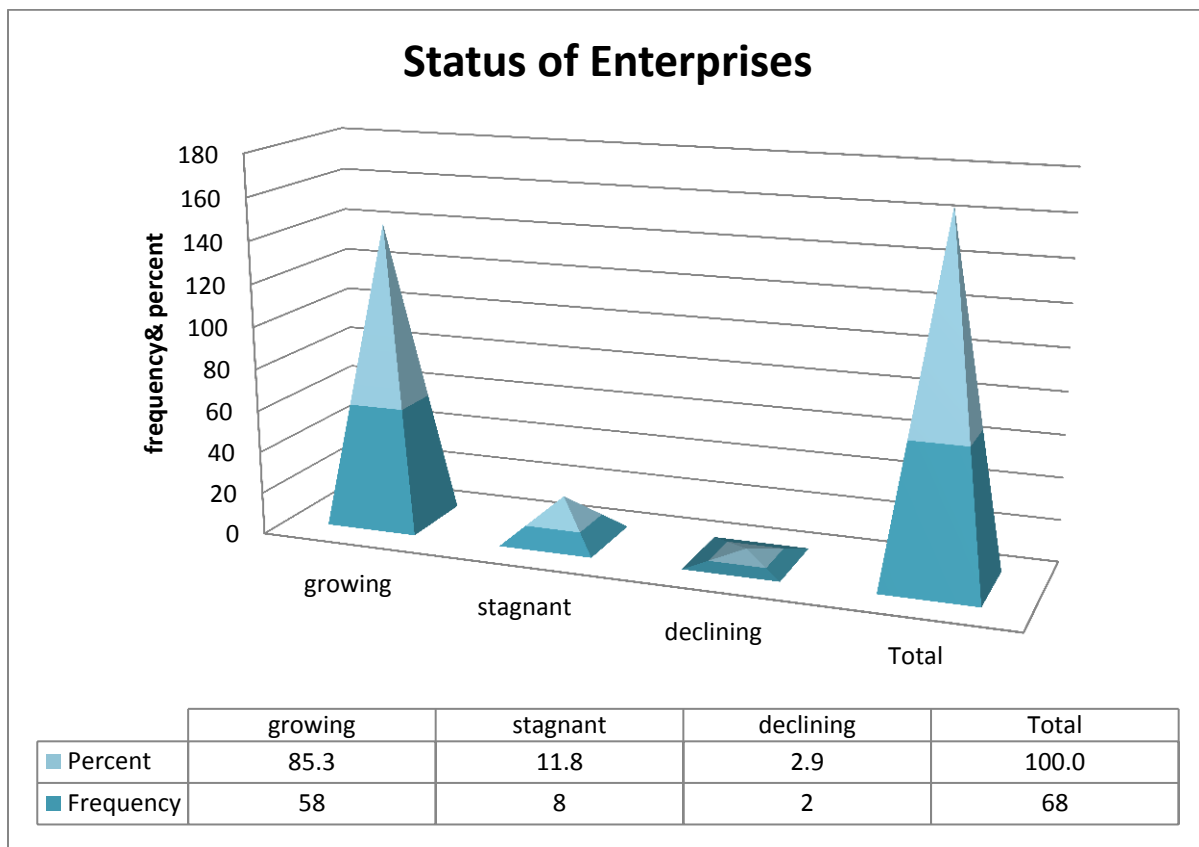


Figure 5: status of enterprises

4.3 challenges of enterprises

There are many challenges MSEs face in their operations that hinder their growth in whatever terms we measure; be it in terms of capital, marketing or technology etc. Some of these challenges are internal while others are external to the enterprise.

4.3.1 Financial source of enterprises to start the business

When we consider the financial sources of enterprises, 35.3% the respondents, which is the highest, start up the business by borrowing from their friends and relatives. The next higher percentage is those who borrowed from saving and credit association. Similarly the contribution of “Iqub” (19.1%) is not tiny. Whereas the role of bank as indicated in the literature part of this study is contributed the smallest share (Table 13).The major reason forwarded for this case is high interest rate and collateral requirements of banks. This shows that micro and small firms hardly depend on formal source of financial institution to start business.

Table 13: Source of stat up capital

Source of capital	Frequency	Percent
Bank	1	1.5
Microfinance institutions	9	13.2
Government projects	3	4.4
Iqub	13	19.1
Money lender	2	2.9
Saving and credit association	16	23.5
Friends/relatives	24	35.3
Total	68	100.0

Source: own survey (2014).

4.3.2 Initial and current capital of enterprises

One of the major requirements for establishing business is the start up capital/initial capital. As indicated in figure 6 below the greater part of the owner of the enterprises start up with small amount of capital. For that reason 32.4% of the enterprises were launched with less than 5000 birr, 22.1% and 19.1% of the respondent started up their business with a capital between 5000-10000 birr and 10000-20000 birr respectively. Small proportions of respondents (4.4%) were begun with capital ranges between 100,001 and 250,000 birr. Thus most of the enterprises were established with a low amount of capital. This may affect their performance and competitiveness at the early stage and long term. Even though this is the main feature of micro and small enterprises in the developing countries, the government should support this sector in terms of finance and other incentive so that unemployment rate decreases.

On the other hand, the current capital of the majority of enterprises, which is about 23%, is 5000-10000 birr. Again this value is very low. That may be one major hindrance factor for further expansion of enterprises.

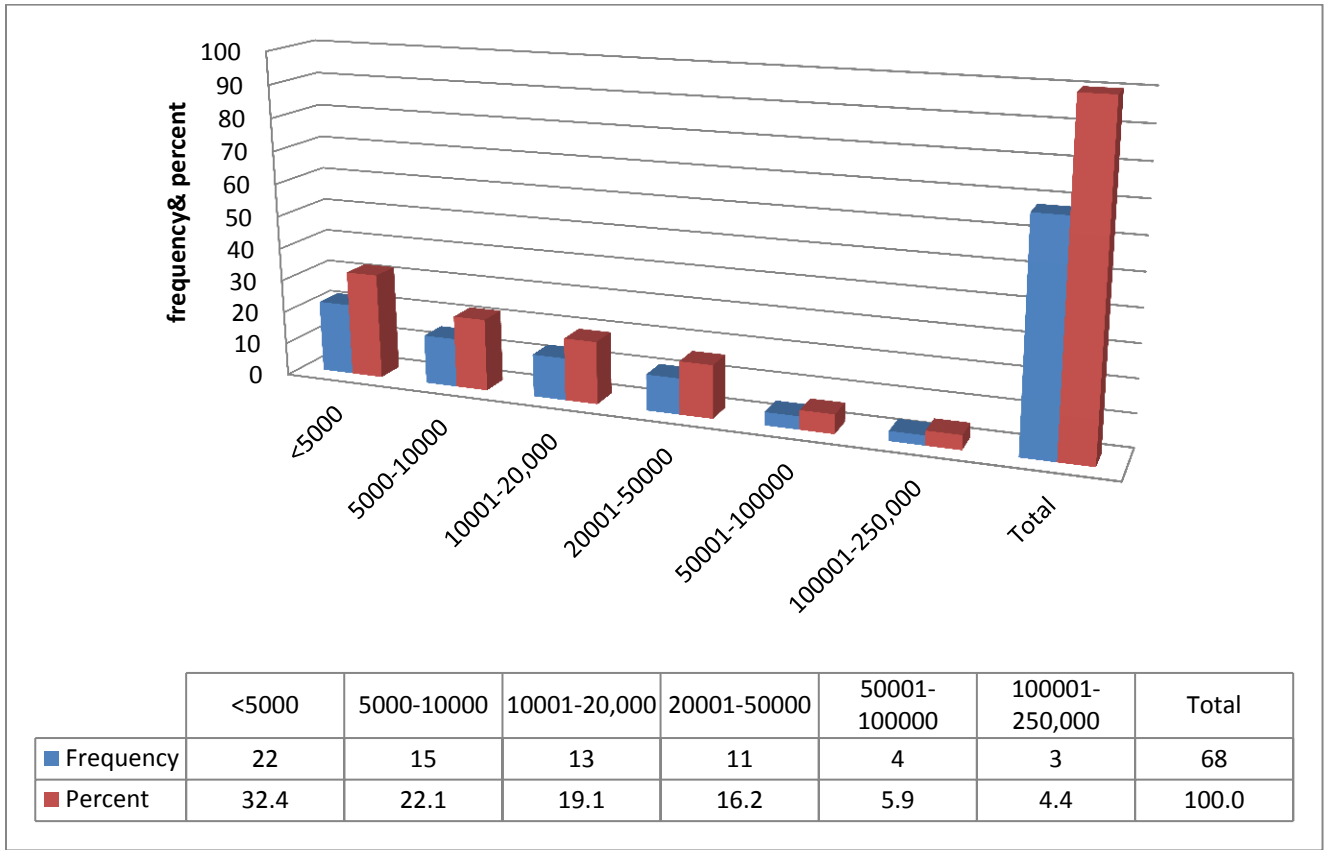


Figure 6: Initial capital of owners of enterprises

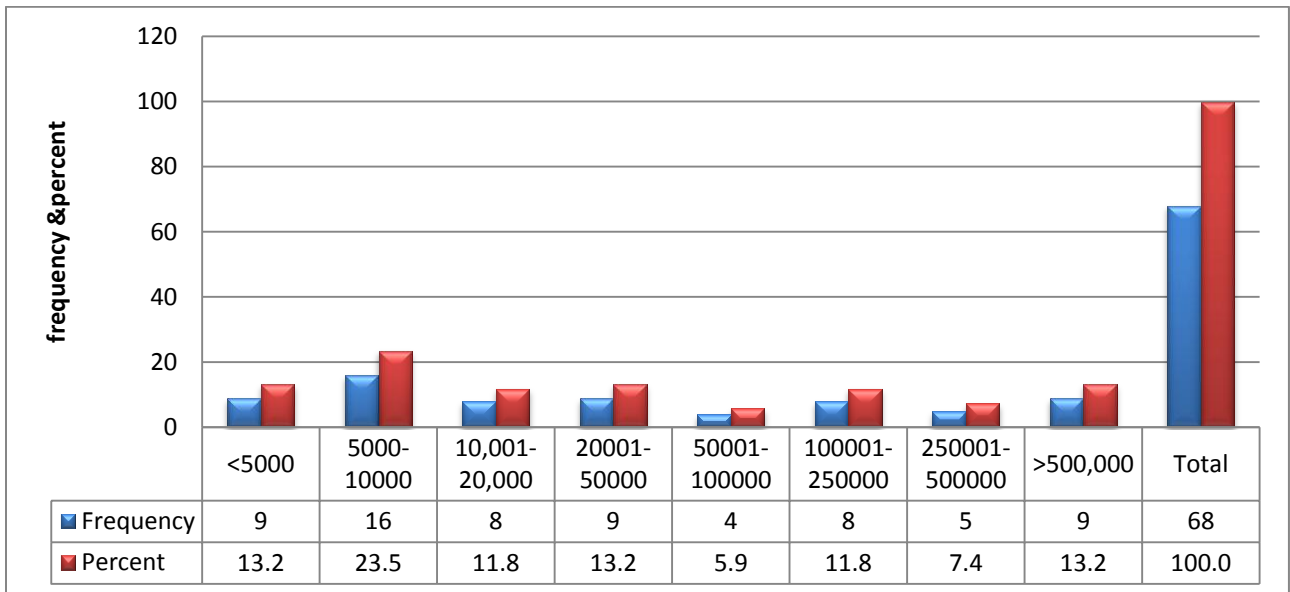


Figure 7: current capital of enterprises

4.3.3 Access to Finance

Enterprises need finance to purchase equipments and machinery, expand their market and to cover working capital shortage. However the major difficulty for many potential young entrepreneurs still seems to be the lack of access to start-up finance. Hence as indicated in table 14, 57.4% of the owner enterprises have no access to finance from MFI whereas 42.6% have an access to MFI.

As a result most of the respondents did not get loan from MFI. This is because, as most of them responded, the process of getting loan is not an easy task.

Table 14: Access to loan from micro finance

Access of loan	Response	Frequency	Percent
Have you obtained loan from any micro finance institutions	Yes	29	42.6
	No	39	57.4
	Total	68	100
Was it easy to get loan from lending institution	Yes	17	25
	No	28	41.2
	Not stated	23	38.8
	Total	68	100

Source: own survey (2014)

Furthermore the other constraints of loan are collateral requirement and insurance, high interest rate and the lagging release of money from MFI constitute 25%, 14.7%, and 17.6% respectively (table 15).

Table 15: The major constraints to obtain startup capital

Constraints	Frequency	Percent
MFI did not release money quickly	12	17.6
High interest rate	10	14.7
Collateral requirement & insurance	17	25.0
Difficult borrowing process	2	2.9
Problem among members	1	1.5
Lack of confidence to return the loan	1	1.5
Total	43	63.2
Not stated	25	36.8
Total	68	100.0

Source: Own survey (2014)

On the contrary those who have got loan from micro finance institution responded on the amount of money and repayment period as indicated in table 16. Accordingly 42.6% and 36.8% respectively responded that the amounts of money and repayment periods are sufficient. However the critical problem is that the loan is not released /delivered on time (33.8%) which is higher than its counterpart response (22.1%).

Table 16: Amount, repayment and delivery time of loan

Loan amount, period of repayment & delivery	Response	Frequency	Percent
Is the loan amount adequate	Yes	29	42.6
	No	9	13.2
	Not stated	30	44.1
	Total	68	100.0
Is the repayment period adequate	Yes	25	36.8
	No	13	19.1
	Not stated	30	44.1
	Total	68	100.0
Was it delivered timely	Yes	15	22.1
	No	23	33.8
	Not stated	30	44.1
	Total	68	100.0

Source: Own survey (2014)

4.3.4 Business Infrastructures

MSEs in the start up phase often cannot afford to pay for business support. Searching a safe place to work which is affordable, well located and with flexibility to accommodate business expansion is a requirement of any enterprises. In assessing how much infrastructure related working premises, water, transport and electricity were asked. The survey result revealed that a considerable number of enterprises operate under rented business premises. Consequently, as figure 8 shows 98.5% of the working premises on which the business launched their business was gained from the government with least

leasing price rent. As a result 20.6% of them pay below 100 birr and 66.7% the respondent charge below 1000 birr (Table 17).

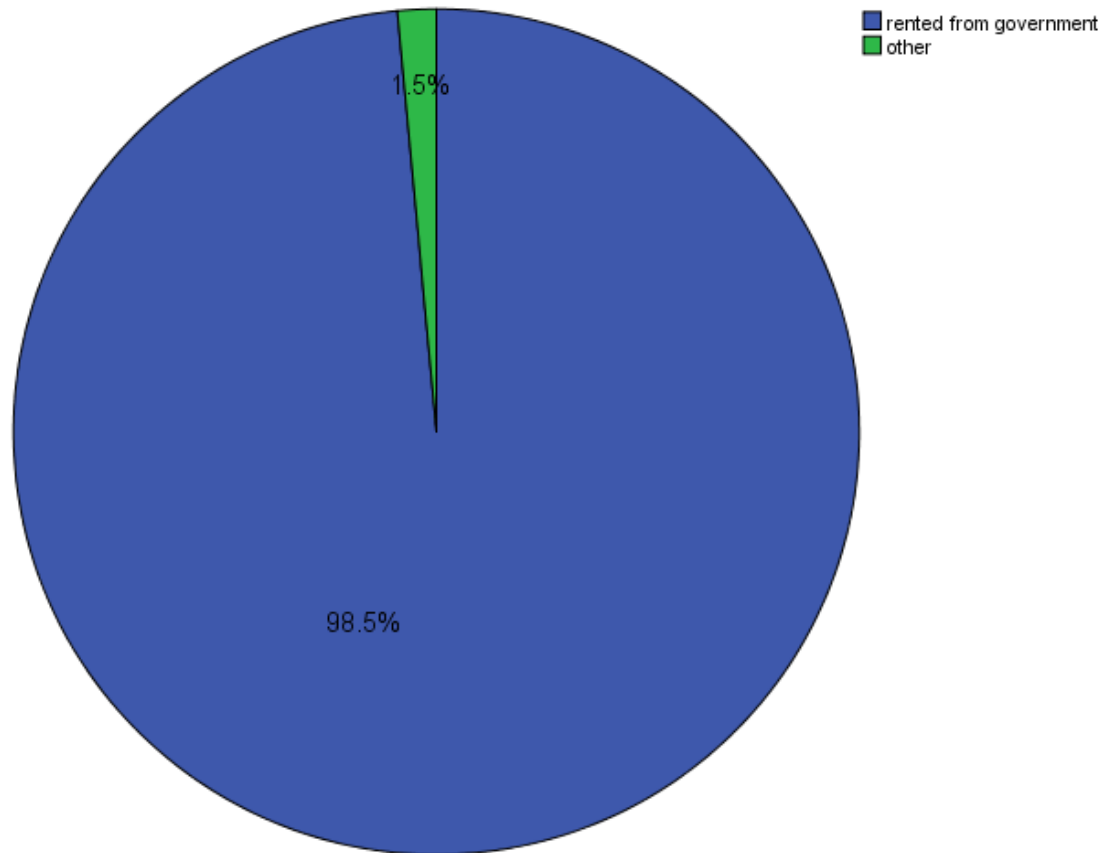


Figure 8: Possession of the working premise

Table 17: Rent amount of working premise per month

Price (in birr)	Frequency	Percent
≤100	14	20.6
101-400	10	14.7
401-700	9	13.2
701-1000	11	16.2
1001-1300	6	8.8
1301-1600	5	7.4
1601-1900	1	1.5
1901-2200	5	7.4
Total	61	89.7
Not stated	7	10.3
Total	68	100.0

Source: Own survey (2014)

Concerning the problems related to working infrastructure, shortage of water (16.2%), electricity (19.1%), small size of working place (19.1%), market and lack of product display area (17.6%) corruption(13.2%) are some of the major constraints facing the enterprises(table 18).

Table 18: Major problems related to working premises

Problems related to working premises	Frequency	Percent
Water	11	16.2
Electricity	13	19.1
Small size of working place	13	19.1
Market and lack of display	12	17.6
Shortage of technical support	1	1.5
Problem of sanitary	2	2.9
Road	5	6.4
Corruption	9	13.2
Not stated	2	2.9
Total	68	100

Source: Own survey (2014)

4.3.5 Source of raw materials and production

As indicated in the literature part of this study one of the major characteristics of MSE is their tendency to use the locally available inputs (raw materials). Similarity the survey result revealed 89.4% the enterprises consume the local raw materials and 7.3% of them use imported raw materials and both imported and local materials constitute 3% (table 19).

On the other hand, majority of the enterprises produces for only local market (67.6%) and the 29% of the produces for domestic market. Thus almost all enterprises supply their products to internal market. Therefore this might shows that MSEs are substituting import goods. (Figure 9).

Table 19: Source of raw materials

Source of raw materials	Frequency	Percent
Imported	5	7.3
Local	61	89.7
Both imported and local	2	3.0
Total	68	100

Source: Own survey (2014)

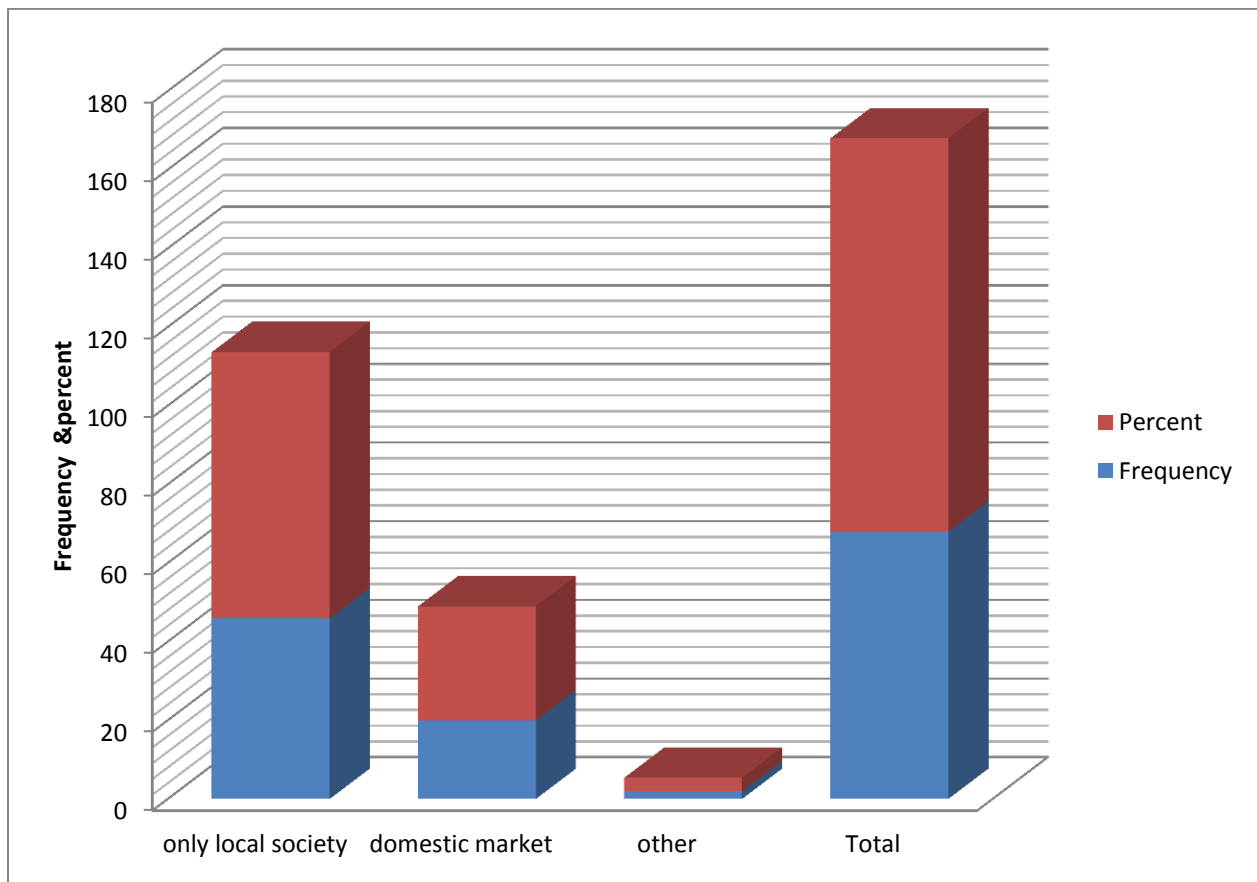


Figure 9: The consumers of products

4.3.6 Technical and managerial training

Technical and managerial know how is one major requirement to take part in micro and small enterprises development. Most of the entrepreneurs have no technical and managerial knowledge related to their business when they started the business. Though the training is short, majority of the owners of enterprises have got technical and managerial training after joining the sectors. Accordingly, 66.7% operators of MSE have got technical and managerial training.

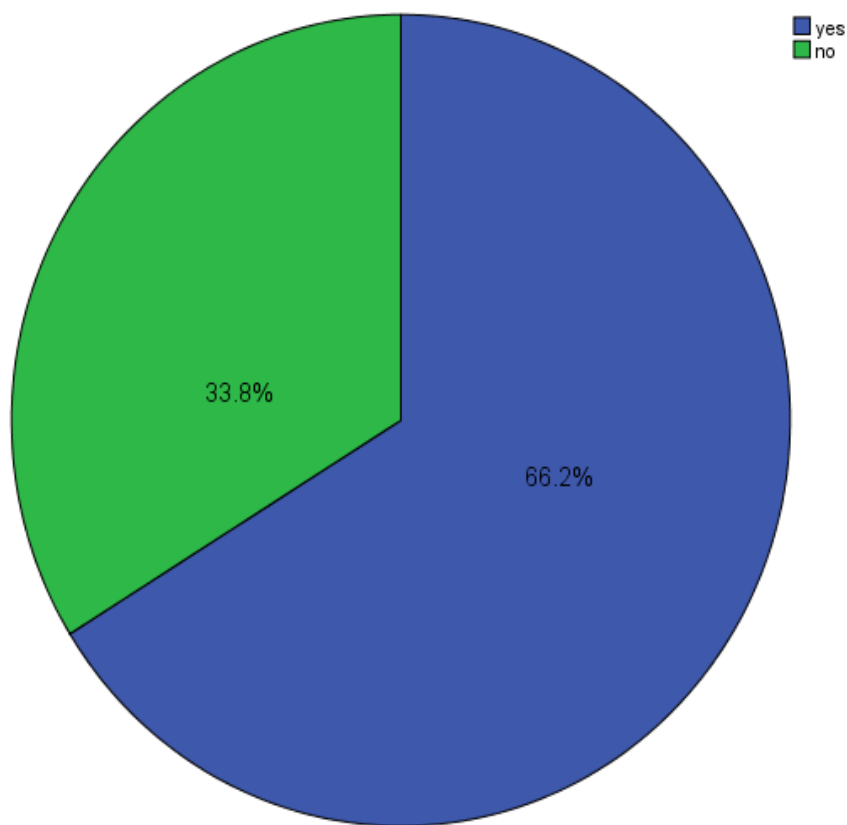


Figure 10: Access of training

In relation to this, as indicated in table 20, the respondents were asked about the usefulness of the training. As a result most of them found the training was helpful (100 %).

Table 20: Usefulness of the training

Use of training	Frequency	Percent
Very helpful	50	73.5
Helpful	18	26.5
Total	68	100.0

Source: Own survey (2014)

4.3.7 Market and other constraints of the enterprises

The output demand theory proposed that one of the driving force for the establishment of micro and small enterprises is that the presence of market for their product and services (Christopher et al,2006).However, lack of standard products, inadequate market knowledge and competition are the major constraints(Sekitoleko,2008).

Thus data collected from the enterprises revealed that shrinking capital /increased competition/and inadequate capital with 44.1% and 26.5% respectively are the dominant (table 21).

Table 21: The major challenges of MSE

Challenges	Frequency	Percent
Inadequate capital	18	26.5
Lack of accounting skill	5	7.4
Inaccessibility to credit	6	8.8
Inability in repaying loan	2	2.9
Shrinking of market	30	44.1
Other	7	10.3
Total	68	100

Source: Own survey (2014)

To solve the market and capital limitation, the support that the enterprises get from nearest MSE development agency is not sufficient. Only 39.7% of the enterprises get support from the concerned body whereas 60.3% did not obtain the appropriate support. However even those who have an access to governmental support did not get the appropriate and sufficient solution for critical problems. As table 21 indicates, marketing and shortage of capital are the major constraints. But the provision of credit for shortage of capital and access of market for shrinking market which constitute 10.3% and 13.2% respectively are very low. On the other hand 60% of the respondents did not get an appropriate support from the stock holders who work in collaboration with MSE. Thus to improve the achievement of enterprises sufficient and appropriate solution should be delivered for their problems.

Table 22: Support from governmental body

Types of support	Frequency	Percent
Training services	11	16.2
Access to credit	7	10.3
Access of marketing	9	13.2
Not supported	41	60.3
Total	68	100.0

Source: Own survey (2014)

As stated in the above paragraph marketing problems are the major problem of all MSE. As Habtamu (2010) noted most MSE have a limited knowledge of marketing concept. Hence lack of marketing knowledge is the most significant factor affecting the success of MSEs. Most of MSEs are hanging up on governmental market. Consequently the operators of MSE were asked about frequency of market facilitation or linkage created by the government. As a result 47.1%, and 25% responded in favor of “less frequently” and “not at all” respectively (table 23). Thus market linkage created by the government is not sufficient.

Table 23: Market linkage to governmental project or other

Period of market linkage	Frequency	Percent
Regularly	3	4.4
Less frequently	32	47.1
Only few times so far	13	19.1
Not at all	17	25
Not stated	3	4.4

Source: Own survey (2014)

Similarly owners of enterprises were asked about problem related to expansion of enterprises. Accordingly not only lack of market and finance but also lack of plot of land for further expansion was listed as major constraints (table 24).

Table 24: The most important business constraints that hindered enterprises' expansion

Constraints of expansion	Frequency	Percent
Access to finance	11	16.2
Access to land	15	22.1
Access to input	7	10.3
Lack of managerial knowledge	4	5.9
Lack of technical Knowledge	5	7.4
Access to marketing	18	26.5
Not stated	8	11.8
Total	68	100

Source: Own survey (2014)

In the same way the quality and design of product/service that are rendered by MSE are not different from those of competitors who are engaged in production of similar goods and services. The same is true for product price. But MSE cannot proficient enough in the market (table 25). This might be due to lack of display place and increased competition. Furthermore lack of promotion could be a problem.

Table 25: Competitiveness of MSE

Alternatives	Much higher	Slightly higher	No difference	Slightly lower	Much Lower
Price	10.3%	26.5%	41.2%	11.8%	8.8%
Design	14.7%	26.5%	44.1%	4.4%	5.9%
Quality	27.9%	32.4%	36.8%	1.5%	1.5%

Source: Own survey (2014)

4.4 Policy environment

When we look at MSE policy perspectives 72% respondents replied that they have got one stop service from the nearest administrative bodies but 28% of the respondents did not get. Regarding the formality of the enterprises 91.2% of them have license and 8.8% of them have not. Similarly they were asked about the process of getting license. Therefore, 45.6% of the owners were responded that the process of getting license was easy, 30.9% and 22.1% responded difficult and very difficult. This indicates as majority of them responded the process of getting license was not an easy task.

Table 26: One stop service and formality of MSE

Formality & services		Frequency	Percent
One stop service	Yes	49	72.0
	No	19	28.0
	Total	68	100
License for business	Yes	62	91.2
	No	6	8.8
	Total	68	100

Source: own survey (2014)

Table 27: Process of getting license

Easiness of getting license	Frequency	Percent
Very difficult	15	22.1
Difficult	21	30.9
Easy	31	45.6
Total	67	98.5
Not stated	1	1.5
Total	68	100.0

Source: Own survey (2014)

Chapter Five

5. Conclusion and Recommendations

5.1 Conclusion

This study mainly focuses on achievement and challenges of MSEs in Addis Ababa especially on Yeka sub city in the four sectors namely: construction, manufacturing, trade and services and urban agriculture. As a result the following conclusions are drawn from the major finding of the study.

As the survey clearly indicates the employment opportunity are generated for numerous unemployed urban inhabitants. The job opportunities are created for the majority of young and adult age group especially for age group between 20-45. In relations to this the construction and manufacturing sectors creates more job opportunity for large numbers of individuals than trade and urban agriculture.

In terms of sex composition the study revealed that the bulk of MSE which is about 60% are owned by male entrepreneurs. This indicates more effort should be done to raise female participation in the sector.

It was further noted from the survey that the younger the age of the enterprises, the better the achievement of the enterprises. Those enterprises above three years have shown a progressive change. More than 50% of the enterprises were transformed from micro level to small scale.

The study also revealed that shrinking of market or decrease of market which accounts about 44% and inadequate capital (26.5%) were the dominant barrier in the sectors. Furthermore limited access to credit lack alternative financial assistance were also indicated as major bottleneck.

The study also assessed the business infrastructure consequently interruption of electricity, inadequate water supply, small size of working place and lack of

access to plot of land for expansion were identified as critical problems. Bureaucratic administrative procedure for business registration and license were also cited as constraint in the sector.

5.2 Recommendation

Micro and small enterprises have provided employment and income for the skilled and unskilled young and adult age group of the urban society. However, the sectors have faced many challenges. The contribution of the sectors can be improved if some of the constraints are resolved and incentives are given. Based on the result of the research the following solutions are recommended.

As the analysis pointed out the sectors are owned mainly by male than female. Therefore more effort should be done to raise the level of female participation in the sectors by micro and small enterprises agencies women and youth affairs of Addis Ababa, communication bureau Addis Ababa and other concerned bodies.

The study pointed out that employment contribution across sectors is not uniform. Employment absorption tended more towards few sectors such as construction and manufacturing. These sectors require more plot of land either for further expansion or for efficient operation. Thus the nearest administrative body should support them than the other sub sectors because these sectors absorb large labor force hence they contribute their own role in reducing unemployment. This does not mean that the other sectors should not be supported.

The study noted that the problem of marketing, shortage of capital, shortage of plot of land for expansion and insufficient provision of infrastructure were listed as constraints. Therefore the government needs to facilitate market linkage either within the enterprises or with medium and large enterprises. On the other hand the owners of enterprises should promote their products by themselves instead of hanging up on government. The collateral requirement and high rate of interest are the dominant factors for shortage of capital. Providing better access to credit should be facilitated so as to overcome

shortage of capital in the sector. Hence incentive (minimize the process of getting loan and criteria) ought to be given by the government in order to obtain the intended outcome from the sector. In addition to these cluster and network creation could be an option for transferring of knowledge and experience among owners and operators of enterprises.

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Questionnaires

Questionnaire to be filled by SMEs owners or employees

Purpose: The purpose of this questionnaire is to collect information about the achievement and challenges of SMEs in Addis Ababa. Your cooperation in providing genuine answers to the following questions is highly important for the success of this study. Your responses will be kept confidential. It is only for academic purpose.

Direction

- **Encircle the appropriate number of your choice for the following question.**
- **For open-ended questions write your answer on the space provided**

Woreda _____

Kebele _____

House Number _____

Name of Enterprise _____

A. General information about the employer/owner of the business

1. Age _____

2. Sex: 1. Male
2. Female

3. Birth Place _____

4. Marital Status

1=Single

4=Widowed

2=Married

5= Separated

3=Divorced

5. Household size: _____ persons

6. Educational Background

1=Illiterate

4= Secondary

2= Read and Write

5=Diploma

3= Primary

6 =Degree

B. PROFILE OF ENTERPRISE

7. When was the enterprise established? _____

8. What is your role in the enterprises?

- 1. Owner
- 2. Owner operator
- 3. Employed in the enterprise
- 4. Relatives
- 5. If other specify _____

9. Who support you to start the business/source of capital/?

- 1. Formal banks
- 2. Micro finance institutions
- 3. Government projects
- 4. NGOs
- 5. Iqub
- 6. Money lenders
- 7. Saving & Credit association
- 8. Friends/relatives
- 9. If other specify

10. Do you have any work experience related to the business? 1. Yes 2. No

11. Why did you prefer to start this business?

- 1. To be self employed
- 2. Small investment required
- 3. To generate own income
- 4. No other alternative for incomes
- 5. Others (specify) _____

12. What was your job before operating these enterprises?

- 1. In school
- 2. On similar activities
- 3. Different activities
- 4. Unemployed (after leaving school)

13. Indicate your response for the following item.

Name of enterprises	sector	Sub sector	N ^o of member at the time of establishment		Current number member		Temporary employees		Initial capital	Current capital
			M	F	M	F	M	F		

14. The status of your enterprises (mark your answer by "x")

	Micro	Small	Medium
--	-------	-------	--------

At the time of establishment			
Current			

15. How do you label the pattern of growth of the enterprise?

1. Growing 2. Stagnating 3. Declining

C. Finance

16. Have you obtained loan from any micro finance institution?

1. Yes 2. No

17. Was it easy to get loan from lending institutions? 1. Yes 2. No

18. If “No”, what have been the major constraints to obtain start-up capital?

1. Micro finance institutions did not release money quickly
2. High interest rate
3. Collateral requirements and insurance to get the money
4. Difficult borrowing process
5. Problem among members
6. Lack of confidence of repaying the loan
7. Others (specify) _____

19. If you have borrowed from an MFI, (1 = Yes 2 . No)

	1	2
Is the loan amount adequate		
Is the repayment period adequate?		
Was it delivered timely		

D. Infrastructure

20. How did you acquire the building/premise on which you started this business?

- 1) Owned it 3) Bought 5) Leased
2) Inherited 4) Rented 6) Other (specify

21. Have you acquired land/working premise/ shade from the local administration for your enterprise?

1. Yes 2 No

22. If the working premise is acquired on rental basis how much do you pay as rent per month?

23. What are the major **problems** that you are facing in relation to working Premises/land/?

24. Of the following which one is the most important for your enterprise activities?

- 1) Electricity 2) water 3) telephone 4.others specify

E. Challenges

25. Are there any challenges that this business currently faces?

1. Yes 2.No

26. If YES in Q 28 above, which ones?

- | | |
|------------------------------|---|
| 1. Inadequate capital | 5.Shrinking Markets/Increased competition |
| 2. Lack of accounting skill | 6.employee management |
| 3. Inaccessibility to credit | 7.Inability/difficulty in repaying loan |
| 4. High taxation | 8 .Other (Specify)_____ |

27. Have you get any support to solve these challenges?

1. Yes 2. No

28. If Yes in **30** above, what type of help did you receive?

- | | |
|-----------------------------|------------------------|
| 1. Training Services | 4.access of marketing |
| 2. Access to credit | 5.Other (Specify)_____ |
| 3. Rescheduling of the loan | |

29. Which is the most important business constraint that hindered your enterprise's expansion?

- | | |
|----------------------|-------------------------------|
| 1. Access to finance | 5.Lack of technical knowledge |
|----------------------|-------------------------------|

- 2. Access to land
- 3. Access to input
- 4. Lack of managerial knowledge
- 6. Access to market
- 7. Others (specify)_____

F. Technical and management skill

30. Have you ever received any form of formal training on management and financial skills? 1. Yes 2. No

32. If Yes to 36, was the training helpful? 1. Very helpful 2.Helpful 3.Useless

33. If yes, on which particular subjects have you been trained? (Multiple responses is possible)

- 1) Technical training
- 2) Business management
- 3) Business skills
- 4) Marketing
- 5) Accountancy
- 6) Others (Specify) _____

34. How did you learn the skills you are using?

- 1. from family
- 2.being employed yourself
- 3. through formal training
- 4.other, specify_____

G. Marketing

35. How often do you get market linkages to government projects and/or others?

- 1. Regularly
- 2. Less frequently
- 3.Only few times so far
- 4.Not at all

36. Are your products exported to other countries? 1.yes 2.No

37. Do you produce for local consumption or for export as well?

- 1. Only local,
- 2. For export
- 3. Both
- 4. Others specify_____

38. Are the raw materials you use mainly?

- 1. imported
- 2. local
- 3.both local and imported
- 4. Others specify_____

39. Do you inspect the quality of the products before selling them? 1. Yes 2. No

40. based on your experiences in running the business so far and the actual condition of the business, please indicate your Opinion regarding each statement

- 1. Strongly disagree (1),
- 4. Agree (4),

2. Disagree (2),

5.Strongly agree (5)

3. Neutral (3),).

Factor	1	2	3	4	5
Distribution channel of my products is already in place					
Market potential of my products is promising					
Searching for new market for my products is not so difficult					
Marketing of my products is well-planned					
I have access to information on market/consumer of my products					

41. How do you compare your main products/services with that of your competitors in terms of **1= no difference, 2 = slightly higher, 3 = much higher,4 slightly Lower, 5= much lower**)

	1	2	3	4	5
Price					
Model/design					
Quality of material					

42. Do government organizations create a faire market linkage for your products/services?

1. Yes 2.No

H. Policies and regulation

43. Did you get a “one-stop service” at the nearest administrative bodies

1. Yes 2. NO

44. Do you have a license (work permit) for your business?

1) Yes

2) No

45. How do you rate the process of getting a license?

1) Very difficult 2) difficult 3) easy 4)very easy

THANK YOU!!