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PROBLEMS AND PROSPECTS OF RURAL NON-FARM ENTERPRISE DEVELOPMENT:
THE CASE OF BEDEDO AND HARRA KEBELES IN TEHULEDERE WOREDA, SOUTH WELLO ZONE, ANRS

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A thesis submitted to the school of Graduate Studies of Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Arts in Development Studies in Collage of Development Studies

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Title

Problems and Prospects of Rural Non-Farm Enterprise Development: The case of Bededo and Harra Kebeles in Tehuledere Woreda, South Wello Zone, ANRS

BY

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DEVELOPMENT STUDIES

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Dedication

This thesis is dedicated to my beloved mother, W/ro Kebebush Woldeselassie, who took me to school at my early age, she happily fulfilled her parental responsibility without knowing I am sure one day, I would reach this stage.

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Acronyms

ACSI	Amhara Credit and Savings Institution
ADLI	Agricultural Development Led Industrialization
AMSEIDB	Amhara Micro and Small Enterprise and Industry Development Bureau
ANRS	Amhara National Regional State
BDS	Business Development Service
Birr	National currency of Ethiopia
BoFED	Bureau of Finance and Economic Development
CSA	Central Statistics Agency
DFID	Department for International Development
FDRE	Federal Democratic Republic of Ethiopia
FGD	Focus Group Discussion
FSP	Food Security Programme
FTC	Farmers Training Center
Got	Local entity similar to village
HH	Households
HIV	Human Immune Deficiency Virus
IEC	Information, Education, Communication
IPIS	Integrated Planning and Information System
Kebele	Fourth Administrative level
LFA	Logical Framework Approach
M&E	Monitoring & Evaluation
MSE	Micro and Small Enterprise
NGO	Non Governmental Organization
OFR	On Farm Research
PASDEP	Plan for Accelerated and Sustainable Development to end Poverty
PCC	Programme Coordinating Committee
PCU	Programme Coordinating Unit
PIP	Public Investment Programme
Region	Highest administrative level of the country
ReMSEDA	Regional Micro and Small Enterprise Development Agency
RNF	Rural Non-Farm
RNFE	Rural Non-Farm Enterprise
SARDP	SIDA Amhara Rural Development Programme
SIDA	Swedish International Development Agency
Std.	Standard Deviation
SWZ	South Wollo Zone
WAO	Women's Affaires Office
WB	World Bank

Abstract

The Ethiopian rural situation reveals the growing interests in rural non farm income, increasing evidence reflects that rural people livelihoods are derived from diverse sources and are not as overwhelmingly dependent on agriculture as previously assumed.

This study attempted to identify the major problems of rural non-farm enterprise operators that hindered them from starting and running their businesses. Moreover, it also assessed the prospects of these non-farm enterprises in the study area (Bededo and Harra kebeles). A standardized questionnaire was employed to gather data from the non-farm business operators at household level. Moreover, in-depth interviews and focus group discussions were applied to make the findings of the survey more reliable and consistent. In addition, the researcher examined policy documents of some government and non-government organizations (considered relevant to the subject of the study) to verify whether they were incorporated the RNFE development issues or not.

The study result revealed the non availability of supportive structures and processes including rural enterprise enabling policies, credit, transport, infrastructures (mainly road, electricity). The study also identified a gap in training (business and technical), and reasonably developed market capable of providing both a steady supply of inputs, for consumption commodities and an outlet to enterprise outputs.

The research findings also indicated the existence of positive prospects in the area of RNFEs. Some of the cited prospects are: the expansion and construction of rural roads being started by the government, the change in the approach of some NGOs in incorporating RNFE issues in their development strategy, and the establishment of FTC in each rural kebeles. These are as also mentioned as major contributing factors to the development of RNFEs.

CHAPTER ONE:
INTRODUCTION

1.1 Background to the Problem

In many rural areas of Ethiopia, agriculture alone cannot provide sufficient livelihood opportunities. Migration is not an option for everyone because; policy-makers may in any case prefer to limit the excesses of urbanization with its associated social and environmental problems. One way out of this problem is to focus on rural non-farm employment that can play a potentially significant role in reducing rural poverty by generating incomes.

Rural non-farm enterprise studies show that the typical rural household in Africa has more than one member employed in a non-farm enterprise Reardon (1997). Islam (1997) also documented that, the share of the non-farm sector in rural employment in developing countries varies from 20% to 50%. Haggblade et al. (1987) has also found that more than 95% of RNF enterprises employ five people or fewer. Besides, as cited in (Reardon et al., 1998).a large body of recent research indicates that at present the RNF sector is thought to be more dynamic and important than was previously believed. In Africa, the average share of RNF incomes as a proportion of total rural incomes is around 42%, which is higher than in Latin America and in Asia

All the above facts and figures give us relevant information on the important role the RNF enterprises play in poverty reduction and economic growth. As per Marsland, cited in Gordon and Craig (2001: 7) the following are some of the major contribution of RNF enterprises:

- absorb surplus labor in rural areas;
- help farm-based households spread risks;
- offer more remunerative activities to supplement or replace agricultural income;
- offer income potential during the agricultural off-season;

- provide a means to cope or survive when farming fails.

Reardon, et al. (1998) indicated that landless households depend on non-farm income to supplement their agricultural wage earnings. Even households who are primarily agricultural households deploy capital and labor between farm and non-farm activities to diversify incomes across the calendar year and reduce seasonal and inter-annual consumption risks. In addition to this, the inherent risk embedded in agricultural production dependence can be mitigated by diversifying the portfolio of activities (Ibid), Hence, risk may be one of the reasons that induces people to diversify income. In many locations, specialized non-farm households have emerged to exploit full-time business opportunities in the non - farm sector. Given the low capital requirements and the small scale of many rural non-farm enterprises, poor households stand as the largest rural non farm employers. For these reasons, policymakers are persuaded to view the rural non-farm economy (RNFE) as a potentially important contributor to poverty reduction.

As stated by Tegegne (1996:81), one possible way of minimizing risk is by diversifying activities and sources of income. As farmers engage in non –farm activities, they get diversified income and this induces them to take more risks. Due to the inherent risk in agriculture, land fragmentation and population increase, meeting the growing needs of the ever-increasing working age population in rural Ethiopia is a challenge. The importance of rural non-farm (RNF) activities in generating employment and incomes during the process of economic development is widely recognized. Many authors ((Reardon, (1997) Gordon, et al, (2001), Lanjouw (2000) and Tassew (1998)) tried to justify the importance of rural –non farm activities as an alternative livelihood strategy for less developed countries like Ethiopia that are severely affected by fragmented land use system through time, natural disaster chief of which being recurrent drought in areas that suffer from chronic food insecurity.

Although RNF incomes are important as an off-season, part-time or home based income supplement for households whose main activity is farming or as a main source of income and employment for landless rural people, engagements in to RNF have their own problems . As it has clearly been indicated in the works of Gordon et al (2001), RNF income in Africa tends to benefit the better-off disproportionately implying significant entry barriers and market segmentation. Moreover, in the absence of appropriate targeted policy, current trends in the relevant sub-sectors suggest that entry barriers may increase. Poor people's access to education and skills, infrastructure, financial capital, social capital and natural resources (particularly land) is examined in relation to their participation in RNF activities. According to same sources, the general policy recommendations are in large part clear and uncontroversial. No single factor can guarantee participation in RNF activities; but rather several interrelated factors play important roles such as; improvements in infrastructure, education, technical and business skills, health and financial services. All of these factors help to facilitate access to sources of RNF income.

1.2 Statement of the Problem

Attempts to increase productivity of agriculture and bring about rural development in Ethiopia have mostly focused on the structural and sectoral problems. These problems are related to land tenure, lack of inputs, inadequate and fragmented land size (Mesfin 1991), pricing and marketing (Tesfaye 1989:1) and over all macro policies of the country (Gezahegne and Metselal 1995: 135)

The rural non-farm sector is a poorly understood component of the rural economy and we know relatively little about its role in the broader development process. This gap in our knowledge is the product of the sector's heterogeneity coupled with a lack, until recently, of empirical or theoretical attention. Rural development policies often neglect the role of rural non-farm activities and their link with agriculture. This could be attributed to the lower understanding of the role of rural non-farm sector in the rural economy and the broader development process (Lanjouw and Lanjouw, 1997).

As Tassew (1998) indicated, this knowledge gap about the RNF has been reflected in the policies of many developing countries including Ethiopia, where there is no deliberately designed development policy that identifies and includes the rural non-farm sector. Instead, Agricultural ministries have focused on farming and industry ministries have focused on manufacturing. There is a social cost to the failure to recognize the importance of the rural non-farm sector. Its importance in decreasing rural-urban migration and its potential role in absorbing the growing rural labour force, thus contributing to the national economy and promoting a more equitable distribution of income are downplayed.

In line with this, the effect of recurrent drought in South Wollo might induce farmers' to be risk averse and allocate some of their resources to less risky businesses. But the effect of farmers prompt decision to start and operate rural businesses in order to diversify their income has its own consequences. As has been mentioned earlier, in an area where there are no Business Development Services (BDS), most businesses start and run impulsively with out getting any information about the business they are planning to start. (SARDP Survey Report,)

Despite the recent attention paid to rural non-farm economic activities by many researchers, such as (Ellis, 1998, Gordon, 2000, Haggblade, et al, 1989, Lanjouw, 1997, 1999, 2000, Reardon, et al (2000), Tassew, 1998, Tegegne, 1996). as far as my knowledge is concerned, the previous studies on RNF were not directly aimed to identify problems and prospects of rural non - farm enterprise development in South Wollo Zone of ANRS.

This paper tries to identify the major constraints the rural household faces by to start and run micro and small business activities.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the research is to identify the major problems faced by rural non farm enterprise operators in starting and running their businesses and assess the prospects of these rural non-farm enterprises in Tehuledere Woreda of South Wollo Zone, ANRS.

1.3.2 Specific Research Objectives

a) To identify the major constraints (Human, social, cultural, financial...etc) that hindered rural non -farm enterprises to start and run sustainable businesses.

b) To assess the inclusion of rural non farm enterprise development issues in the existing development Policies of the country.

c) To assess the existence of supportive structures, processes and institutions created to promote rural non -farm business development services (BDS), (credit, market network, market information, transport and training and infrastructures,) at macro and micro level. and

d) To examine prospects of rural non -farm enterprises in the study area

1.4 Research Questions

The following specific research questions are posited:

a) What are the major factors that affect the participation of rural households in rural non-farm activities?

b) What are the major problems constrained the growth of rural non -farm enterprises?

c) How did the MSE, Rural Development, Trade and Industry...etc policies entertain the issue of rural non-farm enterprises?

d) Are the issues of rural non-farm enterprises development included in the policies of NGOs?

e) What kind of policies and institutional supports are needed to promote the growth of rural non-farm enterprises?

f) What are the prospects of rural non-farm enterprises?

1.5 Significance of the Study, Scope and Limitation of the Study

1.5.1 Significance of the Study

The study tries to explore one of the most important and topical developmental issues today, especially for developing countries. More specifically, it will examine rural development through rural non - farm enterprise development, RNFE is one of the development endeavors considered to have great potential to contribute to the over all development of rural dwellers. The study tries to address the area of micro enterprises that is critical in helping households to diversify their livelihood, enhance their income and employment by focusing on problems embedded by being dependent on rainfed agriculture.

This study intends to identify the major problems that constrained the development of rural non-farm enterprises and assess the prospects of this sector with special reference to Tehuledere Woreda. The contribution of the study could be seen as two-fold. On the one hand, it tries to show the major factors that are inhibiting enterprise diversification, in the non-farm sector and on the other; it identifies factors that can enhance the growth of rural non-farm enterprises. Some important factors in growth prospects such as natural resources, physical infrastructure, proximity to town or linkage with urban areas, market and financial access, etc will be mentioned in the study.

The findings of the study could be useful not only to the area where the research has been conducted (South Wollo) but also to the country at large. The finding of the study with regard to problems of rural non-farm micro enterprises could invoke the interest of policy makers and development practitioners in governmental, non governmental organizations and for the donor community as well as for business development service providers.

With regards to bridging the knowledge gap in the area of study, the finding may contribute in exposing the problems, constraints and prospects of rural non-farm activities at the local level.

1.5. 2 Scope of the Study

The study limits itself to the identification of major constraints of rural households that hinder them from starting and running their own rural non farm enterprises. The center of attention of this study is to investigate the inclusion and exclusion of rural non-farm issues in the development policy of Ethiopia and assess the existence of supportive structure, process and institutions created to promote rural non-farm business development services (access to finance, training (business management and technical) physical, social, human asset)

1.5.3 Limitation of the Study

The major drawback of the study was the non-existence of Business Development Services (BDS) at the rural Kebele administration level. The study aimed, in the processes of identifying the major problems of RNFEs, to examine the contribution of BDS in reducing problems of RNFEs, assuming the existence of BDS in the study area up to the kebele level, but the reality was completely different. At the data collection stage, the researcher noticed the non existent of the service of BDS program and BDS providers in both kebeles. So the researcher was enforced to slightly change the way to address the issue and fully focused on examining the problems and the prospects of RNFEs the other limitation was that there was limited time with most interviewees because interviews were held in homes or business premises that were not completely free from frequent interruptions.

1.6 Structure of the Paper

The research paper is composed of six chapters. Having the current introductory chapter as a background covers introduction, statement of the problem, significance and objectives, scope and limitation of the study. Chapter two deals with over view of the related literature relevant to the subject of the study. And this same chapter lays the conceptual frame work of the study. Basically, it defines different concepts and discusses the factors enabling growth of rural non-farm enterprises. Chapter III deals with the different methodologies applied in going about the research project. In this chapter sampling, data collection and analysis method and process followed during the course of the research were presented in some detail. Chapter four presented the background information about the population and the environment of the study Woreda and the two case study Kebeles. Data analysis and the result of the study are presented in chapter V. Finally chapter VI winds up the paper with summary discussion and conclusion. The summary of focus Group discussion (FGD), Household survey questionnaire, check list for FGD and Listing form are presented in Annex I, Annex II, Annex III and Annex IV respectively.

CHAPTER TWO

REVIEW OF THEORETICAL AND RELATED LITERATURE

2.1 Operational Definitions

Having clear and distinct frame work for the major terminologies to be employed in this study is crucial. Thus, the definitions given and employed in this study are given below.

2.1.1 Rural Non –Farm Activities (RNFA)

It is clear that there is no clear definition for the above stated term. However, operational definitions and frameworks were provided in different studies to achieve their stated objectives. For instance, the inter-mingled characteristics between non-farm economies and other related activities such as micro and small enterprises, and informal sectors in general have led scholars to come up with varying definitions. In line with this Stewart, et. al. (1995) describe the terms with reference to its legal status, the operator's work place and in relation to the linkage with governmental regulations, which are the features of rural non-farm activities. In this study, non-farm refers to economic activities within the rural domain. Furthermore, the term "rural" is defined here to characterize residence or work place, mostly on farms. Combining both together, the rural non-farm, could be defined as activities that are not included in the primary sector, such as agriculture or forestry, but includes trade based processing of agricultural products with varying degrees of magnitude. However, non-farm does include trade or processing of agricultural products. Barrett and Reardon (2001) stress that this definition is sectoral, i.e. it follows the convention used in national accounting systems where a distinction is made between primary production, secondary (manufacturing) activities, and tertiary (service) activities. It does not matter where the activity takes place, at what scale, or with what technology. The term 'non-farm' should not be confused with 'off-farm'. The latter generally refers to activities undertaken away from the household's own farm, and as

(Ellis, 1998) uses it to refer exclusively to agricultural laboring on someone else's land. So 'off-farm' used in this sense would not fall within the normal definition of 'non-farm'.

For the purpose of this study, the term "rural non-farm enterprise" refers to the heterogeneous set of economic activities formed in rural areas, but are in one way or another linked to agriculture. It tends to be micro in size, measures in assets or employees, and use of largely traditional methods of production and simple forms of organization.

2.1.2 Micro and Small Enterprises (MSEs)

There is no universal definition of micro and small enterprises since the concept varies with the level of development of a particular country. In defining micro and small enterprises, the most frequently used indicators are amount of capital investment, number of employees and sales volume (Mbilinyis et. al. 1999:51, Rwanshane, 2000:10). Accordingly, micro and small enterprises in Japan are defined in terms of main activity, paid – up capital and number of paid employees. For example, in retail and service trade, the paid – up capital is up to 10 million yen and a maximum of 50 employees. (Bendra, Mbilinyi 1999a: 1)

In Ethiopia, the 1998 national micro and small enterprises promoting strategy defined micro and small enterprises as those enterprises with a capital investment from birr one up to birr 20,000 for micro and those with paid - up capital not less than birr 20,000 but may go up to 50,000 as small enterprises, (National Strategy to Promote Micro and Small Enterprise, 1998).

With regards to the relation between micro, small enterprises, informal businesses and non farm activities, most literatures fail to make demarcations between them. In this study, the non-farm enterprise refers to the heterogonous set of economic activities that are performed or conducted in the rural domain.

2.2 Participation in Rural Non-Farm Economy and Rural Development

As far as the issue of rural development is concerned, it refers mainly to rural farm and non-farm sector development endeavors. Normally, agricultural households deploy capital and labor between farm and non-farm activities, enabling them to diversify incomes across the calendar year and reduce the seasonal and inter annual consumption risks. Thus, we can see from this point that in many locations across the globe, specialized non-farm households have emerged to exploit full time business opportunities in the non-farm economy. As per Hossain (1987:3), engagement in the non-farm economy is needed due to:

- Smooth seasonal income and consumption patterns
- Increase their incomes
- Reduce risk (by spreading income risk across several activities*), and*
- Improve their long-run income prospects (by accruing skills or assets).

In addition to the above specified reasons for participating in the sector, the decision to participate in non-farm rural activities depends on the following reasons. Firstly, household's decision to participate depends on the incentives they face – as yield and risks – when carrying out the farming activities. The second reason is the household's capacity to undertake rural non-farm activities, which in turn resides on other factors such as education status, level of income, access to credit and assets Reardon, et al, (1998). Firstly, there are a set of incentive "levels "that the non-farm enterprise operators face including relative price of outputs from and inputs to activity. Secondly, the set of capacity variables (capital asset including capacity of the families) to undertake the particular activities resides on verity factors as indicated by (Reardon, et al, 1998).

Based on the above explanations, one can infer that the level of participation in rural non-farm activities is determined by a combination of push and pull factors. Reardon *et al.*

(1998) suggest that when relative returns are higher to the RNFE than to farming, and returns to farming are relatively more risky, "pull" factors are at work.

Conversely, when farm output is inadequate and opportunities for consumption smoothing, such as credit and crop insurance, are missing, or when input markets are absent or fail and the household needs cash to pay for farm inputs, "push" factors are at work. As evidence of distress-push, wages or incomes are likely to be lower in the rural non-farm economy. According to Bewley (1986), the push factors emphasize the limited capacity of agriculture to absorb labor, given limited arable land. On the other hand, the pull factors are related to the availability of attractive and more profitable opportunities of work in the non-farm sector. Hence, one can argue that in the scenario of increasing population and its assumed consequences with the relative importance of the sector on state of economic development can be underlined reasons for the general level of households' decision to participate in non-farm activities.

Davis and Pearce (2000) discuss the importance for policy-makers of making this distinction between distress-push or demand-pull since they may require different policy responses. The former may require policymakers to develop appropriate social safety net and interventionist policies to mitigate the short-run negative effects that sometimes accompany this type of diversification (for example, over-rapid urbanization placing tremendous pressure on urban centers, negative environmental impacts, etc.). Where demand-pull factors are driving the process of diversification, policy-makers might seek to provide a suitable "enabling environment" to support the development of the RNFE and sustainable rural livelihoods. However, deciding on whether demand-pull or distress-push factors are at work may not be straightforward (Davis and Pearce, 2000).

2.3 Rural Non-Farm Enterprise Vs Rural Livelihood

Livelihood demands various multi-dimensional opportunities. Especially in rural areas the situation becomes clear because of interrelated factors. As cited in Gordon et al, (2001), in many rural areas, agriculture alone can not provide sufficient livelihood opportunities. Thus, migration might be sought under such kinds of situations in developing countries. However, migration may not be an option for every one and where possible, policy makers may in any case prefer to limit the excesses of urbanization that has got multi-faceted problems. Numerous studies indicate the potential significance of non-farm enterprise to rural livelihood. For instance, it can reduce poverty (rural), diversify income, secure employment opportunities, and reduce migration and so on. Reardon (1997) documented that a typical rural household in Africa has more than one member employed in non-farm enterprise. In line with this, Islam (1997) reported that the share of the non-farm sector in rural development in developing countries varies from 20% to 59%. RNF income share in Africa also ranges between 22% and 93% (Reardon 1997).

In relation to the typological classification of the distribution of share for the activities and in terms of income generation, Reardon, et al, (1998 :5) has pointed out that:...."*in Africa the average share of RNF incomes as a proportion of total rural incomes is 42%, it is higher than in Latin America and higher still than in Asia.*" Several studies indicate that RNF activity in Africa is fairly evenly divided across commerce, manufacturing and services, linked directly to local agriculture of small towns and is largely informal rather than formal.

As it is stated in Haggblade, et al, (1987), the fastest growing business in the non-farm sector is commerce, restaurant and services. In this same study, it is reported that households earn much more from RNF activity than from wage labor, but non-farm wage labor is more important than self-employment in the non-farm sector. Furthermore, the number of employment opportunities by the enterprise is commonly ranged up to five people.

As it is presented above, there are two factors considered for livelihood diversification with their typical characteristics. These are: distress - push and demand-pull. This means that when the former is accompanied by driving factors to elicit responses than simple agricultural activity and the latter promotes the skill of open mindedness for new opportunities, ending in turn for better opportunities and improved livelihood. However, such classifications are dubious for their oversimplification tendencies to ignore in detecting confounding situation for the process in general, Ranjan (2006). Even then, Lanjovw, et al, (2000:17) pointed out that:

> *such employment may nevertheless be very important from a welfare perspective for the following reasons; off farm employment income may serve to reduce aggregate inequality; where there exists seasonal or longer –term unemployment in agriculture, households may benefit even from low non-farm earning, and for certain sub –groups and the population that are unable to participate in the agriculture labor market, non-farm incomes offer some means to economy seasons.*

Generally, the factors that can decide the participation in RNF activities depend on two points. These are incentives offered and household capacity (Reardon, et al.1998). The focus of this paper is related to the former one. The reason might be, that its aim to see the level of income diversification by the rural non-farm activities including other relevant ones. Furthermore, there is an attempt to provide some information on access constraints faced by poor people seeking and involving in the activities.

Sustainability of rural livelihood in many rural areas through agriculture has faced multitude obstructing factors that in turn impacted on the role of the sector from being developing. This can be evidenced by the existence of less significant changes in the presence of declining population fertility rate and slowing population growth. This indicates the presence of a potentially important role for RNF activities in reducing poverty in rural areas and maximizing the opportunity for livelihood. RNF can absorb surplus labor in rural areas, helping farm based households to spread risks, supplementing or replacing their agricultural activities. In this regard, Lanjouw (1999: 4) had said: "*.....expansion of non agricultural employment opportunities is likely to tighten casual labor markets in general and thus raise wage in the agricultural labor market.*"

Lanjouw's statement emphasizes the direct effects of the enterprise while maintaining the direct effects of the non-farm opportunities under issue. In addition to this, Ellis (1998), has suggested that when RNF income increases (wage and other effects assumed), it enables poor households to overcome credit and risk constraints or agricultural innovation as an indirect effect.

However, concluding that the RNF has only positive effect on rural livelihood seems to be a bit far fetched. This implies that there are studies to evidence the other side of the coin. A study by Adams et al (1995) is particularly interesting at this point. Though, unfortunately, the evidence comes from Pakistan, not Africa, the study confirmed that non-farm income as a whole has reduced income inequality. However, when it was disaggregated into unskilled labor, self employment and government employment, it was applicable to the first category only. Both self-employment and government employment have had high entry costs that effectively excluded the poor. Furthermore, the experiences from (Central Kenya) showed that the relationship between rural non -farm and poverty impacts was U-shaped, indicating comparable importance of RNF income in total income to both the poorest and the least poor households (Reardon et al, 2000).

Nonetheless, there are many ways by which RNF activities are important to the poor in Africa. Reardon, et. al. (1998) argues that there are three distinct stages of RNF sector transformations. Firstly, the tendency of RNF in linking itself with agriculture accompanied by large employment proportion and placed in the country side than rural towns. The second is encompassing rapid growth of agro-industrialization, still encompassing all scales of activity. Thirdly, involving the whole second stage and followed by rural – urban linkages and substantial employment in sectors unrelated to agriculture and commercial agriculture. Thus, the experiences explained elsewhere for the importance of RNF in improving livelihood are logical and attractive.

To sum up, the above studies have stated about the relationship between rural non –farm enterprise and rural livelihood and exploring possible explanation for the differentiated patterns needed for an extended discussion. The next section explores possible explanation to the factors enabling the growth of RNFE. The categories are identified to the specified determinants

2.4. Factors Enabling the Growth of RNFE

Currently, scholars are attempting to assess the overall value determinants of participation in rural non-farm activities. The reason for such undertaking hinges on the changing approaches of stakeholders in the processes. For instance, Bryceson (1999) suggested that donors are changing their strategic approaches to rural poverty alleviation by emphasizing on the role of RNFEs in increasing resilience for chaos and improving livelihood, detecting participatory methods, focusing on holistic approach of multi determinants of livelihood out comes and the role of a broader range of assets over the narrower and so on.

The livelihood literature focuses on the influence of individuals or households assets as determinants of poverty and livelihood outcomes. Five categories of assets are identified; human capital, social capital, physical capital, natural capital and financial capital. Though, the livelihood framework is very broad and comprises many components, this study focuses on variables only those that have direct relation to the research objective. These categories are used to structure the discussion that follows later.

A. Human Capital

It comprises the skills, knowledge, and ability to labor and good health important to the ability to pursue different livelihood strategies. For example, Abdulai et al, (1999) found that the probability of participation in non-farm work increases with age up wards of 33 for men and 30 for women, thereafter, inversely related to age. Lanjouw (1999: 5) pointed out that;

> *Breaking down the non-farm sector between causal non-agricultural wage employment and regular, salaried employment in the latter sector rises as education levels rises. The opposite is often observed for employment in the causal non-agricultural wage sector……. Examining the returns to education with in the non – farm sector confirms that earning tend to rise sharply with higher education levels….*

Reardon (1997) cites a number of authors who have addressed the importance of education and skills as determinants of business start ups and wages earned in the non – farm sector. In Africa, better educated members of rural population have better access to any non-farm employment on offer, and are highly likely to establish their own non-farm businesses. Over time, this appears to lead to a dominance of the non-farm sector by a subset of local families. Indeed, there is ample evidence from rural poverty surveys that underline the importance that the poor attach to educate their children. Women are identified as a specific group for which access to education is more limited. The effect of this, in combination with child care responsibilities and other social expectations, is that there is greater involvement of women in the informal than the formal employment sector (Haggblade, et al, 1987). Hence, education enhances the productivity of the work force and in fact, when the level of education increases the stimulation to entrepreneurship activity becomes higher.

B. Social Capital

Now let us turn ourselves to the second major factor, i.e. social capital, affecting non-farm activities. Social capital comprises the social resources (e.g networks, membership of groups, relationships of trust, access to wide institutions of society) upon which people draw in pursuit of livelihoods. Lanjouw (1999: 3) pointed out that: "------ *other characteristics (aside from education), such as race, gender or caste, also play an important role in determining the probability of employment ...*"

The following are some of the characteristics identified in the literature with ample anecdotal evidence of the influence of the factors obtained. One amongst the characteristics is gender. Gender refers to the socially constructed roles of "male" or "female" unlike to their biological differences. Like age, it's a dimension of human capital, but its effects are mediated through social institution hence the discussion on social capital.

As Griffith et al. (1999) reminds us, in terms of population size the majority of the people in Sub Saharan Africa are women. They have, therefore, greater need than most of the income that can be secured through involvement in the non-farm sector. Several African countries experience show that the share of women than men in formal employment is lesser. They also tend to engage in businesses that require lower start-up capital than those in which men became involved. Due to this and other reasons, gender factors are contracting to the type of participation and female leads in particular will be an increasingly important target group for interactive gained at increasing the contribution of the non-farm economy to rural livelihoods.

The nature of groups, individuals and households as integral parts of the existing network has greater influence in the non-farm sector. Thus, individuals in households with better networks have greater opportunities to engage in the sector. Gordon et al, (2000) reported that the ability to migrate and the choice of destination for migration are influenced by social networks. The situation is also influenced by sex characteristics. Men tend to migrate to areas where they already have relatives or friends.

The influence of social network is also extended to the amount of sales and gross margins. Fafchamps et. al. (1998) demonstrated that social network raises total sales and gross margins. The recreation analysis used to determine the returns proved reliable dimensions of social capital. Therefore, assuming the factor for its significant role important implication can be drawn in terms of policy perspectives.

C. Physical Capital

Alike with the above major categories of discussions in determining rural non-farm activities and so for livelihood, the physical capital also explained in the literature with empirical evidences obtained. These are referring to physical infrastructures (e.g .roads, telecommunication, power, water), as well as production equipment and buildings that are more likely to be individually owned.

There is a consensus in the literature on the critical note of infrastructure in the development of RNF economy. Langouw (1999: 3) noted:

-------innumerable studies that document the constrained access of rural enterprises to power and telecommunication, and the high transaction costs caused by inadequate roads. Moreover there is ample evidence to show the banks, marketing and service centers, training centers and other supportive activity, tend to locate where infrastructure is adequate (Besieger et al .1998).

Putting all in one, poverty can be largely explained in terms of location, and lack of access to facilities. In his review of literature relating to diversification, Ellis (1998) observes that in Africa, poverty can be largely explained in terms of location, and lack of access to facilities. When asked what improvements in their circumstances they would most like, villagers most frequently cite road access. Because of lack of this access the majority of African farmers currently 'head-load' their produce to local markets.

Furthermore, power is also the critical component of infrastructure as stated else where. It is because electricity helps to create increased RNF opportunities in several ways. Of these, it is the most obvious and receives most attention in the literature.

Last but not least, improvement in the cost and coverage of telecommunication reduces transaction costs, by improving information flow.

D. Financial Capital

Another major category for our discussion in the topic outlined becomes the financial capital, and it is one of the principal problems for rural households and individuals wishing to start business whether in the farm or non-farm sector having access to capital or credit (Gordon, et al, 2000). It is clear that with out start-up funds, or with only little cash available for investment, household will be forced to confine themselves to a small number of activities which yield poor returns. Islam (1997) cites the study result of four countries in Africa where 30% - 84% of rural industries complained of poor access to credit next to the importance of infrastructure, input and market.

Whilst there is wide and growing experience with micro-credit, the vast majority of rural people do not have access to them (Gordon, et. al. 2000). Thus, many authors comment on the importance of informal source of credit to fill in the gap. The requirements for cash as a start-up capital for non-farm enterprise may be to meet regulatory requirements, as much as, if not more than, any investment in physical capital. Therefore, one can conclude that, the above factors are determinate ones for rural non-farm and rural livelihood. Hence, research on this area to assess the situation and contextual domains is important.

E. Natural Capital

Extending our directions to another category, we found the natural capital to be another principal problem to set in communication among all factors in general. The natural capital comprises the natural recourse such as water, land and common property that are so central to rural livelihoods. Gordon, et. al. (2001:31). Pointed out that: *"these recourses provide a foundation for farming and also for much the RNF economy."*

A number of studies have sought to estimate the extent of additional agricultural income or non-farm incomes on the ways in which natural capital influences the RNF economy. These are: forward and backward linkages, with agriculture (nature and performance of agricultural production affects the nature of RNF activities that can be pursued), labor market linkages (risk, factor bias and seasonality of agricultural activities as affecting patterns of job seeking in the RNF economy), associated income inequalities in farm and non-farm sector (unequal access to RNF income to a large extent echoes inequality in access to land, an effect that is mediated through both capital and labor markets), and risk and vulnerability in the agricultural economy (associated with agricultural livelihoods condition of participation in the RNF sector partly through labor market linkages and overall ability to take risk).

To conclude, the non-farm enterprise and its activities are found to be influenced by the above main factors in general and other unspecified mediating factors that promote or hinder the growth of non-farm enterprises. Gordon, et. al. (2001:38) pointed out that the overall macro-economic environment and the manner in which those policies are implemented are critical determinants of economic growth and employment opportunities in rural and urban areas.

F. Policy

Continuing our discussion to factors identified to relate with rural non-farm and rural livelihood, one can not ignore the importance of discussing the aspect to integrate with rural development strategies and programs. Thus, the following points review the issue in brief.

Rural areas have and continue to undergo dramatic change. Climate change, agricultural policy reform and national policy pose many challenges for the sustainable future of rural areas. Thus, a number of questions must be addressed regarding the evolving and future role of the non-farm sector in general and in developing countries in particular. This will raise the need for assessing and reviewing the existing policies and strategies in general and interventions in particular.

A recent note by Reardon, et al, (2000) reviews the main lessons emerging from recent research on the non-farm economy in Latin America and point out to a series of major lessons for policy makers. As clear from their more wide-ranging assessments of the non-farm economy, some of the points about the lessons to be drawn for policy interventions are more general.

Based on the above points raised about policy intervention the following strategies are some of the points suggested by Berdegué et al, (2000).

a) The strategy for promoting the non-farm economy can not take the form of "one size fits all".

b) Promoting non-farm activities will likely affect the distribution of income in rural areas, but the direction of change is ambiguous.

c) Activist policy intervention to promote non-farm activities must be anchored to evidence that markets are in one way or other failing to produce socially desirable outcomes.

d) A key element in strategy for non-farm development is infrastructure.

e) Finally, a strategy for non-farm development must recognize the links between non-farm activities and agriculture.

To sum up, keeping in mind the above suggested points and integrating those with other contextual facts are going to be assessed in the Ethiopian context in the analysis part in detail. Therefore, we can conclude here that, the nature and characteristics of policy instruments accompanied by specific strategies are affirmatively taken to influence the non-farm sector.

2.5. Constraints to Rural Non-Farm Enterprise Growth

The potential for increasing incomes and reduce poverty in rural households through the non-farm sector is hampered by a number of obstacles. The category of the obstacles resides in different categories of factors. A recent study of the investment climate by the World Bank (2003) in Sri Lanka showed that rural entrepreneurs identified poor quality and availability of transportation, poor access and high cost of finance, limited access and unreliable supply of electricity, marketing difficulties, and poor coverage in telecommunications as the primary constraints to doing business. While the ranking of constraints may differ by province, the top seven (7) constraints identified as major business obstacles are consistent across countries (Gordon, et. al. 2000).

It is clear that, the obstacles identified by rural firms have a negative impact on the productivity of firms, the level of investments made by existing firms, and the number of new start-up enterprises. Evidences also suggest that larger rural enterprises are better able to deal with constraints imposed by poor infrastructure than smaller ones (Jin et al. 2005).

Collateral is often critical to the availability of finance. Almost all loans to rural enterprise require collateral, and land is offered in 75 percent of these transactions. Lack of collateral is by far the most important reason for the rejection of loan applications by non-farm rural enterprises. As it reported in Peter Lanjouw's (quoted in Hay, 2000) report to the World Bank, entry barriers to non-farm activities are concluded to be low access to assets, including information, finance, education and infrastructure.

When we closely observe the constraints on entrepreneurial activity in the rural non-farm sector, poor infrastructure is unlikely to be the sole constraints on rural non-farm activities. The operation of certain markets, such as credit and management, are likely to pose important constraints on the spread of entrepreneurial activity in the non-farm sector. A project headed by Marcel Fafchamps (Oxford University) examines two sets of questions regarding the manufacturing sector in Morocco. The first considers the existence of 'externalities' and tests for their presence by analyzing the relationship between individual firm output with individual inputs as well as total out put (or inputs) in the same location. The second set of question concerns firm entry and exist over time. This more descriptive effort, documents whether manufacturing employment and production has moved away from major towns and it has become more concentrated overtime.

According to the World Bank (2005:d) report, the most critical regulatory weaknesses and institutional problems preventing micro and small enterprises as major constraints include: deficiencies in debt recovery legislation, incomplete land ownership and titling, absence of efficient charge registers over movable collateral, limited availability of credit information and a weak regulatory framework for asset backed securities. These general problems are also requiring government's intervention.

In line with this, the following are the situations when the government interventions are advocated by scholars. Especially the rural non-farm enterprises meet with the suggested requirements. Among these, the prime one is when certain key markets are absent or poorly functioning, in particular credit markets and markets for management and technical skills. Secondly, when non-farm activity generates positive or negative effect which its impact go beyond the individual enterprise, and which governments may wish to influence. Thirdly, prompting the RNFE is seen as being especially effective in reducing poverty, through employment creation, income diversification, and provision of safety nets, or indirect effects, e.g an agricultural wage rates (Gordon, et. al. 2000).

2.6. The Rural Non-Farm Activity in Ethiopia

As it is described by (Lanjouw & Lanjouw, 2001), very little is known about the characteristics, constraints and opportunities of non-farm enterprises, which makes it difficult to assess how this class of enterprises might contribute to poverty reduction. There is dispute in the literature regarding precisely this issue as evidenced in the discussion from Barrett et al, (2001) and Reardon et al, (2002). One view is that non-farm activities provide a dynamic pathway out of poverty; a less optimistic view is that non-farm enterprises are set up by households primarily as a survival strategy, perhaps as a substitute for agriculture for the landless.

As the goal of this paper is to identify the major constraints of rural non farm enterprises in Ethiopia, the topic is of crucial importance since the economy remains highly dependent (and vulnerable) on the performance of the agricultural sector, while ongoing population growth increases the need for income diversification strategies. Promotion of non-farm enterprise activity is considered to be a promising catalyst for development by the Ethiopian government, as manifested in the Plan for Accelerated and Sustainable Development to end Poverty (PASDEP).

Having the general facts about the constraints to rural non-farm enterprises, some points about Ethiopia can be said. Agriculture is the most prominent activity in rural areas of Ethiopia. It's estimated to represent about 85% of rural employment, which is among the highest in the developing countries. This reflects the insufficient development of the agricultural sector which has yet only partly developed backward and forward linkages which could contribute to the diversification of activities in the rural areas. Conversely, the modernization of the agricultural sector and its capacity to provide income to the farmers will imply diversification of activities so that the labor force released by agriculture can stay in rural areas.

As it is reported by Guenther et al. (2007), the empirical evidence on the size and economic significance of the Ethiopian non-farm enterprise sector is very limited, and largely suggests there is little diversification beyond agriculture in rural areas. So, this plainly tells us that the knowledge concerning the size of the non-farm sector is very little. However, based on a small number of case studies cited by Guenther et al. (2007), the current guess has been that some 10 to 35 percent of rural households in Ethiopia may be engaged in non-farm enterprise activities. If one third of the total rural households run non-farm enterprises, then it could be that the non-farm sector is more important than traditionally thought. However Guenther et al, (2007) conclude that more analysis is required to establish the economic significance of the sector in Ethiopia.

To sum up, when we look at the linkage between the business constraints and poverty incidences, since the non-farm sector constitutes a significant part of the rural economy, the constraints for non-farm enterprises may be closely associated within poverty incidence. Therefore, more empirical analysis is needed on the relative roles and future prospects of non-farm activities.

2.7. Review of Empirical Literature

The substantial role of non-farm enterprises in promoting development and other related advantages has been widely discussed. Thus, the following section attempts to surface some of the major ones.

A study conducted by Janvry, et al. (2005) found that rural poverty reduction is generally sought in the role of agriculture in contributing to farm income. However, non-farm employment in rural areas can also be a major contributor. In their study, using detailed household survey data from Hubei province in China , they simulate the counterfactual of what rural households, incomes, poverty, and inequality would be in the absence of access to non- farm sources of income. The study also suggested that, with out non-farm employment, rural poverty would be much higher and deeper, and that income inequality would be wider as well.

Ahmed (2000) cited in Haggblade, et al. (2002) explained that in many settings, agriculture plays a predominant role governing the scale, structure, and evolution of rural non-farm activity. As the green revolution opened out across Bangladesh during the 1980's and 1990's, sale of more than a million treadle pumps, 750,000 diesel tube wells, and soaring paddy production launched an explosion in the RNFE-50,000 paddy mills, 80,000 small traders, and 160,000 rural mechanics launched operation, generating a highly visible, agriculturally driven surge in rural non-farm activity (Ibid). In general, as economic development proceeds, agriculture becomes progressively less important as a motor of economic growth. However, given the wide spread differences in economic conditions and institutional settings, transitions have proceeded at rates that vary considerably across regions and countries (Janvry, et al. 2005).

Almost a quarter of all adults worked in non-farm household enterprises in 1998, typically in combination with farming or another occupation. The same author concluded that, about one worker in ten relied on non - farm household enterprises as their sole source of earnings. These averages hide more than they reveal, because participation in a non-farm household enterprise is strongly related to living standards. About 35% of chronically poor households operated such an enterprise in 1998 compared with 55% of solidly affluent households.

Though rural manufacturing is the most important industrial category in the non-farm sector, employment growth in it decelerated during the 90's. There is also evidence of manufacturing activities shifting away from the rural to urban sector in the country (Janvry, 2006). In the same study, in development related factors of rural diversification, infrastructure has emerged as more important during the 90's.

Results in the study of Janvry et al. (2005) showed that without non-farm employment there will be income inequality. The significant factors identified were education, proximity to town and neighborhood effects that are found crucial in helping particular households gain access to these opportunities.

A large literature based on household survey data tends to suggest the importance of rural non-farm sector in developing countries, Haggblade et al. 1989, Reardon, 2000, Reardon et al. 2001, Barrett et al. 2001, Lanjouw and Lanjown, 2001, Elis and Freeman, 2004]. A review of the case studies of 25 African countries have found that the share of rural income from non-farm earnings is ranging from 22% to 93%, (Reardon, 1997, 1998), on top of Latin American countries (40%) and Asian countries (32%). The corresponding figure for Ethiopia is 36% (Degefa 2005). Newman and Canagarajah (1999) pointed to a large body of recent research that indicated how the RNF sector is now thought to be more dynamic and important than previously believed.

Rural non-farm sector is not only directly contributing to rural households' income and create employment opportunities for those who are directly involved; it also provides cheaper consumer goods for both rural and urban consumers, helps the growth of agricultural sector through input and output inter-linkages between the two sectors Reka, et. al. (2006). Lanjouw et. al. (2001) suggested that non-farm income shares rise sharply with the increase of per capita consumption. Similarly Readon (1997) also found a strong positive relationship between non-farm income shares and total household income.

Non-farm opportunities also play other roles in the management of livelihood portfolios, risk and vulnerability (Stuart, 2001). Under normal circumstances, it contributes to income and in harsh year acts as a buffer or safety net for the poor. Hence, it is generally believed that access to rural non-farm as sector can serve as a potential path way out of poverty (de Janvry and Sadoulet, 2000; Lanjouw et.al. 2001). Conversely, lack of attention to rural non-farm sector is a key constraint to rural development (Mwasu and Thorbecke, 2004).

Rural Investment Climate Survey 2006/7 and Welfare Monitoring Survey for the years 1998 – 2004 indicated the rate of participation in the rural non-farm enterprise is augmenting in Ethiopia. Empirically the survey showed that the participation of households mainly engaged in rural non-farm activities rose from 4.5 percent to 9 percent during the period of 1998 and 2005 respectively. When we see characteristics and composition of the non-farm sectors in Ethiopia, the same survey described that the non-farm trading activities, which tend to be more profitable, are likely to dominate. Of course, the vast majority of firms are very informal. Only 6% of all firms are formally registered with a government office, and most enterprises that are not claimed to be licensed are not required to be registered.

To conclude from the empirical evidences explained above, the economic importance of the non-farm sector and the identification of participants' characteristics and obstacles to the sector's expansion and productivity in the Ethiopian context become imperative.

2.8 Conceptual and Analytical Framework For the Study

Here conceptual frame work of the study will be briefly discussed:

(a) Non – farm Income

The non-farm sector has become an increasingly important source of income and employment in most of the developing countries. Generating income and creating employment are the two important variables that can measure the success of rural non farm enterprises.

(b) Accesses

Accesses to: finance, education and skill training, market information and infrastructure are considered as among the major factors that determine participation in and growth of non-farm enterprises. In what follows, a brief description of these variables will be made.

2) Human Capital (education and business and technical training)

The existence of a positive link between access to, and level of, education on one hand and involvement in the more remunerative non-farm activities on the other is virtually undisputed in the literature (Lanjouw 1999: 5). Indices of education indicators serve as proxies for the stock of skills in the village. For most people in Sub-Saharan Africa, the bottom line is primary education. Thus, we use the proportion of those people who have completed primary education and above in the population of individuals non-farm enterprises. Level of education and intensity of training activities in the area are included as measures to non-farm enterprise activities. Exposure of non -farm enterprise operators to different business management and entrepreneurship trainings will also be used to measure the competency of the entrepreneurs in running their business.

3) Social networks

Individuals and households with better social networks have greater opportunities in the non-farm sector. Once again, this discriminates against the poorest, who suffer lack of (useful) social networks and are, therefore, unable to capitalize on informal opportunities and remain excluded from formal support systems (Smith, 2000). This includes membership of groups, relationships of trust, access to wider institutions of society etc. The existence of these social networks among rural non-farm business operators will serve as measurement of smooth flow of information, market creation and experience sharing.

4) Economic and Social Infrastructure

Proximity to important market centers to capture costs related to transaction, rationing, and information Proxies, such as average distance, to the nearest major/essential economic center (in kilometers), (e.g. shops, market place, main road, banks) are useful. Availability of all weather roads and access to transport facilities play a major role in minimizing transaction costs and in saving working time. In line with this access to credit services is expected to play pivotal role. The effectiveness of such policies will be measured in terms of the activities done in this regard, i.e. availing road facilities, telephone service, electricity, market place arrangement ...etc.

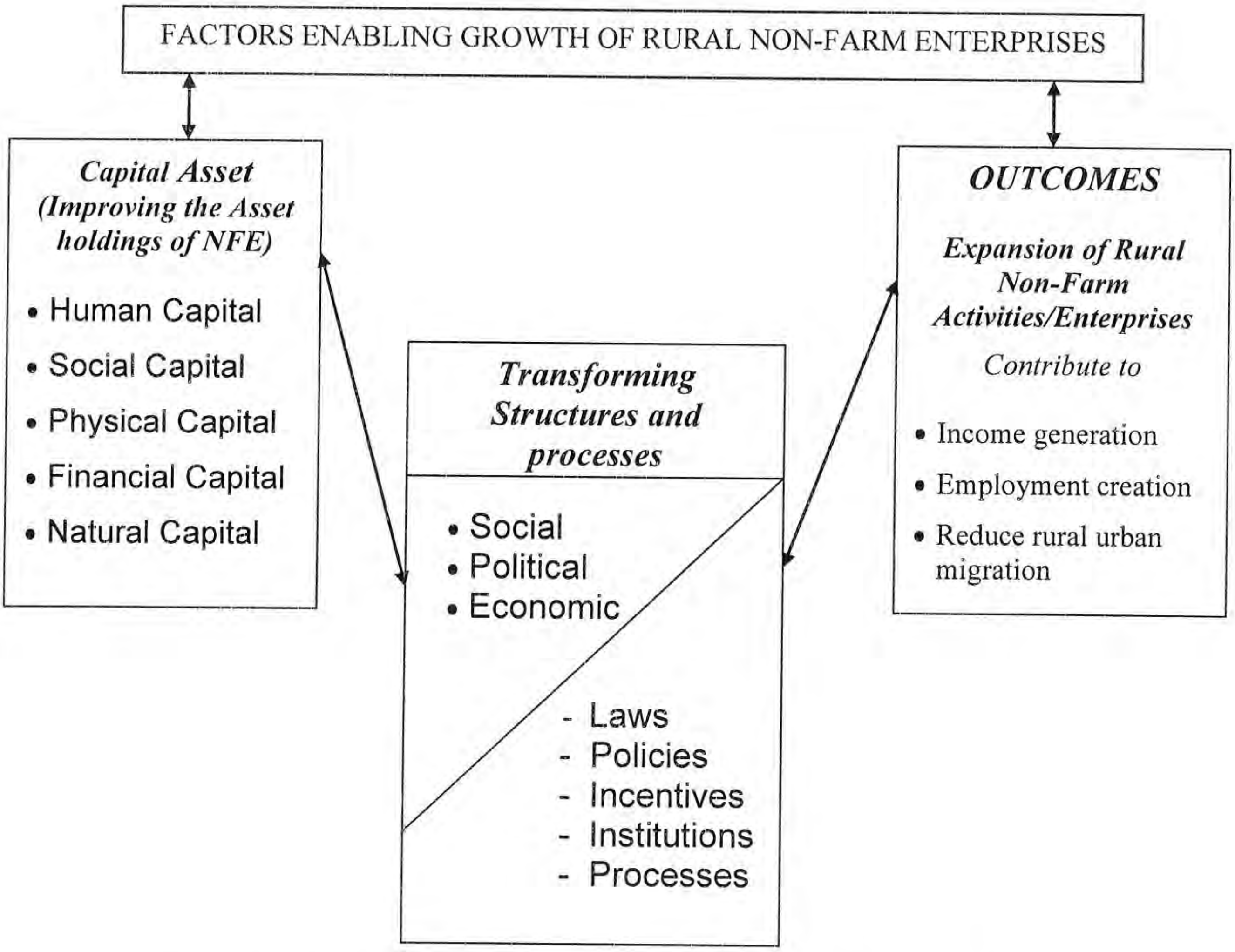
1) Finance (saving, credit)

Depending on the nature of enterprise availability (or access to) a reasonable start-up and working capital can promote or hinder the growth of rural non-farm enterprises. Access to finance affects participation in non-farm employment. It is also closely associated with many other factors which improve access to better paid non-farm employment (contacts, education, and "confidence" in dealing with banks or official institutions, risk-taking capacity). Gordon et al (2001:11) states that own cash sources as an important determinant of households' capacity to start non-farm businesses. There fore, upper income strata households have much higher shares of non-farm income as a proportion of total income, and have higher absolute non-farm earnings.

5) Enabling policy environment / BDS

The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development, without which other factors of development will be wasted or idle away (*Petrin, 1994*). *So* enabling entrepreneurship environment in rural areas is vital. The existence of such an environment largely depends on policies promoting rural entrepreneurship. The effectiveness of such policies will be measured in terms of the availability of BDS providers in the rural areas and the feasibility of the service to rural non- farm enterprise operators, (existence of government structure to provide BDS at Woreda and Kebele level, assigning personnel, capability of the assigned personnel to provide the required service...etc).

Figure-1 Schematic Representation of Analytical framework



- Source: Authors Construct based on Devis. J.R. and Bezemer, D. (2004)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology and procedure used in conducting the study. It is subdivided into the following sections: research design, types and sources of data, the sample and procedure for selecting the sample, methods of data collection, and methods of data analysis.

3.2 Research Design

Many Empirical studies related to non-farm enterprises have employed cross-sectional study design. Literature indicates this study is widely used in status studies. This design is best to study the existing phenomena, situation, or issue by taking a cross sectional data of sample population. Thus, the method could be adapted to collect generalizable information to a population.

The determinants of RNFEs are dynamic and their growth changes over time. To capture such trends other research designs like longitudinal is appropriate.

The study adopted a cross sectional research design, because it involves the collection of data at one point in time. However, such design needs continuous data, more time and cost which makes it impossible to use in this study.

For a thesis work like this, which is expected to be accomplished in limited period of time and limited finance, the cross sectional study design becomes the most appropriate one. Hence, the research has employed cross-sectional research design.

3.3 Data Types and Data Sources

The research employed both primary and secondary data sources. The bulks of the data were quantitative and were collected from the field survey using structured questionnaire. However, due to complexity of the issue, the quantitative data was necessary to be complemented by qualitative data. Hence, in addition to the sample survey, in-depth interviews and focus group discussions (FGD) have been adopted to generate qualitative data.

At house hold level, data on many key variables have been collected. This includes; demographic characteristics of target population: sex, education, religion, marital status, main source of income, land ownership status, type of non-farm activities, and access to relevant institutions ...etc. The data has been collected from all sampled non-farm enterprise operators. To get relevant information through short and long responses on the problems and prospects of rural non-farm enterprises, some open-ended questions were also include in the questionnaire. Moreover, qualitative data was collected from key informants and FGD participants. Finally, in order to improve the questions pretest has been done and adjustments were made accordingly.

3.3 Sampling Procedures and Sample Size

In this study, first purposive sampling was used to select the study area (the Region and the Zone). The researcher considered the following factors while purposively selecting the study area where the study is going to be conducted:

- An area where the researcher is well familiarized,
- An area which is relatively drought - prone and hence food insecure. This is an important factor to study the difference to which livelihood diversification helps in averting risks and finding alternative source of income for a living.
- An area where the land size is relatively too small to the farming population and also has inconvenient topography for farming.

Next, to select the study woreda, the researcher in consultation with the South Wollo Zone MSE office has divided the woredas in the Zone in to two, based on relative availability of rural non-farm activities. Since the objective of the study is to identify problems and prospects of rural non-farm enterprise development, woredas those exhibited low non-farm activities were dropped. Among woredas which have relative better non-farm activities Tehuledere was selected randomly. In order to select the two study kebeles, the 23 kebeles in the Woreda were stratified in to two based on their access to basic infrastructure (road, electricity and telephone services). Here, the intention was see the drawbacks of infrastructural constraint to rural non-farm enterprises development. The two strata were those Kebeles that have relatively better access to basic infrastructure and Kebeles with poor access to basic infrastructure. Then, two kebeles were randomly selected from each stratum, namely Bededo and Hara. Finally, a sample 90 non-farm enterprise operators were selected from the two kebeles. To reach the intended target sample, the researcher used the list of the kebele's roster that households engaged in non-farm enterprises registered. The sampling technique used to reach sample households was simple random sampling technique.

Based on this, 45 (about 20% of the registered non-farm enterprise owners) non-farm business operators from each kebele and a total of 90 sample micro enterprise operators were identified. All the 90 households successfully covered/interviewed.

Table 3.1: Registered Non-farm enterprise operators in the two Kebeles

Study Kebeles	**Registered Non-farm enterprises**	**Sample Non-farm Business operators**	**Percentage**
Bededo	227	45	19.8
Harra	221	45	20.3
Total	**448**	**90**	**20.1**

Source: Based on field survey, 2008

3.4 Methods of Data collection

3.4.1 Primary Data

Primary data was collected through household survey using structured questionnaires. Moreover, check lists were prepared to guide the in-depth interview and the focus group discussions. These tools enabled the researcher to collect both quantitative and qualitative data.

3.4.1.1 *Household Survey*

Data collection was done in February 2008 in two kebeles of Tehuledere woreda. To interview the sample non-farm enterprise owners, the researcher selected four teachers from two junior secondary schools (two enumerators from each kebele) as enumerators. And organized and run a one day training session to make them aware of the purpose of the study and the detail explanation of the questioner. The enumerators went to each sample non farm enterprise operators and filled the questionnaire that was pre tested in advance of the data collection.

Structured questionnaires were used to collect mainly quantitative data and it also served as a base for the in-depth-interviews conducted later on. (Attached as Annex 1).

3.4.1.2 In-depth interview:

In-depth interviews aimed at going beyond the structured interviews to receive explanations about the issue rose in the structured method. The focus of in-depth interview was on rural non farm development variables. After going through the questionnaires interviewees who met the selection criteria for in-depth interviews [3] were identified, after which appointments were made and the interview was conducted. (Attached as Annex 2)

3.4.1.3 *Focus Group Discussion*

Apart from structured interviews the researcher conducted three Focus Group discussions. (Attached as Annex - 3) One focus groups discussion was carried out in each kebele. The group included 8 persons in Bededo and 10 persons in Harra kebeles. FGD conducted at the kebele

[3] (the criteria for selection included the following: who have basic education, have been in non-farm business for more than 3 years , have growth potential and their livelihood based on non-farm business activities)

level mainly consisted of selected RNFEs operators and representatives of the kebele youths and women Associations. And the third one was conducted at the woreda level. Concerned staff from the Woreda: MSE Development Desk, Agriculture and Rural development office, office of Agri-service Ethiopia (NGO), Woreda Administration, BDS program coordinating office, Amhara Credit and Saving Institute, Organization for Relief and Development of Amhara Region (ORDA), the South Wollo Zone SARDP coordinating office and Woreda Women and Youth Association were participated in the woreda level FGD.

The focus group discussion issues were based on the checklists of questions initiating discussion around the subject. During the focus group discussion the researcher has benefited from the assistance of an expert from BDS program implementing office who has a good network with organizations and offices working in the Woreda.

The FGD sought to elicit local views and perceptions on the contribution, problems and prospects of rural non-farm enterprises. In addition it also gave floor to the discussants to identify the kind of support required by non-farm enterprises from GOs and NGOs

3.4.2 Secondary Data

Published and unpublished documents including progress reports, previous research documents, and compiled data were reviewed to get background information about rural non-farm business enterprises. In addition policy and strategy documents were assessed to check whether they have included the rural non-farm development issues.

Ministry of Agriculture and Rural Development, Federal Micro and Small Enterprise Development Agency, Ministry of Trade and Industry, Federal Cooperative Agency and SIDA Amhara Region Development Program National office and World Bank have been the primary sources of secondary data and information. Besides, other supporting documents have been examined from the web sites.

3.5. Methods of Data Analysis

As indicated above, two types of primary data were collected: quantitative and qualitative. Most of the quantitative data were collected using structured interviews. Quantitative data were prepared by cleaning, coding and entering them in a computer using SPSS program.

The quantitative data were analyzed using descriptive statistics such as average, percentage, proportion, etc. The quantitative analytical tools include frequency distribution and cross tabulation. The quantitative and qualitative information will be crosschecked to harmonize information from both sources to validated and triangulate.

The analysis of the in-depth interview data and the information gathered from focus group discussion started during data collection in order to focus the questions and the study as a whole. Guided by research questions each interview transcript was analyzed for concise of thoughts. List of key issues were prepared and findings were organized according to the list. During process of data analysis, the researcher made an effort to look for patterns, differences, variations, and contradictions.

CHAPTER FOUR
TEHULEDERE WOREDA AND STUDY KEBELES

This chapter is devoted to introduce the study woreda and the two case study kebeles. Location of the study area in relation to the Zone and the region is depicted using maps and narratives. The necessary background information regarding topography, socio-economic characteristics of the people and livelihood activities will briefly be discussed.

4.1 Tehuledere Woreda

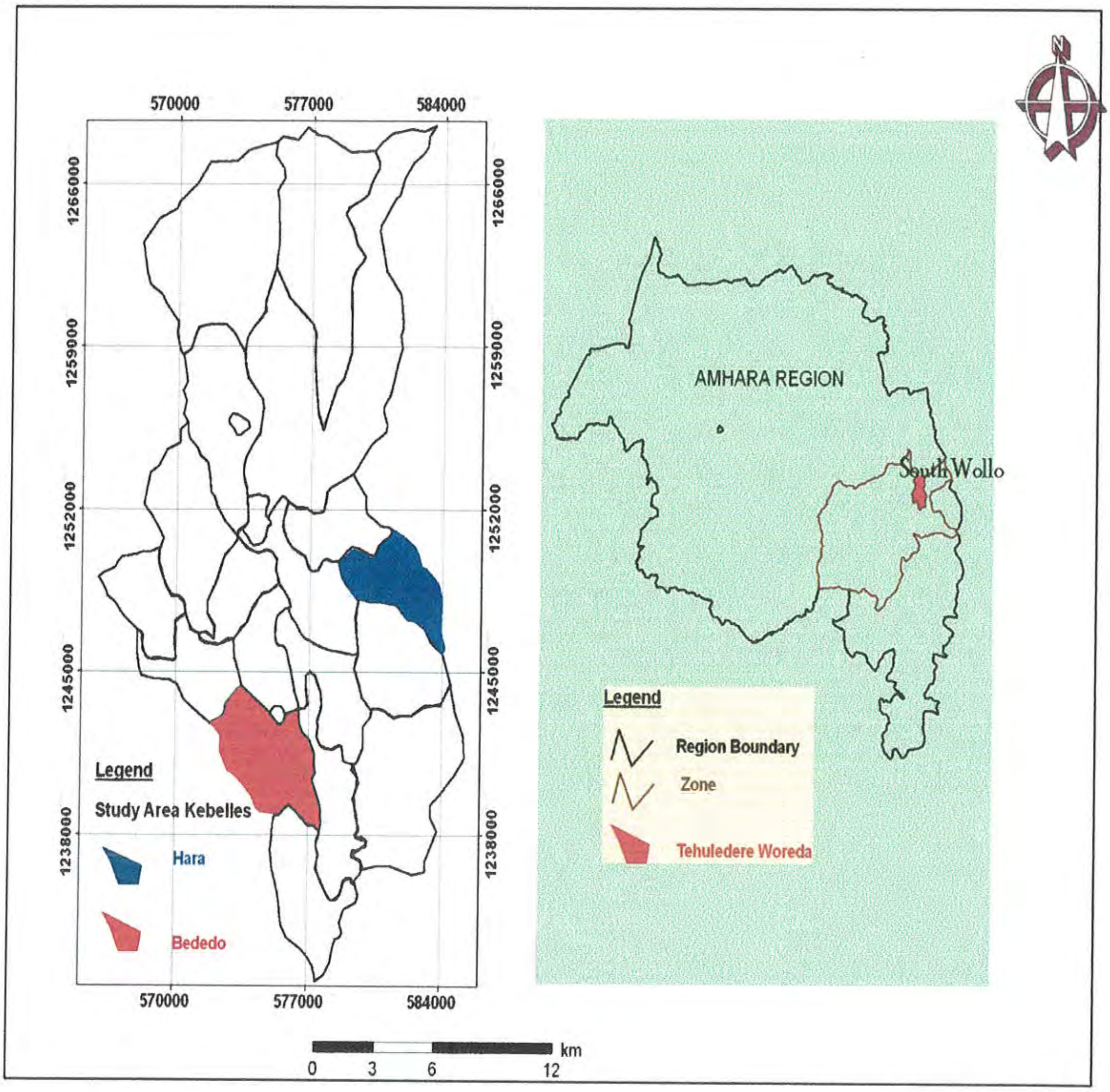
4.1.1 Location and Administrative Structures

The study was conducted in two kebeles (Bededdo and Harra) that are found in Tehuledere Woreda, South Wollo Zone in Amhara National Regional State (ANRS). South Wollo Zone covers a total area of 16,956.06 Km^2 of which 49% is covered by cultivation, grazing and woody vegetation and the rest 51% are covered by water bodies, hills and chained mountains Its population is now estimated at over 3,021,139 million and is growing at an average rate of 3% and 4.5% in rural and urban areas respectively. The administrative structure of the Zone is made up of zonal departments, woreda offices and kebele administrations (*CSA, 2007)*

Tehuledere is one of the 105 woredas in the Amhara National Regional State of Ethiopia. Located at the eastern edge of the Ethiopian highlands in the South Wollo Zone, The Woreda has 23 kebele Administrations including Haik town.

The woreda is bordered to the south by Dessie Zuria, on the south west by Kutaber, to the west by Ambasel, on the north by North Wollo Zone, and to the east by Were Babu Towns (refer Figure 1). Towns in Teuledere include Baso Mille, Boru Selassie, Haik and Sulula. The woreda has two lakes, (Haik and Ardibbo) which lie entirely in its territory (Ibid): belongs to it: Haik and Ardibbo which, is found in the southern part of Haik. (ibid)

Figure 1: Location Map of South Wello Zone, Tehuledere woreda, Bededo and Harra kebele



Source: GIS Team of ANRS (BOFED, 2003)

The South Wollo Zone capital, Dessie town, and the Zonal capital, Haik, are located at a distance of 401 and 431 kms respectively to the north of Addis Ababa on the main road to northern Ethiopia.

4.1.2 Topography, climate and soils of Tehuledere

The study area's landscape is made up of mountains (26%), hilly areas (48%), flat (13.4%) and gorges 12.6% . The temperature ranges between 21 and 27 degrees centigrade. The types of soils prevalent in the area are leme (15%), leme Tef (25%), and tef that is soil type that lack fertility (35%). In some isolated locations, there are also clay soils, which are not suitable for agriculture; rather they are mainly used for pottery, bricks and as water catchments. The amount of rainfall in Tehuledere Woreda is quite scarce with annual precipitation ranging between 500 – 1200mm per annum. (BoFED, 2001/2002)

4.1.3 Population

The total population of Tehuledere woreda in the year 2007 is estimated at 169,579, of which 82,275 were males and 86,304 females; about 12.38% of its population (20,455) is urban dwellers, which is closer to the zonal average of 12.4%. With an estimated area of 484.69 square kilometers, Tehuledere woreda has an estimated population density of 349.9 people per square kilometer, which is greater than the zonal average of 178.2. The average family size is nearly six persons per household (CSA, 2007).

4.1.4 Livelihood activities

The Agriculture and agriculture-based economic activities dominate the livelihoods of the woreda and crop production is the dominant source of livelihood. Tehuledere woreda as well as South Wollo Zone suffer from chronic food insecurity. Over 60% of the population lives below the officially recognized poverty line. In a normal agricultural production year, only 10- 15% of the rural households produce enough to feed their families, the remaining 85% experiencing 1 - 9 months of serious to severe food shortages. (SARDP Report, 2002)

Maize and Millet are the major crops produced for food and for sale in the lowlands. . However, the major cash crop grown and bringing remarkable differences among small size farmers is quat/*chat*[1]. The production of chat is low even as the size of farm holdings is too small. Although the land problem is frustrating, people who are engaged in 'chat' business are

[1] *Chat or Quat* is the leaves of the shrub Catha edulis which are chewed like Tobacco or used to make tea, has the effect of a euphoric stimulant. (The free dictionary.com/quat)

economically better than others. Milk production is very low as most of the peasants keep indigenous breeds. The size of farm holdings are also too small to expand mixed farming (*BoFED, 2003)*.

4.2 The Study Kebeles

The two study kebeles Bededo and Harra are located in the south eastern and western pat of Tehuledere's major town of Haik respectively. Both kebeles share more or less similar climate and Soil type, the temperature ranges between 23 and 27 degrees centigrade. The types of soils prevalent in the two kebeles of Bededo and Harra are leme (16%) , and 18% leme Tef (26%), and 24% and tef that is soil type that lack fertility (38%) and 35% respectively in addition to this Bededo has a good type of clay soil. (BoFED, 2001/2002)

When we see the total population of the two study kebeles (Bededo and Harra) the estimated population size for Bededo in the year 2007 was 9435, of which 4727 were males and 4708 females and for Harra the estimated population size was 7074, of which 3608 were males and 3466 females. The average family size of Bededo and Harra is nearly six and seven persons per household respectively. estimated from (BoFED, 2003/2004)

As per the survey report of SARDP 2002, the rural populations in South Wollo Zone, also the study woreda and the kebeles have become increasingly difficult to rely on agriculture as the major source of livelihood. The prevailing subsistence agricultural economy, characterized by small land holdings, large family sizes (6 persons per family), increasing number of landless young people, and unfavorable prices for crops, force many people to leave rural areas and seek opportunities elsewhere. That is why income from non-farm activities becomes the second most important source of livelihood in the woreda. Petty trading plays a major role in generating non-farm income. Weaving, matt making, pottery, tannery and blacksmith, metal work, carpentry and construction are enabling to some households to generate income.

In this situation, economic diversification and the possibilities of finding new job opportunities outside of the traditional agriculture sector are important. The establishment of

Micro and Small Enterprises (MSEs) and the introduction of Business Development Services (BDS) and other MSEs promotional activities in ANRS is now an urgent priority. However, such development is hindered by lack of appropriate policy supports such as, lack credit facilities, absence of vocational, entrepreneurial and business management skills, lack of market information, reliance on backward and outdated technology and poor infrastructure mainly poor road facilities.

As stated above, provision of credit and mobilization of the savings system is among the major preconditions for economic diversification. Yet, micro-finance services in the region are still unable to meet the demand, even to the poorer segments of the society. It is estimated that the combined coverage by ACSI, the largest MFI in the region and other licensed MFIs is only 10-12% of the demand. (SARDP report, 2002)

CHAPTER FIVE
RESULTS AND DISCUSSION OF THE STUDY

5.1. Characteristics of Rural Non-farm Enterprises in the Study Area

5.1.1 Demographic Characteristics of Non-Farm Enterprise Operators

The total samples of RNF business operators include 58 % males and 42 % females. Besides, gender distribution at the kebele level shows that out of the total 45 sample business operators from Harra kebele, nearly 64 % are run by male business operators and the rest, i.e. 36%, female business operators. (Table 5.1) This might exhibit the existence of cultural barriers and male dominance in asset ownership and decision making at household level in rural remote Kebeles, most particularly in Harra, compared to people living in Kebeles nearer towns with access to various facilities or this might happened because of sampling failure..

Table 5.1 Characteristics Non-Farm Enterprise Operators by Kebele

Variables	Harra (N=45)	Bededo (N=45)	Total (N=90)
HH Characteristics			
Sex			
Male	29 (64.4%)	23 (51.1%)	52 (57.8%)
Female	16 (35.6%)	22 (48.9%)	38(42.2%)
Marital status			
Never married	6 (13.3%)	4 (8.9%)	10 (11.1%)
Married	33 (73.3%)	35 (77.8%)	68 (75.6%)
Divorced/separated	3 (6.7%)	2 (4.4%)	5 (5.6%)
Widowed	3 (6.7%)	4 (8.9%)	7 (7.8%)
Religion			
Orthodox Christians	6 (13.3%)	2 (4.4%)	8 (8.9%)
Muslim	38 (84.4%)	43 (95.6%)	81 (90.0%)
Catholic	1 (2.2%)	0	1 (1.1%)
Education Status			
Illiterate-Unable to read & write	11 (24.4%)	16 (35.6%)	27 (30.0%)
Literate-Able to read & write	12 (26.7%)	8 (17.8%)	20 (22.2%)
Primary-Grade 1 – 5	9 (20.0%)	14 (31.1%)	23 (25.6%)
Middle level-Grade 6 – 8	6 (13.3%)	3 (6.7%)	9 (10.0%)
Secondary school-Grade 9 – 12	7 (15.6%)	4 (8.9%)	11 (12.2%)

Source: Based on field survey, 2008

The same Table shows, in Bededo Kebele, however, the number of male and female business operators is almost the same (51% and 49% respectively).

With respect to marital status, more than 75% of the sample business operators are married. Single business operators are 11%. Classification by religion shows that 90% of the business operators in the samples are Moslems. In addition to this, interms of marital status and religion, the distribution of sample business operators have no significant variation as it has been depicted among the two kebeles. With regard to educational status, about one third of the sample business operators, i.e. 30%, are found to be illiterate, while those with formal education between grades 1 to 5 account for 25%. However, no major variation was observed among the two Kebeles.

The mean age of the sample RNF business operators for the combined sample is 35 years and ranges between 19 and 60 years (refer to Table 5.2). The average family size for the combined sample business operators is 5.12, with a standard deviation of 2.4. Besides, the minimum and maximum family size is 1 and 13 respectively. Furthermore, the variation among the RNF business operators in the two Kebele ranges from the lowest 4.91 for Bededo Kebele to the highest 5.33 for Harra kebele. This difference could probably have resulted from little access to family planning services in remote areas with poor infrastructure and transportation facilities.

Table 5.2. Profile of Non-Farm Enterprise Operators by Kebele Administration

Household Profile	Harra (N=45)				Bededo (N=45)				Total (N=90)			
	Mean	Std. Dev	Min	Max	Mean	Std. Dev	Min	Max	Mean	Std. Dev	Min	Max
Age	34.60	8.6	19	55	35.40	10.0	22	60	35.00	9.3	19	60
No. Children	2.49	1.8	0	7	2.87	1.9	0	7	2.68	1.9	0	7
No. Dependents	1.13	1.7	0	8	.24	.61	0	3	.69	1.3	0	8
Total household size	5.33	2.6	1	13	4.91	2.2	1	9	5.12	2.4	1	13

Source: Based on field survey, 2008

5.1.2. Types of Engagements and Reasons for Participation in the Non-farm

Table 5.3 shows a cross tabulation of the sample RNF business operators' main source of livelihood and farm land ownership by kebele administration. As can be seen from the table, of the total 90 sample RNF business operators, 80% of them own farm land. Moreover, out of the total 45 business operators surveyed in Harra kebele, 37 business operators (82.2%) own farm land. Again, of these, 24 of them (64.9%) mainly depend on farming, while 11 (around 30%) depend on non-farm business as a source of livelihood. Similarly, of the total 45 business operators in Bededo Kebele, 35 of them (77.8%) own farm land, and of the business operators owning farm land, those whose main source of livelihood is farming account to 68%, while 20% mainly depend on non-farm business. The above result might probably exhibit that households decision to participate in the RNF business is to generate additional income and/or reduce seasonal and inter annual consumption risks of farming.

As indicated in the methodology part, (see chapter 3) an in-depth interview was done to substantiate or triangulate the survey result. Participants of the in-depth interview were asked to identify major entry factors to RNFEs. In supporting to the survey findings, the most cited factors for entry to RNFEs were means of income diversification, lack of access to farm land and lack of employment opportunity for the poor in both groups.

Moreover, the relative influence of these factors was different in the two study sites. In Bededo kebele lack of employment opportunity was the major factor, while in Harra kebele access to land. The inevitable differences between the two groups for entry actions might be influenced by geographical location of the places that can be attributed by several characteristics. The major and equally important entry factor cited by interviewees from both kebeles was diversifying income sources. One possible reason could be farm activities were not generating enough income for a living.

Table 5.3 Main source of livelihood of the RNFE Operators and farm land ownership Status by Kebele Administration

Kebele	Land ownership Status	Number and Percentage	Main source of households' livelihood						Total
			Farming (Main Source)	Non-farm businesses (only)	Remittance (Main Source)	Off-farm activities (Main Source)	Employed in Other's non-farm business	Farming and non-farm business (Main Source)	
Harra	Own land	Number	24	11				2	37
		% age	64.9	29.7				5.4	100.0
	Not own	Number	0	6				2	8
		% age	.0	75.0				25.0	100.0
	Total	**Number**	**24**	**17**				**4**	**45**
		% age	**53.3**	**37.8**				**8.9**	**100.0**
Bededo	Own land	Number	24	7	1	1	1	1	35
		% age	68.6	20.0	2.9	2.9	2.9	2.9	100.0
	Not own	Number	1	9	0	0	0	0	10
		% age	10.0	90.0	.0	.0	.0	.0	100.0
	Total	**Number**	**25**	**16**	**1**	**1**	**1**	**1**	**45**
		% age	**55.6**	**35.6**	**2.2**	**2.2**	**2.2**	**2.2**	**100.0**

Source: Based on field survey, 2008

The implication is that engagement in RNFEs could reduce rural unemployment problems and high dependency on farming, which is not reliable source of livelihood in the area. Moreover, household can diversify their activities so as to minimize income shocks from agriculture.

The survey and the in-depth interview results were also cross-checked with the FGD participants' responses. As per their reaction on the major reasons for starting non-farm enterprises, firstly, supplementing household income can be taken as an enforcing reason given that productivity in farming is very low; land fragmentation and lack of land for cultivation in the area. Hence, households are motivated to decrease their insecure livelihoods from farm by involving themselves in non-farm enterprises until the goal directed activity attains balance. From the responses obtained, the participants were pushed by explicit consequences from such activities. Therefore, it's possible to conclude that, the responses about the livelihood of the population and the same for participants considered affirmatively with the reasons to start on-farm businesses as cited in the literature.

With respect to the types of RNF enterprises, people in the surveyed areas are engaged in are different. Of the total 90 business operators surveyed around 26% are engaged in pottery and weaving, Petty trading and construction account for more than 22.2% and 14.4%, respectively. Moreover, as can be seen from Table 5.4 below, the distribution in the type of businesses taken up in the two Kebeles shows marked variation. From the total business operators surveyed in Harra kebele, 29% are engaged in petty trading followed by construction (20%) and pottery and weaving (15.6%). On the other hand, in Bededo Kebele 35.6%, 22% and 14% of the surveyed business operators are engaged in pottery and weaving, petty trading and construction, respectively.

Table 5.4 **Type of Rural Non-Farm Enterprises by Kebele Administration**

		Types of Engagement										
Kebele	Number & percentage	Petty trading	Local drink making	Flour milling services	Producing household utensils	Pottery & Weaving	Tannery	Carpentry (wood and metal work)	Constructing houses	Tailor	Other	**Total**
Harra	Number	13	5	2	2	7	0	2	9	3	2	45
	%	28.9	11.1	4.4	4.4	15.6	.0	4.4	20.0	6.7	4.4	100.0
Bededo	Number	7	2	2	2	16	5	5	4	0	2	45
	%	15.6	4.4	4.4	4.4	35.6	11.1	11.1	8.9	.0	4.4	100.0
Total	Number	**20**	**7**	**4**	**4**	**23**	**5**	**7**	**13**	**3**	**4**	**90**
	%	**22.2**	**7.8**	**4.4**	**4.4**	**25.6**	**5.6**	**7.8**	**14.4**	**3.3**	**4.4**	**100.0**

Source: Based on field survey, 2008

5.1.3 Mean Income of RNFEs

Table 5.5 depicts annual mean income of business operators engaged in different business ventures. Accordingly, the highest annual average income is earned by flour mill business operators (annual mean income Birr 5125.00 and a std. dev. Birr 629.00) followed by business operators engaged in household utensils and farm tools production who earn annual average income of Birr 4500.00 (with a standard deviation of 2380.00). The lowest annual average income (i.e Birr 1106.00 and a std. dev. of Birr 943.4) is recorded by business operators engaged in tailoring business ventures. This could indicate that, the better financed households (in terms of capital), who have the ability to engage in a relatively more capital intensive enterprises, will take the lion's share of income generated from the RNFE sector.

Table 5.5 Annual Mean incomes, of RNFE operators by the type of business.

Types of engagement	No.	Annual Average Income (Br)	Std. Deviation	Minimum	Maximum
Petty trading	20	2775.20	2975.29	144.00	10,000.00
Local drink making	7	861.42	809.98	240.00	2,000.00
Flour milling services	4	5125.00	629.15	4500.00	6,000.00
Producing household utensils	4	4500.00	2380.47	2000.00	7,000.00
Pottery & Weaving	23	3193.73	4724.95	156.00	2,4000.00
Traditional Hide Processing	5	3656.40	784.16	2882	4,800.00
Carpentry (wood and metal work)	7	2264.28	1039.51	350.00	3,000.00
Constructing houses	13	2283.07	1184.36	1000.00	5,000.00
Tailor	3	1106.66	943.46	120.00	2.000.00
Others	4	4650.00	3679.22	1700.00	10,000.00
Total	**90**	**2640.24**	**2100.22**	**120.00**	**10,000**

Source: Based on field survey, 2008

In addition to this, annual mean income comparison has been made on the basis of kebele and sex distribution for the surveyed business operators. (refer Table 5.5) Accordingly, the annual mean income of business operators from Bededo kebele is found to be Birr 4980.00, which is almost three fold of the annual mean income of business operators from Harra kebele (i.e. Birr 1740.00). This appears to be the impact of poor infrastructure and transportation facilities on the profitability of RNFEs in remote kebeles like Harra compared to Bededo kebele. The result of an independent sample test shows that, the variation in annual mean income among the two Kebeles is statistically significant (F- value 4.526) at 95 % confidence interval.

Table 5.6. Annual Mean Income, Std. Deviation and F-Statistics by Kebele Administration and by Sex of RNFE operators

		Number	Mean Income	Std. Deviation	Std. Error Mean	F	Sig.
Kebele	Bededo	45	4980.04	7483.14	1115.52	4.526	0.036
	Harra	45	1740.44	1876.36	279.71		
Sex	Male	52	4057.92	6636.11	920.26	0.973	0.327
	Female	38	2405.52	3852.16	624.90		

Source: Based on field survey, 2008

Furthermore, gender-wise distribution of annual mean income indicates that male owned business enterprises earn higher annual mean income (Birr 4057.00) than their female counterparts (Birr 2405.000) (refer to Table 5.6). This could probably be due to the additional responsibilities that women have at home, which inhibit them to fully engage in managing their businesses. However, the gender variation in annual mean income is not statistically significant. Implying that even though, the responsibility of women is high in household variation in annual income share of their business is more or less similar with men.

5.1.4 Source of Initial Capital and Source of Skill

With respect to the source of start-up capital, the result of the analysis indicates that, of the total business operators surveyed, 54 of them (60%) use their own savings and 14% of them cited money received as a gift from relatives or friends as their initial source of capital. Only 6 (around 7%) business operators have used credit from microfinance institutions as their initial source of capital for their businesses. The assumption was credit play a very important role in financing businesses at initial stage but the result of this survey shows that credit is not major source of initial capital. The reason for this may have something to do with the surveyed business operators' engagement in low capital requiring business ventures or the cost of credit might be expensive or the process of credit might be lengthy. Furthermore, as can be seen in Table 5.7, the variation observed among the two kebeles is insignificant.

Table 5.7 Source of initial capital by Kebele Administration.

Source of Initial Capital		Number & percentage	Kebele Administration		Total
			Harra	Bededo	
Source of initial capital	Equib and Own saving	Number	25	29	54
		Total	55.6	64.4	60
	Gift from Relatives/friends	Number	5	8	13
		Total	5.6	8.9	14.4
	Borrowed from relatives & friends	Number	5	0	5
		Total	5.6	.0	5.6
	Grant from NGOs Or Government	Number	1	1	2
		Total	1.1	1.1	2.2
	Micro Finance Institution	Number	5	1	6
		Total	5.6	1.1	6.7
	Doesn't require Capital	Number	3	5	8
		Total	3.3	5.6	8.9
	Gift from Relatives/friends and own saving	Number	1	1	2
		Total	1.1	1.1	2.2
	Total	Number	**45**	**45**	**90**
		Total	50.0%	50.0%	100.0%

Source: Based on field survey, 2008

Table 5.8 Source of skill used to run the RNFEs by Kebele Administration.

Item		Number & percentage	Kebele Administration		Total
			Harra	Bededo	
Sources of Skills acquisition	From parents (Family tradition)	Number	15	22	37
		% of Total	16.7%	24.4%	41.1%
	Through working as apprentice	Number	6	0	6
		% of Total	6.7%	.0%	6.7%
	From friends (through contacts with others)	Number	5	7	12
		% of Total	5.6%	7.8%	13.3%
	From government financed training programs	Number	10	0	10
		% of Total	11.1%	.0%	11.1%
	Own effort	Number	8	16	24
		% of Total	8.9%	17.8%	26.7%
	Through working as apprentice and effort	Number	1	0	1
		% of Total	1.1%	.0%	1.1%
	Total	Number	**45**	**45**	**90**
		% of Total	50.0%	50.0%	100.0 %

Source: Based on field survey, 2008

Literatures give evidence that training is positively associated with RNFEs development. To examine the access and role of training in developing RNFEs in the area, the issue was investigated using the quantitative and qualitative analysis.

Table 5.8, depicts the result of the analysis on the source of skill that enabled the business operators to be engaged in the type of business that they are undertaking. Hence, of the total business operators surveyed more than 41% mentioned that they traditionally learnt the skill from parents (family) followed by learning on own effort accounts to 27%. In the latter case, little variation is observed among the two Kebeles. Surprisingly, benefiting formal training from government training centers, is only cited by 10 (11%) of them and it is only in Harra Kebele. This indicates the non existence of BDS providers in rural kebeles like Bededo and Harra.

As per the discussant of the focus group, the issues of local socio cultural practices also reinforced the survey result. The FGD participants confirmed that traditional handicraft based business operators in both study areas mostly are inherited the technical skill from their parents and family members. For instance, pottery, hand loom weaving, matt making and blacksmithing, basket weaving etc. are inherited from parents to children.. The reason might be related to the social beliefs and faiths to influence the distribution of the skills stated. However, one can speculate the possibility of change in the trend in the near feature because the participation is highly increasing through time.

With regard to the question towards the availability of BDS to start non-farm enterprises, the following interesting facts were obtained from the in-depth interview respondents. It is observed that 27 out of the 30 participants (90%) of the whole group, 11 and 16 from Bededo and Harra respectively, replied that almost no advisory services were available to motivate them to start and run their business. Unlike the survey result, the in-depth interview revealed the Bededo group comprises of a better score in affirming it (in affirming the availability of BD services. This similar question was answered differently by survey question respondents of the Harra group by giving high score to conforming the practice of BDS in their locality. Harra participants.. Besides, observation (social-recognition) factors are in favor of the Bededo group than the Harra group. The implication of their response is clear that, both groups vary to their available opportunity for exposing themselves to the experiences of non-farm enterprises. Furthermore, the results have reliable out come when the family support by the Bededo participants exceed to the Harra group as indicating the prior experiences to the non-farm enterprise that benefited them to take independent action towards the activity. However, the results must be interpreted cautiously when an interested stakeholder speculates about family supports. The reason is that, the role of family support that led participation to the activity has formed considerable results as it is sighted in literatures in general.

The study also assessed whether the surveyed business operators have exposure to training or not and if so, the type of training they acquired (refer Table 5.9). In this regard, the results have shown that out of the 90 business operators surveyed only 12.2% have got training on basic business skills, and of these 90.9% of them are from Harra kebele. The specific business skill they have got includes saving, costing, pricing and marketing. Furthermore, 10 business operators (11.1%) have got technical training, among whom 9 (90%) being from Harra kebele. From the total 90 sample business operators the rest 87.8% didn't get the opportunity to participate in any kind of training programs. But scholars in most literatures suggested that educational and attainment in training programs proves as most important determinants of non-farm earnings.

Table 5.9 Type of training the RNFE operators participated by Kebele.

Item		Number & percentage	Kebele		Total
			Harra	Bededo	
Type of basic business skills	Marketing & buying	Number	3	0	3
		% of Total	18.8	.0	18.8
	Saving	Number	9	0	9
		% of Total	56.3	.0	56.3
	Costing & pricing	Number	3	1	4
		% of Total	18.8	6.3	25.0
	Total	**Number**	**15**	**1**	**16**
		% of Total	**93.8**	**6.3**	**100.0**
Technical training	Farming equipment	Number	2	0	2
		% of Total	20.0	.0	20.0
	Petty trading	Number	3	0	3
		% of Total	30.0	.0	30.0
	Masonry	Number	1	0	1
		% of Total	10.0	.0	10.0
	Carpenter (Wood & Metal work)	Number	2	0	2
		% of Total	20.0	.0	20.0
	Tailor	Number	1	0	1
		% of Total	10.0	.0	10.0
	Machine Maintenance	Number	0	1	1
		% of Total	.0	10.0	10.0
	Total	**Number**	**9**	**1**	**10**
		% of Total	**90.0%**	**10.0%**	**100.0%**

Source: Based on field survey, 2008

Table 5.10 illustrates the source of market information to business operators. It has been found that 44 % of the total business operators surveyed responded that friends and relatives served as the main sources information to be followed by government institutions 11%. However, 31% of the non-farm business operators replied that they undertook their business without any market information; exhibiting either low level of awareness about the importance of marketing information, or lack of access to marketing information, or a combination of both. The kebele wise distribution on the source of market information indicates minor difference. Furthermore, of the total business operators included in the study only 15 (16.7%) have been visited by development agents. Surprisingly, all the 15 business operators are from Harra kebele. This might indicate personal initiative and willingness of the Development Agents working in Harra kebele. Market information is a key to identify the need of potential customers, and working to satisfy this accordingly. Doing business without market information could be similar to exploring new areas with out having a compass.

Table 5.10 Source of information and contact with development agents by Kebele.

	Item	Number & Percentage	Kebele		Total
			Harra	Bededo	
Source of information	Friends and relatives	Number	20	20	40
		% of Total	22.2	22.2	44.4
	Government institutions	Number	6	4	10
		% of Total	6.7	4.4	11.1
	Associations, cooperatives & NGOs	Number	3	0	3
		% of Total	3.3	.0	3.3
	No Source	Number	14	14	28
		% of Total	15.6	15.6	31.1
	I gather information myself	Number	2	7	9
		% of Total	2.2	7.8	10.0
	Total	Number	45	45	90
		% of Total	50.0	50.0	100.0
visited by development agents	Yes	Number	15	0	15
		% of Total	16.7	.0	16.7
	No	Number	30	45	75
		% of Total	33.3	50.0	83.3
	Total	Number	**45**	**45**	**90**
		% of Total	**50.0**	**50.0**	**100.0**

Source: Based on field survey, 2008

5.1.5 Entry Barriers to the Non-farm Enterprises

The other issue analyzed from the survey data gathered was related to the major entry barriers encountered by the non-farm business operators. In this respect, lack of initial capital, lack of business awareness, lack of technical skills, lack of market & lack of input are cited as the major entry barriers followed lack of initial capital, lack of market lack of input, & poor infrastructure (for detail refer to Table 5.11). On the other hand, as far as Kebele distribution on the rank of entry barriers is concerned, it shows some variation. Non-farm business operators from Harra kebele have ranked lack of market, poor infrastructure and lack of input as the major entry barriers but poor infrastructure was repeatedly mentioned in almost all multiple response combinations, while respondents from Bededo kebele ranked lack of initial capital, lack of market and lack of business awareness as the major entry barriers respectively. The results indicate among others, infrastructural difference between the two Kebeles, indicating infrastructure was a major factor for starting and running non-farm business in the two study kebeles.

Table 5.11 Major entry barriers of non-farm enterprises by Kebele Administration

Major Barriers of non-farm enterprises		Number & percentage	**Kebele**		**Total**
			Harra	Bededo	
Major entry barriers	Lack of initial capital	Number	2	0	2
		% of Total	4.4	0	2.2
	Lack of initial capital, Lack of business awareness, Lack of technical skills, Lack of market & Lack of input	Number	7	14	21
		% of Total	15.6	31.1	23.3
	Lack of business awareness, Lack of technical skills, Lack of market & Poor infrastructure	Number	4	3	7
		% of Total	8.9	6.7	7.7
	Lack of initial capital, Lack of market Lack of input, & Poor infrastructure	Number	15	5	20
		% of Total	33.3	11.1	22.2
	Lack of initial capital, Lack of business awareness, Lack of working place, Lack of market & Lack of input	Number	6	5	11
		% of Total	13.3	11.1	12.2
	Lack of initial capital, Lack of business awareness & Lack of market	Number	2	8	10
		% of Total	4.4	17.8	11
	Lack of business awareness, & Poor infrastructure	Number	2	0	2
		% of Total	4.4	0	2.2
	Lack of business awareness, & Lack of input	Number	0	2	2
		% of Total	0	4.4	2.2
	Lack of market & Lack of input	Number	5	3	8
		% of Total	11.1	6.7	**8.9**
	All	Number	2	5	7
		% of Total	4.4	11.1	7.7
	Total	**Number**	**45**	**45**	**90**
		% of Total	**100**	**100**	**100**

Source: Based on field survey, 2008

Here again the survey result is supported by the findings of the in-depth interviews. In case of identifying the major requirements to start non-farm business according to the interviewees, the following results emphasized the variation between the two interviewed groups. In this case, unlike the Bededo group that responded diversely for the requirement extended from market information, access to finance, access to raw materials, access to market and almost half of the interviewees underline on the need of all the above requirements to start. However, the Harra group interviewees emphasized on access to infrastructure (road and electricity), finance, market, and training No difference observed between the two groups in specifying the requirements to start or run non-farm business.

The implication is that access to finance, market, raw materials, information, infrastructure might be among the major factors which determine the entry to the non – farm businesses.

Moreover the in-depth interview groups were asked to explain the role played by physical capital to promote non-farm enterprises. Almost all participants in Harra group agreed on the negative role played in their activities. As per their response it is hard to get transport within and outside of the woreda as compared to mixed response in Bededo. Both groups are appreciating the role of pack animals though with varying proportion. Five of the 15 respondents in Harra and 2 of the 15 respondents in the Bededo group appreciated the role of pack animals, this might be related to the different geographical features of the kebele under focus.

As transportation facility is directly related with success or failure of non-farm enterprises, participants were asked to evaluate the transport situation in their localities. The majority of the participants mentioned the multi-dimensional effects of lack in transportation facilities. A total of 20 participants confirmed inadequate transportation negatively affected their businesses. The Harra group was particularly concerned with the inadequate transportation. The group was seriously affected by infrastructural/ road problem to reach the market.

This finding is also consistent with literature. For instance, Lanjouw (1999) reported that availability of all weather roads and access to transport facilities play a major role in minimizing transaction costs and in saving working time.

5.1.6 Potentials of Non –farm Enterprises

In order to prioritize the potentials of RNFEs in the area participants were asked to identify potentials of NFEs. Accordingly respondents listed the potentials of the NF enterprises in level they perceived.

As perceived by the business operators (Table 5.12), the non-farm enterprises have the ability to provide various services to the community, creates job opportunity and generating additional income considered as higher potential to the sector followed by providing various services to the community and generating additional income. As far as the distribution of business operators resided in the kebele is concerned, the perceived potential of the non-farm business has exhibited some variation. For instance, business operators surveyed from Harra kebele acknowledged both the ability of the sector to provide various services to the community as the major potential of the sector (selected by equal number of respondents 8 each). On the other hand, respondents from Bededo Kebele identified the sector's ability to generate additional income (with a total number of 10 respondents) and provide various services to the community (with a total of 8 respondents) stood as the first and second potentials of the non-farm business sector receptively.

Table 5.12 Potentials of non-farm enterprises by Kebele Administration

Potentials of non-farm enterprises	Number & percentage	**Kebele**		**Total**
		Harra	Bededo	
Generate additional income	Number	6	10	**16**
	% of Total	13.3	22.2	**17.8**
Provide different services to the community	Number	8	8	**16**
	% of Total	17.8	17.8	**17.8**
Generate additional income and Provide different services to the community	Number	12	7	**19**
	% of Total	26.7	15.6	**21.1**
Generate additional income, Provide different services to the community, Create job opportunity where land is scarce and Contribute to economic growth	Number	7	13	**20**
	% of Total	15.6	28.9	**22.2**
Generate additional income, Provide different services to the community and Create job opportunity where land is scarce	Number	**3**	**3**	**6**
	% of Total	**6.7**	**6.7**	**6.7**
Generate additional income, Provide different services to the community and Contribute to economic growth	Number	**1**	**1**	**2**
	% of Total	**2.2**	**2.2**	**2.2**
Generate additional income, Create job opportunity where land is scarce and Contribute to economic growth	Number	**1**	**0**	**1**
	% of Total	**2.2**	**0**	**1.1**
All	Number	7	3	**10**
	% of Total	15.6	6.7	**11.1**
Total	**Number**	**45**	**45**	**90**
	% of Total	**100**	**100**	**100**

Source: Based on field survey, 2008

Regarding the potentials of non-farm enterprises, the FGD findings' and the researcher's observation in the field portrayed that the potential of the NFEs most of the time was linked with the potential of the enterprise's working area. For example, Bededo has good quality clay soil resource, so that many women engaged in pottery and Lake Ardibu is a good opportunity for fish trapping net makers in Harra kebele . This implies that, the typical kind of potentials influenced and enabled the development of non-farm enterprises.

5.1.7 Benefit Gained from Non –farm Enterprises

The benefits attained from the activities of non-farm enterprises were investigated through the in-depth interviews. The result showed the following pattern: the benefit in enabling to cover household expenses as part of diversifying income accredited by the majority of the interviewees of Harra group participants than the affirmed responses to the same benefit by Bededo group. The mass of the Bededo interviewees claimed that the benefits were stretched from covering household expenses to getting social acceptance in their community. However, the Harra group participants were dispersed gently across these benefits and majority of participants responded supporting families, getting social acceptance and saving money for the future. These are the typical benefits from the activity as compared to the Bededo group. The possible explanation for this variation might be, the Harra group participants late stimulated participant to the benefits of non-farm enterprises which might indicate the role of rural non-farm enterprise to facilitate the whole development.

5.1. 8 Magnitude of Involvement in Both Farm and Non-Farm Businesses

Having the purpose of comparing to the magnitude of involvement in both farm and non-farm enterprises by the participants, the result obtained from the in-depth interview was as follows. Of the total 30 interviewees, the big majority responded this question affirmatively out of the in-depth interviewees in each kebele, 10 and 8 were from Harra and Bededo respectively. This implies that majority of the participants are engaged in both activities. The reason behind this diversification indicates that shortage of land (to complement farm income) and efficient use of resources not to depend on farm based activities only. This implies the reason for most respondents to be involved in both farm and non- farm businesses might be aiming to reduce risk of failing to generate income from either sector, or to supplement their farm household income because the income from farm might not be sufficient enough to cover household livelihood expenditure.

Whereas, from the total of 30 interviewees almost half of them engaged only in RNFEs. When we look at the kebele variation, out the only participants in the non-farm businesses were 58.3% and 41.7% from Bededo and Harra respectively. However, lack of adequate land as a reason was in favor of the Harra group respondents as compared to the Bededo group which was dominated by seasonal factors for farming. On the other hand, the entire dependence on non-farm activities was due to the absence of land and the personal interest to use all time in non-farm business which was common reason for both groups.

5.1.9 Current Situation of Rural Non-farm Enterprises

To assess the current function of the non-farm enterprises, an interview question was posed about the present status of their activities in the in-depth interview. Respondents in both Bededo and Harra (26.7% vs. 33.3%) replied that their business is going smoothly. Of the remaining, almost equal number of participants in both groups responded that the business is frustrating and accompanied by so many factors that hindered their business growth. However, the frustrating factors for the groups are varying some how. For example, majority of respondents for Harra group concentrated on the physical capital (unavailability of electricity, telephone services and all weather road access) obstructing factors than the Bededo group whose answers are more inclined towards financial capital and market access as major constraints.

5.1.10 Availability of Network in the RNFEs

Results of the study, from the in-depth interview, on existing business network availability showed the following results. From the total interviewees, 8 (53.3%) and 7 (46.7%) respectively from Bededo and Harra groups responded they don't have any net work at all. Keeping in mind, the location differences to both places, one can conclude the role required to be played by relevant bodies seems to be weak and insignificant. Similarly, proportional responses obtained from both kebeles revealed RNF business operators only depend on the local markets. The presence of NGOs to promote their interest seems to be limited experience to both groups where "chat" traders and pottery makers associations are involved for supply purposes in both groups. Generally, the existence of business network for non-farm enterprises considered as a ground in literatures seems vacant in the places under issue.

5.1.11 Assessment of Government and Non Government Support

The study also assessed the availability of governmental or non-governmental organizations that support the non-farm business sector, the services that these organizations provided and the level of efficiency in their service provision (refer Table 13). Of the total sample surveyed, only 17 (18.9%) respondents[1] confirmed the availability of service giving organization in their localities,13 (14.4%) being from Harra Kebele, while the rest 4 are from Bededo Kebele. Moreover, with regard to the type of service provided by the organizations, 8 respondents replied advisory services and 4 of them replied the service they have got to be related with trade license issuance.

During focus group discussion, attempt was made to see whether favorable policy exists for non-farm enterprise development in the locality, as it was necessary, for instance, to find out the existence of business development service providers (BDS) at "Kebele" level. The response was almost in the negative. There are no such services. No body is involved in promoting non-farm enterprise. There is no policy and no strategy for RNFE development in the sector.

[1] These respondents include owners relatively capital intensive businesses such as flour mills, metal and wood work that have frequent government contact for licensing, tax etc...

Table 5.13: Organizations Supporting Non-Farm Enterprises and their Competency

	Type of services	Number and percentage	Kebele Administration		Total
			Harra	Bededo	
Type of Support Services	Trade license	Number	4	0	4
		% of Total	23.5	.0	23.5
	Advisory services	Number	6	2	8
		% of Total	35.3	11.8	47.1
	Facilitate access to working place	Number	2	0	2
		% of Total	11.8	.0	11.8
	Business awareness training	Number	0	1	1
		% of Total	.0	5.9	5.9
	Technical (Skill) training	Number	1	0	1
		% of Total	5.9	.0	5.9
	Give Loan and Saving Service	Number	0	1	1
		% of Total	.0	5.9	5.9
	Total	**Number**	**13**	**4**	**17**
		% of Total	**76.5**	**23.5**	**100.0**
Quality of services	lengthy process	Number	7	2	9
		% of Total	41.2	11.8	52.9
	In most case they are not available in their offices	Number	3	1	7
		% of Total	17.6	5.9	41.2
	They don't know how to give support to rural non-farm enter	Number	3	1	4
		% of Total	17.6	.5.9	23.5
	Total	**Number**	**13**	**4**	**17**
		% of Total	**76.4**	**23.6**	**100**

Source: Based on field survey, 2008

Finally, during the field survey respondents were asked to describe the quality of the limited services provided by the organizations. Accordingly, 9(10%) respondents mentioned that the service provisions as having lengthy process, where as 6.7% respondents replied the service providers were not available in their office, while the rest described the service as incompatible or inappropriate with the needs of rural non-farm business operators.

This survey result also justified by the FGD, which was conducted with representatives GOs, NGOs and private BDS providers. One of the major issues raised in relation to rural non farm- enterprises to the focus group was about the role of government organizations in promoting the sector. Almost all participants responded that the role played by government to support rural non-farm enterprises was not worth mentioning. This indicates that policy instruments are not designed specifically for the rural areas like the ones under study. The same responses were obtained about the role of NGO's (Non Governmental Organizations) in promoting rural non-farm enterprises. It seems that both governmental and non-governmental organization have little role in promoting the rural non-farm activities.

In general, the issue related to problems of RNFEs was well discussed by the FGD participants and they pinpointed the following major problems.

- Limitations in road and communication facilities, access to finance, training were held as major barriers for the establishment and the growth of RNFEs. Among these, poor transportation facilities, lack of access to finance and high costs for the limitedly available finance (high interest rate), come out as very crucial.
- Unavailability of electricity supply, lack of market information and isolation from supply chains is mentioned by the participants in the group.

One can conclude that if these constraints in the rural areas are solved, the growth of business are likely to improve and more non-farm enterprises are likely to emerge.

5.2 POLICY AND STRATEGY ANALYSIS

The establishment and growth of RNFEs may also be constrained by government policies and strategies. To assess the possible constraints at macro-level, the researcher has consulted all relevant government policies and strategy documents, and the summary is presented as follows:

PASDEP aims at massive employment creation for a measurably sustainable economic growth in the country. It appears, however, that employment creation schemes seem nearsightedly an urban issue. While little is echoed of RNFEs, independently or as a cross cutting issue, many of the rural development strategies seem to be agricultural focused. The plan identifies diversification as a rural intervention except that it is myopic where farm level diversification is on concerned. On the other loop, the plan realizes that infrastructural development is likely to help promote the development of RNFEs. In fact, infrastructural development would have meaningful impact when due emphasis is given to the RNF sector in general. Hence, the RNF sector has little to contribute to the overall rural development agenda in the PASDEP .

The Industrial Development Strategy can be literally pro-entrepreneurial when it conveys on the entrepreneurial machine as of gravitational core. However, it seems to over look the important developmental roles the RNFE can have. In fact, the strategy is heavily skewed towards the medium and large companies with the presumption that these sectors would absorb more labor & hence increase employment opportunities. With respect to the account of rural employment creation through RNFEs, quite little is said. Another well articulated issue on the strategy is that inceptive packages are to be administered for the sectors with a strategic importance. It obviously refers to the big ones. This is also another discouragement for the RNF sector. The implications of this strategy to the development of RNFE are not duly considered.

The MSE Development Strategy takes more on the institution zones of the sector underscoring the importance of streamlining these institutional operatives to the MSEs. The strategy is, however, such that all but assumes the MSEs as a homogeneous pie. MSEs (such as RNFEs) have revealed heterogeneity requiring disintegrated data and hence custom tailored policy interventions be put in place or, put it in other words, provisions made in favor of MSEs are likely to miss targets as the heterogeneity factor pronounces differences in many defining variables like, financial capital, skill (managerial \ entrepreneurial, human), social (networking), experience, market, type and nature of business etc. of the MSE group.

The Urban Development Strategy has given due emphasis on the importance of support for the MSEs in creating employment opportunities. This has to do a great deal in fueling urban development. However, it may beg a question as to how the strategy works out to creating employment opportunities. It even hopes that the government sponsored projects, (like housing development) can play a minimum role in creating employment opportunity in urban centers. More important to the strategy is the issue of rural-urban linkages. But this is not clear as how the RNFE development is incorporated in to the transformation process. Rather, the linkage is aimed at sting opportunities for the MSEs in the urban areas. Another important issue to the process is the inevitable rural to urban influx of people in search of better living. This is particularly an impediment for the urban development interventions while employment and other economic activities are meant to concentrate in the urban areas. Thus, any urban development attempt short of promoting the RNF sector is of limited impact on the ultimate urban development.

The Micro Finance Proclamation is one which emerges with the idea of facilitating the development of micro finance institutions in the country in a more sustainable manner. The micro finance institutions are currently providing different credit products/ services both to the urban and rural areas with emphasis placed on the rural areas around agriculture. The loans are mainly short term. The short term nature of the credit is by large prohibitive as the financial / capital base of the poor is very weak and vulnerable to shocks. Hence the long-term effects of the credit may be questionable. The development of the RNFE is likely to fall behind.

The Policy on Women and Youth attempts in bringing a largest proportions of the population i.e. women in to the economic machine. However, this policy seems to account 'women catching up'. The policy is in general women biased completely detaching the male side of the gender equation. Given the complex sets of socio-cultural consideration that influence women, having a 'women' only policy to channel them in to labor force would be a failure. Rather, it has to take a broader shape of gender which is by far instrumental in fueling the economy with a more active and large labor supply. This would also go a way far in promoting the RNF sector.

The Youth Policy also aims at creating opportunities for employment through MSE. Care has to be accorded, however, in that the youth are critically diagnosed for their business and entrepreneurial experiences so that MSEs owned (created) by the youth are up to expectations in bringing a sustainable base of employment. This has a positive correlation in emphasizing the RNF sector.

5.3 PROSPECTS OF RNFEs

With regard to the prospects of RNFEs, the focus group and key informants highlighted the following major points:

a) In general Rural development is as a key focus area in the development policy of Ethiopia. The Government gave due attention to expand infrastructural facilities to rural communities. New road construction and expansion of the existing roads, rural electrification and telephone service dissemination are among encouraging activities which have been underway by the government. The real happening of these has a positive impact on the growth and expansion of rural non-farm enterprises.

b) Some NGOs like (SARDP) have already started supporting the sector by availing multifaceted services,(credit, training, creating access to market, participating in constructing rural road. etc..) even if there is a problem to provide their services at grassroots level. And there are others which started promoting Self Help group approach to rural non-farm enterprise operators to contribute in solving financial problems of RNFEs.

c) The new administrative structure that became functional (assigning a manager at rural kebele level) recently might help RNFEs to get due attention at the kebele level.

d) The establishment of FTCs at kebele level considered as a good potential to organize and provide short term training programs to non-farm enterprise operators in the future.

CHAPTER SIX

CONCLUSIONS AND POLICY IMPLICATIONS

6.1. CONCLUSIONS

In many parts of the world including Ethiopia, the numbers of poor people in rural areas exceeds the capacity of agriculture to provide sustainable livelihood opportunities. In the case of the study area, about 85%- 90% percent of the households are residing in rural localities and the poverty level among rural agricultural households is significant. Poverty reduction in rural areas has been hampered by a slowdown in agricultural growth and slower growth in incomes. This indicates the potentially important role RNF enterprises can play in reducing poverty in rural areas. The non-farm sector has become increasingly important source of income as it contributes about 36% of the total rural income (Degefa, 2005) and also plays a significant role in creating employment in rural Ethiopia. Raising agricultural productivity and expanding non-farm income opportunities are keys to reducing rural poverty.

In this study, an attempt has been made to assess the problems and prospects of rural non-farm enterprises. From the findings, the following major conclusions can be drawn.

(i) With Regard to type of business engaged in and income generated from the business indicated that, the better-off households (in terms of financial capital) have the ability to engage in a relatively capital intensive enterprises, and hence will take the lion's share of income generated from the RNFE sector.

(ii) With regard to annual mean income comparison between the two sampled kebeles, the income variation might be due to the impact of poor infrastructure and transportation facilities on the profitability of RNFEs inaccessible kebeles like Harra as compared to Bededo. The result of an independent sample test showed that the variation in annual mean income among the two kebeles is statistically significant. This fact will enable us to say the growth potential of most businesses were limited by the unavailability of essential services. Electricity, telephone and good roads are the most basic services that should be given priority to develop RNFEs.

(iii) As for the source of initial capital, the majority of rural business operators residing in both kebeles used their own saving and money from families, relatives and friends to start and operate their businesses. It also showed own finance as constraint. The reason for this might be that most of the surveyed business operators are engaged in low capital requiring business ventures or credit providing firms were not available in the area or the cost of finance might be expensive or the credit process might be lengthy.

(iv) Concerning the source of skills used to run the business, skills of all participants are transferred from their parents'. These traditional skills need upgrading and modernization. In this regard, nobody is trying to fulfill this skill gap.

(v) Regarding entry barriers to RNF enterprises, in this respect, lack of market is sited as the first major entry barrier followed by lack of start–up capital, lack of input, and poor infrastructure as the second, third and fourth major entry barriers respectively. Here, some variation is observed only in ranking entry barriers to RNF enterprises.

(vi) Concerning potential of the non-farm enterprises, as perceived by the business operators in both kebeles, the non-farm business operators have the ability to provide various services to the community. They have the highest potential of the sector in generating additional income and expanding their non farm businesses. If the sector gets the required support from GOs and NGOs, this perceived prospect of the RNFE operators will materialize to contribute to the growth of the economy.

(vii) Almost all business operators run their business without any market information, exhibiting either low level of awareness about the importance of marketing information or lack of access to marketing information, or a combination of both.

(viii) A large part of non-farm operators replied the non existence of any kind of training program in the locality.

(ix) A great majority of respondents confirmed the non-existence of government or non-government institutions that give or facilitate BDS support to the rural non-farm enterprises at the kebele level.

(x) The current function of the non-farm enterprises, for the majority of business operators, is frustrating and accompanied by so many factors for blocking goal directed activity. However, the frustrating factors for them are physical (poor road condition and lack of access to transport facilities) and financial capital, market and both technical and basic business skill gap.

(xi) Even if there is differences in ranking, both groups identified the following major determining factors: access to market and market information, access to finance, access to row materials and access to infrastructure (road, transport facilities, telephone and electricity service) and education and training.

(xii) Major findings with regard to prospects of RNFEs. There are encouraging prospects such as improved infrastructural supply and institutional support that contribute to the development of RNFEs such as the construction of new roads, the change in policies and strategies of some NGOs, the establishment of Farmers Training Center at the Kebele level etc.

(xiii) The development policies and strategies of the country have either neglected or have no clear implementation structure to the development of RNFEs.

In general, given the importance of non-farm income for rural households, the aforementioned constraints would explain why certain location-specific characteristics correlate well with the region's poverty pattern. As these constraints in rural areas are solved, the productivity and growth of businesses are likely to improve and more start-up enterprises are likely to emerge.

6.2. POLICY IMPLICATIONS

To foster rural non-farm enterprise development relevant policy and strategy are needed to be reshaped to ease non-farm business operator's access to improved technologies, create a more transparent and stable MSE development policy regime, avail a better access to finance, training both technical and business management skills, create access to market information, and ensure the availability of reasonable infrastructural facilities in the rural area. To sum up the following may serve as policy implications:

- The rural non-farm sector is characterized as the most important sector following agriculture in the area. But, it should not be expected to stand alone. Thus, any development intervention in the area should be done in a way that reinforces both the agriculture and rural non-farm enterprises.

- Promoting rural infrastructure is a prerequisite for the growth of RNFEs. Thus, any effort targeting to enhance the growth of RNFEs should consider the development of the rural infrastructure.

- Rural towns play a significant role in RNFE development: rural towns require investment including good infrastructure to attract investment e.g., entrepreneurs;

- Generally, BDS support is a key element in the growth of RNFEs. Thus, GOs and NGOs should provide the service at Kebele level.

- MSE policies have typically been biased in favor of urban centered micro enterprises; this has done little to help most RNFEs, and departs from the comparative advantage of most rural areas. The policy implication MSE policies should be supportive to rural non-farm enterprises and promote the development of small, micro and informal tertiary activities.

As seen, the most serious obstacles to the development and growth of rural non-farm enterprises include poor transportation, problems accessing finance and the cost of finance, poor access and quality of road, lack of market information and isolation from supply chains. Given the importance of non-farm income for rural households, these constraints would explain why certain location-specific characteristics (like accessibility and use of transportation) correlate well with the pattern of regional poverty in Ethiopia. As these constraints in rural areas are lifted, the productivity and growth of businesses are likely to improve and more start-up enterprises are likely to emerge.

Hence, to foster rural non-farm enterprise, development relevant policy and strategy are needed to be reshaped to ease non-farm business operators' access to improved technologies, create a more transparent and stable MSE development policy regime, avail a better access to basic services (such as finance, training both technical and business management skills, market information) and ensure the availability of reasonable infrastructural facilities in the rural areas.

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ANNEX I

SURVEY QUESTIONAIRE

Addis Ababa University, College of Development Studies, Center for Rural livelihood and Development (Questionnaire developed to assess the Problems and Prospects of non-farm enterprise Development in Teweledere Woreda, Amhara National Regional State.

Part I Area Identification		**Name**	Code
1	Kebele Administration		
2	Household selection number		
3	Name of interviewer		-
4	Date of interview		-
5	Time spent in interview		-

Part II Demographic and socio- economic information (For Heads of the Household)			
Q. No	**Question**	**Response**	**Code**
1	Name of the respondent		
2	Age	____________________	
3	Sex	Male Female	1 2
4	Marital status	Never married Married Divorced/separated Widowed	1 2 3 4
5	What is your Religion?	Christian (Orthodox) Muslim Catholic Protestant Traditional Other(Specify)------------------------------	1 2 3 4 5
6	Education Status	Illiterate(unable to read & write) Literate (able to read & write) Primary (grade 1 - 5) middle level (grade 6 - 8) Secondary school (grade 9 - 12) Other (Specify)________________	1 2 3 4 5 6
7	Number of household members	Number of children ________ Number of other dependents________ Total ____________	1 2 3
8	What is the main source of livelihood of the household?	Farming Non farm businesses Remittance Off-farm activities Other (specify)________________	1 2 3 4 5 6

9	If you engaged in farming, What was the amount of income the household generated from farming last year? (In Birr)	Crop: Birr__________________ Sale of fattened animals : Birr ______ Sale of animal product Birr________ Fishery Birr__________________ Other (Specify) __________________ Birr______________ **Total** ________________ (to be calculated by the enumerator) ___ ________________________	1 2 3 4 5 6
10	Does the house hold has live stock	Yes fill in Q 11 No	1 2
11	If "yes" to Q. Type and number of live stocks that the household has	**Type** / **No.** Cattle ______ Sheep ______ Goat ______ Horse ______ Donkey Other specify)_________ ______	1 2 3 4 5
12	Do you have farm land?	- Yes skip to Q. 13 - No	1 2
13	Are you working on the land?	- Yes - No Skip to Q. 16	1 2
14	If not, why? **(multiple answers possible)**	- Lack of oxen - Lack of money to buy inputs - Lack of enough manpower - Busy in my micro business - Other (specify)_______________	1 2 3 4 5
15	Do you engage in any work for pay during the last 12 months? **(Multiple answers possible)**	- Yes I worked in some one's non-farm business - Yes I worked off – farm - Yea I worked both off - farm and non-farm - No I didn't work	1 2 3 4
16	Have you not participated in any non –farm enterprises during the last twelve month?	- yes move to Q.17 - No	1 2
17	What was the main reason for not participating?	- I didn't need it - Household responsibility - Busy with farming - Lack of initial capital - Lack of market information - Lack of business skill/ didn't have business idea - Located in far from market	1 2 3 4 5 6 7

		- Other (specify) ____________	8
18	Do you think you are a poor / average/well off household?	- Poor - Average - Well off - Don't know to label	1 2 3 4
19	Please could you indicate how you recover from economic shock?		

		Yes	No
A	Informal social support network	1	2
B	Sales of household belongings and assets	1	2
C	Remittance	1	2
D	Sales of agricultural oxen	1	2
E	Utilizing working capital	1	2
F	Food relief	1	2
G	Employed in some ones farm	1	2
H	Migrate to urban centers	1	2
I	Depleting Savings	1	2
J	Other (Specify)____________		

Part III	Engaged in Non-Farm Enterprises		
1	Which type of non-farm business have you undertaken in the last twelve months?	- Self employed (owner and operator) - Unpaid family worker - Employee - Cooperative member and worker	1 2 3
2	How many years of experience do you have in operating non-farm businesses?	- 0 -1 - 1 – 3 - 3 – 4 - 4 – 5 - > 5	1 2 3 4 5
3	Who has more opportunity to participate in the non-farm business? (Multiple answers possible)	- The better - off - The poor? - Male or - Female? Or - Both sexes?	1 2 3 4 5 6
4	Who is/ are involved, other than you, in non-farm activity among your family members?	- I myself (head of house hold) - My wife/husband - My son - My daughter - Other (specify)____________	1 2 3 4 5

5	Have you made a change in your type of business (type of product and service you deliver)? e.g. From selling local drink like tella to petty trading or from giving maintenance services to production…etc.	- Yes - No	1 2
6	How many times have the change occurred?	- once - twice - three times - Other (Specify)	1 2 3 4
7	Why have you made this/these change/s? Because of	- loses - looking for other alternatives - lack of market - busy in other matters - lost interest in the of business - expansion/growth purpose - Other (specify)_____________	1 2 3 4 5 6 7
8	In what type of business are you engaged currently?	- Petty trading - Local drink making - Flour milling services - Producing household utensils - Pottery - Weaving -- arpentry - constructing houses - Other (specify)_______________	1 2 3 4 5 6 7 8 9
9	Please, could you indicate the location of your existing business?	- At home - Within the locality but away from home - Away from home out side of the locality - Other specify)_______________	1 2 3 4 5
10	Why are you engaged in non-farm enterprise?	- To supplement household income - Expecting good return from non-farm activities - Low productivity in farming - Due to the risk of farming - For the purpose of accumulation - Due to parents background - Lack of land for cultivation - Other (specify) -- _______________	1 2 3 4 5 6 7 8
11	How did you learn the skill you used for your business?	- From parents (Family tradition) - Through working as apprentice - From friends (through contacts with others) - From government financed training programs - Own effort - From NGOs funded training programs - Other (specify)	1 2 3 4 5 6 7 8

12	Would you indicate the source of your initial capital?	Iquib Individual money lenders Gift from Relatives/friends Borrowed from relatives & friends Grant from NGOs Micro Finance Institution Own saving Other (Specify) ____________	1 2 3 4 5 6 7 8	
13	What are the major requirements to participate in non-farm business? Please prioritize according to their importance (based on the perception of the non-farm enterprise operators) (Rank it from 1 -3)	- Access to finance - Market availability (customers need) for goods and services - Access to work/ market place - Availability of business information advisory services and business training - Availability of all weather road - Availability of transport facilities - Encouraging social network - Access to business management skill - Access to technical skill (new way of doing things)	1 2 3 4 5 6 7 8 9 10	Rank
9	Have you got training in business development?	- Yes Skip to Q. 10 - No	1 2	
10	If "yes" to question part II, Q. 9 What is the type of business and skills training?	10.1) Basic Business skills Marketing & buying Saving Costing & pricing Other (specify)____________ 10.2)Technical training Matt making Pottery Weaving Farming equipments Black smith Petty trading Other (specify)____________	 1 2 3 4 1 2 3 4 5 6 7 8 9	
11	Are you applying the lesson you have learnt in the training to your work?	- Yes - No skip to Q. to 12	1 2	
12	If no, to Q. 11 What is the main reason for not applying the training you have taken to your work?	- Need more skill or advise - No place for work - shortage of money - Lack of cooperation from others - Lack of market information	1 2 3 4 5 6	

		- Lack of confidence - Other (specify) ______________	7 8
13	What was the amount of income the household generated from the non-farm activities last year? (In Birr)	- Petty trading ;Birr ____________ - Sales of local drink Birr________ - Handicraft(pottery, Weaving, ...etc) Birr ____________________ - Fire wood, Charcoal Birr _______ -- Other (Specify) ___________ Birr ____________________ - **Total** Birr ____________ (to be calculated by the enumerator)	1 2 3 4 5 6
14	Income generated / gained from non-farm enterprises used for: (**Multiple answers possible**)	- To buy household utensils - Buy food - Saving - Build house - Purchase farm tools - buy clothes - Purchase non-farm working tools - Pay loan - Expansion of non-farm enterprise - Other (Specify) ______________	1 2 3 4 5 6 7 8 9 10
15	Do you have additional commitment other than managing non-farm enterprises?	- yes - no	1 2
16	What are the activities you under-take in addition to the non-farm activity? ________________________	<u>Activities</u> / <u>Estimated time input</u> Preparing food _______ Fulfilling social commitment (Idir, Iquib...etc) _______ Taking care of Children ,the elderly and sick people _______ Collecting fire wood _______ Fetching water _______ Other (specify)__________ _______	 1 2 3 4 5 6 7
17	What are the major entry barriers to the non-farm activities	lack of initial capital (finance) lack of business awareness lack of technical skills lack of working place Fear of being ostracized by others lack of market lack of input Poor infrastructure (electricity, telephone service ,road &, transport facilities) Other (Specify)______________	1 2 3 4 5 6 7 8 9 10

18	What are your problems in relation to finance?	Lack of access to finance cost of finance (interest rate) Timing of loan distribution loan procedure Money management (proper usage of the money) Other (Specify)__________	1 2 3 4 5 6
19	How do you describe the type of road in your locality?	Gravel road Asphalt road Muddy road Other (Specify)__________	1 2 3 4
20	How is the transportation facility in the area?	Very hard to get transport facility because of the poor condition of the road People mostly use pack animal for transportation. There is no problem of transport facility to travel out of the Woreda. Other (Specify) __________	1 2 3 4 5
21	Do you think the transportation problem in the area (if any) affects the activity of your non – farm enterprise?	Yes Skip to Q. 22 No	1 2
22	How did it affect your business?	Delay to reach on time to buy goods for resell Perishable goods (fruits and vegetables) spoiled before delivered to customers We cannot be reliable suppliers in the eyes of our customers Other(Specify)__________	1 2 3 4 5
23	How do you know whether your business is profitable or not?	By subtracting the purchasing cost of goods /services from the total sales By subtracting the purchasing cost of goods /services plus other expenses (transport) from the total sales By subtracting all costs incurred to the goods and services (purchasing, transport, labor) from the total sales Other (specify)__________	1 2 3 4 5
24	Do you think your business has exhibited growth in the last 12 months?	Yes (if yes, skip to question 25) No	1 2
25	How do you disburse the additional income (profit) generated from non-farm business?	Expend it for household consumption Reinvested it in my business send my children to school Use it family health care Save it for bad time to come Other (Specify)__________	1 2 3 4 5 6

	IV Policy related issues		
26	Is there any organization that coordinates activities of non-farm enterprises in your locality?	yes skip to Q. 26 no	1 2
27	What type of services you get from this organization?	Trade license Advisory services Market information Facilitate access to working place Business awareness training Collect taxes Other (Specify)__________	1 2 3 4 5 6 7
28	How do you describe the efficiency of the services given by these institutions to rural non-farm enterprise?	lengthy process In most case they are not available in their offices They don't know how to give support to rural non-farm enterprises Other (Specify)__________	1 2 3 4 5
29	What is your source of information regarding your business affaires?	Friends and relatives Government institutions Associations, cooperatives & NGOs No Source Other (Specify)__________	1 2 3 4 5
30	Have you ever been visited by development agents?	yes skip to Q. 30 no	1 2
31	How many times in the last 12 months?	Once Twice Three times Other (Specify)	1 2 3 4
32	What kind of support have you get from them?	Providing technical assistance providing management assistance Creating business linkage Linking to finance institutions Other (Specify)__________	1 2 3 4 5
33	List the potentials of non-farm enterprises in your locality	- __________ - __________ - __________	
34	What are the prospects of non-farm enterprises in your locality?	Due attention has being given to the practicability of micro and small enterprise development policy NGOs being started encouraging the development of rural non-farm enterprises in the region. Capacity building programs to Development workers being strengthen Other (specify)__________	1 2 3 4 5 6

ANNEX II

IN-DEPTH INTERVIEW GUIDE

The purpose of this in-depth interview is to get deeper insights into issues that will be raised in the survey. In this part of the data gathering, the interviewer will encourage the interviewees to freely talk about the issue. Ten people were interviewed from each Kebele (Bededo and Harra)

Guide Questions and Answers (Bededo)

1. How did you decide to start non - farm businesses? Or what pushed you to participate in non-farm activity

   Response given by interviewees:

   - To earn a living/ struggle against poverty, due to lack of employment :
   - Lack of access to farm land:
   - In order to be able to send children to school:
   - Income from farm is not enough for a living :
   - To use one's previous skill:

2. Did you get advice from some body/where before you start your non-farm business?

   a) I didn't get any advise the problem pushed me to do so

   b) Family, Relatives & friends;

   c) By observation (others business)

3. Did your family support your plan of starting non-farm business?

   - Yes :
   - No :

   If there was some problem, please describe how you face it

   - By changing the type of business (From local drink making to petty trading)
   - By convincing them / being determined and persistent
   - By proofing my success
   - Contributing to household income

4. How did you find the non-farm business after you started?

a) Smoothly going or Frustrating :

b) Explain the reason

- lack of access to finance ,
- lack market and market information
- lack of skill in running and managing business
- Lack of access for row materials (soil for pottery makers, yarn and weft for weavers and charcoal for weavers)
- Lack of government support (no electricity, poor access to transport facilities, no telephone services…etc)

5. How do you manage the income and expenditure of your non-farm business?

a) I know all my business expenses, all the differences is my revenue

b) I used to handle my personal and my business money together

c) Separately manage the business money;

d) How is the transportation facility within and out side of the woredas?

a) Very hard to get transport:

b) There is transport, but do not match/ fulfill the demand:

c) We mostly use pack animal for transportation:

7. Is there any relation between the success and failure of non-farm businesses with the availability or non availability of transport facilities? Pleas describe it.

- Yes, because of poor transportation facilities I couldn't reach to the market place on time to sell or buy goods.
- Perishable goods such as vegetables, fruits and chat were spoiled before they reach to the customers.
- One couldn't keep his/her business promise, to deliver goods /services to clients on time.
- Constrained businesses from growing fast

8. What strategies (if any) do you use to control your daily business transaction?

- I know my daily sales and my expenses. I save money using Iqube :
- I am the one who handle the business money, so no problem in handling money:
- I have a good memory to register the daily transaction:

- Because I am illiterates , some times I have a problem to remember all transactions;
- In due course are there any means/strategies that you have acquired or you practice to ensure control over income from your non-farm enterprise?

- No, change in the use and control over income from non-farm enterprises than previous method:
- I used, because I didn't know whether there is other means/ way of handling this thing:

9. What benefit do you get from your non-farm enterprise/ please focus on both financial and non-financial benefits?

Benefit from non-farm enterprise

a) Enabled me to supplement / cover my household expenses;
b) end children to school
c) Help my family and relatives
d) Save some money for future
e) I Get social acceptance (being able to participate in Idir/ Kire, Iqube,, family gathering, Kebele);

10. Do you have any business network? If so please indicate the name of the association/network
    - No, I don't know about business network:
    - No, I sell goods and services to existing markets other wise I will take my goods to the near by cities:
11. Have you engaged in both farm and non-farm activities at the same time? Describe and compare your daily work load and the income generated from the two activities?
    - Yes – (reason)
        - We couldn't produce enough grains/crops per year because our land is too small and poor , . The yearly yield is not even enough for our yearly consumption, so we need to supplement -
        - I work on my farm during winter season, during summer I do my business, the business is the major source of the household income - 2
    - No – (reason)

- Because we didn't have land we are fully depend for our living on non - farm private businesses –

12. What are the major requirements to start and run non-farm businesses?

a) Business and Market information

b) Access to finance (credit at low interest rate and longer period of repayment)-2

c) Access to row material (like clay soil for pottery, warp and weft to weavers,)

d) Access to market- 1

e) Access to all weather road and access to transport

f) Skill training in modern way of doing business

g) Access to improved technology

13. Please describe the major constraints of non-farm enterprises?

- Lack of access business and Market information
- High cost of credit(it is 18percent) Problem of collateral because most of non-farm business operators are poor and land less, long procedure of loan processing
- Poor access to row material (like clay soil for pottery, warp and weft to weavers,)
- Lack of skill to assess market demand and act to satisfy that , lack of skill in identifying good business idea
- Poor finance and property management skills (do not separately handle business and household mater)
- Very traditional and time consuming way of production
- Lack of access to all weather road and access to transport
- Lack of support from government or nongovernmental organization (to promote the RNFE)
- Lack technical and management skill training
- Lack of access to improved technology

ANNEX - III

CHECKLIST FOR FOCUS GROUP DISCUSSION (FGD)

No.	Name of Discussant	age	Sex	Activities	Education level
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					

1. What are the roles of non-farm enterprises in the livelihood system of the population
2. What is the potential role of rural non-farm enterprise in poverty alleviation? And the alleviation of food in security?
3. What are the major problems and trends of the livelihood of the population in the locality?
   - ☑ Discuss the major changes observed in the locality regarding non-farm activities through time
   - ☑ Discuss the major problems non-farm business operators faced in the community and also the challenges and problems they faced to participate in the enterprise?
4. Why do people enter to the non-farm businesses?
   - ✔ As an act of adaptation to perceived livelihood
   - ✔ As a survival strategy
   - ✔ For the purpose of wealth accumulation
   - ✔ To sustain the tradition of forefathers
5. What is the linkage between farm and non-farm activities in the area?
6. How are people participating in non-farm businesses? Do they undertake it parallel to their farming activities? Or as a sole activity in income generating business?
7. What are the mechanisms of coping/survival strategies in the area, in the face of development or other activities?
8. Which way people prefer to participate in the non-farm enterprises? (e.g. as wage employees as owners operators?)
9. What are the main types of non-farm businesses in the area? (Crafts making, petty trading, service providing (construction, sewing, etc…)

10. What is the situation of non – farm enterprise operators in terms of their religion? Does their religion (belief) encourage or discourage their participation in the sector?
    - ✓ How about the working culture of the people in the area? Is working in traditional crafts making has considered as income generating activity or as taboo in the area?
    - ✓ What is the background of these people engaged in the non-farm sector?
    - ✓ Are there any social and cultural problems faced by rural non-farm enterprise operators, because of their participation in the non-farm sector? What?
    - ✓ Support provided to the sector
11. Is there a national policy in the pursuit of encouraging micro enterprises particularly rural non-farm enterprises?
12. What kind of support is given to rural non-farm enterprises?
    - ✓ Provide infrastructure
    - ✓ avail the service of micro – credit
    - ✓ Introduce environmental protection measure
    - ✓ Create gender awareness
    - ✓ Provide business awareness training or BDS

13. How does government promote non- farm enterprises?
    - ✓ Make property right secure (land reform, land certification)
    - ✓ make intervention at a project level
    - ✓ Creating business incubator centers
    - ✓ Introduce targeted credit program
    - ✓ Protecting the environment
    - ✓ Creating gender awareness
    - ✓ promoting non-formal education
    - ✓ Introducing entrepreneurship

14. Is there governmental structure at a kebele level that intends to give support to non-farm business operators in the area?
    - ✓ Are development workers assigned in the area to give advisory services and other supports to non-farm enterprise operators?
    - ✓ Are there a government or/and non-governmental bodies who are engaged in promoting / providing business development services to non-farm enterprises operators in the locality? Who are they?
    - ✓ What are the major problems that have hindered the development of non-farm enterprises?
    - ✓ What types of support are required to encourage peoples' participation in the non-farm sector?
    - ✓ How would non-farm enterprises development be promoted?
15. Prospects of non-farm enterprises
    i. What are the important factors enabling growth of non-farm businesses in the area?

ii. What motivates people to diversify their livelihood?

iii. What potential has the area that enables to facilitate the development of non-farm enterprises?

iv. What are the prospects of non-farm enterprises that operate in the area?

v. What efforts made to develop the non-farm sector in the area in the last few years?

vi. What are expected from government and non government organizations and private investors regarding the development of non-farm sector?

vii. What makes the area different regarding to non-farm business? What are the factors that could enable the growth of the non-farm enterprises?

- ✔ Availability of network of non-farm micro enterprises
- ✔ Awareness of the existing resource in the locality (raw material availability, infrastructural facilities, soft resource skills of human resources)

16. What is the local socio-cultural practices of people in non- farm activities?

viii. Ethnicity and ethnic heterogeneity

17. What do you think should the role of the government be in the promotion of non-farm enterprises?

18. Are there advisory services provided to non-farm enterprises/ to start and improve their business

19. Finally.

☑ General discussion on the major problems and prospects of non-farm enterprise development (e.g. problems such as social, financial, linkage, market, infrastructure…etc will be discussed in detail and also prospects of the sector should be come out)

ANNEX – IV

Listing form for Selecting the Respondents of the Study

Addis Ababa University
Institute of development research
Development Studies

Selection I-Identification of Participants

Region	Zone	Wereda	Kebele Administration
Amhara	South Wello	Tehuledere	Bededo and Harra

Selection II: - Listing form for Non-farm enterprise operators non

Household Serial number	Name of the non-farm enterprise operator	Age (completed Years)	Kebele	Is any body engaged in farm activity? Yes------ 1 No ------ 2	Serial number of eligible nun-farm enterprise owner
1	**Zuriash Yimam**	**40**	**Harra**	**1&2**	**1**
2	**Melaku H/Mariam**	**25**	**Harra**	**2**	**2**
3	**Seid Yemam Ahemed**	**38**	”	**2**	**3**
4	**Abdu Indris Muhe**	**37**	”	**1&2**	**4**
5	**Mohamed Sied**	**27**	”	**1&2**	**5**
6	**Zeyeneba Adem**	**38**	”	**2**	**6**
7	**Esmaiel Abdurahman**		”	**2**	**7**
8	**Endris Hasen**	**45**	”	**1&2**	**8**
9	**Alemitu Sisay**	**32**	”	**2**	**9**
10	**Jemal Seid**		”	**2**	**10**
11	**Abdu Seid Ali**	**25**	”	**1&2**	**11**
12	**Mohamed Seid**	**32**	”	**1&2**	**12**
13	**Kebed Hussen**	**35**	”	**2**	**13**
14	**Seido Adem**	**26**	”	**2**	**14**
15	**Alebachew Hilemariam**	**28**	”	**1&2**	**15**
16	**Mohamed Hussen**	**29**	”	**1&2**	**16**
17	**Adefa Hussen**	**24**	”	**1&2**	**17**
18	**Zynebu Mohamed**	**27**	”	**2**	**18**
19	**Akalu Ali**	**30**	”	**1&2**	**19**
20	**Hasen Mussa**	**43**	”	**1&2**	**20**
21	**Emeyu Mekonnen**	**38**	”	**1&2**	**21**
22	**Yesuf Jemal**	**45**	”	**1&2**	**22**
23	**Ibrahim Muhe**	**55**	”	**1&2**	**23**

Listing form for Selecting the Respondents of the Study

Addis Ababa University
Institute of development research
Development Studies

Selection I-Identification of Participants

Region	Zone	Wereda	Kebele Administration
Amhara	South Wello	Tewlederie	

Selection II: - Listing form for Non-farm enterprise operators

Household Serial number	Name of the non-farm enterprise operator/owner	Age (completed Years)	Kebele	Is any body engaged in farm activity? Yes------ 1 No ------ 2	Serial number of eligible nun-farm enterprise owner
24	**Jemal Adem**	**38**		**1&2**	**24**
25	**Zewedie Muhie**	**50**	**Harra**	**2**	**25**
26	**Mohamed Jemal**	**28**	"	**1&2**	**26**
27	**Hussien Mohamed**	**52**	"	**1&2**	**27**
28	**Aminat Adem**	**40**	"	**2**	**28**
29	**Jemal Fentaw**	**20**	"	**2**	**29**
30	**Aminat Mohamed**	**19**	"		**30**
31	**Ali Yemam**	**28**	"		**31**
32	**Aregash Ali**		"		**32**
33	**Anesha Kebede**	**32**	"		**33**
34	**Aminat Hsen**	**35**	"		**34**
35	**Awagu Ahemed**	**35**	"		**35**
36	**Hadiya Mohamed**	**35**	"		**36**
37	**Sied Yemer**	**35**	"		**37**
38	**Anesha Seyied**	**50**	"		**38**
39	**Kedeja Mohamed**	**25**	"		**39**
40	**Nefisa Abate**	**30**	"		**40**
41	**Kebede Seid**	**35**	"		**41**
42	**Asen Abegaz**	**60**	"		**42**
43	**Amene Belete**	**38**	**Harra**	**1&2**	**43**
44	**Abdu Hussen**	**50**	"	**1&2**	**44**
45	**Aregash Hassen**	**25**	**Harra**	**1&2**	**45**

Listing form for Selecting the Respondents of the Study

Addis Ababa University
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Development Studies

Selection I-Identification of Participants

Region	Zone	Wereda	Kebele Administration
Amhara	South Wello	Tehuledere	Bededo and Harra

Selection II: - Listing form for Non-farm enterprise operators non

Househ old Serial number	Name of the non-farm enterprise operator	Age (completed Years)	Kebele	Is any body engaged in farm activity? Yes------ 1 No ------ 2	Serial number of eligible nun-farm enterprise owner
46	**Meaza Yemame**	**22**	"	**2**	**46**
47	**Zinet Yassin**	**26**	**Bededo**	**2**	**47**
48	**Yeshi Kebede Idris**	**30**	"		**48**
49	**Muhamed Sied**	**37**	"		**49**
50	**Ali Ahemed**	**35**	"		**50**
51	**Tshome Awelu**	**35**	"		**51**
52	**Aregu Yemam**	**40**	"		**52**
53	**Seyed Husien**	**60**	"		**53**
54	**Muhamed Yesuf**	**45**	"		**54**
55	**Zemzem Getahun**	**30**	"		**55**
56	**Yesh Kebede**	**22**	"		**56**
57	**Aminat Yemer**	**30**	"		**57**
58	**Ahemed Sied**		"		**58**
59	**Awol Sulehiman**	**30**	"		**59**
60	**Mlehan Yemer**	**35**	"		**60**
61	**Keder Ali**		"		**61**
62	**Mlehane Muhe**	**50**	"		**62**
63	**Anesha Mohamed**	**34**	"		**63**
64	**Yemer Yasin**	**39**	"		**64**
65	**Nuriya Hassen**	**30**	"		**65**
66	**Medina Ibrahim**		"		**66**
67	**Tiruyie Menegestu**	**35**	"		**67**
68	**Endris Hussen**	**28**	"		**68**
69	**Denekie Tesfa**	**55**	"		**69**
70	**Seyawe Yemame**	**30**	"	**1&2**	**70**

71	Indris Hussen	45	"	1&2	71
72	Keder Muhaba	25	"		72
73	Meyemuna Idris	35	"		73
74	Meyru Ahemde	30	"		74
75	Ahemed Eberie	37	"	1&2	75
76	Tesema Abegaze	40	"		76
77	Yemame Yesuf	40	"		77
78	Zenit Eberie	22	"		78
79	Zinet Hussien	35	"		79
80	Hadiya Sied	29	"		80
81	Fato Mohamed	26	"		81
82	Hussien Ahemed	32	"		82
83	Fato Amedie	25	"		83
84	Aselef Belay	35	Bededo	2	84
85	Aseya Muhe	50	"	1&2	85
86	Sied Awol	40	"		86
87	Hssen Abegaze	60	"	1&2	87
88	Fato Ali	35	"		88
89	Lubaba Ali	22	"		89
90	Tegene Yemer	42	Harra		90

ANNEX - V

Number and type of non – farm micro enterprises in the study each kebeles

Type of Business	**Name of Kebeles and number of enterprises**	
	Bededo	**Hara**
Metal work /blacksmith	**8**	**12**
Wood work (household furniture)	**25**	**10**
Pottery	**85**	**10**
Weaving	**3**	**9**
Building/construction	**10**	**26**
Carpenter	**12**	**21**
Fishing net makers	**-**	**60**
Grinding mills	**7**	**5**
Petty traders	**22**	**13**
Chatt traders	**15**	**30**
Tanner	**20**	**-**
Local drink sellers (Tella, Tej…etc)	**20**	**25**
Total registered non-farm enterprises	**227**	**221**
Sample size taken	**45**	**45**
Percentage	**19.8%**	**20.3**

Source: Kebele roster, Bededo 2005 and Harra 2004

ANNEX VI

SUMMARY OF GROUP DISCUSSION

DISSCUSSION ISSUES	RESPONSES
Lively hood of the population	Agriculture (mixed farming), Fishing is the most important livelihood of the population.
The reason to start non-farm businesses	To supplement household income because productivity in farming is very low, land fragmentation and lack of land for cultivation, are among the big problems in the area, to reduce seasonal and inter annual consumption risks of farming , specialized non farm households to exploit full time non-farm opportunity in the non-farm economy, some of the none farm business operators were motivated by the income generated from non-farm businesses.
The role of non-farm enterprises in the livelihood system	• Supplement of replace income from agriculture (serve as a source of income) • Absorb surplus labor (create employment) • Help to diversify farm based household risks • Provide a means to cope or survive when farming fails
Trends in the livelihood of the population	Participation in rural non-farm businesses highly increasing through time. Because farm land fragmentation, increasing risk in the agriculture, population growth, the area is drought prone most people

	join the non-farm sector.
The local Socio-cultural practices of people in the non-farm enterprises	- Both male and female, Christian and Muslim have participating in rural non-farm enterprises To some type of rural non-farm businesses the skills are transferred/ inherited from parents (pottery, hand loom weaving, matt making blacksmithing, basketry etc…)
Potentials of the area that enable the development of non-farm enterprises	In the place where there is a big forest people engaged better in wood related work activity, for e.g. Bededo, some people are engaged in production of house hold furniture using hand made tools, so that the products are more traditional.
Factors enabling growth of non-farm enterprises	It is essential to ensure adequate economic and social infrastructure to support emerging rural non-farm activities and to renovate and develop traditional ones: ♦ Physical infrastructure will undoubtedly play a significant part in strengthening farm/non-farm linkages Road access to rural towns and between rural kebeles is essential to access input and out put e marke. ♦ Efficient rural credit is important to promote rural non-farm activities. ♦ Investment in human capital is essential to ensure that rural non-farm activities are reliable and able to cope with new technological developments.(training in business and technical skill)
The role played by government organizations in	No GO's policy that directly support rural non-farm activities. In the proclamation of rural and micro and small enterprises development nothing was mentioned about the rural non-farm enterprises/ activities The Youth And Women Strategy Document have mentioned the RNFE issue indirectly and aims to

promoting non-farm enterprises	improve the participation of women and youths in the economy as a whole but nothing stated how it will be practices. No structure that promote of rural non- farm enterprises at the kebele level and no process undertaken to this regard.
The role of non-government organizations (NGOs) in promoting rural non-farm enterprises	Non Governmental Organizations such as Agribusiness, Amhara rehabilitation and development Association, widely working in the area but their main focus is farming. In this regard, they give support in the field of irrigation, practical training in the use of fertilizer, improved seed and familiarizing farmers with improved way of farming. Development workers are assigned to give the above mentioned support to the farmers. This indicates that no support was given by GOs and NGOs to the non-farm business operators in both kebeles.
Major problems faced to run non-farm enterprises	The most serious obstacles to the development and growth of rural non-farm enterprises include poor transportation, problems in accessing finance and the cost of finance (high interest rate), lack of access to electricity supply, lack of market information and isolation from supply chains. As these constraints in rural areas are lifted, the productivity and growth of businesses are likely to improve and more start-up enterprises are likely to emerge.
Challenges and problems to participate	Entry barriers such as: lack of finance, skills in starting and running business, Poor access to market information, lack of business awareness (lack of skills ingenerating business idea

in the non-farm sector	and starting a viable businesses), poor transport facilities
The working situation of non-farm enterprise	Most non-farm businesses are doing businesses in a very traditional way using traditional tools and equipments, their working environment is very poor. Because of lack of business awareness their businesses are poorly managed (finance and row materials and finished goods. .etc).
Factors enabling growth of non-farm businesses/ type of support required by non-farm enterprises	• Availability of finance to start and run business activities • Access to working place/premise • Accessibility of required row materials • Availability of all seasons road and transport facilities • Access to education, business awareness, vocational /technical and business management training (BDS) • Access to market network
The way non-farm enterprises development promoted	♦ No effort has been made to promote this sector. Both GOs and NGOs were focused on the farming sector
Is their favorable policy for non-farm enterprise development in the locality	No, Business Development Service providers (BDS) at kebele level, So no body is involved in promoting (give advises, create access to finance, give market information, avail suitable working place, provide business and technical skills training, make conditions possible to create linkage between farm and non-farm businesses. create)

Linkage between business constraint and poverty incidence	Both forward and backward linkages are working between farm and non-farm activities
What is the prospect of Rural non-farm enterprise in the locality?	♦ Rural is as a key focus area in the development policy of Ethiopia, the Government gave due attention to infrastructure. New road construction and expansion of the existing road, electricity and telephone line installations are among encouraging actions of the government. Becoming reality of these things has a positive impact in the growth of rural non-farm enterprises. ♦ Some NGOs started promoting Self Help Group promotion program. This self initiated group formation among micro level enterprise operators to help each by saving money and lend money to each other with out collateral and by minimum interest. The expected role NGOs play here is to give a matching grant fund to already established group. This might contribute in minimize the big problem of financial issue to RNFEs ♦ The new administrative structure that became functional (assigning a manager at rural kebele level) might help RNFEs to get attention at kebele level.

Three focus group discussions were conducted, one in each kebele and one at the woreda level with representatives of MSE Desk, Agriculture and rural development office, , Agri service – Ethiopia, (NGO), The woreda Administration office, ACSI, Woreda Capacity building office, The woreda Amehara Relief and Development Association, Orthodox Rural Development project,(NGO). The south Wollo Zone and the woreda BDS program coordinating office (2). All in all 10 individuals were participating in the FGD by representing their offices.

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

Declared by:

Sinidu Abebe

Candidate

Confirmed by:

Advisor