

**Underlying Causes of Micro and Small
Business Failures in Addis Ketema Sub City:
A Case Study**

**A Project Paper Submitted to Addis Ababa University school of
Graduate Studies for the Partial Fulfillment of Masters Degree in
Accounting and Finance**

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Declaration

Here with I, declare that, this paper prepared for the partial fulfillment of the requirements for MSC. Degree in Accounting and Finance entitled” **Underlying Causes of Micro and Small Business Failures in Addis Ketema Sub City: A Case Study**” is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

Endalkachew Mulugeta

Signature _____

Date _____

Certification

Here with I state that Ato Endalkachew Mulugeta has carried out this research work on the topic entitled “**Underlying Causes of Micro and Small Business Failures in Addis Ketema Sub City: A Case Study** ” under my supervision. This work is original in nature and has not presented for a degree in any university and it is sufficient for submission for the partial fulfillment for the award of MSc degree in Accounting and Finance.

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Date _____

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Abstract

The privatization drive and the Civil and Public Service reforms that began in the early 1990s in Addis Ababa laid a foundation for an increased number of Micro and small business enterprises. By 2005, micro and small business enterprises were employing approximately 251,081 persons in Addis Ababa city administration.

The entrepreneurs that set up these enterprises lacked business management skills and capital, and as such, many of them faced a number of problems. A survey was carried out to establish the causes of micro and small business failures in Addis ketema sub city as case study.

The objective of the study is to identify the underlying causes of micro and small business failures in Addis Ketema sub city, by investigating the sub city's MSEs. The main research instrument was in-depth interview with the owners of MSEs and authorities involved in the implementation, respectively. The result of the in-depth interview was triangulated with secondary data sources.

It is concluded that the causes of small businesses failure are multidimensional and diverse. They include both internal and external factors. In practice, many of these are interrelated. The study established causes of micro and small businesses failure, among which are: lack of capital, lack of business plans, high taxes, luck of land and premises, and, poor market, high rent charges and wrong pricing in the study area. The study was concluded by making a number of practical suggestions against business failure.

Abbreviations

MSEs	Micro and Small Business Enterprises
MSED	Micro and Small Enterprise Development
CSA	Central Statistical Authority
GDP	Growth Domestic Product
MDGS	Millennium Development Goals
SBA	Small Business administration
ILO	International Labor Organization
USAID	United States Agency for International Development
SEDP	Small Enterprise Development Program
MIP	Micro enterprise Innovation Project
VAT	Value Added Tax

CHAPTER ONE

Introduction

1.1 Back ground of the study

Micro and Small enterprises can be defined as one, which is independently owned and operated, and not dominant in its field of operation. It can also be defined in terms of sales volume and by the number of employees in the firm.

Small and micro Enterprises may be defined as businesses with a small number of employees. The legal definition of "Micro and Small" often varies by country and industry, but is generally under 100 employees in the United States while under 50 employees in the European Union

In Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as follows:

- Micro enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.
- Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000 (\$2,500) but not more than Birr 500,000 (\$62,500) but excluding high-tech consultancy firms and other high-tech establishments.

(1 US\$ equals about 8 Birr, 1 Euro equals about 10 Birr in 10/2003)

In successful developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, that are of adequate quality and are reasonably priced, to a large number of people particularly in rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology.

The micro and small enterprise sector is also described as the natural home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development.

While we cannot deny the importance of large industrial and other enterprises for the growth of the Ethiopian economy, there is ample evidence to suggest that the labor absorptive capacity of the micro and small business sector is high, the average capital

cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenges facing Ethiopia.

In Ethiopia the MSE (Micro and Small Enterprise) sector is the second largest employment-generating sector following agriculture. A National survey conducted by Central Statistical Authority (CSA) in 1997 and covering 48 major towns indicates that nearly 750,000 people are engaged in informal sector and small manufacturing businesses. This is a contribution of 3.4% to GDP and 33% of the contribution of the industrial sector and 52% of the manufacturing sector's contribution to the GDP of the year 1992/93. (MSE Strategy, Ministry of Trade and Industry 1997)

Micro & Small Enterprises caught the attention of development practitioners and policy makers recently not only because of its importance in terms of generating employment also because of various other attributes. Some of these are:

- ❖ Micro and Small Enterprises are breeding ground for entrepreneurs.
- ❖ The sector has high employment generating capacity, and is less capital intensive.
- ❖ It is highly competitive, flexible, and innovative.

Having recognized the importance of the MSE sector to the economy, the Federal Government of Ethiopia has issued an MSE Development Strategy in 1997 followed by the proclamation for the establishment of the Federal Agency for Micro and Small Enterprises Development in 1998.

The regional government of Addis Ababa also developed a regional strategy and set up Addis Ababa Micro and Small Enterprise Development Agency in 2000.

The overall objective of the MSE strategy of the region is to create an enabling environment for the development and growth of the MSE sector in Addis Ababa. The specific objectives include:

- Facilitate economic growth and equitable development
- Create long-term jobs
- Strengthen cooperation between MSEs
- Provide basis for medium and large scale enterprises
- Promote export
- Balance preferential treatment between MSEs and bigger enterprises

The regional agency is considered the key actor in formulation, coordination and monitoring of national policies related to the MSE sector in the region.

In Addis Ababa, these businesses have been increased from time to time. The increase has resulted from the extensive growth of the number of graduates from technical and vocational schools. Though this is the case, the entrepreneurs who set up these enterprises lacked business management skills, capital, and as such, many of them faced a number of problems that include poor management, accounting problems, as well as political, social, cultural and environmental factors, which results in failure of such enterprises. Thus, the paper assesses the underlying causes of micro and small business failures in Addis Ketema sub city as a case study. It is organized into the following pattern. The first chapter gives general introduction and the second chapter is literature review. The empirical evidence and analysis of data are presented in the third chapter. Finally, the conclusion and recommendation follow.

1.2 Statement of the Problem

Micro and Small businesses play a vital role in poverty reduction, employment generation as well as economic development of both developed and developing countries like Ethiopia. As an example, in Barbados, it is believed that there are approximately 6000 Micro and Small Enterprises (MSEs) and they account for approximately 80% of all business activity in the island (International Labor Organization 2000).

Research has shown that in order to achieve these contributions, these businesses have to overcome a series of challenges, which the International Labor Organization (2000) has identified as the following: Legal Constraints, Institutional Constraints, Infrastructural Constraints, Financial Constraints and Marketing Constraints. In addition to these factors, Marshall et al (2000) have also identified the following factors: high utility rates, particularly power, delays at the Customs (ports of entry), high excise duties on supplies and parts, high freight costs, limited access to raw materials and the high cost of capital and loans.

Consequently, these challenges may account for the reasons why many new MSEs fail. For example, in the United States of America, (Office of Advocacy, The United States Small Business Administration 2001) after two years of operations, 34% of start-ups fail. In Australia, (Council of Small Business Organization in Australia 2001) after one year of operations, 30% of start-ups fail and in Canada, (Statistics Canada 2001) after two years of operations, 55% of start-ups fail.

In Ethiopia specifically, MSEs have been confronted by many of these problems. According to the CSA Report (1994-1995), the major obstacles experienced by MSEs were lack of access to finance, working premises (at affordable rent), lack of skills and managerial expertise, infrastructure, information and technology. These problems result in failure of these businesses to expand and have the effect of preventing their expansion almost from the beginning of their operations

It can be gleaned from the above research that the issue of businesses failing is one of which researchers and policy makers alike should be aware, as the economies of many countries could be seriously affected, if the owners of small and micro businesses are not assisted in reducing these failure rates. If then, this paper tries to identify the major causes of failure in MSEs in Addis Ketema sub city. Since most of the MSEs never celebrate their first anniversary and fail in the first one to two years in this sub city.

1.3 Objectives of the study

1.3.1. General Objective

The General objective of the study is to identify the underlying causes of micro and small business failures in Addis Ketema sub city.

1.3.2. Specific Objectives

The following are the specific objective of the study:

- To identify accounting problems encountered by MSEs
- To Asses the management problems faced by MSEs

- To Assess over all challenges, of small businesses which include, political, economic, social, cultural and environmental factors.
- To specifically identify internal & external causes of failure.
- To suggest some remedial actions that assist entrepreneurs to overcome the difficulties encountered them.
- To suggest some actions that the owners of these businesses take and hence predispose their businesses to failure.
- To make recommendations on ways to correct these problems.

1.4 Significance of the study

To this end, the study may service as stepping-stone for other studies, which may focus on similar topics and issues, related to micro and small business in general & their failure in particular. It is important for policy makers like MSE Development Agencies. The study will also enable micro and small business owners to tackle failure of their business by suggesting some practical measures to be taken by these businesses in order to solve the number of problems faced, there by contributing to poverty alleviation, one of the Millennium Development Goals (MDGS)

1.5 Scope of the study

Among the different types of business classification based on their size, this paper focuses on micro and small business enterprises.

The main reasons for selecting MSEs are that:

1. The sector is a quick remedy for unemployment problem according to CSA report, 1997.
2. The sector has been increased from time to time in Ethiopia, especially in Addis Ababa, following the extensive growth of the number of graduates from technical and vocational schools.
3. Numerous articles have been written regarding business failures and Bankruptcies But many of these focus on large Corporations with management deficiencies and bankruptcies evidenced through the analysis of financial ratios. However, only few articles (almost non-in Ethiopian case) focus on business failure applies to MSEs. So, I found that, it is a critical study for the underlined problems.

1.6 limitation of the Study

Even though large sample size is essential for in-depth understanding of the underlying causes of Micro and Small Business Failures, the study is limited to a sample size of 50 respondents, due to time and financial limitation. However; the study tried to enhance the quality of the project by conducting in-depth interview with relevant stockholders and triangulating the result of the survey and interview with secondary data sources. In addition, limited empirical information on the Micro and Small enterprises in the country has pause restriction in examining trend in the sector. However, although some supporting and complementary information are lacking, this did not affect the result of the research.

1.7. Area of the study

Addis Ababa is the capital of city of Ethiopia and the diplomatic capital of Africa with a population of greater than 4 million. It is situated at 2,380 meters above sea level on a well-watered plateau and is the seat of the national government.

The study area is Addis Ababa city administration, specifically Addis Ketema sub city.

This particular sub city was chosen for the following reasons.

1. Small businesses are densely populated in this sub city
2. A large number of entrepreneurs have taken and returned trade license in this Sub city from time to time
3. The observed increase of economic activity in terms of small business, especially at the largest open market in Africa, Merkato.
4. Viable small businesses have start up in recent past in this Sub city but most of them have not survived fore more than a year. Therefore, I found this sub city as the most appropriate to undertake the study.

1.8. Methodology

1.8.1. Source of Data

The study was based on primary and secondary sources. The literature review entirely depends on secondary sources. While the analysis, depends on primary data that was collected through unstructured personal interview from randomly selected MSEs owners

and secondary data that was found from the city's Trade and Industry Development Bureau and Small and Micro Enterprise Development Agency.

1.8.2. Data collection

Data was collected from Fifty (50) business enterprises by interviewing the owners. Businesses were chosen by random sampling, judgmental analysis, and partly purposive decisions in order to have a wide representation of business activities in the sample.

Business activities that were similar in nature were grouped together for sampling purposes. The method mainly employed in primary data collections is in-depth personal interview method. Data from the sub city was collected in two days by the researcher who was taking notes of the proceedings of the interview through interviewing all the 50 respondents. The duration of these interviews varied between thirty minutes to one hour. Unstructured questions were administered to the proprietors of retail, service, wholesale, manufacturing and agricultural developments.

The qualitative data was collected, transcribed, and grouped. Double data entry and checking were used to minimize errors. Oral consent to participate in the study was obtained from all respondents. The data collected was triangulated with secondary data sources

1.8.3. Data Analysis

The descriptive techniques have been adopted for analysis of data. In doing so tables, graphs and percentages have been applied.

CHAPTER TWO

Review of Related Literatures

2.1. Over view of MSEs in Ethiopia

Micro and small enterprises (MSEs) are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non-agricultural sectors. In recognition of the important role MSEs have to play in creating income and employment opportunities and reducing poverty, the government drafted its first Micro and Small Enterprise Development Strategy in 1997.

According to the definition of the strategy, micro enterprises are business enterprises with a paid-up capital of less than 20,000 birr, and excluding high tech consultancy firms and other technology establishments. Small enterprises are those business enterprises with a paid-up capital of above 20,000 birr and not exceeding 500,000 birr, and excluding high tech consultancy firms and other technology establishments. Large and medium enterprises, by default, are those with more than 500,000 birr in paid-up capital.

According to the Central Statistical Authority (CSA) survey, there are almost 570,000 MSEs in Ethiopia, 99.4 percent of which are micro-enterprises with fewer than ten employees, accounting for 88.2 percent of private sector employment. The micro enterprises are very small. On average, they employ one and a half workers (this includes the owner and perhaps one occasional helper), and earn an annual operating surplus of 1,300 birr. Sole proprietors operated 82 percent of urban enterprises. Of the total

employment in these urban micro-enterprises, family members accounted for 60 percent. Beyond family members, apprentices constituted a large proportion of the remaining MSE work force (CSA, 2003).

The average micro-enterprise has a capital of 3,528 birr, a yearly production value of 2,300 birr and an annual surplus of 1,300 birr. Although significantly more productive and profitable than micro-enterprises, small-scale industries are also very small, with an average of slightly more than three employees, 18,934 birr in annual operating surplus, capital of 38,554 birr, and production value of 68,800 birr.

A recent study on MSEs indicated that MSEs in Ethiopia are confronted by many problems. The constraints facing MSEs in most developing economies are similar: unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and poor access to quality business infrastructure.

According to the CSA report, the major obstacles experienced by small-scale manufacturing industries were the irregular and erratic supply of raw materials and a shortage of suitable working premises. The lack of working premises was also found to present difficulties for the informal sector operators who faced with insufficient capital, were often impeded from the start (CSA, 2003).

The problem of raw material shortages, lack of working capital and effective marketing practices faced by micro and small manufacturing industries result in the failure of these businesses to expand. The same problems, when experienced by informal sector operators, have the effect of preventing their expansion almost from the beginning of their operations.

Results of the CSA survey showed that for about 50 percent of informal sector operators, the first major difficulty when starting their operation was the lack of sufficient initial capital. According to their responses, this problem becomes more critical when they intended to expand their businesses.

2.2 Factors Affecting the Development of MSEs

The significance of the contribution of MSEs to national development goals in general and to the local economy in particular, is being recognized increasingly in many developing countries. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector. This being the fact, different studies indicates the sector faces a range of legal, regulatory and other constraints that can limit its role of creating new employment opportunities, poverty alleviation and fostering economic growth. Ishengoma and Kappel, 2006 categorized factors hindering the performance of Micro and small enterprises into three, namely internal, external and inter firm (Ishengoma and Kappel, 2006b)

2.2.1 Internal Factor

The internal factors, which hinder the normal functioning of MSEs, include: limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location.

Regarding factors pertaining to human capital, studies indicate that the majority of workers in informal enterprises are of low educated. Most of the operators acquired the skills through on-the-job training within the informal sector or, as in the case of Africa, through informal apprenticeship systems; it is rare to see those who obtained their skills through a formal training institution (Sethuraman, 1997) Training in most cases tends to be supply-driven, and are rarely sensitive to the needs and circumstances of those in this sector and this generally means their irrelevance. The cost in terms of money and time may be too high. Sethuraman, 1997 emphasis that resources in the form of training or other similar inputs, if allocated at all for the informal sector, tend to be so meagre that they are subject to rationing which means that many of those needing assistance are disqualified through a process of screening based on different criteria. (e.g., minimum schooling required for training, collateral for credit, etc.)

Not having free access to the internal factors has no doubt its consequences on the informal operators' performance in the market. For instance in terms of poor location, the majority of informal firms are home based which may limit their expansion, interaction with other businesses, hence increased transaction costs and limited access to marketing information. Some informal enterprises operate in temporary physical

structures in open spaces or in public space that are considered illegal or unauthorized, a situation that limits their access to public services: sanitation, water and electricity.

2.2.2 External Factor

2.2.2.1 Access to Financial Services:

In most of developing countries, the majority of MSEs lack access to formal financial services. Researches in this area evidenced that the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions.

Credit from formal sources are not only governed by government regulations but often they also form part of public sector monopoly, and hence administered by a bureaucracy that is generally unfriendly to the poor, illiterates and semi-literates in the informal sector. Similar attitudes also prevail in the private sector; the private banks for example rarely find it profitable to deal with these units, though a few exceptions are emerging (Sethuraman, 1997).

According to Morrisson, 1995, between the years 1995 and 2004 only nine percent of informal enterprises in Jamaica and ten percent in Tunisia had access to bank loans (Morrisson, 1995). African countries also experienced similar circumstances for instance; only ten percent of informal firms in Nigeria and four percent in Uganda had access to

bank loans (Arimah, 2001). The firms' accessibility to funds from micro-finance institutions was much lower. Some times it appears that it is more expensive to borrow from MFIs than formal financial institutions (Ishengoma, 2004).

2.2.2.2 Limited Access to Business Development Services

Business Development Services are designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets. In this way, the sector can create and sustain productive, remunerative and good quality jobs, as well as reduce poverty, and contribute to the development of the local economies. The service include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services.

However; since informal enterprises do not comply with government regulations, the majority of them have no access to business development services offered or coordinated by governments. Some of them are unaware that business development services are offered while others are ignorant to its worth. Ishengoma and Kappel stated that BDS providers do not market their services to small and informal enterprises appropriately, assuming that these enterprises can not afford the services. In some cases the services offered are of low quality or irrelevant to MSEs (Ishengoma and Kappel, 2006b).

2.2.2.3 Limited Market

The majority of informal enterprises target the low income market areas because of low entry barriers. Enterprises in this market tend to compete for the same customers. The magnitude of this hindrance is higher for those concentrated in one area as they tend to apply a copycat strategy and thus produce similar products. This limits their growth potential and stability and is one of the reasons why informal enterprises experience a relatively high instance of downfall.

2.2.2.4 Poor Supply of Economic Infrastructure and Public Services

One of the desires of most participants in the informal sector is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises. They therefore prefer to operate either from homes or from other rent free locations even if it means violation of existing regulations (Sethuraman, 1997). Since incomes of the operators depend significantly on where they do their business within the city, they choose to operate closer to inner city or other locations despite the risks involved in violating the regulations where purchasing power, and hence demand for their output, is concentrated

Consequently, the majority of informal enterprises lack a decent location for their businesses. Some of them are located in places with a limited supply or lack of public services and economic infrastructure (for example, water and electricity, transport systems, telecommunication systems, sanitation services). In comparison to residents/enterprises in middle or high-income communities, informal firms with access to these

services incur a relatively high cost per unit for the service (Yu, 2002). On account of their small size they can not afford to invest in private public goods (Reinikka, 2002) or to buy services from private providers which would be more expensive than sourcing from government suppliers (Ishengoma and Kappel, 2006b)A poor economic infrastructure and limited access to public services increases the operating costs of informal firms, limits their ability to meet quality standards (for example, hygiene standards in restaurants), hinders their participation in linkage relationships and reduces their market and customer base(Collier, 2002).

Poor access to land and infrastructure has several consequences to incomes and productivity of the informal units. It discourages mobility; few units want to move out of their current locations perhaps due to lack of choice. Obviously this means there is little scope for additional investment or improving the business. Further it discourages investment as the title to the land is unclear. Ambiguous legal status means that they can be forcibly re-located elsewhere. Both the above factors limit the scope for expansion through investment in machinery and equipment, and hence higher productivity and income. Business carried under such conditions is also exposed to greater risks resulting from fire, flood and theft besides confiscation of assets by the authorities concerned. Another consequence has been that these units are deprived of access to urban infrastructure such as power which also negatively affects their productivity. Because they are in unauthorized locations they are generally denied any form of assistance if available.

2.2.2.5 Complex and Burdensome Government Regulations

There is a widespread perception that informal enterprises are avoiding regulation and taxation and, therefore, are operating under semi-legal or illegal conditions in the sense that they do not comply with one or more existing government regulations (Sethuraman, 1997).

Regulations pertaining to land use, land transactions, rental, tenure, etc., affect the informal sector in a significant way. Similarly labour related regulations are also known to affect the informal sector in a number of ways. There are also regulations which essentially define the framework within which business should be conducted for instance: those concerning establishment and operation of business such as location, registration, and licensing, bookkeeping, hours of operation, holidays, and tax obligation. In addition to these there may be regulations which intervene in the purchase of inputs, use of power, transport and marketing of outputs. The consequences of not complying with these and other regulations are many for the informal operators. It could mean paying a penalty in the form of a lump sum fee which resulted in a reduction in incomes. In extreme cases it could mean closure of business or confiscation of business property. The net result is to create uncertainty and discourage business investment.

Regarding with non compliance to government laws and regulation, different school thought has a different perspective. The standard neo- liberal perspective is that informal entrepreneurs deliberately avoid compliance with the law and the regulatory environment. The legalist point of view is that informal entrepreneurs find it impossible

to comply with the unreasonable bureaucratic procedures associated with registration. The structuralist perspective is that there are structural barriers - not just bureaucratic barriers - to formalization and argued that vested interests in the formal economy promote informal arrangements (Chen et al., 2002).

However; according to Sethuraman, 1997 there are at least three reasons for non-compliance with regulations: (a) many, particularly very small units, headed by those with little or no schooling, are mostly unaware of the laws and regulations; (b) some are aware but can not afford to comply unless they wish to close their business; and (c) those who take refuge in this sector in order to avoid compliance even though they can afford to bear the cost burden (Sethuraman, 1997).

Because most of the informal enterprises do not comply with such regulations they are often labelled as "illegal" and hence disqualified from having access to certain resources or markets that are under government control. In some cases the formal sector lobby has accused the informal sector of posing "unfair" competition in which they are able to sell at lower prices because of non-compliance with regulations and hence keen to see the regulations extended to it.

In general, conducting business in developing countries is difficult due to complex and burdensome government regulations. The regulatory environment often overlooks whole categories of the informal economic sector. A missing regulatory environment can be as costly to informal operators as an excessive regulatory environment (Chen.M.A, 2004).

2.2.2.6 Policy Environment

The internal constraints and the external once discussed above which are considered as hindrance for the normal functioning of informal enterprises include are generally know as “Supply” constraints, because they limits in one way or another the capability of the informal sector entrepreneurs to generate goods and services and hence generate income (Sethuraman, 1997). Apart from this most studies on the informal sector shows the existence of demand constraints which limits the opportunities for production.

Studies on informal sector show that a substantial proportion of the units are faced with a stagnant or declining demand for their output; many also reported facing "too much competition" as explained by Sethuraman, 1997 it indicates the existence of limited opportunities. These findings are indicators of overcrowding of the market; by the same token they can be interpreted as failure of demand to grow, at least not as rapidly as the supply (Sethuraman, 1997). He emphasized that development policies, if properly conceived and implemented, could ensure greater demand for informal sector output and thus open up new opportunities for participation.

2.2.3 Inter-firm Factors:

2.2.3.1 The Nature of Linkage Relationships

Most informal enterprises source raw materials from and/or supply finished goods to formal firms either directly or through intermediate firms. Studies on the linkage between informal and formal firms reviles informal enterprises are quite likely to have linkages

with formal firms. But the commercial relationship between informal enterprises and formal firms is likely to be imbalanced and unregulated, although this may differ context to context (Che.M, 2005).

The most dominant nature of the linkage relationship between these two sectors in developing countries is the one whereby formal enterprises supply inputs to informal enterprises. However, this linkage is regarded as exploitative according to Arimah, 2001(Arimah, 2001). The forwards linkage in which informal enterprises supplying formal ones which are believed to have a positive effect on the performance of informal enterprise, are not very prominent in developing countries. The imbalanced linkage of the sectors is among the factor that explain low competency in the informal sector (Ishengoma and Kappel, 2006a).

2.23.2 Governance Structures

As a result of the inadequate capabilities of the informal enterprises and their weak legal status, the majority of the firms involved in bilateral vertical linkages with formal enterprises, have relatively low bargaining power. Consequently they will likely be exploited (Tokman, 1978) and incur relatively high transaction costs. The point is that when there are different layers of contractors such as original formal contractors, entrepreneurs and labourers, firms in the first category accrue more profit, whilst those in the last category are highly exploited.

2.2.3.3 Weak Association

Formal business interests are represented in municipal governance through associations such as chambers of commerce. Informal workers and their enterprises should be entitled to the same expectation of having forums for the expression of their interests. However, few cities provide the opportunity.

The objective of a self-help business or employees association is to deliver services to its members based on their needs and priorities. However, given the internal and external factors that hindered the development of informal enterprise most of the time the sector failed to establish a strong association that will stand for the benefits of its member. Many remain small, weak, and isolated and most are not recognized as legitimate worker organizations by formal trade unions in their respective countries or by the international trade union movement (Chen et al., 2002). The same is true for employees in the sector. Given the unlimited supply of labour, workers association tend to have little bargaining power (Ishengoma and Kappel, 2006a).

2.3. Business Environment

Given the fact that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies (Chen.M.A, 2004). It requires policy makers of developing countries to develop an appropriate investment climate that balances the costs and benefits of working formally

and informally. The promotion of the informal sector proves to be more dependent on the enabling environment than on specific targeted support institutions. The informal sector is the most important part of the private sector and its growth depends on the overall conditions for private sector growth.

The three most dominant schools of thought on the informal economy view the relationship between informal enterprises and the business or regulatory environment in different ways (Che.M, 2005). Chen, 2005 explained these relationships as follows: he pointed out; in regard to informal enterprises, dualists pay relatively little attention to government regulations per se but focus instead on government provision of necessary support services. The legalists believe that government deregulation would lead to increased economic freedom and entrepreneurship among working people, especially in developing countries. The structuralists see a role for government in regulating the unequal relationships between 'big businesses' and subordinated informal producers and workers: they advocate the regulation of commercial relations in the case of informal producers and the regulation of employment relations in the case of informal wage workers.

The point here is should government intervene in the operation of the informal economy? Scholars in the informal economic sector have different position on this matter. Those who subscribe to the notion that governments should intervene in the informal sector base their arguments on some mix of equity, efficiency, or political economy principles (Chen.M. A et al., 2002).

As explained by Chen.M, Jhavala and Lund, 2002, the argument for the equity principles is that the poor who are concentrated in the informal sector face uneven market power and discrimination; have insufficient market information or skills; and have inadequate insurance against risk. The recommendation is that the need for a new contract between the State, businesses, organized labour, and other social actors.

Those who put their case for government intervention on efficiency principles argue that the informal sector contributes to GDP; produces a large share of consumer goods, particularly those bought by middle and low-income groups; represents a potential source of capital goods; and provides a training ground for entrepreneurs. Further more they recognize that growth in the informal sector is more labour-intensive and, therefore, more job-creating than growth in the formal economy. They, therefore; argue that governments should intervene to promote productivity and growth in the informal economy.

The argument in case of political economy principles for the intervention is that governments do intervene in markets and in ways that are often biased – either deliberately or inadvertently - towards large industries: notably, trade and industry policies, investment incentive packages and fiscal policies. Their point is that why should policies directed or biased towards smaller businesses be singled out as distortion.

2.4. Constraints and Opportunities of SMEs

From a review of the literature (Psaila, 2006) it transpires that the Constraints and opportunities of micro-enterprises stem from their very inherent characteristics. There are

so many different kinds of micro enterprises that generalizing risks oversimplifying reality. Patterns do however exist and important indeed and inherent characteristics, running through all the literature on small and micro-enterprises can be drawn up.

A characteristic associated in micro-enterprises is that they tend to be independent minded, workaholic and have a strong family orientation. (Boissevain, 1991). This explains their ability to take flexible decisions, affording them less bureaucracy and taking timely action to respond to day-to-day arising situations. Their main focus is family well-being and thus they tend to dislike government interference, and tend to be particularly averse to taxation on their hard-earned profits. The flexibility and lack of formality of micro-enterprises is at the same time their weakness in that these characteristics often lead firms not to seek professional guidance. Accessing finance is difficult for micro-enterprises and often seen as a major stumbling block for their success. This is due to the high risk element which such enterprises carry with them. This difficulty in accessing finance often puts them at a disadvantage, constraining their options for the carrying out the necessary restructuring, which in this era of globalization, is much needed to withstand external competition. Many such enterprises in Malta are also not finding refuge in the EU funding opportunities since most funding schemes contain an element of co-financing, which tends to be relatively large for micro-firms. Gleaning through the literature on micro-enterprises (see for example, Carree and Thurik, 1998; Davis et al., 1996; Storey, 1994), one may succinctly summaries the strengths and weaknesses of micro-enterprises as follow:

Strengths:

- Flexibility in decision making
- Motivation to succeed due to ownership
- Speed in taking decisions
- Lack of bureaucracy
- Continuity through the possibility of building the business for future members of the family.

Weaknesses:

- Limited possibilities to reap the benefits of economies of scale
- Difficulties in accessing finance
- Difficulties to withstand competition from larger firms

The strengths of micro-enterprises, if properly exploited, will yield competitive advantages and opportunities to enhance the profitability and sustainability within a market environment. On the other hand, the weaknesses, if carefully understood and addressed, will help micro-enterprises mitigate the constraints for their growth and help overcome the negative impact of external shocks on their internal operations

2.5. Small Businesses - Big Obstacles

Everyone is talking about small businesses. In 1993, when it was allowed in Developing countries, more than 90,000 new firms were registered by individuals. Now, less than three years later, official figures show that only 40,000 of them still pay their dues and

present annual financial statements. These firms are called "active" - but this is a misrepresentation. Only a very small fraction really does business and produces income.

Why this reversal? Why people were so enthusiastic to register companies - and then became too desperate to operate them? Small business is more than a fashion or a buzzword. In the USA, only small businesses create new jobs. The big dinosaur firms (the "blue-chips") create negative employment - they fire people. This trend has a glitzy name: downsizing. In Israel many small businesses became world class exporters and big companies in world terms. The same goes, to a lesser extent, in Britain and in Germany. Virtually every Western country has a "Small Business administration" (SBA). These agencies provide many valuable services to small businesses:

They help them organize funding for all their needs: infrastructure, capital goods (machinery and equipment), land, working capital, licence and patent fees and charges, etc. The SBAs have access to government funds, to local venture capital funds, to international and multilateral investment sources, to the local banking community and to private investors. They act as capital brokers at a fraction of the costs that private brokers and organized markets charge. They assist the entrepreneur in the preparation of business plans, feasibility studies, application forms, questionnaires - and any other thing which the new start-up venture might need to raise funds to finance its operations. This saves the new business a lot of money.

They reduce bureaucracy. They mediate between the small business and the various tentacles of the government. They become the only address, which the new business should approach, a "One Stop Shop". However, why do new (usually small) businesses need special treatment and encouragement at all? Moreover, if they do need it - what are the best ways to provide them with this help? A new business goes through phases in the business cycle (very similar to the stages of human life). The first phase - is the formation of an idea. A person – or a group of people join forces, centered around one exciting invention, process or service. These crystallizing ideas have a few hallmarks: They are oriented to fill the needs of a market niche (a small group of select consumers or customers), or to provide an innovative solution to a problem which bothers many, or to create a market for a totally new product or service, or to provide a better solution to a problem which is solved in a less efficient manner.

At this stage what the entrepreneurs need most is expertise. They need a marketing expert to tell them if their idea is marketable and viable. They need a financial expert to tell them if they can get funds in each phase of the business cycle - and wherefrom and also if the product or service can produce enough income to support the business, pay back debts and yield a profit to the investors. They need technical experts to tell them if the idea can or cannot be realized and what it requires by way of technology transfers, engineering skills, know-how, etc. Once the idea has been shaped to its final form by the team of entrepreneurs and experts - the proper legal entity should be formed. A bewildering array of possibilities arises: A partnership? A corporation - and if so, a stock or a nonstock company? A research and development (R&D) entity? A foreign company

or a local entity? And so on. This decision is of cardinal importance. It has enormous tax implications and in the near future of the firm it greatly influences the firm's ability to raise funds in foreign capital markets. Thus, a lawyer must be consulted who knows both the local applicable laws and the foreign legislation in markets which could be relevant to the firm. This costs a lot of money, one thing that entrepreneurs are in short supply of. Free legal advice is likely to be highly appreciated by them. When the firm is properly legally established, registered with all the relevant authorities and has appointed an accounting firm - it can go on to tackle its main business: developing new products and services. At this stage the firm should adopt Western accounting standards and methodology.

Accounting systems in many countries leave too much room for creative playing with reserves and with amortization. No one in the West will give the firm credits or invest in it based on domestic financial statements. A whole host of problems faces the new firm immediately upon its formation. Good entrepreneurs do not necessarily make good managers. Management techniques are not a genetic heritage. They must be learnt and assimilated. Today's modern management includes many elements: manpower, finances, marketing, investing in the firm's future through the development of new products, services, or even whole new business lines. That is quite a lot and very few people are properly trained to do the job successfully. On top of that, markets do not always react the way entrepreneurs expect them to react. Markets are evolving creatures: they change, they develop, disappear and reappear. They are exceedingly hard to predict. The sales projections of the firm could prove to be unfounded. Its contingency funds can evaporate.

Sometimes it is better to create a product mix: well recognized brands which sell well - side by side with innovative products. I gave you a brief - and by no way comprehensive - taste of what awaits the new business and its initiator, the entrepreneur. You see that a lot of money and effort are needed even in the first phases of creating a business. How can the government help? It could set up an "Entrepreneur's One Stop Shop". A person wishing to establish a new business will go to a government agency. In one office, he will find the representatives of all the relevant government offices, authorities, agencies and municipalities. He will present his case and the business that he wishes to develop. In a matter of few weeks he will receive all the necessary permits and licenses without having to go to each office separately. Having obtained the requisite licenses and permits and having registered with all the appropriate authorities - the entrepreneur will move on to the next room in the same building. Here he will receive a list of all the sources of capital available to him both locally and from foreign sources. The terms and conditions of the financing will be specified for each and every source. Example: EBRD - loans of up to 10 years - interest between 6.5% to 8% - grace period of up to 3 years - finances mainly industry, financial services, environmental projects, infrastructure and public services. The entrepreneur will select the sources of funds most suitable for his needs - and proceed to the next room. The next room will contain all the experts necessary to establish the business, get it going - and, most important, and raise funds from both local and international institutions. For a symbolic sum they will prepare all the documents required by the financing institutions as per their instructions. But entrepreneurs in many developing countries are still fearful and uninformed. They are intimidated by the complexity of the task facing them. The solution is simple: a tutor or a mentor will be

attached to each and every entrepreneur. This tutor will escort the entrepreneur from the first phase to the last. He will be employed by the "One Stop Shop" and his role will be to ease life for the novice businessman. He will transform the person to a businessman. And then they will wish the entrepreneur: "Bon Voyage" - and May the best ones win.

2.6. Distinctive characteristics of micro and small enterprises vis-à-vis larger enterprises

Generally speaking, the conventional wisdom often suggests that employment relations in micro and small enterprises are easier and happier, since they are based on 'ease communication, flexibility of work roles and identification of worker with company objectives'. Obviously, this is not always the case, but nevertheless it certainly can be argued that the small size associated to micro and small enterprises imply a certain set of Characteristics that make this type of enterprises different from larger ones. These characteristics, that are presented next, have a clear influence on the nature of the existing employment relations within micro and small enterprises: The central role that the entrepreneur, very often combining the position of owner, manager, plays in the development of a micro/small enterprise. Thus, the entrepreneur's character, his/her skills and talents, his/her previous professional experiences and educational levels, his/her attitudes and objectives, etc, are at the heart of the small enterprise's behavior, development and performance. This fact is important, since it may explain why employers have a strongly 'unitarist' view of the enterprise and of the relations between themselves and employees. In addition to this, and as one American study suggests, it is important to recognize that the typical small business owner has a relatively large share

of his/her wealth tied up in the business, and so the small business owner's wealth is very vulnerable to downside risk for the business. Therefore, it is not strange this 'unitarist' approach. In most micro and small businesses, the entrepreneur combines in the same hands ownership, management and even production, in the sense that he/she very often works side by side with his/her employees cases, this close connection of employer and employees, has often been mistaken for harmonious workplace relations

Linked to the previous point, the relative smaller number of employees in micro and small enterprises implies that employees are more 'visible' to their employers and vice versa. This fact may have positive or negative consequences concerning employment relations between employers-employees. Thus, and on the one hand, it is possible to argue that access to the employer and/or to other employees is easier in small enterprises (i.e. consultation). However, and by way of contrast, in case of conflict or dispute expressions these enterprises are especially vulnerable. Thus, conflicts are more difficult to be channeled through traditional ways (strikes, slow working, persistent lateness, absenteeism, etc). This fact results, when disagreements are persisting, in one of the parties leaving the enterprise (in case the conflict is between employee and employer, inevitably is the employee who will leave).

Micro and small enterprises are particularly characterized by a considerable importance of family involvement within employment, either in the form of family members (i.e. assisting spouses) or individuals with family connections. Linked to this point, the informality of employment relationships permeates the whole of the labour process, from

recruitment to motivation through to dismissal, so it is not therefore strange that such enterprises exhibit, and incur the cost of, higher rates of labour churning.

As shown in a previous section, the labour force in the small enterprise sector is relatively distinctive in terms of gender, level of education or employment contracts characteristics, vis-à-vis the labour forces employed by larger enterprises and public sector organisations. This evidence surely has got an influence on the characteristics of existing employment relations. Thus, Rainnie suggests that the labour force that tends to work in the smaller enterprises get a rough deal from the operation of a dual labour market and are, therefore, far more open to the vicissitudes of arbitrary managerial rule than their relatively privileged counterparts in the primary sector’.

Generally speaking, micro and small enterprises are more economically vulnerable than larger ones, which in turn may have implications for achieving and maintaining stable employer-employee relations. Notwithstanding this, it is important to avoid over-generalizations when referring to micro and small enterprises. Thus, the ‘micro and small enterprise sector’ concept can be highly misleading if it is taken to mean some population of enterprises with a set of characteristics that separates them clearly from other enterprises in the economy. Thus, it should be had in mind that there are many forms and types of micro and small enterprises, depending on factors such as size, age, sector in which SME operate, role of the enterprise in the production process, technological contents, geographical location, entrepreneur’s future expectations, employees’ skills and levels of education, etc. Therefore, and as Storey points out, ‘the small business sector

cannot be considered as an homogeneous group. An interesting example of this is given by the theoretical work conducted by Curran, who suggests that the distinctive features of employment in services in contrast to manufacturing activities have got a direct impact on employer-employee relations in the micro and small enterprise. Thus, and according to him, much service employment involves direct contact with the customer, with production and consumption occurring simultaneously, what makes more difficult for the employer to control output quality and employee performance. This situation is absent in manufacturing activities.

2.7. Business Failure - Financial Control

Many small businesses fail because managers do not integrate accounting and accounting practices to a reasonable level in their business. By failing to do so, they suffer from the lack of financial control and consequently cash flow problems force the business to fail.

If you have weak accountancy skills, then you should employ a competent bookkeeper (not necessarily qualified) to manage the accounts regularly. It is important that you have someone to complete the financial accounts (for external use - tax purposes, public use, etc) and management accounts (for internal use - management purposes i.e. cash flow and forecasting).

Should your budget eliminate any possibility of hiring extra staff, then at a minimum level you should prepare yourself with a basic understanding of accounting so that you can take a leading role with financial decisions and accounting practices: before you start

a business, find the time to get familiar with financial management skills. If you have a business up and running, think about night school, on-line courses, off-line courses, get a knowledgeable friend to act as a mentor, or just accept and budget for a bookkeeper, say, once a week.

Lack of Funds

One of the major causes of business failure is the lack of start-up capital. This highlights reason for why many small businesses fail to continue trading after the first three years of initial set-up. If you feel that your start-up capital is not enough, then you should wait until you have saved the amount you need before starting your business: starting without the necessary capital is destined for business failure. The lack of funds can lead to excessive borrowing and consequently, businesses become insolvent because their liabilities (borrowings) are higher than their assets. Insolvency is a common outcome of all the issues discussed throughout the article because it has a cycle of poor management, to lack of funds, to excessive borrowing, to becoming insolvent.

Competition can also encourage the lack of funds, as your business will be forced to offer competitive prices to try to penetrate a highly competitive market. By doing so, you are leaving yourself with a small profit margin that will be difficult for funding other areas in the business. You should therefore be cautious that you are not entering a highly competitive market during the start up stages of your business.

High Cost of Finance

During the early stages of starting a business, many owners commit themselves to taking any sources of finance they have available to them. This can be disastrous as high interest rates and unfavorable repayment schedules are overlooked due to the pressure of financing their business. For the entrepreneur and small business owner, taking on high-risk borrowing is a simple choice between starting a business, or never starting a business.

The most common source of finance that owners turn to is the credit card: this is because we receive hundreds of credit card applications through the post every year and so it is easily accessible. The annual interest rate on credit cards can be higher than 20% and so their continued use builds up high interest charges: with 10% net profit being a good return for any new business it is clear to see that the figures do not add up. As a result, profits can often only meet the interest payable and the actual credit used is paid off very slowly leading to further monthly interest charges. In a continuing cycle, it is only a matter of time before the business reaches a cash crisis.

It is therefore important that you manage your finance with a keen concern towards interest charges and repayment schedules to avoid becoming insolvent early on. Remember that for small businesses, the best source of short term funding can often come from family and friends: but pay it back as agreed!

2.8. Some causes small and micro enterprise failures

It is very important to identify and analyze why certain businesses fail, so that we can learn from their mistakes and take guidance from the successful ones. Many businesses fail because of some common causes that many entrepreneurs ignore at the onset of the business. These causes should be studied in depth because no university course gives you enough matter to study, on topics such as this. The most common causes of business failure are:

1. Laying more emphasis on product, rather than market and marketing

The requirement to identify a market for your idea or the product is more important than the product itself. You may have a great idea or a product, but if there are no buyers for the same then it cannot be a success. Smart businesses first identify the market requirement and then develop products accordingly.

2. Laying more emphasis on company image.

To project a high profile image for the company by hiring expensive office space and a fancy logo and website will not do much to facilitate in the success of your business. In fact high overheads, because of expensive space and website maintenance costs, can drive you out of business very fast, because the golden rule for the success of any business is to keep overheads low especially at the start up time.

3. Getting into Undesirable or Bad Business Partnership.

You should get into business partnership only if you find that your ideas match with the probable partner, because business partnerships are even more difficult to maintain than marriages. Many partnerships fail because of lack of communication, proper documentation and deeds. A failed partnership can lead to bankruptcy and soured relations with the business partner.

4. Attempting to have a very complex business model

Simpler the business model, better it is. In a simple and uncomplicated business model everybody, including your vendors, suppliers, employees, and customers are well aware of their responsibilities and goals. In a complex model they have to adapt themselves to new roles that they may not be comfortable with.

5. Attempting to pioneer a new product or industry

Many businesses get into the vicious cycle of trying to pioneer a new product or industry- many a times the whole exercise can drain you and your business completely, without much success. Very few and limited entrepreneurs succeed in radically new businesses. Even customers at times are scared off because of a totally new concept or product, hence chances of success are not assured, despite all the efforts that you may apply.

6. Getting involved in a business lawsuit and bankruptcy

Business lawsuits that are not in your favor can take away all your assets, including your personal assets like home, property, savings etc and make you and your business bankrupt.

7. Getting involved in messy Divorce Proceedings.

In many cases when marriages fall apart for people, their businesses also come to a halt because of the financial disagreements arising out of divorce proceedings.

2.9. Micro and Small Enterprises as a Tool for Poverty Eradication

It is clear that eradication of poverty - a complex issue – requires multi-pronged strategy and actions involving both macro and micro policy initiatives on different fronts. It has been recognized world over that one of the approaches to reduce poverty is the development of MSEs, which generate income for the self and employment opportunities. It is well known fact that micro enterprises generally account for bulk of the total enterprise population, irrespective of the level of development of a country. In many countries, especially those in Africa and Asia, the micro enterprise sector constitutes the majority of the working population. A few statistics illustrate the key role that micro and small firms play in generating overall employment:

- Firms of five or fewer employees account for half of the non-farm workforce in Latin America and two-thirds of the non-farm workforce in Africa.
- Informal sector firms generate three out of every four new, non-farm jobs in Thailand and half of all new jobs in Indonesia.
- In Indonesia, firms with five or fewer employees account for almost half of total manufacturing employment while small firms account for an additional 18 percent.

MSEs have, consequently, been identified as a high potential sector for employment generation and provision of livelihood to millions of people in African countries like

Swaziland, Malawi, Kenya and Ethiopia; in South East Asian nations like Bangladesh, India, Sri Lanka; Caribbean and in Latin American countries. The positive role MSEs can play in helping reduce poverty also is reflected in specific programmes instituted by agencies such as International Labour Organization (ILO) and United States Agency for International Development (USAID). ILO has made “fight against poverty a central element of its agenda.” The Director-General’s Report, Working out of Poverty to the 91st International Labour Conference, 2003 lists out the initiatives taken by ILO in different areas to fight poverty. These include training and skills development; micro and small enterprises; microfinance; social security; eliminating child labour; and overcoming discrimination. Its Small Enterprise Development Programme (SEDP) initiatives help countries combat poverty. UNCTAD also talks about the positive link between entrepreneurial development and poverty reduction when it calls for developing ‘productive capacities’. It has defined productive capacities as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop. The U.S. government strongly believes that promoting the growth and development of micro enterprises constitute a key component of a strategy aimed at poverty reduction. The USAID has established “The Micro enterprise Innovation Project (MIP) to provide micro entrepreneurs, particularly women and the very poor, with greater and more reliable access to financial and non-financial services needed to improve enterprise performance and household income.”

2.10. Taxing Micro and Small Business -Presumptive Tax Issues

In light of the growing popularity of presumptive taxation in developing nations, it is relevant to note the existing concerns that compromise its effectiveness. Governments that recognize the limitations of presumptive taxation include provisions in their tax codes that allow taxpayers opportunity for redress. Taxing of small business necessitates the consideration of the following:

1. Small taxpayers need special treatment:

- Difficult to find and retain them within the tax net
- Self-assessment based methods for VAT and income tax are not viable as record keeping obligations too heavy
- Need to minimize compliance and administration costs
- Need to collect at least some revenue
- Want to encourage a tax compliant culture
- Hopefully some taxpayers will eventually graduate
- Small taxpayers who can comply can be allowed to opt into regime for larger taxpayers
- However, do not pretend that all small business can be treated like large and medium businesses

2. **General Corruption:** It is sometimes argued that presumptive taxation can help reduce corruption in the tax administration. However, the success of presumptive taxation in reducing corruption will depend both on the structure of the scheme and the overall administrative environment and capacity in the tax administration. A presumptive taxation scheme can in fact increase the

discretionary power of tax officials and in a worst-case scenario increase corrupt practices. A carefully designed presumptive taxation scheme can help reduce corruption, but can never be a substitute for much needed capacity building and administrative reforms within the tax administration.

3. Crude Implementation: Despite its streamlined requirements, presumptive taxation is not always effective because governments do not have sound tax administration systems in place at the federal, state or local levels to implement schemes as envisioned by policymakers. Countries in early stages of economic development tend to employ crude methods of estimating income because they lack sufficiently qualified resources to analyze the profitability of various economic activities and to define the indexes for effectively calculating presumptive incomes. As a result, small businesses in particular are routinely taxed unfairly and inefficiently.

4. Other issues: The other important issues of presumptive tax include the following:

- The more simple the system, the more arbitrary is the presumed income base, but easier to administer
- Dangers if too generous for the taxpayer:
 - ❖ Bigger taxpayers disguised as small businesses
 - ❖ Small businesses never graduate up
 - ❖ Undermine broader tax administration effectiveness
- Methods that are not based on fact but require discretion or judgment are prone to corruption and are administratively burdensome
- Not likely to be a significant source of revenue

- Social contribution obligations for self-employed may need to be retained with the presumptive regime
- Reputable or irrebutable
- Opt-into regime for larger taxpayers but must remain there for several years and keep accounting records
- Treatment of Withheld Tax:
 - ❖ Creditable against liability, but excess not Refundable
- VAT implications:
 - ❖ Cannot issue VAT invoices
 - ❖ Being VAT exempt does not mean VAT free as inputs bear VAT that is not creditable

CHAPTER THREE

Empirical Findings and Discussion

3.1. Findings of the Secondary Data

According to the survey by the Addis Ababa trade and industry bureau in June 2005, there were 127,318 Informal Sector activity operators and 3,836 Small Scale Manufacturing Industries, 47,848 Handicraft/Cottage Industries that gave employment to 251,081 persons.

Table 1: Size of MSE's in Addis Ababa

<i>S.No.</i>	<i>Industrial Group</i>	<i>Numberof Establishments</i>	<i>Persons Engaged</i>
1	Informal sector operators	127,318	167,404
2	Handicraft/Cottage Industries	47,848	72,308
3	Small Scale Manufacturing Industries	3,836	11,369
	Total	179,002	251,081

Source: AA City administration Trade and Industry Development Bureau, 1997 E.C

Studies conducted elsewhere and in Ethiopia confirm that the MSE sector has the potential to contribute to economic growth, to employment generation and poverty reduction. Micro enterprises in particular are considered important in contributing to the socio-economic empowerment of citizens. However, the MSE sector in Addis Ababa is said to face a number of constraints that hinder its rapid growth and development and therefore reduce the weight of its potential contribution to the national economy, and inhibit the economic empowerment of entrepreneurs. Based on the rapid assessment survey conducted (1997 E.C.) in 11,000 enterprises in the city the main constraints identified were:-

- Lack of working space for production and marketing.
- Shortage of credit and finance
- Regulatory problems (licensing, organizing, illegal Business etc.)
- Poor production techniques.
- In put access constraints
- Lack of Information
- Inadequate management and Business skill
- Absence of appropriate strategy

Based on the information obtained from Addis Ababa City Administration Trade and Industry Development Bureau, Department Of Information Management System, Size of MSEs in Addis Ketema Sub city currently engaged in business (Active MSE s) is tabulated as follows.

Table 2: Size of Enterprises in Addis Ketema Sub city currently engaged in business (Active MSE s)

TRADE KIND	<=20000	B/N 20001 & 500000	>=500001
Agriculture			
Development	4	2	2
Industry	242	113	45
Retail	16123	759	79
Service	3645	967	113
Whole Sale	922	852	164
Total	20936	2692	403

Source: AA City Administration Trade and Industry Development Bureau, Department Of Information Management System

Table -2 above shows the size of the enterprises. This analysis of this table is based on the definition given to Micro and Small business enterprises by the Ministry of Trade and Industry.

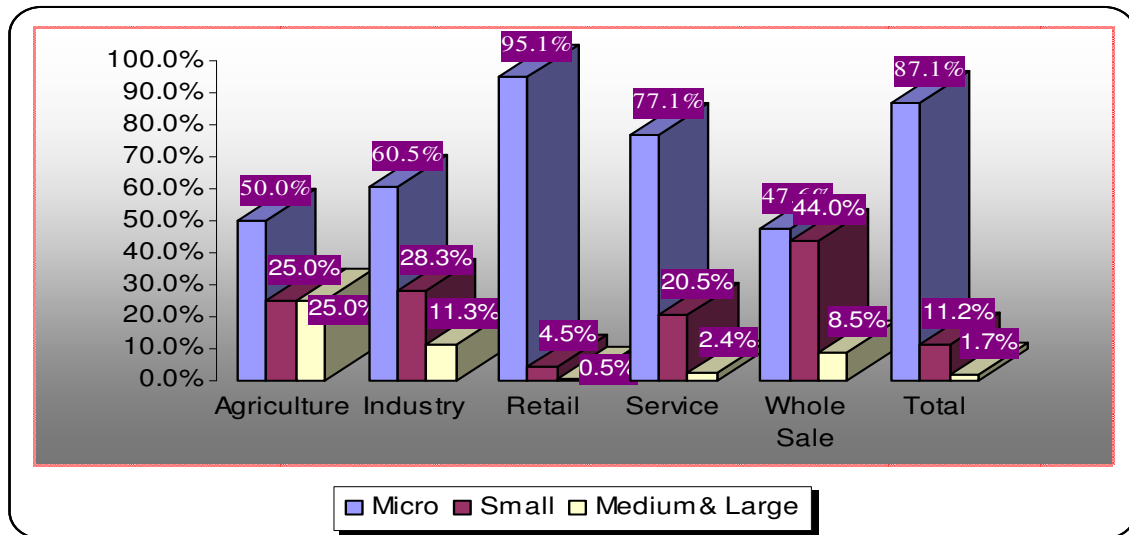
Micro Enterprises: are those business enterprises with a paid up capital of not exceeding Birr 20,000 (about \$ 2326), and excluding high tech consultancy firms and other high-tech establishments.

Small Enterprises: are those business enterprises with a paid up capital above Birr 20,000 and not exceeding Birr 500,000 (about \$ 58,140), and excluding high-tech

consultancy firms and other high-tech establishments. Accordingly, of the entire enterprises, 20936 (75.4%) are Micro enterprises, 2692 (20.9%) are small enterprises and 403 (3.7%) are medium & large Enterprise.

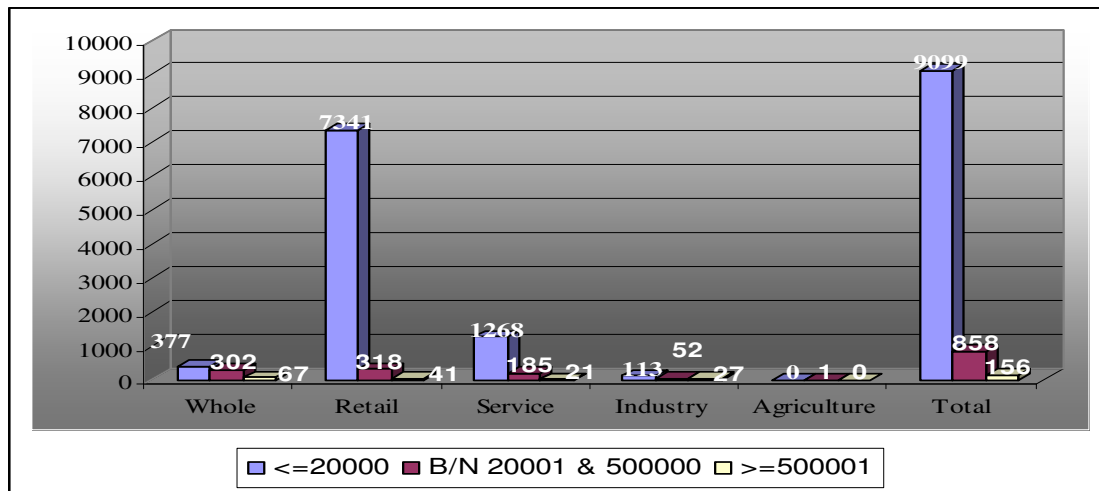
The table also revealed the size of the sub-sectors, Retail and service Enterprises accounted for (90.2%) of the total enterprises available in the sub city. Whole sale, Agriculture, Industry are 2345 in number and accounts for (7.8%) of the entire businesses .The whole Business is Dominated by MSE's Which is 23,628 (98%). Thus, one conclude that MSEs have made great contribution to the economic development of the sub city.

Figure 1: Percentage of enterprises in Addis Ketema Sub city by sector and business kind.



Source: AA City Administration Trade and Industry Development Bureau, Department Of Information Management System

Figure 2: Size of MSEs in Addis ketema sub city licensed in 1998(New entrants in to the business)



Source: AA City Administration Trade and Industry Development Bureau, Department Of Information Management System

Table 3: Size of Enterprises in Addis ketema sub city failed in 1998

TRADE KIND	Size of Enterprises Failed in 1998						Total No. Establishments
	Micro	%	Small	%	Medium & Large	%	
Whole	94	4.38%	91	4.24%	23	1.07%	2146
Retail	135	0.78%	86	0.50%	17	0.10%	17199
Service	428	8.07%	138	2.60%	11	0.21%	5302
Industry	27	6.04%	16	3.58%	4	0.89%	447
Agriculture	1	9.09%	0	0.00%	0	0.00%	11
Total	685	2.73%	331	1.32%	55	0.22%	25105

Source: AA City Administration Trade and Industry Development Bureau, Department Of Information Management System

As been indicated by table 3 and 4, even though there are new entrants to the business in each trade kind, there are businesses which did not renewed their license in the year 1998 E.C. According to the information obtained from the Addis Ababa trade and industry development bureau the MSEs are considered to be failed. Table 3 above revealed that 685 Micro and small enterprises (2.73%) from the total establishment of 25,105 have been failed during the 1998 E.C budget year. In same budget year, 331 small enterprises were failed from the total establishment of 25,105.

All the data used for analysis in the above table and graph (Table 3 & Figure 2) were taken from the year 1998. This is because at a time these data was collected the renewal period of the year 1999 were not elapsed.

Table 4: Promotional Support for MSES 1998-1999 Budget year

No.	Activities	Unit	Budget Year						
			1998			1999			
			Actual	Plan	%	Actual	Plan	%	
1	Provision of working Premises								
1.1	Space provided	M ²	-	-		-	-		
1.2	Number of beneficiaries	Person	-	-		-	-		
2	Trainings and BDS	Enterprise	4,848	6,445	75%	7276	7426	98%	
3	Market Linkage	>>	7500	11400	65.8%	18779	80928	23.2%	
4	Provision of Credit								
4.1	Amount of Credit	Million/in birr	36,049,897	198.012	18.1%	83,569,603	564,659,480	14.8%	
4.2	Number of beneficiaries	Person							
5	Private/cooperative business	>>	8225	140,826	6%	6,406	95707	6.7%	
6	Created new job opportunities	>>	20131	112153	18%	64,945	10,4534	62.1%	

Source: AA City Administration, Micro and Small enterprise Development Agency bureau

Table4 Summarizes promotional support given for MSEs in 1998 and 1999 Ethiopia budget year. In 1999 budget year the Addis Ababa Micro and small enterprise development agency planned to provide a loan for 94,757 peoples but only 13,912 (14.6%) of them were actually provided with Br. 83.569.603 which was 14.8% of the planned credit to be provided for the smooth running of MSEs. In same budget year, the agency planned to create Market linkage among 80,928 entrepreneurs but the linkage was actually created among 18,779 (23.2%) of its plan.

In the 1999 budget year, the agency intended to give Business Management and technical training for 83,368 MSEs owners of which only 16,538 owners (20%) of them were given the training .Business Development services have given to 7,276 owners. Even though the agency planned to create a job opportunity for 104,534 residents, it executed 62.2% of its plan by creating a new job for 64,945 peoples.

In general when evaluated, the execution of the plan is weak. Different reasons were identified for the great variation of the plan from the actual performance. These include:

In the 1st quarter of the plan the agency was concentrated on preparation for execution of the plan and capacity building. In addition, concerned stake holders of the sub cities, kebele extension workers all of them were on training for the entire two months in the budget year.

From the above analysis, one conclude that the support service given to *MSEs* in all aspects is very low. Therefore, looking many *MSEs* running out of the business (failed)

is not surprising. But why should they fail? Is it because of low promotional service or something else?

3.2. Findings of the Primary Data

Interviews were conducted in fifty (50) MSEs. Despite selecting the fifty (50) micro and small firms based on a random sample, it is important to note that this is a qualitative methodology that does not require a large sample size to be valid. While statistical experiments depend on sample size and randomness for validity. Successful qualitative analysis is predicted on interpretation and insight (Ferrell 1994).

A sample of data collected by interviewing the owners of MSEs is tabulated in Table 6 below.

Table 5: Analysis of Sample of MSEs studied.

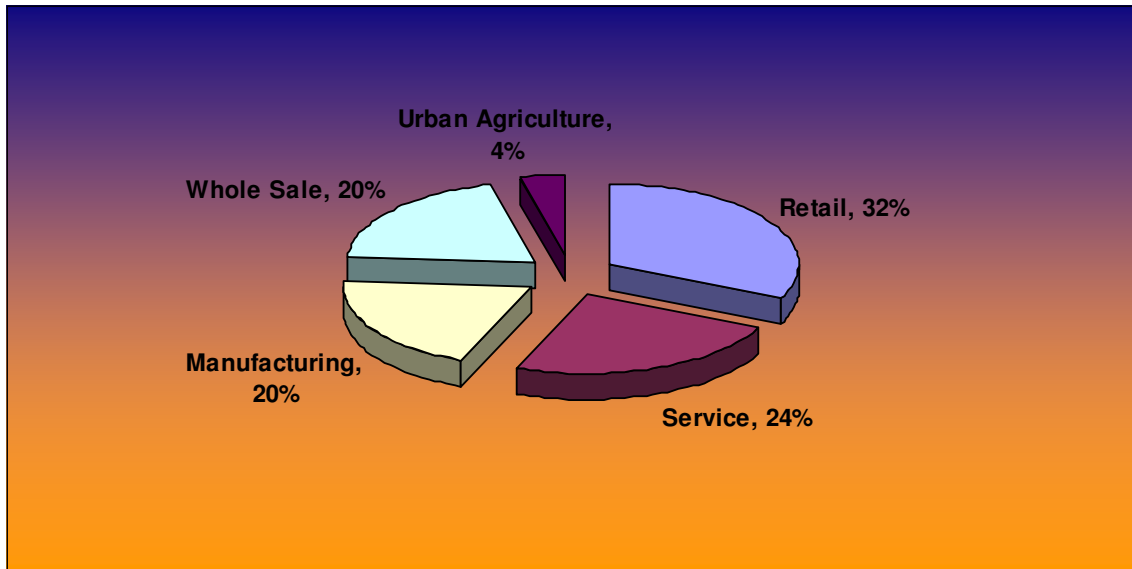
Industrial group	Background	Trade kind
Manufacturing	<ul style="list-style-type: none"> • Micro business • Employees nine people including three owners • Engaged in production of hollow-blocs • Registered as partnership • Three young male owners 	Construction
Service	<ul style="list-style-type: none"> • Micro Business 	Municipal activities

	<ul style="list-style-type: none"> • Employees eight people including four owners • Engaged in providing car wash service • Registered as partnership • Four male owners 	
Service	<ul style="list-style-type: none"> • Micro business • Employee one person plus owner of the business • Registered as a sole proprietorship • Young female owners 	Mini Supermarket
Manufacturing	<ul style="list-style-type: none"> • Micro business • Employees 9 women, all are owners • Registered as association • Engaged in local food processing 	Local Food Processing
Manufacturing	<ul style="list-style-type: none"> • Micro business • Employs two people including the one owner • Registered as a sole proprietorship • Produces cultural clothes 	Weaving(Textile& Garment)
Retail	<ul style="list-style-type: none"> • Micro business • Employs only the owner 	Retail shop

	<ul style="list-style-type: none"> • Registered as sole proprietorship • Engaged in retailing different inventories 	
Manufacturing	<ul style="list-style-type: none"> • Small business • Employs 9 workers including the owner • Registered as limited liability company • produces edible oil 	Edible Oil Manufacturing

The response rate for the interview made was high. The high response rate was due to the fact that most of the questions were asked directly to the respondents (owners of business) in different “Kebeles” of the sub city. Over five different types of MSEs were sampled and studied in the sub city. (See table 7). Of these business, 16 (32%) were involved in retailing general merchandises. These include mini-super markets, retail shops, and others. And 12(24%) were engaged in service provision, such as restaurants, hotels, bars, juice and pastry, municipal sanitary services, car wash services and other service businesses. The other businesses studied were manufacturing which include local food processing, metal works, weaving, etc. The whole sellers and urban agriculture business were also included in the study.

Figure 3: Micro and Small Business Studied by Industrial Group



Source: Field Data.

The study revealed a number of reasons why micro and small business enterprises fail that were categorized into internal and external factors. According to the respondents, lack of capital was the major problem which leads to failures of MSEs. Among the respondents investigated, 40 (80%) of them complained that lack of capital (financing problem) was contributing to the malfunction of their business. (See table 8 for details).

Table 6: Causes of Micro and Small Business Failures (n=50)

Ranking	Internal Factors			External Factors		
	Cause	Number	Percentage	Cause	Number	Percentage
1.				Lack of capital	40	80%
2.				Land& premises	35	70%
3.				Taxation	34	68%
4.				Poor Market and Market information	32	64%
5.				Business support Service	32	64%
6.	Poor record keeping	30	60%			
7.	Wrong pricing	29	58%			
8.	Negative cash flow	25	50%			
9.	Management problems	24	48%			
10.	Trouble among partners	11	22%			

Source: Field Data

Other problems mentioned were land and premises 35 (70%), taxation 34 (68%), poor market and market information 32(64%), business support services 32(64%), poor record keeping 30(60%), wrong pricing 29(58%) and others with their respective percentages.

3.3. Discussion

The aim of the survey was to investigate the underlying causes of micro and small business failures in Addis Ketema sub city. Table 8 shows several reasons or causes of MSEs failures in the aforementioned sub city. The entrepreneurs reported that lack of capital, lack of land and premises (high rent charges), taxation, poor market and market information, business support services, poor record keeping take lion share in contributing to the malfunction of their businesses. The way each factor resulted in failure of business is discussed as follows based on the information obtained from owners of MSEs.

Lack of Capital

Many business owners in the sub city (80%) raise this as a major problem. The survey indicated that the main financial resources for start-up and expansion of MSEs came from personal savings and family support. This situation can be a constraint for MSEs owners wishing to mobilize adequate working capital to expand their businesses. Entrepreneurs find it very difficult to access credit from banks due to lack of collaterals such as cars, residential houses or land titles that can be deposited to get loan from commercial banks.

On the other hand, the loans provided by micro financial institutions are small, with a short repayment period and high interest rates. This resulted in limited growth and survival of MSEs.

Land and Premises

One of the desires of most participants in MSEs is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises. They therefore, prefer to operate either from homes or from other rent free locations even if it means violation of existing regulations (Sethuraman, 1997)

The study indicated that many owners of MSEs, run their businesses in Addis Ketema sub city in rented premises and high rental charges have impeded the success of many businesses as some charges are higher than the capacity to pay. Owners complained that, expansion of the city in general and the sub city in particular has led to increased demand for business premises, which means that some micro and small businesses have been pushed away from the busy area of the sub city to the periphery. This has increased costs and resulted in poor sales and negative cash flows, thus minimizing the chance for most businesses to succeed. The study also indicated that poor access to land and infrastructures have several consequences to income and productivity of MSEs. It discourages mobility; few units' want to move out of their current location perhaps due to lack of choice. Obviously this means there is little scope for additional investment or improving the business.

High Taxation

In Ethiopia, according to Article 68(1) and (2) of Income Tax Proclamation-No 286/2002, Standard Assessment method is used to determine the Income Tax liability of Micro and Small Business Enterprises under Category C taxpayers. The Standard Assessment is the fixed amount of tax determined in accordance with Council of Ministers Regulations.

In this regard, The Council of Ministers Regulations No.78/2002, Article 21 states that category “C” taxpayers(whose annual turnover estimated by the tax Authority as being up to Birr 100,000) shall pay tax in accordance with Schedule “1” and “2” attached with these Regulations.

For this purpose the estimated Average Annual Profitability Rate varies in the range of 10% to 70% depending upon the nature of business service sectors. The basic amount of 100,000 is divided in to 19 divisions starting with the division of “up to Birr 10,000 and thereafter an increment of 5,000 Birr each for subsequent divisions.

The study indicated 34(68%) of the respondents revealed that the tax assessment that should be done arbitrarily is high and become the cause for the failure of MSEs.

Poor Markets and Market Information

The majority of MSEs target the low income market areas because of law entry barriers. Enterprises in this market tend to compete for the same customers. The magnitude of this

hindrance is higher for those concentrated in one area as they tend to apply a copy cut strategy and thus produce similar products. This limits their growth potential and stability and is one of the reasons why MSEs experience a relatively high instance of down fall. (Ishengoma & Kapel, 2006)

In the study area the finding of the study revealed that, 64% of the business owners under study agreed as MSEs were failed because of poor market and market information. Many of the MSEs in the sub city market their product /services to a limited local market. Very few of them sold in Ethiopian regional markets. Most of the MSEs also sell their products directly to consumers where as few of them through intermediaries. This shows that MSEs have limited sales out let networks. There is also very low promotion of businesses by MSEs as the majority use word of mouth and signboards to advertise their product/services. In other words, advertising and introducing of business through participation in exhibition, distributing flyers and business cards, etc are not well used by many MSEs and seen as important means of creating additional demand for their product or service in the sub city.

In addition to the above reasons, the study also revealed that, lack of sales has been also a major problem that causes MSEs to fail in the sub city. Especially at startup stage most of MSEs lack the competence of challenging already established business and lack public image.

Business Support Services

The primary research confirmed that MSEs owners mainly depend on their own resources and experiences as well those of their families and friends. The study also indicated that MSEs owners came from different social back grounds, with varying degrees of education, little or no business experience and with little or no prior training. Although there are institutions including the sub city's micro and small business development agency, involved in skills, business and some limited entrepreneurial training the effectiveness and relevance is far from what is desired due to: training materials being too complex and some times irrelevant for trainees, the absence of qualified trainers, the core function of many agencies is not training but provision of credit, the absence of technical skills training and upgrading in the sector, MSEs lack on-going technical assistance and hands on training to upgrade their products, increase productivity, improve packaging and to remain competitive and access markets.

Internal Factors

Not having free access to the internal factors has no doubt its consequences on the MSEs performance in the market. Internal factors contributed to MSEs failure have discussed as follows based on the information obtained from the filed survey.

Poor Record Keeping

Poor recording (30%) was the major internal factor listed as a cause of MSEs failure. Most business people failed to track of their daily transactions and can not account for their expenses and their profits at the end of the month. In addition many of the owners

violate the business entity concept mixing the property, revenue and expense of the business with their own personal property. Business funds were put to personal use and thus used in settling personal issues. This has a negative impact on profitability and sustainability. Some owners/managers employ family members simply because of kinship relations. In some cases these leads to repaid failure of business. It is emphasized that the importance of proper record keeping is that it enables a small business to have accurate information on which to base decisions. Such as projecting sales and purchases or determining the breakeven point and making a wide range of other financial analysis. However, the persistent lack of proper records leads to the closure of many businesses.

Wrong Pricing

The problem of pricing was prominent among the reasons for MSEs failure. 58% of the respondents agreed. Owners lack the capacity to ascertain best prices and they tend to operate at high prices in relation to medium and large scale enterprises. This tends to away most customers to their competitors who are operating at lower costs.

Negative Cash Flow

The findings of the study revealed that the profitability of many MSEs is negative especially during their early stage of development. During the startup period, negative cash flows have been a common characteristic, mostly due to lack of sales, pricing problems, high competition, and most often, operation on small scale combined with high

cost of operation. In the sub city under study, twenty five 25 (50%) owners responded that MSEs failed due to this cause of failure.

Management Problems

It is shown that lack of effective management is also a major cause business failure for MSEs. Owners tend to manage these businesses themselves as a measure of reducing costs. Owners make independent decisions on the utilization of money generated from their businesses. This lack of management experience led to collapse of many businesses.

Trouble among Partners

The problem of trouble among partners is another factor which leads to failure of MSEs. This problem is especially reflected in MSEs organized by the sub city's micro and small development agency. The owners (partners) are TVET graduates coming from similar field of study. But most of the time the conflict that arises between them leads to failure of businesses.

CHAPTER FOUR

Conclusion and Recommendations

This chapter presents the conclusion part of the study and forwards important recommendations stems from the research results and review of relevant literatures on the subject matter of the study.

4.1. Conclusion

The study focused on the underlying causes of Micro and Small business Enterprises in Addis ketema sub city taking in to account both Internal and External factors. For this end, the study examines relevant literatures, the country's development policies, Addis Ababa city administration Micro and Small Businesses Enterprises Development Strategy , the national micro and small enterprise development strategy, Addis ketema sub city MSEs development program and conducted sample survey by making interview to base the analysis and the conclusion of the study.

A broad approach for MSEs is put in place at the National Micro and Small Enterprise Development Strategy. Here, government recognized and paid due attention for the promotion and development of MSEs as they are important vehicles to address the challenges of unemployment, economic growth and inequity in the country. Studies evidenced the promotion of MSEs sector more dependent on the enabling environment than on specific targeted support institutions. However; the study reveals the promised enabling legal framework proclamations like inter-linkage promotion law, chamber of industry and other important supporting proclamations are not yet passed.

Furthermore, streamlining existing regulatory such as tax assessment and tendering procedure are awaiting, the only effort done is simplifying of the registration and licensing of business. Much more work is needed to ensure that firms are free from excessive regulation, and tax burdens, and arbitrary harassment in addition to providing more conducive climate for all sizes of enterprises in the sector (World Bank, 2007).

Nevertheless, the Addis Ababa MSEs development support packages are not accessible for all MSEs. Micro and small enterprises operators in the sub city understudy are entitled to receive the supporting service only if they are preferred to participate in textile and garment, wood and metal works, food processing, construction and municipal sub-sectors. In addition, it has a prerequisite to license and legalize the enterprises, besides, the program give a priority and especial incentives for co-operate form of organizations. These preconditions make utilization of the supporting services dependent on registration and legalizing, obedience to engage with in the pre-selected sub-sector and to a certain extent on the form of the business organization.

Micro and Small businesses in the sub city are faced with a number of challenges that lead to business failure. These causes of failure are quite diverse in nature. The study established causes of small businesses failure, among which are: lack of capital, lack of business plans, high taxes, luck of land and premises, and, poor market, high rent charges and wrong pricing in the study area. It came up with practical actions on how to overcome them. The aim is to help the business owners design business plans and work with one another. If followed, then Micro and Small Business Enterprises might move from where they are today to where their owners, investors and managers want them to be.

4.2. Recommendations

The main interest of this paper is to identify underlying causes of micro and small business failures, and to suggest certain solutions how MSEs might be overcome such causes of failures. Thus, the following measures are recommended to be undertaken by all concerned Stakeholders.

Access to Credit

Although savings are one of the means of accumulation of capital, often savings alone cannot be sufficient for running and expanding business operations, thus, there is a need for creating lines of credit. In order to facilitate access to credit for MSEs, banks and MFIs need to allocate a certain portion of their loanable funds for MSE entrepreneurs. This has to be supported by special lending and repayment arrangements. Thus, in order to address the problem of credits, financial institutions, the Federal and Regional governments and donors as well as NGOs can assist in creating lines of credit and special windows for assisting growth-oriented MSEs.

Access to land and premises

The construction of market sheds and common facility centers at suitable locations by assistance of the government, donors and private sector could help to address this problem. Thus, government with support from donors could engage in constructing shades for MSEs to address the problem of premises, coupled with measures to encourage private investors to engage in construction of premises suitable for

entrepreneurs. In this regard, the government should provide certain incentives for private investors such as tax relief for some time and availing of lease-free land, etc.

Marketing Assistance

With regard to marketing support, the following measures need to be taken by support Organizations:-

- Linking MSEs with medium and large firms to serve as market outlets;
- Provision of training on quality improvement and cost reduction modalities;
- Provision of information on market opportunities & appropriate/improved technologies;
- Construction of display centers and provision of advertising support;
- Establishment of market information centers

Business Development Services (BDS)

Provision of business development services such as training technical and managerial, advisory and counseling services are very crucial for sustainable growth of MSEs. In this regard support agencies need to tailor their training and advisory services to meet the specific needs and situation of MSEs. Support organizations can also play facilitating roles by referring and linking MSEs to other organizations for special skills training.

Coordination of activities and awareness creation

The provision of services to MESs needs to be coordinated to increase the effectiveness of services provided to entrepreneurs. So far, it has not been the experience of service

providers to streamline the provision of such services. Hence, there was no coordination amongst service providers. The Government as an important activity should consider awareness creation and dissemination of information on existing laws and regulations to MSEs entrepreneurs. In this regard, entrepreneurs should be informed of the benefits of external services available so that they do not limit their sources of support to family and friends alone.

Capacity Building

The supporting agencies and organizations such as, government and donors need to Strengthen, Federal and Regional MSE Development Agencies, Chambers of Commerce, the Ministry of Trade and Industry and Regional Trade and Industry Bureaus through providing the necessary hard and software facilities.

Enabling Environment

It is very important that the regulatory framework that affects business activities in general and those influencing MSEs in particular, be revisited regularly to create enabling environment. In this regard, the tax system needs proper attention as almost all MSEs have complaints over the existing subjective method of tax assessment and levy which is based on subjective estimation and beyond the ability to bear of such MSEs as most of them do not have audited financial statements.

To wrap up the following measures should be taken by concerned stake holders as been suggested by the researcher and business owners them selves.

Table 7: Practical action against business failure

Causes	Some practical measures
Lack of capital	<ul style="list-style-type: none"> • Make a budget; source cheap loans from financial institutions • Borrow from friends; negotiate favorable credit purchases • Negotiate advance payments from your customers • Merge with others that have similar businesses • Seek silent partners • Re-invest the profits made • Respect money by making frank spending priorities • Join Microfinance Institutions or Saving and Loan Associations
Increased taxes	<ul style="list-style-type: none"> • Tax assessment by local government in conjunction with the business owner • Business people should know the investment code and tax regulations • Pay tax in time to ease the burden • Assist in tax relief
Low sales	<ul style="list-style-type: none"> • Location of the business premises is very important • Improving customer care • Employing qualified personnel and motivating them • Carrying out market research and advertising • Optimization of peak periods such as morning, lunch and evening hours
Management problems	<ul style="list-style-type: none"> • Financial management should be emphasized • Keeping records of workers to help in evaluation

	<ul style="list-style-type: none"> • Attending refresher courses on business management skills • Networking with other people with similar businesses or at professional level
Negative cash flow	<ul style="list-style-type: none"> • Scale down operational costs • Prepare a cost –benefit analysis • Lease equipment and other financial assets to improve your cash flow • Negotiate outstanding loans through payment procedures • Aggressively pursue the account receivables
Poor record keeping	<ul style="list-style-type: none"> • Employ qualified personnel and put them in position according to their skills • Establish a record of books of accounts on a daily, weekly, monthly and annual basis • Financial records should be a priority since they aid planning
Lack of business plan	<ul style="list-style-type: none"> • Set specific targets • Prepare cash flow forecast and budgets
Family situations	<ul style="list-style-type: none"> • Separate business activities and family obligations • Look for alternative sources of income to cater for family basic needs • Set aside the time to spend with the family for social events

Source: A mix of respondents and Researcher

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Annex 1: Interview Questionnaire

Annex 2: Contents of Unstructured Interview

Interview Questionnaire

Section I: Identification

Sub-city.....

Keble.....

Questionnaires No.....

Enumerator:

Date:

Section II. Demographic Characteristics

1. Name of the owner or group or co-operative of the enterprise(optional)

.....

2. Sex

1. Male.....

2. Female.....

3. Year of Birth

4. Size of the household.....

5. No of Dependents.....

6. Martial status

1. Never married.....

2. Married.....

3. Divorced.....

- 4. Widowed.....
- 5. Separated.....
- 7. Can you read and write
 - 1. Yes.....
 - 2. No.....
- 8. If the answer for question 7 was yes, what was the highest grade you have completed.....

Section III. Characteristics of the enterprise

- 9. What is the main activity of the enterprise?
 - 1. Manufacturing
 - 2. Service.....
 - 3. Retail.....
 - 4. Wholesaler
 - 5. Urban Agriculture.....
- 10. Does the enterprise have a business license or any form of registration?
 - 1. Yes.....
 - 2. No.....
- 11. How many employees do you have in the enterprise?
 - 1. Permanent.....
 - 2. Contract.....
 - 3. Unpaid family member.....

12. Do you pay any type of tax?

1. Yes

2. No.....

13. Does the enterprise have a fixed location?

1. Yes.....

2. No.....

Section IV. Business Profile

14. What is the specific activity of the enterprise?

1. Textile and garment.....

2. Leather crafts and shoe making.....

3. Wood and metal works.....

4. Construction.....

5. Food processing.....

6. Municipal Activities.....

7. Kiosk shops.....

8. "GULET".....

15. What is the form of organization of the enterprise?

1. Proprietorship.....

2. Group (Partnership).....

3. Co-operative

16. How long ago did you start this enterprise

..... Month.....Year

17. How did you acquire the skills you are applying in your job

1. Self

2. Family.....

3. On job training.....

4. Vocational Training.....

Section V: Features of the Enterprise

18. Where does the bossiness operate?

1. Home without space.....

2. Home with space.....

3. Structure attached to home.....

4. Rented building.....

5. Open space on market area.....

6. Open space on street.....

7. No fixed location.....

19. Were the following infrastructure available

1. Water.....

2. Electricity.....

3. Telecommunication

4. Sanitation facilities.....

5. Rode

20. What have been the main problems your business (multiple answers are possible)

1. Government rules and regulation.....

2. Market problems.....

3. Lack of business skills.....

4. Lack of inadequate supply of inputs

5. Lack of working place

6. Production/technical problems.....

7. No qualified staff.....

8. High material costs.....

9. Lack of finance/credit facilities.....

10. Lack of up-to-date business information.....

11. Registration.....

12. High taxes.....

VI. Evaluation of Success Factors

A. Provision of Premises

21. Did you to secure premises for the enterprise?

1. Yes.....

2. No.....

22. If your answer for Q.21 is No, what is the key problem to get access to premises

(Multiple answers are possible)

1. No clear procedure.....

2. Unable to meet the MSE requirement.....

3. Lack of working capital.....

23. If your answer for Q. 21 is yes, does the new location has: (Multiple answers are possible)

1. Access to roads.....

2. Electric supply.....

3. Water supply.....

4. Telecommunication.....

5. Sanitation facilities.....

24. Are you satisfied with the size of the premises

1. Yes.....

2. No.....

25. What is you opinion on the time it takes to get premises

1. Too long.....

2. Moderate.....

3. Short.....

26. What is the impact of the new location on (Multiple answers are possible)

	Increased	Stayed the same	Decreased
Sales			
Access to inputs			
Access to customers			
Cost			

No impact yet			
---------------	--	--	--

B. Technical and Managerial Training

27. Did you received any technical and managerial training

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

28. If your answer of Q. 27 is no, why didn't you participate on the training?

1. I don't need it.....
2. I couldn't get the opportunity
3. I already have the skills.....
4. Not well informed of the importance.....
5. It is not need based.....
6. Inconvenient time schedule to attend.....

29. If your answer for Q27 is yes, how such training helps the business? (Multiple answers are possible)

	helped much	undecided	did not help
Strengthening Business skill			
Solving technical problems			
Providing better entrepreneurial know-how			
Improving organizational capacity			

Improving managerial capacity			
Other, please specify			

C. Market linkage

30. Did you get any assistance in market linkage?

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

31. If your answer of Q. 30 is no, why didn't you get the market linkage opportunity?

1. I don't need it.....
2. I couldn't get the opportunity
3. Not informed of its importance.....

32. if your answer of Q.30 was yes, what is the nature of the market linkage (Multiple answers are possible)

1. Linkage with customers.....
2. Linkage with suppliers.....
3. Both
4. Other, please specify

33. What are/is the results of market linkage on the enterprise? (Multiple answers are possible)

1. Increase in sales.....
2. Low cost of inputs.....
3. Reliable source of inputs.....

- 4. Reliable customers.....
- 5. No impact yet.....

D. Provision of Business Development Service

34. Have you received any business development service

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

35. If your answer of Q. 34 is no, why didn't you get the service?

- 1. I don't need it.....
- 2. I couldn't get the opportunity
- 3. I already have the skills.....
- 4. Not well informed of the importance.....
- 5. Inconvenient time schedule to attend.....

36. If your answer for Q. 34 is yes, how such service helps you (Multiple answers are possible)

	Helped much	Undecided	Did not help
Providing better project idea			
Analyzing business environment			
Acquiring skill in			

marketing			
Acquiring record keeping and cost calculation skills			
Broad outlook in business growth and development			
Other, please specify			

37. If you indicated in Q 36, that the intervention helped you to **acquire marketing skill**, in what area does the training helped the enterprise?: (Multiple answers are possible)

1. Information where the best market areas are located.....
2. Ability to analysis respective market.....
3. Skill to set competitive price.....
4. Effective way to promote products/ service.....
5. Direct contact with customers.....
6. Decent approach in handling of customers.....

38. If you indicated in Q 36, that the intervention helped you to acquire **record keeping and cost calculation skills**, in what area does the training helped the enterprise:

(Multiple answers are possible)

1. Importance of registering sales/ cost on a daily basis.....
2. Control sales and cost structure.....
3. Analysis what step to be taken to increase sales and profit.....

39. What are the over all contribution of business development service on the enterprise's performance (Multiple answers are possible)

1. Increase in sales.....
2. Control /reduction of cost.....
3. Increase profitability.....
4. No impact yet.....

E. Provision of Technology

40. Did you obtain any technological assistance?

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

41. If your answer for Q.40 is No, it is because

1. It doesn't help much
2. I can't afford.....
3. No technical skill on the use.....
4. I couldn't get the opportunity.....

42. If your answer fro Q 40 is yes, does the provision of technology relevant to your activity?

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

43. What is the impact of this service on the enterprise? (Multiple answers are possible)

1. Increase production/service.....
2. Reduce cost of production/service.....
3. Increase quality of product/service
4. No impact yet.....

F. Provision of credit facility

44. Did you obtain a credit facility

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

45. If your answer for Q 44 is No, why? (Multiple answers are possible)

1. I don't need credit.....
2. I can use other sources.....
3. Inadequate loan amount
4. High interest charge.....
5. Lack of collateral
6. It is bureaucratic

46. If your answer for Q. 44 is yes, is the amount of the loan sufficient

1. Yes.....
2. No

47. What is the effect of the loan (Multiple answers are possible)

1. Solve financial constraints.....
2. Increase input acquisition.....
3. Build premises.....
4. Bought working materials.....
5. Bought equipment
6. No impact yet.....

G. Information

48. Do you get any relevant information for your operation

1. Yes.....

2. No.....

49. If your answer of Q. 48 is no, why didn't you get the service?

1. I don't need it.....

2. I couldn't get the opportunity.....

3. I already have the skills.....

4. Not well informed of the importance.....

5. Inconvenient time schedule to attend.....

50. If your answer for Q.48 is yes, what is the nature of the information

1. Input market information.....

2. Output market information.....

3. About the program

4. Legislation and Legal requirement.....

5. Taxation.....

Contents of Unstructured Interview

No.	Interviewee	Information
1	Addis Ababa Trade and Industrial Development Bureau- MSED Department Head	Situation of the MSEs in the Addis Ababa City
		Contains of the support services
		How support is provided
		Link with other sectors
		Financial situation
		Achievement
		Challenges
		Future plans
		2
co-ordination		
Participation		
Like with other sectors and non governmental organizations		
Capacity		
How service is provided		
Awareness creation		
Achievements		
Challenges		
Future actions		