

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**AN ASSESSMENT OF THE BUSINESS ENVIRONMENT AND
GROWTH POTENTIALS OF THE KNITWEAR AND THE
HANDLOOM WEAVING MICRO AND SMALL ENTERPRISES IN
SELECTED SUBCITIES OF ADDIS ABABA**

BY: GENET GEBREMARIAM

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF
ADDIS ABABA UNIVERISTY IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN REGIONAL
AND LOCAL DEVELOPMENT STUDIES**

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STUDIES**

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Acronyms

ADLI: Agricultural Development led Industrialization
BDS: Business Development Service
BDS: Business Development Service
CDA: Cluster Development Agent
CSA: Central Statistics Authority
ECA: Economic commission for Africa
EDRI: Ethiopian Development Research Institute
EU: European Union
FDRE: Federal Democratic Republic of Ethiopia
FeMSEDA: Federal Micro and Small Enterprises Development Agency
GNI: Gross National Income
HASIDA: Handicraft and Small scale Industries Development Agency
LDC: Least Developed Countries
LED: Local Economic Development
MOFED: Ministry of Finance and Economic Development
MOTI : Ministry of Trade and Industry
MSE: Micro and Small Enterprises
RATES: Regional Agricultural Trade Expansion Support Program
ReMSEDA: Regional Micro and Small Enterprises Development Agency
SSE: Small Scale Enterprises
UNDP: United Nations Development Program
UNIDO: United Nations Industrial Development Organization
UNIDO-MOTI CDA: United Nations Industrial Development Organization- Ministry of

Glossary of local terms

Iqub: traditional way of saving or rotating money.

Kebelle: the smallest administrative unit.

Arata: A traditional borrowing arrangement.

Shemane: Small artisans engaged in the production of the hand woven clothes.

Wefram: A woven cloth made up of thick yarns and is mainly used in cold seasons.

Gamo: Ethnic group from the Southern Nation and Nationalities

Kemis: A woven cultural dress for ladies.

Abstract

This study assessed the business environment in which the knitwear and handloom weaving micro and small(MSE) were operating in and evaluated their growth potentials. The study employed descriptive cross sectional survey consisting of a structured questionnaire triangulated using focused group discussion and personal observation. A sample of 111 clothing enterprises, 64 knitwear and 47 handloom weaving from selected areas of the KolfeKeranyo and the Gullele sub cities were selected using simple random sampling techniques. Descriptive statistical tools like frequency tables, cross tabulations, averages, and percentages were employed. A chi -square test was also used to test statistical significances between the different variables under the study.

A number of variables related to the operational constraints such as internal factors, rule and regulations, market related problems and support services were reviewed. Opportunities for growth were also assessed.

The study utilized univariate and bivariate analysis techniques. Chi-square test was used to test the correlation between some variables.

The findings of the study revealed that the knitwear and handloom weaving clothing MSEs were constrained by internal and external factors. Internally, they were constrained by poor workmanship and poor production process and organization which were combined to reduce their productivity. These in turn were exacerbated by external factors. These were low demand, poor provision of raw materials, absence of fabric design patent policies, competition of the local markets through new and secondhand imported cloths. These factors combined to affect the business environment in which they were operating. On the other hand, the existing spatial pattern of these enterprises pointed a tendency for horizontal cooperation among the enterprises. This might strengthen their capacity. Besides there were yet unexploited internal and external market potentials.

Exploiting these potentials requires clearing their business environment first. This again calls for policy tailoring. Appropriate policies should be devised to address their problems. The study, therefore, underscores the need for appropriately targeted market, regulatory and support interventions which would help those enterprises breaks the viciously chained impediments they were encircled in.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The failure of development endeavors pursued during much of the 20th century gave a renewed important role for the micro and small enterprises in the process of economic development. Connected with the keynesian economic policies and regulatory control of national governments over economic affairs, the main policy focus of developing economies was the development of large scale establishments particularly of industries which were considered to generate economies of scale (Ozcan, 1995). However in response to the above development strategies, developing countries had experienced increasing unemployment, income inequalities, widespread poverty, increasing urban congestion as a result of rural urban migration, and rising indebtedness. To tackle these problems, therefore, alternative strategies were sought. Thereafter, a great deal of attention is given to micro and small enterprises (MSEs). They have become an important force for economic development and industrialization.

In spite of the fact that the room for large scale production was much smaller than the industrialized countries, in most African countries, it was only following the late 1980's policy measure in support of MSEs that the role of micro and small enterprises in the economic development of a country recognized. The increased attention of these enterprises arise from the extreme poverty, unemployment and the growing population along with the limited expansion of the modern sector which combined to constrain the capacity of the developing economies to absorb the multitude of unemployed people(Hallberg, 2000).

In Ethiopia, the emergence of the MSEs is associated with the private sector development. The private sector has been deliberately marginalized and stifled for the past many years during the Derg regime. The legal requirement to obtain license during the Derg was bureaucratic which discouraged the participation of micro and small Enterprise operators (Gebrehiwot and Wolday, 2004). Following the fall of Derg, drastic measures were taken to transform the command economy to market- led one, which are bound to affect MSEs.

A National micro and small enterprises strategy was issued in 1997 with objectives of facilitating economic growth and bringing about equitable development, creating long term

jobs, strengthen cooperation between MSEs, provide the basis for medium and large scale enterprises, promote exports and balancing preferential treatment between MSEs and bigger enterprises (UNIDO, 2005). MSEs consist for large share of the industrial fabric. The industrial sector is largely (three-quarters) composed of the cottage and handicraft establishments, while almost one quarter is made up of informal ones (Van der Loop, 2002). Within the MSE sector the micro enterprise handicraft and informal operators account for 99% of total establishments, 99.6% of total employment, 94.7% of gross value of production and 95.1% of value added (CSA, 1997). Hence, a large number of the manufacturing establishments are found within the MSEs.

Despite the fact that MSEs are considered as a fuel to the current development initiatives they remain survivalist enterprises. They are stuck at the initial stage where their graduation to the next level is not observed. If there is a need to explore their potentials, sorting out the potentials of the sub sectors found lumped together within a sector and tailor need oriented interventions is necessary.

1.2 Statement of the problem

Low productivity, low level of industrialization, poverty and increased dependence have prevailed to be major trademarks of least developed countries (LDCs)¹. LDCs are also characterized by acute shortage of capital, skilled personnel and markets. Under these circumstances, extracting the untapped potentials of MSEs should be emphasized for their ability to use resources, respond to changing local market conditions, and adapt appropriate technology that resulting in higher employment and lower capital outlay. MSEs has become popular because they use more of what a country posses and less of what a country lacks (Assefa, 1997).

Ethiopia faces very serious development challenges, which will need to be addressed both in the short- to medium- and the long-term. These include, higher number of urban unemployed labor force, higher number of youth dropout of schools, low level of technology and low productivity in the agriculture and related sub-sectors, inadequate economic and social

¹ LDCs are countries which exhibit the lowest indicators of socioeconomic development, lowest human development index, low income (three – year average GNI per capita of less than US \$750) and economically vulnerable.

infrastructures, shortage of skilled human resources and low level of capital market development (UNIDO,2005).

The MSE form the backbone of non-agriculture economy of Ethiopia, accounting for more than 95% of non-agriculture employment and one third of gross value of production (ibid).They are particularly important in the context of the country's poverty reduction strategy as they are seedbeds for the development of medium and large enterprise (vertical integration) and absorb underemployed labor in agriculture and diversify the sources of income for farming families (horizontal integration).Their significance in fostering economic growth has been well recognized too. The informal sector constitutes an important segment of the economies of the least-developed countries. (Neway, 2006). Although important in terms of employment, its role in the development process of LDCs is weak and peripheral, yet it holds a big potential.

Ethiopian manufacturing is dominated by cottage and handicraft manufacturing.Light consumption goods such as textiles and food and beverage processing dominate the handicraft and small-scale industries. Clothing is the dominant activity accounting for 45.2% of gross value of output and 46% of value added followed by food and beverage processing which accounting for 40% of gross value of output and 34%value added (Solomon, 2004).The cottage and handicrafts establishment in the clothing and textile production dominate, constituting 99.85 % (CSA, 1997).

The country's comparative advantage in the input sourcing for the sub-sector such as, its favourable climatic zone to cotton plantation and the large labour force do privilege the clothing and clothing sub sector. Moreover, following the current strategy of Ethiopia that emphasizes on Agricultural Development Led Industrialization(ADLI) there has been a pressing need by the government to promote industrial development that encompasses the commercialization of small holder agriculture through cottage industries and small- scale manufacturing activities(UNIDO, 2005).To this end, the clothing and textile sector is identified as one of the key industry whereby not only expansion in domestic markets but also developing a competitive, profitable industry in the export market could be achieved through (ibid).

The MSE clothing and textile sub-sector has encompassed the handloom weaving, knitwear, embroidery and tailoring clothing and textile enterprises (ReMSDA, 2004) with abundant but yet unexploited potentials.

So far, various researches have embarked on exposing the aggregate features, problems and constraints of the MSEs. They are characterized by internal and external problems. The MSEs clothing are not an exception to this. A subsectoral approach has not been pursued to closely point out the business environment of the clothing MSEs. Subsector analysis has become more widely used in recent years as an excellent analysis for any intervention, where a sub sector is defined as vertically integrated group of enterprises that are concerned with the same product group. Interventions that are focused on overcoming the specific constraints and issues that are common to the group of enterprises are most likely to have a significant effect than those that are more generic (Zaid, 2006). The MSEs sector is heterogeneous and specific policy interventions should be tailored to the specific needs of individual sub sectors and locations (J.v. Mensah et al., 2007).

The concern of this research is therefore, confined to the MSE clothing subsector the handloom weaving clothing and the knitwear enterprises. Let alone within the MSE sector, a huge heterogeneity exists within a sub-sector itself which do require a tailored intervention. This intervention in turn requires a thorough need assessment of the business environment, need assessment which should not only identify existing situations but also provide an insight into the way in which the MSEs might need a suitable intervention to be delivered.

1.3. Objectives of the study

1.3.1. General objective

The general objective of the study is to assess the business environment in which the knitwear and the handloom clothing segments of the MSE sector are operating in.

1.3.2. Specific objectives

- Identification of basic characteristics of the knitwear and handloom weaving MSEs.
- Identify the internal operational constraints that restrain the knitwear and the handloom weaving clothing MSEs.

- Examine how the external business climate affects the knitwear and the handloom weaving MSEs .
- Assess the growth potential of the knitwear and the handloom weaving MSEs.

1.4. Research questions

- What are the basic enterprise characteristics of the knitwear and the handloom MSEs?
- What are the operational constraints for the knitwear and the handloom weaving MSEs?
- How does the business environment affect the operation of the knitwear and handloom MSEs?
- Is there a growth potential for the Knitwear and the handloom MSEs ?

1.5. Significance of the Study

The study explored the existed business climate in which the knitwear and the handloom weaving clothing subsectors were operating. This would pave a direction to further research on this subsectors. Based on its findings this study has also highlighted for the policy intervention areas.

1.6. Scope of the Study

The study is confined to the clothing subsector of the weaving and knitwear enterprises found in the selected Kebeles of the Gullele and the KolfeKeranyo sub cities of Addis Ababa respectively. The study covers both the licensed as well as unlicensed enterprises.

1.7. Rationale for the selection of the study sector

The industrial development strategy of Ethiopia attaches highest priority for the development of MSEs in view of their importance for the economic development of the country. The clothing and textile sector, which is dominated by MSEs, is identified for its potential of creating employment and generate much needed foreign exchange revenue. The knitwear and the handloom weaving clothing were purposively selected for their immense potentials, which become the interest area of the researcher. The knitwear and the handloom weaving enterprises are mainly engaged in the production of clothing fabrics. Both are alike for their labor intensive character, local input sourcing and handicraft fabric manufacturing character.

1.8. Description of the Study Area

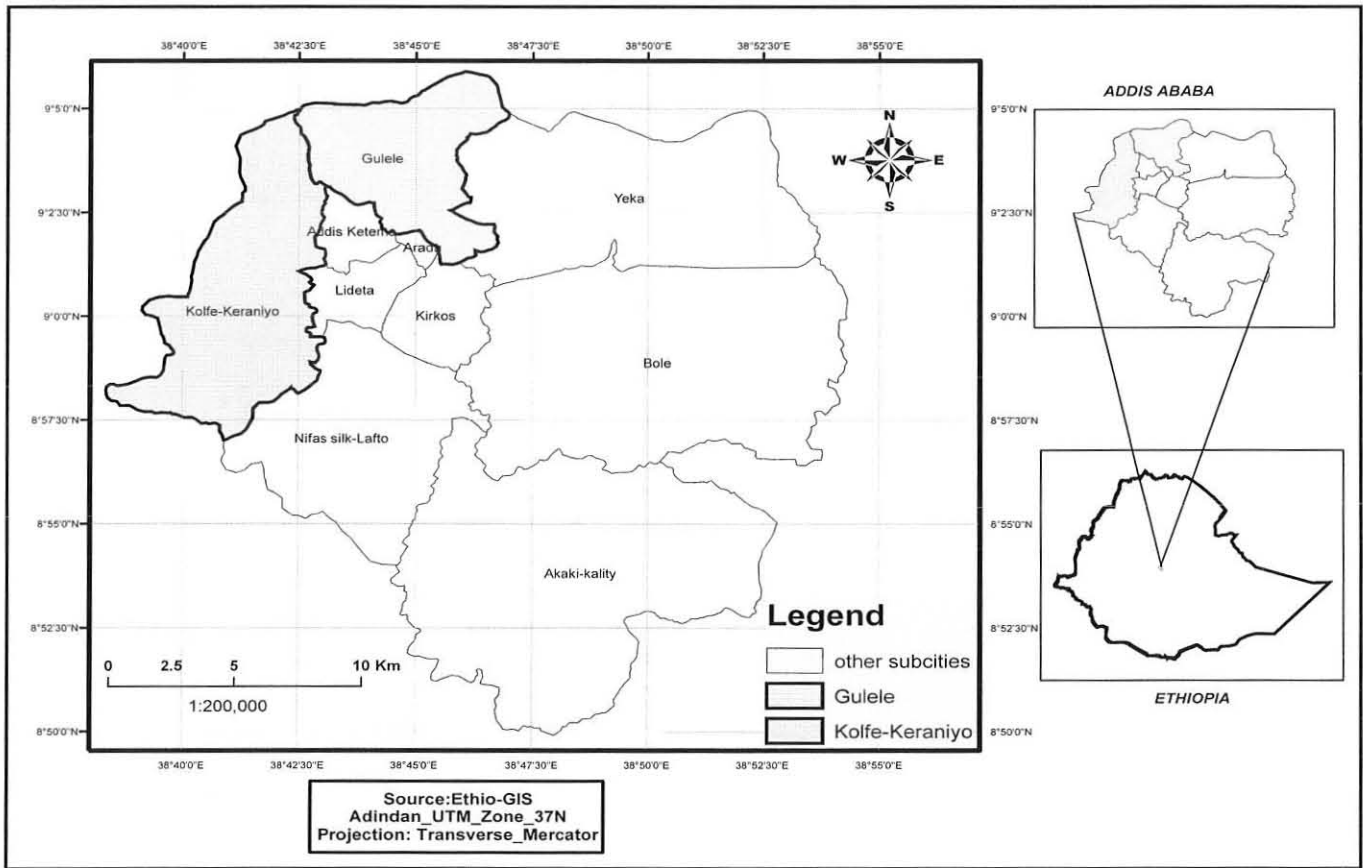
The KolfeKeranyo Sub-city

The Kolfe Keranyo sub city is the second largest ten sub cities found in Addis Ababa. The sub city is located in the western part of the city. The area of the sub city is estimated to be 547,131 hectare. Based on the population census of 1997 the number of the population in the sub city is projected to be 339,000 among which 155,940 are male and 183,060 are female.

‘Kolfe Genet’ trade center is found in the KolfeKeranyo sub city. It is located in Kebelle 12 around ‘Atenatera’. It is a center of business activity where a lot of retailing activities are taking place. It is composed of small clothing producers (manufactures) and raw material suppliers. Knitwear operators, garment tailoring and embroidery work as well as retailing activities of the thread, fibers, yarns, zips and imported garment products are found in the area. Though the trade center is believed existed long years ago, it is still stuck at the initial stage with untapped potential.

The Gullele Subcity

The Gullele subcity is located to the north end of the city. It has an estimated population of 338,936. 75% of the people live in absolute poverty and unemployment rate of the area is 35.6 % (Gullele sub city office).The Gullele sub city known for the higher concentration of the ‘Gamo’ ethnic group. A large number of Gamo handloom cloth weavers, who migrated from the southern part of the country, make their living through the handloom weaving cloth making. The study areas, Kebelles 08/16 and 18, are known for their higher number of self employed handloom weaving clothing operators. Handloom weaving cloth making is the most predominant occupation and a well established lifestyle among the inhabitants.



Map 1 Relative location of Gulele and KolfeKeranyo; source: Ethio-GIS

1.9. Limitation of the Study

During the study the following were some of the encountered problems.

- i. The study has used the 1995/96 data. It is the last survey where central statistical authority (CSA) gave a complete picture on the cottage and handicrafts.
- ii. Lack of documented data: for both enterprises no registered data were found. Especially for the knitwear activities a severe documented data problems were encountered.

1.10. Organization of the Paper

The thesis is organized in four parts. The first part focuses on the background, problem statement, objectives and methodologies of the study. The second chapter reviews literatures that are related to the study. Chapter three analyzes survey results with discussions. Finally, based on the findings of the survey summary conclusions and policy implication/recommendation are presented.

CHAPTER TWO: LITERATURE REVIEW

This chapter reviews literatures that are related to the study. Relevant definitions, concepts, theoretical foundation, and the conceptual framework of the study are presented. The small business context to the LDC's with particular emphasis on Ethiopia is also dealt with in detail. Policy moves along with the overall investment climate are discussed. The last part is through with the clothing sector, which is the concern of this study.

2.1 Definitions

While there exist a wide interest in MSEs, yet no universally accepted definition of micro and small enterprises (MSEs) has reached on. Ranges of terms are interchangeably used to describe MSEs. These include small business, small firms, Small enterprises, Small- scale industries, the informal sector etc. This is one major problem that constantly arises when dealing with MSEs.

Many African countries like Ghana, Kenya, South Africa, Congo, Mali, and other countries like USA, Australia, The Middle East, El Salvador, Indonesia and China have used the number of employees working in the enterprises criteria as a means of distinction. Italy and United Kingdom have used net worth and market share respectively. Japan, Korea, Philippines, Singapore and Netherlands use net worth and number of employees together. EU in general has used sales volume and number of workers (Zaid, 2006).

Efforts to define MSEs have led to a remarkable diversity of definitions among policy makers, organizations, researchers advisors etc. Different development practitioners adopted various criteria in distinguishing among the MSEs. Labor economists use the number of employees as a key criterion. While traders, financial institutions and manufacturers prefer to focus on turnover, net worth of enterprises and intensity of energy use respectively (ibid).

In Ethiopia, two types of working definitions for MSEs are being used at present, one by the Ministry Of Trade and Industry (MOTI) and the Central Statistics Authority (CSA).

The definition used by MOTI has been developed for formulating micro and small enterprise development strategy in 1997. According to MSE Development Strategy (1997):

- **Micro Enterprises** are those businesses enterprises, in the formal and informal sector, with a paid up capital of not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments.

- **Small Enterprises** are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 excluding high tech consultancy firms and other high tech establishments.

Based on the size of employment and the nature of equipment, CSA (2002) categorizes enterprises into different scales of operation:

- **Enterprise** in the **Micro** enterprise category are subdivided into informal sector operations and cottage industries.
- **Cottage and Handicraft** industries are those establishments performing their activities by hand and using non-power driven machines.
- The **Informal Sector** defined as household type establishments or activities which are non-registered companies or cooperatives operating with less than 10 persons.

2.1.1 Operational definitions

Micro and Small Enterprises: are those enterprises employing less than 10 persons which are owner/employee managed and cannot afford to utilize the full range of in house technical specialists and which need a variety of managerial skills and services.

The **Informal sector** is defined as activities which are non-registered and operating with less than 10 persons, produce (manufacture) for selling.

The **distinction between MSEs and Informal sector:** the clearest dimension here concerns the degree of legality: the extent, to which an enterprise is registered, pays taxes and obeys regulation.

Enterprise/firm/establishment/business: any industrial unit engaged in production process with profit motive.

The **Cottage/ Handicraft Industries** are defined as manufacturing establishments where goods are produced for sale, which predominantly do not use power driven machine in performing their main manufacturing activities and where the employment is limited to the owner and in some cases may extend to family members (CSA, 2002).

Handloom: use manually operated looms, which do not involve power driven devices.

Weaving: though customarily the 'shmena' is called as weaving, the weaving connotes forming a material by interlacing strands or strips of a material. For example, basketry weaving, carpet weaving and rugs weaving.

Handloom weaving clothing and textile is defined as manual interlacing of textile fabrics.

Knitting is a conversion system in which yarn loops are interlaced to form a fabric. A method by which thread or yarn may be turned into knit fabric.

Knitwear: knitted garments.

Knitwear operator: is the individual who run (manage) the knitwear establishment.

Clothing and textile: The operational definition for textile is adopted from Dickerson, (1999). The term 'textile' refers to the whole complex of textile including clothing/apparel/garments: Comprising yarns, threads, fabric as well as clothing/apparel/garments.

Clothing: comprises manufactured fabrics mainly for wear purpose.

2.2. Conceptual Framework

The urban economic structure of most developing countries is dominated by the micro and small enterprises, mostly characterized by the informal sector. In addition to the provision of employment and labor entrepreneurship, production of goods and services, utilization of local raw material, and delivery of low cost products to the low income groups in the society, MSEs contribute significantly to development of a nation (Ledihom and Mead, 1999).

Exploring the potential of MSEs requires an appropriate intervention mechanism to help them withstand difficulties and achieve growth. This requires need assessment based on the entrepreneurs' own assessment of problems. The sub sector analysis helps to investigate sub sector specific issues and realities. This approach might give a room for sectors which have a competitive advantage over other sectors, where an economy could draw a significant advantage from. The MSE clothing and textile sub sector is placed on dominant position for its various significances; it accounts for 45.2% of gross value of output and 46% of value added. It is the second employment generator, next to the food and beverage (CSA, 1997). It has become also one of the government's priority areas for its domestic input sourcing and labor intensive nature. If there is a need for exploiting the benefits of these MSE clothing, an assessment of the business climate in which these

clothing MSEs are operating is of a strategic need. Thus, internal (within enterprise) factors, rules and regulation related obstacles and market related obstacles need to be identified and addressed. This enables the exploit the untapped potentials of these enterprises. Figure 2.1 presents a conceptual guide of the study. The business environment of the MSE knitwear and handloom weaving clothing are consisted of internal factors, market related problems, rule and regulation constraints and inadequate support services.

Low level of skill, old age of machinery, inadequacy of managerial know-how, lack of spares, financial problems and substandard working conditions affect the enterprises internally. The market related problems associated with the demand deficiency, competing of imported clothes and poor provision of the raw materials. The rules and regulations do also constrain these enterprises through absence of product design enforceable patent laws, rigid licensing requirements and unfair tax system. As provision of infrastructures are also an important aspect for survival and growth of enterprises (Zaid, 2004), they are in a position to affect the knitwear and handloom clothing enterprises.

Small cottage manufacturing enterprises are with immense potentials of forming clusters. (Neway, 2006). Similarly, there are also potentials as the tendency of forming functional clustering, extracting the market potentials etc. The dotted arrows, Figure 2.1, indicate the Low level of skill ,oldage of machinery, inadequacy of managerial know-how, lack of spares ,substandard working conditions and financial problems weaken the capability of the knitwear and handloom clothing enterprises. Exploiting the existing potentials like the functional clustering, specialization through product design capability and market potentials would be difficult as the exploiting capacities of these enterprises are affected.

While the bold line is designated to show that there is a tendency of reinforcement of the enterprises through these potentials.

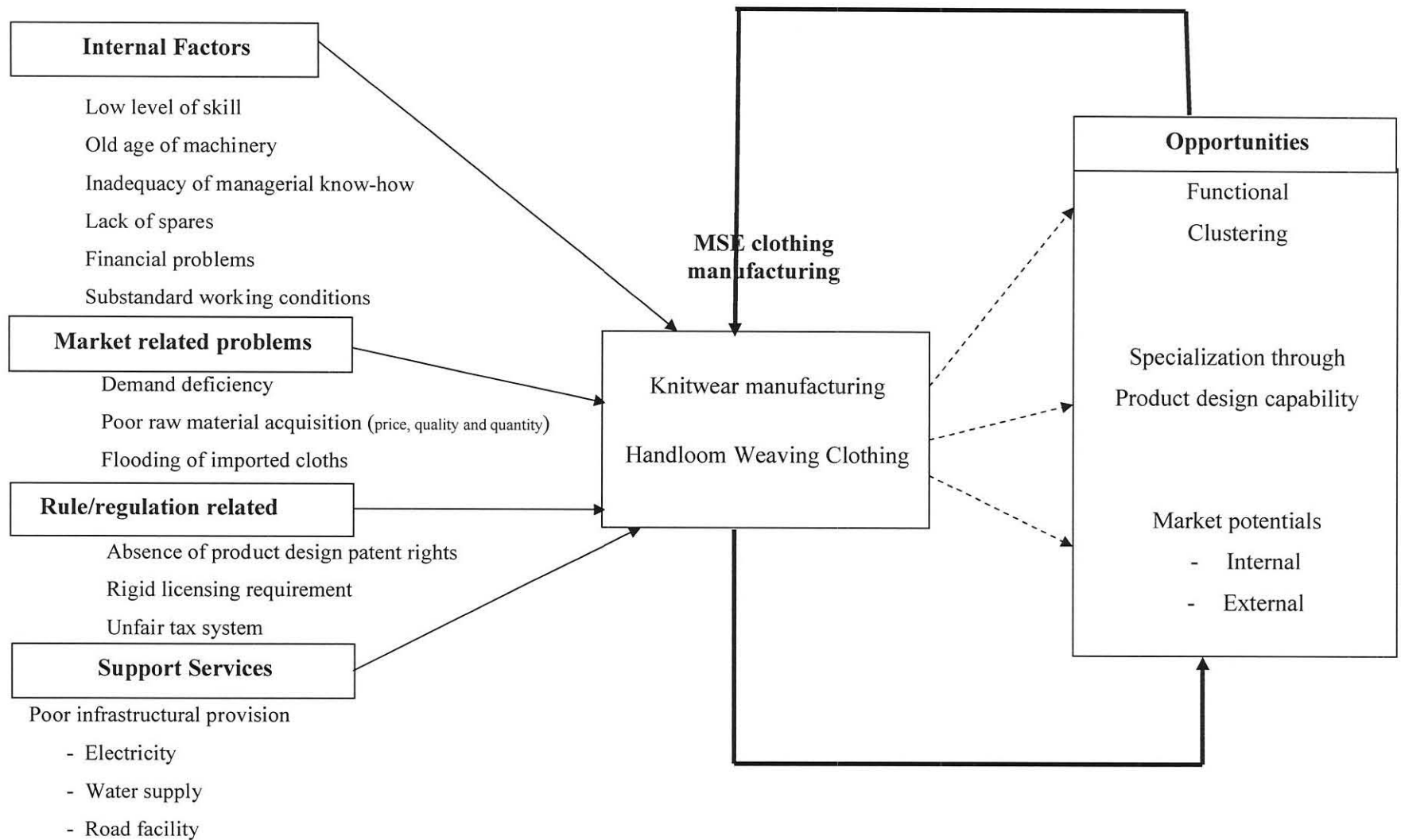


Fig 2.1. A conceptual frame work for the business environment and growth potentials of the MSE knitwear and handloom weaving clothing manufacturing.

2. 3. Theoretical literature review

2.3.1. The shift to small scale production

In the 1950s and 1960s, thinking about and action on development were dominated by modernization Approach, which focused on rapid economic growth and capital formation (Hulme and Tubner, 1990). This approach was believed to promote the diffusion of development impulses from industrialized countries to developing countries. However, the failure of the modernization process in the developing countries was observed. The African experience, for instance, depicts that the dream through large scale development was disappointing Nowak (1989), giving hard times of persistently growing poverty, inequality, and rampant unemployment. Thus, the necessity for a paradigm shift in the production process was sought.

2.3.1.1 Review of Production Paradigms

The debates for the MSEs have been firing along two lines. On one side, the role of small business in an economy has frequently been undermined and misinterpreted. They were believed to impede economic growth by attracting scarce resource from their larger counterparts. On the other side, the alternative view; small business is the key element and deriving force in generating employment and realizing economic development. This paradigm shift has, in turn, brought a revival in the promotion of small business and entrepreneurial initiative at local, national and international levels.

This subsection will deal with the different paradigms giving their standing ovations for these controversies.

2.3.1.1.1. The Fordist Production Paradigm

It has been agreed that industrialization is the nucleus for development. A fostered industrialization is a requisite for development (Pedersen and McCormick 1999). It positively influences economic development and contributes much towards the overall socioeconomic transformation of any society (Assefa, 1997). It can be perused either by promoting the development of large scale or small scale enterprises. The scale of industrialization has thus been amongst the controversial issues in the history of economic development.

Industrialization/modernization in the past was perused through large scale production systems. From the onset of the industrial revolution until the 1960s, large corporations capitalizing on economies of scale were considered as the deriving force of growth. This give rise to the fordist paradigm. Fordism is defined as mass production and consumption organized through large firms and organizations (Ozcan, 1995). It was with a clear line of command, and a highly developed division of labor and stratification within a factory.

In the wake of increasing difficulties in balancing an economic scale of the production system with the existing consumer demand, however, the fordist paradigm has come under criticism. Serious problems with fordism began to emerge in the Mid 1960s. Such as, Problems with the rigidity of long term and large scale fixed capital investment in mass production systems that precluded much flexibility of design and presumed rigidity in labor markets, persistence of growing poverty, inequality and rampant unemployment. This called for the introduction of new alternative development approach.

2.3.1.1.2. The Classical Theory

Classical economists have been paid little attention to the role of MSEs in the industrialization process. Their main argument was there is a systematic tendency of household manufacturing to decline while the share of large factories tends to rise regularly. The intermediate category of workshops and small factories would have a low share in an early period, rapidly rising in the intermediate period of change, and tapering off when large factory production would gain predominance (Helmsing & kolstee 1993). According to classicals, hence, in the course of economic development, the economic share of MSEs would decline steadily.

2.3.1.1.3. The Flexible Specialization

In the light of the problems with the fordist production system, flexible production has gained impetus thereafter. Flexible production was encouraged as anew form of production and capital accumulation. Flexibility refers to an ability to survive, and an artisanal capacity to respond to new design requirements and new market signals with fragmented and flexible use of labor in small firms. Flexible production systems are characterized by general purpose equipment that can be quickly adapted, retooled or reprogrammed for new production specifications. It may be craft based or have a high technology basis (Stopper and Scott, 1990).Piore and sable (1984) argued that the superior capacity of flexible and specialized firms to accommodate changes in the level and composition of demand makes

macro regulation less vital than in mass production. It is connected with the decentralization of national economic power, increasing regionalization and increasing emphasis on local cultural structures. Thus, the flexibility specialization concept puts small industries at the center of the industrial strategy. The flexible production approach increased the emphasis on micro and small enterprises as key economic agents (McGrath and King 1999). And it is heralded as a new basis for small enterprise development. (Helmsing and Kostler 1993).

2.3.1.1.4. The Dualism Theory

Economic development which encouraged modern forms of production and service works neither fulfilled economic expectations nor reduce regional disparities in developing countries. But small business and many artisanal works have survived and adapted themselves to changing economic needs (Ozcan, 1995). Similarly, though earlier development thoughts were highly associated with the mass production fashion, Piore & Sabel (1984) argued the victory of mass production never proved as complete as its early triumphs suggested it would be and almost all industries continued to apply craft principles of production.

Throughout the twentieth century, hence, two forms of technological development were in collision: the craft production and mass production. The attempt to explain the persistence of small firms, despite increasingly confident prediction of their disappearance, throughout modern industrial history led to a theory of industrial dualism. Dualism interprets modern craft production as a necessary complement to mass production.

According to the dualism theory, industrialization should revitalize at least part of the craft sector- reorienting it towards its own ends. At the fringe of almost every industry, therefore, small firms survive by supplying a changing variety of oddments or responding to surges in demand. Not only do craft and mass production appear to be complements, but also, under slightly different historical conditions, the former might have been a more equal partner of the latter (ibid). Thus the dualism theory gave the recognition for the persistent small craft production systems as an ally to the mass production.

In conclusion, passing through all the ideological firings it is now well accepted both among academicians and policy makers that MSEs play a vital role in contributing to the overall economic performance of countries. Hence, the economic contribution of small business to economic growth and job creation is now well recognized and established in the literature.

2.3.2. Small Business for Developing Countries

It is widely acknowledged that MSEs are an important force for economic development and industrialization in poor countries (Helmsing and Kolstee 1993). It is increasingly recognized that these enterprises contribute substantially to job creation and poverty alleviation. Creating sustainable jobs and opportunities for microentrepreneurs are the key pathways out of poverty for poor people (World Bank, 2004). The role of the small business and enterprise development has been given a due emphasis. Consequently, assisting small enterprise development has received attention as the leading edges of urban Local Economic Development (hereafter LED) interventions that represent the major areas of 'neo-liberal' policy convergence concerning planning for LED in urban areas of the developing world (Rogerson, 2002). Helmsing (2001) draws a distinction between three main categories of LED initiatives:

i. Community-based economic development focuses on facilitating household diversification of economic activity as the principal way of improving livelihood and informal enterprise would fall into this type of LED intervention.

ii. Business or enterprise development initiatives encompass a suite of initiatives that would directly target support at either individual enterprises or at enterprise clusters. It is emphasized that "in contrast to community economic development, this category is premised on specialization and overcoming obstacles towards specialization in a market context" (ibid).

iii. Locality development the concept of locality development is about the planning and the realization of infrastructures and of relevant economic and social capital. It is viewed as complementary to both the first two categories of intervention and refers to the overall planning and management of economic and physical development of localities.

Among these categories of LED, Helmsing (2001) noted, the enterprise development that focuses upon enhancing the trajectory for growth amongst small, medium and large enterprises.

2.4 Enterprise Development

The African economic fabric is made up of different sizes of enterprises, ranging from micro to large national corporations. The African industrialization could not succeed because of the fragmentation of the African business systems. The industrial structure in most sub-Saharan African countries (with partial exception of South Africa) is characterized by a low degree of division of labor, with relatively few firms in individual market segment. Often Large firms dominate. At the same time there is no middle segment. A large number of undifferentiated small producers often concentrated in preindustrial clusters (McCormick, 1999).

According to Pedersen and Mc Cormick (1999), the typical African production and distribution system consists of three distinct segments: the parastatal sector, the formal private sector and the informal sector. The first one become important especially because there was only limited indigenous African Capital. These different segments have not been well integrated in terms of inter-enterprise trade and production links. Many enterprises are operating in (semi) monopolistic markets, while vertical specialization and sub contracting are infrequent, and both formal and informal private indigenous business tend to be kept on the margins of the non- indigenous business subsystem.

In Ethiopia, enterprise culture is lacking. This could be partly explained by the predominance of the feudal system for long time. The dominant culture and the basic values have not been conducive for the development of entrepreneurial attributes. Because of such system despised enterprising people, good entrepreneurial potentials were afraid of going into the crafts and trades, which have been socially regarded, inferior (Andualem, 2004). Formal and informal linkages or business cooperation through networking are not common. Large public enterprises or the few foreign affiliates do not outsource some of their operations to local MSEs. Nor do clustering of enterprises with complementary competencies and common objectives widespread. The legal and institutional mechanisms to enforce contractual obligations and government policy to design appropriate incentive mechanism to encourage the expansion of business linkages/ subcontracting arrangements is yet to evolve (Solomon, 2004).

In general, the routes of African industrialization in general and Ethiopia's' in particular through the enterprise development has not been conducive.

2.4.1. Forming Business Cluster

For enterprises, be they micro and small scale, medium or large, cooperation is an important means of achieving survival, upgrading, increased competitiveness and profitability, and enhanced employment generation. Cooperation can be subdivided in horizontal linkages, cooperation among similar types of enterprises, for example in industrial districts or in clusters. And vertical linkages, cooperation between enterprises at different positions in national or international value chains (Zewdie et. al. 2003).

According to Schmitz (1999), 'a cluster is a group of producers making the same or similar things in close proximity to each other'. It is a geographic and sectoral agglomeration of enterprises (Mc Cormick,1999).The advantages accrued to micro-enterprises through agglomeration is what is termed as "collective efficiency" that would enable even the poorest and most vulnerable cottage industry producers become competitive in a wider market through proximity, low search and reach costs, specialization, social cohesion and collaboration (Schmitz and Nadiv,1999).

Clustering is also considered as a common survival strategy of cottage industries in low income countries through its mechanisms to reduce transaction costs of purchasing inputs and marketing outputs by pooling traders and through eased information flows that would facilitate order-sharing, labor sharing and subcontracting. According to UNIDO (2005), clustered cottage industries have potential to eliminate substantial part of disadvantages faced when they work in isolation and help give unexpected benefits that would widen market access thereby, encouraging specialization and innovation that eventually may lead to industrial development.

Horizontal linkages refers to joint activities of firms, i.e. joint purchase of raw materials, joint usage of tools, machines and (work) shop space, joint contracts and joint learning. Associations of similar types of firms are another venue to solidify horizontal linkages by joint actions (ibid).Networking, which is defined as the co-operation between firms is aimed at raising competitiveness. Thereby, at creating new business opportunities, with the main objective of overcoming obstacles and conquers beyond individual reach; through working together. Some of the Positive external benefits emanating from the agglomeration of cottage industries as cited in UNIDO (2007) are:

“Forward and backward linkages between enterprises inside the cluster, Intensive information exchange between enterprises, institutions and individuals in the cluster which gives rise to creative milieu, Joint action geared to creating location advantages, The existence of diversified institutional infrastructure supporting the specific activities of the cluster and A socio- cultural identity made up of common values and the embeddedness of local actors in a local milieu which facilitated trust.”

2.5 Creating Enabling Business Environment for MSEs

In spite of the recognition of their contributions, the development of MSEs is constrained by many factors to the larger extent by the hidden and largely unintentional biases in the economic policies. In most cases the attention in terms of overall policy and administrative support goes to the larger and modern forms of Small and Medium Enterprises. However, in the face of the economic and institutional resource constraints which thwart them involve in the giant businesses, developing countries have no option except embarking on reshuffling their policies. Therefore, the notion of enhancing the capacities of the MSEs via extending supports has gained impetus for creating an enabling environment to promote MSEs (Fjeldstad et al, 2006, G/Hiwot & Wolday 2001, Steel 1993). Some of the USAID’s proposed angles on enabling environments for enterprises as cited in G/Hiwot and Wolday (2004), are:

- ✦ *A stable financial and monetary policy setting, resulting in an economy with reasonable interest rates and reasonable levels of inflation.*
- ✦ *A system of financial markets that provides incentives to save and offers efficient mechanism to channel saving into investment that raise productive capacity overtime.*
- ✦ *A competition policy that establishes rules against monopoly and against anti competitive group behavior.*
- ✦ *A human capital development programme that calls for universal basic education and advances vocational trainings for those with the skills and drive to be successful in these areas.*
- ✦ *An infrastructure development program that provides communication networks, roads, water and sewerage system and ports needed to facilitate business transactions.*
- ✦ *A set of policies that establish a favorable climate for the star up of new businesses and for the growth of businesses.”*

- ✦ *Policies that establish and enforce clear rights to property and clear rules related to the performance contracts.*

Correspondingly, Hallberg (2000) discusses three areas of intervention for the MSEs: the business environment, the financial services and the business development service. These services form part of the market support structure that helps build MSE competitiveness.

- ***Business environment***

The business environment in which all firms (small as well as large) operate largely determines their performance. There are certain aspects of the business environment that are of particular relevance to MSE competitiveness: those that affect market access, the cost of acquiring information, transactional efficiency and risk, and the fixed costs of doing business.

- ***Financial services***

In contrast to the traditional approach of the MSE development, which has been provided by the government to MSEs, Hallberg (2000) has recommended a market oriented strategy for improving MSEs access to financing. It focuses on reducing the risks and transaction costs associated with this segment of the market, strengthening the capacity of financial institutions to serve smaller clients, and increasing competitive pressure in financial markets. The aim is to increase the number of financial institutions that find lending to MSEs to be profitable, and therefore sustainable.

- ***Business development service***

Business development services (BDS) include a wide variety of non financial services such as labor and management training; extension, consultancy, and counseling; marketing and information services; technology development and diffusion; and mechanisms to improve business linkages through subcontracting, franchising and business clusters. These services form part of the “market support structure” that helps build MSE competitiveness.

Unlike the traditionally provided BDS through public institutions or non governmental organizations, often on a free or subsidized basis, which are suffered from being too general and supply-driven, of poor quality, Hallberg’s strategy for BDS focuses on developing markets for services that are appropriate to and demanded by MSEs, rather than on the direct provision of BDS by governments and donors. The lessons of recent experience show that facilitating the provision of services by private providers and stimulating the demand for them by small enterprise clients is an effective way to raise the

coverage, quality and sustainability of services, and to increase their impact on small enterprise performance.

However, in some cases, non-market institutions can more effectively support the function of markets also for example; the industrial cluster is such an institutional mechanism in industrial development that helps to eliminate a substantial part of these disadvantages through the development of trade networks and gives industries unexpected potential to take part in the industrialization process (EDRI, 2005).

2.6. MSEs and Competition Policies

Manufacturing industries are affected to a considerable extent by the opening up of previously protected domestic markets to manufactured imports and intensification of competition in export markets. The implementation of competition policies have various impacts on the growth of the MSE sector. Here are some of the competitive policies: Trade liberalization and Impacts of interest rate decontrol

2.6.1. Trade Liberalization

Trade liberalization involves liberalization of imports and market system. It affected the MSEs Operators in various ways. On one side, it encourages healthy competition and helps improve the quality of goods produced by MSEs. It made the regulatory environment more conducive for MSE operators in the import business. It had negative impact on both production and employment. Many substandard and unaccustomed goods found their way into the domestic market.

2.6.2. Impact of Interest Rates Decontrol

This measure would introduce competitiveness in the money and capital markets hence alleviate the credit problem of the MSE sector. The banks would be free to make the necessary adjustments to cover the extra costs of lending to the MSE sector. The decontrol would introduce transparency, which would improve competition among all borrowers for the available financial resources. MSEs would be expected to take advantage of this measure, as they are known to make returns, which are high enough to meet commercial rates of interest.

Majority of MSEs are established without capital from the formal credit institutions. Usually they are financed from own savings, loans from family or friends or credit from

the informal moneylenders. Despite the freeing of the interest rate, MSEs have continued to face a financial problem. The factors leading to these constraints include high level of collateral requirements, lack of well –documented cash flow analysis and a general distrust of the MSE sector by the commercial banks (they are taken as highly risky).

2.7. Empirical Findings

The constraints on enterprises are framed by the investment climate. The investment climate consists of the set of economic incentives shaped by microeconomic and regulatory policies, public administrative procedures, institutional arrangements (eg. Property rights, rule of law and governance), and the availability and cost of physical infrastructure. Institutional arrangements influence private investment decisions through their effect on uncertainty and risk, and investment safeguards (protection of property rights, enforcement of contracts, and maintenance of integrity of monetary stands) (World Bank 2007).

A study conducted by the ECA(2001), indicates that , although the regulatory and policy environment for MSEs vary across Africa, countries such as Cameroon, Ethiopia, Gabon, Nigeria, Senegal and Uganda have shown that the policy environment in which MSEs operate are a major handicap for their expansion and growth. The overall investment climate geared substantially increases the production cost of MSE operators that require highly taxed imported inputs, there by limiting their competitiveness. The study reveals that the infrastructure in Ethiopia is also one aspect of the disabling environment besides its service administration is rather poor. There is also shortage of water and electric supply Along the same line, a survey conducted on 974 MSE operators by Gebrehiwot & Wolday (2001) revealed that although there have been attempts by the government to liberalize and improve the policy, regulatory and institutional support environment for MSEs, which resulted in increase in investment and competition and improvement in the licensing procedures, there is divergence between stated policies and directives and the outcome on the ground. Capital shortage, inadequate business premise, inadequate/ uncertain market and high taxes still remain major constraints to expand MSEs and it revealed that policy predictability is quite low.

Findings from a survey of 160 micro enterprises in Tanzania revealed high Tax rates, corruption, and regulations in the form of licenses and permits, were found to be the major constraints to business operations of micro enterprises. These constraints also vary

according to specific firm and owner characteristics. Firms that have been started recently were more inhibited by licenses and permits, than more mature firms. Business owners with a higher educational attainment appeared to be more constrained by regulations (Fjeldstad, 2006).

World Bank survey of 499 informal firms that had been conducted in Johannesburg highlighted the constraints faced by micro and small enterprises sector. Lack of credit access was a problem for 80% of informal firms. This was caused by poor access and high interest rates. Owners financed from personal savings. Infrastructure, services, transport and business space were inadequate, especially for the businesses outside home. Some 70% of firms had access to water, sanitation and electricity but only 40% were linked to postal services, telephones or public transport. High cost of services was a constraint for many who had access. Low skill and training was also a problem for the 80%. Only one third had some type of informal vocational training and only 20% received some training in business opportunity identification and machinery/equipment. On the input side most micro enterprises were found to depend on formal large, small and government firms (World Bank, 2007).

The empirical findings of the study conducted on 265 Ugandan micro and small enterprises revealed business constraints such as investment obstacles, limited access to market and productive resources, and high tax hinder the growth potential and performance of these enterprises. MSEs which reported that limited access to market was their major problem attained lower turnover. When MSEs experience limited access to market, their growth potential is likely to decrease therefore this study identified access to markets an important factor for MSEs to perform better and to grow (Ishengoma and Kappel, 2008).

Hence, Much more remains to be done to create an enabling business environment. The concrete and coordinated regulatory and institutional support (infrastructure facilities like business premise, water and power, financial services, extension services assistance in the transfer of technologies, promotion of marketing facilities and provision of training on sustainable basis) has yet to be provided by government and other stakeholders.

2.8. The Economic and Social Significance of MSEs

Placing MSEs within the broader context of the evolution of industrial structure, various researches have embarked on disposing their importance. It is now on consensus that MSEs Play a crucial role in a country's economic growth and development. MSEs have a number of potential advantages to the economies of least developed countries (Solomon 2004).

2.8.1. Ease of Establishment

MSEs can be easily established and operated by the nationals of least developed countries. For the reasons: for their lesser capital (particularly foreign exchange), minimal need for a well developed infrastructure and skill requirements, usage of existing local and traditional skills and raw materials , non-sophisticated and comprehensive technology, ease mobility and optimal use of the country's human, material, capital and natural resources (ibid).

2.8.2. Poverty alleviation

MSEs create considerable supply and demand side multiplier effects, which would contribute to enhance national output and income and would help reducing the level of poverty.(Andualem 2004) thereby the important instruments for poverty alleviation and eradication, that they bring about pro poor growth through, among others, women empowerment(Zaid, 2006).

2.8.3. Employment

MSEs are ideal to the factor endowments of least developed countries as they utilize domestic resource and labor-intensive technology, using less capital per worker. The MSE sector represents an important part of the economy and certainly of the labor market in many countries, especially developing countries, and thus plays a major role in employment creation, production and income generation. It tends to absorb most of the growing labor force in urban areas (Husmanns and Mehran 2005). Moreover, they offer greater opportunities for employment not only for educated and technical manpower but also to the uneducated labor force. (Mensah et al., 2007).

2.8.4. Entrepreneurial and Innovation

There is almost an absolute consensus on the contribution of the MSEs to the pool of entrepreneurial and innovative capabilities and bring social and economic change. MSEs increase entrepreneurial talents and formulate the seedbed from which new companies can grow and inject spirit of competition into the economy. They have also a higher inherent innovations and technology transfer potential than large ones, and are considered an exceptionally potent vehicle for the enhancement of national rates of technological innovations and upgrading.

MSE's often follow "niche strategies", using high product quality, flexibility, and responsiveness to customer needs as a means of competing with large scale mass producers (Hallberg, 2000). Experience gained by entrepreneurs and workers in small enterprise may generate future increase in productivity. In some Asian countries, small firms have contributed significantly to technology adaptation and innovation (Steel, 1993). They provides the basis for the creation and promotion of entrepreneurial capabilities; they are the breeding ground for entrepreneurship (Zaid 2006). In developing countries like India, Korea and Mauritius the recognition of the role of these enterprises and their impact in technology transfer and their innovation potential has been demonstrated in their early stages of industrialization (ibid).

2.8.5. Social, Political and Equity Justifications

MSEs contribute to a more equal distribution of income or wealth. Their growth is seen as part of the democratization and increased social stability, or an instrument of regional development. They can be established at location that are least developed and help to increase income of poor households thereby improving distribution of income, and as a result, help to minimize overcrowding in urban areas(Hallberg 2000).

2.8.6. Serve as Seedbed for the Emergence of a Private Sector

Micro enterprises are the emerging private sector in poor countries, form the base for private sector- led growth (Hallberg, 2000). They can serve as breeding ground for skilled industrial workers, managers, and entrepreneurs that are essential for the development of large and medium scale enterprises (Assefa 1997, G/Hiwot & Wolday, 2001). MSEs are also seen as emerging private sector, forming the basis for private sector led growth, in the context of many developing countries, countries in transition in particular.

2.8.7. Promoting Balanced Growth

MSEs play an important role in community development by dragging private investment back into lagging areas and spread the benefits of economic growth to people and places too often left behind.(Helmsing and kolstee,1993). MSEs tend to develop in different regions of the country, hence contributing to reduce concentration of enterprises in urban areas and promoting balanced economic growth. Hence, MSE ensure high equity effect (ensure fair income distribution and balanced growth among regions) (Dandena 2004, Zaid 2006).

2.9. Review of Regulatory Policies of MSEs in Ethiopia

In Ethiopia, early industrialization was associated with handicrafts production. Although Ethiopia has had a long tradition in the development of handicrafts and cottage manufacturing industries, the introduction of modern manufacturing industry is only a 20th century phenomena. The emergence of a strong central government, which resulted in political stability, and the construction of Ethio-Djibouti railway were notably early 20th century events, which contributed to the introduction of modern manufacturing industries. These circumstances gave way to establishment and expansion of cities and the settlement foreigners, which in turn increased the demand for industrial development (Tadesse, 1992). During this period (1942-1974), the regulatory, monitoring and coordinating responsibilities of the small scale industry development was too weak. A proclamation issued in 1971 issued all manufacturing enterprises to obtain permanent license (or, a temporary license of 6 months vitality), which was issued upon the examination of the fulfillment of specific requirements. However, many MSEs operated without proper industrial licenses, either covert activities (informal manufacturing) or using other licenses (e.g. municipality of Addis Ababa licence, trade licenses, etc) which were accepted by the courts (ibid).

The incipient industrialization process was radically changed in 1975 when the Derg regime nationalized virtually all medium and large scale industrial enterprises owned by Ethiopians and foreigners alike. An autonomous agency to take charge of the SSI (Small scale industry) development namely Handicraft and Small-scale Industries development Agency (HASIDA) was established by a proclamation 1977 as an autonomous agency. The primary objective of HASIDA, according to the proclamation, was to promote, encourage and coordinate the development of handicrafts and SSIs. The HASIDA had a general

intervention to organize the small scale industries and handicrafts into producers' cooperatives and used to facilitate their access to less restrictive credit, raw materials, training, etc.

HASIDA was favored by the then economic policy as it was in line with the socialist economic ideology of the Military Government. The operation of the agency however ended up with more regulations and control of the small establishments, which in some cases resulted in suppression of this production activity (ibid). Despite the intentions, laid down in its ten year perspective plan, no significant expansion took place in the industrial sector during the 17 year regime (Van der loop & Tseguereda, 2003).

In addition, the regime was characterized by marginalizing of private entrepreneurial efforts: the legal requirements to obtain licenses during the Derg were bureaucratic which discouraged the participation of MSE operations. Consequently; the participation of the private sector was curtailed. Restrictive policies such as fixing a ceiling on industrial capital, introducing one man-one license rule, favoring state/parastatal organizations in availing foreign exchange and bank loans limits on single borrower loans, restrictions on license and investments, absolute priority given to the public sector in access to trained qualified manpower, etc were in place to restrain the private sector participation. Moreover, the tight foreign exchange control and heavy import restrictions (both inputs and other commodities) had created scarcity of imported commodities and corrupt and rent seeking business community (ibid).

Following the regime change in 1992, drastic measures that affect MSE's were taken. Several macroeconomic reforms to liberalize the domestic markets were enacted to transform the economy to market based system. A number of reform measures have been put in place. Among those measures devaluation of the local currency, deregulation of prices, mobilization of foreign currency, devaluation of power through the decentralization, and privitazitation of state owned process are some.

The restrictive policies of the previous regime such as the fixing of a ceiling on industrial capital, the one man one licence principle, the discriminatory practice against the private sector such as availing foreign exchange to favored state organizations and extending loans have been removed. It was hereafter that a fertile ground for the competitive business environment is encouraged.

At the level of strategy and policy, these roles of MSE's have received pivotal place too. They are seen as means of proving employment, alleviating poverty, ensuring food security, and private sector development (MoFED 2000, MOI,2003, The Micro and Small Enterprises Development Strategy MoTI 1997).

The Micro and Small Enterprise Development (MSED) identifies the objectives of the MSE support framework as follows:

Objectives of the National Micro and Small Enterprise Strategy

The primary objective of the national strategy framework is to create an enabling environment for small and micro enterprises. Given such an enabling environment, it is expected that hundreds and thousands of MSES will themselves be responsible for the operation, growth and progress of their enterprises.

In addition to this basic objective of the national MSE strategy framework, the following specific objectives underlying the support are stated here:

- ***Facilitate economic growth and bring about equitable development***

MSEs by making use of predominantly local resources engage in the production of goods and services of mass consumption and simulate the growth of the economy. The expansion of MSEs also contributes to wards a more equitable regional development and distribution of income and wealth.

- ***Create long-term jobs***

While small and micro enterprise activities have absorbed a large number of unemployed people, they are not always in a position to generate remunerating long--term jobs. Therefore, support for MSEs has to include skill upgrading programs for MSE operators and strengthening the use of appropriate modern technologies that boost their capacity to create long-term jobs.

- ***Strengthen Cooperation between MSEs***

It is everyday phenomena that there are many constraints that limit the growth of MSEs, the most pressing of which is shortage of resources. MSEs individually lack the skills and resources to improve their capabilities. Therefore, it would be very important that the small and fragmented enterprises within sectors, regions or other localities be supported to network more effectively in order to jointly address hindering

obstacles, take up opportunities and build collective efficiency. In addition to this, inter- sectoral linkage would also be crucial for their development.

- ***Provide the basis for Medium and Large Scale Enterprises***

MSEs provide the seed-bed for growth and stimulate indigenous entrepreneurship. They provide training for entrepreneurs and managers and through this learning process MSEs grow in to medium and large ones.

- ***Balance preferential treatment between MSEs and Bigger enterprises***

The support strategy will help to correct the preferential treatment accorded in favor of bigger enterprises. At the same time, it aims at bringing the greatest possible cooperation and interaction between the segments (Micro, Small, Medium and Large) of the economy.

2.9.1. Importance of MSEs in Ethiopia

The MSE sector plays a vital role in the industrial development of Ethiopia. It forms the backbone of the non-agriculture economy, accounting for more than 95% of non-agriculture employment. It holds second position in terms of the employment creation next to agriculture, and one third of gross value of production. It is also an effective means of fighting poverty and improving income inequality. In addition, essential goods and services are provided by this sector for mass consumption using local resources (UNIDO, 2005). The sector is of particular importance for the low income, poor and women groups, as evident from their relatively large presence, share in employment and small scale requirement (Gebrehiwot & Wolday , 2001).

Arguments infavour of MSE in Ethiopia relate to the potential of these enterprises in: high propensity to labor intensity or employment and income creation (in Addis Ababa, for example, more than 100,000 people earn their livings from the sub-sector and about 465194 employment opportunities are provided by the sub-sector in Oromiya Region, and 348673 establishments exist. Ability to fill wide and different wants of the population (for instance Ethiopia more than 60o% trading activity is undertaken among MSEs,) Resource mobilization and in the deconcentration of industrial activities, and thereby bring balanced regional development. (Assefa 1997), Flexibility to adapt to rapidly changing demands and conditions (simple technology and small capital), High equity effect (ensure fair income distribution and balanced growth among regions) and Local inputs base (both human and material) (Dandena 2004).

2.9.2. Rationales for promoting MSEs

Claims for promotion of MSEs tend to revolve around drawing casual links between MSEs and poverty alleviation so as to justify policies and subsidies in favour of MSEs. For example, Assefa (1997) Arguments in favour of promoting MSEs in Ethiopia relate to the potential of these enterprises in employment creation, resource mobilization and in the deconcentration of industrial activities, and there by bringing balanced regional development. On the other hand, Hallberg (2000) argued the justification for support shouldn't necessarily be based on the inherent economic benefits. The real reason that developing country governments should be interested in MSEs is because they account for a large of firms and employment. That is because "they are there". Searching for further justification to promote smallness as an instrument of poverty alleviation is not necessary. It is enough recognizing that MSEs are the emerging private sector in poor countries, thus form the base for private sector led growth. Further, he argued that the justification for MSE interventions lies in the market and institutional failures that bias the size distribution of firms, rather than on any inherent economic benefits provided by small firms. What so ever the rationale, hence, supporting the MSEs have gained importance and the important thing is availing the creating the favorable business climate.

2.10. Problems and Challenges of the MSE Sector

Many of the MSEs in the country are commonly constrained by several factors. Even though, the degree of severity of each problem varies from enterprise to enterprise, some of the major problems that have inhibited the development of the sector include the following:

a) Lack of access to finance

The most serious problem facing the MSE have been rising of investment capital and lack of credit access. Small-businesses have been always constrained by lack of investment capital for buying machinery and equipment and for the day to day running of the business. The financial institutions loan policies have not been conducive and attractive (Assefa, 1997). High collateral requirements, high interest rates, short repayment period are among the major problems that make easy access to credit difficult. Banks are unfamiliar with MSEs because they consider them as involving high-risk factor, not dependable, and involve excessive administrative costs. Hence, they regard them as not eligible for provisions of bank services.

Therefore, the sector is neglected by the financial institutions and this is one crucial area where attention is deemed critical.

b) Shortage of raw materials

Shortage of raw materials is the most important and pressing problem facing MSEs. The source and proximity to raw materials determine MSEs' viability. Hence, MSEs should be located in the areas where their resources originate or where sufficient supply of raw materials is secured. Shortages of raw materials are frequent problem to MSEs. According to Harper (1987), this problem may arise from a shortage of working capital, which effectively tie the enterprise to one high priced, unreliable or low-quality supplier. Assefa (1997) noted that since most of the small scale enterprises are located in the urban areas, and not in the areas where there is adequate supply of raw materials; shortage of raw materials is acute. As a result, most of the small scale-enterprises have been operating below capacity and some have been closed.

c) Lack of premises and land

It is common to see most small enterprises taking advantages of their residence areas as business premises. MSEs by their very nature are started in and around residence areas, which through time and growth require additional working space. Lack of premises is a major problem for MSEs and for the informal ones; they can rarely acquire suitable locations where they can get easy access to markets. The transaction cost of securing premises is also a constraint for SSEs. The land lease promulgation which has been effective in most urban areas has an impeding impact on micro and small entrepreneurs who wish to start up business (Andu-Alem, 1997).

In the CSA's 2002 survey result, it is reported that problem associated with working premises is mentioned by entrepreneurs as one major constraint hindering the smooth performance of small-scale enterprises in the region.

d) Infrastructure problem

The major reason why MSEs are concentrated in urban areas is because of the relative availability of infrastructure compared to rural areas. Water, electricity and market access or roads are vital inputs to small-scale industries. However, shortage of such infrastructure has been one of the major constraints to the development of the sector in many urban areas of the country.

e) Market problem

Many literatures and authors stress that lack of market information as well as markets have been the major impediments to the development of MSEs in Ethiopia. Because of the absence of market research and information many of the small enterprises are often concentrated in the production of similar commodities which puts them under fierce competition among themselves.

These authors also argue that marketing their products effectively is one of the main bottlenecks that small entrepreneurs face all over the country. Marketing problem is a serious constraint that hinder small enterprises' growth and their product diversification. Liedholm and Mead (1999) emphasized that the inability to develop and introduce new product types can be seen as a problem of markets for the products SSEs do make.

f) Lack of entrepreneurial and managerial skills

Various studies conducted on the sector revealed that there is a general lack of knowledge in entrepreneurial and managerial capacity. However, according to these studies there is a doubt whether these entrepreneurs themselves are aware of the need.

Lack of adequate skills is one of the seven major problems confronted by entrepreneurs at the starting of operation as revealed by the result of the national survey on small scale manufacturing industries undertaken by CSA in 2002.

g) Lack of information and information system

For the success of micro and small enterprises the presence of strong institution that can provide reliable and timely information through efficient information system is vital. MSEs essentially require information related to market raw materials, utilities, technology, business opportunities and information about government policies and regulation.

h) Technological problem

Technology refers to a combination of machinery, labor as well as the entire system of knowledge, skills, techniques, management, organization, etc. Most of the small-scale enterprises use obsolete technologies of production. The technology used by small-scale enterprises is out dated, unhygienic and inflexible (Assefa, 1997).

i) Inadequate consultancy and advisory services

In competitive and constantly changing business environment, the production and supply of quality goods and services at a minimum cost depends highly on the availability and provision of business upgrading services and technical know how. Consultancy services as a tool to enable entrepreneurs to diagnose their business and to undertake informed decisions is one of the key elements from a range of services.

The inability to get insight of their own business problems i.e. to undertake business opportunity identification and feasibility study, to prepare business plan, to identify sources and procedures for finance, to build business linkage, to implement appropriate cash flow management and records, and other accounting activities necessitate of consultancy service is fairly infant and weak. Though the institutional arrangement is in place, the achievement in this regard so far is not as such attractive.

j) Unfavorable legal and regulatory environment

The private sector in Ethiopia was suppressed under the command economy of the past. Currently, nearly all business activities are open to domestic private enterprise except for a few areas kept as government monopoly. Presently, the policy related to private investment is very conducive for the development of the private sector.

However there are still some regulator problems affecting the sector. No strong private sector can exist in the absence of and adequate legal framework to resolve disputes, facilitate efficient transaction and to protect property rights.

Citing the CSA findings on the difficulties faced by Micro operators in Addis Ababa, when starting their operations are: lack of sufficient capital (48.64%), getting market (18.48%) and lack of premises (12.07%). On the other hand first major problem faced by this operators during operation represents 42.31% shortage of working capital, 25.63% limited market and 7.55 family responsibilities (TITB 2000).

2.11. The Ethiopian MSE Clothing Sub Sector

In the world development report 2003, Ethiopia ranks lowest, with a per capita GNI (Gross National Income) of US \$ 100 in 2001. The average for all low income countries is substantially higher at US \$ 430, while the average for sub-Saharan Africa as a whole is also much higher (US \$ 470). Also in terms of human development, Ethiopia has a dismal record ranking 168 out of 173 countries (UNDP, 2002). The productive capacity of the

country has remained low due to a combination of factors that include, among others, civil war, recurrent drought and persistent decline in the international price of export items, particularly coffee.

The Ethiopian manufacturing is dominated by cottage and handicraft manufacturing. A glance at the composition of the Ethiopian industrial sector reveals that within the industrial sector, manufacturing establishments which use power driven machines are only 3373, accounting only for about 0.3% of the total, the majority of the establishments (76.1%) being cottage and handicrafts. The cottage and handicraft establishments do consist the largest category (three quarters) and almost one quarter is made up of the informal ones (1995/96). Table 2.1.

Table 2.1 Number of manufacturing establishments in by size as of 1995/96.

Groupings	Number	Share in %
Large & Medium (10+)	642	0.05
Small-scale	2,731	0.23
Cottage/handicrafts	892,719	76.15
Informal	276,287	23.57
TOTAL	1,172,379	100.00

Source: computed from CSA Surveys, 1997

Within the cottage and handicraft establishments, textile particularly clothing, is the dominant activity accounting for 45.2% of gross value of output and 46% of value added followed by food and beverage processing which accounting for 40% of gross value of output and 34%value added.. In terms of employment it is the second major employment generator next to the food and beverage. Table 2.2.

Table 2.2 Sectoral Structure of handicraft and small scale establishments

	Number of establishment	Employment	GVP (000'Birr)	Value Added (000'Birr)
Food and beverage	357,507	499,203	637,129	156,699
Textile	298,378	484,718	718,453	209,407
Leather	11,825	22,251	61,499	20,351
Wood	11,973	14,947	7,175	2,352
Paper and pending	74	191	3,453	1410
Chemical	100	179	1,656	469
Non metallic mineral	151,361	198,709	30,778	14,835
Metallic	64,231	100,471	129,454	49,835
Total	895,450	1,320,668	1,589,597	454,922

Source: Based on CSA Surveys, 1997.

The clothing and textile industry played an important role in the industrialization of today's developed countries. This is because of the industry's unique characteristics of being labor intensive and its links with other sectors of the economy such as agriculture. The textile and clothing sector in Ethiopia have a long history of handicrafts production, but modern industrialisation is of recent origin. In 1995/96 the various surveys of CSA gave a rather complete picture. This indicates clearly that in terms of numbers the cottage and handicrafts establishments in textile and clothing production dominate. Table 2.3.

Table 2.3 Number of manufacturing establishments in textile/clothing sector 1995/96.

Groupings	Textile/Clothing	
	<i>Number</i>	<i>Percent</i>
Large and Medium	55	0.02
Small-scale	389	0.13
Cottage/handicrafts	297,989	99.85
TOTAL	298,433	100.00

Source: computed from CSA Surveys, 1997.

2.11.1. Cottage and Handicrafts

In a country like Ethiopia where the industrialization process is at its infancy, cottage industries are considered to provide a seedbed that would stimulate the progressive transformation of micro enterprises into dynamic and efficient firms. They make significant contribution to long-term growth by holding the promise to build development incrementally on existing national capabilities and their prospects for the emergence of middle class, thus leading for a more equitable and self-sustaining process of economic growth (Neway, 2006).

Handicraft is one of the most important segments of cottage-based industries in Ethiopia through its wide spread employment creation next to agriculture. According to the 2002 nation-wide survey of the CSA, the number of Cottage/Handicraft businesses in Ethiopia was estimated as 974,676 of which 63.27% were in rural areas and the rest (36.73%) in urban areas in 2002.

Producers in this sector face numerous disadvantages when trying to compete with much larger factory-based companies. They lacked capital, skills, schooling, information and technical know-how, producing at best only simple and low quality products. Isolated cottage industry units would also face difficulty to attract traders, as trading cost per transaction would be disproportionately high (Weijland, 1999).

i. The Handloom Weaving Textile

As part of the handicrafts heritage the handloom sector constitutes a timeless facet of the rich cultural heritage of Ethiopia. It composes the bulk of the informal sector and is an important source of livelihood for a large number of people (UNIDO, 2007). According to the survey conducted by the central Statistical Authority on Cottage/Handicraft Manufacturing Industries during 2003, the number of hand-weaving establishments was estimated to be 221,848 with almost 55% of them existing in the rural areas. Weaving is a male-dominated activity in the country covering almost 60% of the overall employment creation. The handloom weaving is a male-dominated activity and women representation is estimated to be 39%.

Ethiopia with its long history, diverse ethnic and cultural background, and natural resources endowment is the home of rich heritages of crafts skills in general and hand-weaving in particular, resulting in widely spread employment creation next to agriculture.

In addition to its huge employment creation, the handloom sector has strategic importance in the economic development of the country through its strong linkage sector the agricultural sector for its principal raw material, lint cotton: the existence of large and growing domestic market for its products; and the potentials for having a progressive transformation in to modern establishments and also to enhance the country's foreign exchange earnings through the wide range of exportable products(EDRI ,2006).

Despite the enthusiasm, however, the conditions at each isolated cottage industry are harsh: productivity and income are low, information and technical know how are poor and they lack capital often producing at best only simple products. The main challenge for the handloom sector is therefore, how to break out of the low level equilibrium trap and realize its potential of becoming competitive and play a major role in the development process of the country (ibid).

In general most of the weavers in the handloom weaving are with in the informal sector. They have their own handlooms; almost all are self-employed and operate from their homes.

ii. The knitwear manufacturing

The knitwear production is believed started several years ago .it is carried out through non power driven (manual) archaic machines. It is characterized by the traditional modes of production. The knitwear manufacturing has been characterized by poor work man ship, quality, productivity, and poor knowledge on garment/knitwear manufacturing technology (UNIDO 2007). In order to produce advanced textile products it requires modern machineries, trained manpower and integrated knitting technology.

2.11.2. Favorable Conditions for the Development of the Clothing and Textile.

Input Sourcing

Abundant Cotton Resources

Ethiopia is fortunate in that it has the potential to provide the basic production factors to the textile sector. The sector highly depends on cotton, and sufficient quantities of this raw material are being produced in Ethiopia; Ethiopia covers an area of 1.1036 million square kilometers and claims vast fertile land, rich geographical and weather conditions, and abundant water resources. Domestic cotton production has already developed to a certain scale and for a long time it has made major contribution to satisfying the requirement of

fiber by the textile sub-sector. Ethiopia has a large potential area of irrigated farmland, which is very suitable for planting cotton (RATES 2004).

Abundant Labor Force

The clothing manufacturing is labour intensive; Ethiopia can provide sufficient labor force with cost-competitiveness for the development of labor intensive textile sub-sector. The cost of labor in the Ethiopian textile sector is not only lower than some Asian nations with developed textile sector, like china, India, Pakistan but also than some African countries such as Tunisia, Mauritius, Kenya, etc..(Zewdie et al, 2003).Therefore, having a huge productive labor force along with the much disguised labor in the countryside and significant number of educated laborers in urban areas without jobs, Ethiopia could use this sector as means of employment.

2.11.3 Favourable Policy Environment

The Ethiopian government has been steadily pushing towards market-oriented reform by means of developing the private sector, deregulating rigid control over the economy, liberalizing foreign exchange, lowering tariff rate, etc. since export promotion has been recognized as the paramount importance, and the government has issued a series of export Incentives. In short the enabling environment has been created for the rapid development of the textile sub-sector. Ethiopia identifies textile as one of the key industry to the development of industrialization as well as the exploitation of local resources to promote export in accordance with the policy of Agriculture Development led industrialization (ADLI). The long-term strategy of the Ethiopian government is not only to develop the clothing textile and garment industry and expand its shares in the domestic market, but also to develop a competitive, profitable industry in the export market.

2.11.3.1 Impact of the Liberalization and Privatisation on the Clothing Sub Sector (Since 1991)

Following the 1990's liberalization policy, the Ethiopian government (FDRE) has opened up the country for competition from outside to a previously protected industrial sector. This has taken its toll on the clothing and textile industry. This resulted among other things in the invasion into the country of cheap, new or second-hand clothing and footwear, especially from China and other Asian countries, making life very hard for a national industry not used to outside competition. This has posed a threat to the infant clothing enterprises.

CHAPTER THREE: DATA AND METHODOLOGY

3. Research methodology

3.1 Research design

The research design of this study was survey design and the population were the knitwear and the handloom weaving MSEs found in the KolfeKeranyo and the Gullele sub cities respectively.

Sampling Technique

A combination of both purposive and simple random sampling were employed during the study. Once the study districts (kebelles) were selected purposively, individual operators of both the knitwear as well as the handloom weaving clothing were approached randomly.

3.1.1 Sampling design and procedure

I. Area Selection

The specific areas of the study were the KolfeKeranyo and the Gullele sub cities. These study areas were purposively selected because the knitwear and the handloom weaving clothing enterprises were found concentrated in the KolfeKeranyo and the Gullele sub city respectively.

‘Kolfe Genet’ is located at the kebele 12 KolfeKeranyo sub city. It is a center of small knitwear and other clothing activities. It was selected as the specific study area for the knitwear clothing for the reason that a large number of knitwear MSEs were located in.

The Gullele sub city is well known for its huge concentration of the handloom weaving clothing production. Kebelles 08/16 and 18 were purposively selected as the large numbers of handloom weaving clothing enterprises, working independently are found.

The knitwear enterprises

According to the UNIDO-MOTI CDAs, there were 1000 knitwear enterprises in Addis Ababa. These knitwear enterprises were found relatively concentrated around the KolfeKeranyo sub city. ‘kolfe Genet’ was the nucleus for the knitwear operators and their sample size was extracted from the KolfeKeranyo sub city Trade and industry Bureau. List of enterprises was found for 185 knitwear operators. using simple random sampling 64 operators selected.

The handloom weaving enterprises

The Gullele sub city micro and small enterprise office was approached. However, since the concern of the study was confined to those self employed and individually operating with their own handlooms in their homes, the sub city does not have the figures for those working in own establishments. Estimating the samples was done through discussions with the experts of the Kebelles 08/16 and 18 micro and small enterprise office experts and extension workers. An estimate of 300 handloom weaving clothing enterprises were taken as a population to extract the samples. Their sample frames were found from these kebelles and using simple random sampling 47 operators selected.

3.2 Sources and methods of data collection

In this study, data was sourced using both primary and secondary sources. The primary source mainly used administered questionnaire. Focused grouped discussion and keen observation were also used to enrich the research.

The secondary sources employed formal sources. Reports, bulletins and other sources of literatures which were relevant to the study were sourced from Federal Micro and Small Enterprises Development Agency (FeMSEDA), Regional Micro and Small Enterprises Development Agency (ReMSEDA), Ministry of Trade and Industry (MOTI), the United Nations Industrial Development Organization (UNIDO), CSA publications and other collaboratively working institutions.

3.2.1 Questionnaire

A structured interview survey questionnaire was used as a major instrument of primary data collection. Structured questionnaire involving both close ended and open ended questions were employed for enterprise level interview. Eight enumerators were recruited and trained for the purpose of gathering enterprise level survey data, which was successfully accomplished. In addition, the researcher herself managed the interview together with the enumerators. For the ease of administration, the close and open ended questions were first translated into Amharic to be used during the interview. The researcher and the enumerators went for pre-test of the questionnaire and minor amendments were done based on the feedback they collected. Accordingly, the majority of the small enterprises that were operating in the study area and which were eligible as per the definition given were interviewed.

3.2.2 Focused grouped discussion

Generally, the focused grouped discussions (FGDs) complement/ triangulate the information obtained by the structured questionnaire. Two focused grouped discussions, with eight participants were held with the handloom weaving operators and the knitwear operators respectively.

3.2.3 Observation

As there was no pioneer study for the knitwear study regular observations along with frequent formal and informal discussions with the operators were important sourcing for information.

3.3 Unit of analysis

The unit of analysis of the research was the individual weaving/knitwear enterprises engaged in the production process of fabrics for selling purpose.

3.4 Data analysis

The analysis of the data utilized both quantitative and qualitative methods in order to describe the data. Statistical package for SPSS (statistical package for social science) versions 13.0 and Microsoft Excel were employed. Descriptive statistical tools like frequency tables, cross-tabulations, averages, graphs and percentages are used to facilitate meaningful analysis and interpretations of the research findings. Chi-square was used to test the statistical significances of different variables. On the basis of these the meanings and implications of outputs were described and discussed.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

This section is composed of five subsections. The first subsection briefly introduces with the knitwear and the handloom weaving clothing MSEs found in the Kolfe Keranyo and the Gullele sub cities respectively. The second subsection deals with the basic characteristics of the operators as well as the enterprises. The third part discusses the operational constraints of the enterprises under the survey. The fourth and fifth subsections analyze the external business climate assessments as well as the growth potential of the enterprises under the study respectively.

Table 4.1 presents, 111 sampled clothing enterprises, 64 knitwear and 47 and handloom weaving enterprises. Both were engaged in the whole value chain of the clothing manufacturing of the knitwear and handloom fabric products.

Table 4.1 Type and number of enterprises covered by the study

Type of enterprises	Count	Percent
Knitwear enterprises	64	58
Handloom weaving enterprises	47	42
Total number of surveyed clothing enterprises	111	100

Source: Own survey, 2008

4.1. The profile of the handloom weaving and knitwear clothing enterprises surveyed

The knitwear production

The Knitwear enterprises were found in the KolfeKeranyo sub city Kebelle 12, around the 'KolfeGenet' trade center. The Knitwear producing enterprises were found geographically bunched. Knitwear produces were manufactured using archaic and non power using machines. The motion was hand motion. These establishments used to produce different knitted fabrics using mainly a man power operation. Some of the produces of these enterprises are; Knitted skirts, school uniform shirts, ladies and gentlemen suit, scarves and complete wears.

The handloom weaving

The handloom weaving clothing was traditionally held by small artisans called 'shemane'. This activity was a common occupation for the residents of kebelles surveyed, 08/16 and 18. Traditional cloths like 'netela', 'Gabi', ladies occasional wears and various other clothings were produced in these surveyed areas.

4.2 characteristics of the enterprises

Under this subsection the characteristics of the operators as well as the enterprises were discussed in detail.

4.2.1. Operators characteristics

The data for the operators' characteristics was solely sourced from the structured questionnaire. Operators' personal characteristics were identified and described. Age of the operator, sex of the operator, marital status, position of the operator in the household, education background, religion and ethnicity are identified as characteristics and discussed in detail.

4.2.1.1. Sex and age of respondents

In the handloom weaving clothing, of the total respondents male consisted 89 % while women were 11%. This was because the handloom weaving activity followed old tradition. Traditionally, handloom weaving was predominantly undertaken by men. This perhaps indicated the societal stereotype that excluded women from woven cloth making. Similarly, of the 64 sampled respondents of the knitwear operators, women consisted 16% while men were 84%. This might be due to the cumbersome nature of the work. Thus, both clothing manufacturing activities were a male dominated activity. The involvement of women in these MSE clothing manufacturing was minimal. Rather, as observed during the survey, women's role was confined to preparing the yarn. At this juncture, the result of this study questions the widely acknowledged belief that female entrepreneurs are behind a substantial proportion of MSEs.

Table 4.2 Distribution of respondents by age and sex

Attribute	Item	Handloom weaving operators		Knitwear operators		Total no. of clothing operators
		Frequency	Percent	Frequency	Percent	
	< 15	0				
Age	15-29	13	28%	4	6%	17
	30-50	10	21%	24	38%	34
	50-64	20	43%	34	53%	54
	64+	4	9%	2	3%	6
	Total	47	100%	64	100%	111
Sex	FEMALE	5	11%	10	16%	15
	MALE	42	89%	54	84%	96
	Total	47	100%	64	100%	111

Source: Own survey, 2008

Table 4.2 presents grouped age of respondents. Survey respondents for the knitwear as well as the handloom weaving were in the age category less than 15 - 64+. Given the percentage of, 28%, 21%, and 43% for the age group of 15-29, 30-50 and 50-64 of the handloom operators respectively, it can be deduced that majority of handloom operators were in the late adult hood (late working age group). This was due to the reason that the majorities had been working either employed or as apprentice in different workshops and gradually opened their own establishment. Above half of the operators (51%) were run by the age group of 50-64 implying, it was the late working age group that dominated the handloom weaving. This was partly explained by the motive of entry. 26.6% of the weaving handloom operators were engaged because they had not any other option. Once the operator was engaged in this activity, as a breadwinner of the household, he/she was overburdened by household responsibilities.

With the low level of education he/ she had, transition/exit to the next stage was difficult. Exit/transition difficulty was aggravated by the low education level, as the majority's educational level was lower. The FGD results found also underlined this supposition. the reason for the operators stuck still at the hand to mouth living condition is due to the low level of education of the operator. As to the knitwear operators, 6% of the respondents were found within the age group of the 15-29, 38% between 30-50, 53% in 50-64 and 3 % are 64+. Thus above 53% of the respondents are above the age of 50. Hence, it can be inferred that the late working age group dominated both the clothing activities.

4.2.1.2 Marital status

With regard to marital status, 75% of the knitwear and 77% of the handloom weaving clothing operators were married. 17% of handloom weaving and 25% of the knitwear operators were single. 4% and 2% of the handloom weaving were divorced and widowed.

4.2.1.3 Religion and ethnicity

Regarding the background of the clothing operators, in terms of ethnicity and religion, table 4.3 presents, 80 % of the knitwear operators were Gurage. In the handloom weaving clothing, 60% of the operators were Amhara, followed by Gamo (14%), Gurage (9%) and Oromo (2%).

The same table reveals the religious background of respondents. Operators of the sampled enterprises show diversity in terms of their religious backgrounds. However the Orthodox Christianity is dominantly followed by both the knitwear as well as the weaving operators. In the knitwear orthodox followers were 48 %, muslim followers were 30 % and 22% were Protestants. In the handloom weaving clothing, orthodox christianity consisted 96%; with Islam and Protestants followers making 2% each. It is possible to deduce that both activities were performed by various people regardless of their religion.

Table 4.3 Distribution of respondents by ethnicity and religion background

Attribute	Item	Handloom weaving operators	knitwear operators	Total number of operators	Percent
		Frequency	Percent	Frequency	
Religion	Orthodox	45	96%	31	48%
	Muslim	1	2%	19	30%
	Protestant	1	2%	14	22%
	Total	47	100	64	100%
Ethnicity	Oromo	1	2%	5	8%
	Amhara	28	60%	3	5%
	Gurage	4	9%	51	80%
	Gamo	14	30%	1	2%
	Total	47	100%	64	100%

Source: Own survey, 2008

4.2.1.4. Ownership by age sex and position in the household

98 % of the surveyed knitwear operators run their business by own while 2% were run by employees. Female comprised 16% of the entire operators while male were 84 %. All the female operators were owners, while 2% of the male operators were running their business

by employees. This strengthened that MSE businesses are owner manager businesses. This could be also explained by the fact that before starting their business 97 % of the knitwear operators were employed in similar knitwear manufacturing and gradually opened their own establishments. This coincides with the fact that the MSE sector serves as training grounds for entrepreneurship, there by creating a business oriented middle class , and reduce unemployment and poverty(Daniels, 2003). As to the handloom weaving clothing, 90% were run by the head (owner), 2 % by spouse (jointly run), 2 % by sister/brother of the owner, 2 % by the daughter/son and 4 % by employees. Family members also exercise a role in managing the enterprise.

4.2.1.5. Educational level

Education is a key constituent for business success. An educated individual also has higher earning expectations than less educated individuals. Not only it determines enterprises performance but also creates an opportunity to get exposure to modern methods of doing things. The educational attainment of an owner influences how an enterprise is organized and run. Even for similar enterprises, perceptions of constraints to the business operations may differ if the owners have different educational background. In light of this, examining the education level of operators was found necessary. Table 4.4 presents the education level of the knitwear and the handloom weaving operators. Of the surveyed knitwear operators, 1(2%) cannot read and write, 9(14%) can read and write, 27(42%) attended primary level (grade 1-8), 25(39%) completed secondary level and 2(3%) were graduates of tertiary level. For the handloom weaving, 9(19%) cannot read and write, 9(19%) can read and write, 15(32%) attended primary education level (grade 1-8), 10(21%) have completed secondary level and 4(8.5%) were graduates of tertiary level. Thus, the involvement of operators with various educational backgrounds supports the argument that MSEs can be operated by people who have little education.

Table 4.4 Education level of operators by enterprise type

No	Level of education	Knitwear operators		Handloom weaving textile	
		Frequency	Percent	Frequency	Percent
1	Cannot read & write	1	2%	9	19%
2	Can read & write	9	14%	9	19%
3	Grade 1-6	9	14%	12	26%
4	7-8	18	28%	3	6%
5	9-12 ¹	25	39%	10	21%
6	College level ²	2	3%	4	9%
Total		64	100%	47	100%

Source: Own survey, 2008

4.2.2. Enterprise characteristics

The purpose of this part is to provide a clear picture and discover the major characteristics of the handloom weaving and the knitwear MSE . Factors such as ownership, licensing, form of ownership, source of skills, location, source of finance and prime motive are identified.

4.2.2.1. Form of ownership

Sole proprietorship was the main form of ownership for both the knitwear and the handloom weaving clothing enterprises. All of the knitwear as well as the handloom weaving enterprises were owned solely. This was further triangulated by FGD. Both the knitwear as well as the handloom weaving operators were probed for the cause for working independently. The results found entail; absence of mutual trust among people was the major cause for the low level of trust between the enterprises and low willingness to cooperate. The main reason for low level of trust was in turn associated with the culture of imitation that makes enterprises reluctant to share any kind of information.

4.2.2.2. Labor participation

Both the knitwear and the Handloom weaving operations in particular are characterized by their labor intensive nature. They do harbor massive labor forces. Both do not have uniform production period. The demand for labor is determined by the seasonal variation of production.

Table 4.5. Labor composition by enterprise type and sex

Type of labor	Knitwear			Handloom weaving		
	Female	Male	Total	Female	Male	Total
Family labor	0	1	1	2	1	3
Permanent employees	0	1	1	0	0	0
Temporary employees	0.8125	1.0625	1.875	0	0	0
Apprentices	0	1	1	0	0	0
Average number of employee per enterprise	0.8125	4.0625	4.875	2	1	3

Source: Own survey, 2008

Table 4.5 depicts the working labor composition of the knitwear and the handloom weaving enterprises by sex. For the knitwear enterprises the average labor demand per enterprise was 4.875. Female comprised 0.8125 and male 4.0625. Temporary employees took a lead (0.8125+1.0625), while family labor, permanent employees and apprentices the had equal importance. For the handloom weaving, the average labor demand per enterprise was 3. The family labor constitutes the sole source of labor. Female worker constitutes 67% of the labor requirement of the handloom weaving enterprise, while male workers are 33%.

4.2.2.3. Seasonality of production

One of the observed characteristics of both the knitwear and the handloom weaving clothing and textile manufacturing was they often operate seasonally.

The production patterns of these operations dictated their patterns of resource utilization. For example, the demand for labor, which was the major factor of production, was solely determined by their production pattern. In times of higher production, firms demanded more labor and in lower times of production the demand for labor was lower. Permanent employment was minimal in both the knitwear as well as the handloom weaving enterprises.

As to the handloom weaving, the enterprises were characterized by on and off (frequent closures). 15% of the respondents produced the whole year while 85% of the respondents were affected by the seasonality of production. Respondents were further asked explaining for the fluctuation of production. The reasons for fluctuation of production were: casual wearable nature of the cloth (36%), deficiency of demand (32%), and deficiency of capital (5%).

For the handloom weaving clothings, the active production seasons vary based on the produce type that the enterprises specialize. For some, December, January, February, March, April, and May were the peak production periods. These producers were those who produce clothing for Bridals (which are common during December-February) and for Eastern holidays (April-end of May). These products were more sophisticated and high classed products. Those whose peak period are June, July, August were those who produce 'wefram', thick clothings used during the winter time.

For the knitwear enterprises the active production seasons were determined by the type of products. For those whose end users were city people, the peak periods were May, June, July, August, September and October. This was associated with the wearing habits on winter seasons. Also, most were engaged in producing school uniform and shirts which are highly produced during the July, August and September. While the peak period for those specialize in producing for the rural living people were November, December, and January. This was because these seasons were the harvest time for the rural people, mainly engaged in the agriculture sector.

Of the total respondents, 5% had a uniform production throughout the year while 95% were affected by the seasonality of production. Those who encounter the production fluctuation were again asked for the causes of seasonal variation. Some of reasons; Deficient nature of demand (36%), deficiency of capital (30%), deficiency demand and deficiency of working capital combined (27%), seasonality of product (5%), flooding of second hand and new cloths (2%).

As observed during the survey, the seasonality of production was also associated with the capital stock that the enterprises possess. The well off produce throughout the year. Those products, even though they don't sold immediately, products stay as a stock and sold at premium prices. There are times where the producers can gain better profits over.

In general, both the enterprises under the survey are with unutilized capacity. They have a few months of production within a year.

4.2.2.4. Engagement in income diversifying activities

Connected with the low level of incomes generated by the MSEs, it is common to observe people engaged in more than one income diversifying activities. Connected with the

seasonality of production the respondents were asked if they were engaged in other slack time income generating activities. In the knitwear operation only 12.5% of the respondents were engaged in other income generating activities. These are petty trade types such as daily labor work, retailing activities, selling second hand clothes, small tea house, and rendering door to door services like washing cloths, electricity installation and driving.

In the handloom weaving clothing, 74% of the respondents responded their handloom weaving was their sole source of income while 26% were engaged in other petty income generating activities.

4.2.2.5. Licensing

The study has defined MSEs: those enterprises employing less than 10 persons which are owner/employee managed and cannot afford to utilize the full range of in house technical specialists and which need a variety of managerial skills and services. This definition encompasses the registered as well as the unregistered establishments with commonalities of less than 10 employees per enterprise and manufacture for selling purpose.

Among the entire respondents, it was only few knitwear enterprises (22% of the entire knitwear producers) that were working licenced. Though license was a requisite for the knitwear manufacturing, 78% of the surveyed knitwear operators had not work permit (license).

Fear of paying inflated taxes, absence of owned premise, financial incapability to pay taxes and free riding privilege were the main reasons for running unlicensed. Among the reasons, as confirmed by the FGDs, absence of owned premise was the main reason that forces the operators operate illegally. That is, the licensing processes it self requires a fixed work premise as a basic requirement. This overburdened the enterprise owners as most didnot have own work premise.

The work premise renters on the other hand were not willing to rent for the knitwear establishments. Because, majority of the house renters are with a misconception on current policies. The renters associate it with the previous regime policies of nationalizing work premises and privately owned properties. The renters are in fear of dispossession of the premises.

On the other hand, all of the surveyed handloom weaving clothing enterprises were not licensed. This is because customarily the endeavor was considered as a home basis, a survivalist endeavor whereby licensing was not set for as a requirement. The trend is still continuing. This might be due to, customarily the activity of the handloom weaving has been viewed as a traditional home based task.

4.2.2.6. Location

Location is one of the factors where a substantial competitive advantage can be gained from. Location determines the survival of an enterprise. In light of this, the clothing enterprises under the study were observed located clustered in specific localities. The knitwear enterprises were located clustered in the Kolfe Keranyo sub city, 'kolfe genet trade center' while the handloom weaving clothing were found in the various Kebeles of Gullele sub city.

The knitwear operators were asked for the reason of selecting the place they were operating in. Almost all of their reasons elicited towards the elements of agglomeration economies; availability of inputs, markets, and interrelated services. For example the over lock service² and relatively cheapest cost of working premise.

On the other hand, the concentration of the handloom weaving operators might be the result of two effects. Those who reside in the area starting from birth (51%) have inherited the skill from their families living around. While for those who migrated from different parts of the country (49%), kinship tie was the explaining factor. Among the migrants, the 'Gamo' ethnic group composed the higher number. The Gamo ethnic group handloom operators were clustered around Kebele 08 and 18 because their natives did reside in the localities. Table 4.6 shows these migrants are from the Southern Nations, Nationalities and peoples (Gamo), Amhara and Gurage.

² Overlock service means prevent fraying of (an edge of cloth) by over sewing. It is part of the knitwear activity chain. There were enterprises engaged in providing this service nearby to the knitwear enterprises.

Table 4.6 cross tabulation for the origin and ethnicity of the handloom weaving clothing operator

Years of stay	Ethnicity				Total
	Oromo	Amhara	Gurage	Gamo	
From birth	1(2%)	19(40%)	1(2%)	3(6%)	24(51%)
Migrated	0(0%)	9(19%)	3(6%)	11(23%)	23(49%)
Total	1(2%)	28(60%)	4(9%)	14(30%)	47(100%)

Source: Own survey 2008

4.2.2.7. Prime motive

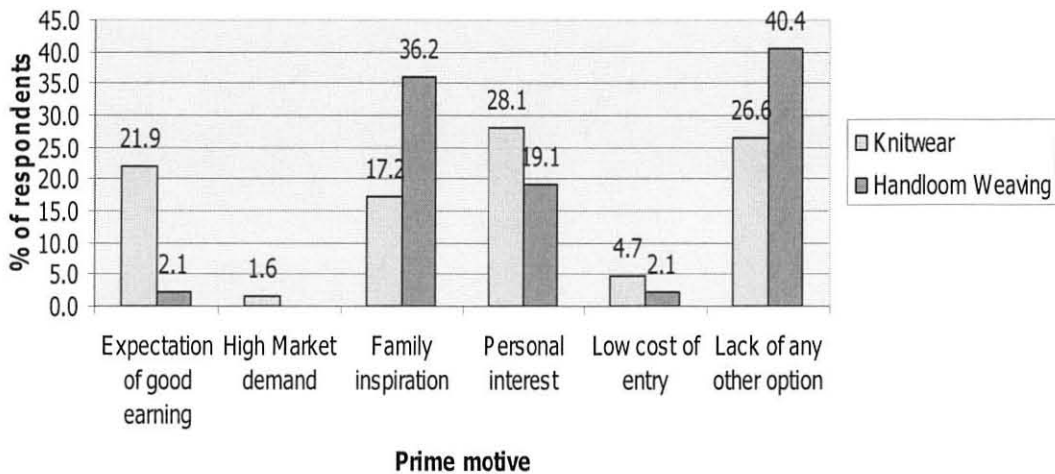
Motives of establishing a business should be in line with the profit motive, if enterprises are to grow (Zaid 2004). This study demonstrated the motives of entry for the handloom as well as the knitwear operators. As presented in table 4.7 and fig. 4.1, for the handloom weaving clothing enterprises, the prime motive for the majority (40%) was lack of any other option. This motive was not in line with the most important motive of profit, which is expected to enhance the growth and expansion of MSEs. Following, family inspiration was the driving motive for 36% of the respondents. Infact this was associated with the natural way of parent-descendant knowledge transfer process. Both driving forces didnot entail a profit driven motives, which the tolerance level to absorb the business shocks of the handloom weaving operator can easily be tempted and easily withdrawal was evident. These entry motives may probably contributed to the survivalist nature of these endeavor. On the other hand, the personal interest was the dominant entry motive for the knitwear operators. While Operators were probed for the reasons as to why they choose the current activity that they are engaged in, 28.1% respond that, personal interest was the prime motive that drive them choose this activity.

Table 4.7. Prime motive of entry by enterprise type

MOTIVES OF ESTABLISHING	Knitwear operators		Weaving operators	
	Frequency	Percent	Frequency	Percent
Expectation of good earning/ higher profit	14	22%	1	2%
High Market demand of the products	1	2%	0	0%
Family inspiration	11	17%	17	36%
Personal interest	18	28%	9	19%
Low cost of entry (limited capital, skill & experience)	3	5%	1	2%
Lack of any other option	17	27%	19	40%
Total	64	100%	47	100%

Source: Own survey, 2008

Fig 4.1 Distribution of respondents by prime motive



4.2.2.8. Source of skill

Most of the knitwear operators started working in family workshops (48%) some either as an employee or apprentices (44%), while the remaining started self initiated (6%) and formal (2%) training. For the handloom weaving clothing, 83% started working in family establishments, 11% as an employee and 6 % self initiated.

In both cases, the capability emanated from the family workshop. Thus, family workshop has served as a seedbed nurturing prospective entrepreneurs. For example, the practice of initiating the descendants takes natural way, that is, daughters and boys help the parents in the task of preparing the yarn for the wrap and gradually begin assisting them in the weaving duty. Similarly, a person grown up in the knitwear manufacturing chooses pursuing in similar carrier as it is his/her primary knowledge area.

4.3 OPERATIONAL CONSTRAINTS

Operational constraints are factors which impeditment the operation of enterprises in their operation stage. They could emanate from the within or out side the control of an enterprise. The factors internal to the firm are more important for competitiveness than the external ones, because “inefficient firms can hardly compete in international markets even if they have a conducive external environment”(Van der Loop, 2002). In this study managerial and marketing know how, finance, innovation, mode of production (technology, availability of spares) and manpower expertise are identified as factors that

determine the operation of the enterprise (King and Mc Grath 1999) and are discussed in detail.

4.3.1. Innovation

Enterprise level innovation can play an important role in enhancing productivity in operation. Innovative enterprises attempt to introduce additional features in their operations and end products. Design fabrication is one indication of the innovative capabilities of the enterprises under the survey. Sources of differences for the enterprises were purely emanated from own creativities. In the knitwear operation, numerous designs were fabricated by the enterprises. Catalogues, own innovations, hybrid imitation and other personal creativities were some sources of designs for the knitwear manufacturers.

In the handloom weaving under survey, the basic knowledge of the business has been transmitted from generation to generation. Though the business culture was largely based up on imitation rather than innovation, there were observed magnificent design fabrications.

4.3.2. Manpower profile

This part has dealt with the profiles of labor within an enterprise, perception of the operators towards the need for a skilled labor and the supply of the required labor type in the labor market.

Labor is the major input in the production process of the knitwear as well as the handloom weaving clothing and textile activities. As to the perception of the knitwear operators/managers towards the need for skilled manpower, of the total respondents, 72% of the sampled knitwear operators considered the absence of trained skill labor force as a serious problem while 28% did require skilled manpower at all. Triangulation was made further through the FGD. Those who argue for trained labor skill requirement further underlined the need for trained labor force;

“..... a trained manpower enables product enhancement through product finishing techniques, efficient management, creativity, making use of the by-products (ex, the pieces of fibers and other wastes)”

As to the availability of the trained skill, it was only 7% of the respondents that had a skilled manpower. The remaining 93% did not have a skilled manpower. This was because of financially unable to hire, unsustainable nature of the work, ignorance for the need, opportunity cost of the school time³ and absence of training center.

As to the handloom weaving, 100% responded the handloom weaving clothing does not require a skilled man power at all. This was further strengthened by the FGD results.

As to the availability of the required labor supply, the knitwear enterprises felt the shortage of labor supply problem as a serious impediment in the production process.

Table 4.8 presents the degree of severity of the shortage of the labor supply among the handloom weaving and the knitwear clothing and textile.

Table 4.8 Shortage of labor supply by enterprise type

Severity of the problem	Knitwear		Handloom weaving	
	Frequency	Percent	Frequency	Percent
Do not know			2	4
Very serious problem	29	45	6	12
Serious problem	16	25	12	24
Tolerable	16	25	12	24
Not a problem	3	5	18	36
Total	64	100	47	100

Source: Own survey, 2008

As can be seen from table 4.8, 45% and 25% of the knitwear operator respondents considered the problem of labor supply shortage as very serious problem and serious problem respectively. While 25% of the respondents responded as tolerable and for the 5%, it was not a problem at all. In aggregate, 70% of the operators felt the problem (45%+25%). The FGD results further strengthened their responses. The problem may be partly explained by the seasonal fluctuation of the production. The workers (laborers) were laid off during the slack production period. When a production period comes, it was hard to get the competent workers. These had an impact on the product quality. On the other hand, the handloom weaving clothing answered; 4% responded that they do not know, 12% as very serious problem, 24% replied serious problem, 24% tolerable and 36% responded it does

³ School time do have an opportunity cost. If the operator gets school, the firm will be closed.

not affect them. As compared with the knitwear the problem was less felt probably due to the involvement of the family labour.

4.3.3. Technology

The knitwear manufacturing was carried out through manual archaic machines, aged (estimated to be above 50 years)*⁴. 87.5% of the enterprises used owned machines, 7.8% rented and 4.7% used partly owned partly rented machines. 39% of the operators responded the oldage of these machineries has affected their production process. Some of the problems associated with the oldage of the machineries were lack of flexibility in production (inability to produce seasonally demanded products), reduction in quality as well as quantity of products and frequent breakage of machine spares. While 61% of the respondents were satisfied with the machineries they had .

The handloom weaving clothing has employed traditional and endogenous technology. The handlooms and accessories were locally manufactured (sometimes by the weavers themselves). They were simple and require very low investment capital. As the operators perception towards the handloom weaving clothing and textile machines 72% agreed on its inconvenience, sluggish production and impacts on health. While the 28% reported; this was possibly due to ignorance for other options.

4.3.4. Physical fatigue and diseases

Associated with the production process the operators were asked if the machineries had impact on their health. The process of handloom weaving clothing was carried out for longer hours sitting on the dug ground, where there was no hold for the back of the operator. This affected the health of the operator. Moreover the designs work required sight concentration. In connection with this the handloom weaving operators were asked if they have ever encountered a disease. 51% responded severe pains were felt on the back, eyes and arms. 49% responded they had never encountered any health problem. As to the knitwear, associated with the laborious nature of the work, physical fatigue was the major problem associated with the production process.

4.3.5. Lack of spares

Lack of spares was a serious problem for the knitwear enterprises, 89 % of operators reported it as a major impediment in their production process. This was due to the oldage

⁴ The average age of the machine is calculated using each enterprise's age estimation.

of these machines. Their spares can not be found easily. As a result some operators have specialized on substitute spare production but with higher charges.

For the handloom weaving operators, lack of spares was less conceived as a problem because the weaving machine was locally made and its spares can be easily procured.

4.3.6. Managerial know how

Managerial know how refers to the operator's capability to integrate the production system in such away that resources (the factor inputs, working hours, technical capabilities etc) are combined in efficient way to maximize the profit of an enterprise.

As observed during the survey, traditional management type was followed by both the handloom weaving and the knitwear operators. It was manifested through, arbitrary pricing of products, lack of keeping records and working hours time management problems.

As can be shown from table 4.9 of the surveyed handloom weavers 15% reported the problem as a very serious problem (that threatens their survival), for 26% is felt as a problem for 23% it is tolerable while for 36% was not felt as a problem. In aggregate for the 41 % of the operators (26%+ 15%), it was felt as a problem that needs a corrective measure. While, for the remaining 59 % of operators (23%+ 36%) it was not felt as a problem. This might be due to lack of knowledge.

As observed during the survey, majority of the handloom weaving enterprises were operating in their residences. This affected their working hours as they take part in their household chores and participate in other social activities, which would have been minimized, if they had worked in separate work place.

In general, absence of work place facilities such as the absence of separate working premises, input/output storage, and inadequate workplace aggravated the problem of mismanagement.

Table 4.9 Managerial know how by enterprise type

Severity of the problem	Handloom weaving textile		Knitwear operations	
	Frequency	Percent	Frequency	Percent
Not responded	—		1	1.6
Very serious problem	7	15%	8	13%
Serious problem	12	26%	18	28%
Tolerable	11	23%	28	44%
Not a problem	17	36%	9	14%
Total	47	15%	64	100%

Source: Own survey, 2008

The finding of the study strengthen further the prior study of (EDRI, 2005). Most of the people engaged in the weaving activity lack modern management techniques and ability to organize and continuously improve production in a systematic manner. As compared to the handloom weaving it was only 40.6% of the knitwear operators felt the problem of resource mismanagement. This could be explained by the relatively better enterprise culture. One manifestation could be possessing the separate location of the work place from the residence.

Of the surveyed handloom weaving clothing operators, 96% operated in residential places while 4% in rented separate working place. This confirmed the handloom weaving clothing was perceived as a home business. It was viewed as a survivalist and inherited from predecessors endeavor than a profit earnable business. This in turn has sluggish the performance of the activity for years. In contrast, it was only 22% of the knitwear operators that work in resident places (Table 4.13). This in turn was explained by the enterprise culture differences. Therefore, the enterprise culture for the knitwear enterprises found relatively better than the handloom weaving operators.

4.3.7. Financial constraint

4.3.7.1. Source of Finance

Availability of working capital determines the enterprises choice of investment, employment, and other related activities. MSEs may have different sources of starting enterprise capital. These sources may include personal saving contributions, family

inheritance, family and friends support, borrowed funds, financial support from government and NGOs (non government organizations). In most cases, however, funding of most investment in the MSEs in least developing countries (LDCs) is obtained through self financing or through borrowing from relatives and friends. Comparatively, little funding was obtained through borrowing from formal sector financial intermediaries (Mensah et. al 2007). Similarly, as can be seen from table 4.10, in the sample enterprises, for 69% of knitwear enterprises the source of finance while establishing the business was personal saving. While for the 53 % of the handloom weaving clothing operators family were the main source of finance.

Table 4.10 Source of startup capital by enterprise type

Source of start up capital	Knitwear		Handloom weaving	
	Frequency	Percent	Frequency	Percent
Personal saving	44	69%	9	19%
Inherited	2	3%	3	6%
Family support	6	9%	25	53%
Loan from micro and small credit associations	1	2%	1	2%
Own saving and relatives	5	8%	-	0%
'Iquib'	2	3%		0%
Individual loan	1	2%	-	0%
'Arata'	-	0%	4	9%
Grant	3	5%	5	11%
Total	64	100%	47	100%

Source: Own survey, 2008

From the different sources of start up capital shown in table 4.10, the contribution of personal saving and family support played an important role in starting up the business. The family support showed contribution of local networks in alleviating the problem of start up capital. As to the formal loan sourcing, only 2% knitwear and 2% of the handloom weaving clothing and textile enterprises had loan from the micro and small credit associations. As to the reason why the operators have not loan from micro and small credit associations, the FGD results for both revealed: fear of higher interest rate, inflated collateral requirement, ignorance of the availability of such loan providing institutions, long bureaucratic chains and religious cases (The Muslims are prohibited to take loans in the Koran).

As to the degree of severity of the finance constraint as a problem, table 4.11 reveals the degree of severity of the financial constraint problem by enterprise type.

Table 4.11 Degree of severity of the financial constraint problem by enterprise type

severity the problem	Handloom weaving		Knitwear	
	Frequency	Percent	Frequency	Percent
Very serious problem	21	45%	35	55%
Serious problem	20	43%	23	36%
Tolerable	5	11%	6	9%
Not a problem	1	2%	0	0%
Total	47	100%	64	100%

Source: Own survey, 2008

Financial problem was a major bottleneck for both the enterprises and its impacts were observed in resource possession and allocations, acquiring modern workmanships and quality production systems. As shown in table 4.11 the problem of finance was severely felt by both operators of the handloom weaving as well as the knitwear enterprises. It was felt as a problem for 88% of the handloom operators (45%+43%) and for 91 % (55%+36%) of the knitwear operators.

The financial constraints also affected the marketability of products. The handloom weaving as well as the knitwear had not a uniform demand throughout a year which entails most often the produced items may not have a market. That is, the price of the product was determined neither by the market nor by the enterprises but it was the buyer who decided the market. This would have been corrected if the enterprises had stocks. In most cases, as observed during the survey as well as the FGD discussions, the survivalist natures of the handloom weaving clothing enterprises were characterized by hand to mouth living conditions where by the pieces of products were sold for daily bread. This loosens the negotiating power of the enterprises.

4.3.8 Marketing

Marketing is a critical for survival and growth of small business. This part briefly discussed the different manifestations of marketing: Marketing know how, Availability of Product selling premise, Product promotion and market penetration.

4.3.8.1. Marketing know how

Marketing know how refers to generating new product or service and process ideas. It mainly incorporates market research (demand assessment), devising winning marketing strategy/ as with regard to the competitors, adding product features, promoting products (expanding the market share), etc. 51% of the handloom weaving clothing enterprises notified the absence of a modern marketing know how was a problem while 49% did not consider this factor as important factor in their enterprise, in fact, the self-employment character of the weaving endeavour represents a survival activity that operators sustain their lives temporarily through.

4.3.8.2. Availability of Product selling premise

As to the availability of the product selling premise, Table I (Annex I) demonstrates, 60% and 50% of the surveyed handloom weaving and the knitwear clothing enterprises did not possess product show room/ display premise respectively. A combination of different informal selling arrangements were followed; street marketing, via kinship / friendship considerations, approaching clients by self and Sunday marketing were some of the ways of selling products. Street marketing was the outmost way of selling produces.

4.3.8.3. Product promotion

Product promotion is publicizing the products so as to expand the market share of an enterprise. The knitwear enterprises were asked for if they have used any advertising method. 15.6% respond yes, used business cards, while 84.4, never used any advertising method. For the handloom weaving operators, it was only 3% who promoted their products through notice boards, while the rest 97% never used any advertising technique. Also in the FGD with the handloom weaving clothing, it was observed that majority were with vague concept for the relevance of the product promotion itself. Some of them were asking for detailed elaboration of the concept. Table II (Annex I).

4.3.8.4. Market penetration

MSEs face an inability to venture into the export market. Both the knitwear and the handloom weaving enterprises, were asked if they have ever exported products abroad. 1.6% and 2% of the knitwear and the handloom weaving clothing operators respectively have exported their products abroad. Table III (Annex I). These operators were further asked the export arrangements they had. Both of them replied the deals were arranged through the diasporas (Ethiopians living abroad).

4.3.9. Condition of work

During the survey, it was observed that numerous clothing operators were operating in shanty and congested single room which was at the sometime resident room of the household. Worse, facilities and utilities such as water (serving for cleaning up the raw materials: yarns, thread and fibers) and electricity (which do limit the working hours of the enterprise) were absent.

The knitwear Production requires a factory condition such as adequacy of the working place, availability of product storage, byproduct storage, ventilated working environment, and adequate working space (UNIDO 2005). These facilities were almost absent in the enterprises surveyed. The surveyed enterprises operate on the average area of production site of 6m². In terms of availability of product and, byproduct storage, ventilated working environment and adequate working space most enterprises were poorly equipped. Table 4.12 presents the availability of work facilities for the knitwear enterprises.

Table 4.12 checklist for work facility of the knitwear enterprises

Work facility	Availability	Frequency	percentage
Adequate working space	YES	8	13%
	NO	56	88%
		64	100%
Warehouse facility	YES	9	14%
	NO	55	86%
		64	100%
Ventilated working environment	YES	9	14%
	NO	55	86%
		64	100%
Room for byproducts to be kept	YES	9	14%
	NO	55	86%
		64	100%
Toilet	YES	28	44%
	NO	36	56%
		64	100%

Source: own survey, 2008

Of the surveyed handloom weaving clothing operators, 96% worked in residential places while 4 %worked in separate working place(Table 4.13). for the 72% the work space was insufficient while for the 28% it was sufficient. Hence, the majority had had a problem of work space insufficiency. This had a negative impact on the enterprise; on the quality of the raw material (ex. The yarns get darker as the smokes and dusts of the kitchen get blow to pollute the product as well as the raw materials that are stored together home. This affects the marketability of the products as well.

Table 4.13 ownership of the production place for handloom weaving clothing

Ownership of the production place	Handloom weaving		knitwear	
	Frequency	Percent	Frequency	Percent
Owned separate work place	-	-	4	6
Owned residence	31	66	3	5
Rented residence	14	30	11	17
Jointly used shed	-	-	1	2
Rented separate working place	2	4	45	70
Total	47	100	64	100

Source: own survey 2008

4.4. BUSINESS CLIMATE ASSESSMENT FOR THE KNITWEAR AND HANDLOOM WEAVING ENTERPRISES (EXTERNAL FACTORS)

Economic policies are biased against the MSEs, they seem to favor the large enterprises. This part deals with the external factors that affect the MSEs

4.4.1. Poor market/deficient demand of the products

Demand deficiency as expressed by the ‘lack of cutomers’ and poor market represents the most serious constraint of the operations of the MSEs. This study has showed that almost both the handloom weaving as well as the knitwear clothing experienced the demand deficiency constraint with greatest intensity. The results of the study showed, table 4.14, 92% of the handloom weaving enterprises reported that absence of market as a serious problem, among them 45% were worst hit by the problem. Similarly, among the worst hit 86% of knitwear enterprises, 44% were severely affected.

The problem of poor market was lingering its effects upon the survival of the handloom weaving as well as the knitwear manufacturing enterprises.

Table 4.14 Deficient demand of the product by enterprise type

Severity of the problem	The Handloom weaving clothing		The Knitwear operation	
	Frequency	Percentage	Frequency	Percentage
Very serious problem	21	45%	28	44%
Serious problem	22	47%	27	42%
Tolerable	2	4%	9	14%
Not a problem	2	4%	-	-
Total	47	100%	64	100%

Source: own survey, 2008.

4.4.2 Absence of patent right for protection of designs

Sources of product designs for the knitwear as well as the handloom weaving clothing were: own creativity, pictures and magazines, client orders, and imitation. As there were no enforceable laws and regulations on the product copy right patent, design thefts among the clothing operators was a serious problem, constraining the innovative capabilities of the enterprises under the study.

Absence of formalized patent right was posing a serious threat where they in the long run will hamper the innovative capabilities of the crawling knitwear enterprises. As to the extent to which the absence of the formalized copyrights for the designs were posing a disabling environment to the operators (table 4.15) 63% have ranked it as serious problem while 37% reported the problem as tolerable.

The source of designs for the handloom weaving was imitation combined with own creativity. As to whether the absence of the product patent right do pose a disabling environment to the operators, the operators responded 57 % considered it as a problem, while the 43% were with a lesser concern for it.

During the FGD with the knitwear operators, a hostile environment was observed among the operators, which was mainly associated with the design theft cases. The FGD results found, the innovative capabilities of the operators were severely constrained by the

absence of design patent rights. Enterprises primary source of designs were asked via the survey questionnaire.

Table 4.15 Cross tabulation between the absence of fabric design patent right and the innovative capability of the knitwear operators

Absence of patent right for protection of designs	Source of designs and other new product futures		Total
	Own creativity(OC)	Imitation(I)	
Very serious problem	20(31%)	8(13%)	28 (44%)
Serious problem	8(13%)	4(6%)	12 (19%)
Tolerable	6(9%)	13(20%)	19 (30%)
Not a problem	-	5(8%)	5 (8%)
Total	53%	47%	100.0

Source: Own survey, 2008

Table 4.15 shows the cross tabulation between the absence of patent right for protection of design and the innovative capability of the knitwear operators. Based on their prime source of designs, the knitwear operators can be Segregated into: those who source designs from own creativity (*OC*) and those who copy from others (imitators)(*I*).

Out of the total number of surveyed knitwear operators *OC* consisted 53% of the total while *I* were 47%. To compare the intensity of the problem between the *OC* and *I*,

$$OC = 31\% / 53\% = 58.5\%$$

$$I = 13\% / 47\% = 27.66\%$$

Hence the intensity of the problem was felt twofold by those whose source of product designs was *OC* (58.5 %) than the *I* (27.66%). On the extreme, tolerability (As a proxy for 'is not a problem') was computed:

$$OC = 9\% / 53\% = 16.98\%$$

$$I = 20 / 47\% = 42.55$$

The computation entails the absence of the product design patent was not a problem for 42.55% of those whose source of product design were imitation (*I*). In contrast, it is tolerable for those 16.98% of the *OC* (whose source of designs were own creativity).

Thus, the problem of absence of a product design patent was less felt by those whose source of designs were Imitation (*I*).

Apart from the table 4.15 cross tabulation, the association between the absence of patent right and Source of designs and other new product futures was tested by Chi-Square test.

Table 4.16 Chi-Square test on the absence fabric design patent right

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.780(a)	3	.003
Likelihood Ratio	16.980	3	.001
Linear-by-Linear Association	.413	1	.520
N of Valid Cases	64		

Source: Own survey, 2008

Table 4.16 shows the chi-square test result on if the absence of patent right for designs has impact on the innovative capability, a chi-square test was run to examine whether there is any association between absence of copyright for protection of designs and source of designs and other new product futures. The estimated chi-square value was 13.78 and P-value= 0.015(<0.05), showed that the association between design creativity and patent right was significant at 95% significance level.

4.4.3 Flooding of imported cloths

Following the 1990's liberalization policy many substandard and unaccustomed goods found their way into the domestic market. MSEs clothing and textile enterprises have faced a hardest hit from free importation of cheap imported clothes (especially the Chinese products).They have led to closures of many MSE business in this sub sector and hence leading to unemployment.

To determine if the impact of liberalization policy has threaten the infant MSEs by dumping the exports of other countries, the clothing enterprises were asked for , if the flooding of cheap clothes has affected their operation. Table 4.17 reveals, 97 %(63% + 19%) of the knitwear producers were affected while 3 % werenot. This was also a problem for 53.2% of the handloom operators. The problem was intense among the knitwear operators (weighed 1.82 times the handloom operators, i.e. 97 / 53.2).

The problem was severe among the knitwear operators than the handloom weaving.This motivated the researcher see the association between the perception of market availability

(as a proxy for the market availability) and the intensity of the problem as measured by the severity of the problem.

Table 4.17. Flooding of imported cloths * Market Availability Cross tabulation

		Market Availability		Total
		YES	NO	
Flooding of imported cloths	Very serious problem	6(9%)	40(63%)	46(72%)
	Serious problem	4(6%)	12(19%)	16(25%)
	Tolerable	1(2%)	0	1(2%)
	not a problem	1(2%)	0	1(2%)
Total		12(19%)	52(81%)	64(100%)

Source: Own survey, 2008

Table 4.18 Chi-Square Tests for flooding of imported cloths and market availability

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.012(a)	3	.001
Likelihood Ratio	15.824	3	.001
Linear-by-Linear Association	2.673	1	.102
N of Valid Cases	64		

Source: Own survey, 2008

Table 4.18 shows the chi-square test result on the if the flooding of imported clothes have impact on the marketability of the knitwear products, a chi-square test was run to examine whether there was any association between these two variables. The estimated chi-square value was 17.012 and P-value= 0.001(<0.05) at 95% significance level. The result shows there is a strong association between the variables. A significant association was found between the flooding of imported clothes and marketability of the knitwear products.

4.4.4 Raw material acquisition

Sourcing of raw material

Table 4.19 presents a brief description on the source of raw material, availability of regular input suppliers (the required thickness, color), raw material monopoly supply problem, quality of the raw material used, price and supply

Knitwear

The raw materials required for the knitwear operation were threads, fibers, acrylic etc. Of the surveyed respondents 72% sourced their raw materials from the small retailers found nearby and 28% from retailers located around the 'kolfe genet'. In kolfe genet there were a huge number of shops retailing these items. A snapshot towards the retailers of the raw material along with the FGD results found that majority of the retailers were knitwear operators.

As to the availability of the regular input suppliers, it was only 39% of the operators that had a regular input suppliers while the 61% had not a regular input supplier.

As to the supply of the raw materials used (in terms of the required thickness, color e t c) 22% were satisfied with the existing ones, while for the 56% and 19% it was scarce and inadequate respectively.

Handloom Weaving

Although in some cases yarns made from wool and synthetic fibers were used, the production of hand woven fabrics in Ethiopia was dominated by use of cotton yarns and cotton is by far the most important raw material in handloom weaving sector.

98 % sourced their inputs (thread, fibers etc) from small retailers that were nearby to them, while only 2 % do source from the retailers. In most instances transactions (purchases) are done in credit basis. This is because, majority didnot have the financial capacity to put the needed inputs.

The availability of regular input supplier was a basis for credible transaction and served as collateral for further transactions, whereby further business deals are ensured through. it was only 34% who had a regular input suppliers while the remaining 66% did not have.

In general, for both the knitwear and handloom weaving: The indicators (price, quality and supply) of the raw materials point toward the severity of the input acquisition, entailing a problem on input provision.

Table 4.19 Description on the source, availability, supply and price of raw materials by enterprise type

Attribute		Handloom weaving clothing		Knitwear	
		Count	%	Count	%
Source of raw Material	Small retailer	46	98%	46	72%
	Retailer	1	2%	18	28%
		47	100	64	100
Availability regular input suppliers	Yes	16	34%	25	39%
	No	31	66%	39	61%
		47	100	64	100
Raw material monopoly supply problem?	Yes	24	51.1%	62	97%
	No	22	46.8%	2	3%
		1	2.1%	64	
		47	100	64	100
Quality of the raw materials used	Poor	20	43%	58	91%
	Satisfactory	14	30%	4	6%
	Good	13	28%	2	3%
		47	100	64	100
Price of the raw materials used	Ever-increasing	43	91%	64	100%
	Stable	3	6%		
	Cheap	1	2%		
		47	100	64	100%
Supply of the raw materials used(the required thickness, color etc)	Available	31	66%	14	22%
	Inadequate	11	23%	12	19%
	Scarce	5	11%	38	56%
		47	100	64	97%

Source: Own survey, 2008

4.4.5. Shortage of basic services: electricity, water supply, road, telephone

Infrastructural facilities and utilities such as Sewerage, electricity, water, telephone were very crucial for the establishment, survival and expansion of MSEs (Zaid 2004).

As can be seen from from table 4.20, for 70.2%(38%+ 32%) of the handloom weaving operators , water supply problem and frequent electric supply withdrawal were the most common problems. These seriously affected the operation of these enterprises. Moreover in Kebelle 18 roads were not asphalted. They were eroded and inconvenient for the transportation. This threatens the future prospects of the handloom weaving clothing activity. Such as via affecting the transportation (which is the basic element of marketing) In contrast this problem is less felt by the knitwear enterprises. It is felt as a problem for only for 24% of the operators (13%+ 11%).

Table 4.20 Shortage of basic services by enterprise type.

Severity of the problem	Handloom weaving		Knitwear	
	Frequency	Percent	Frequency	Percent
Very serious problem	18	38%	8	13%
Serious problem	15	32%	7	11%
Tolerable	8	17%	23	36%
Not a problem	6	13%	26	41%
Total	47	100%	64	100%

Source: Own survey, 2008

4.4.6. Fairness of taxes

All of the handloom operators under the study did not pay income taxes. On the other hand, 22% of the knitwear operators do pay income taxes, while the remaining 78% were informal. For those who pay income taxes, 64% complained on the unfairness of the existing tax system while 14% and 21% responded as a moderate and fair respectively.

4.4.7. Support and government regulation

4.4.7.1. Regulatory structures

Rigid regulatory structure not only barriers the entry of potential entrepreneurs but also discourages the actual entrepreneurs. Though license was a requisite for the knitwear manufacturing, 78% of the surveyed knitwear operators hadnot work permit (license), and were working informally. Among the reasons, absence of owned work premise was the

main cause that forces the operators operate illegally. The licensing processes it self required a fixed work premise as a basic requirement. Associated with misconception on policies, work premise renters were not willing to rent for the knitwear establishments.

4.4.7.2. Support

The knitwear as well as the handloom weaving clothing were asked if they had any support or approached by any supporting organization. 28 % of the knitwear operators responded they have formed a group, which gradually believed to serve as a network and they had training opportunity on the basics of knitwear. These initiations were taken by the UNIDO-MOTI⁵. However the operators were dissatisfied with the training they had. According to the FDG results found the training was too general and not of direct and specific relevance to the technology level of enterprises. Moreover the targeting/ recruitment of the trainees was not consulted with the operators. Some trainees were randomly picked from high schools and they gradually abandoned it. This would have been fruitful if it were provided to the operators who had the expertise before. Besides the Ad hoc nature of these interventions are unlikely to bring the desired level of outcome. The formed groups were not functional . Though they do have the aspiration of gaining benefits through forming the groups, the environment was gloomy. As to the handloom weaving operators, none of them has got any support from any institution.

4.5. Growth potentials of the clothing sub sector: the handloom weaving and the knitwear clothing manufacturing.

4.5.1. Internal sources of growth

This part of the study deals with if the existing spatial (location) pattern of the enterprises under the study (the knitwear and the handloom weaving clothing enterprises) can create sources of growth from within. Specifically, whether the existing geographical nearness among the enterprises under consideration would give a way of forming functional networks among the enterprises are investigated.

⁵ UNIDO- MOTI – a jointly launched project entitled UNLEASHING THE POTTENTIAL OF MICRO, SMALL AND MEDIUM ENTRPRISES (MSMEs) IN ETHIOPIA. with a methodology of cluster and network development

4.5.1.1 Perceptions of the knitwear and handloom weaving operators towards forming functional clustering

Clustering is a growth strategy of cottage industries in low income countries through its mechanism to reduce transaction costs of purchasing inputs and marketing outputs by pooling traders and through eased information flows that would facilitate order-sharing, labour sharing and subcontracting.

This part deals with the perception of the knitwear and handloom weaving clothing enterprises towards forming the functional association with their counterparts.

The knitwear operators were asked for the reason of selecting the place they are running (*Kolfegenet trade center*), their explanations elicit towards the elements of agglomeration economies; availability of inputs, markets, interrelated services and relatively cheapest cost of working premise. Almost all the operators realized the benefits of the economies of agglomeration.

Informal horizontal linkage with similar type of enterprises was observed in many business transactions. Sometimes purchase of raw material like fabrics and yarn are done by a group of similar enterprises. Many of the firms did not purchase jointly because of several reasons: capacity variation with similar enterprises, taste differences, financial limitation, lack of awareness in joint purchasing, variation on volume purchases, lack of trust, uniqueness of certain materials and also due to independence and individualism.

The operators were asked also whether they had cooperation within their counterparts and 30% of the surveyed knitwear operators responded they used to cooperate while 70 % used to operate independently with little interaction, thereby hindering information and technological flow paramount for industrial development. This was due to two factors: due to the limited industrial culture of cooperating and due to the fear of product design imitation, which will cost much to an enterprise.

The knitwear clothing manufacturing was characterized by ever-changing designs. Product designs were fabricated in the enterprises. Designs were imitated by the counterpart operators. Because of this majority used to operate closing the gates of their workshops.

The cooperation amongst the 30% took various forms including raw material borrowing, joint purchase of inputs, sharing equipment and collaboration in the marketing of goods.

Regarding the perception of the operators towards forming functional network, which is taken as a proxy for the possibility of forming functional networking, 74% had a positive attitude towards cooperating with their counterparts. The geographical proximity has enabled them know the benefits to be gained from agglomeration economies.

Again, they were probed through the FGD for the benefits they expect realize, if the functional cluster is formed. Rephrasing their response:

'Networking would enabled us solve the common prevailing problems: raw material, work premise, spare parts and the old mode of production .It also create capacity through sharing the market (ex. If there exists excessive market orders) skills, and new product ideas. Further it grants lobbying power, alleviating product patent rights, fixing prices and ensures quality products and specialization'

The tiny enterprise structure of the handloom weaving activities require solidified through horizontal cooperation. Their latent capacities will also be exploited .The enterprises were asked if they had a cooperative working culture.51% responded they had cooperative working habits with their neighboring operators. The cooperation forms were: raw material borrowing, joint purchase of inputs, collaboration in marketing, sharing market orders and fixing out put prices. As to the interest to work with their handloom weaving operator counterpart, 85.1% were positive towards functional clustering while 14.9% were not interested with. The benefits that they aspire to realize were: sharing ideas, know how, improving designs, and expansion of the business as well as the market share.

4.5.1.2. Product designs capability

The spread of global capabilities in the manufacturing has meant that in many sectors added value is increasingly found in design, buying and marketing rather than in production . Design constitutes one phase of the value chain analysis which comprises the full range of activities that are required to bring a product from its conception, through its design, its sourced raw materials and intermediate inputs, its marketing, its distribution and its support to the final consumer, and its final disposal after use. Ethiopia has a long and traditional history and competence in production of delicate and intricately designed hand woven fabrics on traditional looms.

Countries that were behind Ethiopia in terms of design have now overtaken Ethiopia, the prime example being China. Ethiopian importers travel to the far East taking samples with them and the Chinese manufacturers imitate the samples and ship their produces to the country. Nowadays, the Chinese themselves transport it to Ethiopia (Van der Loop 2003).Surviving in the market needs catching up the ever changing fashion design demand.

The Ethiopian handloom industry has a long tradition of producing of cotton clothes made up of woven cotton thread. This traditional industry is with diversity in product designs too.

Though not originated in Ethiopia, the knitwear manufacturing is also with mixture of designs. Unlike the handloom weaving produce which are a casually wearable the demand for the knitwear products are characterized by ever changing designs, paving for frequent flexibility in design fabrication. The enterprises were probed for their sources of product designs and the sources of designs were: producing own designs (purely innovative), hybrid designs (copying from the western designs along with the cultural heritages). Further, during the survey a handloom and a knitwear crossbreed designs were observed, which would highlight a green light for further product development. This in turn will play a role in specialization of Product features. Both thus could take a source for competitive advantage.hence design competency was found asa a source of growth.

In addition to the aforementioned internal sources of growth the external sources of growth were analyzed from different secondary sources.

4.5.2. External sources of growth

4.5.2.1. Market opportunities

I. Internal market opportunities

Population dynamism

Urbanization in Ethiopia is a rapid process caused by increasing urban population through migration and high fertility rates. With an average fertility rate of 5.4 births per woman, which is higher than other African counterparts, Ethiopia has an annual population growth of 2.73%(EDHS, 2005). Though this is a burden to the economy, it paves an opportunity to the clothing industry. Therefore, the clothing caters to the clothing need of the community.

II. External market opportunities

Handicrafts and cottage industries have a great potential for export as it has been observed in many developing countries in Africa. Ethiopia has a similar pattern and even a better opportunity to benefit out of international market in this area. Its material base, human resource base, rich and diverse historical heritages , cultures and traditions, natural beauty, emerging handicraft operations and the export incentives justifies for the basis for the export of the handicraft products.

Potentials for the export market of handloom weaving clothing are high. According to the handloom product export market study MOTI and FeMSDA, (2004) the country has huge potential to produce exportable handloom products.

This conclusion is also supported by the fact that some of these products have been produced historically and there are already some Ethiopian companies which have exported handloom products though at a very low level. The same study revealed that there are high potentials for the handloom weaving clothing to be exported to the European Union particularly in Germany, the UK and France. The analysis of the market requirement revealed that for the Year 2002, the volume of handloom textile imported into the EU is between 11% and 23.5%. The export and production emphasis should go to the niche markets for some products; table linen, curtains and others. These have higher demand and fetched higher and relatively stable prices.

The major products of the handloom weaving sector can broadly be categorized into two groups. The first being hand woven fabrics made for clothing which includes traditional clothes named *netela, kemis, Gabi, kuta, etc*), usually made from cotton yarns and finished with coloured trade designs and the second group is fabrics made for house hold and home furnishing (products that are decorative and are mainly for non – wearing purpose such as : table linen, bed covers, pillowcase, napkin, kitchen linen, window coverings, etc) the first group mainly targets the domestic whereas the second group targets international market.

The knitwear has identified local markets such as schools (school uniforms), hotels (knitted apron) and daily wear consumptions (fashionable wears). Thus, there was possibility of expanding the domestic consumption. The knitwear does also have some, though irregular, export attempts by few Ethiopians. Cultural and traditions engraved products were sold to abroad. The Jamaicans commonly use the traditional knitted wears; Scarves, Gloves and shirts. Moreover though a concrete data was not found, the researcher has come across few informally attempts of selling products to the diasporas (Ethiopians living in USA and EU), though little in number (quantity).

4.5.2.2. Preferential access of international markets

The African growth opportunity Act (AGOA)

AGOA is a market opportunity provided by US government to 48 Sub-Saharan Africa countries to export their products to the US free from tariff and Quota. Ethiopia officially announced to utilize AGOA market opportunity in October 2000. Beginning from August 2001 Ethiopia has started to utilize provision for textile and apparel.

Some of the products which fulfill the major criteria are: Sweaters knit -to- Shape, Hand loomed, handmade and folklore articles etc.

With regard to the AGOA performance of Sub Saharan Africa, among the 48 Sub-Saharan African countries, Ethiopia stands 21st or 22nd with a meagre export to US (Tamrat, 2004). Yet there are huge external market potentials that can be extracted through AGOA.

5. CHAPTER FIVE: CONCLUSIONS AND POLICY IMPLICATIONS

Throughout this study, efforts have been made to examine the business environment in which the MSEs knitwear as well as the handloom weaving were operating. In addition, as to whether there were tendencies of growth that emanate from within these enterprises were sought.

The findings of the study entailed both the knitwear and handloom weaving manufacturing were a male dominated activity. This might be due to the societal stereotype that excludes women from woven cloth making, as in the case of the handloom weaving and the cumbersome nature of the knitwear work. In addition as observed during the frequent observations and FGDs, the patriarchy and the responsibilities of child care limited the role of the women, for both the clothing endeavors.

Ethnic wise, both the clothing endeavors were inclined to a certain ethnic group. The Gurage dominated the knitwear business while the Amhara dominated the handloom weaving clothing. The late productive age group, 50-64 dominated both the operations. The late age group domination for both of the endeavors was justified from two grounds; for the knitwear, the majority had been working either employed or as apprentice in different workshops in their early working ages and gradually opened their own establishment. It was on the start of the late ages that these entrepreneurs had their own

establishments. While for the handloom weaving clothing, domination of the activity was explained by the low level of education. Majority of the operators' were with low level of education which neither a shift to other income generating activities nor a transition to next level were sought.

Family members were also part of the management. This implied there was a loose conception on the managerial know-how.

Both the knitwear and the handloom weaving operations did not have uniform production period. They were characterized by seasonal variation of production. The reasons for fluctuation of production were explained by different factors. For the handloom weaving clothing, casual wearable nature of the cloth (36%), deficiency of demand (32%), and deficiency of capital (5%). As to the knitwear operations, deficient nature of demand (36%), deficiency of capital (30%), deficiency demand and deficiency of working capital combined (27%), seasonality of product (5%), flooding of second hand and new cloths (2%).

The irregular production pattern entailed that there was unutilized capacity that can be extracted.

The location of the enterprises was explained by a kinship tie and economies of agglomeration. For the knitwear operators reason of selecting the place they were operating were; availability of inputs, markets, inter related services and relatively cheapest cost of working premise. As to the handloom weaving clothing, those who originated from the surrounding kept there from birth. While those migrate from the other places were clustered around the surveyed kebelles following the footsteps of their predecessors. Among the migrants the 'Gamo' (Southern nations, nationalities and peoples) dominated the handloom weaving clothing.

As prime motives of establishing a business, both enterprises' driving forces didn't entail a profit driven motives, for the handloom weaving enterprises, the prime motive for the majority (40%) was lack of any other option. while for 28.1% of the knitwear enterprises the motives were personal interest. Family workshop served as a seedbed nurturing prospective entrepreneurs. 48% of knitwear operators have started working in family workshops followed by either as an employee or apprentices (44%). For the handloom weaving clothing, 83% started working in family establishments.

All what have been investigated in the body of the study are, for sake of simplicity, categorized into; factors, rule/ regulation related obstacles, market related obstacles, and support services.

I. Factors

The handloom weaving and the knitwear clothing enterprises shared common problems, though the severity among these enterprises vary.

Poor production system characterized by low level of skilled expertise, oldage of machineries;

Both the handloom weaving as well as the knitwear operations were characterized by laborious tasks. The laborious nature of these activities are mainly due to the archaic natures of machines. Associated with the poor production process, physical fatigue and diseases were some of the encountered problems among the operators.

The technical skill levels of the operators were low. Most do gain the expertise through experiences in family workshops, grown up without skill enhancement trainings and other skill upgrading schoolings. Moreover, **inadequacy of managerial know-how** was the other problem area. Traditional managerial know-how prevailed to be the predominant form of management followed by both the handloom weaving and the knitwear operators. It was manifested through, arbitrary pricing of products, lack of keeping records and working hours time management problems.

Lack of spares: 89% of the knitwear operators reported it as severe constraint for the knitwear operation, while it was insignificant problem for the handloom weaving clothing this was because the weaving machine was available and made at relatively cheaper prices.

Substandard working conditions: Numerous clothing operators worked in substandard working conditions with poor work facilities. 96% of the handloom weaving operators used their resident places for production purposes. As to the knitwear operation, the necessary conditions for a production system; adequacy of the working place, availability of product storage, byproduct storage, ventilated working environment, and adequate working space were absent.

Marketing know how: traditional marketing was the common form of marketing among both enterprise groups. As to the absence of the modern marketing know how, 51% of the handloom weaving clothing and 43.8% of the knitwear operators sought as a problem.

Financial problem was the major bottlenecking factor for both the enterprises. It was a severe problem for 88% of the handloom and 91% of the knitwear operators.

In general the enterprises under the survey, the knitwear and the handloom weaving were suffering from poor production techniques which weakened their internal competencies of the enterprises.

II. Market – related obstacles

Externally, the enterprises under the survey were affected by demand deficiency, flooding of cheap second hand clothes and raw material acquisition.

Deficiency demand was defined as lack of customers. It was one of the severe problems faced by both the enterprise types. This was associated with the poor marketing technique of these enterprises. It was only 15.6% of the knitwear operators and 3% of the handloom weaving enterprises who ever used promoting their products. Moreover with the absence of the product display premise, these clothing entices are characterized by irregularity of selling arrangements.

Raw material acquisition: problems in provision of the raw material supplies was a severe problem area. In terms quality, price and quantity voices were heard seeking for interventions.

Flooding of imported cloths

The mass flooding of imported clothes were competing the market share of the knitwear MSEs thereby to weakening the knitwear manufacturings. 97 % of the surveyed knitwear producers and 53.2% of the handloom operators were affected by the problem. The problem was intense among the knitwear operators. A chi-square test result on the whether the flooding of imported clothes has impact on the marketability of the knitwear products found significant casual association.

III. Rule/ regulation related obstacles

Absence of patent right for protection of designs

Absence of formalized patent rights was posing a serious threatening the innovative capabilities of the crawling knitwear enterprises. The knitwear enterprises were more affected. The absence of patent right for designs has impact on the innovative capability.

Inflexible licensing requirement

The higher requirement of the licensing, for example, working premise requirement, have driven the knitwear operators rush into the informal sector.

Unfair taxing

Though majority were informal, work without work permits, 21.9 % of the knitting operators, who work licensed, pay taxes. Of those, 64% responded for the unfairness of the taxes.

IV. Inadequacy of Support services

Infrastructure: Shortage of basic services: electricity, water supply, road, were the widely prevailed problems. Moreover, the absence of asphalted roads (in some study area, for example, in Kebelle 18 of the handloom weaving clothing) were severe areas which sought prompt solution.

Ad hoc, non consistent, interventions were observed. For example, the knitwear operators do characterize by such problems.

Despite all these, there existed a lot of sources of competitive advantage. Internally (within the enterprises), the knitwear and the handloom weaving clothing endeavors had potentials for growth through functional clustering which would help them ignite their strengths. Moreover, a competitive advantage can be secured through product development specialization; the existing magnificent designs can serve as sources of advantage. External to the enterprises, there are huge untapped market opportunities. Some export market studies (MOTI and FeMSDA, 2004) have indicated for existence of huge potentials to producing exportable handloom products. The knitwear productions, on the other hand, are with irregular and small scale export attempts. The Jamaicans commonly used to take the traditional knitted wears to their homeland, few informally attempts of selling products to the diasporas (Ethiopians living in USA and EU) do also exist, though little in number (quantity).

In general, the knitwear and handloom weaving MSEs face various internal and external constraints that prevent them from developing enough to become competitive. Associated with the lack of financial capacity, they were constrained by the traditional production type and lack of modern know-how and externally they were hard-hit by market related and policy related problems. Worse, government support was lacking.

Despite all these problems, this study has explored potentials. Internally there was existing geographical proximity. That is, there was a possibility of functionally linking the enterprises, upgrading the enterprise culture and enhancing their creative potentials for fabric product designs (such as the embroidery works). Externally there was huge market potentials. If the existed problems are not solved (at least minimized) let alone extracting the potentials, sustaining the existing crawling enterprises would be difficult. Last, as interesting area of the research, most of the operators (especially of the knitwear), despite the bunch of problems they have, are visionaries, still hope for better tomorrow to come. This enthusiasm is the only driving force that keep them intact in the activities.

Policy implications

As the findings of the study revealed, the business environment for MSEs knitwear and handloom weaving clothing was not conducive. As their problems were multifaceted, a broad intervention is required for creating conducive business environment. The following are the areas of intervention of the study.

- Most of the knitwear enterprises were operating informally because the requirements for the legal entry were difficult to fulfill. For example, possession of a fixed work premise was one of the requirements which were difficult to fulfill for the knitwear enterprises. Therefore, these requirements for licencing should be in consideration the capacities of these enterprises. Hence, the regulatory laws regarding licencing should be flexible.
- Entrepreneurs' innovative capabilities were affected through the product design thefts, which were frequently exercised by the knitwear/handloom weaving clothing enterprises. Therefore, the issue of product design patent right should be also given a due look and enforceable policies should be enacted.
- Early development stages should be supported. The MSEs clothing sub sectors sought a protection. If the infant, still crawling, knitwear is wanted to revive and flourish, a

market protection is sought. At least portion of the local market should be left for these enterprises.

- The existing low technology production system, using the old machineries has to be changed for both the knitwear as well as the handloom weaving clothing and textiles.
- Demand driven Support services should be extended like the BDS, based on the indigenous knowledge and experiences. Moreover, Interventions should be sustainable and consistent; ad hoc interventions are not likely to bring a desired level of outcome.
- In the policy document it is clearly indicated that the group based establishments' accord a priori support. However, the support should be extended to the individually run establishments too. At least there should be a room of entertaining the roars of these operators.
- Scanty but promising export attempts are observed during the study, this need to be intensified through devising special market arrangements. A market pool should be arranged in such a way that those who are able to export should unite to form a market cooperatives.
- Government should provide the infrastructural facilities. The poor road facilities, electric and water supply need to be corrected.
- As there are no secondary data on the subject matters of the study. An information system, data pool should be created so that further research areas can dig out more.

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Annex I

Tables for the marketing component

Table. I Availability of product display premise

	Handloom weaving clothing		Knitwear	
	Frequency	Percent	Frequency	Percent
YES	19	40%	32	50%
NO	28	60%	32	50%
Total	47	100%	64	100.0

Source: Own survey, 2008

Table. II. Use of advertisement promotion

	Knitwear		Handloom weaving clothing	
	Frequency	Percent	Frequency	Percent
YES	10	15.6	3	6.0
NO	54	84.4	44	88.0
Total	64	100.0	47	94.0

Source: Own survey, 2008

Table III. Have you ever exported your products abroad?

	Knitwear		Handloom weaving clothing	
	Frequency	Percent	Frequency	Percent
YES	1	1.6	1	2
NO	63	98.4	46	98
Total	64	100.0	47	100

Source: Own survey, 2008

Annexes II: Research Questionnaire

ADDIS ABABA UNIVERSITY

Regional and Local Development studies

A survey Questionnaire for the MSE knitwear and handloom_weaving Enterprises

Dear Respondent,

The objective of this questionnaire is to collect information for the thesis titled ‘An Assessment of the growth potential of the MSE clothing manufacturing: the knitwear and Handloom weaving clothing in the Gullele and the Kolfe Keranyo subcities.’ In partial fulfillment for the degree of Master of Arts in Regional and Local development studies.

The basic objective of this study is: Identification of Basic characteristics and peculiarity of the MSE clothing & textile sub sector in general and the knitting and weaving segments in particular.

You are hereby requested to render your genuine response. We would like to assure you that there would be no value attached to it and you can be confident that the information you will be providing is used for academic purpose.

I would like to thank you for your cooperation before hand.

General Information

Handloom weaving _____ / knitwear _____ Date _____
Respondant No. _____ Time _____
Sub – City _____
Enumerator code _____

Part one

1. Information on General demographic characteristics

- 1.1** Age of the handloom weaving/ knitwear enterprise operator
- | | | |
|-----------|------------|---------|
| 1. < 15 | 3. 30 – 50 | 5. 64 + |
| 2. 15- 29 | 4. 51 – 64 | |
- 1.2** Sex
- | | |
|----------------|--------------|
| 1. Female..... | 2. Male..... |
|----------------|--------------|
- 1.3** Marital status
- | | |
|------------|-------------|
| 1. Single | 3. Widowed |
| 2. Married | 4. Divorced |
- 1.4** The position of the business operator of the household?
1. Head of a household
 2. Spouse for the head of a house hold
 3. Sister/brother of a household
 4. Daughter/son of a household
 5. Other, specify.....
- 1.5** Address(Residence)
- Kebelle.....
- Sub city.....
- 1.6** Education level:
1. Can't read& write.....
 2. Can read & write.....
 3. Grade 1-6.....
 4. Grade 7-8.....
 5. Grade 9-12.....
 6. College level.....
- 1.7** Religion
1. Orthodox
 2. Musleum
 3. Protestant
 4. Catholic
 5. Other, specify.....
- 1.8** Ethnic group
1. Tigray
 2. Oromo
 3. Amhara
 4. Gurage
 5. Gamo
 6. Others specify

- 1.9** Enterprise's Legal status:
1. Licensed
 2. Unlicensed
- 1.9.1** If licensed
1. Solely owned...
 2. Private limited company
 3. Share company
 4. Cooperatives
 5. Other, specify.....
- 1.10.** The undertaking that you are engaged in:

Part II. Details of the nature of the Enterprises

2.1 (If the operator is engaged in more than one activity choose the activities in accordance with the more weight given business)

1. Weaving
2. Embroidery
3. Knitting
4. Tailoring
5. Other

2.2 When do you start knitwear/handloom weaving working? _____

2.3 How do you acquire the knitting/weaving skills?

1. Experience.....
2. Short term training.....
3. Education
4. Family Trend
5. Other, specify.....

2.4 The workshop you started in the business

1. Family business.....
2. Employee for government.....
3. Cooperatives.....
4. Other, specify.....

2.5 The prime motive for establishing the business is:

1. Expectation of good earning/higher profit.....
2. High Market demand of the products.....
3. Family inspiration.....
4. Personal interest.....
5. Ease of entry.....
6. Lack of any other option.....
7. Other, specify.....

2.6 Are you engaged in other income generating activities?

1. Yes
2. No

2.6.1 If your answer to Q.2.6 is yes.....

1. Activity	person engaged
.....
.....
.....

2.7 Is there any institution, which supports you?

1. Yes _____
 2. No _____ **(Go to Part III)**

2.8 If your answer to no.2.7 is Yes , Fill the table below

S.N	Institution Name	Kind of Support	Supporting Period	Year of Support

2.9 If your answer to Q 2.7 is Yes, Explain the benefit/ change you gained

Part III

Profile of manpower

3.1 The handloom weaving/knitwear enterprise is run by

1. Own self
2. Employee
3. Other, specify

3.2 Capacity of your business to Hire Employees (List of Employees)

S.N	Job Type	Kind of skill	Kind of employee				Relatives (sister/br other)	Standard of education
			During peak period	Medium period	Slack period	Permanent		
1								
2								

3.3 Please fill the job specification of the employees in the business.

S.N	Job Specification	Pay't method (Salary,No.of knit wear,other.....)	Amount Paid		Remark
			Birr	Cents	

3.4 Does the knitwear /handloom weaving business require professional expertise?

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

3.4.1 If your answer to Q.3.4is Yes, Do you have skilled/Skilled man power?

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

3.4.2 If your answer to Q.3.4.1 is yes,

Term of Employment	Current no. of skilled/professional workers			
Permanent				
Contract				
On piece rate				

3.5 If your answer to Q.3.4 is No, explain the reason why you couldn't possess:

.....

3.6 The knitwear /handloom weaving machine and you uses are:

1. Owned
2. Rented
3. Donation
4. Other specify.....

3.7 The age of the knitwear /handloom weaving machine is (Can put in ranges)

3.8 Does the age of knitwear /handloom weaving machine affect the operation?

Yes _____ No _____

3.9 If your answer to No. 3.8 is yes. Explain

3.10 Is the knitting/handloom weaving machine:

1. Manual
2. Automated
3. Other. _____

3.11 Raw Material Type and Quantity

No.	Raw Material Type	Raw material Supply		Raw material cost/Unit
		Foreign	Local	

3.12 Do you have regularly input/raw material suppliers?

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

3.12.1 If yes, Manufactures..... specify

1. Wholesaler....., specify
2. Retailers....., specify
3. Small retailers....., specify
- 4 Other, specify.....,specify

3.13 Is there any monopoly supply problem?

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

3.13.1 If you answer to Q 3.13 is yes, How does it affect your production?

Explain

3.14. The following table presents the Indices for the raw material provision.

Please put \checkmark mark on the appropriate place

No.	Raw material	Higher (adequate)	Medium (moderate)	Low (scarce)	Remark If your answer are medium & low give opinion
1	supply				
2	Quality				
3	Price				

Working Place

3.15 The production place you are working is:

- A. Owned
- B. Residence
- C. Shed(used jointly with others)
- D. Rental from private
- E. Rented from government
- F. Other, specify.....

3.16 Availability of working place:/Square meter/

3.16.1 Packing place

3.16.2 Store

3.16.3 Ventilated working environment

3.16.4 Room for by-products

3.16.5 Toilet

3.17 Determinants at the production/operating capacity

No.	Factors	Very serious	Serious	Tolerable	Not a problem
1	Poor market/deficient demand of the products				
2	Managerial know how				
3	Marketing know how				
4	Obsolete technology(Poor technology of production)				
5	Shortage of labor supply				
6	Old age machinery				
7	Insufficient workers space premises				
8	Financial constraint				
9	Lack of protection of copy right				
10	Flooding of imported cloths				
11	Shortage of basic supplies				
12	Government procedure				

13	Infrastructure problems				
14	Stiff competition in the out put market				
15	Production know how expertise				
16	Diseases/ fatigues				
17	Other specify				

3.18. From the above table, Order the most critical problems as their weight,

1. _____
2. _____
3. _____

3.19. Do you pay government taxes?

1. Yes.....
2. No..... (Go to Q. 3.23)

3.19.1 If your answer to Q 3.19 is yes, when did you start paying?

Year	1997	1998	1999	2000
Amount paid (birr)				

3.20 Do you think the amount you paid is fair?

- A. it is fair
- B. is not fair
- C. is moderate

If your answer to Q 3.20 is No, Explain why?

3.21 When starting the business, your source of start up capital was:

- A. own saving
- B. borrowing from relatives/with out interest
- C. loan from formal banks
- D. loan from micro and small credit association
- E. advance from traditional financial institutions such as Equib
- F. Others, specify.....

3.22 If your answer to Q 3.23 is C or D, or any loan raiser

3.24.1 Name of the loan raiser institution _____

3.24.2 What was the amount of interest rate for the loan?

3.24.3 How long did you take to return the loan?

3.23 What is your long run plan?

1. To stop this business
2. To keep this progress
3. To expand
4. To run in small capital
5. Other ,Specify _____

3.24 If your answer to Q 3.2 4is #1, what is the main reason?

3.25 If your answer to Q 3.25 is #3, what will be the source of money?

1. Loan
2. Income
3. Micro finances
4. Family
5. Other, Specify _____

Part IV

Possibility of benefiting from agglomeration of economics

4. In your surrounding, are there other competitors engaged in similar business activity?(knitting, meaning tailoring & embroidery operators)
1. Yes..... 2. No.....
- 4.1 If your answer to Q, 4 is yes, have you a collaborative working culture?
1. Yes..... 2. No.....
- 4.2 If your answer to Q 4 is Yes,
1. Input borrowing Credit Agreement
 2. Sharing spares Purchase of raw material in cooperate
 3. Have social activities together (Equip, Edir, senbete.....)Machine sharing
 4. Sales promotion
 5. Fixing out put prices
 6. Sharing ideas on designs & product futures
 7. Lobbying for rights
 8. others, Specify _____
- 4.3 Do you receive work orders?
1. Yes
2. No
- 4.3.1 If the answer for #4 is yes: How do you get?
1. Own self
 2. Through Brokers
 3. Government organizations
 4. Through Friends/Relatives
 5. Other, Specify _____
- 4.3.2 If the answer for #4 is No: Why ?
-
.....
- 4.4 In your future carriers, do you have the interest to work with your neighboring business operators?
1. Yes..... 2. No.....
- 4.5 If your answer to 4.1 is yes, are there instance where you take advantage from each other?
1. Yes: 2. No:
- 4.6 Have ever you used advertising techniques of promoting your products
1. Yes: 2. Seldom: 3. No:
- 4.6.1 If your answer to #4.6 is Yes, Promoting Method
1. Broucher
 2. Business card
 3. Exhibition
 4. Notice Board
 5. Other, Specify _____

4.7 What is the reason for the fluctuation of market ?

1. Shortage of Demand
2. Shortage of Raw materials
3. Shortage of working capital
4. Loss of market
5. Other ,Explain

4.8 Do you ever advertise your product in Exhibition?

1. Yes
2. No.

4.9 Do you assume your product is market competitive?

1. yes
2. No

4.10 Is the available market is enough?

.....

4.10.1 If the answer to #4.10 is yes, Explain

.....

4.11 Do you ever sale other than local markets?

1. Yes
- 2.No

S.N	Product Type	Quantity	Year of Export	Export period/	Cooperat	Destination

4.12 How do you Value your Production

1. Estimation: Explain _____
2. Moderately
3. Based on compotators
4. consulting with compotators
5. Fixed price
6. If other ,specify_____

4.13 Do you use Accounting system?

1. Yes, I have
2. Yes ,I record income and expense
- 3.No, I don't have any

Annex III

Focus Group Discussion (FGD) Guide Questions for the handloom weaving / knitwear clothing Operators

1. Explain the constraints you face during the production by the Handloom weaving / knitwear clothing enterprises?
2. What are the business potentials you aspire to extract?
3. Does the absence of product design patent affect the survival of the Handloom weaving / knitwear clothing enterprises?
 - 4.1. if yes, explain
4. Have you ever had support from any organization? If yes discuss.
5. Does the handloom weaving / knitwear endeavors require a skilled manpower?
6. Do you think a skilled manpower is necessary to your enterprise?
7. Do you think that the handloom (weaving) machinery is convenient/friendly?
8. Do you have a working together culture?
9. What forms does the collaborative working culture take?
10. What gains have you extracted so far from the neighborhood with your counterparts?
11. What is your opinion on forming functional networks?
12. What advantages/ disadvantages does it have operating home?
13. Do you pay taxes? If yes, how do you evaluate the tax system? /for the knitwear operators.
14. What keeps you stay at this business?
15. Why the majority enterprises are working unlicensed? (For the knit wear operators)?
16. What are the barriers to licensing?
17. Have you encountered shortage of labor supply?
18. Have you sourced your start up capital from the micro and small credit associations? If your answer is no state the reasons.
19. Why is the role of women minimal in the undertaking?
20. Explain your product marketing arrangement?

Declaration

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

Name: Genet Gebremariam

Signature:  _____

Date: July 2008

This thesis has been submitted for examination with my approval as a university advisor.

Name: Issac Paul (ph.D)

Signature:  _____

Date: July, 2008