

***ADDIS ABABA UNIVERSITY***  
***SCHOOL OF GRADUATE STUDIES***

***FACTORS THAT AFFECT THE DEVELOPMENT OF MICRO AND  
SMALL ENTERPRISES: THE CASE OF MANUFACTURING  
ENTERPRISES IN BAHIR DAR CITY***

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***MAY 2010***

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## ACRONYMS AND ABBREVIATIONS

- ADLI: Agricultural Development Led Industrialization
- AReMSEDA: Amhara Region Micro and Small Enterprise Development Agency
- AWEA: Amhara Women Entrepreneurs Association
- BWEA: Bahir Dar Women Entrepreneurs Association
- CIS: Communities in School
- CSA: Central Statistics Authority
- EDII: Entrepreneurship Development Institute of India
- FeMSEDA: Federal Micro and Small Enterprise Development Agency
- IMF: International Monetary Fund
- ILO: International Labor Organization
- MSE: Micro and Small Enterprise
- MSEs: Micro and Small Enterprises
- MSEDA: Micro and Small Enterprise Development Agency
- MoTI: Ministry of Trade and Industry
- NAYE: National Alliance of Youth Entrepreneurship
- NGO: Non-Governmental Organization
- RDWEA: Regional Director of Women Entrepreneurs' Association
- Sqkm: square kilometer
- TIC: Trade and Industrial Classification
- UNESCO: United Nation Educational, Scientific, and Cultural Organization
- UNIDO: United Nation Industrial Development Organization
- USD: United States Dollar
- USSR: Union of Soviet Socialist Republics
- WEA: Women Entrepreneurs' Association

## **ABSTRACT**

*Micro and small enterprises are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They are the means through which accelerated economic growth and rapid industrialization have been achieved in developed countries.*

*The purpose of this study was to assess the factors that affect the development of micro and small enterprises in the city of Bahir Dar; the case is manufacturing enterprise sub-sector. To address specific objectives both qualitative and quantitative approaches are employed in the process of analyzing and interpreting the collected data. Descriptive survey method and simple random sampling technique is used. Quantitative data are generated using questionnaire containing close-ended and few open-ended questions from 138 sample respondents, who are selected randomly from the three zones of the city. Interview from the MSE development agency experts, branch Bank manager and field observation are also used to strengthen the data collected using questionnaire.*

*Although there have been attempts by the government and other stakeholders to improve the working environment of micro and small enterprises in Bahir Dar city, the sector has been suffering from a number of factors that affect its development. The results of the study indicates that lack of initial/working capital, lack of working place, unfavorable policy frameworks mainly of high tax and arbitrary tax administrative systems, lack of market, lack of business skill and information are the major problems that affect the development of the sub-sector. In order to alleviate such factors, a micro and small enterprise development agency has been designed to support the existing business community and to facilitate the creation of new business environment focusing on the unemployed individuals. However, the finding from the survey data shows that there is divergence between directives issued and their actual implementation in the ground.*

*Above all let alone the implementation gaps and the infancy stage of the supportive agencies, the development of the Regional micro and small enterprises policy and strategy with supportive organizational structures starting from the Regional to the local level are structured.*

*Finally, the result of the survey calls for concrete and coordinated regulatory and institutional support in business places, financial and extension services, promotion of marketing facilities, provision of business training and other supportive facilities like road, water, electricity services from Micro and Small Enterprises Development Agency of the city of Bahir Dar and other concerned bodies.*

## CHAPTER ONE

### 1. INTRODUCTION

This chapter incorporates research background, study area background, statement of the problem, objective of the study, significance of the study, limitation and scope of the study, research methodology and organization of the study.

#### 1.1 Research Background

Micro and small enterprises are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved. While the contributions of small businesses to development are generally acknowledged, entrepreneurs face many obstacles that limit their long-term survival and development. Research on small-business development has shown that the rate of failure in developing countries is higher than in the developed world. Scholars have indicated that starting a business is a risky venture and warn that the chances of small-business owners making it past the five-year mark are very slim. The owners should develop both long-term and short-term strategies to guard against failure (Britte, 1991:134).

A positive relationship has been documented between small-business development and economic growth in developed countries. However, far less research has been conducted on this relationship in developing countries. Studies in micro and small-business development are necessary in developing countries like Ethiopia because of the dissimilarities in the process between developed and developing countries. It is also essential to understand the problems facing small-business development in developing countries because they are significantly different from those facing developed countries. These obstacles include lack of financial resources, lack of management experience, poor location, laws and regulations, general economic conditions, as well as critical factors such as poor infrastructure, corruption, low demand for products and services, and poverty.

On the other hand, Micro and small scale enterprises (MSEs) which are considered to be the places where those whom the economy failed to absorb take shelter in are increasingly becoming important economic actors in generating income and employment throughout Africa and other developing countries. This sector on average contributes about 67 percent employment to the total labor force in most of the developing countries (Akwani, 2007:27).

Recognizing the indispensable role of micro and small business enterprise and private sector enterprises in general economic development, many countries have instituted enterprise support networks and structures to stimulate the development of these enterprises. Ethiopia is no exception. At various times since the 1970s, many countries like Nigeria has designed and introduced measures to promote small-and medium-enterprise development (Ibid). These measures have included fiscal, monetary, and export incentives.

The fiscal incentives included tax holidays and tariff concessions. For instance, small businesses were given a tax holiday for the first six years of their operations in Nigeria. In terms of monetary support, the Central Bank of Nigeria introduced credit guidelines requiring commercial and merchant banks to allocate a portion of their loanable funds to small businesses. Other small business incentive programs included personnel training, repair and maintenance of specialized machines, and extension services. Small-business assistance programs have also been established by local and state governments (Ibid).

Over the past six years, Nigeria has pursued a policy that should provide fertile ground for small-business including trade liberalization and making the operating environment more friendly to entrepreneurs. The International Monetary Fund (IMF) has agreed to support more economic growth in Nigeria by helping to finance infrastructure improvements (Akwani, 2007: 27-28).

In the light of these support and incentive programs, it would seem reasonable to expect that micro and small businesses would grow and flourish in Nigeria. However, the effectiveness of these programs remains unclear, and the rate of business failure continues to increase (Ibid).

In Ethiopia, which is one of the poorest countries of the world, micro and small-enterprise sector assumes particular importance. According to the CSA Survey (2003), there are almost 590,000 MSEs in Ethiopia. 99.4 per cent of which are micro-enterprises with fewer than 10 employees,

accounting for 88.2 per cent of private sector employment. However, this figure significantly underestimates the total number of micro-enterprises, because it ignores the number of people informally engaged in subsistence “income-generating” activities.

Besides this, more than 99 percent of the private individual establishments in Ethiopia are micro enterprises creating employment contributing to 90 percent of the employment created (CSA, 2003). Thus, promotion and incentives to the creation and development of micro-entrepreneurial activities are essential for the economic growth and poverty reduction efforts of the country. Looking at the issue from the perspective of unemployment, both supply and demand factors have an impact on unemployment and underemployment in Ethiopia. The labor market, which is the demand side factor, of Ethiopia is very underdeveloped, lacking diversity and alternative opportunities for unemployed people. The situation is worse in urban areas where the proportion of unemployment is higher than the total demand for the labor force (Abraham and Hannah, 2005:55-56).

This calls for special promotional movement and intervention of policy makers, researchers and other development agents in this sector to develop the potential of employment generation who tend to be the majority of the MSEs operators in Ethiopia. Having said this, the researcher examines factors that affect the development of micro and small business enterprise and review the role of MSE promotion policy for the development of the sector in particular emphasis of manufacturing enterprises in the city of Bahir Dar.

### **1.1.1 Why Promote Micro and Small Business Enterprises**

It is important to promote micro and small enterprises since they have multiple comparative advantages. One of the comparative advantages of micro and small enterprises is their ability to innovate. The autonomy of the entrepreneur allows her/him to move quickly when changes occur or when new opportunities arise. When it comes to large businesses they have long procedural and administrative controls that slow things down even if urgent action is required. This freedom makes them more tendencies to innovate new products, improve the process and ways of doing, add service variety etc, which places them in a comparatively advantageous position (Bandura, 1997:210).

Flexibility is another virtue of smallness. Changes like new demand from customers, a new product or service developed by a competitor becomes a trigger for action to stay competitive in the market. This flexibility is possible due to behavioral and practical situations of the entrepreneur in MSEs. Behaviorally, they believe that they have to respond to customers changing demand so as not to lose them and also to win new ones by supplying better products and services. Practically, micro and small businesses invest relatively small amount in technology, equipments, human resource etc. when compared with larger ones which invest large amount on expensive single purposed machines, hold large inventory and use costly technologies and tools. This allows them to change what they have been doing with far less difficult (Bandura, 1997:210-211).

The development of MSEs in countries that are in economic transition can also contribute to the process of privatization. This may be through bringing privatized assets into productive use following their liquidation, when otherwise will be an idle or unproductive resource. Seleshi (2000:98) on the other hand describes micro and small enterprises as having the following important characteristics which is related to their encouragement:

*They are an indispensable support and are complementary to medium and large industrial enterprises (they are a spring board for higher level development); they are affected by less economic fluctuations due to their structure; they mitigate effects of a skewed income distribution pattern; they contribute to inter- regional balance; they encourage, challenge and mobilizing individuals savings; they are the hoe of entrepreneurship development; and they are one of the guarantees of democratic society and liberal economy.*

The micro and small enterprise sector is also described as the natural home of entrepreneurship. It has the potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development (Bandura, 1997: 212).

### 1.1.2 Rationale of the Study

The rationale for the selection of the development of micro and small business enterprise as a study topic are the slow development of the sector, however, micro and small business enterprise has a vital role in driving economic growth, generating employment and in reducing poverty for one country, and entrepreneurs in micro and small business enterprise activities, who are constrained by a number of problems in their operations. Above all, micro and small business enterprise development is the priority area of the Federal and Regional governments next to rural development to reduce the problems of unemployment and to reduce the over all urban poverty. Furthermore, studies which have been conducted have ignored micro and small business enterprises particularly entrepreneurs engaged in manufacturing activities of micro and small enterprise in the study area. Hence, to promote this priority sector development in general and entrepreneurs in manufacturing activities in particular, it necessarily requires research findings thereby finding out the problems in the operation of it.

In selecting the study area the following main requirements are considered as the absence of one of these creates difficulty in conducting the study and providing reasonable conclusions.

A city from the Amhara region is selected because of the communication facilities with the people due to the language. Furthermore, since the researcher was born and grown up in this region, the researcher has better awareness of the social and cultural conditions of the people. Thus, it is intended to contribute something by way of bringing the micro and small business enterprise sector to the flat form so that the participants can attract the attention of the planners, NGOs and other stakeholders in the study area.

The reason why urban center is selected for the study is the presence of many micro and small business entrepreneurs who entirely or partially depend on the sector with necessary data than of smaller towns and rural areas. This provides necessary information to design appropriate sample size and the whole methodology. Bahir Dar is also the capital city of the region and fast growing city pulling a large number of in-migrants. Thus, it has socio-economic features of both small and big urban centers in the region.

The assumption is also that the findings of the study may be replicated in other urban centers in providing necessary information to those policy makers, implementers and stakeholder, Bahir Dar is selected as the study area.

### **1.1.3 Study Area Background**

#### **1.1.3.1 Historical Accounts of Bahir Dar**

Bahir Dar, as a settlement, was the site of the church of Kidanemehiret since its identification in the 14<sup>th</sup> century and was known as Bahir Dar Kidanemihiret. However, during the Gonderian era, it had become an important center. On the basis of oral tradition, during the reign of Iyasu (1682-1706), its site was changed to a monastery of Kidus Giorgis, instead of Bahir Dar Kidanemehiret (Mulugeta, 1996: 10).

Two factors have contributed for the development of this village into a market and finally attaining the status of a town. First there was internal trade carried out by long distance caravan merchants. Through these routs small quantities of salt, cloth and other manufacturing goods were imported from neighboring countries like Sudan and Eritrea to Lake Tana ports such as Bahir Dar. Second, Bahir Dar had become the distribution center for the trade items to other trading centers south of it, in the rest of Gojjam region (Mulugeta, 1996:10).

In addition, favorable economic, social and geographic conditions are sufficient factors for the rise and development of urban centers because for economic and social activities to take place suitable geographic conditions such as attractive climate, soil, topography and so on are important. It is strongly argued that, Bahir Dar, in addition to its geographic conduciveness for trade and transport, its natural scenery, its attractive nature for settlement along Lake Tana and its use were considered to be the factors for the emergence of settlement from the beginning (Bekalu, 1986; cited in Mulugeta, 1996:11).

The growth of the city has been stimulated by the establishment of a modern and well equipped school and a textile factory. In other words, the allocation of natural resources to industrial development in the city may take the city look much more attractive than the rural areas, to the rural dwellers (Mulugeta, 1996:11).

Like most other towns in Ethiopia Bahir Dar was promoted with modern urban features by the Italians. But the steady growth took place after the liberation and particularly since the early 1960's when the Ethiopian government began to use the town as a regional economic development center Tana –Blue Nile Basin.

The 1960's were the golden period for the development of Bahir Dar. The construction of a bridge at kemfaro, the opening of an all- weather road connected to the center (Bahir Dar), the establishment of textile factory (which turned Bahir Dar in to an industrial town), harnessing of hydro-electric light (generate a steady supply of power), the setting of technical school, opening of a Bank and a hospital and measures to implement the master plan marked implications on contemporary development (Saltan, 1984; cited in Mulugeta, 1996:12).

These as bases earmarked industrial development resulting in physical and economic growth of Bahir Dar. Relatively speaking, Bahir Dar had the capacity to attract capital and labor due its privilege positions as a political city of the region. A major development in this regard was the dramatic and steady growth of its population.

#### **1.1.3.2 Physical Characteristics of Bahir Dar**

Bahir Dar, the capital city of Amhara National Regional State and West Gojjam Administration zones as well, is located along the Southern shore of Lake Tana. The city is specifically situated between geographical coordinate of  $11^{\circ} 33'$  and  $11^{\circ} 37' 09''$  latitude and  $37^{\circ} 20' 33''$  to  $37^{\circ} 25' 54''$  longitude.

The physical size of the town before 2003 was 28 sqkm. Previously the city was divided into 17 kebele administrations. Recently, the city comprize nine urban (the existing kebeles), four rural and three satellite kebeles (Bahir Dar City Administration Office).

The city is located in North Western Ethiopia, and is the 3<sup>rd</sup> largest city in Ethiopia. Bahir Dar is also one of the leading and best tourist destinations in Ethiopia with a variety of attractions in the nearby Lake Tana and Blue Nile River. The city is distinctly known for its wide avenues lined with palm trees and a variety of colourful flowers.

It is also considered as one of the most beautiful, well planned, and safest cities in Africa by many standards, and in 2002 it was awarded UNESCO Cities for Peace Prize for managing to address the challenges of rapid social economic developments. The city is located approximately 578 km North-Northwest of Addis Ababa and an elevation of 1840m above sea level.

### **1.1.3.3 Demographic Characteristics of Bahir Dar**

The population size of Bahir Dar has increased from time to time. The population size of 52188 in 1980 has grown to 96140 in 1994 (CSA, 1994) and according to CSA (2007:22) report Bahir Dar has a total population of 220,344, which was the least in time interval among 1980 and 1994 for the city. This population increase by far is very fast. It has been from this perspective that the city of Bahir Dar is classified under the fast growing cities of the country.

### **1.1.3.4 Micro and Small Enterprises (MSE) in Bahir Dar**

MSEs play a very important role for the economy and community of Bahir Dar. According to the Bahir Dar city government, 2008 business plan, the majority of the inhabitants depend directly on the informal sector of MSEs like street vending, bakery, food preparation, manufacturing activity like metal work, wood work, etc. Bahir Dar city Administration has been promoting MSEs since 2003 by establishing a regional micro and small enterprise development agency with the aim to create enabling environment for the development of the private sector and self-employment in the region so as to achieve sustainable employment. A three years business plan, for the years 1996–1998E.C. was formulated which is said to have an important role in the reduction of poverty and unemployment in the city (Document of Bahir Dar City Administration; MSEs Office Business plan, 2008). The plan gives priority to metal work, wood work, construction, and textile production; and municipality services.

According to the document, most of the city dwellers benefit from this sector, both formal and informal, directly or indirectly. It is also said to have significant role in supplying the domestic market with goods at affordable price in addition to facilitating the growth of the industrial and service sector. Cognizant of the multiple contributions from the sector, Bahir Dar city administration has tried to identify the main constraints and provide the entrepreneurs with the

right support in its business plan. Special attention is also given to those activities which are growth oriented and can relatively benefit the society more. These activities include textile, manufacturing of construction inputs, and metal and wood works.

Indeed, the city understands and acknowledges the importance of micro and small enterprise for development of the sector. It is widely accepted that micro and small scale enterprises play vital role in socio-economic development of a country as a means for generating sustainable employment and income. Moreover, MSE's play an important role by providing the founding ground for medium and large scale enterprises, and in the process contributing to the reduction of poverty. Micro and small scale enterprises make a significant contribution to the socio-economic life of the country by way of supporting people to earn money and make a contribution to family incomes and by supplying basic goods and services for local consumption (Document of Bahir Dar City Administration; MSE Office, 2008).

### **Business Associations**

There are business associations in Bahir Dar city. Some of these are the following:

- I. Bahir Dar Women Entrepreneurs Association (BWEA)
- II. Amhara Women Entrepreneurs Association (AWEA)
- III. Bahir Dar Taxi Association
- IV. A number of freight and public transport associations.

### **1.2 Statement of the Problem**

The importance of entrepreneurship in micro and small enterprises as an instrument of poverty reduction through employment creation and supply of affordable products has been implicitly and explicitly accepted by many countries and international development organizations.

In Ethiopia, support to MSEs has been considered as a tool to employment creation and as a foundation to long-term development objectives. However, even though some countries are believed to be successful in fully utilizing the potential of entrepreneurs to achieve better economic development, Ethiopia is still behind in exploiting this huge potential to meet its development objectives. This research topic "factors affecting the development of micro and

small enterprises in the city of Bahir Dar: the case of manufacturing enterprises “ is, therefore, initiated from the following factual problems: Entrepreneurship, which is recognized to be a change agent and the fourth factor of production that brings together land, labor and capital, makes a significant contribution to the pace of nation’s economic development. However, this important factor of production is not being utilized properly in the city.

There is undeniable need for employment creation for the community particularly to the young to act against the mounting unemployment in Bahir Dar. The labor intensive, easy entry, small investment cost, and less skill (knowledge) requirement nature of micro and small businesses has a crucial role in income generation and better distribution of income for the unemployed labor force. Though the crucial role, played by the sector in driving economic development and job creation, is increasingly understood, there has been little effort to promote micro and small enterprise industries let alone the strategy has been formulated because the development and the expansion is weak/slow.

There is little empirical research on this area looking at the issue from the factors affecting the development perspective despite the fact that micro and small business are the dominant operators in the Ethiopian economy. This has become evident, especially, after the disintegration and restructuring of large public enterprises to adopt the private sector led market economy. The emerging market environment and the ongoing globalization are challenging every enterprise and every person to consider, evaluate and bring about change in thinking, vision and action. The change to be brought about should facilitate businesses in becoming competitive, profitable and sustainable. Instilling such transformation even amongst the most articulate person with a contemporary outlook is not an easy task. Human beings by nature, habit and practice are used to a way of working and any change ushers/guides a sense of insecurity.

This inevitable, frequent and overwhelming change can be overcome only by developing entrepreneurs and a dynamic society. At least they will save the national industry from being totally skill lacking competence in the products and services they sell as compared to those influence the market from outside. How to absorb the rapid growing urban force in to productive employment, and how to increase household income is one of the principal challenges of

development in Amhara Region. The greater the numbers of labor force, the unemployed are forced to engage in micro and small business enterprise sector for their survival and supplementary income sources (Andualem, 1997:33).

Recently, efforts are being made by the regional government through the formulation of promotional policies and strategies based on proclamation No. 42/1999, knowing the enormous significance of the sector for the society in creating employment opportunities, bringing rapid economic growth and producing wide range of accessible and cheaper goods and services for greater number of people. Yet its development has not been improved. The reasons for this failure are lack of finance, limited access to market, lack of working premises, infrastructural facilities and inadequate skill in business management, lack of information, inadequate and inappropriate government policies and regulatory environments or frameworks.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

Based on the stated problems, the general objective of this study is to assess factors that affect the development of micro and small business enterprise and to analyze the role of the MSE policy for the development of the sector in the city of Bahir Dar.

#### **1.3.2 Specific Objectives**

The specific objectives of the study are to:

- I. know the personal characteristics of individuals engaged in MSE activity;
- II. examine the factors leading operators to join in manufacturing activity of micro and small enterprise;
- III. point out working conditions and problems that affect operators in starting and running a business in the micro and small business sector;
- IV. assess implementation of policies and regulatory environments as expressed for micro and small business enterprise; and
- V. suggest measures needed to promote the development of micro and small business enterprise.

## **1.4 Research Questions**

Based on the above stated objectives, the researcher tries to answer the following basic research questions:

- I. What factors lead individuals to join in micro and small enterprise activities?
- II. What are the major constraints that affect the development of micro and small enterprises?
- III. What working conditions and problems are facing individuals in micro and small enterprises?
- IV. What strategies does government use to support in micro and small enterprise sector and how much of these strategies are tailored/personalized to operators?
- V. What measures are needed to promote the development of micro and small enterprises?

## **1.5 Significance of the Study**

Why is this study significant? The study encompasses the following contributions:

- I. First, in a globalized economy, there is increasing recognition that identifying the problems facing the development and operation of entrepreneurship in micro and small-business enterprise is meaningful in terms of the types of assistance (finance, training, management, and technology).
- II. Second, the economy of Ethiopia is growing moderately, and Ethiopia has opened its borders to international business. Therefore, scholars and practitioners should understand the level of small-business development in the study area, which plays a significant role in providing auxiliary services to multinational corporations.
- III. Third, it is essential to determine whether micro and small-business enterprise policies and regulatory environments developed in the region are valid in the city of Bahir Dar.
- IV. Fourth, the study draws management and policy-makers attention to the urgent need for specific management practices to enhance the effectiveness and sustainability of micro and small-businesses enterprise in the Region.
- V. Finally, from an academic perspective this study insight should contribute to the future development of this line of research in other regions of the country in general and in other urban areas of the Amhara region in particular. Therefore, the study is of significant value to practitioners and scholars alike.

## **1.6 Limitation of the Study**

The researcher approached 138 sample enterprises in the manufacturing sub-sector of micro and small enterprises from the sample kebeles in Bahir Dar city. However, other sub-sector specific analysis among micro and small enterprises is not made, which has some limitations in identifying the particular problems of each sub-sector.

For instance, the first problem in the manufacturing sub-sector may not be in the textile sub-sector. The sector has to be further classified and studied so that the problems of each sub-sector may be easily identified.

The researcher is unable to conduct focus group discussions during the time of field work. This is because the respondents are reluctant. Thus, the researcher analyses the problems of MSE entrepreneurs based on the data obtained from sample respondents through the use of questionnaire and interview results from the concerned body. Some respondents also hesitate to disclose the exact initial and current capital of their enterprises due to the reason of the fear of being assessed for taxation.

## **1.7 Scope of the Study**

The micro and small enterprise sector comprise the whole range of business activities such as street vending, carpet working, machine shop operating, manufacturing, urban agriculture, processing (e.g. Food, beverage, wear) , petty trading, services and others in all types in a variety of sizes. However, the scope and covering of this study is mainly on examining those registered or licensed manufacturing industries (metal work, wood work, production of construction inputs, etc.) of micro and small business enterprise in either temporarily or permanent working places gained as own property or rented places received in contractual basis in different kebele administration of Bahir Dar city.

The research could have been comprehensive if it covers all the urban centers in the region. But the study is limited by time and financial resource to investigate the development of micro and small business enterprise engaged in the manufacturing industries in a broader scope.

As a result the scope of the study is limited only in Bahir Dar city to assess the wood work, metal work, manufacturing of construction inputs, etc sub-sectors of the manufacturing sector. Because the manufacturing sub-sector is the major employer in the labor market of the city, thus, it would have been very informative to study the enterprise formation and environmental influences in this sub- sector.

## **1.8 Research Methodology**

### **1.8.1 Method**

In this study the researcher uses descriptive survey design method since he employs questionnaire and interview to collect the necessary data from the sample respondents and hence this method is appropriate to collect data related to factors affecting a certain activity, opinion about service, etc and is preferred to answer research questions like ‘what’ and ‘how’.

Social science mainly deals with diverse human behaviors, their activities, and interactions among themselves and the environment. Thus, the researchers may encounter complicated problems if they do not choose the right methodology for the problems under study. Therefore, to avoid complexities and to analyze the ‘what’ and ‘why’ questions about entrepreneurs in the manufacturing activities of micro and small business enterprises in Bahir Dar city, and to enhance the validity of the findings from this work, the researcher uses both qualitative and quantitative (frequency and percentage) research approach.

Accordingly, in this study the researcher uses the combined approaches in which qualitative approach support the result of quantitative approach or vice-versa, this is because more fact is found in the questionnaire as it gives the idea of respondents who are the actual part of the research problem. To conclude, the main reason the researcher chose to use the combined approach of qualitative and quantitative approach is that using either of those approaches can not explain fully the research problem and objectives.

### **1.8.2 Sampling Technique**

Taking the whole area and population in the study is economically expensive, demands much time and energy although complete information can be obtained from each person in the

population understudy in the area. Accordingly, the researcher uses stratified sampling technique for the study. Because Stratification; selecting strata and then a sample respondent from each stratified area has the advantage of cost effectiveness, providing representative and reliable data, facilitating revisit or asking supplemental questions about the previous responses and monitoring the progress of the work except its complication disadvantage during analysis.

**Selection of the study kebeles:** Accordingly, the researcher applies three steps in the sampling procedure. First, the city is stratified into three as ‘central (inner)’, ‘intermediate (middle)’ and ‘peripheral (outer)’ simply based on their geographical location and population size. Second, five ‘kebeles’ are randomly selected from the three strata (zone) using a simple/ lottery sampling technique to avoid biasness. The procedure of stratification is presented below in Table 1.1.

**Table 1.1 Number of Manufacturing Micro and Small Enterprises in the city of Bahir Dar by kebele**

Name of the kebele	Category of the city	No. of manufacturing enterprise in MSEs
Sefene- selam	Central (inner)	55
Shum-abbo	Central (inner)	42
Belay zeleke	Intermediate (middle)	52
Shimbt	Peripheral (outer)	49
Gishe –abay	Central (inner)	44
Ginbot- haya	Peripheral (outer)	50
Tana kebele	Intermediate (middle)	51
Fasilo	Central (inner)	47
Hidar- asraand	Peripheral (outer)	48
<b>Total</b>		<b>438</b>

**Source: Document of Bahir Dar city Administration MSE Office, 2008**

To attain spatially more representative data, two kebeles from the ‘city center’ and ‘periphery’ equally and one from the ‘intermediate’ zones is taken in the sample. Accordingly, from the city center; Facilo, and Sefene -selam, from the periphery; Hidar -asraand and Shimbt, and from the intermediate zone Belay- zeleke is randomly selected.

**Selection of sample size:** This is the third stage of the sampling procedure by which the target population for the study, entrepreneurs in the manufacturing activity of MSE, from the five sample kebeles is taken. As Table 1.2 clearly reveals, there are 438 manufacturing enterprises in MSE which are registered/licensed; while the total MSE of the five sample kebeles are 251 (MSE office records, 2008). The researcher takes 138 (approximately 32 percent of 438 enterprises and 55 percent of 251 enterprises) manufacturing enterprise randomly using lottery method of sampling from the five selected kebeles. The sample kebele and sample size is presented below in Table 1.2.

**Table 1.2 Number of Sample Respondents in the Sample kebeles**

Name of the kebele	Category of the city	No. of manufacturing enterprise in MSEs	Sample respondents
Sefene- selam	Central (inner)	55	32
Belay –zeleke	Intermediate (middle)	52	26
Shimbt	Peripheral (outer)	49	27
Fasilo	Central (inner)	47	30
Hidar -asraand	Peripheral (outer)	48	23
<b>Total</b>		<b>251</b>	<b>138</b>

**Source: Document of Bahir Dar City Administration MSE Office, 2008 (arranged by the researcher)**

To identify the different factors influencing enterprise formation as well as to assess existing opportunities and barriers of MSES development in Bahir Dar, a survey questionnaire is developed to fit the situation of the study area and to collect all the necessary data. The questionnaire included questions related to personal characteristics of the entrepreneurs, enterprise information such as initial capital, business activities, input used, employment, etc. Moreover, the survey questionnaire also included questions related to entrepreneurial environment such as access to finance, working premises, infrastructure, socio-cultural as well as business development services.

Besides this, interview is conducted with different officials to collect accurate and relevant data related to provision of finance, land/premises, and provision of training in order to supplement the survey data.

Secondary data is collected from the reports of Federal and Region's MSEs Promotion Agency and other institutions. Printed as well as published materials are also used, in order to develop a theoretical and conceptual framework of MSEs as well as to review the role of the policy/strategy MSEs development in the city. Moreover, secondary data is collected from the different sources in order to explain the situation of enterprises in the region and to be used as a basis for policy recommendations.

The MSEs sector is characterized by a variety of activities which sometimes makes promotional activities and researching very difficult. Based on this fact, the research is focused only on the manufacturing sector; more specifically those engaged in metal and wood work and manufacturers of construction materials sub- sectors.

### **1.8.3 Source of Data and Methods of Acquisition**

As the approach is both qualitative and quantitative, different data collection techniques are adopted for this study. Both primary and secondary source of data is used. Close-ended and few open -ended questionnaires are administered to the sample respondent so as to appraise various attributes and draw conclusions which is generalized for the city as a whole.

The questionnaire is designed based on the objectives of the study in such a way as to enable obtaining the maximum available information from the respondents in the study area. It was first designed in English and then translated into Amharic so that the respondents understand it easily. Accordingly, before the starting day of collecting data, the researcher employs five data collectors and then orients them on the nature and details of the questionnaires and on the procedures they were follow while collecting the data. Then they collect the questionnaires by going to each respondent's work place and the researcher completes most of the questionnaires together with supervision and control of data collectors.

Apart from collecting questionnaire data, structured and unstructured interviews are held with MSE officials and other officials in their work places. To collect the secondary data, relevant books, officials' documents as well as web sites is consulted. Data on the number and types of MSE is collected from Bahir Dar city administration MSE development office.

#### **1.8.4 Data Analysis**

Once the data is collected, the next task is to process it and analyses taking into account the objectives of the study. The data from questionnaire is tabulated, organized and analyzed. Percentages, maximum, minimum and sum is used to show important aspects of entrepreneurs engaged in the manufacturing activities of MSE; while information from interviews and observation are used either as explanatory notes for the results from the questionnaire or as the descriptive part of the study.

#### **1.8.5 Validation and Pilot -Test of the Research Instruments**

The survey instrument was submitted for validation to 4 experts of business association (Bahir Dar Women Entrepreneurs Association and Bahir Dar city Micro and Small Enterprise Development Office) in the region. The experts were asked to review the items in each of the instruments and determine if they are within the linguistic capabilities and understanding of small-business owners and managers in the study area.

The experts were also asked to eliminate items irrelevant to the region's cultural environment and to suggest how to simplify the items that are relevant. After the recommendation and modification of the instruments provided by the experts on the use of the instruments for this study, indicating that they are good measures of the problems facing small-business owners in the city. To establish the highest degree of reliability, the instrument was pretested on a small sample ( $n = 20$ ) of business owners randomly selected from the larger sample.

#### **1.9 Organization of the Study**

This research is organized into four chapters. The first chapter consists of the introductory part which deals with the general overview of micro and small enterprise sector, background of study area, statement of the problem, objectives of the study, significance of the study, scope,

methodology of the research and organization of the study, and limitation of the study is also included in this chapter. The second chapter consists of review of literature. In this chapter the concepts and definitions, the roles of MSE, factors that affect the development and operation of entrepreneurs in MSE, the major problems encountered and policies and strategies on the micro and small business enterprise sector in the developing countries including Ethiopia is reviewed. The third chapter incorporates the data presentation, analysis and interpretation. The last chapter summarizes the study with findings, concluding remarks and possible recommendations. The thesis also includes a bibliography and other formal write ups.

## 1.10 Definition of Terms Used

**Development:-** in this research development is used as to express expansion and growth.

**Factor:-** something that have a negative impact or influence on the activity or impressing on the feeling of mind.

**Entrepreneurship:-** is a human activity, creative act that builds something of value from practically nothing. It is the pursuit of opportunity regardless of the resources, or lack of resource at hand. It requires a vision and the passion. It also involves willingness to take calculated risk (Britte, 1991).

**Industries:** – are among others, production of light consumer goods, local drinks, wood, metal food like bakery and weaving cultural clothes and tailoring and edible oil.

**Micro enterprises:** - are business enterprises with a paid up capital starting from birr 1.00 up to 20,000 birr (Ministry of Trade and Industry and ANRS ZikreHig, 2006).

**Registered/licensed enterprise:-** is the enterprise that had received a legal document/ certificate issued by the government office as a permission to operate a certain type of activities.

**Small business enterprises:-** are business enterprises with a paid up capital of above 20,000 and not exceeding birr 500,000 excluding high tech- consultancy and other high tech establishments (Ministry of Trade and Industry and ANRS ZikreHig, 2006).

**Street –side vending:-** are small trade activities that takes place on and along the streets on temporary basis.

## CHAPTER TWO

### 2. REVIEW OF RELATED LITERATURE

In this chapter, the researcher tries to review some available relevant literature on micro and small enterprise activities and the working conditions of entrepreneurs in the sector. The issues discussed here are theories on the origin of micro and small enterprises, concepts and definitions of MSE, significance of MSE for the developing countries, experience of enterprise development in other countries including Ethiopia, overview of the strategy of MSEs development in Ethiopia, and essential elements for MSEs development.

#### 2.1 Theoretical Literature about MSEs

It is necessary to discuss the theories or conceptual origin and definition of MSE sector because concepts and definitions are fundamental issues for better understanding about the remarkable conceptual diversity of the sector. It is amazing to note the numerous terms used, let alone the range of definitions and concepts. Policy makers, organizations, planners, and development analysts all use a range of terms interchangeably to describe the sector. The various definitions given by different countries and even within the same country including Ethiopia has led to a confusion in distinguishing one segment from another for policy intervention, promotional support and technical assistance. Whatever the case, the concept of the sector can not be defined without going into some details about its history and evolution.

##### 2.1.1 Theories on the Origin of Micro and Small Enterprise

The idea micro and small enterprise, which stems from the concept of entrepreneurship, has got wider attention and recognition after the ILO mission (1972) as cited in Gebrehiwot and Wolday (2004:35) on employment, income and equality in Kenya. Since then it has become a debatable issue about its concepts and definitions. The theoretical explanations about MSE origin and development are briefly discussed as follows.

**I. Labor Supply and Urban MSEs:** This theory relates the origin of MSEs to the growth of labor force (unemployment) beyond the labor demand of the formal economic sector. It implies that micro and small enterprises are developed for the final work place of people who are unable to find a job in the formal economies.

That means the urban micro and small enterprise grow when the larger economic sector contracts very slowly to absorb the labor force (Arinaitwe, 2006:157). When formal economic sector expands, it contracts and thus develops anti-cyclically to the formal economy implying the inverse relationship between the development of micro and small enterprise and formal economic sector.

Although this explanation has some factual basis, the researcher would like to comment on it three reasons. First, empirical evidence from many developing countries show that micro and small enterprises have existed at all times, irrespective of the availability of or loss of employment in the formal economic sector. Even when these enterprises expanded medium and large scale enterprise or disappear, other new MSEs have emerged from the society. Second, the explanation generalizes as if all micro and small enterprises are easily accessible, as the final work place for anyone who can not find a job in the better economic sector. But in reality all are not easily accessible, as many business activities need even little capital, skill, and knowledge. The third one is people's choice in expectation of profitability and comparative advantages in skills of business. For instance, some people who have grown with the micro and small enterprise inherit the skill of business activity from their family or trained in the activity, do not leave it when they are employed in the formal economic sector for they like their own job and business with the hope of expanding it. The study conducted by Gebrehiwot and Wolday (2004:44) in Ethiopia, attests this reality as the MSE entrepreneurs join the sector due to the activities, lack of other alternatives, parents/relatives are/were in the activities and the like.

**II) Output –Demand and the urban micro and small enterprise sector:** According to this theory a prerequisite for the development of MSE is the presence of markets for their products or services. MSEs have developed positively with the economy as a whole. This theory implies that MSEs have existed and developed as the formal economic sector has developed. That is, there is demand for their products or services and there are supplies want to do these activities (Arinaitwe, 2006:158).

The researcher agrees with this idea. If there is no demand for their product or service, MSEs could not have survived in the economic system. Of course, there may be a shrinking and expanding due to inconvenient business locations and /or self -destructive competition and high market demand respectively.

And there may also be variations among MSEs due to institutional capacity of the MSEs supporter and individual characteristics of the entrepreneurs. However, they continue to survive as a part of the overall economic system, especially in the developing countries.

**III) Commercialization of the rural areas and MSEs:** With respect to this theory, commercialization of rural areas leaves many farmers with out land and they are forced either to migrate to urban centers or engage in non-farm economic activities in rural areas to earn their living. Of course, rural –urban migration due to commercialization of the rural areas may have impacts on both emergence of MSEs and the creation of demand for their products or services since migrated people may hvae some money earned from the sale of land or the compensation lands. However, rural – urban migration in the case of most developing countries, especially in Ethiopia occurs not due to commercialization of rural areas but due to environmental hazards, sever rural poverty and lack of agricultural land. Hence, in the short run, the migrated people have little or no contribution to the emergence of MSEs since they do not have any thing to work with. Rather they become a burden to the urban economy. But in the long run, the MSEs not only become a temporary but also a permanent work place for many poor rural-urban migrants (Arinaitwe, 2006:160).

This explanation has also some weakness in explaining MSEs. It recognizes this economic sector as the consequence of rural-urban migration, caused either due to commercialization of the rural land or sever hazards and rural poverty. However, empirical evidence of many developing countries including Ethiopia show that, this economic sector has existed as part of socio-economic system throughout although the rural land has not been infertile or pressurized or commercialized and there has been significant rural –urban migration. But most migration (cause of migration) in Ethiopia could be attributed to land pressure. i.e. eviction, lack of sufficient space (Gebrehiwot and Wolday, 2004:46)

To conclude, MSEs are not the result of a certain stage of mode of production in the socio-economic progress of the society, rather they have been part of the economy as a whole and have existed for centuries serving the society. They existed because there are many people who earn their living by doing these activities and there are also demands for their products/services (Ibid).

Although MSEs vary in the dimension of the business, in their capital, in the size of employment, in the type of business activities and in their production, they are formed in all societies of developed and developing countries. They are part and parcel of the system. It is only their magnitude which is viable (Arinaitwe, 2006:163).

**2.1.2 Definition of Micro and Small Enterprise**

In legal terms distinctions are only made between sole traders, partners and companies with no formal definition of what constitutes a micro and small business. And there is no single and universal definition of what constitutes a micro and small firm, which can be useful for all purposes. Firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result (Gibb,1988:220).

Due to this countries define MSEs in various ways depending on the level of their economic growth and their socio-cultural situations. Usually the base for categorization is the number of workers in the enterprise, the volume of sales, the amount of capital, and other criteria. To substantiate this let us see the definitions used in some countries.

In the *United Kingdom*, the Bolton committee (1971) categorizes MSEs based on the types of activities they are engaged in and based on what can best indicate the size of the activities.

**The Bolton Committee Definitions of a small firm**

*Source: The Bolton Committee (1971) cited in Desai, 1997)*

<b>Sector/ activity</b>	<b>Number of employees and turnover</b>
Manufacturing-----	200 employees or less
Construction -----	25 employees or less
Mining & Quarrying-----	25 employees or less
Retailing-----	Turnover of 50,000 pounds or less
Miscellaneous-----	Turnover of 50,000 pounds or less
Services-----	Turnover of 50,000 pounds or less
Motor Trade-----	Turnover of 100,000 pounds or less

Wholesale Trades-----Turnover of 200,000 pounds or less

Road Transport-----Five Vehicles or less

Catering -----All excluding multiples and Brewery –managed houses

In the *United States of America*, the Small Business Administration (SBA) defines MSEs based on the number of employees, total asset and annual sales of the enterprise. Enterprises are called small family business, if they have four or fewer employees with annual sales of USD 499 or less while those having 5 to 9 employees with annual sales from USD 500 to USD 2,499 are classified as small enterprises. Sector based classification of small business, on the other hand, is as follows:

#### **Sector based classification of small business activities**

<b>Parameter</b>	<b>Turnover in USD</b>
Construction -----	less than 12 million
Manufacturing-----	Not applicable less than 6 million
Retail trade -----	Not applicable less than 6 million
Service-----	No. of employees not applicable less than 500
Wholesale trade-----	No. of employees not applicable less than 100

*Source: Rizwanul Islam, 1996, Small and Micro Enterprises in a Period of Economic Liberalization: Opportunities and Challenges*

In India, those with fixed capital not more than Rs 500,000 are called tiny enterprises instead of the usual naming as micro enterprises while small enterprises are having a fixed capital investment between Rs 500,000 and Rs 6,000,000 for all enterprises but between 500,000 and 7,500,000 for ancillary and export oriented units (Islam, 1996:87). In China, enterprises employing less than 100 workers are referred as 'small-scale sector with no sub classification of the very small family business (Islam, 1996:88).

European commission defines MSEs based on turnover, balance sheet and number of employees, accordingly a micro enterprise is one with less than 2 million turnover and less than 10 employees; where as a small enterprise is one with less than 10 million turnover and has not more than 50 employees. World Bank since 1976 - Firms with fixed assets (excluding land) less than USD 250,000 in value is small scale enterprises (Ibid).

**UNIDO's Definition for Developing Countries**, UNIDO (1983) cited in (Gibb, 1988:224):

**Large** - firms with 100 and more workers

**Medium** - firms with 20 to 99 workers

**Small** - firms with 5 to 19 workers

**Micro** - firms with less than 5 workers

**UNIDO's Definition for Industrialized Countries:**

**Large** - firms with 500 and more workers

**Medium** - firms with 100 to 499 workers

**Small** - firms with less than 99 workers

The *Ghana* Statistical Service (GSS) considers firms with less than 10 employees as: Micro and small scale enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. The GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises.

When we see how MSEs are defined in Ethiopia, it was first defined by proclamation number 124 of 1977. This proclamation is silent about micro enterprises but defines small scale industry as any manufacturing activity that uses motion power and machines and which has a fixed asset, excluding buildings and land improvements, not exceeding birr 200,000 (Assefa,1997:65).

And now by considering the situation in Ethiopia (Andualem, 1997:57) defines MSEs as: Micro enterprises are those business activities that are independently owned and operated; have small share of the market; are managed by the owner; and employ less than 5 workers. Whereas he categorizes those enterprises, which have the first three features of micro enterprises but 6 to 49 workers as small business. The Ministry of Trade and Industry (MoTI,1999 cited in Zikrehig, 2006) of Ethiopia in its micro and small enterprises development strategy defined Micro and Small enterprises in Ethiopia as follow:

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

In general, to define the characteristics and scope of micro and small enterprise sector, the researcher needs to explain the definitions in terms of four main approaches. These are:

**I) The Labor Market Approach:** This approach has been adopted focusing on the characteristics of the labor force in the sector. However, the sector has been defined as the gate way into the labor market flow of skilled persons, such as school leavers, rural-urban migrants and the like. This view is the outcome of the segmentation analysis adopted for the urban labor market in the developing countries whereby the level of education is used as a discriminating factor in the allocation of labor force between the modern and informal sector. This approach has some weakness in explaining the sector, because today MSEs are becoming the entry and democratic alternative to high school completed students, vocational trainees and other educated persons in most developing countries.

**II) MSEs Approach:** In this approach emphasis was given on the size of employment and capital. In this regard, the sector was defined as activities in the lower end of medium and large enterprise with self employment and very limited initial capital. The researcher agrees with this definition, because according to the explanations of many literatures, these activities are usually done and managed by the owner, family labor or few or no employees and with a limited initial and working capital and put it the lower part of the urban economy and open to larger number of people. Secondly, it coincides with the definition of Ministry of Trade and Industry (MoTI) stated in the MSE Strategy of Ethiopia.

**III) The working Approach:** According to this approach, the sector can be defined as being a mode of non-capitalistic activities. This is because enterprises in the sector do not hire wage labor and there is no separation between labor and capital because families usually own the means of production. Thus, this is true for most micro enterprises which do not keep business records, little or no division between capital and labor, owner possession of assets and indistinguishable use of capital goods and expenditure for household and business purposes (Andualem, 1997: 63).

**IV) Institutional and Legal Framework Approach:** Researchers are focused on this approach as one of key elements in defining the MSE activities. They are categorized as illegal and legal or registered/licensed firms in the sense that they do not pay or pay taxes and respect or not respect labor legislation. As can be observed from this explanation, giving a specific definition to the sector is difficult and continuing as a controversial issue on the various parts of the society.

Studies have defined it using one or a multitude of criteria depending on their objectives. To mention, ILO employment mission to Kenya has described the activities as: the way of doing things characterized by ease of entry, reliance on indigenous resources, family ownership of enterprises, micro and small scale operation, labor intensive and appropriate technology, skills acquired through outside the formal education system, and operating in unregulated and competitive market (Andualem, 1997: 63-64).

Having considered a variety of definition of MSEs, this study is based on the definition given by the Ministry of Trade and Industry of Ethiopia for consistency and comparability of data and information used in the study.

### **2.1.3 Significance of Micro and Small Enterprises in Developing Countries**

Micro and small enterprises play a significant role in the development aspects of many countries. Researchers emphasized the different roles that micro and small enterprises can play at different stages of development. As development takes place, household and artisan activities decline in importance, being replaced first by small workshops and factories, later by large factories. White (1999:324) strongly underscores the benefits of the small enterprise sector from the practical context of Thailand's economy by saying, "it is easy to dismiss or ignore the contribution of the MSE sub-sector. However, to do this in Thailand would be to overlook a large section of commercial activity". Indeed, micro and small-scale enterprises, being labor intensive and capital saving, have great potential to absorb the growing number of unemployed and under-employed population. Micro and small-scale enterprises also have potential for mobilizing local resources and they are also desirable because unlike medium and large industries, they can be located in rural areas or small towns and villages thereby assisting in curtailing undesirable rural -urban migration. Hence, the important role of micro and small-scale enterprises in economies like that of Ethiopia cannot be underestimated.

There is, in fact, consensus on several points concerning the significance and role of micro and small enterprises in several literatures written on the subject. In general, MSEs play numerous roles in the process of development for many developing countries including Ethiopia and are justified for the following reasons.

**I. Employment and income generation:** the gainful employment in Africa has been grave for long time and clearly on the increase now due to high rates of population growth. The available evidences point out that unemployment affects over 100 million Africans (Arinaitwe, 2006:77). Hence, the MSEs sector tends to absorb most of the expanding labor force in the urban areas. About 500 million to 1 billion of the World's economically active poor run such business (Arinaitwe, 2006:77). Up to 40-50 percent of urban employment in Asia, over 60 percent in Africa (will create more than 90 percent of all additional jobs), and 8.4 percent of every ten new jobs created in Latin America between 1990 and 1994 were in the MSEs sector (Ibid); and in Kenya the sector is employing 2.4 million (15 percent of total employment in the country).

Likewise, in Ethiopia, MSEs play a crucial role in economic improvement and employment generation. The sample survey conducted in 48 major towns of the country by CSA, in May 2003, shows that there were 584, 913 and 2,731 informal sector activity operators and micro and small scale manufacturing industries respectively, that absorb 739, 898 labor force.

Taking into account the role of MSEs for development, the Ethiopian government has presently recognized and paid due attention to the promotion and development of micro and small enterprises for they are important vehicles to address the challenges of unemployment and poverty reduction in the country. A typical example of this recognition has been the design of a micro and small enterprises development strategy.

**II. They offer potential for resource mobilization:** Economic growth in Ethiopia is constrained, among other things, by shortage of capital. The country is in early stage of industrialization. Thus, much of the required investment for the industrial sector should come from domestic savings. There are, however, reserves of idle savings that could be drawn in to productive use if the owners had the choice to set up business by their will. Thus, one of the objectives of developing small-scale industries is to mobilize the unutilized and underutilized saving so as to make them productive.

**III. The decentralization argument:** Micro and small-scale enterprises are desirable because they can be located in rural areas or small towns or villages. Often large and medium industries are concentrated in few urban centers, which entails undesirable rural to urban migration. Such unwanted and unplanned flow of people from rural areas to urban areas could create social

problems to the urban centers on the one hand and withdraw the productive labor force from the rural areas on the other hand. In general, they are loose foot and also convenient for geographical spread of industrialization.

The decentralization process may help to balance the disparity in economic growth between rural and urban areas. Hence, decentralized distribution of industries and the promotion of industrial growth in small towns and rural areas with potential resource base is very essential for the country.

**IV. Poverty Reduction:** The MSEs sector is significantly important in many economies, playing a major role in employment creation, income generation and production response for survival strategy specifically in economies that lack social safety nets and very low public sector wages and pensions. Although there is a debate on the importance of MSEs for developing countries, MSE development is the best way of tackling poverty as poor people on this sector for employment and satisfying household demands (Andualem,1997:52). The activities are the primary engines of economic development, income generation and poverty reduction in the developing countries. The sector is also explained in relation to the development of the private sector and local business.

**V. They add to the variety of consumer goods:** They produce relatively cheaper goods and services locally using labor-intensive methods satisfying the needs of particularly the poor people-hence contributing to the variety of consumer goods. Besides, they develop a pool of skilled and semi-skilled workers that will be a basis for future industrial expansion (Bandura, 1997).

**VI. They facilitate forward and backward linkages:** They promote subcontracting arrangements and acts as a springboard to large-scale enterprises. They facilitate effective technology transfer as a result. In addition, they provide significant inter-sectoral linkages, integrating economic sectors through backward and forward linkages (Ibid).

**VII. They serve as agents of rural transformation:** In the rural areas, they constitute centers of innovation as well as of economic and social changes thus helping transform rural areas in to market economy through gradual magnetization. Hence, they contribute to the economy, especially rural trade and production in terms of out puts & skills (Andualem, 1997:50).

**VIII. Seedbeds for entrepreneurial development:** They are seedbeds for entrepreneurial development and offer excellent opportunities for entrepreneurial and managerial talents to develop and mature, the critical shortage of which is often stressed as a major handicap to economic development of most developing countries (Bandura, 1997).

**IX. Share of gross domestic product (GDP):** about 20 percent of the output in the urban areas of Africa is generated from the sector. In Sub-Saharan Africa, the output in this sector has increased by 66 percent a year, which is substantial faster than the GDP, the average annual growth rate was 2.6 percent between 1973 and 1987, which was lower than the rate of growth of the labor force and in Kenya the sector is contributing 18 percent of the national GDP (Akwani, 2007:29).

**X. They are flexible and adapt to market changes quickly:** They also have great reliance on indigenous resources -raw materials. They generally show less need for developed and costly infrastructure (Bandura, 1997).

In general, the micro and small enterprise sector is seen as an important driving force to generate employment and more equitable income distribution, to activate competition, exploit niche market, enhance productivity and technical change and as a result stimulate local as well as national economic development (Ibid).

#### **2.1.4 Experience of Enterprise Development**

##### **2.1.4.1 Enterprise Development in Other Countries**

As entrepreneurial conditions vary highly from country-to-country, individual experience, different incentives from government and other concerned organs; and face different barriers in business. Hence, particular attention has to be given to the differentiation between countries with different development levels, particularly between developed and developing. For the latter, it is still fairly uncertain whether individuals can work at all considering the lack of appropriate economic conditions and a viable business community as well as the lack of market opportunities and very little consumer spending power (Desai, 1997:223).

As many researchers described, there is the need for enterprise creation promotion programs as a means of development, economic empowerment and employment creation. In such a way that the contribution to learning new skills and experiences that can be applied to many other challenges in life; it creates employment; and provides valuable products and services for the country and encourages innovation where the individuals learn to find new solution, ideas and ways of doing things. Countries employ various guidelines for entrepreneurship development programs to overcome the problems that the individual is facing in economic and social spheres (Hafterdorn and Salzano, 2004:187). In India, for instance, there are several organizations conducting entrepreneurship development programs. The main ones are Entrepreneurship Development Institute of India (EDII) which works in areas of creating institutional infrastructure for this purpose. The National Institute for Entrepreneurship and Small Business Development aims at coordinating activities related to enterprise and business development.

The National Alliance of Youth Entrepreneurship (NAYE) assists young business men and women to get access to capital, improves their management ability, and works advocacy.

In the case of USA, programs such as young entrepreneurship program at the Colombia business school, the Institute for Youth Entrepreneurship, youth venture and other similar programs operate to give entrepreneurial experience to students leaving secondary schools. In addition, Communities in School (CIS) youth entrepreneurship project is a non-profit organization that connects youth in school with the community by creating opportunities for the young to get experience in the real business world (Hafterdorn and Salzano, 2004:187).

The interesting thing here is that the programs differs from community to community depending on the socio-economic context even though all of them involve facilitating and arranging tutors, mentors, health care providers and career counselors (Hafterdorn and Salzano, 2004:188).

When looking at the experience in Africa, in South Africa, education with enterprise trust was established in 1989 by initiation of many young people and their teachers with the objective of developing appropriate skills to the world of work, and mostly towards self employment (White and Kenyon, 2001:67). Similarly, the experience of Kenya also shows that the country established entrepreneurship education program in 1990 with support from ILO (White and Kenyon, 2001: 68).

#### **2.1.4.2 Enterprise Development in Ethiopia**

There are insufficient opportunities in the formal sector to absorb rural individual migrants and new entrants into the labor force. Consequently, many people in the urban areas have been forced into marginal activities in the informal sector as subsistence farmers, petty traders, and small and tiny handicraft producers with limited market scope. Thus, the conglomeration of MSEs in cities needs support and upgrading if the government is to be successful in reducing poverty and in strengthening the private sector as a means for employment and economic growth (Gebrehiwot and Wolday, 2004:46).

Considering the above facts, the development of micro and small enterprises becomes a special focus of the current government of Ethiopia, given that they comprise the largest share of total enterprises and employment in the non-agricultural sectors. As a result the government should create a favorable environment for individuals to organize themselves and engage in business activities to supply inputs for entrepreneurs engaged in this sector.

Besides, in recognition of the important role MSEs have to play in creating income, employment opportunities and in reducing poverty, the government drafted its first MSEs Development Strategy in 1997. However, Ethiopian MSEs are confronted by many problems, which have a negative impact on the utilization of the sector for economic development and poverty reduction (Gebrehiwot and Wolday, 2004:48). It is obvious these problems are more challenging for the entrepreneurs who have less experience and knowledge about how to handle them. Indeed, unlike the other countries, which have the experience of enterprise development in micro and small business enterprises sector, the country as well as the region lacks an institution or organization working specifically on entrepreneurship development in the sector.

#### **2.2 Overview of the Strategy of Micro and Small Enterprises Development of Ethiopia**

By virtue of their size, location and their capacity to generate greater employment, MSEs have proved their powerful propellant/undeniable effect for rapid economic growth. Cognizant of this fact, the Ethiopian governments has given particular attention to the development of the sector. To this effect, the government has formulated a National MSEs Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the

growth of MSEs. The strategy paper is first prepared at national level and then each region adapted its own strategy paper on the basis of the national strategy, after synchronizing with the prevailing conditions of the region. The national MSEs strategy paper is issued in 1997 while that of the Amhara region is issued in 2001 (FeMSEDA and ReMSEDA Office). The objectives, principles and elements of MSE support framework that constitute the strategy paper are not as such different as presented in the national and the Amhara region strategy papers.

### **2.2.1 Objectives of Micro and Small Enterprise Development Strategy**

The overall objective of the national as well as the regional strategy papers is to create an enabling environment for MSEs while the specific objectives among others are to facilitate economic growth, to create long-term jobs, to provide the basis for medium and large-scale enterprises and to promote export.

### **2.2.2 Support Framework of the Micro and Small Enterprise Strategy**

The strategy paper emphasizes that micro and small business is to be designated a priority sector for the government, in terms of policy formulation, direct support from its own resources and in the mobilization of external resources. The strategy addresses the major constraints, which have made it difficult for small business growth on their own, and hence it focuses on support areas. The support areas that the strategy paper incorporates are:

- I. **Creating an enabling legal framework:** This implies that the government is committed to pass a number of enabling proclamations that are meant to formally recognize the importance given to the micro and small enterprises sector and to facilitate policy implantation in different areas. In this regard the major focus areas include a law on institutional arrangement for MSEs, inter linkages promotion law, cooperatives' promotion law, chamber of industry and trade proclamation and a micro and small enterprises finance proclamation.
- II. **Streamlining regulatory conditions:** This is based on the viewpoint that inappropriate or unduly restrictive legislative and regulatory conditions are often regarded as critical constraints on micro and small enterprises' access to market and as obstacles to their growth. Streamlining regulatory conditions in the strategy paper's context understood as establishing user-friendly environment for the simplification and standardization of

documents such as business registration and licensing, financial and loan applications, export documentation and other commercial export documents, simplified tax declaration forms for small business, etc.

III. **Other specific support areas/programs:** In addition to creating a favorable legal environment for the sector, the government is entitled to launch a series of support programs to help these business overcome the specific commercial obstacles they face and exploit available opportunities effectively. These programs include: facilitating MSEs' access to finance through relaxed collateral requirements by formal banking sector; encouraging and creating enabling ground for the establishment of MSEs-focused financial institution and through facilitated information on access to finance; provision of incentives schemes to MSEs by the government; encouraging partnerships, for instance, in the form of joint venture; provision of training in entrepreneurship, skill and management; facilitate access to appropriate technology, market, information & advice and access to physical infrastructure.

### **2.2.3 Criteria for Prioritizing Micro and Small Enterprises**

The strategy emphasize that as the MSE sector is highly diversified and characterized by an enormous number of problems at various degree and complexity, it is not possible to address the whole range of MSEs operating in different sectors at the same time. Thus, it is necessary to target certain groups of MSEs for the support programs.

Even though, the identification and selection of priority target beneficiary MSEs depend on the specific conditions about the potential of the region, it is believed that, as identified by the Amhara region- ReMSEDA, the following criteria shall be the main yardsticks for prioritizing the target MSEs.

- I. MSEs which are based on local raw materials and/or labor-intensive (local resource based),
- II. MSEs which have greater intra and inter-sectoral linkages (particularly those having higher linkage with agriculture),
- III. MSEs, which are engaged in import substitution and with a potential for export,
- IV. MSEs engaged in activities that facilitate and promote tourism, etc,

- V. MSEs engaged in activities, which does not affect but rehabilitate the environment and
- VI. MSEs engaged in activities and having a potential of creativity on the process of production and providing services.

#### **2.2.4 Targeting Support Measures and Beneficiaries**

The vastness and complexity of the small and micro enterprises sector combined with serious financial and human resource constraints with respect to support programs and policies, necessitates focuses on target measures and beneficiaries.

This implies that support measures have to be sectorally differentiated and packaged (in terms of finance, technology, information, training, market outlet, etc.) to address the various problems of MSEs. Such target support packages is designed by the regional agency in collaboration with other partners/stakeholders, the private sector, NGOs and the public at large.

In fact, it is difficult to develop a complete list of the target MSEs groups that qualify for the support packages, since circumstances may change overtime. Nevertheless, the following areas and/or target groups seem particularly relevant and they are identified and incorporated in the regional strategy paper.

- I. Small manufacturers with focus on food, textiles, and leather, clothing, metal work, crafts, etc.
- II. Start-ups and expanding firms with particular emphasize to those owned by women.
- III. Small enterprises in drought areas.
- IV. Agro-business and small-scale farming and fishing focusing on providing market information and promoting entrepreneurship ideas.
- V. Small builders/contractors.
- VI. Small exporters revealing comparative advantage.
- VII. Small-scale tourism industry operators.

#### **2.2.5 Fundamental Principles**

There are a number of general principles underlying this strategy's elements and which are meant to guide government's involvement in this sphere. The principles are also supposed to help orient the private sector, NGOs and the stakeholders as to the role of the government vis-a-vis

those of other players. The following are some of the principles as presented in the strategy paper.

- I. MSEs operate under ADLI strategy and market economy principles,
- II. Government committed to develop MSEs via support services,
- III. Emphasis given to advancement of women,
- IV. Regional states recognizes the diversity of legal and organizational forms, and
- V. Principles underlying this strategy are not static.

Both the national and the Amhara region MSEs strategy papers highlight their roles, constraints faced by and the situation of micro and small enterprises at national and regional levels. The national strategy paper gives short description of the tasks and duties of regional and federal institutions, which are responsible for the provision of support service to MSEs. These institutions have already been established and started operations at regional and even at lower hierarchy up to zone level since 2001.

In general, as one can clearly understand from the above discussion, which the policy environment is conducive (both institutionally and strategy wise) theoretically to the enhancement of the micro and small enterprise sector in the region. However, the effect of the strategy whether it applies in a practical manner to support the development of entrepreneurs in the micro and small enterprise or simply is a paper work is examined in this research on the basis of the survey collected from the sample respondents in the study area and the result is disclosed accordingly.

### **2.3 Determinant Factors for the Development of Micro and Small Enterprises**

Micro and small business enterprises face a serious obstacle both at start up and operation level. It is important to understand the challenges that faces the effective and efficient development of micro and small enterprises and realizes their constraints by considering their characteristics.

As Assefa (1997:37) reported, micro and small enterprises constitute the bulk of the population and mostly the operators are illiterate and lack formal technical education, this affects the activity of the business because the operators can not understand which things are fashionable or up to date to the customer and how can they compete with the others simply by imaging the

attention of the customer. Most of them are out of the main roads that are difficult to transportation which exposes the business to the lack of access to basic infrastructure. They are also characterized by ease of entry.

As attested in several literatures, although the degree of severity of problems are different from business to business and from place to place, the most common critical elements that affect the development of MSEs, as stated in different literature and raised at different forums and occasions are discussed below.

#### **a) Access to capital and credit**

In order to start and operate or run the already established business, access to investment/initial and/or working capital is the most crucial thing that determines the development of micro and small enterprises sector. That means the access to investment and working capital plays an important role in MSE entrepreneurs for buying machinery and equipment and for the day to day running of the business. In this respect, the financial institutions' loan policies should be conducive and attractive (Bandura, 1997:213).

In addition to the availability of conducive and attractive loan policies, collateral requirements, interest rates, and repayment period are among the major determinants that make easy access to credit and /or capital. In the sense that banks should be familiar with MSE entrepreneurs or they should consider them as high-risk taker, dependable, and an engine for the development process of one country. Hence, banks should regard entrepreneurs as eligible for the provisions of bank services. Therefore, if this is available the sector is not neglected by the financial institutions and this is one crucial area where attention is deemed critical.

#### **b) Availability of raw materials**

Availability of raw materials is the most important and pressing determinant factor in running the day to day activities in micro and small manufacturing enterprises. 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. Nevertheless, shortages of raw materials should not be the frequent problem to MSE entrepreneurs to run their business. According to Gibb (1988:235), the problem of raw materials should not be linked with

or arise from a shortage of working capital, which effectively ties the enterprise to one high priced, unreliable or low-quality supplier.

Thus, in order to expand and develop micro and small scale enterprises in all areas whether rural or urban, shortage of raw materials should be avoided or at least minimized. That is why most of MSEs are located in the urban areas, and not in the areas where there is inadequate supply of raw materials or shortage of raw materials is acute. And also this is the case where most of the small scale-enterprises have been operating below capacity and some have been closed.

#### **c) Availability of working premises and land**

It is common to see most micro and small enterprises taking advantages of their residence areas as business premises. Micro and small enterprises by their very nature are started in and around residence areas, which through time and growth require additional working space.

Availability of premises is a major determinant factor for MSEs and for the informal ones; they should acquire suitable locations where they can get easy access to markets. The transaction cost of securing premises should also be a constraint for MSE entrepreneurs. Moreover, the land lease promulgation should be effective in all urban areas to encourage entrepreneurs in MSEs sector or it should not be an impeding constraint on micro and small entrepreneurs who wish to start up business (Gibb, 1988:237-238). Therefore, in order to encourage the development of entrepreneurs in MSE, the role of the government in providing working premises is an imperative element.

#### **d) Availability of Infrastructure**

This is an indicator that, 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 micro and small-scale industries. Indeed, lack of infrastructure is one of the major constraints to the development of MSEs sector in many urban areas of the developing countries (Gibb,1988: 239).

#### **e) Availability of sufficient market and promotional support**

Many literatures and authors stress that availability of sufficient market information as well as markets play a significant role to the development of small enterprises in developing country.

The presence of reliable and sufficient market research and information in the micro and small enterprises sector is important in all areas to avoid the concentration of MSEs in the production of similar commodities which puts them under fierce competition among themselves.

Furthermore, authors (Gibb, 1988:239-240) also argue that marketing their products effectively is one of the main important things to avoid the bottlenecks that micro and small entrepreneurs face all over their business activities. This implies that marketing problem should not be a serious constraint that hinders micro and small enterprises growth and their product diversification. White (1999:321) emphasized that the inability to develop and introduce new product types should be eliminated or at least minimized in order to make MSE entrepreneurs sustained and growth their product diversification.

#### **f) Entrepreneurial and managerial skills**

Entrepreneurial knowledge and managerial skills is the most important to start a new business or to run effectively and efficiently the already established enterprises. Nevertheless, various studies conducted on the sector revealed that there is a general lack of knowledge in entrepreneurial and managerial capacity in this sector (CSA, 2003).

However, according to studies there is a doubt whether the entrepreneurs themselves are aware of the need. Indeed, appropriate level of training and adequate skills is one of the major determinant factors confronted by entrepreneurs at the starting of operation as revealed in many literatures (CSA, 2003).

#### **g) Availability 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 (CSA, 2003).

Thus, access to such data and information and also provision of the data and information for the entrepreneurs engaged in micro and small enterprise has a significant role to start and operate a business and to run effectively the already established enterprises in the sector. Access to such information also helps the entrepreneurs to show the potential growth in the line of the activities (Ibid).

#### **h) Technological facility**

Availability of modern and appropriate technology is an important determinant factor in development of micro and small enterprise activities. But technological development is very low in the country. As a result, most of the micro and small-scale enterprises use new technologies of production. The technology used by micro and small enterprises should be updated, hygienic and flexible (Assefa, 1997:40). Technology in most literatures refers to a combination of machinery, labor as well as the entire system of knowledge, skills, techniques, management, organization, etc.

The technological facility also has another dimension. The use of appropriate technology should be seen as a core issue in the context of developing economies like that of Ethiopia (CSA, 2003). These technologies need to be consistent with local resources and conditions to make effective utilization of the relatively abundant resources. However, the issue of adopting appropriate technology has been a serious problem of micro and small scale manufacturing enterprises in many developing countries. This implies that lack of appropriate technologies or machinery failure can be the major reason for not fully operation or may affect the growth of entrepreneurs.

#### **i) Provision of 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 entrepreneur's 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 consultancy and advisory services is an important instrument for micro and small enterprises development (CSA, 2003).

#### **j) Favorable legal and regulatory environment**

In order to encourage and promote the development of the micro and small enterprise sector, favorable or conducive legal and regulatory framework is the vital determinant factor. In fact, there are many issues related to the legal and regulatory environment of a country such as there should not be discrepancy between the policies and the practices and also some regulations should be appropriate for the activity of business in different ways whether directly or indirectly to promote the activity. Direct intervention in the activity of micro and small enterprise is also important in a number of ways.

However, there are still some regulatory problems affecting the sector. No strong private sector can exist in the absence of an adequate legal framework to resolve disputes, facilitate efficient transaction and to protect property rights. Various studies and discussions indicate that the following are some of the regulatory issues that determine the private sector in general and the micro and small-enterprises development in particular (Bandura, 1997:215; Gibb, 1988:241).

- I. Governance- responsibilities of the government and the private sector clearness. The presence of strong governance on the part of both government and the private sector.
- II. Market regulation- the existence of fair competition and market efficiency.
- III. Effective dialogue between the private sector and government plays the role to minimize the regulatory and governance weakness.
- IV. The presence of fast bureaucratic system and administrative efficiencies determine the development of the sector.

Finally it is important to note that in view of such diverse and complex problems facing the sector, government is required to take measures that facilitate the smooth and healthy functioning of micro and small enterprises.

Of course, perception of the role played by governments has changed; they are no longer expected to be the principal providers of jobs – jobs are created by successful, well-managed

private sector enterprises. However, governments do have a vital role to play in ensuring that the policy environment is to be 'enterprise friendly'.

The path in to enterprise should be smooth, and entrepreneurs should be able to receive relevant advice and support (both financial and nonfinancial) in a highly effective manner from both government and private sector agencies. The needs of the micro and small enterprise sector should be clearly identified, and linked with a better understanding of the scale and scope of the enterprise sector and its role in national development.

In general, based on the above explanations about the essential elements for the development of MSEs; different environmental factors such as availability of finance, business infrastructure, government rules and regulations and socio- cultural and education, skill and training environment of are assessed in the analysis to examine their effect on entrepreneurship development. Moreover, these factors are useful in identifying major opportunities and bottlenecks of enterprise development in Bahir Dar.

In addition, factors related to government rules and regulations such as land distribution, assessment of tax and controlling procedures of the municipality as well as the degree of predictability of change in government regulations is also assessed in this section. Besides, the attitude of government and society towards enterprises and business development facilities related factors is included in the survey analysis.

In conclusion, there is an increasing interest by many researchers in Ethiopia to assess the general situation of micro and small enterprise development and enterprise formation in the country. Of course, the development of this sector is an important element to generate income and employment, reduce poverty and also the sector adds value to the GDP for one country. However, these all things can happen when the factors and problems of individuals in micro and small enterprise operation is eliminated or at least minimized. Nevertheless, most of the researches are emphasized on the general situation and concept of micro and small enterprise development in the country in general and in regions in particular. Thus, the researcher aims at identifying the major factors that affect the development of MSEs in Bahir Dar city.

## CHAPTER THREE

### 3. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter contains the presentation, analysis and interpretation of the data which are secured by using questionnaire containing close ended and few open ended questions and interview guide for officials. The responses of the sample respondents are tailed, tabulated and then analyzed using percentages, maximum, minimum and average. Related questions are presented in the same table and discussed accordingly.

#### 3.1 Personal Characteristics of the Respondents

The sample respondents of this study are entrepreneurs engaged in micro and small enterprise sector that are engaged mainly in manufacturing industry sub-sector and different officials related to development of micro and small enterprise sector in the city of Bahir Dar. Thus, this section discusses background characteristics such as age, marital status, sex, educational level and other relevant characteristics of the respondents.

##### 3.1.1 Age and Marital Status

These variables are measured by asking each participant to give his/her age and to indicate his/her marital status from the given alternatives.

**Table 3.1 Distribution of Sample Respondents by Age Group, Marital Status and Sex**

Marital status	Age group of respondents				Total	%age
	Below 25	25-35	36-45	Above 45		
Married	1	52	25	2	80	57.97
Unmarried	4	30	18	-	52	37.68
Divorced	-	-	3	1	4	2.90
Widowed	-	-	2		2	1.45
<b>Total</b>	<b>5</b>	<b>82</b>	<b>48</b>	<b>3</b>	<b>138</b>	<b>100</b>
Sex						
Male	2	75	47	2	126	91.30
Female	3	8	1	-	12	8.70
<b>Total</b>	<b>5</b>	<b>83</b>	<b>48</b>	<b>2</b>	<b>138</b>	<b>100</b>

Source: Field Survey; 2010

As can be observed from Table 3.1, the majority of the sample respondents are concentrated in the age group between 25 and 35 (59.42 percent), followed by 36-45 age groups (34.78 percent). Thus, most /88(63.77 percent of) respondents are below the age of 36 years. This shows that micro and small enterprise activities are preferred source of job opportunity for young individuals.

Table 3.1 also attests that of the total respondents, 37.68 percent are unmarried; while most (57.97 percent) of the respondents are married, 2.9 percent divorced and 1.45 percent widowed. As the age increases, number of divorced and widowed respondents increases. Married respondents are concentrated between the ages 25- 35 with gradual decline of marriage with the increasing of age. The finding of the study indicates that more number of married respondents are engaged in micro and small enterprise activities which is due to low level of economic support from the formal economic activity or from formal employment activities.

As Table 3.1 above indicates, most (91.30 percent) of the respondents are males. This clearly reveals the low participation of female in the sector which is due to lack of awareness of the importance of the activity as a source of job opportunity.

**Table 3.2 Distribution of Sample Respondents by Marital Status**

Marital status	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Married	27	43.55	13	50	40	80	80	57.97
Unmarried	32	51.61	10	38.46	8	16	50	36.23
Divorced	2	3.23	2	7.69	1	2	5	3.62
Widowed	1	1.61	1	3.85	1	2	3	2.18
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

As can be observed from Table 3.2, married respondents constitute the largest proportions in the intermediate and the peripheral zones; while greater numbers of unmarried respondents are observed in the city center zone.

More married respondents are also found in the peripheral zone than the intermediate zone and the city center; which is due to the cultural influence and or the engulfing of the city to the surrounding rural areas.

### 3.1.2 Educational Status

This variable was used to indicate the educational status of respondents. According to Table 4.3, only about 6.52 percent of the respondents are illiterate and have informal education, 46.38 percent learned up to (1-8 grade) and the majority 44.20 percent has grade (9-12) educational status.

**Table 3.3 Distribution of Sample Respondents by Education**

Educational level	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Illiterate/Informal education	1	1.61	3	11.54	5	10.0	9	6.52
Grade 1-4	2	3.23	5	19.23	10	20.0	17	12.32
Grade 5-8	15	24.19	13	50.0	19	38.0	47	34.06
Grade 9-12	42	67.74	4	15.38	15	34.0	61	44.20
Above 12	2	3.23	1	3.85	1	2.0	4	2.90
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

The rest 2.90 percent of the respondents have education above 12 grade; mostly TVET graduates and some are certificate holders. In general from the total respondents 93.48 percent are literate, that is, have education of grade 1 and above. Thus, this clearly shows that micro and small enterprises offer opportunities of creating employment for all types of people: educated, illiterate and low skilled.

Table 3.3 also reveals the distribution of sample respondent literacy status in the three zones. The respondents who have informal education in the city center is 1.61 percent while 11.54 percent in the intermediate and 10.0 percent in the periphery.

The proportion of literate is more than 97 percent in the city center where as 88.46 percent in the intermediate zone and 90 percent in the periphery. This shows that literacy level is high in the

city center than the intermediate and peripheral areas this may be due to better access to education facilities. On the whole, city center shows better educational status as the proportion of respondents with education grade 9 and above is declining outward and reverse is the case in the categories below 9<sup>th</sup> grade. This can be attributed to the relatively better accessibility to schools and school facilities and better awareness in the city center than the other two areas.

**Table 3.4 Distribution of Sample Respondents by Migration Status and Ancestral Place**

Ancestral place	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Bahir Dar	35	56.45	15	57.69	13	26.0	63	44.65
Out of Bahir Dar	27	43.55	11	42.31	37	74.0	75	54.35
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>
<b>Place of origin</b>								
Urban	12	44.44	3	27.27	13	35.14	28	37.33
Rural	15	55.56	8	72.73	24	64.86	47	62.67
<b>Total</b>	<b>27</b>	<b>100</b>	<b>11</b>	<b>100</b>	<b>37</b>	<b>100</b>	<b>75</b>	<b>100</b>
<b>Region /zone</b>								
West Gojjam	8	29.63	5	45.46	11	29.73	24	32.0
East Gojjam	6	22.22	3	27.27	6	16.22	15	20.0
Awi	1	3.70	-	-	3	8.12	4	5.33
North Gondar	2	7.41	-	-	5	13.51	7	9.33
South Gondar	4	14.82	1	9.09	8	21.62	13	17.33
N and S Wollo	2	7.41	1	9.09	1	2.70	4	5.33
Kemisie	1	3.70	-	-	1	2.70	2	2.68
Out of Amhara/Tigray and Oromia	3	11.11	1	9.09	2	5.40	6	8.0
<b>Total</b>	<b>27</b>	<b>100</b>	<b>11</b>	<b>100</b>	<b>37</b>	<b>100</b>	<b>75</b>	<b>100</b>

Source: Field Survey; 2010

As can be seen from Table 3.4, the ancestral places for the majority (54.35 percent) of the respondents are outside Bahir Dar city. Thus, migrant respondents outnumber the micro and small enterprise activities. From the three zones of the city, there is a preponderance of migrant respondents in the periphery. In the city center and in the intermediate zone the non-migrants are also greater in number than the migrant respondents. This may be due to the expanding nature of the city or the engulfing of the city by rural population.

Table 3.4 also shows that out of 75 migrants, 62.67 percent are of rural origin and 37.33 percent were of urban origin. Concerning the sample respondents' origin by zone, about 32 percent from West Gojjam and 2.68 percent from Kemisie show the maximum and minimum number of migrants respectively. There are also respondents from Tigray and Oromia regions which constitute together 8 percent of the respondents. The proportion of migrants decrease as one moves from West Gojjam through East Gojjam to South Gondar and with the existence of other better urban centers near to places of origin, that is why the proportion of migrants is lower or insignificant from other regions of the country. Respondents were also asked to count the reasons of migration. Thus, in this regard, migration from Tigray, North and South Gondar, and North and South Wollo zones can partly be counted as drought, war, population pressure, environmental degradation and in turn the decline of agricultural productivity. The migration to the city from Awi, West Gojjam and South Gondar can be associated with proximity of the city with aspiration to better life and the absence of other better urban centers near to the migrants' origin. In general, it is presented below in Table 3.5.

**Table 3.5 Distribution of Sample Respondents by Reason of Migration**

Major Reasons	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
To find job	13	48.15	5	45.46	18	48.65	36	48.0
To live with relatives	7	25.93	4	36.36	15	40.54	26	34.67
To get education	5	18.52	1	9.09	4	10.81	10	13.33
Job transfer	2	7.40	1	9.09	-	-	3	4.0
<b>Total</b>	<b>27</b>	<b>100</b>	<b>11</b>	<b>100</b>	<b>37</b>	<b>100</b>	<b>75</b>	<b>100</b>

Source: Field Survey; 2010

As the sample respondents attested, the main reasons for coming to Bahir Dar as presented in Table 3.6, are search for job (48.0 percent), 34.67 percent to live with relatives and 13.3 percent to get education.

From the total sample respondents, only 4 percent of the respondent migrants entered the city due to job transfer. From the above Table 3.5, the researcher concludes that job search, desire to live with relatives and searching for education are the three most important reasons for the respondents for migrating to the three zones of Bahir Dar with significantly varied magnitude. Job searching contributes about 48.15 percent, 45.46 percent and 48.65 percent for the city center, intermediate and for the periphery zones respectively. From this, the researcher concludes that micro and small enterprises are the major sources of job opportunity and the main reason for respondents for coming to the city of Bahir Dar.

**Table 3.6 Distribution of Respondents by Length of Residence in Bahir Dar**

Length in year	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
1-4	2	7.41	1	9.09	10	27.03	13	17.33
5-8	5	18.52	2	18.18	20	54.05	27	36.0
9-12	17	62.96	6	54.55	7	18.92	30	40.0
Above 12	3	11.11	2	18.18	-	-	5	6.67
<b>Total</b>	<b>27</b>	<b>100</b>	<b>11</b>	<b>100</b>	<b>37</b>	<b>100</b>	<b>75</b>	<b>100</b>

**Source: Field Survey; 2010**

As can be seen from Table 3.6, of the total migrant respondents, 17.33 percent have lived in Bahir Dar for 1-4 years; while 36.0 percent for 5-8 and 40.0 percent for 9-12 years. The remaining 6.67 percent have lived over 12 years. There is no respondent from the periphery who lived above 12 years.

Thus, from the above Table 3.6, the researcher suggests that the migration to the peripheral zone is relatively recent process as compared with that of the city center. This may be due to the fact that city center is largely populated by people who are either born in the city or who happen to have settled long ago.

### 3.2 Previous Occupations, Reasons for Joining the Sector, Sources of Skill and Initial Capital

#### 3.2.1 Previous Occupations and Reasons for Joining the Sector

**I. Previous Occupations:** This is measured by asking respondents to indicate their previous occupations from a list. Most of the respondents (Table 3.7) revealed that 118(85.51 percent) were unemployed; where as 6.53 percent were employed in other private enterprises. The survey result also shows that 2.89 percent were farmers while 2.18 percent were working in government organization. Thus, micro and small enterprise activities are the major tool to reduce unemployment and that full freedom, self-confidence and mental satisfaction for them. Farmers (8 percent) are concentrated in the periphery as compared with other zones of the city which may be due to availability of affordable premises in the peripheral zone as indicated in Table 3.7 below.

**Table 3.7 Distribution of Sample Respondents by Previous Occupation**

Previous Occupation	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Farming	-	-	-	-	4	8	4	2.89
Gov't employed	2	3.23	1	3.85	-	-	3	2.18
Employee in private enterprise	4	6.45	4	15.38	1	2	9	6.53
Student	-	-	2	7.69	2	4	4	2.89
Unemployed	56	90.32	19	73.08	43	86	118	85.51
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

**II. Major Reasons:** It is important to examine the factors that force them to join the micro and small enterprise activities because this is one of the objectives of this study. As discussed in the literature review the main reasons why individuals join this sector is to escape from poverty and needs small capital and skill as technology is simple and flexible. Indeed, own field survey in Table 3.8 explains further reasons.

**Table 3.8 Distribution of Sample Respondents by Major Reasons to Join the Sector**

Major reasons	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Need additional income	4	6.45	3	11.54	3	6	10	7.25
Displacement of family	3	4.84	1	3.85	1	2	5	3.62
Lack of employment	52	83.87	19	73.08	43	86	114	82.61
Family responsibility	2	3.23	2	7.69	2	4	6	4.35
To improve/sustain life	1	1.61	1	3.85	1	2	3	2.17
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

Likewise, as Table 3.8 indicates, 82.61 percent of the respondents joined micro and small enterprise activities due to lack of employment opportunities. This may be accompanied by high rate of rural-urban migration.

A second group (7.25 percent) was that of the respondents needing additional income for their families. This is true for low economic support from their families. As it was discussed with some respondents, most of the cases, their families are in low economic conditions and their parents had either low income or no other sources of income for their survival.

The third major group (7.97 percent) joined the activities due to the burden of family responsibilities and due to displacement of their families. These two groups of respondents involve the activities due to lack of support which may be caused by family die, illness or become aged. Only 2.17 percent of the respondents joined the sector aspiring better life or life improvement.

### **3.2.2 Source of Skill and Encouragement**

The most common forms of acquiring skills to run their micro and small enterprise activities, as Table 3.9, shows, are self-taught 107(77.54 percent), on job training ( 14.49 percent), parents/families (1.45 percent). Only 6.52 percent of the sample respondents had their source of skill from formal training.

This clearly indicates that micro and small enterprise activity does not necessarily require formal training to operate and also it shows the gap between the implementation and the theory of the micro and small enterprise promotion policy.

The sample respondents were also asked about source of encouragement to engage in their activities. According to their responses (Table 3.9), the majority (48.55 percent) are engaged in their activities by their own initiatives. For others, sources of encouragements are relatives or families (29 percent) and friends (13.04 percent).

**Table 3.9 Distribution of Sample Respondents by Sources of Skill and Encouragement**

Source of skill	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Self-taught	52	83.87	15	57.69	40	80	107	77.54
Formal training	2	3.23	1	3.85	6	12	9	6.52
On job training	7	11.29	9	34.61	4	8	20	14.49
Family/relative	1	1.61	1	3.85	-	-	2	1.45
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>
Source of Encouragement								
Own initiative	30		12		25		67	48.55
Family	18		9		13		40	29.0
Friends	9		3		6		18	13.04
MSE agency	3		2		5		10	7.24
Kebele officials	2		-	-	1		3	2.17
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

The above Table 3.9 shows that only 9.41 percent got encouragements from the responsible MSE agency and from their residential Kebele officials. This indicates the gap between policy and practice, which may be due to its infancy stage of the policy itself.

Respondents were also asked whether they have got training or not after they started their respective activities. With respect to this, most /130(94.20 percent of) respondents replied that they did not get formal training from any source. Only 5.80 percent of respondents have got skill improvement training and advisory services. This shows that entrepreneurs improve their skills through on the job self training and there is a gap to provide training and advisory services to entrepreneurs between the concerned body and entrepreneurs.

### 3.2.3 Amount and Sources of Initial Capital

As explained in the literature, this is one of the advantages that MSE has started by a small amount of capital with dominant sources of own saving and support and lending of families and relatives.

**Table 3.10 Distribution of Sample Respondents by Amount of Initial Capital**

Initial Capital	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Up to 5000	5	8.06	4	15.38	5	10	14	10.15
5001-10000	7	11.29	6	23.08	2	4	15	10.86
10001-15000	4	6.45	2	7.69	15	30	21	15.22
15001-20000	6	9.68	3	11.54	14	28	23	16.67
20001-25000	15	24.19	3	11.54	5	10	23	16.67
Over 25000	25	40.33	8	30.77	9	18	42	30.43
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

As it is depicted in Table 3.10, about 10.15 percent of the sample respondents had initial capital of up to Birr 5000; while about 10.86 percent of them started with Birr 5001-10000. The majority (67) of the respondents fall in the initial capital ranging from Birr 10001-25000 together constitute 48.56 percent of the sample population. The rest 30.43 percent fall under the initial capital of over 25000 Birr. Table 3.10 also reveals the spatial distribution of micro and small enterprise by amount of initial capital. The proportion of initial capital of Birr up to 10000 constitute 19.35 percent in the city center, 38.46 percent in the intermediate and 29 percent in the

periphery; while initial capital of from Birr 10000-25000 constitute about 40.32 percent in city center, 30.77 percent in intermediate and 68 percent in the periphery. The micro and small enterprise which have initial capital over Birr 25000 is found to be 40.33 percent in the city center, 30.77 percent in the intermediate and 18 in the periphery. Thus, a greater number of micro and small enterprise in the city center have used higher amount of initial capital than that of the intermediate and the peripheral zones. This may be due to the location of the enterprise that demands high amount of initial capital than other areas.

As indicated below in Table 3.11, the most important sources of initial capital are own saving (31.88 percent), credit from relatives/friends (33.33 percent), assistance from relatives/friends (23.92 percent) and credit from micro and small finance institutions (2.9 percent). The other sources of initial capital were money lenders, assistance/credit from government and NGOs institutions which account for 5.07 percent of the respondents. Iqub/Idir accounts for 2.17 percent of the responses. Of all the respondents, only one enterprise approached Bank in the city center zone.

**Table 3.11 Distribution of Sample Respondents by Source of Initial Capital**

Source of Initial Capital	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Own saving	20	32.26	6	23.07	18	36	44	31.88
Credit from relatives/friends	19	30.65	11	42.31	16	32	46	33.33
Assistance from relatives/friends	15	24.19	7	29.92	11	22	33	23.92
Money lenders	3	4.84	-	-	2	4	5	3.62
Loan from Bank	1	1.61	-	-	-	-	1	0.73
Credit from MSE finance	1	1.61	1	3.85	2	4	4	2.90
Assistance/credit from government/NGOs	2	3.23	-	-	-	-	2	1.45
Iqub/Idir	1	1.61	1	3.85	1	2	3	2.17
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

Spatially own saving was the main source for the city center and in the periphery zones; while credit/assistance from relatives/friends constitute significantly varied proportion of responses in all the three zones.

### **3.3 Current Status of the Sample Respondents in their Enterprises**

#### **3.3.1 Length of Time in the Present Activities**

As can be observed in Table 3.12, of the total sample respondents, most (88.41 percent) respondents have started their activities with in 1- 10 years. About 6.52 percent of the respondents have started micro and small enterprise activities from more than 10 years; while 5.07 percent of the respondents have less than 1 year work experience.

This indicates that the process appears to have coincided with the concept of the formalization of free market economy as out of 138 sample respondents 137 (97.86 percent) of them have emerged on the scene with in 15 years. And this clearly reflects the result of the concept of free market economic policy of the country which was initiated after 1994.

The maximum length of time of operation of the micro and small enterprise activities was 16 years and minimum is 6 months in the city center and intermediate zones respectively. Spatially, about 87.1 percent in the city center, 88.46 percent in the intermediate and 90 percent in the peripheral zones of the city started micro and small enterprise activities from 1-10 years. About 3.23 percent in the city center, 3.85 percent in the intermediate and 8 percent in the periphery of the respondents have less than 1 year work experience. This shows the location advantage of the respondents and its expansion nature of the city.

**Table 3.12 Distribution of Sample Respondents by Age of Enterprise**

Length of time	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Less than 1 year	2	3.23	1	3.85	4	8	7	5.07
1-5 year	9	14.51	3	11.54	27	54	39	28.26
6-10 year	45	72.59	20	76.92	18	36	83	60.15
11-15	5	8.06	2	7.69	1	2	8	5.79
Above 15 year	1	1.61	-	-	-	-	1	0.73
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

Source: Field Survey; 2010

Respondents were also asked questions like why did they prefer the respective activities? As can be seen from Table 3.13 below, about 53.62 percent of the sample respondents preferred their activities compared due to its requirement of small capital.

**Table 3.13 Distribution of Sample Respondents by Preferring the Enterprises**

Major reasons	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Brings good income	-	-	-	-	2	4	2	1.45
Needed small investment	30	48.39	15	57.69	29	58	74	53.62
Others are competitive	4	6.45	3	11.54	7	14	14	10.15
Like the activity	1	1.61	-	-	3	6	4	2.90
Lack of other alternatives	25	40.32	7	26.92	9	18	41	29.71
It was a family business	2	3.23	1	3.85	-	-	3	2.17
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

Source: Field Survey; 2010

As the above Table 3.13 shows, the second major group (29.71 percent) of the respondents preferred their activities than others because of lack of other alternatives and 10.15 percent of the respondents prefer due to less competition so they escape stiff competitions. As the field observation affirms, wood and metal work operators work up in such options, 1.45 percent of the respondents chose their activities assuming that it generates good income, while 2.9 percent chose because they like the activities. Those who continue with their family business constitute only 2.17 percent.

### **3.3.2 Forms of Ownership, Employment and Current Operating Capital**

**I. Form of Ownership and Employment:** According to the respondents' response, most (95.65 percent) of the respondents are under sole ownership and 4.35 percent of the respondents are under partnerships. About 22.46 of the respondents are self-employed while about 107(77.54 percent of) respondents use additional labor, of which 97(90.65 percent) and 10 (9.35 percent) use paid employees and unpaid family labor respectively.

This shows that micro and small enterprise activities are one of the major sources of employment for others in addition to the owners themselves although most of the ownership are sole ownership type.

**II. Current Operating Capital:** According to Table 3.14 below, 33.33 percent of the respondents have current capital of over 25000 Birr, 18.84 percent from 15001-20000 and the rest 7.25 percent have current capital of up to Birr 5000. The average current capital for the whole city was Birr 4125 and for the city center, the intermediate and for the periphery it was Birr 4500, 3400 and 3220 respectively.

**Table 3.14 Distribution of Sample Respondents by Amount of Current Capital**

Current capital	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Up to 5000	2	3.23	3	11.54	5	10	10	7.25
5000-10000	5	8.06	5	19.23	1	2	11	7.97
10001-15000	3	4.84	1	3.85	17	34	21	15.22
15001-20000	8	12.90	3	11.54	15	30	26	18.84
20001-25000	17	27.42	4	15.38	3	6	24	17.39
Over 25000	27	43.55	10	38.46	9	18	46	33.33
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

As can be observed in Table 3.14, most of the respondents in the city center (43.55 percent) and in the intermediate (38.46 percent) zones, have current capital of over 25000 Birr; where as this group of current capital accounts 18 percent of the respondents in the periphery. Thus, the data in the above Table 3.14 indicate the up -ward trend of current capital in the city center and in the intermediate zones as compared to that of the periphery zone. This shows that the location advantage and the length of time establishment might help the respondents to improve their capital in the city center.

### 3.3.3 Saving Conditions

Profit making, capital accumulation and surviving the urban environment are important objectives of the entrepreneurs in micro and small enterprise activities. In this regard about 45.34 percent of the respondents have a Bank saving account.

The rest 54.66 percent have not a saving account due to the declining trends in their income from time to time mainly due to stiff competition and rising cost of living. The second factor is that most of them have not their own working place. As respondents explained, the rent of living houses and working places is one of their problems.

Low initial capital, lack of credit facilities and low awareness about savings are also the main constraints for saving. Even some the respondents reported that they have slashed their needs and have postponed house rents and repaying loans to continue with their enterprise activities.

### **3.3 .4 Use of Accounting Records**

According to the survey result, of the total respondents, 92 (66.67 percent) of them do not use accounting records in their enterprise activities with insignificant variations among the three zones of the city. They explained the reasons as business too small 65(70.65 percent), do not know record keeping (17.39 percent), remember orally (8.69 percent) and time taking/inconvenient (3.27 percent). The rest 46 individuals of the sample respondents, (33.33 percent) use accounting records. These group of respondents were asked their reasons of using accounting records and they replied that to know profit and loss 32(69.57 percent), to know credit buyers and sellers (10.87 percent), to evaluate the performance of their enterprise 7(15.22 percent) and other reasons like for profit division (4.34 percent) for the partnerships.

## **3.4 Working Place and Infrastructure Facilities**

### **3.4.1 Working Place**

The respondents were asked about the types of ownership of their working places. As the sample respondents attest in the Table 3.15 below, the majority 78(56.51 percent) operate on rented places; while 14.49 percent operate in their own working places.

The rest 15.90 percent are operating in the premises inherited either from their parents or relatives. The proportion of privately owned or inherited premise from family/relative is greater in the peripheral zone, which accounts together 44 percent.

This may be due to the engulfing of the rural areas in to the urban limit where rural folks/individuals had their own lands. Working premise provided by government also constitute a significant proportion in the peripheral and in the intermediate zones. This shows that better access to work place is found in the peripheral and intermediate zones than in the city center.

As shown below in Table 3.15, the proportion of rented premises is 77.42 percent, 46.16 percent and 36 percent in the city center, in the intermediate and in the peripheral zones respectively.

**Table 3.15 Distribution of Sample Respondents by Source of Premises**

Ownership of premises	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Rented	48	77.42	12	46.16	18	36	78	56.51
Fully/partially owned	3	4.84	3	11.53	14	28	20	14.49
Family place	9	14.52	5	19.23	8	16	22	15.90
Provided freely by gov't	2	3.22	6	23.08	10	20	18	14.00
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

As the Table 3.16 below shows, about 30.43 percent of the respondents' monthly rents up to Birr 500; while the majority 79( 57.25 percent of) them are paying over 500 per month. Based on the responses of the individual respondents, the average rent is nearly 800 Birr in the city center, 500 Birr in the intermediate, 300 Birr in the periphery and 400 Birr in the whole city. The maximum rent is Birr 2000 in the city center, 1200 Birr in the intermediate and 1000 Birr in the periphery zones, while the minimum rent is Birr 400 in the city center, Birr 350 in the intermediate and 300 Birr in the peripheral zones. On the whole receiving work place and/ or renting is more difficult in the city center and in the intermediate areas than that of the peripheral zones.

**Table 3.16 Distribution of Sample Respondents by Amount of Monthly Rent**

Amount	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Up to 500	9	14.52	10	38.46	23	46	42	30.43
501-1000	39	62.90	13	50.0	27	54	79	57.25
1001-1500	12	19.35	3	11.54	-	-	15	10.87
1501-2000	2	3.23	-	-	-	-	2	1.45
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

### 3.4.2 Work place Suitability

Suitability of working premises is one of the most important elements in the activity of micro and small enterprises. That means it has a direct impact on the sell of products/services to customers. However, as to the opinions of the entrepreneurs in MSE activities regarding to suitability of working premises shows, about 71 (51.45 percent of) sample respondents operate in unsuitable working environment because the places are inaccessible to their customers and inconsistent activities are found. The rest 48.55 percent of the respondents operate in suitable places.

**Table 3.17 Distribution of Sample Respondents by Suitability of Working places**

Suitability	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Suitable	45	72.58	11	42.31	15	30	71	51.45
Not suitable	17	27.42	15	57.69	35	70	67	48.55
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

Although there is no exaggerate suitability problem in the city, there is a gradual increase from city center (27.42 percent) through intermediate (57.69 percent) and to the periphery (70.0 percent).

This shows that the city center is more suitable for customers due to the high density of population but the periphery is due to the engulfing of the rural population that may have low awareness about the activities of micro and small enterprises.

### 3.4.3 Available Infrastructure Facilities

As the review of literature indicates, availability of infrastructure is an important factor for the development of micro and small enterprise activities. Nevertheless, according to the survey results a significant number of MSEs are facing serious problems related to infrastructure facilities, like water, transport, electricity and telecommunication connections, which otherwise would guarantee the growth and expansion of their enterprises.

For instance, from the 138 sample respondents, 19 (13.77 percent) replied that they have no access to water and only 25 (18.12 percent) of the total respondents have access to all types of facilities as Table 3.18 below reveals.

**Table 3.18 Distribution of Respondents by Available Infrastructure Facilities**

Types of facilities	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Only water	-	-	-	-	-	-	-	-
Only light	6	9.68	3	11.54	12	24	21	15.22
Only telephone	-	-	-	-	-	-	-	-
Only transport	-	-	-	-	-	-	-	-
Water, light and telephone	43	69.35	11	42.31	19	38	73	52.89
Have access to all facilities	9	14.52	7	26.92	9	18	25	18.12
Have no water facility	4	6.45	5	19.23	10	20	19	13.77
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

### **3.5 Source of Raw Materials, Major Customers and Favorable Time of Sale**

**I. Source of Raw Materials:** Availability of raw materials is one of the important requirements for the development of micro and small enterprises. With respect to this, as the sample respondents indicated, respondents get raw materials from different sources and geographical areas.

The major sources of raw materials are whole sellers 73(52.90 percent). These groups of respondents may have better capital than others and /or often receive supplies on credit terms to repay after sales. The availability of supplies/ raw materials largely depends on the demand of the customers sometimes which becomes difficult to obtain raw materials at the right time. The second major sources of raw materials are retailers in the city, as stated by 39.86 percent of the respondents. The third major sources are farmers which accounts for 5.79 percent of the suppliers (Table 3.19).

**Table 3.19 Distribution of Sample Respondents by Source of Raw Materials**

Source of raw materials	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Farmers/producers	1	1.61	2	7.69	5	10	8	5.79
State enterprise	1	1.61	1	3.85	-	-	2	1.45
Retailers	21	33.88	10	38.46	24	48	55	39.86
Whole sellers	39	62.90	13	50.0	21	42	73	52.90
Free natural resources	-	-	-	-	-	-	-	-
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

Geographically, most respondents procure/obtain their raw materials within the market centers of the city; while some move out of Bahir Dar to rural areas to buy wood and other handicrafts from farmers.

The analysis by zones as the above Table 3.19 reveals, there is preponderance of whole sellers as source of goods and raw materials in the central and intermediate zones. The first and the second major sources of raw materials both in the three zones of the city are whole sellers and retailers.

About 24 (48 percent) and 5 (10 percent) of the respondents in the periphery procure/obtain their raw materials from retailers and farmers/producers respectively. This may show due to low operating capital that could not enable them to buy from whole sellers, proximity to producers/farmers or their accessibility to the surrounding rural areas to purchase from farmers/producers.

**II. Major Customers of Products:** The main customers of the sample respondents' product as indicated below in Table 3.20 are consumers 111 (80.43 percent). The second major customers are retailers and state institutions which account for 12.42 percent; while 4.35 percent sell their products both to consumers and retailers and 2.90 percent sell their products to retailers and state enterprises. Thus, the overall findings imply the existence of limited sales outlets for the majority of the sample enterprises.

**Table 3.20 Distribution of Sample Respondents by Major Customers**

Major customers	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Consumers	53	85.48	20	76.92	38	76	111	80.43
Retailers	6	9.68	2	7.69	5	10	13	9.42
State enterprise	1	1.61	2	7.69	1	2	4	3.00
Both consumers and retailers	1	1.61	1	3.85	4	8	6	4.35
Both retailers and state enterprise	1	1.61	1	3.85	2	4	4	2.90
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

Spatially, about 85.48 percent, 76.92 percent and 76 percent of the respondents' customers are individual households respectively in the city center, in the intermediate and in the peripheral zones. This shows that retailers are the major customers for most of the respondents in the three zones of the city.

**III. Favorable times for sell of products:** There is variation of best sales time from one activity to others. For instance, respondents who are engaged in wood work like chair, bed, etc., their best sales time is holidays.

On the whole, for most of the respondents, the highest sale times for their products are months having by festivals holidays such as Christmas, Easter, Ethiopian Epiphany, Ethiopian new year and Muslim holidays, wedding and salary or pay weeks of civil servants and NGO employees. This shows that for most of the favorable time to sale their product is situational or conditional and this in turn affects the size of the product and development and profitability of the business.

Respondents were also asked about the way of advertisement they use to announce their products to customers. In this regard, as indicated below in Table 3.21, majority (55.80 percent) of the respondents use vocal advertising/word of mouth while 41.30 percent of them participate in trade fare and bazaar and the rest of them use distribution of business cards to their customers. From this one can understand that trade fare and bazaar is the most important means to advertise products and to create market network next to their expression through word of mouth for entrepreneurs engaged in micro and small enterprise activities.

**Table 3.21 Distribution of Sample Respondents by Way of Advertisement/Promotion of Product**

Major problems	City center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%
Participating in trade fare and bazaar	27	43.54	10	38.46	20	40	57	41.30
Vocal advertising/Word of mouth	33	53.23	15	57.69	29	58	77	55.80
Sign board	-	-	-	-	-	-	-	-
Distributing business cards	2	3.23	1	3.85	1	2	4	2.90
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>		

Source: Field Survey; 2010

### 3.6 Major Problems

One of the major objectives of this study was to find out major problems to start, operate and expand micro and small enterprise. In this respect, the respondents were asked to rank the three most important problems encountered in starting their activities as well as the problems they face at the time of their business operation.

**Table 3.22 Distribution of Sample Respondents by Major Problems at the Time of Starting Their Enterprises**

Major problems	1 <sup>st</sup> problem		2 <sup>nd</sup> problem		3 <sup>rd</sup> problem		Score*	Rank
	No.	%	No.	%	No.	%	Point	Level
Lack of initial capital	105	76.09	25	18.12	30	21.74	395	I
Lack of information	2	1.45	5	3.62	37	26.82	53	III
Gov't regulation	1	0.72	3	2.17	5	3.62	14	V
Inadequate skill	2	1.45	2	1.45	35	25.36	45	IV
Lack of work place	28	20.29	103	74.64	31	22.46	321	II
Did not face any problem	-	-	-	-	-	-		
<b>Total</b>	<b>138</b>	<b>100</b>	<b>138</b>	<b>100</b>	<b>138</b>	<b>100</b>		

(\*Score is calculated by assigning 1<sup>st</sup> problem 3 point; 2<sup>nd</sup> problem 2 point and 3<sup>rd</sup> problem 1 point. i.e.  $(3 \times 105) + (2 \times 25) + (1 \times 30) = 395$ )

Source: Field Survey; 2010

As Table 3.22 above shows, the major problems faced by the sample respondents, lack of initial capital is rated first by 105 (78.09 percent) respondents which is followed by lack of work place 28 (20.29 percent), inadequate skill and government regulation together account 4 (2.90 percent), only 1 respondents expressed the lack of information. Further lack of work place is ranked as the second important problem by 103 (74.64 percent of) respondents. For the third ranking major problem, 37 (26.82 percent of) respondents indicate as lack of information followed by inadequate skill 35 (25.36 percent), lack of initial capital 31 (22.46 percent), lack of working place 30 (21.74 percent) and government regulations 5 (3.62 percent). Other commonly known problem reported by respondents is “lack of market”.

On the whole, as the sample respondents revealed, they need information about market, source of finance, appropriate technology, supply of raw materials and inputs, special service related to training, product design and easing government rules and regulations. In general, lack of initial capital, lack of working place and lack of information are the three important factors that determine the starting and operation of micro and small enterprise as stated by most of the respondents.

Respondents were also asked about major operating problems. In this regard, most /65/ (47.10 percent) of the respondents replied that lack of working place is rated first which is followed by heavy tax/government rules and regulations 40 (28.98 percent) and lack of working capital 25 (18.16 percent) while a significant number 8 indicates lack of market. Government regulations is also ranked as second major problems by 61 (44.20 percent) followed by lack of working capital 41(29.71 percent) and lack of working place 30 (21.74 percent) of respondents respectively. For the third ranking major problem, 60 (43.48 percent) respondents revealed as lack of working capital followed by lack of working place and government regulations 37 (26.81 percent) and 23 (16.67 percent) respectively; while 11 (7.97 percent) of respondents indicate lack of supplies of raw materials (Table 3.23).

**Table 3.23 Distribution of Sample Respondents by Current Problems**

Major problems	1 <sup>st</sup> problem		2 <sup>nd</sup> problem		3 <sup>rd</sup> problem		Score*	Rank
	No.	%	No.	%	No.	%	Point	Level
Heavy tax/ gov't regulation	40	28.98	61	44.20	23	16.67	265	II
Lack of market	8	5.79	6	4.35	7	5.07	43	IV
Shortage of raw materials	-	-	-	-	11	7.97	11	V
Lack of working place	65	47.10	30	21.74	37	26.81	292	I
Lack of working capital	25	18.16	41	29.71	60	43.48	217	III
No problem	-	-	-	-	-	-		
<b>Total</b>	<b>138</b>	<b>100</b>	<b>138</b>	<b>100</b>	<b>138</b>	<b>100</b>		

(\*Score is calculated by assigning 1<sup>st</sup> problem 3 point; 2<sup>nd</sup> problem 2 point and 3<sup>rd</sup> problem 1 point. i.e.  $(3 \times 65) + (2 \times 30) + (1 \times 37) = 292$ )

**Source: Field Survey; 2010**

### **3. 6. 1 Shortage of Working Capital**

The most sever problem to the growth and development of micro and small enterprise, is lack of working capital. According to the survey result, 105 (78.09 percent) and 60 (43.48 percent) of respondents replied that lack of initial/working capital is the first and the third problem in starting and operating their activities respectively (Table 3.22 and 3.23).

This clearly shows that a large number of respondents who have access to formal financial institutions are very low and the entrepreneurs lack knowledge about the available financial sources or the process of application. This in turn affects the development of the sector in the city. That means according to the data obtained by the survey, own saving from previous work, borrowing from friends/relatives and assistance from friends/relatives ranked first, second and third respectively as the most important source of capital to start up their enterprise (Table 3.11). Only one enterprise borrowed from a Bank to start his activities. The reasons why micro and small entrepreneurs did not avail from Banks are stated in Table 3.24 below.

Respondents reported the problems they face in securing loans. Accordingly, 66(47.83 percent of) respondents revealed that lack of collateral is the main problem in securing loan; while 34

(24.64 percent of) respondents reported that Bank's lending policy does not include their activities (Table 3.24). As much as 15 (10.87 percent of) respondents indicated that lack of information is their main problem as they did not have any information about the financial institutions and their lending systems. Inconvenient lending system of the micro financial institutions/group lending system 17 (12.32 percent) and low loan ceiling 6 (4.34 percent of) respondents also stated these problem. So self financing has its own problems on the development of micro and small enterprise activities as the smaller the amount of capital, so also their income and savings.

**Table 3.24 Distribution of Sample Respondents by Problem in Securing Loan**

Major problems for getting loans	City Center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Lack of collateral	34	54.84	14	53.85	18	36.0	66	47.83
Banks do not give loans to MSEs	19	30.65	5	19.23	10	20.0	34	24.64
Lack of information	1	1.61	2	7.69	12	24.0	15	10.87
Inconvenient system/group lending	6	9.68	4	15.38	7	14.0	17	12.32
Small amount of money	2	3.22	1	3.85	3	6.0	6	4.34
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

Source: Field Survey; 2010

Table 3.24 above also indicates the distribution of sample respondents by problems faced in securing loans in the three zones of the city. It reveals that lack of collateral is the dominant problem in the city center 34 (54.84 percent) and in the intermediate zone 14 (53.85 percent of) respondents; while the Banking system is their second problem. The problem of lack of collateral is also the first most important problem in the peripheral zone 18 (34.0 percent of) respondents followed by lack of information 12 (24 percent of) respondents; while inconvenient lending system/group lending and small amount of money together constitute 16.66 percent of respondents.

This may indicate that the type of business activity may be difficult to secure loan and may also be due to the engulfing of the peripheral zone by the rural population.

That means information may not be delivered appropriately as other areas of the city and the individual has not willingness to organize to secure loan.

With regard to financial problems, the question was raised to the zonal and Bahir Dar city experts/heads of the promotion office of MSEs Agency, whether special financing programs such as interest free, loans to individuals and the like exist or not for those weak /novice entrepreneurs in MSEs activities? Their response was absolutely 'no'; the question was extended as to "what is/are the problems that hindered such programs? They explained that such type of mechanism seriously contradicts with the free market economic system and develops dependency for entrepreneurs. According to them, the possible solution is providing loan at low interest rate than other financial institutions, working premises, business training, market information and counseling services that helps them to survive in the business environment.

### **3.6.2 Lack of Working Place and Other Facilities**

According to the survey result, lack of premises, is a serious problem for the entrepreneurs (Table 3.22). This implies that the working premises are not sufficient for the MSE operators and the existing land acquisition systems do not consider accessibility of land for them. They conduct their business in very narrow rented/partially own/ in temporary street- side places, which are unsecured ones.

Most of the respondents run their activities in the area where supportive facilities are absent. For instance, from the total (138) sample respondents, 22 (15.94 percent of) respondents have no access to water and only 26 (18.84 percent of) respondents have access to all types of facilities (water, electricity, telephone, etc.) (Table 3.18).

### **3.6.3 Lack of Market**

One of the problems influencing entrepreneurs in MSE from expanding was lack of customers. About 8 (5.79 percent) and 7 (5.07 percent of) respondents reported that lack of demand was their major problem which is included in the first and third category of problems (Table 3.23) respectively. This may be attributed to the concentration of enterprises in similar activities, lack of diversification in design and the establishment of inconsistent enterprises side by side.

Another surprising issue that was observed during field survey is that some individuals lack politeness and patience, some do not smile when they see their customers, some do not respond patiently to questions raised by customers, some insult and some of them are over ambitious. These problems are common for some of the respondents and need great effort to bring behavioral changes among the entrepreneurs. Certainly, these result in reduced demand for their products. This problem is mainly the result of lack of entrepreneurial skill, advisory and counseling services on how to approach the customers.

Respondents were also asked about the mode of advertisement of their products. In this respect, as the researcher personally observed and the data obtained from respondents reveal that they (mostly wood product like bed, chair, table, etc. sellers) are participating in trade fairs and bazaars. At the same time, some of these groups of entrepreneurs also advertise their products by preparing and distributing business cards that indicate their products and addresses. With regard to this, the Director of Women Entrepreneurs Association (WEA) replied that trade exhibitions, bazaars and trade fairs augment better prospects for the development of the sector that provide clue to the entrepreneurs and introduce them to customers.

#### **3.6.4 Problems Related to Government Rules and Regulations**

As it is explained in the literature review, conducive policy frame work is one of the essential requirements for the development of micro and small enterprise. Nevertheless, as the majority of respondents revealed they do not get encouragement/support from governmental institutions. The impressions of the respondents regarding the attitude of the government, NGOs and other local authorities towards their activities are summarized below in Table 3.25.

**Table 3.25 Perception of Sample Respondents about Government, NGOs and local Authorities towards Their Activity**

Attitude of Gov't, NGOs and local authorities	City Center		Intermediate		Periphery		Total	
	No.	%	No.	%	No.	%	No.	%age
Supportive	3	4.84	5	19.23	15	30.0	23	16.67
Discouraging	35	56.45	13	50.0	27	54.0	75	54.35
Neutral	24	38.71	8	30.77	8	16.0	40	28.98
<b>Total</b>	<b>62</b>	<b>100</b>	<b>26</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey; 2010**

Accordingly, 75 (54.35 percent of) respondents reported about the discouraging attitudes towards their activities, while 40 (28.98 percent of) respondents face their neutrality. However, a proportion (16.67 percent) of respondents explained the supportive attitude of Government, NGOs and other local authorities towards their activities.

In general, according to the data indicated above, as most of the respondents confirmed, the government and local authorities did not facilitate the necessary conditions such as access to credit, arranging for working places, trainings and technical advisory services and marketing information to entrepreneurs rather they are affected by high and arbitrary tax assessment systems. This shows that there is a gap between practice and theory of the micro and small enterprise promotion policy.

To make matters even worse, their working conditions are influenced by corruption by tax collectors from finance and revenue offices and by the municipal and kebele officials. They strongly criticize the current high tax and arbitrary tax administration, land distribution/problem of biasness/ and the lending systems of micro and small finance institutions such as group lending, lower credit ceiling, short repayment time and bureaucratic procedures.

Some problems related to land distribution and lending policies of financial institutions may be beyond the control of government officials and might need policy revisions or amendments by legislative bodies of the region to avoid or at least to minimize the problems.

Spatially, significant variation exists in the three zones of the city in the responses of the respondents concerning supportive and discouraging attitude, supportive responses increase outward from peripheral zone while it declines in the city center. As Table 3.24 reveals, the opinions about their neutral attitude also constitute 24 (38.71 percent of) respondents for the city center, 8(30.77 percent) for the intermediate and 8 (16.0 percent) to peripheral zone respondents.

Those respondents who expressed their encouraging attitudes have also their own reasons. Thus, according to them, some government institutions and NGOs have began to provide support in facilitating provision of working places, credit facilities, business and technical trainings, advisory and counseling services, preparing trade fairs, bazaars and exhibitions. The typical example mentioned for their help in one way or another are; the regional Women Entrepreneurs Associations (WEA), the youth and sports office, micro and small enterprise promotion office, the municipality and Jerusalem children's support enterprises.

### **3.6.5 Lack of Adequate Business Skill**

Lack of entrepreneurial skill is one of the problems of in micro and small enterprise activities. The respondents replied lack of/inadequate/ business skill as one of their hindering problems especially in starting their activities. That means only 24 percent of the sample respondents kept records of their activities because some do not have knowledge how to keep business records (9.42 percent). Only 17 (12.32 percent of) the sample respondents receive training after they started their activities in their respective areas, while the majority of the respondents are self-taught and self- trained. Therefore, they are handicapped to keep business records and to calculate their profit and loss, account for their monthly incomes and expenses. Hence, lack of training is one of the problems faced in the management of their activities.

The sample respondents were also asked about the most important form of assistance that they need from the government and NGOs. As Table 3.26 below shows, access to working place is the first 77 (55.79 percent) important assistance that is needed from the government, NGOs and local authorities.

The second and the third important form of assistance that the entrepreneurs seek are access to loan from financial institutions 67 (48.55 percent) and assistance with easing government rule and regulations 62 (44.93 percent). The fourth important assistance that they need is assistance in market 13 (9.42 percent) and the fifth one is access to training 11(7.97 percent).

They also seek the support of NGOs which may make their activities more profitable, competent and alive in the competitive business environment. Thus, the government should find appropriate solutions to the complex problems faced by entrepreneurs in MSEs through developing appropriate tax administrative system to minimize the burden of tax and to solve the problem of corruption in collecting tax and distributing land. The tax should be allocated depending on their income and paying capacity based on the economic theory of Adam Smith, that is, those who gain more should pay more and vice-versa.

**Table 3.26 Distribution of Sample Respondents by Assistances Needed from Government, NGOs and local Authorities**

Types of assistance needed	1 <sup>st</sup> problem		2 <sup>nd</sup> problem		3 <sup>rd</sup> problem	
	No.	%	No.	%	No.	%
Access to working place	77	55.79	33	23.91	29	21.01
Easing gov't rules and regulations	13	9.42	17	12.32	62	44.93
Better access to loans	35	25.36	67	48.55	27	19.57
Assistance with market	10	7.25	13	9.42	9	6.52
Training	3	2.17	8	5.79	11	7.97
<b>Total</b>	<b>138</b>	<b>100</b>	<b>138</b>	<b>100</b>	<b>138</b>	<b>100</b>

**Source: Field Survey, 2010**

Furthermore, they need assistance in the provision of toilet, road /asphalt/, water, electricity and telephone services in and around the working place for future survival and sustainable development of micro and small enterprise activities.

Respondents also express their opinions that tax and land provision policies, rules and regulations should be revised to consider entrepreneurs in micro and small enterprise activities and to encourage them for the development of the sector.

### **3.7 Interview Results**

#### **3.7.1 MSE Development Agency**

Recently the development of the sector has become one of the major poverty reduction strategies through diversification and promotion of MSEs. To this end, the establishment of responsible government institutions from regional to the local level has become very important.

According to the Amhara Region Micro and Small Enterprise Development Agency (AReMSEDA) establishment, proclamation numbers, 42/1999, 90/2002 and 122/2006, the Amhara Region Micro and Small Enterprise Development Agency (AReMSEDA) was established only at regional level by the proclamation number 42/1999. It has started its work officially since 2001 to provide the necessary assistance to this sector.

However, it had not identified any prior sections of operation with the intension of serving all types of business ventures. With some detail survey of the business potential in the region, the agency was recognized as a “Bureau” by proclamation No. 90/2003 and its structure was stretched up to local level. Again it was recognized for the third time to take its former name “Agency” by the proclamation No. 122/2006 with some staff improvement.

According to the proclamations, the duties and responsibilities of the agency are to: facilitate, coordinate and promote MSEs; support the establishment of MSE associations; provide necessary skill trainings, establish skill up grading, technical and demonstration centers; create an integrated network with the Federal and Regional governments, other concerned bodies and private sectors; facilitate conditions such as access to working places and credit services; collect and disseminate market and business information; promote the importance of information exchange network and relationship among MSEs as well as other industries (ANRS ZikreHig, 2006).

The agency has regional organizational structure with three technical departments, such as processing and service industry promotion, construction and handicrafts industry promotion and textile and garment industry promotion with technical experts supported by administration and general service, finance service and planning and programming service departments (Appendix 3a).

The organizational structure has stretched up to zonal and woreda level as supportive offices and recently the organizational structure has also stretched up to kebele level to provide necessary services related to MSE activity. The organizational structure of the study area falls under the zonal structure as the city is established as city administration equivalent to zone administration (Appendix 3b). However, the members of staff in the study area are not enough to provide the necessary service for micro and small enterprise sector. At city level, one office head with a secretary and three experts such as agro-processing industry promotion, construction and handicrafts industry promotion and data processing and analysis experts (Appendix 3c).

According to the information obtained from the experts of the city MSE office, the micro and small enterprise program was officially started at grass root level in mid of 2003. Its aim is for creating employment opportunities and strengthening the existing micro and small enterprises through the identified targeted areas. However, it is constrained by difficulties to implement appropriately. (it is discussed in the policy and strategies below)

### **3.7.2 Major Policies and Strategies**

The focus of the agency is on supporting the existing business community and the creation of new business environment. According to the information experts (zonal and city experts) of the MSE office, “it has identified a number of priority sectors for special programs such as construction sector, metal and wood work, food and food related agro-processing, cloth and garment service and tourism industry. In these priority areas and other areas plans of training, advisory, credit, and working premises were provided, although some delays in the provision of working premises and credits” the experts said. However, it is not realized as the findings of this study affirm. Experts added that the main criteria in targeting individuals as beneficiaries of micro and small enterprises job creation and encouragement are HIV/AIDS patience, unemployed labor force, poverty background and families of the military group.

However, let alone some attempt the services are not reached to the targeted individuals. Some respondents reported that there is some sort of biasness in the provision of services with relatives and friends.

With regard to the question raised about the strategies, the agency includes the following strategies to achieve the objectives:-

- I. Conducting research on MSE related problems, analyze policies, drawing lessons from other countries, regions, and stakeholders, and applying research results of training.
- II. Providing business management training on how to generate business ideas and plans for economic diversification, manage the production, distribution and promotion activities, pricing and how to keep business records; consultancy services, technical counseling; and providing extension services.

The information experts also state that, there is training schemes that target entrepreneurs engaged in MSE sector. There are about 32 business trainers and advisors to the MSE operators in the city of Bahir Dar across the Kebeles. However, they are inadequate in number, lack experience and they received short term trainings.

- III. Providing necessary marketing and technical information through different media.
- IV. Facilitating access to financial service, working premises, suitable policies and strategies.
- V. Promoting supply and innovation network, partnership development and business associations to create collective policies for MSE entrepreneurs.
- VI. Organizing workshops, forums and seminars, exhibitions, bazaars and trade fairs for promoting and advertising MSE and their products.
- VII. Technical and vocational training on textile, weaving and spinning, pottery, metal and wood work and others (MSEDA document, 2006). According to the information expert MSE office has started to provide technical and vocational trainings in cooperation with Bahir Dar Construction College. From this one can understand, the MSE development agency's strategy consists conducive elements that can help the development of micro and small enterprise activity.

However, these are not applied to them who already have their businesses as the data indicates from the sample entrepreneurs confirmed. That means it is not realized practically to those entrepreneurs that run the activities.

### **3.7. 3 Regional Women Entrepreneurs' Association**

The Amhara Women Entrepreneurs Association (WEA) was established by 60 women entrepreneurs. In 2000 it drafted by –law and received its license. However, due to internal and external problems the association remained non functional until January 2002 and it recognized itself in February 2003 and started its work by sharing a small office in the premises of Bahir Dar Chamber of Commerce assisted by the volunteer services of its members (Office Documents of WEA, 2006).

The stated objectives of WEA are to: assist women entrepreneurs to improve their economic situation, generate new business ideas, engage in productive visionary suitable business; address and solve their business problem, enhance the business management skill; facilitate procurement of work place; facilitate access to credit, expansion to domestic and export markets; introduce tax laws and other business policies relevant to women entrepreneurs; conduct research and provide relevant information and arrange experience sharing tours and business visits.

To deal with market problems, WEA plans to organize regular community street fairs on holidays during the year to create marketing opportunities for members. Thus, WEA organized the first trade fair in Bahir Dar in April 2003 with the participation of over 30 women entrepreneurs. Such events serve to recruit members, raise awareness in the community about women entrepreneurs and provide good opportunities for the participants.

To assess with the premise issue, it advocates the municipality and other organizations to have access to land and other supports. Thus, WEA in Bahir Dar negotiated the use of town land for the creation of permanent sheds for women and continues its advocacy until the problem of the members is minimized.

The researcher asked Regional Director of WEA, about the criteria to join the association. According to her response, membership is open for women entrepreneurs who follow and implement the policy, regulations and by-law of the association, have licensed or registered enterprises by appropriate government agencies and be willing to pay a monthly membership fee 5 Birr.

To determine how best to attract new members with relevant services the association works through a process of identifying the needs of female-entrepreneurs in MSEs in the local community. Although the attempts are progressive, the Regional Director believed that WEA do not adequately represent the needs of its members. The reasons according to the Director are; members' dissatisfaction for the provision of credit, work places, market problems and capacity building trainings. According to her, most of women entrepreneurs in the region have not access for facilities because of bureaucratic procedures, group collateral and high interest rate (18 percent) required by credit institutions.

According to the Director, the financial sources are fund from donors, conducting income generating activities, member registration fee, and cost sharing at trade fairs and bazaars participation. However, WEA lacks the financial resource required to grow the organization and maintain membership services.

The question was also raised about the attitudes of government/NGOs towards WEA. The response of the Director was "positive" because the Regional MSE Development Agency and other organizations have been promoting the development of the association. The association constructed its own office at the heart of the city on the land received from the city government. But there are challenges in addressing the needs of the association for capacity building and leadership development. In due course, the regional women entrepreneurs' association needs to be further advanced to meet the specific needs of its members and to enhance the development of women entrepreneurs from regional to local levels.

Questions were also raised for the Branch Manger of Commercial Bank of Ethiopia in the city of Bahir Dar about the provision of loan to entrepreneurs in MSE activities; whether the Bank provides loan to entrepreneurs or not in MSEs activities. According to the Bank officials loan is possible for entrepreneurs but the Bank requires collateral/guarantees to give

loan and the collateral was either a house or other property that serve as the mortgage value for the money that the Bank gives in case of failure to repay the amount. Sample respondents also have replied that the Bank requests collateral to provide loan to them. Related to the provision of loan the MSE office provides up to Birr 5000 per individual with an interest at the rate of 10 percent per month and encourages group lending rather than individual lending.

## CHAPTER FOUR

### 4. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### INTRODUCTION

The purpose of this study was to assess the major factors affecting the development of micro and small enterprises and to analyze the role of MSE promotion policy for the development of the sector in the city of Bahir Dar. The study mainly focused on the research objectives stated as: the factors leading to join the sector; the working conditions and problems the face; policy and regulation frameworks and measures needed to promote the development of the sector in the study area.

To address these specific objectives both qualitative and quantitative approaches are employed in the process of analyzing and interpreting the collected data from the sample respondents and descriptive survey method was used. Quantitative data are generated using open ended and few closed questionnaire from 138 sample respondents, who are selected from the three zones of the city by the use of stratified sampling technique. Interviews from the MSE officer, Women Entrepreneurs Association (WEA), financial institution/Bank and field observations are also used to strengthen the data collected using questionnaire. In the course of the study an attempt is made to answer the following research questions.

1. What factors lead individuals to join in micro and small enterprise activities?
2. What are the major constraints that affect the development of micro and small enterprises?
3. What working conditions and problems are facing individuals in micro and small enterprises?
4. What strategies does government use to support in micro and small enterprise sector and how much of these strategies are tailored/personalized to operators?
5. What measures are needed to promote the development of micro and small enterprises?

## 4.1 FINDINGS

Based on the analysis and interpretation of data, the following major findings are obtained.

**4.1.1 Age and Marital Status:** The majority of MSEs are dominated by young, male and married respondents. About 75 (54.35 percent of) respondents are migrants who come to Bahir Dar that constitutes 62.67 percent of rural in their origin to find job, for education, to live with relatives and job transfer in that order. Thus, MSEs are the major source of employment for young and unemployed people.

**4.1.2 Educational Level:** The majority (44.2 percent) of the respondents attended grades 9 to 12. Others are TVET graduates, and informal education those who can read and write. This implies that micro and small enterprises are becoming important job opportunities for all types of people: literate or illiterate individuals.

**4.1.3 Reasons to Join in MSEs:** Most (82.61 percent of) respondents attested that lack of alternative employment opportunity was the major reason to join in their respective activity. For the others, needing for additional income for their families and displacement of families in order of importance are the main reasons for entrepreneurs to join the sector. Aspiring better life or life improvement is also reported as other reasons to join the sector, which serves as an important beginning to bring behavioral changes towards the role and development of micro and small enterprise activity.

**4.1.4 Source of Training:** Most (77.14 percent) of the respondents are self-taught to acquire the skill and they have started the business by their own initiative. For others, they develop their skill through on job training, from family, and from formal training and encouraged by family, friends and MSE officials to start their business. Most of the respondents also have not got training after they start their respective business. This clearly shows that there is a problem in the implementation of the MSE policy even though most the enterprises are established after the adoption of the policy.

**4.1.5 Reasons of preference:** It was found that over half ( 53.62 percent) of the respondents preferred their respective activities than others due to small capital requirements and for rest due to lack of alternative job, the competitiveness of others, training in the area, continue with

family business and lack of other alternatives were the reason to prefer the activity. As the sample respondents revealed, most of them had limited initial and current capital, which has tremendous effect on the success of their activities and their profit.

**4.1.6 Business Record:** Most (66.67 percent) of respondents do not record their business activities due to the reason of business too small as they explained. Thus, they are handicapped to evaluate the performances and future prospects of their enterprises, which requires for business trainings to promote the development of the sector. This is the direct implication of lack of awareness to keep written records whether business is large or small.

**4.1.7 Ownership of Work Place:** With regard to working place, most (56.51 percent) of respondents operated in rented places and 57.25 percent of them pay a monthly rent of birr 501-1000. This affects the amount of saving as respondents explained and which tends to force many of them to operate their business in inaccessible, unsuitable and unsanitary working conditions with limited or no supportive facilities. Only 14.49 percent of them were operating in private holdings.

**4.1.8 Distribution of Work place:** Most of the sample respondents replied that there is a problem of distributing working places for individuals due to biasness towards relatives, friends and due to the problem of corruption and political affiliation.

**4.1.9 Access to Facilities:** Only 18.12 percent of the respondents have access to all facilities (water, electricity, telephone, etc.) although availability of infrastructure is one of the determinant factors for the development of micro and small enterprise. This is also confirmed by the majority (51.45 percent) of respondents as their working place is not suitable.

**4.1.10 Raw Materials and Major Customers:** The majority (52.90 percent) of the respondents obtain the raw materials/inputs from whole sellers (Table 3.19). The major customers for most (80.43 percent of) the sample respondents are consumers; while others sell their products for two or three types of customers implying the existence of limited outlets for their products (Table 3.20). Favorable times for sales are also limited in months that are occupied by holidays, wedding times, graduation and pay weeks with variations from one activity to others, that is, best time for one activity may not good for others.

**4.1.11 Working Condition:** The current operation of the MSEs has been limited by shortage of work place (47.10 percent), heavy government taxes and regulations (44.20 percent), lack of working capital and lack of market in order of importance. It is undisputed fact that all types of services such as training, advisory/counseling, managerial and technical skill should be accompanied by the provision of finance but it was reported as the one of the sever problem.

**4.1.12 Source of Capital:** Hence, the most important source of initial capital are own saving, credit from relatives/friends and assistance from relatives/friends which account together 57.25 percent, and loan from micro and small finance institutions in that order, which lead to self-finance with small amount of capital, income and savings. This clearly indicates that most entrepreneurs in MSE have faced a critical problem of finance as financial institutions are relevant to avail credit facilities to MSEs and the entrepreneurs lack knowledge about the available financing options or the process of application. There are no special financing and other support systems for the entrepreneurs as they indicated.

**4.1.13 Training and Entrepreneurial Skill:** Only 6.52 percent and 5.8 percent of the sample respondents received formal training before and after joining their respective activities respectively. This implies that encouragement and formal trainings from the responsible agency is yet insignificant due to its infancy stage. Lack of entrepreneurial skill is indicated by the respondents as their problem to start and operate their activities.

**4.1.14 Legal Frameworks:** 44.20 percent of the respondents rank high tax/government regulation as the second major problems that affect the current operation of their activities. MSE promotion office is the primary institution responsible for the formulation, co-ordination and monitoring of the implementation of policies related to the sector. It is responsible to assist the designated zonal, woreda and kebele organizations to provide common services.

The government tries to identify and apply appropriate regulations, and has engaged in a consultation process. However, according to the survey results, most of the sample respondents reported problems related to taxation, land distribution and credit facilities. This implies that there is no coordination among revenue office, land administration authority, financial institutions and MSE development agency in the city. That means the respondents strongly criticize the lending policies of financial institutions and the provision of working places.

Thus, the most critical areas that need revision in this aspect is in relation to the existing tax assessment system, lending systems of financial institutions and land provision procedures.

**4.1.15 Attitudes of Government:** 54.35 percent of the sample respondents attested about discouraging attitudes of government, NGOs and other local authorities towards their activities, while 28.98 percent of the respondents supported their neutrality. However, a proportion of the respondents (16.67 percent) explained their supportive attitude. According to their response, some government institutions and NGOs have provided them support in facilitating provision of working places, credit facilities, business and technical trainings, advisory and counseling services and preparing trade fairs and exhibitions.

**4.1.16 Assistance Needed:** Generally, let alone the range of problems, most of the respondents operate in these activities due to lack of other alternative job opportunities. However, they need further assistances from government and NGOs in arranging working places, facilitating credits, easing or government rules and regulations especially the tax administration and the land distribution systems, trainings, assistance with markets and other types of facilities such as roads (asphalt), water, telephone and electricity services for future survival and sustainable development of their activities.

## 4.2 CONCLUSIONS

The following conclusions are drawn from the findings of data analysis and interpretation.

**4.2.1 Characteristics of Respondents:** As many authors acknowledged, MSEs are the major source of employment. This is also confirmed by the findings, that is, young, male, married and literate respondents are outnumbered.

**4.2.2 Reasons to Join the Sector:** As the literature review shows, individuals join to micro and small enterprise activities to escape from poverty and need for small capital and limited skill. The finding also indicates, 82.6 percent of respondents stated lack of employment as the major reason to join micro and small enterprise activity.

This shows that employment and income generation is one of the roles of the development the micro and small enterprises and it is coincided with the theory of labor supply/unemployment and urban MSEs (MSEs is mainly the result of unemployment in the formal economies) as discussed in the literature review section of the study.

**4.2.3 Origin of Respondents:** Commercialization of the rural areas is one of the approaches that can cause for the establishment of micro and small enterprises. In this respect, the finding of the study shows that the origin of most of the respondents are from rural but the reasons to leave their place is not due to the commercialization of their rural areas rather to find job and through time they start and operate MSEs activities in the city.

**4.2.4 Access to Capital and Credit:** Access to capital and credit such as loan from different sources, access for start-up capital, source of working capital, loan amount and loan processing/repayment time is one of the essential elements for the development of MSEs. However, most of the respondents revealed that lack of initial capital, short repayment period, problem of collateral and high interest rate as the major factors that affect the development of the sector and hence the major source of capital for most of the respondents is own saving and credit from relatives/friends.

**4.2.5 Provision of Work Place:** To make MSEs entrepreneurs profitable and to enhance the development of the sector, provision of work place is one of the most important element. But the finding of the study indicates that lack of work place is the major problem to operate since most of the respondents operate their respective enterprises in rented places and this affects the growth of their enterprises and their saving condition.

**4.2.6 Infrastructure Facilities:** As so many authors confirmed, availability of infrastructure facilities such as, telephone, electricity, transport and water supply situations are the determinant factor for the development of MSEs. Even though there is no exaggerate problem of such facilities, a portion of respondents replied that lack of water facility is one of their problem.

**4.2.7 Legal Frameworks:** Micro and small enterprise development strategy/policy incorporates a number of principles to support MSEs entrepreneurs such as MSEs operate under ADLI

strategy and market economy principles, government committed to develop MSEs via support services, emphasis given to advancement of women, regional states recognizes the diversity of legal and organizational forms, and principles underlying this strategy are not static and the institutions have already been established and started operations at regional and even at lower hierarchy up to zone level since 2001. However, the finding shows major problems related to government rules and regulations such as assessment of tax/high tax, credit policy/no sufficient source of finance and land distribution procedures of the municipality. Besides, the attitude of government and society towards entrepreneurs and business development facilities related factors is included in the survey analysis.

**4.2.8 Role of Government and Other Stakeholder:** Although there have been attempts by the government and other stakeholders to improve the working environment of micro and small enterprises in Bahir Dar city and also most of the enterprises are established after the strategy of MSE is issued in 2001, the sector have been suffering from a number of factors that affect its development. The results of the study indicates that lack of initial/working capital; lack of working place, unfavorable policy frameworks mainly of high tax and arbitrary tax administrative systems, lack of market, lack of business skill and information are the major problems that affect the development of the sub-sector. In order to alleviate such factors, micro and small enterprise development agency in collaboration with the Bahir Dar city administration has been designed to support the existing business community and to facilitate the creation of new business environment focusing on the unemployed individuals. However, the finding from the survey data shows that there is divergence between directives issued and their actual implementation in the ground.

### **4.3 RECOMMENDATIONS**

On the basis of the findings reached and conclusions drawn from the data analysis and interpretation, the researcher wants to forward the following recommendations as solutions for the problems. That is,

**4.3.1 Access to Initial and Current Capital:** In order to solve the problem of initial and current capital, the MSEDAs should make revisions on the lending policies; raise the lending ceiling of micro and small finance loans to better accommodate entrepreneurs in MSEs; reduce

bureaucratic procedure; adopt flexible repayment arrangements, reduce collateral requirements, group lending and high interest rate; provide necessary information where and how entrepreneurs can approach the financial institutions; expand alternative financial source by allocating and establishing several options of financial institutions such as credit and saving associations and cooperatives of the society; conduct government commercial Bank discussions for enabling Bank to finance with special efforts to entrepreneurs in MSE activities. This should be accompanied with training for Bank credit officers; finally advice MSE entrepreneurs to use other traditional financial sources such as Iqub and Idir to supplement their operating capital; and to save some amount of money from their income by reducing unnecessary expense.

**4.3.2 Work Place:** To alleviate the problem of working place, the city government and other stakeholders should encourage local officials to allocate land for entrepreneurs; encourage the creation of common facility centers to display their products; provide working premises as incentives for successful entrepreneurs and the government should continue to support WEA so to can work with them on behalf of its members to address the issues of premises and working capital.

**4.3.3 Legal Framework:** To avoid the problem related to taxation, the following remedial actions should be taken by the micro and small enterprise development agency, revenue office and other concerned government authorities review practices affecting entrepreneurs in MSE including corruption. That is, assessing the legal and regulation barriers facing entrepreneurs on starting and operating their enterprises and make revision on tax administration and adopt appropriate tax administration system to reduce arbitrary tax allocations; the revenue office should make frequent follow ups about the business transactions of each enterprise there by try to administer taxes (minimizing guess works): MSE and revenue office should make discussions to have common vision/mission to make free those infant micro and small enterprises until they stabilize in the business environment and/or repay their credits; create awareness about government rules and regulations, and business record keeping by assigning trained business advisors.

**4.3.4 Involvement of Women:** To alleviate the problems related to low participation of women to in MSEs; the MSEDAs, WEA and other concerned institutions should provide training and advisory services for female to enhance the engagement of them in micro and small enterprise activities to minimize women unemployment.

**4.3.5 Problems of Market:** To minimize problems related to lack of market and/or demand for products; the MSEDAs, and other concerned institutions in coordination with entrepreneurs should provide training and advisory services to minimize the concentration of similar MSEs in particular areas; encourage entrepreneurs to diversify their enterprise activities and make linkage with in them and with other large enterprises; try to bring behavioral change up on the people to use local products of MSEs; assist entrepreneurs in identifying markets and new potential business areas, pricing system, demand based production and how to handle and approach their customers; and to strengthen the started exhibitions, bazaars and periodical street trade fairs.

**4.3.6 Entrepreneurial Skill:** To achieve all the above recommendations, MSE should assign a coordinating sector for business development system services in its office. These services should be provided to make entrepreneurs more aware of existing laws, regulations, financing options, marketing information and training opportunities; finally encourage and support WEA in its effort to enhance the involvement of female in micro and small enterprise and provide other business information through their membership networks and initiate the creation of other business oriented organizations.

**4.3.7 Further Research:** finally, the researcher recommends future researcher to study on proper sub- sector categorization of different micro and small enterprise activities to better identify the problems of each activity and on comparing the problems of each sub-sector of the micro and small enterprise activities to better understand the problems that hinder the development of the sector and to provide a possible suggestions in the city of Bahir Dar. There can be many recommendations that can benefit the MSEs sector as a whole that the entrepreneurs in manufacturing activities. But what is by far the most important is improving administrative and service giving mechanisms in each administration to implement ideas and suggestions that could given in this final chapter and the preceding ones and also it would be better to put the already established micro and small enterprise development policy in to practice.

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# APPENDICES

## Appendix 1: Questionnaire

Addis Ababa University

School of Graduate Studies

Department of Public Administration and Development Management

Survey questionnaire to be filled by entrepreneurs engaged in micro and small enterprise activity in the manufacturing sub-sector.

Dear Sir/Madam,

The purpose of the questionnaire is to assess factors affecting the development of micro and small business enterprise and to review the role of MSE policy for the development of the sector, and to provide/suggest solutions to minimize the problems in the sector in the city of Bahir Dar. Your response will not be used other than this research purpose. Thus, you are kindly requested to provide your response.

Thank you in advance!

Direction: circle the correct answer for those questions with alternatives and write necessary suggestions for opinion questions (more than one answer is possible when necessary).

### Part I: Personal Characteristics of Respondents

1. Work place/kebele a)Fasilo b)Shimbt c)Hidar asirrand d) Belay Zeleke e)Sefene-selam
2. Age a) below 25 b) 25-35 c) 36-45 d) above 45
3. Marital status a) married b) unmarried c) divorced d) widowed
4. Sex a) male b) female
5. Educational status a) illiterate b) grade 1-4 c) grade 5-8 d) grade 9-12 e) other----
6. Where is your ancestral place? a) Bahir Dar b) outside Bahir Dar
7. If outside the city of Bahir Dar, indicate the region and the area you come from:  
i) rural----- ii) urban----- iii) region-----
8. What is your reason of coming to Bahir Dar? a) to find job b) desire to live with relatives  
c) to get education d) other-----
9. For how long continuously you have lived in this city? -----

### Part II. Occupational background of Respondents

10. What was your occupation prior to this activity?  
a) Farming b) employee in private enterprise c) government employee  
d) student e) unemployed f) other-----
11. Reason (s) for your joining to this activity? a) need for additional income  
b) displacement of family c) lack of employment opportunity  
d) family responsibility e) other -----

12. How did you acquire the skill that you are using currently in your operation?  
 a) self-taught      b) formal training      c) on job training      d) from family      e) other ---
13. Who encouraged /helped you to join /select this activity? a) own initiative      b) family  
 c) friends      d) MSE officials      e) kebele officials      f) other-----
14. Have you got training after you joined to this activity? a) yes      b) no ; If your answer is yes, please mention-----
15. Since when did you start this activity? -----
16. Why did you choose this particular activity? a) brings good income  
 b) it needed small investment      c) others are highly competitive      d) I like the activity  
 e) other ( specify)-----
17. What is the form of ownership of this enterprise? a) sole ownership      b) partnership  
 c) other (specify)-----
18. If you are sole owner of this activity, is any body working with you? a) yes      b) no ; If your answer is yes, please state the relationship with the individuals-----
19. How much was your initial investment in birr? -----
20. What was / were the major source (s) of your capital to start this enterprise?  
 a) own saving      b) assistance/credit from friends/relatives  
 d) loan from lenders      e) loan from micro and small finance institution  
 f) loan from bank      g) assistance/credit from government, NGOs      h) other -----
21. Have you a Bank saving account for your income? a) yes      b) no
22. What is the size of your current capital? -----
23. Do you keep written records of your enterprise activity? a) yes      b) no
24. If yes to Q. No. 23, what is the need of record keeping? a) to know profit/loss  
 b) to keep note of creditors/ debtors      c) to evaluate business performance      d) other-----
25. If your answer to Q. No. 24 is no, why? a) I can not read and write  
 b) transaction is to small      c) do not know how to keep written records      d) other-----

### Part III. Working place and Facilities

26. How did you get a working place in this area? a) rented b) fully/partially owned  
c) provided free by government d) family place e) other -----
27. If you are rentee, how much do you pay per month? -----birr
28. How you evaluate your working site's suitability for market?  
a) suitable b) not suitable
29. If not suitable for Q. No. 28, what is / are the reason/s?-----
30. Does the state distribute working place to entrepreneurs? a) yes b) no
31. If yes to Q. No. 30, What problems did you observe in the distribution of working places (if any)?-----
32. What types of facilities are available to your working place? a) water b) electricity  
c) telephone d) all facilities e) neither water, telephone nor electricity  
e) other-----

### Part IV. Supply and sell, major problems and policy related questions

33. From where do you obtain most of your raw materials? a) farmers b) state enterprises  
c) retailers d) whole sellers e) free/ scrap natural resources f) others-----
34. To whom you sell your products? a) direct to the consumer b) retailer  
c) state enterprise d) other (specify)-----
35. Which month /s is / are favorable times for selling in your enterprise -----why? -----  
-----
36. What mode of advertisement do you use to announce and to sell your product/service?  
a) participating in trade fare and bazaars c) sign board  
b) vocal advertising d) distributing business cards e) other-----
37. What were the three major difficulties faced in starting your business? Please put in order of importance.
- a) Lack of working place-----  
b) Lack of information-----  
c) Government regulations-----  
d) Inadequate skills-----

- e) Lack of working capital-----
- f) I faced no problem-----
- g) Other -----

38. What are the major constraints in the current operation of your enterprise in rank order?

- a) heavy tax ( government rules)-----
- b) lack of market -----
- c) lack of supply of raw materials-----
- d) lack of working capital-----
- e) lack of working place-----
- f) other-----

39. Do you face problem in securing loan? a) yes b) no

40. If yes to Q. No. 39, what are the difficulties?

- a) lack of collateral
- b) lack of information
- c) banks do not loan to MSE
- d) long time to secure loan
- e) other-----

41. How do you get the attitude of the government/ local authorities /NGOs towards your enterprise?

- a) supportive / positive
- b) discouraging / negative
- c) indifferent /neutral
- d) other (specify)-----

42. State the sources and types of assistance from government/NGOs if any? -----

43. What is/are the most important assistance needed from government/NGOs for your enterprise?  
put in rank order.

- a) access to working place -----
- b) easing government rules and regulations-----
- c) better access to loan-----
- d) assistance with markets-----
- f) others-----

44. In your opinion what are rules, regulations and by laws that need amendment (if any)? -----

**Thank you!**

## **Appendix 2: Interview Questions**

**Addis Ababa University**

**School of Graduate Studies**

**Department of Public Administration and Development Management**

**Interview questions for MSE officials and for other officials in Bahir Dar city**

**Dear Sir/Madam,**

The purpose of these interview questions is to assess factors affecting the development of micro and small enterprise activity and to recommend suggestions for improvement of the development of the sector. Thus, you are requested kindly to give your response freely. Your response will not be used other than this research purpose.

**Thank you!**

### **I. Interview guide for MSED (Experts in MSE Development)**

#### **a) Policy and leadership issues**

1. Starting time of the MSE development promotion in the region -----
2. What are the main objectives of MSED?
3. What are the focus areas of micro and small enterprise strategy?
4. What problems are facing to assist MSE entrepreneurs in the development program?
5. What criteria are used in helping entrepreneurs?

#### **b) Access to capital**

1. Do MSE entrepreneurs have access to source of financing to start and expand their enterprise? Is there special program for weak or novice entrepreneurs to provide loan?
2. What efforts are made to ensure their access to sources of financing?

#### **c) Training, business support and information**

1. Do MSE entrepreneurs have access to entrepreneurial training opportunity?
2. Are there trainers and advisors for MSE entrepreneur's market in MSE agency or else?
3. If yes, how many? ----- are they adequate?

#### **d) Promotion of entrepreneurs**

1. What is the public attitude towards MSE activity?
2. Are entrepreneurs valued for their contribution to the MSE development?
3. If yes, are they promoted?
4. Again if yes, in what mechanism they are promoted?
5. Is there tax holiday, interest free loan system for entrepreneurs to encourage?

**Thank you!**

## **II. Interview Guide for Women Entrepreneurs' Associations (WEA)**

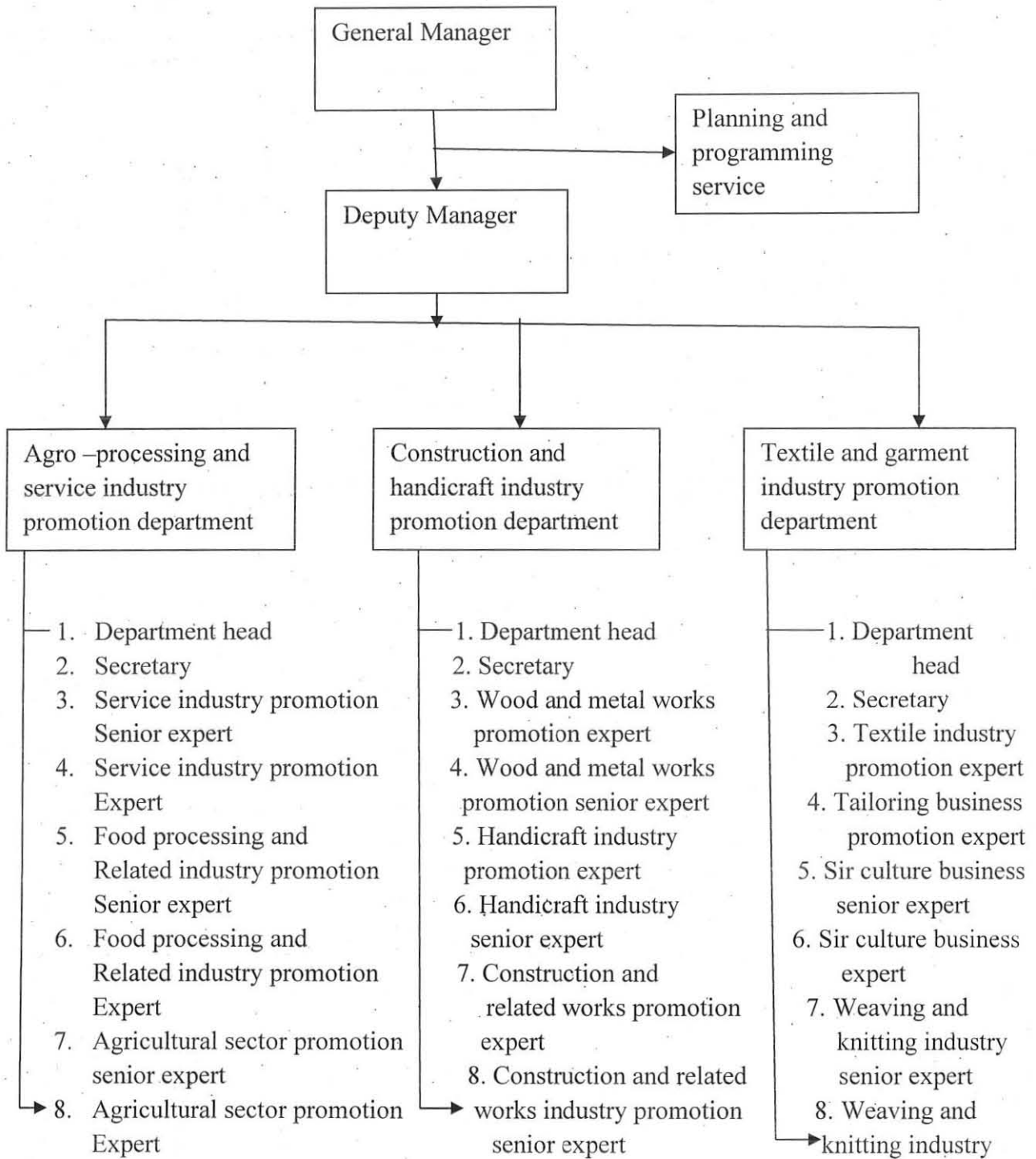
1. What is the main objective of the association?
2. Do you believe that WEA adequately represent the needs of its members?
3. What issues are discussed with local/regional/zonal/national policy makers/practionners?
4. What is the attitude of government/NGOs towards WEA?
5. Are there experience sharing among WEAs of different regions or else?
6. From where you get the financial resources for WEA? Is it enough to achieve its objective?
7. What are the major constraints that hinder the development of entrepreneurs in MSEs sector that you think?

## **III. Interview Guide for Bank Officials (Branch Manager)**

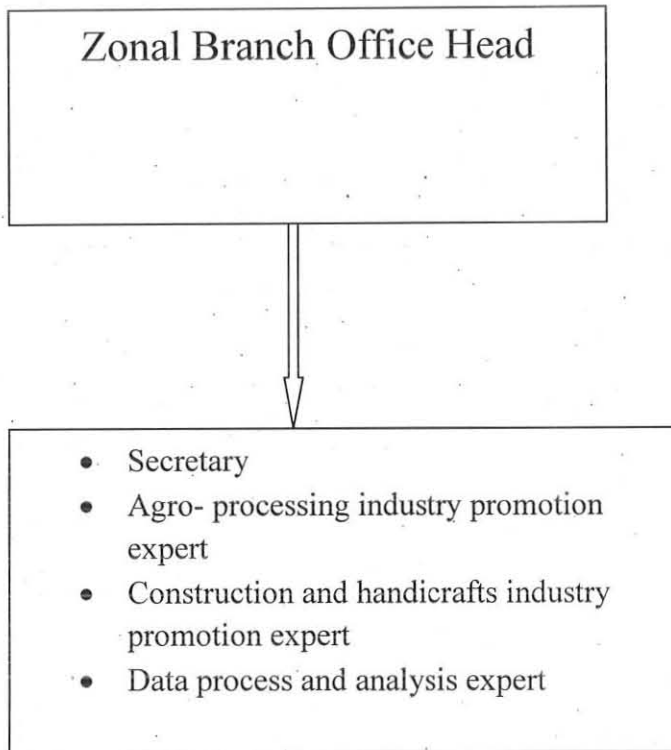
1. Do the bank provides loan for MSE entrepreneurs? a) yes                      b) no
2. If yes to Q. No. 1, what are the criteria to give the loan?
3. If no to Q. No. 1, what is the reason?
4. Do you think that the collateral that the bank requests understand the capacity of the entrepreneurs?

**Thank you!**

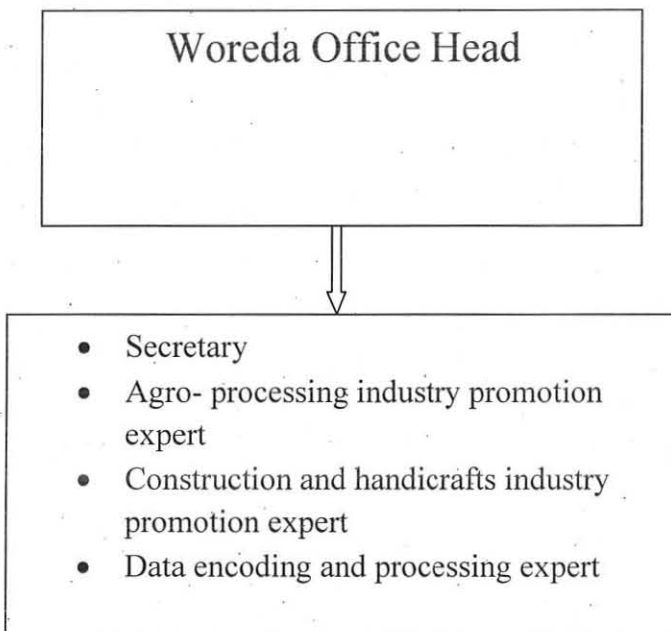
**Appendix 3(a) Amhara Region MSE Promotion Agency Organizational Structure**



### 3 (b) MSE Promotion Agency Zonal Branch Office Structure



### 3 (c) MSE Promotion Agency Woreda Office Structure



Source: Amhara National Regional State MSE Promotion Agency, 2006.

#### Appendix 4 (a) Total Number of MSEs in Bahir Dar City

No.	Type of Enterprise	Total Number of Enterprise
1	Manufacturing (wood, metal, construction, handicraft)	438
2	Service (municipality service, food and food processing, etc.)	1203
3	Textile (garment, local leather production, etc.)	604
4	Urban agriculture (handicraft)	140
	<b>Total</b>	<b>2385</b>

Source; Bahir Dar city Administration MSE Office, 2008

#### Appendix 4 (b) Distribution of MSEs in the Nine Kebele Categories of Bahir Dar City

Name of the kebele	Category of the City	Manufacturing Enterprises	Service Industry	Textile	Urban Agriculture	Total
Sefene-selam	Central (inner)	55	262	203	3	<b>523</b>
Shum-abbo	Central (inner)	42	209	37	10	<b>298</b>
Belay zelege	Intermediate (middle)	52	101	42	19	<b>214</b>
Shimbt	Peripheral (outer)	49	151	46	23	<b>269</b>
Gishe abay	Central (inner)	44	103	101	7	<b>255</b>
Ginbot haya	Peripheral (outer)	50	105	43	20	<b>218</b>
Tana kebele	Intermediate (middle)	51	87	30	25	<b>193</b>
Fasilo	Central (inner)	47	95	44	6	<b>192</b>
Hidar asraand	Peripheral (outer)	48	90	58	27	<b>223</b>
<b>Total</b>		<b>438</b>	<b>1203</b>	<b>604</b>	<b>140</b>	<b>2385</b>

Source: Bahir Dar City Administration MSE Office, 2008 (Arranged by the Researcher)

**Appendix 5 List of Sample Respondent Micro and Small Enterprises in the Three Areas of the Study Place**

Types of Enterprises	City Center	Intermediate	Periphery	Total
	No.	No.	No.	
1.Manufacture of furniture	18	6	7	31
2.General metal works	19	9	12	40
3.Manufacture of bricks & cement pipes	3	5	24	32
4.Metal & wood works (combined production)	17	4	6	27
5.Handicraft workers	5	2	1	8
<b>Total</b>	<b>62</b>	<b>26</b>	<b>50</b>	<b>138</b>

**Source: Field Survey Computed by the Researcher, 2010**