

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES
DEPARTMENT OF RURAL LIVELIHOODS AND DEVELOPMENT

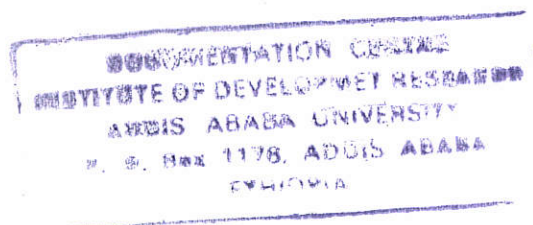
Contribution of Microenterprises to Sustainable Livelihoods
The Case of Woliso Town, South West Shewa Zone, Oromia, Ethiopia

BY: Wogari Wakjira

July 2010

Addis Ababa

20790



The
W606
2010

137973

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

**Contribution of Microenterprises to Sustainable Livelihoods:
The Case of Woliso Town, South West Showa Zone, Oromia,
Ethiopia**

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF
ADDIS ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN
DEVELOPMENT STUDIES**

**BY
WOGARI WAKJIRA**

**July 2010
ADDIS ABABA**

*The
Wb66
2010*

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES
(CDS)**

Title

*Contribution of Microenterprises to Sustainable
Livelihoods. The Case of Woliso Town, South West
Showa Zone, Oromia, Ethiopia.*

By

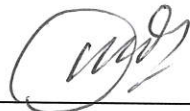
Wogari Wakjira

DEVELOPMENT STUDIES


APPROVED BY THE BOARD OF EXAMINERS:

SIGNATURE

Dr. Workneh Negatu
INSTITUTE DIRECTOR

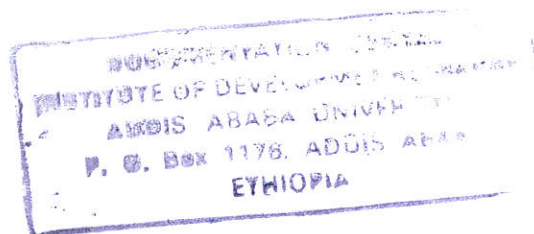


Dr. Workneh Negatu
ADVISOR



Dr. Degefa Tolossa
INTERNAL EXAMINER





ACKNOWLEDGEMENTS

First and foremost, I thank the Almighty God for His guidance and strength.

Next, my heartfelt thanks and appreciations go to my Thesis Advisor Dr. Workneh Negatu not only for his constructive comments but also for his mentoring approach. His comments have shaped this study right from the beginning when I was identifying the topic for the research.

I am also deeply grateful to my family for their financial and moral support to help me come to grips with this study. I would also like to thank all friends in need. In particular, I would like to thank Chala Amdissa (Instructor, Addis Ababa University) for lending me his lap top computer, Addis Tekle for allowing me to use his computer and introducing me to SPSS Software application, and Gelana Bedada for his encouragement.

I would also like to extend my thanks to all offices that have cooperated in providing me with the necessary information and reference materials. In this regard, my thanks go especially to Woliso Town Trade and Investment Office, Federal Micro and Small Scale Enterprise Development Agency, and Ministry of Trade and Industry.

Finally yet importantly, I am indebted to the staff members in the Department of Rural Livelihoods and Development, College of Development Studies (AAU), especially to Tsega G/Meskel for cooperating in one way or another.

Table of Contents

List of Tables and Figures.....	i
List of Acronyms.....	ii
Abstract.....	iii
Chapter One: Introduction.....	1
1.1 Background.....	1
1.2 Statement of the Research Problem.....	2
1.3 Research Objectives.....	3
1.4 Significance of the Study.....	4
1.5 Scope of the Study.....	4
1.6 Structure of the Thesis.....	5
1.7 Limitation of the Study.....	5
Chapter Two: Review of Literature.....	6
2.1 Theoretical Literature.....	6
2.1.1 Definitions and Concepts.....	6
2.1.2. The Significance of Microenterprises in Developing Countries.....	14
2.2 Empirical Literature.....	16
2.2.1 The Role of Microenterprises in the Economic Development of Developing Countries.....	16
2.2.2 Determinants of Enterprise Dynamism.....	17
2.2.3 Microenterprises in Ethiopia.....	19
2.2.3.1 Overview and Significance of Microenterprises.....	19
2.2.3.2 Constraints of Microenterprises in Ethiopia.....	22
Chapter Three: Research Methodology and Description of Study Area.....	28
3.1 Description of the Study Area.....	28
3.2 Research Methodology.....	29
Chapter Four: Findings and Discussion.....	32
4.1 Demographic and Socio-economic Characteristics of the Respondents.....	32
4.2 Enterprise Characteristics.....	36
4.2.1 Ownership Status, Form of Management, Work Premise & Number of	

Employees.....	36
4.3 Livelihood Contexts.....	37
4.4 Livelihood Assets/Capitals.....	40
4.4.1 Financial Capital.....	40
4.4.2 Social Capital.....	41
4.4.3 Physical Capital.....	43
4.4.4 Human Capital.....	44
4.5 Organizations and Institutions/Policies.....	47
4.6 Livelihood Strategies and Activities.....	48
4.7 Livelihood Outcomes of Microenterprise Businesses.....	48
4.8 Sustainability of the Livelihoods of Microenterprises Operators.....	53
4.9 Constraints of Microenterprises.....	59
Chapter Five: Conclusion and Policy Implications.....	61
5.1. Conclusion.....	61
5.2 Policy Implications.....	62
References	
Appendix	

List of Tables and Figures

List of Tables

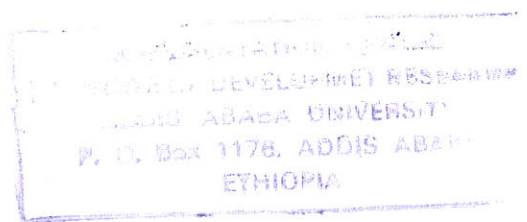
Table 3.1: Number and Sample of Microenterprises.....	30
Table 4.1: Types of Enterprises by Sex.....	32
Table 4.2: Distribution of Respondents by Age Group.....	33
Table 4.3: Distribution of Respondents by Educational Attainment.....	34
Table 4.4: Motivation to Engage in Microenterprise Activities.....	35
Table 4.5: Microenterprise Employment.....	37
Table 4.6: Source of Microenterprises' Initial Financial Capital.....	41
Table 4.7: Role of Kinship and Friendship during Business Start.....	42
Table 4.8: Role of Kinship and Friendship in being introduced to Business.....	42
Table 4.9: Trends in Microenterprise Average Monthly Income Over the Last Two Years.....	49
Table 4.10: Perception of Microenterprise Operators on their Food Security Status.....	51
Table 4.11: Microenterprises that have diversified their Income.....	52
Table 4.12: Shocks and Stresses Experienced by Microenterprise Operators by Sector over the last two years.....	54
Table 4.13: Coping Mechanisms Adopted by Microenterprise Operators.....	55
Table 4.14: Constraints of Microenterprise.....	59

List of Figures

Figure 1: Analytical Framework of the Study.....	25
Figure 2: How Work Premise was Obtained.....	36

List of Acronyms

Birr	the Official Currency of Ethiopia
CSA	Central Statistical Agency
DFID	Department for International Development
E.C	Ethiopian Calendar
ETB	Ethiopian Birr
GDP	Gross Domestic Product
GNP	Gross National Product
FMSEDA	Federal Micro and Small Scale Enterprises Agency
HICES	Household Income Consumption Expenditure Survey
IFAD	International Fund for Agricultural Development
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MSEs	Micro and Small Scale Enterprises
NGOs	Non-governmental Organizations
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
SL	Sustainable Livelihood
SLF	Sustainable Livelihoods Framework
USD	United States Dollar



Abstract

This study is undertaken to examine the contribution of microenterprises to the sustainable livelihoods of the households of their operators in Woliso town. The Sustainable Livelihoods Framework has been employed to understand the dynamics of the livelihoods of the households. Industry, trade and service are the major sectors in which microenterprises engaged in the town. The study employed household survey and in-depth case study to elicit the required data from sample microenterprises selected from each sector. The study has found out that microenterprise operators combined different livelihood assets/capitals (human, physical, social, and financial) to pursue different livelihood strategies/activities, in different contexts, and realized such livelihood outcomes as increased income, reduced vulnerability, and improved food security. There were organizations and institutions that, in one way or another, enabled or constrained the livelihood endeavor of the operators. Rising cost of living, loss of business, declining supply and rising cost of local raw materials, chronic sickness and death of household heads were found to be the major shocks and stresses the sample households faced. In order to cope with these shocks/stresses, the households adapted such mechanisms as renting out rooms, reducing consumption of staple grains with soaring price, and shifting to less nutritious food items. Microenterprises have contributed to the sustainability of their livelihood by providing sufficient income that buffers them against stresses/shocks by themselves, and by supplementing other sources of income.

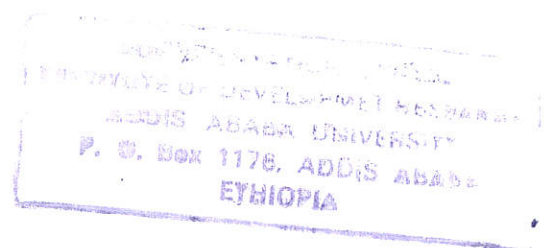
Chapter One: Introduction

1.1 Background

The vast majority of the Ethiopian population is living in the rural areas making a living on agriculture. According to a recent survey of CSA (2008), agriculture accounts for 44.6% of GDP while the share of the industrial sector stands at 13.1%. This is a clear indication that the industrial sector is at its infant stage. The role of the industrial sector is very little in a number of aspects.

On the other hand, the number of people living in urban areas is on a gradual increase with expanding urbanization (MoFED, 2006). The increase in the number of urban population is said to have been caused by increased fertility and rural-urban migration (Debebe, 2006:38). As a result, urban centers in the country are becoming unable to provide their dwellers with socio-economic services, and urban poverty is accelerating from time to time. The urban poor are often engaged in micro and small-scale businesses to earn their living and get extricated from the trap of poverty. Thus, one of the arguments that favor the development of micro and small-scale enterprises is that they provide livelihood to the bulk of poor urban residents, and thereby playing a major part in alleviating poverty. They are believed to play a crucial role in creating jobs for the poor, and thereby reducing the widespread unemployment prevailing in the urban centers of developing countries like Ethiopia. The main explanations for the viability of microenterprises as a source of livelihood for the poor include the fact that they require local technologies and resources, small start-up capital, and produce for local markets (Hayat, 1997:176; Aryeetey et al. cited in Getachew and Getachew, 1997:135). Consequently, they play a prominent role in improving the livelihoods of the poor, and in contributing to economic development (Solomon Wole, 2004).

Cognizant of the key roles micro and small scale enterprises play in the economic development of the country in general, and in the lives of the poor in particular, the Ethiopian government has already established a Federal Micro and Small Scale Enterprises Development Agency, which has issued a Strategy in 1997 that mainly aims at creating an enabling legal, institutional and other supportive environments for the growth and development of MSEs, in order to maximize employment opportunities to the jobless and poor people (Gebrehiwot and Wolday, 2004).



Microenterprises predominantly prevail in small towns while medium and large-scale enterprises dominate bigger towns and cities. The microenterprise sector is particularly important for low-income, poor and women groups (Gebrehiwot and Wolday, 2006). Consequently, the vast majority of the urban poor earn their living through microenterprises (Mulu, 2009:1). Woliso is a growing town where microenterprises are serving as the source of livelihood to their operators in the town. This study has tried to investigate the social sustainability of the livelihoods of households engaged in microenterprises in the town.

1.2 Statement of the Research Problem

In Ethiopia, years have elapsed since micro-enterprises were recognized as an important area of intervention by the private sector so that they would contribute their part to curb the socio-economic problems of the urban poor. This was particularly realized in the wake of the adoption of the free market economic system in the country. Among the benefits MSEs provide is providing livelihoods to the poor. However, it is hardly possible to think that all micro-enterprises are successful in serving the purpose they are intended for. This is largely true as their success is dependent on a number of factors, ranging from the types of assets they have to the economic and social contexts in which they operate. Recent developments in the analysis of poverty place a high premium on the application of sustainable livelihoods approach so as to study the dynamics of the livelihoods of the poor. It is, therefore, crucial to investigate the contribution of microenterprises to poor people's livelihoods within the broader framework of sustainable livelihoods, which is the main theme of this study.

Many of the studies undertaken in the area of microenterprises have focused on specific aspects such as enterprise growth, their role, credit, etc. A study conducted by Solomon Worku (2004), for instance, focuses on the determinants of enterprise growth, and reveals that the age of the entrepreneur and the start-up size of enterprises, the extent of diversification, availability of infrastructural facilities, availability of own working premise and availability of workers with vocational formal training are the major determinants of the growth of micro and small scale enterprises. On the other hand, Gebrehiwot and Wolday (2006) looked into MSE development in terms of strategy, regulatory changes and constraints, and identified the major regulatory constraints facing micro and small-scale enterprises in Ethiopia, which include high taxes, inefficient/arbitrary tax administration, high collateral requirement, lack of/inadequate business premise and lack of business services. In addition,

Getachew Abebe and Getachew Ayalew (1997) mention financial problem, marketing, and lack of infrastructural facilities, production and technical problems, managerial incapability and lack of institutional support as the major constraints to microenterprise development. Fasika and Daniel (1997:140) investigated the sources of financing MSE in Ethiopia, and found out that many of these businesses were financed out of personal savings. Messay (2008), while providing an important insight into the role of micro and small-scale enterprises in local economic development which encompasses certain facets of livelihood, has not touched upon its sustainability aspects.

Little or no attention has been given to the study of the livelihoods that microenterprises provide, and to the sustainability of these livelihoods, implying that there is a gap in this regard. This paper has, thus, attempted to fill this gap by investigating, *inter alia*, the livelihood outcomes gained through microenterprises, and the livelihood sustainability of the households of microenterprise operators, of course, as a result of their engagement in the business. For practical purposes, the study is confined to focus on the social sustainability of the livelihoods.

1.3 Research Objectives

The general objective of the study is to explore the contribution of micro-enterprises in the study town to sustainable livelihoods of the households of their operators.

Specifically, the study tries to achieve the following objectives.

1. To explore the livelihood contexts, assets, activities and mediating processes of microenterprise operators
2. To explore the livelihood outcomes realized by households engaged in microenterprises
3. To examine if the livelihoods of the households of microenterprise operators are sustainable, i.e., withstand stresses and shocks and remain resilient as a result of their engagement in microenterprises
4. To explore the constraints of micro-enterprises in the study area

The study will also seek to answer the following research questions.

- What are the livelihood contexts, assets, activities and mediating processes of microenterprise operators?
- What are the major livelihood outcomes of households of microenterprise operators from the enterprises they are engaged in?
- Do the livelihoods of the households of microenterprise operators withstand shocks

and stresses, and remain resilient?

1.4 Significance of the Study

Recently, there is a growing recognition that micro-enterprises have tremendous role in enhancing the livelihoods of the poor and thereby leading to poverty alleviation in developing countries like Ethiopia. Consequently, national policies and strategies that support such businesses have been designed to help them achieve the desired goal. However, any intervention made in this regard requires a better understanding of how far such businesses contribute to the betterment of the livelihood of the poor on a continual basis, and of the constraints they face. This in turn requires a thorough research in the area.

The impetus for this study is, thus, to investigate if microenterprises in the study area contribute to the sustainability of the livelihoods to the people engaged in them. The study will, thus, serve as an important input for governments and non-governmental organizations that wish to undertake interventions in the area of micro-enterprise development as a means to improve the livelihood of the poor. It also provides the basis for any further research in the area while also filling the knowledge gap prevailing in the area of micro-enterprise contribution to sustainable livelihoods in the urban context.

From a methodological perspective, the study has employed the Sustainable Livelihoods Framework, which has mostly been adopted in analyzing rural livelihoods, and has rarely been applied to the analysis of urban livelihoods, particularly in the Ethiopian context. Therefore, this study provides an important methodological ground for further studies to be undertaken in analyzing sustainable urban livelihoods.

1.5 Scope of the Study

In this study, enterprises whose paid-up capital is bellow Birr 20,000 (based on the definition provided by MoTI) are the population of the study, from which the required sample was taken. This does not include non-registered petty traders (e.g. "gulits"). Moreover, only microenterprises that have been in operation for more than two years were considered in the sampling process. This was particularly so, because the first two years are believed to be the time when enterprises are not fully engaged in formal operation but make the necessary preparations, and even if they engage in operation, they are not as such in a position to undergo changes required for the purpose of this research in particular.

In addition, this study is limited to the analysis of microenterprise contribution to sustainable livelihoods to microenterprise operators. For practical reasons, the study has focused on the social sustainability aspect of livelihoods in order to see the sustainability of livelihoods. Moreover, the study should be seen through the lens of the wider framework of sustainable urban livelihoods, except that it focuses on the livelihoods of households engaged in microenterprises.

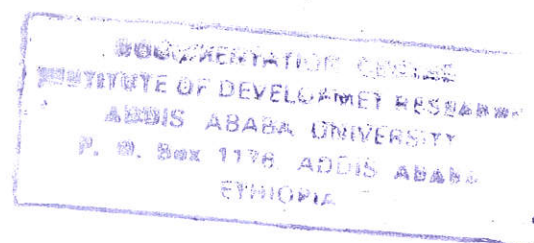
1.6 Structure of the Thesis

The paper consists of five major chapters. Chapter One outlines the introduction part, which discusses background of the study, problem statement, research objectives, significance and scope of the study, and its structure and limitation; Chapter two discusses review of related literature under two broad headings, vis., theoretical literature and empirical literature. Chapter three deals with the research methodology, and description of the study area. Chapter four details the major findings; finally, Chapter 5 deals with conclusion and policy implications.

1.7 Limitation and Delimitation of the Study

A dearth of recent data on microenterprises in Ethiopia has made it difficult to provide a nation-wide picture of the sector in terms of its distribution and contribution to the country's economic development in general, and to the people engaged in it, in particular. The Central Statistical Agency has already given up compiling any data on microenterprises focusing entirely on enterprises that are beyond microenterprises in scale.

This study was undertaken to examine the contribution of microenterprises to sustainable livelihoods from a small town perspective. The analysis of livelihood sustainability hinges upon two-pronged sustainability aspects, vis., environmental and social sustainability. However, for practical reasons, only the social sustainability of the livelihoods of the households of microenterprise operators has been examined, with no consideration of the environmental aspects of the livelihoods. In other words, the external impact of the livelihoods on other livelihoods has not been examined.



Chapter Two: Review of Literature

2.1 Theoretical Literature

2.1.1 Definitions and Concepts

i. Microenterprises

In the 1970s, the search for a definition of microenterprise that was both theoretically satisfying and operationally useful was associated with the discussion of the informal sector (Janik, 2008). Although there was never a consensus, most definitions were based on sector, level of assets, number of workers, and scale of operation or of output (Ibid).

Twenty years later, studies have shown that the problems surrounding the definition of microenterprises have continued to prevail. Getachew Abebe and Getachew Ayalew (1997) indicate that the definition of microenterprises has continued to be a controversial issue with no general consensus on the part of the various sectors of the society. Consequently, there are varied definitions of microenterprises in the literature.

Different countries define these businesses differently depending on their respective situations, vis., the stage of economic development, policy matters, etc (Ahmed, 2003, pp. 4). In addition, various criteria are employed to define enterprises as was the case three decades ago.

Among the criteria used to define enterprises, the most common and widely used ones include the number of paid employees by the sector (Fasika and Daniel, 1997), the amount of paid-up capital, total assets, volume of sales, and value added or net worth (Getachew and Getachew, 1997). The World Bank, for instance, uses number of employees, total assets, and annual sales as a benchmark to classify enterprises. Accordingly, it defines microenterprises as firms having total assets sales of about USD 100, 000, and employing 10 persons (Messay, 2008). The Asian Development Bank (2009), by using number of employees as a criterion, defines microenterprises as enterprises having less than five workers and engaged in non-primary activity. Moreover, microenterprises are defined as firms engaged in non-corporate income generation with a starting capital of often less than USD 1000 (WBSP, 1993, cited in Getachew and Getachew, 1997).

In Ethiopia, the amount of paid-up capital and scale of operations seem to be used to define enterprises. The Federal Ministry of Trade and Industry (MoTI) defines microenterprises “as

business enterprises, in the formal and informal sector, with a paid-up capital of not exceeding Birr 20, 000 and excluding high tech consultancy firms and other high tech establishments.” The CSA categorizes enterprises into different scales of operations based on the size and nature of employment (Solomon Wole, 2004). Accordingly, it sub-divides micro-enterprises into informal sector operations and cottage industries. Cottage and handicraft industries are those establishments performing their activities by hand using non-power driven machines. The informal sector is defined as “household type establishments or activities which are non-registered companies or cooperatives operating with less than 10 persons.” For the ease of consistency and comparability of various data, this study has adopted the definition given by the MoTI. In other words, it has adopted the definition based on the amount of paid-up capital.

ii. Livelihood Concepts

In order to have a thorough understanding of the livelihood of people in any economic activity and within any particular setting, it is better to employ the livelihood approach (Degefa, 2008). Apparently, it is due to this fact that the issue of livelihood is becoming an increasingly important subject of concern in the contemporary development thinking. In order to deal with the livelihood approach, it is imperative, thus, to have a better understanding of the very concept of livelihood itself.

Different scholars provide various but closely related and overlapping explanations to the concept of livelihood. As Chambers and Conway (1992) depict, “*a livelihood comprises people, their capabilities, and their means of living, including food, income and assets.*”

DFID (1999) also provides a somewhat related definition by describing a livelihood as comprising the capabilities, assets (including both material and social resources) and activities required for a means of living. According to Scoones (1998), however, the definition by DFID draws on Chambers and Conway (1992) among others.

Another related definition is the one given by Ellis (2000). “A livelihood,” describes Ellis, “comprises the assets (natural, physical, human, financial and social), the activities, and the access to these (mediated by institutions and social relations) that together determine the living gained by the individual or household.” These are the most common definitions of ‘livelihood’ in the literature.

iii. Sustainable Livelihoods

Despite its wide use, sustainability is a problematic concept recurring in discussions about environmental resources, human livelihoods and development.¹ Sustainability refers to the continuity of the capacity of a system to replenish itself in the very long term or expand over time. In an ecosystem context, it refers to diversity of biomass and species, but in its application to human needs, it refers to sustaining outputs available for human consumption, and therefore the capacity of a resource or system to maintain itself or increase its contribution to human welfare and well-being (Ellis, 2000:125).

Chambers and Conway (1992:12) highlight that the sustainability of livelihoods raises many questions which fall into two groups: whether a livelihood is sustainable environmentally, in its effects on local and global resources and other assets; and whether it is sustainable socially, that is, able to cope with stresses and shocks, retain its ability to continue and improve. The authors also expound that environmental sustainability concerns the external impact of livelihoods on other livelihoods, while social sustainability concerns their internal capacity to withstand outside pressures.

Meikle et al. (2001:1), thus, broadly define a 'sustainable livelihood' as a means of living which is resilient to shocks and stresses, and which does not adversely affect the environment. This definition draws largely on the popular definition of the concept:

"A livelihood is sustainable when it can cope with and recover from stresses and shocks, maintain or enhance its capabilities and assets, while not undermining the natural resource base" (Scoones, 1998:5).

At the center of the concept of sustainable livelihoods lies an appreciation that poverty is not a stable, permanent or static condition. The poor move in and out of relative poverty as they respond to the opportunities, shocks and stresses - social, economic and environmental - which they experience (Moser, 1996, and Chambers, 1995 cited in Meikle et al., 2001:1). The concept of vulnerability is also a dynamic one and central to an understanding of the condition of the poor (Ibid: 1). The poor belong to the most vulnerable groups in the society due to their high degree of exposure to vulnerability risks, crises, stresses and shocks, and they have little capacity to speedily recover from them (Fernando, 2003:2).

¹ For detail discussions about the difficulties regarding the concept of sustainability, see Ellis (2000:124-128).

According to Scoones, a stress is small, regular, predictable disturbance with a cumulative effect, while a shock is a large, infrequent, unpredictable disturbance with immediate impact (Scoones, 1998:6-7). Stresses are pressures which are typically continuous and cumulative, predictable and distressing, such as seasonal shortages, rising populations or declining resources, while shocks are impacts which are typically sudden, unpredictable, and traumatic, such as fires, floods and epidemics (Conway 1987, Conway and Barbier 1990, cited in Chambers and Conway 1992:14).

It is therefore possible to say that sustainable livelihoods are derived from people's capacity to make a living by surviving shocks and stress, which requires reliance on both capabilities and assets for a means of living. A livelihood is, thus, sustainable if it can cope with and recover from stress and shocks, maintain and enhance its capabilities and assets, and enhance opportunities for the next generation (UNDP 1997 cited in Meikle et al. 2001:2).

iv. Sustainable Urban Livelihoods

This study looks into sustainable livelihoods in the context of an urban area. Thus, it is important to have a brief look at sustainable urban livelihoods.

Large numbers of urban residents are clearly living in conditions of poverty and, in many countries (particularly sub-Saharan Africa) these numbers rose significantly during the economic restructuring of the 1980s (UNCHS, 1996 cited by Meikle et al. 2001:4-5). The livelihoods of the urban poor are determined in large part by the opportunities and constraints under which they are operating. It is therefore necessary, in order to understand the nature of sustainable urban livelihoods, to understand the urban context. The livelihoods of the urban poor are well understood when analyzed in relation to the urban contexts, which could be grouped under five headings of social context, economic context, governance, and environmental and health and urban/rural linkages (Ibid. pp.4-5). These five urban contexts can be summarized below based on the authors' analysis.

Social context: comprises such social issues as family break-up, drug use, crime and social disintegration (which would be expected to undermine the social capital of the poor) – an idea often linked to studies of the 'inner city' in developed/northern countries. As explained by Moser (1998: p. 4) community and inter-household mechanisms of trust and collaboration can

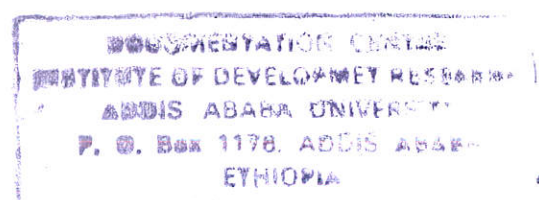
be weakened by greater social and economic heterogeneity, which characterize urban centers.

Economic context: the urban economy is characterized by a greater degree of commercialization, and most basic goods such as food are bought through the market. As a result, the urban poor need higher cash incomes than most rural households in order to survive (Wratten, 1995 & Satterthwaite, 1997 cited in Meikle et al. 2001:2).

The urban poor, whether or not they are migrants, survive through undertaking a variety of activities, which take place in the informal sector. Informal activities generally, but not always, provide poor people with low cash incomes and insecure conditions. The economic opportunities offered by expanding urban centers allure migrants from rural areas or less developed towns in search of work and the chance to improve their lives. As a result of increased urban population, in addition to the opportunities urban centers offer, housing, basic and infrastructure and other needs, such as food and clothing become more expensive and less accessible in urban areas, and many migrants experience the burdens as well as the rewards of the city life. Moreover, the urban economy is often affected by national and international macro policies (Douglass, 1988), having impacts on poor households and in particular the condition of women (Moser, 1998).

Governance: The urban poor are linked into structures of governance through their dependence on the delivery of infrastructure and services by city institutions, as well as through the impact of meso- and macro-level policies (Beall and Kanji, 1999 & Katepa-Kalala, 1997 cited by Meikle et al. 2001:2).

Environmental: The unsatisfactory quality of the residential and working environments, and associated health problems, of poor urban people is now generally recognized. The urban poor are commonly concentrated at high densities in areas of low rent. They are frequently on polluted land close to industrial facilities or where waste dumps are sited and watercourses are contaminated, or on hillsides and river plains which are susceptible to landslides and flooding. The result is that the urban poor are frequently vulnerable to a range of environmental and health hazards (Wratten, 1995). The urban poor, living in inadequate overcrowded shelters (or less crowded but spatially poor peri-urban areas), suffer from diseases and injuries resulting from proximity to toxic and hazardous wastes; lack of clean water and



sanitation; water, air and noise pollution (Satterthwaite, 1997 cited by Meikle et al. 2001). They are particularly vulnerable to typhoid, diarrhoeal diseases, cholera and intestinal worms from contaminated water and food, as well as diseases associated with poor drainage and garbage collection such as malaria (Wratten, 1995; Werna et al, 1998 in Meikle et al. 2001).

Urban-rural Linkage: rural-urban linkages play an important role in the ways in which livelihoods are constructed (Tacoli, 1998, p. 78 cited by Meikle et al. 2001) as for example with:

- remittances from urban to rural areas;
- the giving of goods between rural and urban areas (e.g. food);
- sharing of caring responsibilities for members of an extended family e.g. elderly relatives in rural areas, children and new migrants from the extended family in the urban area;
- seasonal labour by the urban residents with the extended family in the country and;
- short term migration

Sustainable urban livelihoods are, therefore, characterized by these contexts. It is believed that there is a basic similarity in terms of the principles underlying the livelihood approach in rural and urban areas. However, there are contextual differences (social, economic, governance and environmental) between rural and urban areas, as well as among urban areas themselves, as it has already been discussed. These differences affect the specifics of both the nature of the poor's 'wealth', and how they can make a living. An understanding of the particular nature of the urban context is therefore critical when examining the specifics of sustainable urban livelihoods. A key example of such a difference is the greater influence of the cash economy on the lives of the urban compared with the rural poor (Ibid).

vi. Sustainable Livelihoods Framework /SLF/

The Sustainable Livelihood Framework is an analytical device for improved understanding of livelihood and poverty (Farrington, et al. 1992:2 cited in Tarekegn, 2006). Similarly, according to Swift and Hamilton, 2001:82 cited by Tarekegn, 2006)), the sustainable livelihood framework is analytical framework, which attempts to widen our insight of how people use the resource at their disposal to construct their livelihood. The sustainable livelihood framework is first designed to analyze and improve rural livelihoods. However, it is also being used in urban areas with certain modifications (Meikle et al. 2001; Degefa, 2005:85).

Major Components of SLF

Livelihood Contexts/Settings

According to Scoones (1998:4), rural livelihoods contexts include policy, history, politics, macroeconomic conditions, terms of trade, climate, agro-ecology, demography and social disintegration. Ellis (2000:30) also describes livelihood contexts in a similar manner by classifying them into trends and shocks. According to the author, trends refer to population, migration, technological change, relative prices, macro policies, national economic trends, and world economic trends, while shocks refer to natural and manmade calamities such as drought, floods, pests, diseases and civil war.

The urban livelihood contexts are broadly classified into economic, social, environmental, and political/governance (Meikle et al., 2001; Degefa, 2008).

Livelihood Assets

Scoones (1998) contends that the ability to pursue various strategies depends on the basic material, and social, tangible and intangible assets that people have at their disposal. He also highlights that these livelihood assets/resources could be labeled as, in an economic metaphor, "capital", from which productive streams are derived, yielding livelihoods. The author classifies assets into natural capital (soil, water, air, genetic resources, etc; and environmental services-hydrological cycle, pollution sinks, etc), economic or financial capital (cash, credit, savings, basic infrastructure and production equipment and technologies), human capital (skills, knowledge, ability to labor and good health and physical capability), and social capital (networks, social claims, social relations, affiliations and associations). Similarly, Ellis describes assets as stocks of capital that can be utilized to generate the means of survival of the household or to sustain its material well-being at different levels above survival (Ellis, 2000:31). Drawing on the classifications of different researchers (e.g. Scoones 1998, Carney 1998, etc), he classifies assets into natural, physical, human, financial and social capital. According to Chambers and Conway (1992), however, assets could broadly be classified as tangible (resources and stores) and intangible (claims and success) which provide material and social means.

Mediating Processes

Mediating processes are institutional processes and organizational structures that mediate the complex and highly differentiated process of achieving a sustainable livelihood (Scoones,

1998:11; Ellis, 2000:37-38). Institutions refer to the formal rules, conventions, and informal codes of behavior, that comprise constraints on human interaction (North, 1990:3 cited by Ellis, 2000:38). Examples of institutions include laws, property rights, and the way markets work in practice. Institutions link stakeholders to access to capital of different types to the means of exercising power and so define the gateways through which they pass on the route to positive or negative livelihood adaptation (Davis, 1997:24 cited in Scoones, 1998:12).

Organizations refer to groups of individuals bound together by some common purpose to achieve certain objectives (North 1990:5 cited by Ellis, 2000). Thus, examples of organizations include government agencies such as police force, Ministry of Agriculture, government veterinary service, administrative bodies (e.g. local government), NGOs, associations (e.g. farmers' associations), and private companies (firms) (Ibid).

Institutional structures and organizations are critical mediating factors for livelihoods because they encompass the agencies that either constrain or facilitate the exercise of capabilities and choices by individuals or households (Ellis, 2000, pp. 39). They, thus, determine access to different types of livelihood assets.

Activities

Livelihood strategies comprise activities which generate the means of survival (Ellis, 2000:40); and activities are what people do (Chambers and Conway, 1992:8).

Livelihood Strategies

Ellis (2000) elucidates that the asset status of households, which is mediated by social factors and exogenous trends and shocks, results in the adoption and adaptation of livelihood strategies. Scoones (1998) identifies three types of livelihood strategies in the rural areas.

These are:

- Agricultural intensification or intensification
- Livelihood diversification and
- Migration

Livelihood Strategies in the Urban Context

Like rural livelihood, urban livelihood strategies are shaped by a combination of the assets available, the urban contextual factors that determine the availability of these assets, and men's and women's objectives.

Individuals and households build up various patterns of activities, which together constitute their livelihood strategies. Many households' livelihood strategies integrate rural and peri-urban activities. Many poor urban households diversify their sources of income and drawing, where possible, on a portfolio of activities (such as formal waged employment, informal trading and service activities/ self employment, house rent, etc) (Meikle et al. 2001:12). Chambers (1997) also stresses the importance of the poor diversifying their income as a broad survival strategy, distinguishing between full time employees with one main source of livelihoods ('hedgehogs'), and poor people with a wide portfolio of activities ('foxes'). 'Fox' households undertake many different activities and strategies.

Livelihood Outcomes

According to Degefa (2005:90), "livelihood outcome is the end result of the interaction of various elements in a system." He also goes on to contend, as do other authors on the area, that livelihood outcomes could be desirable or undesirable, and should be seen in light of these dichotomy.

2.1. 2. The Significance of Microenterprises in Developing Countries

In every economy, small enterprises are believed to contribute to the GNP and to creating employment opportunities, and often specialize in areas that big companies are not interested in. They are also thought to be flexible and can react quickly to the changes in the environment (Janik, 2008). In developing countries like Ethiopia, microenterprises are the major source of employment and income for the urban population (Mulu, 2009:1).

More importantly, microenterprises contribute to the reduction of poverty and vulnerability of the poor through enabling them to break the vicious cycle of poverty, and to enhance self-empowerment, respect and social dignity. They allow poor people to increase their income, accumulate assets, and enter into mainstream society (Chowdhury, 2009:2). They play an increasingly significant role in poor people's lives, and are one of the keys to lifting people out of poverty. Some have even described them as the backbone on which the urban economy (especially in small towns) survives in most countries in the South (Vanderschueren et al., 1996, cited in Albu and Scott, 2001). The benefits obtained through starting and operating micro-enterprises go beyond an individual and a household since others in the society also derive benefits from the microenterprise development as it fosters social capital and civic engagement (Ssewamala et al., 2006).

Microenterprises represent a crucial part of the economy and of the labor market in many developing countries playing a major role in employment creation, production and income generation. The sector often tends to absorb most of the growing labor force in the urban areas, particularly in developing countries with a high rate of population growth and/or urbanization (Hussmans and Mehran, 2005, cited by Messay, 2008:22).

According to the United Nations Industrial Development Organization (UNIDO)²,

“There is widespread consensus that SMEs: are labor-intensive, providing more opportunities for low skilled workers; are correlated with lower income distribution inequality; are necessary for agriculture-dependent nations transitioning to an industrial- and service-oriented economy.”

Aryeetey et al. also contend that microenterprises are of paramount significance in developing countries in terms of employment generation capacity, quick production response, their adaptation to weak infrastructure, use of local resources (Aryeetey et al., cited by Fasika and Daniel, 1997), and providing income, skills, goods and services (Getachew Abebe and Getachew Belay, 1997).

Solomon Wole (2004) also purports that micro and small scale enterprises have a number of potential advantages to the economies of least developed countries. To elaborate his argument, he contends that these enterprises are suitable to the factor endowments of least developed countries as they utilize domestic resources and use labor-intensive technology. By and large, he asserts that the enterprises create considerable supply and demand side multiplier effects, which would contribute to enhance national output and income, and would help in reducing the level of poverty.

Micro and small-scale enterprises also provide the basis for creation and promotion of entrepreneurial talents, serve as *middlemen* facilitating linkages among different sectors, are pro poor and have substantial contribution of value added to the performance of the national economy (Torban, 2006).

²Cited in Derek Newberry (2006): The Role of Small-and Medium-sized Enterprises in the Futures of Emerging Economies. The “Missing Middle” in Development. <http://www.seaf.com/impact.htm>.

2.2 Empirical Literature

A significant strand of literature on micro and small scale enterprises has largely focused on enterprise dynamism and its determinants, its roles in society and its constraints. Below is a review of literature on these issues.

2.2.1 The Role of Microenterprises in the Economic Development of Developing Countries

There is mounting evidence that microenterprises have tremendous roles to play in the economies of developing countries, particularly in urban areas. The main explanations for this is that they are easily started and operated with little capital, less skill and low technology, compared to their medium and large scale counterparts. In many developing countries, the bulk of the population is characterized as having limited financial capacity and, limited knowledge and skills. Access to modern technology is also very limited. As a result, people engage in businesses that they can afford to carry out with the meager resources they have.

In this regard, therefore, microenterprises play an important part as they provide employment opportunity and income to the vast majority of poor people in developing countries. Studies reveal that the developing countries of Asia, Africa and Latin America are characterized by the predominance of microenterprises in creating employment opportunities to the poor compared to their small scale and medium counterparts. According to the Asian Development Bank (2009:24), for instance, microenterprises account for 61% of manufacturing employment in India, 44% in Indonesia, and 22% in Thailand. When it comes to Africa, the International Labor Office (ILO) estimates show that the informal sector/microenterprise account for 59 percent of sub-Saharan African labor force (World Bank, 1989 cited in Debebe 2006, pp.33). A study conducted in Kenya shows that microenterprises account for 99% of all enterprises employing an estimated 2 million workers, 600,000 more than the 1.4 million workers in the country's formal sector (Dolman, 1994:5).

According to ILO estimations, the share of informal sector/microenterprise employment (outside agriculture) to the total non-agricultural employment accounts for nearly half or more in all regions of the developing countries and, about 72 per cent in sub-Saharan Africa (SSA). They are very important part of the developing world economy (ILO, 2002 cited by Mulu, 2009:1).

The contribution of the microenterprises is also important at the macroeconomic level as they contribute to innovations, jobs and economic growth. In Thailand, for instance, small firms create employment opportunities for 60% of the workforce and contribute 50% to the GDP (Chowdhury, 2009:2). This contrasts with the case in other developing countries where agriculture accounts for the largest part of GDP. Tokman (1996) emphasizes the importance of promoting the microenterprise sector as a safety net for unemployed people in the societies where unemployment insurance is not available cited by (Tokman, 1996 cited in Chowdhury, 2009).

2.2.2 Determinants of Enterprise Dynamism

Dynamism is a key to gauge the success and/or failure of a given enterprise during a given period of time. Enterprise/firm dynamism refers to changes in quantitative variables such as number of employees, revenues, profits, and sales. It is often a close examination of changes in such variables that enables us to tell the status and prospect of enterprises. A number of studies have been undertaken to explore the major determinants of enterprise dynamism. It is noted that the bulk of these empirical investigations aim at identifying micro-level factors that affect the emergence and growth of enterprises (Davidson and Henrekson, 2001 cited in Debebe, 2006).

According to Torban (2006), the dynamics of micro and small scale enterprises involve two components: net firm creation and net firm growth. He defines net firm creation as the difference between firm new start (firm births) and firm closures (deaths) while he defines net firm growth as the difference between expansion of the existing firms and firm shrinkage. Expansion or shrinkage of firms is measured by changes in the number of employees working in the firms, sales, production, etc. The changes in these variables are caused by a number of factors.

A very recent study conducted by Nichtera and Goldmark (2009) in Morocco reveals that individual entrepreneur characteristics (education, work experience, gender and household), firm characteristics (firm age, and formality (or informality)), relational factors (such as social networks or value chains), and contextual factors (such as the business environment) are the factors associated with small firm growth in the country. Six years earlier, Harabi (2003) found that the major determinants of enterprise growth in Morocco were: operating in a market with

high demand, presence of competition, location of the enterprise in large urban centers, product diversification, market share expansion, and government regulations (Harabi, 2003 cited by Endeshaw, 2005:39). According to the author, while these factors cause enterprises to grow, factors such as location in small population centers, restrictive government policies and regulations, and lack of qualified workers and managers impede the growth of enterprises. However, this study shows that tax regulations, the level of taxes and labor regulations have little or no negative effect on firm growth. In contrast, Reinecke (2002) found that tax deposit and tax differentials in Uganda penalized small enterprises, which affected their growth (Reinecke, 2002 cited by Endeshaw, 2005:40).

In their survey on small scale manufacturing enterprises in Sierra Leone, Liedholm and Packer (1989) came up with a finding that substantiates that enterprise growth is affected by where the enterprise is located. According to the study findings, out of the enterprises located in larger localities with 20,000 or more inhabitants, 31 percent of them experienced growth; in localities with 2000 to 20,000 inhabitants, 13 percent of the surviving enterprises added workers, while none of the enterprises located in the smallest rural areas expanded at all (Liedholm and Packer, 1989 cited by Debebe, 2006). This is indicative of the fact that whether enterprises operate in small towns or bigger ones has a great deal to do with its performance and contribution to the livelihoods of its operators.

The growth of enterprises is also affected by access to financing and to sources of information and technology. According to Voulgaris et al. (2001), low access to financing and to sources of enterprise related information and technology were found to impede growth. In addition, lack of technical and managerial skills was found to deter enterprise growth (Voulgaris et al. 2001, cited by Endeshaw, 2005).

Level of education of the enterprise owner/manager, the age and size of the enterprise, and informal networking are also important factors affecting enterprise growth. The study findings of Papadaki and Chami (2002) in Canada indicate that these factors have significant impact on the growth of enterprises (Papadaki and Chami, 2002, cited in Debebe, 2006).

In Ethiopia, a few studies have been undertaken to investigate the determinants of enterprise dynamism. A study conducted by Solomon Worku (2004, pp.68-70) in the city of Addis Ababa reveals that the main factors influencing employment growth of enterprises include the age of

the entrepreneur and the start-up size of enterprises, the extent of diversification and availability of infrastructural facilities. The study also indicates that availability of own working premise and availability of workers with vocational formal training have a positive correlation with growth of enterprises.

Another study conducted by Torban (2006) in relation to growth of micro and small scale enterprises capital indicates that level of education, targeting of consumers, credit and market information are the important determinants of growth of firms' capital. The same study also reveals that credit, initial employment, market information and sectoral variables are the major determinants of employment by firms.

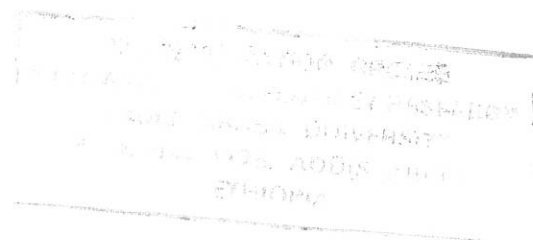
In a study he conducted in Bahir Dar, Endeshaw (2005, pp.61-63) found out that market size, source of financing, age of enterprise owner, and age of the enterprise had an effect on the growth of enterprises. Accordingly, the larger the market size, the more likely that the enterprise grows; the younger the owner of the enterprise, the higher the enterprise growth; the higher the age of the enterprise, the lower its growth level; and the rate of growth is higher for enterprises that use external sources of finance.

2.2.3 Microenterprises in Ethiopia

2.2.3.1 Overview and Significance of Microenterprises

In Ethiopia, data on enterprises in general, and on microenterprises in particular, are so scanty that it is very difficult to provide a clear and full-fledged picture of these businesses. Consequently, it is hardly possible to show the development of microenterprises in the country from a historical perspective. Needless to mention, however, these businesses have been practiced for long in different parts of the country, either as the only or as a supplementary source of living for the poor.

It is argued that the microenterprise sector has been neglected in the development strategies, policies, and support programs of the government in the past (Getachew and Getachew, 1997:152; Andualem 1997:1). The neglect ranges from the fact that there was no clear-cut definition to distinguish it from other types of enterprises to absence of a clear policy/strategy for the promotion of the sector (Ibid).



Following the country's shift to a market economy, the current government as well as NGO's and donors have shown interest in the sector (Ibid). Accordingly, attempts have been made by various government institutions to define enterprises. In addition, a federal office, Federal MSE's Development Agency, has been established to discharge the responsibility of developing MSE's in the country. National strategy has also been formulated in relation to MSE development.

The primary objective of the MSE Strategy (as stated in the 1997 strategy document) is to create enabling legal, institutional and other supportive environment for the development of MSEs (Gebrehiwot and Wolday, 2004). The specific objectives include:

- facilitate economic growth and bring about equitable development,
- create long-term jobs,
- strengthen cooperation between MSEs,
- provide the basis for medium and large-scale enterprises,
- promote exports, and
- balance preferential treatment between MSE and bigger enterprises

The fundamental principles that guide interventions by stakeholders (government, private sector, NGOs, Chambers and others), as stated in the strategy, are:

- support to the MSE operators will be based on the Agricultural Development Led Industrialization (ADLI) and private sector development
- all support to the MSE sector should be designed to be all-round
- support services should, as much as possible, be based on fees
- addressing marketing problems of MSE operators will be given due consideration
- emphasis will be given to the advancement of women

The intended support to promote the MSE sector (according to the MSE strategy) include creation of legal framework; improvement of access to finance; introduction of incentive schemes; encouraging partnerships; provision of training in entrepreneurship, skills, and management; improving access to technology, information, advice, and market, improved infrastructure.

The CSA has made efforts to conduct various surveys on micro, small-and medium scale enterprises in the country, and has compiled pertinent data at different times. In 1997, the Agency conducted a sample survey which indicates that there were 584,913 Informal

Sectors/Micro operators and 2,731 Small Scale Manufacturing Industries, employing 739,898 people. According to the survey, microenterprises accounted for 88.2 % of private sector employment. The survey also indicates that 47% of microenterprises were engaged in manufacturing, 42% in Trade, Hotels and Restaurants, 6% in Community and Personal Services, and, 5% in Agriculture, Hunting, Forestry and Fishing, Mining and Quarrying, Construction, and Transport Activities.

Another survey conducted by the Agency in 2002 indicates that there were 974,676 cottage/handicraft manufacturing establishments employing 1,306,856 people. In contrast, large and medium scale enterprises employed only 98,136 people. In addition, the nationwide Urban Informal Sector Survey by the CSA in 2003 shows that there were 799,358 establishments employing 997,380 persons, of which 60% were females. About 43.3% were involved in manufacturing and about 37.8% in trade, hotels and restaurants.

When it comes to the regional distribution of enterprises, according to the 2001/2002 CSA survey of cottage/handicrafts manufacturing industries (which are microenterprises according to the definition of CSA), the majority of them were found to be in the Amhara regional state, with a total number of 131,696, accounting for 36.79% of the total industries in this sector. In Oromia, they accounted for 22.07% (78,997), followed by Addis Ababa (25.39%), Southern Nations, Nationalities and Peoples (SNNP) region (22.10%), and Tigray (5.57%).

The country level gross value of production by these industries was 2,106,132 (in '000 Birr), while value added in the National Account Concept was Birr 735,586,000 (at market price). Valued added in the regions is such that it was Birr 104,681,000 in Amhara, followed by Birr 101,805,000 in Oromia, Birr 84,617,000 in SNNP, Birr 34,717,000 in Tigray, and Birr 10,434,000 in Somalia.

According to CSA survey in 195/196, there were large and medium scale manufacturing establishments in Oromia region. These businesses accounted for about 17% of the total manufacturing employment in the country (CSA, 1996). According to the survey, there were about 175,993 informal sector operators in the region employing about 30% of the labor force engaged in the informal sector in the country. Of the total labor force engaged in the informal sector, about 69% were women. The survey also indicated that 52% of microenterprises were engaged in manufacturing, 38.9% in trade, hotel and restaurants, 4.5% in community and personal services, and the remaining 4.6% were engaged in agriculture and forestry, mining

and quarrying, construction, and transport. The gross value of income generated by the informal sector was about birr 467,459,395 or 23.6% of the total value of income generated by in the manufacturing sector.

Recently, the CSA has focused its attention on businesses beyond microenterprises. It gathers and compiles data on small-scale, medium and large scale enterprises. It is no longer dealing with the collection and compilation of data on microenterprises.

It is widely believed that micro and small-scale enterprises play a vital role in countries where medium and large-scale industries/enterprises are at their infant stage. They are of paramount importance in terms of rendering a broad range of benefits to the economic development of such countries. In developing economies like Ethiopia, where the public/formal sector proves to be incompetent to avail job opportunities to the ever increasing population/labor force, the MSE's are proven to be effective spheres of the means of survival. The microenterprises sector is particularly important for low-income, poor and women groups (Gebrehiwot and Wolday, 2006).

Microenterprises, together with small-scale enterprises account for about 3.4% of GDP, 33% of the overall contribution of the industrial sector and 52 % of the manufacturing sector to GDP in the country (MoTI, 1997 cited by Endeshaw, 2005).

A study conducted by Daniel (2007) in Nekemt town reveals that MSEs have a significant contribution to livelihood in particular and to poverty alleviation and local economic development in general. According to the study, MSEs provide income to their operators. It also shows that they help the operators finance their consumption expenditure on food, water, assets, housing, education, and health and thereby reducing vulnerability and empower women entrepreneurs.

2.2.3.2 Constraints of Microenterprises in Ethiopia

Despite their importance, MSEs are confronted with a number of constraints. The constraints impede the start and growth of enterprises. The poor are, therefore, handicapped with these factors as they come to grips with starting, running and growing enterprises.

Lack of start-up capital, poor infrastructure, absence of adequate training and skill are among the major constraints facing micro and small scale enterprises in the country (Workneh, 2007). More often than not, financing is a major obstacle for poor people to open up a new enterprise. This is mainly because the banking institutions are reluctant to provide loans to small businesses, most of which are unable to provide adequate collateral for loans (Andualem, 1997, pp.11). Consequently, microenterprises are said to resort to various sources of start-up capital: own savings, informal financial means, such as loans from friends and relatives, the system of rotating savings, local money lenders, and credit unions (Fasika and Daniel, 1997:140). In Africa, small enterprises often use own savings, loans from friends and relatives, and occasionally informal sector loans to start a new business, which has seriously limited the scale of activities and investment (Nissanke, 1991 cited in Fasika and Daniel 1997).

Lack of well developed infrastructure has been found to be acutely felt particularly in the regions. One of the infrastructural problems faced by microenterprises in Ethiopia is the impact of power shortages on their operations. Microenterprise operators often complain about the problem, as they cannot afford to bridge the gaps with standby generators. Lack of access to adequate water supply and underdeveloped roads have also negative impact on the enterprises' business activities (Getachew and Getachew, 1997:162).

Inadequate skills are a result of the fact that there are only a few vocational institutions that cater for developing skills; the most common form of acquiring skills in the small business sector is through apprenticeships, and the formal educational systems in the country prepare students for paid employment (Ibid).

Limited access to market and limited demand, lack of access to raw materials and their escalating prices, problems related to government rules and regulations, poor technology of production, lack of institutional support, lack of favorable policy support, lack of working places (premise), short grace period granted by lending institutions, bureaucratic problems (in some offices) are also problems impeding the activities of microenterprises (Workneh, 2007; Solomon Worku, 2004; Debebe, 2006).

One of the reasons for limited market access and low demand is found to be the fact that enterprises often venture into similar business activities, which entails severe market competition (Hayat, 1997:184). This indicates absence of entrepreneurial innovation.

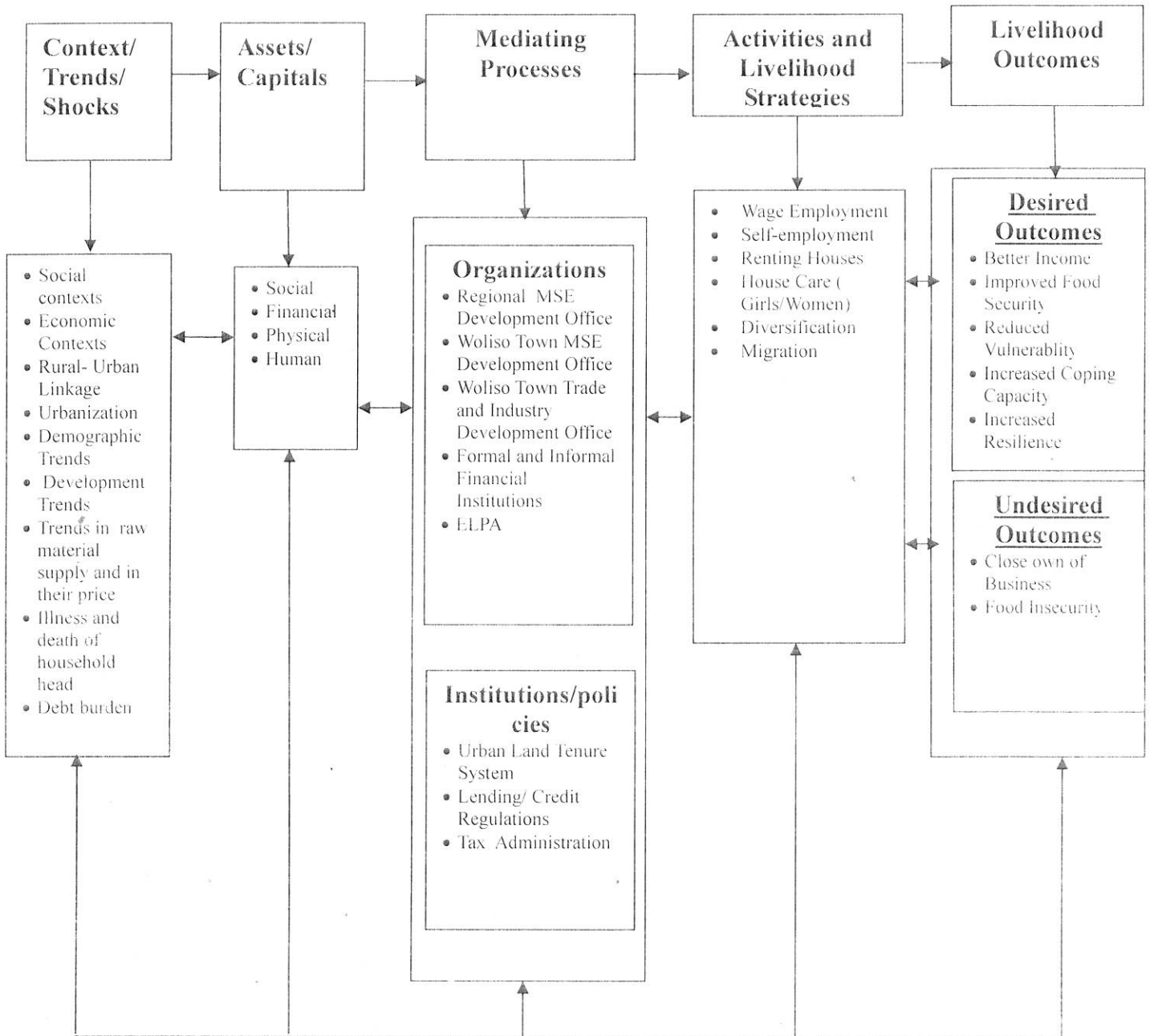
The technologies used by microenterprises involve outdated and old equipment, unhygienic and very small quantities of production, very low flexibility to help produce diversified products, etc. Moreover, there is lack of technical training and refreshing opportunities for enterprise operators in the country. The skills acquired by entrepreneurs prior to the establishment of their business have rarely been refreshed (Getachew and Getachew, 1997:162).

A review of the above related literature reveals that the contribution of microenterprises to the sustainability of the livelihoods of the poor has never been investigated in a holistic way. Instead, such specific issues as employment, income, and microenterprise constraints were dealt with by different researchers. Recent thinking in development studies puts a high premium on the use of sustainable livelihoods approach in analyzing the dynamics of the livelihoods of the poor. It is, therefore, of paramount importance to look at the contribution of microenterprises in the light of this approach. There is no study so far, at least in Ethiopia, which has aimed at analyzing the contribution of microenterprises to sustainable livelihoods, indicating that there is a lacuna in this regard. The zest for this study is, therefore, kindled by the need to fill this gap.

Analytical Framework of the Study

The Sustainable Livelihoods Approach employs a schematic model of the factors that need to be taken into account in the analysis of sustainable livelihoods; this is called Sustainable Livelihoods Framework. The main components of the Framework are captured diagrammatically in Figure 1 below.

Figure 1. Analytical Framework of the Study



Source: Adapted from Scoones (1998), Meikle et al. (2001), Ellis (2000), Degefa (2005 and 2008).

Contexts/trends/shocks: these are contexts/trends/shocks in which poor people pursue their livelihood strategies, and they are a key determinant of the types of assets available to them and the types of livelihood strategies that they are likely to pursue – and thus, in the end, of the security or vulnerability of their livelihoods (Meikle et al., 2001:14).

In the economic context, we find the predominance of the urban economy by cash. In other words, cash plays an important role in the urban livelihood. As a result, urban livelihoods are susceptible to rising cost of living which is the major livelihood stress in the urban area. The various macroeconomic policies are also important economic issues that constitute the economic context. These policies, in one way or another, affect the type of assets people own. Assets also determine the level of cash people generate. The social context involves such issues as the social stability, attitude toward businesses, health, etc. Unstable social environment affects the assets people own, the business activities they undertake and their outcome. Poor health conditions also have implications especially for the human capital and financial capital, and the business activities people engage in and therefore in their outcome. Better financial capacity and better awareness of health issues will in turn have implications for people's health status. The link between/among the other contexts/trends/shocks and the livelihood assets, mediating processes, activities and outcomes goes on.

Assets/capitals: these are resources that are owned, controlled, claimed or in some other means accessed by households (Ellis 2000:31) to engage in a certain microenterprise activity. Access to livelihood assets are affected by the mediating processes. Assets would in turn determine the type of livelihood activity/strategy to be pursued by microenterprise operators, and the outcomes to be gained through the activities

Mediating processes: these are the various organizations and institutions that determine access to the various types of capital assets that people use in pursuing their livelihood strategies either through acting as conduits to make assets available to them, or as barriers to their access

Activities and Livelihood Strategies: These are the planned activities that men and women undertake to build their livelihoods. They usually include a range of activities designed to build asset bases and access to goods and services for consumption. Livelihood strategies include coping strategies designed to respond to shocks in the short term, and adaptive strategies

designed to improve circumstances in the long term. Livelihood strategies are determined by the assets and opportunities available to men and women (which are in turn affected by mediating processes and changes in the context) as well as by the choices and preferences of men and women (Farrington et al. (2002).

Livelihood Outcomes: livelihood outcomes are the end result of the interaction of various elements in a system, and they could be desirable or undesirable (Degefa, 2005: 90). In this case, they include better income, improved food security, increased coping capacity and reduced vulnerability if desirable, and loss of business and food insecurity and closure of business if undesirable. These outcomes are determined by the interaction of the contexts, assets, activities/strategies in the framework. The outcomes will also affect the assets and activities/strategies.

Chapter Three: Research Methodology and Study Area Description

3.1 Description of the Study Area

Geography

This study was undertaken at Woliso town. The town was established in 1942 G.C. Woliso town is located at a distance of 115kms away from the capital of the country, Addis Ababa, along the Addis Ababa-Jimma route. According to information obtained from the town's Information Desk, the estimated total area of the town is 2515ha. It is characterized by temperate type of climate with daily temperature ranging from 18⁰c and 27⁰c, and is located 1900m above sea level.

Demographic Features

The total population of the town as per the national census of 2007 is estimated to be 53,648 (Male=27,448, Female=26,200). In terms of ethnic composition, Oromo account for 82% followed by Guraghe (13.7%), Amhara (2.4%), and Tigre (1.75%).

Socio-economic Features

According to the information obtained from the town's Information Desk, the health coverage of the town is 53%. As regards the health facilities, the town has one private hospital, one health post, clinics. Due to the existence of swampy areas, malaria is said to be the most prevalent disease. In line with this, 91.3% of the population of the town has access to safe and clean potable water.

As far as the education sector is concerned, the town has 9 kindergartens (one public), 6 primary schools (grade 1-8), 1 private school (grade 1-6), 8 private schools (grade 1-4), 5 private colleges, 1 high school, with preparatory classes, 1 technical and vocational education and training center, and 1 university campus (Ambo University Woliso Campus). Regarding the physical infrastructure, the town has only 1.3kms asphalted interior road; the rest of the interior roads are non-asphalted. However, the town's administration is paving interior roads by laying cobblestones. Electricity and telecommunication facilities are said to be in a good condition.

Trade and public sector employment are the dominant economic activities in the town. In the peripheral areas of the town, the residents of the town also practice urban agriculture.

3.2 Research Methodology

Sampling Procedure

The study employed stratified, simple random, and purposive sampling techniques in order to select the required sample. First, the existing micro-enterprises were classified into major sectors. In the study area, there are three major sectors in which enterprises are engaged: industry, trade, and service. Of the major sectors, the trade sector comprises two sub-sectors (wholes sale and retail trade), and it was stratified into these sub-sectors which were further classified by type of items traded. The other three sectors were classified into the different types of activities they consist of.

As a rule of thumb, about 10% of the population was taken to form the sample of the study. First, the number of enterprises to be taken from each sector (to form the sample) was calculated proportionately. However, the number of enterprises to be selected from each activity was purposively determined. Finally, simple random sampling was used to select the required enterprises in each activity. According to the data obtained from Woliso Town MSEs Office, there are 279 microenterprises in the study area. From these, a total of 30 microenterprises were selected as a sample. Accordingly, the following enterprises were selected to form the study sample.

Table. 3.1: Number and Sample of Microenterprises

Type of Microenterprise	No of Microenterprises	Sample Microenterprises
Industry		
Woodwork	4	2
Grain mill	42	3
Edible Oil Producers	2	1
Metal works	30	2
Trade		
Whole Sale		
Food Grain	15	2
Vegetable sellers	2	1
Retail Trade		
Food grain	47	3
Clothing	49	3
Shoe shops	9	2
Other retail shops	10	3
Service		
Garage service	2	1
Beauty Salon	13	1
Photo Studio	5	1
Tailoring	4	1
Hairdressing (for male)	33	2
Photo copy service	9	1
'Gomista' (Tire maintainance)	3	1
Total	279	30

Data Collection Methods

In order to elicit the required primary data, structured survey questionnaire was employed. The questionnaire was pretested, and new issues found during the pre-testing were incorporated in the questionnaire. The data were gathered by the researcher himself.

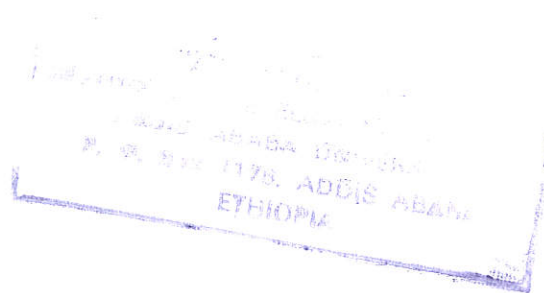
Moreover, an in-depth case study was conducted to come up with in-depth information on the livelihood dynamics of micro-enterprises. The case study was conducted on two households (from trade and service sectors) to gain a deeper understanding of the contribution of microenterprises to sustainable livelihoods. Key informant interview was also made with concerned government officials in the Trade and Industry Development Office, and Labor and Social Affairs Office of the town. Field observation/visit was also made as it was believed to provide a better understanding of what was on the ground. This particularly helped the researcher to observe the working premises, and the materials the enterprises used at the time of data collection.

Review of the existing policy documents (both federal and regional) was undertaken as part of secondary data collection. Additional secondary data were gathered from such secondary sources as books, working papers, journals, theses/dissertations, and on-line sources.

Methods of Data Analysis

Once data collection was completed, data were extracted from the questionnaire based on coding the responses. Responses from the questionnaire were entered into an SPSS database using the codes, followed by data processing and analysis.

Descriptive statistics such as frequencies averages and percentages were computed using SPSS. Cross-tabulation was also made to display various data.



Chapter Four: Findings and Discussion

4.1 Demographic and Socio-economic Characteristics of the Sample

Respondents

The study reveals that both sexes are engaged in the operation of microenterprises in the study area. However, in the sample, the number of males operating microenterprises is higher than that of females. In addition, there is a remarkable difference in the sectoral participation of men and women entrepreneurs. Out of the sample respondents, females account only for 26.7% while males constitute the remaining 73.3%.

From Table 4.1, one can see that 26.6% of the industrial sector employment is accounted for by male operators while there is no female operator in the sector. It is also indicated that the share of female employment in the service sector is 13.3% far below that of males. In addition, the trade sector has employed more men than women as shown in the table. The table also shows that the trade sector accounts for the largest share of microenterprise employment in the study area, accounting for 46.7 followed by the industrial and service sectors, which absorbed an equal percentage of employment.

Table 4.1: Types of Enterprises by Sex

	Industry	Trade	Service
Female	0(0)	6(20)	2(6.7)
Male	8(26.6)	8(26.7)	6(20)
Total	8 (26.6)	14 (46.7)	8 (26.7)

Source: Own Survey (2010)

*The figures in parenthesis are percentages.

An examination of the age composition of the respondents indicates that the ages of the bulk of microenterprise operators lie within the age range of 31-40 years. As shown in Table 4.2 below, the ages of nearly 50 % of the sample entrepreneurs are found in the age group of 31 to 40 years. In addition, about 37% of them find their ages within the range of 20-30 years. Furthermore, there is a sharp decline in the involvement of operators in the sector as they move to the older age bracket. It can also be inferred from the table that the age range with more number of operators comprises the most productive sector of the society. It seems,

therefore, that microenterprises provide livelihood to the most productive and vibrant segment of the society which is of paramount importance for the economic development of the country.

Table 4.2: Distribution of Respondents by Age Group

<i>Age Group</i>	<i>Frequency</i>	<i>Percent</i>
20-30	11	36.7
31-40	15	49.9
41-50	2	6.6
51-60	1	3.3
> 60	1	3.3
Total	30	100

Source: Own Survey (2010)

Marital Status of the Respondents

The majority of the respondents are married accounting for 70% of the total, while 26.7% and 3.3% of them are single and divorced, respectively. It was already indicated in the preceding section that the largest proportion of the respondents are aged between 30 and 40. This age bracket is one in which many people are expected to have married, at least by convention. It is also the time at which many men and women are expected to bear children. Hence, the information on the age and marital status of the respondents of the study suggest that the majority of the respondents have family, a situation which forces them to assume responsibility to provide a livelihood support.

Educational Background of the Respondents

A considerable proportion of microenterprise operators had received high school education. For instance, 50% of the respondents had completed grade twelve under the former educational policy, while 23.3% attended secondary school education (9-10) when starting their business (Table 4.3). None of the respondents received vocational and technical training both before and after they were engaged in the current business. Nor did they receive any type of short-term training in relation to the businesses they engaged in.

Table 4.3: Distribution of Respondents by Educational Attainment

<i>Educational Attainment</i>	<i>Frequency</i>	<i>Percent</i>
Religious/Qur'an	1	3.3
Upper primary (5-8)	6	20
Secondary (9-10)	7	23.3
Twelfth complete ³	15	50
Higher education	1	3.3
Total	30	100

Source: *Own Survey (2010)*

As it was already indicated, the majority of the respondents are those who completed grade twelve under the former educational policy of Ethiopia. It is important to ask why this is so. In the literature, there are two approaches regarding the emergence and expansion of microenterprises, and the increase in the number of people engaged in such activities. One approach views this as an outcome of improved opportunities for people (including the poor and disadvantaged) to participate in ways that transform their livelihood. The second approach, in contrast, perceives it as an indication of the failure of an economy to provide productive jobs, compelling people to take "refuge in activities that provide only minimal subsistence support" (Liedholm and Mead, 1999 cited in Gebrehiwot and Wolday, 2006). It is argued that it is not easy to sort this out, "and there is probably some truth in both" (Ibid: 10).

In this study, attempt has been made to get some information which may throw some light on the reasons as to why people get into their respective business activities. The majority of the operators got into their current business activities because they were unemployed, which seems to be in conformity with the second approach of why an increasing number of people are engaged in microenterprises. As Table 4.4 depicts, 40% of the respondents were engaged in their current respective business activities because they were unemployed. Unemployment is, thus, found to be the major factor underlying the motivation to engage in microenterprises in the study area. People's previous experience is also an important factor to spur them to

³ This is as per the former educational policy of the country.

open businesses in which they have gained some experience when working in businesses other than their own. Moreover, people can also get into a specific business activity when they think that it would be profitable. Gebrehiwot and Wolday (2006)⁴ also found a similar finding which indicates that profitability (that the business would be profitable), having skills in the activity (previous experience) and lack of alternative (alternative to be engaged in or unemployment) are the major reasons for people to be engaged in microenterprises.

Motivation to diversify income and family poverty take the fifth position in terms of explaining why people are engaged in microenterprises. This could possibly be because of the fact that microenterprise operators are poor people lacking a source of income, and start from almost a scratch. In other words, those who diversify are those who have already been running some sort of business. Yet, people getting into microenterprises usually consist of poor people who embark on undertaking business activities as a first experience as it is evident in this study.

Table 4.4: Motivation to Engage in Microenterprise Activities

Motivation/Reason	Frequency	Percent
To diversify income	3	10
Unemployment	12	40
Family poverty	3	10
The business is profitable	4	13.3
Previous experience	6	20
Inherited from family	2	6.7
Total	30	100

Source: Own Survey (2010)

⁴ This was a nation-wide survey of micro and small-scale enterprises conducted in six major cities in the country: Addis Ababa, Adama, Hawassa, Bahir Dar, Jimma and Mekele. It can therefore be argued that the major, if not the only, motivational factors for people to get into microenterprises seem to be previous skill/experience, expected profit, and lack of alternative employment opportunities.

4.2 Enterprise Characteristics

4.2.1 Ownership Status, Form of Management, Work Premise & Number of Employees

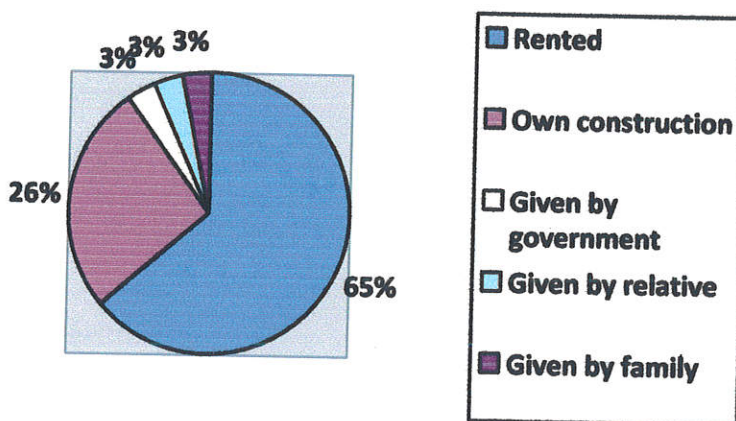
The ownership of sample microenterprises is dominated by sole proprietorship. It is not uncommon, though. Several other studies have also revealed that microenterprises are often owned and run by sole owners (Gebrehiwot and Wolday, 2006:8; Dolman, 1994:6). According to the study finding, under the sole proprietorship, 70% of the sample microenterprises are characterized by one-man ownership, followed by family and group ownership, which account for 23.3% and 6.7%, respectively.

As regards the form of management, owner-manager is the most common type of microenterprise management. The study indicates that nearly all (96.7%) microenterprises selected in the sample are managed by owners.

Lack of work premise is one of the fundamental challenges facing enterprises. About 80% of the respondents work in an independent premise, which they have rented. The rest 20% have work premise within home compound.

More than half of the respondents have obtained their working premises through renting. Only a very few of them have a work premise which they had constructed. The rest were given by government, family and relative (Figure 4.2).

Figure 2: How Work Premise was obtained



Many of the respondents described the rental cost of working premise as being high compared to returns from their business activities. It is here that the problem of working premise is acutely felt as a stumbling block to the profitability of enterprises. Needless to say, profit is a function of revenues and costs. If a fixed cost such as the rental cost of a work premise is so high that it constitutes a good proportion of the total cost, it could exert a downward pressure on microenterprise profit. In such a scenario, microenterprises are less likely to contribute much to the livelihood of their operators in particular and to development in general.

As far as employment is concerned, the industrial sector plays a leading role by accounting for nearly 39% of the total employment in the sector. The trade sector constitutes the largest proportion of the sample microenterprises compared to the other two sectors. In other words, about 47% of the sample is accounted for by the trade sector, while the remaining two sectors constitute about 27% each (Table 4.5). However, the trade sector was found to have employed less number of people relative to its size in the sample. This difference in the size of employment among the sectors suggests the existence of a difference in the relative importance of each sector in terms of providing employment opportunities. In this study, the industrial sector is more important than the other sectors in this regard.

Table 4.5: Microenterprise Employment by Sector

Type of Sector	No of Employees
Industry	21(38.9)
Trade	17(31.5)
Service	16(29.6)
Total	54(100)

Source: Own Survey (2010)

*The figures in parenthesis are percentages.

Note: These findings portray the characteristics of the sample, not that of the population.

4.3 Livelihood Contexts

Both theory and practice have revealed that the urban poor experience myriad of shocks and stresses, and trends in various variables. It is therefore imperative to examine the economic, social, political, demographic and cultural backdrops in which they live and work to earn a



living. In this study, the analysis of livelihood contexts is undertaken in light of the relevance of the contexts to microenterprise operators.

Economic Context

The economic context involves two major scenarios. One is the fact that, in urban areas, where the economy is characterized by a greater degree of commercialization, the most basic goods such as food and house rent are obtained through the market, and the other scenario is the fact that the urban economy is affected by national macroeconomic policies (Meikle, 2001:6). The respondents were asked how they get their food, and all of them responded that they got it through cash. In addition, 40% of them live in a rented house. It is, thus, evident that cash incomes are indispensable in the urban livelihood. Consequently, they are often exposed to income shocks, which could result from such events as rising cost of living, loss of business, etc.

The urban economy is also linked to international and national economic policies. The national macroeconomic policies affecting the economy of microenterprise operators include the adoption of the free market economic system, and the resultant liberalization of the financial market, privatization, etc., which paved the way for the flourishing of microenterprises.

The Social Milieu

Two issues feature prominently here. On the one hand are "ideas of urban blight, linking poverty to family break-up, drug use, crime and social disintegration (which would be expected to undermine the social capital of the poor) – an idea often linked to studies of the 'inner city' in developed/northern countries" (Wratten, 1995). In this regard, an interview made with an expert working in the town's Social and Labor Affaires reveals that drug use is rarely practiced, except for the widespread 'chat'⁵ consumption in the town. When asked as to whether the latter phenomenon gave rise to social problems, he indicated that there was no problem in this regard. Regarding the second issue, which is the local culture/attitude toward business, the expert also added that the local culture supports businesses activities, and that there was limited entrepreneurship and people often engaged in similar activities. Therefore, the social environment is apparently conducive for business activities. Moreover, 50% of the

⁵ An evergreen shrub whose leaves are considered stimulant, and chewed.

respondents reported that the social stability/security of the town was in, general, extremely reliable, while about 47% of them described it as being moderately reliable.

Urban-rural Linkage

Rural-urban linkages play an important role in the ways which livelihoods are constructed as for example with: remittances from urban to rural areas; the exchange of goods between rural and urban areas (e.g. food); sharing of caring responsibilities for members of an extended family e.g. elderly relatives in rural areas, children and new migrants from the extended family in the urban area; seasonal labour by the urban residents with the extended family in the country (Tacoli, 1998, p. 78 cited in Meikle, 2001:7-8). In this regard, it was found out that a few respondents shared land with their relatives in the rural area to grow food grains. In addition, there were respondents who supported members of their extended families (mainly children) in the rural areas, by allowing them to live with them and attend schools in the town.

Local Development Situations

In 2003, Woliso was chosen as the capital of the South Western Showa Zone of Oromia Regional State, and as a result, it has been undergoing moderate changes in a number of arenas since. This is believed to have created a fertile ground for business activities to flourish. For instance, the number of people living in the town (especially, civil servants) has been increasing, which has provided a widening market for the goods and services produced by small businesses.

A relentless effort has been made by the local government to provide housing service to the ever-increasing population of the town. In this regard, the construction of a number of condominium houses has been underway.

Fairly recently, Ambo University has opened a new campus at Woliso, which has already accepted students in some departments. This is another opportunity for businesses as it widens the local market for their products.

The urban population is said to grow at a rate of 4.4% per year with increased urbanization (MoFED, 2006). This increase in the number of urban population coupled with increase in the number of rural population is also a threat to urban dwellers as it exerts pressure on the availability and price of raw materials for businesses. It also has an impact on the provision of social services in the town. Therefore, the local development situation entails both opportunities and challenges to businesses in the study area.

4.4 Livelihood Assets/Capitals

4.4.1 Financial Capital

It connotes stocks of money to which individuals and households have access (Ellis, 2000:34). It mainly comprises savings, access to credit in the form of loans, and cash (Scoones, 1998; Ellis, 2000). Financial capital is one of the key assets playing a pivotal role in virtually every livelihood activity in urban centers, in particular.

The extent of people's access to finance is, thus, one of the major factors that constrain or enable the growth and development of small businesses (Fasika and Daniel, 1997:139). Access to finance serves at least two important purposes in the development of microenterprises. One is it helps start the business, while the other is that it enables to run it, serving as a working capital. The crucial question to pose here concerns the source of this important resource. In other words, it is imperative to ask how microenterprise operators finance their businesses.

In this study, it was attempted to elicit information on the sources of the initial financial capital of the sample respondents. Accordingly, it was found out that a good proportion of the respondents financed their business start out of their own savings. Table 4.6 shows that personal savings were the principal sources for about 57% of the respondents covered in the study. Financial gifts and loans from relatives and friends accounted for 16.7% each. This result is largely consistent with the findings of previous studies (Hayat, 1997:180; Fasika and Daniel, 1997:140).

It is also possible to see that the formal banking systems do not feature prominently as a source of finance for microenterprise operators, accounting only for 6.7% (Table 4.6). There are a number of reasons as to why such business operators have limited access to credit from formal banks. The small nature of the business activities and collateral requirements stand out as major reasons for formal banks not to lend money to microenterprises. The information obtained during an interview made with an expert in charge of Woliso town Trade and Industry Office also corroborates that banks require collateral to provide loans, and that microenterprise owners often fall short of meeting such a requirement. In such a circumstance, starting a new business is apparently a daunting prospect. Yet, people use

other alternatives as sources of finance, which basically includes personal savings, loans from informal sources such friends, relatives and financial gifts.

Table 4.6: Source of Microenterprises' Initial Financial Capital

<i>Source of Initial financial capital</i>	<i>Frequency</i>	<i>Percent</i>
Own Savings	17	56.7
Financial gift	5	16.7
Loans from relatives and friends	5	16.7
Bank loans	2	6.7
Financial gift and sale of other assets	1	3.3
Total	30	100

Source: Own Survey (2010)

4.4.2 Social Capital

Social capital refers to resources that societies possess in the form of networks, social claims, social relations, associations, affiliations, and trust upon which they draw when pursuing different livelihood strategies requiring coordinated actions (Scoones, 1998:8; Ellis, 2000:36). In so far as its role in the microenterprise sector is concerned, social capital, in particular, plays a facilitative role in entry and stay in the entire microenterprise sector (Kinyanjui and Khayesi, 2005).

More often than not, people are assisted by family, relatives and friends to start a new business. The assistance ranges from being introduced to the new business to financial assistance either in the form of loans or as a gift. From the foregoing discussion of the sources of financial capital for microenterprises, it is evident that financial gift and loans from relatives and friends ranked second next to personal savings as a source of start-up capital. As Table 4.7 shows, 13.3% of the financial gift was obtained from family while the rest was from relatives accounting for 6.7%. Kinship and friendship are, thus, important social capital in the microenterprise sector.

Not only are kinship and friendship a source of finance, but they are also of much help in facilitating entry into business as people could be introduced to new businesses by their families, relatives and friends. Families may even transfer their businesses to their children in which case the latter inherit businesses and become owners. Table 4.8 below indicates that 23.3% of the respondents were introduced to their current business by their friends, and 20% of them by their relatives⁶.

Table 4.7: Role of Kinship and Friendship during Business Start

<i>Finance given by</i>	<i>Frequency</i>	<i>Percent</i>
Family	4	13.3
Relative	2	6.7

Source: Own Survey (2010)

Table 4.8: Role of Kinship and Friendship in being introduced to Business

<i>Introduced to business by</i>	<i>Frequency</i>	<i>Percent</i>
Relative	6	20
Friends	7	23.3
Own motivation	17	56.7
Total	13	100

Source: Own Survey (2010)

The fact that relations help people obtain financial resources in their livelihood enhancement endeavor is the quintessence of the relationship between livelihood assets. In other words, social capital and financial capital are highly interlinked and reinforce each other in enabling microenterprise operators to secure finance to start their business. We see people mobilizing their friendships, kinship and family networks (i.e. their social capital) to get access to loans, information, and so on. Access to one type of livelihood asset paves the way for access to another asset or a set of assets. As it was already noted, access to social capital (relations with family, relatives, and friends) enabled people to get access to financial capital (financial

⁶ For detail discussion on the importance of social capital as a mechanism of entry into and stay in microenterprises, see Kinyanjui and Khayesi (2005). Social Capital, Microenterprises and Poverty Alleviation in East Africa: Chapters four and five.

gift). It is, therefore, worth noting that social capital is indispensable particularly in cases where people cannot borrow money from formal lending institutions.

Relationships of trust particularly between microenterprise operators and their customers were also found important in enabling the former to maintain their customers, reduce transaction costs, and realize their customers' tastes and interests. In this regard, virtually all of the respondents underlined the importance of building relationship, and also indicated that they were benefiting from it.

Many of the respondents also cited membership in associations such as *iqub*⁷ and *iddir*⁸ as being important particularly at times of crisis such as death of a household member, and at times of financial shortage. For instance, about 37% of the respondents said they had received money from *iqub* to run their business

The role of social capital in the form of familial relationship, kinship, friendship and membership in associations is tremendous in the microenterprise business. As a result, it has a prominent place in helping microenterprise operators in the effort they make to achieve a sustained livelihood.

4.4.3 Physical Capital

Physical capital denotes capital that is created by economic production process, such as buildings/housing, roads, tools, machines, power, and so forth (Ellis, 2000:3). Infrastructural assets such as roads, power lines, and water supplies are an important class of physical assets that facilitate livelihood diversification (Ibid).

Some authors make a comparison of the relative importance of various forms of livelihood assets to the poor in shaping their livelihood strategies. In the urban context, it is often argued that financial capital is more significant in enabling (if accessible) or constraining (if inaccessible) the livelihood of the urban poor (Meikle et al., 2001). Arguably, the importance of physical capital is no less than that of others in the urban context. The bulk of urban livelihood activities require the availability of machineries, equipment, power, water, telecommunication, and other infrastructural facilities.

⁷ A rotating saving system.

⁸ Indigenous voluntary association established primarily to address community concerns such as mutual aid in burial matters.

About 83.3% of the respondents said that electricity was very important to their business. In this regard, one thing that is worthy of note is that some business activities are not even run without power. Activities such as woodwork, hairdressing, welding, photocopying, etc are highly power-intensive and interrupted with power failure. Therefore, whether or not power supply is available each day has a great deal to do with the performance of microenterprises, implying how important power is in the urban livelihood. In this study, nearly all of the respondents complained that there were blackouts on a few days of the week over the last two years, in particular.

The study has also elicited responses regarding the importance of water and telecommunication to microenterprise operations. Accordingly, both water and telecommunication were found to be less important than power as they do not directly go into the production of goods and services in most of the enterprises.

Machines (and their accessories) and other types of equipment are also very important physical assets in the sector. Thus, access to such assets is very important. The respondents were asked if they had all the necessary pieces of equipment to run their business. About 73% of them responded that they had all the necessary pieces of equipment while the rest 27% said that they did not have. Not having the necessary equipment and tools to operate with will have repercussions for the whole business activities of microenterprise operators and for the sustainability of their livelihoods.

4.4.4 Human Capital

The chief asset owned by the poor is their own labor that is available to them in the form of skills, knowledge or education, good health, ability to labor and physical capability important for the successful pursuit of various livelihood strategies (Scoones, 1998:8; Ellis, 2000:33). Human capital is made *effective* by investment in education and training, and labor as an asset is made *effective* by being free from illness or debilitating health problems (Ellis, 2000:33, emphasis added).

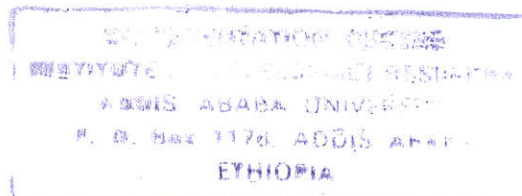
Clearly financial capital, in terms of access to employment and earnings, is strongly dependent on adequate human capital. In turn, human capital is highly dependent on adequate nutrition, health care, safe environmental conditions, and education (Ibid). Poor

people living in urban areas normally have better access to health and education services than their counterparts in rural areas.

As it was already discussed under 4.1., (Table 4.3), more than half of the respondents received high school education. However, that was not accompanied by further training in the areas in which they engaged. The skills they have in order to undertake their businesses were gained and developed through experience, not through formal training and education.

As regards the health of the respondents, the overwhelming majority of them (93.3%) responded that they were healthy enough to carry out their day-to-day business activities, underlining that there was no health problem impeding them in this regard. The respondents were also asked if any health hazard was triggered by their business, and 96.7% of them responded that no such hazard had occurred.

From the above discussions, one can easily recognize that people combine different livelihood capitals to pursue a certain livelihood activity. Below is a case study of a microenterprise which deals with motivational factor and the various livelihood assets that its operator combines to engage in the business.



Case Study 1: Livelihood capitals and motivational factors

Solomon Feyisa is the head of a family of four, including himself. He is 33 years old with an educational level of 12th grade complete. Currently, he is running an enterprise, which he labeled as "Iyosias Advertizing and Printing Enterprise." He started the business three years ago. Before he started this business, Solomon had been earning a living on teaching at a religion-based school. Explaining what motivated him to start his current business, he said, "I was in continuous dissatisfaction with my previous occupation not only because it paid me very little, but also because I realized that it was not what I was born to accomplish." He also added that he was gifted with the art of painting right from his early childhood; it was this gift (natural talent) that led him to open his new business. According to Solomon, he has the necessary skills to carry out his business. This forms his human capital. This type of business is not common in the study area, and it can be argued that Solomon has an entrepreneurial skill.

"When I was about to start this business," Solomon remarks, "I had only guidance from God, and 900 Birr at my disposal." It sounds that he started with very little financial capital, which was basically his own saving. According to Solomon, he rented a work premise with some of this money, and bought less costly pieces of equipment with the rest of it. Then, he started to provide the service by taking advance money so that he would be able to provide for his working capital requirements. Eventually, as Solomon indicated, his income increased and he was able to buy modern equipments required for his business activities. He reported his current financial capital to be nearly 100,000Birr. As part of his social capital, Solomon has been linking with various government offices both in the region and outside the region. For instance, he pointed out that he once went to Hawassa and stayed there for some time promoting the services his business would be providing, and he established a strong link with government offices there. He was also of the opinion that he had been benefiting from the relationship through fostering the marketing of his service. His key physical capital mainly includes power and telecommunication.

The case study gives an important insight of the motivational factor and the various livelihood assets that a household combines in order to pursue a particular livelihood strategy.

4.5 Organizations and Institutions/Policies

Organizations include various government offices, non-governmental and private organizations that can have influence on the activities of microenterprises by either enabling or constraining their access to various assets and the strategies they adopt. These organizations influence microenterprises through their policies, rules, regulations, etc. In this regard, local government offices come in the front line.

The Federal Micro and Small Scale Enterprises Development Agency, Woliso town Trade and Industry Office, Woliso town MSE Development Agency, Ethiopian Electric Power Agency (Woliso District Office), Woliso town Municipality, and NGO's are the major organizations involved (in facilitating access to assets and/or constraining the sector) in the livelihood endeavor of microenterprise operators in the town. The Federal Micro and Small Scale Enterprises Development Agency has already issued a strategy for the development of these businesses. The strategy involves a number of key issues regarding the development of micro and small-scale enterprises, including the supports that the government has to provide to such businesses. The irony, however, is that 60% of the respondents have not even heard of any government policy/strategy regarding microenterprise development. Much emphasis is accorded to group-based micro and small-scale enterprises to the neglect of individual entrepreneurs. A respondent complained, "the government has neglected us [individual entrepreneurs] in favor of group-based micro and small-scale businesses." In this light, about 93% of the respondents did not receive any support from the government, including the local government. This was also confirmed by an expert in charge at local level. In addition, even though there are NGO's operating in the town, the respondents indicated that they did not receive any support from them.

Institutions/policies are also very important in enabling or constraining businesses. In this regard, the most important institution is the urban land tenure policy. According to the National Urban Development Policy of Ethiopia (2004:3), "private property including land use rights may be expropriated only for public purposes and even then against payment of compensation to the value of the property." As a result, it is difficult to access urban land as easily as possible. One of the major constraints that the respondents mentioned was lack of work premise, which could be associated with this type of policy. This is a classic case where an institution constrains access to livelihood asset, in this case, land.

The other institution/policy is the tax administration prevailing in the study area. The information obtained from both the respondents and the concerned government office indicates that there is no standard rate for collecting taxes in the town. Sales taxes are collected based on the sales estimates of tax collectors and the amount of sales the payers report to have made. This kind of tax system may lead to unfair treatment among different sellers. According to a respondent, sometimes sellers with lower sales pay higher taxes than those with higher sales.

The other case in point is lending regulations adopted by financial institutions including formal banks. Formal banks require collateral to provide loans. However, the poor often fall short of meeting such a requirement and are, thus, unable to borrow money from formal banks. The regulation, therefore, constrains access to financial capital, a situation that compels poor people to rely on their meager savings, financial gift and loans from informal sources such as relatives and friends.

4.6 Livelihood Strategies and Activities

A growing body of theoretical literature on sustainable urban livelihoods reveals that there are a number of livelihood strategies that the urban poor pursue. This study has found out that the dominant strategies pursued by households engaged in microenterprises include wage employment, self employment, renting out rooms and diversification. As regards the livelihood activities of the households, the list is given in Table 3.1 above under section 3.2.

4.7 Livelihood Outcomes of Microenterprise Businesses

In the foregoing discussions, attempt has been made to pin down the livelihood contexts, assets, mediating processes and, strategies and activities in the urban setting. That is by no means the end of the matter. Of particular importance, then, are the possible outcomes offered by livelihood strategies pursued by the households aided by a combination of various assets the access of which is mediated by various institutions and organizations in different contexts.

These outcomes could be desirable or undesirable (Degefa, 2005). Desirable or positive livelihood outcomes are those that improve income, increase well-being, improve food security, and reduce vulnerability, (Rakodi, 2002:16). Undesirable outcomes are, then, those

that result in loss of business, depletion of the asset base, reduced income, increased vulnerability, and so forth.

In this study, it has been attempted to elicit information on changes brought about in the income of microenterprise operators by way of comparing income before and after their involvement in their current respective business. Accordingly, all of the respondents pointed out, by using their previous income as a point of reference, that they are earning a higher income than before. Although the response for the income difference is the same across the board, for obvious reasons, its magnitude is marked by significant variation from enterprise to enterprise. Therefore, it can be argued that microenterprises have raised the incomes of their operators despite the inevitable relative differences in the size of these incomes. These differences could stem from differences in enterprise performance, scale of operation, marketing, etc. Since exploring the factors responsible for the differences in the changes in the microenterprise income is outside the domain of this paper, no attempt has been made in this regard.

Table 4.9: Trends in Microenterprise Average Monthly Income Over the Last Two Years

<i>Income from your current income over the last two years has been</i>	<i>Type of Sector</i>			
	Industry	Trade	Service	Total
Increasing	6 (20)	9 (30)	2(6.7)	13(43.4)
Fluctuating	2(6.7)	5 (16.6)	6(20)	17(56.6)
Total	8 (26.7)	14 (46.7)	8(26.7)	30(100)

Source: Own Survey (2010) *Figures in brackets are percentages

Even though the income of microenterprise operators has increased from what it was before they started their current respective businesses, it is imperative to see its trend thereafter (i.e. after they were engaged in the businesses). So as to minimize recall bias⁹, the respondents were asked about the trends in their average monthly business income over the last two years. As it can be observed from Table 4.9, it is only 43.4% of the respondents whose income assumed an increasing trend during the time reference. A greater number of the respondents, about 57%, reported that their average monthly income was fluctuating over the

⁹ Recall bias, here, refers to a situation where people are biased in favour of telling whatever comes to their mind simply because they are unable to exactly recall what is being asked.

specified period. When it comes to the sectors, the industrial sector has a relatively higher number of enterprises than the other sectors in terms of experiencing an increasing trend in their income during the specified time period. Microenterprises engaged in woodwork, edible oil production, and grain mill in the industrial sector, and shoe selling shops, food grain and vegetable traders in the trade sector fall within the category of the enterprises whose income showed an increasing trend. The major reasons for the increase in income were found to be increased prices and demand for the products. This scenario entails important policy implications for setting priority in interventions.

However, it could be misleading to conclude that those operators whose income exhibited an increasing trend were better off than those with fluctuating income. This is largely because of the fact that it is the size of the increase and/or decrease in income that matters. To make it more succinct, the amount by which income increases may outweigh the amount by which it declines (in the case of the fluctuating income), and the difference in the amount of increase and decrease in income in this case may in turn outweigh the amount by which income increases for the increasing income group. At this juncture, therefore, it is important to just see what has happened to the income of the microenterprises since they were engaged in their current business.

It is clear that income is not an end per se, but the means to achieve other objectives. Authors on urban livelihoods have accentuated that cash income figures prominently in the everyday life of urban dwellers (Farrington et al., 2002; Meikle et al. 2001). Urban economies are characterized by a greater degree of commercialization, and the most basic goods such as food and housing must be bought and rented with income through the market (Ibid). It is, therefore, of immense importance to examine the role of income in this regard.

In line with the role of income in the life of the operators and their families, attempt has been made to elicit information on the changes occurred in their nutrition, children schooling, new asset creation, savings, and health care services. In this regard, about 47%¹⁰ of the respondents have indicated that they have seen improvements in their diet, savings, access to health care services, child schooling, and that they have created new assets. From these, 26.7% have constructed their own houses, while some of them have bought land, livestock

¹⁰ Note: this represents the percentage of households that have seen improvements in the variables mentioned, namely, in diet, saving, access to health care services, child schooling, and new asset creation, collectively.

and household durables.

Housing is thought to be very crucial in the urban context (Farrington et al., 2002). "Housing is," argues Moser (1998), "normally one of the most important assets for poor urban households as it is used both for shelter and reproductive purposes and for productive or income-generating purposes (renting out rooms or using the space as a workshop area)". As it was noted before, thus, microenterprises have played some role, to a greater or lesser degree, by enabling about 26.7% of the respondents to get income to construct their own houses.

Food security, though largely determined by income in the urban context, is another livelihood outcome that merits due consideration. Table 4.10 below shows that 96.7% of the respondents feel less food insecure today than before they were engaged in their current business. It is an obvious fact that food security is a function of production, exchange and claims. In the urban areas, it is usually attained through exchange (Farrington et al., 2002). In this regard, urban dwellers need a higher income than their rural counterparts who mainly rely on production. As a result, microenterprises have their own role to play in enhancing people's capacity to improve their food security situations.

Table 4.10: Perception of Microenterprise Operators on their Food Security Status

<i>Do you and your family feel less food insecure today than before?</i>	<i>Frequency</i>	<i>Percent</i>
Yes	29	96.7
No	1	3.3
Total	30	100

Source: Own Survey (2010)

The other important livelihood outcome that has been realized by microenterprise operators in the study area is reduced vulnerability. Unemployment or lack of employment opportunities is one of the sources of vulnerability to shocks and stresses in the urban context (Rakodi, 2002:14). Hence, expanding employment opportunities is reckoned as the best remedy to minimize exposure to shocks and stresses. In this regard, microenterprises play an immense role, in urban areas in particular. As it was indicated in Table 4.4 (under 4.1) above, 40% of the respondents were unemployed when they started their current business. It is, thus,

conspicuously evident that microenterprises have offered employment opportunities to 40% of the respondents, and thereby reducing their vulnerability to shocks by ensuring their income security. Nonetheless, the fact that the respondents own microenterprise businesses does not necessarily guarantee that they are immune to shocks and stresses, as it will be discussed in the subsequent section. As a matter of fact, the point is that they are less susceptible to livelihood shocks and stresses when they run a business, and thus earn income, than when they do not earn any amount of income. Clearly, someone with some amount of income is less likely to go to bed empty stomach than someone without any income. Unemployment is, thus, one of the factors that create a difference in people's likelihood to be exposed to vulnerable circumstances.

Fernando (2003:9) puts a high premium on income diversification, income generating skills, and savings as being good indicators of vulnerability. "The more diversified the household income, the more durable it is to shocks and stress situations" (Ibid). Table 4.11 shows that more than a fourth of the respondents have diversified their income sources, which improves their vulnerability situations. These people have more than one source of income, and hence no more rely on a single source of income.

Table 4.11: Microenterprises that have diversified their Income

Have you diversified your income?	Frequency	Percent
Yes	8	26.7
No	22	73.3
Total	30	100

Source: Own Survey (2010)

When people engage in microenterprises, it is obvious that they acquire skills in income generating activities "as a result of informal and formal training" (Ibid: 14). The respondents of the study pointed out that they did not receive any formal training in relation to their current income-generating activities. However, they indicated that they did not have a problem of poor skills to carry out their business. It is noteworthy, that these skills have been developed through experience. The fact that these people have income-generating skills makes them less vulnerable to shocks and stresses compared to those without such skills. Even if their

current business fails, these people can get employed elsewhere and earn a living for themselves and their families. It is worth noting, however, that, urban poor even with skills face difficulties to find secure employment due to poor access to information, facilities and opportunities (Ibid). Hence, if the necessary pre-conditions are put in place, it is possible to argue that the urban poor with sound skills could be employed and earn income.

Saving money in formal or informal (government, private or non-governmental financial institutions) or informal (savings at home, *iqub*, etc) ways is a very important buffer against vulnerability as it cushions households against uncertain situations without worsening the problem. About 83.3% of the respondents in this study have already started to make savings. These people, who have savings, are, thus, less susceptible to shocks and stresses than those without.

4.8 Sustainability of the Livelihoods of Microenterprise Operators

Sustainability of livelihoods is the main thrust of the sustainable livelihoods approach, for therein lies the crux of the matter. A sustainable livelihood is one that is secure and guards people against shocks and stresses. "A sustainable livelihood is one", as Chambers and Conway (1992:16) put it, "that can avoid or resist stresses and shocks and/or that are resilient and able to bounce back." The core of the sustainability of a livelihood is, thus, its capacity to cope with shocks and stresses, and remain resilient.

As it was already discussed at length earlier in this paper, the poor are faced with different types of vulnerable circumstances in their daily life. In this study, the respondents were asked to point out the shocks and stresses they have been undergoing. Accordingly, it was realized that the major stress the households of the respondents have been faced with was found to be the ever-increasing cost of living over the last few years. The other forces at work within the realm of livelihood vulnerability in the study area were declining supply of local raw materials and the rising of their cost. Loss of business and, chronic illness and death of a household head were reported as livelihood shocks occurred.

Table 4.12: Shocks and Stresses Experienced by Microenterprise Operators by Sector over the last two years

<i>Shocks and Stresses</i>	<i>Type of Sector</i>		
	<i>Industry</i>	<i>Service</i>	<i>Trade</i>
Increasing cost of living	4 (13.3)	5(16.6)	8(26.6)
Loss of business	-	-	2(6.7)
Chronic illness of household head	-	-	1(3.3)
Declining local raw material supply	5(16.6)	-	-
Increasing raw material prices	5(16.6)	-	-
Total	14(46.5)¹¹	5(16.6)	11(39.9)

Source: Own Survey (2010)

*The figures in parenthesis are percentages.

As Table 4.12 vividly portrays, over the last two years, in each sector we find at least one household of microenterprise operators that experienced a shock/stress. The rising cost of living was common for all sectors (i.e., in each sector, there are households that experienced the stress), while declining trends in local raw materials and the rising of their price was found to be experienced only by operators in the industrial sector. The latter is mainly because trade and service sectors do not rely on local raw materials as such. The industrial sector is highly dependent on raw materials, which include wooden materials for woodwork producers, and oil seeds for oil producers. The increasing cost of living was reflected through increased prices of food items and fuel. According to the respondents, "Teff" was reported to be the main staple with soaring price over the last few years.

The livelihood of the victims of these vulnerable circumstances would then be said to be sustainable if it was able to cope with the circumstances and continued forward without damaging loss to assets, activities and capabilities. Both theory and practice reveal that the poor adopt various coping strategies against shocks and stresses.

About 23.3% of the respondents who have reported to have faced with the stress of increasing cost of living reduced the major staple, 'teff', in their food consumption as a coping mechanism. About 13.3% of them shifted to food items of lower nutritional values, while 20%

¹¹ The sum exceeds the number of sample industries (i.e., 8) because some operators underwent more than one shock/stress.

of them resorted to rent out their rooms for extra income (Table 4.13). In so doing, they have managed to withstand the stress without damaging loss to their assets, such as selling all of what they have including house. In addition, they have also continued to carry out the activities they engaged in without reducing the scale of those activities. Therefore, even though there has been a decline in their welfare in terms of, for instance, reduced consumption of better diet, the livelihoods of these respondents have continued to prevail. Put it another way, the respondents' livelihood (a concept which comprises assets, activities and capabilities) has withstood the shocks/stresses and have remained resilient.

Table 4.13: Coping Mechanisms Adopted by Microenterprise Operators

Coping Mechanism	Frequency	Percent
<i>Rent out rooms</i>	6	20
<i>Shift to less nutritious food</i>	4	13.3
<i>Reduced share of staple ('teff') in the diet</i>	7	23.3

The two respondents who underwent loss of business have also adopted various ways to cope with the shock. One of these respondents undertakes wholesale trade in food, while the other undertakes wholesale trade in vegetables. The former responded to the shock by dis-saving, whereas the latter relied on saving and loan from friends to respond to the unexpected circumstance. The household that experienced chronic illness of the household head also made use of its saving for medication as a coping mechanism. In addition, the other family members took on the responsibility of running the business. Saving is, thus, an important buffer against such an unexpected shock. So is the social capital, which is demonstrated here through loan from relative.

The decline in the supply of raw materials and the rising in their price are mainly experienced by woodwork enterprises. According to the information obtained from both the respondents and the concerned experts, the operators are legally prohibited from using local materials such as trees for fear of accelerating deforestation, and the resultant environmental degradation. As a result, the operators have been purchasing industrially processed wooden materials as a raw material. That is, argued the respondents, too costly. It is therefore, a major stress to the operators. However, as they also remarked, the business is too profitable to offset the cost and that is what keeps them in business. Their worry is that a time may come when they may not even be able to obtain the industrially processed materials.

So far, it has been attempted to show the shocks and stresses that microenterprise operators encountered, and how they responded to these shocks and stresses. However, it is noteworthy to see two important issues. One is that there were microenterprise operators that did not experience the impact of the shocks/stresses in terms of changes in their consumption pattern, drawing down savings, etc; and the other is that not all microenterprises provide sustainable livelihoods by themselves alone unless they are complemented by other sources of living.

It is well known that the rising cost of living has been a fact of economic life in the country over the last few years. However, it is generally believed that it is not the major challenge for everybody as it depends on the degree to which people cope with it. People have different coping capacities to the extent that some people may not even feel that they are victims of the problem because of the substantial income they earn. In this study, too, there are respondents who indicated that they did not feel the impact of the rising cost of living. One reason for this was associated with the amount of income they earned vis-à-vis their family size, while the other reason was the fact that they had diversified sources of income. About 43.3% of the respondents of the study have responded that they did not experience the rising cost of living because the income they earned from their enterprise was substantial enough to cushion their family regardless of its size. On the contrary, there were others who, in spite of small family size, could not cope with the stress through the income they got from their enterprise alone.

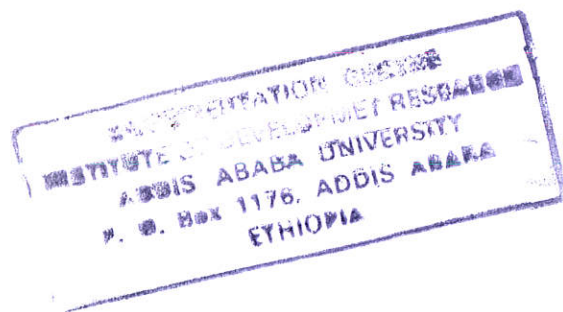
Case Study 2: Solomon's Experience of Coping

Currently, Solomon says he is earning a sizable income from his business that enables his family to fulfill its basic needs. He is earning, on average, a weekly gross income of 3000Birr. The income has enabled his family to upgrade its house into a better state than it had been before they engaged in this business. They were also able to furnish their house. In addition, they have already started to make savings at a bank. He reported his current financial capital to be nearly 100,000Birr.

"Currently," argues Solomon, "the cost of living is rising day after day, but this business yields the income sufficient to cope with it." According to Solomon, his family can withstand a mild livelihood shock such as loss of business, while it may take some time to recover from a drastic shock like damage of property by fire.

As it can be learned from the case study, the respondent indicates, while admitting the prevalence of the rising cost of living, that his enterprise renders income sufficient to buffer his family against the stress. In other words, the enterprise yields sustainable livelihood without being complemented by other sources of living.

On the other hand, there are microenterprises that do not provide livelihood that copes with shocks/stresses in itself, unless complemented by extra source/s of income. However, this should not belittle their contribution. In other words, such microenterprises contribute to sustainability of livelihood provided that there are other complementary sources of living. This can be confirmed by the following case study.



Case Study 3: Coping Mechanism

Tizita Furi is a widow of four children. She has retail trade shop and she deals in various consumption items. She said she had started the new business so as to diversify the source of her family's income, which would complement the monthly salary earned by her spouse. The source of her initial financial capital was her own savings and contributions made by her husband. As fortune would have it, she lost her spouse to death, which undermined her family's income, as his salary was reduced to mere pension. Her husband was the main bread winner of Tizita's family before his sudden death. The death of her husband was the most striking shock to her family giving rise to income shock. Now, Tizita has taken over the responsibility of serving as her family's head.

Before she started her current business, she used to bake "injera" on a contractual basis for different households who paid for her service. "The income from this business," said Tizita, "is by no means sufficient to cover all the necessary financial requirements of my family." Three of her children are in school, which means that she has educational expenses.

According to Tizita, retail trade is not a profitable undertaking like other businesses. To substantiate her argument, she mentioned that there was limited market for the items she was selling. She went on to indicate that she just waited for customers to come to her shop and buy the items. She did not make any saving. Like the other respondents, she also indicated that the rising cost of living was the major stress to her family. In order to cope with the stress, she has been renting out some of her rooms so that the rental income would complement the income from trade. In addition, she sells 'injera' for additional income. Tizita stressed that the income from the retail trade was by no means sufficient to cope with the ever-increasing cost of living. She has, thus, engaged in renting rooms and in selling "injera" to be able to cope with the stress.

Tizita's family was, thus, able to withstand the income shock (due to death of her spouse) and the stress (rising cost of living) by undertaking extra sources of income. Due to the diversified sources of income, the family's livelihood did not collapse despite the drastic shock and severe stress it underwent. The family has not experienced major loss in its livelihood assets of any kind, except that it rented out some of the rooms of its house. However, the fact

remains that, as Tizita underscored, it would not have been able to cope with the shock and the stress through income from its current business if it had not been for the extra income from house rent and sale of “injera.” Yet, the current business has contributed to the continued existence of the family’s livelihood.

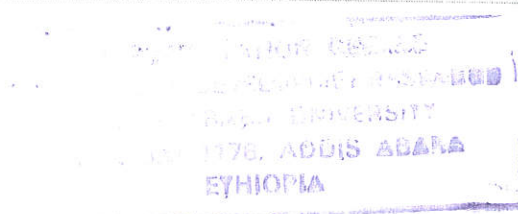
4.9 Constraints of Microenterprises

There is a growing body of literature that reveals that the microenterprise sector in Ethiopia encounters numerous constraints (Workneh, 2007; Andualem, 1997; Fasika and Daniel, 1997; Getachew and Getachew, 1997). These constraints are often there to impede the start and the operation of microenterprises and thereby undermining the contribution of the sector. This study has attempted to explore the major constraints that microenterprises encounter in the study area.

Table 4.14: Constraints of Microenterprise

Type of Constraint	Frequency	Percentage
Limited Market	24	80
Limited Credit Access	23	76
Lack of Working Capital	21	70
Limited/Poor Skills	7	23.3
Poor Business Management Skill	7	23.3
Poor Book-keeping Practices	27	90
Limited Supply of Raw Materials	5	16.7
Poor technology	3	10
Lack of Government Support	27	90
Lack of NGO Support	26	86.7
Poor Infrastructure	28	93.3
Lack of Working Premise	22	73.3
Limited Local Purchasing Power	23	76

Source: Own Survey (2010)



It is clear from the above table that microenterprises in the study area have been faced with a number of constraints. The important point to note here, however, is that each microenterprise operator has attached different weights to each constraint. For instance, of the respondents who mentioned limited market as a constraint, 43.3% of them have indicated that it was a minor problem, 10% of them have indicated that it was a serious problem, which they could not solve, and 3.3% indicated that it was a problem that could be solved.

About 26.7% of the operators who mentioned limited credit access as a constraint labeled it as a minor problem. For 6.7% of them, it was a problem which could be ameliorated while for 43.3% of them it was a problem which they were unable to curb. Lack of working capital was a minor problem for about 47% of the respondents who mentioned it as a constraint, while it was a problem which could be solved for 3.3% of them. For 20% of them, it was a serious problem which they could not solve. For the 23.3% of the respondents who mentioned limited skills as a constraint, the constraint was found to be a minor one. This was also true for those who mentioned poor business management skills as a constraint.

Seventy-seven percent of the respondents indicated that poor book-keeping practices was a serious problem which could not be solved, while 13.3% stated that it was one which could be solved. Limited supply of raw materials was found to be a major problem for microenterprises in the industrial sector, who emphasized that it was a serious problem to curtail. About 80% of those who pointed out lack of government as a problem referred to it as a serious constraint that they could not resolve. About 50% of those who cited lack of NGO support as a constraint pointed out that it was a problem which they could not solve.

Poor infrastructure was a constraint which was mentioned by the overwhelming majority of the respondents. However, it was cited as a minor problem. This could mainly be because of the fact that the major infrastructural problem was that of power black outs on some days of the week. According to the respondents, there were improvements in the daily supply of power this year. Lack of working premise and limited purchasing power of the local consumers were also major constraints identified in the study. About 17% of the respondents who mentioned the former constraint indicated that it was a serious problem to solve. About 43.3% of those who mentioned the latter indicated that it was beyond their capacity to solve it.

Chapter Five: Conclusions and Policy Implications

5.1. Conclusion

This study has dealt with the contribution of microenterprises to the sustainable livelihood of the households of their operators. The Sustainable Livelihoods Framework has been used to analyze the dynamics of the livelihoods rendered by microenterprises. The Framework was initially developed to serve as a framework for analyzing rural livelihoods. Consequently, it has dominantly been employed in the analysis of rural livelihoods. Recently, however, there is a growing recognition that it can be applied to the analysis of urban livelihoods with modifications that particularly gear toward its components which represent the distinction between rural and urban settings. This study could, therefore, be taken as a success story in the sense that it has employed the framework in the urban context, proving that it can be adapted to analyze the dynamics of urban livelihoods.

Like their rural counterparts, urban households (those engaged in microenterprises, in particular) combine various livelihood assets (capitals), which include financial capital (savings, loans, financial and gifts), social capital (kinship, friendship, networking, and membership), physical capital (power, machines, telecommunication, etc), and human capital (skills and better health) to pursue a certain livelihood strategy/activity in different contexts. The access to these assets is mediated by various organizations, institutions/policies and social relations.

The dominant livelihood strategies pursued by urban households engaged in microenterprises include wage employment, self employment, house rent, and diversification. Diversification, in the urban context, involves engagement in two or more of the other strategies, e.g., self employment and house rent.

The major desirable livelihood outcome that urban households engaged in microenterprises draw from their respective livelihood strategies was found to be better income. The other livelihood outcome for the microenterprise operators is reduced vulnerability that results from new employment opportunity in microenterprise business, diversified sources of income, and improved income-generating skills. Improved food security is another livelihood outcome that they realize as a result of their engagement in their enterprises.

The rising cost of living, loss of business, illness and the death of household heads, declining supply of local raw materials and the rise in their prices are the major livelihood shocks/stresses faced by urban households engaged in microenterprises. In order to cope with the rising cost of living, these households adopt various mechanisms, which include renting out rooms, reducing consumption of the staple food item with soaring price, and shifting to less nutritious food items.

The shock of loss of business and chronic illness of the household head is counteracted by dissaving and loans from friends and relatives. In urban livelihoods, saving is, thus, an important buffer against such an unexpected shock. So is the social capital, which is demonstrated here through loan from relative. By adopting various coping mechanisms, households who experience livelihood shocks/stresses rescue their assets, business activities and capabilities from collapse.

Microenterprises contribute to the sustainability of the livelihoods of the households of their operators in two ways, vis., by providing sufficient income that would buffer the households against shocks/stresses, and by complementing other sources of income in case they (microenterprises) are unable to provide the coping capacity by themselves. In either case, microenterprises contribute to the sustainability of the livelihoods of their operators. Microenterprises, thus, contribute to sustainable livelihoods in the context of a small town such as Woliso, albeit with varying degrees, provided that they provide sufficient income capacity, and are complemented by extra source/s of income.

The microenterprise sector is constrained with a number of factors. The major constraints of the sector include limited market, limited credit access, lack of working capital, limited skills, poor business management skill, poor book-keeping practices, limited supply of raw materials, poor technology, lack of government support, poor infrastructure, lack of work premise and limited local purchasing power.

5.2 Policy Implications

In order for microenterprises to contribute much to the sustainability of the livelihoods of the households of their operators, the following measures deserve attention and consideration.

- Expanding credit access by minimizing or removing the hurdles (the hurdles include the different criteria set by financial institutions as they provide loans, e.g., collateral

requirement, the requirement that borrowers must form a group to get loans, duration of grace period, etc)

- Undertaking measures that improve the macroeconomic stability to reduce the impact of inflation which gives rise to the rising cost of living
- Solving problems related to market access along the value chain (i.e. problems occurring at input supply, production, distribution and final consumption).
- Undertaking training and means that encourage entrepreneurship, i.e., innovation, risk-taking in business, etc. so that people do not go into similar businesses excessively, emulating each other
- Providing trainings that improve the skills of microenterprise operators, their book-keeping practices, business management skills, saving culture, and income diversification
- Improving the supply of physical infrastructure such as the supply of power on a daily basis
- Facilitating easy access to work premise
- Priority should be set in undertaking interventions in the area of microenterprises by considering their potential viability as profitable businesses.
- Finally, it is worth indicating that this study has been devoted to explore the contribution of microenterprises to sustainable livelihoods within the Sustainable Livelihoods Framework. It has not thoroughly gone into the conditions of the sustainability of the livelihoods of the households engaged in microenterprises. It is, thus, imperative to investigate the factors determining the sustainability of the livelihoods of households engaged in microenterprises. Further research is thus recommended to fill this gap.

References

- Ahmed Mohammed Abdu (2003). Project Report on "The Development of Micro-financing in Ethiopia-and the Indian Experience" Submitted as a partial fulfillment of the Training Programme on "Promotion of Micro Enterprises, October 13-December 19, 2003, Hyberland, India.
- Albu M. and Scott A. (2001). Understanding Livelihoods that involve Micro-enterprise: Markets and Technological Capabilities in the SL Framework. Intermediate Technology Development Group (ITDG), Schumacher Centre for Technology Development Warwickshire, United Kingdom. <http://www.itdg.org>
- Andualem Tegene (1997). "Small-scale Enterprise and Entrepreneurship Development in Ethiopia: Concept, Definitions and Major Issues", in: Wolday Amha, Chipande G.H.R., and Andu-Alem Tegene, (eds): Small Scale Enterprise Development in Ethiopia. Proceedings of the Sixth Annual Conference on the Ethiopian Economy, Addis Ababa.
- Asian Development Bank (2009). Enterprises in Asia: Fostering Dynamism in SMEs, Key Indicators for Asia and the Pacific, 2009 Special Chapter.
- Castro A. (2002). Sustainable Livelihoods Analysis: An Introduction, Department of Anthropology, Maxwell School of Citizenship and Public Affairs Syracuse University Syracuse, New York 13244, February 23, 2002. <http://www.ein.audi.cornell.edu>, accessed on March 13, 2010.
- Chambers R. and Conway (1992). Sustainable Rural Livelihoods: Practical Concepts for the 21st Century. Institute of Development Studies, Discussion Paper 296,

University of Sussex Brighton BN1 9RE, England.

Chowdhury A. Jahangir (2009). Microcredit, micro-enterprises, and self-employment of women: Experience from the Grameen Bank in Bangladesh, Paper presented at the FAO-IFAD-ILO Workshop on gaps, trends and current research in gender dimensions of agricultural and rural employment: differentiated pathways out of poverty Rome, 31 March - 2 April, 2009

CSA (2008). Central Statistical Agency, Annual Statistical Abstract, Addis Ababa.

_____ (2003). Central Statistical Agency, report on Cottage/Handicraft Manufacturing Industries Survey. Addis Ababa

_____ (2002). Central Statistical Agency, report on Cottage/Handicraft Manufacturing Industries Survey. Addis Ababa

Daniel W/Kidan (2007). MSEs and Their Influences in Alleviating Urban Poverty in Nekemt: A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, June 2007, Addis Ababa (unpublished).

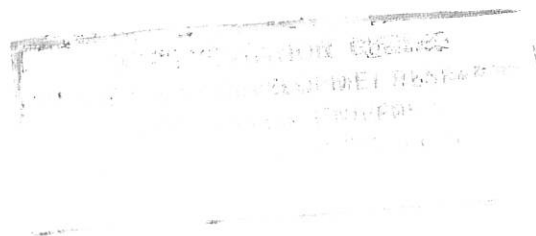
Debebe Barud (2006). The Opportunities and Challenges for the Survival and Growth of MSEs in Urban Ethiopia: A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, June 2006, Addis Ababa (unpublished).

- Degefa Tollosa (2008a). Understanding the Realities of the Urban Poor and their Food Security Situations: A Case Study at Berta Gibi and Gmechu Safar in Addis Ababa City, Ethiopia, Institute of Developing Economies, Japan External Trade Organizations. No. 440, December 2008, V.R.F. Series
- _____ (2008b). Livelihood Transformation from Pastoralism to Agropastoralism as an Adaptation Strategy among the Urrane of North-eastern Ethiopia. Quarterly Journal of International Agriculture 47 (2008). NO. 2: pp. 148.
- _____ (2005). Rural Livelihoods, Poverty and Food Insecurity in Ethiopia: A Case Study at Erenssa and Garbi Communities in Oromia Zone, Amhara National Regional State, Doctoral Thesis for the degree of philosophiae doctor at the Norwegian University of Science and Technology, Norway
- DFID (1999). Sustainable Livelihoods Guidance Sheet: Introduction. http://www.livelihoods.org/info/info_guidancesheets.htm#1, accessed on November 14, 2009.
- _____ (1998). Sustainable Livelihoods Guidance Sheet: Introduction. http://www.livelihoods.org/info/info_guidancesheets.htm#1, accessed on November 14, 2009.
- Dolman A. (1994). The Small and Micro Enterprise Sector in Kenya: Main Characteristics and Dynamics, British Aid to Small Enterprise, Overseas Development Administration in co-operation with the Netherlands Government and UNDP, Nairobi, March 1994.
- Douglass M. (1998). "World City Information the Asia Pacific Rim: Poverty, 'Everyday' Forms of Civil Society and Environmental Management" in Douglass. M & Friedman. J "Cities for Citizens". Wiley. <http://www.envplan.com/ref.cgi>, accessed on May 22, 2010.

- Ellis F. (2000). Rural Livelihoods and Diversity in Developing Countries.
- Endeshaw (2005). Determinants of Enterprise Growth: The Case of Small Manufacturing Enterprises in Bahir Dar, A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, July 2005, Addis Ababa (unpublished).
- Fernando N. (2003). A Measure of Urban Livelihood Vulnerability: The Case of Colombo, Paper submitted for the 9th International Conference on Sri Lanka Studies, 28th -30th November 2003, Matara, Sri Lanka
- Farrington et al. (2002). Sustainable Livelihoods Approaches in Urban Areas: General Lessons, with Illustrations from Indian Cases, Working Paper 162, March 2002 Overseas Development Institute, 111 Westminster Bridge Road, London, SE1 7JD UK.
<http://www.idi.org.uk/resources>, accessed on April 16, 2010.
- Fasika and Daniel (1997). "Financing Micro and Small-scale Enterprises in Urban Ethiopia." In: Wolday Amha, Chipande G.H.R., and Andu-Alem Tegene, (eds): Small Scale Enterprise Development in Ethiopia. Proceedings of the Sixth Annual Conference on the Ethiopian Economy, Addis Ababa.
- Gebrehiwot Ageba and Wolday Amha (2006). Micro and Small Enterprises Development in Ethiopia: Strategy, Regulatory Changes and Remaining Constraints. Ethiopian Journal of Economics, Vol. X, No. 2, October 2001

published in 2006.

- _____ (2004). "Micro and Small Enterprises Eevelopment in Ethiopia. Survey report", In: Research Report - Ethiopian Development Research Institute, no. 2, Addis Ababa, Ethiopia
- Getachew Abebe and Getachew Belay (1997). "Micro-business Development in Ethiopia." In: Wolday Amha, Chipande G.H.R., and Andu-Alem Tegene, (eds): Small Scale Enterprise Development in Ethiopia. Proceedings of the Sixth Annual Conference on the Ethiopian Economy, Addis Ababa.
- Hayat Abdulahi (1997). "Constraints to Women Entrepreneurs in the Informal Sector: The Case of Women Traders in Addis Ababa Markets," in: Wolday Amha, Chipande G.H.R., and Andu-Alem Tegene, (eds): Small Scale Enterprise Development in Ethiopia. Proceedings of the Sixth Annual Conference on the Ethiopian Economy, Addis Ababa.
- Janik, W. (2008). The Role of Small Enterprises in Poland's Economic Development: Romanian Journal of Regional Science, Vol. 2 No. 1 Lublin University of Technology Faculty of Management, Lublin, Poland. <http://ideas.repec.org/a/rrs/journal>, accessed on April 26, 2010.
- Kinyanjui M. and Khayesi M. (2005). Social Capital, Micro and Small Enterprises and Poverty-Alleviation in East Africa, OSSREA, Addis Ababa, Ethiopia
- Meikle et al. (2001). Sustainable Urban Livelihoods: Concepts and Implications for Policy, Working Paper No. 112,



January 2001, London WC1H 0ED.
<http://www.eprints.ucl.ac.uk>, accessed on March 18,
2010.

Messay Ashenafi (2008). The Role of Group-based MSE in Local Economic Development: A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, June 2008, Addis Ababa (Unpublished).

MoFED (2006). Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/06-2009/10. Vol. 1. Addis Ababa.

Moser C. (1998). "The Asset Vulnerability Framework: Reassessing Urban Poverty Reduction Strategies" in World Development Vol. 26 No.1.
<http://econpapers.repec.org/articles>, accessed on April 3, 2010.

Mulu Gebreeyesus (2009). Innovation and Microenterprises Growth in Ethiopia, Research Paper No. 2009/51 presented at the UNU-WIDER and UNU-MERIT Research Workshop on Entrepreneurship, Technological Innovation, and Development, held in Maastricht, the Netherlands, 30-31 October 2008.
<http://www.wider.unu.edu/publications/working-papers/research-papers>, accessed on December 14, 2009.

Nichtera S. and Goldmark L. (2009). Small Firm Growth in Developing Countries: An Empirical Analysis from Morocco, University of California, Berkeley, CA, USA,

Development Alternatives 26 June 2009.
<http://www.sciencedirect.com/science>, accessed on
December 17, 2009.

- Rakodi C. (2002). "A Livelihoods Approach: Conceptual Issues and Definitions" in: A People-centered Approach to Reducing Poverty, Rakodi Carole and Tony Lloyd-Jones, (eds.) 2002 Sterling, VA: Earthscan.
www.idd.bham.ac.uk/research, accessed on May 11, 2010.
- Scoones I. (1998). Sustainable Rural Livelihoods: A Framework for Analysis, IDS Working Paper 72
- Solomon Wole (2004). "The MSE Sector in Ethiopia." In Worku Gebeyehu and Daniel Assefa: Federal MSEs Development Agency: Proceedings of the International Workshop on The Role of MSEs in the Economic Development of Ethiopia, Worku Gebeyehu and Daniel Assefa (eds.), May 2004, Addis Ababa.
- Solomon Worku (2004). Socio-economic Determinants of Start-up, Growth and Closure of Small Manufacturing Enterprises in Addis Ababa. A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, June 2004, Addis Ababa (Unpublished).
- Ssewamala et al. (2006). Using Individual Development Accounts for Microenterprise Development, CSD Working Paper 06-05, Center for Social Development, George Warren Brown School of Social Work, Washington University at Louis, St. Louis, USA.
<http://www.columbia.edu/cu/ssw>, accessed on May 12, 2010.

Tarekegn Shado (2006). Challenges of Sustainable Livelihood: the Case of Fishing Communities Around Lake Chamo. A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, June 2006, Addis Ababa (Unpublished).

Torban Kenea (2006). "Firm Growth and the Need for Microfinance Support: Evidence from from Micro and Small Enterprises, Economics Department, University of Oslo, Oslo, Norway and Mekelle University, Mekelle, Ethiopia." In: African Journal of Microfinance, Vol. 1. No. 1. October 2006.

UNDP (1998). "Sustainable Livelihoods; Concepts, Principles and Approaches to Indicator Development - Draft" (<http://www.undp.org/>), accessed on February 6, 2010.

Workneh Fisseha (2007). The Constraints of MSEs in Addressing Employment Opportunity: A Thesis Submitted to School of Graduate Studies, at the Department of Regional and Local Development Studies in Partial Fulfillment of the Requirements of the Degree of Masters of Arts in Regional and Local Development Studies, June 2007, Addis Ababa (Unpublished).

Wratten E., (1995). "Conceptualizing Urban Poverty" in Environment and Urbanization Vol.7, No.1. <http://eau.sagepub.com/cgi>, accessed on May 13, 2010.

Appendix

Survey Questionnaire

Name of Enterprise: _____

A. Identification of the Respondent

1. Name _____ 2. Age _____
3. Sex
4. Marital Status _____ 1. Single 2. Married 3. Separated 4. Divorced 5. Widowed 6. Other (Specify) _____
5. Educational Status _____
1. Can't read and write 2. Lower Primary (1-4) 3. Upper primary (5-8) 4. Secondary (9-10) 5. Preparatory (11-12) 6. Technical and Vocational Educational Training (TVET) 7. Higher Education
6. If your response to question No. 6 is 'Higher education,' what is the educational award?
1. Certificate 2. Diploma 3. Degree
7. If you response to question No. 6 is 'Higher education,' what is your field of study? _____

B. Enterprise Characteristics

8. What motivated you to engage in this enterprise?
1. To diversify income 2. Unemployment 3. Family poverty 4. The business is profitable 5. Previous experience 6. Inherited from family 7. Other (Specify) _____
9. If your response to question No. 8 is 'The need to diversify income,' what other business are you undertaking? _____
10. When was the establishment of your business? In _____ E.C/G.C
11. Where is the work premise of your business?
1. Within home 2. Independent premise 3. Within compound 4. Other (Specify) _____
12. If your answer to question No. 11 is 'Independent premise,' how did you get it?

1. Rented
2. Given by government
3. Given by relative
4. Own construction
5. Other, specify _____

13. What was your occupation before you started the business?

1. Student
2. Government employee
3. Daily laborer
4. Run another business
5. Unemployed
6. Working for a private business owner
7. Other, specify _____

14. What is the ownership status of the enterprise?

1. Private
2. Family ownership
3. Group ownership with non-family member
4. Other (Specify) _____

15. What is the primary activity your enterprise is engaged in _____?

16. Where do you get raw materials/inputs?

1. Buy from local markets
2. Import
3. The materials are processed by the enterprise itself
4. Other (Specify) _____

17. What is your view of the price of raw materials/inputs?

1. Extremely expensive
2. Reasonable
3. Cheap
4. Don't know

18. How do you rate the trend of the amount of goods and/or services your enterprise is currently producing per day?

1. Increasing
2. No change
3. Decreasing
4. Don't know
5. Fluctuates

19. What is your view of the technology your enterprise is currently using?

1. Highly modern
2. Somewhat modern
3. Backward
4. Obsolete
5. Don't know
6. Not applicable

20. Do you think that use of obsolete technologies in production has negative impact on your business?

1. Yes
2. No
3. Don't know

21. If your response to question No. 20 is 'Yes,' do you often replace obsolete production materials with new ones?

1. Yes
2. No
3. Not applicable

22. If your answer to question No. 21 is 'No,' why don't you replace obsolete materials with new ones?

1. It is too costly
2. No sufficient profit
3. Difficult to find new materials locally

4. Ignorance of the need to replace obsolete materials with new ones

5. Other (specify) _____

23. Where do you sell your product/service?

1. At local markets in the town 2. Outside the town at neighboring markets

3. In Addis Ababa 4. Export abroad 5. Other (Specify) _____

24. If your answer to question No. 23 is 2, 3, and/or 4, how do you transport the goods?

1. Using own vehicle 3. Buyers transport 4. Other (Specify) _____

2. Using rented truck

25. If your answer to question No. 24 is 2, is the rental price affordable without affecting the profit of your business?

1. Yes 2. No 3. Don't know

26. Do you think that there is sufficient market demand for your product?

1. Yes 2. No 3. Demand fluctuates 4. Don't know

27. What is your source of information in your business activities?

1. Neighbors involved in similar business activity 2. Experts at government offices

3. Customers 4. Market survey 5. Friends 6. Wait for customers to come to my business 7. Other, specify _____.

C. Physical Capital

28. Is electricity very important to your business?

1. Yes 2. No

29. If your response to question No 28 is 'Yes', how do you describe the daily supply of power in a week?

1. There is power every day 2. Electric breakdown on some days 3. Not available for most of the week 4. Not available entirely

30. Do you have telecommunication service in your home?

1. Yes 2. No

31. Do you have telecommunication service in your business?

1. Yes 2. No

32. What is your opinion regarding the importance of the availability of telecommunication service for your business activities?

1. Extremely important 2. Important 3. Not important 4. Don't know

33. How do rate the transportation facility (such as road infrastructure, availability of transportation, etc) in the town?

1. Best 2. Very Good 3. Good 4. Bad 5. Worse 6. Worst

34. Do you think there is adequate supply of water in the town?

1. Yes 2. No 3. Don't know

35. Is water very important for your business activities?

1. Yes 2. No

36. If water is very important to your business, do you get adequate supply of water each day?

1. Yes 2. No

37. What is your source of water?

1. Tap inside the house 2. Tap in the compound (privately) 3. Tap inside compound (shared with neighbors) 4. Tap outside compound (shared) 5. Tap outside compound (public tap-Bono) 6. Unprotected water source (well, spring, river, etc)

7. Other, specify _____

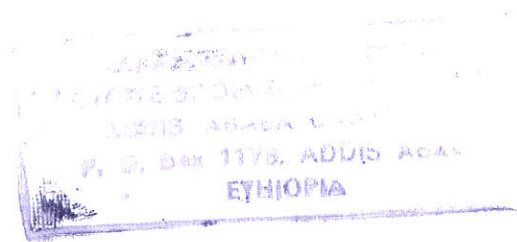
D. Financial Capital

38. How much was the initial financial capital of your business? _____ Birr.

39. How much is your current financial capital? _____ Birr.

40. What was the source of your initial capital?

1. Loan from banks
2. Loan from Micro-financial Institutions (MFIs)
3. Loan from relatives
4. Previous Savings
5. Financial gift
6. Sale of assets
7. Loan from friends
8. Transfer from family
9. *Iqub*
10. Other (Please specify) _____



41. If your response to question No. 40 is 'Financial gift,' who gave you the money?
1. Family transfer
 2. NGO
 3. Local government body
 4. Friend
 5. Relative
 6. Other, specify _____
42. If your answer to question No. 40 is 'Loan from banks,'
1. Individually
 2. With other borrowers forming a group
 3. Other, specify _____
43. 'Loan from MFIs,' how did you borrow the money?
1. Individually
 2. With other borrowers forming a group
44. If your answer to question No. 40 is 'Loan from banks,' were you asked for collateral?
1. Yes
 2. No
45. If your response to question No. 44 is 'Yes,' what was the collateral?
- _____
46. If your response to question No. 44 is 'No,' why were you exempted from the collateral?
1. The amount of the loan was below that which requires collateral
 2. The bank does not require collateral
 3. Other (Please specify) _____
47. Do you think you get the amount of initial financial capital you needed to start your business?
1. Yes
 2. No
 3. Don't remember
48. Are you facing a problem of working capital?
1. Yes
 2. No
49. If your response to Question No. 48 is 'No,' what is the source of your working capital?
1. Own saving
 2. Loan from banks
 3. Loan from MFI's
 4. Financial support from government
 5. Financial support from non-governmental organization
 6. Other, please specify _____

E. Human Capital

50. What is the form of management of your business?

1. Owner manager
2. Hired manager
3. Managed by family member
4. Other, specify _____

51. If you are the manager of your business, do you think you have the necessary knowledge and skills to manage the business?

1. Yes
2. No
3. Don't know

52. If your response to question No. 50 is 'Hired manager' or 'Managed by family member,' what is the educational level of the manager?

1. Can't read and write
2. Lower primary (1-4)
3. Upper primary (5-8)
4. Secondary (9-10)
5. Preparatory (11-12)
6. TVET

7. Higher education

8. Other, specify _____

53. If your response to question number 52 is 'Higher education,' what is the educational award?

1. Certificate
2. Diploma
3. Degree

54. Do you think that you have any health problem that hinders you as you carry out your business activities?

1. Yes
2. No

55. If your response to question No. 54 is 'Yes', what type of disease are you suffering from _____?

56. Does anybody working in your business suffer from a disease that hinders them as they carry out your business activity?

1. Yes
2. No

57. If your answer to question No. 56 is 'Yes', what type of disease is it _____?

58. Do you think you are healthy enough to carry out your day to day business activity?

1. Yes
2. No
3. Don't know

F. Social Capital

59. Do you have a linkage with other similar or different enterprises?

1. Yes
2. No

60. If your response to question No. 59 is "Yes", in what ways do you link with other enterprises?

1. Through market (buy products/inputs from and sell these to)
2. Exchange of market information
3. Training
4. Other, specify _____

61. Do you have linkage with concerned local government offices?

1. Yes
2. No

62. If you link with local government offices, in what ways do you link with them?

1. Receive training
2. Material support
3. Financial Support
4. Technical advice

63. Are you regularly networking with your customers?

1. Yes
2. No

64. If you regularly networking with your customers, do you think you are benefiting from the networking?

1. Yes
2. No

65. If your response to question No. 64 is 'Yes', how do you benefit from the networking?

1. I have maintained my customers
2. I am always aware of my customers' interest/taste
3. Transaction cost reduced
4. I have built trust
5. Other, specify _____

66. Are there NGO's in your operational area?

1. Yes
2. No

67. If your response to question No. 66 is 'Yes', do you network with them?

1. Yes
2. No

68. If you network with NGO's, in what ways do you do that?

1. I get training 2. Material support 3. Financial support
4. Technical support 5. Other, specify _____

69. Do you feel any threat of theft or robbery?

1. Yes 2. No

70. If there is any threat of robbery, how do you protect yourself?

1. Hire guard 2. There is strong police vigilance in the town 3.

Other, specify _____

71. In general, how do you see the social stability/security of the town? (in terms of enabling or constraining your business)

1. Extremely reliable 2. Moderately reliable 3. Not reliable 4.

Unpredictable 5. Don't know 6. Other, specify _____

72. Have you received any support from family, relatives, friends or elsewhere when you started this business?

1. Yes 2. No

73. If your response to question No. 71 is 'Yes', what kind of support have you received?

1. Being introduced to the business 2. Inheritance of business
3. Financial support 4. Other, specify _____

74. Are you a member of *Iqub*?

1. Yes 2. No

75. If you are a member of *Iqub*, have you ever received credit service from the association to undertake your business?

1. Yes 2. No

76. Do you think building relationships is helpful in running business?

1. Yes 2. No 3. Don't know

G. Information Regarding Income/livelihood outcomes

77. How do you compare the income you used to receive before you opened this business with the income you are now earning?

1. No change in my income 2. Higher income before than now
3. Higher income now than before 4. Don't know 5. Other, specify _____

78. The average monthly income you are earning from your current business has been _____ over the last two years.

1. Increasing
2. Decreasing
3. The same
4. Fluctuating
5. Don't know

79. If your response to question No. 78 is 'Increasing,' what do you think is the major reason?

1. Profitability has been increasing
2. New business is opened
3. Expansion of existing business
4. Selling price is increasing
5. New market access
6. Increased demand
7. Don't know
8. Other, specify _____

Note: More than one answer is possible.

80. If the response to question No. 79 is 'Profitability has been increasing,' what is the major reason for profitability to increase?

1. Decreasing costs of production
2. Increasing prices
3. Increasing output per unit of inputs used (increased productivity)
4. Don't know
5. Other, specify _____

Note: More than one answer is possible.

81. If your answer for question No. 79 is 'Selling price is increasing,' what are the major reasons?

1. Lack of substitutes for the product/service
2. Increased quality of product/service
3. Increased demand
4. Don't know
5. Other, specify _____

Note: More than one answer is possible.

82. If your income from this business is decreasing, what are the major reasons?

1. Reduced profitability
2. Reduced prices
3. Reduced demand
4. Don't know
5. Other, specify _____

Note: More than one answer is possible.

83. What changes have taken place in your and your family's life since you started this business?

1. Nutrition improved
2. Able to send children to school
3. New asset creation
4. Savings increased
5. Able to finance medical expense when a household member gets sick
6. I don't want to tell
7. Other, specify, _____

Note: More than one answer is possible.

84. If your response to question No. 83 is 'New asset creation,' what new assets have you created?

1. House (constructed)
2. House (purchased)
3. Jewels
4. Livestock
5. Household furniture
6. I don't want to tell
7. Other, specify _____

Note: More than one answer is possible.

85. If a house was constructed, how many rooms does it have?

1. One room
2. Two rooms
3. Three rooms

4. More than three rooms

86. If your answer to question number 84 is “ House (constructed)”, what is its wall type?

1. Mud and wood
2. Bricks
3. Stone
4. Blocket
5. Other, please specify_____

87. If your response to question number 84 is “House (constructed)”, what is its roof made of?

1. Corrugated iron sheet
2. Thatch/straw
3. Concrete
4. Other, specify_____

88. If your answer to question number 84 is “ House (purchased)”, what is its wall type?

1. Mud and wood
2. Bricks
3. Stone
4. Blocket
5. Other, please specify_____

89. If your answer to question number 8 is “ House (purchased)”, what is its wall type?

1. Corrugated iron sheet
2. Thatch/straw
3. Concrete
4. Other, specify_____

90. If you were able to construct a house, what facilities does it have?

1. Private Bathing facility
2. Private Toilet
3. Private Kitchen
4. Other, specify_____

91. Have you ever diversified your investment into activities other than this business?

1. Yes
2. No
3. Don't want to tell

92. If your response to question number 91 is 'Yes', what type of business is it _____?

93. Have you ever invested in agriculture in the nearby rural area?

1. Yes
2. No
3. Don't want tell

94. If your answer to question 93 is 'Yes', in which type of agricultural activity have you invested?

1. Livestock
2. Oil seeds production
3. Production of fruits and vegetables
4. Production of cereals
5. Tree planting
6. Fattening
7. Other, specify _____

95. If your answer for question No. 83 is 'Savings increased,' what type saving is it?

1. Voluntary
2. Compulsory
3. Both voluntary and compulsory
4. Other, specify _____

96. How much was your first saving? _____ Birr.

97. How much is your current saving? _____ Birr.

98. Where do you make your saving?

1. At banks
2. At micro-financial institution
3. At home
4. Give it to friends and/or relatives
5. Lending up on interest
6. I don't want to tell
7. Other, specify _____

99. Why do you make the saving?

1. Expand existing business
2. Undertake new business
3. Old age security
4. For safety purpose
5. To earn interest income
6. To

buy/build a house

7. To buy household durables 8. Other, specify _____

Note: More than one answer is possible.

H. Questions on Vulnerability (shocks, stresses and trends)

100. Do you remember any worst event in your life since you began this business?

1. Yes 2. No

101. If the answer for question No. 100 is 'Yes,' what worst event did occur to your family?

1. Famine
2. Food shortage
3. Price rise for consumption goods (inflation or increasing cost of living)
4. Loss of business
5. Illness of household head for long period of time
6. Death of household head
7. Other, specify _____

102. Has the income from your business helped you in coping with worst event as the ones mentioned under question 101? (If any)

1. Yes 2. No

103. If your response to question No. 102 is 'No', how did you cope with the event?

1. Renting out some rooms 2. Shift to less nutritious food items
3. Reduced share staple with soaring price (e.g.) *teff*
4. Draw down savings 5. Loans from relative 6. Loans from friends 7. Relief support
8. Others, specify _____

104. Were you compelled to sell household assets to cope with worst event as the ones mentioned under question 101? (If any)

1. Yes, because the income from my business was not big enough to do so
2. No, because income from this business was large enough to deal with the problem.

3. No, I managed to eke out the meager income
4. Have another source of income
5. Don't remember
6. Other, specify _____

105. If your response to question No. 104 is 'Yes,' were you compelled to sell all of your household assets?

1. Yes
2. No

106. If your answer to question to No. 105 is 'Yes,' how did you re-build your depleted assets?

1. Through support from government
2. Through support from relatives
3. Through support from friends
4. Through credit from banks
5. Through loan from microfinancial institution
6. Through support from non-government organization
7. Through income from this business
8. Other, specify _____

107. If no worst event has occurred hitherto, do you think the income you earn from your business will buffer you and your family if any of these events occur?

1. Yes
2. No
3. Not sure
4. Depends on its extent

108. If no worst event has occurred hitherto, do you think your business has enabled you to create assets that will buffer you and your family if any of these events occur?

1. Yes
2. No
3. Not sure
4. Depends on its extent

109. Do you and your household feel less secure of food shortage more today than before you started this business?

1. Yes
2. No
3. Don't know

110. How do you think is the trend in the supply/availability of local raw materials for your business? (If applicable)

1. Decreasing from time to time
2. Increasing
3. No change in the supply of local raw materials
4. I don not know
5. Other, please specify _____
6. Not Applicable

111. The price of raw materials for your business is _____.

1. Increasing
2. Shows no change
3. Decreasing
4. Other, specify _____.

112. How do you describe the income you earn from your business compared to the size of your household?

1. Sufficient because the size of the household is small
2. Not sufficient because the size of the household is big
3. Don't know
4. Sufficient despite large family size
5. Not sufficient despite small family size
6. Other, please specify _____.

I. Organizational/institutional Support

113. Have you received any support from the local government?

1. Yes
2. No

114. If any support has been received from the local government, what kind of support have you received?

1. Training
2. Business development service
3. Finance
4. Work premise
5. Facilitating trade fairs and bazaars
6. Other, specify _____

Note: More than an answer is possible.

115. Has any support been received from non-governmental organization?

1. Yes
2. No

116. If your answer to question to 44 is 'Yes,' what was it? (More than one answer is possible)

1. Training
2. Business development service
3. Finance
4. Materials
5. Facilitating trade faires and bazaars
6. Other, specify _____.

117. Have you ever heard of a policy/strategy formulated by the government regarding micro and small scale enterprises?

1. Yes 2. No

118. If your answer to question number 46 is 'Yes,' the policy is:

1. Favourable to my business
2. Not favourable to my business
3. Partly favourable and partly unfavourable
4. I can't evaluate

119. Has any health hazard occurred to those undertaking this business?

1. Yes 2. No

120. If your response to question No. 119 is 'Yes', what type of health hazard has occurred?

1. Minor damage 2. Mutilation of a part of the body 3. Severe damage
4. A part of the body has been broken 5. Other, specify_____

121. Is there chronically ill member in your household?

1. Yes 2. No

122. If your response to question No. 121 is 'Yes', do you often spend much of your income for medication?

1. Yes 2. No

123. If your response to question No. 122 is 'Yes', do you think that the medical expense robe you of the financial ability to fulfill the needs of your household other than that other than health related needs?

1. Yes 2. No

124. Have you or your household ever taken so much loan that you were not able to repay?

1. Yes 2. No

125. If your response to question No. 124 is 'Yes', do you think that the loan robs you of your ability to fulfill your and your household needs as you strive to repay it?

1. Yes 2. No

126. What is your family size?_____

127. Number of people employed in your business_____.

128. Are there micro-financial institutions in your area?

1. Yes 2. No 3. Have no information

129. Did you receive support from relative?

1. Yes 2. No

130. If yes to question No. 129, what kind of support?

1. Being introduced to business 2. Inherited business 3. Finance 4.

Other, specify_____

131. Did you receive support from a friend?

1. Yes 2. No

132. If yes to question No. 131, what kind of support?

1. Being introduced to business 2. Inherited business 3. Finance 4. Other,
specify_____

133. Do you have 'iddir? 1. Yes 2.No

J. Constraints

1. What major problems do you think your business is currently facing?

1. Limited market
2. Lack of working capital
3. Limited skills
4. Poor management of business
5. Poor book-keeping practices
6. Poor managerial skills
7. Limited credit facilities
8. Limited supply of raw materials
9. Poor technology
10. Lack of government and NGO support
11. Poor infrastructure (water, power, road, etc)
12. Restrictive government rules and regulations (e.g. licensing)
13. Lack of favorable policy support
14. Lack of work premise
15. Limited local purchasing power
16. Other, specify_____

Questions for concerned Government Officials

1. How do you explain the overall status of micro-enterprises in Woliso town, in terms of employment, income generation, enhancing food security, and reducing poverty?
2. What are the major constraints currently facing micro-enterprises in the town?
3. What supports does your office provide to micro-enterprises?
4. How do you evaluate the recent trends in the expansion of micro-enterprises in the town?
5. Are there private and non-governmental organizations providing supports to microenterprises in the town? If yes, what type of supports do they provide?
6. Do microenterprises pay taxes to the Municipality? If yes, what type of taxes do they pay?
7. How do you think is the economic development situation of the town at present?
8. What opportunities and potentials do you think have been created for the development of microenterprises in the town?

Declaration

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

Name: Wogari Wakjira
Signature: *wkf*
Date: 13/7/10

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

Dr. Workneh Negatu

Advisor

WNS

Signature

14/07/2010

Date

