



THE ROLE OF MICRO AND SMALL ENTERPRISES FOR ECONOMIC
EMPOWERMENT: THE CASE OF ADDIS ABABA, ETHIOPIA
A Research Submitted for
Partial fulfillment of the requirements for the degree of Masters in
Development Economics

By
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ECONOMIC EMPOWERMENT: THE CASE OF ADDIS
ABABA, ETHIOPIA**

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DECLARATION

I, the undersigned, declare that this study entitled “The Role of Micro & Small Enterprises for Economic Empowerment: the case of Addis Ababa city” is my own work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis have been duly acknowledged.

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as university advisor.

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ABSTRACT

This research was aimed at identifying the role of micro and small enterprises for economic empowerment in the case of Addis Ababa City. The study used a stratified systematic random sampling method to select 120 micro and small enterprises and 30 from each 4 sub cities (Kirkose, Yeka, Bole and Arada). Data were collected using survey questionnaire and analyzed using descriptive and narration methods. The descriptive result showed that the source of finance at the start-up were mainly family and the major constraints of the enterprises are lack of access to market, finance, raw material, problems in law enforcement, poor infrastructure and tight bureaucracy. The prospects of the enterprises in the study areas were increasing demand for products & services provided by MSEs. It can be clearly observed from the study that majority of the MSE operators have TVET/Diploma level of education. The average start-up capital of enterprise was Birr 9,194 with an average of 5.87 employees and, at the time of the study, the average employment was 6.12 employees with current capital of the enterprise Birr 168,906. Before joining MSEs, the average annual income of employee were 11,008.33 Birr and the current annual income of employee are 76,402.50 Birr. As indicated in the study, majority of the respondents intend to continue with the current business because of its positive gains. So, it has bright future prospects for micro and small scale enterprises. Similarly, the descriptive result shows the role of MSE for economic empowerment in terms of income creation and employments generation are to be mentioned. In general, concerned body should enhance the productivity of micro and small enterprises through training, entrepreneur skill development, access to credit, working premises and market linkage in order to make economic empowerment driven to be source of inputs for medium and large enterprises at large.

Keywords: -Micro and small enterprises, economic empowerment, Addis Ababa city, Ethiopia.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

MSE is one of the institutions given recognition in the country's development plan and is the fact that it serves as vehicles for employment opportunities at urban center and as it underpin the economic development. MSE serves as sources for sustainable job opportunities not only for developing countries like ours, but also for developed countries like USA. Thus they should be given prior attention as they are important and serve for sustainable source of job opportunities to our country

The government gives priority to these institutions as they are important vehicles for production and growth in the manufacturing sector. They will also be the major productive forces in the manufacturing sectors when our effort towards the country's renaissance is over. Japan, for instance, the globally recognized in giant companies like Toyota and Sony more than 50% manufacturing products are produced by MSE.

A large number of enterprises may dissolve in the process and only very few enterprises promote to medium and higher level although they are the only means to create strong investors. For instance , if we have about half a million MSE and let say 99 of which are dissolved or continue the remaining 1% ,which is about 5000 MSE would promoted to medium and higher level as it signifies creation of investors. Thus, MSE development should be given prior attention as it serves as incubation device for developmental investors.

The reasons for giving prior attention to MSE mentioned above apply not only to developing countries like ours but also to develop ones. We have also own political reasons for giving priority to MSE development. The government is devoted to fulfill the benefits of the farmers as they are basis for developmental state in rural. And they are our bases for mobilizing community and bring about development and good governance. So it is the MSE that plays a great role in urban as they uses their resource and labor

intensive similar with the farmer in the rural. And that's why the government gave attention and priority to MSE, as they help to mobilize the urban community as a whole.

Long time in history development and expansion of MSE was widely considered as sign of backwardness and lack of another alternative in all segments of the society and in the party /EPRDF/ too. However, it is resulted from misunderstanding that MSE are basis for a number of developments in the technology sector of these days. Hence it is better to be noted that renaissance of the country would not be realized unless such false perceptions are changed and replaced with correct one.

Understanding the strategy's value and giving due attention for the development of MSE should not be the end rather it is just beginning. In the process of developing MSE their core problems should be identified and designed solutions/directions accordingly. Although there are various problems that hinder the development of MSE, the main problem is backward attitude towards rent seeking. Moreover, technology, skill, capital and market challenges lag their development. Although the problems can be revealed in various forms, perceiving the MSE themselves as reflection of poverty and backwardness, waiting government for job rather than being innovative, failure in developing the culture of saving and living with one's income/ dependency/ are some of the indicators of failure in improving productivity and being competent in market . The reason for such challenges is geared with poor attitude towards development and democratic thought. Lack of access to sufficient seed money or finance facing huge capital problem at start up stage is another bottleneck, and is resulted from failure of having strong trust in ones saving effort with both the actors and families of actors. Lack of commitment towards changing the backward technology is another challenge of the MSE development. Lack of access to market for their products and services that are associated with failure in producing according to market in terms of quality and price, and competitive approach, is the other problem. Unable to solve ones problem by oneself and absence of strong system of support that can help MSE's effort in solving their problems are other related problems.

Industrialization in Ethiopia is still in an incipient stage. The manufacturing sector is too small and undeveloped. Its structural linkages with the other sectors of the economy and

within itself are distorted and unbalanced. Most of all, its technological status is very backward and its labor force least educated and unskilled. As a result, manufacturing in Ethiopia is one of the least efficient, even by sub-Saharan Africa standard.

The importance of micro and small scale enterprises in both national and international context is undoubtedly of higher relevance on economic development. From time to time the number of the enterprises increased and it also its own impact on the national gross domestic product and positive effect on nations income to improve.

The Ethiopian economy can be largely characterized as an agrarian economy. More than 85% of the population is engaged in agriculture, which has generated on the average 44.7% of real GDP growth rate for the last seven years. The industrial sector's contribution to real GDP growth rate is 10.9 % for the last seven years. In spite of the fact that the economic growth performance was poor in the past; the country is experiencing strong economic growth at the current time. In accelerating the industrial transformation process, reducing unemployment and alleviating poverty, the government considered MSEs as the strategic sector by recognizing that they play significant role in stimulating business, creating employment and encouraging innovation which is a base for industrialization. "Proponents of policies and programs to support small firms have long claimed that they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs" (Nichter & Goldmark, 2005; Daniel Agyapong, 2010). Moreover, the micro and small enterprise sector speeds up the competitive strength of a national economy by generating employment opportunities for a lot of the people, adding flexibility and industrial diversification, and making use of resources that may otherwise not be used in the development process (Abeka & EvanceOchieng, 2011).

Indeed, policies to promote the development of MSEs are common in both developed and developing countries. Policies designed to assist MSEs, especially in developing economies, have been an important aspect of MSEs strategy to alleviate poverty and to increase citizens income. MSEs do not have a universal acceptable definition.

In the case of Ethiopian MSEs are generally defined as, Micro enterprise is a business enterprises which involves one to five employees and having capital of less than or equal to 50,000birr when the business is in the service sector; and the capital needs to be less than or equal to 100,000birr if it is in industry.

The MSE sector in Ethiopia is tied up with a number of problems that mitigate its growth and expansion, thereby minimize its vital role in national economic development (ILO, 2003). The private sector in Ethiopia remains underdeveloped, which accounts for less than 50 percent of total employment in the formal urban sector. But at this time the situation seems to be changing and the MSEs sector is playing a vital role in the industrial development of Ethiopia. It is recognized that this sector provides not only employment opportunities, but it is also an effective means of alleviating poverty and reducing income inequality.

The rapid development of MSE depends on the participation and integration of all development actors' inactive and wide range of support areas. This range from the self-help groups of MSE themselves and the eliminating of regulatory barriers and strong support and subsidy by federal or regional government.

Though different studies have been conducted in regard to the role of MSEs on the employment, income and on the importance of MSEs on social and economic area, it has been said that the effect of MSEs in accelerating the industrial transformation process & their contribution in economic development in Ethiopia; especially in Addis Ababa city is not yet fully understood and evaluated. Thus, this requires a detailed evaluation process of the performance of MSEs activities.

Hence, the main objective of this study is to analyze the role of micro and small enterprises for economic empowerment: the case of Addis Ababa city.

1.2 Statement of the Problem

The Ethiopian government gives special attention for the development and promotion of micro and small enterprises to overcome unemployment, poverty and other socioeconomic condition of the urban poor. The development of this sector is vital not only to generate employment opportunity and reduce poverty but also it is the base for medium and large enterprises. The sector may serve as springboard for medium enterprises and gradually grow into large enterprise. According to Diriba (2013) MSE have a great value in Ethiopian socio-economic growth because they require small capital, promote intersect oral linkages base for medium and large scale enterprises which in turn increases domestic saving and investment.

When we see their contribution to economic development and job opportunity, micro and small enterprises in Ethiopia in general and in Addis Ababa in particular are facing variety of problems that hinder their growth and development. In GTP-1 the number of establishments and total employment created by MSEs in Ethiopia is 766,990 and 10.6 million respectively. However, their contribution to growth rate of GDP was limited to 5.1 percent (NBE, 2010).

Some of the major constraints of micro and small enterprises in Ethiopia affecting the performance of MSEs are: Cumbersome rules/regulations related problems such as high tax level, uncertainty about tax policy, high collateral requirement, lack of/ inadequate business premise, lack of business support service and inadequate access to credit, an inadequate access to finance, lack of infrastructure, weak supporting institutional quality, access to land, access to raw material, access to training, marketing and competition (EDRI, 2014).

The absence of finance further restricts the development of micro and small enterprises. Banks and micro finance institutions in Addis Ababa do not seem willing to give proper loans and they are not actually meeting the financial needs of micro and small enterprises (Gebrehiwot & Wolday, 2004).

According to survey of Ethiopian Development Research Institute (2004), conducted in six major cities including Addis Ababa, only 7% of MSEs received short term training. The same research reveals that 74% of MSEs indicated willingness to pay fully for the share in the cost of training. This indicates that there is shortage of access to training to develop skill, knowledge and attitude (Gebrehiwot & Wolday, 2004).

Marketing problems such as lack of product diversity, pricing problems, lack of awareness how to compete in the market, limited business management and salesmanship ability, limited capacity to promotional activities, and lack of market related knowledge are also hindering the development of MSEs (Assegedech, 2004).

The micro and small enterprise development strategy has started implementation since 1997 in Ethiopia to reduce urban unemployment, poverty and bring economic empowerment. Due to this, promoting MSEs has been taken as a tool in Addis Ababa city, like other cities of Ethiopia. As the result of this, many MSEs are created in the past decades.

However, unemployment, equitable income distribution among society & low income are one of the present challenges in urban cities of Ethiopia. In addition, the contribution of the sector to GDP of the country is not clearly stated (known) by different reasons. (EEA, 2015)

So, we see this study aims at identifying the Role of Micro & Small Manufacturing Enterprises on Economic Empowerment: the case of Addis Ababa city and forwarded possible solutions to the policy makers and business operators.

1.3 Research Question

With the help of sufficient and appropriate empirical data on the role of micro & small scale enterprises for economic empowerment, this study test the following research question:

- ✓ What are the challenges and opportunities for MSEs in enhancing economic Empowerment in the study area?
- ✓ What are the roles of MSEs in generating income to the residents of the city?
- ✓ What are the roles of MSEs in generating employment opportunities to the residents of the city?
- ✓ What are the major socioeconomic characteristics of the operators in the MSEs?

1.4 Objective of the Study

1.4.1 General Objectives

The general objective of this study is identifying the challenge and prospects of the Enterprises and assessing the role of MSE on economic empowerment.

1.4.2 Specific Objectives

- ✓ To Identify the challenge and prospects of the Enterprises in the study area;
- ✓ To Assess the role of MSE on Economic Empowerment;
- ✓ To Forward possible recommendations that would help enhance MSE;

1.5 Significance of the Study

The study is believed to have number of significances. Principally, it contributes to the efforts being made towards improving the involvements of MSEs in the country's economy, especially in Addis Ababa. Thus, the thesis is expected to provide some insights for more informed interventions as feasibly designed in the sectors development strategies.

1.6 Scope and Limitation of the Study

Roles of Micro& Small scale manufacturing Enterprises for economic empowerment research was conduct covering those enterprises producing their goods and services in Addis Ababa city. The scope of this study is those enterprises:-

- a) Federal Small & Medium Scale Industries Agency
- b) Federal Urban job Creation & Food Security Agency MSE profile directory,

However, those establishments, which were not data recorded on the above listed organizations, were not included in the study.

In this survey detailed information on number of establishments, number of persons engaged and number of employees by enterprises groups, Sex and occupation, initial and current paid up capital and selected items are presented.

The following limitations may be faced during the study:-

- ✓ Some irrelevant answer from the respondents that affect during analyzing the data.
- ✓ Unwillingness of a few respondents to fill the questionnaires.

1.7 Organization of the Thesis

1.8 Definitions of Terms & Concepts

According To Federal Micro and Small Enterprises Development Agency, 2003 the Definition of Establishment:-

Micro Enterprises:

A micro enterprise in the industrial sector (manufacturing, construction and mining) is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 100,000 (approx. US\$5,000). Similarly, for activities in the service sector (retailer, transport, hotel, tourism, ICT and maintenance), a micro enterprise is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 50,000 (approx. US\$2,500).

Small Enterprises:

A small enterprise in the industrial sector is one which operates with between 6 to 30 persons and/or has paid up capital or total assets not exceeding Birr 1.5 million. Similarly, a small service sector enterprise is one that has between 6 and 30 persons and/or has total assets or paid up capital of Birr 500,000.

Table 1.1 Definitions of micro & small Manufacturing Enterprises

Type of Enterprises	Sector	Man power	Total asset
Micro Enterprise	Industry	≤5	≤birr 100,000 (\$5000 or E4500)
	Service	≤5	≤ birr 50,000 (\$2500 or E2200)
Small Enterprise	Industry	6-30	≤birr 1.5 million (\$9000 or E70000)
	Service	6-30	≤birr 500,000 (\$30000 or E 23000)

Source: FeMSEDA Strategy, 2011

Growth Stage of MSEs

1. Start- up Stage

- Startup stage refers to enterprises that incorporate people who are interested to establish MSE and those who are completed the required profession/skill from various institutions and established legally either in the form of association or private.
- It is a stage where an enterprise begins production and service under legal framework or legal entity.

2. Growth Stage

An enterprise is said to be at growth stage when

- it became competent in price, quality and productivity,
- its main power and total capital is greater than the start- up stage, and
- it starts to use book keeping system.

3. Maturity Stage

- Maturity stage is a stage given to an enterprise when an enterprise is able to be profitable and invest further by fulfilling the definition given to the sector and using the support provided.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature

When we see the role of micro & small enterprise (MSEs), the small business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2001). Small-Scale businesses are driving force for economic growth, job creation, and

poverty reduction in developing countries. Further, small scale business has been recognized as a feeder service to large-scale industries (Fabayo, 2009).

In light of this, Micro and Small Enterprise Development Program in Ethiopia has been given due attention by government since 2004/2005. Until 2004/2005, the national strategy was implemented by Federal MSEs Development Agency organized only at national level. Because of this, it was very difficult to make the strategy practical specially in delivering business development service for MSE operators. Thus, by considering the critical role of the sector and the challenges faced by MSE operators since 2004/2005 the government of Ethiopia decided to establish MSEs coordinating body at the regional level.

And also, when we look micro & small enterprises (MSEs) and their growth; what is growth in MSE? What is the yardstick to say one firm is growing while the other is stagnant? In this study, firm growth for MSEs is defined as an increase in the number of employees over time. MSE owners are typically able to remember their number of employees over time, even if they fail to maintain reliable written records. In addition, using the number of employees helps to avoid the need to deflate or otherwise adjust currency figures, which is necessary when using revenue and other monetary metrics. Employing other measures of growth may influence findings (Mead and Liedholm, 1998).

To date no theory specific to MSEs growth in developing countries has been stated. Traditional neoclassical economics hypothesize that workers are added until the value of the marginal product of the last worker is equal to the wage paid to that worker. This implies that firm growth will occur as a reaction to changes in technology, the wage rate, or the price of the product. As a result, if one is interested in why small firms in developing countries grow, this simple theory suggests that one's attention must focus on the factors that have an impact on supply and demand for the product produced by the MSE.

The 'stochastic' models extended this simple static model by consideration is given to the evolution of firms over time. These models also introduced firm-specific costs. In this framework, firms draw each year's growth rate from a distribution. 'Lucky' firms repeatedly draw high rates and grow over time. These models were based on Gibrat's Law, the stylized fact that firm growth and firm size are independent. However, researchers began to find fault with the assumptions of the stochastic models, and empirical work demonstrated that Gibrat's Law does not hold.

This stochastic model was superseded in the theoretical literature by Jovanovic's (1982) 'learning model'. In this framework, efficient firms (that is, firms with able managers) grow over time, expanding each period when their managers observe that their guesses about their managerial efficiency turn out to have understated their true efficiency. Jovanovic's model, in its simplest form, predicts that the annual growth rate of a firm will be a function of the accuracy of the manager's predictions regarding their ability, as well as the price of the product.

The learning model also has implications about the relationships between growth rates and firm size and age. On average older firms grow more slowly than younger ones. With respect to firm size, bigger firms grow more slowly controlling for firm age. Bigger firm have small values of the cost parameter (that is, they are more efficient). Such firms have less and less room for further increases, given that the information distribution has a lower bound.

The Jovanovic model has been criticized for the immutability of the efficiency parameter. In that model, managers are born with an efficiency level, and while they learn what that level is over time, they cannot alter it. Pakes and Ericson (1987) extended the basic model to allow this parameter to be changed through human capital formation. Those firms with managers possessing greater stocks of human capital should be more efficient, and therefore should grow relatively faster. Another aspect of the literature involves economies of scope at the firm level. Teece (1980), building on the work of Penrose (1959) and Williamson

(1975), theorizes that when the market for proprietary know-how does not function efficiently, or when an input is specialized and indivisible, a firm may find it more sensible to expand (diversify) than to sell the know-how or input to another firm producing a different product. This approach emphasizes the internal dynamics of the administrative structure of each firm.

The role of Micro and Small Enterprises (MSEs) is indispensable in poverty reduction through employment generation. Cognizant of this, a national MSEs Development Strategy was formulated in 1997. Ethiopia's MSE Policy envisages not only reducing poverty in urban areas but also nurturing entrepreneurship and laying the foundation for industrial development. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment and number of entrepreneurs and transition to medium size level (Addis ReMSEDA 2009a).

MSE development, being one of the key focus areas of the country's development strategy, receives massive support from the government in the form of access to finance, market, technology, training and working space. The government strongly believes that MSEs are the right solution to reduce urban unemployment, hence reduce poverty and for economic empowerment. This ambition is reflected in the GTP. For instance, it plans to create three million new jobs in the MSE sector in the five years growth and transformation period. Therefore, MSE promotion and support is the vital strategy to fulfill this national plan of employment creation in the short-run and achieving industrialization in the long-run. Ethiopia adopts a layered policy support in which MSEs are categorized into start-ups, growing-middle and maturity. Start-up stage enterprises refers to those enterprises found at their establishment stage and comprises a group or individual aspiring entrepreneurs that seek various supports to make their enterprise operational. The basic challenges at this stage include lack of initial and working capital, poor knowledge of business management and entrepreneurship and lack of knowhow about the different government policies and directives related to the

sector. In order to mitigate these challenges, FeMSEDA has designed a strategy that focuses on facilitating access to initial capital, supporting MSEs in formalization and legalization process and provision of training on business management, entrepreneurship and production technique.

Growing stage enterprises refers to those enterprises that are competent in the market in terms of price and quality and successfully utilize the various government support packages and are profitable in their business. However, enterprises at this stage also suffer from different challenges like financial constraint, lack of appropriate technology and technical skill, absence of sufficient working and sales premises and rent seeking behavior.

To alleviate these specific challenges, FEMSEDA has formed a national strategy that focuses on facilitation of financial support and skill and technological development program. On the other hand, enterprises are considered to have reached the maturity stage when they are fully profitable and engaged in further expansion and investments in the sector. At this stage FeMSEDA has a strategy that aims to strengthen enterprises in terms of productivity and product quality. Moreover, at this stage, knowledge of international standards and better production technology are disseminated to enterprises.

The challenges of micro & small enterprise (MSEs) development in Ethiopia, MSEs are confronted with various problems, which are of structural, institutional and economic in nature. Lack of capital, working premises, marketing problems, shortage of supply of raw materials and lack of qualified human resources are the most pressing problems facing MSEs. Although the economic policy of Ethiopia has attached due emphasis to entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, prototype development, imbalance preferential treatment and many others, which therefore need proper attention and improvement. It is in

this context that the Ethiopian Micro and Small Enterprises Development Strategy was conceived and developed (Ministry of Trade and Industry, 1997).

Writers argue reducing unemployment and hence enabling citizens to enjoy better standard of living has remained one of the top agendas of governments, politicians, think-tank groups, donors, lending institutions, and researchers over the last four or five decades. Equally, with the emergence of the idea of economic dualism in 1960s, economic theories and practices started to pop up with an objective of reducing unemployment and boosting citizen income for economies characterized by such dual behavior. With this theoretical explanation, policies and strategies like industrialization through import substitution and few decades later export promotion strategies and regional integration (south- south) were commonly acknowledged and implemented. These theories and associated policies and strategies have worked in some countries, but in some other countries replication of these theories were found to be recurrently fruitless.

Realizing the roles of MSEs, most governments in both less developed countries (LDCs) and developed countries (DCs) have been supporting MSEs extensively. The World Bank, UNIDO, the Asian Development Bank and a number of donors have been supporting MSE promotion policies.

According to Tulus (2006) the World Bank rationalizes its support for MSEs for three reasons:-

- First, MSEs enhance competition and entrepreneurship through its external effects of economic efficiency, innovation and aggregate productivity growth.
 - Second, MSEs are more productive than its counterpart larger enterprises.
- Third, expansion of MSEs boosts employment opportunities as compared to its larger enterprises.

2.2 Empirical Literature of MSEs in Ethiopian

MSEs can play an important role in poverty reduction by generating employment and income for young unskilled and semi-skilled individuals who often have limited opportunities in the labour market. As part of the major policy interventions to overcome unemployment in urban areas and sustain broad-based economic growth, the Ethiopian government has extended key policy support to Micro and Small enterprises (MSEs), with an emphasis on growth oriented MSEs. To this end, in 1997 the government designed a national MSE Development and Promotion Strategy to pave the way for the growth and development of the sector. The primary objective of the strategy was to create a favorable environment for MSEs so that they could facilitate economic growth and benefit from it, create productive and long-term jobs, provide the basis for medium and large scale enterprises and promote exports (MUDC, 2013).

Following the economic importance of MSEs given a special focus of the government, given that they comprise the largest share of total enterprises and employment in the nonagricultural sectors. In recognition of the important role MSEs have to play in creating income and employment opportunities and reducing poverty, the government drafted its first micro and small enterprise development strategy in 1997.

Among many, one of the contributions of MSEs is the development of the local economy through providing job and entrepreneurship for the local people. Local economic development may be defined as increasing the local economy's capacity to create wealth for local residents. Local economic development (LED) is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve quality of live for all (Helmsing, 2003).

However, different studies identified a number of challenges and constraints hindering the growth of MSEs. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cities indicated that shortage of finance (42%) to expand their business was their principal challenge, followed by lack of working premise (28.3%); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4%) in Addis Ababa, problem of finance (25.6%) and access to market (25.1%) were among the strong factors inhibiting the growth of these enterprises in the capital (UMSE,2015).

Different studies revealed the determinant factor for the growth of micro and small enterprise growth. For example, Ghebreyesus (2007) conducted a study using learning model of firm growth to investigate some key determinants of success, particularly employment expansion among micro-enterprises in six major towns in Ethiopia. The findings indicate that firm's initial size and age are inversely related to growth providing evidence that smaller and younger firms grow faster than larger and older firms and the finding is consistent with the learning hypothesis. A study by Haile et al. (2014) revealed that access to credit from formal financial sources, access to infrastructures and access to working premises are significant factors affecting the growth of MSEs. Besides, a study conducted by Tefera et al (2013) on growth determinants of MSEs in Mekele city indicates that sex of the manager, initial investment on the firm, location of, and the sector in which firms operate determine the growth of MSEs.

In the same way, Eshetu and Zeleke (2008) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small 25 enterprises by using a random sample of 500 MSMEs from 5 major cities in Ethiopia. According to this research, that lasted from 1996-2001, the factors that affect the long term survival of MSEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. his is so

because the findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%).

According to the study of Mulugeta (2011), the critical problems of MSEs has recognized and classified in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Description of the study Area

3.1.1 Geographical location and area

Addis Ababa lies 9°01'48'' N latitude and 38°44'24' E longitude. The city is located at the heart of the country at an altitude ranging from 2100 meter at Akaki in south to 3000 meter at Entototop in the north. The average altitude is about 2324 meter. The city occupies a total area of 540 km² (BoFED, 2013). The city administration is divided into ten sub cities.

3.1.2 Population size and distribution

According to Central statistical agency the total population of Addis Ababa was estimated to 3,295,206 of whom 1,775,257 were female and the rest 1,519,949 were male. This is 19.85 % of total urban population of 16,598,199. The population size of sub cities varies over space (CSA, 2015).

In the city there is a wide gap of wealth disparity between the poor and rich. Economically dependent population was estimated to be 37.4%. Unemployment rate of the city has been decreasing from time to time hence the rate in 2003 was 32% and in 2015 declined to Unemployed Population of total 366,227 of whom 236,103 were female and the rest 130,124 were male. When we look Unemployment Rate total 21.2% out of these male 14.4% female 28.6% (CSA, 2015).

3.2 Sample Size and Sampling Procedure

3.2.1 Sample Size & Sampling Frame

The sampling frame for the study was generated and constructed based on the Business frame obtained from:-

- a) Federal Small & Medium Scale Industries,
- b) Federal Urban Job Creation & Food Security Agency,

The sample size were selected from total enterprises found in Addis Ababa city 120 samples 30 samples each from Yeka, Kirkose, Areda and Bole sub-city. The sample size selected as Yalew Endeweke Musa suggested in his book (Musa, 1999)

Table 3.1 Number of Sample Sizes

NO.	Sub-City	Randomly Selected Woreda	Total Number of Establishment Found in Woreda	Sample Size Taken	For Non-Respondent Replace Sample Size	Total Sample Size
1	Kirkose	Woreda 7	1,709	30	1	31
2	Areda	Woreda 1	2,690	30	1	31
3	Yeka	Woreda 3	1,518	30	1	31
4	Bole	Woreda 5	1,834	30	1	31
Total				120	4	124

Source: FeMSEDA Directory

3.2.2. Sample Design & Sampling Procedure

The study employed a stratified systematic random sampling design. In order to do such sampling scheme, the sampling frames were grouped into five main and priorities sectors of enterprises at work namely: Manufacturing, Construction, Urban Agriculture, Service and Trade Sector and also it stratified by sub-city & woreda. From woreda, systematically random sample of enterprises

in each group were selected. In order to secure eligible number of enterprises for the study and taking into account the expected high occurrence of non-response rate. It's then decided take sample of 3% for each categories mentioned above among woreda respectively.

3.3 Data Sources and Data Collection Method

Primary data have will used in this study. The data will collected from enterprises by distribute the prepared Questionnaires. The structures questionnaires were prepared to collect the data.

3.4 Methods of Data Analysis

This is the further transformation of the processed data to look for patterns and relationship between and/or among data groups by using descriptive analysis. The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained from primary sources. Specifically, descriptive statistics were taken from this tool.

3.4.1 Descriptive Analysis

Descriptive analysis and narration was used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation). The reason for using descriptive statistics was to compare the different factors.

CHAPTER FOUR

Results and Discussions

This section contains a summarized description of the general characteristics of enterprises & respondents and enterprises profile. Enterprise profile describes MSEs trend or contribution for income generation, Employment opportunities created by MSEs, Social support and Knowledge & skill of operator of MSEs are examined under this respectively; and also a constraint & prospects of MSEs are discuss.

The data are collected and then analyzed in response to the problems posed in the first chapter of this study. The findings are based on the responses of sample taken from total MSEs which is located in Addis Ababa city. These data are collected with the help of a structured questionnaire.

4.1 Demographic Characteristics of Sample Respondents

4.1.1. Gender, Marital Status and Educational Level

The demographic characteristics of an individual have a significant role in his/her entrepreneurial behavior and performance of the business enterprise he/she runs. Proper management of business organizations often depends on the educational background of the individuals in charge. Taking this into consideration, therefore, level of education, age, gender, and marital status of the respondents are shown to indicate the general demographic conditions of the respondents under the sector.

According to the results of this study, 44.44 percent of the respondents of manufacturing sectors, 69.56 percent of the construction, 43.75 percent of the urban agriculture sectors, 40.74 percent of the service sectors and 55.56 percent of the Trade sectors are operated by males, 55.56 percent of the manufacturing sector, 30.44 percent of the construction sector, 56.25 percent of the urban agriculture sectors, 59.26 percent of the service sectors and 44.44 percent of the Trade sectors are operated by females. According to the study of (MUHCD, 2013)

female entrepreneurs run the minority of MSEs in the city. However, the sociocultural attitude could be another factor for decreasing participation of female construction and trade sector in this study. According to the researcher Study, the numbers of male operated MSEs are more than the numbers of MSEs operated by female which are 50.8 percent and 49.2 percent respectively. This is due to the construction and the trade sectors selected by the researcher to be studied are dominated by male. With regards to marital status 49.2 percent are married, followed by 45.8 percent are not married. The rest of the sample respondents are divorced and widowed and those which account for about 3.3 percent and 1.7 percent of the respondents respectively.

Table 4.1 Gender and Martial Status Distribution of Respondent of MSE

Gender	Manufacturing		Construction		Urban agriculture		Service		Trade	
	Freq.	%	Freq.	%	Freq.	%	Freq	%	Freq	%
Male	12	44.44	16	69.56	7	43.75	11	40.74	15	55.56
Female	15	55.56	7	30.44	9	56.25	16	59.26	12	44.44
Occupation/Duty										
Chairman	14	51.85	6	26.09	12	75	11	40.74	23	85.19
V/Chairman	9	33.33	7	30.43	4	25	7	25.93	1	3.7
Cashier	0	0	2	8.7	0	0	4	14.81	0	0
Secretary	1	3.7	1	4.35	0	0	1	3.7	0	0
Member	3	11.11	7	30.43	0	0	4	14.81	3	11.11
Marital Status										
Single	12	44.44	10	43.47	10	62.5	12	44.44	11	

										40.7
Married	15	55.56	9	39.13	6	37.5	14	51.86	15	55.56
Divorced	0	0	3	13.04	0	0	1	3.7	0	0
Widowed	0	0	1	4.35	0	0	0	0	1	3.7

Source: Own Survey (2017)

Table 4.2 Age Distribution of the Sample respondent by sector operated

Age	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade		Freq.	%
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%		
From 18-29	16	59.26	10	43.48	10	62.5	13	48.15	13	48.15	62	51.67
From 30-40	6	22.22	7	30.43	6	37.5	11	40.74	14	51.85	44	36.67
41 and above	5	18.52	6	26.07	0	0	3	11.11	0	0	14	11.66
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

4.1.2 Distribution of Sample MSE Respondent by Age Group

Table 4.2 above, presents the age distribution of the respondents and clearly shows that majority of them fall in the working age group. Such productive work force is often believed to be an engine for the overall development of a country. Being dominantly filled by a working age group alone, however, will not prove the sector's important instrument for the economic development of the country. In order for the sector to play a significant role in the economy, other issues such as capital, land, skill, natural resources have a significance roles. With this reservation, therefore, it can be drawn that majority of the MSE owners age are

youth who has better energy and speed that would help to produce more is among the ones the country's desired economic development can be attained by.

As can be shown in table above, the majority of the owners of MSEs are in the age range of 18-29, which represents 51.67 percent of the respondents. The rest 36.67 percent and 11.66 percent of the respondents are in the age range of 30-40 and 41 & above respectively.

4.1.3 Educational Level

The questionnaire included information on educational level of respondents to identify the skill of the respondent based on their level of education. Understanding the level of respondent's education helps in identifying and determining the development approaches to be followed (Aklilu, 2010). High level of human capital and research and development are positively associated with the performance of firms. They promote the growth of firms from low level of activities to large and better enterprises (Aklilu, 2010). From Table below, it can be observed that the majority's education levels are TVET/Diploma (30 percent). Next to TVET/Diploma, the respondents with grade from 9-10, grade from 1-8 and first degree holders & above accounts for 21.67 percent, 17.5 percent and 15.83 percent of the sample respondents respectively. It can be clearly observed from the below table that majority of the MSE operators have TVET/Diploma level of education which is 30 percent of the total respondents.

When the different sectors are compared in terms of level of education, 12.5 percent of the manufacturing sector has the highest level of education or joined tertiary level of education which is TVET/Diploma & above grade. According to personal observation graduates are starting to engage in the manufacturing sector due to government encouragement by providing loans and other services. As a result the manufacturing sector has more operators who have attended high levels of education than other sectors.

Table 4.3 MSE Operators Level of Educational

Educational level	Area of sector operated											
	Total											Total
	Manufacturing		Construction		Urban agriculture		Service		Trade			
Freq.	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
Read and write only	3	11.11	5	21.74	2	12.5	5	18.52	3	11.11	18	15
1-8	4	14.81	5	21.74	5	31.25	3	11.11	4	14.81	21	17.5
9-10	5	18.52	3	13.04	4	25	6	22.22	8	29.63	26	21.67
TVET/Diploma	12	44.44	6	26.09	3	18.75	8	29.63	7	25.93	36	30
First Degree	3	11.11	4	17.39	2	12.5	5	18.52	5	18.52	19	15.83
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

4.2. Enterprise Information

In this study, MSEs established before 2007 EC are the focus of the study. This is to see the trends and growth rates of MSEs over the course of time. According to Table 4.4 below, majority of established MSEs are recent establishments. 69.99 percent of the MSEs were established in the years between 2002-2006. The rest (30.01 percent) are established between 1992-2001. By evaluating the five sectors most of the respondents of construction sector (85.03 percent) are established earlier than service (70.36 percent), manufacturing (66.66 percent), trade (62.95 percent) and urban agriculture (62.5 percent) sectors in the year of 2002-2006. Majority of the construction sector (85.03 percent) is established in the year 2002-2006 and this shows that among the five sectors, construction sector is the youngest sector.

Table 4.4 Sample of MSE by Year of Establishment

year of establishment	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1992	0	0	0	0	0	0	1	3.7	0	0	1	0.83
1996	2	7.4	2	8.7	0	0	0	0	2	7.4	6	5
1997	3	11.11	0	0	2	12.5	4	14.81	8	29.63	17	14.17
1998	1	3.7	0	0	0	0	0	0	0	0	1	0.83
1999	1	3.7	1	4.35	0	0	2	7.4	0	0	4	3.33
2000	2	7.4	0	0	2	12.5	0	0	0	0	4	3.33
2001	0	0	0	0	2	12.5	1	3.7	0	0	3	2.5
2002	0	0	1	4.35	3	18.75	5	18.52	1	3.7	10	8.33
2003	6	22.22	1	4.35	2	12.5	7	25.93	8	29.63	24	20
2003	1	3.7	3	11.11	1	6.25	1	3.7	2	7.4	8	6.67
2004	4	14.81	4	17.39	0	0	2	7.4	3	11.11	13	10.83
2005	7	25.93	10	43.48	4	25	4	14.81	3	11.11	28	23.33
2006	0	0	1	4.35	0	0	0	0	0	0	1	0.83
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

4.3. Dynamics of MSEs

4.3.1 Trends of MSEs in Addis Ababa city

The government has focused on generating and improving self-employment through MSE development. This is taken as a more practical alternative (than paid employment) as there are generally limited jobs in the market compared to the population of unemployed and the teeming number of youth that join the working age population every year. Different activities are enacted in forming and formalizing enterprises through the legal registration process. As mentioned in the report of federal micro and small enterprises development agency; in the last five

years of the GTP-I implementation period (2010/11-2014/2015) a total of 766,990 enterprises comprising 3,771,036 operators were formed (FeMSEDA, 2015). When we see the number of MSEs formed in Addis Ababa city:-

Table 4.5 Number of MSEs Organized from 2010/11 - 2015/2016 Fiscal Year

Regions	2010/11 (2003 EFY)	2011/12 (2004 EFY)	2012/13 (2005 EFY)	2013/14 (2006 EFY)	2014/15 (2007 EFY)	2015/16 (2008 EFY)	Grand Total
Addis Ababa	21,348	12,841	7,571	7,392	7,291	8,081	64,524
Total	21,348	12841	7,571	7,392	7,291	8,081	64,524

Source: Annual Reports of FeMSEDA, 2003-2008 EFY

The key objectives of micro and small enterprises development program are to create abroad based spring-board for the development of competitive domestic industries and private sector, create employment opportunities and thereby reduce poverty. Focus has been given to enable micro and small enterprises produce goods and services which are competitive initially in the domestic market and gradually in the international market, ensure a rapid technological transfer and expand to all cities of the country. Accordingly, several activities were performed to support the establishment of new micro and small enterprises, strengthen the existing ones and enable them transform into medium scale industries. In the 2010/2011 – 2015/16 fiscal year, 64,524 MSEs (FeMSEDA, 2016) have been formed. The trends of MSEs formulation is decrease from year to year as the number of organized MSEs indicated in the above table. This indicates that the Government support for the establishment of MSEs from year to year decrease because of the limitation of resources like work premises (shed & land Premises), financial access, market linkage and business development service (training, developing business plan, counseling& information, etc.).

4.3.2 Initial Capital versus Current Capital of the Enterprise

Table 4.6 below indicates that the amount of initial capital of MSEs for starting business ranges from 300-110,000birr. Nonetheless most of the MSEs (58

percent) were their initial capital between 300-5,000birr. Others (29 percent) of the enterprises were their initial capital between 5,001-15,000Birr. When the sectors compared, there is no major difference among sectors. Majority of all the sectors were their initial capital between 300-5,000 birr that was 56 percent, 52 percent, 5 percent, 68 percent and 63 percent for manufacturing, construction, urban agriculture, service and trade respectively. Next to 300-5,000 birr, most of the respondents of the sectors were their initial capital from 5,001-15,000 birr and 3 percent of the respondents of the manufacturing sector, 29 percent of the construction sector, 19 percent of the urban agriculture sector, 32 percent of the service sector and 33 percent of the trade sector were their initial capital between 5,001-15,000 birr.

Table 4.6 Start-up Capital of the Enterprise

Start-up capital of the enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq	%	Freq	%	Freq.	%
300-5000	15	0.56	11	0.52	8	0.5	15	0.68	17	0.63	66	0.58
5001-15000	8	0.3	6	0.29	3	0.19	7	0.32	9	0.33	33	0.29
15001-25000	3	0.11	1	0.05	2	0.13	0	0	1	0.04	7	0.06
25001-35000	0	0	1	0.05	0	0	0	0	0	0	1	0.01
35001-110000	1	0.04	2	0.09	3	0.19	0	0	0	0	6	0.05
Total	27	100	21	100	16	100	22	100	27	100	113	100

Source: Own Survey (2017)

Availability of accurate information on current capital dissimilar that of initial capital is very difficult. This is because fear of taxation, fear of other new competitors will engage in the business and socio- cultural problem. Even if the researcher showed them identification card and other relevant documents, respondents are unwilling to tell the facts. As it is mentioned in earlier chapter micro are enterprises whose capitals are up to 100,000 birr. Those enterprises are taking the majority in Ethiopia. According to the researcher survey, majority (40

percent) of the enterprises have current capital between 20,001-50,000 birr. And 21 percent of the enterprises have a capital between 50,001-100,000 birr. The rest of the respondent's current capital is 100,001-500,000birr, 1500-20,000 birr, 500,001-1000,000 birr and 1,000,001-5,000,000 which are 17 percent, 15percent, 5 percent and 2 percent of the MSEs owners respectively.

By comparing initial capital of the MSEs with current capital, there are significance differences in the capital amount invested. In table above most of the MSEs (58 percent) initial capital were between 300-5,000birr however, in table below most of the MSEs (85 percent) current capitals are above 20,001 birr.

Table 4.7 Current Capital of the Enterprise

Current capital of the enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq	%	Freq	%	Freq.	%	Freq.	%	Freq.	%
1500-20000	1	0.04	3	0.13	1	0.06	10	0.37	4	0.15	19	0.15
20001-50000	9	0.33	6	0.26	4	0.25	11	0.41	18	0.67	48	0.40
50001-100000	7	0.26	4	0.17	3	0.19	6	0.22	5	0.19	25	0.21
100001-500000	8	0.3	5	0.22	7	0.44	0	0	0	0	20	0.17
500001-1000000	2	0.08	3	0.13	1	0.06	0	0	0	0	6	0.05
1000001-5000000	0	0	2	0.09	0	0	0	0	0	0	2	0.02
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

4.4 Employment Creation

MSEs can play a crucial role in contributing to job creation and decent working conditions, it should be noted that only looking at a certain size group of firms may lead to a biased picture when addressing job creation challenges within national production systems. In the coming years, thousands of new jobs need to be created to keep up with demographic changes and population growth in the country just in order to keep unemployment rates at their current levels let alone to substantially improve the employment situation.

The World Development Report (2013) on 'Jobs' estimates that this will require an additional 600 million jobs by 2020 if the ratio of employment to working-age population is to be kept constant (World Bank, 2013, p. 51). Further, evidence suggests that the majority of current jobs in low and middle income countries do not lift people out of poverty. According to estimates from the International Labour Organization (ILO) nearly half of all workers worldwide still live below the USD 2 a day poverty line (ILO-IMF, 2010). Thus, in order to reduce poverty, we do not just need more jobs but also, and more importantly, better paid jobs and decent working conditions.

Numerous discussions on how to create more and better jobs have taken place. Against the background of tight public budgets, suggesting that new jobs may be created by publicly sponsored works programs is a rather unhelpful proposal to many governments in low and middle income countries. What's more, the idea that larger enterprises in the formal sector could spur sufficient job creation in order to absorb current and future labour surpluses has been put to rest by a recent study on size of individual firms and job creation (Ayyagari et al., 2014). This shows that, compared to other size classes, small formal enterprises showed higher job creation rates, suggesting that formalized, smaller firms grow into larger small and medium enterprises (SMEs) in LMICs. As a result, policymakers and development practitioners have become highly interested in the job creation potential of small enterprises (De Kok et al., 2013; ILO, 2015).

Across high, middle and low income countries, micro and small enterprises (MSEs), including the self-employed, constitute the largest share of the private sector enterprises and account for the bulk of employment at least in low and middle income countries (Ayyagari et al., 2011, 2014; Maloney, 2004). In fact, over 35% of workers in developing economies, and the majority of workers in low income countries, are self-employed (Gindling & Newhouse, 2014). Even though a large share of these MSEs are informal, they are also accountable for the greater part of employment creation in middle and low income countries (Ayyagari et al., 2014; Jütting & De Laiglesia, 2009). However, data suggest that

in high income countries large firms have the highest share of employment, followed by medium sized firms and small firms (International Finance Corporation [IFC], 2013). Thus, as countries become richer, large firms show higher relative employment shares. Yet, even in high-income countries, it is mainly small firms that eventually grow bigger into larger enterprises (ibid.). Thus, for any job creation strategy to be successful, micro and small entrepreneurship in the formal and informal sector must be given central importance.

Table 4.8 Job Opportunities Created by MSEs from 2010/2011-2015/2016 fiscal year in Addis Ababa City

Fiscal Year	Sex	Number of Employed by MSEs	%
2010/11 (2003 EFY)	M	39,326	65.02
	F	21,155	34.98
	T	60,481	100
2011/12 (2004 EFY)	M	67,931	68
	F	31,968	22
	T	99,899	100
2012/13 (2005 EFY)	M	116,481	53.17
	F	102,583	46.83
	T	219,064	100
2013/14 (2006 EFY)	M	122,600	55.04
	F	100,139	44.96
	T	222,739	100
2014/15 (2007EFY)	M	178,713	64.38
	F	98,874	35.62

	T	277,587	100
2015/16(2008EFY)	M	104,941	55.27
	F	84,925	44.73
	T	189,866	100
Grand Total	M	629,992	58.9
	F	439,644	41.1
	T	1,069,636	100

Source: Annual Reports of FeMSEDA, 2003-2007 EFY

According to study table 4.8 above, shows Job Opportunities Created by MSEs from 2010/2011-2015/2016 fiscal year in Addis Ababa City increases from time to time. When we compare; 2011/12 fiscal year job created in the city increase by 65.17 percent from fiscal year of 2010/11, 2012/13 fiscal year job created in the city increase by 119.29 percent from fiscal year of 2011/12, 2013/14 fiscal year job created in the city increase by 1.68 percent from fiscal year of 2012/13, 2014/15 fiscal year job created in the city increase by 24.62 percent from fiscal year of 2013/14 and 2015/16 fiscal year job created in the city decrease by 31.6 percent from fiscal year of 2014/15.

Table 4.9 Status of Previous Occupation of Respondent

Previous	Area of sector operated	Total
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occupation of respondent	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	4	14.81	9	39.13	0	0	6	22.22	1	3.7	20	16.67
No	23	85.19	14	60.87	16	100	21	77.78	26	96.3	100	83.33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

In this study also among the MSEs operators, majority of them (83.33 percent) had not previous occupations and only 16.67 percent had previous occupations. According to this survey MSEs created employment opportunities for those operators of MSEs. And among those operator of MSEs 83.33 percent had been unemployed, this means that MSEs created job to 83.33 percent of the employed people. From this we can conclude that MSEs in the city have crucial role in employment creation. Those employed in MSEs also gain direct and indirect positive effect by being employee of MSEs. Finally, due to MSEs require low startup capital. From this we can conclude that experience or skill that were gained by working in MSEs helps to start their own business and to earn better income.

4.4.3 Member at the Time of Establishment versus Current Member of the Enterprise

Table below indicates that the number of member at the time of establishment of MSEs ranges from 1-5 operator. Nonetheless most of the MSEs (71.67 percent) were their member at the time of establishment between 1-5 operators. Others (15 percent) of the enterprises were their initial member between 6-10 operators. When the sectors compared, there is no major difference among sectors. Majority of all the sectors were their initial member between 1-5 operators that was 66.67 percent, 65.22 percent, 75 percent, 51.85 percent and 100 percent for manufacturing, construction, urban agriculture, service and trade respectively.

Next to 1-5 operators, most of the respondents of the sectors were their initial member from 6-10 operators and 25.93 percent of the respondents of the manufacturing sector, 21.74 percent of the construction sector, 6.25 percent of the urban agriculture sector and 18.51 percent of the service sector were their initial member between 6 – 10 operators.

Table 4.10 Total Members at a Time of Establishment

Total members at a time of establishment	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1-5	18	66.67	15	65.22	12	75	14	51.85	27	100	86	71.67
6-10	7	25.93	5	21.74	1	6.25	5	18.51	0	0	18	15
11-20	2	7.4	3	13.04	2	12.5	3	11.11	0	0	10	8.33
21-30	0	0	0	0	0	0	3	11.11	0	0	3	2.5
31 & above	0	0	0	0	1	6.25	2	7.4	0	0	3	2.5
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 4.11 Total of Current Members

Total of current members	Area of sector operated					Total
	Manufacturing	Construction	Urban agriculture	Service	Trade	

	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1-5	21	77.78	18	78.26	14	87.5	15	55.56	27	100	95	79.17
6-10	5	18.52	3	13.04	1	6.25	5	18.52	0	0	14	11.67
11-20	1	3.7	2	8.7	1	6.25	3	11.11	0	0	7	5.83
21-30	0	0	0	0	0	0	2	7.4	0	0	2	1.67
31 & above	0	0	0	0	0	0	2	7.4	0	0	2	1.67
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Because of different factors the member at the time of establishment releases their establishment from year to year. According to the researcher survey, When we compare member at the time of establishment and current member of those enterprises it decreases from 8.33 percent to 5.83 percent and 15 percent to 11.67 percent for 31 and above operators, 21 – 30 operators, 11 – 20 operators and 6 – 10 operators respectively. On other hand; when we see the member of enterprise at the time of establishment those establishment of member from 1 – 5 operators increases from 71.67 percent to 79.17 percent.

4.5 Income Creation

4.5.1 Previous Annual Average income of Operator

MSE operators who have previous occupation were getting annual average income of minimum 6,400 birr, maximum 23,000 birr and average 11,008 birr. When we compare and contrast the sectors, the manufacturing sector has an annual average income of 17,000 birr better than the other sectors. The construction sector has an annual average of 12,286 birr and the service sector has annual average of 7,275 birr previous income. None of the MSE operators get an income outside of their enterprises.

4.5.2 Current Annual Income of MSEs Operator

Table 4.12 Average Annual Income of Respondent from MSE only

Average annual	Area of sector operated	Total
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income of respondent from MSE only	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
5001-30000	12	44.44	8	34.78	9	56.25	24	88.89	25	92.59	78	65
30001-60000	2	7.4	4	17.39	2	12.5	2	7.4	2	7.4	12	10
60001-85000	1	3.7	0	0	1	6.25	1	3.7	0	0	3	2.5
85001-120000	4	14.81	2	8.7	1	6.25	0	0	0	0	7	5.83
120001-180000	0	0	1	4.35	3	18.75	0	0	0	0	4	3.33
180000-250000	3	11.11	2	8.7	0	0	0	0	0	0	5	4.17
250001 & Above	5	18.52	6	26.09	0	0	0	0	0	0	11	9.17
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

According to study table above, many of the respondent's (65 percent) get the lowest annual average of five years income between 5,001-30,000 birr, 10 percent of the respondents also receive a five year annual average income between 30,001-60,000 birr, 9.17 percent of the respondents get the highest five year average annual income of 250,001 birr and above, 5.83 percent of the respondents receive a five years annual average income between 85,001-120,000 birr, 4.17 percent of the respondents get annual average of five years income between 180,001-250,000 birr, 3.33 percent of the respondents get the five years average annual income between 120,001-180,000 birr and finally 2.5 percent of the respondents get the five years average annual income between 60,001-85,000 birr.

Table 4.13 Average Annual Income of Respondent from MSE only

Average annual income in 2008 of respondent from MSE only	Current ownership of enterprise						Total	
	Sole proprietorship		Co-operative organized by the government		Share company			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
5001-30000	44	81.48	9	64.29	25	48.08	78	65
30001-60000	3	5.56	3	21.43	6	11.54	12	10

60001-85000	1	1.85	1	7.14	1	1.92	3	2.5
85001-120000	0	0	1	7.14	6	11.54	7	5.83
120001-180000	2	3.7	0	0	2	3.85	4	3.33
180000-250000	2	3.7	0	0	3	5.77	5	4.17
250001 & Above	2	3.7	0	0	9	17.31	11	9.17
Total	54	100	14	100	52	100	120	100

Source: Own Survey (2017)

Regarding comparisons of ownership, the share company receives more income than the sole proprietorship & cooperatives establishment. This is because, as shown in the study; Share Company have more market linkage to the government projects & offices than individual because government encourages group establishment to create broad jobs for job seekers. From the above table; the sectors income also differs from each other. The highest income category that is 250,001 birr and above is occupied by 26.09 percent of the construction sector. The lowest income category that is between 5,001 – 30,000 birr is taken highly by trade sector (92.59 percent) and followed by service sector (88.89 percent), urban agriculture sector (56.25 percent), manufacturing sector (44.44 percent) & construction sector (34.78 percent). From this it can be concluded that entrepreneurs wants to run or open new MSEs, will get more income if they engaged in construction sector since the sector is the first in terms of highest income category and also the construction sector is the fifth or last from the five sectors in terms of low income category.

Table 4.14 Use of Income of MSEs Operator

Use of income	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq.	%
Reinvest	11	40.74	11	47.83	3	18.75	0	0	0	0	25	20.83
Use for household	14	51.85	10	43.48	11	68.75	25	92.59	27	100	87	72.5

needs	0	0	1	4.35	0	0	0	0	0	0	1	0.83
Children's education	2	7.4	1	4.35	2	12.5	2	7.4	0	0	7	5.83
Put into saving												
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

According to table above, most of the MSE operators (72.5 percent) use their income for house hold needs, 20.83 percent of the operators use their income to reinvest to their current business, 5.83 percent of the operator of these MSEs save their income and the rest of 0.83 percent of the respondents use their income for children's education. From this it can be concluded that majority of owners income is used for household consumption and this in turn leads to influence the growth of MSEs both in terms number of jobs created and expanding establishments & new business creation.

Table 4.15 Socially Supported Enterprise

Socially supported enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq	%	Freq.	%	Freq.	%	Freq.	%	Freq	%	Freq.	%
Yes	27	100	22	95.65	15	93.75	21	77.78	26	96.3	111	92.5
No	0	0	1	4.35	1	6.25	6	22.22	1	3.7	9	7.5
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Challenges from society are whether the surrounding society is affected negatively by MSEs. From table above, only a few of the respondents (7.5 percent) face challenges from society and most of them (92.5 percent) do not face challenges from the society. According to the study; the highly challenges face by the community is service sector (22.22 percent) and followed by urban agriculture (6.25 percent), construction sector (4.35 percent) & trade sector (3.7 percent) because of their work face differ risks to the society like fears to their children,

themselves & to the communities not to harm by bars& movies provided by service sector, not to injure by oxen fattening by urban agriculture sector and different environmental pollution Hallow block manufacturer by manufacturing sector.

4.6 Market of MSEs

According table below, most of the enterprises (85.83 percent) get market or demand to their product and the rest 14.17 percent did not get market to their product. The low level demand is normal phenomena to developing or poor countries like Ethiopia. The low level per capita income and the higher poverty rate of Ethiopia one can understand that there is low purchasing power or there is high deficiency of demand. Studies show that the per capita expenditure in Addis Ababa city is 486.27 US dollars in 2015.

Table 4.15 Market for Product of MSEs

Market for product	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	25	92.6	16	69.57	15	93.75	24	88.89	23	85.19	103	85.83
No	2	7.4	7	30.43	1	6.25	3	11.11	4	14.81	17	14.17
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Poverty rate of Ethiopia one can understand that there is low purchasing power or there is high deficiency of demand. Studies show that the per capita expenditure in Addis Ababa city 486.27 US dollars in 2015 (WB, 2015). This per capita expenditure is low when it is compared with other developing countries. The Addis Ababa city economically dependent population was estimated to be 37.4%.

Due to this low level of per capita expenditure and high dependent population rate, it is expected to be abnormal or low level of demand or market. As it is indicated in the table above 4.19 most of the MSEs did not have much market problem however, significance number of the MSEs face demand deficiency. This market problem or demand deficiency can be highly minimized when the MSEs providing quality product and services, focus on advertisement and sales promotion, proper management, apply customer oriented practices and innovation.

Table 4.16 Product Market Linkage

Product Market linkage	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq	%	Freq	%	Freq.	%	Freq	%	Freq	%	Freq.	%
Government office	7	28	1	6.25	2	13.33	6	25	1	4.35	17	16.5
Government projects	0	0	15	93.75	0	0	0	0	0	0	15	14.56
Local community	18	72	0	0	13	86.67	18	75	22	95.65	71	68.93
Total	25	100	16	100	15	100	24	100	23	100	103	100

Source: Own Survey (2017)

According to table 4.21 below, if other new similar enterprises established, 66.67 percent of respondents of MSE operators believe that new comer MSEs will get market. In contrast few of the MSEs operators (33.33 percent) oppose for coming new business since they will not have market or demand for their product. From this we can conclude that if new MSEs are established and engaged in manufacturing, construction, urban agriculture, service or trade sectors they will get market.

Table 4.17 New established MSEs Market Opportunities

New established MSEs will get market	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	21	80.77	11	47.83	12	75	23	85.19	13	48.15	80	66.67
No	6	19.23	12	52.17	4	25	4	14.81	14	51.85	40	33.33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 4.18 New market Opportunities if Current Business Expanded

New market if you expand your enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	21	77.78	13	56.52	13	81.25	23	85.19	18	66.67	88	73.33
No	6	22.22	10	43.48	3	18.75	4	14.81	9	33.33	32	26.67
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

According to table 4.22 above, if the current establishment expands its business, 73.33 percent of respondents of MSE operators believe that if the current enterprise expands its business will get market. In contrast; few of the MSEs operators (26.67 percent) response if the current enterprise expand its business they will not have market or demand for their product. From this we can conclude that if the current establishment expands its business in manufacturing, construction, urban agriculture, service or trade sectors they will get market.

4.7 Constraints

According to table 4.23 below, during start-up of the business, all of the enterprises face constraints. And also, during operation all of the respondents say the establishment they operate face challenges.

The researcher has divided the constraints: internal and external. The internal factors can be during start up or operations, which hinder the normal functioning of MSEs, include: limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location.

The external factors can be during start up or operations which affect the normal functioning of MSEs, include: low access to financial service and low business development services, limited market and poor supply of economic infrastructure and public Services. Low business development service include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services.

Table 4.19 Constraints when Start up Enterprise

Constraints when start up enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	27	100	23	100	16	100	27	100	27	100	120	100
No	0	0	0	0	0	0	0	0	0	0	0	0
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 4.20 Main Problems During Start up Enterprise

Main problems during	Area of sector operated	Total
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start up enterprise	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
tight bureaucracy	5	18.52	7	30.43	5	31.25	2	7.4	0	0	19	15.83
lack access to finance	10	37.04	3	13.04	5	31.25	10	37.04	11	44.44	39	32.5
lack access to market	9	33.33	11	47.83	5	31.25	12	44.44	14	51.85	51	42.5
lack access to raw material	3	11.11	2	8.7	1	6.25	3	11.11	2	7.4	11	9.17
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

In this study, majority of them (42.5 percent) said that lack of access to market for their products, 32.5 percent shortage of finance limited them not to work or use their potential, 15.83 percent of MSE operators indicated that tight bureaucracy from the government and 9.17 percent lack of access to raw material for their production inputs.

Table 4.21 Constraints Face During Operation

Constraints face during operation	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	27	100	23	100	15	93.75	27	100	27	100	119	99.17
No	0	0	0	0	1	6.25	0	0	0	0	1	0.83
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 4.22 Current Main Problem that Affect Enterprise

Current main problem that affect enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
tight Bureaucracy	1	3.7	1	4.35	0	0	0	0	1	3.7	3	2.5

lack access to finance	7	25.9	5	21.74	5	31.2	5	18.52	4	14.81	26	21.67
lack access to market		3				5						
lack access to raw material	17	62.9	13	56.52	10	62.5	17	62.96	13	48.15	70	58.33
lack of less payment skill worker	1	3.7	2	8.7	1	6.25	1	3.7	4	14.81	9	7.5
suffer from Poor infrastructure	0	0	0	0	0	0	0	0	2	7.4	2	1.67
Deficits in law enforcement	0	0	2	8.7	0	0	1	3.7	1	3.7	4	3.33
Deficits in law enforcement	1	3.7	0	0	0	0	3	11.11	2	7.4	6	5
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Current main constraints in this study identified are majority of them (58.33 percent) said that lack of access to market for their products, 21.67 percent shortage of finance limited them not to work or use their potential, 7.5 percent of MSE operators indicated that lack access to raw material, 5 percent of MSE operators indicated that deficits in law enforcement, 3.33 percent operators indicated suffer from poor infrastructure and 2.5 percent tight bureaucracy.

4.8 Prospects of MSEs

The study on micro and small enterprises has revealed that there has been a phenomenal growth in the number of MSEs and the employment generated in the last few years. Moreover, there has been a growing tendency to be self employed by many young graduates instead of waiting for employment from public or private sector.

The increasing demand for products produced by MSEs thereby creating a large market for MSEs and this added to improving the business environment and the government commitment to promoting and supporting the sector provide bright future prospects for micro and small scale enterprises.

Table 4.23 Intend to Continue with the Current Business

Intend to continue with the current	Area of sector operated					Total
	Manufacturing	Construction	Urban agriculture	Service	Trade	

business	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	24	88.89	14	60.87	14	87.5	23	85.19	19	70.37	94	78.33
No	3	11.11	9	39.13	2	12.5	4	14.81	8	29.63	26	21.67
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

As shown in the table 4.27 above, 78.33 percent of the respondents intend to continue with the current business because of as indicated in the table 4.28 below main reasons to continue current business activity because of 70.21 percent profitable sectors for the operators of MSEs, 25.53 percent main source of income for the operators of MSEs & 4.26 percent there is no option for the operators to change fields.

Table 4.24 Main Reasons of Continue Current Business Activity

Main reasons of continue current business activity	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade		Freq.	%
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%		
its source of income	4	16.67	3	21.43	3	21.43	9	39.13	5	26.32	24	25.53
No option to change field	1	4.17	0	0	2	14.29	1	4.35	0	0	4	4.26
It is profitable field	19	79.17	11	78.57	9	64.29	13	56.52	14	73.68	66	70.21
Total	24	100	14	100	14	100	23	100	19	100	94	100

Source: Own Survey (2017)

Table 4.25 Main reasons to stop current business activity

Main reasons to stop	Area of sector operated										Total	
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current business activity	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq	%	Freq	%	Freq	%	Freq	%	Freq.	%	Freq.	%
It is not profitable	2	66.67	6	66.67	1	50	3	100	2	28.57	14	58.33
due to field change	1	33.33	3	33.33	1	50	0	0	5	71.43	10	41.67
Total	3	100	9	100	2	100	3	100	7	100	24	100

Source: Own Survey (2017)

In contrast, 21.67 percent of the respondent not intends to continue with the current business as indicated in the table 4.27 above. The main reasons to stop business activity are as indicated in the table 4.29 above; 58.33 percent because of not profitable field of business and 41.67 percent due to field change. From this, we can conclude that most of the operators of the MSEs sectors are intend to continue with the current business because of increasing demand for products produced by MSEs. Thereby creating a large market for MSEs and this added to improving the business environment and the government commitment to promoting and supporting the sector provide bright future prospects for micro and small scale enterprises.

CHAPTER FIVE

SUMMARIES, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study targeted to identify the roles of MSEs for economic empowerment and identifying their challenges and prospects in case of Addis Ababa city. They revealed that sectoral composition of the respondents was construction sector (69.56%), trade (55.56 %), manufacturing (44.44%), urban agriculture (43.75%) and service (40.75%) respectively. The sexual composition of the respondents was female 50.8 % and male 49.2 %.

The majority of the operators of MSEs are in the age range of 18-29, which represents 51.67 percent of the respondents. The rest 36.67% and 11.66 % of the respondents are in the age range of 30yrs - 40yrs and 41yrs & above respectively. From this it can be drawn that majority of the MSE operators age are fall in the working age group. Such productive work force is often believed to be an engine for the overall development of a country.

According to the study the educational levels of the respondents are TVET/Diploma, secondary, elementary, first degree and above first degree; 30%, 21.67%, 17.5%, and 15.83 % respectively. It can be clearly observed from the study that majority of the MSE operators have TVET/Diploma level of education which is 30% of the total respondents and high level of human capital promote the growth of the enterprises.

Regarding to employment opportunities the average employee of MSEs is 6.12 in Addis Ababa city and the study revealed 83.33 % had not previous occupations and only 16.67 percent had previous occupations. According to the study many of the respondent's 65 % get the lowest annual average of five years income between 5,001-30,000 birr and 9.17% of the respondents get the highest five year average annual income of 250,001 birr and above. Most of the 72.5 % of MSEs operators use their income for household consumption, 20.83 % for reinvest their business, 0.83% for children's education and only 5.83% save their income and this in turn leads to influence the growth of MSEs both in terms number job creation and expansion for new business venture.

As it is conformed from the survey study 85.83% of the respondents haven't market problem and only 14.17 % of them lack demand for their products.

The study revealed that during start-up of the business, all of the enterprises face different constraints the constraints are both internal and external factors. The internal factors can be during start up or operations, which hinder the normal functioning of MSEs, include: limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location. The study also outline external factors can be during start up or operations which affect the normal functioning of MSEs include: low access to financial service and low business development services, limited market and poor supply of economic infrastructure and public Services. Low business development service include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services. It is understood from the study that the major problems during SMEs operations; market, financial, bureaucracy, and law material inputs, 43.4%, 32.5%, 15.83% and 9.17% respectively .In addition the study identified are majority of them (58.33%) reveled lack of access to market for their products, 21.67% shortage of finance limited to utilize their potential and 7.5% face problem of material inputs.

The study confirmed the phenomenal growth of their firms and the tendency of demand for their products and majority of the respondents 78.33 % assert to continue their current business because of business profitability. Suitable government policy and strategy for the development of MSEs and government commitment to promoting and supporting the sector also provide great prospects for micro and small scale enterprises.

5.2 Conclusions

Being in the consideration of the data analysis and the findings the following conclusions could draw. It is often argued that Micro and Small enterprises (MSEs) play significant roles in the creations of employment opportunities and generations of income for quite a large proportion of the population. This research was conducted in Addis Ababa city with the main objective of identifying the challenge and prospects of the enterprises and to assess the role of MSE on economic empowerment. To achieve the objectives of this study, data were collected using survey questionnaire, and analyzed using descriptive, narration methods and recommend possible solution to alleviate the problem of MSEs. Based on the objectives and findings of the study, the following conclusions are worth drawn. According to the findings, it is possible to conclude that, Most MSEs do not have the necessary retail outlets; in this case they are obliged to sell products on market days only. There are problems related to government bodies at each level. Challenges and constraints including legal and regulatory environments: tight government office bureaucracy and poor low enforcement.

It was found that factors such as lack market information, lack of skill, problem of bureaucracy in Enterprises registration, lack of support, lack responsiveness to the demands of the operators and accessible information on government regulations that are relevant to their business are the main problem which hinders the economic empowerment of MSEs in the study area. Firm start up or operations are also face constraint of limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location. The statistical result

indicates constraints which compromise their ability to function and to contribute optimally to the economy empowerment. Also this study indicates that, factors like business counseling, lack of business development services, and inadequate and irregular enterprounership skill in the study area which need government attention. According to the findings of the research MSEs businesses were constrained by lack of skills to handle technology, lack of capital to acquire new technology, unable to select proper technology, lack of appropriate machinery and equipment for their business because of financial problems.

The most important appropriate factors identified are access to markets, finance, business information & counseling, work premises, acquisition of skills and managerial expertise, access to appropriate technology and access to quality business infrastructure. The main cause for this problems are lack of coordination between actors, lack of attitudinal changes and knowledge, lack of structure and problem of dependency syndrome, and lack of attitudinal change in most operators in MSEs. In general, the findings of this research show that the MSEs have great roles in industrial development by playing a base position and sources of inputs for medium and large industries. There are different constraints experienced by MSEs are irregular and erratic supply of raw materials and shortage of suitable working premises. Lack of working premises was also found to present difficulties for the informal sector operators which faced with insufficient capital, was often impeded from the start. The problems of raw material shortages, lack of working capital and effective marketing practices faced by SMEs have become obstacles for the expansion of the sector.. Therefore, it is important to draw some recommendations that can help to reduce the problems on MSEs and to encourage the development and expansion of the sectors.

5.3 Recommendation

The main focus of this study was assessing the roles of MSEs for economic empowerment and identifying their challenges and prospects. On the basis of the major findings of the study, the following recommendations have been drawn with the view to strengthen the contributions of MSEs in the study area in particular.

- Governments should provide properly handled and appropriate intervention strategies are needed and as new ones are introduced, there is still latent and or hidden potentials to raise the existing employment opportunities even further for alleviating poverty and reducing existing unemployment;
- MSES Agencies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the credit institutions to lessen their requirements;
- The city Administration should providing necessary policy support to the sector will be the stepping stone for the creations of thousands of entrepreneurs who are, in turn, willing and daring to take necessary risk to change their lives and thus the city for the better;
- Governmental institutions should diversify supports for both office helped during formation and others which got up by themselves to enhance the productivity and competitiveness capacity of the enterprises;
- To solve marketing problems the government body is better to, provide selling and display places, linking the MSEs with other market, developing market research to predict about the future market trends and changing the perception of

the general public through extensive awareness creation mechanisms are very important;

- Concerning bodies should address the problem of lack of working premise in order to scale up their economic empowerment;
- MSEs should develop continuous capacity building program to enhance the capability of MSEs, especially human capital through anchoring with relevant training institutions that meet the needs of MSEs;
- To make MSEs competitive and profitable, capacity building, upgrading their skill, through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy should be vital to strengthen them;
- Industrial extension services training should be given to improve and transform the technical and entrepreneurship capacity of the business operators and also the productivity and the roles of MSEs for economic empowerment.

Finally, investigating the different factors of MSEs is important in order to create well function employment opportunities and sources of income creation for large group of populations at city level. Further research may be needed to outlook the detail and hidden constraints of MSEs at country level. The study targeted in identifying the bottlenecks of MSEs to achieve their economic empowerment capacity and assess the challenges and prospects of the enterprises and condense policy attention is important to strengthen the economic capacity of MSEs and as become sources of inputs for medium and large enterprises to boost the industrialization process of the country.

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Appendices

Appendix I

Table 1 Source of capital to start business

Source of capital to start business	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Loan from microfinance	15	55.56	10	47.62	10	62.5	4	18.18	3	11.11	42	37.17
Loan from government	1	3.7	0	0	0	0	0	0	0	0	1	0.89
Family	10	37	8	38.1	5	31.25	6	27.27	15	55.56	44	38.94
Personal saving	1	3.7	3	14.29	1	6.25	12	54.55	9	33.33	26	23
Total	27	100	21	100	16	100	22	100	27	100	113	100

Source: Own Survey (2017)

Table 2 Growth rate of enterprise

Growth rate of enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	17	62.96	10	43.47	6	37.5	2	7.4	2	7.4	37	30.83
Stagnant	1	3.7	5	21.74	3	18.75	2	7.4	2	7.4	13	10.83
Not Known	9	33.33	8	34.78	7	43.75	23	85.19	23	85.19	70	58.33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 3 Growth rate measurement of enterprise

Growth rate measurement of enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Employment opportunities	4	14.81	1	4.35	0	0	0	0	0	0	5	4.17
Income creation	23	85.19	22	95.65	16	100	27	100	27	100	115	95.83
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 4 Status of enterprise at the time of establishment

Status of enterprise at the time of establishment	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Micro	27	22.5	23	19.17	16	13.33	27	22.5	27	22.5	120	100
Total	120	100	120	100	120	100	120	100	120	100	120	100

Source: Own Survey (2017)

Table 5 Current status of enterprise

Current status of enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Micro	14	51.85	12	52.17	6	37.5	26	96.3	27	100	85	70.83
Small	13	48.15	11	47.82	10	62.5	1	3.7	0	0	35	29.17
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 6 Current ownership of enterprise

Current ownership of enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Sole proprietorship	6	22.22	5	21.74	7	43.75	11	40.74	25	92.6	54	45
Co-operative	0	0	5	21.74	1	6.25	8	29.63	0	0	14	11.67
Share company	21	77.78	13	56.52	8	50	8	29.63	2	7.40	52	43.33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 7 Previous occupation of respondent

Previous occupation of respondent	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	4	14.81	9	39.13	0	0	6	22.22	1	3.7	20	16.67
No	23	85.18	14	60.87	16	100	21	77.78	26	96.3	100	83.33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 8 Previous occupation of respondent

Previous occupation of respondent	Area of sector operated								Total	
	Manufacturing		Construction		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Student	1	25	2	18.18	0	0	0	0	3	13.6
Daily labor	1	25	4	36.36	4	66.67	0	0	9	40.9
House wife	0	0	0	0	2	33.33	1	100	3	13.6
Private business employees	1	25	3	27.27	0	0	0	0	4	18.2

Government employee	1	25	0	0	0	0	0	0	1	4.5
Missing value	0	0	2	18.18	0	0	0	0	2	9.1
Total	4	100	100	100	6	100	100	100	22	100

Source: Own Survey (2017)

Table 9 Reason to engage in this business

Reason to engage in this business	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Back ground skill(education)	9	33.33	7	30.43	8	50	3	11.11	0	0	27	22.5
Requires low start-up capital	7	25.92	7	30.43	6	37.5	22	81.48	18	66.67	60	50
Expectation of good income	11	40.74	9	39.13	2	12.5	2	7.4	9	33.33	33	27.5
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 10 Support from government during start-up of enterprise

Support from government during start-up of enterprise	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	20	74.07	23	100	11	68.75	17	62.96	13	48.15	84	70
No	7	25.92	0	0	5	31.25	10	37.04	14	51.85	36	30
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 11 Kind of support Given To MSEs

Kind of support	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%

Managerial training	1	5	0	0	0	0	0	0	0	0	0	1	1.18
Credit facilities	5	25	4	17.39	2	16.67	1	5.88	0	0	0	12	14.11
Work premises	13	65	3	13.04	10	83.33	7	41.18	13	10	0	46	54.12
Market linkage	1	5	16	69.57	0	0	9	52.94	0	0	0	26	30.59
Total	20	100	23	100	12	100	17	100	13	10	0	85	100

Source: Own Survey (2017)

Table 12 Training related to work of MSEs

Training related to work	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	8	29.63	9	45	8	50	2	7.70	3	11.11	30	25.86
No	19	70.37	11	55	8	50	24	92.3	24	88.89	86	74.14
Total	27	100	20	100	16	100	26	100	27	100	116	100

Source: Own Survey (2017)

Table 13 Training given To MSEs

Training given by	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Government	8	100	8	88.89	3	37.5	2	100	3	100	24	80
NGO	0	0	1	11.11	5	62.5	0	0	0	0	6	20
Total	8	100	9	100	8	100	2	100	3	100	30	100

Source: Own Survey (2017)

Table 14 Technology profitable & simplify work

Technology profitable & simplify work	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%

Yes	12	44.44 4444 4	7	30.4 3478	7	43.75	7	25.93	0	0	33	27.5
No	15	55.55 5555 6	16	69.5 6522	9	56.25	20	74.07	27	10 0	87	72.5
Total	27	100	23	100	16	100	27	100	27	10 0	120	100

Source: Own Survey (2017)

Table 15 Type of Technology Used By MSEs

Type of Technology	Area of sector operated								Total	
	Manufacturing		Construction		Urban agriculture		Service			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Made in locally	0	0	3	42.9	7	100	2	28.57	12	36.36
Adopted Technology	5	41.6 6666 67	3	42.9	0	0	2	28.57	10	30.3
Made in Abroad	7	58.3 3333 33	1	14.2	0	0	3	42.86	11	33.33
Total	12	100	7	100	7	100	7	100	33	100

Source: Own Survey (2017)

Table 16 Product Market linkage

Product Market linkage	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Government office	7	28	1	6.25	2	13.33	6	25	1	4.35	17	16.50
Government projects	0	0	15	93.75	0	0	0	0	0	0	15	14.56
Local community	18	72	0	0	13	86.67	18	75	22	95.65	71	68.94
Total	25	100	16	100	15	100	24	100	23	100	103	100

Source: Own Survey (2017)

Table 17 Information about the market

Information about the	Area of sector operated					Total
	Manufacturing	Construct	Urban agriculture	Service	Trade	

market			ion									
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	2	7.4074 0741	5	21.7 3913	4	25	2	7.407 407	3	11.111 11	16	13.3 3333
No	25	92.592 5926	18	78.2 6087	12	75	25	92.59 259	24	88.888 89	104	86.6 6667
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 18 Suggestion of information

Suggestion of information	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Government should facilitate the infrastructure	22	81.48	15	65.22	10	62.5	15	55.56	17	62.96	79	65.83
Increasing coverage of media	5	18.52	8	34.78	6	37.5	12	44.44	10	37.04	41	34.17
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 19 Knowledge of Operators in work

Knowledge in work	Area of sector operated					Total
	Manufacturing	Construction	Urban agriculture	Service	Trade	

	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	5	18.52	9	39.13	2	12.5	4	14.81	0	0	20	16.666 67
No	22	81.48	14	60.87	14	87.5	23	85.19	27	100	100	83.333 33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Table 20 Skill of work of MSEs Operator

Skill of work	Area of sector operated										Total	
	Manufacturing		Construction		Urban agriculture		Service		Trade			
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yes	23	85.18	22	95.6 5	14	87.5	25	92.59	23	85.19	107	89.166 67
No	4	14.82	1	4.35	2	12.5	2	7.41	4	14.81	13	10.833 33
Total	27	100	23	100	16	100	27	100	27	100	120	100

Source: Own Survey (2017)

Appendix II



4. Marital status

- 1. Single
- 2. Married
- 3. Divorced
- 4. Widowed

5. Educational level

- 1. Read and write only
- 2. 1-8
- 3. 9-10
- 4. TVET/Diploma
- 5. First degree
- 6. Second degree and above

Enterprise Profiles

6. Enterprise Name _____

7. Area of Sector Operated

- 1. Manufacturing
- 2. Construction
- 3. Urban Agriculture
- 4. Service
- 5. Trade

8. When was this enterprise established? (Year in E.C) _____

9. What the principal source is of fund to start business?

- 1. Loan from non-governmental organization
- 2. Loan from microfinance
- 3. Loan from government
- 4. Loan from banks
- 5. Family
- 6. Others (Specify)

10. What was your capital, when you start-up your enterprises? In Birr _____

11. What is your capital at this time? In Birr _____

12. Does your enterprise show growth rate?

- 1. Yes
- 2. No
- 3. Stagnant
- 4. Not known

13. What are your measurements for growth rate?

- 1. Employment opportunities
- 2. Income creation
- 3. Opening other branch
- 4. Other (specify) _____

14. Fill in the following income questions

Type of job you work in this	The last year total annual	Average personal annual	Average annual income from MSEs only. From 2004-2008
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enterprise	income before you start in this job or MSEs.	income, if there is other than this MSEs, after engaged in this business.	2004	2005	2006	2007	2008

15. How do you use the income that gained from business?

1. Create business 2. Use for household needs 3. Medical expenses 4. Use for entertainment
5. Children's education 6. Put into saving 7. Reinvest
8. Other (specify) _____

16. Number of members at a time of establishment Male _____ Female _____
Total _____

17. Current member of the enterprise Male _____ Female _____
Total _____

18. Status at the time of establishment

1. Micro 2. Small

19. Current status

1. Micro 2. Small

20. Enterprise current ownership

1. Sole proprietorship 2. Cooperative organized by the government 3. share company 4. Others specify _____

21. Do you have previous occupation?

1. Yes 2. No

22. For Q.21 if “yes”, what was your previous occupation?

1. Student employees 2. Daily labor 3. House wife 4. Private business
 5. Government employee 6. Nongovernmental organization
 7. Other (specify) _____

23. In order to see the trends of job creation fill in the following table

Type of job created	Skill level		Number of employee										
	Unskilled (1)	Skilled (2)	2004		2005		2006		2007		2008		
			M	F	M	F	M	F	M	F	M	F	
Permanent recruited													
Temporary recruited													
Family part time job Created													
Family full time job Created													

24. The major reason to engage in this business?

1. Back ground skill (education) of good income 2. Requires low start-up capital 3. Expectation
 4. Other (specify) _____

25. Do you get any support from government during start-up of your enterprise?

1. Yes 2. No

26. If your answer to question 25 is “Yes”, what kind of support?

1. Managerial training 2. Credit facilities 3. Work premises 4. Market linkage
 5. Technical training 6. Financial training 7. Other (specify) _____

27. If “Yes” to Q.25 how do you evaluate the service?

1. Yes 2. No

38. Do you have enough skill in your work?

1. Yes 2. No

39. Is your enterprise socially supported?

1. Yes 2. No

40. If your answer to question number 35 is “yes” , please mention the main reasons?

41. Do you face constraints when you start-up your enterprise?

1. Yes 2. No

42. If your answer to questions number 41 is “yes”

, please mention the main problems that affect negatively your enterprise during start-up?

43. Do you face constraints during operation?

1. Yes 2. No

44. If your answer to question number 43 is “yes” , please mention the main problems that affects your enterprise negatively?

45. Do you intend to continue with the current business activity?

1. Yes 2.No

46. If “Yes” to Q.45, what are your main reasons?

47. If “No” to Q.45, what are your main reasons?
