



## The Assessment of Micro and Small Enterprises Performance and Challenges in Addis Ababa, Ethiopia

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### Abstract

Growing urban population due to migration and natural population growth resulted in unemployment and poverty in most urban centres in Ethiopia. Prompted by these challenges, the government has taken initiatives to mitigate the problems. One of these initiatives is the MSE development strategy adopted in 1997. The 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 2011 with renewed interests and more ambitious targets on employment and number of entrepreneurs transiting to medium level. The purpose of this study is to assess the implementation of the strategy and the challenges encountered in Addis Ababa with particular reference to Lideta sub-city. Data were collected from both primary and secondary sources. The primary sources were collected from the MSE operators in the sub-city. Whereas secondary data were collected from Lideta sub city MSEs Development Agency's annual reports and the performance report of the Growth and Transformation Plan. The study shows that positive results were achieved in terms of employment creation, saving, enterprise growth and business ownership. The survey reveals that government supports have been provided in different forms to help MSEs grow. However, a range of problems persist including poor management skills of MSE operators, lack of capital, lack of land and high competition due to overcrowded market. When seen in terms of business types, trade dominates the MSE with little involvement in the manufacturing sector which is the priority area of the national MSE development strategy. The researcher observed that the growth of the MSE requires concerted effort of the stakeholders mainly the government and MSE owners and operators. The city government should identify growth-oriented MSEs based on their potential for job creation, poverty reduction, local raw material utilization and ease of transformation to medium and large-scale businesses in a short period. Then relevant training must be provided and to this effect, TVET colleges need to be enhanced to play the role.

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## 1. Introduction

Enterprises are the most important components of the economy representing organizations which consist of two or more persons, and which, by economic means, perform activities whose goal is to make profit. MSEs are part of these enterprises with unique characteristics and roles.

MSE is an acronym that stands for micro and small enterprises. Though these enterprises play a vital role in many nations' economic growth and development, there is no generally accepted definition. Different countries, agencies and institutions have defined MSEs differently to suite their own concepts and operations.

The importance of micro and small enterprises sector in Ethiopia is evident from their relatively large presence, share in employment and small capital requirement. Thus, at the level of strategy and policy, these roles of MSEs have received recognition. They are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development (Gebrehiwot & Wolday, 2006).

MSEs Sector is the second largest employment-generating sector in Ethiopia, following agriculture. A national survey conducted by Ethiopian Central Statistical Authority (CSA (Central Statistical Authority), 2005) in 48 major towns indicates that nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labor forces. Accordingly, the whole labor force engaged in the micro enterprises and small scale manufacturing industries is more than eight folds (740,000 persons) to that of the medium and large-scale manufacturing industries (90,000 persons).

Urban unemployment in Ethiopia still stands high. The uncontrolled migration from rural to urban and huge demand for job opportunity is a pressing problem in the Ethiopian urban centres. Tens of thousands of young people migrate to the cities as agriculture failed to feed and sustain rural population due to high rate of population growth, poor technology, lack of capital accumulation, and unfavorable climatic condition. Hence, the role of MSEs in alleviating the problem in urban unemployment is too indispensable. With this in mind, the government prepared Micro and Small Enterprise Development Strategy in 1997 (later modified in 2011). MSEs Development agencies were established at the federal and regional levels to give support and follow up the MSEs operation.

Similarly, Addis Ababa City's MSEs Development Agency was established to develop, support and coordinate the MSEs in the City. There are also MSEs development agencies within the ten sub cities. Each *woreda* (district) within the sub cities also has its own MSEs development branch. Lideta Sub city is one of the sub cities of the Addis Ababa City Administration. This research will assess the performance and challenges of MSEs in Lideta sub city with respect to job creation, market linkages, savings and MSEs growth levels.

## **2. A Review of MSEs Development Strategies in Ethiopia**

The first MSE development strategy was developed in 1997. This strategy had the objectives of facilitating growth and equitable development, creating long-term jobs, strengthening cooperation amongst MSEs, establishing a basis for growth to medium and large enterprises, and export promotion. The strategy identified priority sectors including food production, textiles and clothing, metalwork and crafts, agribusinesses, small-scale farming and fishing, small builders and contractors, small exporters, small scale tourism, and start-up and expansion firms. Following the publication of the Strategy document, the Federal Government set up the Federal Micro and Small Enterprise Development Agency (FeMSEDA) in 2008. The regional states have also developed similar strategies based on their context and in tandem with the FeMSEDS, to facilitate the implementation of these strategies.

FeMSEDA has become the nodal Agency and mandated to formulate policies and coordinate their implementation. The Agency also provides training of trainers, disseminate developed prototypes, provide information and consultancy, facilitate marketing avenues, develop technology database to be used by regional agencies or designated organs and other concerned institutions.

In order to promote MSEs, the agency is also responsible for establishing a coordinated working relationship with regional government organs, regional agencies responsible for MSE development, NGOs and the private sector.

### **2.1. The definition of MSEs in Ethiopia**

In Ethiopia, until 2011, there was lack of uniform definition at the national level to have a common understanding of MSEs sector. While the definition by the ministry of trade and industry (MoTI) use capital investment, the central statistics authority (CSA) uses employment as yardstick. According to the MoTI (2004):

Micro enterprises are those business enterprises in the formal and informal sector, with a paid up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments. On the other hand, Central Statistical Agency (2004) categorizes enterprises into different scales of operation on the size of employment and the nature of equipment. According to Central Statistical Agency (2004):

*Establishments employing less than ten persons and using motor operated equipment are considered as small-scale manufacturing enterprises.*

According to CSA, enterprises in the micro enterprise category are subdivided in to informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non-power driven machines. Whereas informal sector is defined as household type establishments or activities, which are non-registered companies and cooperatives operating with less than 10 persons. All enterprises employing ten or more workers are grossly considered as medium and large enterprises.

The definition given in the 1997 strategy document was also based only on paid capital or capital investment as most businesses were confined to family man-power and lack of availability of manpower information of the sector. An enterprise is categorized as micro if its paid up capital is less than or equal to 20,000 ETB. Similarly, an enterprise is considered small when its paid up capital is less than or equal to 500,000 ETB.

The limitation of this definition is that it does not provide information on job creation, size and asset base. This is because employment and asset ownership are not part of the definition. Secondly, the definition does

not differentiate between manufacturing (industry) and services. This gap prompted the government to revise the definition of MSE in the later years of the sector's development. The revised definition of 2011 considers human capital and asset as the main measures. It addresses the limitations of the 1997 definition and specifies minimum asset requirement for services and industry differently.

According to the strategy, textile, garment, leather production, food and beverage processing, metal works, metal engineering, wood works and agro-processing are given a prior attention under the manufacturing sector. Likewise the strategy clearly names, sub-contracting, building material provision, traditional mining, cobblestone, and infrastructure subcontracting under construction sector.

The trade sector has also been designed to accommodate wholesale and retailer of domestic and raw materials supply as a key engagement areas. Rural transport, café, storage, tourism, managerial advisory, beauty salon, electronics, software development and internet café are some of the areas identified under the service sector.

Similarly areas of engagements like beekeeping, poultry, modern irrigation, and production of vegetables and fruits are mentioned as key areas that are given due attention in order to attain the strategic goals set by the government.

This shows that both micro and small-scale enterprises are categorized in to industrial sector and service sector. Under industry sector (manufacturing, construction and mining) micro enterprises are defined as an enterprise that operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000.

Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service) micro enterprises are defined as an enterprise that operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Under the industry sector (manufacturing, construction and mining) small enterprises are defined as operates with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million.

**Table-1.** The classification of MSEs.

Type of Enterprises	Sector	Man power	Total asset
Micro Enterprise	Industry	< 5	< birr 100,000
	Service	< 5	< birr 50,000
Small Enterprise	Industry	6 to 30	< birr 1.5 million
	Service	6 to 30	< birr 500,000

Source: Federal Micro and Small Enterprises Development Agency Establishment council of Ministers (2011).

When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick in the identification of the sector (FeMSEDA strategy, 2011).

### *2.2. MSE Support Packages in Ethiopia*

The country adopts a layered policy support in which MSEs are categorized into three different stages namely, startups, growing and maturity. Start-up stage enterprises refers to those enterprises found at their establishment stage and comprises a group or individual 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 know how 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.

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, knowledge of international standards and better production technology are disseminated to enterprises.

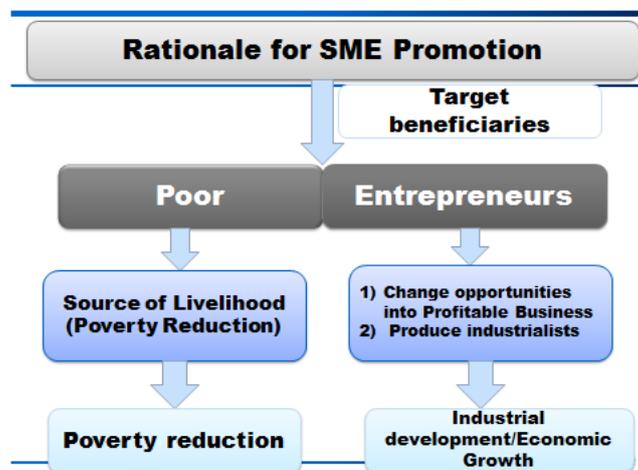
It can be concluded from the strategy document that the kind of supports provided to the MSEs depends on their level of development. Supports given at start-up stage are business development services like the provision of start-up capital, motivate and facilitate the enterprises to legally register, BDS (business development services), entrepreneurial capacity building and technical trainings are provided.

MSEs at growth stage are supported in finance, skill and technology capacity, linkage and market opportunity, diversification and provision of production and market centers.

Finally, MSEs at maturity stage are given supports like enhancing their competency; providing tools and material lease that can help them transfer from small to medium enterprise; recognize and certifying those

transferred to medium enterprises. By providing these supports, the Agency aims to achieve the following national development goals.

- Facilitate economic growth and bring about equitable development.
- Create long-term job opportunities.
- Provide the basis for medium and large scale enterprises.



**Figure-1.** Beneficiaries of MSE promotion and development.  
Source: Berihu, Abebaw, and Biruk (2014).

### 3. Research Methodology

Mixed approach is selected as an appropriate research design in this study. Quantitative data were collected from performance reports of the MSEs and supported by qualitative data gathered and narrated from the interviews and secondary sources. This study is mainly a descriptive cross sectional in nature which aims at analyzing and explaining how MSEs are performing and the challenges encountered.

Secondary data were collected from Lideta sub city MSEs Development Agency’s annual reports and the first GTP (growth and transformation plan) performance report of the agency.

#### 3.1. Data Type, Sources and Collection Tools

For the realization of the research objectives, qualitative and quantitative types of data were collected. The primary data were gathered by means of structured questionnaires from selected members of MSEs operators. The structured questionnaires were translated into Amharic for ease of communication. Interview with 2 officers from selected *woreda* (districts) MSEs development offices and 1 officer from Lideta sub city MSEs development agency was conducted.

Data gathered through survey method were analyzed using descriptive statistics. Alternatively, information obtained through key informant interview was analyzed qualitatively. Furthermore data collected from secondary sources was analyzed quantitatively and qualitatively to substantiate the results of primary data.

#### 3.2. Description of the Study Area

This study is conducted in Addis Ababa, the capital city of the Federal Democratic Republic of Ethiopia. Addis Ababa is also a seat of international organizations such as the African Union (AU) and the United Nations Economic Commission for Africa (UNECA). Consequently, it has become a centre to many people coming from all corners of the country looking for employment opportunities. Hence, with rapid natural population growth and high rate of rural-urban migration, Addis Ababa is one of the fastest growing cities in Africa. This creates critical problems such as unemployment and congestion.

For administrative purpose, the city is divided in to ten sub-cities. The sub-cities are further sub-divided in to weredas (neighborhoods), which are the third and smallest organizational units in the city. There are 116 weredas in the city administration (CSA, 2013).

The focus of this study is Lideta sub-city. Lideta is located in the central part of Addis Ababa. As per the 2007 national census report of the Central Statistical Agency (CSA), the sub city has a total population of 201,713 out of which 96,272 (47.7%) are male and 105,441 (52.3%) are female. It consists of 10 *woredas* (districts) which are the lowest administrative unit as per the city’s organization structure.

**Table-2.** The sub-cities, their population size and areas in sq km.

Ser No.	Sub-city	Population	Area in Sq. Km
1.	AkakiKaliti	205,385	118.08
2.	Nifas silk lafto	358,359	68.30
3.	KolfeKeranio	485,952	61.25
4.	Gulele	303,226	30.18
5.	Lideta	228,547	9.18
6.	Kirkos	250,665	14.62
7.	Arada	239,638	9.91
8.	Addis ketema	289,344	7.41
9.	Yeka	392,781	85.98
10.	Bole	350,102	122.08

Source: 2013 CSA projection.



**Figure-2.** The map of Addis Ababa and Lideta sub-city.

Source: Destaab and Tulube (2015) adjusted.

### 3.3. Sampling Technique

Since 2011, there were 2052 MSEs in the sub-city with 16821 operators established in the areas of manufacturing, construction, urban agriculture, service, trade and cobblestone. For the purpose of this research, however, MSEs which were established in 2014/15 were included in the study. Within the selected time framework, 635 MSEs with 2218 operators had been established in the 10 woredas of the sub-city. There are 63 MSEs on average in each woreda. Three MSEs were selected from each woreda using purposive sampling to include all the business sectors. Five MSEs from each business area namely, manufacturing, construction, urban agriculture, service, trade and cobblestone were selected using purposive sampling and a total of 30 MSEs were selected. Finally, two members from each selected MSEs were contacted using purposive sampling method. Furthermore, interviews were conducted with selected officers based on purposive sampling method because they were found indispensable and resourceful in the area.

### 3.4. Sample Size

Questionnaires were distributed to the 60 members who were selected; two from each selected 30 MSEs. A total of 60 respondents (5 from each activity and 6 from each woreda) became the final sample size of the research. Three experts were interviewed to collect primary data in addition to the 60 respondents. 53 respondents returned the questionnaire.

### 3.5. Profile of the Respondents (MSE Operators)

**Table-3.** Respondents sex and age.

Variable	Number	Percent
Sex		
Male	31	58.5%
Female	22	41.5%
Total	53	100%
Age		
15 -30	34	64.1%
31-45	17	32.1%
>45	2	3.8%
Total	53	100%

The Table shows that the majority of the respondents, 58.5%, are male while 41.5% of them are female.

**Table-4.** Educational status of the respondents.

Variable	Number	Percent
Educational Status		
Illiterate	-	-
Write and read	4	7.5%
1- 4 grades	5	9.4%
5- 9 grades	12	22.7%
10 <sup>th</sup> grade complete	16	30.2%
TVET graduates	13	24.5%
>1 <sup>st</sup> degree	3	5.7%
Total	53	100%

The majority of the respondents did not complete secondary school. This means that 69.8% of the respondents is not technical and vocational education training (TVET) graduate. It is only 24.5% of the respondents who are graduates of TVET. This is contrary to the national MSEs development strategy which requires MSEs to be run mainly by TVET graduates (MSEs strategy, 2011). Among the respondents, 5.7 % are first-degree holders. Applied Biology and History are their field of specialization which are not relevant to their current job.

The National Technical and Vocational Education and Training (TVET) Strategy (2008), integrates MSEs into the formal educational system of the country. The overall objective of the National TVET Strategy is to create a competent, motivated, adaptable and innovative workforce in Ethiopia contributing to poverty reduction and socio-economic development by facilitating demand-driven, high quality technical and vocational education relevant to all sectors of the economy.

## 4. Data Presentation and Analysis

The Addis Ababa City Administration established MSEs development agency which deals with the organization, support and follow up of the city’s MSEs in line with the national MSEs strategy. Each sub-city and every *woreda* within them also established its own MSEs development agency to have a close supervision of the activity of MSEs within its respective jurisdiction.

### 4.1. The Profile of the Target MSEs in the Lideta Sub City in Terms of Business Category

The table below indicates the number of MSE operators in different business types.

**Table-5.** MSEs organized in 2014/2015 with their respective sector.

Major Sectors	Number of MSEs organized	
	No	%
Manufacturing	63	9.9
Construction	100	15.7
Urban Agriculture	9	1.4
Service	46	7.2
Trade	393	61.8
Cobblestone	24	4
Total	635	100

Source: GTP 1 implementation report of Lideta sub-city MSEs Development Agency.

The table shows the trade takes the lion’s share of the established MSEs with 61.8%. Whereas only 1.4% of the newly established MSEs are engaged in urban agriculture. On the other hand, though the national MSEs strategy gives high attention to the manufacturing sector, only 9.9% of the MSEs engaged in the sector. It can be concluded from this that there is a need by the city government and stakeholders to promote the manufacturing sector in the sub city.

#### 4.2. Jobs Created by the MSEs

The fundamental reason of creating and supporting MSEs is to alleviate youth unemployment in a city whose demography is dominated by young people. Job creation is the prominent objective of all MSEs in Ethiopia.

**Table-6. Jobs created by the MSEs in the sub city under major MSE categories**

Business Sectors	Number of Jobs Created		Total	
	Permanent	Temporary	No	%
Manufacturing	2593	823	3416	16.4%
Construction	4957	2722	7679	36.7%
Urban Agriculture	482	134	616	2.9%
Service	5181	1231	6412	30.6%
Trade	1818	241	2059	9.8%
Cobblestone	-	748	748	3.6%
Total	15,031	5899	20930	100%

Source: Lideta sub city MSEs Development agency GTP 1 performance report (2015).

The construction sector created 36.7% of the total jobs and the service sector takes the second place by creating 30.6% of the total jobs. Manufacturing which is the focus of MSEs policy and strategy is at the third rank creating only 16.4 % of the total jobs created during the period specified. Urban agriculture takes the last place with 2.9%. It can be concluded that though greater focus and support is given to the manufacturing sector, it is lagging behind the other sectors in creating jobs in the Sub city.

**Table-7. Respondents prior status before joining MSEs.**

Prior Status	Male		Female		Total	
	No	%	No	%	No	%
Jobless	18	34%	16	30.2%	34	64.2%
Doing the same job individually	6	11.3%	2	3.8%	8	15.1%
Was at school	7	13.2%	4	7.5%	11	20.7
<b>Total</b>	31	58.5%	22	41.5%	53	100%

The table depicts that 64.2% of the respondents were jobless before joining MSEs. A small portion of the respondents was doing the same job on their own. Only 20.7% of the respondents were at school previously. This shows that the number of TVET graduates joining MSEs sector is very minimum.

The main reason to join micro and small enterprises include self-help and family support. Interview responses indicate that reasons for joining the sectors also includes the desire for independence, family/friend advice, loss of previous job opportunity and getting a better income.

The city has many unemployed youth residents and thus MSE should target this section of the population. The unemployment problem in Addis Ababa stands at 16.8% as it is indicated in table below.

**Table-8. Unemployment Rate in Addis Ababa.**

	Survey Periods					
	May 2009	May 2010	March 2011	March 2012	April 2014	March 2015
Total	20.4	18.9	18.0	17.5	17.4	16.8
Male	12.2	11.0	11.4	11.4	11.3	10.4
Female	29.6	27.4	25.3	24.2	24.1	23.8

Source: Urban Employment and Unemployment Survey (CSA (Central Statistical Agency), 2016).

Small firms employ people whose labour market characteristics make them most likely to be unemployed and marginalized. SMEs are more likely to employ young job seekers than those in middle age.

The majority of the MSEs, 79.6%, are ranked under Startup Level. Only 3.79% of MSEs are ranked under Growth Level. This means that larger number of the MSEs remain under the protection of the government against the real competition of the market because at the start level they demand more support from the government. This large mass of MSEs at startup level narrows the space for the new comers because in principle, when they graduate to the next level, newcomers will take their place.

Table-9. Rankings of MSEs.

Type of MSEs	Rank	Number of MSEs	
		Number	Percent
Micro	Startup	378	79.6%
	Growth	18	3.79%
	Maturity	0	0
Small	Startup	18	3.79%
	Growth	46	9.68%
	Maturity	10	2.11%
	Growth Medium	5	1.05%
Total		475	100%

Source: Lideta sub city MSEs Development agency GTP 1 performance report (2015).

The support the government provides them would have been used to create other MSEs. In the small enterprises category there is a better scenario as only 3.79% of the small enterprises are at the Startup Level and more enterprises, 9.68%, are at the Growth Level. There are only 2.11% at Maturity Level and 1.05% at Medium Startup Level.

One of the interviewees stated that once an enterprise is promoted to medium level, strict control that requires bookkeeping, submission of audit report and VAT and paying tax follows. In addition, there is no easy access to credit as before. These made MSEs to be reluctant to graduate to medium level.

Table-10. Number of MSEs upgraded to medium level.

Fiscal Year	2010/2011 (2003 EFY)	2011/2012 (2004 EFY)	2012/2013 (2005 EFY)	2013/2014 (2006 EFY)	2014/2015 (2007 EFY)	Total
No. of Transformed	15	2	24	7	5	53
No. of Organized MSEs	385	420	310	302	635	2052
Percentage of transformed MSEs to the total Number of MSEs	3.8%	0.47%	7.74%	2.32%	0.79%	2.58%

Source: Lideta Sub-City MSEs Development Agency (2015).

Table 10 depicts that only 2.58 %of MSEs in the sub city are upgraded to medium level enterprise in the past years. This shows high dependence of the MSEs on the support of the government. Supporting MSEs at their startup stages in important; however, supporting them for the whole of five years and transforming only 53 MSEs to medium level has never been the intention of the MSEs national strategy. The MSEs will not be competitive by their own in the market if they are not exposed to competition.

The government has provided different business support policy to enhance business performance and to create a conducive business environment for MSE growth. As stated earlier this policy support includes access to markets, access to finance, access to industrial extension, access to training and technological support. One of the major challenges that hampers the growth and development of MSEs in Ethiopia is access to sufficient and sustainable market. To solve this problem, the government is intervening in three ways. First, the government itself buys goods directly from MSEs. Second, the government tries to link MSEs with large and medium enterprises in the market in the form of subcontracting and input suppliers. Third, a number of bazaars and trade exhibition have been organized by MSEs development agencies to promote MSEs' products and to link them with large and medium enterprises and foreign buyers (EDRI, 2004).

#### 4.3. Market Development

Creating a market linkage plays a pivotal role in the effectiveness of micro and small enterprises at all levels of their development.

Table-11. Value of the Market created for MSEs

Business sectors	Amount in Ethiopian Birr
Manufacturing	51,035,580
Construction	26,969,424
Urban Agriculture	1,173,501
Service	15,237,917
Trade	3,773,299
Cobblestone	38,303,421
Total	136,493,142

Source: Lideta sub city MSEs Development agency GTP 1 performance report (2015).

According to Lideta sub city MSEs Development agency a market worth of 1,010,106 Birr was created through bazaar and exhibition which benefited 3,689 members of MSEs in the sub city.

#### 4.4. Saving

The 2011 MSEs strategy makes saving a precondition for getting loan and run business. Saving does not only help enterprises to pay loans but to expand their business by re investing it for long term survival and viability.

Table-12. Savings made by the MSEs operators.

Business Sectors	Amount saved in Ethiopian Birr
Manufacturing	6,257,832
Construction	4,932,512
Urban Agriculture	645,618
Service	4,807,642
Trade	13,916,525
Cobblestone	2,510,346
Total	33,070,475

Source: Lideta sub city MSEs Development agency GTP 1 performance report (2015).

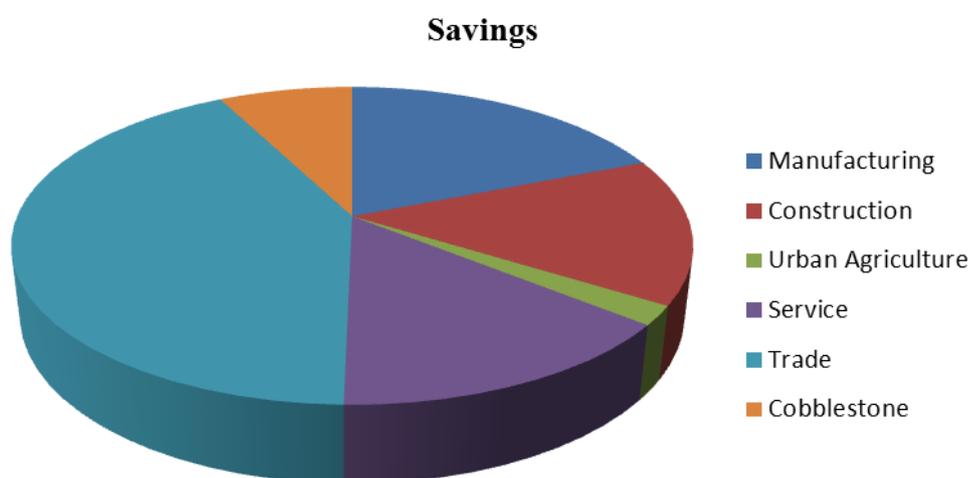


Figure-3. Savings secured from MSEs in pie chart.

Source: Lideta sub city MSEs Development agency GTP 1 performance report.

Much of the saving amount is contributed by the trade sector. This is because the sector benefited much from the loan of the government to the disadvantage of the other sectors specifically the manufacturing sector. Since saving determines the amount of loan given, the manufacturing sector which is the priority area is at the disadvantage compared to the trade sector. From this one can say that it is inevitable that future loans will benefit the trade sector better than the manufacturing.

#### 4.5. Challenges Confronting MSEs in the city

Despite their contribution to economic development and job opportunity, micro and small enterprises in Addis Ababa are facing variety of problems that hinder their growth and development.

In the Lideta sub city though some achievements were attained, still there is high unemployment rate within the sub city, the jobs created by the MSEs could not much the demand and the MSEs sector is underperforming with respect to job creation and growth. The major challenges facing this sector are presented in the following section.

##### 4.5.1. Lack of Access to Land

Until recently, MSEs were provided land by the municipality to be used as working space. Lately, it was observed that the provision of land had put high pressure on the land resources of the cities as the number of MSEs grow significantly. There is now a shift from providing land to providing premises for rent. While such strategy is useful to alleviate the pressure on land, it has its own financial implication for MSE operators. Even then, the number of MSE operators seeking the shades is much higher than the city can supply.

##### 4.5.2. Low Access to Finance

Shortage of working capital, high interest rate by lending institutions and complicated loan application procedures was identified as an important factor for the performance of enterprises.

Credit services are provided based on MSEs performance and the amount of savings in the preceding six (6) months. After the newly established enterprise is evaluated for its performance and saved for 6 months, it will get 60% of its savings from microfinance institutions mainly Addis Saving and Credit Association. The enterprises are expected to payback the credit within five years by paying 20% of the loan every year.

Lending rules are strict because MFIs (micro finance institutions) in Ethiopia are regulated, inspected, and gauged against high portfolio quality and financial prudence by the National Bank of Ethiopia (NBE). As a result, MFIs cannot afford to experiment or cater to clients with weak business prospects or management capacities.

So many respondents stated the problem of financing MSEs is not so much the sources of funds but its accessibility due the stringent conditions set by financial institutions, lack of adequate collateral and cost of accessing funds.

#### *4.5.3. Lack of Trained Work Force and Management Skills*

There are operators which start businesses without a sound business plan despite the business development services provided by MSE agency. Hence business failures result from lack of managerial competence and experience. Lack of essential and required expertise in production, maintenance, marketing and finance can lead to funds misallocation and utilization due to wrong decision-making. Hence, managerial experience among SMEs is important as it will influence the manner in which the SMEs operate and how they are able to interact with the environment.

#### *4.5.4. Training*

In most parts of Ethiopia, two types of training are provided for MSEs: technical and business training. Extension workers provide business training while regional or city TVET colleges provide technical training. The duration of the training varies depending on the type of training. The first variable considered in assessing the effectiveness of market linkages as institutional support was the BDS. The focus of the BDS was training the workers to develop effective and efficient business plan for their enterprises and of advising and consultancy. However, in the provision of training there are problems such as non-practical training modules and a passive participation of MSE operators. Hence, it was suggested that the training provided by the city has:

- To be demand driven.
- To be supported by practice.
- To be sector specific.
- Knowledgeable and skilled trainers must be assigned.

#### *4.5.5. Stiff Competition*

Enterprises tend to compete for the same customers. The magnitude of this hindrance is higher for those concentrated in one area, as they tend to apply a copy-paste strategy and thus produce similar products.

Hence, worthy of attention is the level of competition being faced to MSEs which is mostly from other MSEs operators in the same business and large and medium enterprises. The Ethiopian markets are characterized by lack of product diversity in which similar products overcrowded the markets. Their products have no unique difference from other similar competing enterprises; they do not have niche market target for their product and they do not use unique technology for their products.

#### *4.5.6. Market Problems*

In principle, market linkage is an attempt to create demand for MSE products so that they can sustain their operation. Among the marketing factors that affected the performance of enterprises are: inadequate market, difficulty of searching new market, poor quality products for the market, lack of establishing a market network and lack of market research. The Means of market used so far, include government institutions, exhibitions and bazaars and self-promotion (self-effort) only.

#### *4.5.7. Operators' Problems*

No matter how better supports are provided to MSEs by the government and the stakeholders, success depends on MSEs operators personal effort and commitment. There is a saying which goes "our support without your effort will not bring result". There must be entrepreneurial skill that should drive creativity and growth.

It is important to note that the biggest difficulty in entrepreneurship development is related to the "mindset" or poverty of the mind. This is translated into the following symptoms:

- Poor work culture in public offices, organizations, households and in individual personal lives.
- An attitude of dependency: always expecting government/donor to come up with packages.
- Apathy, failing to see potentials that are waiting to be tapped.
- Lack of commitment to desired mission.

The study also reveals that inadequate or lack of utilities (electricity, water and telecommunication), transport, business licensing and permits, tax administration and tax rates pose obstacle to firms' operation.

## **5. Conclusion**

In Ethiopia, the fact that MSEs are small and labor-intensive makes them able to absorb a large mass of less educated or less skilled labor that is abundantly available. The Government has recognized the important role that the micro and small-scale enterprises play in the national development particularly, in the creation of employment opportunities and the reduction of poverty. To this effect, the government issued MSE development strategy in 1997 to support and promote the sector. This support includes access to working space (shades constructed by the government), access to markets (linkages), access to finance including guarantee provision, access to industrial extension (various business development services such as market linkages and technical support) and access to training and technology.

This study is conducted to assess the implementation of the strategy and the challenges encountered in Addis Ababa with particular reference to Lideta sub-city. The study shows that some positive results were achieved in terms of employment creation, saving, enterprise growth and business ownership.

Furthermore, the study revealed that MSEs operating in the study area have been confronted with a number of challenges. Most of the MSEs owners complain about lack of finance, lack of working space, lack of access to market or absence of linkage to market, lack of managerial skills and stiff competition.

The growth of the MSE requires concerted effort of the stakeholders mainly the government and MSE owners and operators. The city government should identify growth-oriented MSEs based on their potential for job creation, poverty reduction, local raw material utilization and ease of transformation to medium and large-scale businesses in a short period. The effectiveness of government interventions depends on identifying key factors that foster or inhibit growth of MSEs because MSEs are heterogeneous in objective, capability and motivation.

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