



St. MARY'S UNIVERSITY
INSTITUTE OF AGRICULTURE AND DEVELOPMENT STUDIES

**The Role of Micro and Small Enterprises on Local Economic
Development: The case of Nifas Silk Lafto Sub- city**

A thesis

Submitted to St. Mary's University, Department of Development Studies in
Partial Fulfillment of the Requirements for the Degree of Masters of Arts
in Development Economics

By: Ermias Tadesse

ID No: SGS/0252/2007B

Advisor: Andualem Goshu (Ph.D)

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Addis Ababa

St. Mary's University

Institute of Agriculture and Development Studies

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Approved by Board of Examiners

Chairperson, School of Graduate Committee

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

DEDICATION

This thesis is dedicated to my late father *Tadesse Beyene*. He was a great, wise and beloved father. May the Almighty God rest his soul in Jesus Christ's loving peace.

DECLARATION

I, the undersigned, declare that this thesis hereby submitted to Saint Mary's University for the degree of Masters of Arts in Development Economics is my original work, which has not been presented for a degree in this or any other university; and all sources of materials used in the thesis have been duly acknowledged.

Name: Ermias Tadesse Beyene

Signature: _____

Date of submission: _____

ENDORSEMENT

This is to certify that this thesis entitled “**The Role of Micro and Small Enterprises on Local Economic Development: The Case of Nifas Silk Lafto Sub- city**” Submitted in partial fulfillment of the requirement for the award of the degree of MA, in Development Economics of the Institute of Agriculture and Development Studies, St. Mary’s University, through the Department of Development Studies, done by Mr. Ermias Tadesse Beyene, ID. No: SGS/0252/2007B is carried out by him under my guidance.

Advisor:

Andualem Goshu (Ph.D)

Signature: _____

Date: _____

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LIST OF ABBREVIATIONS AND ACRONYMS

BDS	Business Development Service
CSA	Central Statistical Agency
EEA	Ethiopian Economic Association
ETB	Ethiopian Birr
FeMSEDA	Federal Micro and Small Enterprise Development Agency
GTP	Growth Transformation Plan
ICT	Information Communication and Technology
ILO	International Labor Organization
LED	Local Economic Development
MoTI	Ministry of Trade and Industry
MoUDC	Ministry of Urban Development and Construction
MSEs	Micro and Small Enterprises
N/S/L/Sub- city	Nifas Silk Lafto Sub- city
SMMEs	Small, Medium and Micro Enterprises

ABSTRACT

Local economies often get developed with the participation of government, non-government organizations, and the community at large. Among the community, micro and small enterprises managers have the capability to strengthen the local economy through mobilizing local resources. This research explores the role of Micro and Small Enterprises (MSEs) in enhancing local economic development in Nifas Silk Lafto Sub-City, Addis Ababa. The analysis was based on primary and secondary data collected through administrative type of questionnaires and key informant interviews from selected managers, government officials and enterprise representatives. The paper used both descriptive and econometrics analysis. The explorative analysis tried to investigate the contribution of MSEs in terms of the enterprises' performance using their capital, profit, and employment creation as an indicators. To see their impact, the study also reviewed contribution of MSEs in light of economic improvement of the managers through household income and saving habit, household's expenditure on food, education, health, durable and non-durable assets. The econometrics analysis used logit model and Heckman selection model. The result from the Heckman selection model shows that, lack of sufficient capital, high price of raw materials, lack of access to market, high tax rate and lack of technical skills were found to be the major challenges in the performance of MSEs. Besides, the logit model showed that access to working place, access to bank loan, technical training to the operator, better access to raw materials, appropriate customer and assistance with marketing were found to be the major components which contributed for the improvement of MSEs performance. The study revealed that, MSEs represent a vital component of the local economic development process in Nifas Silk Lafto Sub- City, and their contribution in terms of employment, income and poverty reduction is well acknowledged. Construction and manufacturing sub- sectors need high initial capital, they are labor intensive and have higher profit margin than the service sub- sector. Hence, this shows their contribution to local economic development is encouraging. Most of the managers were performing with at least one type of training which is insufficient. Nonetheless, the operator's living standard, income, food consumption, education, health, durable, and non-durable household assets are increasing. Most of the managers have a plan to expand the business either in the same line or to have a branch and diversify the business which has a greater impact to the local economic development. However, there is still much untapped potential for improvements in this respect beyond what has been achieved so far. Major constraining factors for realizing such potential include lack of sufficient capital, limited access to market and high price of raw materials. Hence the government, non government organizations and other concerned bodies should give support in making MSEs successful attaining their goal in particular and to contribute to national economic development in general.

1. INTRODUCTION

1.1 Background of the Study

Poverty and unemployment are viewed as the most alarming issues affecting development in the majority of the developing countries in the world (Ndabeni, 2006; Mensah and Benedict, 2010; Okpara, 2011). In line with this Micro and Small Enterprises (MSEs) are inextricably linked to economic growth, job creation and income generation within poor and disadvantaged communities in developing countries (Netswera, 2001; Egan, 2009). MSEs have become a focal point of considerable attention to many international and government institutions in the emerging economies. Small business sub- sector is considered as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity, and bring technical change through the combination of all of these measures, to stimulate local economic development.

Academicians, Politicians and development economists have supported the promotion of micro and small business enterprise towards job creation, poverty reduction and innovation. Under the prevalence of extreme poverty where unemployment coupled with the growing urban population, the modern and formal sub- sector of the economy alone could not absorb the multitudes of unemployed people who are more of unskilled (Workneh, 2007). In communities where unemployment and poverty are expanding like the study area MSEs always come to the front in employment creation and income generation. As a result, the MSEs sub- sector is believed to be able to fill the gap that exists between the poor and the rich in developing countries regarding income generation and, unemployment rate. And successful small businesses are the primary engines for economic development.

Among many, one of the contributions of MSEs is the development of the local economy through providing job and entrepreneurship for the local people. To reduce the existing level of urban unemployment and urban poverty through development, the present regime has designed MSEs development program under its urban industrial development package in 2005. In 2009 the program had a target to reduce 80% of urban unemployment by creating permanent employment opportunity and to reduce 20% of urban unemployment by creating temporary employment opportunity, and thereby to reduce urban poverty (Munira, 2012). Despite MSEs has been existing for longer periods in Ethiopia, they have only got the attention of policy makers, academicians,

and researchers very recently. The work of Andualem (2004) repeated that MSEs in Ethiopia have been neglected for long period until shift was made to market- led economic system. However, since 1991 the Ethiopian government has given due attention to the sub- sector.

According to Federal Micro and Small Enterprise Development Agency (FeMSEDA) (2016), as of 2007G.C in Addis Ababa, alone there were around 110,520 MSEs as of 2007 and in Nifas Silk Lafto Sub- city, there were 7,797 MSEs. The number of micro enterprises organized from 2010/11 to 2014/15 in five years of GTP I in Addis Ababa was 56,443. And these enterprises created temporary and permanent employment opportunities of 879,770 (525,051 male, 354,719 female), which accounts about 12.54% of the national job opportunities created in GTP one (FeMSEDA, 2016). Nifas Silk Lafto Sub- city is among the ten sub cities and located in the South-West border of Addis Ababa. The Sub- city has a total population of 285,457 (135,457M, 150,339F) in twelve weredas' in a size of 63.59 square kilometers. Indeed there is no doubt about the contributions of MSEs development interventions to national development in general and local economic development in particular, but what matters is to what extent urban citizens are becoming a beneficiary in such program intervention.

1.2 Statement of the Problem

In the current situation many developing countries, like Ethiopia, are highly attached with different problems like poverty, unemployment, traditional culture, famine, illiteracy and high population growth rate. According to FeMSEDA (2016), the key objectives of micro and small enterprise development program are to create a broad based spring-board for the development of competitive domestic industries and private sub- sector , create employment opportunities and thereby reduce poverty. Existing literature on LED (Blakely 2010; Helmesing 2003; Rodriguez-Pose and Tijmstra 2007; Tegegne and Richard 2011) remark that there are three major actors of local economic development such as government, the private and the community sub- sector s.

Issues like extensive unemployment, deficiency of the formal sub- sector to absorb fairly sufficient level of labor, increasingly heavy capital shortages, the need for local resource mobilization and stimulation of the local economy and other points of concern made MSEs quite peculiar and relevant entities that deserve sufficient attention as well as policy focus in the local economic development initiatives of urban localities. The relative importance of MSEs is growing as a result of the urban population dynamics

and the daunting urban poverty level. In Ethiopia the urban population increases roughly by 8 % per annum (Zegeye, in Hibret 2009) consequently the poverty level is about 60%, which means that more than 1.7 million people in the city are living below poverty line (Asmamaw, in Hibret 2009).

Most reviewed empirical studies focus on factors that hinder the growth of MSEs and the outcome of the program in aggregate forms. Regarding the role of micro and small enterprises in local economic development, the studies give no or little focus on the issue of the role of MSEs for local economic development. For instance, the study conducted by Admasu (2012) analyzes the major problems of the sub- sector but the researcher did not see how MSEs contribute for local economic development. Moreover, Brhane (2014) study focused more on access to finance for MSEs and found that to attain the desired goal of MSEs, access to finance is very important. However, the researcher overlooked the role of MSEs in community development.

Apart from these, the research conducted by Zemenu and Mohammed (2014) also tried to analyze growth determinants of MSEs and found that intensive competition, inadequate credit facility, starting business without conducting survey, inappropriate tax imposition and inappropriate tenure were the top five challenges that MSEs faced. However, the study failed to investigate how MSEs can contribute to local economic development in terms of employment creation, income generation and poverty reduction. From the above mentioned studies, it is possible to learn that the role of MSEs in local economic development is not studied very well. Thus, this study tries to examine the role of MSEs on community's economic development.

1.3. Research Questions

The research was guided by the following questions;

- ✚ What are the contributions of MSEs in generating employment opportunities to the local people in the Sub- city?
- ✚ Are MSEs actors contributing to local economic development?
- ✚ What changes are scored by MSE managers in terms of income, saving and asset holding after they engage in the activities?
- ✚ What are the education, health and living status of MSEs managers?
- ✚ What are the challenges and opportunities for MSEs in enhancing local economic development in the study area?

1.4. Objectives of the Study

1.4.1 Main Objective

The main objective of this research is to explore the role of Micro and Small Enterprises in local economy Development in Nifas Silk Lafto Sub-city of Addis Ababa.

1.4.2 Specific Objectives

The Specific objectives of this study are:

1. To analyze the performance of the MSEs (interms of capital, employment and profit) operating in Nifas Silk Lafto Sub-city.
2. To examine the role of MSEs in boosting the wellbeing of the households.
3. To identify the major challenges and opportunities MSEs are facing in promoting local economic development.

1.5. Significance of the Study

This study would be of some value to the development efforts in poverty reduction, employment creation, economic growth, and generally LED in Addis Ababa, in general and in N/S/L/Sub- city, in particular. The Information which was gathered and analyzed in this study provides empirical findings on the role of MSEs for LED. The findings of this study were believed to show the contribution that MSEs have model LED. It may also serve other researchers who might be interested to conduct further study on similar subjects. Moreover, the outcomes of the study may serve as a source of information for a person who needs to know about MSEs. Last but not least, the results obtained from this study may serve government institutions at all stages, including micro and small enterprise development agencies, and non-governmental development organizations formulate reasonably sound policies and decisions in matters related to MSE development.

1.6. Scope and Limitation of the Study

The study covered Manufacturing industry, Service and Construction sub- sectors of MSEs in Nifas Silk Lafto Sub- city. In this research samples were taken from MSEs with registered capital of less than ETB 500,000. The other sub-sectors other than the three sub-sectors mentioned above were not considered in the study because of time and

financial constraints. Also the study was carried out on selected individuals operating in MSEs activities or establishments in four Woreda found in Nifas Silk Lafto Sub-city.

1.7. Organization of the Thesis

The research paper is organized in five chapters. Chapter one deals with back ground of the study, statement of problem, research questions, objective of the study, significance of the study and limitation of the study. The second chapter is a review of literature that discusses some earlier ad recent empirical literatures related to MSEs and LED. Chapter three provides description of the study area, types and source of data, target population, sampling design and procedures, data collection and methods of data analysis. The fourth chapter provides with the result and associate discussions obtained from the questionnaire and key informants interview of the study area. The last chapter provides findings, conclusions and recommendations of the study.

2. LITERATURE REVIEW ON MICRO AND SMALL ENTERPRISE AND ON LOCAL ECONOMIC DEVELOPMENT

2.1. Theoretical Review

Review of existing literature shows that the promotion of MSEs is one of the policy strategies for achieving national development goals such as poverty alleviation, economic growth increasing People's participation in economic activities, employment creation and income generation (Raymond, 2009). According to Rudjito (2003), the importance of MSEs, including medium enterprises that they are contributing to job creation and output growth and sustainable development is now widely recognized among developing and developed countries in post 1970s. MSEs also help to achieve a more equitable distribution of the benefits of the economy and thereby help to give solutions for some of the problems associated with uneven income distribution. With this advantage, MSEs therefore can alleviate poverty and helps as a seedbed for development of medium and large-scale enterprises in urban settings. The governments of developing countries have also been supporting MSEs through various programs, like credit schemes and provision of training (Tambunan, 2006). In any angle, there is no doubt that MSEs have already become major features of the economic landscapes in most developing countries. As a result, researchers, practitioners and policy makers are increasingly interested in MSEs as incubators of labor intensive technologies and as sources of jobs and incomes for the urban poor (Thorbeche, 2000; Ronge *et al.* 2002).The importance of the micro and small enterprises sub-sector in Ethiopia, particularly for the low income, poor and women groups, is evident from their relatively large presence, share in employment and small capital requirement. These are sufficient reason for governments and other stakeholders in development to be interested in micro and small enterprises (Tekle Hiluf, 2014).

2.2. Definition and Classification of MSEs

Micro and small enterprises are defined in several countries within their different purposes and intention. What is stated or identified as micro and small enterprises in many industrialized countries may differ in other developing countries. Micro enterprises in developed countries can be labeled as small or medium in developing countries. This is because the amount of capital invested and the number of people employed in operating and implementing MSEs and the level of technology vary from one country to another. In some countries MSEs labeled based in the number of

employees and others on capital invested. Most definitions of MSEs depend up on the policy makers (financiers, labor officers, traders and Service personnel). The common criteria that are used by different countries are; Number of employees, Asset employed, Sales turn over and/or Combination of the above three factors.

According to the Ethiopian micro and small enterprises development strategy, which cited in different packages of MSEs, the working definition of MSEs in Ethiopia is based on capital and number of employees. Hence a micro enterprise in the industrial sub-sector (Manufacturing, Construction and mining) is one which operates with up to five people including the owner and/or has total assets not exceeding ETB 100,000. Similarly, for activities in the Service sub- 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 ETB 50,000 (FeMSEDA, 2015). A small enterprise in the industrial sub- sector is one which operates with between 6 to 30 persons and/or has paid up capital or total assets not exceeding ETB 1.5 million. Similarly, a small Service sub- sector enterprise is one that has between 6 and 30 persons and/or has total assets or paid up capital of ETB 500,000 (FeMSEDA, 2015).

Though traditionally when referring to a small business financed by micro-credit the term micro-enterprise is used, the terms microenterprise and micro business have the same meaning. Similarly, when referring to a small, usually legal business that is not financed by micro credit, the term micro-business is used (FeMSEDA, 2012).

2.3 Micro and Small Enterprises (MSEs) in Ethiopia

The MSE sub-sector everywhere is characterized by highly diversified activities which can create livelihood opportunities for a substantial segment of the population. This implies that the sub-sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders. Hence, in order to channel all necessary support and facilities to this diversified sub-sector, a definition is needed to categorize the sub-sector accordingly.

However, coming up with a universally applicable definition of MSEs is found to be difficult. This is so because the criteria and ways of categorizing enterprises as small, micro and medium varies from country to country and from organization to organization. The absence of such uniform definition of MSEs has created a difficulty. In line with this, for instance, Tegegne and Meheret (2010) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sub- sector , the High Level Commission on Legal Empowerment of the Poor argued.

After indicating that volume of capital, size of employment, market share, growth performance and annual and monthly turnover are some of the common criteria used widely. Tegegne and Meheret (2010), report that, in addition to these criteria, enterprises can be categorized on the basis of past growth performance as new-starts, no growth firms, small growth firms and graduates. The other categorization distinguishes enterprises as livelihood survival and growth oriented enterprise. In the case of Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sub-sector. Ministry of Trade and Industry (MoTI) uses capital investment, while Central Statistical Agency (CSA) uses employment and favors capital intensive technologies as a yardstick. The definition used by MoTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997.

According to the MoTI, Micro enterprises are those business enterprises, in the formal and informal sub-sector, with a paid up capital not exceeding ETB 20,000 and excluding high tech consultancy firms and other high tech establishments. Small enterprises are those business enterprises with a paid up capital of above ETB 20,000 and not exceeding ETB 500,000 and excluding high tech consultancy firms and other high tech establishments.

Similarly, CSA categorizes enterprises into different scales of operation on the size of employment and the nature of equipment. As to CSA, establishments employing less than ten persons and using motor operated equipment are considered as small scale Manufacturing enterprises. Enterprises in the micro enterprise category are subdivided into informal sub-sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non-

power driven machines whereas the informal sub-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 (CSA: 1999b and 2000 cited in Tegegne and Meheret: 2010; MoTI: 1997).

Currently, in Ethiopia, country wide used definition of MSEs is based on level of paid-up capital/fixed asset, size of employment, using high tech establishment and consultancy Services. This categorization is important for functional and promotional purposes to achieve the desired levels of development. As a result the revised MSEs strategy divides and define MSEs in terms of product and Service. Accordingly, Micro Enterprises are those enterprises having 5 workers including family members and its total asset not exceeding ETB 100,000 for Manufacturing enterprises and ETB 50,000 for Service providing enterprises. Small enterprises are those enterprises having 6-30 workers and its total capital not exceeding ETB 1.5 million for Manufacturing enterprise and ETB 500,000 for Service providing enterprises.

Micro & Small Enterprise Development Program in Ethiopia meaningfully has been given due attention by government since 2004. Until 2004, the national strategy was implemented by Federal SMEs 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 SME managers. Thus, by considering the critical role of the sub-sector and the constrained faced by SME managers since 2004 the government of Ethiopia decide to establish SMEs coordinating body at regional level. Accordingly, SMEs development Agencies are set up in all regions, even sub branch offices at zone/district level. The system helps to support a lot of SMEs and thereby to create job opportunity for unemployed youth and women. Currently the government amends SMEs strategy with the objective of that in addition that the sub-sector play alleviating poverty & reducing unemployment, to help out the sub- sector to play its pivotal role as a base to medium and large scale industry.

2.4. Socio-economic Importance of MSEs

2.4.1. Employment Creation

The major problems that the current world faces are unemployment, inequality, and poverty. Developing countries in general and African countries in particular have been experiencing high unemployment rate paralleled by increasing urban poverty. To reduce unemployment micro and small enterprises make undoubtedly a huge contribution, especially in the developing world. Most studies conclude that small enterprises are more labor intensive than larger ones, and some even finds that the smaller firms also produce more output (or value added) per unit of capital and thus generate more output as well as employment for a given investment than do larger firms (Haggblade and et al 1990).

When we look at the share of employment in MSEs and large industries for lower and higher income countries, 62%, and 38% of employment opportunity in lower income countries are created by small scale and large scale enterprise respectively. However, the share of employment in MSEs in higher income countries is still considerable and it accounts for 41% of the total employment, Workneh (2007). Nevertheless, some evidences suggest that enterprise scale is an unreliable guide to labor intensity because many small firms are more capital intensive than large firms in the same industry. According to the study made by Sondgrass & Biggs (1998) depicted that „*The fact that small firms employ a large share of the labor force in developing countries may be a more reflection of the product composition of production in those countries than inherent labor intensity of small firms*”.

While there are many exceptions to the basic pattern, some evidences suggests that larger employers offer better jobs in terms of wages, fringe benefits, working conditions and opportunities for skills enhancements as well as job security. In low-income countries, small enterprises have much lower productivity levels than larger firms which lead to lower wages and non-wage benefits. There is some evidence that this divergence in labor productivity and wage rates between small and large firms narrows as countries become more developed in terms of industrialization (Snodgrass and Biggs 1998).

In the case of Ethiopia, of the arguments in favor of the promotion of SMEs, the creation of employment for urban youth is the major one. According to FMSEDA, jobs created by SMEs have been growing since 2010/11. The total number of jobs in 2010/11, 2011/12, 2012/13 and the first 9 months of 2013/14 were 289 thousand, 806.3 thousand, 1223.7 thousand and 963.8 thousand, respectively. According to the study by Ethiopian Economic Association, disaggregation of SMEs by sub-sectors enables us to see the relative importance of each subsector. It also enable us to judge whether the performance is going as planned in meeting the other objectives, other than job creation, such as facilitating technology transfer, creating and strengthening linkages with medium and large scale industries, etc. Furthermore the study revealed that the biggest employment has been generated by the Construction sub-sector accounting on the average for about 36.2 percent over the four GTP implementation years, followed by Services with 20.8 percent, trade with 15.2 percent, Manufacturing with 14.7 percent and urban agriculture taking 13.1 percent over the four GTP implementation years (EEA, 2015)

Ligthelm (2003), states that small businesses in the formal economy are created due to the lack of employment and option of income possibilities. The establishment of the SMMEs is therefore the consequence of an effort to escape the difficulties of unemployment and poverty rather than the exploitation of prosperous business opportunities (Caswell, 2013).

2.4.2. Poverty Reduction

An appropriate dual and general definition of Poverty is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic Services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work (Caswell, 2013). Governments in many developing countries are unable to provide adequately basic Services. In this point poverty reduction can be correlated with job creation. Here poverty refers to the poverty of the MSE managers/owners themselves. As most managers are very poor, and are found at the floor of the economic status, the chance to operate their own business at a very low startup capital, and expand from that point will help them support themselves and their family. This intern will operate to a reduced nationwide poverty (Benyam Aragaw, 2008).

Munira (2012), stated that according to the 2003 International Labor Conference on Working out of Poverty the ILO Director-General's report outlined eight ILO activities that contribute to poverty reduction with regard to MSEs. These are vocational training, entrepreneurship development and microfinance, cooperatives, reducing discrimination, working to end child labor, ensuring income and basic social security, and work safety. Small enterprise development was given an attention by the Director General's report. The report noted that poor people need to be entrepreneurial to raise the income needed to survive. The ILO's approach to poverty reduction through small enterprise development focuses on the needs of poor people who are part of the micro and small enterprise economy, as owner/managers and workers, as their dependants, as the unemployed who may benefit from job creation, and as customers.

2.5. Challenges faced by micro and small enterprises

Even though MSE's have important roles in economic development, poverty alleviation, employment opportunity, they are critically challenged by certain impeding factors to sustain within the sub- sector. According the Ethiopian Economic Association (2015), the major challenges facing MSEs include, problems related to finance, access to market and low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure.

In Ethiopia, although its economic policy has attached due emphasis to entrepreneurship values and appreciation of the sub- 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 (MoTI, 1997). Lack of better technology, managerial and other technical skills result in the development of small businesses producing the same things and competing with each other to sell into the same small local market. (Endanchyelem, 2000)

The inexistence of institutional regulation in the economy of small businesses may influence various settings of the work process. For example labor may be tacit, lacking social benefits and paid under the minimum wage. Workers tend thus to be downgraded, taking fewer benefits, less wages and working under inferior working circumstances than those universally accepted in the formal economy (Tsegereda, 2002). An additional challenge related to MSEs is the difficulty of obtaining reliable statistics and thus lacking a proper insight to address the problems in this sub-sector. Competition in most small enterprises markets is fierce due in part to ease of entry and large number of participants and in part to the small size of many markets served by small sub-sector enterprises.

2.6. The Theory of Local Economic Development

The concept of LED has been promoted as a critical solution for poverty alleviation, unemployment and economic development in developing countries (Rogerson, 2005). Economic development has advanced from being merely considered in economic terms such as Gross Domestic Product, which did not essentially quantify the distribution of income and wellbeing (Blakely and Leigh, 2010). Development concepts have become premises with a human feature in which development is not viewed simply as economics, but aspects such as the level of education, gender based development, quality of water, health, employment and poverty levels are included (Blakely and Leigh, 2010). Therefore, LED links not only the economic measures and human aspects of development, but goes on further to focus on development at the micro level. LED is a conscious process in which communities are assisted by well advanced organizations to work in the direction of improving the standards of social and economic well-being (Cunningham and Meyer-Stamer, 2005). Thus, in essence LED promotes joint development between the local government, community, private sub-sector, NGOs and any other stakeholders.

LED is about building partnerships between different stakeholders in order to control local resources and to stimulate employment and the economy of a locality (Kanyane, 2008). It is regarded as a participatory development processes that stimulates partnership between the private and public stakeholders of locality (Rodriguez-Pose and Tijimstra, 2007; World Bank, 2003). LED is often referred to as a 'territorial development strategy' which is based on endogenous factors such as the local economic structure, human resources and institutional setting at the local sphere of government (Rodriguez-Pose and Tijimstra, 2007). Local resources are frequently underused in

communities in developing countries and this is where local capacity is significant. There are different types of local resources that local community possesses. The greater the ability of the local community to translate these resources into development opportunities, the greater the benefits of development outcomes (Meyer-Stamer, 2003). For instance, a community requires an economic development institution such as business society or economic development corporation or government institution to effectively resolve the issues and problems of underdevelopment and improve the available resources.

Additionally, there is no single action or strategy which embraces LED; however, it is a concept that describes local initiatives that respond to the needs of communities at the local sphere of government. Alternatively, the focus is on using local people with local approaches for local outcomes. Therefore, LED is about seeking to manage and structure economic transformation at the local sphere. Ultimately, the primary aim of LED is to improve the quality of life of the people, alleviate poverty, create job opportunities, improve skills and build capacity within the communities (Nel and Rogerson, 2005; Kanayne, 2008).

There are a number of advantages that are associated with LED. These incorporate social and economic issues such as empowerment of local communities, creation of dialogue, enhancing transparency and accountability among local institutions. In economic aspects, LED helps to create sustainable employment in business, given the promotion of economic activities that are at the centre of specific economic circumstances and comparative advantages of a locality (Rodriguez-Pose and Tijmstra, 2007). Generally, LED contributes to renewal of the local economy and to the improvement of the monetary capacity of the local government. LED can assist in the formulation of balanced development strategies as a result of dynamic participation of crucial stakeholders in the planning and implementation processes.

2.7. Micro and Small Enterprises for Local Economic Developments

Due to its benefits in socio economic development MSEs get the attention of the government for enhancing the local economy. And local resources are crucial ingredients in the course of local economy development. Amongst different performer in the course of action of local economic development, MSEs can play a pivotal role in the advancement of LED. In Developing countries like Ethiopia the involvement of MSEs for the enlargement of local economy is momentous. The present government

has been giving an immense concentration for the escalation and development of MSEs for enhancing local and national economy in its five year plans called Growth and transformation plan (GTP one and GTP two). In the industrial sub-sector, GTP has laid down two strategic directions: the expansion and development of micro and small industries and the development of medium and large industries. The MSE component of the GTP and that of LED are very identical and similar. As mentioned in Tegegne (2011) GTP targets for micro and small scale enterprises are the following:

- ✚ Provide comprehensive support to micro and small scale enterprises so that they create employment opportunity for about 3 million people. Achievement of this target will enhance citizens' income, contribute to a rise in domestic saving, and enhance the benefits of women and youth from the sub-sector so as to reduce unemployment and poverty.
- ✚ Provide Training of Trainers for 10,000 professionals in the subsector ;
- ✚ Provide capacity building and basic skills training for about 3 million managers in the areas of entrepreneurship, technical and vocational skills;
- ✚ Prepare and develop 15,000 ha of land for working premises and construct shades and buildings for MSEs.
- ✚ Provide micro credit and marketing information and work with producers to identify bottlenecks and provide support where solutions are identified.

2.8. Empirical Literature Review on LED and MSEs

2.8.1. International Experience

The contribution of SMMEs to economic growth and economic development is widely acknowledged (Katwalo and Mwiti, 2009; Kongolo, 2010). Their ability to create jobs, income, economic wealth, innovation, poverty reduction and the general improvement of the living conditions within the local communities is undoubted (Naidoo and Urban, 2012). Therefore, the majority of economic activities in many countries, whether developed or developing, are constituted by SMMEs (Zevallos, 2003; Chalera, 2007). These enterprises are considered by various policy makers and researchers as crucial for economic development including poverty reduction in many countries, particularly in the developing countries (Fumo and Jabbour, 2011). The recognition of SMEs as a means to employment generation and poverty reduction has led to the establishment of various interventions by government and private sub-sector organizations in an attempt to achieve greater socio-economic objectives in their respective countries. Studies show that Micro and small enterprises have massive contributions for reducing poverty

especially in urban area. Scholars have been conducting a scientific research and get ample results in the area of MSEs.

According to Kongolo (2010), a successful and growing economy is usually characterised by vibrant and prosperous SMEs' sub-sector. However, SMMEs contribute largely in well developed countries, where high level of education, low inflation rate and a high level of financial support are evident (Booyens, 2011). Although the economic performance of SMMEs might not be significant in other economies, their important contribution with regard to innovation, facilitating change and competition are essential. In recognition of the crucial role of SMMEs in economic growth and development in developed countries such as in the European Union, SMMEs account for about 98 and 99% of the majority of enterprises in these countries and provide jobs for over 100 million people, which are over 2/3 of total private employment (Kongolo, 2010; Fumo and Jabbour, 2011). Looking at countries such as Australia, 95% of business are regarded as SMMEs, whilst Germany's economic growth was also led by SMMEs. Job creation studies indicate that the employment dynamics associated with business formation and closure is critical to the overall contribution of small business (Chalera, 2007).

Additionally, Small businesses are considered as the creators of jobs and are what constitute the US economy (Chowdhury, 2007; Kongolo, 2010). Throughout the period 2001 to 2003, small businesses with less than 20 employees improved employment by 853, 074. These enterprises account for 99.7% of the firms, generating more than half of the private sub-sector's gross domestic product, including 60% to 80% of the employment in the economy. In 2004 there were about 5 million SMMEs in the US which provided employment for more than 6 million people. Therefore, it is evident that the contribution made by small businesses in the global economy is substantial, given the availability of support programmes.

According to Kongolo (2010), SMMEs are the engine of economic growth and development in any economy. This stems from the fact that the majority of the countries that have focused on the SMMEs sub-sector and have ensured its vibrancy, have succeeded significantly in reducing unemployment and promoting the standard of living. Their effect on income distribution, tax revenue, efficient use of resources and stability of income in the global economy is evident.

In Africa, according to Katwalo and Mwiti (2009), small businesses contribute to employment creation and to economic development. In Nigeria for example, the SMMEs sub-sector provides income earning for a number of people (Okpara, 2011). It is estimated that this sub-sector accounts for about 50% of the economic activities in the Nigerian economy. In terms of employment creation opportunities, the sub-sector consists of different types of activities including small to medium scale Manufacturing and service businesses.

2.8.2. Ethiopian Experience

Micro and small enterprises (MSEs) are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the non agricultural sub-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. The overall objective of the 1997 MSE strategy was to create an enabling environment for MSEs, with specific objectives to facilitate economic growth; bring equitable development; create long-term jobs; strengthen cooperation between MSEs; provide the basis for medium and large-scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises (MoTI, 1997).

In March 2011, a task force headed by the Ministry of Urban Development and Construction (MoUDC) and the Federal Micro and Small Enterprises Development Agency (FeMSEDA) published a new strategy for the development of MSEs. The strategy identified and analyzed key MSE development constraints namely, financial, training/consultancy, market, infrastructure, technology transfer, institutional and cross-cutting issues. According to the new strategy (2011), the overall vision of the strategy is to create a “competitive” MSE sub-sector that lays the groundwork for industrial development. To realize this vision, three objectives have been identified, which are: To increase the employment and wealth creation capability of MSEs, To enable the MSE sub-sector to become more competitive and link with agricultural development and To ensure MSE development by creating a large entrepreneurial base in towns and cities throughout the country.

According to the Central Statistical Authority (CSA) survey, there are almost 570,000 MSEs in Ethiopia, 99.4 percent of which are micro-enterprises with fewer than ten employees, accounting for 88.2 percent of private sub-sector employment. The

microenterprises are very small. On average, they employ one and a half workers (this includes the owner and perhaps one occasional helper), and earn an annual operating surplus of 1,300 ETB. Sole proprietors operated 82 percent of urban enterprises. Of the total employment in these urban micro-enterprises, family members accounted for 60 percent. Beyond family members, apprentices constituted a large proportion of the remaining MSE work force (CSA, 2003).

A recent study on MSEs indicated that MSEs in Ethiopia are confronted by many problems. The constraints facing MSEs in most developing economies are similar: unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and poor access to quality business infrastructure.

Ageze (2006) revealed that BDS (Business development Service) in Ethiopia is at an infant stage. The Service is more of donor side or supply driven in nature that is not initiated by the managers. The program didn't achieve a good level of performance in developing high quality, diverse and competitive market. The researcher also try to identify the challenge faced by MSEs in BDS program in Addis Ababa some of them are low level of MSE managers' awareness for majority of BDS, unwillingness to pay for BDS, lack of diversity of BDS providers and Service and lastly limited knowledge of BDS intervention. The researcher concludes that in Addis Ababa it has weak supply and demand status. As a way forward Philipose recommend that the intervention should be designed based on market development principles to stimulate BDS demand and supply condition. Workeneh (2007) in his study entitled constraints of micro and small enterprise in addressing employment opportunity found that MSEs managers in Addis Ababa face lack of adequate training, unfavorable regulatory policy of the government institutions, problem of premise, and inadequate training in the area of marketing and bookkeeping affect the performance and contribution of the sub- sector .

Concerning local economic development in Ethiopia, the past governments followed centralized form of administration and the development schemes are planned without the involvement of the local people Munira (2012). The recent government embarked on federal and decentralized forms of government since 1990s. Ethiopia's decentralization has provided space and opportunities for local governments to determine their future and spearhead their development (Tegegne and Richard, 2011).

In addition, the fact that cities have their own budget empowers them to implement local economic development from their own sources. Tegegne and Clacey (2011) found out that local participation especially micro and small enterprises have a potential strength in the local economy. Their study identified that LED program have created positive benefits and best practices in different localities. However the study approach seems to have weaknesses of targeting, marginalizing individual entrepreneurs, limited networking, and poor marketing linkage.

The above referred and some other researches try to find out the employment creation, local economic growth, and factors that hinder the noble performance of MSEs for local economic development. However, these researches are more specific for example Ageze (2006) finding raise one issue of the component of MSEs that is BDS. The finding of Worekneh (2007) focuses on the challenge faced by the enterprise during their performance. Lastly the finding of Solomon covers only about product diversification and business expansion. However, these researches are failed to investigate the performance of MSEs managers in terms of local economic development (LED).

Therefore, this research tries to bridge this gap through studying different managers engaged in diversified sub- sectors in the Construction, Manufacturing, and Service subsectors. It will try to analyze which sub- sectors are performing in their full capacity and utilize the local resource to generate employment opportunity to this specific area and which sub- sector is more contributing to the local economic development and perform well. More over this research tries to see the life standard, health, and educational level in household level in addition to performance of the enterprises participating in MSEs.

2.9. Conceptual Framework

Local economic development emanate from the utilization of local resources by the local people. For this purpose diversified actors working in the community has duties and responsibilities so that they participate in different economic activities to enhance the local economy. MSEs have huge potential in contributing to national economic development in general and local economic development in particular. Hence, to achieve this MSEs should get the proper attention and support from concerned parties. The local government or agencies should develop strategies to ease the enhancement of MSEs managers either through providing institutional support or creating linkage with

stakeholders and other non-governmental support agencies in different direction. For example offering business development Services (BDS) improve the performance of the enterprise, its access to markets, and its ability to compete. Working premises and financial problem are among the major problems that MSEs face during starting period hence government and also stakeholders should address such problems to promote MSEs.

MSEs that acquire essential institutional support have a potential to develop efficiency in their output so that they perform their tasks systematically and in well-organized ways. As unemployment is one of predicaments in the society, this problem is addressed through the creation of employment opportunity for the local people by potential MSEs. As a result, the local people will generate their own livelihood and have income in due course this people will save as well as pay the necessary taxes for the government. Also by enhancing the income of the managers, the living condition of the actors will improved through time if the local resources used in an efficient ways. The income generated from the local people coming from the enterprises serves the development of the locality meanwhile they pay taxes for the local government which is the foremost source of local development. Taxes coming from such actors and institute increase the rate of development in the locality and it also increases the participation of the resident in the process of local development.

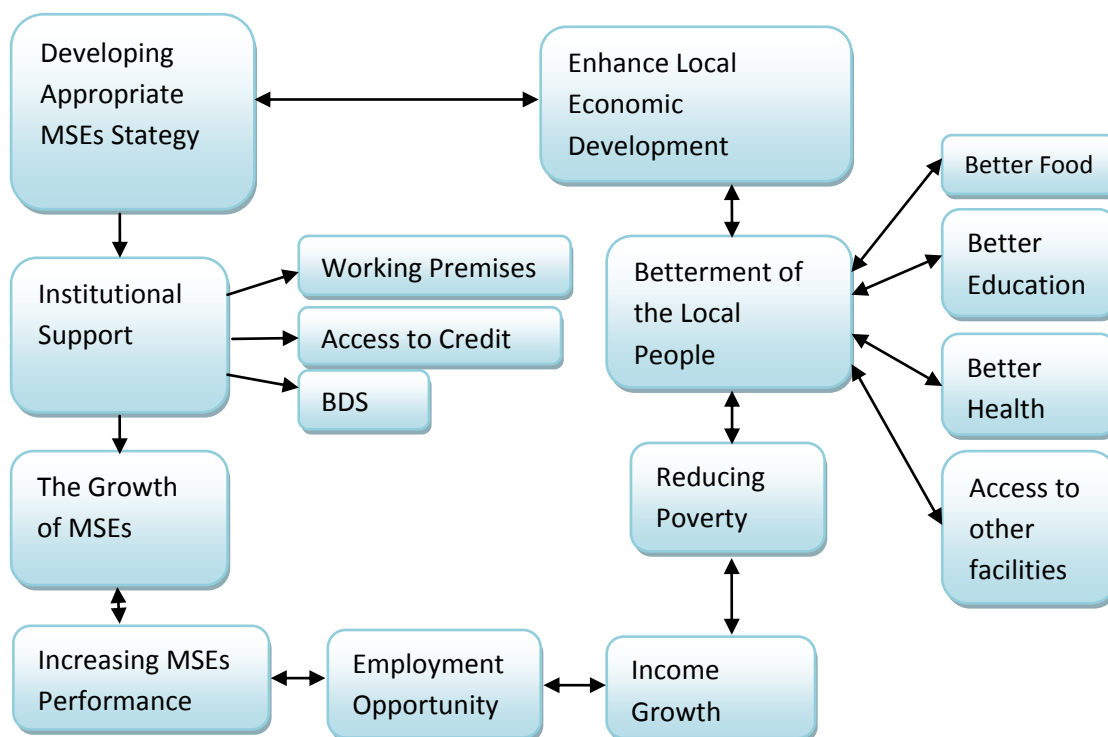


Figure 2.1 Conceptualizing the Role of MSEs for Local Economic Development

Source: Modified from Munira, 2012, based on the concept of MSEs and LED

3. RESEARCH METHODOLOGY

3.1 Description of the Study Area

3.1.1 Physical Description

Nifas Silk Lafto Sub-city is one of among the ten sub-cities in Addis Ababa with a land area of 5876.02 hectares and this constitutes 11.31% of the total land area of the city which makes the sub-city in 5th place in area size amongst 10 sub cities. N/S/L/Sub-city is located in the South-West edge of Addis Ababa. The Sub-city is bounded by Kolfe Keraniyo Sub- city in the North-West, by Bole and Akaki Kality Sub-cities in the East, by Lideta and Kirkos sub-cities in the North and Oromia regional state in the South. N/S/L/Sub-city is characterized by moderately steeply type of topography with noticeable elevation difference and steeply landscape around river gorges in some areas. The sub-city is relatively flat and gently sloping. Generally speaking in the sub-city, the altitude ranged from 2074 to 2485 meters above sea level which has a range of 411 meters. The highly elevated land exists in the South West while relatively lower elevation exists in the South (Figure 3.1).

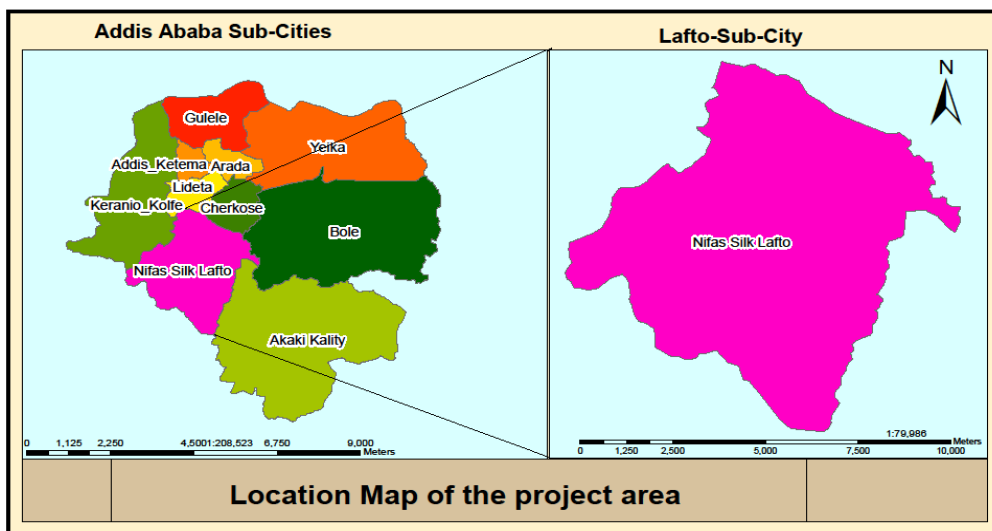


Figure 3.1: Map of Addis Ababa and Nifas Silk Lafto Sub- city

Source: Nifas Silk Lafto Sub-city Urban and Information Preparation Office

3.1.2 Demographics Description

According to population census conducted on 2007, the total population of the Sub-city was counted as 285,457 (135,457M, 150,339F) which was 10.42% of the entire population of the city. The female comprise 52.67% and male 47.33% of the total population. Moreover, the Sub-city is divided in to 12 Woredas, 128 Sub-woredas, 397 villages, and 1059 blocks. The population and area in hectare of the Woredas within the sub-city is depicted as follows (Table 3.1).

Table 3.1: Total Male and Female Population of Nifas Silk Lafto Sub-city by woreda

Woreda	Total Population			% of the total Sub-city population	Area (Hectare)	Population Density
	Male	Female	Both Sexes			
01	19,143	20,369	39,512	13.84	2,592.83	15.24
02	15,089	17,125	32,214	11.29	666.13	48.36
03	16,075	18,738	34,813	12.20	441.71	78.36
04	8,610	9,549	18,159	6.36	108.08	168.02
05	12,765	14,216	26,981	9.45	196.22	137.50
06	13,444	15,270	28,714	10.06	312.84	91.79
07	7,822	8,692	16,514	5.79	176.12	93.76
08	7,717	8,286	16,003	5.61	105.84	151.21
09	6,784	8,075	14,859	5.21	177.62	83.66
10	9,777	10,865	20,642	7.23	189.30	109.04
11	8,051	8,619	16,670	5.84	488.35	34.14
12	9,841	10,535	20,376	7.14	421.22	48.37
Total	135,118	150,339	285,457	100	5,876.25	48.58

Source: CSA, 2007 census

3.1.3 Economic and Social Settings of Nifas Silk Lafto Sub-city

Nifas Silk Lafto Sub-city has 4th largest land area of the city, and has 771.08 hectare (13.12% of the total) open space. However unemployment, housing problem, poor quality of education, health problems, inadequate market infrastructure, problem of

waste disposal and shortage of recreational center for the youth were the prevailing existing problems. Migration is also the other problems seen in the sub-city. According to the data from Nifas Silk Lafto Sub-city trade and industry bureau, industries are highly concentrated in the sub-city in comparison to other sub cities. For example many industries are located in Lebu industry zone.

3.2 Study Design

In this study descriptive research design is used in which attempts were made to establish the relationship between SMEs and LED, describe the nature of SMEs and the challenges they face in the area. Also qualitative and quantitative research approaches were used in this study. The qualitative approach is used to learn about the phenomena in question by applying a “less structured” methodology to gain richer and deeper information on the respondents. In quantitative research, on the other hand, information is collected and recorded either numerically or in the form of recorded categories.

3.3 Type and Source of Data

Both primary and secondary data sources were used. To achieve the objectives of this study, the primary (both factual and opinion) data were collected through questionnaires and interviews. The questionnaire was prepared in English language accompanied by the Amharic translation and was disseminated to respondents in a face to face interview. And an in-depth interview was held among purposively selected key informants. Secondary sources of data basis on literatures which attempted to provide theories and discussions about the nature of SMEs and the challenges they face. Also in theories about SMEs that generate employment and income and how they contribute to local economic development. Hence data were gathered from different body of literature, such as journal articles, working papers, relevant works on the stipulated research problem and other publications were consulted primarily via internet sources.

3.4 Sampling Techniques

Purposive and random sampling techniques were used for primary data collection. Respondents were random selected from construction, manufacturing and service sub-sectors. These sub-sectors were selected in consultation with the concerned authorities. And with the aim of applying a modest analysis in order to broadly appreciate the role of micro and small enterprises in local economic development. Initially four Woredas were purposely selected from the sub-city considering number of enterprises and the

number of individuals who were engaged in MSEs in the selected Woreda. Therefore, the selected four Woredas were Woreda 01, Woreda 02, Woreda 05 and Woreda 12.

3.4.1 Sampling Frame

The target population for the purpose of this study was MSEs managers operating in construction, manufacturing and services sub-sectors in the sub-city. MSEs managers refer to the founder or owner of the enterprises who usually operate the business and act as both the manager and worker.

3.4.2 Sample size

The total population for the sample size was determined with consideration of representativeness. In consideration of representativeness at first, the study applied a simplified formula provided by Yamane (1967) in order to determine the required sample size at 95% confidence level, degree of variability of= 0.5 and with the level of precision of= 9% as follows;

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the desired sample size, N is the population size and ‘e’ is the level of precision. According to the above formula, the samples size was determined approximately 108 as shown in Table 3.2 below.

Table 3.2: Sample Size

Woreda	No. of Enterprises/ Population	Sample Population	Sample Population of Each Sub- sector		
			Construction	Manufacturing	Service
1	186	25	12	8	5
2	226	30	9	16	5
5	159	21	6	10	5
12	245	32	12	19	1
Total	816	108	39	53	16

Following this from the total of 816 managers in the frame, samples of 108 managers were randomly selected. Each enterprise was represented by its owner/manager. A sample of 108 enterprises was deemed sufficient to the research to represent the target population and draw general conclusions.

3.5 Method of Data Analysis

3.5.1 Descriptive Analysis

The process of data analysis involves arranging and bringing logical order to the huge amount of data collected. In this study qualitative and quantitative analysis methods were employed. Qualitative analysis method focuses on the qualities of phenomena being studied rather than their numeric measurement. On the other hand quantitative method focuses on data that are collected and recorded numerically or in the form of recorded categories. Quantitative data were coded in numerical representation using Statistical Package for Social Sciences (SPSS). SPSS software was used to compute and analyze data through various functions such as calculating frequencies, descriptive statistics, and making graphs, and tables.

3.5.2 Econometrics Analysis

Econometric analysis using logit and Heckman selection models were also used. In analyzing quantitative data, coding was done by converting raw data into numerical symbols to be captured using SPSS and STATA. In this study an inferential analysis to investigate the major factors contributing to the success of MSEs was employed. The study used two models to evaluate the performance of MSEs: logit model and Heckman selection model. These models are presented as follows

A. The logit model

$$Y_i = \beta_0 + \beta_1 ATWP + \beta_2 AM + \beta_3 ABL + \beta_4 FRR + \beta_5 AC + \beta_6 ARM + \beta_7 TTO + \varepsilon$$

$Y_i = 1$ if income improved or 0 if not

The other independent variables are:

- ✓ Access to working place (ATWP):
- ✓ Assistance with marketing (AM)
- ✓ Access to Bank Loan (ABL)
- ✓ Favorable rules and regulations (FRR)
- ✓ Appropriate customers (AC)
- ✓ Better access to raw materials (ARM)
- ✓ Technical Training to the Operators (TTO)

All independent variables behave a dummy variable (1 or 0) and are expected to affect the dependent variable positively.

B. Heckman selection model

Identifying some of the factors which hinder on the development and efficiency of MSEs is very necessary. To identify those factors, the study used the Heckman

selection model. First respondents were asked whether they have challenges or not, which was a dummy variable, and for those respondents who say that they have challenges, they were asked a following question, what are the major factors that hinder their performance. The following equations present the estimation result.

$$C_i = \beta_0 + \beta_1 LW + \beta_2 LS + \beta_3 LM + \beta_4 LC + \beta_5 LPRM + \beta_6 LRM + \beta_7 HGT + \beta_8 GR + \beta_9 LTS + \beta_{10} LI + \beta_{11} LUC + \varepsilon$$

$C_i = 1$ if they have challenges and 0 if not. If they have challenges then what happen on their income (Y_i)

$$Y_i = \beta_0 + \beta_1 LW + \beta_2 LS + \beta_3 LM + \beta_4 LC + \beta_5 LPRM + \beta_6 LRM + \beta_7 HGT + \beta_8 GR + \beta_9 LTS + \beta_{10} LI + \beta_{11} LUC + \varepsilon$$

Y_i is their income difference before and after they started the business

The independent variables are:

- ✓ Lack of working space (LW)
- ✓ Lack of sufficient capital (LS)
- ✓ Lack of access to market(LM)
- ✓ Limited access to credit facilities (LC)
- ✓ High price of raw materials (LPRM)
- ✓ Lack of raw materials (LRM)
- ✓ Heavy government tax (HGT)
- ✓ Pressure from government rules & regulations (GR)
- ✓ Lack of technical skill (LTS)
- ✓ Lack of information (LI)
- ✓ Unfair competition from other enterprises(LUC)

All independent variables have similar characteristics (all are dummy variables), and they are expected to affect the dependent variable negatively.

3.6 Ethical considerations

The researcher ensures that the rights, privacy and confidentiality of the participants are protected and respected. The participants were informed about the nature of the study. Participation was on a voluntary basis. Thus the researcher; introduced the purpose of the study as a fulfillment of a Masters' Degree program and not for any other hidden agenda and requested the respondents to participate in the study on a voluntary basis and while refusal or abstaining from participating was permitted. The researcher also assured the respondents of confidentiality of the information given and protection from any possible harm that could arise from the study since the findings would be used for the intended purposes only. The Sub- city MSE offices would be provided with feedback information about the findings of the respective study.

4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of the Respondents and Overview of MSEs in the Study Area

Among the most important demographic variables; sex, age, marital status, and education were used to characterize MSEs managers (Table 4.1).

Table 4.1 Sex of the Respondents

Operator's Sex	Frequency	Percent	Valid Percent	Cumulative Percent
Male	83	76.9	76.9	76.9
Female	25	23.1	23.1	100
Total	108	100	100	

Source: Own survey, 2016

As far as sex of the respondents is concerned, the result clearly shows that there is male dominance in SMEs operation in the Sub- city. The proportion of men in MSEs covers 76.9% and women constitute only 23.1%, demonstrating that there is a clearly observable gender gap. There are some constraints for this variation such as cultural norms regarding 'appropriate' works of men and women.

In terms of age, most of (47.2%) of the managers belong to the age group between 30-39 years suggesting that they were in the productive age category. About 36.1% were found in the age group of 16-29 years and the remaining 16.7% were found in the age group of 40-60 years. The result also showed that MSEs in the study area are creating better opportunities mostly for the youth and adults providing employment opportunities.

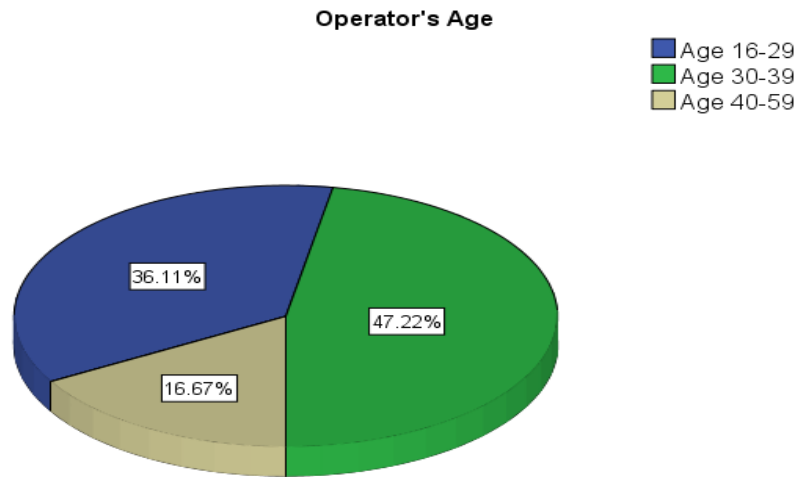


Figure 4.1: Age of Managers

Source: Own survey 2016

The marital status of the managers (Figure 4.2) shows that 40.7% of the respondents were single and 56.5% and 2.8% of them were married and divorced, respectively. This shows that married households were mostly engaged in the MSEs than others. And this could be due to the fact that married people have pressure and responsibility to earn income than unmarried ones. The proportion of divorced individuals is also not that large in the demography of the sub-city.

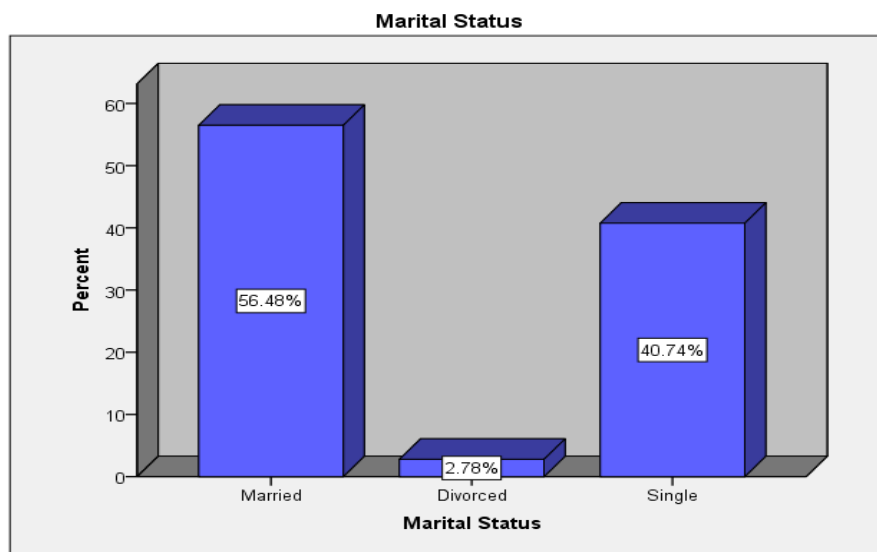


Figure 4.2: Marital Status of Managers

Source: Own survey 2016

For enhancing the productivity of MSEs, education and skills are important. Respondents were asked whether they have attended formal education or not. All of them responded that they have attended formal education. About 10.19% attended primary school (Grade 1-8). And 38.89% of the managers attended secondary education

while most of the managers (50.92%), attended tertiary education or have a certificate and more. Figure 4.1 shows that the level of education of the respondents.

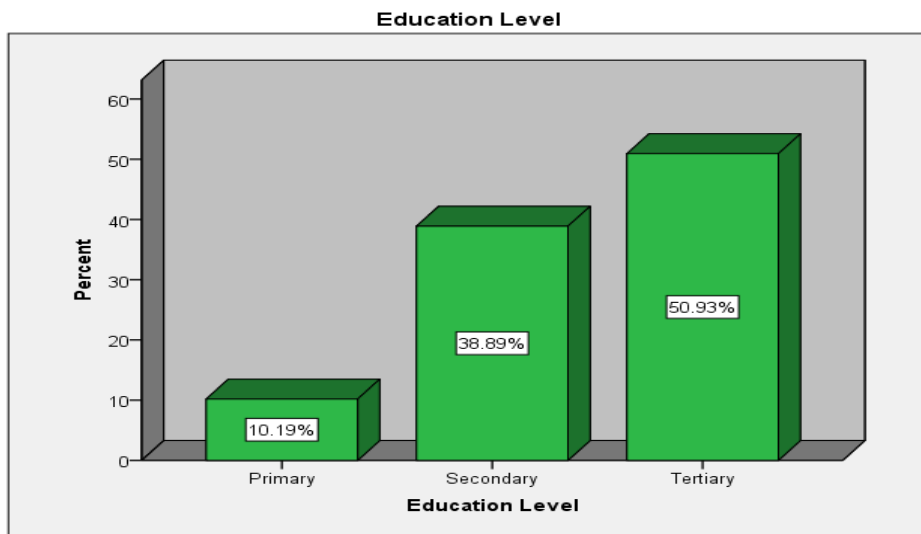


Figure 4.3: Level of Education

Source: Own survey 2016

The number of individuals living with household and generate income from MSEs indicates the living standard of the family. As indicated in Figure 4.4, 80.56% of the respondents had family size of more than one person. About 19.44% of respondents have a family size of one person, 50.00% of the respondents had a family size of between 2 and 5, and the rest 30.56% had family size above 5 persons. The number of family size featured as a contributory factor to the need and utilization of the income from the MSE business. This is because the bigger the family, the greater the demands for the basic necessities of life like food, clothing, shelter and education. It is usually when there is more demand than the supply of these services that the household head, searches for alternatives to enable him to provide for the family. The fact that MSEs are able to support such large family size directly and indirectly is a remarkable achievement in the sub-city. As long as family integrity is concerned, this result showed that MSE have a great role to play in the Ethiopian society in general and in Nifas Silk Lafto Sub-city in particular.

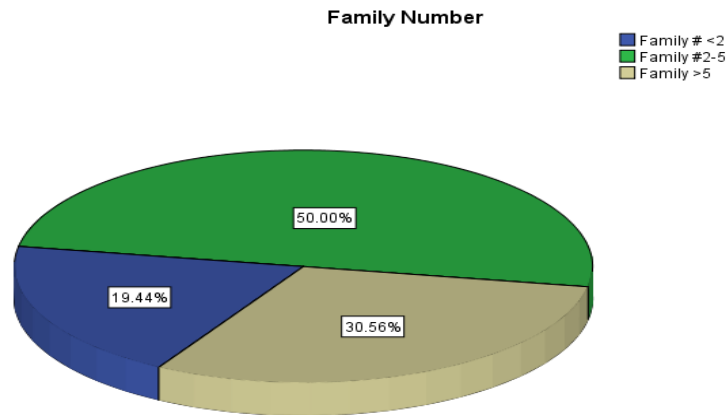


Figure 4.4: Family Size
Source: - Own survey (2016)

4.2 Training and Skills to Perform Micro and Small Enterprise Activities

The study result found out that most of MSEs managers (86%) perform their daily activities at least one training, while 15 (14%) of the managers did not take any training related to what they are doing (Table4.2).

Table 4.2: Vocational or Technical Skills

No.	Training Type	Frequency	Percent	Valid Percent	Cumulative Percent
1	Wood work	2	1.9	1.9	1.9
2	Electricity	3	2.8	2.8	4.6
3	Masonry	11	10.2	10.2	14.8
4	Tailoring	4	3.7	3.7	18.5
5	Others	39	36.1	36.1	54.6
6	Masonry & Others	7	6.5	6.5	61.1
7	Wood work & Others	4	3.7	3.7	64.8
8	Wood work, Metal Work& Others	11	10.2	10.2	75
9	Wood work & Metal Work	5	4.6	4.6	79.6
10	Electricity& Metal Work	1	0.9	0.9	80.6
11	Metal Work& Others	5	4.6	4.6	85.2
12	Wood work, Electricity& Metal Work	1	0.9	0.9	86.1
13	No Response	15	13.9	13.9	100
	Total	108	100	100	

Source: Own survey (2016)

From table above, it is possible to conclude that most MSEs managers in the study area have received training/s to enhance their skills. Selected managers were asked during interview how trainings have been provided for them from governmental and non-governmental institutes. They responded that, the trainings given were not enough and they did not get much knowledge as what they expect from the trainings. Moreover, the respondents indicated that some trainings designed by governmental or nongovernmental organizations were not related to the actual situation of entrepreneurs.

4.3 Types and Ownership of Enterprises

As shown in Table 4.3, construction (36.12%) and manufacturing (49.08%) seems to be a preferred type of business in the study area. This can be an indicative of the fact that such enterprises are selected for the Construction of housing development in the sub-city. Virtually most of the construction (25.93%), manufacturing (34.26%) and Service (10.19%) in the sample area were owned by partnerships which constitute 70.38% of the total enterprises. Whereas 9.26% construction enterprises, 12.04% manufacturing enterprises and 3 (2.78%) of service enterprises were owned by sole proprietorship. In general 26(24.08%), 76(70.38%) and 6(5.56%) of enterprises in the study area were categorized under sole proprietorship, partnership and co-operative enterprises types respectively. The motive behind the high partnership ownership rate in the study area might be attributed to the fact that government officials have put a precondition for the associations to be formed to get the necessary support from them.

Table 4.3: Type of Ownership

Enterprise Type	Enterprise Ownership						Total	
	Sole Proprietorship		Partnership		Cooperative			
	F	%	F	%	F	%	F	%
Construction	10	9.26	28	25.93	1	0.93	39	36.12
Manufacturing	13	12.04	37	34.26	3	2.78	53	49.08
Service	3	2.78	11	10.19	2	1.85	16	14.82
Total	26	24.08	76	70.38	6	5.56	108	100

Source: Own survey (2016)

4.4 Raw Materials Used and Primary Sources of Inputs

The sub-sectors engage more labor and local raw materials more intensively than other sub-sectors. The study result for the type of raw materials used (Table 4.4) also confirms that most of, (50.9%) the enterprise uses locally produced raw materials. There are also high numbers (43.5%) of enterprises that use both locally produced and imported raw materials for their production and limited number (5.6%) of the enterprises used imported materials only. Locally produced materials are used mostly used in manufacturing followed by construction. However both manufacturing and

construction sub-sectors use imported materials too. The service sub-sector mainly used locally produced materials. Adding values to locally produced materials that is directly in line with government transformation plan. It should be further encouraged to be replaced in all sub- sectors to achieve self-sustenance in production of goods and Services by MSEs. 27.8% of the enterprises uses small retailer as their source of inputs. Also other 27.8% of the enterprises use whole sellers and large retailer as their source of inputs while 18.5% of the enterprises uses large and small retailer as their source of inputs. Construction enterprises are the largest beneficiaries of large producers followed by manufacturing. However Service enterprises get their primary input supply from smaller enterprises. This result indicates that horizontal transaction is a common relationship between small businesses with low level of linkage with larger enterprises.

Table 4.4: Raw Materials Used and Primary Sources of Inputs

		Enterprise Type						Total	
		Construction		Manufacturing		Service			
		F	%	F	%	F	%	F	%
Raw Material Type	Locally produced	18	16.67	21	19.44	16	14.81	55	50.92
	Imported	1	0.93	5	4.63	0	0.00	6	5.56
	Both	20	18.52	27	25.00	0	0.00	47	43.52
	Total	39	36.11	53	49.07	16	14.81	108	100.00
Primary Input Source	Large producers	5	4.63	3	2.78	0	0.00	8	7.41
	Wholesalers and large retailers	9	8.33	19	17.60	2	1.85	30	27.78
	Smaller & the same size retailer	6	5.56	17	15.74	7	6.48	30	27.78
	Government project	3	2.78	0	0.00	3	2.78	6	5.56
	Large producers and Wholesalers & large retailers	6	5.56	3	2.78	0	0.00	9	8.34
	Wholesalers & large retailers and Smaller & the same size retailer	8	7.41	10	9.26	2	1.85	20	18.52
	Smaller & the same size retailer and Government project	1	0.93	0	0.00	2	1.85	3	2.78
	Large producers, Wholesalers & large retailers and Smaller & the same size retailer	1	0.93	1	0.93	0	0.00	2	1.86
	Total	39	36.11	53	49.07	16	14.81	108	100

Source: Own survey (2016)

4.5 Principal Customer of Micro and Small Enterprises

The output of the enterprises need potential customer for the development of the enterprises. As all businesses the MSEs also have a targeted market or sometimes very specific market niche. There is good understanding that having a good and reliable (potential) customer will make enterprises to be more productive and profitable and the managers motivated to produce more. Accordingly, private users are the major customers of the enterprises (Table 4.6). While government project namely Housing Development Agency (HDA) has been targeted as the major customer especially in the Construction sub-sector.

Table 4.6: Principal Customer of Micro and Small Enterprises

Primary Customers	Enterprise Type						Total	
	Construction		Manufacturing		Service			
	F	%	F	%	F	%	F	%
Private users	5	4.63	19	17.59	16	14.81	40	37
Wholesalers/ large retailer	0	0	1	0.93	0	0	1	0.93
Smaller and the same size retailer	0	0	1	0.93	0	0	1	0.93
Smaller and the same size producers	0	0	1	0.93	0	0	1	0.93
Government projects	17	15.74	1	0.93	0	0	18	16.7
Private users and Smaller & the same size retailer	1	0.93	12	11.11	0	0	13	12.04
Private users and Government projects	16	14.81	6	5.56	0	0	22	20.37
Private users, Wholesalers/ large retailer and Smaller and the same size retailer	0	0	1	0.93	0	0	1	0.93
Private users, Large producers and Government projects	0	0	3	2.78	0	0	3	2.78
Private users, Smaller & the same size retailer and Government projects	0	0	6	5.56	0	0	6	5.56
Private users, Smaller & the same size producers and Government projects	0	0	1	0.93	0	0	1	0.93
Private users, Smaller & the same size retailer and Large producers	0	0	1	0.93	0	0	1	0.93
Total	39	36.11	53	49.07	16	14.81	108	100

Source: Own survey (2016)

4.6 Performance Assessment of MSEs

4.6.1 Initial and Current capital of the Enterprises

Defining the size of enterprises is very important to understand their underlying problem. Based on the definition of the new strategy the results from the survey (Table 4.7) shows that, almost all of the enterprises (98.16%) had initial capital below ETB 100,000. More importantly 81.48% of the enterprises had an initial capital of less than

ETB 25,000 ETB. The percentage is higher in manufacturing (38.89%) followed by construction (28.70%) and service (13.89%). Compared to service enterprises, construction and manufacturing enterprises have higher initial capitals. For Example 7.41% of construction enterprises and 10.20% of the manufacturing sub-sector in the study area have an initial capital of more than ETB 25,000 while only 1(0.93%) Service enterprise had an initial capital more than ETB 25,000. This implies that starting Construction and Manufacturing MSEs need higher initial capital compared to other enterprises.

Table 4.7: Initial Capital of the Enterprises

Initial Capital in ETB	Type of Enterprises						Total	
	Construction		Manufacturing		Service			
	F	%	F	%	F	%	F	%
<= 25,000	31	28.70%	42	38.89%	15	13.89%	88	81.48%
25,001 - 50,000	6	5.56%	8	7.41%	1	0.93%	15	13.90%
50,001 - 75,000	0	0.00%	1	0.93%	0	0.00%	1	0.93%
75,001-100,000	2	1.85%	0	0.00%	0	0.00%	2	1.85%
100,001- 200,000	0	0.00%	1	0.93%	0	0.00%	1	0.93%
200,001-300,000	0	0.00%	0	0.00%	0	0.00%	0	0.00%
300,001-400,000	0	0.00%	0	0.00%	0	0.00%	0	0.00%
400,001-500,000	0	0.00%	1	0.93%	0	0.00%	1	0.93%
>500,000	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total	39	36.11%	53	49.09%	16	14.82%	108	100.00%

Source: Own survey (2012)

Table 4.8 below shows the current capital status of the enterprises in a range. And the study result revealed that there is a positive change in current capital from the initial one. Currently, 63.88% of enterprises in the study area had capital more than ETB 25,000 which was 18.54% at the beginning. In terms of enterprises, construction and manufacturing sub- sectors had made a substantial increment. Therefore, these enterprises showed improvement in terms of their current capital. From the following data, we also understand that 2 (1.85%) construction and 6(5.56%) manufacturing enterprises had current capital exceeding ETB 500,000. Therefore, according to the new micro and small enterprise strategy, these enterprises were at small level and are currently heading fast to enter the medium level.

Table 4.8: Current Capital of the Enterprises

Current Capital in ETB	Type of Enterprises						Total	
	Construction		Manufacturing		Service			
	F	%	F	%	F	%	F	%
<= 25,000	19	17.59%	8	7.41%	12	11.11%	39	36.11%
25,001 - 50,000	7	6.48%	10	9.26%	2	1.85%	19	17.59%
50,001 - 75,000	2	1.85%	3	2.78%	2	1.85%	7	6.48%
75,001-100,000	4	3.70%	4	3.70%	0	0.00%	8	7.40%
100,001- 200,000	1	0.93%	9	8.33%	0	0.00%	10	9.26%
200,001-300,000	4	3.70%	3	2.78%	0	0.00%	7	6.48%
300,001-400,000	0	0.00%	2	1.85%	0	0.00%	2	1.85%
400,001-500,000	0	0.00%	8	7.41%	0	0.00%	8	7.41%
>500,000	2	1.85%	6	5.56%	0	0.00%	8	7.41%
Total	39	36.10%	53	49.08%	16	14.81%	108	100.00%

Source: Own survey (2016)

4.6.2 Performance in Terms of Profit

The prime objective of Micro and Small Enterprises scheme is to enhance the living conditions of the managers through the profits they earn. Researchers like Geetha (2008), asserted that one contribution of MSEs is enhancing the living conditions of the households. The information gathered from the enterprises shows that profit is diversified throughout enterprises and professions. The summary of average monthly enterprises sales, expense and profit/loss for the last six months shows there is variation among the sub- sectors. The following tables (4.9, 4.10 and 4.11) show the average monthly sales, expenditure and profit of the enterprises of each sub- sectors separately.

Analysis of the study result in Table 4.9 shows that 32.40%, 35.18 % and 33.33 % of most Construction enterprises has an average monthly sales, expenditure, and profits below ETB 25,000 respectively. While few (3.71%) enterprises, were able to make sales above 25,000. And one enterprise had an average monthly expense above 25,000 and below 50,000. However 3 (2.78%) enterprises were able to make profit above 25,000. According to the findings of the study, this sub-sector had a minimum profit of ETB 2564.00 and maximum profit of ETB 65,236 on average. Similarly the minimum sale recorded was ETB 3520 and maximum sale scored in this sub-sector was ETB 100,308 on average. And the minimum and the maximum expenses recorded in this sub-sector were ETB and 525 ETB 35,791 on average. In general, the average sales, expenditure, and profits of the majority of construction enterprises in the study area were below 25,000ETB. The overall result indicates that managers working in this sub-sector were generating income that helps to enhance local economic development in the study area.

Table 4.9: Average Monthly Sales, Expenditure, and Profit of Construction Sub-sector

Total amount in Birr	Average Monthly Sales		Average Monthly Expenses		Average Monthly Profit	
	F	%	F	%	F	%
< 5,000	4	3.7	35	32.4	6	5.56
5,000 - 15,000	26	24.07	3	2.78	27	25
15,001 - 30,000	6	5.56	0	0	3	2.78
30,001 - 45,000	2	1.85	1	0.93	2	1.85
45,001 - 60,000	0	0	0	0	0	0
60,001 -75,000	0	0	0	0	1	0.93
75,001 - 90,000	0	0	0	0	0	0
90,001 -105,000	1	0.93	0	0	0	0
105,001-120,000	0	0	0	0	0	0
>120,000	0	0	0	0	0	0
Total	39	36.11	39	36.11	39	36.12

Source: Own survey (2016)

The following findings show that most enterprises had an average monthly sales, expenditure and profit below ETB 25000. While 9.26% and 3.70% of manufacturing enterprises, had an average monthly sales between 25001 – 50000 and 50001 – 75000 respectively. Whereas, 3.70% and 5.56% of the enterprises had an average monthly expense and profit in the range of 25,001–50,000 respectively. In this sub-sector the minimum average profit recorded during the study period was ETB 2137 and maximum average profit scored in this sub-sector was ETB 69,120. And the minimum and the maximum sales recorded in this sub-sector were ETB 3,546 and ETB 120,783 on average respectively. While the minimum and the maximum expenses recorded in this sub-sector were ETB 426 and ETB 80,352 on average respectively.

Table 4.10: Average Monthly Sales, Expenditure, and Profit of Manufacturing**Sub- sector**

Total Amount in Birr	Average Monthly Sales		Average monthly expenses		Average Monthly Profit	
	F	%	F	%	F	%
< 5,000	2	1.85	30	27.78	5	4.63
5,000 - 15,000	20	18.52	10	9.26	32	29.63
15,001 - 30,000	19	17.59	8	7.41	11	10.19
30,001 - 45,000	4	3.7	3	2.78	3	2.78
45,001 - 60,000	3	2.78	0	0	2	1.85
60,001 -75,000	3	2.78	1	0.93	0	0
75,001 - 90,000	0	0	1	0.93	0	0
90,001 -105,000	1	0.93	0	0	0	0
105,001-120,000	1	0.93	0	0	0	0
>120,000	0	0	0	0	0	0
Total	53	49.08	53	49.08	53	49.08

Source: Own survey (2016)

Results of the analysis in Table 4.11 below portray the average sales, expenditures and profits of Service enterprises in the study area. The minimum profit recorded during the study period was ETB 1320 and maximum profit scored in this sub-sector was ETB 18,564 on average. While the minimum sales and expenses recorded were ETB 1,502 and ETB 275 on average respectively. And the maximum sales and expenses recorded were ETB 22,687 and ETB 10,126 on average respectively. And the service sub-sector in this sub-city is the least performing sub-sector. During data collection, the researcher observed that most of the managers were women working in uncomfortable working conditions. In addition, respondents said lack of appropriate market to their product and lack of commitment among some members hinder them to do further. Construction is the other better performing subsector next to manufacturing. This sub-sector is also relatively labor intensive.

Table 4.11: Average Monthly Sales, Expenditure, and Profit of Service Sub-sectors

Total amount in Birr	Average Monthly Sales		Average Monthly Expenses		Average Monthly Profit	
	F	%	F	%	F	%
< 5,000	3	2.78	14	12.96	5	4.63
5,000 - 15,000	11	10.19	2	1.85	9	8.33
15,001 - 30,000	2	1.85	0	0	2	1.85
>30,000	0	0	0	0	0	0
Total	16	14.81	16	14.81	16	14.81

Source: Own survey (2016)

During data collection, it was observed that, the manufacturing sub-sector had high amount of sales (ETB 120,783) because the inputs used usually have high cost compared with other sub-sector. While the smallest sale (ETB 1,502), is recorded in the service sub-sector. Similar results were also recorded regarding expenditure. The highest expenditure (ETB 80,352) was recorded by the manufacturing sub-sector and the lowest expenditure (ETB 275) was recorded from service sub-sector. On average the highest profit (ETB 69,120) was recorded in the manufacturing sub-sector and the minimum profit (ETB1320) was also recorded from service sub-sector. These findings support the information obtained from officials and managers of selected enterprises. They mentioned that highest sales, expenditures, and profits were recorded in the manufacturing sub-sector because of many reasons. The Manufacturing sub-sector needs highest capital to run. Besides, the inputs used to manufacture, which is a production cost, needs high amounts of cash. Huge amount of labor force together with the support of the government for the promotion of the sub-sector makes high amount of sales, expenditure, and profit.

In terms of sub-sector record, from the above figures we can understand that on average, the construction and manufacturing have bigger amount of sales, expenditure and profit compared to the service sub-sector. Besides, those who have scored the highest sales also score the highest expenditure. During interview with officials and selected managers of the enterprises, there is a high amount of labor force and money flow from the construction and manufacturing sub-sectors that justifies the highest sales and expenditure scored compared with the Service sub-sector. The highest profit achieved from the Construction and Manufacturing subsector s, as the managers and officials explained, is because the study area had a well-known market linkage compared to other sub-sector.

4.6.3 Performance in Terms of Employment Opportunity

Employment creation is one of the target areas in which the government and policy makers focus for the establishments of MSEs (Table 4.2). Creating employment for those poor people can improve their living conditions and enhance the local economy in different ways. Helmsing (2003) cited in Tegegne(2011) has explained LED is the central aim of local development in creating or expanding job opportunities available for local people. Amongst the objectives of the government of Ethiopia in its MSEs development policy, creating ample job opportunities for those who are unemployed work force in different parts of the country is one. Several studies also show that there

are a number of job creation opportunities in Addis Ababa through MSEs so that the operator's life condition would be improved through time, though different supporting mechanisms are needed. In this case, the role of MSEs in creating employment opportunity to selected respondents' member of the enterprise and additional workers are discussed below.

Table 4.12: Role of MSEs on Self Employment of the Managers

Out of the total 108 Managers	Frequency	Percent
Managers who had permanent employment before MSEs	32	29.63%
Managers who have permanent employment after MSEs	76	70.37%
Gross increase after operation	76	70.37%
Amount of increase attribute to MSEs operation	76	70.37%

Source: Own survey, 2016

Only 29.63% of the respondents had permanent employment before they joined the MSEs, and the rest 70.37% had no permanent employment. After joining the MSEs 100% of the respondents reported to be permanently employed. This shows that 70.37% of the respondents who were not permanently employed before they joined MSEs had got permanent employment after they started to participate in MSEs.

In terms of enterprises, representatives were asked about the conditions of employment opportunities in their enterprises. Most of the enterprises responded that their employment creation potential is improving through time, though the pace is not as expected. In the 108 study enterprises, 537 employment opportunities have been created permanently for those who are members of the enterprises in the study period. Majority of jobs were created for men group and women still lag behind. Among 537 job opportunities for enterprises, 67.04% of jobs are occupied by men and the rest 32.96% is by women entrepreneurs. The employment opportunities created in terms of sub-sectors and sex is shown in Table 4.13.

Table 4.13: Employment in Terms of Sub-sector and Sex

Enterprise Type	Members						Additional Employment					
	Male		Female		Total		Male		Female		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Construction	151	28.12	63	11.73	214	39.85	105	25.06	35	8.35	140	33.41
Manufacturing	157	29.24	68	12.66	225	41.90	171	40.81	90	21.48	261	62.29
Service	52	9.68	46	8.57	98	18.25	7	1.67	11	2.63	18	4.30
Total	360	67.04	177	32.96	537	100.00	283	67.54	136	32.46	419	100.00

Source: Own survey (2016)

Analyzing the result of Table 4.13 above shows that in terms of enterprises, most of the jobs are created by construction and manufacturing sub-sector which constitutes 81.75% from the total permanent jobs. While the remaining 18.25% permanent jobs, were created by service sub-sector. In general the construction provides permanent employment to 214 people (151 Male, 63 female), while the manufacturing sub-sector provides permanent employment to 225 people (157 Male, 68 female) and the service sub-sector provides permanent employment to 98 people (52 Male, 46 female). The study reveals that from the total additional non-permanent employment created for local community who are not members, the manufacturing enterprises constitute a lion share (62.29%) of employment creation. Manufacturing follows by (33.41%) while service subsector constitutes 4.30%. Concerning both permanent and non-permanent jobs created by the sub-sectors male dominate in having employment opportunity. From the total permanent jobs created for members, men constitute 67.04% and women constitute 32.96%. As to the temporary employment creation, men constitute 67.54% and women constitute 32.46%.

4.7 Contribution of MSEs for Economic Improvement of the Managers

4.7.1 The Role of MSEs for Enhancing Income Generation

The survey result reveals that the income condition of MSEs managers shows an increment compared to their previous income. Thus, about 60.19% responded that their income condition has increased compared to the same time one year ago (Figure 4.5). While only 18.52% responded that their income has decreased, the remaining 21.30% said that there is no change in income of the household in comparison to last year.

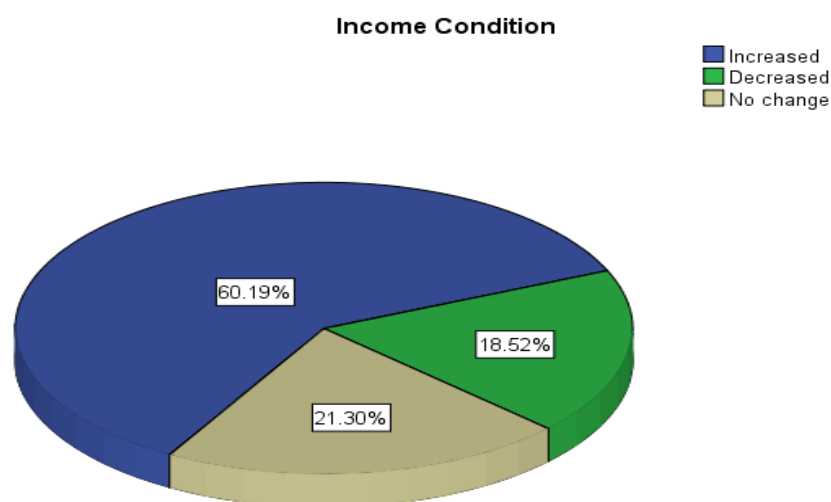


Figure 4.5: Income Conditions of Managers

Source: Own survey (2016)

Attempts were made to investigate the level of importance of the use of the income from MSEs activities or establishments. Accordingly, the survey result reveals that most MSEs managers use their income from the business for household consumption (18.52%). About 17.59% managers use their income for both household consumption and business expansion. And 14.81% of the total respondents use their income for business expansion (Figure 4.6).

Berner (2003), states that one of the first things that the poor do with new income from micro enterprises is to invest it in their children’s education, about 6.48% of the MSEs managers utilize income from their enterprises for health and education and about 8% utilize it for ceremonial activities. In total about 45.38% of the managers include health and education as their major income expense. Therefore, food and nonfood consumption (like education and purchase of household assets) become an important area of expenditure of MSEs managers and it leads the development of the local economy by enhancing local market linkage.

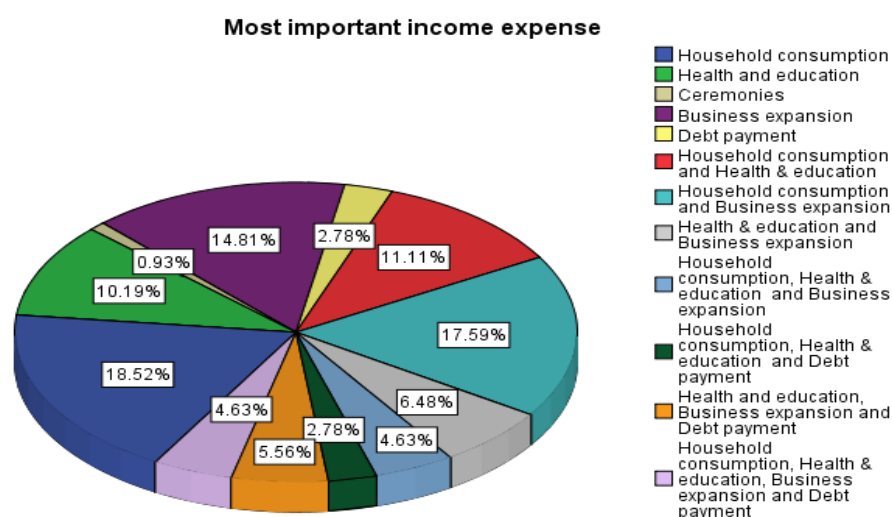


Figure 4.6 Utilization of Income from the Business

Source: Own survey (2016)

4.7.2 Impact of MSEs on Household Asset Holding

Micro and small enterprises can contribute a number of benefits for those who are working in the sub-sector in many different ways. Among the benefits that the sub-sector provides to the managers, enhancing the household expenditure through time is the major one. Possession of durable household assets such as a shelf, bed, sofa, chair, refrigerator, television, and the likes are regarded as one of the most important indicators of improvement of the household welfare. These variables indicate the utilization of income, and savings to purchase durable assets. The following Table 4.5 shows some changes on the household asset holding expenditure.

Table 4.14: MSE Asset Condition Before and After

Enterprise Type	<2 Assests				2 - 5 Assets				6 - 10 Assets				>10 Assets			
	Before		After		Before		After		Before		After		Before		After	
	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%
Construction	3	2.78	7	6.48	12	11.11	15	13.89	17	15.74	14	12.96	7	6.48	3	2.78
Manufacturing	6	5.56	10	9.26	13	12.04	23	21.30	24	22.22	14	12.96	10	9.26	6	5.56
Service	0	0.00	6	5.56	3	2.78	7	6.48	7	6.48	3	2.78	6	5.56	0	0.00

Source: Own survey (2016)

Therefore, as indicated in Table 4.14, most of the managers 65.74% had more than five types of basic durable household assets prior to their engagement in MSEs. While, 37.04% of managers were able to possess more than five types of assets after their engagement in MSEs. However there were only 25.93% of the managers who had 2 to 5 types of assets before their engagement in MSEs but after their engagement in MSEs about 41.67% of managers are able to possess 2 to 5 types of basic durable household assets. And when it is looked at sub-sectors managers' achievement, there were 11.11%, 12.04% and 2.78% Construction, Manufacturing and Service sub-sectors managers respectively, who had 2 to 5 types of household assets prior to their engagement in MSEs. But after their engagement in MSEs the percentage of households who have 2 to 5 types of assets grew to 13.89%, 21.30% and 6.48% respectively. In general, as shown in the study, after the establishment of MSEs, the possession of 2 to 5 types of durable and non-durable household assets shows significant changes. Hence from the above findings, it could be possible to conclude that MSEs enable the managers to make a significant expenditure on both durable and non-durable household assets. Therefore, once again from the above findings, it is possible to conclude that, MSEs sub-sectors play great role in improving the living condition of households and reducing poverty.

4.7.3 The Role of Micro and Small Enterprises in Household Savings

The majority 84.26% of the MSE managers were saving part of their earning and only 15.74% were not capable of saving. Looking at sub-sectors contribution, 31.48% and 4.63% of managers responded Yes and No to saving respectively under construction sub-sectors. Under manufacturing sub-sectors 40.74% responded Yes and 8.33% of managers responded No to saving. While 12.04% and 2.78% of the managers responded Yes and No to saving respectively under Service sub-sectors. Hence, results

indicated working in MSEs helped the managers to save more and saving condition of the managers also improved through time. Among many ingredients, local economic development can be enhanced through saved amounts generated from the local people (Figure 4.7).

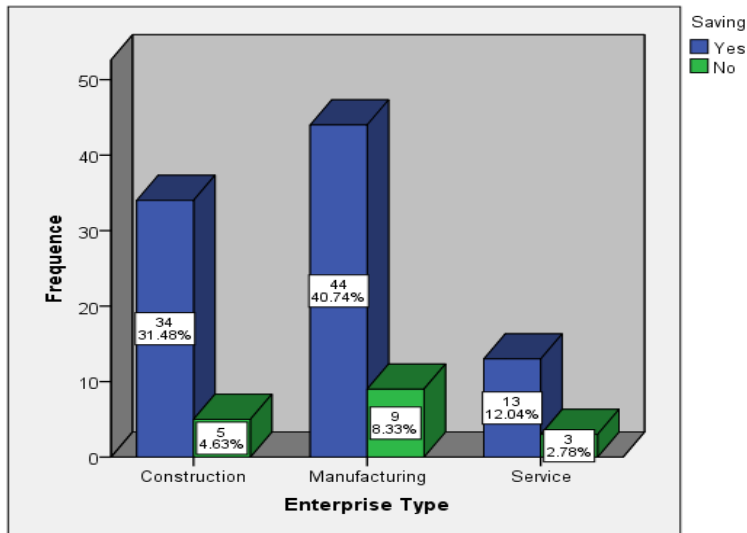


Figure 4.7: Household Saving

Source: Own survey (2016)

Analysis of Figure 4.8 below, shows that the majority (29.63%, 37.04% and 12.96%) of the MSE managers in construction, manufacturing and service sub-sectors respectively respond that their saving amount had increased. While 2.78% and 6.48% managers in construction and manufacturing sub-sectors respectively disagree to the increase in saving amount. However 3.70%, 5.56% and 1.85% managers in construction, manufacturing and service sub-sectors respectively did not response to increase in saving amount. Hence, results indicate working in MSEs helps the managers to save more and saving condition of the managers also improved through time.

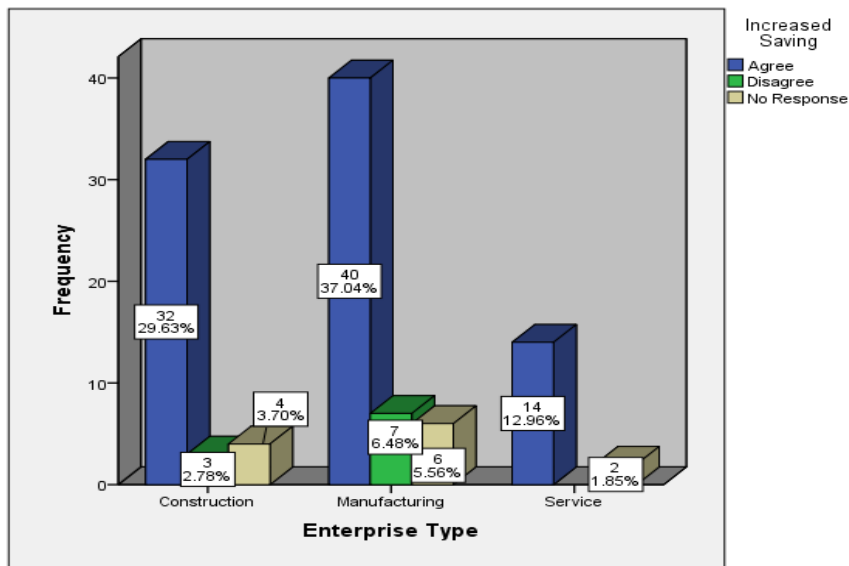


Figure 4.8: Household Saving Condition

Source: Own survey (2016)

Besides, analysis of Table 4.15 below showed that out of the households of 108 respondent, 1.9% (2 household) save only in the microfinance institutions; 15.7% (17 households) uses only Iqub (a traditional rotational group based saving system) to save; and 28.7% (31 households) saves in formal banks only. Moreover, 8.3% (9 households) are reported to save both in microfinance institutions and formal banks; 2.8% (3 households) use Iqub in addition to saving in microfinance institutions; 23.1% (25 households) save in Iqub in addition to saving in formal banks; and 1.9% (2 households) use combination of microfinance institutions, formal banks and in Iqub. While 4.6% (5 households) save in their house. The remaining 13% (13 households) out of 108 respondents do not save at any place. Most managers use Iqub and other traditional saving system so that it is used as a revolving fund to other people in the locality and it helps to contribute to local economic development in the study area.

Table 4.15: Current saving Place and Systems Used by the Respondent

Saving Place	Frequency	Percent	Valid Percent	Cumulative Percent
MFI only	2	1.9	1.9	1.9
Iqub only	17	15.7	15.7	17.6
Formal bank only	31	28.7	28.7	46.3
MFI & formal bank	9	8.3	8.3	54.6
MFI & Iqub	3	2.8	2.8	57.4
Iqub & formal bank	25	23.1	23.1	80.6
MFI, formal bank & Iqub	2	1.9	1.9	82.4
Home only	5	4.6	4.6	87
No Response	14	13	13	100
Total	108	100	100	

Source: Own survey, 2016

4.7.4 Impact of MSEs on Household Food Consumption

MSEs managers were asked about changes that occurred in their food habit. Accordingly, 87.04% (94 managers) responded improvement in their households' diet. However, 12.96% (14 managers) responded no improvement in their households' diet (food consumption). Income and profit stands first for the improvement of food consumption pattern of the household, whereas income from other sources being other factor. Therefore, from the above findings one could conclude that the contribution of income by MSEs contribute to meeting the food needs of the poor (Figure 4.9).

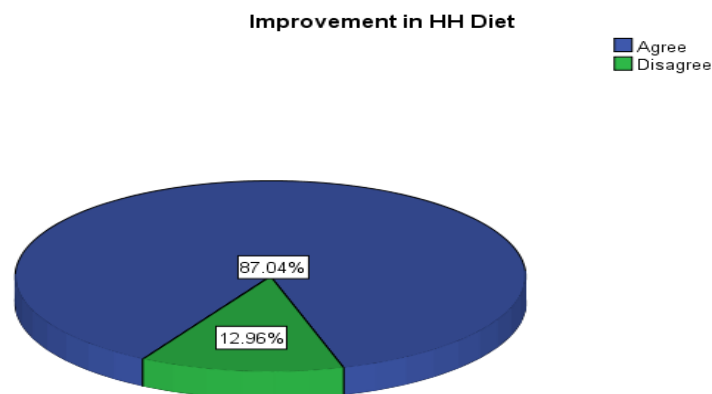


Figure 4.9: Impact on Household Food Consumption

Source: Own survey (2016)

4.7.5 Impact on Education Expenditure of the Households

Recent theoretical models routinely portray human capital investment (e.g. education) as primary engine of economic growth. For an individual, to create choices and opportunities, reduce the burden of poverty, and build empowerment, education is a crucial element in poverty alleviation and economic growth both at household as well as national level. However it is clear that in most developing countries, access to education for school age children coming from poor households is limited as compared to those coming from well to do families. In other words, it is assumed that households with higher income have greater choices and opportunities for access to education. It is true that currently in Ethiopia basic education (primary and secondary education) is free of charge but this does not mean it is without cost for poor families. The family spends money for school uniforms, stationary and teaching materials...etc.

In the survey, an attempt has been made to investigate the impact of the MSEs sub-sector in improving household's access to education. Therefore, as indicated in Figure 4.10 about 86.1% (93 managers) of the MSEs sub-sector managers reported that improvement in household schooling after engagement in MSEs. While about 13.9% (15 managers) responded that they disagree towards improvement in household schooling after engagement in MSEs.

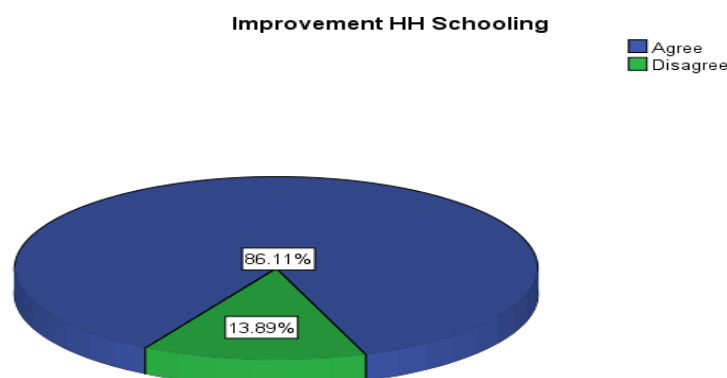


Figure 4.10: Impact on Children Schooling

Source: Own survey (2016)

4.7.6 Impact on Health Condition of the Households

One of the manifestations of poverty is high malnutrition and general lack of care. Better health can also be a complimentary strategy in poverty reduction. Better health improves people's productivity, there by adding significant value to include generalization. People work harder when healthy; avoid expense by health programs are valuable complimentary strategies (Ozcan, 1995). Regarding health condition, respondents were asked about improvement in their household's health condition. As a result, 87% (94 managers) responded that they agree that there is an improvement in their household health condition. While about 13% (14 managers) responded that there is no improvement in their household health condition. Therefore, it is possible to conclude that MSEs have relatively improved the health situations of about 87 % managers and their households' (Figure 4.11).

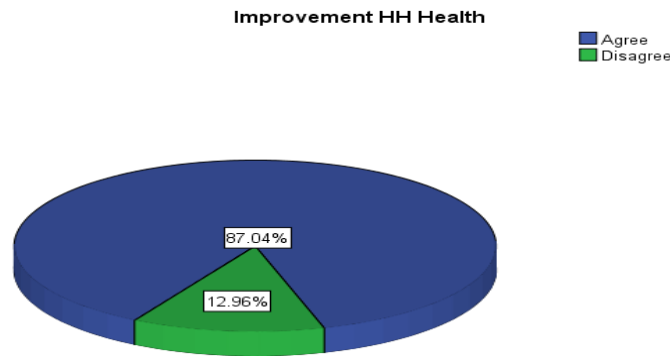


Figure 4.11: Impact on Household Health

Source: Own survey (2016)

4.8 Challenges and Prospects for the Development of MSEs in the Study Area

4.8.1 Challenges Faced by MSEs in the Study Area

Micro and small enterprises have a potential to support the development of the nation in general and local economy in particular. Their contribution has to be known in different parts of the world so that states develop different policies and strategies to strengthen and enhance the role of MSEs in the process of nation buildings. A large number of people especially economically vulnerable actively participate in MSEs and get necessary support from such sub- sectors. Though they have a lot of contribution for the development of local economy, a lot of factors are challenging them. As mentioned by Tsegereda, a number of constraints can be recognized as impeding Micro and small enterprises.

4.8.2 Lack of Working Spaces

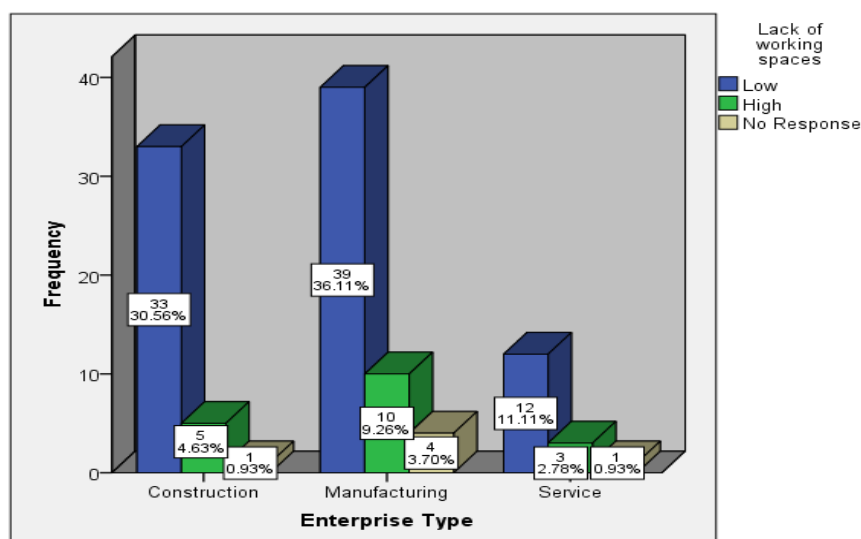


Figure 4.12: Lack of Working Space

Source: Own survey (2016)

Working space is one of the essentials for MSEs growth and development and its lack therefore will challenge the ability of SMEs to contribute effectively to local economic development. Figure 4.12 above shows that among 108 managers most (30.56%) managers in the construction sub-sectors responded that the impact of lack of working space to their enterprise is low. While, most (36.11% and 11.11%) managers in the manufacturing and construction sub-sectors respectively rated the impact of lack of working space low. However, only 0.93%, 3.70% and 0.93% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Hence from the result we can conclude that the impact of lack of working space is low in the operation of the sub-city MSEs.

4.8.3 Lack of Sufficient Capital

The lack of sufficient capital is among the major challenges to SMEs start-ups and expansion, which has a negative consequence on the development of Manufacturing sub-sectors particularly and SMEs in general, thus affecting negatively the local economy. The issue of sufficient capital is important, specifically for enterprises that show a great potential to develop. Sufficient capital facilitates SMEs owners to secure essential skills and raw materials to put entrepreneurial ideas into practice, to be competitive, grow and survive. Therefore, lack of sufficient capital will impede SMEs to add more employees and growth. This will, inevitably, have an unconstructive contribution to the local economy (Tshabalala and Rankhumise, 2010).

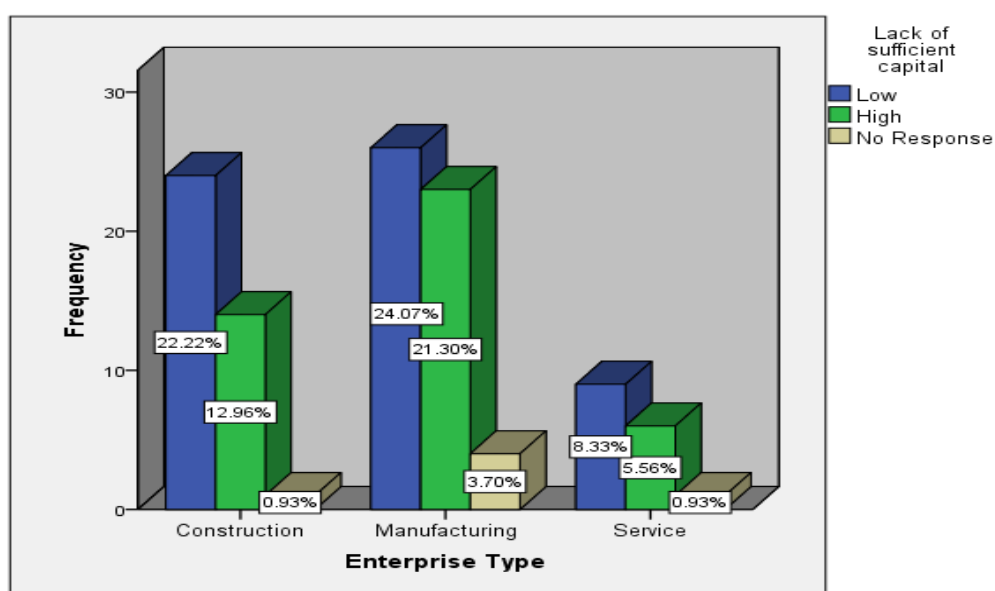


Figure 4.13: Lack of Sufficient Capital

Source: Own survey (2016)

Figure 4.13 above demonstrates the level of impact of the lack of sufficient capital on SMEs development in N/S/L/Sub-city. The figure clearly illustrates that a greater number of the managers in manufacturing sub-sector rated the impact of the lack of sufficient capital high. This group of the managers constitutes 24.07% of the total sample followed by 21.30% managers who rated the impact as low in the same sub-sector. While the majority about 22.22% of the managers in construction sub-sector rated the impact low while 12.96% of managers from the same sub-sector rated high. Only 8.33% and 5.56% of managers in the service sub-sector rated the impact of lake of sufficient capital on their enterprises as low and high respectively. However, only 0.93%, 3.70% and 0.93% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be concluded that though the majority of the managers in the sub-city do not have problems in obtaining sufficient capital, a great figure of manufacturing enterprises are affected by this problem and this impacts negatively on the growth of their businesses.

4.8.4 Limited Access to Market

Access to market is essential for business growth and development and lack therefore will compromise the ability of SMEs to contribute effectively to local economic development. The problem of lack of access to market is usually caused by too many suppliers competing for too few customers and the difficulty of SMEs to adequately innovate and market their products and Services. As a result productive activities of SMEs will have little impact on the economy if their goods and services do not find adequate markets.

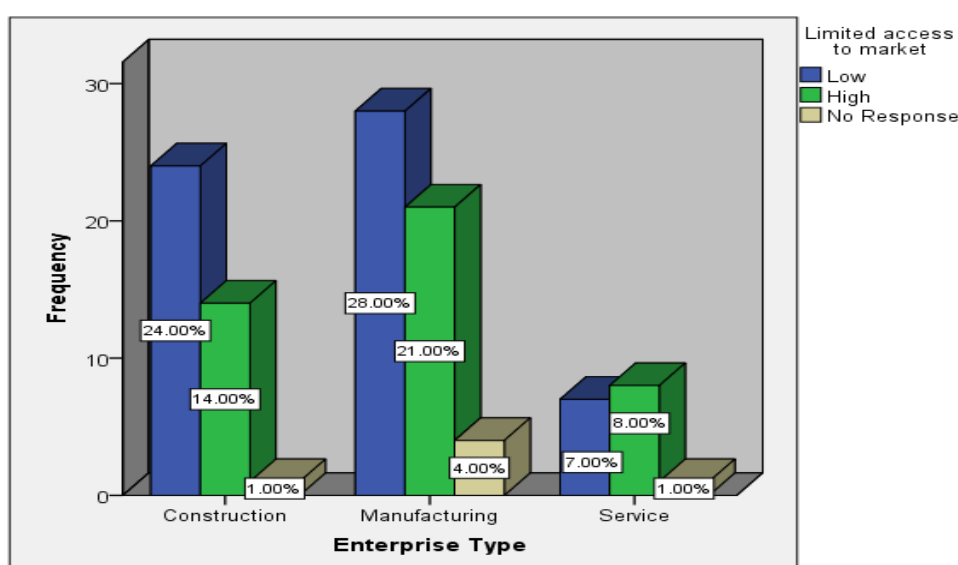


Figure 4.14: Limited Access to Market

Source: Own survey (2016)

Figure 4.14 above demonstrates the level of impact of limited access to market on SMEs growth and development in N/S/L/Sub-city. It is clear from the figure provided above that the majority of the managers' rated limited access to the market low. This group of respondents accounts for 59% of the total sample, followed by those who rated the impact high with 43%. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be deduced that the majority of SMEs managers in the Sub-city do not experience severe impact with regard to access to market. However, respondents indicated that similar products and cheap import that satisfy the same market have a negative impact on their business expansion.

4.8.5 Limited Access to Credit Facilities

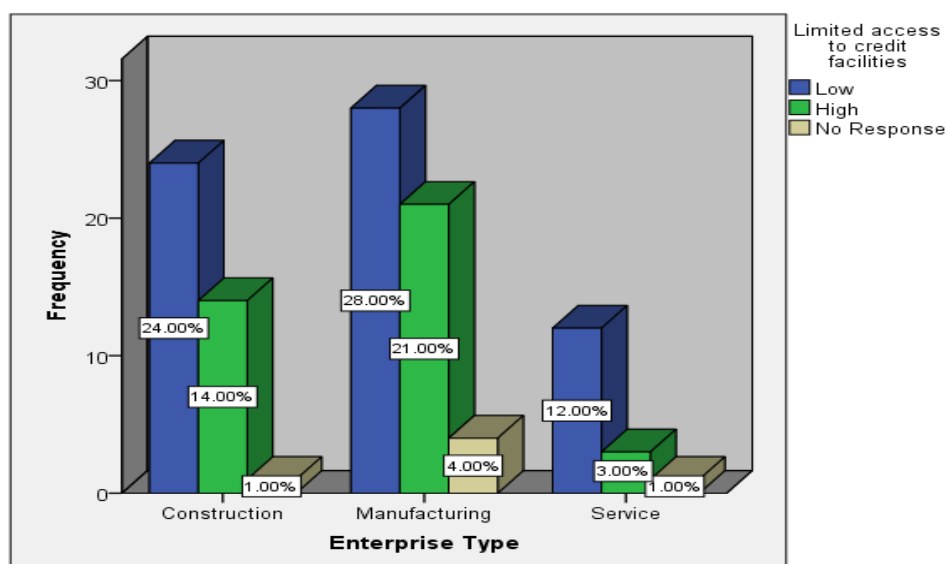


Figure 4.15: Limited Access to Credit Facilities

Source: Own survey (2016)

Figure 4.15 above demonstrates the level of impact of limited access to credit facilities on SMEs growth and development in N/S/L/Sub-city. It is clear from the figure provided above that the majority of the managers' rated limited access to credit facilities low. This group of respondents accounts for 64% of the total sample, followed by those who rated the impact high with 38%. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be deduced that the majority of SMEs managers in the sub-city do not experience severe impact with regard to access to credit facilities.

4.8.6 High price of raw material

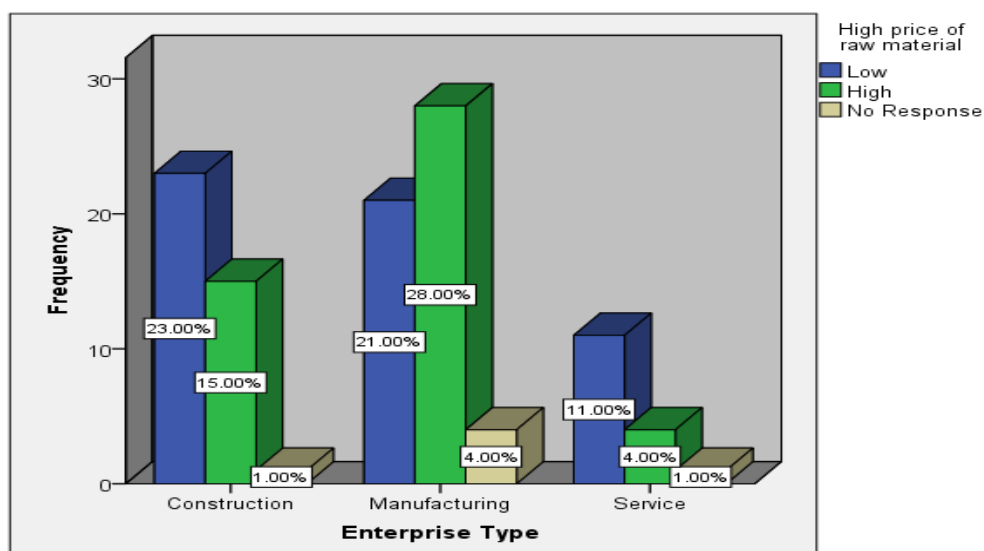


Figure 4.16: High Price of Raw Materials

Source: Own survey (2016)

Figure 4.16 above shows the level of impact of high price of raw materials on SMEs growth and development in N/S/L/Sub- city. The figure clearly reveals that a greater number of the managers in manufacturing sub- sector rated the impact of high price of raw materials high. This group of the managers constitutes 28% of the total sample followed by 21% managers who rated the impact as low in the same sub- sector. While the majority about 23% of the managers in construction sub- sector rated the impact low while 15% of managers from the same sub-sector rated high. Whereas, 11% and 4% of managers in the service sub- sector rated the impact of high price of raw materials on their enterprises as low and high respectively. In general, the total respondents who rated the impact of high price of raw materials low accounts for 55% of the total sample, followed by those who rated the impact high with 47%. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be deduced that the greater number of SMEs managers in the sub- city do not experience severe impact with regard to access to credit facilities.

4.8.7 Lack of Raw Materials

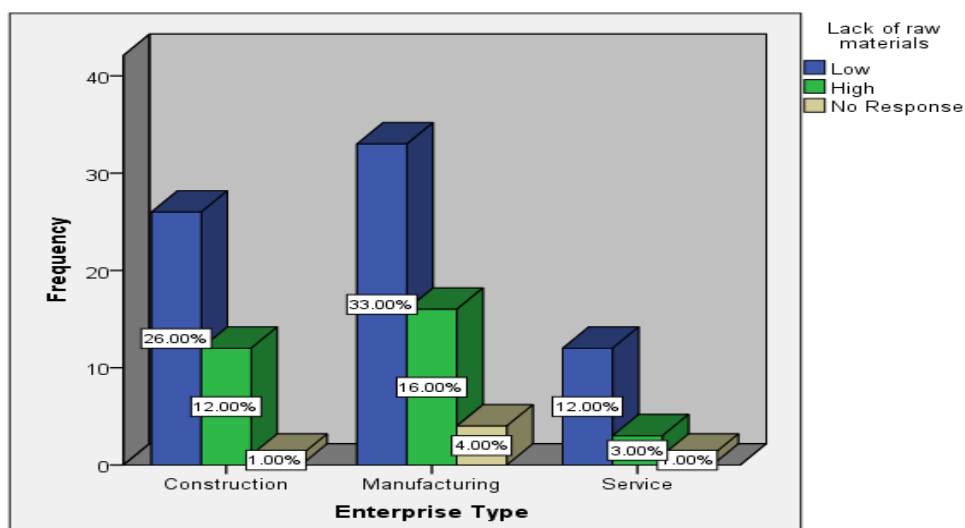


Figure 4.17: Lack of Raw Materials

Source: Own survey (2016)

Figure 4.17 above displays the level of impact of lack of raw materials on SMEs growth and development in N/S/L/Sub- city. It is clear from the figure provided above that the majority of the managers' rated limited access to credit facilities low. This group of respondents accounts for 71% of the total sample, followed by those who rated the impact high with 31%. However, only 1%, 4% and 1% managers in the Construction, Manufacturing and Service sub-sectors respectively do not encounter this problem. Therefore, it can be concluded that the majority of SMEs managers in the Sub- city do not experience severe impact with regard to lack of raw materials.

4.8.8 Heavy Government Tax

Taxes impact on small businesses development and growth in many ways. Small business owners can take too much time and resources sorting out their issues associated with tax and this can impact negatively on their businesses growth.

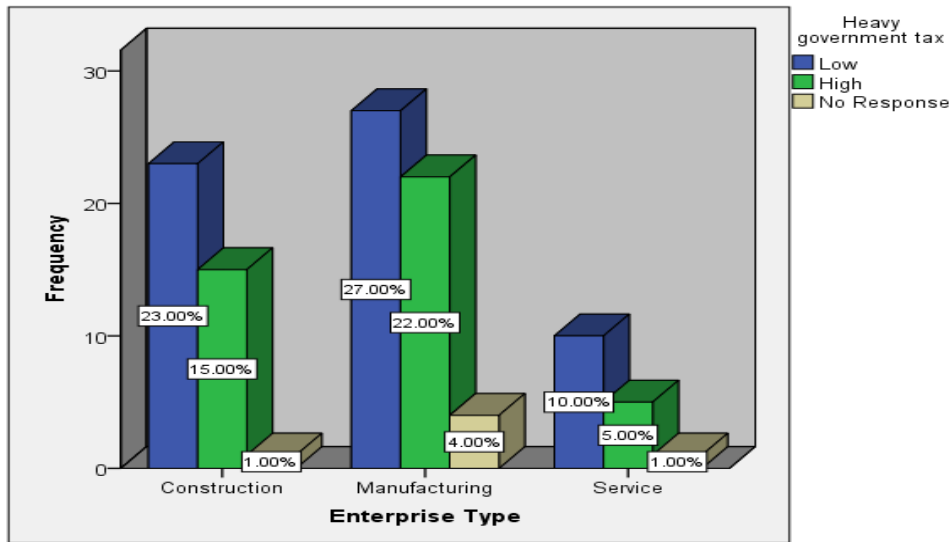


Figure 4.18: Heavy Government Tax

Source: Own survey (2016)

Figure 4.18 above illustrates the extent of impact of taxation on SMEs in N/S/L/Sub-city. Most of the managers rated the impact of taxation on their SMEs low (60%), while those who rated the impact of taxation high are (42%) of the total sample. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be concluded that most of the managers who rated the impact of taxation low are particularly those enterprises which have got government support related to taxation.

4.8.9 Pressure from Government Rules and Regulations

The literature on SMEs indicates that government rules and regulations may also discourage and negatively impact on entrepreneurship development. SMEs face problems with bureaucracy in the processing of permits and licenses, a process which is not transparent. It is also expensive and complicated, with levies that may hinder SMEs growth. The regulatory conditions in which the enterprises operate have a huge impact on the country's competitiveness and capacity to create jobs as well as the wellbeing of SMEs.

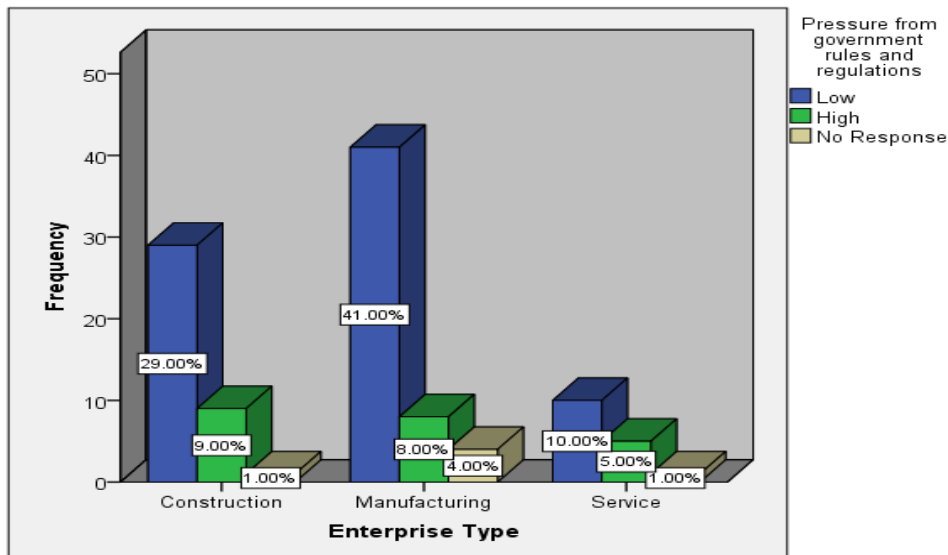


Figure 4.19: Pressure from Government Rules and Regulations

Source: Own survey (2016)

Figure 4.19 above illustrates the level of impact of government rules and regulation on SMEs in N/S/L/Sub- city. It is apparent from the figure provided that the majority of the managers have rated the impact of government regulation on their SMEs low (80%) while 22% of the managers rated the impact high. However, only 1%, 4% and 1% managers in the construction, manufacturing and Service sub-sectors respectively do not encounter this problem. Since the large proportion of SMEs in N/S/L/Sub- city are registered or licensed one can conclude that the impact will be low because they are operating under conducive and favoring government legislative guidelines.

4.8.10 Lack of Technical Skill

Lack of technical skill is one of the frequently cited challenge facing SMEs in the country. If managers do not have requisite skills (productive human capacity) to operate their businesses, firms would not function fruitfully. In addition, there are different factors that affect the inability of SMEs to provide skilled workers. This includes the failure of SMEs to provide equivalent remuneration with employee benefits parallel to larger businesses and labor laws.

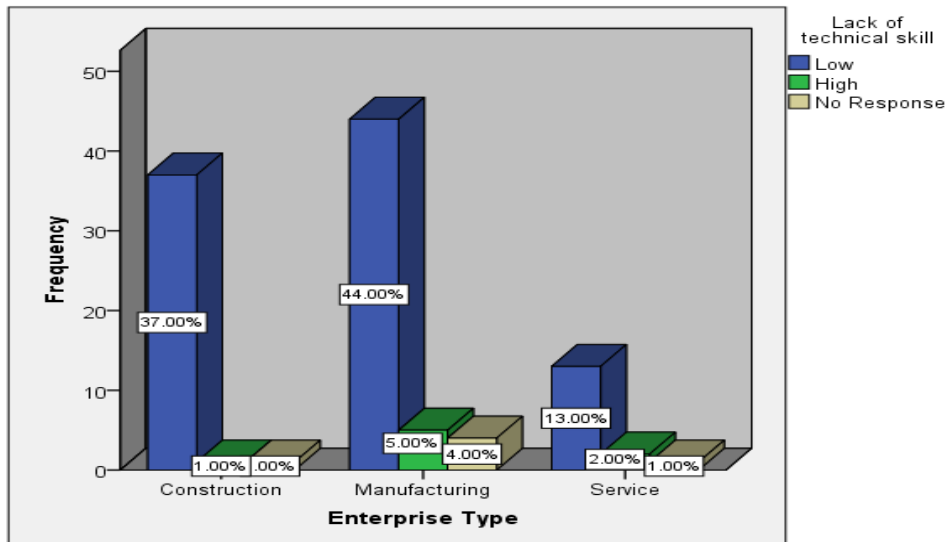


Figure 4.20: Lack of Technical Skill

Source: Own survey (2016)

Figure 4.20 above demonstrates the extent of the impact of this challenge to SMEs in N/S/L/Sub- city. It is apparent from the figure provided that the majority of the managers have rated the impact of government regulation on their SMEs low (94%) while only 8% of the managers rated the impact high. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be inferred that a large proportion of the sample experienced a least serious impact of this challenge with regard to enterprise growth. However, only a small proportion of the managers are faced with the challenge of lack of technical skills and this impact negatively on their business progression.

4.8.11 Lack of Information

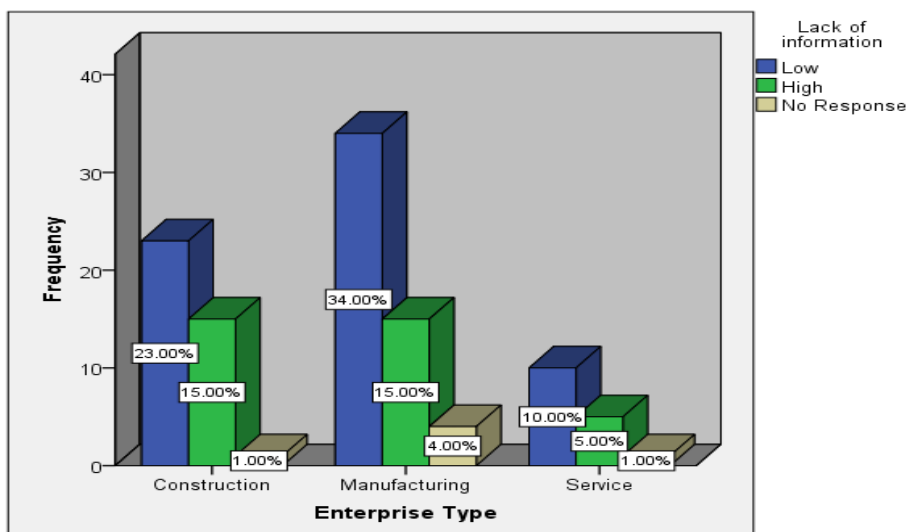


Figure 4.21: Lack of Information

Source: Own survey (2016)

Figure 4.21 above demonstrates the extent of the impact of lack of information on SMEs in N/S/L/Sub- city. It is evident from the figure provided that the majority of the managers have rated the impact of lack of information on their SMEs low (67%) while only 35% of the managers rated the impact high. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be inferred that a greater proportion of the sample experienced a least serious impact of this challenge with regard to enterprise growth. However, only a small proportion of the managers are faced with the challenge of lack of information and this impact negatively on their business progression.

4.8.12 Unfair Competition from Other Enterprises

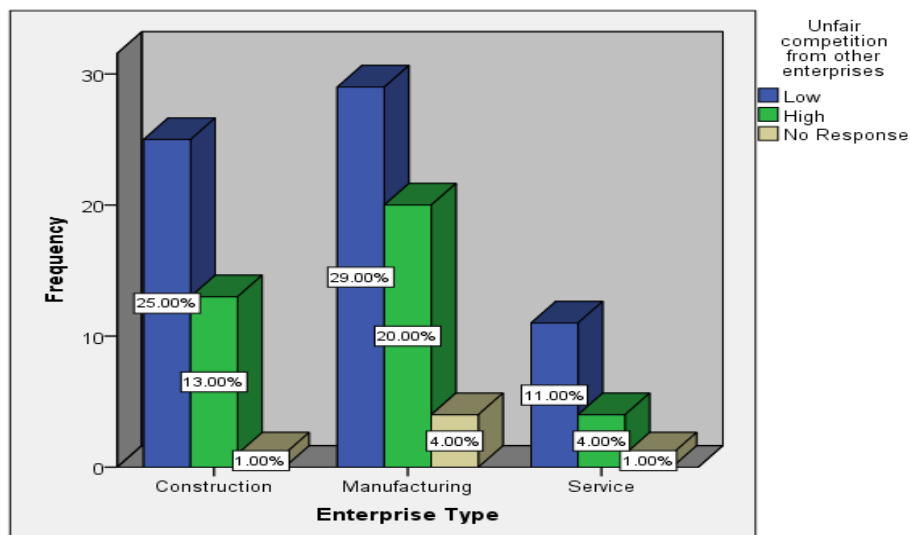


Figure 4.22: Unfair Competition from Other Enterprises

Source: Own survey (2016)

Figure 4.22 above displays the level of impact of unfair competition from other enterprises on SMEs growth and development in N/S/L/Sub- city. It is clear from the figure provided above that the majority of the managers' rated the impact of this challenge low. This group of respondents accounts for 65% of the total sample, followed by those who rated the impact high with 37%. However, only 1%, 4% and 1% managers in the construction, manufacturing and service sub-sectors respectively do not encounter this problem. Therefore, it can be concluded that the majority of SMEs managers in the sub- city do not experience severe impact with regard to unfair competition from other enterprises.

4.9 Prospects for the Development of MSE in the Study Area

The incumbent government gives attention for the growth and development of MSEs through different mechanisms and develops workable strategy for the sub-sector. Among the different mechanisms from the strategy, providing necessary supports for entrepreneurs, facilitating market linkage, provision of working premises and different kinds of business development Services might be considered as some of the working strategic mechanisms. The five-year GTP also gives particular attention to the expansion and strengthening of micro and small-scale enterprises. The sub-sector is believed to be the major sources of employment and income generation for a wider group of the society. The major objective of this program, which is creating and promoting MSEs in urban areas, envisages reducing urban unemployment rate, increasing household income level, and significant contribution to the local economy. According to the Ministry of Works and Urban Development (MoWUD), a total of 176,543 MSEs were established in 2009/10 employing 666,192 people. It shows that micro and small enterprises is given due attention in growth and development plan and it's also considered as one of the opportunities the sub-sector gets from the government. Through time the micro and small enterprises changes into small industrial level and hence government from federal to local administration should attempt to supports the growth of the sub-sector.

According to an interview made with officials from the sub-city, the officials said, the government is providing the necessary support for the growth of MSEs in urban areas. Since unemployment is the major obstacle for the urban societies, as official said, appropriate MSEs strategies has been developed to satisfy the urban dwellers to support local economy through employment creation, income generation and enhancing entrepreneurship. The local governments, especially sub-city, provides working premises for the entrepreneur because having working land was one major essentials for the growth and development of the sub- sector . Providing working premises, as officials said, alleviate the problem of startup capital of the entrepreneurs.

During an interview made with selected enterprise's representatives and managers said that the working environment made them to do more, though a lot of actions are expected from the government and non-governmental organizations. They said that if they get better and continuous support from the government, they will provide their maximum effort for the development of local economy. The managers were asked about their future plan and their responses are summarized as follows.

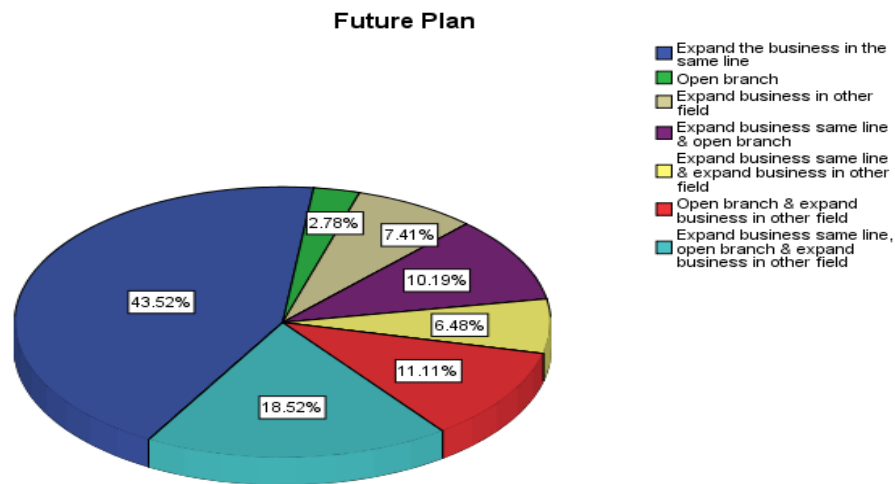


Figure 4.23: Future Plan of Managers

Source: Own survey (2016)

From Figure 4.23, we can assume that most of the managers want to expand their business in the locality so that local economic development can be achieved through such enterprises. 43.52% of the managers want only to expand their business in the same line while 2.78% of the respondents also plan only to open a branch. In general 68.62% of the managers want to their expand business in the same line. While 42.6% of the respondents also plan to open a branch in addition to expanding their business in the same line and in another field. Besides, to contribute to the local economy it is also better to diversify the activities of such enterprises so that employment opportunities and related benefits emerge through time. In this regard, 43.52% of the same respondents in addition to expanding business in the same line and opening branch, they want to expand their business in other fields so that they will contribute to the development of the locality.

4.10 Econometrics Analysis

The paper also undertakes an inferential analysis to investigate the major factors contributed for the success of MSEs. The study employed two models to evaluate the performance of MSEs namely logit model and Heckman selection model. These models are presented as follows

4.10.1 Determinants for the Good Performance of MSEs Using Logit Model

As it has been shown in the descriptive analysis part, the contributions of MSEs to the development of local communities are immense. Identifying factors which contributes for the good performance of MSEs will have a positive impact on the sustainability of those contributions. Hence, the paper used a logit model to identify the major factors

contributing to the good performance of MSEs. Table 4.6 shows the logit regression where the dependent variable is whether their income is improved after they engaged in MSEs or not. Besides that each respondent were asked about the factors which contributes more for the change in their income as independent variables.

Table 4.16: The Logit Model to Determine Factors which Contributes for the Good Performance of MSEs

Dependent variable= Income improvement		MFX	p-VALUE
Independent variables	Access to Working Place (ATWP)	0.323 (0.001)	0.000***
	Assistance with Marketing (AM)	0.434 (0.0001)	0.04**
	Access to Bank Loan(ABL)	0.567 (0.004)	0.002***
	Favorable Rules and Regulations (FRR)	0.123 (0.003)	0.34
	Appropriate Customer(AC)	0.402 (0.007)	0.05**
	Better access to Raw Materials (ARM)	0.567 (0.005)	0.08*
	Technical Training to the Operator (TTO)	0.111 (0.0006)	0.000***
	Constant	0.4567 (0.003)	0.023
Pseudo R2= 0.85			
LR chi2(1) = 1.73 Prob > chi2 = 0.000			

Source: Own computation

Values in bracket is standard of error

*** Significant at 1%, ** significant at 5% and * significant at 10%

As it is depicted in the above table, all variables except FRR, found to be the significant factors for the change in the income of people engaged in MSEs. The variables ATWP, ABL, and TTO are significant at one percent, while AM is significant at five percent and ARM and AC are significant at 10% level. The study revealed that the variable FRR did not contribute for the increase in the income of MSEs. Besides, the individual significant levels, the overall model significant level has checked by likelihood ratio test, in which we can confidently reject with 99% significant level that the null hypothesis which says all independent together are insignificant.

An increase in the access of working place resulted a 0.323 increase in the probability of managers income. Besides this, some post estimations are also conducted such as multicollinearity and hetroscedsticity test. The multicollinearity test showed that there is no serial correlation among our independent variables with a value of 3.3 which is less

than the critical value of 10. Similarly the null hypothesis that there is heteroscedasticity is rejected with a p value of 0.023.

Interpretation of coefficients is also done for the significant variables. For the first variable, ATWP, a company which had its own working place had a probability of 0.323 improvement in income greater than a company which did not have. Similarly, for the second variable a company which had gotten assistance with marketing had a probability of 0.434 improvements in income greater than a company which did not get marketing assistance.

4.10.2 Factors Contributing for the Low Performance of MSEs Using Heckman Selection Model

Even though the paper found that MSEs are contributing a lot to the LED of N/L/Sub-city in particular and of the country in general, there are some factors which hinder the development of MSEs. Hence, identifying some of the factors which hinder the development efficiency of MSEs is important to know. To identify those factors, the study used the Heckman selection model. First respondents were asked whether they have challenges or not, which was a dummy variable, and for those respondents who say that they had challenges, they were asked the major factors which hinder their business performance. Table 4.17 presents, the estimation result.

Table 4.17: Factors Contributing for the Low Performance of MSEs Using Heckman Selection Model

Independent variables	Coefficient	p-VALUE
Lack of working space	-0.54 (0.001)	0.89
Lack of sufficient capital	-4.34 (0.001)	0.001***
Lack of access to market	-0.85 (0.001)	0.003***
Limited access to credit facilities	2.56 (0.001)	0.443
High price of raw material	-2.56 (0.001)	0.000***
Lack of raw materials	-2.56 (0.001)	0.34
Heavy government tax	-2.56 (0.001)	0.002***
Pressure from government rules & regulations	Dropped	
Lack of technical skill	-2.56 (0.001)	0.040**
Lack of information	Dropped	
Unfair competition from other enterprises	-2.56 (0.001)	0.85
Constant	-0.4567 (0.001)	0.023
Wald chi2(4) = 38.52		
Prob > chi2 = 0.0000		

Source: Own computation

Values in bracket is standard of error

*** Significant at 1%, ** significant at 5% and * significant at 10%

As it can be seen from the above table, lack of sufficient capital, lack of access to market, high price of raw materials, heavy government tax and lack of technical skills are found to be the significant variables. The overall model significant level also shows that all independent variables together affect the dependent variable. Besides, the post estimation tests of multicollinearity and heteroscedasticity shows that there are problem on our data set. The interpretations of coefficients are explained below: an enterprise which has not sufficient capital will have a decrease in income by 4.34 than an enterprise which has sufficient capital. Similarly, an enterprise which has no access to market will have a decrease in income by 0.85 than an enterprise which has access to market. The rest variables can also be interpreted likewise as all variables have similar characteristics.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Although the emergence of Micro and Small Enterprises (MSEs) is viewed differently, the sub-sector has been playing a significant role in promoting local economic development through creation of employment opportunities and utilization of local resources. Quite recently, the economies of most industrialized countries have shown various signs of stagnation and structural decline, MSEs are being recognized as generators of new growth, primary sources of technological changes, job creation, and one of the major factors in maintaining socioeconomic stability. In Ethiopia, too, considering the extent of poverty and unemployment as well as realizing the potentials that micro and small enterprises have in local economic development, the government and other policy implementers have given due attention to the sub-sector very recently.

In line with this the present study revealed that access to working place, access to bank loan, technical training to the operator, assistance with marketing, access to raw materials and appropriate customer and were found to be the major components which contributed for the improvement of MSEs performance. While the variable favorable rules and regulations found to be not contributing for the increase in the income of MSEs. The study also disclosed that MSEs form a vital element of the local economic development process, and their contributions in terms of employment, income and poverty alleviation is commonly acknowledged. Through these benefits, the local economy of the study area is highly likely to develop as time goes. MSEs in N/S/L/Sub-city also witnessed potential development for the local economy. A critical component to achieve these enterprises mission, which is also a broader development objective of the society, is their ability to reach the poorest and most disadvantaged section of society, so that the local economy is most likely to happen through such enterprises. The proportion of respondents who were poor by the time of program entry was substantial, but higher level of involvement of the poor and poorest section of the society in the program makes their life encouraging. This is evident as the proportion of respondent with income above poverty line, most of them even above moderate poverty, is quite significant.

Micro and small enterprises have increased the income of households of the managers. Increasing in income has a lot of implications for the household and the local economy. Increasing income implies at least maintaining the welfare status of the managers. The employment opportunities created following micro and small enterprise utilization of managers is encouraging and it practiced through enterprise forms. Such practice enhances the development of local economy through organized forms. But the enterprises face a number of challenges in the process of local economic development though their impact is low in the Sub- city. Limited productivity resulted from lack of technical and entrepreneurial skills; lack of affordable access to raw materials and inputs; lack of sufficient capital; lack of market and appropriate assistance for micro and small enterprise makes the enterprises not performing in their full capacity.

Micro and small enterprises have improved savings of the respondents' through increasing the operator's income. This improvement is not only in terms of amount of saving but also in terms of bringing some managers who did not have savings before MSEs. Most of the respondents choice to save in formal banks and iqub than saving in the microfinance institutions. It shows other saving forms and institutions have merit in some respects than saving in microfinance institutions only. Because other forms of saving are accessible and easy to entry than micro finances. Such saving habit have most likely to contribute to the development of the local economy. If MSEs have to be self-sustainable, they have to mobilize enough amount of capital through savings that can be borrowed by other communities. After joining MSEs programs, expenditure of the respondents have increased in food, health, education, and housing furniture. Such improvements show the improvement of operator's income and contribution for the development of local economy in different aspects.

The study shows that the enterprises sales capacity and expenditure is somehow increasing, and also their profit earning is going up during the study period. When we are looking the enterprises performance in terms of sub-sectors, the construction and manufacturing sub-sectors scores the highest profit, sales and expenditure compared to Service. The other way of analyzing MSEs performance is, in terms employment opportunity creation to the local community. In the study area 537 employment opportunities has been created to founding members of the enterprise and all permanent and 419 temporary employment opportunities are created to non-founding members. Conversely, the number of female employees is still lagging behind. Therefore, government policy makers should give due attention to women entrepreneurs and

special support and emphasis for those disadvantaged part of the community. Generally speaking the construction and manufacturing sub-sectors are performing well for various reasons and contributing to local economic development compared to other sub-sectors. The other manifestation of local economic development is through reducing the level of poverty and providing income generating opportunities. In the study area, MSEs fulfill a critical function from an economic and social perspective in that they create income earning opportunities for a large number of low income individuals.

5.2 Recommendation

- ✚ This study revealed that access to working place, access to bank loan, technical training to the operator, assistance with marketing, access to raw materials and appropriate customer and are the major components which contributed for the improvement of MSEs performance. Hence the government and other concerned bodies should give strong support to MSEs in these areas.
- ✚ In the process of local economic development, MSEs face a number of challenges though their impact is low in the Sub- city. Factors like, lack of technical and entrepreneurial skills, lack of affordable access to raw materials and inputs, lack of sufficient capital, lack of market and appropriate assistance are among the major challenges. Therefore, big emphasis should be given to these problems by the government offices to enhance the performance of MSEs thereby increasing their contribution to LED.
- ✚ One way of assisting MSEs is in terms of providing training that helps them boost their production, help increase the quality of the final product and boost their performance. However, in the study area, selected managers responded that some trainings are not related to their operating field. Also, even if some other trainings provided to the managers are important, the trainings are not sufficient. Therefore, government or non-government and other concerned bodies should give the right training at the right time and place as per the need of the enterprises for the development of the enterprise in particular and local economic development in general.
- ✚ The development of MSEs in the study area needs various improvements in general and the working areas of the managers in particular. The working areas are located far from administration offices and market. Governmental and non- governmental

organizations should facilitate sustainable market linkage between the producer and potential customers.

- ✚ The officers entitled to support the managers also fail to reach them due to lack of transportation or necessary allowance or any motivational mechanism to provide them with the necessary advices. Due to these factors, officers are not able to follow up how the managers are doing their job in terms of the training provided to the entrepreneurs. Responsible bodies should act to tackle such problems by providing transportation or motivational mechanism for the officers who provide necessary advice and follow up.

- ✚ One of the findings in this research is a very limited participation of women in the MSEs sub-sector in the study area. Though different affirmative actions are applied to motivate women to participate in MSEs, due consideration should be given to increase their participation. Though enough is stated at the policy level to encourage women to participate in the MSEs, aggressive awareness raising mechanism, provision of special credit window and women focused special training is mandatory to increase their number. This will create a better conducive environment for women to play a major role in local economy development.

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Appendices
Appendix A: Questionnaire used in the research
Research Questionnaire
Saint Mary's University
School of Graduate Studies

Dear respondent, my name is Ermias Tadesse and I am doing a research as part of the MA program in Saint Marry University. The topic of my research is “The role of Small and Micro enterprises on Local Economic Development in Nifas Silk Lafto Sub- city”. Therefore, your honest and genuine response to the items in this questionnaire helps to meet the objective of this study. The information you provide will be used for academic purpose only and it will be kept confidential. Hence, I would like to thank you in advance for giving me your valuable time.

To be filled by the MSEs Owners/Managers

General Instruction

- Don't write your name;
- Put a tick () mark against your choice for items with alternative;
- For multiple choice items, you can use more than one answer, if you believe two or more alternatives are important;
- Write your answer briefly for open ended questions.

Part 1. Identification

1. Woreda: _____
2. Organization name: _____
3. Business/Enterprise type : _____
4. Working site: _____

Part 2. Demographic profile of the Operator

1. Gender: Male Female
2. Age category: 16 to 29 years 30 to 39 years 40 to 59 years above 59
3. Marital Status: Married Divorced Widowed Single
4. Are you a family leader? Yes No
5. What is your educational status? Illiterate Up to primary primary
 Secondary Tertiary
6. Family size: less than 2 2-5 members More than 5
7. Ownerships of the enterprise
 Sole proprietorship Partnership Cooperatives

8. Have you received any vocational/technical training in relation to your business?

- Yes No

9. If your answer is “yes” for the above question, in what type of profession?

- Woodwork Electricity Metal work Auto mechanical work
 Food processing Masonry Marketing Tailoring
 If other specify _____

10. Does/Do the training/s you obtained above improved your knowledge?

- Agree Disagree

Part 3: Information on employment, income and saving

1. What were you doing before you engage in the current job?

- Unemployed Student Private employee Government employee
 Other (specify) _____

2. Were you permanently employed before you started to work in this enterprise?

- Yes No

3. How many employees do the enterprise have? _____

A. Permanent: Male _____ Female _____

B. Temporary: Male _____ Female _____

C. Family member: Male _____ Female _____

D. Unpaid worker: Male _____ Female _____

4. What is your most important income expense?

- Household consumption Health and education Ceremonies
 Business expansion Debt payment Other (specify) _____

5. How is your income condition after you start the business?

- Increased Decreased No change

6. Do you save form what you earn per day/week/month?

- Yes No

7. Does your saving increased after your engagement in this business?

- Agree Disagree

8. Where does your household save?

- MFI only Iqub only Formal bank only MFI and formal bank
 MFI and Iqub Iqub and formal bank MFI and other people
 MFI, formal bank and Iqub MFI, formal bank and home MFI, Iqub and home
 Home only Others (specify) _____

9. Do you have other source of income?

- Yes No

Part 4. Information on improvement of living standard and expenditure of HH

1. Do you have the following assets before or after you own this business?, Please, put (✓) mark on the proper column you think is correct

Type of Assets	Before the business	After the business
Bed		
Sofa		
Table		
Chairs		
Shelf		
Refrigerator		
Television		
Tape Recorder		
Radio		
Jewelery		
House		
Working tools		
Others/specify		

2. Is there an improvement in your and your family diet after an increase in your income because of this business?

- Agree Disagree

3. Are you able to send your families/ or relatives to school after an increase in your income because of this business?

- Agree Disagree

4. Does your and your family health status improve after an increase in your income because of this business?

- Agree Disagree

5. Do you believe that the income that you get from this job allow you to finance all costs of the house hold?

- Yes, most of the time Sometimes Rarely No

Part 5. Information on Capital. For the Multiple Choice Items Below, please Put a tick (✓) mark against your choice for items with alternatives in the correct box.

1. How much was the initial capital of your enterprise? _____ETB

2. How much is your current Capital? _____ETB

3. What was the major source of your initial capital?

- Own saving Loan from MFI Loan from Bank
 Loan from MFI & own saving Loan from friends
 Others/ specify_____

Part 6. Sales, income and expenditure

1. How much was your average monthly sales for the past six months (In ETB)? _____
2. How was the trend of your sales during the past six months?
 Increasing No change Decreasing
3. If your sales are increasing, what are the reasons? (You may choose more than one answer).
 Access to working place Assistance with marketing Access to bank loan
 Favorable rules and regulations Appropriate customer Better access to raw materials
 Technical training to the operator Other/specify _____
4. How is the trend of your income during the past twelve month?
 Increasing No change Decreasing
5. If your income is increasing, what are the reasons? (You may choose more than one answer).
 Access to adequate working place Assistance with marketing Access to bank loans
 Favorable rules and regulations Appropriate customer
 Better access to raw materials Technical training to the operator
 Other/specify _____
6. How much is your monthly average expense for the last 6 months? _____
7. How was the trend of your expense during the last six months?
 Increasing No change Decreasing

Part 7. Challenges facing small and micro enterprises

1. Do you face challenges?
 Yes No
2. If you face challenges, what is the impact of the types of challenges indicated below on your business in the scale provided? Low or High? Check with an (✓) mark depending upon your relative answer in the table provided below.

Types of challenges	Impact	
	Low	High
Lack of working spaces		
Lack of sufficient capital		
Limited access to market		
Limited access to credit facilities		
High price of raw material		
Lack of raw materials		

Heavy government tax		
Pressure from government rules and regulations		
Lack of technical skill		
Lack of information		
Unfair competition from other enterprises		
Other/specify.....		

Part 8. Information on Inputs

1. Do you frequently face shortage of raw material?
 - Yes No
2. What type of raw materials do you use for the production process?
 - Local produced material Imported materials Both
 - Others (specify) _____
3. Who is your primary inputs source?
 - Large producers Wholesalers and large retailers
 - Smaller and the same size retailer Government project
 - Other(specify) _____
4. Who are your primary customers?
 - Private users Wholesalers/ large retailer Smaller and the same size retailer
 - Large producers Smaller and the same size producers Government projects
5. Where is your products' market destination?
 - local market External market inside the country
 - External market outside the country
6. Do you have market linkage with external firms who engage in the same/ related business?
 - Yes No
7. If yes, what type of market linkage do you have with external firms?
 - Sub-contracting Out-sourcing Other (specify if any) _____
8. In periods when your revenues are higher, do you invest more in this business?
 - Yes, most of the times Sometimes Rarely No
9. What is your future plan?
 - To expand the business in the same line To open a branch in other location
 - To expand the business in other field Other (specify) _____

THANK YOU FOR YOUR CO-OPERATION

Appendix – B: Key informant interview guide used for Government officials and enterprise representatives

**Saint Marry University
School of Graduate Studies**

Key informant interview guide used for Government officials

Thank you for your cooperation to the interview

Date of interview _____

Name of the Organization _____

Name of interviewee _____

Position in the institution _____

Time of interview: Started at _____

Ended at _____

1. What services and assistance do you provide for the MSEs sub- sector managers?
2. Do your office use selection criteria and screening mechanisms? If yes, what kind?
(*Check against: Age, Sex, Type of Business, Business Location, Permanent Residence, Character Assessment, and Letter of Recommendation by other Socio-Political Institutions*)
3. What measures do you take to serve the poorest of the poor?
4. How do you organize MSEs associations? What major challenges did you faced in organizing these associations?
5. From which government bodies do MSEs get support principally?
6. How do you view MSEs activities in your sub-city?
7. How do you monitor the activities of MSEs in your sub-city?
8. What mechanisms does your office use to measure the performance of the enterprises working in the sub-city?
9. Do you use any affirmative action to privilege women managers?
10. How do you compare women managers with men managers in the activities of MSEs?
11. What are the roles of MSEs managers in reducing poverty in sub-city?
12. In your own experience, what major problems did/are you face/facing in your office in the operation of MSEs in the Sub- city?
13. Which of the problems are solved? Explain how?
14. Which of the problems :

15. How do you view MSEs activities towards ensuring sustainability?
16. Would you explain how MSEs managers participate in local economic development?
17. How do you evaluate the participation of MSEs with regard to local economic development?
18. How important would you consider the relevance of MSEs in enhancing the local economy?
19. Who are the major sources of fund for the services your office provide?
20. Do you get any support from other governmental and/or non-governmental institutions? If Yes, What type and how? If No, Why?

Thank you again for your cooperation

Special Note on the Interview:

Appendix: C: Summary table on Socio-demographic characteristics of the respondents

Summary table: Socio-demographic characteristics of the respondents

		Frequency	Percent
Sex	Male	83	76.90%
	Female	25	23.10%
	Total	108	100
Age	Below 16	0	0.00%
	16 - 29	39	36.11%
	30 - 39	51	47.22%
	40 - 59	18	16.67%
	Above 59	0	0.00%
	Total	108	100.00%
Marital Status	Married	61	56.48%
	Divorced	3	2.78%
	Widowed	0	0.00%
	Single	44	40.74%
	Total	108	100.00%
Family Leader	Yes	76	70.40%
	No	32	29.60%
	Total	108	100.00%
Educational Status	Illiterate	0	0.00%
	Up to primary	0	0.00%
	primary	11	10.19%
	Secondary	42	38.89%
	Tertiary	55	50.93%
	Total	108	100.00%
Family Number	Less than 2	21	19.44%
	2 - 5	54	50.00%
	More than 5	33	30.56%
	Total	108	100.00%
Type of the Enterprises	Construction	39	36.12%
	Manufacturing	53	49.08%
	Service	16	14.82%
	Total	108	100.00%
Ownership of the Enterprises	Sole proprietorship	26	24.08
	Partnership	76	70.38
	Cooperatives	6	5.56
	Total	108	100

Appendix – D: List of key informants

Interviewees

Name of Key Informants	Institution and Position
Getahun Fantaye	N/S/L/Sub- cityMSE Development Office, Head of MSE development & Marketing
Mamush Bewketu	Woreda 02, MSE Office, Office Manager
Daniel Dessie	Woreda 05 MSE Office, Job & ProjectCreation Higher Expert
Getachew Asefa	Model MSEs representative Woreda 1
Fikrte Tenaye	Model MSEs representative Woreda 2
Anteneh Abraham	Model MSEs representative Woreda 5
Tesfatsion G/Egizhihabiher	Model MSEs representative Woreda 12