



**CONSTRAINTS AND CHALLENGES OF SMALL-SCALE ENTERPRISES
THE CASE OF GULELE TEXTIL PRODUCT**

PREPARDE by

TIBEBE SOLOMON

ID1361583

Supervised by Dr Elias Berhanu

Master of Arts: Department of Public Administration

INDIRA GANDHI NATIONAL OPEN UNIVERSITY(IGNOU)

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Constraints and Challenges of MSE at Gulele textile products

CERTIFICATE

Certified that the dissertation entitled constraints and challenges of small-scale enterprises the case of gulele textile product submitted by Tibebe Solomon is his own work and has been done under my supervision. It is recommended that this Dissertation be placed before the examiner for evaluation.

Signature of the academic supervisor

Name:

Address:

.....

Study Center:

Regional Center:

Date: October 26, 2015

Abstract

Micro and small enterprise are organizing different packaging for growing to develop/create their own job opportunities that supporting from the MSE institution must be suitable condition for the enterprise that encouraging training, technology, market oriented, credit facilities and display and show rooms to achieving their goals. In spite of their operators to ensure radically changing micro and small scale to medium and industry sector that avoiding their instability. The objective of the study is to identify the challenges and constraints of micro and small enterprises in Gulele sub-city, by investigating the sub city's MSE. The main research instrument was in-depth interview with the owners of MSE and authorities involve in the implementation, respectively. The result of the in-depth interview was triangulated with secondary data sources. They include both internal and external factors. In practice, many of these are interrelated. The study established causes of micro and small businesses failure, among which are: lack of capital, lack of business plans, high taxes, lack of land and premises, and poor market, high rent charges and wrong pricing in the study area. Moreover, the MSE operators revealed that the policy predictability is quite low which implies that a lot remains to be done to crates an enabling policy environment for the MSE sectors. To develop concrete and coordinated regulatory and institutional support (infrastructure facilities like business premises, water and power; financial service; aid in the transfer of technologies; promotion of marketing facilities; and provision of training on sustainable bases) has yet to be provided by the government. Finally change as the whole of the MSE to remove implication of employees, enterprises and the society itself through reducing raw materials and government intervention.

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Abbreviations/Acronyms

1. MSE: micro and small enterprise.
2. MSSE: micro and small scale enterprise.
3. MSMEs: micro, small and medium enterprises.
4. MSBEs: micro and small business enterprises.
5. EFMSEA: Ethiopian federal micro and small enterprises agency.
6. GDP: growth domestic product.
7. MDGS: millennium development goals.
8. ILO: international labor organization.
9. SMEs: small and medium enterprises.
10. SMB: small and medium-size businesses.
11. CAS: the center statistical authority.
12. MSED: micro and small enterprises development.
13. MIP: micro enterprises innovation project.
14. MFIs: microfinance institutions.
15. NGO's: non government organization.
16. VAT: value added tax.
17. SEDP: small enterprise development program

Chapter One

1. Introduction

1.1. Background of the Study

The role of Micro and Small-scale Enterprises in socio-economic development as a means for generating sustainable employment and income is increasingly recognized. In developing countries, the informal sector is a large source of employment and income, particularly for the urban population. The informal employment, outside of agriculture, is defined as employment that comprises of both self-employment, in the informal enterprises, and wage employment, in the informal jobs, without secure contracts, worker benefits, or social protection and represents nearly half or more of the total non-agricultural employment in all regions of the developing world. It ranges from 48% in North Africa to 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa (ILO, 2002.) In Ethiopia, about half of the urban workforce is engaged in the informal sector and Addis Ababa nearly accounts for about 40% of the total operators in micro enterprise activities. In developing countries, the informal sector that mainly constitutes micro enterprises is the major source of employment and income for the urban population. According to ILO (2002) estimations, the share of informal employment (outside agriculture) to the total non-agricultural employment accounts for nearly half or more in all regions of the developing world and about 72% in sub-Saharan Africa (SSA). They are also very important part of the developing world economy. For example, in SSA, the contribution of the informal sector in non-agriculture GDP is about 41%. Hence, their efficiency matters in determining overall economic performance and poverty reduction.

The Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. It is a generally accepted tenet of international development that small scale enterprises (also referred to as SMEs) play an important role in alleviating poverty, especially in Africa. Programs addressing African development have identified private sector development, and in particular small scale enterprise development as a priority area for action.

There have been a number of small scale enterprise development programs over the years. Some have evolved from the relationships established with transnational companies (TNCs) and private sector initiatives, while others have been driven by governments, multilateral and donor agencies. Experience from Kenya, India, Bangladesh showed that small entrepreneurs are prone to default. Sometimes they make willful default; managerial ability is poor, they don't keep accounts and it is therefore difficult to monitor their operation by the financial institutions (Asrat,

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1989). Solving the major financial constraint of this important sub-sector of the economy is an important step towards achieving the national development objective of a country. For this to succeed, the problem of high default risk associated with them, which made the financial institutes reluctant to extend loan, has to be solved. Some argue that, capital, being scarce in developing countries, should essentially be deployed in a way that maximizes the creation of new jobs and production of new goods and services rather than being used to convert a very small number of businesses into modern capital-intensive ones. But, available data on MSE finance is usually limited to access constraints to formal finance and their reliance on informal sources. The terms and conditions of the latter are simply assumed, rather than critically examined, in light of the needs and preferences of MSE operators. The informal sources considered invariably miss an important source, namely trade credit. In fact, none of the studies in Ethiopia that we are aware of deals with trade credit. In Ethiopia, according to the 2002 nationwide survey of the Central Statistics Authority (CSA), there were 974,676 cottage/handicraft manufacturing establishments (of which, 616,696, or 63.3 per cent were in rural areas while 357,979, or 36.7 per cent, were in urban areas) engaging more than 1.3 million people. Of these, about 94.2 per cent were active owners, partners, or family workers; employees constituted only 4.3 percent. The Small Scale Manufacturing Survey (CSA 2003) also shows that there were 31,863 small-scale manufacturing industries (of which, 62.8 per cent were in urban areas) engaging 97,782 persons (91.3 per cent male, and 8.7 per cent female). The role of the MSE sector in employment creation, economic growth and poverty alleviation (as opposed to being viewed as marginal and unproductive, tax evader, and with limited contribution to economic growth) has received the recognition it deserves, as explicitly stated, for example, in (ALIDS) the Poverty Reduction Strategy, the Micro and Small Enterprises Development Strategy, and the Federal Food Security Strategy (see MoFED 2003 and 2002; Ministry of Trade and Industry 1997). Despite this, however, the Ethiopian MSE sector has not been adequately studied empirically. Relevant, sufficiently detailed and timely empirical data should underpin policy making as well as designing appropriate strategy and interventions.

The surveys referred to above (and some general papers), though important, are short in depth and detail on many aspects of MSEs, including on finance and finance related issues. Although finance is not everything, enterprises need finance to invest in new equipment and machinery, reach out to new markets, products, and cope with temporary cash flow shortages as well as to innovate and expand (Fafchamps 1997). Poverty in Ethiopia is widespread and remains a major challenge of sustainable development and stability. It is estimated that close to half of the population in urban and rural areas of the country live in absolute poverty due to lack of economic opportunities, governance crisis inadequate basic household income and poor means of survival (Mammo, 2008; Serneels, 2004). Although, a growing number of researchers have suggested that the prospect of development in the agricultural sector tends to increase along with development in the small and micro enterprises (SMEs) sector, until recently, SMEs have not been a major area of focus in Ethiopia (Alemayehu, 2006) but the existing government has

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issued a national SMEs development strategy for the promotion of SMEs in 1997 and established a well concerned institution for the sector by the Council of Ministers of Ethiopian Regulation No 33/1998 on April 3,1998. The Ethiopian government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment creation and private sector development.

Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. These enterprises also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage earning opportunities for the poor, while raising national income. Due to these reasons and based on the government strategy of capacity building in public and private sectors, donors as well as national governments have attempted to promote micro and small enterprises through support for financial and non-financial services appropriate for them (Solomon, 2007). Recently, with around 50% of the urban men between age 15 and 30 unemployed, Ethiopia has one of the highest unemployment rates worldwide (Serneels, 2004). The policy for SMEs promulgated in 1998 serves as a guideline to all partners to stimulate the establishment of new enterprises enable the existing one to grow and become more competitive. The policy identified number of constraints hampering the development of this sector and unfavorable legal and regulatory frameworks, underdeveloped infrastructure, poor business development service, limited access to finance, ineffective and poorly coordinated institutional support as the key drawbacks (Endalkachew, 2008). Small and micro enterprises (SMEs) have a tremendous potential to generate employment for the majority of the urban labor force. They are also important sources of income not only for those people who could not find employment in other sectors but also provide cushion to falling incomes of low wage earners. Hence, in the study area, MSEs are operating in textile products such as, knitting job, garment, weave, leather, ginning and spinning and other activities. A National survey conducted by Central Statistical Authority (CSA) in 1997 and covering 48 major towns indicates that nearly 750,000 people are engaged in informal sector and small manufacturing businesses. This is a contribution of 3.4% to GDP and 33% of the contribution of the industrial sector and 52% of the manufacturing sector's contribution to the GDP of the year 1992/93. (MSE Strategy, Ministry of Trade and Industry 1997) Micro & Small Enterprises caught the attention of development practitioners and policy makers recently not only because of its importance in terms of generating employment also because of various other attributes. Some of these are:

- Micro and Small Enterprises are breeding ground for entrepreneurs.
- The sector has high employment generating capacity, and is less capital intensive.
- It is highly competitive, flexible, and innovative.

Addis Ababa Micro and Small Enterprise at Gulele Sub- city administration have undertaken MSE Program by organizing the youth into group and solely to reduce unemployment. Currently, there is an information gap in exploring the challenges of MSEs in employment

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creation and regarding to what extent these sectors. Having recognized the importance of the MSE sector to the economy, the Federal Government of Ethiopia has issued an MSE Development Strategy in 1997 followed by the proclamation for the establishment of the Federal Agency for Micro and Small Enterprises Development in 1998. The regional government of Addis Ababa also developed a regional strategy and set up Addis Ababa Micro and Small Enterprise Development Agency in 2000. The overall objective of the MSE strategy of the region is to create an enabling environment for the development and growth of the MSE sector in Addis Ababa. The specific objectives include:

- Facilitate economic growth and equitable development.
- Create long-term jobs.
- Strengthen cooperation between MSEs.
- Provide basis for medium and large scale enterprises.
- Promote export.
- Balance preferential treatment between MSEs and bigger enterprises.

The regional agency is considered the key factor in formulation, coordination and monitoring of national policies related to the MSE sector in the region.

1.2. Statement of the Problem

Micro and Small Enterprise Development have different growing packages especially in textile products such as knitting job, garment, weave loom, leather and ginning and spinning products. The ever increasing unemployment in Ethiopia, the FDRE has undertaken different measures starting promulgation of laws to establishment of executives starting from federal to grass root level to enhance the strength and competence of MSEs and also different micro finance enterprises are providing credit for these enterprises. The factors that forced the government of Ethiopia to undertake this program is a number of joblessness in the country which increases to 1.1 million. In Ethiopia specifically, MSEs have been confronted by many of these problems. According to the CSA Report (1994-2007), the major obstacles experienced by MSEs were lack of access to finance, working premises (at affordable rent), lack of skills and managerial expertise, infrastructure, information and technology. These problems result in failure of these businesses to expand and have the effect of preventing their expansion almost from the beginning of their operations.

It can be gleaned from the above research that the issue of businesses challenging is one of which researchers and policy makers alike should be aware, as the economies of many countries could be seriously affected, if the owners of small and micro businesses are not assisted in reducing these failure rates. The Addis Ababa city administration has undertaken MSEs Program by organizing the youth into group and solely to reduce unemployment. Currently, there is an information gap in exploring the challenges of MSEs in employment creation and regarding to what extent these sectors create jobs at startup and the growth in employment across periods. In as far as lack of knowledge about available financing programs or the process of application

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constrains access for individual micro and small enterprises, the envisaged Micro and Small Enterprises. Accessing finance is too difficult for micro-enterprises and often seen as a major stumbling block for their success. This is due to the high risk element which such enterprises carry with them. This difficulty in accessing finance often puts them at a disadvantage, constraining their options for the carrying out the necessary restructuring, which in this era of globalization, is much needed to withstand external competition.

The problems which are raised or involved at Gulelle textile products are: training, access to market, access to finance, technological progress and production places problem, lack of responsibility and accountability of the staff members of the institution. In addition to that the enterprises are organized with unskilled and less experienced labor, thus the organization depends only on quantity not on quality, experience and ability of individuals. Due to these problems the products didn't develop their capital and transform in to market linkage in large scale industrial products. As results of the clusters which are not well organized, it easily leaves out and hence unemployment rate expands. This expansion rate of unemployment form different illegal informal sectors which makes slum environment (congestion). Studies conducted so far were on Micro enterprises (Mengistu, 1997; Birhanu, 1999; Teferri, 2000) and on manufacturing firms' case (relatively medium and large scale ones) located in Addis Ababa (Mengistu, 1999). However, these studies don't specifically touch the case of small-scale private enterprises. This study therefore tries to narrow the research gap paying attention to this sector of the economy. Studies done on micro enterprises are meant to evaluate the institutional sustainability of the textile scheme. However, this study focused on identifying factors behind operating in textile problems that MSEs are associated with knitting job, garment, weave loom, leather and ginning and spinning products and other activities.

1.3. Objective of the Study

1.3.1. General Objective

The main purpose of the study is to assess critically evaluate the constraints and challenges of MSE in Addis Ababa City :(the case of textile products in cluster development of Gulele Sub-City).

1.3.2. Specific Objectives

In addition to the general objective, the specific objectives of the study include:

- ❖ To identify and analyze the entrepreneurial and enterprise characteristics that constraints the growth of MSE.
 - ❖ To show the role or contribution of the sector through forward/backward linkage in the industry.
-

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- ❖ To draw policy implications for the proper utilization of the financial resource of the country to meet the envisaged development objectives and future cluster development practice in the country.

1.4. Significance of the Study

Ethiopia started to adopt market economic system, the private sector which had been neglected for years has got due attention, because this sector is believed to be the main actor of the market so as to achieve the desired development target. Since micro and Small Scale Enterprises constitute the bulk of the private sector, economic growth can't be attempted without the active involvement, promotion and development of this sector of the economy. Although this sector has been given due attention presently, still there are formidable obstacles that inhibit them from growth and expansion. One of the most crucial and leading factors is limited access to financial capital and credit especially from the formal lending agents.

Other researchers could make use of the research outcome because it will help them to identify the problem area in the general economic condition of the country. It will give them background information on entrepreneurship capacity of MSEs, marketing and production activities of their products, and other social and economic variables influencing the textile status of MSEs.

It is important for policy makers like MSE Development Agencies. The study will also enable micro and small business owners to tackle failure of their business by suggesting some practical measures to be taken by these enterprises in order to solve the number of problems faced, thereby contributing to poverty alleviation, one of the Millennium Development Goals (MDGS).

The research study will attempt to provide the following benefits.

- ✓ The study will be used by the researcher to get enough knowledge in research activities.
- ✓ The study will be used to suggest how to harmonize and team spirit working condition with enterprises.
- ✓ To find possible solution that is deemed to improve micro and small scale enterprise performance.
- ✓ It gives full understanding about micro and small scale enterprises and to all stockholders in the cluster.
- ✓ To identify shirking and asymmetric information in the sector of the economy
- ✓ It provides the possible solution that will help to reduce deemed arising from different view.
- ✓ To Assess over all challenges of small businesses which include political, economic, social, cultural and environmental factors.

1.5. Scope and Limitation of the Study

1.5.1 Scope of the Study

The researcher intended to search for how effective textile products about cluster development and other related topics in the sector. The research restricted to in Addis Ababa at Gulele Sub-City for obtaining the necessary information. The study is focused on small-scale enterprise constraints and challenges of textile products by MSE. The study concentrated on MSE because it is the forefront directional institute engaged on MSE development oriented investment sectors of the enterprises. Although, the study is restricted only to MSE clusters, its finding is expected to somehow reflect common features of others (especially government owned ones) since some of the problems exhibited in MSE is also observed on others.

Furthermore, the study is limited to one specific area again due to time and financial Constraint. Since, the supporting rules and procedures of the enterprises are the same Constraint in all cluster it's obtained and the result of this specific area could reflect the situation of the MSE all over the country under normal circumstance.

1.5.2. Limitation of the Study

The research is being conducted variables such as time, money (finance), and other challenges are found to constraints their process of the study. The study is expected to have limitation due to lack of time by the researcher. The researcher may be burden to distributed questionnaires for enterprises and gathering data also limited for my study. In addition to these I may be limited to availability of data and research design such as: sample size representation, response rate, and accuracy and reliability. The respondents' complain of the bulky and sophisticated nature of the questionnaires vis-a-vis the short period of time given to fill them. As a result of this, some potential respondents adopted nonchalant attitudes towards filling them. Secondly, some operators, especially in the MSE industries owned by Gulele Sub-City, concentrated between the cities and clusters were rightly out hostile. Appeals by the research assistants and in some cases, state coordinators, eventually led to the acceptance of the questionnaires by a few. However, some of the operators still returned the questionnaires uncompleted.

Another problem encountered in the field had to do with the operators' reluctance to cooperate due to (i) suspicion that disclosing information may lead to increased taxation of their corporate profit (ii) Apathy towards government's gesture to assist them. They complained bitterly that many promises were made to them in the past, but none was fulfilled. As in all research efforts of this nature, time was also a major constraint. This is even more glaring in our own case, since we took off after some others had already completed their fieldwork. In addition, the initial problems we encountered continued to linger on for some time before they eventually fizzled out. In view

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of the implication of these problems on any research effort, consistent attempt were made to alleviate their potentially negative impact on the quality of this study.

1.6. Organization of the Paper

The paper is Organized as follows: chapter one: gives us introduction which includes background of the study, statement of the problem, objective of the study, significance of the study, research methodology, scope and limitation of the study in Addis Ababa, and textile of MSE cluster development. Chapter two: deals with a review of theoretical and empirical work done in relation to MSE of clusters. Both theoretical and empirical review on textile will be presented. Chapter three: research discussions and methods. Chapter four: descriptive data analysis and discussion of data presented. Chapter five: Conclusion and recommendation, with policy implications based on the descriptive and discussion of data obtained on the previous sections.

Chapter Two

2. Relative Literature review

2.1. Review of Theoretical Literature

Definition of Micro and Small Enterprises: Small and medium enterprises or small and medium-sized enterprises (SMEs, small and medium-sized businesses, SMBs, and variations of these terms) are companies whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors. The actual by the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises in Ethiopia are as follow:

Microenterprises: are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.

Small Enterprises: are business enterprises with a paid-up capital of more than Birr 20,000 (\$2,500) but not more than Birr 500,000 (\$62,500) but excluding high-tech consultancy firms and other high-tech establishments. (1 US\$ equals about 9 Birr, 1 Euro equals about 10 Birr in 10/2003).

World Bank Group Definitions of Types of Enterprises

Type of enterprise	Number of employees ^a	Extent of total assets ^a	Annual turnover ^a
Microenterprise	1–10	Less than US\$100,000	Less than US\$100,000
Small enterprise	11–50	Between US\$100,000 and US\$3 million	Between US\$100,000 and US\$3 million
Medium enterprise	51–300	Between US\$3 million and US\$15 million	Between US\$3 million and US\$15 million

Source: World Bank Group data.

a. Two of the three characteristics must be met for an enterprise to be classified in a particular category.

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Thus the MSMEs covered in this book are a heterogeneous group, ranging from the lone artisan producing agricultural implements for the village market; to a coffee shop or Internet café; to a small, sophisticated engineering or software firm selling in overseas markets; to an automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets (OECD 2004a). The owners are typically poor at the microenterprise end of this spectrum, though not necessarily so at the upper end. The firms operate in different markets (urban, rural, local, national, regional, and international); embody different levels of skills, capital, and sophistication; and vary in relation to their growth orientation.

The Central Statistical Authority (CSA), for the purposes of its survey on "Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries", attached various definitions to enterprises in different sectors, viz: the informal sector, cottage or handicrafts, small-scale manufacturing industries and medium- and large-scale manufacturing industries. The CSA based its definitions on the size of employment and extent of automation for small-, medium- and large-scale enterprises and used a combination of criteria for defining informal sector operators. However, as indicated in the National MSE Strategy, shortcomings in the drafting of these definitions may have meant that some capital-intensive establishments, which should fall solely under medium- or large-scale enterprises, may possibly have come within the scope of the definition for the MSE sector. Therefore in order to exclude those capital-intensive enterprises, which should not be entitled to the support services established for "real" MSEs, it was advised that a new definition be drafted which takes this into account. Hence, a definition that is based on capital, and which takes into consideration the level of technical and technological capacities, was adopted as part of the MSE National Strategy.

CSA definition of enterprises:

- "Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.
- Small and medium enterprises are establishments that engage less than 10 persons using power driven machinery.
- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labor and mostly manual rather than
- Automated/mechanical machinery."

Micro, small and medium-sized enterprises: Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total.

A medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance-sheet total does not exceed EUR 43 million.

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A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

A microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

The term SME's universally stands for small and medium-sized enterprises but there is no consensus on the definition of SMEs. This is because definitions differ widely in different regions, and depend on the phase of economic development as well as their prevailing social conditions. There are several definitions of the term small and medium enterprises (SMEs), varying from country to country. SMEs are defined for this study by adapting the definition given 2011 by Ethiopian Federal Micro and Small Enterprises agency (FMaSE): Small enterprise is those enterprises hired 6 up to 30 employee or total asset amount birr 100,000 up to 1.5 million birr for industry sector and 50,000 up to 500,000 not greater than for services sector. Medium Enterprise are enterprises found in manufacturing and service sectors of the Ethiopian economy with a total asset more than 1.5 million birr and a total asset of more than Birr 500,000 (Addis Ababa MSE's development agency bureau, 2011 as cited on Addis Ababa Communication office bureau). Hence, according to officer of FMaSE interview, the limit for medium enterprises and definition for large enterprises are not stated so far.

MODES OF OPERATION – CREATIVE CLUSTERS

Creative clusters are defined as a combination of production and distribution activities operating within a common structure, capable of promoting creativity, research applications and distribution systems and sponsored by both private and public financing. They have also been defined as a concentration of competitors working together, or dissimilar workers and institutions that share an economic system.

Although many creative industries operate individually as MSEs, others cooperate in small groups for sourcing raw materials and marketing. Cultural/creative clusters have been identified as an important mode of operation, helping MSEs to obtain higher levels of growth through mutual stimulation, making use of others' knowledge and establishing integrated services and markets.

The economic development of creative clusters depends on the availability of support systems that respond to the needs of the cluster. In the first report on creative-cultural industries in Austria the promotion of creative clusters is proposed and it is observed that the future of those clusters depends on:

- The supply of 'creative products';
- Marketing, together with tourism;
- Regional development; and
- Innovative inspiration and transfer of know-how.

2.1.1. Role and contribution of the sub-sector

The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology. Due to the similarity of their characteristics, informal sector activities and micro enterprises are often lumped together and in this strategy, they are also treated as micro enterprises.

- The Micro and Small Enterprises sector is also described as the national home of entrepreneurship. It provides the ideal environment enabling entrepreneurs to exercise their talents to the full and to attain their goals. In all the successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress at large.
- The small business sector is also seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change, and through all of these stimulate economic development.
- While the importance of large industrial and other enterprises for the growth of the Ethiopian economy cannot be denied, there is an ample evidence that the labor absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation activities is vital for many of the challenges facing our country.

2.1.1.1. Access to Finance

MSEs cite the lack of finance as the greatest constraint to their growth and development, whether they are formally registered or not. The financial needs of different types of micro and small enterprises vary widely, with access problems particularly severe for start-up enterprises. In this regard, the formal financial institutions are reluctant to avail credit facility to the sectors. Their standards of operation, the long waiting time they take to sanction loans, unfavorable disposition towards small loans. Due to high administrative costs involved in financing them and the stiff and limited collateral requirements are some of the problems that are found to be discouraging micro and small enterprises from approaching them. Thus, the portion of informal sector business operators with access to formal financial institutions is very low. The Government of the Federal Democratic Republic of Ethiopia is committed to strengthen the link between micro and small enterprises and existing as well as evolving financial institutions. In line with this,

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there are areas for direct or indirect government involvement in the financial sphere, which includes the following:

2.1.1.1.1. The Formal Banking Sector

The stiff and limited nature of collateral requirements that are currently being requested by the formal financial institutions should be relaxed in order to create more access to small borrowers.

2.1.1.1.2. Micro and Small Enterprises Focused Financing Institutions

Although the formal financial institutions have taken various measures to strengthen their operation and expand their services, they could not address the financial needs of micro and small enterprises satisfactorily. It is thus necessary to design special instruments and mechanisms to meet the financial requests and thereby promote the development of MSEs. For instance, amongst other options, the establishment of leasing industries for creating easy access to secure capital goods might be an alternative solution to solve the financial problem of the sector, particularly for the new startups. In this regard, a micro-financing proclamation has been promulgated, which specifically caters for the financial requirements of MSEs. There are also some ongoing programs that witness encouraging developments in the area of micro financing. These include the Relief Society of Tigray (REST) in Tigray, the Ethiopian Relief Organization (ERO) in Amhara, the Ethiopian Social Rehabilitation and Development Fund (ESRDF) and other NGOs that have already included in their activities the financing of MSEs both in rural and urban areas. Therefore, Government will further encourage and create the enabling ground for the establishment of such MSEs targeted financial institutions. Given its own constraints and with due recognition of the goals and priorities stipulated in this strategy, the government will continue to encourage other donor agencies' efforts to help micro-enterprise funding agencies.

2.1.1.2. Training in Entrepreneurship, Skills and Management

The acquisition of relevant vocational, technical and professional skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important requirements to enable people to advance lower level activities into larger and better earning enterprises. Responsibility for education, training and experience transfer rests on a wide range of institutions, including the federal and regional governments, NGOs and the private sector. This also applies to the sphere of entrepreneurship sensitizing, training in skills relevant to micro and small enterprises in different sectors and industries, and the acquisition of management experience by small-business owners and staff. During the past years, the range of relevant training programs made available to micro

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and small businesses have been very minimal. In fact, a general lack of awareness about the spread of already existing facilities and what they offer to the small enterprises sector or to those interested in a business career constitutes one of the shortcomings of the whole training program. Taking into account the diversity of MSEs and the wide range of training suppliers, the government considers the following as core elements in a national training strategy for micro and small enterprises:-

- Information on available types and possibilities of training has to be disseminated more effectively to reach entrepreneurs all over the country. Such information should also help match particular needs and specific training programs. The Federal Agency and Regional Agencies or the designated organs will play a significant role in this process.
- School curricula and other school related activities should give more scope for the inculcation of entrepreneurial attitude and a general awareness about self employment opportunities.
- All suppliers of training have to reconsider the nature, content and effectiveness of their programs, taking into account the small business environment in the different sectors of the economy and working closely with the textile sector.
- Training programs have to be modular, so that trainees can combine theoretical with practical training. Linked to this is the need for certification of small-business training institutes in order to protect trainees and allow training paths.
- Another important avenue for intensive experience exchange is business internships for MSEs.

This approach, which is comparable to apprenticeships, shall be encouraged in our country. Franchises joint investments and other types of partnership agreements can play a similar role and should be expanded in the country. Although the main thrust in all the above spheres has to come from the private sector, government will undertake some support interventions.

2.1.1.3. Access to Appropriate Technology

Another major constraint and handicap that influenced the success of MSEs is inaccessibility of appropriate technology. This applies to both ends of the technology spectrum, viz. sophisticated or appropriate. Identifying and selecting appropriate technology for MSEs operating in the labor intensive, and low skill spheres deserve more attention and justify some government support. A structural process of appropriate technology development involves such activities as technology search, assessment, transfer, absorption, adaptation and replication. In countries where the manufacturing sector is better developed, the government's role has been confined to the dissemination of the results of search, assessment and evaluation of transfer mechanisms. Entrepreneurs then take over and affect the actual transfer, absorption, adaptation and replication.

However, in Ethiopia, micro and small businesses have problems in getting information on appropriate technology and the process of transfer. To execute these crucial stages of technology transfer, the government will play catalytic role and lay-down the basis for technological development and transfer. Measures for assisting MSEs in this area will focus on:-

- Strengthen the relevance and effectiveness of existing R & D institutions and centers to support MSEs.
- Disseminating R & D outputs to MSEs through extension agents.
- Establishing a technology data base.

2.1.1.4. Access to Market

Micro and Small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. This assertion also holds true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector.

Responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses enterprises which have to compete with others for the same clients, regional governments, chambers and business associations who should see to it that there are no hindrances to market access of new comers, and big enterprises who should re-orient procurement towards small suppliers and subcontractors.

The government will undertake the following measures to facilitate this complex process in order to ease the marketing problems of MSEs:

- Put in place the necessary legal and regulatory frameworks necessary for implementing inter linkage mechanisms, such as franchising.
- Consider steps to provide incentives in terms of training, etc. to motivate the big business sector to systematically expand its links with small and micro enterprises. In this respect sector-specific and localized efforts are likely to bear better results and minimize confrontation, compared to national rule or guidelines.
- Encourage cooperation between relevant government institutions as well as private sector organizations and NGOs to reach MSEs and to mobilize training and mentoring support for small enterprises, so that they are able to manage inter linkage activities and contracts.
- Facilitate the development of more appropriate small-enterprise export-support programs. Such programs could cover exhibition facilities, export trading houses, and promote export credit schemes, an expansion of the export marketing assistance scheme and special training efforts with regard to quality development systems.
- Closely associated to marketing and supply problems of MSEs are issues related to reasonable access to raw materials and quality services at affordable prices. Associations

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of MSEs and cooperatives play an important role to address such problems by way of bulk purchase arrangements and group service requests. Chambers of Industry and Trade and the envisaged Federal MSE development Agency and regional agencies or the designated organs shall encourage the establishment of Sectoral MSE Associations and cooperatives and provide assistance to individual firms through extension networks.

- At present there is no market information center and/or system that would furnish market related information, in such areas as, information on prices, source of inputs, existing and potential markets, consumer needs, etc. for MSEs. One possibility to address this problem is to establish a marketing information center and/or system or integrate the activity in already existing or in the envisaged Federal MSE development Agency and regional agencies or the designated organs. The MTI, respective regional bureau, chambers of industry and trade and sectoral associations of MSEs, etc. shall assume the task to create and support such a center and/or system.
- Most Ethiopian MSEs lack adequate marketing channels through which they could market their outputs. Marketing channels could serve both as means through which marketing information is made available and sales outlets created for the products and services of MSEs. Chambers of industry and trade sectoral associations of MSEs, government promotional institutes, NGOs etc shall be actively involved in establishing and organizing emporia, display centers, exhibitions, trade fairs, rural business centers, open markets etc. it is believed that there are many potential users of MSEs products and services, who would buy if they knew about them. Most of the time the quality, quantity and price would suit the needs of many, and potential suppliers would also be willing and able to provide what is required, but neither side is aware of the existing possibilities. This problem, therefore, calls for launching aggressive awareness campaign about MSEs to the public. The Federal and Regional governments shall consider the use of Radio, TV, Magazines and newspapers, etc. To advertise the range of products and services offered by MSEs and introduce outstanding MSEs as role models to share their experiences to others. Moreover, group advertisement efforts will be made through cooperative associations.

2.1.1.5. The Physical Infrastructure

Infrastructure is one of the basic factors required to enhance the pace of industrialization in any country. The development of business and industrial premises (shops, offices, factories, market stands, product places etc.) and infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage systems, etc. are crucial infrastructural facilities and utilities which warrant the growth and expansion of small enterprises. The mentioned physical infrastructure elements are not adequately developed and expanded to meet the growing demand of business activities in the sub-city. The main factor for such underdevelopment is due to the obvious nature of infrastructural projects which entail huge investment cost outlays. Hence, most

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enterprises particularly the small and micro enterprises are facing serious problems in this regard. To address the problem, the government has drawn various programs with regard to developing road networks, power, water, telecommunication, etc. and concerted efforts are being made to carry out such programs. In addition, the private sector is also encouraged to participate in the development of certain infrastructures to augment government's endeavor in this area.

Regional governments, development associations, NGOs and community development efforts are increasingly involved in infrastructure development, complementing the efforts of the federal government. The government efforts shall be focused in the following areas:

The establishment of industrial zones, incubators, commercial premises and other common facility centers is believed to ease the existing problems with regard to utility and other infrastructural facilities, through sharing installation costs among beneficiaries and making efficient use of resources. Such services could be given to the needy and emergent enterprises at affordable rents.

The implementation of such activities will be as follows:

- The incubator (or business start-up premises), if not established by the private sector, a support program will be developed by the foreseen Federal MSE Development Agency and Regional Agencies or the designated organs.
- Regional development associations and private investors shall be encouraged to establish incubators, develop industrial zones, construct commercial premises and provide them on rental basis.
- Besides the tender, some special procedures of land acquisition at affordable rates shall be devised to facilitate accessibility of land particularly for micro enterprises and small business start-ups.

2.1.2. Factors Affecting the Development of MSEs in Gulele Textile

The significance of the contribution of MSEs to national development goals in general and to the local economy in particular, is being recognized increasingly in many developing countries. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector. This being the fact, different studies indicates the sector faces a range of legal, regulatory and other constraints that can limit its role of creating new employment opportunities, poverty alleviation and fostering economic growth. Ishengoma and Kappel, 2006, categorized factors hindering the performance of Micro and small enterprises into two, namely internal and external (Ishengoma and Kappel, 2006b).

2.1.2.1. Internal Factor

The internal factors, which hinder the normal functioning of MSEs, include: limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location. Regarding factors pertaining to human capital, studies indicate that the majority of workers in informal enterprises are of low educated. Most of the operators acquired the skills through on-the-job training within the informal sector or, as in the case of Africa, through informal apprenticeship systems; it is rare to see those who obtained their skills through a formal training institution (Sethuraman, 1997). Training in most cases tends to be supply-driven, and are rarely sensitive to the needs and circumstances of those in this sector and this generally means their irrelevance.

The cost in terms of money and time may be too high. Sethuraman, 1997 emphasis that resources in the form of training or other similar inputs, if allocated at all for the informal sector, tend to be so meager that they are subject to rationing which means that many of those needing assistance are disqualified through a process of screening based on different criteria. (e.g., minimum schooling required for training, collateral for credit, etc.) Not having free access to the internal factors has no doubt its consequences on the informal operators' performance in the market. For instance in terms of poor location, the majority of informal firms are home based which may limit their expansion, interaction with other businesses, hence increased transaction costs and limited access to marketing information. Some informal enterprises operate in temporary physical Structures in open spaces or in public space that are considered illegal or unauthorized, a Situation that limits their access to public services: sanitation, water and electricity.

2.1.2.2. External Factor

2.1.2.2.1. Access to Financial Services

In most of developing countries, the majority of MSEs Lack access to formal financial services. Researches in this area evidenced that the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions. Credit from formal sources are not only governed by government regulations but often they also form part of public sector monopoly, and hence administered by a bureaucracy that is generally unfriendly to the poor, illiterates and semi-literates in the informal sector. Similar attitudes also prevail in the private sector; the private banks for example rarely find it profitable to deal with these units, though a few exceptions are emerging (Sethuraman, 1997). According to Morrison, 1995, between the years 1995 and 2004 only nine percent of informal enterprises in Jamaica and ten percent in Tunisia had access to bank loans (Morrison, 1995). African countries also experienced similar circumstances for instance; only ten percent of

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informal firms in Nigeria and four percent in Uganda had access bank loans (Arimah, 2001). The firms' accessibility to funds from micro-finance institutions was much lower. Sometimes it appears that it is more expensive to borrow from MFIs than formal financial institutions (Ishengoma, 2004).

2.1.2.2.2. Limited Access to Business Development Services

Business Development Services are designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets. In this way, the sector can create and sustain productive, remunerative and good quality jobs, as well as reduce poverty, and contribute to the development of the local economies. The service include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services. However; since informal enterprises do not comply with government regulations.

The majority of them have no access to business development services offered or coordinated by governments. Some of them are unaware that business development services are offered while others are ignorant to its worth. Ishengoma and Kapple stated that BDS providers do not market their services to small and informal enterprises appropriately, assuming that these enterprises cannot afford the services. It some cases the services offered are of low quality or irrelevant to MSEs (Ishengoma and Kappel, 2006b).

Business Development Services (BDS) include a wide variety of non-financial services such as labor and management training; extension, consultancy, and counseling; marketing and information services; technology development and diffusion; and mechanisms to Improve business linkages through subcontracting, franchising, and business clusters. These services form an important part of the "market support structure" that helps build SME competitiveness. Traditionally, government and donors provide BDS through public institutions or non-governmental organizations, often on a free or subsidized basis. There is a general consensus that publicly provided business development services suffer from being too general and supply driven, of poor quality, with insufficient awareness of cost control. Since both the quantity and quality of publicly provided or publicly funded services are limited by the amount of subsidies available, program coverage tends to be low, typically only 5 to 10 percent of the target population of SMEs. Systematic monitoring and evaluation of program impacts are rarely done (SMIEIS, 2002).

The emerging strategy for BDS focuses on developing markets for services that are appropriate to and demanded by SMEs, rather than on the direct provision of BDS by governments and donors (Steel, et. al., 2000). The lesson of recent experience show that facilitating the provision

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of services by private providers and stimulating the demand for them by small enterprise clients is an effective way to raise the coverage, quality, and sustainability of services, and to increase their impact on small enterprise performance. The shift toward market provisions of BDS reflects a move toward a "systems approach". The starting point for BDS market development is an understanding of the existing market: what is currently provided and by whom (including informal and indigenous producers); the characteristics, needs and willingness-to-pay of small enterprises; and the nature of market failures that constraint market development. Often, the delivery and price of services may not be easily visible, since SMEs tend to rely on inter-firm relationships and informal sources of information rather than formal, external service providers. Supply-side interventions to promote BDS market development can be used to extend and replicate models of financially sustainable and cost-effective services. Demand-side intervention, such as matching grants may be justified on a temporary basis if markets are underdeveloped because small enterprises lack knowledge (or perceive high risks) of the benefits of BDS. Nevertheless, the success of demand-side subsidies should be judged by whether they develop rather than distort markets. In general, it is believed that subsidies are less distortionary at the pre-delivery stage (for example, market assessment, product development) and post delivery stage (monitoring and evaluation) than at the BDS transaction. As in micro finance, the challenge in BDS is to develop low-cost service 'products' and delivery mechanisms that meet the needs and willingness-to-pay of the smallest scale clients. BDS institutions can often achieve lower cost and higher quality when they involve the private sector in the delivery of services, through industry associations, linking larger firms to SMEs through buyer or supplier relationships, and, other SMEs themselves.

Recent advances in information and communications technology as well as improved internet access offer opportunities to lower the cost of information, training, marketing, and business linkages. Standardized or group approaches for some services (such as basic business diagnostics) can be a cost effective way of delivering services, though they may be inappropriate for more sophisticated services to larger clients (such as technology upgrading services for medium-scale firms). Indicators of performance of BDS organizations themselves can provide a solid base for appraisal, evaluation, and improved design of future intervention. Efforts to develop private BDS markets should be complemented with a reduction and rationalization of public sector involvement. Reducing the traditional government role in service provision will take time, but can be encouraged by requiring steady increases in cost recovery to achieve financial sustainability; more business-like institutional management; using the private sector to deliver services; and more rigorous impact evaluation tied to budgetary allocations.

2.1.2.2.3. Limited Market

The majority of informal enterprises target the low income market areas because of low entry barriers. Enterprises in this market tend to compete for the same customers. The magnitude of this hindrance is higher for those concentrated in one area as they tend to apply a copycat

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strategy and thus produce similar products. This limits their growth potential and stability and is one of the reasons why informal enterprises experience a relatively high instance of downfall.

2.1.2.2.4. Poor Supply of Economic Infrastructure and Public Services

One of the desires of most participants in the informal sector is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises. They therefore prefer to operate either from homes or from other rent free locations even if it means violation of existing regulations (Sethuraman, 1997). Since incomes of the operators depend significantly on where they do their business within the city, they choose to operate closer to inner city or other locations despite the risks involved in violating the regulations where purchasing power, and hence demand for their output, is concentrated. Consequently, the majority of informal enterprises lack a decent location for their businesses. Some of them are located in places with a limited supply or lack of public services and economic infrastructure (for example, water and electricity, transport systems, telecommunication systems, sanitation services). In comparison to residents/ enterprises in middle or high-income communities, informal firms with access to these services incur a relatively high cost per unit for the service (Yu, 2002). On account of their small size they cannot afford to invest in private public goods (Reinikka, 2002) or to buy services from private providers which would be more expensive than sourcing from government suppliers (Ishengoma and Kappel, 2006b). A poor economic infrastructure and limited access to public services increases the operating costs of informal firms, limits their ability to meet quality standards (for example, hygiene standards in restaurants), hinders their participation in linkage relationships and reduces their market and customer base (Collier, 2002). Poor access to land and infrastructure has several consequences to incomes and productivity of the informal units. It discourages mobility; few units want to move out of their current locations perhaps due to lack of choice. Obviously this means there is little scope for additional investment or improving the business. Further it discourages investment as the title to the land is unclear. Ambiguous legal status means that they can be forcibly re-located elsewhere. Both the above factors limit the scope for expansion through investment in machinery and equipment, and hence higher productivity and income. Business carried under such conditions is also exposed to greater risks resulting from fire, flood and theft besides confiscation of assets by the authorities concerned. Another consequence has been that these units are deprived of access to urban infrastructure such as power which also negatively affects their productivity. Because they are in unauthorized locations they are generally denied any form of assistance if available.

2.1.2.2.5. Policy Environment

The internal constraints and the external once discussed above which are considered as hindrance for the normal functioning of informal enterprises include are generally known as "Supply" constraints, because they limits in one way or another the capability of the informal sector entrepreneurs to generate goods and services and hence generate income (Sethuraman, 1997). Apart from this most studies on the informal sector shows the existence of demand constraints which limits the opportunities for production.

Studies on informal sector show that a substantial proportion of the units are faced with a stagnant or declining demand for their output; many also reported facing "too much competition" as explained by

Sethuraman, 1997 it indicates the existence of limited opportunities. These findings are indicators of overcrowding of the market; by the same token they can be interpreted as failure of demand to grow, at least not as rapidly as the supply (Sethuraman, 1997). He emphasized that development policies, if properly conceived and implemented, could ensure greater demand for informal sector output and thus open up new opportunities for participation.

2.1.3. Constraints and Opportunities of MSEs

From a review of the literature (Psaila, 2006) it transpires that the Constraints and opportunities of micro-enterprises stem from their very inherent characteristics. There are so many different kinds of micro enterprises that generalizing risks oversimplifying reality. Patterns do however exist and important indeed and inherent characteristics, running through all the literature on small and micro enterprises can be drawn up. A characteristic associated in micro-enterprises is that they tend to be independent minded, workaholic and have a strong family orientation (Boissevain, 1991). This explains their ability to take flexible decisions, affording them less bureaucracy and taking timely action to respond to day-to-day arising situations. Their main focus is family well-being and thus they tend to dislike government interference, and tend to be particularly averse to taxation on their hard-earned profits. The flexibility and lack of formality of micro-enterprises is at the same time their weakness in that these characteristics often lead firms not to seek professional guidance. Accessing finance is difficult for micro-enterprises and often seen as a major stumbling block for their success. This is due to the high risk element which such enterprises carry with them. This difficulty in accessing finance often puts them at a disadvantage, constraining their options for the carrying out the necessary restructuring, which in this era of globalization, is much needed to withstand external competition. Many such enterprises in Malta are also not finding refuge in the EU funding opportunities since most funding schemes contain an element of co-financing, which tends to be relatively large for micro-firms. Gleaning through the literature on micro-enterprises (see for example, Carree and Thurik, 1998; Davis et al., 1996; Storey, 1994), one may succinctly summaries the strengths and weaknesses of micro-enterprises as follow:

Strengths: Flexibility in decision making, Motivation to succeed due to ownership, Speed in taking decisions, Lack of bureaucracy and Continuity through the possibility of building the business for future members of the family.

Weaknesses: Limited possibilities to reap the benefits of economies of scale, Difficulties in accessing finance and Difficulties to withstand competition from larger firms.

The strengths of micro-enterprises, if properly exploited, will yield competitive Advantages and opportunities to enhance the profitability and sustainability within a market environment. On the other hand, the weaknesses, if carefully understood and addressed, will help micro-enterprises mitigate the constraints for their growth and help overcome the negative impact of external shocks on their internal operations.

2.1.4. Theoretical Framework in Other countries

2.1.4.1. MSE to Nigeria

These theories considered differences in attitudes and abilities among individuals as critical issues in determining why some small firms grow and others do not. Two schools of thought, the Austrian School and the Classical Economist were the first to acknowledge the role of the entrepreneur in small business development; they recognize the entrepreneur as an individual with special characteristics. Knight (1921) described an entrepreneur as someone that has the willingness and superior ability to make decisions, raise capital and assume the risk of failure. In the same vein, Schumpeter (1939) added among other things, the fact that an entrepreneur has the superior ability to perceive new market opportunities. He sees the entrepreneur as an innovator.

According to the Austrian school, people have certain characteristics that are associated with the productivity for entrepreneurship. Individuals who have more of these characteristics are more likely to become entrepreneurs than those who have fewer. An individual chooses to create a new business so as to maximize his expected utility. This utility is a function of entrepreneurial activity or wage income, and of attitudes that affect the utility that the person derives from entrepreneurial activity, such as one's taste toward work effort, risk, independence, working close to customers, etc. Income, in turn, depends on the individual's ability to generate profit, such as managerial abilities to raise capital, and abilities to perceive new market opportunities and to innovate (Papadaki and Chami, 2002).

The classical school, have extended analysis of the decision to start a business to that of the decision to grow the business. According to Davidson (1989, 1991), firm growth is an indication of continued entrepreneurship. Davidson notes that economic theories take the willingness to grow a business for granted, by assuming profit maximization. However, empirical evidence suggests that small business owners are reluctant to grow even if there is room for profitable expansion and that profitable firms of different sizes co-exist within industries. According to Papadaki and Chami (2002), theories on small business growth and development view business

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growth from an organizational life cycle perspective, which sees growth as a natural phenomenon in the evolution of the firm, other perspective sees growth as a consequence of strategic choice. It is obvious that attributes of the business owner, organizational resources and environmental opportunities are crucial in expanding the firm and in overcoming the barriers to the evolution of the firm from one stage to the next. Sexton and Smilor (1997), and Carland et al., (1984) distinguished between a business owner and an entrepreneur. According to them, an entrepreneur is committed to the growth of the business. Growth is the very essence of entrepreneurship," and commitment to growth is what primarily distinguishes small business owners and entrepreneurs.

SMEs and Growth: It is evident from literature that not all small businesses are growth oriented and for certain firms growth is a voluntary choice (Masurel and Montfort, 2006). An empirical study of SMEs growth pattern by Kolvereid and Bullvag (1996) concluded that growth intentions may be used to predict actual growth, that past intentions are related to later intentions, and that change in growth intentions are associated with changes in growth patterns. Arbaugh and Sexton (1996) provided empirical evidence that most new firms do not grow into large ones and that there is no relationship between the age of a firm and its size. Chaston and Mangles (1997) opined that there is no single strategy to firm growth. Hence, the probability of achieving growth is increased by avoiding excessive emphasis on single-strategy transformation initiatives, and by giving different capabilities priority depending upon the development stage of the firm. They identified three factors that could limit the growth of small business to include ability, need and opportunity.

Kolvereid (1992) concluded that small business entrepreneurs who wanted their firms to grow started their business in order to achieve just that. The process of mutual adjustment between proprietors and their employees was identified by Goffee and Scase (1995) as a major constraint limiting factor to small business growth. Niskanen and Niskanen (2007) investigated the determinants of growth in a sample of small and micro Finnish firms. Firm growth is examined on a number of firm specific and relationship lending characteristics. The data set provides an excellent opportunity for investigating the effects that firm specific factors have on firm growth. The study investigated the relationship between firm growth and relationship lending variables. They are also able to provide new information on the role that legal form has on firm growth by using more detailed ownership variables. The results on relationship lending effects suggest that an increase in the number of lending banks decreases growth rates in the larger firms and that an increase in the number of banks operating in the county where the firm is located enhances growth of the larger firms and decreases growth rates of the smaller firms. It could, therefore, be argued that close lending relationships enhance growth for all firms, but that only the larger firms in the sample benefit from more competitive banking markets. Brown, Earle and Lup (2004), employed panel data techniques to analyze a survey of 297 new small enterprises in Romania containing detailed information from the start-up date through 2001. They found strong evidence that access to external credit increases the growth of both employment and sales, while taxes

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appears as constrain to growth. The data suggest that entrepreneurial skills have little independent effect on growth, once demand conditions are taken into account. The evidence for the effectiveness of technical assistance is weak: only assistance provided by foreign partners yields a positive effect.

A wide variety of alternative measures of the business environment (contract enforcement, property rights, and corruption) are tested, but none are found to have any clear association with firm growth. While the literature shows different perception on enterprise growth, there is a paucity of studies of how constraining with financial contributes to MSE growth in the specific context of Ethiopia. Besides, empirical evidence emerging from various studies about the effect of textile on entrepreneurial development as a whole has so far yielded mixed results that are inconclusive and contradictory. Also, none trace the impact of textile on small growth. Moreover, the impact of microfinance on enterprise growth has not received adequate research attention in Nigeria. Research also shows that most of the studies on impact of textile on enterprise development that have been reported were carried out in industrialized countries except some few cases in some African countries. This mean that there is a major gap in the relevant literature on developing countries particularly Ethiopia which happen to be the most populated country in Sub-Saharan Africa (SSA). This study attempts to fill this gap by examining the situation in Ethiopia and providing empirical evidence on the effects of enterprises on small business growth in Ethiopia.

2.1.4.2. MSE of Kenya

2.1.4.2.1. Developments in the Theory on MSEs

The last 50 years have seen important growths in the conceptualization of the main issues relating to the MSE sector and subsequent theoretical work. The main theory, which goes back to the seminal work by Lewis (1955), is the labour surplus theory. It is argued that the motivating force behind MSE development is excess labour supply, which cannot be immersed in the public sector or large private enterprises and is forced into MSEs in spite of poor pay and low productivity. Arguably, the MSE sector develops in response to the growth in unemployment, functioning as a place of last resort for people who are unable to find engagement in the formal sector. MSEs are expected to grow in periods of crisis, when the formal sector contracts or grows too slowly to absorb the labour force. However, when formal occupation develops, the MSE sector is assumed to contract again and thus advances an anti-cyclical relationship with the formal economy. Particular consideration has been paid to the behavior of the MSE sector before and after the introduction of structural adjustment policies; examples include Daniels (1994).

2.1.4.2.2. Schumpeterian Theory on MSE growth

Schumpeter's (1934) theory of innovative profits highlighted the role of entrepreneurship and the seeking out of opportunities for innovative value and generating activities which would expand (and transform) the circular flow of income through risk taking, pro-active by the enterprise leadership and innovation which aims at nurturing opportunities through intellectual capital of

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entrepreneur to exploit the potential profit and development. Schumpeterian growth theory goes beyond economist theory by differentiating explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. It deduces that technological progress comes from innovations carried out by firms driven by the pursuit of profit, and that it encompasses what Schumpeter called “creative destruction”. That is, each innovation is aimed at generating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934).

Endogenous growth theory challenges this neoclassical view by proposing channels through which the rate of technological progress, and hence the long-run rate of economic growth, can be influenced by economic factors. It starts from the observation that technological progress takes place through innovations, in the form of new products, processes and markets, many of which are the result of economic activities. For example, because firms learn from experience how to produce more efficiently, a higher pace of economic activity can raise the pace of process innovation by giving firms more production experience. Also, because many innovations result from R&D expenditures undertaken by profit-seeking firms, economic policies with respect to trade, competition, education, taxes and intellectual property can influence the rate of innovation by affecting the private costs and benefits of doing R&D (Dinopoulos and Thompson, 1998).

Schumpeter, as cited by Swedberg (2000), pointed out economic behavior is somewhat automatic in nature and more likely to be standardized, while entrepreneurship consists of doing new things in a new manner, innovation being an essential value. As economics focused on the external influences over organizations, he believed that change could occur from the inside, and then go through a form of business cycle to really generate economic change. For Schumpeter, the entrepreneur is motivated by the desire for power and independence, the will to succeed, and the satisfaction of getting things done (Swedberg, 2000).

2.1.4.3. MSE of India

Sandesara (1993) studied the performance of SSIs producing reserved items collecting data from the second census conducted by the Ministry of SSIs. The study examined the null hypothesis that the SSI firms producing reserved category items should perform better than the SSIs producing non-reserved items. The study result revealed that capacity utilization in 1987-88 and aggregate change in production in 1987-88 were both lower for reserved than for unreserved items. This below par performance of the SSI firms producing reserved items was surprising as those firms did not have to face competition from the large firms. The author observed that this could be due to the entrance of excess SSI firms into the protected areas.

Sonia and Kansai Rajeev (2009) studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in

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pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era.

Bhavani T.A. (2010) highlights the issue of quality employment generation by the SSIs and negates the short term attitude of increasing the volume of employment generation compromising with quality. The author argues that employment generation by the SSIs may be high in quantitative term but very low in quality. Technological up gradation would enable the small firms to create quality employment improving remuneration, duration and skill. This structural shift may reduce the rate of employment generation in the short run but would ensure high-income employment generation in the long run Subrahmanya Bala (2011) has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

2.1.4.4. Elements of MSE Support Framework

In Ethiopian Textile products

Ethiopia's textile manufacturing industry embraces both medium and large public and private enterprises. Their main activities include spinning, leather, weaving, and garment, finishing and knitting. The Ethiopian textile industry is the third largest manufacturing industry; only second to the food processing, beverage and leather industry. The Ethiopian textile sector mainly produces 100% cotton textiles. Each enterprise produces one product range, such as cotton yarn, cotton fabrics, bed sheets, blanket, knitwear etc. All the cotton yarn in the Ethiopian market is supplied to the local handlooms. It is estimated that the annual hand-loomed fabric is around 95 million square meters. The Ethiopian government has been steadily pushing towards market-oriented reform by means of developing the private sector, deregulating rigid control over the economy, liberalizing foreign exchange, lowering tariff rate, etc. Given that export promotion is of paramount importance, the government has issued a series of export incentives. All in all, in terms of macroeconomic policy, the Ethiopian government has created an enabling environment for the development of textile sub-sector (Boissevain, 1991).

In recognition of the socioeconomic role of the sector and its potential contribution to the country's economic development, the development of the Micro and Small Enterprise sector is becoming a subject of national importance. Small business is to be designated a priority

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sector for the government, in terms of policy formulation, direct support from its own resources and in the mobilization of external resources. The active promotion of the sector depends on the interaction of a wide range of actors in an equally wide range of support areas. It ranges from self-help activities of groups of small enterprises and the abolishing of regulatory obstacles to the better cooperation between small and bigger enterprises with respect to sub-contracting and other forms of interlinkages and the granting of or tax concessions by federal or regional government. In this section, the strategy addresses the major constraints which have made it difficult for small business growth on their own, and hence it focuses on support areas, with greater or lesser degree of government involvement/intervention. The sequence in which the support areas are presented here, however, does not imply a ranking of their significance. Active assistance by the Government will be provided to help small businesses to overcome the various constraints to their development. These enterprises need to be equipped with the business tools with which to build their commercial features. Therefore, in addition to creating a favorable legal environment for the sector, the Government will launch a series of support programs to help these enterprises to overcome the specific commercial obstacles they face and exploit available opportunities effectively. By launching such a package support program the Government will be in a position to take decisive action to stimulate the development of the sector.

2.1.5. Cluster

The Cluster:- "Geographic concentrations of interconnected companies and institutions in the particular field" (Porter, 1998). Clusters are not seen as fixed flows of goods and services, but rather as dynamic arrangements based on knowledge creation, increasing returns and innovation in a broad sense, (Krugman, 1991) Porter redefine the cluster concept in a new analysis, concentrating on the type of relations that exists between cluster members a geographically proximate group of inter-connected companies and associated institutions in a particular field, linked by commonalities and complementarities (Porter, 2000), and defining its boundaries that can range from a single city or state to a country or even a group of neighboring countries (Porter, 2000). The latter description extends the concept outside a limited region and takes into account the effect of global markets. Krugman's and Porter's analyses add to the economic relations and flows of goods the process of innovation that takes place inside the cluster through the transfer of information, know-how and experience. Morosini gives another definition by describing the cluster as socio-economic entity characterized by a social community of people and a population of economic agents localized in close proximity in a specific geographic region, (Morosini, 2004). Based on these descriptions, the concept of cluster can be characterized by:

- Regional economic activity located at all levels: community, geographic area, global;
- It is limited to a specific industry;

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- includes both vertical links as supplier-manufacture-dealer-customer chain and horizontal production links as in sectors of the same industry;
- Companies have identical or interrelated business areas;
- Firms are in competition but through specialization contribute to the cluster development;
- Firms proximity generates social and trust relations;
- A common infrastructure used in innovation by rapid transfer of knowledge and because of the support offered by universities and research centers.

Models of clusters determinants: In order to understand the cluster model from the viewpoint of relations between firms, researchers have been defined different models that take into account supplier chains relations, direct Based on specific characteristics of Porter's diamond: The Competitive Advantage of Nations (Porter, 1990) research describes the successful model of technology clusters like Silicon Valley which is based on several factors not present in the classical theory of economic development which is based on availability and abundance of production factors. These factors form a model, Porter's diamond, described in this model is characterized by interdependence relations between all factors and in the Porter's vision is the engine that drives the cluster at microeconomic level:

- The initial resources of the area and the existing economic environment; initial resources are not always material but rather a series of conditions which facilitate starting a new business; also the economic environment is described by the number of firms operating in a field, the ability to launch a new business and the entrepreneurial culture of the area.
- companies strategies and the competitive environment influence their evolution as they are required to provide specialized services and products, increased quality and collaboration to meet higher requirements; companies are forced to face an environment of increasingly competition and the efficient solution is to evolve, to innovate and provide varied products and services;
- market conditions represent the demand for offered products and services; in Porter's diamond the factors are influencing the cluster evolution but they are also interconnected, influencing each other; without a need or a client, there won't be an entrepreneurial initiative to see an opportunity in the region resources; in the end the initial market will increase due to the cluster competitive environment;
- Related and supporting industries describe the factors that allow cluster firms to evolve and maintain their competitive advantages; in terms of innovation, important factors are university and research centers that may provide new technology needed in production processes.

Another important factor for cluster development is the innovation and the continuous exchange of information by:

- direct transfers based on technology cooperation or acquisitions;

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- indirect transfers through workforce migration or by analysis and observation of the competition;
- Indirect transfers through spin-off by supporting new businesses based on ideas and technologies resulted from research. (Source: Etzkowitz, 2002).

2.1.5.1. Clusters and Small Scale Enterprise Development

Clusters provide small scale enterprises the opportunity to take advantage of FDI and global value chains by being able to position themselves to access capital, technology and markets. By doing so, they strengthen their comparative advantages in a sustainable manner and become attractive sites for FDI. The presence of TNCs and appropriate intervention by government become crucial in integrating clusters into global value chains. Clusters are defined by the combination of two characteristics: spectral specialization and geographical location. They allow for economies of scale and the leveraging of local comparative advantage. They develop an experienced local pool of skilled labor and a network of firms cooperating in complementary areas of specialization along cluster based value chains. Clusters improve competitiveness by increasing the productivity of the enterprises in the cluster through product specialization and collective efficiency. SME Development Unit, Robbins, G (2006) Strategies and Policies on TNC=SME Linkages Country Case Studies: South Africa. A study for UNCTAD. Zeng, DZ (2006) Knowledge, Technology and Cluster-based growth in Africa," World Bank Institute, April 2006 11 they foster teamwork and cooperation as enterprises in a cluster see themselves as being interdependent as allies with a shared vision and goal. These links proved invaluable when Nnewi traders began to develop their own production activities and were able to obtain detailed advice and other technical assistance from their Asian suppliers on the type of machinery and other technologies they should acquire and the specific skills needed to operate these efficiently.

The Ethiopian government has not, however, given the level of government support that the cluster requires. In a survey among the firms in the cluster where various government policies were examined, less than 30% of the firms indicated that there was sufficient support from government for the needs of the cluster such as water, electricity, transport, IT and the protection of intellectual property rights (IPR). The role of trade and manufacturing associations has been crucial in the absence of effective government support, particularly the Chamber of Commerce and the Ethiopian Association of Small Scale Industries. In Kenya, the government has deliberately chosen to limit its role in the cut flower cluster which has 5000 to 6000 small scale growers and 85 large growers. This cluster has six per cent share of the world market in cut flowers. The government's role here stands in contrast to its historical role in the coffee industry where marketing boards and centralized cooperatives run by the government limited the competitiveness of the coffee industry. It created an enabling business environment, enacting laws to protect IPR with regard to new plant varieties, promoting quality standards and providing incentives for exports. Direct involvement, however, has been minimal and this "hands-off"

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approach has encouraged private sector growth and development. Small scale floriculturists have, however, requested government intervention in diversifying export destinations and becoming part of an integrated supply chain in preference to an ad hoc value chain supplying the Dutch auction system in which they currently operate. They also need assistance in incorporating technology and tougher environmental standards into production practices. Abiola, B (2006) “The case study of Newi auto parts cluster in “Nigeria,” World Bank Institute, and Zeng, D Z (no year given) African Experience in Cluster Development. World Bank Institute. Abiola, op. cit,(ibid p.22), Hornberger, K et al (2007) Kenya’s Cut Flower Cluster. Harvard Business School (ibid p.22), The Horticultural Crops Development Authority. Zeng, D Z (no year given) African Experience in Cluster Development. World Bank Institute.

2.1.5.2. Local Content and its Impact on Small Scale Enterprise Development

The efforts and initiatives by African countries to develop industry clusters around TNC based mineral extraction have met with only limited success. To remedy the situation, the level of local content is often specified in contracts, with TNCs being asked to specify how they plan to increase such content, with the percentage of local products or services, such as automotive components for TNC assembly plants, being measured either in terms of volume or value. The reason given for not reaching the target is the lack of Ethiopian companies with the required capabilities and technical skills. Hence it is evident that to attain high levels of local content requires the development of local suppliers who can add value, and that this cannot happen by decree alone. To achieve this target, the government has put several interventions in place. These include: compiling and updating a list of HDSA suppliers; requiring all licensees to contribute funds toward an “Upstream Training Trust” to fund skills development strategies for HDAs; promoting HDSA companies as joint venture partners in expansion or upgrades by TNCs in the oil sector; and encouraging the involvement of small scale HDSA companies in marketing and distribution because entry costs are lower than in exploration or refining and there is an immediate, regular cash flow.

2.2. Review of Empirical Literature

2.2.1. Micro- and Small Enterprises: Evidence from Developing Asia

Empirical Evidence of Heterogeneous MSE Growth Patterns McMillan and Woodruff (2002) provide evidence of the potential of newly founded firms, mostly small firms, in transitional and developing economies such as the Russian Federation, People’s Republic of China (PRC), Poland, and Viet Nam. The example of Viet Nam, in particular, shows the potential of MSEs. Between 1992 and 1995, private sector employment in Viet Nam grew by about 2.5 million, almost all of which can be attributed to small manufacturing firms and the expansion of household enterprises in the retail and repair sectors. In the PRC, newly founded, mostly small

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enterprises contributed substantially to the fact that the share of industrial production of rural firms rose from 9% in 1978 to 30% in 1991. These two examples in developing countries demonstrate the potential for small firm growth in developing and transitional economies. Mead and Liedholm (1998) find that since their foundation MSEs created almost twice as many jobs as formally registered large-scale enterprises in Botswana, Kenya, Malawi, Swaziland, and Zimbabwe, although overall employment growth in these countries in the 1990s was slow. The study also finds MSE growth to be heterogeneous. The authors show that most of the MSE growth can be attributed to a minority of enterprises, although even these added only a few workers. They find average annual growth rates of MSEs to be between 4% (Swaziland) and 24% (Kenya). Only 27% of all enterprises grew in size over the period under review, creating 0.14 jobs per year on average. The study also analyzes the income generated by MSEs and finds that returns to labor rise substantially for enterprises that consist of more than one person. This increase in efficiency is associated with higher levels of income for employees and enterprise owners. Another study examines firm growth between 2006 and 2010. Dinh et al. (2010) use data from the World Bank Enterprise Surveys (WBES) to examine determinants of average annual firm growth. The study uses a cross-sectional data set with almost 40,000 observations from 98 countries. The findings show that firm growth is highest for enterprises with fewer than 10 employees. Firms that had been established in the previous 5 years grew faster than older firms, and average enterprise growth was lowest in East Asia and the Pacific, and highest in South Asia. Following the growth diagnostic approach by Hausman et al. (2005), the study identifies financial constraints and informal sector competition as the most binding constraints to firm growth in developing countries. Though the study mentions firm heterogeneity between and within countries, the analysis does not include empirical results at the country level. Sleuwagen and Goedhuys (2002) analyze the firm growth process in Côte d'Ivoire using a representative sample of manufacturing firms.

The empirical results show a negative relationship between firm growth and firm age and size in Côte d'Ivoire. However, comparing firm growth by enterprise size between Côte d'Ivoire and Germany shows differences in growth patterns between developed and developing countries. This is an extreme example as Germany is well known for its broad base of small and medium sized enterprises, but similar results are also shown for other developed countries. Small enterprises grew relatively fast in Germany, as evidenced by the fact that 28% of Germany's large and medium-sized firms (100 or more employees) started as micro enterprises (1–4 employees). In Côte d'Ivoire, only a few large firms started small but larger enterprises (with more than 50 employees) grew faster than in Germany. The findings are consistent with a 'missing middle' in the firm size distribution in developing countries. The MSE sector's importance in Asia is evidenced by the fact that it accounts for substantially more than 50% of employment in the region. The constraint of access to markets, inputs, and technology is particularly relevant for the region as many countries either are plugged into, or would like to plug into, regional or global production networks. Empirical evidence from Asia and Africa

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shows that after entering the export market productivity increases occur, which can be largely attributed to the exploitation of scale economies (van Biesenbroeck 2005).

To sum up, the reviewed empirical literature on firm growth in developing countries shows that such growth is heterogeneous, particularly for MSEs, which account for the majority of firms in most developing countries. Also in most countries, only a few MSEs show rapid growth.

2.2.2. MSE to Nigeria

In traditional SME interventions such as directed credit programs and/or technical assistance, the evaluation of the results of the support approach frequently has been limited to measurement of program inputs or program outputs, for example, the number of loan granted the number of clients served by a business advisory program, or the amount of market information provided. Attempts to measure the impact of support or intervention on SME and its performance are infrequently done and are plaque by measurement and methodological problems.

Improving the developmental impact of SME strategies will require much more attention to monitoring and evaluation of interventions. The trend away from public provision of services and towards the development of markets calls for different approaches to the evaluation of the success or failure of intervention. The institutional performance should ensure proper coverage (outreach), in terms of the number of individuals, enterprises, and organizations reach by an intervention, financial sustainability, which refers to the extend which the service can be provided without dependence on subsidies, and cost effectiveness, with the objective of providing a service (of a given type and quality) at the lowest possible cost; the market development should include the number, distribution and quality of service providers, types and quality of instruments available in the market, risks and transaction costs, the price of services and subsidy incidence, awareness and willingness to pay for services on the part of SMEs; on economic impact, the indicators of the intervention should be the magnitude and durability of the effect of the service on SME performance (productivity, sales, exports, etc.), and the developmental impact of the intervention at a Sectoral or economy wide level. Measuring the impact of credit support on the development of markets for financial and non-financial services is a critical need of the new approach to SME support.

Fadahunsi (1997) argued that until recently, government policies, strategies and programs in several countries had laid undue emphasis on large enterprises, and in a number of notable cases have even discriminated against enterprises especially micro and small scale businesses. Large projects tend to be capital intensive in contrast to labor intensity of the small scale enterprises and the low cost for creating jobs. SMEs have the added advantage of flexibility to easily adapt to changing market opportunities and conditions. They generally require limited capital and they

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can more easily combine simple and advanced technology as may be appropriate. There is also the possibility of using business activities to decentralize large commercial and industrial activity and diluting monopoly. The significant contributions of SMEs to the economy of Asian countries are evident in the role that SME sub-sector plays in that region. For example SMEs represent 99.4 percent of total industries in Indonesia and generating 93 percent employment (1974); 99.4 percent in Japan and generating 8.4 percent of employment (1985); 96.6 percent in Korea and 49.3 percent employment generation (1980); 92.0 percent in Hong Kong (1981); 90 percent in Philippines and generating 61.2 percent employment (1983); 90 percent in Thailand and generating 72.2 percent employment (1988). SMEs in Philippines and Thailand accounts for 47.4 and 30 percent of total value added respectively (Fadahunsi, 1997). The unique feature of the Asian region is the emergence of a large number of NGOs and Voluntary Organizations promoting SMEs particularly in India, Bangladesh, Nepal and Philippines.

A study by Ekpenyong (1997) showed that very little financial supports have been provided by the traditional financial institutions (the commercial banks) to the SMEs. The reasons are that small businesses have serious inherent structural defects that make them high risk borrowers, and the traditional banks are not structured to cater for the type of credit demanded by the small businesses owing to the nature of their credit assessment procedures (Hammond, 1995). The semi formal financial institutions defined in this study as the cooperatives and trade associations have been able to meet the credit needs of small businesses in small scale (Ekpenyong, 1995; Aryeetey, 1995). More than 50 percent of SMEs in Nigeria are sole proprietorships obtaining their start-up capital mostly from personal savings, family, and from friends and relatives. Usually the capital base of such companies hardly exceed N1 million, thus, making expansion in their investments difficult. Where there are partnerships or Plcs, the sole proprietor owns more than 60 percent of the capital stock. This clearly demonstrates that little institutional credit has been received by SMEs (Odetola, 1997).

A study conducted by Odetola (1997) on the sources of investment financing for SMEs in Nigeria, found out that about 96.4 percent of the SMEs finance their enterprises through owner-savings, 2.92 percent through relatives and friends, 0.32 percent from banks, 0.94 percent from government institutions or agencies, 0.06 percent from cooperatives societies, 0.33 percent from money lenders, and 0.03 percent from NGOs in a total of 21,950 respondents. In a similar study by Cowrie Consultants (1995) cited in Odetola, (1997) covering Northern Nigeria, Lagos and Western Nigeria, and Eastern Nigeria, the source of business finance from personal savings was 26.6 percent, 37.04 percent and 32.14 percent for the regions respectively. From friend sources it was 30.59 percent, 19.53 percent and 32.14 percent respectively. From bank sources it was 35.29 percent, 33.33 percent and 21.42 percent respectively. From government agencies it was 8.82 percent, 7.83 percent and 3.57 percent respectively; while trade groups and cooperatives was 5.88 percent, 11.02 percent, and 7.14 percent respectively.

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Okraku and Croffie (1997) argued that in Ghana SMEs rely primarily on personal savings of owners, business profits, family members or friends for their financial needs. They have little or no access to external credit. The effect of this is inadequate fixed capital as well as working capital. The consequences of these are very slow growth rate and frequent failures among small businesses. At the regulation level, the problems identified are high interest rates charged by banks thus making bank borrowing very expensive. The lending rates at Ghana were as high as 40 percent at a point in time. At the institutional level, banks were not motivated enough to lend to small business enterprises. The size of loanable funds available for lending to the sector is also small. Banks insist on tangible collateral as security as well as owner's equity for loans. At the enterprise level, SMEs are unable to mobilize owner's equity to satisfy banks requirement for loan, inability to provide acceptable collateral security to support loan and the lack of banking culture and practices. Evaluating the impact of intervention on SME performance can benefit from the use of a logical framework that clearly defines the program's objective and links activities and inputs to outcomes and impact. However, many of the often repeated justifications for the scale-based enterprise support have little empirical evidence. But whether their actions are based on myth or reality, government in both developing and industrialized countries do intervene to promote SMEs. Their SME assistance strategies often try to achieve a combination of equity objectives (alleviating poverty, and addressing social, ethnic, and gender inequalities); and efficiency objectives (raising the productivity and profitability of the business or firms). The confusion created by multiple objectives often leads government to over subsidize services that could be provided by the market (Hallberg, 1999). Added that direct provision of credit and non-financial assistance to SMEs tend to substitute for markets rather than dealing with the underlying causes of market underdevelopment. Consequently, the supports for SME through the development of markets for financial and non-financial services are only successful if their market-development effects outweigh their market-distortion effects. In turn, this depends upon whether the support resolves the underlying problems that constrain market development. This underscores the need to begin with a good understanding of the structure and performance of existing markets and to build upon institutions and inter-firm or business networks that are already in place.

2.2.3. MSE of Kenya

2.2.3.1. Growth of MSE in Kenya

Micro and small enterprise are important for raising economic efficiency of a country, owing to their flexibility, low production. They are breeding ground for entrepreneurship, innovation hence reservoir for employment and therefore sustainable job create income which in turn reduce poverty (Kathure, 2005). The MSE sector is fast growing, the 1999 MSE baseline survey found the number of enterprise in the sector had growth from 910,000 in 1993 to about 1.3 million in 1999 (GoK, 1999). It is estimated that this sector Constitute 98% of all business in the country absorbing over 50% of all new non-farm employment seekers, contributing up to 30% of total employment and 3% of GDP (KIPPRA, 2002).

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The growth of MSE is part and parcel of a dynamic growth process in the corporate sector, as argued by Alabi, Goski, and Ahiawodzi (2007). As noted by Lepi (2005), although a number of measures have been used to identify and describe MSEs, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. In addition The MFI services provided to MSE has impact on sale turn over, profitability, capital investment and number of employees hence growth of MSE (Lepi, 2005). It is revealed that that women status in society at large effort by women in enhancing their development has multiplier effect for benefit families' members in area, education, medical and clothing later contributing to MSE growth and development since dominant service is credit (Frank, 2004). Further, in recent years the MSE sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and the labour intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises .This dramatic increase was due largely to retrenchment in both the public and private sectors (GOK, 2004).

2.2.3.2. Contribution of MFI Non-financial products to MSE growth

Non-financial services includes all the of additional capacity building services to MSEs, social and economic services, management and vocational skills training, consultancy and advisory services, marketing assistance, information, technological development and transfer and business linkage promotion (ILO, 2004). They also include other non-business services such as literacy training and in innumeracy training, nutrition and self esteem classes, public health, civic education and support for people with HIV/AIDS. All enterprise regardless of their size operate in a large economic system where liberalization is expected to open up market, increase business opportunities and increase competition between firms and alternative supply networks (Cook and Nixon, 2005).

Non financial services can be provided by commercial, profit agencies, or by institutions that are not-for-private-profit organizations. Those services provide on a commercial basic include the services made available by private consultants and consulting firms, as well as those provided under contract in the context of commercial transactions with suppliers, contract or firms offering specialized services. The fees applied in these cases cover the full cost of the services. Making profits is the main motivation of these services providers these services are demand-driven and client satisfaction plays an important role in the growth of these services providers (UNDP, 1999).

Furthermore, MSEs are often discounted by banks from applying for finance, and available credit services usually only reach a small proportion of the total population of MSEs. It can also increase the impact of existing financial services and improve the capacity to repay loans the

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impact (UNDP/ILO, 1999). Business development services (Non-financial product) provide by MFI to MSEs boost the growth and competitiveness of the enterprises. It can also increase the impact of existing financial services and improve the capacity to repay loans. However the impact of business Development services depends on the proficiency of the services provider and on the use made by MSEs of other services (ILO, 2004). linking credit and non-financial services is important to focus on the enterprises receiving the services and the interests of the providers. For MFI to link services to MSE, either in-house or through partnerships, it is necessary that the new approach be used (ILO, 2004). MFIs offered a wider range of services to their clients by linking with existing non-financial services providers, without taking on the risk and cost of providing these services themselves. Often, after giving advice on how to prepare a business plan or makes a new investment, non-financial services providers realize that their clients are not able to access the necessary finance to realize their plans (CGAP, 2006).

In essences, poor borrower s from micro finance institutions often do not graduate to higher and higher loans, and consequently to productive small enterprises. While credit may initially be the ruling constraint for micro-enterprises, for them to grow beyond a certain size, other constraints come into play, for example of markets and managerial capacity. Micro-enterprises are therefore unlikely to grow significantly without inputs that can address these additional constraints (ILO, 2004). Papers presented at the recent Micro credit Summit suggest that MFIs are interest in new products and that the combination of credit and educational services, including BDS, can be an effective tool for fighting poverty. In addition, the non-financial services debate on how to reach a larger number of the micro and small firms is continuing (CGAP, 2006).

2.2.4. MSE of Ethiopia

2.2.4.1. Access to Appropriate Technology

An empirical study of Mulu (2009), was conducted to examine entrepreneurs behavior and resources availability to the enterprises as a major determinant of innovativeness and its impact on firm growth, based on a survey conducted in 2003 by the EDRI3 on a 1000 microenterprises with 10 and fewer workers. The survey was done in six selected major town including Addis Ababa, Ethiopia. A total sample of 974 enterprises was interviewed. However, firms owned by female and old entrepreneurs are less likely to get involved in innovation. In an extended model of firm growth determinants that include innovation indicators, the study found strong evidence that innovators grow faster than non-innovators. In addition to innovation, firm growth is also affected by the firm size, age, access to finance, sector, and owner character factors.

Even though, Mulu's study revealed that firm size significantly affect microenterprises innovation, this study incorporate additionally variables like GPR, LTMI, IRD, HCI, OC, LSP, LF and LC to study factors obstacle SMEs technological innovation and comparing obstacle at industry and specific level by taking only Addis Ababa sub cities.

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The survey study result on SME's between Addis Ababa and the town of Nazareth on 27 Small, 35 Medium and 9 large-scale enterprises revealed that manufacturing product with slight modification on production process shows 44% (12 out of 27) small and 51% (18 out of 35) medium scale enterprises introduces product or process innovation. Similarly, 18% (5 out of 27) of small scale and 20% (7 out of 35) of medium scale enterprises has introduced new technology in the three year period. In contrast, none of large-scale enterprises included in the survey have undertaken product, process or management-related innovation. Study also identified major obstacles to innovation within SMEs in Ethiopia: lack of information support systems, shortage of technical skills, relatively weak intellectual property rights protection system, absence of proper and effective standard setting and quality control mechanism and lack of appreciation by government authorities (UNCTAD4, 2002:95-99). In light of this, study intended to investigate factors hindering technological innovativeness of SME in Addis Ababa by including textile, manufacturing & construction sector. Similarly, comparative analysis was made between SMEs industry level and specific innovation barriers.

2.2.4.2. Access to Finance

In Ethiopia, the potential sources of finance include conventional banks, microfinance institutions, cooperatives, government projects, semi-formal & informal lenders, as well as trade credit. In practice, equity finance is limited. Hire-purchase and lease-to-buy contracts, if they exist, are not visible. Nongovernmental Organizations (NGOs) are no longer involved, at least officially, since the issuance of Proclamation No. 40/1996, which requires those involved in the provision of microfinance to be established as share companies (only by Ethiopian nationals), prohibiting them from directly involving themselves in credit and savings activities. Despite their high excess liquidity and the low yield on safe assets (i.e. T-bills and government bonds), banks in Ethiopia do not find MSEs attractive clients, mainly due to high transaction costs and (real or perceived) risks; the recent tightening of regulatory standards (see NBE Directive No. SBB/32/2002) could also be expected to aggravate this. The banks do not take financing MSE operators as their mission, nor is their capacity, especially their branch network, extensive and dense enough to effectively reach MSEs throughout the country (in rural areas in particular). Moreover, the delivery of financial services to MSEs requires the development of innovative financial products that attract MSE operators, which Ethiopian banks are lacking. Despite the high number of savings and credit cooperatives and multi-purpose cooperatives in the country, they have not yet emerged as important sources of MSE finance (see discussion below).

Government credit programmes³ to MSEs in many countries used to be based on the poverty lending approach which concentrates on reducing poverty through credit, often provided together with complementary services, such skills as training and teaching of literacy and numeracy, health, nutrition, family planning and the like. Under this approach, donor and government-funded credit is provided to poor borrowers, typically at below-market interest rates. The goal is to reach the poor, especially the poorest of the poor. Except for the mandatory savings, the

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mobilization of local savings is normally not a significant part of this approach to microfinance. However, subsidized credit programmes have done very little to improve access of MSE operators to financial services. Instead, they hindered the development of sustainable financial institutions (partly because they failed to give emphasis to savings mobilization) and often fostered a “non-repayment culture” among enterprises (weak recollection effort), rendering such programs unsustainable. Credit subsidies also created distortions in the financial markets. It was in response to these challenges, according to Robinson (2001) that the microfinance revolution of the 1980s came of age in the 1990s, which is a transition from the poverty lending approach to the financial system approach.

The new financial systems approach emphasizes large-scale outreach to the economically active but poor, both to borrowers who can repay micro loans from household and enterprise income streams, and to savers. This approach focuses on institutional self-sufficiency, because, given the scale of the demand for microfinance, this is the only possible means to meet widespread clients' demand for convenient and appropriate financial services (Robinson 2001). The new approach to microfinance has taken root in Ethiopia as could be seen from the contents of the proclamation enacted to govern microfinance activities in Ethiopia (Proclamation No. 40/1996). Microfinance institutions (MFIs) are mushrooming following the proclamation, in the last six years, the microfinance industry showed remarkable growth in terms of outreach and performance. By the end of 2002, there were 21 MFIs registered under the National Bank of Ethiopia, delivering financial services to more than 700,000 active clients. Some of the MFIs are at a start-up stage where their clients are less than one thousand and require sound support to build their capacity in order to increase their client base. However, there are also bigger MFIs, some of which have clients between 1000 and 5000, and their emphasis is on consolidating their activities in order to improve their portfolio quality and performance. Those with clients between 5000 and 20,000 focus on expansion to reach operational sustainability.

There are also MFIs with more than 20,000 clients (some with more than 200,000 active clients) who focus on delivering financial services to the entire region or expanding their geographic coverage in order to make a meaningful impact on poverty alleviation and transforming themselves into sustainable financial institutions. Yet, according to a study by Chao-Be roof et al. (2000), MFIs met less than 9% of the estimated demand for financial services of the active poor, which shows that there is a significant unmet potential demand for microfinance services. Besides, their credit instruments are limited; only two types of loan products - agricultural and micro-business loans- were on offer. Both are based on the principles of group guarantee and group attendance requirements. Agricultural loans are delivered for agricultural input, livestock, bee-keeping, etc. They are usually term loans (the term varying from 3 to 12 months) in which the principal and interest are paid at the end of the loan term (although in some MFIs the repayment of the agricultural loan could be made weekly, bi-weekly or monthly). Micro business loans, on the other hand, are loans for petty trading, handicraft and services, or loans for micro enterprises which are repaid on regular basis (weekly, bi-weekly, or monthly).

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The forgoing discussion depicts the general situation of MSE finance in Ethiopia. But, what is the state of MSE finance like at the micro level. It was stressed in the Micro and Small Enterprises Development Strategy that the MSE sector's role in and contribution to the national economy has been constrained by “various policy, structural and institutional related problems and bottlenecks”.

Chapter-Three

3. Research Discussions and Methods

3.1. Methodology

3.1.1. Data type and Source

They are two types of data that research will be using primary source and secondary source. Business activities that were similar in nature grouped together for sampling Purposes. The method mainly employed in primary data collection is in-depth personal interview method, observation and questionnaire and secondary data collections are like books, magazines, news papers, reports, references and so on.

Types of Data Use in the Study, Scientific problems can be solved only on the basis of data and a major responsibility of the investigator is to set-up a research design capable of providing the data necessary for the solution of the study problem. The more clearly and thoroughly a problem and its ramifications are identified, the more adequately the study can be planned and carried to a successful completion. It is not wise to select the topic, no matter how adequate, if circumstances render the collection of data required for its solution impossible. The data used in this study are classified into two types, that is, the primary and secondary data.

a. Primary Data

The primary data will be collected first by preparing a well design questionnaire which includes objective questions and which has open-ended (inviting free response) and conducting interview with structure in nature. Data collected for a specific purpose are known as primary data. The collection of facts and figures as designed in the questionnaire for this study and interview of the respondents is the source of primary data for this study. The essence of obtaining such data is to ensure that the exact information wanted for the study was obtained. Terms were carefully defined so that as far as it is humanly possible, misunderstanding on the relevant data to be collected is avoided.

b. Secondary Data

The secondary data: the data which have already been collected and analyzed by someone else. Secondary data may either be published data or unpublished data that can look various sources from where I can obtain them. Occasionally, data are collected for some other purpose mostly for administrative and policy reasons, and form part of the information or data used in this study which are referred to as secondary data. These materials were obtained for purposes other than this study. It is used, however, for compiling quite a large number of statistics relating to various variables and indices or indicators in the economy. Secondary data must be used with caution. Such data may not give the exact kind of information needed, and the data may not be in the most suitable formed. Great attention must be paid to the precise coverage of all information in

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the form of secondary data. So, in my study the basic method will primary and secondary sources of data.

3.1.2. Data Collection Method

Data was collected from 148 enterprises by interviewing the respondents. Activities of the enterprises that were similar in nature grouped to gather for sampling purposes. The method mainly enterprises in primary data collection is in-depth personal interview method. The qualitative data is collected, transcribed, and grouped. Data entry and checking were used to minimize errors. Oral consent to participants in the study was obtained from all respondents. The data collected was triangulated with secondary data source. Survey method was used to collected information from manager or owners of MSE's.

The study was both, primary data was gathered by using questionnaire and interview, to support gathered by using survey, and Journal, articles, books and agency reports was used as secondary sources for the study. Data from the sub- city will be collected in numbers of days by the researcher who is taking notes of the proceedings of the interview through interviewing all numbers of respondents. Among the various methods available, the one used specifically for this study are discussed below;

A. Questionnaire

Questionnaires is usually sent by post to the persons or individuals concerned with a request to answer the questions and return the questionnaire and the respondents have to answer the questions on their own. The main aspects of questionnaires are general form of questionnaires which concerned with structured questionnaires (those questionnaires in which there are definite, concrete and pre-determined questions). Survey testing represents the most systematic program conducted. The questionnaire is perhaps, the most used and the most abused survey instrument. It is used to provide a pooling of ignorance in situations where only an experimental method can provide a meaningful answer. Questionnaire really constitutes the first attempt at scaling. The questionnaires are advantageous whenever the sample size is large enough to make it uneconomical for reasons of time or funds to observe or interview every subject. The greatest difficulty with questionnaires that are distributed to the subjects or potential respondents is the probable bias which exists when less than the total number in the sample actually responds to the questionnaires.

The questionnaires designed are into two parts. The first part is a classification section. This requires such details of the respondent sex, age, occupation etc. The second part possesses the questions relating to the subject matter of the inquiry. The responses for this second part form the basis of our data presentation and analysis. This represents purely the primary source of data collection. The questionnaire designed contains both open and closed questions. The open questions give the respondent freedom to decide the aspect, detail and length of his answer. It enables the respondents to give a more adequate presentation of his particular case and convey

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flexibility in his choice. The closed questions on the other hand are designed to keep the questionnaire to a reasonable length and this encourages response and validity in terms of the representativeness of the returns. It minimizes the risk of misinterpretation unlike the former. It also permits easier tabulation and interpretation by the researcher. The question on whether to use either open or closed questionnaire can be resolved on the basis of validity, reliability and usability, and in as much as the problem under review is varied and complex, a combination of the two is the better than exclusive use of one. This study employed the use of both open and closed questionnaires.

B. Personal Interview

Interview it's to ask the institutional employee and enterprises obtained collect necessary information and asking questions generally in a face-to-face contact to the other persons.

Personal interviewing is another method this study employed to collect primary data. It is very similar in nature and purpose to the questionnaire. As a research method, the interview is a conversation carried out with the definite aim of obtaining certain information. It is designed to gather valid and reliable information through the responses of the interviewee to a planned sequence of questions. These questions are both structured and unstructured similar to the open and closed questions of the questionnaire respectively as discuss earlier. The form of the opening interview is crucial, nevertheless, to win those who are less willing to cooperate. The aim of the large scale survey through the interview is to attain uniformity in the asking of questions and recording of answers.

The duration of the interviews has been varied between thirty minutes to four hour.

C .Documentary

Documentary, in this method of data collection is based on observations or informal conservations. Observation is method most commonly used method specially in studies relating to behavioral sciences and when it serves a formulated research purpose, is systematically planned and recorded and is subjected to checks and controls on validity and reliability. They are usually incomplete and biased, but in certain cases are very useful. This method reveals other facts that may not be obtained through interviews and administering of questionnaires. More so, many facts and relevant information can also be sourced from past records either in text books, periodicals or journals, various statistical and informational materials from different institutions or agencies etc. This form of data collection constitute the secondary source of data collected for its study and help immensely in literature review and background of study that constitute the foundation of the study.

3.1.3. Sampling Techniques

Preparing the sample technique a stratified method is will used with this fair preparation of selected units were taken institution, customer (society) and enterprises are our inputs in order to study the research and also including managers and employees were focus of the study. When

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dealing with a sample frame that is not homogeneous and contains subgroups such as juniors, seniors and so on in a listing for instance, I will need to represent those subgroups in our sample in order to achieve this random selection from each subgroup in the sampling frame has to be considered using the same procedures. The subgroups within the sample frame have to be treated as though they are separate sampling frames themselves. Because of the selected sampling techniques different from other and it's simply used to avoid biased.

3.1.4. Data Analysis

Both qualitative and quantitative approach was designed to investigate the problem under study. The method of data analysis and presentation of finding involves using qualitative and quantitative approach describe with justification of the study. Data Analysis will be applied to the entire sample of respondents to the enterprises, employee and manager. The responses from opened and closed ended questions are computed for graphs, charts, figures, and frequency distribution and tabulation in terms of percentage. The response from interviews is summarized and finally generalized will be made based on the result of the study.

Chapter-four

4. Data Presentation, Analysis and Discussion

The data are collected based on Gullele sub-city, office employee, enterprises and society which are categorized as office employee, enterprises, societies, technology and infrastructure are interviewing 148 enterprises by using primary data, while training, access to market, access to credit and working place are published document & annual report by using secondary data.

4.1. Constraints and Challenges of MSE Textile Products

4.1.1. Implication of Employee

Mostly the leaders who are assigned to their roles have been given they don't follow evaluating and monitoring systems prudently and wisely at the period of time. Related to this micro and small scale institution from all above that aren't concentrated undermine for economical and social status.

General sub-city and woreda /kebele employees are not integrated in team spirit to support for the enterprises and also there are poor related between them. The enterprises who have been accountable for the society provides support considered as to abolish the enterprise depending on political implication, for this reason the ideological entity of the employees are not satisfying and the development of economy that shows loaded and boredom.

The sub-city employees who are in case team evaluating to one another twice in a week and the woreda employees always supports from the sub-city employees by obtaining feed back during fifteen days. But less evaluating and monitoring system to give the operators Where as to support for the beneficiaries that is inadequate to get a result in the case of compensation, allowance and insufficient amount of salary. Meeting is important to admit correction and who reject falsification that self-employed doing their activities. Sometimes jobs are actually done, however without evaluation written on documents that examine employee dissatisfaction. The department's capacity to facilitate the MSE sector's development has, so far, been hampered by, unfavorable policy environment, poor co-ordination as some of the activities are still scattered in other ministries/departments, as well as a weak monitoring and evaluation framework. Within the MSE Associations themselves low management and technical skills as well as persistent leadership wrangles have discouraged the department's efforts in promoting the sector. Consequently, and in spite of the many programmers/projects worth billions of shillings that have been rewarded to the sector over the years, there has been reduced little impact in neither the growth rates nor improving the structure within the MSE sector. The department will have to address these constraints satisfactorily for it's to have the requisite capacity to attain the expected objectives. Demographic Characteristics Identify the institutional employee with regard to education, sex, service year and employee turnover are presented below describe in table.

Constraints and Challenges of MSE at Gulele textile products

TABLE 1: Educational level, Sex distribution and Service Year.

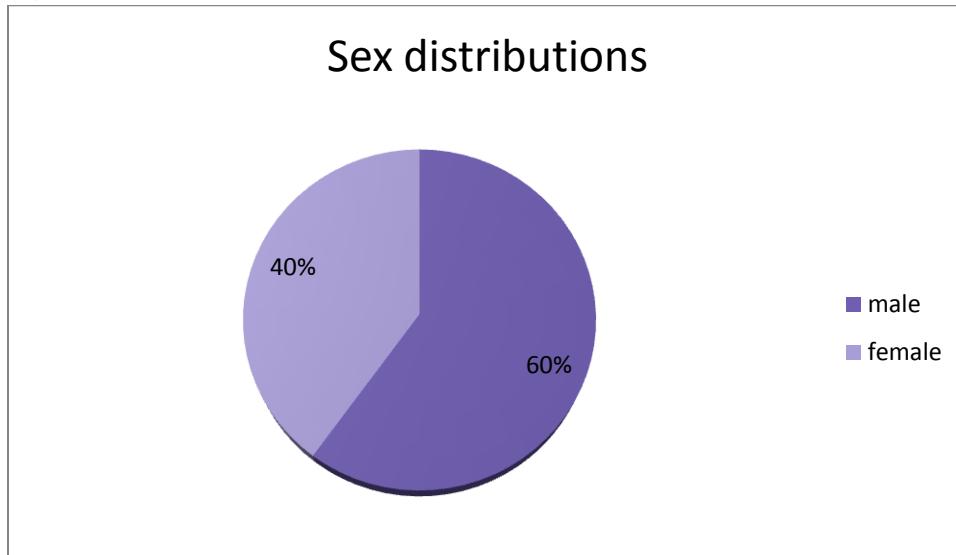
S.No	Item	Frequency	Percentage
Educational Level			
1	Under 12	-	-
2	Diploma	5	36
3	Degree	9	64
4	Above degree	-	-
total		14	100
Sex			
1	Male	8	57
2	Female	6	43
Total		14	100
Service Year			
1	Under two	7	50
2	Two up to three	4	29
3	three up to five	3	21
4	Above five	-	-
Total		14	100

Source: primary data.

From the above table 1, none the employees were taken from under 12 and above degree holders respectively, while out of the total numbers respondents were taken 5(36%) and 9(64%) employees from diploma and degree holders respectively. This is focused on middle and operational level of the institutional office. Therefore, on educational level 9(64%) of the employees are the highest proportion of the degree holders. None of the respondents indicated, institution is unwanted to recruits under12 which have less performed and not assigned to develop within the organization. Relevance qualification of the employees must be considered above diploma and degree holders, but inadequate salary of equivalence with their qualification. So, the organization must be designed and developed to provide skillful and well-experienced professionals insert for above degree holder working in the organization.

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Figure 1: Sex distribution



From the above table 1, out of the total numbers 14 employees 8(57%) and 6(43%) were male and female respectively.

So, that male has the highest proportion of sex distribution of 57% of the employees. Male respondents are greater than female in the organization. The main reasons for large number of respondents are male, because it has a good qualification comparing with female respondents. So, the organization must design and develop affirmative action programs and procedures for female working force to the institution.

Form the above table 1, 7(50%) of the employees were served as less than under two years, while out of 14 employees 4(29%) were served as from start two up to three years. From three up to five years are particular to 3(21%) of the employee. None of the experience is served as above five years. To find most of the employees are 7(50%) of the highest proportion of the service years from under two years. None of the respondent is above five years, because of bad working condition to employee joining with insufficient salary and intangible situation to work. Due to this reason it doesn't have existence in the office and easily leave to the other. Therefore, institutions must satisfied compensation to pay enough money and to create suitable condition for the employee.

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TABLE 2: Joining employees turn over to other organization.

S.NO	Employees turn over	Frequency	Percentage
1	Gov't institution	3	30
2	Private institution	4	40
3	Doing their own business	2	20
4	NGO'S	1	10
	Total	10	100

Source: Primary data.

From the above table 2, employee leave the organization 3(30%) of government institution, 4(40%) of private institution, 2(20%) of doing their own business and the rest of 1(10%) are NGO's. because of this its focuses on joining enter into the other private institution; it has good favorable and working condition with high payment of salary.

Therefore, the majority of employee turnover to move the other organization which is proportionally provided in the private institution. They are highly existed turn over, because of the sectors are often spent their time on meeting and enormous amount of raise complaints on the manager to working employees and in addition to this the institution is paid inadequate amount of salary for the employee.

4.1.2. The Enterprises

The enterprise selects and neglects for the task. The operators to do think that credit has been taken but not too repaid and it implies that the government has reemitted for the loan. It doesn't want to take credit in interest rate and the credit is deemed an aid. In related to this fear that the credit has been taken by them, it creates problem not to refund the loan based on products. They suppose to be dismissed without credit and product places. The operators want over loaded places rather than they think about to get more it benefits and bring about in the market sources to be considered expected that everything uses from the government, but it's the wrong idea. The enterprises are assumed that micro and small scale enterprise not to be business center and it's creating political system. The training not shown as a capacity building, not want as a cost sharing and it needs training allowance at a time. Enterprises are not organized depending upon ethics and profession that don't need to use tendency in achieving and new technology.

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4.1.2.1. Type of Enterprises, Products and Incomes

Within the textile products, the MSE (2001) distinguishes five types of establishments. The most numerous are the establishments involved in knitting, Garment, weaving, leather, ginning and spinning of textiles, and they also have a relatively large average number of workers for five years per establishment (2768). The knitting mills and the wearing apparel manufacturers are much smaller in size. The two large establishments manufacturing garment and weaving are MSE enterprises. The proportion of MSE enterprises is overall (83%) much larger than in the knitting, leather and spinning (where it is only 16%). However, the differences are large: almost one-fifth (**1/5**) of the enterprises in knitting, leather and spinning of textiles. The cluster establishments dominate in the areas of gross value of production in textile; wages and salaries, as well as numbers of employees in both textile and garment.

TABLE 3 (A): Income of major textile products in fiscal year 2001-2007

Textiles Establishment for the year 2001-2007			
Textile	Numbers of Operators	Numbers of Enterprises	Income
Knitting	150	10	2000
Garment	688	43	268000
Weaving	1630	75	150000
Leather	225	15	75000
Ginning and Spinning			50000
	75	5	
Total	2768	148	545000

Output of major textile products in fiscal year 2001-2007

An overview of the kind of products produced and the changes in quantity over a number of years (2001 – 2007) shows that some of the products are income on the increase garment and weaving recently (in 2001/2007) 1 (except knitting). Others are fairly stable with respect to the volume of production, such as leather, cotton and ginning and spinning. Quite a number of products are clear on the decrease, such as knitting, leather wearing apparel, ginning and spinning. Lastly, garments seem to mark rather large production peaks and lows in knitting, leather for a medium level in 2007.

Constraints and Challenges of MSE at Gulele textile products

(b): Establishment Year, Types and Number of Enterprises.

Total	1	S.NO.	
	From 1996-2005EC	Established year	
	<ul style="list-style-type: none"> • Knitting • Garment • Leather • Woven • Ginning & Spinning 	Number of Establishments (Packages)	
	2012	M	Persons Engage
	756	F	
	2768	TOTAL	
	From 500-2000 Birr.	Newly Starts up	Capital
	From 2000-268,000 Birr.	After Joining the Cluster	
	100	Survival	Level of growing (Enterprise)
	47	Growing	
	1	Matured	
	7	yes	Industrial linkage
	141	NO	
	1400	One block	Site of area
	47,600	34 block	

Source: primary data.

Constraints and Challenges of MSE at Gulele textile products

From the above table 3(b), the total numbers of 2768 operators are engage in persons 2012 of male and 756 of female. Most of the enterprises had been established since 1996 that is organized in knitting, garment, weaven, leather and cotton products. From 500 up to 2000 and 2000 up to 268,000 initial newly stars up capital and joining to the cluster development respectively. In relative with the level of growing enterprises is survival of 100, growing of 47, and one (1) of matured. From the level of enterprise I want to select "Rohbot PLC", which is matured start up 2000 Birr initial capital joining to textile garment on August 1999 who leads under the employment of members 10 permanent and 5 temporary employees to create job opportunity. Those enterprises graduate 2003 which have the total income of 1.3 million. Those enterprises said that after facilitating working capital and fullness of human resources and the government to appropriate working promises of a production place unfortunately we can start export our product and joins with the industrial linkage. The enterprises established came to cluster all members are homogeneous character, similar knowledge and professions and also those would like to work rather than not prefer to work and are not looking for one which doesn't expected everything from the government lobbying. Before joining to the cluster they have similar background and experience, but comparing it, other enterprises are the reverse.

The government policies and the increased involvement of NGOs, like MSE, they were able to create favorable conditions in creating employment for operators through MSEs by creating access to finance and trainings. This makes them progressively more engaged in economic activities that enable them to contribute to the household income and to the development of the country.

(c): form of organization of the enterprise

S.No	Enterprises	Frequency	Percentage
1	Proprietorship	32	22%
2	Group (Partnership)	74	50%
3	Co-operative	26	18%
4	Shirknas	16	10%
	Total	148	100%

Source: primary data

From the above table 3, we can see that Proprietorship, Group (Partnership), Co-operative and Shirknas are responsibility percentage coverage becomes 32(22%), 74(50%), 26(18%) and 16(10%) respectively.

4.1.3. Society Perspectives

The society who has not confidence in the quality of micro and small scale enterprise, the production is depreciated in the case of there consciousness that the institution is deep-rooted behavior. On the bases of enterprise that the society depends only governmental employment is worshiped, perhaps it neglects for micro and small scale enterprise. In connection with that it has a big suspicion in the enterprises not to refund our credit and it has been demolished when we have a fundamental problem, so that they have taken the loan is already incredible.

The society has thinks, kebele/woreda is political establishment and also it could be guided in political agenda they assume, however not developmental center and the micro and small scale enterprise is enrichment in industry on the business expansion. Consequently that people having already concealed they believes, impose burden of business activity on these to be illiteracy equivalent to that they don't know the dignity of occupation.

4.1.4. Inappropriate Supporting Services

The micro and small scale institution to give a supportive for training, technology, market oriented, credit and saving, and production places(display and showrooms) by facilitating all their needs to the enterprises.

4.1.4.1. Training in Entrepreneurship, Skills and Management

Awareness and implication problems are a wide expand failures of the enterprises. The institution which is gave skilled and unskilled to avoid shortage of awareness depending on professional and management training. For example to give implication of trainee for 780 operators in the third quarter of the year at three successive days which is a total cost of 11,700 ETB in 2007. Because of lack of trained manpower at all levels of the enterprises like accounts, treasures, manages etc.

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TABLE 4: Frequency Distribution by TVT of training.

S.No	Training	Item	Numbers of operators	Frequency			Percentage		
				Male	Female	Sum	Male	Female	Sum
1	Skilled and unskilled	Textile and Garment	2318	45	137	182	2	6	8
		Leather	225	63	72	135	28	32	60
		Knitting, Ginning, and Spinning	225	6	19	25	3	8	11
	Total	3	2768	114	228	342	4	8	12
2	Management	Textile and Garment	2318	116	30	146	5	1	6
		Leather	225	21	5	26	9	2	11
		Knitting, Ginning and Spinning	225	5	23	28	2	10	12
	Total	3	2768	142	58	200	5	2	7

Source: Gulele Sub-City MSE Administration (Survey Report 2007)

From the above table three, 45(2%) of male and 137(6%) of female operators has been the professional and skill gap and 116(5%) of male and 30(1%) of female operators has been the management on TVT for textile and garment. 63(28%) of male and 72(32%) of female operators has been Skilled and unskilled and 21(9%) of male and 5(2%) of female operators has been the management trainee on TVT for Leather. Knitting, ginning and spinning are responsibility of the percentage coverage becomes 6(3%) of male, 19(8%) of female, and 5(2%) of male, 23(10%) of female training on TVT for skilled and unskilled and management respectively. therefore, out 2768 operators the total proportion of the trainee is 342(12%) on Skilled and unskilled. Out of the total numbers of respondents, 542 operators had taken awareness in training accordingly to the above explanation but, the rest is they have implication of their own problems and always expected to do allowances from the training otherwise exercises themselves.

4.1.4.2. Access to Appropriate Technology

The development of the technological progress based on all the other factors beyond that have not initiated by the employees the operators to participate them according to their interest. The operators who are employed in which they are not voluntary to admit new technology and sophisticated and modern activities. In connection with this the beneficiaries those who are available in the institution couldn't understand to supply of the favorable technology and equipment to the enterprise. In addition to this the institution has not provided the training and experience for those who are included in to these enterprises rather than they don't take care to

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bring them that they will have gradual advantageous means of production and different mechanism to use ringers. In related to that an enterprise has not taken an action to assume the new modern technology, it has not permanent specialized situation because they assumes such types of modern technology need to produce energy. For example Dobby machine in woven.

Nowadays, it is commonly agreed that innovation is the critical path towards growth and prosperity for countries as well as for individual firms. It is the key to technology adoption, creation and explains the vast difference in productivity across and within countries. Based on Global Innovation Index (GII) ranking of countries by region, Sub-Saharan Africa (including Ethiopia) is lower. Rating figure was computed on average of the following factors for each region: institutions, human capital & research, infrastructure, market sophistication, business sophistication, input, scientific outputs, creative outputs, output; and efficiency. On the other hand, Ethiopia ranked low on innovation indicating factors: gross expenditure on R&D, creative goods exports, university or industry collaboration on R&D, regulatory quality index, domestic credit to private sector, number of scientific and technical journal articles; & ICT use index (Dutta, 2011:50). Currently the Ethiopian government uses MSE's as a strategy towards development and creating employment by having overall objective of the strategy of creating and enabling environment for MSE's. Having specific objectives to "facilitate economic growth, bring equitable development, create long term jobs, strengthen cooperation between MSE's, provide the basis for medium and large-scale enterprises, promote export, balance preferential treatment between MSEs and bigger enterprises"(CSAE, 2004).

However, if countries are not in a position to engage effectively in innovation activities, inevitably they are going to be dependent on other countries innovated products, imported by hard currency from developed and other developing countries. This typically holds true for countries like Ethiopia. Likewise, firm's engagement in such activities is becoming mandatory, unless they lose their markets share and customers in the future, as a result of shift in demand of existing customers for new technology. Therefore, innovation helps to meet the customer requirements and enables firms to introduce technology which become one of the most important concerns for enterprises. Hence, the ability of a company, not only to keep up with its current business performance, but to exceed its own and its competition's expectations are critical to survive.

4.1.4.3. Access to Market Oriented

The enterprises only depend on the governmental support and assistance except that it doesn't compare together with them to market computation. Mostly the enterprises couldn't mobilize their production and services on quality and prices are not acquirable (proportion) with their computation. For instance, while the institution supplied and furnished for advertisement and different perspectives of bazaars but, their production are only with less quality product, homogeneous product, lower prices and so forth.

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TABLE 5: Market Oriented.

S. No	Market oriented	Item	Number of Enterprise	Frequency	Percentage
1	Textile and garment	Enterprise Birr	148 1,333,860	118 339,728	79 25
2	Leather	Enterprise Birr	148 533,544	15 293,516	1 55
3	Knitting, Ginning and Spinning	Enterprise Birr	148 266,772	15 152,540	1 57
Total		Enterprise Birr	148 2,134,176	148 785,784	100 37

Source: Gulele Sub-City MSE Administration (Survey Report 2007)

According to the above table 4, 118(79%) of textile and garment, 15(1%) of leather, knitting, ginning and spinning enterprises were creates market oriented in 2007. out 148 enterprises from 118 enterprises of textile and garment are 339,728 Birr (25%), 15 of leather enterprise is 293,516 Birr (55%), and 15 of knitting, ginning, and spinning provides 152,540 Birr (57%) are created market oriented in 2007. Therefore, the total proportion of 148 enterprises 118(79%) of textile and garment are created market oriented 339,728 Birr and those of enterprises could provide in Birr 785,784(37%) to create appropriate market connection in 2007.

4.1.4.4. Credit Constraints

One frequently studied and well-confirmed constraint to enterprise growth is a lack of access to finance due to credit market imperfections.

TABLE 6: Credit Size and Repayment

S.No	Loan Size& Repayment	Number of operators	Birr	Frequency	Percentage
1	Loan Size		1,066,215.50	1500	54
2	Loan Repayment	2768	686,613.53	1268	46
Total		2768	1,752,829	2768	100

Source: Gulele Sub-City MSE Administration (Survey Report 2007).

According to the above table 5, from the total number of 2768 operators is loan size 54% and loan repayment 46% that the credit size of Birr 1,066,215.50 which beyond that 1500 operators being taken the credit, but 1268 repaid. Inadequate loan size, loan durations that do not match with the gestation periods and cash flow patterns of borrowers' activities financed by the loan, failure to disburse loans timely, and the tendency of group collateral requirements to exclude some microfinance borrowers are hindering this achievement. The repayment problem could arise either from the demand side, supply side, and both or other external factors.

The supply side problems include change in the structure of the bank, change in the lending policy, failure in properly appraising the project document (i.e. in assessing the background of the promoter, technical capability, marketability, financial and economic viability of the project) and lack of responsibility and accountability of the staff members of the institution. Concerning the cluster there has been no significant change introduced on the general lending policy of the credit except shifting its attention towards loan collection than loan disbursement, which in fact arisen from severe liquidity problem it has faced. Therefore the problem on the supply side relies more on implementation of the rules and regulations of the institution and on the employee's efficiency of making proper credit assessment. The microfinance has employed its screening criteria in order to select projects which it thought are credit worthy as well as in determination of the loan amount. The question here is whether these criteria employed are really the major constraints of the loan repayment performance of projects.

The demand side on the other hand, refers to borrower's age, sex, educational level, household size, management capacity, loan utilization, availability of other source of income, saving credit experience, specific situation of the enterprise (i.e. market condition, technical capability, specific location, e.t.c.) while external factors mainly refers to the general economic condition of the country, government policy and weather condition. In order to combat these pressing problems, the major deterrents behind the poor repayment record should be identified first.

Access to Credit

The major difficulty for entrepreneurs, especially for operators, is access to credit because of the collateral requirement by the banks. To solve this problem, MSE gives microfinance services to textiles through the established cooperatives without any collateral need. All the members of textile entrepreneurs under the study borrow money from the microfinance institution organized by MSE at least once. This study gathered data about how much money the enterprises borrowed in the past 12 months, starting from March 2006, and is presented in Table 6. Out of the total 148 enterprises, about 54% (1500) of textile operators borrowed money in the last 12 months. An average of Ethiopian Birr (ETB) is a maximum of 1,066,215.50ETB was borrowed. The total amount of money taken by the sampled MSE was 1,752,829ETB. In order to get the upper limit of the money for each level, the enterprises have to be actively engaged in their enterprises, return the money they borrowed before the due date, and have enough money in their savings account. If they do not fulfill these criteria, the amount of money lent to them will be reduced.

To better understand whether MSE access to credit is based on their need to grow their enterprises, the loan sanctioned to enterprise, according to their requirement as well as their loan utilization, was collected. From the 2768 operators that borrowed money in the last 12 months, almost 54% of them used all the money they borrowed to expand or grow their businesses.

In case of enough loan access, about 46% of the enterprise responds that the loan they received was not enough for the growth of their enterprises, since the money permitted by the cooperative is less than they requested. This is because of the amount of credit given to the enterprises is determined by the amount of money in their savings deposit they have in the cooperative lender.

4.1.4.5. Working place

The place where the production is produced and sold doesn't maintain master plane partially, equivalent to that they don't have title deed on the identification of map formally, they are not cooperatively being built in the formal way and basically development that they have faced problematic issue based on their enterprise. The enterprises have assembled under the central clusters can't be suitable organized which have check and balance on the production. During their stay at the place that is not recognized through their institution with clusters and there any systematic operation. It also the time based on the payment which available in the process of durability is inaccurate in accordance with the clusters of the payment is increasing from time to time in meter square depends on the producers are undertaking their tasks have encountered a lot of obstacles not to pay the rental house. As a result of this the enterprise to undermine in the depreciation of clusters and the central clusters are victimized because of high costly bankruptcy. Likewise the cluster development of the production places, market oriented development and technological progress are not able to achieve their goals.

TABLE 7: Clusters of G+4

S. No	Job Occupation	Floor	Area that Gives number of person	Number of people	Rental house	Comment
1	Knitting	G+0	$2*3=6$	101	25	Enterprises of the distance that Gap b/n 0.40cm.
2	Garment	G+1	$2*2=4$	132	22	
3	Weaves	G+2	$2*2=4$	99	20	
4	Leather	G+3	$2*2=4$	198	18	
5	Ginning and Spinning	G+4	$2*2=4$	198	15	
	Total		22	728	100	

Source: Gulele Sub-City MSE Administration (Survey Report 2007).

Figure 2: Floor of Cluster Development



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34G+4*280m² the surface of the earth and which includes in air equals to 47600m². The area of one floor is 280m² further a block which includes on air is 1400m and the total area of 34G+4 blocks are 47600m².

The working place is one of the main components that are needed for a successful and sustainable growth of enterprises because it is essential in creating access to resources and the necessary markets. Most of the enterprises do not have their own working premises. However, it was found that few members rented some parts of their working area to other persons in order to get additional income from the rent. For enterprise, the problem they face is the long distance they have to travel to their working place and uneasy access to transportation. This is because their working area is far from the place where they can get access to raw materials or from their home. The lack of a healthy and clean work place or the sustainability of the place where they work is a dilemma for MSE operators. Sustainability is the foremost problem for those MSE who work in places they rented from private owners or governments. Since these buildings are not in good condition, the MSE have to pay for the maintenance of these buildings. The majority of the respondents claimed that their working place is shared with other members in the cooperative. This working place, which is built by MSE, is under the control of cooperatives.

From the above table 7, the job of the enterprises that knitting workers are putting on the ground floor the area that gives a person 6 square meter and 101 holding number of people, the rental house paid in Birr 25. Garment occupation putting on the first floor the area that gives a person 4 square meter and 132 holding numbers of operators for the rental house is monthly paid in 22 Birr. Weave job the place where the second floor the area which can gives a person 4 square meter and 99 caring numbers of people that monthly pays for the social cost of 20Birr. The rest of leather and cotton products the place where found the third and fourth floor the area which can gives a person 4 square meter and they occupy 198 members that monthly paid for the social cost of 18 Birr and 15 Birr respectively. Therefore, the highest proportion area and housing is paid knitting workers of ground floor, while compare with the number of peoples are leather and cotton products. In relative with this quality of the building that the floor, inside and outside of the wall, the colon and bim are cracked and plucky (deform, disfigure). Office of the stakeholder and toilette house only two cots, but they need three cots that one's remain. Roof of the teras is incorrect working in MSE contractors which has dropping water pipe through housing floor and transferring from top to ground floor of the toilette. In related with the half ditch incorrect work to do so that is dirty water is not moving from the top floor through down which lies wrong connection among the building. Since these buildings are not in a good condition, the MSE have to pay for the maintenance of these buildings.

Door, window and tamburata door hand that are hard to open-close with the key is plucky. The electric installation lines are incorrect connection with the building that the light socket and distributer are in flows which describes the sources incorrect transfer. For this effect, the reason behind which indicates the building to do the contractor and the enterprises. Without finished

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working payment certificate to doing for the contractor which indicated in order to create job opportunity easily to give the MSE contractor working like electric installation, half ditch, and level of metal, glassing work and color cot, tamburata door, metal and wood door work. To sum up, the building is only costive that victimized cluster which are not looking for growing development with technological progress.

TABLE 8: Cost of building in textile products.

S.N O	Site Name	Beginning year	Ending Year	Cost of One block	Total Cost	Wereda	Number Of blocks
1	Minitamire	1996	2005	1,426,434.97	5,893,649.80	1	4
2	Gundish-Meda	1996	2001	2,314,507.21	20,830,565.00	3	9
3	Aregawian	1997	2004	2,639,938.14	10,559,752.00	5	4
4	Mella Engin.	1996	2004	1,263,132.50	3,789,397.45	5	3
5	Andinet yimer	1996	2001	1,185,726.70	3,557,180.16	6	3
6	Addistesfa	1996	2001	1,065,923.00	3,197,768.98	6	2
7	Addisu Gebeya	1996	2001	1,940,510.80	5,821,532.35	8	3
8	Gudisemereta	1996	2004	1,572,468.10	9,434,808.68	8	6
Tota l	8	2	3	13,408,641.32	63,084,654.42	5	34
Display and show room							
	Rufael	1998	2005	-	2,562,654.26	8	1
	Ketchene	1998	2005	-	1,622,938.06	5	1
Tota l	2	1	1		4,185,592.32	2	2

Source: Gulele Sub-City MSE Administration (Survey Report 2007).

From the above table 7, all sites except aregawian start to build the year 1996. One block of mintamire and aregawian, three blocks of melaengineering and two blocks of gudisemerita sites were beginning in 1996 and ending in 2004. Three blocks of mintamire site in 2005. In the sub-city of the sector has 34G+4 central cluster and 2G+4 is display and show rooms.

The cluster which found in similar woreda 5, 6, and 8 aregawin/mela, andinet yimer/addis tesfa and addisu gebeya/gudisemerita sites respectively. All sites begin in similar year (1996), but most of sites were finished at a period of 2001. 27G+4 and 7G+4 blocks of the cluster were finished at 2001 and 2004/2005 respectively. So, that the highest proportion number of nine (9) blocks and the amount of building cost of 20.83 million is gundish meda site, while the lowest site includes 2 blocks are 3.19 million cost of addistesfa site. The total cost of the building of the 34G+4 central clusters are 63.08 million, but a block of rufael and ketchene sites began in 1998 and ending in 2005. The total cost of the two displays and show room are 4.18million. all blocks estimated to finished minimum two years and maximum nine years ,but without plan the terminal is a long period of time, because of exist in institutional poor management, poor responsibility of team spirit in office employee, short-agreement between the project and the

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contractor. In addition to this the contractors are requested additional supplementary agreement in the institution and to do it without quality building of the cluster developmental sites.

Depreciation Cost

Annual Depreciation Expense = total cost -salvage value / Life of economic year
Annual Depreciation Expense = <u>63million-50million</u> / 5year = 2.6million

Acquisition cost	63,000,000
Estimated salvage value	50,000,000
Estimated life: In years	5

The 34G+4 buildings are 2.6 million Birr depreciation expense per year. When the depreciation expense for the building has been calculated, a schedule showing the acquisition cost, annual depreciation expense, the total accumulated depreciation, and the building book value (undepreciated cost) for each year can be prepared. The depreciation schedule for the building (using straight-line depreciation) is shown in the table below.

TABLE 9: Depreciation Cost

Year	Acquisition cost	Annual Depreciation Expense	Accumulated Depreciation	Book Value
		-	-	Br63,000,000
End of year1	Br 63,000,000	Br 2,600,000	Br 2,600,000	60,400,000
End of year2		2,600,000	5,200,000	57,800,000
End of year3		2,600,000	7,800,000	55,200,000
End of year4		2,600,000	10,400,000	52,600,000
End of year5		2,600,000	13,000,000	50,000,000
Total	63,000,000	13,000,000		

The entry to record straight-line depreciation each year is 2.6million. Depreciation Expense is reported on the income statement. Accumulated Depreciation a building account that is offset against the cost of the building on the balance sheet. Book value is equal to the building account balance, which retains the original cost of the building 2.6 million Birr depreciated each year. At

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the end of the first year, the acquisition cost, accumulated depreciation, and book value of the building is presented on the balance sheet as follows:

Cluster of the building	Br 63,000,000
Less Accumulated Depreciation	(2,600,000)
Book value	Br 57,800,000

4.1.4.6. Infrastructure Problem

The main infrastructural facilities that are being used by the women's enterprises are electricity, water and transportation, which account 61.48%, 49.34% and 70.25%, respectively. The most important use of electricity for the enterprises is for lighting and most enterprises have an easy access to transportation. Limited numbers of enterprises have access to the rest of the infrastructures, which is only 49.34% of the enterprises have water access. The use of transportation for the enterprise purpose is significant.

Table 10: Frequency Distribution of Respondents by Infrastructure Access in Enterprises

S.N o	Infrastr ucture		Woreda 1		Woreda 3		Woreda 5		Woreda 6		Woreda 8		Total	
1	Electric	Yes	10	06.75%	28	18.92%	19	12.84%	13	8.78%	21	14.19%	91	61.48%
		No	13	08.8%	20	13.51%	7	4.73%	17	11.5%	11	7.4%	68	45.94%
2	Water	Yes	15	10.14%	23	15.54%	5	3.4%	12	8.10%	18	12.16%	73	49.34%
		No	37	25.0%	27	18.24%	9	6.08%	18	12.16%	9	06.08%	100	67.56%
3	Transp ortatio n	Yes	21	14.18%	28	18.92%	18	12.16%	16	10.81%	21	14.18%	104	70.25%
		No	20	13.51%	5	3.4%	14	9.5%	26	17.57%	12	8.10%	77	52.08%

Source: primary data.

The largest part of the enterprises has limited use of the infrastructures for enterprise purpose which is access to water in their cluster. Nevertheless, they do not use radio and television as a source of information for their enterprise growth. In the MSE that they do not have time to listen to them since they have to perform household activities and take care of the family after the enterprise work. Some of them believed that the information that is transmitted through media is far from reality. The enterprises also emphasized that the problem of water is the major obstacle

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for their enterprise growth, especially for those in the service sector. These enterprises use water by buying it from woreda or other places since they do not have the facility in their enterprises.

The main growth problem faced by enterprises is the marketing problem, mainly due to the presence of many competitors with identical products, change in demand, and absence of market linkages. The second major problem that is identified by enterprises is working place. The raw material shortage, shortage of working capital, and lack of enough loans are the other problems for operators. Heavy family burden is not cited as a major problem for growth. However, in the MSE, the participants in the Woreda 3 explained that there is a gap in the government policy and in its implementation. Even if there is an established market area given by MSE to solve a working place and market problem of textile, the illegal traders take the opportunity out of it. The illegal traders come at market dates and sell their products. Since the buyers can easily access them in the open area, they buy products from them. The enterprises in this market place make efforts to solve this problem in cooperation with the government either by making the illegal traders be legal or to stop their activities in the area. But lack of attention with the government bodies or the gap in the implementation of policies and regulations cannot solve their problems.

Chapter-five

5. Conclusion and Recommendation

5.1. Conclusion

Based on the findings obtained the following conclusions are drawn: The greatest or worst problem confronting MSEs in the sub-city is managerial capacity. Finance is the main root of business. If firms do not have sufficient amount of finance it's impossible to compete with others. That is why financial limitation is important barriers for MSE's small and micro enterprise specific to engage on textile products. Due to fast changing environment and increase of knowledge dissemination, it difficult to SME' to maintain competitive advantage through internal R&D. Access to capital or finance is necessary but not a sufficient condition for successful entrepreneurial development. If one has the entire funds in the world and does not have the capacity to manage that fund and does not have the necessary information as to what he/she should do, the money would go down the drain.

Micro and Small Enterprises (MSEs) Finance in Ethiopia equipment-leasing, Such an arrangement also has avoiding problems associated with seizure and realization of asset collateral in the event of default, as ownership belongs to the equipment supplier sum- credit provider and there is no need to realize it. It is worthwhile for the government and other stakeholders in MSE development (e.g. NGOs, international organizations such as the ILO, the World Bank, the African Development Bank, the EU, etc.) to further explore the feasibility of linking their support to MSEs (through start-up and/or working capital loans) with suppliers credit and bank lending, and identify the key conditions under which this mode of finance could succeed. What it takes to encourage banks to voluntarily participate in these should also be studied, and the ability of the existing legislation and regulatory framework to accommodate these needs to be reviewed? Currently the Ethiopian government use MSE's as a strategy towards development and creating employment by having overall objective of the strategy of creating and enabling environment for MSE's. Having specific objectives to "facilitate economic growth, bring equitable development, create long term jobs, strengthen cooperation between MSE's, provide the basis for medium and large-scale enterprises, promote export, balance preferential treatment between MSEs and bigger enterprises"(CSAE, 2004).

The working place is one of the main components that are needed for a successful and sustainable growth of enterprises because it is essential in creating access to resources and the necessary markets. Most of the enterprises do not have their own suitable working premises. However it was found that few members rented some parts of their working area to other persons in order to get additional income from the rent.

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Small enterprises better engaged on technological innovation, particularly those MSE's in garment and textile, from that construction sectors. Factors constraining appropriate technology is the main reason for small and micro enterprise so far did not actively engaging in technological progress? For organization government policy and regulation has positive and negative effect on firm performance. As a result, enterprise technology performance might be also encouraged or discouraged by policy and regulation of countries government. Regarding this government policy and regulation is an important restraining factor for MSE's industry and small enterprise technological innovation. However, it's not taken as an important inhibiting factor for small enterprise technological progress.

Information is power to every organization of MSE's to cope up in this dynamic environment and to overcome competitive restrain factors. However, lack of technological & market information is obstacle to MSE's industry and both small and micro enterprise specific technological innovation. It is undeniable that R&D importance for firms to innovate new technologies, to imitate technology and to gain competitive advantage. However, if those firms don't have adequate engagement on R&D, it can be difficult to perform well in the introduction of creating new technology or adding values on existing products. Therefore, inadequate R&D is barrier for MSE's at industry and at specific small and micro enterprise technological progress.

Organizational activities cannot be achieved without the existence of human beings. However, enterprise has inadequate skilled human power; so it's difficult attain its objectives as it's required. This is true for MSE's that skilled human power is required in the introduction or expansion of new technologies, professional and management training. Therefore, lack of skilled trained manpower at all levels of the enterprise is taken as inhabiting factors for MSE industry and small enterprises and mistrust of potential members of the operators.

Notably, Lacks of finance, lack of skilled personnel, lack of access to market, lack of appropriate technology and production place are the five most impeding MSE's industry level cluster of textile products with internal factors. On the other hand, High cost of production, lack of technological and market information, and government policy and regulation are the three main impeding MSE's industry level textile cluster development within external factors.

5.2. Recommendation

The following the above conclusion within the context of data analysis coupled with the regard to review of related literatures an attempt is made to recommend possible solutions for micro and small scale enterprises textile products of the cluster development in the case of Gulele sub-city.

To collect, analyze, organize and up-date from ginning and spinning factories on their current technology, productivity, quality, maintenance and production, and providing the same to the beneficiaries that to develop the capacity of human resource of the ginning and spinning industries through practical and theoretical trainings that are formulated based on need

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assessment and gap analysis. To provide training of trainers to TVET teachers and to perform research and development activities that solve problems, improve quality and enhance productivity of ginning and spinning factories. Expanding and strengthening the existing export market to ensure its sustainability.

Government and financial institution should develop a holistic approach to schemes initiated by them like the Central Bank of Ethiopia (CBE) and other financial institutions should embark on extensive sensitization of entrepreneurs on the operations of the banks. Interest which deters people with genuine business ideas should be reduced to a bearable level so as to make borrowing cheaper.

All administrative bottle necks which make funds inaccessible to micro and small scale Enterprises operators should be mitigated. Government should engage professionally in the formulation of policies that will stand the test of time and government should develop a lasting solution to the state of infrastructural deterioration especially raw materials. The security situation of the country needs to be improved so as to make business doable in the country. Policies initiated by the government should be funded efficiently which are aimed at rural development should top the lists of policies aimed at developing the already or semi-developed urban centers so as to reduce rural-urban migration. Prospective business operators should conduct extensive feasibility studies to evaluate the viability of any proposed business to avoid investment in unprofitable ventures.

The willingness of governments to create a regulatory environment that encourages small scale enterprise development, to invest in upgrading the skills and technological capabilities, and to implement policy promoting sector-specific FDI and TNC-SME linkages.

Government intervention can take the form of different inputs. Investing in sound infrastructure such as water, electricity, roads and IT services not only attracts TNCs but also ensures that local enterprises are not at a competitive disadvantage. When a government invests in clusters and supplier development programs, and establishes training centers and programmes that provide technical assistance, skills training and capacity development, as the examples in this paper show, it assists small suppliers to upgrade skills and technology to take advantage of the benefits of FDI. Creating specialized agencies to promote and coordinate industry development, as in the case of the cut flower industry in Kenya, establishes close communication with enterprises and clusters in growth sectors that have TNC connections. financial institution have great responsibility on provision of loan to micro and small enterprise with low interest rate as well as without collateral requirement for the loan what they provide, Promotion of education and mutual understanding and social and economic well being among the enterprises. Enterprises educating and trainings to initiative support to guild in a various areas (fields) of MSE. In addition to this avoid suspicion (mistrust) to win the confidence of potential members of the enterprises through examples demonstrations.

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To sum up, the overview management should advocated the accuracy of measurement and take corrective action in case implication of employee, enterprises and the society itself. This context the enterprise to the betterment of textile products of the cluster enable micro and small scale enterprises to attach high rewards (value) to the system the final results is thus to remove the implication problem as the whole through reducing problems of raw materials.

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ANNEXES

Constraints and Challenges of MSE at Gulele textile products

ANNEX- 1

Indira Gandhi Open National University

Department of Public Administration

Title of thesis: constraints and challenges of small-scale enterprises

The case of gulele textile product

(1) Interview Questionnaire: For the enterprises (close-ended)

Section I: Identification

Sub-city.....

Keble.....

Questionnaires No.....

Enumerator:

Date:

Section II. Demographic Characteristics

1. Name of the owner or group or co-operative of the enterprise (optional)

2. Sex

 1. Male.....

 2. Female.....

3. Year of Birth

4. Size of the household.....

5. No of Dependents.....

6. Marital status

 1. Never married.....

 2. Married.....

 3. Divorced.....

 4. Widowed.....

 5. Separated.....

7. Can you read and write

 1. Yes.....

 2. No.....

8. If the answer for question 7 was yes, what was the highest grade you have completed.....

Section III. Characteristics of the enterprise

9. What is the main activity of the enterprise?

 1. Manufacturing

 2. Service.....

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- 3. Weave.....
 - 4. Garment
 - 5. Urban Agriculture.....
10. Does the enterprise have a business license or any form of registration?
- 1. Yes.....
 - 2. No.....
11. How many employees do you have in the enterprise?
- 1. Permanent.....
 - 2. Contract.....
 - 3. Unpaid family member.....
12. Do you pay any type of tax?
- 1. Yes
 - 2. No.....

13. Does the enterprise have a fixed location?

- 1. Yes.....
- 2. No.....

Section IV. Profile of enterprise

14. What is the specific activity of the enterprise?
- 1. Textile and garment.....
 - 2. Leather crafts and shoe making.....
15. What is the form of organization of the enterprise?
- 1. Proprietorship.....
 - 2. Group (Partnership).....
 - 3. Co-operative
 - 4. Shirknas.....
16. How long ago did you start this enterprise?
..... Month..... Year
17. How did you acquire the skills you are applying in your job?
- 1. Self
 - 2. Family.....
 - 3. On job training.....
 - 4. Vocational Training.....

Section V: Features of the Enterprise

18. Where does the enterprise operate?
- 1. Home without space.....
 - 2. Home with space.....
 - 3. Structure attached to home.....
 - 4. Rented building.....
 - 5. Open space on market area.....

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6. Open space on street.....
 7. No fixed location.....
19. Where the following infrastructure available?
1. Water.....
 2. Electricity.....
 3. Telecommunication
 4. Sanitation facilities.....
 5. Rode
20. What have been the main problems your enterprises (multiple answers are possible)
1. Government rules and regulation.....
 2. Market problems.....
 3. Lack of business skills.....
 4. Lack of inadequate supply of inputs
 5. Lack of working place
 6. Production/technical problems.....
 7. No qualified staff.....
 8. High material costs.....
 9. Lack of finance/credit facilities.....
 10. Lack of up-to-date business information.....
 11. Registration.....
 12. High taxes.....

VI. Evaluation of Success Factors

A. Technical and Managerial Training

21. Did you received any technical and managerial training
1. Yes.....
 2. No.....
22. If your answer of Q. 21 is no, why didn't you participate on the training?
1. I don't need it.....
 2. I couldn't get the opportunity
 3. I already have the skills.....
 4. Not well informed of the importance.....
 5. It is not need based.....
 6. Inconvenient time schedule to attend.....
23. If your answer for Q.21 is yes, how such training helps the business? (Multiple answers are possible) helped much, undecided and did not help.
1. Strengthening Business skill.....
 2. Solving technical problems.....
 3. Providing better entrepreneurial knowhow.....
 4. Improving organizational capacity.....

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5. Improving managerial capacity.....
6. Other, please specify.....

B. Market linkage

24. Did you get any assistance in market linkage?

1. Yes.....
2. No.....

25. If your answer of Q. 24 is no, why didn't you get the market linkage opportunity?

1. I don't need it.....
2. I couldn't get the opportunity
3. Not informed of its importance.....

26. If your answer of Q.24 was yes, what is the nature of the market linkage (Multiple answers are possible)

1. Linkage with customers.....
2. Linkage with suppliers.....
3. Both
4. Other, please specify

27. What are/is the results of market linkage on the enterprise? (Multiple answers are possible)

1. Increase in sales.....
2. Low cost of inputs.....
3. Reliable source of inputs.....
4. Reliable customers.....
5. No impact yet.....

C. Provision of Technology

28. Did you obtain any technological assistance?

1. Yes.....
2. No.....

29. If your answer for Q.28 is No, it is because

1. It doesn't help much
2. I can't afford.....
3. No technical skill on the use.....
4. I couldn't get the opportunity.....

30. If your answer from Q 28 is yes, does the provision of technology relevant to your activity?

1. Yes.....
2. No.....

31. What is the impact of this service on the enterprise? (Multiple answers are possible)

1. Increase production/service.....
2. Reduce cost of production/service.....
3. Increase quality of product/service

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4. No impact yet.....

D. Provision of credit facility

32. Did you obtain a credit facility?

1. Yes.....

2. No.....

33. If your answer for Q. 32 is No, why? (Multiple answers are possible)

1. I don't need credit.....

2. I can use other sources.....

3. Inadequate loan amount

4. High interest charge.....

5. Lack of collateral

6. It is bureaucratic

34. If your answer for Q. 32 is yes, is the amount of the loan sufficient

1. Yes.....

2. No

35. What is the effect of the loan (Multiple answers are possible)

1. Solve financial constraints.....

2. Increase input acquisition.....

3. Build premises.....

4. Bought working materials.....

5. Bought equipment

6. No impact yet.....

E. Information

36. Do you get any relevant information for your operation?

1. Yes.....

2. No.....

37. If your answer of Q. 36 is no, why didn't you get the service?

1. I don't need it.....

2. I couldn't get the opportunity.....

3. I already have the skills.....

4. Not well informed of the importance.....

5. Inconvenient time schedule to attend.....

38. If your answer for Q.36 is yes, what is the nature of the information?

1. Input market information.....

2. Output market information.....

3. About the program

4. Legislation and Legal requirement.....

5. Taxation.....

APPENDIX -2

(2) For the employee (open-ended).

1. When was it established?

2. How many buildings are there in the cluster?

3. How many enterprises are operating in the cluster?

4. What is the area of the cluster (in square meter)?

5. What was the cost of constructing the building?

6. What are the specific sectors in which enterprises are operating in?

7. How many of the owners are women?

8. What was the average starting capital of the enterprises?

9. What kind of support is being given by the government for these enterprises?

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10. How many of them are selected as modes and how many have graduated?

-----.

11. How many of the enterprises sin the clusters were newly start ups and how many have already been in the business before joining the cluster?

-----.

12. What is the level of linkage in the cluster with the big industries?

-----.

13. Is government encouraging exports?

Yes: -----.

No: -----.

14. How effective such intervention in the cluster?

-----.

15. Have moral hazard in the office (employee?)

Yes: -----.

No: -----.

RESEARCH PROPOSAL



INDIRA GANDHI NATIONAL OPEN UNIVERSITY(IGNOU)

Master of Arts: Department of Public Administration

Research proposal on

CONSTRAINTS AND CHALLENGES OF SMALL-SCALE ENTERPRISES

THE CASE OF GULELE TEXTIL PRODUCT

PREPARDE by

TIBEBE SOLOMON

ID1361583

SUBMITTED TO Dr Elias Berhanu

SCHOOL OF SOCIAL SCIENCES(IGNOU)

July 20, 2015

Constraints and Challenges of MSE at Gulele textile products

APPROVAL

Candidate's Name: TIBEBE SOLOMON BELAY

Programme Code: MPA

Course Code: MPAP-002

Enrolment No: ID1361583

Regional center: S't Mary University

Study Center.....

Study center Code: 8105

Address: Addis Ababa

Email: tibebesol4@gmail.com or tibebesol3@yahoo.com

Tele: 251911069091

Title of the dissertation: constraints and challenges of small-scale enterprises the case of Gulele textile product

CERTIFICATIN OF APPROVAL

I hereby certify that the proposal for the dissertation entitled Constraint and Challenges of Small-Scale Enterprises the case of Gulele Textile Product by Tibebe Solomon has been prepared after due consultation with me. The proposal has my approval and, to my knowledge, the potential of developing in to comprehensive dissertation project. I also agree to supervise the above mentioned dissertation till its completion.

(Signature of the academic supervisor)

Name.....

Designation.....

Address.....

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Chapter One

1. Introduction

1.1. Background of the Study

The role of Micro and Small-scale Enterprises (MSEs) in socio-economic development as a means for generating sustainable employment and income is increasingly recognized. In developing countries, the informal sector is a large source of employment and income, particularly for the urban population. The informal employment, outside of agriculture, is defined as employment that comprises of both self-employment, in the informal enterprises, and wage employment, in the informal jobs, without secure contracts, worker benefits, or social protection and represents nearly half or more of the total non-agricultural employment in all regions of the developing world. In developing countries, the informal sector that mainly constitutes micro enterprises is the major source of employment and income for the urban population. According to ILO (2002) estimations, the share of informal employment (outside agriculture) to the total non-agricultural employment accounts for nearly half or more in all regions of the developing world and about 72% in sub-Saharan Africa (SSA). They are also very important part of the developing world economy.

The Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. It is a generally accepted tenet of international development that small scale enterprises (also referred to as SMEs) play an important role in alleviating poverty, especially in Africa. There have been a number of small scale enterprise development programs over the years. Some have evolved from the relationships established with transnational companies and private sector initiatives, while others have been driven by governments, multilateral and donor agencies. Some argue that, capital, being scarce in developing countries, should essentially be deployed in a way that maximizes the creation of new jobs and production of new goods and services rather than being used to convert a very small number of businesses into modern capital-intensive ones. But, available data on MSE finance is usually limited to access constraints to formal finance and their reliance on informal sources. The terms and conditions of the latter are simply assumed, rather than critically examined, in light of the needs and preferences of MSE operators. The informal sources considered invariably miss an important source, namely trade credit. In fact, none of the studies in Ethiopia that we are aware of deals with trade credit.

Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. The policy for SMEs promulgated in 1998 serves as a guideline to all partners to

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stimulate the establishment of new enterprises enable the existing one to grow and become more competitive.

The Gulele sub city administration has undertaken SMEs program by organizing the youth in to group and solely to reduce unemployment. Currently, there is information gap in exploring the challenges of SMEs in employment creation and regarding to what extent these sectors.

In our sub city they have the total number of 4990 above operators in the sub-city. From this operators 2768 are organized in textile production of 2012 male and 756 are female they established from 1996 up to 2001 EC. From the rest of textile they different packages in construction, metal and wood work, food processing, coble stone, urban agriculture, ICT, beauty salon, potter work and sales of production. They have 34G+4 cluster and 2G+2 display and show room in Gulele sub city. Government is more contribute the cluster who could established to built from 1996 up to in 2005, However they expance the cost of building is 63 millions. But 2768 operators are only arranged in four blocks because one block has been thought up to 728 operators then 34 blocks has been a capacity of 24,752 operators. So, why the rest of 30G+4 cluster of blocks are totally nullification and also how to effective such interventions or supporting service in the clusters of textile products. Because of this reasons the following factors.

1.2. Statement of the Problem

Micro and Small Enterprise Development have different growing packages administer especially in textile products such as knitting job, garment, weave loom, leather and ginning and spinning products. The ever increasing unemployment in Ethiopia, the FDRE has undertaken different measures starting promulgation of laws to establishment of executives starting from federal to grass root level to enhance the strength and competence of MSEs and also different micro finance enterprises are providing credit for these enterprises. The factors that forced the government of Ethiopia to undertake this program is a number of joblessness in the country which increases to 1.1 million.

It can be gleaned from the above research that the issue of businesses challenging is one of which researchers and policy makers alike should be aware, as the economies of many countries could be seriously affected, if the owners of small and micro businesses are not assisted in reducing these failure rates. The Addis Ababa city administration has undertaken MSE Program by organizing the youth into group and solely to reduce unemployment. Currently, there is an information gap in exploring the challenges of MSEs in employment creation and regarding to what extent these sectors create jobs at startup and the growth in employment across periods. In as far as lack of knowledge about available financing programs or the process of application constrains access for individual micro and small enterprises, the envisaged Micro and Small Enterprises. Accessing finance is too difficult for micro-enterprises and often seen as a major stumbling block for their success. This is due to the high risk element which such enterprises carry with them.

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Although huge amounts of money have been spent on MSEs through many projects in recent year, their impact on the survival and development of the enterprise has been low, as their mortality rate remained high.

The major problems that textile products about cluster development are the following

- Lack of ethical and moral hazard(existence of information asymmetry)
- Imperfect market condition
- Problem of product advertisement
- Problem of policy implication

Therefore, try to identifying problem are in the cluster development evaluation system and practice as started in the following problem statement question.

- ✓ Is government encouraging you?
- ✓ How do target operation views in micro and small enterprise work of the firm's intermesh of crating awareness, interest and decision?
- ✓ How does the subject nature of factors to make the system susceptible to market connection?

1.3. Objective of the Study

1.3.1. General Objective

The main purpose of the study is to assess critically evaluate the administrable constraints and challenges of MSE in Addis Ababa City :(the case of textile products in cluster development of Gulele Sub-City).

1.3.2. Specific Objective

- ❖ To identify and analyze the entrepreneurial and enterprise characteristics that constraints the growth of MSE.
- ❖ To show the role or contribution of the sector through forward/backward linkage in the industry, it shows on the literature review.
- ❖ To draw policy implications for the proper utilization of the financial resource of the country to meet the envisaged development objectives and future cluster development practice in the country.

1.4 Significance of the Study

Ethiopia started to adopt market economic system, the private sector which had been neglected for years has got due attention, because this sector is believed to be the main actor of the market so as to achieve the desired development target. Since micro and Small Scale Enterprises constitute the bulk of the private sector, economic growth can't be attempted without the active involvement, promotion and development of this sector of the economy. Although this sector has

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been given due attention presently, still there are formidable obstacles that inhibit them from growth and expansion. One of the most crucial and leading factors is limited access to financial capital and credit especially from the formal lending agents.

It is important for policy makers like MSE Development Agencies. The study will also enable micro and small business owners to tackle failure of their business by suggesting some practical measures to be taken by these enterprises in order to solve the number of problems faced, thereby contributing to poverty alleviation, one of the Millennium Development Goals (MDGS).

The research study will attempt to provide the following benefits.

- ✓ The study will be used to, how to harmonize, team spirit, and working condition of the enterprises.
- ✓ To find possible solution that is deemed to improve micro and small scale enterprise performance.
- ✓ It gives full understanding about micro and small scale enterprises and to all stakeholders in the cluster.
- ✓ To identify shirking and asymmetric information in the sector of the economy
- ✓ It provides the possible solution that will help to reduce deemed arising from different view.
- ✓ To Asses overall challenges of small businesses which include political, economic, social, cultural and environmental factors.

1.5. Scope and Limitation of the Study

1.5.1 Scope of the Study

The researcher intended to search for how effective textile products about cluster development and other related topics in the sector. The research restricted in to Addis Ababa at Gulele Sub-City for obtaining the necessary information. The study is focused on small-scale enterprise administerial constraints and challenges of textile products by MSE. The study concentrated on MSE because it is the forefront directional institute engaged on MSE development oriented investment sectors of the enterprises. Although, the study is restricted only to MSE clusters, its finding is expected to somehow reflect common features of others (especially government owned ones) since some of the problems exhibited in MSE is also observed on others.

Furthermore, the study is limited to one specific area again due to time and financial Constraint. Since, the supporting rules and procedures of the enterprises are the same Constraint in all cluster it's obtained and the result of this specific area could reflect the situation of the MSE all over the country under normal circumstance.

1.5.2. Limitation of the Study

The research is conducted variables such as time, money (finance), and other challenges are found to constraints their process of the study. The study is expected to have limitation due to lack of time by the researcher. In addition to this paper may be limited to availability of data and research design such as: sample size representation, response rate, and accuracy and reliability. The respondents' complain of the bulky and sophisticated nature of the questionnaires vis-a-vis the short period of time given to fill them. As a result of this, some potential respondents adopted nonchalant attitudes towards filling them. Secondly, some operators, especially in the MSE industries owned by Gulele Sub-City, concentrated between the city and clusters were rightly out hostile. Appeals by the research assistants and in some cases, state coordinators, eventually led to the acceptance of the questionnaires by a few. However, some of the operators still returned the questionnaires uncompleted.

1.6 Review of Related Literature

1.6.1 Review of Theoretical Literature

The abbreviation SME is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors. The actual by the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises in Ethiopia are as follow:

Microenterprises: are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.

Small Enterprises: are business enterprises with a paid-up capital of more than Birr 20,000 (\$2,500) but not more than Birr 500,000 (\$62,500) but excluding high-tech consultancy firms and other high-tech establishments. (1 US\$ equals about 9 Birr, 1 Euro equals about 10 Birr in 10/2003).

The Central Statistical Authority (CSA), for the purposes of its survey on Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries, attached various definitions to enterprises in different sectors, Vis: the informal sector, cottage or handicrafts, small-scale manufacturing industries and medium- and large-scale manufacturing industries. CSA definition of enterprises:

- Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.

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- Small and medium enterprises are establishments that engage less than 10 persons using power driven machinery.
- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labor and mostly manual rather than
- Automated/mechanical machinery.

Micro, small and medium-sized enterprises: Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total.

A medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance-sheet total does not exceed EUR 43 million.

A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

A microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

MODES OF OPERATION – CREATIVE CLUSTERS

The economic development of creative clusters depends on the availability of support systems that respond to the needs of the cluster. In the first report on creative-cultural industries in Austria the promotion of creative clusters is proposed and it is observed that the future of those clusters depends on:

- The supply of creative products:
- Marketing, together with tourism:

1.6.1.1. Access to Finance

MSEs cite the lack of finance as the greatest constraint to their growth and development, whether they are formally registered or not. The financial needs of different types of micro and small enterprises vary widely, with access problems particularly severe for start-up enterprises. In this regard, the formal financial institutions are reluctant to avail credit facility to the sectors. Their standards of operation, the long waiting time they take to sanction loans, unfavorable disposition towards small loans. Due to high administrative costs involved in financing them and the stiff and limited collateral requirements are some of the problems that are found to be discouraging micro and small enterprises from approaching them. Thus, the portion of informal sector business operators with access to formal financial institutions is very low. The Government of the Federal Democratic Republic of Ethiopia is committed to strengthen the link between micro and small enterprises and existing as well as evolving financial institutions. In line with this, there are areas for direct or indirect government involvement in the financial sphere, which includes the following:

- The Formal Banking Sector
- Training in Entrepreneurship, Skills and Management

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- Access to Appropriate Technology
- Access to Market
- The Physical Infrastructure

1.6.1.2. Factors Affecting the Development of MSEs in Gulele Textile

The significance of the contribution of MSEs to national development goals in general and to the local economy in particular, is being recognized increasingly in many developing countries. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector. This being the fact, different studies indicates the sector faces a range of legal, regulatory and other constraints that can limit its role of creating new employment opportunities, poverty alleviation and fostering economic growth.

Is hengoma and Kappel, 2006 categorized factors hindering the performance of Micro and small enterprises into two, namely internal and external (Ishengoma and Kappel, 2006b).

1.6.1.2.1. Internal Factor

The internal factors, which hinder the normal functioning of MSEs, include: limited human capital (the skills, schooling, technical know-how and motivation of employees), lack of working capital, the utilization of obsolete technology and poor location. Regarding factors pertaining to human capital, studies indicate that the majority of workers in informal enterprises are of low educated. Most of the operators acquired the skills through on-the-job training within the informal sector or, as in the case of Africa, through informal apprenticeship systems; it is rare to see those who obtained their skills through a formal training institution (Sethuraman, 1997).

1.6.1.2.2. External Factor

1.6.1.2.2.1. Access to Financial Services

In most of developing countries, the majority of MSEs Lack access to formal financial services. Researches in this area evidenced that the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions. Credit from formal sources are not only governed by government regulations but often they also form part of public sector monopoly, and hence administered by a bureaucracy that is generally unfriendly to the poor, illiterates and semi-literates in the informal sector. Similar attitudes also prevail in the private sector; the private banks for example rarely find it profitable to deal with these units, though a few exceptions are emerging (Sethuraman, 1997). According to Morrison, 1995, between the years 1995 and 2004 only nine percent of informal enterprises in Jamaica and ten percent in Tunisia had access to bank loans (Morrison,

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1995). African countries also experienced similar circumstances for instance; only ten percent of informal firms in Nigeria and four percent in Uganda had access bank loans (Arimah, 2001). The firms' accessibility to funds from micro-finance institutions was much lower. Sometimes it appears that it is more expensive to borrow from MFIs than formal financial institutions (Ishengoma, 2004).

1.6.1.2.2.2. Limited Access to Business Development Services

Business Development Services are designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets.

The majority of them have no access to business development services offered or coordinated by governments. Some of them are unaware that business development services are offered while others are ignorant to its worth. Ishengoma and Kapple stated that BDS providers do not market their services to small and informal enterprises appropriately, assuming that these enterprises cannot afford the services. In some cases the services offered are of low quality or irrelevant to MSEs (Ishengoma and Kappel, 2006b).

1.6.1.2.2.3. Limited Market

The majority of informal enterprises target the low income market areas because of low entry barriers. Enterprises in this market tend to compete for the same customers. The magnitude of this hindrance is higher for those concentrated in one area as they tend to apply a copycat strategy and thus produce similar products. This limits their growth potential and stability and is one of the reasons why informal enterprises experience a relatively high instance of downfall.

1.6.1.2 Constraints and Opportunities of MSEs

From a review of the literature (Psaila, 2006) it transpires that the Constraints and opportunities of micro-enterprises stem from their very inherent characteristics. A characteristic associated in micro-enterprises is that they tend to be independent minded, workaholic and have a strong family orientation (Boissevain, 1991). Gleaning through the literature on micro-enterprises (see for example, Carree and Thurik, 1998; Davis et al., 1996; Storey, 1994), one may succinctly summaries the strengths and weaknesses of micro-enterprises as follow:

Strengths: Flexibility in decision making, Motivation to succeed due to ownership, Speed in taking decisions, Lack of bureaucracy and Continuity through the possibility of building the business for future members of the family.

Weaknesses: Limited possibilities to reap the benefits and economies of scale, difficulties in accessing finance and Difficulties to withstand competition from larger firms.

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The strengths of micro-enterprises, if properly exploited, will yield competitive Advantages and opportunities to enhance the profitability and sustainability within a market environment.

1.6.2 Review of Empirical Literature

- ✓ Micro and small enterprises: evidence from development Asia
- ✓ Related to Nigeria
- ✓ MSE of Kenya
- ✓ MSE of Ethiopia

1.7 Research Discussions and Methods

1.7.1 Methodology

1.7.1.1 Data type and Source

They are two types of data research, primary source and secondary source. Business activities that were similar in nature grouped together for sampling Purposes. The method mainly employed in primary data collection is in-depth personal interview method, observation and questionnaire and secondary data collections are like books, magazines, news papers, reports, references and so on.

Types of Data Use in the Study, Scientific problems can be solved only on the basis of data and a major responsibility of the investigator is to set-up a research design capable of providing the data necessary for the solution of the study problem. The more clearly and thoroughly a problem and its ramifications are identified, the more adequately the study can be planned and carried to a successful completion. It is not wise to select the topic, no matter how adequate, if circumstances render the collection of data required for its solution impossible. The data used in this study are classified into two types, that is, the primary and secondary data.

A. Primary Data

The primary data will be collected first by preparing a questionnaire which includes objective questions and which has open-ended (inviting free response) and conducting interview with structure in nature. Data collected for a specific purpose are known as primary data. The collection of facts and figures as designed in the questionnaire for this study and interview of the respondents is the source of primary data for this study.

B. Secondary Data

The secondary data: the data which have already been collected and analyzed by someone else. Secondary data may either be published data or unpublished data that can look various sources

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from where I can obtain them. Occasionally, data are collected for some other purpose mostly for administrative and policy reasons, and form part of the information or data used in this study which are referred to as secondary data. These materials were obtained for purposes other than this study. Secondary data must be used with caution.

1.7.1.2 Data Collection Method

Data was collected from 148 enterprises by interviewing the respondents. Activities of the enterprises that were similar in nature grouped to gather for sampling purposes. The method mainly enterprises in primary data collection is in-depth personal interview method. The qualitative data is collected, transcribed, and grouped.

1.7.1.3 Sampling techniques

Preparing the sample technique, a stratified method is will used with this fair preparation of selected units were taken institution, customer (society) and enterprises are our inputs in order to study the research and also including managers and employees were focus of the study. When dealing with a sample frame that is not homogeneous and contains subgroups such as juniors, seniors and son on in a listing for instance, this paper will need to represent those subgroups in our sample in order to achieve this random selection from each subgroup in the sampling frame has to be considered using the same procedures.

1.7.1.4 Data Analysis

Both qualitative and quantitative approach was designed to investigate the problem under study. The method of data analysis and presentation of finding involves using qualitative and quantitative approach describe with justification of the study. Data Analysis will be applied to the entire sample of respondents to the enterprises, employee and manager. The responses from opened and closed ended questions are computed for graphs, charts, figures, and frequency distribution and tabulation in terms of percentage. The response from interviews is summarized and finally generalized will be made based on the result of the study.

1.8. Organization of the Paper

The paper is Organized as follows: chapter one: gives us introduction which includes background of the study, problem statement, objective of the study, significance of the study, research methodology, scope and limitation of the study in Addis Ababa, and textile of MSE cluster development. Chapter two: deals with a review of theoretical and empirical work done in relation to MSE of clusters. Both theoretical and empirical review on textile will be presented. Chapter three: research discussions and methods. Chapter four: descriptive data analysis and discussion of data presented. Chapter five: Conclusion and recommendation, with policy implications based on the descriptive and discussion of data obtained on the previous sections.

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DECLARAION

I hereby declare that the research paper titled constraints and challenges of small-scale enterprises the case of Gulele textile product submitted by me is based on actual and original work carried out be me. Any reference to work done by any other person or institution or any material obtained from other sources have been duly cited and referenced. I further certify that the research paper has not been published or submitted for publication anywhere else nor it will be send for publication in the future.

Declared by:

Name:

Signature:

Date:

Confirmed by advisor:

Name:

Signature:

Date:

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