

**A STUDY ON FINANCIAL SOURCES OF MICRO AND  
SMALL ENTERPRISES IN ADDIS ABABA  
(THE CASE OF GULELLE SUB-CITY)**

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***A STUDY ON FINANCIAL SOURCES OF MICRO AND  
SMALL ENTERPRISES IN ADDIS ABABA  
(THE CASE OF GULELLE SUB-CITY)***

A Thesis Submitted to the School of Graduate Studies of Addis Ababa  
University in Partial Fulfillment of the Requirements for the Degree of  
Master of Arts in Business Administration

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**June, 2011  
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## **Dedication**

This thesis is dedicated with heartfelt love and devotion to my father Ato Werkilul Asfaw and my mother W/ro Meaza Assefa, who sacrificed their golden times in life to see their children where they are now.

## **Declaration**

Here with I, Ermias Werkilul, declare that this thesis is prepared for the partial fulfillment of the requirements for the Master of Arts in Business Administration entitled ‘A Study on Financial Sources of Micro and Small Enterprises in Addis Ababa (The Case of Gulelle Sub-City)’. This thesis is my original work and has not been presented for a degree in any university, and that all sources of material used for the thesis have been duly acknowledged. I have made it independently with the close advice and guidance of my advisor.

Name: Ermias Werkilul

Signature: \_\_\_\_\_

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Place: Addis Ababa University, Addis Ababa

### Statement of Certification

Here with I state that Ato Ermias Werkilul has carried out this research work on the topic entitled ‘A Study on Financial Sources of Micro and Small Enterprises in Addis Ababa (The Case of Gulelle Sub-City)’ under my supervision. This research work is original in nature and has not presented for a degree in any university, which all sources of materials used for the study have been duly acknowledged and it is sufficient for submission for the partial fulfillment for the award of Master of Arts in Business Administration.

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Ermias Werkilul

**List of Acronyms**

|                |   |  |
|----------------|---|--|
| <b>AA</b>      | - | Addis Ababa  |
| <b>AAMSEDA</b> | - | Addis Ababa Micro and Small Enterprises Development Agency |
| <b>BDS</b>     | - | Business Development Service                               |
| <b>CSA</b>     | - | Central Statistical Authority                              |
| <b>EC</b>      | - | Ethiopian Calendar   |
| <b>ECA</b>     | - | Economic Commission for Africa                             |
| <b>EDRI</b>    | - | Ethiopian Development Research Institute                   |
| <b>FDRE</b>    | - | Federal Democratic Republic of Ethiopia                    |
| <b>FeMSEDA</b> | - | Federal Micro and Small Enterprises Development Agency     |
| <b>GDP</b>     | - | Gross Domestic Product                                     |
| <b>GTZ</b>     | - | Deutsche Gesellschaft für Internationale Zusammenarbeit    |
| <b>HRD</b>     | - | Human Resources Development                                |
| <b>ILO</b>     | - | International Labour Organization                          |
| <b>MFI</b>     | - | Micro-Finance Institution                                  |
| <b>MoFED</b>   | - | Ministry of Finance and Economic Development               |
| <b>MSE</b>     | - | Micro and Small Enterprise                                 |
| <b>NBE</b>     | - | National Bank of Ethiopia                                  |
| <b>NGO</b>     | - | Non-Governmental Organization                              |
| <b>OECD</b>    | - | Organization for Economic Co-operation and Development     |
| <b>ReMSEDA</b> | - | Regional Micro and Small Enterprises Development Agency    |
| <b>SPSS</b>    | - | Statistical Package for Social Sciences                    |
| <b>TVET</b>    | - | Technical and Vocational Education and Training            |
| <b>UK</b>      | - | United Kingdom   |
| <b>UNIDO</b>   | - | United Nations Industrial Development Organization         |
| <b>USA</b>     | - | United States of America                                   |
| <b>USAID</b>   | - | United States Agency for International Development         |

## Table of Contents

| <b>Contents</b>   | <b>Pages</b> |
|---|--------------|
| Acknowledgments.....  | i            |
| List of Acronyms.....   | ii           |
| Table of Contents.....  | iii          |
| List of Figures.....  | v            |
| List of Graphs.....   | vi           |
| List of Tables.....   | vii          |
| List of Annexes.....  | viii         |
| Abstract.....   | ix           |
| <br>  |              |
| CHAPTER ONE.....  | 1            |
| I. INTRODUCTION.....  | 1            |
| 1.1 Background of the Study.....  | 2            |
| 1.2 Statement of the Problem.....                                       | 5            |
| 1.3 Objectives of the Study.....  | 7            |
| 1.4 Significance of the Study.....                                      | 7            |
| 1.5 Scope of the Study.....   | 8            |
| 1.6 Organization of the Study.....                                      | 8            |
| CHAPTER TWO.....  | 10           |
| II. REVIEW OF THE RELATED LITERATURE.....                               | 10           |
| 2.1 Rationale for Micro and Small Enterprise Development.....           | 10           |
| 2.2 The Role of Micro and Small Enterprises.....                        | 11           |
| 2.3 The Need for Finance.....   | 14           |
| 2.4 Sources of Finance.....   | 17           |
| 2.4.1 Formal Sources.....   | 18           |
| 2.4.2 Semi-Formal Sources.....  | 21           |
| 2.4.3 Informal Sources.....   | 23           |
| 2.5 The MSE Development Strategy and Institutional Support.....         | 26           |
| 2.6 Micro and Small Enterprises Development in Addis Ababa City.....    | 29           |
| 2.6.1 Constraints Facing the Sector.....                                | 29           |
| 2.6.2 Major Achievements of the City to the Development of the MSE..... | 29           |

|   |    |
|---|----|
| 2.6.3 Stakeholders Working in the Promotion of MSEs...        | 31 |
| 2.7 Theories of Micro and Small Enterprises ...               | 32 |
| 2.8 Conceptual Framework of Micro and Small Enterprises ..... | 33 |
| CHAPTER THREE .....   | 39 |
| III. RESEARCH METHODOLOGY .....                               | 39 |
| 3.1 Research Design .....                                     | 39 |
| 3.2 Data Sources .....  | 40 |
| 3.3 Instruments and Procedures of Data Collection .....       | 40 |
| 3.3.1 Questionnaire .....                                     | 41 |
| 3.3.2 Focus Group Discussion.....                             | 41 |
| 3.4 Sampling Strategy .....                                   | 41 |
| 3.5 Data Analysis and Presentation .....                      | 43 |
| 3.6 Validity and Reliability.....                             | 44 |
| 3.7 Ethical Considerations.....                               | 44 |
| 3.8 Limitation of the Study.....                              | 45 |
| CHAPTER FOUR.....   | 46 |
| IV. ANALYSIS AND DISCUSSION OF DATA .....                     | 46 |
| 4.1 Introduction.....   | 46 |
| 4.2 Personal Data .....                                       | 47 |
| 4.3 Training Information.....                                 | 49 |
| 4.4 Business Information .....                                | 53 |
| 4.5 Financial Information.....                                | 59 |
| 4.6 Economic Information.....                                 | 66 |
| 4.7 Results of Focus Group Discussion.....                    | 72 |
| CHAPTER FIVE.....   | 78 |
| V. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....              | 78 |
| 5.1 Summary .....   | 78 |
| 5.2 Conclusions.....  | 80 |
| 5.3 Recommendations.....                                      | 81 |

## **Bibliography**

## **Annexes**

**List of Figures**

Figure 2.1 Conceptual Frameworks..... 36  
Figure 2.2 Conceptual Relationships between Business Constraints & Performance...37

**List of Graphs**

|  |    |
|--|----|
| Graph 4.1 Male versus Female Entrepreneurs .....                     | 47 |
| Graph 4.2 Marital Status .....                                       | 48 |
| Graph 4.3 Work Experience before Starting the Current Business ..... | 49 |
| Graph 4.4 Training before Starting-Up the Business.....              | 50 |
| Graph 4.5 Training after Starting-Up the Business .....              | 51 |
| Graph 4.6 Legal Forms of the Enterprises .....                       | 55 |
| Graph 4.7 Total Numbers of People Working in the Enterprises .....   | 57 |
| Graph 4.8 Working Premises of Enterprises.....                       | 58 |
| Graph 4.9 Main Sources of Finance at Start-Up.....                   | 60 |
| Graph 4.10 Loan Received by Micro and Small Enterprises.....         | 61 |
| Graph 4.11 Experiences of Financial Records.....                     | 64 |
| Graph 4.12 Participation in Exhibition and Bazaar .....              | 67 |
| Graph 4.13 Support Received by MSEs .....                            | 69 |

**List of Tables**

|   |    |
|---|----|
| Table 4.1 Age Distribution of Respondents.....                                    | 47 |
| Table 4.2 Educational Status.....   | 48 |
| Table 4.3 The Relatedness of the Experience to the Business.....                  | 49 |
| Table 4.4 The Degree of Relevance of the Training.....                            | 51 |
| Table 4.5 The Degree of Relevance of the Training after Start-Up.....             | 52 |
| Table 4.6 Major Problem/s of Businesses at Start-Up.....                          | 53 |
| Table 4.7 Type of Developmental Oriented Sector .....                             | 56 |
| Table 4.8 The Reason for Getting into Specific Business .....                     | 56 |
| Table 4.9 Finance/Loan Providers have Positive Attitude towards Working Premise.. | 59 |
| Table 4.10 Range of Capital in Ethiopian Birr .....                               | 59 |
| Table 4.11 Sources of Loan .....  | 61 |
| Table 4.12 Reason for not Receiving Loan .....                                    | 62 |
| Table 4.13 How MSEs Address Working Capital or Financial Difficulty .....         | 63 |
| Table 4.14 Financial Record keeping as Indicator of Sound Financial Management .. | 65 |
| Table 4.15 The Present Tax System of Ethiopia towards MSEs .....                  | 66 |
| Table 4.16 Who Supports MSEs.....   | 69 |

**List of Annexes**

Annex I: Questionnaires (English Version)-----89  
Annex II: Questionnaires (Amharic Version)-----95  
Annex III: Focus Group Discussion Guide Framework-----101

### **Abstract**

*This study was conducted to investigate how MSEs get financial sources at establishment and in operation in Gulelle Sub-City, by investigating the sub city's MSEs. A descriptive case study was employed to achieve the objectives of the study. In order to get relevant data from the target populations both quantitative and qualitative methods were employed. So, instruments which were used to collect the data from the sample subjects were questionnaire for MSEs as a major tool and focus group discussion for officials in Gulelle Sub-City as a supportive tool. 100 MSEs were covered to be the subjects of the study and other participants of focus group discussion. The data collected via questionnaires were analyzed using frequencies then converted to percentage values and qualitative method of data analysis were performed to the data collected through focus group discussion. Both the qualitative and quantitative data were analyzed together to triangulate the results found from the questionnaire.*

*The findings of the study generally indicated that people starting MSEs are facing numerous difficulties both at start-up and while in due course of operation. The study indicated that lack of sufficient capital is the main problem of businesses at start-up followed by input access constraints and obstacles from government rules and regulations. Similar to the start-up MSEs face numerous problems after start-up like poor market and market information, lack of working capital, and price or shortage of supply of raw materials are the most once. The study also indicated that the main financial sources for start-up and expansion or working capital of MSEs came from personal savings and family support. Owners find it very difficult to access credit from banks due to lack of collaterals and the loans provided by MFIs are small with a short repayment period and high interest rates. The study also shows that the main financial difficulties/challenges that most MSEs encountered are inability to expand operations, lack of proper credit facilities, and price escalation (boom) of raw materials. Finally, the study presented some possible recommendations so as to alleviate the problems.*

---

**Key Words:** *Financial Sources, Micro and Small Enterprises*

## CHAPTER ONE

### I. INTRODUCTION

#### 1.1 Background of the Study

Nowadays employment is very serious issue and offering jobs to all citizens of a country also challenging task to every government. As a result, different governments are framing different strategies and policies to create job opportunities. One strategy as to create jobs and accommodate maximum number of citizens has been emerged, i.e., the establishment of MSEs. This form of sector comes in to existence with the aim to accommodate as much as possible numbers of member owned enterprises with affordable working capital and management.

There has been a general realization that it is not only the big businesses that provide the foundations of the nations economies. MSEs and entrepreneurs have boosted many economies like USA, UK, South Africa, and Nigeria, thus authorities have initiated strategic financial and counseling programmes to support them and that hub of the majority of world economies are based on the reliance on MSEs, which accounts for a substantial amount of GDP and employment (Fredrick, 2005). MSEs are the very embodiment of a free society - the mechanism by which the individual can turn his/her leadership and talents to the benefit of both himself/herself and the nation. The freer the society, the more MSEs there will be. And the more MSEs there are; the freer and more enterprising that society is bound to be (Goss, 1991).

MSEs encourages an attitude of mind in which there is a positive association between entrepreneurship, individual success and the creation of wealth such that individuals view business start-up as a viable career alternative to conventional employment. There is, however, a growing body of research suggesting that the simple association of MSEs proprietorship with a conservative political orientation and/or adherence to 'core' capitalist values is, at best, an oversimplification and, at worst, something of

misrepresentation. Such a view takes no account of elements such as occupational experience, socio-economic class, gender or ethnicity, all of which not only affects the beliefs and values of MSE owners, but also influences the level of success individuals experience in obtaining capital funding and support for their enterprise (Ibid, 1991).

Although the greater portion of efforts, resources and government policies are all too often perceived to be primarily directed towards the larger corporations, one can still not deny the fact that the contribution of MSEs in today's economy cannot be over-emphasized. They have been identified as the catalyst for the economic growth of a country as they are a major source of income and employment and consequently poverty reduction (Beck *et al.*, 2003), by contributing substantially to GDP. Their contribution to GDP is in the area of corporate taxes, export duties and import taxes flowing from their activities.

They also facilitate production and distribution of products; create jobs, source of industrial innovation and economy regeneration/growth (Snodgrass *et al.*, 1996). Growth in MSEs has been found to have a link with economic growth and poverty alleviation. In order to generate enough income to help minimize the incidence of high level poverty in most developing economies, international funding bodies and economic growth analysts have suggested to policymakers in developing economies to make greater efforts at promoting private sector development with MSEs being at the forefront (Snodgrass & Winkler, 2004). According to Beck *et al.*, (2003), the World Bank approved more than \$10 billion in support for MSEs development programs on grounds that it has the ability to promote economic growth and alleviate poverty. As noted by Hallberg (2001), the goal of MSEs development programs is to harness the potential human capital and entrepreneurship that already exists in most economies because they account for a large share of firms and employment. Hallberg (2001), further argue that MSEs are the emerging private sector in poor countries, and thus form the base for private sector-led growth required as an instrument of poverty alleviation.

The notion that MSEs are a significant force for technological change and innovation has become something of an accepted truth for many politicians and small business proponents. A popular image of the high-tech small enterprise, run by a scientist-turned entrepreneur, has captured the imagination of many and has been bolstered. The image has developed to embrace workers in these MSEs as white-coated ‘boffins’ engaged in original creative activity in clean and pleasant laboratory surroundings. As so often in the world of MSEs, however, the image assumed clarity out of all proportion to the reality it claims to reflect. The claim that high-technology MSEs are in some sense the vanguard of a revolutionary revitalization of the economy is one that must be treated with a good deal of caution (Goss, 1991).

The working definition of MSEs varies among countries. MSEs can be defined based on various criteria. Some countries may use the employment size, the size of fixed assets, total sales and inventory turnover; others may draw on the initial capital, the return on capital and/or asset and the area of engagement to categorize firms as micro, small, medium, large and others.

Clearly defining MSEs is fundamental to achieve an intended purpose. The purpose of definition can be for targeting or preferential assistance program (Wolday, 2002:1). In our country, Ethiopia, MSEs are given different meanings at different times and the definitions given by the CSA in using information analysis and that given by the National MSEs Development Agency are basic applicable definitions. The CSA (2003), defines small trade organization that employs less than 10 people. Those engaged in handicraft and informal work sectors are categorized as micro enterprises. As the name indicates, informal trade organizations are to mean those who are engaged in various works without possessing trade license. According to the MSEs Development Strategy of Ethiopia the working definition of MSEs in Ethiopia is based on capital. When seen from the current development level (standard) and capacity, the following working definition is determined to be applicable by the National MSEs Development Agency (cited in AAMSEDA, 2003 E.C.):

*Micro-enterprises means trade organizations whose capital is not exceeding from Birr 20,000.00 and higher consultancy service organizations and other higher technological enterprises are not included.*

*Small-enterprises means trade work organizations whose minimum paid up capital is not less than Birr 20,000.00 and not exceeding from Birr 500,000.00 and shall not include higher technological consultancy service and other higher technological institutions.*

*Thus, micro and small enterprise work sectors means, without including these mentioned by the two above (higher technical consultancy service and other higher technological institutions) trade industry and technical (hand craft) institutions and by the capital bounded.*

These two definitions, nonetheless, are criticized for lacking to take other factors of definition into consideration, lack of precision and flexibility to differing conditions (EDRI, 2003). In spite of varied definitions, the important role played by MSEs in developing economies has been increasingly realized over the past years (Godfried *et al.*, 2000:7). MSEs play an important role in the growth and development of the economies of low income countries like Ethiopia in-terms of employment creation, output (contribution to GDP), export promotion, stimulating the development of innovation, and indigenous skills for sound entrepreneurship, decentralization of industries, industrial linkages, and utilization of resources and transfer of technology. More generally, the development of MSEs is seen as accelerating the achievement of wider economic and socio-economic objectives including poverty alleviation especially for less developed countries like Ethiopia.

Although the contribution of the sector is very much important, it is not without problems; specific problems interrelated with many other complex problems and put the sub-sector underdeveloped. MSEs in Ethiopia too are confronting with several drawbacks and challenges they have to overcome in order to operate successfully. Major obstacles

include access to finance, competition, market access, appropriate technology and access to raw materials. However, a peculiar and most critical problem to MSEs in developing countries, like Ethiopia, is lack of access to financial sources both as initial and as working capital as finance is pointed out to be the “glue” that holds together all the diverse aspects involved in MSEs (Green *et al.*, 2002:1).

Thus, addressing the most constraining factor, i.e., financial sources can be considered as tackling the other factors. To deal with this issue one should understand how these enterprises raise finance at the outset or establishment and in their operation. Hence, this research was conducted to assess the MSEs in Gulelle Sub-City with a specific focus on the financial sources of the sector.

## **1.2 Statement of the Problem**

Although the MSEs in relation to large firms are relatively more labour-intensive, more efficient, and more equitable in distributing the income they generate, more widely dispersed geographically and more nurturing of entrepreneurs; there were no economic and political conditions favourable to develop MSEs. According to survey reports of CSA (2009) cited in AAMSEDA (2003 E.C.), MSEs in Ethiopia face a wide range of constraints and problems such as lack of access to finance, unfavorable regulatory environment, limited access to markets, BDSs, information, business premises, the acquisition of skills and managerial expertise, restricted access to appropriate technology, and limited access to quality business infrastructure.

Thus, MSEs generally have gone through a range of problems at startup and while in due course of operation. Among others, finance is the most central and leading problem (Green *et al.*, 2002). Adding to the difficulty, potential finance providers, formal, semi-formal and informal are also reluctant to commit funds for MSEs perceiving them as an unsound position. This lack of funds may be the reason why MSEs fail to start and progress.

MSEs were not entitled to be visible and intentionally incentives and enabling environment has long been against them. In the past years, it is not surprise that Sub-Saharan Countries like Ethiopia have not managed to reduce the aggravating poverty and deprivations of their citizens while giving almost no care for how the financial sources of MSEs are obtained (Gebrehiwot and Wolday, 2004). The long disregard of the sector particularly by government, academicians and politicians in Ethiopia has made the area with untouched research problems to be explored so as to promote the growth dynamics of the sector. Recently, however, there is a move towards understanding the potential of the sector in helping reduce poverty among academicians, development practitioners, NGOs, donors, and politicians.

For a country like Ethiopia where about 80.1% of its population lives in rural area (CSA, 2010), which is characterized by rain feed, smashed by perpetual drought, and 29.2% of its population fall below the poverty line (MoFED, 2002 E.C.), development practitioners, governments, NGOs and the like argue support for MSEs. This favor has largely been the results of understanding the role of MSE play in uplifting the life of the poor.

The long disregard of MSEs coupled with implementation problems of policies at the ground inspired the researcher to conduct a research on how the financial sources of MSEs are gained in Gulelle Sub-City at Addis Ababa City Administration to study how this sector is operating, uncover and examine. Further, this research pursued the issue how MSEs generally raise finance at the time of establishment and in operation and the likelihood of the relationship of the variables with the financial sources of the sector. It is from this point of view that the researcher was motivated to undertake this study.

In line with the above problem, the following research questions were formulated to be answered as a result of the study.

- ♣ How micro and small enterprises raise their initial capital?
- ♣ How micro and small enterprises raise their working capital?

- ♣ What looks like the financial record keepings in the businesses?
- ♣ Are there any training given before start-up the MSEs?
- ♣ What were the training types given to MSEs?

### 1.3 Objectives of the Study

Since nothing can be done without the financial sources of MSEs, it is a determinant factor for the success and survival of the sector. But, how financial sources of MSEs are gained will be determined by their own capital and financiers (loan providers). Thus, the prime objective of this study was to investigate how MSEs get financial sources at the time of establishment and in operation and come up with proposed solutions that would help develop and promote the sector.

Specifically, this study covered the following objectives:-

- ☞ To identify which type of formal, semi-formal or informal financial sources are easily obtainable to MSEs.
- ☞ To assess the financial difficulties of micro and small enterprises.
- ☞ To identify the barriers to financial access.
- ☞ To identify the various incentives provided for the development of micro and small enterprises in Gulelle Sub-City.
- ☞ To suggest recommendations that will facilitate the development of micro and small enterprises and adequate financial sources of the sector.

### 1.4 Significance of the Study

Despite the enormous role of MSEs that can play in an economy, little is known about how the sectors' financial sources are generated. Problems compounding these enterprises should address through appropriate measures for their immense potential as area of employment; home of natural entrepreneurship; benefits of the flexibility and exploitation of sectoral linkage can be maximized. As a cardinal problem, the issue of financial source also needs to be addressed. This study has significance to reveal the

status of MSEs in Gulelle Sub-City from the perspective of how the sectors' financial sources are obtained.

Therefore, the findings which were obtained as a result of conducting this research have certain areas of significance:-

- Understanding of the financial sources of the enterprises so that policy makers and concerned bodies could be informed and better overcome the problems.
- It gives some view on the current conditions of MSEs in aspects of how the sectors' financial sources are obtained.
- It would offer a spring board to other researchers for further investigation by incorporating broader scope about micro and small enterprises, if the need arise.

In general, this study gives some insight about how MSEs financial sources are obtained and may serve as stepping-stone for other studies.

### **1.5 Scope of the Study**

How financial sources are obtained, whether it is favorable or unfavorable, is applicable in all sectors and the findings of the research work would be fruitful, if it was conducted widely by including a number of sectors. However, due to time and resource constraints the study focus was only one sector i.e., MSEs. Even though the concepts of MSEs consists a number of dimensions like marketing, BDSs, success factors, etc., the scope of this paper was delimited to the how MSEs are generated their financial sources. The other dimensions were beyond the scope of this paper. Geographically, the study focus was in Gulelle Sub-City at Addis Ababa City Administration.

### **1.6 Organization of the Study**

The study was organized in five chapters. The first chapter was the introductory part of the study which contains background of the study, statement of the problem, objectives of the study, significance of the study, scope of the study, and organization of the study. The second chapter was devoted to the presentation of literature reviews of related researchers and conceptual framework. The third chapter deals with research methodology of the

study which presents the research design, data sources, instruments and procedures of data collection, sampling strategy, data analysis and presentation, validity and reliability, ethical considerations, and limitation of the study. The fourth chapter was the analysis and discussion of data collected. The final chapter summarizes, concludes the results obtained from the findings and suggests the necessary recommendations; and finally attached bibliography and annexes relevant for the study.

## CHAPTER TWO

### II. REVIEW OF THE RELATED LITERATURE

#### 2.1 Rationale for Micro and Small Enterprise Development

Why pay attention to MSEs? The proposition that MSEs offer unique development advantages is as old as the concept of economic development itself (Snodgrass *et al.*, 1996). Proponents of policies and programs to support MSEs have long claimed that they are more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs.

Though MSEs are widely recognized as contributing to growth in many developed economies (such as the United States, Italy, Japan, and the “East Asian tigers”), the presence of large numbers of MSEs in developing economies often carries a stigma, especially when the enterprises are informal and concentrated in markets with low barriers to entry. So, is the presence of a large number of MSEs an indicator of economic health or not? Recent data in this case is neutral, showing that a higher contribution by MSEs is associated with, but not a cause of, higher growth (Beck *et al.*, 2003).

In addition to the perceived economic benefits, MSE development has long been viewed by policymakers as a means to increase incomes of the poor. MSE owners and workers do tend to be disproportionately poor, with the incidence of poverty within MSEs higher than in medium and large industries. However, current thinking on the part of international donors focuses less on the size of enterprises and more on outcomes, seeking patterns of economic growth that are beneficial to the poor, or “pro-poor.” Growth that is broad-based by both region and sector is more likely to be faster and provide greater opportunities for the poor. Similarly, rapid growth in regions where the poor live and sectors of the economy in which they work is likely to result in poverty reduction (OECD, 2004).

In today's global economy, large multinational firms are increasingly concentrating their efforts on branding and marketing rather than production. These firms prefer to source from flexible networks, rather than setting up large production plants. The result is a new, extended supply chain reaching far into developing countries and providing new opportunities for MSEs. MSEs offer a number of potential advantages as partners in value chains, often serving as a flexible and low-cost production resource, offering proximity to markets and access to land and other key resources, providing a "storyline" for companies and consumers interested in social responsibility, and supplying unique products (Goldmark *et al.*, 2005).

MSEs seeks to clarify in which cases enterprise growth, upgrading, or both may happen, and to stimulate thought about how and when MSE growth is a contributor to economic growth and poverty alleviation. In some cases MSE growth is not realistic; in others it may not be necessary. For example, some owners may view their enterprises as important sources of household incomes and wish to avoid risk-taking. Others may actively seek to enter new markets and earn increased incomes; such activities may generate local investment. However, the enterprise may not always be the vehicle that takes the owner from start to finish; these goals may be achieved by individuals supported by social networks, or groups of firms working together.

## **2.2 The Role of Micro and Small Enterprises**

From a number of directions donor agencies, academicians, politicians, and development analysts are converging in MSEs development as a (potential) priority area in development policy in general, and in least developed countries in particular such as Ethiopia. The MSEs have the potential to contribute substantially to value chain productivity and ultimately to economic growth of Ethiopia. According to Nichter and Goldmark (2005), value chain refers to the "full range of activities which are required to bring a product or service from conception, through the different phases of production, delivery to final consumers, and final disposal after use."

The MSEs are considered as one of the vital units of business for local or national economy and even in global environment. Therefore, the most important role of the MSEs in the economy is employment. It is important to take note that employment is a vital aspect in the economic development because it helps to provide every individual or citizen the source of income which they can use in order to improve their living standards. If most of citizens are employed, then the government will receive more tax in terms of income and the values or things that the people buy. This will help in order to attract number of investors or multinational companies because of the great market, which will help in order for the government to focus more on important economic activities than supplying daily living in the society (cited from: <file:///H:/role-of-micro-and-small-enterprise-in-economic-development>).

The study Leegwater and Shaw (2008), shows that those countries with larger shares of MSEs employment have higher economic growth than their counterparts. This is because of the fact that, as have mentioned, the employment rate of the country directly affect other financial or economic activities in the country due to the capacity of individual family or citizen to spend money for their daily needs and caprices. Therefore, they can affect the overall operation of different commercial companies in the country, which will help in order to open opportunities for additional financial sources for the local economy. With these researches and studies, it shows that MSEs are considered as important players in the economic growth and expansion including poverty alleviation (cited from: <file:///H:/role-of-micro-and-small-enterprise-in-economic-development>).

The key question is now not so much the advantages of caprices *per se* rather the extent to which the development of the sector will assist in resolving major (economic and non-economic) development issues. Over the past few years, MSEs promotion has come out of its confines and has begun to raise and answer some of the major development questions, in part aided by a cumulative wealth of experiences and evaluations of a great variety of promotional efforts and projects. Studies of past projects and programmes have shown that the effectiveness of micro-level efforts can be improved by addressing sectoral/regional and macro-economic factors. Thus, also from this angel there is a

greater disposition to consider the wider policy framework for MSEs development (Stewart *et al.*, 1990 cited in Helmsing and Kolstee, 1993).

In overall economic development, a critically important role is played by MSEs in Ethiopia. Expansion and development of the sector increases agricultural inputs and creating demand for agricultural productivity through providing agricultural inputs and creating demand for agricultural outputs. Further, MSEs play key role in stimulating other sectors of the economy such as trade, construction and service sector and in reducing unemployment. Specific social and economic role of MSEs are presented as follows:-

- ❖ Serve as incubation for medium and large scale enterprises,
- ❖ Mostly begin with low amount of capital,
- ❖ Less capital intensive (they are labor intensive),
- ❖ Large employment opportunity to unskilled and semi-skilled labor force (particularly for women),
- ❖ Important to bring fair income distribution within the society,
- ❖ Develop pool of skilled and semi-skilled workers necessary for future industrialization process to take place,
- ❖ Promote inter-sector linkage,
- ❖ Apply simple and suitable technologies,
- ❖ Mostly utilize local raw materials,
- ❖ Critically important for recycling for solid wastes,
- ❖ Serve as sources of raw material and distribution channel for the formal sector,
- ❖ Save scarce resources and have the capacity to generate foreign exchanges by producing import substitute/export products,
- ❖ Serve as channel of products especially for poor people,
- ❖ Play significant role on the regulation of the market price,
- ❖ The sector has advantage to protect and transmit countries historical, religious and social values,
- ❖ Serve as a center of innovation, etc. (AAMSEDA, 2003 E.C).

It is from this point of view that the government of FDRE formulated a National MSEs Strategy of Ethiopia. The industrial development strategy of Ethiopia clearly states that the private sector will be the engine of industrial development which MSEs are one of the important instruments to create productive private sector and entrepreneurship and that the government will give due emphasis and priority to promote this sector. A better understanding by policymakers of this sector and of the constraints (like lack of sufficient capital, raw material, market access) it faces, which are often different from those encountered by larger firms is, therefore, crucial for the purpose of further expanding the economy's growth potential.

The debate over the deeper determinants of growth now seems to settle in favor of MSEs. MSEs are the most important factors if we are to gain from trade or if our strife for development is to have any payoff. It is widely accepted that MSEs play vital role in socio-economic development of Ethiopia as a means for generating sustainable employment and income. Moreover, MSEs play an important role by providing the founding ground for medium and large industries and in the process contributing to the reduction of poverty. MSEs make a significant contribution to the socio-economic life of the country by way of supporting people to earn money and make a contribution to family incomes and by supplying basic goods and services for local consumption. In economic theory, the significant role that MSEs play in fueling a capitalistic and free market economy. This emphasizes the role of the sector and locally owned businesses in economic development of Ethiopia. Hence, financial institutions, governmental and non-governmental institutions that promote economic and social infrastructure are among the keys for growth.

### **2.3 The Need for Finance**

In the current environment characterized by a reduced availability of credit and tighter lending standards, the financing needs of MSEs deserve particular attention. In this regard it is important to recall that MSEs in general are more dependent on their personal savings and relatives than larger firms, which have the expertise, experience, and resources to tap the financial markets.

Obviously, a decision to start a business or expand an already existing firm involves an implicit decision of how to raise money. Consequently, financing is at the center of an operation of MSE. For instance, it is indicated that the inability to raise finance is one of the greatest challenges facing the MSEs and is the critical factor in the establishment and growth of such businesses (Sargent and Young cited in Gashahun, 2004:13).

Similarly, it is pointed out that MSEs need finance to invest in new equipment and machinery, reach out to new markets and products and cope with temporary cash flow shortages as well as to innovate and expand (Fafchamps cited in Gebrehiwot and Wolday, 2003:3). 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 [without basically changing the dual nature of the economy] rather than being used to convert a very small number of businesses into modern capital-intensive ones (Ibid, 2004:54). In spite of this, MSEs limited access to available finance compared to larger organizations have limited their growth and development. In addition, MSEs are forced to higher transaction costs than larger enterprises to obtain finance. Moreover, insufficient funding has been made available working capital scarce (Levy cited in Paul Cook, 2000:7).

According to the 1995/96 survey of urban informal activities in Ethiopia, lack of working capital was among the most pressing problems that small manufacturing industries identified (the others being marketing and shortage of supply of raw materials) as limiting expansion of their business. According to the survey of 1995/96, 50% of the informal sector operations indicated that their main problem in operation was lack of sufficient initial capital. Lack of sufficient capital, particularly at the start of their operations, was also identified as the major problem for about 35% of the small scale manufacturing industries (Gebrehiwot and Wolday, 2004:54).

Some researchers, however, argued that factors such as marketing or technological assistance might be the critical factors in the success or failures of MSEs. Yet, despite the contribution of these factors to the development of such enterprises, it should not be over

looked that marketing or technological assistance do require finance. Marketing normally involves producing quality product, promotion and making the product available at the consumers' destination. Undoubtedly, such activity requires considerable amount of finance which MSEs have limited access to it. Technological assistance, too, no matter how it is made available, is not cost free to run. It requires knowledge to operate and maintain, there by requiring finance. Some also argued that capital, being scarce in developing countries should essentially be deployed in a way that maximizes the creation of jobs and production of new goods and services rather than being used to convert a very small number of businesses in to modern capital intensive only (Wolday, 2002:4).

It is generally assumed by policymakers in developing countries that there is either a high unsatisfied demand or a significant potential demand for finance by MSEs' borrowers. It is also assumed that where this does not already exist, it can be created. These assumptions lead to policies that have been described as either 'demand-following finance' or 'supply-leading finance'. In many developing countries where the MSEs sector is seen to be active, (at least interms of numbers in relation to the size of the economy) and where one of the biggest constraints to its further development is perceived to be finance, general governmental policy on the development of the financial system may be regarded to be 'demand-following'. What is interesting about this type of 'demand-following' finance is that as a result of market imperfections, the financial system's development does not always automatically follow the growth of the real sector of the economy. In fact, the increased supply of financial services in response to demand may not be at all automatic, flexible or inexpensive in developing countries. Restrictive banking legislation, religious barriers against interest charges and imperfections in the operation of the market mechanism may dictate an inadequate 'demand-following' response by the financial system (Patrick, 1966 cited in Helmsing and Kolstee, 1993).

In view of these impediments to the 'demand-following' effect, a need is often perceived for intervention in the intermediation process, specifically for the redirection of credit. Intervention entails governments setting up institutions where the private sector is deemed incapable of doing so, pegging deposit and lending rates at levels perceived to be

fair to borrowers and savers but not necessarily coinciding with free market levels, rationing credit to different rates under criteria that underlie mainly government priorities (Ibid, 1993).

Financing of MSEs is one of the best ways to provide regular employment to millions of poor people. MSEs are, nowadays, taken as a development vehicle for least developed countries like Ethiopia as clearly stated in the industrial development strategy of the country. Their proliferation apart from creating employment opportunity would help to facilitate capitalist industrialization. A path to development, nonetheless, could not be realized without enabling economic environment and access to finance. Financial sources, in this case, are the most important factor determining the survival and growth of MSEs at the time of establishment and operation in both developing and developed countries. Here in order to be effective the need for finance must be ‘demand-following’ rather than ‘supply-following’. Finance must not be offered by the force of finance providers rather the MSEs must have the initiative to get the money they require. However, this does not mean that the financial system (financial institutions) must be passive.

## 2.4 Sources of Finance

Theoretically, enterprises may use internal and external sources of finance. The former comprises own savings and retained earnings while the latter includes security finance, explicit borrowing from formal and informal sources, implicit borrowing in the form of accounts payable (i.e. trade credit and advances from clients), hire purchases, and lease-to-buy contracts. For firms that can’t resort to primary and secondary money and capital markets (either because the markets do not exist or the firms are not in a position to access such markets) (Gebrehiwot and Wolday, 2004:54). For instance, raising funds through securities (bond and equity) issue involves listing requirements that are too stringent for many firms to meet, and is costly. This leaves explicit (formal or informal) and implicit borrowing. But access to bank loans is virtually absent. The main reasons are their “illegality or partial legality..., lack of proper accounting; small size, therefore high transaction costs for banks; firm mobility, leading to high moral hazard and risk of

default from a bank's point of view, and lack of education." Yet, they are generally able to obtain 'venture capital' relatively cheaply partly as a consequence of the absence of a stock market that minimizes the adverse selection and moral hazard problems. Unable to invest their savings in high-return/high-risk investments via an organized market, the only possible forms of such investment for small investors are either "creating one's own enterprise, or financing the enterprises of close friends and relatives whose skills and performance can be monitored" (Fafchamps, 1994:8-9).

According to Chant and Walker (1988), on the other hand, the two crucial sources of funding for working capital of MSEs for example, trade and bank credits are critical sources of funding for working capital. Bank credit typically finances ongoing operations, seasonal or cyclical cash flow shortages, start-up costs for new operations, etc. Trade credit; on the other hand, is given for the purchase of raw materials and other inputs.

In Ethiopia, the potential sources of finance include conventional banks, MFIs, cooperatives, government projects, and other informal lenders, as well as trade credit. Equity finance is limited: although we have not direct evidence, one could reasonably expect much more equity finance to be forthcoming in a situation where equity holders (in partnerships, for example) could liquidate their holdings quickly and with relative ease when they want to (Gebrehiwot and Wolday, 2004:54).

Finance sources can be discussed categorically in many classifications. Some may classify them as institutional and non-institutional others in degree of formality of operating within a given financial system. For the purpose of this paper, the sources of finance are classified as formal, semi-formal and informal sources of finance.

#### **2.4.1 Formal Sources**

Formal sources are providers of finance who are subject to banking laws of the country of operation and are engaged in loan extension to customers and diversified financial intermediation (Tewodros Giday, 2005). Formal credit institutions generally shy away

from lending to MSEs. A recent study indicated that in most countries, MSE finance accounted for less than 1 percent of the broad money supply, with the major exceptions being Indonesia and Thailand (about 6 percent each) and Bangladesh (3 percent). It is difficult for micro-enterprises to obtain credit because of their lack of fixed assets, their low volumes of business and their existence on the margins of, or outside, the law (Leleux and Constantinou, 2007:26).

In the Ethiopian context, the formal finance sources are Commercial Banks (private or public owned), Development Bank of Ethiopia, and Construction and Business Bank. Commercial banks aim to provide service such as deposits mobilization, working capital, and loan extension for enterprises operating in any economic sector, and feasible projects financing. The provision of the financial service may be for short, medium and long time horizon. Invariably commercial banks assesses the credit worthiness of the applicant using the traditional five parameters, namely, capacity; collateral; capital; condition; and character.

**Capacity:** this criterion is used to assess the management of the business for which the loan is to be extended for. As indicators of capacity, conventional banks consider relevant working experience, educational status of the managers of the business, and availability of skilled employees in the firm.

**Collateral:** banks hold title to an asset that is at least equivalent to the amount of loan to be taken. The purpose of this asset is to enable the banks recover their amount of loan in case of default by the borrower. While assessing the asset that is pledged as collateral, the banks look at the quality and most of the time prefers an asset that appreciates over time.

**Capital:** this component of the assessment parameter is used to compare and contrast the capital of the applicant should be free from any debt. Hence, the capital on which reference is made for loan extension purpose should be of equity type.

**Condition:** the condition factors include government political and economic situation, policies and strategies in a given sector. Competitiveness within the sector, profitability of the sector along with its significance for the country is assessed for a loan request

process. It is aimed at assessing the business risk associated with the operating environment of the business.

**Character:** the willingness and relation of the applicant is scrutinized so that the applicant's loan paying ability is determined (Tewodros Giday, 2005).

Regardless of the number, nature, and type of loan extension criteria conventional banks are not interested in providing finance to MSEs for they are not only faced with lack of having adequate information infrastructure but also are not required to finance MSEs in their mission statements (Wolday, 2002:5). 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 (Gebrehiwot and Wolday, 2004:55). Besides, conventional banks in Ethiopia do not have interest in promoting new markets with higher perceived risks (MSEs) and relatively high information costs. As a result, the formal banks deliberately avoid the delivery of financial services to MSE operators who might need small loans such as Br. 10,000, 15,000, 20,000, 30,000 etc (Wolday, 2002:10).

The researcher has argued that there are very large numbers of MSEs unable to access to formal credit to carry out their work. There is a lack of financing options for MSEs. The banks are unwilling to lend to MSEs due to their perceived investment risk and lack of any formal information to provide risk analyses. Thus, in general, it appears that there has been much less involvement of the formal financial support to MSEs. It can be understood that, the loan evaluating criteria have excluded MSEs from being part of the formal financial system. Their exclusion, undoubtedly, would hamper the development of the MSE in the economy that are the host of the entrepreneur skill and large area of employment.

### 2.4.2 Semi-Formal Sources

Semi-formal sources are those providers of finance that are mostly registered as NGOs and MFIs with special charter. NGOs are no longer involved, at least officially, since the issuance of micro-finance law, Proclamation Number 40/1996, which requires those involved in the provision of micro-finance to be established as share companies (owned only by Ethiopian nationals), prohibiting them from them directly involving themselves in credit and savings activities. The new approach to microfinance has taken root in Ethiopia as could be seen from contents of the proclamation enacted to govern micro-finance activities in Ethiopia (Proclamation Number 40/1996). MFIs are mushrooming following the proclamation: in the last years, the micro-finance industry showed remarkable growth in terms of outreach and performance (Gebrehiwot and Wolday, 2004:55-56). MFIs helps people start their own businesses i.e., MSEs, by providing loans which will be difficult to get from the main banking system of Ethiopia.

MFIs originally were established in the form of rural finance providers. And they have been expanding in Bolivia, Bangladesh and Indonesia. At that point in time, they were united under the banner of 'micro-finance'. Proving cheap credit was at the centerpiece of many of the MFIs. Moreover, such MFIs had shared the commitment to serve MSEs that have been excluded from the formal banking sector (Martin *et al.*, 2001:14). As a result, MFIs were, being a subsidized credit support program, expected to deliver finance for needy groups and firms. MFIs used to follow up the poverty approach in the pursuit of credit extension. This approach is criticized for developing the non-loan repayment culture. Despite the increase in number of the institutions, MFIs in Ethiopia have little impact in developing the country. For they are agricultural oriented and peasantry focused with limited outreach to MSEs and the absence of varieties in the type of financial products delivered regardless of MSEs area of operation (Wolday, 2002).

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 micro-finance, this is the only

possible means to meet widespread clients' demand for convenient and appropriate financial services (Robinson, 2001 cited in Gebrehiwot and Wolday, 2006). Besides, the groups guarantee schemes; small sized loan coupled with short repayment period has made MFI's service unattractive to urban MSE operators. Moreover, the supply driven lending methodology instead of demand driven methodology has further exacerbated the unattractiveness of their services (Tewodros Giday, 2005).

Furthermore, it is argued that MFIs despite monopolizing (because by default MSEs is out of reach to formal sources of finance) the financial service provision function have become non self-reliant and inefficient. They have failed to understand what MSEs need most. While the need of MSEs is access to credit, MFIs stick to the paradigm of cheap credit. Yet, MFIs were supposed to fill in perceived gaps in financial intermediation particularly, the provisions of long-term finance. Their impact, however, appears to be the increase in financial sector segmentation (Martin *et al.*, 2001:20).

In order to overcome such critics, MFIs should be move concrete by letting down the poverty alleviation approach and adopting the financial system perspectives approach that emphasizes their institutional sustainability. In the context of Ethiopia, the objective of almost all MFIs is poverty reduction, mobilizing savings, and extending credit to MSEs. The maximum amount of group loan does not exceed Br. 5,000 and the repayment period does not exceed one year. Though the group methodology waived the need for collateral, it is surrounded by the old paradigm and could not fit individual loan requirement (Seifu, 2002 cited in Tewodros Giday, 2005).

MFIs can be a powerful tool in poverty alleviation, hence the strong demand seen among MSEs. One of the factors hindering the fulfillment of demand is the lack of absorptive capacity. There are currently not enough MFIs that qualify to receive financial support. Greater effort is therefore needed to build capacity in the sector from bottom to up. Another factor is that the market is still at an early stage of development, and as such offers opportunities for substantial returns to the early birds. MFIs must commercialize to realize its full potential; only then will it be able to satisfy the needs of MSEs. A for-

profit MFIs industry will offer significant opportunities for the private investor willing to venture into this field of considerable social and economic importance. Indeed MFIs are important component for meeting the United Nations' Millennium Development Goals for 2015, with the Millennium Declaration calling for "micro-finance projects which meet local community priorities".

### 2.4.3 Informal Sources

Unlike the formal and semi-formal sources, the informal sources do not constitute a neat category. The researcher have included in the informal sources such as credit and saving unions, cooperative societies, 'iqqubs', 'idir', money-lenders, friends and relatives, trade credit suppliers in this category. Informal sources provide finance to most of MSEs operating outside the formal financial system. Informal sources are important source of initial as well as working capital requirement of MSEs. Getting access a significant amount of money is most evident in informal sources than formal or semi-formal sources (Martin *et al.*, 2001:30).

**Credit and saving unions:** are most often to salary and wage earners pertaining in urban areas, there by excluding the bulk of MSE operators. Although there is a continuous increase in the number of credit and saving institutions and members, it has entirely excluded MSEs.

**Cooperative societies:** are taken as group formation to reach out by many working institutions. In the Ethiopian context, membership in cooperatives has been long politicized and not preferred by many members. Even in the metropolis entrepreneurs are anxious of being members of a cooperative, as they referred to its bad experience (Wolday, 2002).

**'Iqqub':** A study by Dejene Aredo who examines the role and functioning of the 'iqqub' in Ethiopia. The 'iqqub' is a type rotating savings association with an element of chance in the awarding of the amount in each cycle. Basic principles and underlying procedures are analyzed in general and for a number of specific cases. The 'iqqub' is conceived as a form of traditional savings institution:

- ✓ The '*iqqub*' is a form of saving institution in which weekly or monthly payments of a fixed sum are exchanged for the privilege of receiving a large sum at some point in the life of the group.
- ✓ The '*iqqub*' belongs to the type of traditional financial institutions which are included under the savings associations.
- ✓ The '*iqqub*' was a saving club combining a bank and lottery.

The '*iqqub*' is widespread in Ethiopia, in many sectors and for many purposes, and said to have originated during the Italian occupation. Its continued spread is explained, among others, by the repressed character of formal institutional credit to the private sector. The '*iqqub*' may involve fairly small amounts, as in predominantly rural areas for consumptive purposes, but may also involve large amounts, as for example among the big traders in Addis Ababa (cited in Helmsing and Kolstee, 1993).

Larger '*iqqubs*' are more institutionalized with elaborate by-laws, employ staff, and have sophisticated mechanisms to compensate members for longer waiting times (which indicates non-zero interest rates) and have direct links with the banking system (to deposit receipts and use cheques). These compensatory mechanisms also reduce the importance of the element of chance in the awarding of the lot in any cycle and therefore make the '*iqqub*' potentially more appropriate to finance MSEs credit needs. The design of financial policies and of MSE financial assistance programmes should take the potential role of indigenous financial institutions such as the '*iqqub*' into account (cited in Ibid, 1993).

**'Idirs':** are indigenous institutions collecting a specified set of money from their members to pay out a specified lump sum of money and assistance to a member, at his/her bad times especially at times of mourn. Despite the need to mobilize resources kept by the '*idir*', they, so far, are not reported that they provided loan or assistance to business activities (Tewodros Giday, 2005).

**Money-lenders:** covers a wide range of credit arrangements that differ across countries, with interest ranging from zero to as many as 100% a month (Aryeetey cited in Godfried *et al.*, 2000:47). Discussions with traders operating at '*Mercato*' has revealed that there

are money-lenders both individually and employees in branches of some government institutions that provide them with finance at about 10-15% per month. Due to high cost of borrowing, MSEs use money-lenders as a last resort. Most of the informal money-lenders base their lending disciplines on a firsthand knowledge of the borrower (Nisanke *et al.* cited in Gebrehiwot and Wolday, 2003:6).

**Own savings, relatives, and friends:** are the most important alternative sources of finance to MSEs in developing countries like Ethiopia. They usually extend finance as non-interest bearing loan based on intimate knowledge and trust of each other, making the need security in the form of collateral or guarantee low (Fasika and Daniel, 1997 cited in Tewodros Giday, 2005).

**Trade credit suppliers:** are significant sources of informal credit in an enhanced credit rating system. Trade credit refers to loans suppliers extend to their customers in connection with product sales. They supply either input or cash advances to MSE operators. Enterprises may receive trade credit either as a substitute for or complement to bank credit. Trade credit has attraction feature of not being guaranteed by mortgageable assets, which is advantageous for enterprises lacking collateralizable assets. Enterprises could resort to trade credit both as a means of financing purchases (i.e., receive trade credit from suppliers) and promoting sales (i.e., grant trade credit to customers). Extending trade credit to customers may be important in sealing deals as well as become and remain competitive as it represents better terms of sales compared to requiring payment in advance or up front (sales promotion motive). Hence, enterprises could be engaged in trade credit for establishing good business relationships or for financing purpose. In the context of Ethiopia, it is reported that the practice of providing trade credit exists for either purpose (Gebrehiwot and Wolday, 2004:63). However, trade credit suppliers are unwilling to extend trade credits, the only option left for these enterprises is to depend on personal funds or turn to friends and relatives. This limits the amount of funds available for working capital and reinvestments in productive capacities like high use operating equipment and facility refurbishments. Lack of this investment is limiting the ability of MSEs to provide better products and/or services to customers. The absence of the wide spread of proactive trade credit would limit the financing benefit of MSEs.

The lack of access to adequate credit from formal and semi-formal financial institutions is thought to drive MSEs to high interest charging moneylenders and to hinder their growth and development. This has, in turn, often been used as the justification for establishing special financial agencies and programmes to provide cheaper credit for MSEs. But, the number of such institutions is usually out of proportion to the number of MSEs that could obtain loans from them. Generally, informal financial sources, notwithstanding the dynamism upward or downward are the principal sources of finance reaching to MSE in variety ways of intermediation. Specifically nowadays, those of 'iqqubs' are main sources of finance to micro and small enterprises.

## **2.5 The MSE Development Strategy and Institutional Support**

An important area of support for MSEs is the availability of an enabling environment in which they operate. Broadly speaking, enabling environment refers to the creation of favorable overall policy and implementation framework that facilitates the development of enterprises and entrepreneurship. According to White (1999), the enabling environment refers to three tiers of government activity: policies, strategies, and legislation; regulatory procedures; and their administration and implementation in a bid to support the establishment, growth, and survival of MSEs.

A National MSE Strategy of Ethiopia was issued in 1997. The industrial development strategy of Ethiopia, issued in 2003, clearly states that the private sector will be the engine of industrial development. It also indicates that promoting MSEs are one of the important instruments to create productive private sector and entrepreneurship and that the government will give due emphasis and priority to promote this sector. The strategy also stresses that every effort will be made to support this sector by providing infrastructure (working premises and land), financial facilities, supply of raw materials, training, etc. Federal and regional governments are expected to coordinate the support services through the already established MSE Development Agencies. The primary objective of the MSE strategy (as stated in the 1997) strategy document is to create enabling legal, institutional and other supportive environment for the development of MSEs. The specific objectives include:-

- Facilitate economic growth and bring about equitable development,
- Create long-term jobs,
- Strengthen cooperation between MSEs,
- Provide the basis for medium and large scale enterprises,
- Promote exports, and
- Balance preferential treatment between MSE and bigger enterprises (Gebrehiwot and Wolday, 2004:8).

A review of the current status of MSEs in Ethiopia is undertaken which shows a number of constraints these includes lack of access to finance, lack of market access, and obstacles from government rules and regulations, etc (CSA, 2009 cited in AAMSEDA, 2003 E.C.). In spite of these, they remains positive about these enterprises and their potential capacity and any transition from a public sector-dominated small scale enterprise assistance towards a more pluriform system of services would inevitably be a long and drawn-out process and proposes a transitional phase in which local MSE would play a great role.

The intended supports to promote the MSE sector include improvement of access to finance; creation of legal framework; introduction of incentive schemes; encouraging partnerships; provision of training in entrepreneurship, skills, management; improving access to appropriate technology, information, advice and markets; and improved infrastructure. Due attention is also given in the strategy to strengthen private sector associations and champers. Based on the national strategy, regional governments have developed their own regional MSE development strategies. A number of institutions are supposed to be involved in providing these. The question is to what extent are these institutions doing so currently. International donor communities such as ILO, GTZ, etc. provided limited financial and technical support to the MSE sector. The Regional Trade, Industry, and Tourism Bureaus, in addition to their regulatory role, are involved in the provision of BDS: they provided limited training on business, based on the ILO training packages, and delivered some marketing services by organizing trade fair and providing market price information. The Ministries of Education and Labour and Social Affairs,

which have regional structures throughout the country, are also involved in delivering short-term skill training and long-term vocational and technical training to potential MSE operators (Gebrehiwot and Wolday, 2004:9).

The Ethiopia's legal framework, current business practices, government policies such as tax breaks or seed grants for MSEs, bureaucratic and administrative procedures, etc was/is all act either to encourage or impede MSE development. When policy, legal or regulatory issues are found to require government attention, suggest solutions and set a timetable and responsibilities for action. The availability and strength of financial services such as commercial banks, MFIs, etc and non-financial service providers such as business counseling, must be adequate to support MSEs development and growth. In the current legal framework of Ethiopia, develop plans and initiate/reinforce means to ease any constraints posed by existing MSE policies or the operational framework for the sector including trading laws and regulations, capital and administrative requirements, credit services, legal status, etc to the best operation of MSEs.

Since 1991, there has been recognition of the role of the MSE sector in employment creation and economic growth (as opposed to being viewed as marginal and unproductive, tax evader, and with limited contribution to economic growth). In spite of the attempts to liberalize and improve the policy and regulatory environment, information indicates that there is divergence between policies and directives issued and their actual *implementation* on the ground. Concrete and coordinated institutional support (infrastructure facilities like business premises, water and power; financial services; extension services; aid in the transfer of technologies; promotion of marketing facilities; and provision of training on sustainable basis) have yet to be provided. The establishment of the MSE Development Council (composed of the federal government, local governments, private sector representatives, and MSE operators) at the Office of the Prime Minister and Regional Government Administration levels may be one option to surmount the coordination difficulties in the MSE sector. The Council's mandate and modus operandi should promote an effective consultative and participative process in policy formulation and implementation (Ibid, 2004:10).

The MSE sector is large and heterogeneous in our economy. The industrial development strategy and support that include “MSEs growth” among their explicit or implicit objectives must be targeting the majority of firms in our country. Strategy designers and implementers should have a clearly developed causal model that shows how the intervention works to achieve MSEs growth. Important to this is an understanding of how the intervention will influence the sector opportunities, capabilities, and productivity. The insights from this intervention can help to formulate a more defined targeting strategy and support.

## **2.6 Micro and Small Enterprises Development in Addis Ababa City**

MSE Development Program had started seven years ago, with the objective of alleviating poverty and reducing unemployment. The development program would be run by an independent organization with the name of AAMSEDA. It has 10 branch offices at sub-city level and 116 sub-branch offices at Woreda level. The program have been given due attention for seven growth oriented sectors including textile and garment, metal and wood work, construction, food processing, municipal service, cobble stone, and urban agriculture (AAMSEDA, 2003 E.C.).

### **2.6.1 Constraints Facing the Sector**

CSA had conducted survey on MSEs. According to the survey report the main constraints that the sector faced were presented as follows. The problems are listed according to their sensitivity (priority) to enterprises.

- Problem faced during establishment of the enterprise (at the start of operation):
  - Lack of sufficient capital
  - Input access constraints (raw material and spare parts)
  - Obstacles from government rules and regulation
    - Policy and regulation on getting working premises
    - Absence of tax exemption
- Problem faced during operation:
  - Lack of market

- Lack of market information
- Unable to compete foreign products
- Unable to compete local products produced by medium and large scale enterprises
- Shortage of supply of raw material
- Infrastructure problem
  - Electricity supply problem
  - Access to water
- Spare part problem (lack of information where to get machineries)
- Lack of working capital (CSA, 2009 cited in Ibid, 2003 E.C.).

One of the most important ways to promote MSEs is learning what their problems are and responding accordingly. Since MSEs are engaged in diverse activities and are heterogeneous, it is good to understand the problems in relation to those factors that create heterogeneity among them.

## **2.6.2 Major Achievements of the City to the Development of the MSE**

### **Policy Guidance and Regulation**

- An organ responsible to the development of the sector is established. That is, Micro and Small Enterprise Development Agency,
- Different support packages to growth oriented sectors have been developed,
- Procedure and strategy on graduation of small enterprises to medium scale,
- Procedure on organizing of board at city level and steering committee at sub-city and Woreda level,
- Different regulations and procedures have been developed to make conducive environment to the sector. Some of them include:
  - Regulation on accessing market (getting priority) on government development works,
  - Regulation on MSEs working premises administration,
  - Different procedures depending on support given to MSEs

### **Interaction between the City Government and Enterprises**

The interaction bases on the following issues:

- Long, medium, and short period planning to the sector,
- On the processes of rendering services to the sector, particularly provision of working premises, market linkages,
- Arranging panel discussions on the development of the sector,
- Cluster development,
- Conducting exhibition and bazaars, and
- Performance report evaluation.

### **Support Given to Enterprises**

- Provision of premises for production and sales,
- Technical and managerial training for the operators,
- Market linkage,
- Provision of BDSs,
- Information access on appropriate technology,
- Provision of credit and saving access,
- Provision of information,
- Licensing and legalization of businesses (Ibid, 2003 E.C.).

### **2.6.3 Stakeholders Working in the Promotion of MSEs**

- ✓ MFIs- in the provision of loan
- ✓ TVETs- skill test, skill gap training
- ✓ Productivity improvement center- training, prototype development, research, etc
- ✓ Bureau of youth and sport
- ✓ Bureau of women affair
- ✓ Communication bureau
- ✓ Cobble stone project office
- ✓ NGOs (UNIDO on cluster development, GTZ on skill training, business development services).
- ✓ MSE committee of the advisory council at the city government- advisory government (Ibid, 2003 E.C.).

## 2.7 Theories of Micro and Small Enterprises

There are several theories trying to explain why enterprises provide suppliers' credit to their customers (i.e. supply of trade credit). According to the price discrimination theory, advanced by Brennan *et al.*, (1988), suppliers provide trade credit in order to price *discriminate* between cash and credit customers: that is, customers that pay promptly receive a cash discount while credit customers do not. Credit customers who pay the bill at the due date face an implicit interest cost in the form of forgone cash discount for early repayment, while those paying after the due date may also incur additional costs in the form of explicit interest charges and/or penalties (cited in Gebrehiwot and Wolday, 2006).

According to Long *et al.*, (1993), on the other hand, suppliers sell their products on credit as a *warranty* for quality of their products, allowing customers sufficient time to *test* the product. For example, customers may require more quality assurance on newly introduced products. So, the terms of a trade credit may be chosen in such a way that they signal quality of the product: better terms such as longer repayment period reflect supplier's high confidence on the quality of its product.

A third theory Frank and Maksimovic, (1998), argues that suppliers credit increases with the *ease of resale* of the product involved since ease of resale (due to, say, low depreciating or non-firm- specific, nature of the product/input) allows the supplier to seize and resell the product in the event of default. Resale is difficult in case of fast depreciating or perishable products (as their value gets eroded quickly) and products of firm-specific nature as they tend to have thin second-hand market (cited in Gebrehiwot and Wolday, 2006).

A fourth theory, advanced by Cunat (cited in Fisman and Love 2001), tries to explain trade credit by suppliers in terms of customized products: customers that require products that are tailor-made or involve learning by doing, hence sunk costs (e.g. firms with complex input needs), are tied to particular suppliers, as a result of which supplier-customer relationships develop. The longer this relationship, the higher the scope for

punishment for non-repayment, hence (a) the more likely such customers are to get trade credit; and (b) the larger is the amount of trade credit suppliers are willing to extend.

## 2.8 Conceptual Framework of Micro and Small Enterprises

There is no universally accepted definition of MSEs. Different regions or countries have defined MSEs based on local operations and conditions. It should be noted therefore that certain definitions may not be applicable in certain regions or settings (Agyapong, 2010). Rigorously defining MSEs has always been difficult, even controversial. The term covers a variety of firms and most writers use it rather as they refer to their particular interest.

The term micro-enterprise was coined in 1973 by ACCION, to distinguish the vast number of enterprises in the informal sector, which existed below the radar screen of the earlier categories, used- “small business” or “small enterprise” or “small-scale industry”. The term was perhaps first officially used when the Act for Micro-Enterprise was introduced in the United States House of Representatives in 1990. The bill’s aim was to assist in the development of microenterprises and microenterprise lending. It defined a microenterprise to be “any unincorporated trade or business with five or fewer employees, one or more of whom own the enterprise”, and limited a microenterprise loan to between \$50 and \$5,000. The bill referred to a House sub-committee, where it languished. Later the USA enacted the Microenterprise Act, 1996 but did not directly define micro-enterprises. It also specified that credit to these enterprises would include at least 50 percent for “poverty lending”; a term defined as loans below \$300 to very poor members of society, particularly women. The Act envisaged the provision of credit along with training and technical assistance (Leleux and Constantinou, 2007:21-22).

In India, the term is not used officially. Instead, the Central Statistical Organization (CSO) of India uses the phrase “Own Account Enterprise” for those enterprises in which the owner is self-employed, other workers is from his or her family and there is no hired worker. In contrast, an “Establishment” is a business that employs at least one hired worker. By contrast, China distinguishes enterprises by legal status: from “Individually

Owned Enterprises” to “Legal Entity Enterprises”, which can be non-state owned or state owned (Ibid, 2007:22).

According to the Micro and Small Enterprises Development Strategy of Ethiopia the working definition of MSEs in Ethiopia is based on capital (cited in AAMSEDA, 2003 E.C.). Hence, micro-enterprises can be defined as follows:-

*Micro-enterprises means trade organizations whose capital is not exceeding from Birr 20,000.00 and higher consultancy service organizations and other higher technological enterprises are not included.*

The Small Business Administration of the USA defines a small business as having less than \$18 million in net assets and/or less than \$6 million in net income. There are also alternate industry-based tests based on the number of employees. It is obvious that these limits are far too high for any developing country. In India, for example, tiny industries are defined as below Rupees (INR) 2.5 million (about \$55,000) investment, whereas small-scale industry is below INR 10 million (about \$220,000) in plant and equipment. However, even these numbers are too high. A better definition for a small business might be what the Central Statistical Organization of India terms a “Directory Enterprise” – an enterprise that has at least one hired worker on a “Fairly Regular Basis” and more than five workers in total (Leleux and Constantinou, 2007:23).

Hence, small enterprises in Ethiopia can be defined as follows:-

*Small-enterprises means trade work organizations whose minimum paid up capital is not less than Birr 20,000.00 and not exceeding from Birr 500,000.00 and shall not include higher technological consultancy service and other higher technological institutions. (National Micro and Small Enterprises Development Agency cited in AAMSEDA, 2003 E.C.).*

While the precise definitions may vary from one country to another depending on the local conditions, the general characteristics are clear: compared with microenterprises; small enterprises have more capital invested, employ somewhat better technology, man

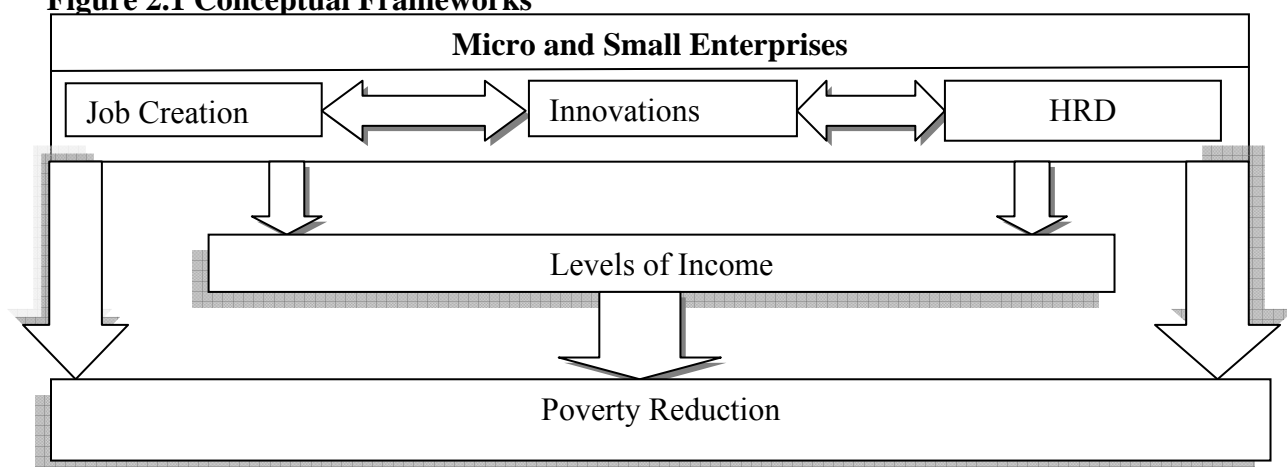
power, and enjoy slightly better access to formal financial institutions. Therefore, the researcher attempts to see those enterprises that are bounded by the capital stated above in the Ethiopian context.

The link between MSEs, entrepreneurship and economic wellbeing dates back to the time of Cantillon (1725), Say (1803) and Schumpeter (1934). Schumpeter (1934) established a link between entrepreneurial ventures and economic development. These earlier works set the foundations for later empirical and theoretical development. In the UK, the Bolton Report (1971), helped define the importance of small business within the UK economy. Similar exercise was undertaken by the Committee for Economic Development in the USA. As posited by Storey (1994), international comparisons of statistics on small firm are very difficult because of lack of common definitions and data sources. Notwithstanding this, the increase in employment in small firms tends to have been a common feature of the economies of many an industrialized country in the 1980s. According to a report by Sengerberger *et al.*, (1990), small firms of less than 200 employees had increased their overall share of total employment in France, Germany, Italy, Japan, the UK and the USA, which ‘signifies the reversal of a substantial downward trend in the employment shares of small units that had prevailed for many decades’, although the rate of increase had varied by country and industrial sector (Cited in Agyapong, 2010).

As shown in figure 2.1, MSEs have a link with poverty reduction in a society. Mukras (2003), posited that poverty can be reduced through the strengthening of MSEs. Behind most MSEs there are entrepreneurs who are propelled by innovative ideas as an opportunity to satisfy a target market. So, as indicated in figure 2.1, MSEs activities sped off innovations. Meanwhile converting this idea into a workable product requires the use of skills, which in most circumstances requires more than just the skill of the entrepreneurs but additional staff. Thus, presence and improvement in the capability of MSEs promotes employment as their activities create more jobs. Additionally, as more jobs are created, it will result in more innovations and creativity.

Meanwhile, one of the avenues for HRD is through MSEs. A bulk of the informal training (usually on-the-job) and skills is acquired through apprenticeship and coaching. People have used this medium to acquire valuable knowledge and ability and have gone on to establish business venture of their own. The multiplicity effect of innovations, job creation and HRD as a result of MSEs' activities is that the income levels of the people engaged in any of these activities is made better. Perhaps, those who did not have any will now enjoy some level and form of income. As people enjoy some form of income, they will be able to afford (relatively) some basic necessities of life (food, cloth, shelter and health care). Thus MSEs aid in poverty alleviation. In most African countries, MSEs account for a significant share of production and employment and are therefore directly influencing poverty alleviation (Agyapong, 2010).

**Figure 2.1 Conceptual Frameworks**

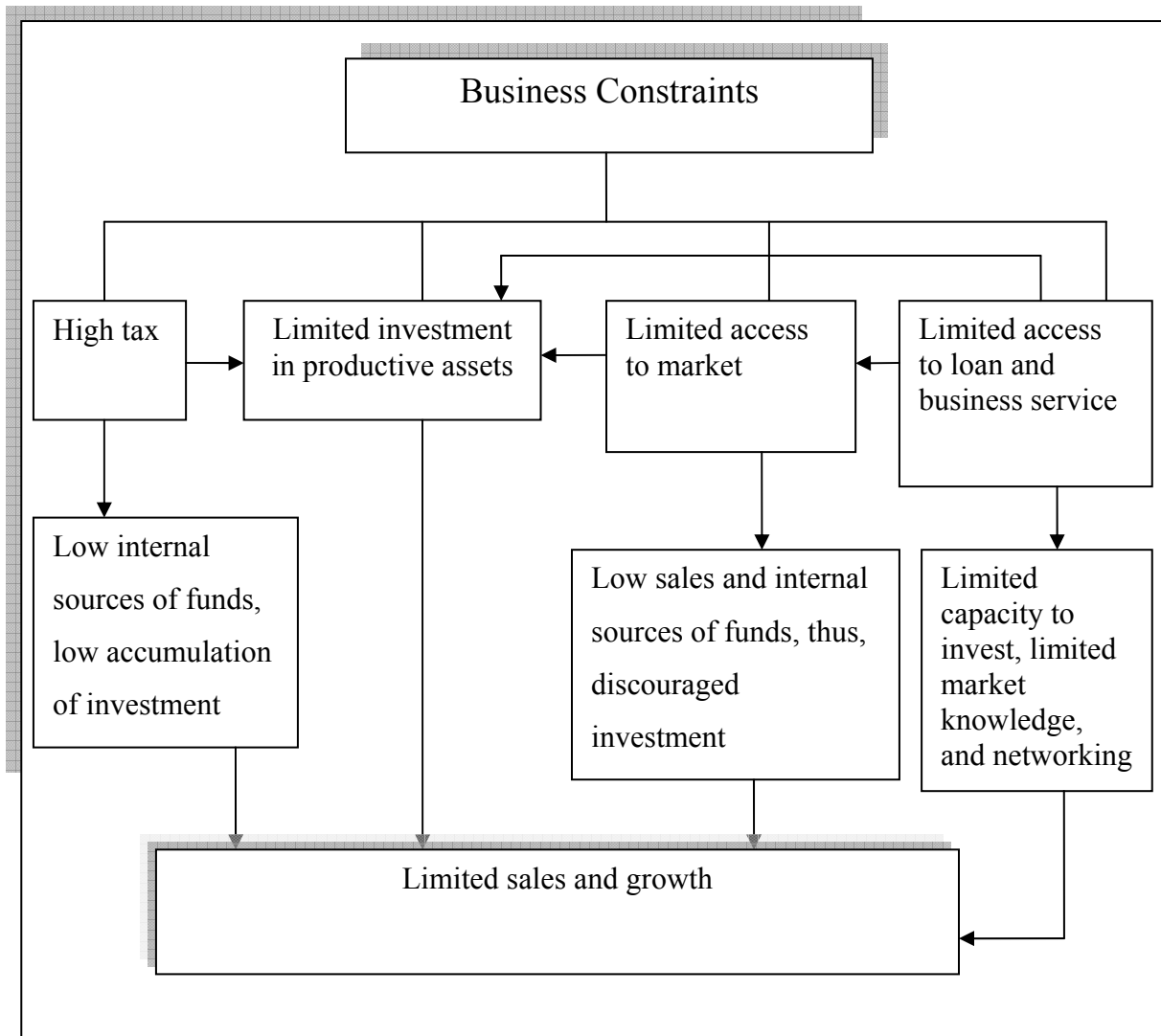


**Source:** Mukras (2003).

MSEs may overcome the problem of low returns if they have access to external finance (for example, loans). This may supplement their limited internal resources and therefore enable them to upgrade their investment (physical assets). Through investment upgrading, they are likely to increase their productivity Kimuyu (2004), and improve the quality of their products. Consequently, their market access can be enhanced, since they may be able to target customers with relatively higher incomes. They may also utilize loans to expand their level of operation by increasing output. This may increase their

capacity utilization and therefore reduce overhead costs per unit, hence increasing the productivity and competitiveness of their products.

**Figure 2.2 Conceptual Relationships between Business Constraints & Performance**



**Source:** Ishengoma and Kappel, 2007.

Among the factors expected to hinder the growth potential of MSEs is their limited access to BSS (viz., marketing information, networking, short-term training, counseling and consultancy services) (Ishengoma and Kappel, 2007). Access to marketing information is expected to increase MSEs' market knowledge about the behavior of their

customers, price, and the best sources of inputs. Through counseling and consultancy services, MSEs can solve some of the technical problems they face. Their participation in networking activities may enable them to obtain more technical and marketing information about the behavior of their customers, in terms of honoring their debts; new customers; and business partners. All of the above are expected to decrease MSEs' transaction costs, increase their internal sources of finance for upgrading their assets, and raise their sales levels and productivity-hence leading to growth.

## **CHAPTER THREE**

### **III. RESEARCH METHODOLOGY**

This chapter presents research methodology used in carrying out the study. In particular, this was employed in order to describe how the financial sources of MSEs in Gulelle Sub-City are obtained. It presents the research design, data sources, instruments and procedures of data collection, sampling strategy, data analysis and presentation, validity and reliability, potential ethical issues, and limitation of the study.

#### **3.1 Research Design**

The main objective of this study as mentioned in chapter one was to investigate how MSEs get financial sources at the time of establishment and in operation and the specific objectives were; to identify which type of formal, semi-formal or informal financial sources are easily obtainable to MSEs; to assess the financial difficulties of MSEs; to identify the barriers to financial access; to identify the various incentives provided for the development of MSEs in Gulelle Sub-City. A descriptive research design was used to conduct the study. According to Seiliger and Shohamy (1997), descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting. Thus, descriptive study was favored to understand how MSEs are generated their financial sources.

Moreover, in order to achieve the intended objectives, both quantitative and qualitative methods were employed. The researcher used a sequential study with the qualitative follow-up phase building on and helping to explain the initial quantitative phase. The intent of these two-phase, sequential mixed methods was to discuss first on quantitative findings. Information from the first phase were explored further in a second qualitative phase i.e., by focus group discussion. The reason following-up with qualitative research in the second phase was to better understand and explain the quantitative results.

According to Creswell (2009), it also involves the use of both approaches in tandem so that the overall strength of the study is greater than either qualitative or quantitative research.

### **3.2 Data Sources**

In the study, the approaches used for attaining the aforementioned objectives were by analyzing the available documents on the subject (secondary sources) and primary data. Therefore, the sources of primary data were gathered from MSEs in Gulelle Sub-City and government officials in Gulelle Sub-City that have a direct interest in the sector. Secondary sources on the other hand, relevant documents were collected from printed materials and books; reports and the like drawn from the CSA, the NBE, EDRI, Federal, Addis Ababa, and Gulelle Micro and Small Enterprises Development Agencies. The works of other researchers and publications (mainly, journals, thesis, and online resources) and Internet were also used.

### **3.3 Instruments and Procedures of Data Collection**

Two data collection instruments were used to gather relevant data for the purpose of the study. These were questionnaire as the major tool and focus group discussion as supportive instrument to triangulate the data found through questionnaire. The questionnaire was tried out first on 12 MSEs as a pilot study. This was thought that to see the validity and reliability of the questionnaire and if there is a need for modification to modify it. As a result, at the beginning a total of 43 questions were prepared in the questionnaire for the MSEs. However, 7 questions were removed because of redundancy and irrelevancy. Moreover, interview questions was prepared to the government officials in Gulelle Sub-City that have a direct interest in the sector, however, this method does not give the required data and it is difficult to cross check. It was therefore, the researcher shifted the method to carry out focus group discussion with government officials in Gulelle Sub-City. Finally, the researcher decided to use questionnaire for MSEs and focus group discussion for government officials in Gulelle Sub-City that have a direct interest in the sector.

### 3.3.1 Questionnaire

According to Yount (2006), the standardized wording and structured questions of the questionnaire provide a higher reliability in the data than is practically able to be obtained by interview and is completed at the subjects' convenience. Yount (2006), further argues that, they can consider each question, check necessary records, and reflect on their answers. Data is more valid under these conditions than when answers are given "on the spot" in an interview. Questionnaire has an advantage over some other types of surveys in that this is cheap, do not require as much effort from the respondent and often has standardized answers that make it simple to compile data.

Most of the questions in the questionnaire were developed from the review of related literature. Questionnaires were distributed to MSEs selected from Gulelle Sub-City that can represent the population at an acceptable level. Therefore, the questionnaire was prepared, completed and returned to the researcher. In the questionnaire both open-ended and close-ended questions were incorporated in order to get the desired information.

### 3.3.2 Focus Group Discussion

The focus group discussion was conducted to get a better understanding, cross check the present situation, and to assess forces that might facilitate change. Here this method has a better understanding, cross check and consensus face-to-face with the participants of the focus group discussion. To collect primary data, the writer used questionnaires and in order to increase the reliability of data, additional data were collected through focus group discussion. Focus group discussion was held with the representatives of government officials that have major connections with the sector in Gulelle Sub-City. The copies of the instruments were attached in the annex part.

### 3.4 Sampling Strategy

Gulelle Sub-City is one of the 10 administrative sub-cities in Addis Ababa City Administration, which have a large number of MSEs i.e., 896. Because of this and due to matters of convenience, the researcher selected Gulelle Sub-City as study area. Hence,

the target population of the study was MSEs in Gulelle Sub-City. There are 896 MSEs in Gulelle Sub-City up to August 2002 E.C. (Gulelle Micro and Small Enterprises Development Agency, 2003 E.C.). These MSEs are engaged in different developmental oriented sectors which include textile and garment, construction, food processing, cobble stone, metal and wood works, municipal services, urban agriculture, and others. Here, stratified sampling technique taking each developmental oriented sector category as a stratum was considered. As a 'rule of thumb', the sample size for 101-1,000 size of the population is 10% (Yount, 2006). Hence, using this rule, out of the total population 11.16% was taken as a sample which the researcher believed that it would represent the total population and it was enough for the findings of this paper. Therefore, the sample size was 100 MSEs which was distributed by using proportionate stratified sampling criteria (Birchalley, 2004).

| <u>Stratum</u>       | <u>Number of enterprises</u> |
|----------------------|------------------------------|
| Textile and garment  | 244                          |
| Construction         | 233                          |
| Food processing      | 135                          |
| Cobble stone         | 68                           |
| Metal and wood works | 50                           |
| Municipal services   | 46                           |
| Urban agriculture    | 37                           |
| Others               | 83                           |
| <b>Total = 8</b>     | <b>896</b>                   |

n (sample size) = **100**, therefore,

Textile and garment =  $244/896*100 = 27$

Construction =  $233/896*100 = 26$

Food processing =  $135/896*100 = 15$

Cobble stone =  $68/896*100 = 8$

Metal and wood works =  $50/896*100 = 6$

Municipal services =  $46/896*100 = 5$

Urban agriculture =  $37/896*100 = 4$

Others =  $83/896*100 = 9$

Therefore, **27** textile and garment, **26** construction, **15** food processing, **8** cobble stone, **6** metal and wood works, **5** municipal services, **4** urban agricultures, and **9** others MSEs were selected. After having such samples from each stratum, the researcher randomly selected to have a desired number of samples for each stratum.

The other population comprises the government officials who have a direct connection with MSEs in Gulelle Sub-City. Focus group discussion was conducted with representatives from the sector based on purposive sampling. The chances of biases associated with this sampling were taken care off. Therefore, the sampling strategies used to secure respondents for questionnaire and conducting focus group discussion were probability and non-probability sampling techniques respectively.

### **3.5 Data Analysis and Presentation**

Once the raw data were on hand, quantitative and qualitative methods of data analysis were used. With the quantitative data collected through the questionnaire a descriptive statistical analysis method was used. Descriptive research involves gathering data that describes events and then organizes, tabulates, and describes the phenomena. To process the data from different angles, the researcher were used all the necessary data, and finally the raw data were organized and grouped on the basis of common characteristics. As a result, the data obtained via the questionnaire were tallied and the frequencies were converted into percentages. Tabulation methods, description of facts based on statistical analysis like SPSS, percentages, graphs with explanations and lastly interpreted after considering all relevant factors. The researcher used visual aids such as graphs and charts to aid the reader in understanding the paper. Data obtained from open-ended questions were also be analyzed together with the closed-ended questions to triangulate the responses gathered via the survey questionnaire in general. Besides, to analyze the data obtained through focus group discussion qualitative method of data analysis was performed. Hence, the data gained via this method was used to crosscheck the data

gathered through the main instrument of the research i.e., the survey questionnaire and, therefore, this has a separate section dedicated to it.

### **3.6 Validity and Reliability**

The researcher has selected participants randomly so that characteristics had the probability of being equally distributed and recruits large sample to account or compare these outcomes. The researcher was used the same instrument for pre-test and post-test measures. To guard against this, the researcher conducted pilot studies to establish trust and respect with the participants. With regard to the focus group discussion, rapport between the researcher and subjects had been created; hence, a more cooperative atmosphere, which increases the validity of the subjects' responses. Such kind of rapport improves the level of trust between the researcher and subjects, which, in turn, increases the validity of answers received.

### **3.7 Ethical Considerations**

Before writing the thesis, the researcher considered the ethical issues that can be anticipated and described in the study. These issues relate to all phases of the research process. The problem identified by the researcher benefits individuals being studied and that will be meaningful for others. The researcher was not further marginalize or disempowered the study participants; and restricts claims about groups to which the results can't be generalized. The purpose of the study was described to the participants and it was provided letter of approval in order to establish trust and credibility. The researcher was not put participants at risk, respect vulnerable populations, and participants will remain confidential, if the need arise. The data, once analyzed, the researcher will keep for a reasonable period of time and then discards so that it will not fall into the hands of other researchers who might misappropriate it. The researcher was not also used language or words that are biased against persons because of gender, sexual orientation, racial or ethnic group, disability, or age. Suppressing, falsifying, and inventing findings to meet a researcher's and/or participants' need were eliminated.

### 3.8 Limitation of the Study

It was very difficult for the researcher to undertake the research absolutely without any problem or limitation. In some way this study was believed to have certain limitations. It is worth keeping in mind that the sample size of the study was only limited to 100 MSEs selected and limited government officials. This could often create hast generalization of the study. It would have been better and more effective if a good number of MSEs were included in the study to gather sufficient information to get best results. Further, there were other associated problems resulted in ‘missing data’ which prompted dropping these incomplete observations from the analysis. This in turn resulted in a reduction of the sample size.

The registered and the actual number of MSEs were not equal. Some of MSEs were closed due to different problems. The Micro and Small Enterprises Development Agency doesn’t have updated information and hence it affected the sampling of the study. In addition, the limited empirical evidence on MSEs in the country was paused a restriction in examining trend in the sector.

The researcher also felt that demonstrating all aspects of MSEs could not be carried out within a short period of time and would require an intensive investigation to reflect all aspects of the sector. Therefore, the instruments that were used to gather data in this respect were limited to raise only some aspects of MSEs. Furthermore, the focus of the study was limited to how MSEs get financial sources. Thus, the findings of this study might not give us wide and deep insight into MSEs.

Therefore, these and other similar problems could have affected the quality of the paper which in turn might have led to inconclusive results.

## CHAPTER FOUR

### IV. ANALYSIS AND DISCUSSION OF DATA

#### 4.1 Introduction

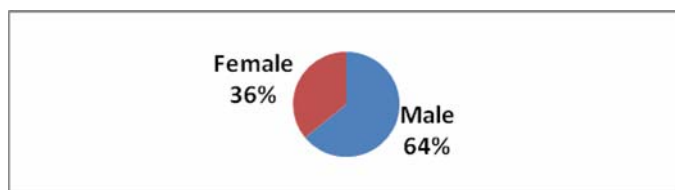
The sources used to this study were both primary data and secondary sources. The primary data were collected directly from MSEs in Gulelle Sub-City and government officials who have direct interest in the sector i.e., Gulelle Sub-City's Micro and Small Enterprises Development Agency officials. The researcher gathered data by distributing questionnaires to MSEs (see annex I and II in English and Amharic version respectively) and focus group discussion with government officials was conducted (see annex III). There were 100 MSEs covered in this analysis; these enterprises are engaged in different developmental oriented sectors which include textile and garment, construction, food processing, cobble stone, metal and wood works, municipal services, urban agriculture, and others. Out of 100 questionnaires circulated 92 sample MSEs or 92% were returned and filled appropriately. Some respondents did not fill some parts of the questionnaire and in the analysis part reported as 'missing system'.

At the introduction part of each questionnaire, respondents were made aware of the objectives of the study why it is conducted with each respondent and make consensus during gathering the appropriate data. On the questionnaire, respondents were allowed to choose more than one response if needed and to give any suggestions about MSEs. Similarly, the participants of the focus group discussion were made aware of objectives of the study and make an oral consensus to participate in the study.

In this section the researcher describes the characteristics of variables and analyzes their behaviour with financial sources of MSEs. Comparative evaluation with MSEs was also conducted based on qualitative information through focus group discussion for some part and for the rest part it simply describes the existing phenomena. In this regard, the results of focus group discussion have a separate section dedicated to it.

## 4.2 Personal Data

**Graph 4.1 Male versus Female Respondents**



**Source: Survey Result, 2011**

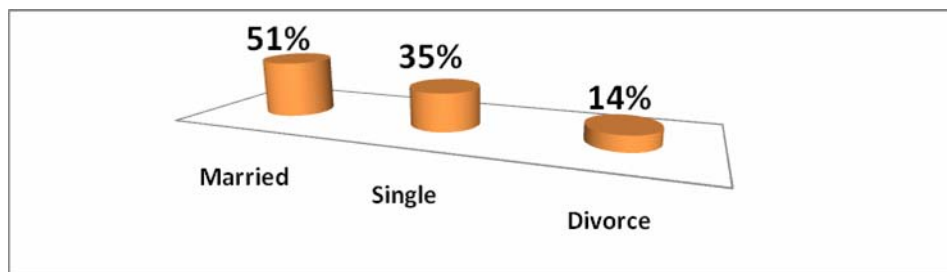
The graph above revealed that 64% of the selected sample populations were males and the rest 36% were females. This indicates that most of the owners of MSEs were found to be males, hence, the involvement of female owners were limited (almost half of the male owners). Even if there is a clear message to encourage females in the mission statement of AAMSEDA; but the involvement of females is still poor and it needs close and proper attention towards them. MSEs are assumed to be the basis for medium and large industries, this strategy will not meet the ultimate goal in the absence of females, where they are half of the population.

**Table 4.1 Age Distribution of Respondents**

| Responses | Frequency | Percent |
|-----------|-----------|---------|
| 15-24     | 28        | 30.4    |
| 25-34     | 41        | 44.6    |
| 35-44     | 15        | 16.3    |
| ≥45       | 8         | 8.7     |
| Total     | 92        | 100.0   |

**Source: Survey Result, 2011**

The sample MSEs are operated by relatively young operators, ranging from 25-34 years of age (44.6%), followed by 15-24 years of age (30.4%). Here the table above also shows that 16.3% of the sample respondents are between 35-44% years old and 8.7% are 45 and above years old. As we all know the young population is the backbone of our economy, the participation of young people is encouraging and must be given due attention for their engagement in MSEs.

**Graph 4.2 Marital Status**

**Source: Survey Result, 2011**

As the graph 4.2 above clearly shows that most of the sample respondents are married (51%), followed by single (35%), and divorce (14%). From this we can understand that MSEs have more financial sources, because they have at least two families, i.e., the husband and wife side. And as if peoples begin to be married, they have the probability of good saving habit there by financing their own MSEs properly. Similarly, they will be good in synergy and the chance of having collateral increases. But, this does not mean that married owners are overlooked, because those owners may have more dependents and in turn it may consumes the retained earnings of MSEs

**Table 4.2 Educational Status**

| Responses       | Frequency | Percent |
|-----------------|-----------|---------|
| Primary School  | 26        | 28.3    |
| High School     | 37        | 40.2    |
| TVET            | 11        | 12.0    |
| Diploma         | 8         | 8.7     |
| Bachelor Degree | 4         | 4.3     |
| Others          | 6         | 6.5     |
| Total           | 92        | 100.0   |

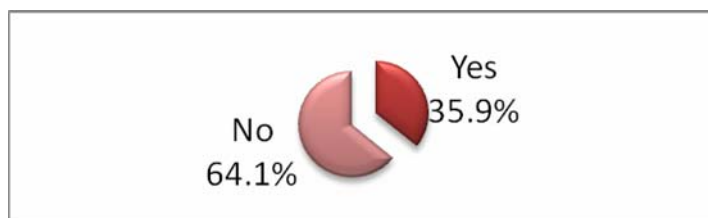
**Source: Survey Result, 2011**

When the educational status is seen, most of them responded to have a secondary school (40.2%), primary school (28.3%), followed by TVET (12%). On the other hand, there were respondents who are in others category (6.5%), they attended traditional type of education or '*Meserete Timhirt*' and they can read and write. In Ethiopia, it is believed

that MSEs are for uneducated individuals; however, the study reveals that diploma and bachelor degree holders are engaged in this sector (8.7%) and (4.3%) respectively. From this data one can understand that the educational status of owners is low. Therefore, they may face a problem in complex business decision making processes; and it has a negative impact on the financial sources usage and profitability of their businesses. If the owners are in formal education, they could develop the financial management and other skills necessary for the smooth running of enterprises.

### 4.3 Training Information

**Graph 4.3 Work Experience before Starting the Current Business**



**Source: Survey Result, 2011**

Most sample MSEs, according to the survey data, did not have previous work experience (64.1%) and the rest (35.9%) have work experience before starting the current business. MSE owners mainly depend on their own experiences as well as those of their families and friends. There is no question at all that business experiences are very crucial for successfulness of MSEs.

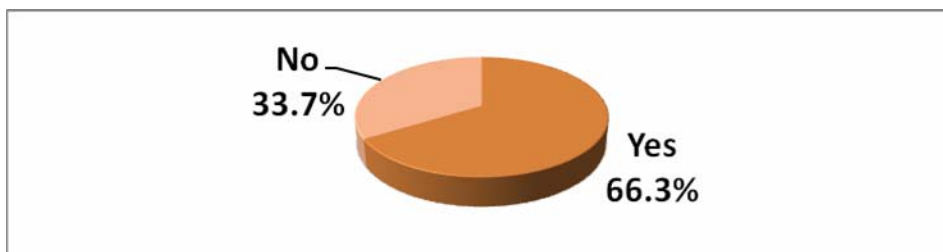
**Table 4.3 The Relatedness of the Experience to the Business**

| Responses         | Frequency | Percent |
|-------------------|-----------|---------|
| Strongly Agree    | 9         | 27.3    |
| Agree             | 5         | 15.1    |
| Neutral           | 3         | 9.1     |
| Disagree          | 7         | 21.2    |
| Strongly Disagree | 9         | 27.3    |
| Total             | 33        | 100     |

**Source: Survey Result, 2011**

This previous work experience may be exactly the same as with the current business and on the contrary it may be totally different. Out of the sample respondents, 33 or 36% responded that they have previous work experience (graph 4.3), the relationship between the current businesses with the previous work experience spans from strongly agree (27.3%), agree (15.1%), neutral (9.1%), disagree (21.2%), and strongly disagree (27.3%). So, from this we can conclude that the current business is based on the prior work experience and this may lead to profitability since they better aware of systems of financial sources, marketing, and the like for some sample MSEs.

**Graph 4.4 Training before Starting-Up the Business**



**Source: Survey Result, 2011**

Training applies to any transfer of knowledge, skills or an attitude which is organized to prepare people for more productive activities, or to change their working environment. Unlike formal educational programs, short-term skill training, directly or indirectly, affects the performance of MSE operators (Gebrehiwot and Wolday 2004:32).

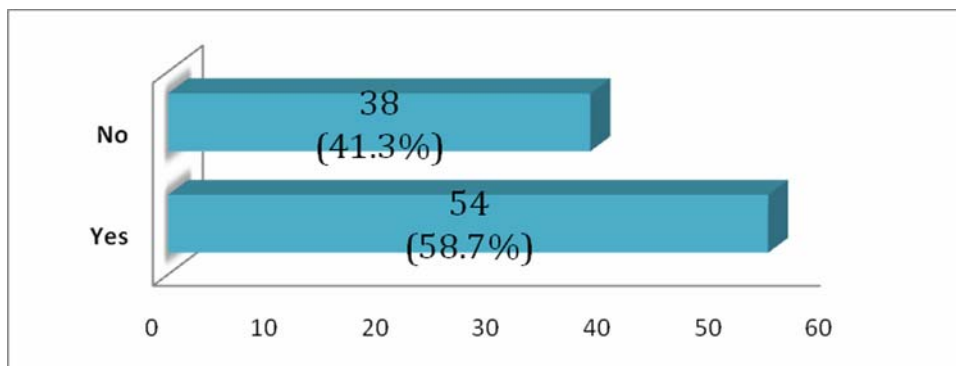
Here sample MSEs operators 61 or 66.3% of the sample respondents have taken training and the rest 31 or 33.7% did not take any training before starting-up the current business graph 4.4 above. As training is the commonly and widely used instrument to promote MSEs, attempt should be made to make it demand-led or 'one size fits all' approach will not be effective. If training is simply given to all MSEs the same, the value of the training will be questioned. Therefore, the training given to MSE owners/operators should be continuously monitored and evaluated or the need must be assessed periodically.

**Table 4.4 The Degree of Relevance of the Training**

| Responses | Frequency | Percent |
|-----------|-----------|---------|
| Excellent | 8         | 13.1    |
| Good      | 12        | 19.7    |
| Average   | 15        | 24.6    |
| Poor      | 10        | 16.4    |
| Very Poor | 16        | 26.2    |
| Total     | 61        | 100     |

**Source: Survey Result, 2011**

The sample MSE operators/owners perceived the training as excellent 13.1%, 19.7% as good, 24.6% as average, 16.4% as poor, and 26.2 % as very poor (table 4.4 above). Although there are institutions including Gulelle Sub-City's MSE Development Agency; involved in financial management, marketing management, skill training, business and entrepreneurial training the effectiveness and relevance is far from what is desired due to: training materials being too complex and sometimes irrelevant for trainees, the absence of qualified trainers, the core function of many institutions is not training but provision of credit, the absence of technical skills training and upgrading in the sector. MSEs lack on-going technical assistance and hands on training to upgrade their financial utilization, increase productivity, and improve packaging to remain competitive and access markets.

**Graph 4.5 Training after Starting-Up the Business**

**Source: Survey Result, 2011**

Once the MSEs have been established, owners/operators must get appropriate training. Hence, when we see the training after starting-up the business, it decreased from 66.3% before starting-up the business (graph 4.4) to 58.7% (graph 4.5) and the rest 41.3% did not take any training. Actually, this must not be the case because the main problem or the actual difficulties encounters at the time of running the business/operation. So, in order to prepare for further investment or to graduate to medium and large industries the training dimension and quality must be increased. Once MSEs are established they need continuous follow up and the training must also goes parallels.

**Table 4.5 The Degree of Relevance of the Training after Start-Up**

| Responses | Frequency | Percent |
|-----------|-----------|---------|
| Excellent | 15        | 27.8    |
| Good      | 16        | 29.6    |
| Average   | 14        | 25.9    |
| Poor      | 4         | 7.4     |
| Very Poor | 5         | 9.3     |
| Total     | 54        | 100     |

**Source: Survey Result, 2011**

Here as we can see from the above graphs of 4.4 and 4.5, the sample MSEs gained training after start-up the business decreases but the perception of degree of relevance (usefulness) increases as compared to before starting the current business. As the table 4.6 clearly depicts, the sample MSEs operators perceived the degree of relevance of the training as excellent (27.8%), as good (29.6%), as average (25.9%), as poor (7.4%), and as very poor (9.3%) after starting the business. This is a positive step to MSEs as the quality of the training increases; the probability of solving complex problems increases so that they can finance their own MSEs appropriately.

### **The Types of Training Opportunity Gained so Far**

In the sample survey, this open ended question were asked about the training opportunity/ types gained so far. Therefore, most sample MSEs were responded that the training gained so far were skill training, skill upgrading, financial management, marketing

management, and entrepreneurship. Some sample MSEs were also responded that they gained training like policy and strategy of Ethiopia, strategy and globalization, sanitation, climate change, quality improvement, and raw materials utilization. By attending such types of trainings and by combining to their own skills or experiences the MSEs must prepare for next step or being as a basis for medium and large industries.

#### 4.4 Business Information

**Table 4.6 Major Problem/s of Businesses at Start-Up**

| Responses                                       | Frequency | Percent |
|---|-----------|---------|
| Lack of capital                                 | 71        | 49      |
| Input access constraints                        | 33        | 23      |
| Obstacles from government rules and regulations | 19        | 13      |
| Others  | 22        | 15      |
| Total   | 145*      | 100     |

**Source: Survey Result, 2011**

\*Note that: Since the sample respondents were allowed to answer more than one response it does not sum to 92 but to 145.

One of the major causes of business failure is the lack of sufficient capital at start-up. This highlights reason for why many MSEs fail to continue trading after the initial years of set-up. If you feel that your start-up capital is not enough, then you should wait until you have saved or accumulated the amount you need before starting your business, starting without the sufficient capital is destined for business failure. The lack of funds can lead to excessive borrowing and consequently; businesses become insolvent because their liabilities (borrowings) are higher than their assets. Insolvency is a common outcome of all the issues because it has a cycle of poor management, to lack of funds, to excessive borrowing, and to becoming insolvent.

People starting MSEs are generally believed to face numerous difficulties. Hence, lack of capital (49%), input access constraints (raw material and spare parts) (23%), obstacles

from government rules and regulations (13%), and others (15%) were the major problems at start-up (table 4.6 above). Besides the above major problems at start-up, some sample respondents also replied that they faced other numerous problems like lack of working premise, lack of market and market linkage, and infrastructural problems.

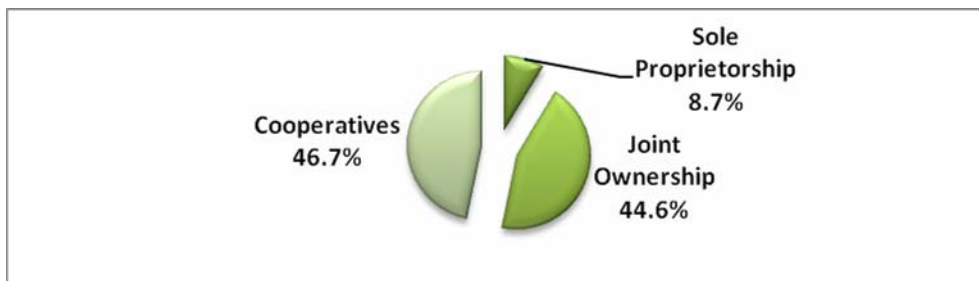
Many sample MSE owners in Gulelle Sub-City (49%) rise lack of capital as a major problem (see table 4.6). The survey also indicated that the main financial sources for start-up and expansion or working capital of MSEs came from personal savings and family support (see graph 4.9 and table 4.13). This situation can be a constraint for MSEs owners wishing to mobilize adequate capital to begin and expand their businesses. Owners find it very difficult to access credit from banks due to lack of collaterals such as cars and/or residential houses or land titles that can be deposited to get loan from commercial banks. On the other hand, the loans provided by MFIs are small with a short repayment period and high interest rates. The price and availability of inputs is variable (changes) from time to time and which is not affordable by most MSEs. MSE operators require space in which to operate, and physical facilities to conduct their businesses-whether this is providing a service, producing a product or trading. They require physical protection against unlawful behaviour of others, but also protection in the sense of having legal mechanisms available which help to improve the conduct of businesses (example, protection against unfair competition), and incentives to prompt the start of the business concerning the rules and regulations of the government. These stated above problems resulted in limited growth and survival of MSEs or to the malfunction of their businesses.

### **Three Major Problems/Challenges in the Order of Priority**

Similar to the start-up MSEs face numerous problems after start-up or at due course of operation. The sample MSEs responded the three major problems in the order of priority as poor market and market information, lack of working capital, and price increment or shortage of supply of raw materials. In the study area the finding of the study revealed that many of the MSEs were failed because of poor market and market information. The majority of MSEs target the low income market areas because of low entry barriers.

Enterprises in this market tend to compete for the same customers. This limits their growth potential and stability and is one of the reasons why MSEs experience a relatively high instance of down fall. Many of the MSEs in Gulelle Sub-City market their product and/or services to a limited local market. Most of the MSEs also sell their products directly to consumers where as few of them through intermediaries. This shows that MSEs have limited sales outlets. There is also very low promotion of businesses by MSEs as the majority use word of mouth and signboards to advertise their product and/or services. In other words, advertising and introducing of business through participation in exhibition, distribution flyers and business cards, etc. are not well used by many MSEs and seen as important means of creating additional demand for their product or service in Gulelle Sub-City. Besides, lack or expensiveness of market place, lack of promotional place (display), low level of market linkage, and unable to compete with foreign products are also major problems.

#### Graph 4.6 Legal Forms of the Enterprises



Source: Survey Result, 2011

Based on the above graph 4.6, 8.7% are operated as private owners (sole proprietorships), 44.6% as joint ownership (partnerships), and 46.7% as cooperatives. This is a positive step to MSEs indicating that the practice of pooling of capital by a group of individuals as a way to overcome the problems at start-up and while in due course operation. However, it does not mean that joint ownership and cooperatives have an absolute advantage over sole proprietorship.

**Table 4.7 Type of Developmental Oriented Sector**

| Responses            | Frequency | Percent |
|----------------------|-----------|---------|
| Textile and Garment  | 25        | 27.2    |
| Construction         | 24        | 26.1    |
| Food Processing      | 13        | 14.1    |
| Cobble Stone         | 8         | 8.7     |
| Metal and Wood Works | 6         | 6.5     |
| Municipal Services   | 5         | 5.4     |
| Urban Agriculture    | 4         | 4.4     |
| Others               | 7         | 7.6     |
| Total                | 92        | 100.0   |

**Source: Survey Result, 2011**

By taking the Addis Ababa City potential and resources in to consideration the following development oriented sectors have been selected for intervention purpose. These are textile and garment, construction, food processing, cobble stone, metal and wood works, municipal services, and urban agriculture. The reasons for selection are large market size for their product, employment absorption capacity and short period of return over investment, local raw material utilization, and high role for poverty reduction (AAMSEDA, 2003 E.C.). The survey included those MSEs which are engaged in different developmental oriented sectors. On the others category, the sample respondents were participated in parking, recreation (resort), secretarial services, café, car wash, band, and photography.

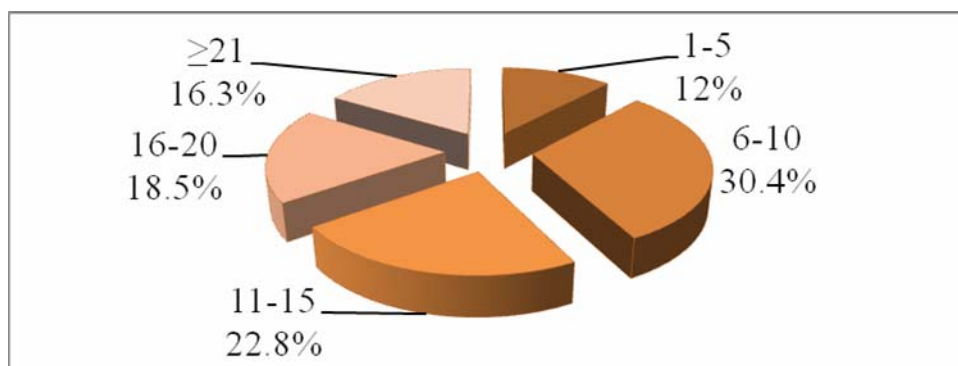
**Table 4.8 The Reason for Getting into Specific Business**

| Responses                          | Frequency | Percent |
|------------------------------------|-----------|---------|
| Skill in this business             | 24        | 26.1    |
| Thought it would be profitable     | 10        | 10.9    |
| Parents/relatives in this business | 20        | 21.7    |
| Matching of capital requirement    | 8         | 8.7     |
| I had no alternative               | 23        | 25.0    |
| Apprenticeship practice            | 4         | 4.3     |
| Others                             | 3         | 3.3     |
| Total                              | 92        | 100.0   |

**Source: Survey Result, 2011**

As we can see from table 4.8 above that 26.1% replied as skill in this business, 25% as I had no alternative, 21.7% as parents/relatives in this business, 10.9% as thought it would be profitable, 8.7% as matching of capital requirement, 4.3% apprenticeship practice, and 3.3 as others. The trend to begin businesses by skill and parents/relatives in this business may be encouraging because those owners have an experience in different dimensions of the business and could be helpful in their current and/or future businesses opportunities. A good percentage or about 25% of MSEs were replied that they did not have any choice other than joining this business or taking as a last resort. 3.3% of sample respondents have mentioned different reasons like good government policy towards MSEs, because of vocational training, special love to the business or work.

**Graph 4.7 Total Numbers of People Working in the Enterprises**

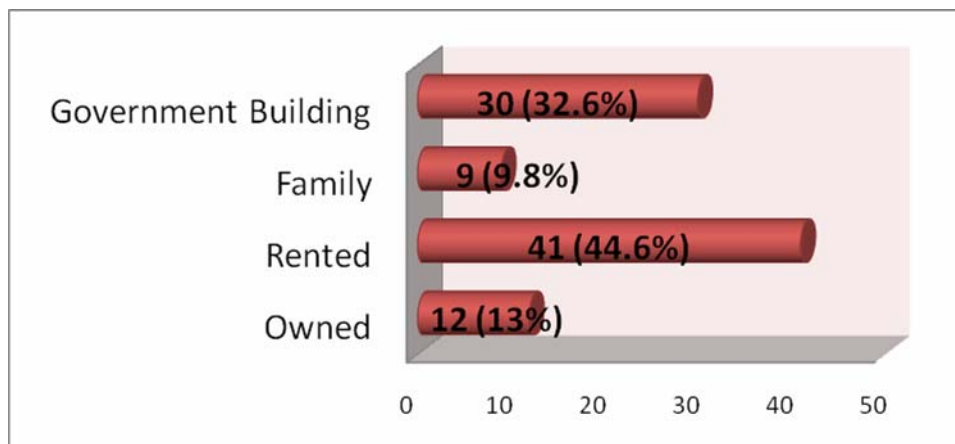


**Source: Survey Result, 2011**

In Ethiopia, CSA defines MSEs as having employees not exceeding 10 people. However, in the study 53 (57.6%) samples which have employees more than 10 and the rest 39 (42.4%) sample enterprises have from one to ten employees. On the other hand, National MSEs Development Agency defines MSEs interims of paid up capital of not more than Birr 500,000.00 and they are bounded in the capital stated above. We can clearly observe from graph 4.7 above that 30.4% the largest sample population which represents 6-10 workers, 22.8% of respondents replied that 11-15 workers, 18.5% of respondents replied that 16-20 workers, 16.3% of respondents replied that 21 and above workers, and 12% of respondents replied that 1-5 workers. Here most sample MSEs have employed many

workers and this is a sign of participating/employing more workers; and this is good to the economy of Ethiopia at large and strength of this sector in particular.

**Graph 4.8 Working Premises of Enterprises**



**Source: Survey Result, 2011**

One of the desires of most participants in MSEs 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).

Significant proportions (44.6%) are operating their businesses in rented premises, 32.6% in government buildings (no payment at all till now), 13% owned, and 9.8% their families premises. From this one can understand that most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay. In order to begin borrowing from formal financial sources and the like the sector must begin to own working premises. At the same time the price of monthly rent is increasing and not confident enough to continue at this rented working premise because the owners of rented working premise may change their ideas. Owners also complained that expansion of the city has led to increased demand for business premises, which means that some MSEs have been pushed away from the business (profitable) area of the sub-city to the peripherals. This has increased costs and resulted in poor sales and negative cash flows, thus minimizing the chance for

most businesses to succeed or progress. Similarly, the government is constructing and giving to MSEs at zero prices, but this is not a sustainable strategy, because government may stop constructing buildings and may also exert some amount of price to them. When we see the working premise held-up by their own or families they are using as both residences and working premises, even if it is not all sample respondents.

**Table 4.9 Finance/Loan Providers have Positive Attitude towards Working Premise**

| Responses      | Frequency | Percent |
|----------------|-----------|---------|
| Strongly Agree | 29        | 31.5    |
| Agree          | 37        | 40.2    |
| Neutral        | 21        | 22.8    |
| Disagree       | 5         | 5.4     |
| Total          | 92        | 100.0   |

**Source: Survey Result, 2011**

The sample respondents were also responded about the perceptions towards owning their own working premises by finance/loan providers. Therefore, 29 (31.5%) replied that they strongly agree, 37 (40.2%) as agree, 21 (22.9%) as neutral, 5 (5.4%) as disagree, and zero percent as strongly disagree. From this we can understand that most MSEs do not have their own working premise and finance/loan providers are still asking whether they own or not and this is very contradictory, then it must be taken care off.

## 4.5 Financial Information

**Table 4.10 Range of Capital in Ethiopian Birr**

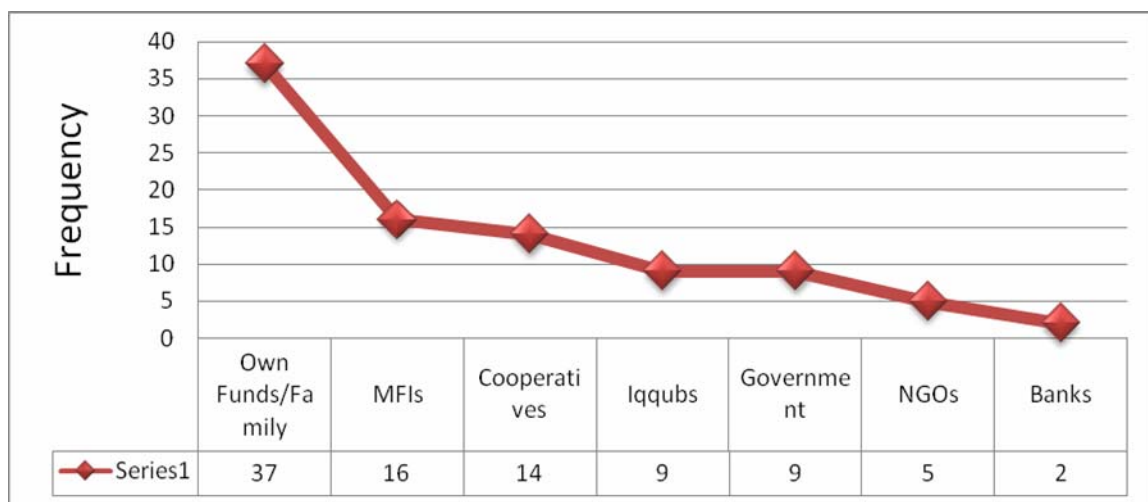
| Responses     | At start-up |         | Currently |         |
|---------------|-------------|---------|-----------|---------|
|               | Frequency   | Percent | Frequency | Percent |
| 0-10000       | 57          | 62      | 46        | 50      |
| 10001-25000   | 14          | 15.2    | 18        | 19.6    |
| 25001-35000   | 5           | 5.4     | 7         | 7.6     |
| 35001-50000   | 7           | 7.6     | 9         | 9.8     |
| 50001-100000  | 5           | 5.4     | 5         | 5.4     |
| 100001-250000 | 4           | 4.4     | 3         | 3.3     |
| 250001-350000 | -           | -       | 4         | 4.3     |
| Total         | 92          | 100.0   | 92        | 100     |

**Source: Survey Result, 2011**

The above table shows most of the respondents 62% and 50% are in the range of 0-10,000 Birr, 15.2% and 19.6% are in the range of 10,001-25,000 Birr, 5.4% and 7.6% are in the range of 25,001-35,000 Birr, 7.6% and 9.8% are in the range of 35,001-50,000 Birr, 5.4% and 5.4% are in the range of 50,001-100,000, 4.4% and 3.3% are in the range of 100,001-250,000 Birr, and 0% and 4.3% are in the range of 250,001-350,000 Birr at start-up and currently respectively.

From this we can understand that most MSEs were started their operations from scratch using relatively small start-up capital and doing the same thing currently because there is little capital improvement. The accumulated initial as well as working capital is necessary for the proper and/or smooth running of their businesses. However, in this study it was very difficult to clearly identify the sample based on the paid up capital. This is due to the fact that respondents were not willing to respond for the paid up capital. To minimize this phenomenon, the researcher approaches by their capital range in Ethiopian Birr.

**Graph 4.9 Main Sources of Finance at Start-Up**

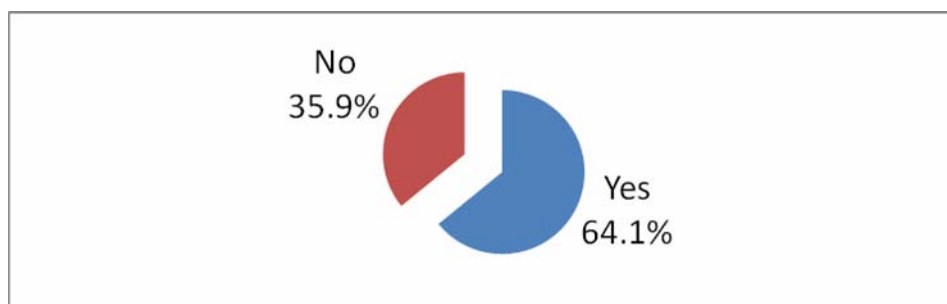


**Source: Survey Result, 2011**

Since most of the operators are poor when they start businesses; and have very limited capital with their own savings supplemented by borrowing and/or gifts from friends and relatives but rarely from the formal financial institutions. As we can see from graph 4.9

above, sample MSEs were mainly financed out of the owner's personal savings or family (40.2%) followed by loans from MFIs (17.4%), cooperatives (15.2%), *Iqqubs* and government (9.8%) each, NGOs (5.4%), and 2.2% from banks. Here the sample respondents were not exploiting external sources especially the formal financial sources i.e., banks at start-up and this may be the reason why MSEs fail to establish and progress. The reason of not exploiting formal financial sources may be different from one MSE to another; hence, we will see the reasons in the coming discussions.

**Graph 4.10 Loan Received by Micro and Small Enterprises**



**Source: Survey Result, 2011**

Interestingly most of the sample MSEs (64.1%) have received loan and the rest (35.9%) did not receive loan until now. Debt-financing is favorable for most businesses until some percentage or mix with capital financing. For those who did not receive loan must use the advantage of loan-financing so that they will compete with other MSEs that receives loan and further with medium and large industries and also with imported products.

**Table 4.11 Sources of Loan**

| Responses    | Frequency | Percent |
|--------------|-----------|---------|
| Banks        | 5         | 8.5     |
| MFIs         | 31        | 52.5    |
| Cooperatives | 17        | 29      |
| Others       | 6         | 10      |
| Total        | 59        | 100     |

**Source: Survey Result, 2011**

Still financial sources or loans received by MSEs are carried out by MFIs (52%) or semi-formal sources. Formal sources i.e., banks are refrained from providing finances to MSEs in Gulelle Sub-City even after establishment or in due course of operation only (8.5%), cooperatives (29%), and others (10%). This narrow source of finance may be the reason why businesses fail to establish and progress. On the others category, the MSEs are receiving loans from families, relatives, and friends. The sample MSEs was not using money-lenders as source of finance. One possible explanation is the availability of alternative sources of loans with terms and conditions better than offered by money-lenders. This seems to support the view that borrowers use the money-lenders as a last resort or in case of emergency (Nisanke and Aryeetey, 1995 cited in Gebrehiwot and Wolday, 2004:58).

**Table 4.12 Reason for not Receiving Loan**

| Responses                    | Frequency | Percent |
|------------------------------|-----------|---------|
| Absence of collateral        | 10        | 30.3    |
| Fear of inability to repay   | 7         | 21.2    |
| Assumption of I will not get | 4         | 12.1    |
| High borrowing cost          | 7         | 21.2    |
| Others                       | 5         | 15.2    |
| Total                        | 33        | 100     |

**Source: Survey Result, 2011**

The sample MSEs were forwarded the reason behind not receiving a loan from different sources of finance. So, the reasons were absence of collateral requirement (30.3%), fear of inability to repay and high borrowing cost (21.2%) each, assumption of I will not get (12.1%), and others (15.2%). On the others reason they responded that loan is not permitted by religion, assumption that our capital is enough (no need for credit), members are not strong enough to receive loans or disagreement of members. Most of the sample respondents replied that the collateral required by institutions especially by banks was beyond their capacity and their business. Due to this they force to use other informal sources which are costly and risky than the formal sources of finance.

### The Major Financial Challenges/Difficulties in their Order of Priority

It is very important to identify and analyze why certain businesses fail, so that we can learn from their mistakes and take guidance from the successful ones. Many enterprises fail because of some common causes that many owners ignore the financial difficulties of their businesses. Many MSEs fail because managers/owners do not integrate accounting and accounting practices to a reasonable level in their business. By failing to do so, they suffer from the lack of financial control and consequently cash flow problems force the businesses to fail.

The sample MSEs were replied about their financial challenges/difficulties by their order of priority. Thus, the inability to expand operations, lack of proper credit facilities, and price escalation (boom) of raw materials are the major financial difficulties/challenges in their order of priority. Although the prior difficulties were taken the largest percentage, still some sample MSEs were responded others like inability to finance existing operations, lack of trained man-power of cashier and finance officer, improper utilization of existing capital, lower contribution of money by members.

**Table 4.13 How MSEs Address Working Capital or Financial Difficulty**

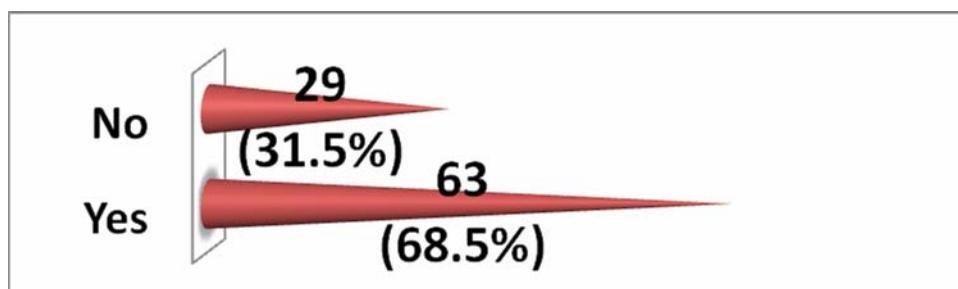
| Responses              | Frequency | Percent |
|------------------------|-----------|---------|
| Own Funds/Family       | 47        | 51.1    |
| Government             | 5         | 5.4     |
| Cooperatives           | 7         | 7.6     |
| NGOs Assistance        | 4         | 4.4     |
| Bank Loan              | 1         | 1.1     |
| Loan From MFIs         | 8         | 8.7     |
| Money Lenders          | 6         | 6.5     |
| Trade Credit Suppliers | 9         | 9.8     |
| Missing System         | 5         | 5.4     |
| Total                  | 92        | 100.0   |

**Source: Survey Result, 2011**

MSEs often fail to distinguish between long and short term financial needs and to find appropriate sources. Hence, the sample MSEs was replied the sources they normally use

to meet their finance needs for working capital or financial difficulty. It can be observed from table 4.13 above that own funds i.e., retained earnings or family (51.1%) as the single most important source of finance for working capital/financial difficulty followed distantly by other sources. One possible explanation could be the quick and easy availability of informal sources in general even if one source differs from others. Government (5.4%), cooperatives (7.6%), NGOs assistance (4.4%), bank loan (1.1%), loan from MFIs (8.7%), money lenders (6.5%), and trade credit suppliers (9.8%) are other sources of working capital used by the sample MSEs. Some sample respondents replied that the problem of working capital/financial difficulties is long lasting and not fully addressed until now.

#### Graph 4.11 Experiences of Financial Records



Source: Survey Result, 2011

The performance of MSEs is affected by lack of financial record keeping and documentations, insufficient provision for contingencies, high investment in fixed assets particularly during start-up stage, inadequately estimated capital requirements, inability or failure to analyze financial statements, and under utilization of enterprises' assets. It is emphasized that the importance of proper financial record keeping is that it enables MSEs to have accurate information on which to base decisions such as projecting sales and purchases or determining the breakeven point and making a wide range of other financial analysis. Therefore, the persistent truck of proper financial records leads to the closure of many businesses.

Clearly we can see from the graph 4.11 above that 63 (68.5%) of respondents do have the experiences of financial record keeping for their activity while they are performing businesses. The rest 29 (31.5%) of respondents do not have the experience of financial record keeping. Financial record keeping experience is very crucial for MSEs to evaluate their works profitability which avoid/minimize them from bankruptcy. Maintaining good record and financial control over such activities like cash flow, inventory, receivables, customers' data, sales, marketing, and cost should be priority of every growing business. Keeping such records may require knowledge of accounting and most MSEs are lacking this. When the researcher say most MSEs have the experience of financial record keeping; this is not conventional approach. This means that the sample MSEs was responded that this is simply day-to-day financial cash flows of their activities.

**Table 4.14 Financial Record Keeping as Indicator of Sound Financial Management**

| Responses      | Frequency | Percent |
|----------------|-----------|---------|
| Strongly Agree | 38        | 41.3    |
| Agree          | 31        | 33.7    |
| Neutral        | 13        | 14.1    |
| Disagree       | 3         | 3.3     |
| Missing System | 7         | 7.6     |
| Total          | 92        | 100.0   |

**Source: Survey Result, 2011**

The sample respondents were also responded about the perception of finance/loan providers towards financial record keeping. Therefore, sample respondents were replied that strongly agree (41.3%), agree (33.7%), neutral (14.1%), disagree (3.3%), and strongly disagree zero percent. Thus, MSEs must begin or continue the experience of financial record keeping. Especially the formal financial sources demanded the financial record keeping and to cope up with this trend MSEs must have the capacity and experience of financial record keeping.

**Table 4.15 The Present Tax System of Ethiopia towards MSEs**

| Responses      | Frequency | Percent |
|----------------|-----------|---------|
| Very High      | 9         | 9.8     |
| High           | 12        | 13.1    |
| Medium         | 19        | 20.7    |
| Low            | 20        | 21.7    |
| Very Low       | 27        | 29.3    |
| Missing System | 5         | 5.4     |
| Total          | 92        | 100.0   |

**Source: Survey Result, 2011**

The above table clearly describes that the impact of present tax system of Ethiopia to their businesses is very low (29.3%), low (21.7%), medium (20.7%), high (13.1%), and very high (9.8%). Here as we can see from table 4.15 above, most sample respondents are happy with the present tax system of Ethiopia towards their businesses. Even some respondents were replied that there is no payment in the name of tax. However, in light of the growing popularity of presumptive taxation in Ethiopia, it is relevant to note the existing concerns that compromise its effectiveness. On the other hand, some sample respondents were said that the tax assessment is done arbitrarily with high rate and become the cause for the failure of MSEs.

## **4.6 Economic Information**

### **The Role of MSEs in the Economic Growth of Ethiopia**

Since the recent times there has been recognition of the role of the MSEs sector in employment creation and economic growth (as opposed to being viewed as marginal and unproductive). MSEs in particular are considered important in contributing to the socio-economic empowerment of citizens. The sample MSEs were forwarded their views this particular sector is playing to the economic growth of Ethiopia. These are:-

1. Creation of job opportunity for the owners and other workers
2. Tax payment for the government
3. Bring fair income distribution within the society

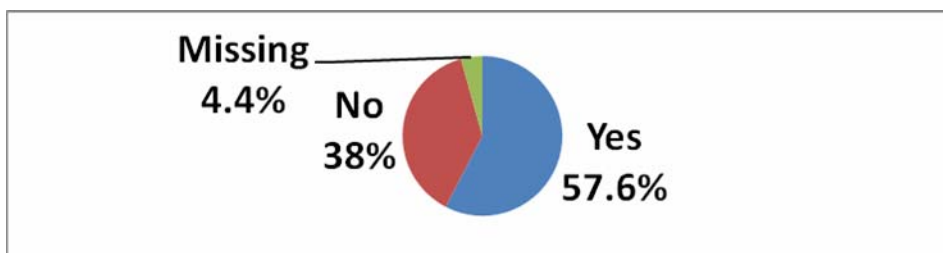
It is important to take note that employment is a very vital aspect in the economic growth of Ethiopia because it helps to provide every individual or citizen the source of income which they can use in order to improve their living standards. If most citizens are employed, then the government will receive more tax in terms of income and the values or things that the people buy. When we say most citizens are employed in MSEs, those workers span from unskilled to professionals and this will help to ensure the fair distribution of income among the society. At the same time if the government is strong enough to collect appropriate and fair taxes, this will help to focus on other important infrastructures that are difficult to construct by private sectors. The government in turn spends money and the society will generate income and the fair distribution of income continues like this.

In short, MSEs are the key for the economic growth or to bring changes on Ethiopia's economy because the development of one country starts from the individuals' self-sufficiency. So, if they are successful the owners themselves, they can create job opportunity for others. Similarly, some sample respondents were forwarded the following roles of MSEs:-

- Serve as a foundation for medium and large enterprises;
- Promote inter-sector linkage;
- Generate foreign exchanges by producing import substituting products; and
- Helps for the accomplishment of 'Growth and Transformation Plan' of Ethiopia.

In overall economic growth, a critically important role is played by MSEs in Ethiopia.

**Graph 4.12 Participation in Exhibition and Bazaar**



Source: Survey Result, 2011

As the above graph clearly shows 53 (57.6%) of sample respondents replied they participated in exhibition and bazaar, 35 (38%) of respondents replied they did not participate in exhibition and bazaar till now, and the rest 4 (4.4%) did not respond this question. From this we can understand that above half of the respondents were participated in exhibition and bazaar and this trend is very crucial for the economy in general and to the MSEs in particular. But, for those who did not participate in exhibition and bazaar to date must be prepared enough to participate in this agenda; and concerned bodies must give due attention.

### **The Importance of Exhibition and Bazaar to Micro and Small Enterprises**

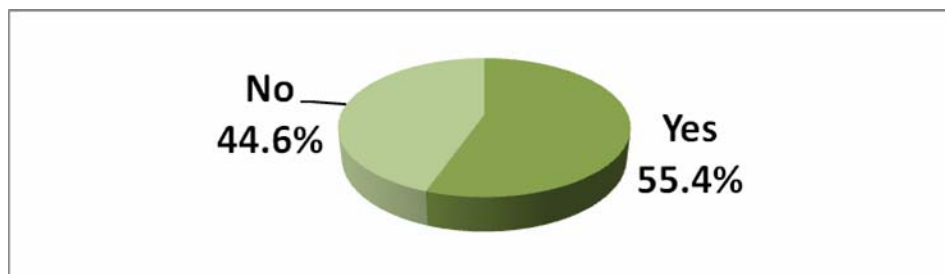
Here the sample respondents were also forwarded about the importance of exhibition and bazaar to their respective businesses. So, the advantages gained through participating in exhibition and bazaars are:-

1. Marketing linkage and promotion
2. Promotion of products
3. Experience sharing to exploit their strengths and to correct weaknesses

The above mentioned advantages are replied by most of the sample respondents. Some sample respondents were also forwarded the following:-

- Increases competitiveness
- To build confidence on their products
- To make society proud of the products of our country

On the contrary, only two respondents were said about the pitfalls of exhibition and bazaar, actually it was not the problem of this but the process seems negative. Those were the rental price for the place where exhibition and bazaar is organized is too high and this in turn has a negative impact or above their capacity to pay. Another problem forwarded was those returned or unsold products were decreased their qualities or depreciated and it will be difficult for them to sale.

**Graph 4.13 Support Received by MSEs**

Source: Survey Result, 2011

Yet, about 51 (55.4%) of the sample respondents surveyed indicated that they receive a support to promote their activities (graph 4.13). Almost half of the sample respondents 41 (44.6%) indicated that they did not receive any support what so ever to promote their activities. This indicated that supports to the MSEs are greatly ignored as a result the sector is still under developed or it is not as they planned.

**Table 4.16 Who Supports MSEs**

| Responses                        | Frequency | Percent |
|----------------------------------|-----------|---------|
| Government Projects/Institutions | 25        | 49.1    |
| International NGOs               | 9         | 17.6    |
| Local NGOs                       | 7         | 13.7    |
| MFIs                             | 6         | 11.8    |
| Others                           | 4         | 7.8     |
| Total                            | 51        | 100     |

Source: Survey Result, 2011

The sample respondents were also forwarded who assist them at the time of establishment and/or in due course of operation. The above table clearly revealed that nearly 50% of the sample respondents who receive support were from government. Those include government and other public sector agencies at both national and local levels (such as various ministries, federal, regional, sub-city, Woreda, and Kebele MSE Development Agencies etc). International NGOs (17.6%), local NGOs (13.7%), MFIs

(11.8%), and others (7.8%) were supported the sample MSEs in Gulelle Sub-City. On the others category, the sample respondents replied that support were gained from cooperative societies, banks, and business associations.

### **What should be done to MSEs to make them Successful in the Order of Priority?**

The sample respondents were replied about the future actions to be taken and/or past weaknesses to be corrected so that they will be succeeded for themselves in particular and will contribute to the economic growth of Ethiopia. Therefore, the four most important suggestions in the order of priority were as follows:-

1. Fair and proper credit facilities: Here when the sample respondents forwarded this they recommended in different terms but they incline to one central idea. First of all credit must be available then the requirements must be fair and the amount of money must be enough in order to do their operations. As much as possible the credit amount must be increased and the process short to fill the gap of MSEs quickly. They also recommended that either the interest rate must decrease or the beginning of the repayment period must be extended to more than one year for loan given by MFIs.
2. Appropriate training modalities: Since most MSEs begin their operations like conventional skills in this business, parents/relatives in this business, etc. they do not have managerial and personal capacity to operate. In order to establish and grow MSEs needs different types of training like financial management, marketing management, managerial capacity, and counseling to the members and workers. So, if the MSEs operators are well trained and equip with enough knowledge and experiences about what they are working, what they will work, etc. will be easy and profitable.
3. Marketing linkage (value chain): Refers to the full range of activities which are required to bring a product or service from conception, through the different phase of production, delivery to final customers. When we begin from the raw materials, sample MSEs demanded about their prices and availability i.e., when they want. The price of raw materials is increasing from time to time and they recommended the

- distribution of raw materials must be in the hand of government even if it is difficult. At the time of production they requested the working premise to be enough for their production and/or the price will be affordable for them. At the time of delivery to final customers, the market must be searched and seen in advance whether it is profitable or not. MSEs need to worry about their product where they sale and/or promote it.
4. Follow-up and continuous discussions with concerned bodies: Once those MSEs are organized under the development strategy they need continuous follow-up and discussion with them. Organizing as an enterprise is not an end by itself, the end is successfulness of MSEs operators. In order to cope up with the changes and compete with medium and large industries and imported products; they need continuous follow-up from governmental and non-governmental bodies. This may be interms of organizing exhibition and bazaar in the name of MSEs, discusses on their problems, and to exchange their good experiences with others.

#### **Additional Remarks that Micro and Small Enterprises Made**

Most sample respondents did not attempt to make additional remarks, but some of them responded and summarized as follows:-

- MSEs' organizers must have the experience, more different training modalities, and equip with enough educational background so that the sector will contribute to 'Growth and Transformation Plan' and as a basis for medium and large industries.
- The research must transfer from paper work to the actual implementation. Besides, more researchers must do their research in this sector. This may be done with the sponsorship of government and/or NGOs. They also forwarded their genuine thanks for the researcher that prompted to see their good experiences and weaknesses.
- If we work hard with the help of concerned of bodies, the MSE sector will contribute to fair income distribution within society and in line with these middle level income countries. If individuals are organized under the umbrella of MSEs, the enterprises' themselves will prosper and contributes to the country's wellbeing.

#### **4.7 Results of Focus Group Discussion**

A focus group discussion was conducted with the officials of Micro and Small Enterprise Development Agency in Gulelle Sub-City, and it is summarized as follows.

##### **The Reason for Micro and Small Enterprises Establishment and Operation**

In recent years of planning and policy-making in Ethiopia it appears to have been characterized by the understanding that there must be a shift towards MSEs. It is felt that MSEs are able to contribute to the achievement of national development objectives. MSEs have often been seen as a narrowly defined development activity, with little or no connection to broader development priorities. However, this misrepresents the role this large and dynamic sector can play, and has the effect of limiting the potential contribution of MSEs to national development objectives. MSEs are essential actors in the development process together with medium and large industries; they play a key role in mobilizing public and private resources and allocating them to productive activities. The MSEs provide the main driving force behind the inter-related flows of trade, investment and technology, more labor intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically, and nurturing of entrepreneurs on which the strength and dynamism of the economy depends.

Besides MSEs allow the urban poor including some of the most marginalized and vulnerable strata such as women, youth, and the landless to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment) in urban areas. The same strata may also be reached through MSE support to small-scale local owners, whose business expansion can create new jobs for the urban poor. This shall include those adversely affected particularly the unemployed, women, and families in urban areas. In Gulelle Sub-City it is important that the potential of MSEs generating new employment opportunities and create additional incomes, thereby contributing to improved social and economic well-being, as well as the alleviation of poverty. This requires an understanding of the special needs and

operational dynamics of MSEs. The policy and institutional environment of Ethiopia's legal framework, current business practices, government policies such as tax breaks or seed grants for MSEs, bureaucratic and administrative procedures is all acting to encourage the sector's increasing their establishment and operation.

### **Three Major Problems of MSEs in the Order of Priority**

The responses gained from sample respondents was the major problems of MSEs in order of priority as poor market and market information, lack of working capital, and price increment or shortage of supply of raw materials. However, the participants of the group focus discussion said as all over dependency to government, insufficient credit facility, and working premise problems are the most once.

Here most owners are demanding all business activities such as marketing, sales, promotion, etc. must be done by government and this perception leads to dependency of individuals. Practically and to sake of the economy it is difficult to fulfill all business activities of enterprises by government alone. Besides, especially in the past years there are biases that can limit the capacity of the sector to create new employment opportunities, foster technological innovation, and produce wealth. The narrow source of finance is the reason why businesses fail to establish and progress i.e., the credit facilities is not as needed because of collateral requirement, short period of repayment coupled with small amount of money, etc. Most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay.

### **Types of Training Given to Micro and Small Enterprises**

The participants of the group focus discussion said the following training types were given till now. Those are financial management, skill training, skill upgrading, marketing management, entrepreneurship, technical training, accounting, business management and planning advice, and improved market information and access, policy and strategy of

Ethiopia, strategy and globalization, sanitation, climate change, quality improvement, and raw materials utilization.

✓ **The Initiators of Training**

Most of the time there are BDS teams at Woreda levels and they see the training needs of MSEs by assessing them regularly. Sometimes the MSEs themselves submits training needs; and in turn the BDS team assesses the questions and gone accordingly.

✓ **The Situations Stimulate Training**

The situations stimulate trainings is simply the gap between what is the skill needed to operate and the actual skills MSEs have. Therefore, if there is a gap between the skill needed and the actual skill; training will be given to MSEs as per the schedule of the BDS team.

✓ **The Measurement Whether Training is Relevant to Specific Needs of MSEs**

Firstly, the number of MSEs owners attending trainings will be taken. Secondly, not only the number who takes trainings but also the number of MSEs owners finished the training. After the number of MSEs owners registered and finished have taken in to account, then the BDS team infers some conclusions whether the training is relevant or not. Lastly but not least, the BDS team in particular and other concerned bodies will check home-by-home i.e., it will be verified at working place of MSEs.

**Incentives given to MSEs; and help Solve or Minimize their Problems**

In order to develop effective interventions, it is important to first have a comprehensive understanding of the small business sector, the specific challenges small business owners face and the capacity they have to deal with these challenges. Any intervention strategy should take into account that a ‘one size fits all’ approach will not be effective. Interventions should be targeted, and in order to achieve this, reliable and accurate information is needed to identify the specific challenges affecting specific small business sectors (FinMark Trust, 2010).

Here MSEs in Gulelle Sub-City were given incentives like certificate of accreditations, medal and cups, and gives prizes to model MSEs that do a better way or introducing a

new technology and/or innovations. Hence, support needs of MSE owners in Gulelle Sub-City are identifying to solve or minimize their problems. BDSs such as entrepreneurship training, management and planning advice, and improved market information and access, are likely to be needed. Assistance in making loan applications and advice on dealing with financing agencies will also be required. MSE units may need setting up if institutional mechanisms are inadequate. Such units may also incorporate teams of business advisors to strengthen links between MSEs, producers, other market intermediaries such as traders, processors or transporters, and other businesses in general marketing linkage.

Assess and reinforce as necessary, institutional capacities to provide specialized support to MSE at start-up and/or to existing owners. The Gulelle Sub-City MSE Development Agency with AAMSEDA and others are doing their best to minimize or solve the problems of MSEs. This may be in giving different types of trainings, access to credit facilities in collaboration with MFIs, marketing linkage with many institutions, and providing working premises even if it is not to all MSEs. The misrepresentation the role this large and dynamic sector can play and has the effect of limiting the potential contribution of MSEs to national development objectives have been given continuous education and awareness to the people and this in turn benefits the MSEs.

### **Recommendations to Overcome the Financial Difficulty of MSEs**

BDSs are designed to help MSEs overcome barriers to increased profitability by improving their productivity and access to high value markets. The services include training, consultancy and advisory services, marketing assistance, information, business linkage promotion, and linkages to finance and financial services. By accessing to BDSs offered or coordinated by government the MSEs must take the advantage to overcome the financial difficulties.

Maintaining good record and financial control over different activities like cash flow, inventory, receivables, customers' data, sales, and cost so that they have a good data base

over all financial concerns. By keeping good financial record the MSEs will expand the probability of getting loans from external sources like banks. Similarly, MSEs must utilize their own as well as external sources of finance economically. Financial services, particularly credit, are not always appropriate for all people at all times and the mix of debt with capital financing must give due attention before they receive a loan (proper utilization of existing capital).

### **What Should the Financial Institutions do to Help MSEs Overcome the Financial Difficulty?**

Commercial and non-commercial banks, MFIs, etc., must be adequate to support MSE growth. MFIs were born because formal sources (banks) are not always willing to accommodate very small business loan requests or compensate for individuals whose credit may not be perfect. Because of this and social responsibility, MFIs must be serious enough or give due attention to the advancement of loans to MSEs. In line with this, the credit advanced to MSEs must be enough for starting and/or expanding businesses and the repayment period must be adjusted by continuous discussions with MSEs. MFIs must also be concerned about the impact of excessive interest rates, abusive lending practices, and over-indebtedness on poor borrowers. The effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of MFIs. Most MFIs have a social mission that they see as more basic than their financial objective, or at least co-equal with it.

Traditionally, formal financial institutions have not provided financial services, such as loans to clients with little or no cash income. Banks actually incur substantial costs to manage a client account, regardless of how small the sums of money involved. In addition to commercial banks, these of state banks, development banks, savings banks, and non-bank financial institutions must give special attention to MSEs so that the economic growth of Ethiopia will have a strong base. However, they have proved

reluctant to adopt social missions and due to their high costs of operation often can't deliver services to poor MSEs. Even if it is risky the participants of focus group discussion forwarded that instead of using collateral to assure repayment; the formal financial institutions lenders must harness social pressure within the borrower's community. If MSEs exploits at least two external sources of finance besides others like their own retained earnings and families no question they will be succeeded.

## CHAPTER FIVE

### V. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary, conclusions of the study and forwards important recommendations stems from the research findings.

#### 5.1 Summary

The major objective of the study was to investigate how MSEs get financial sources at the time of establishment and in operation in Gulelle Sub-City. Furthermore, to achieve the main objective of the study, the following specific objectives were designed. These were:-

- ☞ To identify which type of formal, semi-formal or informal financial sources are easily obtainable to MSEs.
- ☞ To assess the financial difficulties of micro and small enterprises.
- ☞ To identify the barriers to financial access.
- ☞ To identify the various incentives provided for the development of MSEs in Gulelle Sub-City.
- ☞ To suggest recommendations that will facilitate the development of micro and small enterprises and adequate financial sources of the sector.

In order to attain these specific objectives and thereby to meet the main objective of the study, relevant data were gathered through questionnaire and focus group discussion. The data found from these subjects were analyzed with the aid of descriptive statistics i.e., frequency and percentages. According to the discussion and analysis of the data presented in chapter four, the following findings were drawn and summarized below.

- ♣ The study shows that MSE owners came from different social back grounds, with varying degrees of education, little or no business experience which is very crucial for

- successfulness of MSEs. For those who have previous work experience it may be exactly the same as with current business and on the contrary it may be totally different. Most sample respondents were taken different types of trainings like financial management, skill training, skill upgrading, marketing management, entrepreneurship, and technical training, etc. before as well as after starting the business.
- ♣ The study indicated that lack of sufficient capital was the main problem of businesses at start-up followed by input access constraints and obstacles from government rules and regulations. The study also shows that the main financial sources for start-up and expansion or working capital of MSEs came from personal savings and family support. Owners find it very difficult to access credit from banks due to lack of collaterals and the loans provided by MFIs are small with a short repayment period and high interest rates. Similar to the start-up MSEs face numerous problems after start-up like poor market and market information, lack of working capital, and price or shortage of supply of raw materials are the most once. However, the participants of the group focus discussion said as all over dependency to government, insufficient credit facility, and working premise problems are the most common problems. Specifically, most sample MSEs were mentioned the financial difficulties/challenges in the order of priority as inability to expand operations, lack of proper credit facilities, and price escalation (boom) of raw materials.
  - ♣ MSEs in Gulelle Sub-City were given incentives and supports like certificate of accreditations, medal and cups, and gives prizes to model MSEs to solve or minimize their problems and other supports from different governmental and non-governmental bodies. Most of sample respondents do have the experiences of financial record keeping for their activity while they are performing business; even if this is not conventional or simply day-to-day financial cash flows of their activities.

## 5.2 Conclusions

The research focused ‘A Study on Financial Sources of MSEs in Addis Ababa the Case of Gulelle Sub-City’. For this end, the study examines relevant literatures, conducted sample survey, and focus group discussions to base the analysis and the conclusions of the thesis.

1. The sample MSEs were taken different types of trainings, however, the effectiveness and relevance of the training is far from what is desired due to: training materials being too complex and sometimes irrelevant for trainees, the absence of qualified trainers, the core function of many institutions is not training but provision of credit, the absence of technical skills training and upgrading in the sector.
2. The study covers all developmental oriented sectors that are identified by AAMSEDA. Therefore, the study examines how MSEs raise finance at establishment and operation by considering all developmental oriented sectors. From the developmental oriented sectors; textile and garment, construction, and food processing are the largest once interms of numbers. This shows that in Gulelle Sub-City, MSEs businesses are dominated by textile and garment, construction, and food processing. The majority of the sample enterprises were legally organized as cooperatives and partnerships forms of business. Therefore, the study shows that cooperatives and partnerships form of MSEs are most common in Gulelle Sub-City.
3. It is emphasized that the importance of proper financial record keeping is that it enables MSEs to have accurate information on which to base decisions. Especially the formal financial sources demanded the financial record keeping, since they assume that it is an indicator of sound financial management. Most sample respondents are happy with the present tax system of Ethiopia even some respondents were replied that there is no payment of tax. On the other hand, some sample respondents were said that the tax assessment is done arbitrarily with high rate.

4. A broad approach for MSEs is put in place at the National MSE Development Strategy. Here, the government recognized and paid due attention for the promotion and development of MSEs as they are important vehicles to address the challenges of unemployment, economic growth and inequity in the country. Besides MSEs allow the urban poor including some of the most marginalized and vulnerable strata such as women, youth, and the landless to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment) in urban areas.
5. People starting MSEs are generally believed to face numerous difficulties. The study indicated that lack of sufficient capital is the main problem of businesses. For MSEs to develop to medium and large industries and to keep up its contribution to the country's economic growth, the need of financial support from formal, semi-formal and informal financial source is indispensable. Generally speaking, MSEs are exploiting more the informal sources of finance like their own funds or families while the formal and semi-formal sources of finance are reluctant to commit funds to MSEs both at establishment and operation.

### **5.3 Recommendations**

The main interest of this thesis was to investigate how MSEs get financial sources at the time of establishment and in operation and to suggest certain solutions for the problems that the researcher identified in the process of the study. Thus, based on the findings of the study mentioned in chapter four, the following policy recommendations were forwarded to be undertaken by all concerned stakeholders.

1. Although personal savings are one of the means of accumulation of capital, often savings alone cannot be sufficient for establishing and expanding business operations, thus, there is a need for creating lines of credit. In order to facilitate access to credit for MSEs, banks and MFIs need to allocate a certain portion of their loan-able funds for MSEs. This has to be supported by special lending and repayment arrangements.

- Thus, in order to address the problem of credits, financial institutions, the federal and regional governments and donors as well as NGOs can assist in creating lines of credit and special windows for assisting developmental oriented MSEs. Besides the loans provided by MFIs to MSEs must be enough for starting and/or expanding businesses and the repayment period must be adjusted. MFIs must also be concerned about the impact of excessive interest rates, abusive lending practices, and over-indebtedness on poor borrowers. At the same time the government should support other informal financial source association like *Iqqub* to reduce the risk and motivating MSEs for group savings are also important.
2. As provision of BDS such as training technical and managerial, advisory and counseling services are very crucial for sustainable growth and progress of MSEs, attempt should be made to make it demand-led. If training is simply given to all MSEs the same the value of the training will be questioned or a 'one size fits all' will not be effective. Therefore, the training given to MSEs owners/operators should be continuously monitored and evaluated or the need must be assessed periodically. In this regard supportive agencies need to tailor their training and advisory services to meet the specific needs and situation of MSEs. Support organizations can also play facilitating roles by referring and linking MSEs to other organizations for special skills training and up-grading. Once MSEs are established they need continuous follow up. Owners should be informed by concerned bodies of the benefits of external services available so that they do not limit their sources of support to family and friends alone.
  3. Expansion of technical and vocational training centers for the owners and employees to make them capable in operation (variety of know-how); and to increase productivity which result in reduction of additional costs. In this regard, efforts must be made to incorporate entrepreneurship into the national culture and way of life. This calls for the integration of entrepreneurship with school curriculum starting from the bottom. In this case the new educational policy, TVET, is good practice. The

- government as an important activist (catalyst) should consider awareness creation and dissemination of information about the importance of MSEs they are playing by using different mechanisms since the mentality of most people towards this sector is not favorable or politicized.
4. The price of raw materials is increasing from time to time; therefore, the distribution of raw materials must be in the hand of government even if it is difficult. Solving the working premise by providing suitable site and appropriate tax levied in accordance with their incomes. In this regard, the tax system needs proper attention as some MSEs have complaints over the existing subjective method of tax assessment and levied which is based on subjective estimation and beyond the ability to bear as most of them do not have audited financial statements (conventional financial record keeping). On the other hand, in light of the growing popularity of presumptive taxation in Ethiopia, it is relevant to note the existing concerns that compromise its effectiveness since there are MSEs who are not paying still now. The existing capacity and experience of financial record keeping of MSEs is poor at least conventionally; so the government must give continuous awareness creation towards this practice because financial sources especially the formal sources of finance are demanding financial record keeping and it is good to over all activities of businesses. The market must be searched or seen in advance since it is crucial before investing as a result they avoid from bankruptcy and performing stagnant businesses throughout years. Besides, construction of display centers, provision of advertising support, and provision of information on market opportunities & appropriate/improved technologies. The culture of participating in exhibition and bazaar must also give take off since it benefits the economy as a whole and MSEs operators in particular.

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**Annex I (Questionnaire English Version)**

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF MANAGEMENT, INFORMATION AND ECONOMIC**  
**SCIENCES**  
**SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION**  
**DEPARTMENT OF MANAGEMENT**  
**MBA PROGRAM**

**Survey Questionnaire:** To Study ‘Financial Sources of Micro and Small Enterprises in Addis Ababa (The Case of Gulelle Sub-City)’.

The main purpose of the study is to investigate how MSEs get financial sources at the time of establishment and in operation. The result of the study will be significant to policy makers and finance suppliers. It may also be beneficial to those who are interested to make further study on the subject. Thus, your free will and cooperation in giving the reliable information is very important. Filling out questionnaire may not take much of your time. Any information provided will only be used for academic purpose. As a result, it will be kept confidential and utmost anonymity.

**General Instructions:**

1. Your participation is voluntary.
2. I guarantee you that your responses will not influence your present and future employment with the enterprise.
3. Writing your and enterprise’s name is not necessary.
4. Giving more than one response is allowed, if necessary.
5. Please simply tick (✓) on the appropriate box or give an explanation to open-ended questions.

**I thank you in advance for your kind cooperation.**

**I. Personal Data**

1. Sex:  Male  Female
2. Which age group do you belong?
- 15-24  35-44
- 25-34  Above 45
3. Marital status:  Married  Single
- Divorce  Others
4. What is your educational status?
- Primary school  TVET
- High school  Diploma
- Bachelor degree If others, specify \_\_\_\_\_

**II. Training Information**

5. Did you have any previous work experience before starting the current business?
- Yes  No
6. If your answer to question **number 5** is yes, was the experience related to the business you are doing currently?
- Strongly agree  Neutral
- Agree  Disagree  Strongly disagree
7. Did you take any training before starting-up your business?
- Yes  No
8. If your answer to question **number 7** is yes, how do you assess the degree of relevance of the training to the business you are currently doing?
- Excellent  Average
- Good  Poor  Very poor
9. Did you take any training after starting-up your business?
- Yes  No
10. If your answer to question **number 9** is yes, how do you assess the degree of relevance of the training to the business you are currently doing?
- Excellent  Average
- Good  Poor  Very poor

11. What was/were the type/s of training opportunity gained so far?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

### III. Business Information

12. What was/were the major problem/s of your business at start-up?

- Lack of capital       Input access constraints  
 Obstacles from government rules and regulations

If others, specify \_\_\_\_\_

13. What do you think is the major problem of your business? Please identify three major problems/challenges in the order of priority.

- 1<sup>st</sup> \_\_\_\_\_  
 2<sup>nd</sup> \_\_\_\_\_  
 3<sup>rd</sup> \_\_\_\_\_

14. What is the form of your business?

- Sole proprietorship       Cooperative  
 Joint ownership      If others, specify \_\_\_\_\_

15. In which type of developmental oriented sectors are you engaged now?

- Textile and garment       Metal and wood works  
 Construction       Municipal services  
 Food processing       Urban agriculture  
 Cobble stone       Others, specify \_\_\_\_\_

16. What is your reason for getting into this specific business?

- Skill in this business       Thought it would be profitable  
 Parents/relatives in this business       Matching of capital requirement  
 Apprenticeship practice       I had no alternative

If others, specify \_\_\_\_\_

17. What is the total number of people working in your business? \_\_\_\_\_

18. How is the working premise of your business held-up?

Owned  Rented  Family  Government building

If others, specify \_\_\_\_\_

19. Do you think that finance/loan providers do have positive attitude towards held up working premise by your own?

Strongly agree  Neutral  
 Agree  Disagree  Strongly disagree

**IV. Financial Information**

20. Could you please specify the range of your capital in Ethiopian Birr?

| <u>At start-up</u>                       | <u>Currently</u>                         |
|--|--|
| <input type="checkbox"/> 0-10,000        | <input type="checkbox"/> 0-10,000        |
| <input type="checkbox"/> 10,001-25,000   | <input type="checkbox"/> 10,001-25,000   |
| <input type="checkbox"/> 25,001-35,000   | <input type="checkbox"/> 25,001-35,000   |
| <input type="checkbox"/> 35,001-50,000   | <input type="checkbox"/> 35,001-50,000   |
| <input type="checkbox"/> 50,001-100,000  | <input type="checkbox"/> 50,001-100,000  |
| <input type="checkbox"/> 100,001-250,000 | <input type="checkbox"/> 100,001-250,000 |
| <input type="checkbox"/> 250,001-350,000 | <input type="checkbox"/> 250,001-350,000 |
| <input type="checkbox"/> 350,001-500,000 | <input type="checkbox"/> 350,001-500,000 |

21. What was/were your main source/s of finance at start-up?

|   |  |
|---|--|
| <input type="checkbox"/> Own funds/family           | <input type="checkbox"/> Money lenders |
| <input type="checkbox"/> Micro-finance institutions | <input type="checkbox"/> Government    |
| <input type="checkbox"/> Cooperatives               | <input type="checkbox"/> Bank          |
| <input type="checkbox"/> <i>Iqqubs</i>              | <input type="checkbox"/> <i>Idirs</i>  |
| <input type="checkbox"/> NGOs                       | If others, specify _____               |

22. Have you ever received a loan?  Yes  No

23. If your answer to question **number 22** is yes, from which of the following have you received?

Banks  Cooperatives  Money lenders  
 MFIs If others, specify \_\_\_\_\_

24. If your answer to question **number 22** is no, please specify your reason?

- Absence of collateral       Assumption of I will not get  
 Fear of inability to repay       High borrowing cost

If others, specify \_\_\_\_\_

25. Could you please specify the major financial challenges/difficulties in their order of priority?

- 1<sup>st</sup> \_\_\_\_\_  
 2<sup>nd</sup> \_\_\_\_\_  
 3<sup>rd</sup> \_\_\_\_\_

26. If you ever faced lack of working capital/financial difficulty, how did you address it?

- Own funds/family       Bank loan       Trade credit suppliers  
 Cooperatives       Loan from micro finance institutions  
 NGOs assistance       Money lenders  
 Government      If others, specify \_\_\_\_\_

27. Do you have the experience of financial records in your business?

- Yes       No

28. Do you think that finance/loan providers consider financial record keeping as an indicator of sound financial management?

- Strongly agree       Neutral  
 Agree       Disagree       Strongly disagree

29. What do you think about the present tax system of Ethiopia towards your business?

- Very high       Medium  
 High       Low       Very low

**V. Economic Information**

30. Could you please specify the role of MSEs in the economic growth of Ethiopia?

1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_  
 4. \_\_\_\_\_

31. Have you ever participate in exhibition and bazaar to date?

Yes

No

32. If your answer to question **number 31** is yes, what is/are the importance to your business?

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

33. Have you ever received any support?

Yes

No

34. If your answer to question **number 33** is yes, please specify?

International NGOs

Local NGOs

MFIs

Government projects/institutions

If others, specify

\_\_\_\_\_

35. What do you think should be done to micro and small enterprises to make them successful? List your suggestions in the order of priority.

1<sup>st</sup> \_\_\_\_\_

2<sup>nd</sup> \_\_\_\_\_

3<sup>rd</sup> \_\_\_\_\_

4<sup>th</sup> \_\_\_\_\_

36. Any remark that you would like to add.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_.

**I thank you again for your kind cooperation.**

Annex II (Questionnaire Amharic Version)

**አዲስ አበባ ዩኒቨርሲቲ**  
**የሥራ አመራር፣ ኢንፎርሜሽንና ኢኮኖሚክ ሳይንስ ኮሌጅ**  
**የቢዝነስና ህዝብ አስተዳደር ትምህርት ቤት**  
**የሥራ አመራር ትምህርት ክፍል**  
**የቢዝነስ አስተዳደር ማስተርስ ፕሮግራም**

**የጥናት ርዕስ:**

‘A Study on Financial Sources of Micro and Small Enterprises in Addis Ababa (The Case of Gulelle Sub-City)’

**አላማ:** የጥናቱ ዋና አላማ የጥቃቅንና አነስተኛ ኢንተርፕራይዞች ሥራ ለመጀመርና በሥራ ላይ ሆነው የሚጠቀሙበት የፋይናንስ ምንጭ ማወቅ ሲሆን የጥናቱ ወጤት የፖሊሲ አውጭዎችና የፋይናንስ አቅራቢ ድርጅቶች ሊጠቀሙበት ይችላሉ። በተጨማሪም ሌሎች በዘርፉ ፍላጎት ላላቸውና መሰራት ለሚፈልጉ እንደግብአት ሊያገለግል ይችላል። ስለዚህ የእናንተ ግልፅነት፣ ትብብር እና እውነተኛ መረጃ በጥናቱ ወጤት ከፍተኛ ሚና ስላለው መረጃው በጥንቃቄ እንዲሞሉት እጠይቃለሁኝ።

ይህ መጠይቅ ጊዜ የማይውስድና መረጃውም ለትምህርት አላማ ብቻ የሚያገለግል በመሆኑ መረጃው በሚሰጠር የሚያዝ ይሆናል።

**አጠቃላይ መመሪያዎች:**

1. መጠይቁ የሚሞላው በፍላጎት ነው።
2. መጠይቁ በሞምላታችሁ በአሁኑና የወደፊት ሥራችሁ ምንም ዓይነት ተፅዕኖ የለውም።
3. የራስዎ ሆነ የኢንተርፕራይዝዎ ሥም መፃፍ አያስፈልግም።
4. እንደአስፈላጊነቱ ከአንድ በላይ መልስ መስጠት ይቻላል።
5. በሳጥን ውስጥ የ(✓) ምልክት ያድርጉ፤ አማራጭ ለሌላቸው ማብራሪያ ይስጡ።

**በቅድሚያ ለመልካም ትብብርዎ አመሰግናለሁ!!**

**I. ግላዊ መረጃ**

1. ፆታ:       ወንድ       ሴት
2. የእድሜ ክልል:     15-24       25-34       35-44       ከ45 በላይ
3. የጋብቻ ሁኔታ:     ያገባ/ች       ያላገባ/ች       የፈታ/ች       ሌላ
4. የትምህርት ደረጃ:     አንደኛ ደረጃ       ሁለተኛ ደረጃ       ዲፕሎማ  
 ዲግሪ     ቲቪኤቲ (TVET)    ሌላ ካለ ይግለጹ \_\_\_\_\_

**II. የሥልጠና መረጃ**

5. የአሁኑ ሥራ ከመጀመርዎ በፊት የስራ ልምድ ነበረዎ?  
 አዎ       የለም
6. ለጥያቄ ቁጥር 5 መልስዎ አዎ ከሆነ፣ የሥራ ልምዱ አሁን ከሚሠሩት ጋር ይመሳሰላል?  
 በጣም እስማማለሁ       እስማማለሁ       መሐል ሰፋሪ  
 አልስማማም       በጣም አልስማማም
7. የአሁኑ ሥራ ከመጀመርዎ በፊት ስልጠና ወስደው ያውቃሉ?  
 አዎ       የለም
8. ለጥያቄ ቁጥር 7 መልስዎ አዎ ከሆነ፣ የስልጠናው ጠቀሜታ አሁን ከሚሠሩት ሥራ ጋር እንዴት ያዩታል?  
 እጅግ በጣም ጥሩ       ጥሩ       መካከለኛ       ደካማ       በጣም ደካማ
9. ስራ ከጀመሩ በኋላ ሥልጠና ወስደው ያውቃሉ?  
 አዎ       የለም
10. ለጥያቄ ቁጥር 9 መልስዎ አዎ ከሆነ፣ የሥልጠናው ጠቀሜታ እንዴት ያዩታል አሁን ከሠሩት ሥራ ጋር?  
 እጅግ በጣም ጥሩ       ጥሩ       መካከለኛ  
 ደካማ       በጣም ደካማ
11. እስከ አሁን ያገኙት የስልጠና አይነት/ቶች ይግለጹ?  
 1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_

**III. የቢዝነስ መረጃ**

12. ሥራ ሲጀምሩ ያጋጠመዎትን ዋና ችግር/ሮች ይግለጹ?
  - የካፒታል ዕጥረት
  - የግብአት ችግሮች
  - የመንግስት ሕግና ደንብ
  - ሌላ ከሆነ ይግለጹ\_\_\_\_\_
13. ስለድርጅትዎ ዋና ዋና ችግሮች ምን ያስባሉ? እባክዎ ሶስቱን በደረጃ ቸው ይግለጹ።
 

1ኛ \_\_\_\_\_

2ኛ \_\_\_\_\_

3ኛ \_\_\_\_\_
14. የድርጅትዎ አይነት ምንድን ነው?
  - የግል
  - የቡድን
  - የሕብረት ሥራ ማህበር
  - ሌላ ከሆነ ይግለጹ\_\_\_\_\_
15. በየትኛው የልማት ዘርፍ ነው የተደራጀት?
  - ጨርቃ ጨርቅና አልባሳት
  - ብረታ ብረትና እንጨት
  - ኮብል ስቶን
  - ኮንስትራክሽን
  - ማዘጋጃ ቤታዊ አገልግሎት
  - ምግብ ዝግጅት
  - ከተማ ግብርና
  - ሌሎች ከሆነ ይግለጹ\_\_\_\_\_
16. አሁን ያሉበት ሥራ ለመግባት ያነሳሳዎት ምክንያት ምንድን ነው?
  - ለሥራው ያለዎት ልምድ
  - ትርፍማ ይሆናል ብሎ መገመት
  - በዚህ ሥራ የተሰማራ የቤተሰብ አባል
  - የካፒታል ፍላጎት መመጣጠን
  - የተግባር ልምድ መኖር
  - አማራጭ አልነበረኝም
  - ሌላ ከሆነ ይግለጹ\_\_\_\_\_
17. በድርጅትዎ ያለውን የሰው ኃይል ብዛት ይግለጹ? \_\_\_\_\_
18. የድርጅትዎ የሥራ ቦታ?
  - የራስዎ
  - ኪራይ
  - የቤተሠብ
  - የመንግስት ህንጻ/ባንክ
  - ሌላ ከሆነ ይግለጹ\_\_\_\_\_
19. የድርጅትዎ የሥራ ቦታ የራስዎ ከሆነ፣ የፋይናንስ/የብድር አቅራቢዎች አዎንታዊ እይታ አላቸው ይላሉ?
  - በጣም እስማማለሁ
  - እስማማለሁ
  - መሐል ሰፋሪ
  - አልስማማም
  - በጣም አልስማማም

IV. የፋይናንስ መረጃ

20. የድርጅትዎ የካፒታል ደረጃ ቢገልፁ በኢትዮጵያ ብር?

ሲጀምሩ

በአሁኑ ጊዜ

- |  |  |
|--|--|
| <input type="checkbox"/> 0 - 10,000        | <input type="checkbox"/> 0 - 10,000        |
| <input type="checkbox"/> 10,001 - 25,000   | <input type="checkbox"/> 10,001 - 25,000   |
| <input type="checkbox"/> 25,000 - 35,000   | <input type="checkbox"/> 25,000 - 35,000   |
| <input type="checkbox"/> 35,001 - 50,000   | <input type="checkbox"/> 35,001 - 50,000   |
| <input type="checkbox"/> 50,001 - 100,000  | <input type="checkbox"/> 50,001 - 100,000  |
| <input type="checkbox"/> 100,001 - 100,000 | <input type="checkbox"/> 100,001 - 100,000 |
| <input type="checkbox"/> 250,001 - 350,000 | <input type="checkbox"/> 250,001 - 350,000 |
| <input type="checkbox"/> 350,001 - 500,000 | <input type="checkbox"/> 350,001 - 500,000 |

21. ስራ ሲጀምሩ የድርጅትዎ የፋይናንስ ምንጭ/ጻ ች የትኛው/የትኞቹ ነበር/ሩ?

- |  |  |                                       |                                |
|--|--|---------------------------------------|--------------------------------|
| <input type="checkbox"/> የራስዎ/ቤተሰብ         | <input type="checkbox"/> እቁብ           | <input type="checkbox"/> እድር          | <input type="checkbox"/> መንግስት |
| <input type="checkbox"/> ባንክ               | <input type="checkbox"/> ማይክሮ ፋይናንስ    | <input type="checkbox"/> የአካባቢ አበዳሪዎች |                                |
| <input type="checkbox"/> መንግስታዊ ያልሆኑ ድርጅቶች | <input type="checkbox"/> የህብረት ሥራ ማህበር |                                       |                                |

ሌሎች ከሆኑ ይግለፁ \_\_\_\_\_

22. ብድር አግኝተው ያውቃሉ?

- አዎ       የለም

23. ለጥያቄ ቁጥር 22 መልስዎ አዎ ከሆነ፣ ከየትኛው ምንጭ ነው ያገኙት?

- |                                       |   |                                     |
|---------------------------------------|---|-------------------------------------|
| <input type="checkbox"/> ባንክ          | <input type="checkbox"/> ማይክሮ ፋይናንስ         | <input type="checkbox"/> የህ/ሥራ ማህበር |
| <input type="checkbox"/> የአካባቢ አበዳሪዎች | <input type="checkbox"/> ሌሎች ከሆኑ ይግለፁ _____ |                                     |

24. ለጥያቄ ቁጥር 22 መልስዎ የለም ከሆነ፣ ምክንያቱን ይግለፁ?

- |  |  |
|--|--|
| <input type="checkbox"/> የብድር ማስያዣ አለመኖር | <input type="checkbox"/> ብድር አላገኝም ብሎ በማሰብ |
| <input type="checkbox"/> ብድሩ የመመለስ ፍራቻ   | <input type="checkbox"/> ከፍተኛ የድብር ወለድ     |

ከተጠቀሰው ውጭ ከሆነ ይግለፁ \_\_\_\_\_

25. እባክዎ የድርጅትዎ ዋና ዋና የፋይናንስ ችግሮች በደረጃቸው ይግለፁ?

- 1ኛ \_\_\_\_\_
- 2ኛ \_\_\_\_\_
- 3ኛ \_\_\_\_\_

26. የማንቀሳቀሻ ካፒታል ወይም የፋይናንስ ዕጥረት እንዴት ፈቱት?  
 የራስዎ/ቤተሰብ  ከባንክ ብድር  ከህ/ስራ ማህበር ብድር  
 ከማይክሮ ፋይናንስ ብድር  ከአካባቢ አበዳሪዎች  
 ከመንግስት  ከመንግስታዊ ያልሆኑ ድርጅቶች እገዛ  
 በዱቤ መግዛት ሌላ ከሆነ ይግለፁ\_\_\_\_\_
27. በድርጅትዎ የሒሳብ አያያዝ ልምድ አለ?  
 አዎ  የለም
28. የድርጅትዎ የሒሳብ አያያዝ ልምድ መኖር፣ የፋይናንስ/የብድር አቅራቢዎች ውጤታማ የፋይናንስ አያያዝ መገለጫ ነው ይላሉ?  
 በጣም እስማማለሁ  እስማማለሁ  ማህል ሰፋሪ  
 አልስማማም  በጣም አልስማማም
29. የታክስ ስርዓት በድርጅትዎ ያሳደረው ተፅዕኖ እንዴት ይገልፁታል?  
 በጣም ከፍተኛ  ከፍተኛ  መካከለኛ  ዝቅተኛ  በጣም ዝቅተኛ

v. ኢኮኖሚያዊ መረጃ

30. የጥቃቅንና አነስተኛ ኢንተርፕራይዞች ለኢትዮጵያ ኢኮኖሚያዊ ዕድገት ያላቸው ሚና ይግለፁ?  
 1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_  
 4. \_\_\_\_\_
31. በኢግዚብሽንና ባዛር ተሳትፎ ያውቃሉ?  
 አዎ  አላውቅም
32. የጥያቄ ቁጥር 31 መልስዎ አዎ ከሆነ፣ ጥቅሙ ምንድን ነው?  
 1. \_\_\_\_\_  
 2. \_\_\_\_\_  
 3. \_\_\_\_\_  
 4. \_\_\_\_\_

33. እስከአሁን ዕገዛ አግኝተው ያውቃሉ?

- አዎ
- አላውቅም

34. የጥያቄ ቁጥር 33 መልስዎ አዎ ከሆነ፣ ከማን ነው ያገኙት?

- አለም አቀፍ መንግስታዊ ያልሆኑ ደርጅቶች
- ማይክሮ ፋይናንስ
- አገር በቀል መንግስታዊ ያልሆኑ ደርጅቶች
- የመንግስት ፕሮጀክቶች/ተቋማት

35. ጥቃቅንና አነስተኛ ኢንተርፕራይዞች ስኬታማ እንዲሆኑ ምን መሰራት አለበት ይላሉ? በቅደም ተከተል አስተያየትዎን ይግለፁ።

- 1ኛ \_\_\_\_\_
- 2ኛ \_\_\_\_\_
- 3ኛ \_\_\_\_\_
- 4ኛ \_\_\_\_\_

36. ተጨማሪ ማሪ ሀሳብ ካለዎት ይግለፁ?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ ::

**በድጋሜ ለመልካም ትብብርዎ አመሰግናለሁ!!**

**Annex III (Focus Group Discussion Guide Framework)**

**ADDIS ABABA UNIVERSITY  
COLLEGE OF MANAGEMENT, INFORMATION AND ECONOMIC  
SCIENCES  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION  
DEPARTMENT OF MANAGEMENT  
MBA PROGRAM**

**Focus Group Discussion Guide Framework:**

The focus group discussion will conduct aim at ‘Financial Sources of Micro and Small Enterprises in Addis Ababa (The Case of Gulelle Sub-City)’ and will focus on the following points.

1. Why micro and small enterprises establish and operate?
2. What do you think the major problems of micro and small enterprises? Identify three major problems in the order of priority.
3. What types of training are given to micro and small enterprises so far?
  - ✓ Who initiated it?
  - ✓ What situations stimulate it?
  - ✓ How can you measure whether the training is relevant to specific needs of micro and small enterprises?
4. Could you please identify incentives given to micro and small enterprises; and how your agency help micro and small enterprises solve or minimize their problems?
5. What do you recommend to overcome the financial difficulty of MSEs?
6. What should the financial institutions do to help micro and small enterprises overcome the financial difficulty?
7. Any remark that you would like to add.