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## The Roles of Micro and Small Enterprises in Urban Household Livelihoods: The Case of Ambo Town, Ethiopia

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### **Abstract:**

*This study intended to explore the role of Micro and Small Enterprises (MSEs) in urban household livelihood, taking MSEs in Ambo town, Ethiopia. As such, the study employed qualitative research approach based on intensive fieldwork. Sample MSEs were purposively selected from the available lists of Ambo town MSEs Development office. And primary data were collected from the owners, employees and managers of these selected MSEs by using in-depth interviews, focus group discussion, and key informant interview. The collected data were then duly transcribed, edited, coded, and categorized into different themes based on the study's interest and sustainable livelihood framework, and hence analyzed thematically. The result of the study revealed that MSEs have played great role in livelihood improvement of the owners and employees. These outcomes include, among others, increased income and household asset ownership; better employment opportunities; better access to nutrition, education and health services; increased level of technical and social skills; and women economic empowerment. However, despite considerable efforts made by the government to provide various supportive services through credit and training provision and better policy environment, the MSEs are suffering from many challenges. These challenges affecting performance of MSEs include inadequate finance, poor infrastructures, poor management practices, institutional bureaucracy, high tax and global competition, among others. As a result, the study recommend that it is important to improve business management and entrepreneurial skills, identify business areas where MSEs can further participate, enhance linkage among MSEs, strengthen provision of credit as well as formalization processes, provide adequate working and marketing premise, and improve administrative efficiency and basic infrastructures.*

**Keywords:** Micro and small enterprises, livelihoods, household, ambo, Ethiopia

### **1. Introduction**

Poverty in Ethiopia is a widespread phenomenon due partly to lack of economic opportunities and inadequate basic household income. Various suggestions were given by different scholars for addressing the persistent unemployment and poverty problems. Amongst, it is often argued that Micro and Small Enterprises (MSEs) play key roles in creating employment opportunities and generation of income. Scholars (e.g. Lukács, 2005; Olomi, 2006 and Geleta, 2013) confirmed the crucial role of MSEs in employment creation and poverty reduction. MSEs are important vehicle for addressing the challenges of unemployment, poverty and economic growth. They provide means of living to a large proportion of the population (Berhanu, 2005; Lukács, 2005). According to Olomi (2006), MSEs are major drivers of growth and development because they are labor intensive that are suitable for low skill wage laborer. Thus, they are a means to absorb the cheaply available labor force, making them preferable than big industries (Ageba and Amha 2004; Amha and Ageba 2006; Olomi 2006).

The Ethiopian government has recognized the significance of MSEs and has given due attention to the area (Geleta, 2013). Ethiopia's industrial development strategy issued in 2003 also singled out the promotion of MSE development as one of the important instruments to create productive and dynamic private sector. The promotion of MSEs is justified on the grounds of enhancing growth with equity, creating long-term jobs, providing the basis for medium and large enterprise and promoting exports. In Ethiopia, establishing and being engaged in MSEs has become one of the livelihood activities pursued by many Ethiopian poor (Bekele and Muchie, 2009; Garoma, 2012).

Despite the recognition of the importance of MSEs, case specific reliable and timely data has been inadequate and lacking in the country in general and Ambo in particular. Previous studies on MSEs used aggregated data at regional and/or national level mostly employing quantitative methods. Few studies have attempted to analyze the significance of MSEs at household level and focused mainly on the determinant factors of MSEs growth. Therefore, adopting qualitative techniques, this study explored the role of MSEs in urban livelihood improvement, in selected MSEs of Ambo town, West shewa zone, Ethiopia. Specifically, the study aimed to assess the importance of MSEs for income generation, explain success factors and constraints of MSEs, and explore the contexts under which MSEs owners and employees work to support their livelihood.

1.1. Micro and Small Enterprises in Ethiopia context

Countries adopt a variety of working definitions of MSEs depending on their particular objectives. The criteria and ways of categorizing enterprises as small, micro and medium varies from country to country and even from organization to organization. However, according to Lukács (2005) and Garoma (2012), size criteria and economic or control criteria are ways of defining MSEs in most countries. Ethiopia also uses these criteria for definition of MSEs operating within the country territory(Garoma, 2012). Although the statistical criteria used to define the enterprises vary, the size criteria commonly include number of employees (the most widely used), asset size, volume of deposit, sales volume and insurance enforce. The economic /control definition covers market share - the influence the MSE product or service have at national level- and personalized management - whether the enterprise is managed and run by owner(s) with rare delegation(Lukács, 2005).

According to the new Small & Micro Enterprises Development Strategy of Ethiopia, the working definition of MSEs is based on capital size and number of employees(Garoma, 2012).The table 1 below illustrates the MSE criteria of classification and hence working definitions in Ethiopia in comparison with Europe.

Enterprise Category	Asset size (in Euro)		Number of workers	
	Europe	Ethiopia	Europe	Ethiopia
Microenterprise	Less than 2million	Less than 10,500	Less than 10	Less than 10
Small enterprise	2-49 million	10,500-26,000	Between 10-50	Between10-50
Medium and large	More than 49 million	More than 26,000	More than 50	More than 50

Table 1: Criteria of MSEs classification in Ethiopia  
Source: Adopted from Lukács (2005) and Garoma (2012)

1.2. Analytical Framework: Sustainable Livelihoods and MSEs

This study has used the Sustainable Livelihood Framework (SLF) to analyze the issue under consideration. Livelihood comprises the capabilities, assets (encompassing both material and no material) and activities required for a means of living(Chambers, 1995). The SLF presents the main factors affecting people’s livelihoods, and typical relationships between them(Scoones,2009). The factors involved in attaining sustainable livelihoods and the relationships between these factors can be analyzed by SLF. People-centered analysis is most likely to begin with the simultaneous investigation of people’s assets, their objectives (the livelihoods outcomes they seek) and the livelihood strategies they adopt to achieve these objectives.

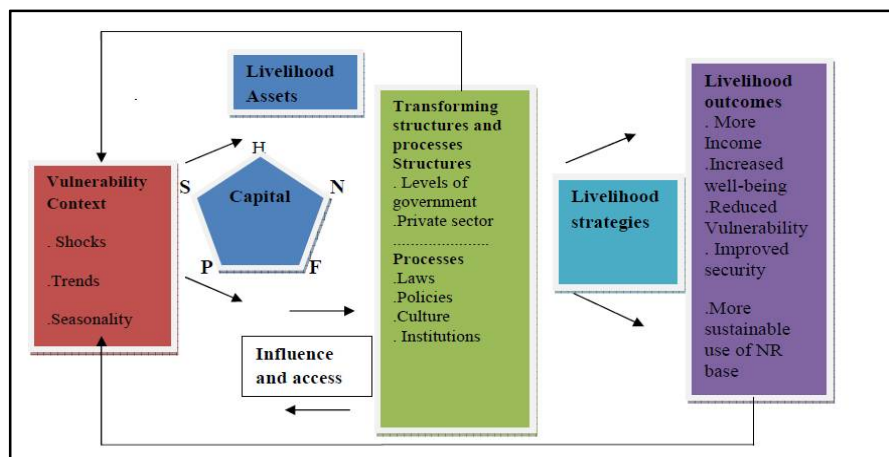


Figure 1: Sustainable Livelihoods Framework, Adopted from DFID (1999)

The SL framework places people at the center of a web of inter-related influences that affect how these people create a livelihood for themselves and their households. Closest to the people at the center of the framework are the resources and livelihood assets that they have access to and use. These can include natural resources, technologies, their skills, knowledge and capacity, their health, access to education, sources of credit, or their networks of social support. The extent of their access to these assets is strongly influenced by their vulnerability context, which takes account of trends (for example, economic,

political, and technological), shocks (for example, epidemics, natural disasters, civil strife) and seasonality (for example, prices, production, and employment opportunities). Access is also influenced by the prevailing social, institutional and political environment, which affects the ways in which people combine and use their assets to achieve their goals.

Thus, sustainable livelihoods approach can provides a basis for the analysis to describe the relationship between livelihoods and MSEs in Ambo town. Scholars (e.g. Chambers, 1995; Chambers and Conway, 1992) explain that capabilities, assets (tangible and intangible) are fundamental to secure livelihoods. MSEs are one of the livelihoods strategies to secure livelihoods and thus they are important in reducing poverty.

The success or failure of MSEs, hence their ability in enhancing the quality of life of their beneficiaries is dependent on a number of factors. The sustainable livelihoods framework permits to understand the poverty reduction role of MSEs and their livelihoods impact because it embraces all issues, factors and variables that affect them.

When we see MSEs by the lens of SLF perspective and in line of what are going in reality, clearly they are constrained or supported by a variety of factors related to the wider political, economic, social, and environmental contexts.

Besides to level of personal initiation, entrepreneurial spirit and capability, and other owner or operator-related behaviors, the performance and effectiveness of MSEs is also dependent on the existing policies, institutions, structures and processes.

The possession and access to various sorts of capital assets are also among the determinants shaping their success or failure. Finally, the livelihoods impacts of MSEs are the results of the continuous interplay between the above-indicated factors operating at different levels ranging from local to international.

## **2. Research Methods**

Research Methodology is the coherent set of rules and procedures which can be used to investigate a phenomena or situation. This section deals with research approach, procedures of study subject selection, methods of data collection, and methods of data analysis.

### *2.1. Research Approach*

A qualitative research approach based on intensive fieldwork was deployed to study MSE role in household livelihoods improvement. Sustainable livelihood framework concepts and aspects including contexts, assets and Processes, Institutions and Policies (PIPs) were extracted through qualitative methods.

### *2.2. Study Subject Selection*

Sample MSEs were purposively selected from the lists available in Ambo town MSEs development office based on specific criteria. The criteria considered in the section were establishment year of the MSE, number of owners, seed capital, gender composition, type of sector (manufacturing, construction, agriculture, service, trade) and legal issues. In addition, the study exclusively considered those MSEs that were established with the help of Ambo MSEs development office. Initially, data on these MSEs and their corresponding profile were obtained from Ambo MSEs development Office. Accordingly, ten MSEs were selected purposively.

### *2.3. Data Collection*

Multiple data sources and several data collection methods were used in combination. Data were collected from both primary and secondary sources. Secondary sources from published and unpublished documents and annual reports of local organizations related with MSEs in Ambo town were used for the study. Primary data were collected from the owners, employees and managers of selected MSEs by using in-depth interviews, focus group discussion, and key informant interview. Interviews were conducted with representatives of the selected MSEs and employee of these enterprises. The number of interviewees was determined on the basis of data saturation - the point where no additional new data emerge.

Key informant interviews were conducted with the head of Ambo MSEs Development office, head of Ambo Trade and Revenue office, head of Ambo Cooperative Promotion office, representative of MFI and chairperson of Association of MSEs in Ambo. In addition, focus group discussion was conducted with a group of individuals who were representatives of Oromia MFI, MSE association, Ambo MSED office, Ambo social affairs office, Ambo cooperative promotion office and chairperson of Ambo district.

### *2.4. Data Analysis*

The collected data were presented under relevant themes and analyzed thematically. That means, first, the collected data were duly transcribed, edited, coded, and categorized into different themes. These themes are the explicit SLF components and sub-components i.e. existing Contexts and Vulnerability Situations of the MSEs; availability and access to capital assets; the existing Processes, Institutions and Policies (PIPs) and the livelihood outcomes of MSEs in Ambo. Then, thematic analysis is done thoroughly in light of the SLF in order to portray the multi-faceted effect and nature of the context in which the MSEs studied operate and the livelihoods role of MSEs on their operators, among others. Along with analysis, where deemed necessary, uniquely informative and demonstrative statements by the respondents are directly quoted in order to exhibit the realities and expressions of respondents on a given aspect.

### 3. Result and Discussion

#### 3.1. Micro and Small Enterprises (MSEs): Contexts and Situations

The activities and performance of MSEs in Ambo town are determined by the context and the situation surrounding them. These contexts and situations have great influence on the availability and accessibility of livelihoods assets and strategies and hence the outcomes.

##### 3.1.1. The Economic Context

The key informants and MSE operators asserted that, though it has declined due to the promotion of MSEs, there is still high number of unemployment and under employment in Ambo town. Such increasing difficulty of finding a job and the need for a better life are making people consider self-employment or operating one's own business and hence the main motivating factor to establish MSEs in Ambo. According to them, the economic policy of the current Ethiopia government favors and encourages MSEs as one of the instruments to alleviate poverty. They assured that MSEs are the source of income through self-employment and employment opportunities in other enterprises.

Ambo MSEs development office also stated that the office has succeeded in organizing and establishing 175 MSEs in 2015/2016 that are engaged in the manufacturing, construction, agriculture, service and trade sectors. These MSEs organized in the form of cooperative associations have provided a permanent job and hence income generation opportunity for about 1695 people (See Table 2).

Sector type	Number of cooperative MSEs established	Members		
		Female	Male	Total
Manufacturing	22	37	69	106
Construction	55	749	388	1137
Agriculture	8	24	29	53
Service	49	154	124	278
Trade	41	42	79	121
Total	175	1006	689	1695

Table 2: Micro and Small Enterprises in Ambo town  
Source: Ambo MSE Development Office annual report, 2016

However, the existing MSEs are not free of challenges. According to the owners and members of MSEs, the earned income from MSEs is not enough to cover costs and expenditures to lead comfortable life they hoped. An interviewee, owner of MSE, pointed that high inflation in the country is one of the factors affecting their operation and income. In addition, the conditional nature of market for their products and services is another issue challenging both owners and members working as daily laborers. This market dependent employment availability can be supported through linkages with government projects and between MSEs themselves since MSEs are suffering with low market and competition.

Besides, MSEs are also negatively affected by sudden raw materials price change. A participant during focus group discussion clearly put this case, sharing his experience in housing construction agreement. He stated that;

*"We [he and his group member] had a contract agreement with housing development project office to supply and install doors and windows for the condominium house constructed in Ambo. While producing these items, the price of raw materials rose up. When we inform this irregularity to make price [budget cost] adjustment, the housing development project office [of Ambo] refused. There was deviation between the original agreed upon price and the new market price for inputs. Since we had a contractual obligation as per the contract, we produced and supplied all the items at a loss."*

An interviewee, who is a painter in his MSE, also confirmed that they were once requested to provide their service in 2017 with a price set in 2015, without considering the continuous input price rising. Moreover, increasing price of transportation, poor infrastructure and facilities and increasing fuel prices are also other factors that negatively affected the enterprises by draining their revenue.

##### 3.1.2. The Socio-Cultural Context

According to evidences, although the majority of the people residing in Ambo are Oromo in ethnic background, there are also other ethnic groups such as Ahmara and Gurage, with diversity of languages, religion, culture and ethnicity. There is a strong social bond and cooperation in the form of information exchange, equipment and tools sharing/exchange, eating together and having party.

The social systems of their environment also tend to affect MSEs in Ambo. As explained by one interviewee "the social life and interaction of MSEs owners and workers is becoming low because they are busy with their business". The best example given by the interviewee is funeral service tradition by which resources are pooled for emotional and material support to the families. According to the interviewee, their participation in such social gathering activities like funeral

grouping is deteriorating. Their religious festival participation is also declined and the society is pointing towards them as business owners are mostly minding their own business with less concern for societal moral duties.

### 3.1.3. The Environmental Context

The environmental contexts of the MSEs and their operation comprise housing, roads, water, education, energy sources and sanitary conditions, among others. With regard to the housing and working premises, the interviewed owners of MSEs confirmed that they secure housing through lease from the government. But, it is noted that there is no proper drainage, sewerage, solid waste collection in their work environment and the town - Ambo.

In addition, there is also poor access to physical and social infrastructures like road, education and health. The interviewees added that this poor infrastructure has additional burden on their productivity and business operation. For example, their working place is located far from the main asphalt road that runs from Addis Ababa city to Nekemte town. This has added costs to MSEs for transporting their products and raw materials. In the view of interviewees, it also discourages customers to easily access their products. In addition, the poor condition of the roads within the town has influenced the accessibility of the working sites by existing and potential customers. The operators associate this unsuitability of the road facility with expensive transportation cost. The operators agree that, if the road infrastructure around their cluster is maintained or improved, there would be a remarkable reduction on their expenses related to running their businesses.

### 3.1.4. The Political Context

The formalization and licensing of informal MSEs and promoting new MSEs establishment is one of the poverty reduction mechanisms of Ethiopian government. As such, federal and regional MSE Development agencies have been established which in turn continues to city administrations branch offices up to district level. This may show the political willingness and commitment of the government for growth and development of MSE and its acknowledgement of their contribution. Indeed, this has its own constitutional base. The FDRE 1995 constitution article 41 states that every Ethiopian has the right to engage freely in economic activity and to pursue a livelihood of his choice anywhere within the national territory. The constitution also provides the right to get organized. The cooperation and organization work is easily facilitated by the local governments.

The key informants also stressed that the MSEs is given due attention by the political leadership from federal to district level officials though there are problems in implementation. One of the manifestations of such political comments to MSEs is the establishments of MSE Development offices at district levels with its human and physical resources and facilities including separate fund from the government. However, according to the interviewees, there is high bureaucratic procedure in processing any paper work in relation to MSEs in Ambo MSE Development office.

## *3.2. MSEs and Capital Assets*

The analysis of MSEs, in terms of capital and asset of the owners and employees, indicated that they have relatively better social and natural capital. The physical and financial capital and access to these forms is relatively poor, while human capital show improvement. These capital forms are discussed as follows in more detail:

### 3.2.1. Physical Capital

According to local official sources, the government is supporting MSEs by providing stores, improving infrastructures, supplying raw materials at low price and leasing land. However, the owners of MSEs did not agree with officials. According to owners of MSEs, they are suffering from lack of access to physical capital. They added even the available public infrastructures such electricity, water, road and telecommunication networks are poor. This negatively affects the performance of MSEs to achieve their set goals.

Housing is crucial for productive purpose like earning income and shelter. Majority of the interviewed stated that they live in rented house. They added access to water, sanitation, drainage, electricity and road is poor. With regard to household assets ownership, however, they stated that engaging in MSEs has improved their household asset ownership. They started to own TV, sofa, radio, mobile phones, shelf, bed and the like.

At their working place, the MSEs owners and key informants stated that the working place is facilitated by the municipality on rental basis with affordable price. Although the places accommodate basic facilities like telephone, toilet, electricity and water, researchers observed that these amenities are in poor conditions. The houses are constructed from non-durable materials like mud with stone or wood. The poor condition of working place may reduce the customers' expectation and quality image.

### 3.2.2. Financial Capital

Financial capital denotes cash earned from saving, credit, pensions and remittance. It is found that credit and personal saving are the two main source of finance to start, maintain and expand MSEs in Ambo. According to the key informants and the owners of MSEs, credit from Micro Finance Institutions (MFI), friends and relatives are the primary sources of finance followed by their personal savings. Oromia MFI is the main source of credit financing for startup capital. But there is a problem of short repayment period with high interest rate of 12%.

Conversely, it is found that the owners of MSEs have no remittance, and pension. During the interview, none of the interviewees mention remittance and pension as their source of finance neither debt from raw material suppliers or banks. When they face shortage of cash to cover their daily needs, MSEs owners rather use alternatives sources such as borrowing from friends, and *Iqub* (rotational saving) to mitigate the problem.

It is also noted that the cash possession of the owners of MSEs has improved in comparison to the past. However, inflation, high input price, cost of transportation and commodities are challenging owners' financial capital.

### 3.2.3. Human Capital

Human capital refers to the skills, experience, knowledge and ability to work. Clearly financial capital, in terms of access to employment and earnings, is strongly dependent on adequate human capital. In turn, human capital is highly dependent on adequate nutrition, health care, safe environmental conditions, and education.

The analysis on the educational status of the owners of MSEs reveals that all have at least completed high school level. This may facilitate trainings organized by Ambo MSE Development office and Technical and Vocational Education Training (TVET). The TVET is responsible primarily to provide technical trainings, while Ambo MSE Development office is providing business development, basic management, and accounting trainings. Plus the literacy level of the owners and employees of MSEs have its own role on the political capital and decision making processes.

In addition, interviewees working on cobble stone and construction area also claimed that the work has made them healthy and physical strong since the nature of their work is labor and energy intensive. The income earned also enabled them to get access to education, nutrition, shelter, cloth and health services. Generally, the education level, healthiness, physical strength and training provision are the good indicators of human capital.

### 3.2.4. Social Capital

Social capital is embedded in social relationships, associations, networks, friendships and linkages. The extent of exchanging tool, equipment, experiences and labor are common but in limited manner. The interviewees outline that participation in MSEs improves their social capital. This is because; their engagement in MSEs has allowed them to meet, know and introduce themselves to government officials, private institutions and experienced individuals. The participation in exhibitions and bazars create the opportunity to interact with many people as well.

During FGD, the participants mentioned horizontal and vertical cooperation and linkages as common manifestation of social capital among MSEs owners and employees. Horizontal linkage has been taking place between similar MSEs, while vertical linkage was between supplier and producers. The participants also stressed on the weak cooperation between MSEs due to loss of trust and adverse competition. Criticizing this problem, one key informant advised that *"the MSEs should cooperate and MSE Development office should work on that. Linkage between MSEs is good. For instance, they can jointly order raw materials and reduce transportation cost; they can also have more bargaining power together."*

### 3.2.5. Natural Capital

Ambo enjoys abundant natural resources on which MSEs may depend on. Fertile land is one of the resources to produce organic vegetables and coffee. According to key informants, agricultural land can be secured from the local authorities by lease with low price.

The availability of natural and plantation forest which is suitable for lumbering as well as beekeeping is another attractive and encourage factor to start MSEs in group. Those who have contract with housing development, to supply windows and doors, have given a right to use the forest without destructing biodiversity. Above all, water sources like streams, rivers and good climatic condition are considered motivating natural endowments to run MSEs in ambo.

## 3.3. Institutions, Policies and Processes

Enterprises operate under a variety of policies, laws, and regulations that can have either supportive or hindering role. A number of formal governmental, non-governmental and private organizations are found to have effect in the establishment, promotion and development effort and process of MSEs in Ambo.

Amongst, Ambo MSE Development office has played a great role in awareness creation about the benefits of engaging in MSEs, organizing the operators to establish MSEs, facilitating market linkages and providing training to the organized MSEs in the district. The participants of FGD confirmed that the office has made them aware the advantages of MSEs. They also noted that the trainings facilitated and organized by the office and TVET has changed their perception of MSEs and improved their business management skills once they started operations.

In addition, According to the interviewees, Oromia MFI is one of the institutions as a main source of start-up capital for MSEs. Youth and Women Affairs office is also another institution in organizing unemployed youth and women and referring to MSE Development office.

Another important organization is TVET center of the district. Ambo TVET center is contributing its part by providing technical trainings in the areas of machine operating, tools and equipment installation and other basic business management skills. The interviewees confirmed that the training helped them design and produce quality products and services.

The Commercial Bank of Ethiopia at Ambo branch is another institution where the owners and employees of MSEs keep their working money. The interviewees noted that the bank avoids the risk of theft, miss-use and loss. The participants of FGD also mentioned Ambo Housing Development office as the source of market for metal workers. The housing development project has contract with MSEs for windows and doors supply and installation. Besides, Ambo town municipality is also important source of market for cobble stone workers. The municipality purchased the cobble stones and also hires road contractors in which MSEs gets the prior chance.

The extent of cooperation and partnership among the aforementioned institutions is good, but not as to the expectation of MSEs. Although they are favoring MSEs related policies, strategies and regulations, the owners of MSEs indicated problems of implementations. The bureaucratic procedures, absence of consistency in the execution of policies and regulations, and lack of commitment by the staffs were some of the challenges. The interviewees repeatedly raised the hampering effect of poor implementation of policies, strategies, proclamation and procedures particularly related to MSEs financial services. Apparently, the high interest rate and shorter pay-back period policies of Oromia MFI (the sole sources of credit if they need) exposes MSEs to financial insecurity. Other financial institutions such as governmental and private banks have unsuitable policy to MSEs. For instance, banks request collateral to get loan. Hence, banks and MFIs policies are discouraging MSEs, although they are financial service providers.

Nonetheless, micro and small enterprise development strategy and specific regulations prioritizing MSEs on bidding, market linkage, provision of credit and training have positive contribution on the viability and sustainability of the MSEs in Ambo.

### *3.4. Role of MSEs in Ambo town: the livelihood outcomes*

In developing countries like Ethiopia, MSEs contribute big share in employing the labor force, thereby serving as a source of income. Garoma (2012) and Geleta(2013) argued that MSEs are important to move from food dependency to food security. They also noted that MSEs have great role to alleviate rural urban migration.

As the job market has not been able to absorb the labor force, youngsters are forced to look at alternative means of living. MSEs have emerged as alternatives for livelihood opportunities especially for large number of unskilled labor. MSEs have positive contribution to poverty reduction when they provide employment and low-cost goods and services used by the poor. They also enable owners and/or employees to build up productive assets and enhance their productivity and potential for sustainable livelihoods.

The interviewees stated that their engagement in the MSEs has resulted in an improved health and clothing, and increased ownership of basic household assets such as table, chair, bed, radio and tape recorder though the observed change on productive asset possession like housing and vehicles was minor. One interviewee noted that, SMEs not only raised his consumption but also enabled him to support other expenses like paying school fees for his children, brothers, sisters and relatives. In other word, it can be seen that income from such enterprises is contributing to improve the human capital in the family through better access to health and education. Hence, increased income generated by MSE has a positive impact on household nutrition, shelter, clothing and social status.

In addition, MSE has also a remarkable role for women empowerment. It enabled women to generate their own income and asset base. They also become self-reliant as dependence on husband reduces. Hence, they are empowered and insulated against poverty and exclusion.

Moreover, MSEs are found to have contribution towards building social capital through work relations and linkage. The contact with financial institutions, co-workers and government offices creates social interaction. The owners and employees of MSEs asserted that their ability to influence political processes using decision making power is improved. Most of the owners and employees of MSEs stated that they have an opportunity to easily approach local government officials and actively participate in political, economic and other public affairs.

### *3.5. SWOT of Micro and Small Enterprises (MSEs)*

The SWOT analysis of MSEs in Ambo is important to identify the internal and external factors that contribute the success or failure of MSEs and to point out future intervention. There are criteria identified by the Ambo MSEs development office to show the success or failure of MSEs in the district. These indicators are employment growth (number of employees), book of records, asset bases, survival/stay in business and social network linkages.

#### 3.5.1. Strengths and Weaknesses

Strength and weakness focuses on internal factors of MSEs found in Ambo town. These are mostly under the control of the owners and managers. One of the strength found was that the majority of the owners of MSEs have education of at least high school level. They have completed vocational training, college and university level education. This may contribute a lot for the success of the MSEs.

Conversely, there are some weaknesses in the MSEs. The first is related with employee development. MSEs Owners did not encourage employee development via trainings. They fear of losing employee for a better pay job after well trained. The second gap is related business management skills. Operators/owners running the enterprises have limited capacity in terms of business attitudes, motivation, exposure, skills and experiences. Lack of experience in management, weak

entrepreneurial skills, and deficiencies in accounting, production management and business planning are the gaps indicated in this aspect. Thirdly, there is poor linkage between enterprises. This is because the majorities of MSEs in Ambo produce or give services of similar type in a limited market zone. This has resulted in crowdedness of the local market with similar products or services with low competitive edge.

### 3.5.2. Opportunities and Challenges

These are concerned with external factors such as business environment, financial and market institutions, government and social infrastructures. Amongst, the establishment of an organ responsible to the development of MSEs is a good opportunity. As explained by the trade and industry office representative *"MSEs have the privilege of tax exemption for the first 3 years although they have to get tax identification number (TIN) during licensing just to control & make SMEs learn the habit to pay tax after 3 years."* The MSE owners confirm this as the policy basically benefited them because they have time to learn and adapt to business environment.

However, MSEs in Ambo town face a wider range of constraints. The constraints that were repeatedly mentioned by the interviewees, key informants and FGD participants are discussed as follow:

- Institutional related problems: The owners and employees of the MSEs stated that bureaucratic registration requirements for licensing, high control, corruption and unfair tax were major problems. Due to the rigidity of processes in the district offices, there are no shortcuts and no ways to make things faster. This can be challenging to the MSEs as it may add time and cost of doing business. In addition, arbitrary and subjective tax system is also a mentioned bottleneck. According to the interviewees, since they didn't keep book records, they are prone to subjective taxation. This is line with Ageba and Amha (2004), who also noted high taxes as a major bottleneck for the growth and expansion of MSEs in Ethiopia.
- Access to finance: One of the difficulties for MSE in Ambo is obtaining finance. MFIs have not been able to adequately address the gap in terms of credit, savings and other financial services required by the MSEs in the district. Income levels, inadequate collateral security, difficult loan process procedures, high interest rate, value of initial capital, minimum balance requirements and locations were the constraints in finance. Distance/location, for example, limited number of easily accessible MFIs as people needs to travel long distance between their homes and the locations of the MFIs.

There are also other finance related challenges. For example, short loan repayment period is another challenge for MSEs in Ambo. The interviewees reported that they are asked to repay the loan before the investment brings profit. In addition the interest rate (13%) is difficult to meet the deadline. Another problem mentioned by the interviewees is the amount of dispersed loan from MFIs. The amount of loan from the MFIs is not enough to cover the cost of starting a business because of capital scarcity in the country. This has led to look for other financial sources such as money lenders although they require high interest. The problem of access to finance limits the expansion, choice of technology, hiring suitable premises and the employment of skilled personnel.

- Infrastructure: The infrastructure gap is another major impediment to MSEs in Ambo. The very important constraints are lack of basic infrastructures such as electricity, telecommunication, water pipes and roads. Physical infrastructures have their own effect on the operation of MSEs and their development. In Ambo town, there are little safe and affordable physical infrastructures. The MSE owners as well as key informants indicated that physical infrastructure facilities are not developed and expanded to meet the growing demand of MSE activities. They reported that they have problems related to business premises such as increase house rent, lack of basic services such as telephone, electricity, sewerage and water services.

## 4. Conclusion and Recommendation

MSEs Development is among the strategies of breaking poverty vicious circle. MSEs are the key for elevating poor people out of poverty. The government of Ethiopia gives due attention to MSEs for their potential of generating wealth and creating more jobs to majority of the low income people. International institutions such as World Bank and donor agencies also support these packages and strategies, because MSEs have a positive impact on secure and well-paying jobs. They also reduce inequality and bring economic growth.

Since MSEs are considered as a strategy for poverty alleviation, economic growth, employment and empowerment, range of services are being provided by the government which includes removing constraints, providing training and credit. In addition, the government devised a number of strategies such as infrastructure development, creating legal, institutional and policy environment to enhance MSEs development and growth.

The findings from this study indicate that MSEs in Ambo play a great role in different ways. Some of the benefits include employment, source of income, women empowerment and better access to education and health services. This indicates that the MSEs can play a great role to alleviate poverty and reduce unemployment. MSEs are also a basis for medium and large enterprises development. They play a strong role for developing a vibrant private sector.

Another benefit of MSEs found is that they take advantage of local resources, locational advantages using local raw materials, local skills and experience and catering to the local demand thereby avoiding transaction cost.



MSEs are important to reduce poverty by enabling the owner and employees to earn a long-term sustainable income for their families. Youths who get money from MSEs are more likely to set goals for their future, do better in school, and less likely to engage in risky behaviors. Hence, they have potential to improve livelihoods. The findings of the study has shown that there is a socio-economic improvement through employment creation, saving and income generation, developing entrepreneur's skills and knowledge, gender empowering, and changing many peoples' social issues. MSEs also provide low-cost goods and services used by the poor.

The MSEs have contribution in increasing tax base for the government which in turn enhances investment in pro-poor services such as health care, clean water and education.

On the other hand, it was found that inflation, increase in price of raw materials and transportation services and high competition from big enterprises were among the wider economic contexts, which affected establishment and operation of MSEs in Ambo. However, unemployment and high demand of their services and products were encouraging economic factors. The MSEs in Ambo were also operating in a diversity of ethnic, religion cultural and economic backgrounds.

By the environmental contexts of MSEs, It was found that the working conditions of the MSEs had no or inadequate access to drainage and sanitation. Their house was made from temporary materials located close to the asphalt road. As a result they are susceptible to the risk of fire and theft, although the asphalt road is important to marketing.

It is also seen that there are some formal and informal institution which are playing positive role through creating enabling environment, organizing MSEs, training and credit provision. Among these, Ambo MSE Development office, Ambo TVET and Oromia MFI are the main supportive. However, the interest rate and repay policies of Oromia MFI and the collateral policy of banks were found to be discouraging.

The study also reveals a number of weaknesses and constraints for enterprise development in Ambo. The weaknesses are those factors that are specific to the MSEs and to the owners and employees. The constraints refer to the non-supportive policy barriers and the environmental forces that are within the ambit of public policy, such as poor financial, irregularity and physical infrastructure. The levies and taxes by local authorities, high cost fuel, power and transportation also fall within this category. These constraints are hindering the enthusiasm with which MSEs owners take up their enterprise in the first place.

In other words, Micro and Small Enterprise in Ambo are confronted with several factors/challenges that affect their performance. The major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises, etc. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In addition there are also personal attitudes or internal factors that affect the performance of MSE, which are related to the person's individual attitude, training and technical know-how.

Therefore, it is recommended to have better business environment, motivating institutional and regulative frameworks, adequate infrastructure, and improved access to finance, training and consultancy services and market linkage are important for Ambo MSEs to prosper. The government role should be focused on providing the enabling environment, correcting market problems, constructing infrastructure and improving human development centers, which contribute for the sustainable MSEs growth and development.

In addition, though there is institutional collaboration between the organizations (MSE development office, MFI, TVT center, communication office, trade and industry office, women and youth affairs office and municipality), it was found that MSEs have poor horizontal as well as vertical linkage. Thus, it is better for the Ambo MSEs development office work on clustering MSEs in the district to strengthen their cooperation and linkage. This linkage of interconnected enterprises and associated institutions based on commonality and complementarity might create enabling business environment. Equally, public-private partnership for MSE development is also important.

Moreover, it is clear that MSEs have crucial role for the socio-economic development. Enabling policy environment is needed and hence the government should entertain policy supports to alleviate their constraints and build better circumstances for MSEs development. Experience shows that there is poor utilization of research outcomes. Researches can provide information on market, technology, credit, thereby improving performance of MSEs in Ambo. Thus the study recommends Ambo MSEs development office to work more on research.

Finally, it is noted the MSEs are better than larger enterprises in terms of local innovation and development. The MSE sector is characterized by highly diversified activities which can create job opportunities for a substantial segment of the population. Hence, the sector is a quick remedy for unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment, a direct intervention and support of the government is crucial.

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