

Challenges and Prospects of Small Enterprises in Ethiopia:

A Study of Entrepreneurs in Tigray Region

by

Mesfin Seyoum Kebede

Submitted in accordance with the requirements for

the degree of

DOCTOR OF PHILOSOPHY

in the Subject

DEVELOPMENT STUDIES

at the

University of South Africa

Supervisor: Professor Hennie Swanepoel

October 2015

Student number: 50781251

Declaration

I declare that the Challenges and Prospects of Small Enterprise in Ethiopia: A study of the Entrepreneurs in Tigray Region is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

A handwritten signature in blue ink, appearing to read 'Mesfin Seyoum Kebede'.

Signature

Mesfin Seyoum Kebede

16 October 2015

Date

Acknowledgements

First and for most, I owe special thanks to the Almighty God for His forgiveness, kindness and blessings that gave me life to this date and made all my journey successful. In fact, I would like to give all the praise to my saviour, Jesus Christ for his immense care and the success He has done in my entire life. Be glory and respect for Him now and forever.

This study has seen the light of the day due to the encouraging, scholarly and respectful advice of my advisor Prof. Hanny Swanepoel. His indispensable and invaluable advices have illuminated me through out the journey of this study. I am greatly indebted and eternally grateful for his painstaking and thorough reading of the multiple versions of my dissertation.

The study could not have reached its fruition point without the financial assistance of Mekelle University and the Ministry of Education in Ethiopia. I am, therefore, very much grateful for these institutions. I also want to express my appreciation and gratitude to all the staff members of Mekelle University who have all along been cooperative, helpful and cordial in this regard.

The completion of this study would not have been possible without the support of the Department of Development Studies, University of South Africa and its personnel both in South Africa and in Addis Ababa, Akaki Campus. In this regard, I would, therefore, like to extend my thanks for their support.

This PhD dissertation has been commented by many scholars among which Dr Abebe Ejigu (Associate professor), Derege Teklemariam (Assistant professor), Bihon Kassa (Assistant professor), Dr Aregawi G/michael (Assistant professor) and Mr. Desta Tamirat from Mekelle University, Ethiopia and Dr. Ali Hassen from Addis Ababa University are the major scholars. Their comments helped me shape the final version of my study in its present form. I am immensely grateful to all of them for their help in bringing this study to fruition.

In addition, I would like to thank the key editors, Dr. Ruth Scheepers, language specialist in the University of South Africa (UNISA), Dr. Fekre Gebrekidan, Dr. Yideg Alemayehu and Mr. Meles Mengesha all from the Department of Foreign Language in Mekelle University, Ethiopia for they have provided me critical corrections and comments that I reflected in this study. The aforementioned scholars have made the study much better in form and content than it would have been otherwise.

Mr. Gebrehiwot Hadush, Dean of the College of Law and Governance, Mr. Gosa Setu, Head of the Department of Civics and Ethics also deserve appreciation, as they were very pivotal in ameliorating the bureaucratic hurdles that I had to pass through in the completion of this dissertation.

I also wish to extend my gratitude to the officials and respondents from the small enterprise sectors in Adigrat and Mekelle for sharing their views on various issues and patiently participating in the focus group discussions, questionnaires and interviews and for giving me access to valuable data and information.

Last, but not least, my deepest indebtedness goes to my beloved wife, Enat kassaye, my daughters; Beza Mesfin, Bethel Mesfin and Kalkidan Mesfin for their comments to my study, moral support, patience and encouragement throughout the study period.

Abstract

The small enterprise has become a major sphere of interest for policy makers and donors. Despite the institutional and policy support, these enterprises have fallen short of expectations. This study is intended to fill the gap by exploring the challenges and prospects of the entrepreneurs in the small enterprise in general and specifically rate the challenges across each sector in Mekelle and Adigrat, Tigray Regional State of Ethiopia.

Generally, 154 samples of the small enterprise were selected using a stratified proportional random sampling technique, from which the required data were generated and analysed employing the descriptive and exploratory research design. In the first part, the characteristics and prospects of the entrepreneurs and the small enterprise are presented. The finding reveals that the gender of the entrepreneurs is dominated by and is in favour of male entrepreneurs when compared to that of their female counterparts.

The majority of respondents lack the relevant experiences and operate as sole proprietors. Furthermore, business plan is found out to be used only to meet the requirements of the financial institutions. The result also revealed that small enterprises are operated mainly by the owners of the business themselves and hence their contributions to employment and income generation for others is very limited.

Financial constraint is found out as a general challenge to entrepreneurs of the small enterprises. In addition, different constraints such as training, access to finance, market opportunities, policy and legal measures are examined and rated across different business types where each factors are found to affect small enterprises at a different rates. What is severe problem for one sector is found out to be not a problem when compared to other sectors. These imply that policies and support programs need to take in to account the heterogeneous nature of enterprises and entrepreneurs.

Overall, the result discloses a high failure rate of the small enterprises in the study sites and one can conclude that there is a lack of innovation from the side of entrepreneurs and a weak support from the government and other supporting institutions. In view of these, the researcher recommends an innovative support schemes to ameliorate and accelerate the growth of the small enterprises.

Key Words: small enterprise, growth and performance of small enterprises, challenges, prospects, entrepreneurs, entrepreneurship, Tigray, Ethiopia.

Table of Contents

Declaration.....	i
Acknowledgements.....	ii
Abstract.....	iv
List of Tables	xii
List of Figures	xiii
INTRODUCTION	1
1.1 Background to the Study	1
1.2 Statement of Problem	6
1.3 Objectives of the Study.....	9
1.3.1. General Objective.....	9
1.3.2 Specific Objectives	10
1.4 Significance of the Study	10
1.5 Scope and Limitations	11
1.6 Structure of the Thesis.....	11
1.7 Description of the Study Areas	12
1.7.1 Relative and Absolute Location of Study Sites.....	13
1.7.2 Population Size	14
1.7.3 Household Characteristics.....	14
1.7.3.1 Age and Gender Structure	15
1.7.3.2 Family size	15
1.7.3.3 Marital Status	16
1.7.3.4 Religion	16
1.7.4 Infrastructure and Transport Service.....	17
1.7.4.1 Road versus Transport.....	17
1.7.4.2 Water	18
1.7.4.3 Telecommunications	18
1.7.4.4 Electricity.....	19
1.7.4.5 Markets	19
1.7.5 Social Services.....	20
1.7.5.1 Education	20
1.7.5.2 Health.....	20
1.7.6 Employment Figures	21

1.7.7 Economic Activities	21
1.8 Conclusion	21
CHAPTER 2.....	24
REVIEW OF LITERATURE	24
2. Literature Review	24
2.1 Introduction.....	24
2.2 Entrepreneur and Entrepreneurship	24
2.3 An Overview of Small Enterprises	27
2.4 Definition of Small Enterprises.....	28
2.5 The National Small Enterprise Development Strategy in Ethiopia	31
2.6 Rationale for Small Enterprises' Growth and Development	33
2.7 Theories of Growth of Small Enterprises	35
2.8 Measurement of Small Enterprises' Growth	37
2.9 Demographic Characteristics of Entrepreneurs	38
2.9.1 Age.....	39
2.9.2 Gender	39
2.9.3 Formal Education	39
2.9.4 Previous Experience	40
2.9.5 Religion of Entrepreneurs.....	40
2.10 Characteristics of Small Enterprises.....	41
2.10.1 Age of the Business	41
2.10.2 Size of the Business.....	41
2.10.3 Legal Form of the Business.....	42
2.10.4 Location.....	42
2.10.5 Small Entrepreneurs with a Business Plan.....	43
2.11 Challenges to Small Enterprises.....	43
2.11.1 Financial Challenges	45
2.11.2 Business Development Services	48
2.11.3 Marketing Challenges.....	48
2.11.4 Working Location Challenges.....	49

2.11.5 Technology Related Challenges.....	50
2.11.6 Policy Related Challenges.....	50
2.11.7 Institutional Linkage Challenges.....	52
2.12 Theoretical Framework.....	53
2.12.1 I/O Model.....	53
2.12.2 The Resource-Based Model.....	53
2.13 Studies of Small Enterprise in Developing Countries	55
2.14 Previous Research on Small Enterprises in Ethiopia.....	56
2.15 Previous Research on Small Enterprises in Tigray Region	58
2.16 Socio-Political Context of Small Enterprise in Ethiopia	60
2.17 Conclusion.....	71
CHAPTER 3.....	72
RESEARCH METHODOLOGY.....	72
3.1 Introduction.....	72
3.2 Types of Research	72
3.3 Data Types	73
3.4 Sampling Procedures and Sample Size	73
3.5 Method of Data Collection	79
3.5.1 Primary Data	79
3.5.1.1 Structured Questionnaires	80
3.5.1.2 Pilot Survey.....	82
3.5.1.3 Face-to-face Interviews.....	82
3.5.1.4 In-depth Interviews.....	83
3.5.1.5 Observation.....	83
3.5.1.6 Focus Group Discussions (FGD)	85
3.5.2 Secondary Data.....	86
3.5.3 Methods of Data Analysis.....	87
3.5.4 Ethical Considerations.....	88
3.5.5 Conclusion.....	89
CHAPTER 4.....	91
DATA PRESENTATION, ANALYSIS AND INTERPRETATION	91
4.1 Introduction.....	91

4.2 Demographic Characteristics and Prospects of Entrepreneurs	91
4.2.1 Age and Education	92
4.2.2 Gender Composition of Small Enterprises	95
4.2.3 Revenue Change and Prospects by Gender of the Respondents	99
4.2.4 Marital Status of the Entrepreneurs	101
4.2.5 Revenue Change and Prospects by Marital Status	103
4.2.6 Religion of Entrepreneurs.....	106
4.2.7 Entrepreneurs' Family Background	108
4.2.9 Status of Small Business Operators.....	112
4.3 Characteristics and Prospects of Small Enterprises	114
4.3.1 Engagement of Entrepreneurs in Small Enterprises.....	114
4.3.2 Sectors' Revenue Change and their Prospects.....	116
4.3.3 Legal Forms of Business Organisations	119
4.3.4 Revenue Changes by Legal Status of Small Enterprises	121
4.3.5 Age of Small Enterprises	123
4.3.6 Small enterprises with a Business Plan.....	125
4.3.7 The Use of Commercial Media	126
4.3.8 Growth of Small Enterprises Measured by Employment Increase.....	129
4.3.9 Suitability of Operating Locations	131
4.4 Challenges and Prospects of Small Enterprises	134
4.4.1 Challenges Related to Finance	134
4.4.2 Source of Start-up and Expansion Capital	136
4.4.3 The Adequacy of the Amount of Credit	141
4.4.4 Reasons for Failure in Securing Credit from Formal Financial	142
Institutions	142
4.4.5 Ownership of Business Premises.....	144
4.4.6 Market Linkages of Small Enterprises	147
4.4.7 Training Related Challenges	149
4.5 Conclusion	154

CHAPTER 5.....	157
RATING CHALLENGES ACROSS SMALL ENTERPRISES	157
5.1 Introduction.....	157
5.2 Rating Financial Challenges across Small Enterprises.....	157
5.3 Rating Market Challenges across Small Enterprises.....	162
5.4 Rating Linkage Challenges across Small Enterprises	165
5.5 Rating Policy Challenges across Small Enterprises	168
5.6 Conclusion.....	173
CHAPTER 6.....	174
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	174
6.1 Introduction.....	174
6.2 Summary and Conclusion.....	174
6.2.1 Demographic Characteristics and Entrepreneurs' Prospects	174
6.2.1.1 Age.....	175
6.2.1.2 Level of Education.....	175
6.2.1.3 Gender Composition of Small Enterprises	176
6.2.1.4 Revenue Prospects by Gender	176
6.2.1.5 Marital Status and Revenue Prospects	177
6.2.1.6 Entrepreneurs' Family Background.....	177
6.2.1.7 Entrepreneurs' Previous Occupations.....	178
6.2.1.8 Status of Small Business Operators.....	178
6.2.2 Characteristics and Prospects of Small Enterprises.....	179
6.2.2.1 Engagement of Entrepreneurs in Small Enterprises	179
6.2.2.2 Sectors' Revenue Change and their Prospects	180
6.2.2.3 Legal Forms of Business Organisations.....	180
6.2.2.4 Revenue Changes by Legal Forms of Small Enterprises.....	181
6.2.2.5 Age of Small Enterprises.....	181
6.2.2.6 Suitability of Operating Locations.....	182
6.2.2.7 Entrepreneurs with a Business Plan	182
6.2.2.8 Use of Commercial Media	183
6.2.3 Growth of Small Enterprises in Terms of Employment Increase	183
6.2.4 Challenges to Small Enterprises	184
6.2.4.1 Access to Credit.....	184
6.2.4.2 Source of Start-up and Expansion Capital	184
6.2.4.3 Adequacy of the Amount of Credit	185

6.2.4.4 Reasons for Credit Failure from Formal Financial Institutions ----	186
6.2.4.5 Ownership of Workplace and Sales Outlet.....	186
6.2.4.6 Market Linkages.....	187
6.2.4.7 Training Related Challenges.....	187
6.2.5 Rating Challenges across Small Enterprises.....	188
6.2.5.1 Finance Related Challenges.....	188
6.2.5.1.1 Interest Rate.....	188
6.2.5.1.2 Working Capital.....	188
6.2.5.1.3 High Collateral Requirements.....	188
6.2.5.1.4 Tax Burden.....	189
6.2.5.1.5 Complexity of Loan Procedures.....	189
6.2.5.2 Market Related Challenges.....	189
6.2.5.2.1 Market Information.....	189
6.2.5.2.2 Inadequate Input Supply.....	190
6.2.5.2.3 Marketing Skills.....	190
6.2.5.2.4 Market Opportunity Creation.....	190
6.2.5.3 Linkage Problems of Small Enterprises.....	191
6.2.5.3.1 Linkage with Research Organisations.....	191
6.2.5.3.2 Linkage among Small Enterprises.....	191
6.2.5.3.3 Linkage with Government Institutions.....	191
6.2.5.3.4 Linkages with Customers.....	192
6.2.5.4 Policy and Legal Challenges.....	192
6.2.5.4.1 Business Registration and Licensing.....	192
6.2.5.4.2 Lack of Encouraging Government Policy.....	192
6.2.5.4.3 Rules and Regulations of the Government.....	193
6.3 Recommendations.....	194
6.3.1 Education of Entrepreneurs.....	194
6.3.2 Experience of Entrepreneurs.....	194
6.3.3 Women Entrepreneurs.....	195
6.3.4 Access to Credit.....	195
6.3.5 Infrastructure and Government Institutions.....	196
6.3.6 Marketing.....	196
6.3.7 Policy Measures.....	197
6.3.8 Future Research Areas.....	198
BIBLIOGRAPHY.....	199
ANNEX-----	212

List of Tables

Table 2.1: Classification of Small Enterprises	31
Table 3.1: Type and Number of Small Enterprises in Kaddamay-Wayyane	78
Table 3.2: Proportionate and Randomly Selected Samples in Kaddamay	78
Table 3.3: Type and the Number of Small Enterprises in Adigrat	79
Table 3.4: Proportionate and Randomly Selected Samples in Adigrat	79
Table 4.1: Revenue Change and Prospects by Gender of Respondents.....	99
Table 4.2: Revenue Changes and Prospects by Gender in Each Study Site....	100
Table 4.3: Revenue Change and Prospects by Marital Status.....	104
Table 4.4: Revenue Change and Prospects by Marital Status by Study Site....	105
Table 4.5: Sectors' Revenue Change and Prospects	117
Table 4.6: Sectors' Revenue Change and Prospects in Each Study Site	118
Table 4.7: Revenue Changes by Legal Status of Small Enterprises.....	121
Table 4.8: Revenue Changes by Legal Forms of Small Enterprises in Study Sites	123
Table 4.9: Age of Small Enterprises.....	124
Table 4.10: Commercial Media Used by Survey Respondents.....	127
Table 4.11: Commercial Media Used by Respondents by Study Site.....	129
Table 4.12: Growth of Small Enterprises Measured by Employment.....	130
Table 4.13: Suitability of Operating Locations.....	132
Table 4.14: Suitability of Operating Locations in Each Study Site	133
Table 4.15: Training Related Challenges.....	150
Table 4.16: Training Related Challenges in Each Study Site.....	153
Table 5.1: Rating Financial Challenges across Small Enterprises.....	158
Table 5.2: Rating Market Challenges across Small Enterprises	163
Table 5.3: Rating Linkage Challenges across Small Enterprises.....	165
Table 5.4: Rating Policy Challenges across Small Enterprises.....	169

List of Figures

Figure 1.1: Location Map of Tigray and Ethiopia	13
Figure 4.1: Gender Composition of Small Enterprises in Study Sites	95
Figure 4.2: Gender Composition of Small Enterprises in each Study Site	97
Figure 4.3: Marital Status of Entrepreneurs	102
Figure 4.4: Marital Status of Entrepreneurs in Each Study Site	103
Figure 4.5: Religion of Entrepreneurs	106
Figure 4.6: Religion of Entrepreneurs by Study Site	107
Figure 4.7: Entrepreneurs' Family Background.....	108
Figure 4.8: Entrepreneurs' Family Background by Study Site.....	109
Figure 4.9: Status of Small Business Operators	112
Figure 4.10: Status of Small Business Operators by Study Site	113
Figure 4.11: Engagement of Entrepreneurs in Small Enterprises	114
Figure 4.12: Engagement of Entrepreneurs in Small Enterprises	115
Figure 4.13: Legal Forms of Business Organisations	119
Figure 4.14: Legal Forms of Business Organisation in Each Study Site	120
Figure 4.15: Small enterprises with Business Plan	125
Figure 4.16: Small Enterprises with Business Plan by Study Site.....	126
Figure 4.17: Credit Access by Entrepreneurs	134
Figure 4.18: Credit Access by Entrepreneurs by Study Site	135
Figure 4.19: Source of Start-up and Expansion Capital.....	136
Figure 4.20: Source of Start-up and Expansion Capital in Each Study Site.....	139
Figure 4.21: Adequacy of the Amount of Credit	141
Figure 4.22: Adequacy of the Amount of Credit in Each Study Site.....	142
Figure 4.23: Reasons for Credit Failure	143
Figure 4.24: Reasons for Credit Failure in Each Study Site.....	144
Figure 4.25: Possession of the Working Locations	145
Figure 4.26: Ownership of Workplace in Study Sites.....	146
Figure 4.27: Market Linkage of Small Enterprises	148
Figure 4.28: Market Linkages of Small Enterprises in Each Study Site	149

CHAPTER 1

INTRODUCTION

In this part of the thesis, the background to the study is provided. The research problem, research objectives, significance, scope and limitations, structure and description of the study sites are discussed

1.1 Background to the Study

Policy makers and donors have increasingly recognised the roles of small enterprises in creating employment and income generation with the dual objective of enhancing economic growth and sustainable development (Beck and Levine 2003: 102–104; Evans 1987: 120–127; Everett and Watson 1998: 69–74) According to Kimuyu (2004: 66–71),

Small enterprises have shown great resilience during the time of crisis. They have also proved to be a dependable source of employment by creating opportunities at relatively low capital cost.

Recently, a policy shift toward the private sector has occurred in many developing countries and in this context the role of entrepreneurs in small enterprises as seedbeds for large-scale entrepreneurship is receiving greater recognition (Abdullah and Baker 2000: 134–136; Eshetu and Eleke 2008: 3–8; Sleuwaegen and Goedhuys 2002: 65–66). Increasing concern about the need to achieve high growth that is shared and that encourages human development, has given a new focus to the development of the sector (Hailey 1987: 201–209; World Bank 2004: 290–300). This is because small enterprises tend to develop in different regions of the country, contributing to the reduction in the concentration of enterprises in urban areas and promoting balanced economic growth.

Moreover, Muma (2002: 2–5) and Solymossy and Penna (2000: 43–48) argue that small enterprises have proved to be efficient and dynamic in countries where they have been given the opportunity to develop and access appropriate support. For instance, in pre-World War II Japan, the country was dependent on small enterprises for its competitiveness. After the war, however, it gradually became modernised, raising and establishing complementary linkages to large enterprises (Gebrehiwot 2006: 12–13). These sectors have also played a dynamic role in the industrialisation efforts of China and Taiwan (Goedhuys 2002: 87–88; Luetkenhorst 2004: 98–120; Schramm 2004: 76–81).

Taiwan grew fast by following the divergent path taken by Japan and Italy, relying heavily on the niche and flexible specialisation strategies devised by its small- and medium-scale industries (Audretsch 2005: 8; Harabi 2003: 92–100). The growth of small enterprises can deepen the manufacturing sector and foster competitiveness in addition to promoting a more equitable distribution of the benefits of economic growth. Furthermore, it alleviates some of the problems associated with uneven income distribution (Andualem 1997: 201–213; Jennings and Beaver 1997: 43–51; Schramm 2004: 18–20).

With increased urban population dynamics in Sub-Saharan Africa, the importance of small enterprises is also growing (Birley and Westhead 1990:10–12; Goedhuys 2002: 48–54). The fact that there are rapid rural-urban migrations and that urban centres are proving inadequate in absorbing these migrants, makes the sector important in providing employment opportunities (Gebrehiwot and Welday 2004: 117–21; Audretsch 2005: 53–54; Zewde 2002: 77–80).

In Ethiopia, public policy concerns for the development of small enterprises extend as far back as the Axumite Empire around the first century A.D. Gurmeet and Rakesh (2008: 105–108) argue that the Axumite Empire caused the fastest growth of ancient household enterprises when it started minting its own gold,

silver and bronze coins in the second century, using these to purchase raw materials and professional services from these private organisations.

According to Mulu (2009: 66), the first imperial policy giving attention to the small enterprises of the Ethiopian economy came much later, after 1855, through the ascendancy of the progressive leader of the period, Emperor Theodros II (1855–1867). The emperor understood the significance of the private business sectors from his comparative understanding of Europe’s considerable advancement. However, Emperor Theodros’ policy failed to bring his ambitions to fruition (Taye 1998: 111; Mulatu 2005: 43–44).

Emperor Minilk came to the throne (1888/9–1913) following the death of Emperor Yohannes IV (1870–1887), who had had no clear record of small enterprise development policy. Because of the absence of institutional and public policy support, Minilk’s attempts also failed to bring either value or sectoral transformation (Belay 2000: 98–99; Mulugeta 2010:123).

During Emperor Haile Selassie’s rule (1935–1974), the sector practised policy marginalisation resulting from the drastic shift in the government’s stance towards socioeconomic modernisation. According to CSA (1991: 45–56) and Desta (2010: 33–46), there were about 400 enterprises during this period, including both small and medium and a few large-scale enterprises. Later, the “Handicrafts Association Proclamation–1961” was established that made way for the creation of a few associations, although these were not successful because of the lack of committed policy support (Kawai and Urata 2001: 67; Negash and Kena 2003: 197–207).

After the 1974 revolution and the introduction of socialism, the government of the Dergue (1974–1991) issued a proclamation in 1978 establishing a public office for coordinating the organisation of “Handicrafts Producers Cooperatives” (Gebrehiot and Welday 2004: 21; Assefa 1997: 43–44). In 1977, the government

established the Handicraft and Small-scale Industries Development Agency (HASIDA) to regulate the activities of small enterprises and to conduct promotional activities (MoTI 1997: 60–62; Negash and Kena 2003: 302–312; Wole 2004: 135–149). In this way, the Dergue regime established a new policy guideline, with a particular emphasis on small enterprise industries, which were revolutionary in the Ethiopian context at that time (Mulatu 2005: 159–165; Zewde 2002: 260). However, the cooperation practices of the Dergue regime were based on coercion and politicisation of the associations, and compounded by rampant national instabilities the efforts ended in a complete policy failure (Johnson et al. 1999: 102–106; Mead et al. 1998: 381–392).

Since 1991, the Government of the Federal Democratic Republic of Ethiopia has recognised the promotion and development of small enterprises as important vehicles in addressing the challenges of unemployment, economic growth and equity. This sector is also accepted as the basis for medium and large-scale enterprises (Gebeyehu and Assefa 2004: 28–30; Goedhuys 2002: 111–113; Mulatu 2005: 5–8). In November 1997, the Ethiopian Ministry of Trade and Industry (MoTI) published the Micro and Small Enterprises Development Strategy (MSEDS), which initiates systematic approaches to alleviate problems and promote the growth of small enterprises (MoTI 1997: 40–52).

According to this policy document, elements of the programme include measures to create an enabling legal framework and to streamline regulatory conditions that promote the expansion and evolution of existing and new small enterprises. The specific support programmes include measures related to facilitating access to finance and training, appropriate technology, access to counselling and infrastructure and institutional strengthening of the private sector and chamber of commerce (Eshetu and Eleke 2008: 86–87; Negash and Kena 2003: 33–46).

The Government of the Federal Democratic Republic of Ethiopia has earmarked the sector as an instrument to bring about economic transition by effectively

using the skills and talents of the people. Particular interest has been paid to the process of expansion of small enterprises into medium and larger sized enterprises to a point at which their contribution to the socio-economic growth of the country has increased (Gebrehiwot 2006: 19–25; Mazzarol, Volery, Doss and Thein 2005: 7–12).

Following the publication of the Micro and Small Enterprises Development Strategic document, the Federal Government of Ethiopia set up the Federal Micro and Small Enterprise Development Agency (FeMSEDA) (Desta 2010: 85–86). The regional states have also developed micro and small enterprise promotion strategies based on their context and in tandem with the FeMSEDS, to facilitate the implementation of these strategies (Gebrehiwot and Welday 2004: 21–23; Zewde 2002: 78–81).

Similar developments have been taking place in the Tigray Region. The Tigray Micro and Small Enterprises Development Agency (TMSEDA) have taken several measures to support the micro and small enterprise sectors. The agency has expanded its structure down to district level to reach the majority of the people (Gebrehiwot and Welday 2004: 303–306; TMSEDA 2001: 12–20). In addition, it has established a network forum with major stakeholders including chambers of commerce, micro financial institutions, municipalities and other government organisations.

According to the current Ethiopian Growth and Transformation Plan (GTP) document, the government seeks to consolidate the positive development outcomes attained over the last two decades and to bring about the broad-based structural changes needed to steer the economy on a rapid growth path towards becoming a middle income country by 2015 (GTP 2010: 56–59).

1.2 Statement of Problem

There is consensus among developed and developing countries that small enterprises can become effective creators of employment, innovation and income generation. Moreover, they can drive economic growth and thus play a crucial role in the fight against poverty (Andreff and Dominique 2001: 278–289; Beck and Levine 2003: 4352; Belay 2000: 123–135; Dockel and Ligthelm 2005: 54–62). For instance, in Barbados there are approximately 6000 small enterprises and they account for approximately 80% of all business activities on the island (Andreff and Dominique 2001: 76–82).

In Sub-Saharan Africa, the sector is important in urban economic activities, particularly in the provision of urban employment and income generation (Harding 2002: 191–112; Liedholm 2001: 126–137). The Ethiopian Government has also focused on the expansion of small enterprises and their growth into medium and large enterprises (Abdullah and Baker 2000: 53–67; CSA 2003: 82–89; MoTI 1997: 5–13).

Evidence suggests that although small enterprises have contributed their share, it is the development of medium-sized enterprises that has played a major role in the growth and development of all the leading economies in Asian countries (Cunningham, Wendy and Maloney 2001: 260–203). The Asian experience shows that medium-sized enterprises have a high propensity to apply technologies and training and to serve specialised niche markets (Watson and Everett 1999: 123–129).

Despite the apparent significance and the numerous policy initiatives introduced by African governments to accelerate the growth and survival of small enterprises, their performance has remained disappointing as their mortality and liquidation rates are very high (Gebeyehu and Assefa 2004: 129–130). For example, in his study of five African countries, Beaver (2002: 54–55) found that

most firms started with one to four employees and never expanded. In their studies of 116 firms in Nigeria over a 30-year period, Smallbone and Welter (2001a: 43–46) found that only two of the 21 firms with fewer than ten employees originally had graduated to larger staff numbers.

Regardless of the anticipated contributions of small enterprises to economic vitality, failure and bankruptcy has plagued these enterprises in most Sub-Saharan countries (Eshetu and Eleke 2008: 213). According to Timmons and Spinelli (2004: 204), lack of business skills, limited access to finance and unfavourable economic climate are the most serious causes of bankruptcy among small enterprises.

Daniel (2007: 89); Variyam and Kraybill (1994: 568–575) and Wolday (1997: 123) also argue that although many programmes designed to assist small businesses have been launched in Sub-Saharan countries through cooperative services, micro finance institutions, product and market development, these programmes have failed to bring about continuous growth and development of small enterprises. This is because small-sized enterprises are particularly vulnerable to bankruptcy, arising from problems related to business and managerial skills and access to finance and macroeconomic policy (Craig, Jackson and Thomson 2007: 102–115).

Hallberg (1999: 6) and Harding (2002: 91–93) reported in their study of 214 small enterprises in the Northern Region of Nigeria over an eight-year period that only four had grown into medium-sized firms. Moreover, in a study conducted over 30 years among small enterprises in selected African countries, Harabi (2003: 100–102) and Dockel and Ligthelm (2005: 24–26) found that half of all small enterprises did not survive beyond half a century. Unfortunately, this rate of failure also affects older small enterprises. Statistics in Ethiopia such as CSA (2003: 87–90) indicate that three out of five small businesses fail within the first few months of their operations and there are no robust or dynamic medium-sized

enterprises. Assefa (1997: 128–131) and Andreff and Dominique (2001: 46–48) argue that most small enterprises are either in liquidation or only bordering on survival.

A study by Belay (2000:2–7) found that 98% of business firms in Ethiopia were micro and small enterprises, 33% of which were small enterprises, with only 2% represented by middle and large scale industries. This suggests that small enterprises find it difficult to grow into the next stage where they can be more efficient and develop a global chain of production. Furthermore, the contributions of middle and the large-scale industries to the national economy is about 96.6% of the GDP, which amounts to 67% of the industrial sector's contribution to the GDP of the same year (Gebrehiwot 2006: 66–69; Dereje 2008: 92). This means that small enterprises contribute less to the industrial sector and to the nationwide economy in general.

These findings reflect that although the roles of small enterprises in the overall national welfare are assumed to be substantial, their contribution to the industrial sector in particular and to the national GDP in general is not significant. In other words, the growth of small enterprises is still in its infancy and requires special attention from government and other concerned bodies.

Furthermore, a survey by the Central Statistical Authority of Ethiopia (CSA 1997: 7–13) indicated that their growing role and the contribution that small enterprises could make to the national economy were largely constrained by various policies, structural and institutional related problems and bottlenecks. A study by Welday and Gebrehiwot (2004: 123–132) in Ethiopia also found that factors that constrained the growth and performance of small enterprises included limited access to finance, market and business development services (BDS), unsatisfactory working premises, unfavourable policy environments and an absence of institutional linkages.

There is growing recognition among concerned bodies that there is an imperative to address specific problems facing small enterprises in ways that are compatible with the general direction of the industrial and macroeconomic policy of the country (Andreff and Dominique 2001: 90–93; Chen 2005: 94–101; Harabi 2003: 202–209; Wole 2004: 53–60). This could be a positive move towards the establishment of a critical mass of domestic enterprises on the middle and large scale, domestically and internationally competitive and capable of penetrating global chains of production.

The few available studies that have dealt with the challenges facing entrepreneurs in small enterprises in Ethiopia, particularly in the study area reported on in this thesis, are general and scanty, despite the fact that small enterprises in different sectors face challenges of varying magnitude. Hence, this study investigated and rated the critical challenges that specifically affect each sector's performance. This is of considerable importance as challenges that affect the performance of the particular business operator in the trade sector, for instance, may not equally affect the performance of business operators in the service, manufacturing or construction sectors. The study employed a descriptive and exploratory research design.

1.3 Objectives of the Study

The objectives of the study are explained under its general and specific details as follows.

1.3.1. General Objective

The general objective was to describe and analyse the challenges and prospects of the entrepreneurs in small enterprises found in Mekelle and Adigrat, in the Tigray region of Ethiopia.

1.3.2 Specific Objectives

Based on the general objective of the study, the specific objectives were:

1. To describe and compare the major characteristics and prospects of entrepreneurs in small enterprises of the study sites in the Tigray region of Ethiopia
2. To describe and compare the characteristics and prospects of the small enterprises in the study sites
3. To analyse, describe and compare the general difficulties and prospects of small enterprises
4. To examine and compare the growth and prospects of the small enterprises in terms of employment creation
5. To assess and rate the various challenges facing the sectors of small enterprise in the study sites.

1.4 Significance of the Study

This study is significant in that it examines and describes the difficulties and prospects of entrepreneurs running small enterprises. Specifically, it identifies sector-specific growth constraints and, in doing so, aims to assist the government and other stakeholders in their efforts to promote the growth and expansion of small enterprises by employing different strategies in the various sectors.

In addition, the study provides significant information and evidence to entrepreneurs themselves, as well as to policy makers, donors and other interested agencies. It is hoped that this will aid them in their efforts to promote the growth of small enterprises and to reduce absolute poverty, unemployment and high-income imbalances by helping them to underpin this assistance with proper policy and appropriate strategies for timely interventions. It is hoped that the findings of this study will be important additions to existing knowledge and literature on this subject.

Furthermore, the study could serve as a stepping-stone for academicians and consultants who may be focusing on similar topics and issues, particularly the challenges facing entrepreneurs and their prospects in small enterprises.

The study is also significant as it recommends some practical measures to overcome the constraints facing small businesses, thus enabling them to play a key role in the reduction of absolute poverty and in the industrialisation efforts made by the country at large.

1.5 Scope and Limitations

The scope of the study was limited to an analysis of the challenges facing small enterprises and their prospects in Tigray region, using a descriptive and qualitative research design. Furthermore, Mekelle and Adigrat, as the study locations, were chosen as they are centres of an agglomeration of business activities and are the chief cities in the region. It should also be mentioned that financial constraints and a lack of organised and relevant recorded data were among some of the limiting factors in this study.

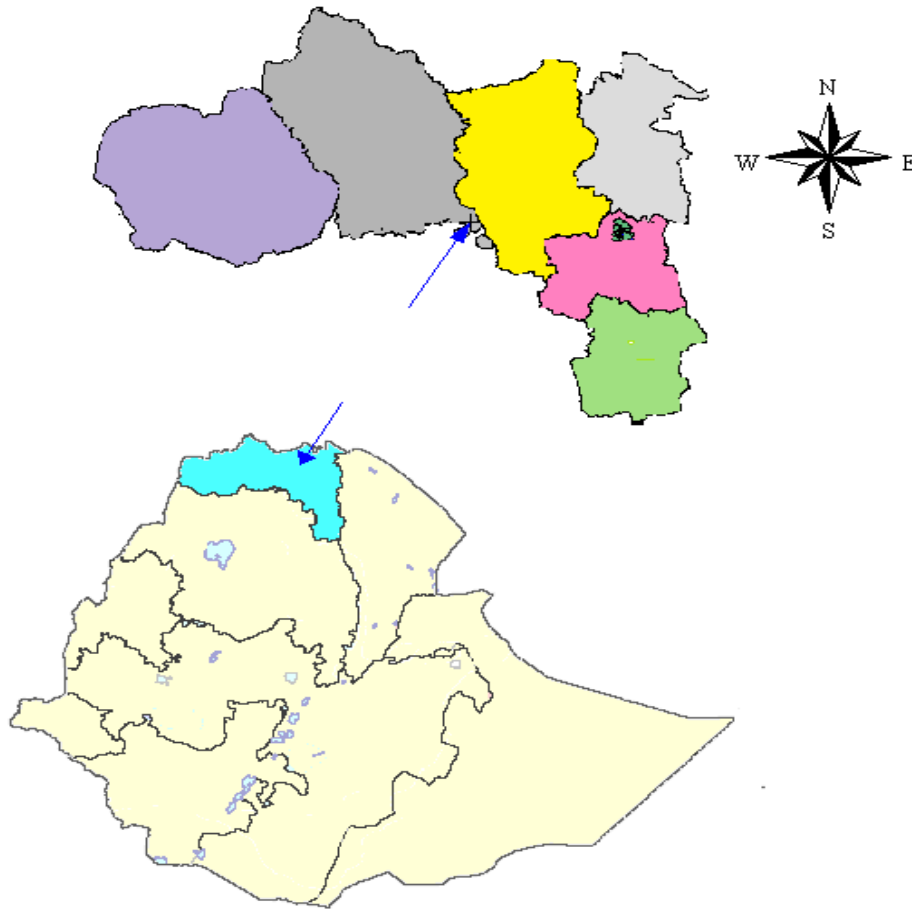
1.6 Structure of the Thesis

This thesis is divided into six chapters. Chapter one contains the background, statement of problems, objectives and significance of the study, including the research scope and limitations. The second chapter presents a review of relevant literature, both published and unpublished. Chapter three focuses on methodological issues; the research design, techniques of sampling, tools of data collection and the method of data analysis. Chapter four concerns the analysis and interpretation of the data through descriptive statistics, tables and charts. The fifth chapter examines sector-specific constraints by rating general challenges across small enterprises in all sectors. Finally, Chapter six provides conclusions and recommendations based on the findings and interpretations of the data.

1.7 Description of the Study Areas

Tigray is bordered on its western side by Sudan, by Afar, a Regional State of Ethiopia on its eastern border, by Eritrea on its northern border and by Amhara, a Regional State of Ethiopia, on its southern border. According to the TBOTTI report (2007: 18), the geographical area of Tigray is 53,638 m² while its elevation is between 500 and 3,935 metres above sea level. The total population figure of Tigray is 4,316,988. Of this, urban inhabitants make up 844,040 (19.55%) while rural inhabitants constitute 3,472,948 (80.45%). The economically active urban population numbers 322,252 while in rural areas this figure is 1,647,455. According to the Tigray Bureau of Finance and Economic Development (TBoFED), 1,855,560 economically active people currently live in the Tigray region (TBoFED 2006: 18).

Figure 1.1: Location Map of Tigray and Ethiopia



Source: TBoFED 2006:7

1.7.1 Relative and Absolute Location of Study Sites

Mekelle, the capital city of the National Regional State of Tigray, is located 783 km north of Addis Ababa. On the eastern side, the Enda-Eyesus ridges form the highest peaks of the city. The city has four major landforms: flat to gently sloping, gently sloping to rolling, sloping to moderately steep and steep to very steeply sloping areas.

Adigrat, a city to the north of Mekelle, was founded in 1916. It is located in the northern highlands of Ethiopia, covering an area of 19.32 km² and at a distance of 120 km from Mekelle. The city is just 35 km south of the border with Eritrea.

1.7.2 Population Size

Mekelle is one of the most densely populated cities in Ethiopia as a result of the influx of migrants from surrounding rural and urban areas. According to the CSA (2007: 23), Mekelle has a population of 230,000, where 50.2% are female and 49.8% male. The population increment of Mekelle reaches 5% per annum and in most cases, migration is the reason for this increment (TBoFED 2006: 13). Its residential homes and other infrastructural development are also increasing as the population grows.

Adigrat has a population of more than 69,000, where 29,573 are male and 35,904 female. Small-scale merchants, civil servants and daily labourers predominate (CSA 2007: 42; Negash and Kena 2003: 28).

At the time of its foundation in 1872 by Atse Yohannes the IV, Mekelle was relatively equivalent to a village (TMSEDA 2006: 7). According to a CSA report (1991: 18–19), the city had a total land area of 16 km² in 1984. By 1994, its size had reached 23.04 km². The city had extended over an area of 53 km² by 2004 and 74 km² by 2005. By 2013, its size was 130 km². After 141 years, Mekelle looks like any large city and has swallowed up many small villages and towns surrounding the palace at its centre.

Adigrat has also shown a rapid expansion in terms of area coverage and has reached 18.77 km². The expansion of the city reflects the growing number of socio-economic transactions and investments that have increased the demand for land (TMSEA 2001:17).

1.7.3 Household Characteristics

Household characteristics such as age, gender, family size including marital status and religion is discussed in more details as follows.

1.7.3.1 Age and Gender Structure

Mekelle has a high proportion of young people and fewer older inhabitants (CSA 2007: 34–35). This report further reveals that 41% of the population are young, below 15 years of age, while 55.41 % of the population falls into the age range of 15–49. The remaining 3.6% of the population are between 49 and 65 years of age. The percentage of the population of 65 years of age and above is 3.6%. This means that the dependency ratio is 80 (CSA 2007: 32). In other words, this age structure has a negative impact on the rate of saving, capital formation and investments as what is produced by a small proportion of the population is consumed by a relatively large portion of the population.

All persons in the so-called employed group may not actually be engaged in an economic activity and all persons outside this will not necessarily be dependent. However, according to TBoFED (2006: 21), the ratio of persons in the dependent age groups to those of working age provides a useful approximation of the economic dependency burden. Mekelle's younger urban population (<15 years) is greater than the National Urban Statistics, i.e. 35.1% of the total population. This suggests that there is a high fertility rate and a high proportion of dependents in the city.

In Adigrat, the census revealed that more than 50% of people 10 years of age and above were not economically active. This reflects the existence of a high dependency ratio in the city. Nearly 30% of the population who could work are unemployed, which further deepens the problem of the dependency ratio (CSA 2007: 22).

1.7.3.2 Family size

Most studies have used household size and distribution of persons per household as a proxy measure for density of a population (Gebrehiwot and Welday 2006: 80; Mulu 2009: 101; Liedholm 1998: 102). In pre-industrial

societies, family size tended to be larger than in present day industrial societies, not only because of the high fertility rates but also because of the extended family system (CSA 1991: 21). According to Daniel (2007: 15), of 1,598 household units/7,883 individuals in his study, only 6.7% indicated one person per household while 55% of the households comprised from four to seven members, indicating that the extended family system prevailed in the city.

1.7.3.3 Marital Status

According to CSA (1991: 14), the percentage of a population that is married increases as age advances, reaching its maximum value in the age group of 35 to 39 years. When one considers gender differences in Mekelle, CSA (2007: 35) points out that the percentage of young married women (<34) is greater than that of men and the percentage of married men is higher among those older than 35 years. In the age group 20 to 24 years, 25.99% of males and 22.56% of females remained single. In the age group 30 to 34 years, only 5.39% of males and 2.37% of females remained single. In Adigrat, the number of widowed people increased with age and the percentage of widowed women was greater than that of men (CSA 1991: 7–8). Furthermore, in the age group 15 to 39 years, the number of divorced men was greater than that of divorced women and ranged from 4.44% (in the age group of 15 to 19 years) to 15.56%.

1.7.3.4 Religion

Religion is an important socio-cultural characteristic, referring to an affiliation with a group with specific religious and spiritual tenets (Weber 1905: 54). According to CSA (2007: 37), religion in Mekelle can be categorised as Orthodox Christian, Protestant, Catholic or Muslim, with the majority of the population (90.65%) being Orthodox Christian. Muslims rank second at 8.93% and the remaining 0.36% and 0.06% are Catholic and Protestant Christian followers respectively (CSA 1991:

25). In Adigrat, the proportion of Protestants is insignificant, with the majority of the populations being Orthodox Christians or Muslims.

1.7.4 Infrastructure and Transport Service

1.7.4.1 Road versus Transport

The total extent of asphalted roads within Mekelle currently measures about 40 km, representing only 31.25 % of the total 128 km required. According to Dereje (2008: 23), the remaining roads are poorly laid out and made up of poorly maintained gravel. Mekelle, as a capital city of the region, is the centre of transportation services, with vehicles leaving for as many as 21 different parts of the country. There are about 500 taxis, which can legally carry up to 11 people at a time, and the ratio of taxis to population is 1:703 (TMSEA 2001: 32). On average, these taxis provide a transport service to an estimated 3,000 persons a day.

In Adigrat, asphalted roads are limited and make up only 15 km in the city (TBOTTI 2007: 29). The remaining roads, according to TBoFED (2006: 23), are 13.28 km of gravel, 18 km of cobblestones and 4.6 km of poorly maintained roads.

Gebrehiwot and Wolday (2004: 31–32) argue that Adigrat plays a major role in intra urban public transport connections in terms of creating links between the large cities of the region. Taxis and carts are the main means of transport within the city. The expansion of the city has necessitated the use of minibuses (taxis). With the functioning of Adigrat University, the population size is expected to increase significantly within a relatively short period, in addition to the natural population increase.

1.7.4.2 Water

At present, according to TMSEA (2001: 29), water supply in Mekelle is chiefly dependent on underground water sources, although these have diminished over the last few years as the result of persistent drought. This has placed the city's water supply at risk. During the dry season in particular, the water supply office rations water on a shift basis. The current water provision to the city comes from eight boreholes producing about 2,510 m³, while development of 12 further boreholes is underway; these are expected to produce up to 1,800 m³ of water (Assegedech 2004: 14).

According to Negash and Kena (2003: 11), the current population coverage by safe water in Adigrat has reached 71.93% and demand has outstripped supply in the past year. In fact, since the sources of water are boreholes, there are also occasions when these dry up. This is the result not only of natural population growth but also of the flourishing of various ventures in the city.

At this point, it is important to highlight the fact that the opening of Adigrat University will further aggravate the situation unless the city administration plans for this in advance. It is reasonable to argue that it is difficult to supply water on a sustainable basis to a growing city from boreholes alone. The city administration needs to find options that will support the existing mechanisms in future.

1.7.4.3 Telecommunications

The unprecedented innovation and expansion of the telecommunication system has made business deals easier by reducing the need for travel and face-to-face contact. Both Mekelle and Adigrat are currently receiving a digital telecommunications service. Recently, the cities' administrations have also introduced a cellular telephone service. Currently, anyone who needs a cell phone can get one easily from the office of the Ethiopian telecommunication service.

Even in Adigrat, a smaller city than the capital city of Tigray Regional state, Mekelle, the service has been expanded and there are 4382 fixed phones, 45 726 mobile phones and 532 internet users (TBoFED 2006: 67). In this city, fixed telephone line users have also increased from 4736 in 2007, to 4762 in 2008, from 4698 in 2009, to 4705 in 2010 and to 4856 in 2011. Numbers of mobile telephone users have also risen, from 3410 in 2007 to 3896 in 2008, to 11,252 in 2009 to 35,608 in 2010 and to 44 378 in 2011. Furthermore, numbers of internet users have increased from 58 in 2007 to 89 in 2008, 102 in 2009, 265 in 2010 and to 295 in 2011 (TBOTTI 2007: 37).

1.7.4.4 Electricity

According to Assegedech (2004:19–20), the energy sector, particularly the electricity supply, is among those sectors in which the government has registered commendable achievements in the country in general. Towards the end of 1996, Mekelle received hydroelectric power, with two reserve diesel generators. Although the city consumes around 12 MWA, it has a transformer, which can produce as much as 46 MWA. This includes 180 km of street lighting.

However, there are still streets that have no electric lights, and some need maintenance. Of the six intersections in the city, only two have traffic lights and a similar situation prevails in Adigrat (CSA 2009: 13). The electric power available in Adigrat is 3.2 MW, while its energy demand reaches about 4 MW (Daniel 2007: 34).

1.7.4.5 Markets

In Mekelle, there are 10 markets places. Although these markets can accommodate up to 3000 individuals, the actual beneficiaries number only 540 (28%). The main difficulties observed in the market areas are the narrowness of the areas and lack of public latrines, in addition to the wet and windy conditions

in these areas in all seasons (TBoFED 2006: 53–54). Adigrat is similar in many respects, but has a relatively better climate.

1.7.5 Social Services

1.7.5.1 Education

Educational institutions in Tigray, particularly in Mekelle, are expanding at a greater rate than in other cities in the region. The increase in number of these educational institutions at all levels is encouraging. There are 15 kindergartens, 29 primary and nine secondary schools, two technical schools, one university and five colleges providing training to middle and high level professionals (TBOTTI 2007: 29). However, the quality of education provided varies and requires attention.

In Adigrat, there are four kindergartens, seven primary and four secondary schools, one technical school and one university. As mentioned above, although the increase in educational institutions at all levels is encouraging, the quality of the education provided varies as all schools have difficulties in providing facilities such as libraries and sports fields (Dereje 2008: 11).

1.7.5.2 Health

Government health institutions that exist currently in Mekelle include two hospitals and five health centres. The current health delivery system in Mekelle is below standard in terms of physicians, institutional facilities and infrastructure. This is partly the result of the growing population and the incidence of various diseases (CSA 2007: 35).

Nevertheless, there have been improvements through the intervention of the private sector, although this has not made it easier for the majority of residents of Mekelle to afford private health centres. As a result, people still prefer to use

government facilities (TBoFED 2006: 14). In Adigrat, there is one referral hospital, two governmental health centres and three private clinics.

1.7.6 Employment Figures

According to Paul and Rahel (2010: 43), the number of employed in Mekelle is 4740, of whom 2683 are male and 2057 female. The CSA (2009: 11) document also reveals that the rate of unemployment in Mekelle is high, at 21.6% of the total population. Unemployed persons number around 28,864, of whom 11,673 are males and 17,191 females, an unemployment rate of 40.4 % and 59.6 % respectively. Adigrat also has a high rate of unemployment, with about 3708 unemployed persons, an unemployment rate of 17.8% (Negash and Kena 2003: 18).

1.7.7 Economic Activities

Residents of both Mekelle and Adigrat are largely dependent on micro and small enterprises as a source of income and the majority (65%) of the inhabitants' livelihoods are earned in the informal business sector. According to the statistical Bulletin of the Tigray Bureau of Trade, Transport and Industry, TBOTTI (2007: 32), there are 6,583 licensed enterprises in the city. Of these, 3,331 (50.6 %) are in the retail trade, 2,860 (43%) in service, 184 (3%) in manufacturing and 28 (0.4%) in the agricultural sector. In addition, 23,655 micro and small businesses have no licence; 47% of these are male operated and the remaining 53% of operators are female. In terms of the sectors in which these operators are active, the majority are engaged in small trade, services and manufacturing activities (CSA 1991: 98–99).

1.8 Conclusion

Although the importance of small enterprises in contributing to poverty alleviation and employment creation is recognised and prioritised in the development

policies of many countries, their growth is hampered, with the result that their contribution to the industrial sector in particular and the national economy in general is not significant. The CSA report (2003: 87–90) indicates that the transformation of the sector to the next stage is difficult, citing the example that three out of five small businesses fail within the first few months of operation.

This study, therefore, focuses on identifying difficulties that prevent small enterprises from developing into the medium and the large-scale enterprises in Tigray region. In fact, the study examines the challenges facing entrepreneurs and their prospects in small enterprises in general, as well as factors that critically affect the performance of various sectors in each of the study sites (Mekelle and Adigrat), using a descriptive and qualitative research design.

The scope of the thesis was limited to analysing the constraints and prospects of small enterprises in Mekelle and Adigrat in 2013. It must be noted that financial constraints and a lack of organised and relevant recorded data were among some of the limiting factors of this research study.

The rationale for emphasising smaller enterprises is that the sector has faced many challenges that have inhibited growth to medium scale enterprises, whose contributions are far greater in terms of providing a quick remedy to the problem of unemployment and poverty alleviation.

It is hoped that this study will be useful to government and other stakeholders in their efforts to promote the growth and expansion of small enterprises through interventions such as training, facilitation of market linkages and better provision of financial schemes. Moreover, the study serves as a stepping-stone for academicians and consultants who may wish to focus on similar topics and issues, particularly the difficulties and prospects of entrepreneurs in small enterprises.

In the following chapter, the literature that is pertinent to the study is reviewed and the theoretical frameworks and concepts related to entrepreneurs running small enterprises are explained.

CHAPTER 2

REVIEW OF LITERATURE

2. Literature Review

2.1 Introduction

The background to the study, the statement of the problems, objectives, significance, scope and limitations of the study, its structure and a description of the study area were provided in Chapter one. Chapter two reviews the relevant literature by first discussing some conceptual definitions such as entrepreneur, entrepreneurship and small enterprises. In addition, an overview of small enterprises is provided together with a discussion of the measurement used in the definition of small enterprises.

The current National Micro and Small Enterprise Development Strategy of Ethiopia, different theories of growth and the rationale for the development of small enterprises are also discussed. The measures used for the growth of small enterprises, characteristics of owners/managers and the small enterprises themselves and challenges to their growth are explained. Finally, research into small enterprises in developing countries, specifically in Ethiopia, and a brief history of this are briefly reviewed.

2.2 Entrepreneur and Entrepreneurship

The word “entrepreneur” is derived from the French verb “enterprendr”, which means “to undertake” (Desai 1999: 56). This term has been defined differently by different scholars and there is no consensus on one universally accepted definition. For the purpose of this study, an entrepreneur is an individual who is propelled by an idea, personal goals and ambitions to bring together the financial capital and the necessary equipment to establish and manage a business

enterprise (Audretsch and Fritsch 1991: 78; Donnelly et al. 1990: 18–20; Keeble et al. 1990: 64; Kirschhoff and Phillips 1989: 192).

The economic development of a country can be attributed to the level of entrepreneurial activities, and entrepreneurs are seen as the primary creators and drivers of new business (Baum 2004: 200–210; Hyytinen and Pekka 2007: 289–301; Locke 2004: 27–37). Despite many similarities, entrepreneurship and small business are not synonymous. Entrepreneurs are frequently thought to be individuals who discover market needs and launch new firms to meet those needs, and they are risk takers who inspire for change, innovation, and progress (Cosh 1999:176–182; Hughes 1999: 300–320; Morrison 2000: 29–47).

Kiggundu (1999: 19–28) argues that the essence of entrepreneurship lies in the perception and exploration of new opportunities in a business. It has to do with withdrawing national resources from their traditional uses and making new combinations. Smallbone and Welter (2001: 87–89) define entrepreneurship as the emergence and growth of a new business where the process brings about change in the economic system through innovations by individuals who respond to opportunities in the market.

According to Michael, Leyland and Pitt (1996: 303–315), an entrepreneur needs to adopt entrepreneurial attitudes and characteristics that may be obtained from an entrepreneurial family. Education is less likely to be able to contribute what is required of an entrepreneur than entrepreneurial parents. In this regard, informal learning opportunities through contact with family members who are already entrepreneurs can play a key role in developing entrepreneurial capacity (Cosh, Hughes and Wood 1999:503–509; Nieman et al. 2008: 20–21).

This is not to deny the significant contributions made by education to entrepreneurial activity, since higher levels of education are associated with significantly higher levels of entrepreneurial activities (Chilosi 2001: 148–160;

Hallberg 1999: 30–41; Michael, Leyland and Pitt (1996: 124–135). Other qualities entrepreneurs have are a work ethic, ambition and persistence in overcoming failure and striving for excellence and self-improvement (Lee 2001: 117–140; Pennings 2001: 142–160).

Although entrepreneurs have various attributes, according to Baum and Locke (2004: 16–19), some common qualities such as strong commitment, internal locus of control and calculated risk taking are attributes that contribute most to their success.

- Founder Entrepreneurs versus other Business Owners

Founders are inventors who initiate business on the basis of new or improved products or services, in addition to drawing on the ideas of others in starting new firms (Morrison 2000: 59–71; Todorovic and McNaughton 2007: 383–396). Whether acting as individuals or as part of a group, entrepreneurs establish small businesses by arranging all the necessary facilities.

At some point after a firm has been established, it may be purchased or taken over by a second-generation family member or another entrepreneur who acts as administrator of the business. Second-generation entrepreneurs do not necessarily differ greatly from the founding entrepreneurs in the way they manage their businesses (Gunning and Mengistae 2001: 225; Harabi 2003: 102–103). Sometimes, well-established firms can grow rapidly and their orientation may be more akin to that of their founders than of their managers (Freel and Robson 2004: 69–70; Everett and Watson 1998: 13).

- Artisan versus Opportunistic Entrepreneurs

Because of their varied backgrounds, entrepreneurs differ in their professions, management styles, ways of analysing problems and approach to decision-making. Barringer and Duane (2006: 132–147) and Hyytinen, Ari and Pekka

(2007: 63–80) argue that education of artisan entrepreneurs is limited to technical training and typically they lack good communication skills and managerial training (Carpenter and Petersen 2002: 56; Blackman 2000: 204). They are paternalistic and guide their business in much the same way as they guide their own families; in addition, they are reluctant to delegate authority. Furthermore, their time orientation is short and they show little planning for future growth and expansion.

On the other hand, Elkan (1988: 41), Desai (1999: 213–214) and Kirschhoff and Phillips (1989: 287) argue that an opportunistic entrepreneur is one with both sophisticated managerial skills and technical knowledge. Opportunistic entrepreneurs are those who avoid paternalism and delegate authority if necessary (Gurmeet and Rakesh 2008: 301–303; Hillary 2000: 45–48; Kawai and Urata 2001: 197–209). Moreover, they employ various marketing strategies and plan for future growth and expansion.

2.3 An Overview of Small Enterprises

Nieman et al. (2008: 44–49) and Kolvereid and Isaksen (2006: 243–244), who studied the nature of small enterprises have distinguished between promising start-ups and marginal start-ups. Promising start-ups are those enterprises with the potential for attaining significant size and profitability, while marginal start-ups lack such prospects. The few businesses that have such glowing prospects for growth are called high potential businesses, and these are strong segments of small businesses that offer substantial financial rewards for their owners (Liedholm 2001: 67; Mensah 2005: 98–99; Smallbone and Welter 2001: 249–262). Even in these groups, there are variations in style of operations and approaches to growth, where businesses with high-tech start-ups usually grow faster and make their founders wealthier.

The least profitable firms, including many service firms, provide only very modest returns for their owners and their distinguishing feature is their limited ability to generate significant profits (Charmes 2000: 47–50; Mullei 2003: 88–101). Entrepreneurs who devote personal effort to such businesses receive a profit that does little more than compensate them for their time.

Ishengoma and Kappel (2008: 236–242) categorise small enterprises as **survivalists**, **trundlers** and **flyers**. Casson (2003: 9–13) and Berry (1995: 192–205) argue that survivalists are those enterprises that keep the business owner alive although the income that is provided by these enterprises may be poverty line or even sub-poverty line. Such owners pursue the business because they have no other source of livelihood.

Trundlers are defined as enterprises whose turnover is static. The income provided by these businesses is enough to meet basic needs and their owners show no desire to expand. Charmes (2000: 18–19) and Smallbone and Welter (2001: 240) argue that such enterprises form the second largest group of small enterprises in less developed countries. Flyers, on the other hand, are defined as enterprises owned by true entrepreneurs who have taken up the business because they see opportunities for growth (Mekonnen 2006: 23–24; MoTI 1997: 42; Mulatu 2005: 102). Their income not only meets basic needs but also enables them to graduate to the medium-scale category.

2.4 Definition of Small Enterprises

There is no single or universally acceptable definition of small enterprise as the criteria and ways of categorising enterprises as small vary from institution to institution and from country to country, depending essentially on the country's level of development (Emma et al. 2009: 7–9; Gebrehiwot and Wolday 2006: 211; Kolvereid and Isaksen 2006: 234). Within the same country, the criteria for categorising small enterprises may change over time as a result of factors such

as changes in costs and technology (Solymossy and Penna 2000: 47; Kolvereid and Isaksen 2006: 89–90).

Eshetu and Eleke (2000: 89–94), Mulugeta (2011: 13) and Liedholm (1992: 204) define small enterprises based on their growth potential, level of capitalisation, sales and employment. The United Nations Industrial Development Organisation (UNIDO) provides an alternative definition for developing countries, defining small enterprises as business firms with between five and 19 employees (UNIDO 2002: 53).

The official definition of an enterprise's size in Malawi is based on the level of capital investment, the number of employees and its turnover (Kayanula and Quartey 2000: 16). An enterprise is defined as small if it satisfies any two of the three criteria. That is, it has a capital investment of USD 3,000–USD 56,000, it employs between six and 20 people and has a turnover of up to USD 110,000 (using the 1992 official exchange rate).

In Kenya, small enterprises are non-primary enterprises that employ between one and 50 people, whether in the formal or informal sector, or more specifically, that employ 10 to 50 workers (Mulugeta 2011: 15).

The commonly used definitions of small enterprises focus on annual turnover as a key variable although the acceptable figure differs from country to country, depending on the population and stage of economic development (Liedholm and Mead 1999: 302–309; Little, Ian and Nigatu 2003: 278–283). In Vietnam, a small enterprise is a business enterprise with a capital asset of VND 10 billion (USD 700,000) (Lütkenhorst 2004: 53–56). In the USA, “small enterprises are an entity with average annual gross revenues for the preceding three years not exceeding \$15 million and a very small business is an entity with average annual gross revenues for the preceding three years not exceeding \$3 million” (Meid and Leidholm 1998: 179–183; Weaver 1999: 72–76).

Given the number of businesses in the USA and Europe, small enterprises (if defined according to the number of employees and turnover) could be a definition adopted for large enterprises in Africa (CSA. 2007: 15; Eshetu and Eleke 2008: 223–228; Hallberg 1999: 32–39; Harding 2002: 231–238). For example, Fay and Clarck (2000: 66–71) indicate that the European Commission and the Organization for Economic Cooperation and Development, whose members include Europeans and Asian countries such as Japan, define the sector as having under 250 employees.

This indicates that the definition of a small enterprise has led to a range of ideas and different approaches. Goedhuys (2002: 225), Hallberg (1999: 29) and Tegegne and Meheret (2010: 11) confirm that the absence of a single or globally applicable definition has made the task of counting the number of small enterprises and assessing their impact extremely difficult across countries.

As there is no uniform definition of a small enterprise, an operational definition used for the purposes of this study is the one offered by the Ministry of Trade and Industry in Ethiopia. This defines an enterprise according to the number of employees and paid up capital.

According to the revised Micro and Small Scale Enterprises Growth Stage Guideline of the Federal Democratic Republic of Ethiopia (FDRE), No. 004/2011 (FDRE 2011: 15-18):

- The industrial sector comprises urban agriculture, manufacturing, construction and mining sub-sector and so on is a business enterprise, as it employs between six to 30 workers, including the business owner and family labour and/or with the monetary value of the enterprise's total assets, that is not more than 100,000 Et. Br (USD 5,555);

- The trade and service sector includes retail trade, transport, hotels and tourism, information technology and repairs. It is made up of business enterprises

that employ not more than five people, including the business owner and family labour and/or with the monetary value of an enterprise's total assets being not more than 50,000 Et. Br (USD 2,777). Table 2.1 below summarises the classification of small enterprises.

Table 2.1: Classification of Small Enterprises

Enterprise size	Sector	Asset	Number of workers
Small	Service and Trade	50,001–500,000 birr (USD 2,777–27,777)	6-30 individuals
	Industry, construction, urban agriculture and manufacturing	100,001–1.5 million birr (USD 5,555–83,332)	

Source: FDRE (2011:15–18)

2.5 The National Small Enterprise Development Strategy in Ethiopia

In recognition of the important role that small enterprises can play in creating income and employment opportunities and in reducing poverty, the government of Ethiopia has given special attention to these enterprises. The Ethiopian Ministry of Trade and Industry (MoTI) published the Small Enterprise Development Strategy (MSEDS) in November 1997, which takes a systematic approach to addressing the difficulties and promoting the growth and expansion of the sector (MoTI 1997: 44–51).

The Ministry of Trade and Industry is the responsible organ of the Federal Government in the formulation of policies and strategies to promote the growth and expansion of small enterprises. In order to ensure institutional coordination in the sector, the government created the new Federal Small Enterprises Development Agency (FeMSEDA) in 1998 (Proclamation 33/98) (Belay 2000: 89; CSA 2003: 109–111; Negash and Kena 2003: 5–8).

In 2000, the regional governments also established Regional Small Enterprise Development Agencies (ReMSEDAs) to provide extension services to the sector at the regional, zonal and district levels (Adera 1995: 116; Adil 2007: 78; Mulatu 2005: 89–92). The strategy paper was first prepared at the national level and then adapted and ratified by each region after harmonisation with the prevailing conditions of the region. The national small enterprises strategy paper was issued in 1997 while that of Tigray Region was issued in 2001. The goals and principles of Tigray Regional Small Enterprise Development Agency's Support Framework are thus not very different from the national strategy papers.

- Objectives of the Strategy

The primary objective of the national strategy guideline is to create an enabling environment for business operators. Given such an environment, it is expected that many operators of small enterprises will themselves be responsible for the growth and progress of their businesses (FDRE 2011: 127–140). According to Gebrehiwot and Welday (2004: 21–22), the national small enterprise strategy lists the various types of support that should be provided for small enterprises in order to assist them in overcoming impediments to their development, and to enable these enterprises to become viable and compete successfully in the market.

According to Wole (2004: 45–46) and Workneh (2007: 61), this support includes facilitating access to finance, proper technology, markets, information and advice, and to physical infrastructure. As the small enterprise sectors are highly diversified and characterised by problems of varying degrees and complexity, it is difficult to address the whole range of difficulties facing small enterprises operating in different sub-sectors at the same time (Monk 2000: 75–82; Negash and Kena 2003: 100–107). According to Gebrehiwot (2006: 24–25), FDRE (2011: 56) and MoTI (1997: 43), the strategy provides that beneficiaries should be prioritised according to the following principles:

- they use local raw materials
- they have greater intra and inter-sectoral linkages
- they engage in import substitution with a potential to export
- they facilitate and promote tourism
- they do not affect but rehabilitate the environment
- they have the potential for creativity in the process of production and providing services.

In supporting the prioritisation criteria for small enterprises, the regional strategy paper identifies and incorporates the construction sector, metal and woodwork, textile and garment, municipal activities, food processing and urban agriculture sectors as areas of major focus (Daniel 2007: 142; Desta 2010: 89–90; FDRE 2011: 45).

2.6 Rationale for Small Enterprises' Growth and Development

It is a fact that small enterprises are widely recognised as contributing to the growth, income and employment generation in many developed and developing countries, such as Japan and the East Asian Tigers (Huang and Brown 1999: 59–62; Mullei 2003: 29–34). Although there are perceived economic benefits, owners and workers in these enterprises are disproportionately poor, with the incidence of poverty higher than in medium and large enterprises (Beck and Levine 2003: 65–73; Gebeyehu and Assefa 2004: 206–213).

Currently, international donors focus less on the size of enterprises by seeking patterns of economic growth that are beneficial to the poor or the pro-poor (Barkham 1992: 223; Belay 2000: 42–51; Berry 1995: 128–129; Ishengoma and Kappel 2008: 17–22). Andreff and Dominique (2001:80–91), Charmes (2000: 45–51) and Liedholm (1987: 111–132) agree that although there are various challenges, one of the approaches taken to reduce poverty is the promotion of the growth and development of small enterprises that can generate income and

employment opportunities among the poor and the most marginalised sections of society. Broad-based growth is more likely to be faster in small enterprises and provides greater opportunities for the poor.

As a result, the Ethiopian Government has paid considerable attention to the growth and expansion of small enterprises (Eshetu and Eleke 2008: 67; Daniel 2007: 87–88). In particular, the interests of government lie in the expansion of these enterprises into medium and large enterprises, as it is at these stages that their most tangible contributions are realised (Abdullah and Baker 2000: 53–67; CSA2003: 82–89; MoTI 1997: 5–9). Cunningham et al. (2001: 260–263) argue that it is the development of medium-sized enterprises that has played the major role in the growth and development of all leading economies in Asia.

The Asian experience shows that medium-size enterprises have a greater propensity to apply technology and training that serves specialised niche markets than small enterprises. Small enterprises are regarded as an instrument for bringing about economic transition by using the skills and talents of individuals without demanding a high level of training, capital or technology (Gebeyehu and Assefa2004: 3–9; Negash and Kena 2003: 147–152).

Barringer et al. (2006: 400–410), Gebrehiwot (2006: 18–25) and Pier (2002: 189–195) describe the small enterprise as the national home of entrepreneurship; this can be used as a springboard for social progress. The sector contributes to job creation and can become a source of income for many people (Eshetu and Eleke 2008: 12). Furthermore, it can facilitate forward and backward linkages, serving as a seedbed for entrepreneurial development and resource mobilisation. The proponents of policies and programmes designed to support small enterprises have long claimed that these enterprises are labour intensive, and are efficient in promoting equity through the income they generate as they are widely dispersed geographically (Daniel 2007: 21; Goedhuys 2002: 213; Little et al. 2003: 9–12).

2.7 Theories of Growth of Small Enterprises

Various theoretical models have been developed to describe the growth of small businesses. One class of theoretical model focuses on active or passive learning. According to Ishengoma (2004: 65–71), Cunningham and Maloney (2001: 27–51), Goedhuys (2002: 63–71) and Harabi (2003: 139–150), in the passive learning view, a firm enters a market without knowing its own potential for growth. Managers of firms learn about their efficiency when they are established in the industry. With firm age, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will differ widely from year to year.

In the active learning model, a firm explores its economic environment actively and invests to enhance its growth. The prospective and actual growth changes over time in response to the outcomes of the firm's own investment and other actors in the same marketplace (Berkham, Gudgin, Hart and Harvey 1996: 438–447; Goedhuys 2002: 305–317; Harding 2002: 9–15). According to this model, owners or managers could raise their competence through formal education and training that enhances their talents. Businesses run by entrepreneurs or managers with higher formal education and training would therefore be anticipated to grow faster.

A second set of growth theories includes the stochastic and deterministic perspectives. The stochastic theory, which is also known as Gibrat's Law, argues that all changes in magnitude are the result of chance (Mullei 2003: 296–307). Thus, the size and age of firms has no effect on the growth of small enterprises. Empirical tests of the law are indicated by considering the size and age as potential variables while neglecting other explanatory variables that may significantly affect firm growth (Evans 1987a: 126–147; Gurmeet and Rakesh 2008: 301–302). The deterministic method, on the other hand, assumes that variations in the rate of growth across firms depend on a set of observable

industry and firm specific characteristics (Pier 2002: 83–94; Solymossy and Penna 2000: 99–114).

The industrial organisation model (I/O) explains the external environment's dominant influence on a firm's strategic action (Hitt, Ireland and Hoskisson 2009: 67–76). The model specifies that the industry in which a company chooses to compete has a stronger influence on performance than the choices managers make inside their organisations. The firm's performance is a function of primarily a range of facilities, such as finance, training and access to market and other business development services (Hallberg 1999: 104; Harding 2002: 76–78; Jennings and Beaver 1997: 209–210; Nieman et al. 2008: 65–86; Wole 2004: 80–95). This theory specifies that a firm's effectiveness, its rate of return on invested capital, is more a function of external characteristics, i.e., interactions among suppliers, buyers and business competitors currently in the market and of potential new entrants to the industry, than the firm's unique internal resources and capabilities.

The resource-based model assumes that each organisation is a collection of unique resources and capabilities, where some are tangible and others intangible (Dockel and Ligthelm 2005: 56; Lee and Pennings 2001:78). Fay and Clark (2000: 93–101) and Hitt et al. (2009: 33–46) argue that tangible resources are assets that can be seen and quantified. Manufacturing tools, dissemination centres and formal reporting methods are examples of tangible resources, while intangible resources are assets that are rooted deeply in the firm's history and have been accumulated over time. These resources include knowledge, trust between managers and employees, managerial capabilities, the distinctive ways of work, scientific competences, the capacity for invention, brand name, and the firm's reputation for its goods or services and how it interacts with people such as consumers and suppliers.

Compared to tangible resources, intangible resources are superior sources of core competencies (Hitt, et al. 2009: 50). In fact, in the global economy, the accomplishment of a corporation lies more in its intellectual proficiency than in its physical assets (Barney 1991: 99–120; Berkham et al. 1996: 324–335).

2.8 Measurement of Small Enterprises' Growth

Enterprises' successes are measured predominantly in terms of increases in turnover, increases in the number of people employed and the average change in sales (Kolvereid and Isaksen 2006: 45–47; Papadaki and Chami 2002: 67). However, most studies measure an enterprise's growth by the change in the number of employees over the years since start-up (Holmes and Zimmer 1994: 56; Liedholm and Joan 1989: 501–512). Although sales (output), value added assets and the number of workers are among the array of variables that might be employed to measure the growth of small enterprises, the one used most frequently is the number of workers as this is the indicator that is most easily and accurately remembered over time and that does not have to be deflated.

Thus the standard measure of growth of small enterprises is change in the number of workers since start-up (Liedholm and Mead 1999: 72–92; USAID 2002: 405–413). According to Mead and Liedholm (1998: 12), annual employment growth among small enterprises can be computed by the following alternative formula:

Average annual growth rate (simple average): $[(\text{current employment} - \text{initial employment}) / \text{initial employment}] / \text{enterprise age}$.

Average annual growth rate (compound): $[(\text{current employment} / \text{initial employment})^{1/\text{final age}}] - 1$.

Average number of workers added per enterprise per year (all enterprises): overall averages in each case are weighted averages, based on the number of enterprises in each category of enterprises.

However, Dockel and Ligthelm (2005: 234–235), Everett and Watson (1998: 321–323) and USAID (2002: 6–15) argue that certain biases might arise from the use of employment as an exclusive measure of growth and by ignoring the alternative measures such as changes in sales, outputs, or assets. This is because the nature of employment is seasonal, leading to the prevalence of part-time workers and the extensive use of unpaid family labour, including children. Some critics also raise the issue of job quality in using employment as a measure of growth (Huang and Brown 1999: 287-301). As a result, they define an enterprise's growth as an average change in sales.

According to Duntman (1997: 66–73), Gebeyehu and Assefa (2004: 69–70) and Liedholm and Mead (1999: 139–148), performance and profitability of enterprises is not related to the growth of sales as some companies may be able to maintain high profits even with a declining sales growth rate. These authors argue that although taking the average change in sales as an alternative measure of an enterprise's growth is feasible, the growth of employment remains the best unit of measurement. Another reason for taking employment as a reliable measure of firm growth in small enterprises is the contribution made by enterprises to creating employment opportunities (Timmons 1999: 159–164). In studying employment growth, some scholars choose to use the annual compound growth rate or simple annual employment growth while others use the rate of total number of employment changes since the start-up (Goedhuys 2002: 14–17; Liedholm and Mead 1999: 507–516; Liedholm 2001: 32–41; USAID 2002: 22–33).

2.9 Demographic Characteristics of Entrepreneurs

The demographic variables that are reviewed in this section include age, gender, education, previous experience and religion of entrepreneurs.

2.9.1 Age

Theorists explain the influence of the age of owners/managers and call for younger owners/managers (Baum 2004: 46–47; Dockel and Ligthelm 2005: 211; Harabi 2003:103). These arguments are based on the belief that younger owners/managers have the necessary inspiration, energy and commitment to work and are more likely to take risks. The logic is that older owners/managers are more likely than younger owners/managers to have achieved their initial ambition. Ishengoma and Kappel (2006: 109–110) and Kolvereid and Isaksen (2006: 26–28) argue that there is a significant relationship between the age of the owners/managers and the level of growth achieved. As a result, firms that are run by younger owners/managers tend to have greater growth probability than those run by their older counterparts.

2.9.2 Gender

Hisrich and Brush (1985: 209) and ILO (2004: 18) point out that the proportion of firms owned by men exceeds those that are owned by women. The failure rates for female-owned firms are higher than for male-owned firms. Male-owned/managed firms exhibit higher growth rates than female-owned/managed firms, showing a significant relationship between the gender of the owner/manager and firm growth (Hyytinen and Pekka 2007: 105–107). The reasons for this include limited access to finance, stringent collateral requirements, gender bias and women's double duties (Kandasaami and Tibbits 1993: 111–112).

2.9.3 Formal Education

According to Blackman (2000: 110–113), there is a significant relationship between the educational qualification of the owners/managers and the level of growth achieved by small enterprises. Growth is greater in firms where the owners/managers have a college or university degree. There is no question that

basic education enhances the overall quality of the owners/managers by providing them with basic numeracy and literacy skills, thus increasing the chance of survival (Chilosi 2001: 138–140; Hallberg 1999: 35–38).

2.9.4 Previous Experience

Morrison (2000: 39–41) argues that there is a significant relationship between previous experience of the owners/managers, particularly prior small enterprise experience, and firm growth, indicating that growth is positively influenced by the previous experience of the owners/managers. Other studies confirm that in general, small enterprise owners/managers with managerial and sectoral experience tend to correlate with greater growth (Dereje 2008: 96; Todorovic and McNaughton 2007: 124–126).

A study carried out by Mullei (2003: 18–21) found that small enterprise owners/managers in the UK, with little experience at the start-up, faced problems and remained solvent with an increase in expenditure in relation to their earnings. Possession of relevant skills and experience helps to ensure the survival of a business at start-up and success in its future performance (Barringer et al. 2005: 663–687; Cooper, Gimeno-Gascon and Woo 1994: 371–395).

2.9.5 Religion of Entrepreneurs

Weber (1905: 102–104), in his book *The Protestant Ethics and the Spirit of Capitalism*, argues that there is an interconnection between religion and the marketplace; a relationship exists between some religious teachings and economic behaviour of entrepreneurs. Weber argues that regions and countries that adhere to Protestant theology have the highest rate of business and capitalist economic growth. Barbalet (1980: 101) and Goldman (1990: 98–100) assert that attitudes and motivation toward engagement in economic activity and structures have been shaped and informed by religious ideas as well as by theologically informed ethics.

Commercial success is deemed a sign of God's pleasure and an indicator of eternal rewards, often known as the doctrine of predestination. Each person's work is by the grace of God and perceived as a calling to which one should respond with industriousness, prudence and rational economic behaviour in order to maximise one's calling (Hansin 1963: 462–474; Koch 1993: 123–144).

2.10 Characteristics of Small Enterprises

Characteristics of small enterprises refer to those features such as size, age, location and the legal form of the business.

2.10.1 Age of the Business

Studies of small enterprises have recognised that business age plays an important role in an enterprise's performance and growth (Charmes 2000: 17–19; Chilosi 2001: 118–120 and Elkan 1988: 11–13). Hyytinen and Pekka (2007: 209–210) and Jovanovich (1982: 649–670) argue that younger businesses grow faster than older ones because of the willingness of their managers to take risks. In contrast, Papadaki and Chami (2002: 81), Gebrehiwot and Welday (2004: 205–206) and Baum and Locke (2004: 9) observe that among small businesses, the older grow faster than the newer, and among larger businesses, growth declines as age increases. Moreno and Cassilas (2007: 69–88) agree that older businesses may not show significant growth changes as owners have achieved optimal combinations of resources that allow them to maximise their levels of efficiency.

2.10.2 Size of the Business

In relation to firm size, the general belief is that smaller firms grow more rapidly than larger ones (Andreff and Dominique 2001: 16–18). However, a number of scholars have rejected this viewpoint. For example, Chen (2005: 14–116), Harabi (2003: 102–103) and Wole (2004: 25–28) all note that a small firm has less

likelihood of survival, suggesting a significant relationship between the size of the firm and the level of growth achieved. This is because firm growth increases with firm size. Similar findings were made by Beck and Levine (2003: 10–12) and Blackman (2000: 20–21) in their study of high technology firms in England, where they found that larger firms had a greater tendency for growth than their smaller counterparts.

2.10.3 Legal Form of the Business

Theoretically, a firm that enjoys limited liability/partnership has been said to have greater incentive to pursue risky projects and can therefore expect higher profits and growth rates than sole proprietorship and joint ventures (Berkham et al. 1996: 22–25; Kolvereid and Isaksen 2006: 67–69). Arimah (2001: 23–25) argues that firms with limited legal responsibility have above average growth, showing a significant relationship between the legal status of the firm and the level of growth achieved. Berry (1995: 19–20) also found that the prime benefit of corporate status is its limited liability and firms with partnerships have a higher growth rate than their counterparts without.

2.10.4 Location

Location can play a central role in determining the survival of small enterprises. Those enterprises that operate in commercial districts or on roadsides show greater growth rates than those based in homes, or far from main roads (Berkham et al. 1996: 320–321; Liedlholm 2002: 80). Geographical locations have implications for access to customers and other resources such as finance, trained labour, distribution and transport logistics. The achievements of small enterprises also depend on neighbourhood appearance and status of future business operations in that location.

Berkham et al. (1996: 201–202) stress that urban areas have favourable conditions for a firm's development. For example, small enterprises located in

urban areas have relative ease of access to customers and inputs such as finance, premises and technology required to produce goods and/or services. Furthermore, small businesses situated in urban areas benefit from “agglomeration economies” and particular infrastructures such as information, a network of suppliers, a specialised workforce and knowledge (Dockel and Ligthelm 2005: 96; Papadaki and Chami 2002: 243). According to Rosmary (2001: 198–200) and Michael et al. (1996: 301–302), most rural areas have less financial and business development service than urban areas, although this can stimulate them to exhibit greater proactive entrepreneurial behaviour.

2.10.5 Small Entrepreneurs with a Business Plan

A business plan is a written document spelling out where the business is heading and explaining how it is going to reach its destination. According to Nieman et al. (2008: 90), the business plan is a written demonstration that carefully explains the business, its products or services and its goals together with strategies for reaching the stated goals. The business plan is a very important part of the business that helps to decide whether to invest or not and helps to counterbalance one’s emotions to avoid serious faults. Liedholm and Mead (1999: 89–90) also argue that entrepreneurs need to develop a business plan to establish strategy, set targets for new alliances and allocate resources according to strategic priority. This can help to ensure that entrepreneurs move along the right path.

2.11 Challenges to Small Enterprises

Despite their significant contribution to the economy, small enterprises face serious challenges. According to Muma (2002: 99-115), Hallberg (1999: 24) and Ishengoma and Kappel (2006: 35-36), this sector is often referred to as small businesses with big problems. Sector type is an important determinant of enterprise growth as different sectors face different product demands and

encounter various cost structures on the supply side (Liedholm and Mead 1999: 104–108).

A second variable likely to affect the growth of existing enterprises is location. Complementary enterprises grouped close together or located close to the final demand sources might be expected to grow more rapidly than their more isolated counterparts (Arimah 2001: 105–107; Harding 2002: 23–26). Empirical evidence from Africa has indicated that urban enterprises typically grow more rapidly than their rural-based counterparts because of their location (Liedholm and Mead 1999: 61). Kolvereid and Isaksen (2006: 212–208) argue that various socio-economic variables influence enterprise growth. For example, increases in “human capital” through increases in the experience or education of the entrepreneur lead to enterprise growth.

In addition to “human capital”, proprietor gender is also thought to be an important determinant of enterprise growth. Blackman (2000: 45–48) and Liedholm and Mead (1999: 56), for instance, posit that female entrepreneurs in Africa are more risk averse and thus less likely to grow than their male counterparts.

Finally, the overall socio-economic and political situation in a country is a key determinant in the growth of small business. Solymossy and Penna (2000: 78–80) and Ivy (1997: 56–64) grouped problems of small enterprises into five clusters:

Finance, government rules, marketing, labour, equipment and infrastructure are the most critical problem.

Monk (2000: 123–138) and ILO (2004: 4–11) also found that deficiencies in working capital, poor market access and rapidly changing market conditions were the major reasons for the failure of small enterprises. Despite the numerous determinants of growth and expansion in small enterprises, the Ethiopian

government has identified finance, market factors, working premises, policy and legal factors and institutional linkage-related problems as major obstacles in the way of optimal performance of the small enterprise sector (MoTI 1997: 47–60).

2.11.1 Financial Challenges

Several development economists have demonstrated that lack of access to finance is a major obstacle to the growth and development of small enterprises (Beck, Kunt and Maksimovic 2006: 56–57; Gebrehiwot and Welday 2006: 68–70; MTI 1997: 45–46; Negash and Kena 2003: 201). The accessibility of finance is crucial for dynamic enterprises whose growth potential exceeds their internal sources of finance. However, because of limitations in the credit markets of developing countries, the majority of entrepreneurs start their businesses with little or no support from formal financial institutions (Barney 1991: 112–113; Dockel and Ligthelm 2005: 63).

According to ISA (2000: 12–20) and Aryeetey, Baah, Duggleby, Hettige and Steel (1994: 251), a large proportion of small enterprises in Africa operate with financial constraints as the result of a lack of credit arising from the weaknesses in the financial markets. For instance, Tyra Reliey (of the World Bank) as cited in NTSIKA Promotion Enterprises (NTSIKA 2004: 101) has reported that only 2% of small enterprises in the world have access to financial services from formal sectors. In particular, credit presents a challenge to small-scale enterprises because banks are reluctant to offer them loans on the assumption that the risk accompanying loans to small enterprises is high (Bigsten, Collier, Dorcon, et al. 2003: 69–72; Paul and Rahel 2010: 208–117; USAID 2002: 123).

Furthermore, the low returns expected from small loans provided to small enterprises have jeopardised their relationship with formal financial institutions. The inability of entrepreneurs in small enterprises to provide precise information about themselves has also contributed to the lack of access to credit (Kavanamur

2002: 206; Rosmary 2001: 98; Scholtens 1999: 137–147; Stiglitz and Weiss 1981: 261–271; Webster 1991: 192).

According to the formal money-lending institutions, collateral is seen as a way of reducing risk, shortening the selection process, and as a mechanism for compensating for bad debts (Brownbridge 1998: 114; Mishkin 2006: 245–246). A number of development economists have observed that the most widely accepted forms of collateral in most credit markets are mobile and fixed assets such as motor vehicles, real estate and industrial equipment; these are rarely attained by entrepreneurs in small enterprises (Adera 1995: 11-22; Monk 2000: 103–108).

Abdullah and Baker (2000: 34–36) and Gunning and Mengistae (2001: 303–305) argue that despite the fact that there are many financial institutions to extend credit facilities, small firms are still generally short of credit. A study by Peterson, Kozmetsky and Ridgway (1983: 512–524) concluded that whatever the size or location of the small enterprises, financial factors were crucial to the existence of small enterprises. Eshetu and Eleke (2008: 247–250) and Meid and Leidholm (1998: 38–41) also believe that financial distress is a major difficulty for small enterprises as high collateral requirements, high interest rates and short repayment periods are among the chief problems that make access to credit difficult.

Banks are unfamiliar with small enterprises because they consider them high-risk, not dependable and involving excessive administrative costs (Michael et al. 1996: 389–396; Rosmary 2001: 282–293). Furthermore, many small enterprises seldom approach formal financial institutions, as they are not confident of obtaining loans (Huang and Brown 1999: 73–86). In addition, their limited experience with bank officials has done little to change their perceptions of the difficulties and bureaucracy involved in obtaining credit. Abdullah and Baker (2000: 76–89), Elkan (1988: 240–245), Monk (2000: 12–14) and Read (1998:

172–180) argue that small firms start their businesses with their own savings, supplemented by borrowing from friends and relatives. They meet their capital requirements by approaching informal credit institutions that exist within their community, but rarely use formal institutions (Charmes 2000: 32–47).

Results of the 1997 CSA survey in Ethiopia show that for about 50 per cent of the sector's operators, the main difficulty when starting their operation is a lack of sufficient initial capital (CSA 2003: 22–24). This issue becomes more critical when they decide to expand their businesses. Arimah (2001: 125–135) and Dockel and Ligthelm (2005: 78–89) also believe that small enterprises face difficulties in obtaining capital when they want to expand.

Aryeetey et al. (1994: 191) and Carpenter and Petersen (2002: 204) argue that the growth of small enterprises is often constrained by a lack of access to finance from formal financial institutions, and that informal financial institutions such as “Iqqub” schemes fill the gap for the majority of small enterprises. These are traditional financial institutions that are based on mutual trust among the members and that vary in size, capacity and function. They run on a cyclical basis, satisfying the demands of only one member at a time. Other members must wait their turn and the last member receives a lump sum only at the very end of the cycle. Iqqub schemes promote the viability of a small enterprise through enhancing own savings, conversion of savings into investments and reduction of transaction costs in credit markets (Adera 1995: 89–90; Gebrehiwot and Welday 2004: 67). Furthermore, these schemes facilitate knowledge and skills sharing for the more efficient operation of small enterprises. The schemes cater predominantly for small businesses that have little or no chance of securing finance from formal financial institutions such as banks.

2.11.2 Business Development Services

Business Development Services (BDS) are defined as a wide variety of non-financial services such as training, counselling, technology development and its diffusion (Peterson et al. 1983: 41–65; Yu 2002: 189–102). According to Cortes, Berry and Ishaq (1987: 23–27) and Meid and Leidholm (1998: 44–53), business development services enable small enterprises to become productive and to effectively reduce poverty by contributing to the development of local economies.

In most developing countries, according to Ishengoma and Kappel (2006: 273–285), the majority of enterprises have no access to business development services. This is mostly because institutions that can provide such services do not exist or because entrepreneurs are unaware that the service is offered in their country, while others are ignorant of their value (CDASED 2001: 64–80; Fay and Clark 2000: 55–58). In fact, the presence of a strong institution that can provide reliable and timely information through efficient information systems is vital for the success of small enterprises. Information related to market, raw materials, technology, business opportunities, government policies and regulations is a prerequisite for the growth and expansion of small enterprises (Berkham et al. 1996: 57–63; Rosmary 2001: 248–251).

2.11.3 Marketing Challenges

Access to markets is crucial; not having access to markets has an adverse effect on the entrepreneurs' performance as their objective of achieving competitive advantage ends in failure (Beck and Levine 2003: 121–130). For instance, in terms of location, the majority of small enterprises are home-based with limited markets for their products and services (Paul and Rahel 2010: 78). Their interaction with other businesses increases transaction costs and this contributes to limited access to marketing information (Gebeyehu and Assefa 2004: 89–95).

Supply constraints are also considered a hindrance to the normal functioning of enterprises as in one way or another these limit the ability of entrepreneurs in small enterprises to generate goods and services for better income generation (Belay 2000: 54–56; Ishengoma and Kappel 2008: 91–99).

Apart from this, studies conducted by Gebrehiwot and Welday (2004: 89–110) and Watson and Everett (1999: 213–218) on small enterprises has revealed that demand constraints exist, which limit the opportunities for production. Ken (2003: 43–56) believes that small enterprises are facing "too much competition", citing the existence of overcrowding in the market and failure of demand to grow, at least not as rapidly as the supply. However, development policies, if properly considered and applied, could ensure greater demand for smaller enterprises' output and thus open up new prospects for their growth.

According to Andualem (1997: 33–40) and Negash and Kena (2003: 102–108), market constraints experienced by small enterprises have been listed as among the most serious obstacles to growth beyond subsistence level. The CSA's report (2003: 80–91) on Ethiopia, which is based on 31,863 small-scale industries all over the country, indicates that 48% of all establishments faced difficulties related to demand or access to markets, and weaknesses in or total absence of appropriate marketing channels, exhibitions, trade fairs and display centres.

Furthermore, a shortage of inputs and their costs are common constraints. Although specific problems differ by country, most crucial in all this is whether entrepreneurs regard access or their costs as the most pressing problem (Solymossy and Penna 2000: 35–37). Whether inputs are primarily imported or domestic is also another important issue.

2.11.4 Working Location Challenges

The obstacles experienced by entrepreneurs running small enterprises include unavailability of work premises, high rent and poor access to good quality

business infrastructure (Liedholm 1992: 185–202; Peterson et al. 1983: 54–60). According to the CSA's 2003 survey result, problems associated with working premises are mentioned as one major constraint hindering the smooth performance of small enterprises (CSA 2003: 77–82). Some enterprises operate in open spaces, a situation that limits their access to public services such as toilets, water and electricity supplies. The main reason for enterprises being concentrated in urban areas is the greater availability of various types of infrastructure relative to rural areas (Liedholm and Mead 1999: 143–155). However, the shortage of such infrastructure has also been one of the main obstacles to the development of the sector in many urban areas of the country (Cortes et al. 1987: 67–71; Mulatu 2005: 13–17).

2.11.5 Technology Related Challenges

According to Beck and Levine (2003: 167–171), technology designates a combination of machinery, labour, skills and techniques. These technologies need to be consistent with local resources and conditions in order to make effective use of the relatively abundant resources. However, the issue of adopting appropriate technology and the limited access to this type of technology have presented serious problems and obstacles for operators of small-scale enterprises (Liedholm 1992: 39–44; YU 2002: 33–39; Watson and Everett 1999: 20–28). Among the entrepreneurs studied by the CSA in Ethiopia, 29% reported machinery failure as the major reason for their inability to be operational (CSA 2003: 2–13). Assefa (1997: 43–48) also notes that small enterprises have difficulties in accessing appropriate technologies and information.

2.11.6 Policy Related Challenges

Arimah (2001: 18–25) and Chen (2005: 46–57) point out that small enterprises require policies conducive to growth, a good incentive package and encouraging business environments to produce products that are competitive both locally and

internationally. A government that is committed to the promotion and development of small enterprises makes fiscal policy and monetary setting stable with reasonable interest and exchange rates (Berkham et al. 1996: 32–45; Berry 1995: 89–94). Furthermore, financial markets and tax rates should be stable and moderate in addition to endorsing policies that minimise the cost of business registration and licensing.

In many countries, the overall economic policies such as trade, pricing, taxation and credit policy are biased in favour of large enterprises (Haggblade, Liedholm and Mead 1990: 8–9; Huang and Brown 1999: 67–69). Under trade policy, for example, government can directly allocate import inputs and this favours large enterprises that are more likely than smaller ones to gain access to import quotas. Large enterprises are often granted industrial investment incentives that enable them to import their capital goods duty-free for a certain period (Berry 1995: 189–192; Ishengoma and Kappel 2008: 321–330).

In the case of policy biases that favour large firms over small enterprises, attempts have been made to quantify policy-induced cost differentials between small and large enterprises in accessing resources such as labour and capital (Gebrehiwot and Welday 2004: 7–18; Haggblade et al. 1990: 126–154). However, such bias is often difficult to explain as some policies may be biased against small enterprises while others favour them.

In addition, measuring policy-induced price differentials is difficult as not all such differentials are policy-induced; they may be the result of quality differences (in the case of labour or finished products) or differences in risks or administrative costs (in the case of capital) (Paul and Rahel 2010: 123; Workneh 2007: 58). Price differences may also arise from private sector habits or strategies rather than from policies.

There are also complex and burdensome government rules and regulations that emanate from a perception that small enterprises neglect business regulations and therefore operate under illegal conditions, disobeying one or more government rule (Cortes et al. 1987: 263–278; Liedholm 1987: 65–71). Such infractions could result in penalties in the form of a lump-sum fee, which would result in a reduction of income for business operators (Mensah 2005: 78–81). In extreme cases, it could result in the closure of a business or the confiscation of a business's property, creating uncertainty and discouraging business investment.

2.11.7 Institutional Linkage Challenges

One of the most important issues affecting the growth of small enterprises is the linkage with other enterprises, including research organisations (Aggarwal 2006: 202–204). Arimah (2001: 78-89), Rosmary (2001: 62–79) and Solymossy and Penna (2000: 12–23) argue that the nature of these linkages and commercial relationships between small and large enterprises is weak and unbalanced, which harms the smaller enterprises. The most dominant linkage relationship between these two types of enterprise is one in which medium and large enterprises provide inputs to small enterprises; this is regarded as exploitative (Chen 2005: 101–113; Mullei 2003: 63–68).

A forward linkage, in which small enterprises supply medium and large ones and which is believed to have a positive effect on the performance of the small enterprise is not very common in developing countries (Everett and Watson 1998: 302–324; Ishengoma and Kappel 2006: 76–89). This imbalance in linkages between sectors is among the factors that explain low competency in the small enterprise sector. The majority of small enterprises that are involved in bilateral vertical linkages with medium and large enterprises have relatively low bargaining power as a result of their weak legal status and inadequate capabilities (Charmes 2000: 129–137; Gebrehiwot and Welday 2004: 11–18 and

Scase 2000: 20–31). Consequently, they are likely to be exploited and to incur relatively high transaction costs.

2.12 Theoretical Framework

The theoretical framework of this study is a blend of the industrial organisation (I/O) and the resource-based model.

2.12.1 I/O Model

The I/O model asserts that the performance/growth of enterprises is primarily determined by external factors such as business development service, government policy and legal environment, training, finance, market, suppliers, buyers and competitive rivalry among small enterprises that are currently in the industry (Abdullah and Baker 2000:231–232; Mullei 2003: 121). An industry is defined as a group of firms or small enterprises producing products that are close substitutes and where these firms influence one another in the course of competition (Verhees and Muhlenberg 2009: 20; Liedholm and Mead 1999: 34).

2.12.2 The Resource-Based Model

Findings from studies of small enterprises in various parts of the world have shown that managerial skills and business knowledge are important factors that promote the survival of small enterprises and enable them to remain competitive in the global market economy (Goedhuys 2002: 68; Harding 2002: 45; Hitt et al. 2009: 37–40). Competitive advantage in small enterprise can be achieved through social capital networks in which business skills, information and innovative ideas are shared at firm level (Hallberg 1999: 102; Harding 2002: 78; Gurmeet and Rakesh 2008: 301–302).

According to Newton (2001: 111) and the National Agency for the Development of Small and Medium Enterprises in Ethiopia (NADSMEE) (NADSMEE: 2005:

78), the failure of small enterprises is caused mostly by internal problems such as lack of vital business skills, managerial ability and finance. Small enterprises need to create enough force to survive and overcome daily problems in their operation if they are to survive in the long term.

Jennings and Beaver (1997: 209–210), Nieman et al. (2008: 65–86) and Wole (2004: 80) argue that basic knowledge for managing and running an enterprise can be gained through social networking, where owners or managers of small enterprises acquire vital skills and innovative knowledge. Such individuals should be competent in areas such as financial management, marketing products and competition rules; failure to possess such skills leads to eventual bankruptcy or stagnation (Verhees and Muhlenberg 2009: 25–38). Entrepreneurs in small enterprises should be able to generate profit and compete successfully with other market players in view of the fact that firms can only survive if their returns are higher than the costs of their production.

For this reason, the resource-based model emphasises the unique resources of an enterprise as an important factor in the firm's growth/performance over time (Baum and Locke 2004: 226–236; Blackman 2000: 31–42; Casson 2003: 93–102). The model emphasises the point that intangible resources are superior sources of core competencies where, in the global economy, the success of a business lies more in its intellectual and systemic capabilities than in its physical assets and other business development services (Gebrehiwot and Welday 2004: 7–8; Hitt et al. 2009: 32–40).

This study used a combination of the two models as factors external to small enterprises and their internal dynamics are crucial aspects in relation to the growth and performance of small enterprises and make the study holistic.

2.13 Studies of Small Enterprise in Developing Countries

According to Kawai and Urata (2001: 56–57), the three obstacles that potential entrants to small enterprise face are lack of financial and human resources and of distribution networks. Financial constraints at the start-up of new ventures have received considerable attention in developing countries (USAID 2002: 43). Financial constraints can be measured by the size, number and source of loans, the rate and amount of reinvestment, access to physical facilities and other resources of the entrepreneur (USAID 2002: 45–46). Liedholm and Mead (1999: 21) observe that the sources of loans for initial investments in developing countries are in most cases personal savings, relatives and friends. Since such finance is limited in capacity, further expansion of the enterprises is limited as entrepreneurs are unable to use huge initial capital and technology.

An empirical analysis in Morocco conducted by Harabi (2003: 3–4) indicated that the principal determinants of enterprise growth were location in large urban centres, price competition, markets with high demand, product diversification and certain government policies such as labour regulations. A study by Abdullah and Baker (2000: 67–68) in Sierra Leone, also stressed the prime role of location in a firm's success.

Liedholm and Mead (1999: 109) agree that impediments to the growth of small enterprise are access to finance, information and technology. Shortages of technical and managerial skills and inadequate organisational adaptability to new technology are also considered factors that hamper the growth of small enterprises. The lack of resources experienced by smaller firms suggests that substantial benefits that might be obtained through the development of strategic partnerships with other small or even large firms are not achieved.

2.14 Previous Research on Small Enterprises in Ethiopia

The private sector in Ethiopia was suppressed under the command economy of the Dergue regime. Currently, nearly all business activities are open to domestic private enterprises except for a few areas monopolised by government, such as telecommunication and the generation of electricity. These days, the policy regarding private investments is conducive to the development of the private sector. However, there are still some regulatory difficulties affecting this sector.

Findings from the CSA (2002: 23) survey of small-scale manufacturing industries in Ethiopia revealed that government regulations presented obstacles to starting a business. In the survey, 41.5% of respondents reported that licensing procedures were their chief difficulty, while 13.4% reported that tax regulations posed their greatest challenge. Poor institutional arrangements among the various stakeholders (government, private institutions, associations, donors and NGOs) also resulted in a lack of effective utilisation of resources (Getachew and Getachew 1997: 4–5).

According to data from a survey by Mulatu (2005: 67–68), there are 587,644 small enterprises, accounting for 99.9% of the total industrial sector in Ethiopia, while large and the medium enterprises account for only 0.1%. This indicates that the absence of an enabling environment makes it difficult for small enterprises to grow to the next level. Gebrehiwot (2006: 73–74) argues that the generally unfavourable environment, including aspects such as a lack of access to productive resources (finance and business development services), a lack of access to market and other premises, an uncertain policy environment and weak institutional linkages are all potential constraints that inhibit enterprises from contributing a great deal to the national GDP.

Mekonnen (2006: 67) identified policy and institutional arrangements that affect the development of small enterprises in six major cities of Ethiopia, finding that

access to finance was the major constraint. The survey results revealed that the employment creation of small enterprise is insignificant though it contributes to household income. Moreover, lack of access to business services is considered a major impediment to the development of these enterprises. Most operators of businesses are willing to pay a reasonable price for business development services, although the non-existence of such services is mentioned as presenting a significant challenge, in addition to government regulation problems.

Andualem (1997: 87), Belay (2000: 123), CSA (2002: 45) and CSA (2003: 9–10) have shown that for 50% of small enterprise operators in Ethiopia, the first major difficulty when starting their operation was lack of sufficient initial capital. This problem became more critical when they attempted to expand their businesses. In addition, 29% of the small enterprises listed market and working premises difficulties and frequent machinery failures as the major obstacles to their becoming operational, which suggests that there is a lack of appropriate technology in the day-to-day operation of small enterprises.

In a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises, Eshetu and Zeleke (2008: 56–58) used a random sample of 500 small enterprises from five major cities in Ethiopia. They found that inadequate finance (61%), low level of education (55%), poor management (54%) and technical skills (49%) and an inability to convert part of their profit to investment (46%) were factors that most affected long-term survival. The study further indicated that participation in social capital and networking schemes such as Iqqub were critical to long-term survival of these enterprises. The businesses that did not participate in Iqqub schemes were found to be more likely to fail than businesses that did participate.

Tegegne and Meheret (2010: 40–45) conducted research with the intention of assessing the contribution to the economy made by small enterprises. They used a sample survey of 557 operators and 200 small enterprises chosen from four

major cities in Ethiopia. Tax burden (33%), lack of finance (13%), lack of market (11%) and lack of a working space (4%) were found to predict gloomy outcomes for businesses.

2.15 Previous Research on Small Enterprises in Tigray Region

Paul and Rahel (2010: 89–92) conducted a survey of 123 small enterprises in three cities in the Tigray region to investigate the constraints and determinants of growth, particularly those of employment expansion. The enterprises were found to have registered a 25% increment in employment since their establishment, with an average annual employment rate of 11.72%. With regard to the sources of initial capital, personal savings or *Iqqub* (66.7%) were the major source, followed by 17.5% from MFI and 17.1% from family/friends. Daniel (2007: 49) identified lack of capital, skills and working space as concrete problems faced by small enterprises in the region during their start-up and expansion, in addition to lack of raw materials and stiff competition.

According to the Tigray Micro and Small Enterprises Development Agency (TMSEDA 2006: 34), the major growth constraints experienced by small enterprises are market and financial problems. Assegedech (2004: 7) points out those acute shortages of funds have discouraged the smooth operation and development of small enterprises. When funds are available, some entrepreneurs do not use them for the anticipated objectives; consequently, the enterprises fail to return the money to the lender on time, which results in loss of trust and difficulty in securing further loans when necessary.

A study by Belay (2000: 78) found that competition hinders the performance of small enterprises. Larger enterprises have the advantage of selling at reduced prices without reducing product quality, using economies of scale and intensified products/services among other things to exploit market opportunities.

Assegedech (2004: 28) observes that the product line activities of small enterprises in most cities in Tigray region are relatively similar:

there is lack of product variability where similar goods and services are abundant in the market. When operators of small enterprises shift from one product type to another, others start the same business as soon as possible and this causes the selling price to fall immediately.

Dereje (2008: 47) investigated the performance, opportunities and challenges faced by small enterprises in Adigrat, based on a sample of 125 businesses. The results revealed that the main constraints on small enterprises were shortages of raw materials, market and credit facilities and an absence of government support. Workneh (2007: 51) found that lack of capital and relevant training were among the obstacles faced by small enterprises in Mekelle. Adil (2007: 63) also found that shortage of capital, unsuitable locations, poor markets and display rooms were the major challenges facing sampled enterprises in Tigray Region. Moreover, there was an absence of entrepreneurial and managerial skills, which in turn led to problems in production as a result of workers' unfamiliarity with rapidly changing technology.

Mulatu (2005: 34–36), Mulugeta (2011: 72–77) and Negash and Kena (2000: 205) identified problems experienced by enterprises in Adigrat, where poor market linkage, promotional efforts and other institution-related challenges such as absence of monitoring and follow-up were the major difficulties. Furthermore, developing a dependency tradition and lack of vision, commitment and cooperation among small enterprises impeded their progress. Negative attitudes among the community towards operators and their products were also reported as hindering optimum performance.

Generally, literature on small enterprises in the Tigray Region is scant and most of the available studies are not specific. That is, the specific challenges and prospects of entrepreneurs in each sector are not explored or described. Hence,

as small enterprises in various sectors face different types of problems to differing degrees, rating and studying critical challenges and prospects that specifically affect each sector's performance is helpful if they are to transform rapidly to the next stage. This means that factors that critically affect the performance of traders, for instance, may not equally affect the performance of other businesses sectors.

2.16 Socio-Political Context of Small Enterprise in Ethiopia

In Ethiopia, public policy concern for the development of micro and small enterprise goes back as far as the Axumite Empire, around the first century A.D. Mulu (2009: 65–67) explains that the Axumite Kings realised the importance of small-scale and household manual microenterprises to their domestic and overseas trade, internal and external wars, civilisation and various economic interests. Gebrehiwot and Welday (2006: 34) echo Mulu in his characterisation of the Axumite political establishment as a 'mercantile' or 'long distance trading' ancient empire, which depended on its own manufacturing sector and caravans to transport its goods to the outside world.

Gurmeet and Rakesh (2008: 108) mention a long list of household microenterprise units and fields of activities that were dominant in the Axumite Empire with the sole purpose of market provision and profit making. Among these, the manufacturing sector produced jewellery, furniture, utensils, clothing, artefacts, leatherworks, stationery and arsenals. The service sector, on its part, encompassed a wide range of profit-making activities including hairdressing, basic education, skill training and transport (Daniel 2007: 67; Taye 1998: 111; Eshetu and Eleke 2008: 23–26). Tegegne and Meheret (2010: 56) observe that the Axumite Empire reflected the fastest growth in ancient household microenterprises when it started minting its own gold, silver and bronze coins in the second century.

Michael and Jeffrey (2009: 89–90), Andualem (1997: 76) and Adera (1995: 21) on their part point out that there were Ethiopians who owned strange manufacturing and service provision plants in Arabia. These entrepreneurs gained the support of the empire to cross the Red Sea and manufacture duty-free profits. Mulu (2009: 65) mentions technologies such as windmills, pot casting, stationery and building materials among the many private manufacturing and service delivery plants. Gebeyehu and Assefa (2004: 76–78) extend the scope of the Axumite micro level household entrepreneurial establishment to the industry of ancient arsenals and war materials. They assert that in the third century, around 340 A.D., King Kaleb mobilised all manufacturing plants under private ownership to produce 300 warships for his campaigns against the Arabian empire.

Archaeological discoveries around the city of Axum suggest that the original Axumite Empire of ancient Ethiopia had a micro entrepreneurial policy, what Vandenberg (2006: 221–222) calls ‘creative incorporation’. Gunning and Mengistae (2001: 68) and Gurmeet and Rakesh (2008) believe that the Axumite Empire was open to outside technology, where skills and businesses entered its territory but were subject to creative modification and subsequent incorporation into the domestic entrepreneurial establishment under a new Axumite brand.

Mekonnen (2006: 45–46), Negash and Kena (2003: 67) and Zewde (2002: 38) argue that up until the introduction of Christianity in the 4th century, the Axumite kings had a broad range of policy incentives for manufacturing plants, forming the basis of their thriving trade economy. This was dominant across the Red Sea and the Arabian Peninsula as far as ancient India, Egypt and Persia. Gebrehiwot and Welday (2006: 94–96), Wole (2004: 89) and Workneh (2007: 13–14) identify this period as the golden age of the creative pursuit of micro and small enterprise development in Ethiopia. However, with the decline in the political and military might of the Axumite Empire, the industry also declined after the 4th century.

The elevated sense of entrepreneurship and its significant contribution to overseas trade came under pressure with the introduction of Christianity during the same period. Belay (2000: 123), Gurmeet and Rakesh (2008: 234) and Zeleke (2009: 121) observe that the legendary Jewish community, which was the main repository of entrepreneurial growth and skills, became the prime target of Christian isolation and marginalisation policies because of the former's refusal to accept the birth of Jesus Christ. The newly converted Christian kings succumbed to the influence of the Christian Church and made it their policy to separate entrepreneurship from its historical and traditional privileges bestowed by the crown (Dereje 2008: 205; Emebet 2003: 102; Zewde 2002: 32).

As Belay (2000: 213–216) and Chen (2005: 302) recount, the advent of Islam in Ethiopia as early as the 7th century had a detrimental effect on the evolution of entrepreneurial growth throughout the entire Ethiopian empire. The sudden and violent seizure by the Muslims of the Red Sea and the all the kingdoms surrounding Axum, including Arabia, Nubba and Sennar in present-day Sudan, Egypt and the whole of the Middle East interrupted Axumite overseas trade. This massively disrupted the entrepreneurial industry and forced it out of the international market. This in turn inhibited the market and profit incentives of the owner households.

A positive effect of the advent of Islam in Ethiopia was that Muslims brought with them new technologies, skills and values of entrepreneurship. These made their way into the declining sector far beyond the fall of the Axumite Empire in the 10th century, following its replacement by the Zagwe and later the Gondar dynasties (Assegedech 2004: 136; Bigsten et al. 2003: 98).

Assefa (1997: 87), Chen (2005:45–47) and Daniel (2007: 77) argue that the marginalisation of Muslim immigrants by Christians in rural settlements and agricultural practices forced the Muslims to settle in urban centres and engage in the non-agricultural, household micro-entrepreneurial sectors of the economy.

Muslims introduced entrepreneurial skills and traditions such as weaving, shopping, caravan services, medication and other skills, which had the significant effect of diversifying the sector throughout the empire (Eshetu and Eleke 2008: 67; Getachew and Getachew 1997: 240). As far as entrepreneurial wisdom, value and skill growth is concerned, Andualem (1997: 87) observes that Islam brought with it new economic behaviours, which were strange to the majority of Christians and the Jewish entrepreneurial community, some of which survive to this day. These contributions include:

1. While Muslims observe only a few days a year on which they refrain from all entrepreneurial activities, Christian entrepreneurs adhere to church rules by observing several holidays that prevent them from engaging in business dealings.
2. Christian traditions encouraged non-economic expenses to be taken out of entrepreneurial profits such as alcoholic drinks, funeral services, religious and state holidays and so on. However, Muslim business traditions in the Koranic dogmas, 'Haram', discouraged such behaviour, encouraging instead greater expenditure on household necessities and expansion of businesses from generation to generation.

Assefa (1997: 56–58) points out that the Jewish community was historically the second most active and dominant owner of Ethiopian microenterprises. They were regarded as immigrants by the Christian community and, like Muslims, experienced consistent socio-economic marginalisation (Assegedech 2004: 76–78). They limited themselves to rural but non-farming handicraft occupations and produced almost all types of household furniture and farm technologies.

Belay (2000: 89–90) and Daniel (2007: 61) explain that the Jewish community earned extremely negative labels such as 'evil eyes', 'spirit eaters', 'bloodsuckers', and so on. Some of these stereotypes persist to this day.

Compared to the established traditions of Christian-Muslim relations, the Christian attitude toward the Jewish community was exclusionist and, at times, hostile; this has continued to harm the potential growth and expansion of the handicraft microenterprise industry (Negash and Kena 2003: 76–77; Tegegne and Meheret 2010: 97).

This state of affairs characterised the evolution of the Ethiopian microenterprise industry throughout the medieval period and into the changing political situation of the 17th century. According to Welday and Gebrehiwot (2004: 68–69), the microenterprise industry in this period underwent two diametrically opposing politico-economic and socio-cultural factors. The negative factors encompassed four developments:

1. The microenterprise industry was only just recovering from the devastating effects of the 15-year Religious War (1641–1654) between Muslims and Christians. This caused the relocation of the huge industrial workforce to the war effort.
2. The continued doctrinal conflict within the Orthodox Church provoked frequent armed conflicts that diverted the attention and growth paths of the reviving microenterprise industry from economically productive concerns to the unproductive war effort.
3. The relocation of the political centre to the northwest of Ethiopia opened opportunities for foreign entrepreneurs to introduce high quality products and services. This had a limiting effect on domestic entrepreneurial growth.
4. The imposition of predatory taxes by the empire on the fledgling agrarian economy weakened the purchasing powers and wages of the farming population. This situation discouraged the entrepreneurial community.

For Elkan (1988: 231), Gebeyehu and Assefa (2004: 23) and Gebrehiwot and Welday (2005: 200–202), however, the impact of the political economy during this period of Ethiopian entrepreneurial evolution included developments that were far more positive.

First, the establishment of the city of Gondar as a permanent capital of the empire contributed to the microenterprise industry's stability and predictability, resulting in the establishment of markets that were more stable and able to cater to rising consumer demands.

Second, the arrival during and after the religious war of Portuguese and Turkish soldiers from opposite directions, the former from the north through Massawa, the latter from the east through Harer, introduced new entrepreneurial techniques and skills, specifically in the arms, construction, household furniture and other areas of production and services.

Third, the settlement of the crown and the church in north-west Ethiopia opened new routes for international trade that gave incentives to micro businesses to produce and learn from better quality overseas products.

Fourth, the relative peace that prevailed after the end of the war in 1632 had great significance for the Jewish community, who had suffered severe marginalisation under the Christian community.

According to Desta (2010: 35), Mulu (2009: 66) and Taye (1998: 97), despite all the above, the first ever imperial policy attention given to the microenterprise sector of the Ethiopian economy came later, after 1855, with the ascendancy of the progressive leader of the period, Emperor Theodros II (1855–1867). The Emperor realised the significance of the private business sector, from his comparative understanding of the Europeans' advancement. Henry (1861: 302), a British Consul under the custody of the Ethiopian Emperor at that time,

recorded the public policy of Theodros toward the handicrafts economy as follows:

1. The microenterprise sector and the workforce it employed had official and imperial recognition as a 'dignified work', contrary to past marginalising policies.

2. Any citizen of the Ethiopian empire not engaged in cottage industries and microenterprises who looted, downgraded, humiliated or segregated the members of these sectors faced severe imperial punishment. The emperor, who was said to have a mother who had great skill in preparing and selling anti-worm herbal medicine, locally called 'Koso', earned her and her son, later a king, a low opinion among the people. This annoyed the emperor.

3. The emperor proved to be the first to establish a separate and acknowledged location called Gafat, nearby the Royal Palace in Debre Tabor, his capital, to show his support for enterprises as well as to pave the way for knowledge and skills transfer from foreign industries.

4. The emperor developed the sector as the basis for technical and industrial self-sufficiency, particularly in his policy of producing war materials and canons. Furthermore, he was interested in the manufacturing of methods of transport such as ships to cross Lake Tana and horse-drawn carts.

Nevertheless, Kawai and Urata (2001: 34), Taye (1998: 101) and Wole (2004: 137) point out that Emperor Theodros' policy failed to materialise because of two major strategic limitations.

Firstly, the King did not have sufficient understanding of the internal and external dynamics of the growth of modern private microenterprise, which resulted in his policies being inconsistent with the reality in Ethiopia at the time.

Secondly, neither the microenterprise-owning households nor the surrounding communities understood the rationale of the king's policy. This prevented the development of positive attitudes in support of the sector on the death of the emperor.

Emperor Minilk (1888/9–1913) took over following the death of Emperor Yohannes IV (1870–1887), who had had no policy of microenterprise development. Emperor Minilk soon released an imperial decree in 1890 that technological advances by European states had emerged from the handicraft industry and had made great progress. In 1902, he initiated a technological revolution by gathering small handicrafts businesses around his palace, traditionally called 'Seratiegna Sefer' (Andualem 1997: 76–80; Mulatu 2005: 2–5). However, because there was no institutional or public policy back up, Minilk's attempts also failed to bring either value or sectoral transformation.

During Emperor Haile Selassie's (1935–1974) rule, the sector underwent open policy marginalisation and alienation as a result of a drastic shift in government policy towards the socio-economic growth policy of modernisation (Belay 2000: 87; Charmes 2000: 61–62). CSA (1991: 45–51) noted that there was a total of 400 medium manufacturing industries and a few large-scale establishments. Very little is known about handicrafts and other small-scale industries. According to Gebreyesus (2007: 238) and Wasihun and Paul (2010: 233–246), small enterprises were located in households or small workshops and depended mostly on own or family labour.

After a slow start, the government issued a Handicrafts Association Proclamation in 1961 that made way for the establishment of some associations (CSA 1997: 54; Freel and Robson 2004: 318). The government was not successful, however, because of a lack of committed policy support. To make matters worse, the policy makers and advisors to the emperor misconstrued the introduction of European science and industry with no concomitant policy of development

initiatives integrating microenterprises as part of modernisation (Kawai and Urata 2001: 67). The sector was instead regarded as an obstacle to rapid modernisation, and viewed as traditional, backward and undesirable.

After 1974, the Dergue government (1974–1991) issued a proclamation in 1978 to establish a public office to coordinate the organisation of handicraft producers' cooperatives. The Dergue emphasised certain goals such as fighting the exploitation of international capitalism and its internal residue, and introducing modern methods and technology in their production techniques. The regime also changed the negative feudal values that were prevalent in the sector, especially with regard to women (Gebrehiwot and Welday 2004: 21; Assefa 1997: 43–44).

The desire to promote small enterprise within the context of centralised planning and along socialist lines has been expressed in various government documents and actions (Gebrehiwot 2006: 63–64). The earliest was in 1975 when the economic policy of socialist Ethiopia explicitly recognised the role of small enterprises and defined their areas and activities of operation.

In 1977, the Handicraft and Small-Scale Industries Development Agency (HASIDA) was established to regulate the activities of small enterprises and to carry out promotional operations (MoTI 1997: 60–62). Subsequent proclamations provided a specific list of activities and defined the rules of operation, which included a ceiling of investment set at 500, 000 birr (26, 315 USD) and the restriction of operators to one venture only (Gebrehiwot 2006: 60–61; Negash and Kena 2003: 228–231). In this way, the Dergue regime devised a new policy guideline with particular emphasis on microenterprise industry, quite revolutionary in the context of Ethiopia at the time. However, the cooperativisation practice of the Dergue regime, based on force and coercion from above and the large scale politicisation of associations and compounded by rampant national instability, meant that these efforts ended in complete policy failure (Zewde 2002: 260).

In recognition of the important role that micro and small enterprises can play in creating income and employment opportunities, the government of the Federal Democratic Republic of Ethiopia (FDRE) drafted its first Micro and Small Enterprise Development Strategy in 1997. The policies and strategies of the FDRE government underpin the sector, treating it as equally important as any other socioeconomic sector (Eshetu and Eleke 2008: 81–82; Negash and Kena 2003: 46).

Institutionally, since 2000, new public policy has been formulated with an explicit list of powers and functions to develop the sector in all its aspects, with women being given special consideration as a matter of constitutional right, as provided for in Article 35 of the FDRE constitution (Gebeyehu and Assefa 2004: 29; Goedhuys 2002: 113–114; Mulatu 2005: 8–9). As a priority, a national microenterprise policy package has been in place since 2005 with multi-dimensional public support being given to the rapid growth of the sector. The entire sector has been redefined in the light of the current national and global public policy direction and enjoys the priority of government intervention.

According to the document of the Ministry of Trade and Industry, the change of government was followed by changes in the economic policy environment, administrative structure and institutional frameworks (MoTI 1997: 67–70). The major changes were:

1. The declaration of a market economy and subsequent measures to remove price controls create a favourable policy environment for small enterprise development.
2. It placed greater emphasis on decentralisation that enables the regional trade and industry office to provide special support in terms of promotion, training and overall development of the sector.

3. The formulation of an industrial development strategy in 2003 recognised small enterprises as the springboard for industrialisation in the country and identified the priority sectors (textiles and garments, meat and leather, agro-processing, construction and small enterprises) that required support.

According to the current Growth and Transformation Plan (GTP) document, the government anchored its development goals in stimulating the rapid growth and structural transformation of small enterprises in ways that would enhance wealth creation and expansion of employment opportunities (MoTI 1997: 35; MOFED. 2010: 78). In order to achieve these goals, a broad-based foundation for competitive domestic industrial and private sector development must be created by expanding small enterprises to improve employment opportunities; this will help to reduce poverty and to strengthen rural-urban and urban-urban economic linkages (FDRE. 2000: 56–57; Mulugeta 2010: 45–46).

The Government plans to accomplish this by strengthening small-scale enterprises in a manner that unleashes their full potential to grow into medium and large-scale domestic enterprises. This is expected to generate employment opportunities and wealth by promoting value addition to raw materials, including primary agricultural products (Gebeyehu and Assefa 2004: 92–93; Paul and Rahel 2010: 23–25).

The MOFED document (2010: 28) stipulates that the success of these transformational goals is dependent on both government commitment and the financial and technical support of development partners. This government effort will incorporate the development of working premises and production facilities and the encouragement and provision of credit and marketing support in an effort to dismantle constraints that inhibit the growth of small enterprises into medium and large-scale competitive enterprises.

2.17 Conclusion

Recognising that there are no standard definitions of small enterprises and that any definitions vary from country to country, a working definition used in this study is one provided by the Ministry of Trade and Industry. This is in turn based on the definition of the Central Statistical Authority of Ethiopia that categorises enterprises according to their number of employees and the amount of paid up capital.

The rationale for the growth and development of small enterprises is the recognition given to them in terms of income and employment generation in many developed and developing economies. In Ethiopia, the sector is believed to have played an instrumental role in bringing about economic transition by successfully capitalising on the skills and talents of the people. The sector has also been labelled as the national home of entrepreneurship that can be used as an essential springboard for growth and social progress at large, by creating substantial job opportunities.

Although there are different theories of small enterprise growth, the theoretical framework of this study is a blend of the industrial organisation (I/O) model that asserts that the performance or the growth of enterprises is primarily determined by external factors, and the resource-based model that emphasises the unique resources (entrepreneurial characteristics) of these enterprises. Employed workers and paid family labour are used as a proxy measure of the growth of small enterprises. Constraints on business development such as finance, training, consultancy, marketing and information services and mechanisms that improve business linkages and the like are also reviewed.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

In the preceding chapters, the thesis provided a discussion of conceptual definitions such as entrepreneurs, entrepreneurial characteristics and small enterprises. Founder entrepreneurs versus other business owners, an overview and brief history of small enterprises in Ethiopia and the parameters used for the analysis were also discussed.

In addition, Micro and Small Enterprise Development Strategy in Ethiopia, the rationale for the development of small enterprises, theories of growth and the measurement of the growth of small enterprises were discussed. Chapter Three provides a discussion of the type of research conducted, the data collected in the study, sample size and sampling procedures, methods of data collection, tools for data analysis and ethical considerations.

3.2 Types of Research

The researcher used descriptive approaches to interpret and reduce the data into a summary form in tabulations, charts, bar graphs and measures of central tendency (mean and standard deviation). He also conducted an investigation of the underlying motives, desires, feelings or thoughts of people regarding a particular situation or institution, using research methods such as in-depth interviews and focus group discussions (Silverman (1993: 78–79). This approach is commonly applied when people are the focus of the study, particularly in small groups or with individuals, but it can also be used when dealing with beliefs or customs in a community (Bernard 2000: 103–104).

The main purpose of descriptive research is to describe the state of affairs, as it exists at the present time. The distinguishing feature of this method is that the researcher has no control over the variables, but only reports what has happened or what is happening. Survey methods of all kinds, including comparative methods, can be used in descriptive research. This type of research is also concerned with predictions and the narration of facts about a particular individual or a group (Bernard 2000: 28; Bryman 2004: 18–19; Ghosh 1982: 70; Silverman 1993: 35).

Thus this study explores and describes the various challenges that have a direct bearing on operators of small enterprises, using descriptive narrations and concurrent triangulation strategies. These difficulties include access to credit, training, market information and government rules and regulations affecting small enterprises.

3.3 Data Types

The study used mainly qualitative data, both primary and secondary, collected from the study sites. Miles and Huberman (1994: 329–330) and Silverman (1993: 213–214) explain that qualitative data deals with phenomena that relate to qualities or types. It is based on information expressed in words, descriptions, accounts and on the opinions and feelings of people. Albert (1961: 43–44) and Bernard (2000: 45–46) argue that qualitative data is generated either in non-quantitative form or in forms that are not subjected to rigorous quantitative analysis.

3.4 Sampling Procedures and Sample Size

In order to increase the validity and reliability of the data, the study used both probability and non-probability sampling techniques. Probability sampling is known as 'random sampling' or 'chance sampling', where every item of the population has an equal chance of inclusion in the sample (Ghosh 1982: 89–90).

It is, so to say, a lottery method in which individual units are picked from the whole group, not deliberately but by some mechanical process. For instance, one can write the names of a finite population on slips of paper and, after mixing the slips of paper thoroughly, can draw the required number of slips one after the other without duplication (Odum and Jocher 1929: 125–126; Preece 1994: 65–66). In doing so, each of the elements of the population has the same chance of being selected. In research, population does not necessarily mean the number of people; it may consist of objects, people or even events (e.g. schools, miners, revolutions) that describe the total quantity of things (or cases) or of types that are the subject of the study (Bryman 2004: 23–24).

In this way, the results obtained from the random sampling technique can be assured in terms of probability: i.e., one can measure the errors of estimation or the significance of the results obtained from a random sample (Allen 1978: 18–19). This method ensures that the sample has the same composition and characteristics as the population.

Non-probability sampling is known by various names such as deliberate sampling, purposive and judgment sampling, where the choice of the researcher concerning the items to be included in the sample remains supreme (Gopal 1964: 56–57). In other words, in non-probability sampling, the organisers of the inquiry purposefully choose the particular units of the population to constitute a sample on the basis that what they select will be typical or representative of the whole population (Preece 1994: 65–66).

In this study, purposive sampling was used to select the region and the specific study sites (Mekelle and Adigrat) as they are cities with a relatively high concentration of small enterprises.

Secondly, in the case of the study districts, Keddamay-Wayyane was purposively selected from Mekelle to enable the researcher to describe the challenges and

prospects of each sector of small enterprises in detail. In fact, this district has a high concentration of the small enterprises represented in Mekelle. In contrast, all districts of Adigrat were surveyed as there are relatively small numbers of small enterprises scattered throughout these districts.

Thirdly, different small enterprise sectors (trade, service, urban agriculture, construction and manufacturing) were taken purposefully as strata; strata can be illustrated, for instance, by a business enterprise whose workforce is divided into categories based on income level, age, sex and religion. The required sample was selected from each stratum to represent the whole population, using a stratified proportional random sampling technique. A stratified sampling technique is generally applied in order to obtain a representative sample if the population from which it is to be drawn does not constitute a homogeneous group (Nicholas 2006: 93–94). A stratum in which the population is divided into several sub-populations is individually more homogeneous than the total population and is usually formed based on the common characteristics of the items to be put in each stratum (Tandon 1979: 103–104).

The relationship between the characteristics of the population and the characteristics to be estimated are used to define the strata from which items are selected to constitute the sample (Cothari 2004: 91–92). A stratum or a sector of small enterprises ensures elements that are homogeneous within each stratum (sector) and heterogeneous among the different strata in terms of capital size, the number of employees and other characteristics. In this way, a representative sample from which reliable and detailed information about the total population is inferred can be achieved.

Fourthly, in order to determine the number of small enterprises (proportions) from each stratum, proportional allocation methods are employed in which the size of the samples from the different strata are kept proportional to the size of the strata. Sharma et al. (1983: 378–379) illustrate this method as follows:

If P_i represents the proportion of population included in stratum 'i', and 'n' represents the total sample size, the number of elements selected from stratum 'i' is $n \cdot P_i$. To illustrate this, let us suppose that we want a sample of size $n = 30$ to be drawn from a population of three strata of size $N_1 = 4000$, $N_2 = 2400$ and $N_3 = 1600$. Adopting proportional allocation, we shall get the sample sizes as shown below for the different strata: For strata with $N_1 = 4000$, we have $P_i = 4000/8000$ and hence $n_1 = n \cdot P_1 = 30 (4000/8000) = 15$. Similarly, for strata with $N_1 = 2400$, we have $n_2 = n \cdot P_2 = 30 (2400/8000) = 9$, and for strata with $N = 1600$, we have $n_3 = n \cdot P_3 = 30 (1600/8000) = 6$.

Thus, according to this illustration, using proportional allocation in this study resulted in the sample size from each stratum being 15, 9 and 6 respectively, proportional to the size of the strata, that is, 4000, 2400 and 1600. Proportional allocation is considered efficient and an optimal design when the cost of selecting an item is equal for each stratum. Furthermore, it is used when there is no difference in stratum variance, and the purpose of sampling happens to estimate the population characteristics (Kvale 1996: 87–89).

Using these techniques, 154 respondents from all small enterprise sectors were randomly selected from the two study sites. That is, the sample respondents were randomly selected from each small enterprise sector (stratum) with the help of the lottery method or a simple random sampling technique. In other words, chance alone determined whether one item or another was selected.

With regard to sample size, a simplified formula provided by Yamane (as cited in Yilma 2005: 42) was used to determine the minimum sample size at 95% level of confidence, 0.5 degrees of variability and 9% precision level (e):

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

where 'n' is the minimum sample size, 'N' is the total number of the study population and 'e' is the level of precision.

- Confidence Level

The confidence level indicates the degree to which the sample size falls within the required intervals. It gives an estimated range of values, which are likely to include the unknown population parameter (Cothari 2004: 65–66; Sharma 1983: 201–202). Therefore, for a confidence level of 95%, 95 out of 100 samples will have a true population value within the confidence interval and 95% is the proportion of the population covered by ± 2 standard deviations from the mean in a normal distribution. The wider we allow the confidence interval to be, the more confident we can be that the real answer lies within the range (Bryman 2004: 45–46).

- Degree of Sampling Variability

The degree of variability describes the distribution of attributes in the population, while the sampling variability of a statistic refers to how much the statistic varies from sample to sample and is usually measured by its standard error. The smaller the standard error, the less the sampling variability will be (Anderson 1958: 25–26). For example, the standard error of the mean is a measure of the sampling variability of the mean. The more heterogeneous the population, the larger the sample size required to obtain a given level of precision; the more homogeneous the population, the smaller the sample size required.

- Level of Precision/Significance

The level of precision sometimes referred to as the confidence interval or sampling error, is the range in which the population's actual value is estimated to exist (Anderson 1958: 208). For instance, if one finds that 60% of a sample has adopted a specific practice with a precision rate of $\pm 5\%$, then it can be concluded that the actual number of samples in the total population that has adopted the practice lies in the range of 55–65%.

The minimum sample size required in Kaddamay-Wayyane of Mekelle, according to the above formula, was 106 small enterprises. However, for greater precision and accuracy, the total number of respondents taken from this study site was purposefully determined as 114 operators. In Adigrat, the total number of respondents, based on the formula given above, was 40 operators. In this way, the size of the samples from each sector was kept proportional to the size of the strata, as shown in Table 3.2 and 3.4 below.

Table 3.1: Type and Number of Small Enterprises in Kaddamay-Wayyane

S. no	Small enterprise sectors (strata)	Total number of small enterprises per stratum (N)
1	Trade	470
2	Service	199
3	Manufacturing	68
4	Urban Agriculture	32
5	Construction	12
Total		781

Source: (TBoFED 2013: 21)

Table 3.2: Proportionate and Randomly Selected Samples in Kaddamay Wayyane

S. no	Small enterprise sectors (strata)	Number of sample enterprises	Percentage (n/N)
1	Trade	69	61%
2	Service	29	25 %
3	Manufacturing	9	8%
4	Urban Agriculture	5	4%
5	Construction	2	2 %
Total		114	100%

Source: (Own Data, 2013)

Table 3.3: Type and the Number of Small Enterprises in Adigrat

S. no	Small enterprise sectors (strata)	Total number of small enterprises per stratum (N)
1	Trade	17
2	Service	18
3	Manufacturing	3
4	Urban Agriculture	10
5	Construction	14
Total		62

Source: (TBoFED 2013: 21)

Table 3.4: Proportionate and Randomly Selected Samples in Adigrat

S. no	Small enterprise sectors (strata)	Number of sample enterprises	Percentage (n/N)
1	Trade	11	27.5%
2	Service	12	30%
3	Manufacturing	2	5%
4	Urban Agriculture	6	15%
5	Construction	9	22.5%
Total		40	100%

Source: (Own Data, 2013)

3.5 Method of Data Collection

3.5.1 Primary Data

Data that have been observed, experienced or recorded close to the event are the nearest that one can get to the truth and are called primary data (Miles and Huberman 1994: 46–48). In this study, primary data were collected using the data collection techniques described in the following sections.

3.5.1.1 Structured Questionnaires

A questionnaire consists of a number of questions that are arranged in a definite order on a form or set of forms and sent to the persons concerned with a request to fill in the answers in the spaces provided (Cothari 2004: 231). Structured questionnaires have definite, concrete and predetermined questions and are presented with exactly the same wording and in the same order to all respondents (Bryman 2004: 109). This method of data collection is quite popular, particularly in cases of large numbers.

Individuals, public organisations and governments use structured questionnaires, as they are cheap to administer to large groups over wide geographical areas. They are also a very useful means of eliciting information, as the personal influence of the investigator is eliminated (Allen 1978: 91). However, care must be taken in this sort of standardisation to ensure that all respondents reply to the same set of questions.

The form of the questions may be either closed (i.e., of the 'yes' or 'no' type, multiple-choice, rank order or numbering items on a list by preference) or open (i.e., inviting free responses). This will be stated in advance and should not be constructed during questioning (Miles and Huberman 1994: 108). In the case of structured questionnaires, a coding frame must be devised and incorporated to make the coding and data handling simpler and consistent during analysis. A code must be assigned to each response in the form of a number; this is used when capturing the responses electronically (Bernard 2000: 45–46).

In order to complete the structured questionnaire that was designed in such a way that it met the general and specific objectives of the study, five enumerators and one supervisor in Mekelle and seven enumerators and two supervisors in Adigrat were recruited to work under the guidance of the researcher.

The researcher also arranged a one-day training session at each study site in order to inform the enumerators of the purpose of the study and to provide detailed explanations about the way that the data were to be collected. Each question was clearly explained to the enumerators and supervisors. There was adequate opportunity to rehearse and understand the context of the questionnaire, make comments, raise questions and forward any suggestions they thought useful on the quality of the questionnaire. Data collectors, both enumerators and their supervisors, collected the necessary information under the strict and continuous supervision of the researcher.

During data collection, the researcher followed up and monitored the process by making himself available to explain any points to the respondents in order to gather genuine responses. In an effort to increase the validity and reliability of the data, the researcher helped enumerators when they faced difficulties in explaining some questionnaire items to respondents. Furthermore, the researcher observed the impressions of the respondents and their work premises, the trade outlets and other infrastructure. This helped him to cross check and triangulate responses with the reality in the field. At the end of the process, the researcher checked and examined the data for completeness, uniformity and consistency to ensure that the data collection staff had performed their duties honestly and without prejudice.

Accordingly, the researcher, together with enumerators and supervisors, collected data from managers, owner managers, employees and government officials in small enterprises. Data included demographic information such as level of education, age, gender, marital status and religion of the entrepreneurs. Information about the enterprise, such as year of establishment, number of employees, availability of infrastructure, access to new technology, markets, finance, work premises, training as well as policy environment and institutional linkages were among the aspects that were covered in the questionnaire.

3.5.1.2 Pilot Survey

A pilot survey is a replica and a rehearsal of the main survey, conducted to test and improve the quality of the questionnaire (Tandon 1979: 76). In this study it was used to check the feasibility of other data collection techniques employed by the researcher. In the process, it brought to light the weaknesses of the questionnaire and of the survey techniques in general. The experience gained in this way allowed for the improvement of the content and design of questionnaire.

3.5.1.3 Face-to-face Interviews

The face-to-face interview is usually carried out in a structured manner, thus the name structured interview (Bailey 1978: 390). Kvale (1996: 216) argues that face-to-face interviews have a wide range of applications and place the researcher in a good position to judge the quality of the responses and to establish whether respondents have understood the questions. Such interviews involve the use of a set of predetermined questions, where the interviewer follows rigid procedures and ask questions in a prescribed form and order (Sharma et al. 1983: 268). In many instances, this interview can be audio-recorded in order to retain the full and uninterrupted responses.

In this study, face-to-face interviews were conducted with five officials from a microfinance institution in Mekelle and with three in Adigrat. Two staff members from the top management structures of a commercial bank in Mekelle and one from Adigrat were also interviewed. Information was also gathered from four extension workers in Mekelle and three in Adigrat. Furthermore, five entrepreneurs from each sector of small enterprise in each city, in total 10 individuals, were interviewed on separate occasions. These interviews were used mainly to secure vital as well as supplementary information that entrepreneurs identified as challenging the growth and expansion of their businesses, such as the existence and adequacy of loans, interest rates and collateral requirements.

In addition to these difficulties, officials identified the main obstacles encountered when promoting the expansion and growth of small enterprises. The principal proactive and preventive measures taken by various stakeholders to prevent failure or liquidation of small enterprises were also identified. Data collected using this technique included market linkage situations, the efficacy of government rules and regulations, policy environment, licensing and registration challenges and bottlenecks. The researcher himself conducted the structured interviews with the selected target groups, that is, female and male entrepreneurs at the study sites.

3.5.1.4 In-depth Interviews

In-depth interviews are designed to investigate the underlying motives, desires, needs and feelings of respondents; what people feel or think about a particular institution or situation and to uncover the various factors that demotivate or motivate entrepreneurs in the course of their business (Kvale 1996: 411).

In this study, in-depth interviews went beyond the face-to-face interviews and elicited explanations of issues raised there. Individuals who met the criteria were selected after face-to-face interviews had been conducted. The criteria for selection included level of education, relevant experience and participation in various sectors of small enterprise. Accordingly, two individuals from the top decision-makers in the government of small enterprises in each city, two bankers and three extension workers from each city were selected for the in-depth interviews. A checklist was prepared to guide these interviews and conducted by the researcher himself. They were the major sources of information and improved the quality and reliability of the study.

3.5.1.5 Observation

Observation becomes a scientific tool and a method of primary data collection when it serves a formulated research purpose and is systematically planned,

recorded and subjected to checks and controls to ensure the validity and reliability of the data (Nicholas 2006: 301; Cothari 2004: 68). This method is independent of respondents' willingness to respond and is relatively less demanding of active cooperation on the part of the respondents, differing in this respect from interviews or questionnaire methods of data collection.

Observation is particularly convenient in studies that deal with respondents who cannot explain their feelings for one reason or another. When using this method, the researcher should keep in mind what things should be observed, how the observations should be recorded and how the accuracy of the observation can be ensured (Gopal 1964: 73; Tandon 1979: 90). In cases where the observation is characterised by a careful definition of the units to be observed, and when there are standardised conditions for observation and selection of pertinent data, then the observation is called a structured observation (Nicholas 2006: 347).

Using structured observations, the researcher observed selected sample enterprises, making lists of enterprises such as animal fattening and dairy from urban agriculture, brick, wood and metal works from manufacturing, retailers and wholesalers from the trade sector, and internet cafes and hotels from the service sector in both study sites. Based on these lists, information that was pertinent to the study was gathered without asking any questions of the respondents. For instance, instead of enquiring about the suitability of the workplace, the researcher observed these premises. Accordingly, information generated from the other data collection instruments were triangulated with what was actually happening in the field. In this way, the structured observations contributed to the credibility of the data by avoiding complications that could have arisen from past behaviours and future intentions or attitudes among the entrepreneurs.

3.5.1.6 Focus Group Discussions (FGD)

A focus group discussion is a type of group interview that concentrates on an in-depth discussion of a particular theme or topic. In most cases, the group is made up of people who have particular experience or knowledge about the subject of the study, or who have a particular interest in it. The groups in this study included people such as founder entrepreneurs, owner managers or managers, employees and government officials in small enterprises (Cothari 2004: 31; Gopal 1964: 53).

The interviewer's job is a delicate balancing act and he or she should be seen more as a moderator of the resulting discussion than as a dominant questioner; one who prompts the discussion without unduly influencing its direction (Odum and Katharine 1929: 109; Gopal 1964: 98). In this way, reticent speakers might need encouragement in order to limit dominant speakers. Moreover, the moderator should provide a suitable introduction and conclusion to the sessions, providing information about the research and what is to be done with the data collected.

According to Bryman (2004: 247–248), there are several reasons for holding focus group discussions, some of which are:

- To understand more about why people think the way they do
- Members of the group can offer ideas and opinions that have not been foreseen by the researcher
- The interactions in-group dynamics are closer to real life.

Ghosh (1982: 45–47) argues that the usual size of a focus group is between six and 10 people. The selection of members of the group depends on whether the researcher's aim is to achieve a cross-section of people or a proportional membership (e.g. a proportionate number of representatives reflecting the size of

each section of the population) or a convenient grouping (e.g. only those who show an interest in engaging in the subject).

In this study, three categories or groups of focus group discussions were held. These were managers/owner managers, employees, and officials in small enterprises from the relevant government bodies. The discussions were held separately with 20 proportionally and randomly selected managers/owner managers and 30 employees from each sector of small enterprises in two rounds; that is, with 10 managers/owner managers and 15 employees at a time. Focus group discussions were also held with two government officials from each sector of small enterprises as well as with the officials from commercial banks and microfinance institutions, and extension workers.

Members of all groups were representative in terms of gender, age, religion and income level. These discussions aimed to elicit different views regarding entrepreneurs and the characteristics of small enterprises and the challenges facing them and their prospects in general. More importantly, the discussions identified the most prevalent problems and solutions.

3.5.2 Secondary Data

Secondary data refers to data that are collected and analysed by someone else or to written sources that interpret or record primary data (Cothari 2004: 43). Secondary data can be either published or unpublished. Such data are available from government offices, technical and trade journals, books, magazines, newspapers, reports and publications from various institutions. Unpublished data can be found in diaries, letters, biographies and the like. They may also be available from scholars and research workers, trade associations and other public or private individuals and organisations (Bryman 2004: 105–106; Tandon 1979: 114). Before using secondary data, the researcher must ensure the

reliability of his or her sources and the suitability and adequacy of the data (Odum and Katharine 1929: 180).

This study used both published and unpublished sources including progress reports, journals, books and research documents. Besides, data from Tigray Bureau of Finance and Economic Development, Tigray Micro and Small Enterprises Development Agency, Central Statistical Authority and Federal Micro and Small Enterprise Development Agency were used to obtain background information on the issues under discussion. These data were used after checking the source, suitability and adequacy in order to ensure the dependability and trustworthiness of the study.

3.5.3 Methods of Data Analysis

Analysis of data involves a number of closely related operations. These are performed with the purpose of summarising the data and organising them in such a way that they answer the research objectives of the study and estimate the values of the unknown parameters of the population (Sharma 1983: 78; Silverman 1993: 67–68; Tandon 1979: 12).

In this study, the data analysis was based on the data collected, compiled and tabulated from primary sources and supplemented by secondary sources. In addition, the ideas and opinions elicited from officials and other concerned bodies through interviews and focus group discussions were analysed using descriptive narrations. The analysis of the interview data began during the data collection in order to focus on the questions and on the study as a whole. Guided by the research questions, each interview transcript was checked for consistency. Lists of key issues were prepared and the findings were organised according to these lists.

In this way, periodic analysis of the data provided a direction for further data collection, especially regarding what questions should be asked and what actions

taken, based on what had already been observed, answered and completed. This necessitated the reiteration and reinterpretation of data; this is in fact the hallmark of this study. In brief, the researcher examined the challenges and prospects of small enterprises at both study sites (Mekelle and Adigrat) using descriptive statistical tools such as percentages, averages, standard deviations, pie charts and bar graphs and tables. Generally, the data tabulations and analysis involved the following processes:

- Data collection from each study site
- Tabulation of the questionnaire data to show the nature of small enterprises, the demographic characteristics of entrepreneurs, their problems and prospects
- Breakdown of the total survey result according to each respective study site to examine the city level variations
- Review of the documents at different levels of government – federal, regional and city manuals – to support the data collected in the field.

During the process of data analysis, an effort was made to identify similarities, variations and inconsistencies. Data processing and analysis was backed up by the use of computer software, Stata-version 10 and Excel.

3.5.4 Ethical Considerations

All the research participants involved in this study were appropriately informed about the purpose of the study and their willingness and consent were secured before the distribution of the questionnaire and commencement of the interviews. In protecting the right to privacy of the respondents, the researcher maintained the confidentiality and identity of each participant. In all cases, names were kept confidential and therefore a collective name such as ‘respondents’ was used.

Although the intention was to record all the interview sessions, the respondents were not willing and this was not possible.

Hence, I declare that I have read the policy for research ethics of UNISA and that the contents of this thesis are a true and accurate reflection of the methodological approach and ethical implications of my study. I carried out the study in strict accordance with the approved proposal and the ethics policy of UNISA. I maintained the confidentiality of all data collected from or about research participants, and conducted security procedures for the protection of privacy.

I recorded the way in which the ethical guidelines suggested in the proposal were implemented in my research. I worked in close collaboration with my supervisor and notified him in writing immediately when any change to the study was proposed. I undertook to notify the relevant authority at the university immediately should any adverse event occur or if participants attributed any injury or harm to their participation in the study. I took note of paragraph 5 of the policy for research ethics in which integrity in research is detailed and I read and understood UNISA's policy on copyright infringement and plagiarism.

3.5.5 Conclusion

The study used both primary and secondary data that were gathered and analysed using descriptive research methods. Both probability and purposive sampling techniques were used to collect data at different stages of the study. As far as sample size is concerned, the study applied a simplified formula provided by Yamane (1967, cited by Yilma 2005: 42) to determine the minimum required sample size.

In addition, a stratified proportional random sampling technique was used, as the population under study was heterogeneous across different sectors and relatively homogeneous within each sector (stratum) at each study site in terms of capital

size, the number of employees and other characteristics. The size of the samples from each sector was kept proportional to the size of the stratum. Structured questionnaires, focus group discussions, structured interviews, in-depth interviews and structured observation were methods used in the collection of primary data. Published and unpublished documents, including progress reports, journals, books, previous research documents, compiled data and others were used to obtain background information as secondary data. With regard to the method of data analysis, data were analysed using various descriptive techniques.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The methodology followed in sample selection, sampling design, tools and processes of data collection has been described in Chapter Three of this study. The data were collected using questionnaires, observations and discussions. In addition, ideas and opinions were gathered from interviews with officials and other individuals involved in the development of small enterprises. All these were supplemented by selected literature.

Chapter Four includes a discussion of the demographic features of entrepreneurs, the characteristics and the growth of small enterprises measured in terms of increases in employment since start-up up to the time of data collection (2013). The challenges affecting the performance of small enterprises in general are discussed and the challenges facing each sector are examined, together with the prospects of these small enterprises.

Generally, the analysis and discussion of the results were carried out using a descriptive research design, including statistical tools such as bar graphs, pie charts, tables and other summary statistics such as mean and standard deviation. For the purpose of comparisons, the researcher also provided a general picture of the sample respondents in both study site (that of Mekelle and Adigrat on aggregate) and later separated the general findings of the survey according to study site.

4.2 Demographic Characteristics and Prospects of Entrepreneurs

This section discusses the general characteristics of the entrepreneurs in the small enterprises as captured in their responses. The variables dealt with in this

section include the sex and age of managers/owner managers, their level of education, previous business experience and their marital status. In addition, the entrepreneurs' religion, family background and their income were included in the discussions.

4.2.1 Age and Education

The available studies advocate that owners/managers should be younger; arguing that younger owners/managers have the motivation, energy and commitment to work and are more inclined to take risks. Firms that are run by younger owners/managers tend to have higher growth potential than those run by older individuals (Kolvereid and Isaksen 2006: 109–110; Mullei 2003: 26–28). The theory behind this is that older owners/managers are likely to have achieved their initial aspirations. Table 4.1 below shows the profile of owners /managers in terms of age

Table 4.1: Summary Statistics of Age of Entrepreneurs

Study Sites	Variable	Obs.	Mean	St. Dev.	Max.	Min.
Adigrat	Age	40	33.3	7.5	60	23
Mekelle	Age	114	32	32	75	20
Both Cities	Age	154	32.0	9.7	75	20

Source: (Own Data, 2013)

The age of business operators was also considered, where the lowest age of the entrepreneurs in small enterprises in both study sites was 20, while the highest age was 75, with a mean age of 32.0. The average age of respondents in Adigrat was 33.3, while in Mekelle it was 32. This indicates that most of the small enterprises were owned and run by a young labour force, meeting one of the objectives of the government; creating employment opportunities for the youth. Such a productive workforce is commonly believed to be an engine for the overall

development of a country as there is a significant relationship between the age of owners/managers and the level of growth attained (Baum and Locke 2004: 84–85; Blackman 2000: 101–102; Dockel and Ligthelm 2005: 71–74).

However, being filled predominantly by working age groups alone will not fulfil the sector's requirements in order to grow in medium and large-scale enterprises. In order for the sectors to play a significant role in the economy, other issues such as access to capital, training, availability of work premises and markets for products/services are important. With these reservations, it can, therefore, be concluded that the majority of the sample of small enterprise owners/managers were young and had the energy and motivation to achieve the country's desired economic development.

According to Lee (2001: 110–113), there is a significant relationship between the educational qualifications of the owners/managers and the level of growth attained. This implies that growth is higher in firms where the owners/managers have a college or university degree. Hence, managers who have a bachelor's degree or a higher degree stimulate the growth of the firm and have a positive effect on both the survival and the expansion of the enterprise. However, the results of the survey clearly indicate that less educated operators, who possibly lack the skills that might have been obtained from higher education, do in fact own small enterprises. Table 4.2 below shows the profile of owners /managers in terms of educational levels.

Table 4.2: Educational Level of Managers/Owners

Level of Education	Freq.	Percent
Uneducated	7	4.55
Grade 1–4	21	13.3
Grade 5–8	63	40.9
Grade 9–12	35	22.7
Diploma	18	11.7
Bachelor’s degree	8	5.2
Master’s degree	2	1.3
Total	154	100

Source: (Own Data, 2013)

As shown in Table 4.2 above, the educational level of entrepreneurs at both study sites was assessed. It emerged that the majority, or 91 (59.1%) entrepreneurs had not reached grade nine at school. Only 27 (17.5%) of them had a diploma or a degree. This suggests that less educated operators tend to own small enterprises, implying that there is a need to enhance their capacity through training and consultation.

Table 4.3: Education Level by Study Sites

Level of Education	Mekelle	Adigrat
Uneducated	2(1.8)	5(12.5)
Grade 1–4	15(13.2)	6(15)
Grade 5–8	46(40.4)	16(40)
Grade 9–12	28(24.6)	7(17.5)
Diploma	14(12.3)	4(10)
Bachelor’s degree	7(6.1)	2(5)
Master’s degree	2(1.8)	0
Total	114(100)	40(100)

× The numbers in bracket indicate percentages.

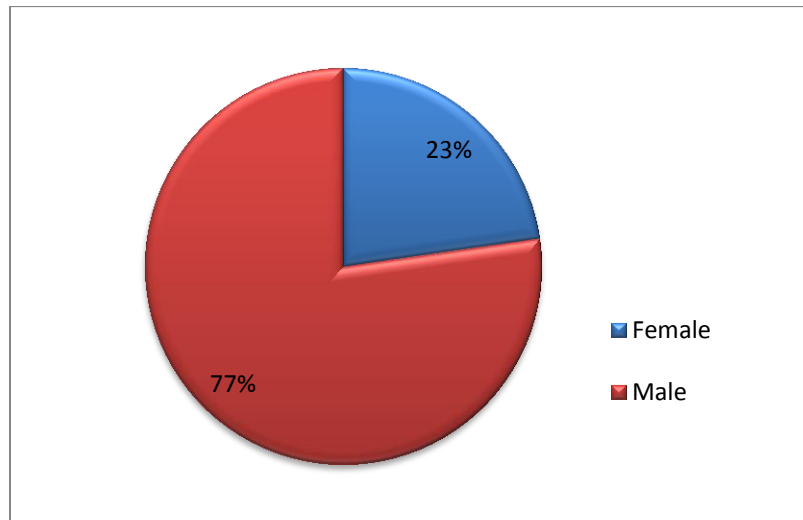
Source: (Own Data, 2013)

Separating the survey findings according to study site, as shown in Table 4.3 above, revealed that most entrepreneurs in Mekelle (63 or 55.3%) had not gone beyond grade nine at school, while in Adigrat this figure was 27 (67.5%). Thus, compared to entrepreneurs in Adigrat, business operators in Mekelle were relatively better educated. A high level of education is indeed a significant factor in increasing operational efficiency, profitability and success of a business as it can enable owners or operators to arrive at strategically important business decisions by accepting a reasonable amount of cost and calculated risk (Chilosi 2001: 138–140).

4.2.2 Gender Composition of Small Enterprises

In 1993, in a national policy on women, the Ethiopian Government expressed its intention to eliminate gender and cultural biases that excluded women from equal participation in the economic and social development efforts of the country (Emebet 2003: 5–6). Thus, it is of paramount importance to examine the gender composition of entrepreneurs in small enterprises.

Figure 4.1: Gender Composition of Small Enterprises in Study Sites



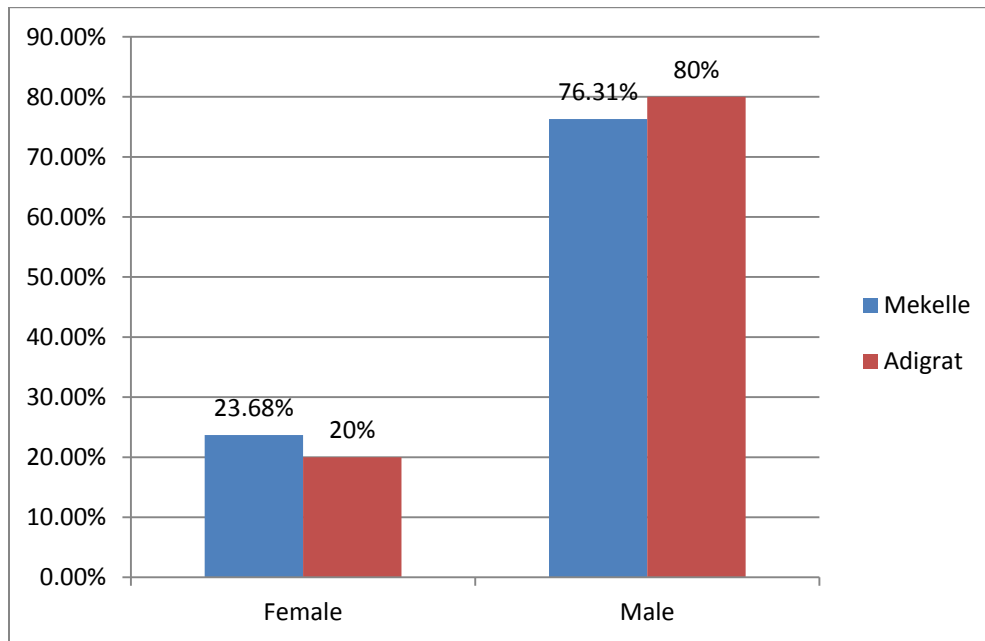
Source: (Own Data, 2013)

Figure 4.1 demonstrates that 119 (77%) of the small enterprises were owned and/or managed by men while the remainder (35 or 23%) were operated by women. This indicates that women's participation in small enterprises, particularly as heads of these enterprises, was relatively low. The result is consistent with previous studies that found that male-owned/managed small businesses outnumbered those owned or managed by women. The failure rate for female-owned businesses was also higher than that of their counterparts showing a significant relationship between the gender of owners/managers and small enterprises' growth and survival (Hyytinen and Pekka 2007: 105–107).

According to the focus group discussions with female entrepreneurs, the male domination of small enterprises could be ascribed to the cultural norms and societal attitudes, which considered women inferior and their role to bear more family responsibility at home rather than engaging themselves in business. This suggests that women entrepreneurs in the study sites encountered more operational and strategic impediments. Because of these hardships, their participation and success in small enterprises seems a distant reality, unless there are effective interventions by concerned bodies.

It is clear that the government needs to provide special assistance and critical structural improvements to protect women from the exploitative contexts of migration and trafficking by improving their access to small enterprises (Emebet 2003: 10).

Figure 4.2: Gender Composition of Small Enterprises in each Study Site



Source: (Own Data, 2013)

As shown in Figure 4.2 above, eight (20%) of the entrepreneurs in Adigrat were females and 27 (23.68%) of those in Mekelle were females. There were 32 (80%) male entrepreneurs in Adigrat and 87 (76.31%) in Mekelle. When we compare the two study sites, the participation of female entrepreneurs in small enterprises was greater in Mekelle than in Adigrat. This can be ascribed mainly to the relatively more urbanised, less rigid cultural norms and societal attitudes in Mekelle; according to the focus group discussions with female entrepreneurs in Adigrat, women are considered as inferiors who should carry most family responsibilities, instead of being engaged full time in business activities.

The results of the interviews with female entrepreneurs in Adigrat were consistent with the findings of the survey and focus group discussions. These revealed a wide variety of constraints such as poor access to market information, difficulties in links with support services, gaps between policy and its

implementation and an altogether unfavourable business environment that impeded the progress of female entrepreneurs.

The interviews with women entrepreneurs in Mekelle also confirmed the existence of 'disguised gender discrimination' preventing women from obtaining loans, for reasons that they were too young, not sufficiently qualified and even too old. Furthermore, their lack of mobility because of their large families and household responsibilities was also a reason for their exclusion from loans and other services. Lack of proper work premises in suitable locations was also cited as a difficulty encountered by female entrepreneurs, although to some extent this was also a problem for males. Thus, many women entrepreneurs were forced to operate from their homes, which apparently restricted their access to markets, information and business development services from supporting institutions.

The results of the interviews were consistent with the Second US–Sub-Saharan Africa Trade and Economic Cooperation Forum Report that has demanded appropriate budgets and greater representation of women in small enterprises (Second US–Sub-Saharan Africa Trade and Economic Cooperation Forum Report 2003: 15). The report indicates that discrimination against women is prevalent in these societies, especially when they apply for loans from private financial institutions, even when they have superior collateral.

The discussions with women entrepreneurs in Adigrat revealed that corruption was a brutal obstacle that disrupted their day-to-day affairs. The slow moving legal proceedings hamstrung women, preventing them from taking on additional work without the settlement of present activities. They also revealed the absence of educational institutions offering specialised education and training related to female entrepreneurship. Based on interviews held in this study site, the most pressing problems requiring urgent solutions were identified as lack of finance, lack of entrepreneurial and managerial competence, limited government support and rampant corruption in both undisguised and disguised forms.

Women entrepreneurs in the study sites and in Ethiopia at large can play an important role if the government takes the necessary steps to mitigate the problems and hardships they face in small enterprises. These findings imply that an awareness of women’s plight should be created and closer support given to female entrepreneurs. Ken (2003: 78) emphasises this by stressing the urgent need to empower women in small enterprises if they are to be promoted to the level of sustainable wealth creators.

4.2.3 Revenue Change and Prospects by Gender of the Respondents

The following percentages were calculated, including the ‘no response category’. This category refers to those respondents to whom the particular query did not apply. For example, if the small enterprises were established in the study year (2013), it would not be possible for entrepreneurs to respond to the ‘increase in’ or ‘decrease in’ revenue questions. There may have been other reasons such as declining to report on the grounds of ‘business internal affairs such as fear of tax’, ‘not having the facts’ or that the respondent was ‘not certain about the existing situation’. This is true for all ‘no response’ categories throughout this study. Table 4.3 below shows revenue change and prospects by gender of the respondents.

Table 4.1: Revenue Change and Prospects by Gender of Respondents

Gender of respondent	Increased	Decreased	Remain the same	No response	Total
Female	12(34.3)	9(25.7)	10(28.6)	4(11.4)	35 (100)
Male	48(40.3)	21(17.6)	19(16)	31(26.1)	119(100)
Total	60(39)	30(19.5)	29(19)	35(23)	154(100)

× The numbers in bracket indicate percentages.

Source: (Own Data, 2013)

As shown in Table 4.3 above, only 12 (34.3%) of the female respondents were represented in the ‘increasing revenue’ category while a significant proportion, 19 (54.3%), were represented either in the ‘decreasing revenue’ or in the ‘revenue

remains the same' category. On the other hand, 48 (40.3%) of the male entrepreneurs were in the 'increasing revenue' category and a relatively lower number of respondents (40 or 33.6%) fell into either the 'decreasing revenue' or the 'revenue remains the same' category. Generally, 60 (39%) of the respondents were represented in the 'increasing revenue' category and a proportional number (59 or 38.3%) were in the 'decreasing' or the 'revenue remains the same' category.

However, the operators had more cash than in the past, although over time this had declined because of inflation, the increase in prices of materials and the requirements of the financial institutions, according to focus group discussions. Table 4.4 below illustrates revenue changes and prospects by gender of the respondents in each study site.

Table 4.2: Revenue Changes and Prospects by Gender in Each Study Site

Study Sites	Gender of respondents	Increased	Decreased	Remains the same	No response	Total
Adigrat	Female	3(30)	2(12)	4(40)	1(10)	10(100)
	Male	8(26.7)	6(20)	7(23.3)	9(30)	30(100)
	Total	11(27.5)	8(20)	11(27.5)	10(25)	40(100)
Mekelle	Female	9(36)	7(28)	6(24)	3(12)	25(100)
	Male	40(44.9)	15(16.9)	12(13.4)	22(24.7)	89(100)
	Total	49(43)	22(19.3)	18(15.8)	25(21.9)	114(100)

× The numbers in the bracket indicate percentages.

Source: (Own Data, 2013)

When the survey results were broken down, as shown in Table 4.4 above, a relatively higher number, i.e., nine (36%) of the female respondents in Mekelle were represented in the 'increasing revenue' category, compared to three (30%) in Adigrat. Seven (28%) of the female respondents fell into the 'decreasing revenue' category in Mekelle, compared to the two (12%) female respondents in

Adigrat in this category. The table shows that while as many as 40 (44.9%) of the male respondents in Mekelle were in the 'increasing revenue' category, only eight (26.7%) in Adigrat were in this category.

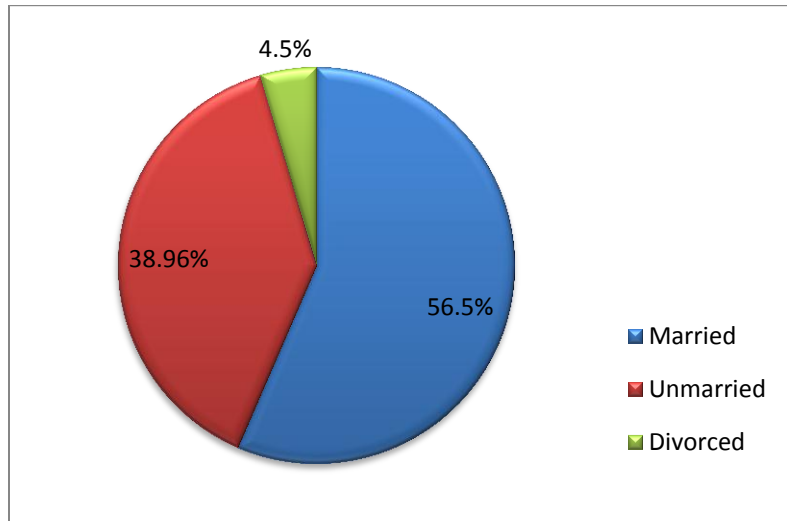
Generally, while 40 (35.1%) of the respondents in Mekelle were categorised as 'decreasing revenue' or 'revenue remains the same', 19 (47.5%) in Adigrat were categorised as 'decreasing revenue' or 'revenue remains the same'. This suggests that entrepreneurs of small enterprises in Mekelle were in a relatively better position as both female and male respondents had a higher representation in the 'increasing revenue' category.

The focus group discussions with the respondents from both gender groups revealed that although some problems were gender-specific, all respondents agreed that difficulties in securing finance for establishing and running a small business and a lack of entrepreneurial and managerial competence presented most challenges. Furthermore, problems of market access, limited government support and disguised or undisguised corruption were among the problems that prevented them from expanding their businesses and increasing their revenue.

4.2.4 Marital Status of the Entrepreneurs

Entrepreneurs were asked about their marital status in order to compare the proportion of married entrepreneurs with that of unmarried and divorced entrepreneurs.

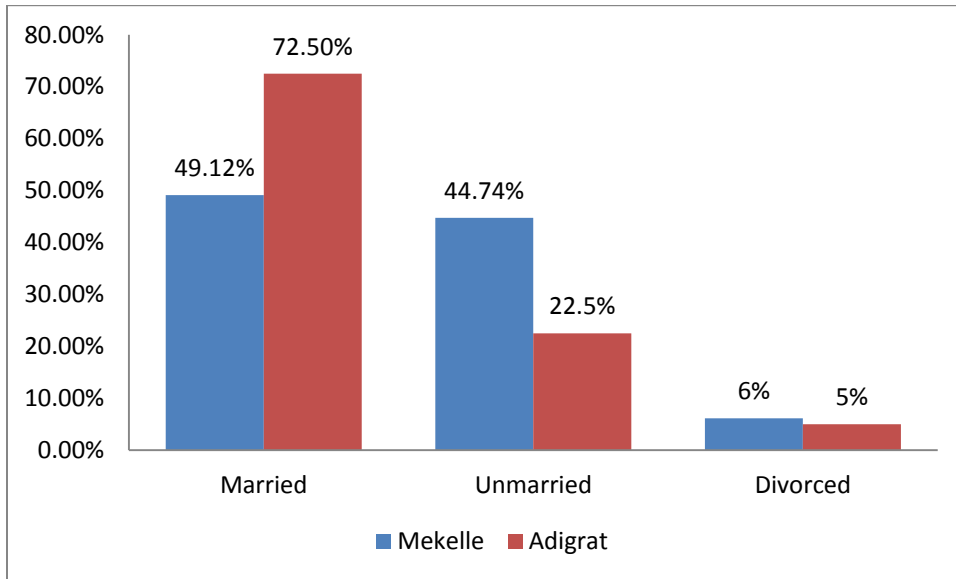
Figure 4.3: Marital Status of Entrepreneurs



Source: (Own Data, 2013)

Figure 4.3 above demonstrates that the majority (87 or 56.5%) of the respondents in small enterprises were married while 60 (38.96%) and seven (4.5%) were unmarried and divorced respectively. This finding suggests that married respondents pursue and use small enterprises more to create employment, generate income, conduct family affairs and finance other social and individual expenditure.

Figure 4.4: Marital Status of Entrepreneurs in Each Study Site



Source: (Own Data, 2013)

The marital status of owners/managers at the respective study sites, as shown in Figure 4.4 above, shows that 58 (49.12%) of respondents in Mekelle and 29 (72.5%) in Adigrat were married. There was a high proportion (51 or 44.7%) of unmarried entrepreneurs in Mekelle compared to nine (22.5%) in Adigrat. Furthermore, there was a high proportion (7 or 6%) of divorced entrepreneurs in Mekelle to two (5%) in Adigrat. This suggests that marriage is relatively common in less urbanised and rural areas while divorce is a recurrent phenomenon in more urbanised areas.

4.2.5 Revenue Change and Prospects by Marital Status

Birley and Westhead (1990: 535–557) argue that married men and women work harder and perform better at managing a business because of their family responsibilities. The social, financial and psychological support they enjoy from the community is also much greater than that received by single and divorced individuals. Respondents in this study were asked about the trends in their business revenue over the last year. Their responses are summarised in Table 4.5.

Table 4.3: Revenue Change and Prospects by Marital Status

Marital status	Category of revenue changes				
	Increased	Decreased	Remains the same	No response	Total
Married	41(47.1)	30(34.5)	9(10.3)	7(8)	87(100)
Unmarried	26(43.3)	11(18.3)	13(21.7)	10(16.7)	60(100)
Divorced	1(14.3)	1(14.3)	3(42.9)	2(28.6)	7(100)
Total	68(44.2)	42(27.3)	25(16.2)	19(12.3)	154(100)

× The numbers in the bracket indicate percentages.

Source: (Own Data, 2013)

As the survey result in Table 4.5 reflect, 41 (47.1%) of the married entrepreneurs fell into the 'increased revenue' category while 26 (43.3%) unmarried entrepreneurs were represented in the 'increased revenue' category. Thus, the findings in this study corroborate Barkham's (1992: 86–87) argument that there is a positive relationship between married entrepreneurs and better business performance.

The discussions with the operators of these businesses, however, revealed that unmarried entrepreneurs may perform better in small enterprises because of their smaller expenditure on social and other matters, which in turn gives them a greater opportunity to invest than their married counterparts. These findings from the survey were similar to those from the focus group discussions.

When we compare the proportion of respondents whose revenue had decreased, the unmarried entrepreneurs exhibited smaller losses, that is, 11 (18.3%) of the respondents were in the 'decreasing' revenue group while there were 30 (34.5%) married respondents in the 'decreasing' revenue category. Revenue change and prospects by marital status in each study site are presented in Table 4.6.

Table 4.4: Revenue Change and Prospects by Marital Status by Study Site

Study Site s	Marital status	Category of Revenue Changes				
		Increased	Decreased	Remains the same	No response	Total
Adigrat	Married	10(43.5)	7(30.4)	4(17.4)	2(8.7)	23(100)
	Unmarried	5(38.5)	3(23.1)	2(66.7)	3(23.1)	13(100)
	Divorced	0	1(25)	2(50)	1(25)	4 (100)
	Total	15(37.5)	11(27.5)	8(20)	6(15)	40(100)
Mekelle	Married	31(48.4)	23 (35.9)	5(7.8)	5(7.8)	64(100)
	Unmarried	21(44.7)	8(17)	11 (23.4)	7 (15)	47 (100)
	Divorced	1(33.3)	0	1(33.3)	1(33.3)	3(100)
	Total	53(46.5)	31(27.2)	17(15.8)	13(14.9)	114(100)

× The numbers in the bracket indicate percentages

Source: (Own Data, 2013)

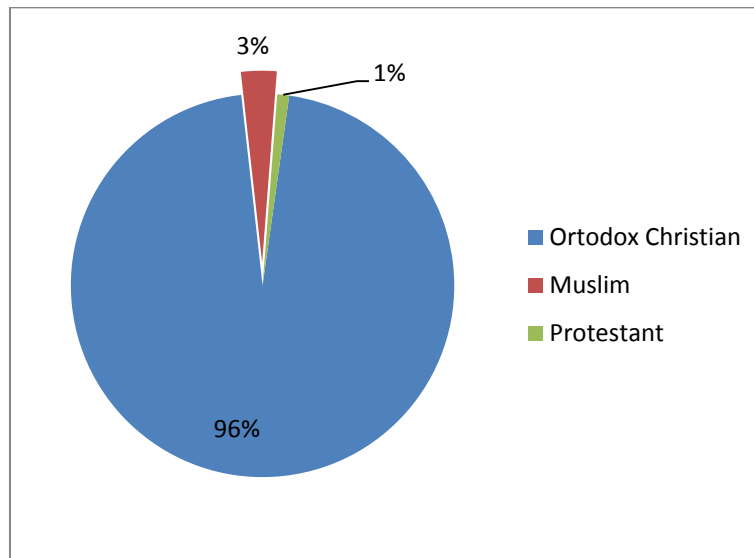
When the survey results were separated, as shown in Table 4.6 above, the revenue changes of respondents by marital status were consistent in each study site with the aggregate survey result. While 10 (43.5%) of the married respondents in Adigrat were in the ‘increased revenue’ category, a relatively small proportion (5 or 38.5%) of unmarried respondents fell into the ‘increased revenue’ category. Moreover, while a high proportion (31 or 48.4%) of the married respondents in Mekelle were in the ‘increased revenue’ category, a relatively smaller proportion, i.e. 21 (44.7%), of the unmarried respondents were represented in the ‘increased revenue’ category.

Generally, only 15 (37.5%) of the respondents in Adigrat were in the ‘increased revenue’ category while a relatively high proportion (53 or 46.5%) were categorised as ‘increased revenue’ in Mekelle. This suggests that there were better business opportunities for both groups in Mekelle, such as market access and other business development services.

4.2.6 Religion of Entrepreneurs

Weber's study found a relationship between certain religious teachings and economic behaviour. Most importantly, Weber argued that countries that adhere to a Protestant theology had the highest rate of business and capitalist economic growth (Weber 1905: 102–104). Figure 4.5 illustrates the religious grouping of entrepreneurs in the study sites.

Figure 4.5: Religion of Entrepreneurs



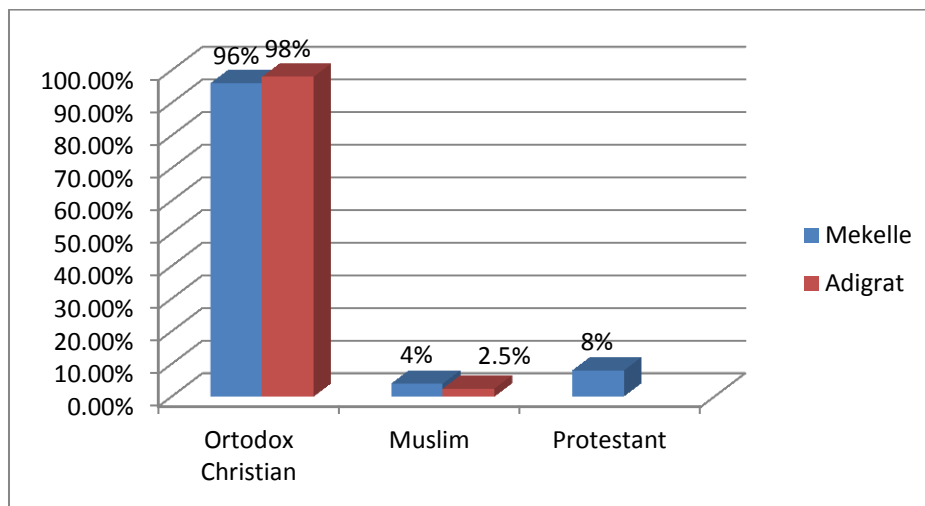
Source: (Own Data, 2013)

Figure 4.5 reveals that the majority (148 or 96%) of the entrepreneurs were Orthodox Christians while very few, i.e., six (3%), were Muslim with insignificant number of Protestant Christians. However, Little et al. (2003: 111–113) argue that although debatable, the Protestant virtues of hard work and individualism have helped the United States and Canada to build a large saving base, providing capitalists with the funds needed to increase investment and capital stock.

In this regard, the findings in this study revealed that the operators of the small enterprises were predominantly followers of Orthodox Christianity. Orthodox

Christianity was established under King Ezana in the 4th century through the efforts of a Syrian Greek named Frumentius, known in Ethiopia as Abba Selama. According to the Population Census Commission (PCC) of Ethiopia conducted in 2007, over 32 million Ethiopians (43.5%) were reported to be Orthodox Christians, while over 25 million or 33.9% were reported to be Muslim. Fewer than 14 million, or 18.6%, were Protestant, and just under two million or 2.6%, followed traditional beliefs (PCC 2007: 23).

Figure 4.6: Religion of Entrepreneurs by Study Site



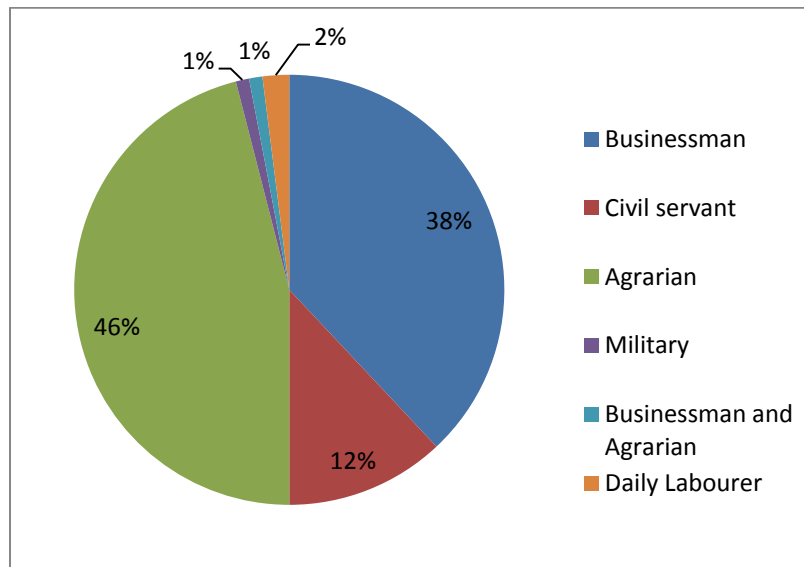
Source: (Own Data, 2013)

Figure 4.6 above demonstrates that 39 (98%) of the respondents in Adigrat were Orthodox Christians with nearly the same proportion (109 or 96%) in Mekelle. Only five (4%) of the respondents in Mekelle and one (3%) in Adigrat were Muslims. An insignificant number, i.e., one (1%) of the respondents in Mekelle and none of the respondents in Adigrat were Protestants. This suggests that small enterprises in both Mekelle and Adigrat were dominated by followers of Orthodox Christianity, which implies that their contribution to savings and investments, according to Little et al. (2003: 111–113) and Weber (1905: 102–104), was very meagre.

4.2.7 Entrepreneurs' Family Background

Nieman et al. (2008: 20–21) and USAID (2002: 43–45) argue that informal learning opportunities that are provided through contact with entrepreneurial family members can play a key role in developing entrepreneurial capacity. Entrepreneurs' family occupations might have included civil servants, agrarians, military officials, daily labourers or businesspersons. In this regard, business operators in the study sites were asked about their family's occupations in order to establish whether this was related to their current business activities.

Figure 4.7: Entrepreneurs' Family Background

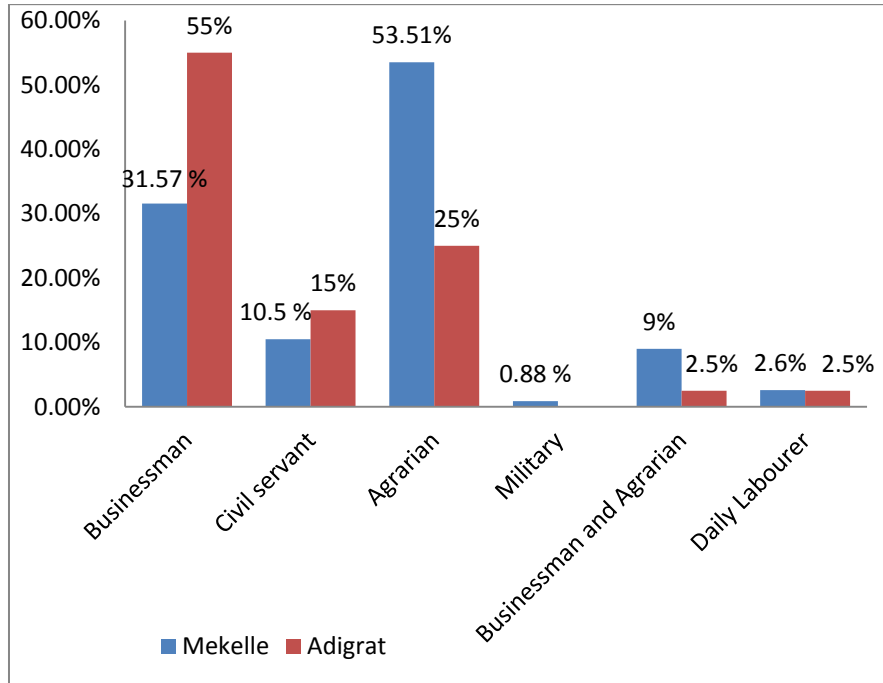


Source: (Own Data, 2013)

As indicated in Figure 4.7 above, the majority (71 or 46%) of the entrepreneurs' family backgrounds were agrarian, followed by 59 (38%) whose parents were businesspersons and 19 (12%) whose families were civil servants by occupation. Adopting and internalising entrepreneurial attitudes and characteristics is believed to be beneficial as these qualities can contribute to improved performance by entrepreneurs in their business activities. However, the implication of the finding is that a significant majority of the entrepreneurs in this

study lacked the relevant and practical experience that can be gained from an entrepreneurial family. This underlines the imperative for concerned bodies to identify the shortcomings of entrepreneurs and to build their capacity, enabling them to become more competitive and to improve the performance of their enterprises.

Figure 4.8: Entrepreneurs' Family Background by Study Site



Source: (Own Data, 2013)

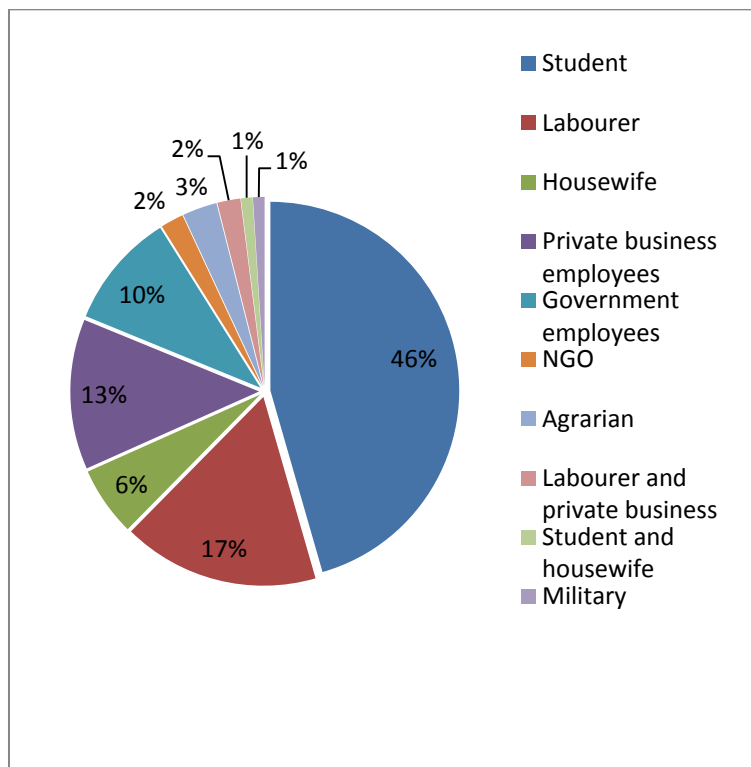
When the survey results were broken down according to study site, as shown in Figure 4.8 above, the majority, i.e., 22 (55%) of the entrepreneurs in Adigrat had family who were businessmen, while the family background of the majority, i.e., 61 (53.5%), of the respondents from Mekelle was agrarian. This suggests that operators of small enterprises in Mekelle lacked the relevant experience that might have been gained from entrepreneurial parents when compared to operators in Adigrat. This finding also suggests that immigrants from rural areas (agrarian) preferred Mekelle, implying that the municipality should strive to make available the necessary infrastructure and other facilities to accommodate

migrants from rural areas. Entrepreneurial training should also be arranged for potential business operators.

4.2.8 Entrepreneurs' Previous Occupations

Morrison (2000: 39-41) and Todorovic and McNaughton (2007 : 124-126) argue that there is a significant positive relationship between the previous experience of the owners/managers and a firm's growth ; i.e., growth is positively influenced by previous experience of owner/managers, particularly those who have had prior small enterprises experience. They confirm that small enterprises owners/managers with managerial or sectoral experiance or prior small enterprises experience tend to be correlated with greater growth. Figure 4.9 reflects the entrepreneurs's privious occupations

Figure 4.9: Entrepreneurs' Privions Occupations

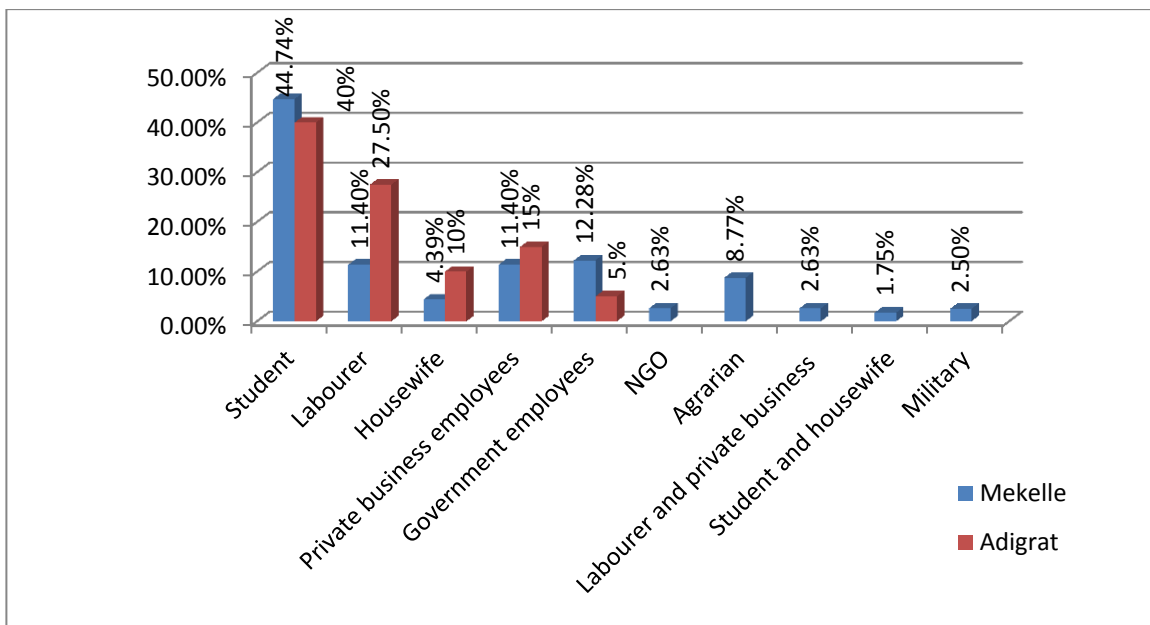


Source: (Own Data, 2013)

As shown in Figure 4.9, the majority (71 or 46%) of the entrepreneurs had previously been students. Daily labourers (26 or 17%) followed this. Entrepreneurs who had had relevant previous experience made up only of 13%. This shows that the majority of the entrepreneurs lacked appropriate experience that might have helped them improve the performance of their enterprises.

Generally, the previous occupations of most entrepreneurs did not contribute to their current occupations, with detrimental effects for the performance of their businesses. These points to a need for support for entrepreneurs in all sectors in the form of training and other business development services.

Figure 4.10: Entrepreneurs Previous occupations in Each Study Sites



Source: (Own Data, 2013)

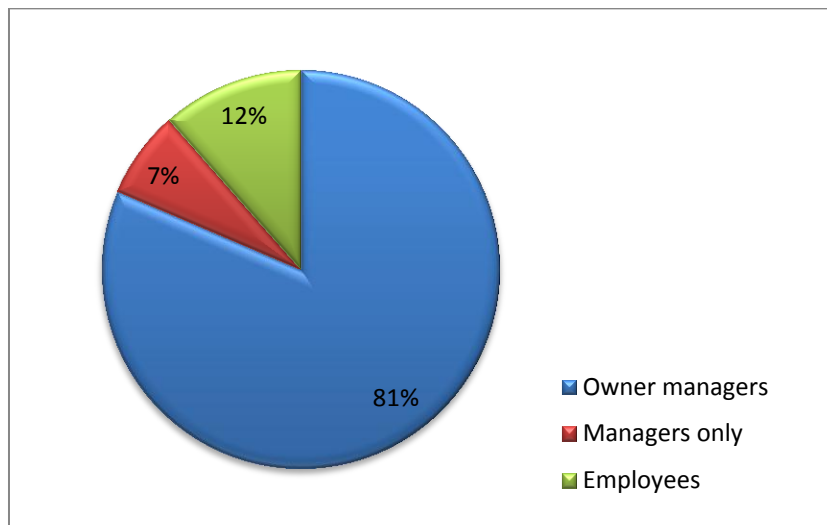
It is clear from Figure 4.10 above that 51 (44.7%) respondents in Mekelle and 16 (40%) in Adigrat had been students before starting their businesses. When the entrepreneurs with relevant previous occupations in the two study sites are compared, only 13 (11.4) in Mekelle and 6 (15%) in Adigrat had relevant previous

occupation. This suggests that entrepreneurs in Adigrat were more likely than those in Mekelle to have had previous business-related occupations that could have had positive implications for the performance of their businesses.

4.2.9 Status of Small Business Operators

The respondents were asked about their status in their enterprise, that is, whether they were the owner manager, manager, or an employee.

Figure 4.9: Status of Small Business Operators

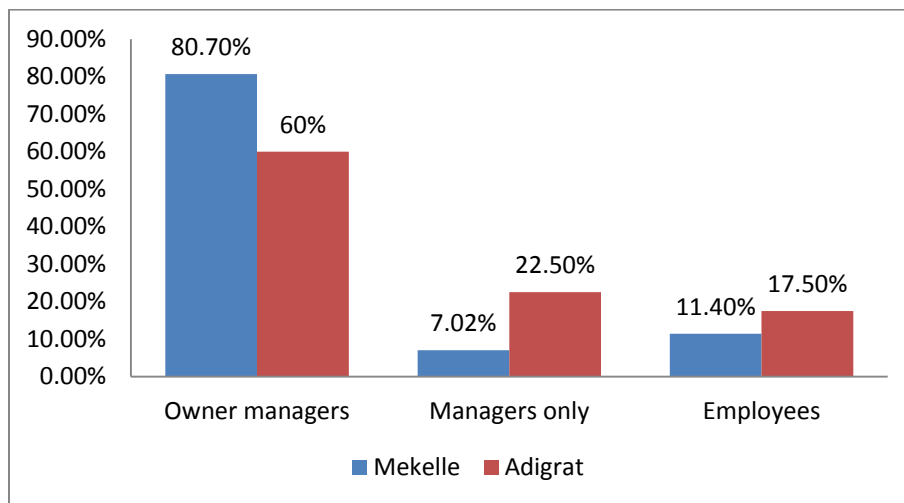


Source: (Own Data, 2013)

Figure 4.11 indicates that the majority (125 or 81%) were owner managers. Thus, the small enterprises in both study sites were operated mainly by the owners themselves, and their contributions to employment and income generation for individuals other than owners/founders of the business was very insignificant. This also suggests that once the enterprises had been established, they would not be able to expand and their growth would be hampered by the imperative to employ more workers over and above the owners/founders.

In fact, it is argued that small enterprises are a major playing field for policy makers and donors who have the dual objectives of enhancing economic growth and creating employment. However, a critical investigation of the study sites has raised serious concerns and some scepticism over whether small enterprises can bring about the envisaged economic growth and significant employment unless the capabilities of entrepreneurs themselves are increased by curbing each sector's specific constraints.

Figure 4.10: Status of Small Business Operators by Study Site



Source: (Own Data, 2013)

Figure 4.12 above shows that the vast majority (92 or 80.7%) of the entrepreneurs in Mekelle and 24 (60%) in Adigrat held the position of owner manager. Comparing the proportion of small enterprise employees in the two sites, enterprises in Adigrat had a larger proportion (7 or 17.5%) of respondents reported as employees than Mekelle (13 or 11.4%). While only eight (7.02%) of the respondents in Mekelle were managers, nine (22.5%) in Adigrat held this position.

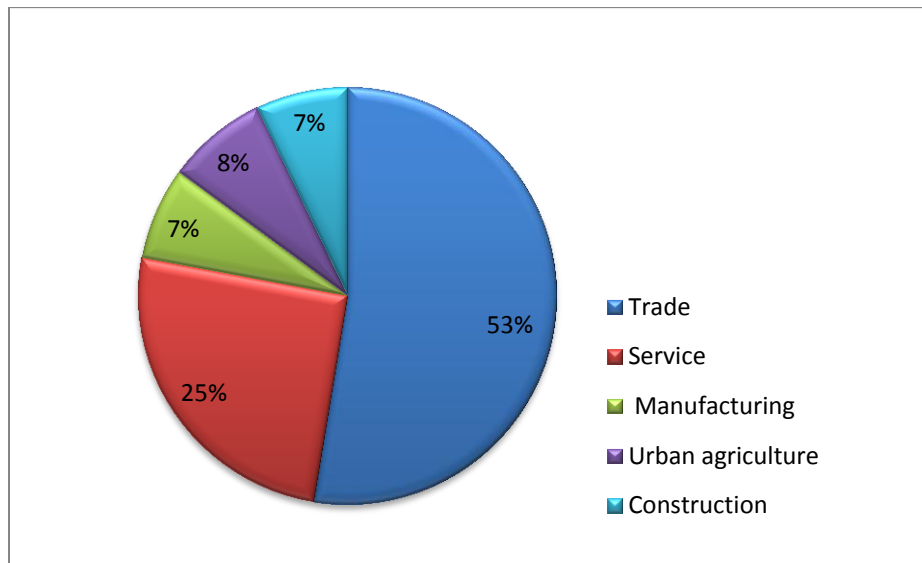
4.3 Characteristics and Prospects of Small Enterprises

In this part of the study, characteristics of small enterprises such as business type, revenue change, and legal forms of business organisation are discussed. In addition, enterprise age and the growth of small enterprises measured in terms of employment increase and working locations form part of the discussions.

4.3.1 Engagement of Entrepreneurs in Small Enterprises

The entrepreneurs in the small enterprises in this study were engaged in five sectoral types, namely, trade, service, manufacturing, urban agriculture and construction.

Figure 4.11: Engagement of Entrepreneurs in Small Enterprises



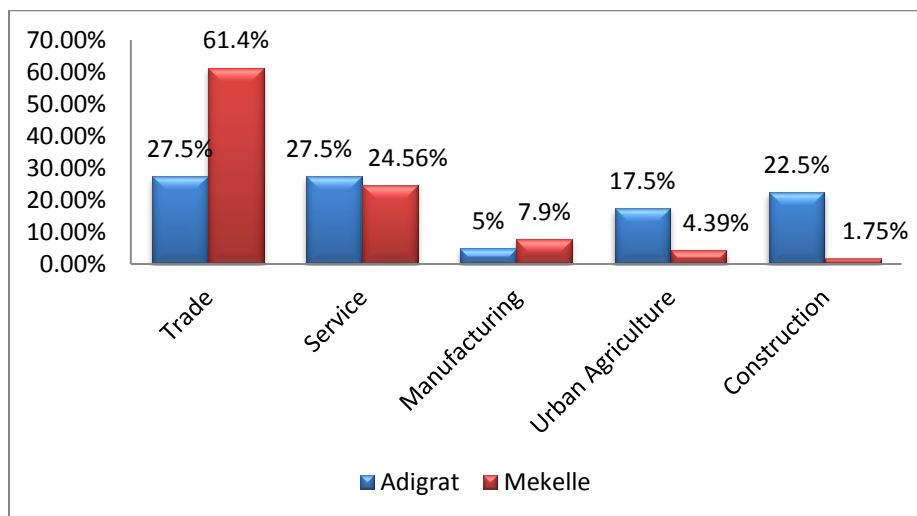
Source: (Own Data, 2013)

Figure 4.13 demonstrates that the majority (82 or 53%) of the respondents were engaged in trade such as local wholesale, local retail and input supply, followed by 39 (25%) service providing activities, such as the preparation of food and beverages, including catering of tea and coffee, barber shops, tailoring, internet

cafes and decor. Eleven (7%) of the respondents were engaged in manufacturing, including brickmaking, woodwork, handicrafts, goldsmithing, agro processing and processing of other raw materials. In addition, 12 (8%) of the respondents were engaged in urban agriculture, including livestock fattening, poultry and dairy farming, while 11 (7%) worked in the construction sector, building roads, bridges and other infrastructure.

Although the emphasis of the Federal and Regional Governments on housing development is assumed to have attracted entrepreneurs to the construction and manufacturing sectors, this study found that the proportion of entrepreneurs who were engaged in the trade sector was rather high compared to the number of those engaged in the manufacturing and construction sectors. This suggests that, other than the market, there are factors that discourage entrepreneurs from engaging in the construction and manufacturing sectors. Some impeding factors in this case, according to the focus group discussions in both study sites, were the high capital requirements and the complex procedures demanded by the government.

Figure 4.12: Engagement of Entrepreneurs in Small Enterprises



Source: (Own Data, 2013)

When the results of the survey in terms of each study site were considered, as shown in Figure 4.14 above, entrepreneurs who were engaged in trade constituted a higher proportion, accounting for 70 (61%) and 11 (28%) of the respondents in Mekelle and Adigrat respectively. The second preferred type of business was the service sector, with 29 (25%) and 11 (28%) respondents in Mekelle and Adigrat respectively. While the respondents in the manufacturing sector numbered nine (7.9%) in Mekelle, only two (5%) of them were engaged in the same business in Adigrat. Again, nine (22.5%) of the respondents in Adigrat were from the construction sector, while two (1.8%) in Mekelle were engaged in this business.

The results of the survey suggest that Adigrat is more suitable for urban agriculture, as seven (18%) of the respondents were engaged in that sector compared to Mekelle, where only five (4.4%) respondents were engaged in similar businesses. The discussions held with the operators of urban agricultural businesses in Adigrat revealed that the site was relatively more suitable for this type of business as it was less urbanised and the rent of the premises was low. In addition, cattle feed was more readily available in the surrounding areas.

4.3.2 Sectors' Revenue Change and their Prospects

Small businesses differ hugely in their growth potential. Nieman et al. (2008: 44–49), who studied the nature of entrepreneurial businesses, distinguished between promising start-ups and marginal start-ups. Promising start-ups are those with the potential to attain a significant size and profitability, while marginal start-ups lack such prospects. The few businesses that have such glowing prospects for growth are called high potential businesses. In order to uncover the prospects of each sector of small enterprises in the study sites, the respondents were asked about trends in their revenue over the last years. Table 4.7 below shows different sectors' revenue changes and their prospects.

Table 4.5: Sectors' Revenue Change and Prospects

Type of business	Increased	Decreased	Remains the same	No response	Total
Trade	26(32.5)	18(22.5)	22(27.5)	14(17.5)	80(100)
Service	12(29.3)	17(41.5)	4(9.8)	8(19.5)	41(100)
Manufacturing	6(54.5)	2(18.2%)	1(9.1%)	2(18.2)	11(100)
Urban agriculture	3(27.3)	5(45.5)	0	3(27.3)	11(100)
Construction	4(36.4)	2(18.2)	0	5(45.5)	11(100)
Total	51(33.1)	44(28.6)	27(17.5)	32(20.8)	154(100)

× The numbers in the bracket indicate percentages.

Source: (Own Data, 2013)

Table 4.7 indicates that the majority (6 or 54.5%) of the entrepreneurs in the manufacturing sector, four (36.4%) in the construction sector and 26 (32.5%) in the trade sector fell into in the 'increased revenue' category. According to interviews with some of the entrepreneurs from the manufacturing, construction and trade sectors, the attention given by the Federal and Regional Governments to housing development had created a market for their businesses that had led to their revenue increase. However, of the majority of the entrepreneurs in the service sector, which accounted for 12 (29.3%) of the respondents, three (27.3%) of them in the urban agriculture sector were in the 'decreased revenue' category. Overall, 27 (17.5%) of the respondents in the survey were categorised in the 'revenue remains the same' category.

The focus group discussions with the entrepreneurs in small enterprises in both study sites revealed that reasons for 'decreasing revenue' or 'revenue remains the same' included, among others, the lack of markets, a lack of capital, high rent for accommodation and stiff competition. Respondents also indicated that the lack of markets for products/services was the result of a large number of entrepreneurs being engaged in similar business. This suggests that the entrepreneurs in this study lacked innovation and market information, as most

new businesses are a duplication of already existing ones. The discussions disclosed that many entrepreneurs in the small enterprises lacked clear solutions to their problems, which could have been the result of inadequate assistance from service providers (extension workers) or limited access to information about economic opportunities in the study sites. Table 4.8 below illustrates the different sectors' revenue changes and their prospects in each study site.

Table 4.6: Sectors' Revenue Change and Prospects in Each Study Site

Study sites	Type of business	Increased	Decreased	Remained the same	No response	Total
Adigrat	Trade	3(23.1)	2(50)	4(30.8)	4(30.8)	13(100)
	Service	2(16.7)	4(33.3)	2(16.7)	4(33.3)	12(100)
	Manufacturing	1(33.3)	0	1(33.3)	1(33.3)	3(100)
	Urban agriculture	3(50)	1(16.7)	0	2(33.3)	6(100)
	Construction	1(16.7)	2(33.3)	0	3(50)	6(100)
	Total	10(25)	9(22.5)	7(17.5)	14(35)	40(100)
Mekelle	Trade	23(34.3)	16(23.9)	18(26.9)	10(14.9)	67(100)
	Service	10(34.5)	13(44.8)	2(6.9)	4(13.8)	29(100)
	Manufacturing	5(62.5)	2(25)	0	1(12.5)	8(100)
	Urban agriculture	0	4(80)	0	1(20)	5(100)
	Construction	3(60)	0	0	2(40)	5(100)
	Total	41(36)	35(30.7)	20(17.5)	18(15.8)	114(100)

✕ The numbers in the bracket indicate percentages.

Source: (Own Data, 2013)

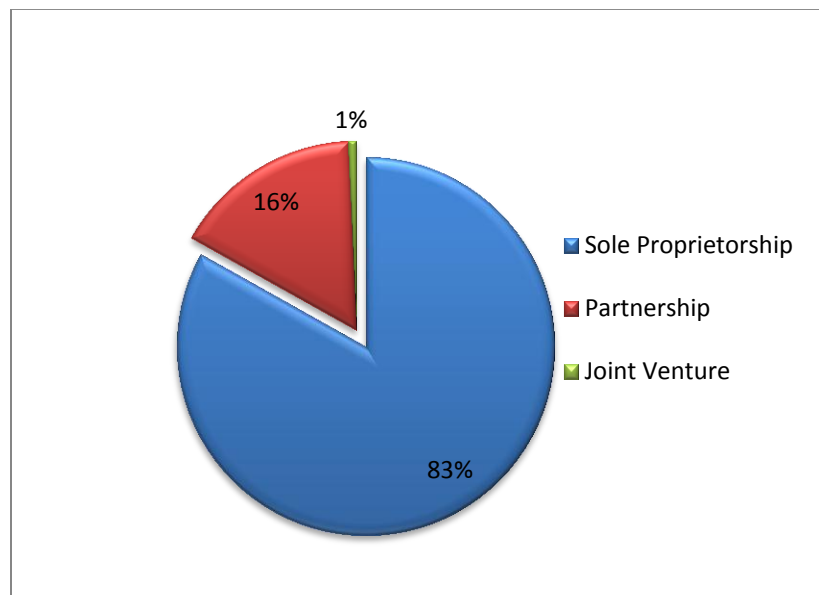
Table 4.8 shows that 23 (34.3%) of the entrepreneurs from trade, 10 (34.5%) from service, five (62.5%) from manufacturing and three (60%) from the construction sectors in Mekelle made up more of the 'increased revenue' category than those entrepreneurs who were engaged in the same sectors in Adigrat. While seven (17.5%) of the entrepreneurs in Adigrat reported that their

revenues 'remained the same', the same proportion, i.e., 20 (17.5%), in Mekelle found themselves in that category. Generally, while 16 (40%) of the entrepreneurs in Adigrat were in either the 'decrease' or the 'remains the same' revenue category, a relatively high proportion (55 or 48.2%) of the entrepreneurs in Mekelle were in either in the 'revenue decrease' or in the 'revenue remains the same' category.

4.3.3 Legal Forms of Business Organisations

The respondents in the study sites were asked about the legal forms of their businesses and the challenges associated with each legal form.

Figure 4.13: Legal Forms of Business Organisations

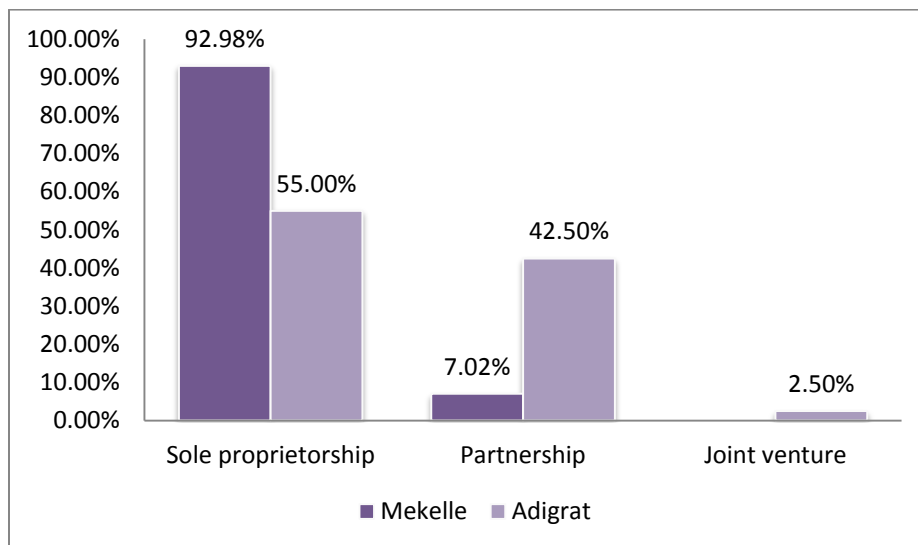


Source: (Own Data, 2013)

As illustrated in Figure 4.15 above, the majority of the small businesses, i.e., 128 (83%), operated as sole proprietors while only 25 (16%) and one (1%) operated as partnerships and joint ventures respectively. This contradicts Scase's (2000: 8–9) argument that a business where the owners/managers enjoy partnership/limited liability has greater incentive to pursue risky projects and

therefore to expect higher profits and growth rates than other forms of business, and in this way attract many entrepreneurs. According to the focus group discussions with entrepreneurs in small enterprises, there are inherently complex and lengthy procedures required in establishing a business partnership. The mistrust that can arise over partners taking equal responsibility was also mentioned as one of the reasons that deterred entrepreneurs from pursuing partnerships as a form of business.

Figure 4.14: Legal Forms of Business Organisation in Each Study Site



Source: (Own Data, 2013)

As Figure 4.16 above demonstrates, while 106 (93%) of the respondents in Mekelle and 22 (55%) in Adigrat chose to operate their businesses under sole proprietorship, 17 (43%) in Adigrat but only eight (7%) in Mekelle preferred a partnership. Very few (1 or 2.5%) of the respondents in Adigrat and none in Mekelle operated their business as a joint venture. Relatively speaking, the percentage of the respondents who engaged in partnerships in Adigrat was greater than in Mekelle. This suggests that the process of establishing a partnership in Adigrat was less costly than in Mekelle. In general, the findings indicate that people tended to prefer to manage their own business rather than to

work with a partner.

The interviews with the small enterprise owners also confirmed that operators of small businesses preferred to operate their businesses on their own, which is consistent with the responses of the respondents in the questionnaire designed for this survey and the focus group discussions in both study sites. Respondents agreed that the cost of engaging in a partnership was very high and the process was also rather complex. In this regard, the findings of this study are also consistent with those of previous studies, such as that of Birley and Westhead (1990: 65–66), who argue that the process and the high cost of registering and formalising a business in a partnership forces many small-scale enterprises to operate as sole proprietors.

4.3.4 Revenue Changes by Legal Status of Small Enterprises

In his study of German firms, Berry (1995: 39–40) found that firms with limited liability/partnership had above average growth rates, showing a significant relationship between the legal status of the firm and the level of growth achieved; likewise, incorporated firms had a higher growth rate than their unincorporated counterparts. Table 4.9 compares and examines the revenue changes of the small enterprises according to legal status.

Table 4.7: Revenue Changes by Legal Status of Small Enterprises

Form of business	Increased	Decreased	Remained the same	No response	Total
Sole proprietorship	72(56.3)	13(10.2)	27(21.1)	16(12.5)	128(100)
Partnership	9(36)	4(16)	7(28)	5(20)	25(100)
Joint venture	0	0	0	1(100)	1(100)
Total	81(52.6)	17(11)	34(22.1)	22(14.3)	154(100)

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

As indicated in Table 4.9 above, the findings of the survey revealed that entrepreneurs who had sole proprietorship of their business had a high (72 or 56.3%) representation in the 'increased revenue' category. When we compare entrepreneurs in sole proprietorships with those in partnerships, the latter had a high (11 or 44%) representation in both the 'revenue decreased' or in the 'revenue remained the same' category when compared to that of the 40 (31.3%) entrepreneurs who were in a sole proprietorship.

The interviews with the operators of small enterprises in both study sites who were in partnerships revealed reasons for the drop in their revenue or for the fact that their income had remained the same during the period in question. They confirmed that partners in the business were not equally responsible for its affairs. Furthermore, mistrust existed among the partners, which sometimes led to disputes. They disclosed the fact that there were conflicts of interest when partners prioritised or were engaged in their private affairs, neglecting common interests and problems in the business. Table 4.10 below illustrates the revenue changes by legal forms of small enterprises in each study site.

Table 4.8: Revenue Changes by Legal Forms of Small Enterprises in Study Sites

Study Sites	Form of business	Increased	Decreased	Remained the same	No response	Total
Adigrat	Sole proprietorship	9(39.1)	2(8.7)	5(21.7)	7(30.4)	23(100)
	Partnership	6(37.5)	3(18.8)	5(31.3)	2(18.8)	16(100)
	Joint venture	0	0	0	1(100)	1(100)
	Total	13(32.5)	4(10)	11(27.5)	12(30)	40(100)
Mekelle	Sole proprietorship	63(60)	11(10.5)	22(21)	9(8.6)	105(100)
	Partnership	3(33.3)	1(11.1)	2(22.2)	3(22.2)	9(100)
	Joint venture	0	0	0	0	0
	Total	67(58.8)	12(10.5)	24(21.1)	11(9.6)	114(100)

* The numbers in brackets indicate percentages

Source: (Own Data, 2013)

When we consider the survey findings at each study site, as shown in Table 4.10 above, Mekelle has a higher proportion (63 or 60%) of sole proprietorships in the 'revenue increased' category when compared to the nine (39.1%) sole proprietorships categorised as 'revenue increased' in Adigrat. On the other hand, the same proportion (7 or 31.4% and 33 or 31.4%) of small enterprises in the form of sole proprietorships was in the 'revenue decreased' and in the 'revenue remained the same' category in Adigrat and Mekelle respectively. These findings indicate that more entrepreneurs preferred partnerships (6 or 37.5%) in Adigrat compared to Mekelle (3 or 33.3%).

4.3.5 Age of Small Enterprises

Studies on the growth of small enterprises have established that business age plays an important role in an enterprise's performance and growth. Jovanovich

(1982: 649–670) found that while smaller and newer businesses grew faster than larger and older ones, they were less likely to survive. Table 4.11 below shows the age of the small enterprises in this study:

Table 4.9: Age of Small Enterprises

Year of establishment	Age of small enterprise	Adigrat	Mekelle	Total
2006	8	1(2.5)	4 (3.5)	5(3.2)
2007	7	2(5)	6(5.3)	8(5.2)
2008	6	4(10)	8(7)	12(7.8)
2009	5	4(10)	11(9.6)	15(100)
2010	4	5(12.5)	13 (11.4)	18(11.7)
2011	3	6(15)	18(15.8)	24(15.6)
2012	2	7(17.5)	24 (21.1)	31(20.1)
2013	1	11(27.5)	30(26.3)	41(26.6)
Total		40(100)	114(100)	154(100)

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

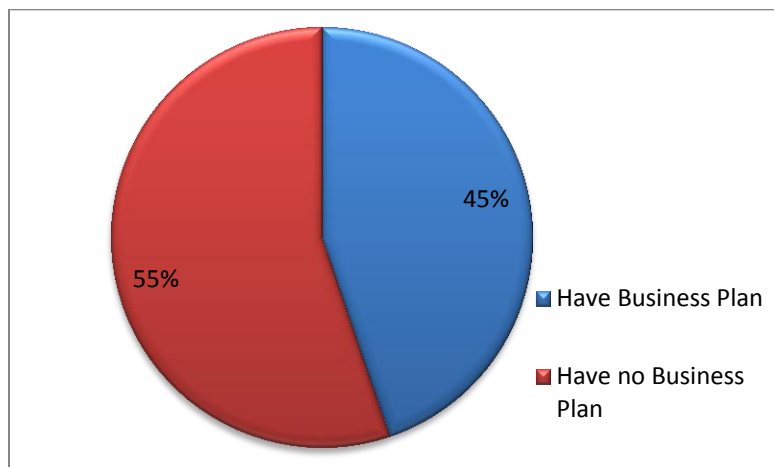
The survey revealed that the majority (72 or 46.8%) of the respondents had operated their businesses for a period of fewer than three years while those who had been in operation for more than five years numbered only 25 (16.2%). When the age of the small enterprises in the two study sites was compared, 10 (8.8%) of the entrepreneurs in Mekelle had run their businesses for more than six years while only three businesses (7.5%) in Adigrat had reached this age. These findings suggest that, after the fifth year, most entrepreneurs suffer from what may be described as ‘entrepreneurial burnout’, with a declining enthusiasm for business. Huang and Brown (1999: 32–36) argue that entrepreneurial burnout is a situation that causes entrepreneurs of small enterprises to lose interest in one business venture and to start looking out for other opportunities; most enterprises reach their peak in the fifth year of operation.

The findings summarised in Table 4.11 imply that the entrepreneurs in both study sites who were at the start-up stage gradually began to face serious challenges. They believed that their businesses were doing poorly within the first three years of start-up. The interviews conducted with owners of the small enterprises that had been in operation for a short period (less than three years) in both study sites confirmed that their business performance was in decline.

4.3.6 Small enterprises with a Business Plan

A business plan is a very important part of business activities; among others, it can explain the business, products/services, the goals and the strategies required to reach those goals. Furthermore, it is crucial in avoiding serious mistakes and helps to counterbalance one's emotions.

Figure 4.15: Small enterprises with Business Plan

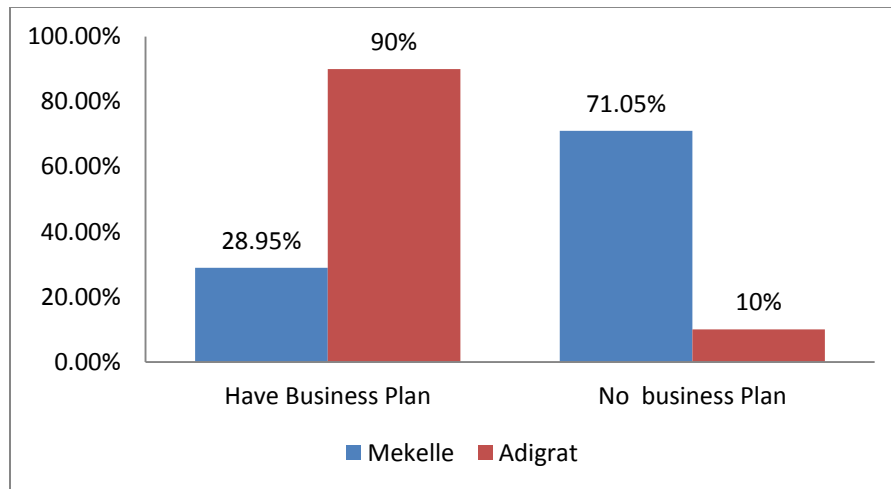


Source: (Own Data, 2013)

Interviews revealed that 85 (55%) of the respondents in the survey reported that they had no business plan, while 69 (45%) did have one. Thus a significant proportion, more than half of the respondents at the study sites, operated without a business plan. In order to run a successful small enterprise, it is essential that operators develop a business plan in order to establish a strategy, set targets for

new alliances, and allocate resources according to their strategic priorities and to ensure that they are moving along the right path. According to the focus group discussions in both study sites, entrepreneurs lacked the motivation and the culture of using business plans as well as the necessary skills to develop one.

Figure 4.16: Small Enterprises with Business Plan by Study Site



Source: (Own Data, 2013)

From Figure 4.18 above it is clear that 36 (90%) of the respondents in Adigrat had a business plan while only 33 (28.95%) in Mekelle had one. According to the focus group discussions held with the entrepreneurs in both study sites who had developed a business plan, the majority had developed it to meet the requirements of financial institutions, but most were not actually using it as a guideline in their daily operations. Only seven (19.4%) of the respondents in Adigrat and seven (21.2%) in Mekelle were actually using the plan to guide their business. In this regard, the finding disclosed the gaps in the development and effective implementation of business plans in small enterprises.

4.3.7 The Use of Commercial Media

Advertisement is a products and services promotion strategy with the objective of making existing and prospective customers aware of the kind, quality and use of

one's products and services. However, the decision to advertise and the selection of advertising media depend on several factors; accessibility to the desired media, the cost of advertising and the culture of advertising among entrepreneurs. In this regard, the respondents at the study sites were asked whether they had ever advertised their products or services using posters, business cards, television or radio as advertising tools. Table 4.12 below illustrates the commercial media used by respondents.

Table 4.10: Commercial Media Used by Survey Respondents

Business Type	Posters	Business cards	TV and radio	No advertising media	Total respondents
Trade	2(2.5)	33(41.3)	1(1.3)	44(55)	80(100)
Service	1(2.4)	19(46.3)	0	21(51.2)	41(100)
Manufacturing	0	8(72.7)	0	3(27.3)	11(100)
Urban Agriculture	1(9.1)	7(63.6)	0	3(27.3)	11(100)
Construction	0	4(36.4)	1(9.1)	6(54.5)	11(100)
Total	4(2.6)	71(46.1)	2(1.3)	77(50)	154(100)

× The numbers in brackets indicate percentages

Source: (Own Data, 2013)

As indicated in Table 4.12 above, 44 (55%) of the respondents in trade, 21 (51.2%) of them in service, and three (27.3%) in manufacturing reported that they had never used any of the abovementioned tools to advertise their products or services. Furthermore, three (27.3%) respondents in urban agriculture and six (54.5%) in the construction sector reported that they had never used any of these advertising media at all; this was because they were not in the habit of formally advertising their products or services.

Only 33 (41.3%) of the respondents in trade, 19 (46.3%) in service, eight (72.7%) in manufacturing, seven (63.6%) in urban agriculture and four (36.4%) in the construction sector used business cards to advertise or were in the habit of

formally advertising their products and services. These findings also showed that, next to the business card, posters were used most to advertise their products and services.

To sum up, Table 4.12 indicates that four (2.6%) of the respondents used posters, while the majority, (71 or 46%) of the respondents used business cards to advertise their products or services. Only two (1.3%) of the respondents used TV and radio to advertise. This implies that a high percentage (77 or 50%) of the respondents did not use any of these advertising media. This situation could be attributed to a number of factors, such as limitations on the efforts of regional support institutions to influence these enterprises' marketing skills, the overall business culture of the communities in the study sites, and limitations such as finance, accessibility to commercial media and other challenges. Table 4.13 below shows the commercial media used by respondents at each study site.

Table 4.11: Commercial Media Used by Respondents by Study Site

Study Sites	Business type	Posters	Business cards	TV and radio	No advertising media	Total
Adigrat	Trade	0	9(75)	0	3(25%)	12(100)
	Service	0	7(53.8)	0	6(46.2)	13(100)
	Manufacturing	0	2(100)	0	0	2(100)
	Urban Agriculture	1(14.3)	5(71.4)	0	1(14.3)	7(100)
	Construction	0	1(16.7)	0	5(83.3)	6(100)
	Total	1(2.5)	24(60)	0	15(37.5)	40(100)
Mekelle	Trade	2(2.9)	24(35.3)	1(1.5)	41(60.3)	68(100)
	Service	1(3.6)	12(42.9)	0	15(53.6)	28(100)
	Manufacturing	0	6(66.7)	0	3(33.3)	9(100)
	Urban Agriculture	0	2(50)	0	2(50)	4(100)
	Construction	0	3(60)	1(20)	1(20)	5(100)
	Total	3(2.6)	47(41.2)	2(1.8)	62(54.4)	114(100)

* The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

Table 4.13 above shows that while 24 (60%) of the respondents used business cards in Adigrat, these were used by a relatively smaller proportion of respondents, i.e., 47 (41.2%), in Mekelle. A relatively high percentage, 62 (54.4%), of respondents in Mekelle did not use the commercial media mentioned in Table 4.13 to advertise their products or services, compared to 15 (37.5%) in Adigrat. Generally, the findings revealed that there was a relatively higher use of advertising by entrepreneurs in Adigrat than in Mekelle.

4.3.8 Growth of Small Enterprises Measured by Employment Increase

Data were collected on the change in employee numbers in these small enterprises since start-up to their current (2013) number of full-time, part-time,

and paid family employees. Table 4.14 below summarises and measures these changes.

Table 4.12: Growth of Small Enterprises Measured by Employment Increases

Start-up Employment				
Study site	Variable	Observation	Mean	Std. Dev.
Both study sites	Full-time	154	4	4
	Part-time	154	0.2	0.7
	Paid family	154	0.2	0.7
Adigrat	Full-time	40	5	4.3
	Part-time	40	0.4	1
	Paid family	40	0.4	1
Mekelle	Full-time	114	3.1	4.3
	Part-time	114	0.1	0.6
	Paid family	114	0.1	0.5
Current Employment (2013)				
Both study sites	Full-time	154	3	3
	Part-time	154	0.4	1
	Paid Family	154	0.1	0.5
Adigrat	Full-time	40	3.3	2.7
	Part-time	40	0.7	1.2
	Paid family	40	0.3	0.8
Mekelle	Full-time	114	2.4	2.5
	Part-time	114	0.3	0.9
	Paid family	114	0.1	0.3

Source: (Own Data, 2013)

This summary of statistics from both study sites indicates that the average number of full-time workers decreased from four employees at start-up to an average of three employees in 2013. Paid family workers also decreased in number from an average of 0.2 at start-up to 0.1 in 2013. However, part-time worker numbers increased on average from 0.2 employees at start-up to 0.4 by 2013. This indicates that almost no small enterprises had registered a growth in

terms of full-time or paid family workers between the year of establishment and the current period (2013).

When one considers the data from the two study sites separately, full-time employment figures in Adigrat fell from an average of five workers at start-up to 3.3 in the current period (2013). Full-time employment also fell in Mekelle, from an average of 3.1 employees at start-up to 2.4 at present. Similarly, while the average number of paid family workers in Adigrat fell from 0.4 employees at start-up to 0.3 in 2013, no changes were observed in Mekelle. In the case of part-time employees, however, the findings revealed that the average number of employees rose from 0.4 at start-up to 0.7 in Adigrat and from 0.1 at start-up to 0.3 in 2013 in Mekelle.

These figures reveal the challenges to growth that are still present in this sector, and show the extent of the support they require from the bodies concerned. They also suggest that although the number of small enterprises, established and run by owner-managers, has increased in aggregate at regional and national level, the growth and expansion of each sector of small enterprises and their ability to employ additional workers have been constrained by various challenges.

4.3.9 Suitability of Operating Locations

Location, particularly in the case of sales outlets, can play a central role in determining the survival of small enterprises. It is generally believed that those who operate in commercial districts or at the roadside typically show higher growth rates than those that are based in private homes or are far away from main roads. Table 4.15 reflects the suitability of operating locations for small enterprises.

Table 4.13: Suitability of Operating Locations

No	Suitability of Location	Yes
1	Unhygienic	25(16.2)
2	Far from market centre	34(22.1)
3	Good location	76(49.4)
4	Others	8(4.5)
5	No response	11(7.1)
Total		154(100)

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

As indicated in Table 4.15 above, respondents from both study sites were asked about the suitability of their location for operating their businesses and selling their products. Seventy-six (49.4%) of the respondents in the survey confirmed that the location of their business was advantageous; thus the manufacturing areas or sales outlets were located in appropriate places in the case of almost half the small enterprises. Thirty-four (22.1%) of the respondents complained that their location was a long way from the market and that they were not able to sell their products. This could increase the possibility of their going out of business.

A small number (25 or 16.2%) of the respondents reported that their location was 'unhygienic', located in an area where water and other required sanitation facilities were not available. According to the reports from operators in these areas, they were not sufficiently productive and some of them were likely to fail in the near future. Thus 59 (38.3%) of the small enterprises were suffering financially because of their location, a situation that demands particular attention from both regional and local bodies.

During the discussions, officials from the Micro and Small Enterprises Agencies in the study sites made it clear that location was an aspect that could give a business the competitive edge. An unsuitable location may place a business at a disadvantage from the start, as business locations influence a number of critical

variables such as customer exposure, logistical issues and business information. Retailers, service-based business operators, manufacturers and other entrepreneurs must invest time and resources to ensure the suitability of the location they select as this decision is important and can influence the growth rate and the ultimate success of a business. Table 4.16 below reflects the suitability of operating locations in each study site.

Table 4.14: Suitability of Operating Locations in Each Study Site

Study sites	No	Suitability of location	Yes
Adigrat	1	Unhygienic	5 (12.5)
	2	Far from market centre	8 (20)
	3	Good location	21 (52.5)
	4	Others	2 (5)
	5	No response	4 (10)
	Total		
Mekelle	1	Unhygienic	20 (17.5)
	2	Far from market centre	26 (22.8)
	3	Good location	55 (48.2)
	4	Others	6 (5.3)
	5	No response	7 (6.1)
	Total		

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

A relatively high proportion (21 or 52.5%) of the entrepreneurs in Adigrat felt that their business was in a 'good location', compared to 55 (48.2%) in Mekelle. While a relatively high percentage, i.e., 20 (17.5%), of entrepreneurs in Mekelle categorised their premises' location as 'unhygienic', only five (12%) in Adigrat chose this category. The findings also revealed that while eight (20%) of the entrepreneurs' businesses were 'far from the market centre', a similar proportion, i.e., 26 (22.8%), in Mekelle were located 'far from market centres'. This implies that Adigrat is saturated with small enterprises and entrepreneurs therefore

would have a better chance of expanding their business if they were supervised and supported by the bodies concerned.

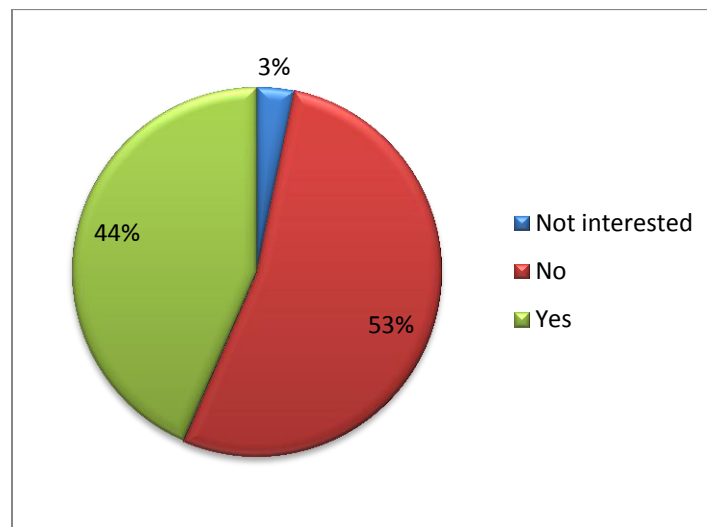
4.4 Challenges and Prospects of Small Enterprises

A number of challenges emerged in this study that could affect the growth and performance of small enterprises. This part of the study examines the most serious challenges facing the growth of small enterprises. The answers to the questions posed in the focus group discussions were subjective but contributed to a better understanding of how certain types of obstacles to growth, such as limited access to credit, the inadequacy of credit amounts and challenges related to rental of premises, market linkages and training were perceived by entrepreneurs in small enterprises.

4.4.1 Challenges Related to Finance

In this section, finance-related challenges such as accessibility of credit, sources of capital for start-up and expansion, adequacy of credit amounts, and reasons for not taking credit from financial institutions were the focus of the discussions.

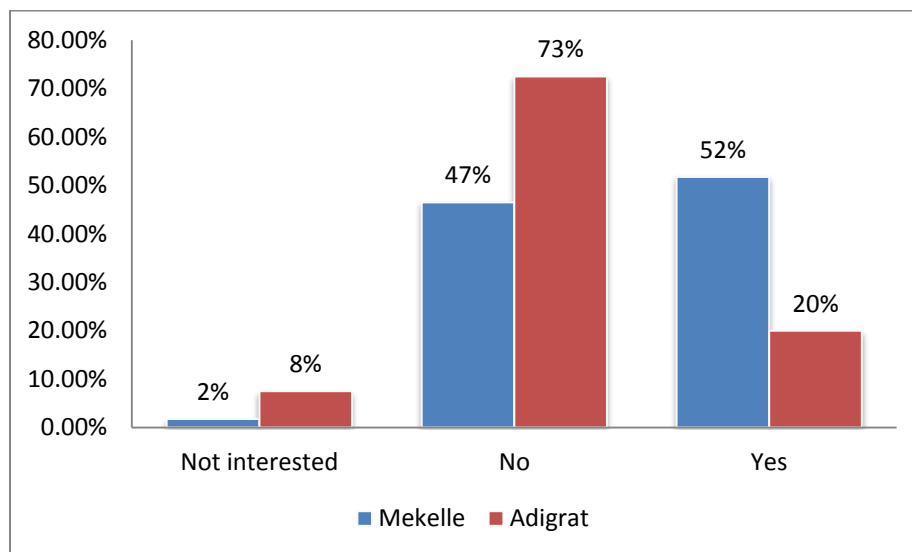
Figure 4.17: Credit Access by Entrepreneurs



Source: (Own Data, 2013)

As demonstrated in Figure 4.19 above, the majority (83 or 53%) of entrepreneurs in the study sites could not get access to credit while five (3%) showed no interest in taking credit, for various reasons. Only 68 (44%) of the respondents had had access to financial institutions for the operation and expansion of their businesses. The survey results were consistent with the argument of Abdullah and Baker (2000: 34–36) who point out that small firms are still short of credit despite the fact that there are many indigenous financial institutions available that extend credit facilities. The focus group discussions with entrepreneurs from the various sectors of small enterprises in the study sites revealed that they had poor access to credit from financial institutions because of the high collateral requirements, group-lending requirements, high interest rates and short repayment periods. These were the main factors making access to credit difficult.

Figure 4.18: Credit Access by Entrepreneurs by Study Site



Source: (Own Data, 2013)

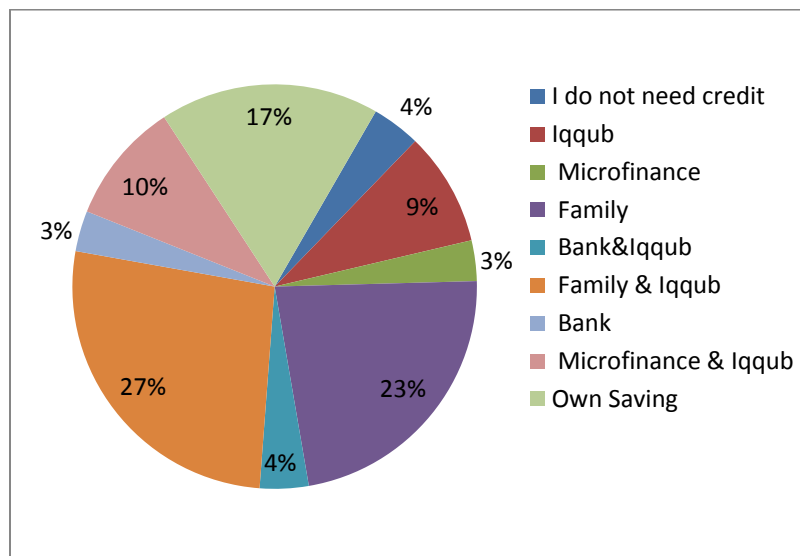
Of the respondents who had not had access to credit facilities from any financial institutions, 29 (73%) were from Adigrat and 54 (47%) from Mekelle. Of those respondents who had access to credit, 60 (52%) were from Mekelle and eight (20%) from Adigrat. This finding indicates that operators of small enterprises in

Mekele found access to credit easier than those in Adigrat. The interviews with the operators of small enterprises in Adigrat also revealed that the group lending requirements of Micro Finance Institutions (MFIs) and the collateral requirements of both commercial and indigenous private banks were some of the most serious challenges facing them in their attempts to get access to credit facilities.

4.4.2 Source of Start-up and Expansion Capital

Starting one's own business requires seed money (initial capital) over and above the existence of business ideas. In order to capture information regarding the relative importance of various sources of finance, enterprise owners/managers were asked whether they had received credit from a given list of sources of finance, such as microfinance institutions, banks, family, own savings or Iqqub schemes.

Figure 4.19: Source of Start-up and Expansion Capital



Source: (Own Data, 2013)

As can be seen from Figure 4.21 above, 62 (40%) of the respondents reported that their start-up and expansion capital came from family and their own savings, and these were the most frequently used sources. After family and own savings,

42 (27%) of the respondents used family and Iqqub as sources, 15 (10%) used microfinance institutions and Iqqub and 14 (9%) of the respondents used Iqqub only. These findings are similar to those of Abdullah and Baker (2000: 76–89), who argue that firms in developing countries operate their businesses with their own savings, complemented by borrowing from friends and family. Elkan (1988: 247–250) and Meid and Leidholm (1998: 38–41) also argue that financial distress is a major problem for small enterprises because of high collateral requirements, high interest rates and short settlement periods that hamper easy access to credit.

The findings of this study underscore the fact that the proportion of small enterprises that had ever received credit from banks and microfinance institutions was very small. This is the result of limited microfinance institutions coupled with fear of risks associated with small businesses and banks' high collateral requirements. According to the commercial banks, demanding collateral is a way of reducing risk, shortening the screening process, and is regarded as a mechanism for compensating for bad debts arising from business failures.

The officials from commercial banks argue that when the borrower hands over an asset as collateral, he/she is motivated to make the most of the borrowed money, and prompted to perform in accordance with the terms of the agreement of the loan. In this regard, one could argue that although collateral has a positive effect on loan repayment, demanding physical collateral from small enterprises under stringent conditions is not necessarily helpful. The reason for this is that the majority of entrepreneurs have only limited capacity to raise the required collateral because of the under-resourced nature of the sector. During the discussions, it was found that commercial banks applied stringent rules when demanding collateral, loan approval and debt collections.

These realities make commercial banks in Ethiopia less attractive to small businesses when seeking finance for their operations and expansion. From the

point of view of the commercial banks, it is not easy to assess objectively the credit worthiness of small businesses based on incomplete or inaccurate information they sometimes provide when applying for loans. Verification of information is deemed too costly or impossible to achieve, mostly because of the poor recordkeeping practices that characterise small enterprises.

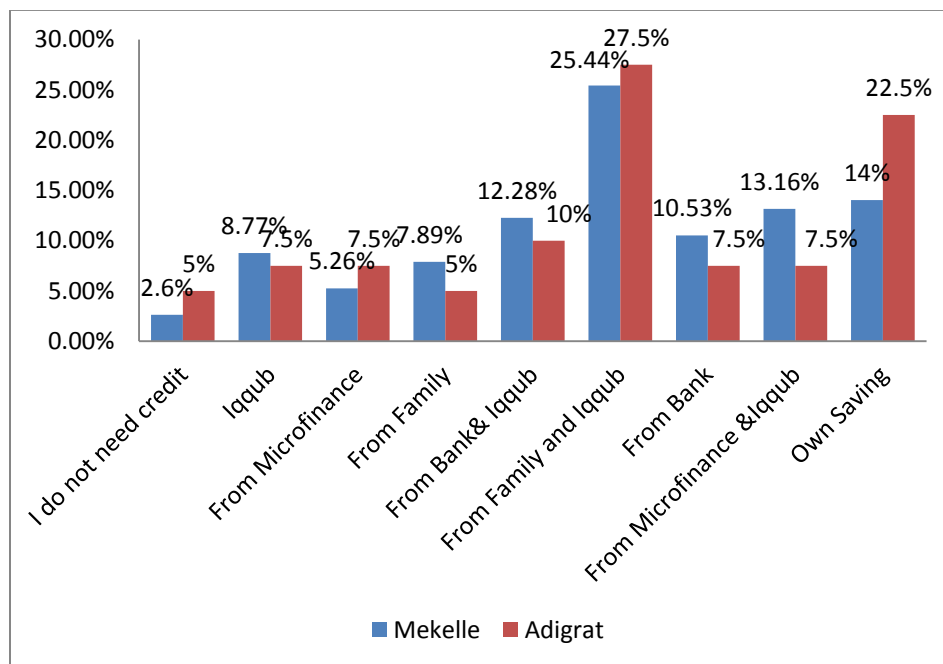
Moreover, according to the discussions held with bankers from commercial banks, it is too costly for banks to monitor and evaluate the activities of small businesses that are operating with minimal capital and resources. Furthermore, the collection of money loaned to small businesses is often characterised by administrative difficulties, protracted and costly litigation, resulting from default on loan repayment. It is often difficult to monitor the progress made by small enterprises, as most of them do not adhere to standard bookkeeping or accounting procedures.

On the other hand, interviews with owners/managers of small enterprises in both study sites revealed that the majority used informal sources of finance since formal financial institutions were not willing to meet their credit needs. The requirements of collateral/guarantors from both the commercial and the indigenous private banks and group requirements of microfinance institutions have marginalised entrepreneurs in small enterprises and hampered access to credit for the start-up and expansion of their businesses. The interviews established that such financial resources are usually obtained from groups with intimate knowledge of and trust in each other.

The interviews provided similar findings to those of Allen et al. (2006: 240) on the utilisation of social capital and the efficiency of small businesses. There was a statistically significant positive correlation between access to social capital and viability of small enterprises. Social capital, therefore, enhances efficiency and long-term survival of small enterprises through the alleviation of financial and non-financial constraints.

According to the focus group discussions with the owners/managers of the small enterprises in Mekelle, the reluctance of financial institutions to introduce innovative ways of lending money to small enterprises has been attributed to the lack of competition among financial service providers. Furthermore, the rudimentary nature of the capital market and the high interest rates associated with borrowing from formal financial institutions makes it difficult for the majority of small enterprises to borrow money from sources other than informal financial institutions. Hence, small enterprises that have been neglected by formal financial institutions such as the Commercial Bank of Ethiopia have secured credit from Iqqub associations on easy terms. In this regard, the government could play a constructive role by linking the Iqqub schemes with formal money lending institutions such as commercial banks. A strategic partnership between Iqqub schemes and commercial banks would be mutually beneficial to small enterprises and formal financial institutions.

Figure 4.20: Source of Start-up and Expansion Capital in Each Study Site



Source: (Own Data, 2013)

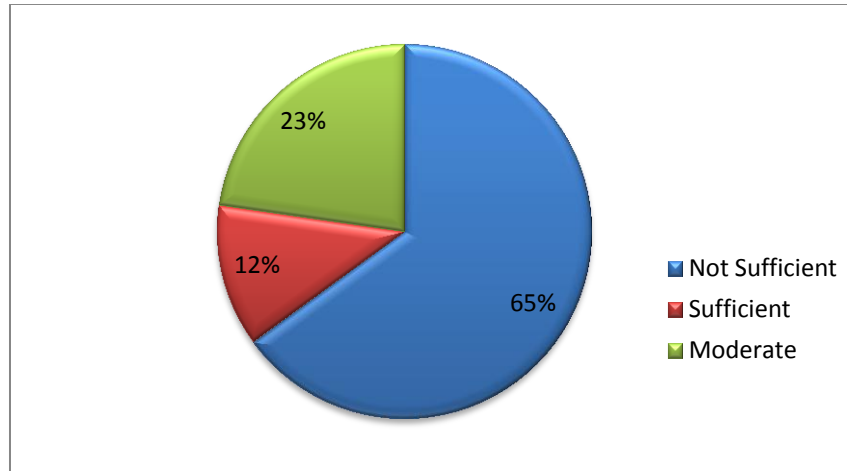
As shown in Figure 4.22 above, only 12 (10.53%) and three (7.5%) of the small-scale operators were given credit by banks at start-up and for further expansion in Mekelle and Adigrat respectively. However, 25 (21.89%) of the respondents in Mekelle and 11 (27.5%) in Adigrat were supported both by their own savings and by family. An insignificant percentage of the respondents, i.e., six (5.3%) in Mekelle and three (7.5%) in Adigrat, was supported by microfinance institutions. The insignificant amount of credit obtained by a few entrepreneurs from microfinance institutions was attributed to the fact that the Ethiopian Government had so far failed to take the bold step of allowing foreign competitors into the local financial market. This has exacerbated by the shortage of money experienced by small enterprises. The findings of this study validate previous literature on credit markets such as Aryeetey et al. (1994: 42–43), who indicated that a sizeable proportion of financial transactions occur outside the formal financial system because of the limitations in this system.

The discussions held with the owners/managers of small enterprises in both study sites confirmed that the majority of them raised finance from Iqqub schemes. Respondents also pointed out that it was too difficult for them to meet the demands of the group requirement of microfinance institutions, or the collateral and the high interest rates demanded by the banks. According to the respondents, although formal financial institutions, especially indigenous private banks, were growing in number, Iqqub schemes were very popular and widely operational at both study sites. However, they disclosed that the lengthy waiting period in Iqqub cycles often resulted in the loss of golden investment opportunities, valuable time, resources and money. This underlines the need to improve the capacity and operational modalities of these indigenous Iqqub schemes so that they are able to lend more money to several small businesses at the same time.

4.4.3 The Adequacy of the Amount of Credit

The respondents who had borrowed money from formal financial institutions such as microfinance institutions and banks were asked about the adequacy of the amount of credit they had received.

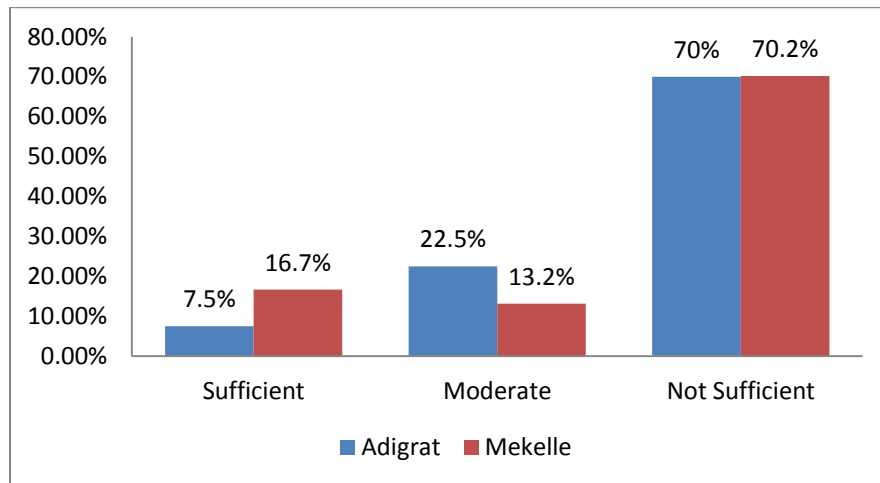
Figure 4.21: Adequacy of the Amount of Credit



Source: (Own Data, 2013)

As can be seen from Figure 4.23 above, 100 (65%) of the respondents reported that the credit was 'not sufficient'. While 35 (23%) of the respondents reported that the amount of the credit was 'moderate', only 19 (12%) of them reported that the credit was 'sufficient'. This implies that formal financial institutions were not meeting the credit demands of their clients, although they frequently claim that they are created to fulfil the credit needs of small enterprises. In fact, the survey found that these institutions had a long way to go in improving their service delivery and enhancing their capacity to meet the credit needs and preferences of their clients.

Figure 4.22: Adequacy of the Amount of Credit in Each Study Site



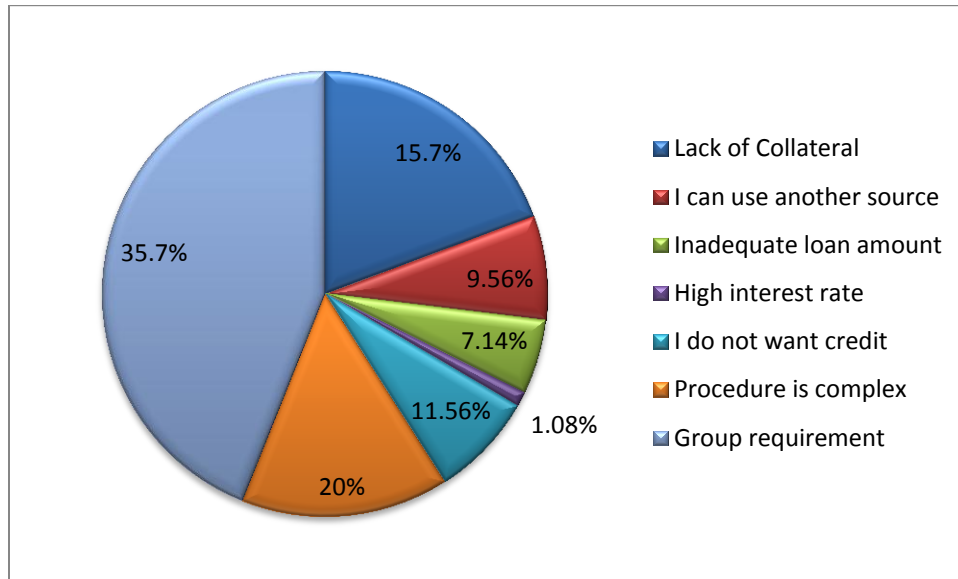
Source: (Own Data, 2013)

As Figure 4.24 shows, the breakdown of the adequacy of the amount of credit revealed that 28 (70%) of the respondents in Adigrat and the same proportion, i.e., 80 (70%), in Mekelle reported that the credit amount was not sufficient. Fifteen (13.2%) of the respondents in Mekelle and 26 (23%) in Adigrat stated that the credit amount was moderate. On the other hand, only 19 (17%) of the respondents in Mekelle and three (8%) in Adigrat indicated that the credit they had received from financial institutions was sufficient. This result indicates that the problem of inadequate credit was very severe in both study sites. This demands immediate intervention from the concerned bodies to improve the accessibility of adequate credit.

4.4.4 Reasons for Failure in Securing Credit from Formal Financial Institutions

Entrepreneurs who failed to access credit from formal financial institutions were asked the reasons for this. Figure 4.25 below reflects these reasons.

Figure 4.23: Reasons for Credit Failure

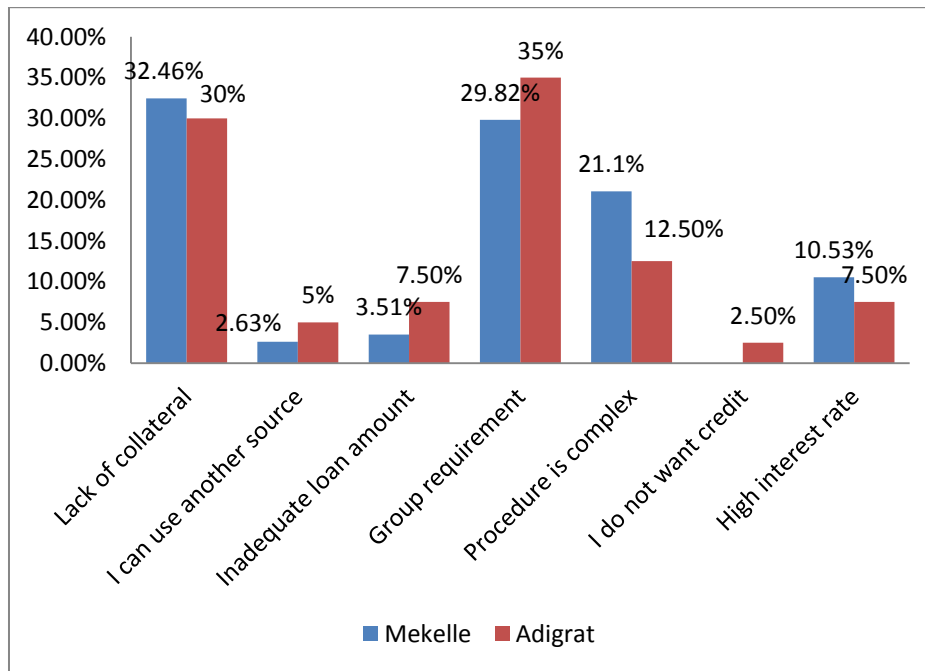


Source: (Own Data, 2013)

The most frequently mentioned factors that excluded potential borrowers (54 respondents or 35.7%) from the credit services of financial institutions, especially from microfinance institutions, was the group requirement. This was followed by the complex procedures involved in accessing credit (31 respondents or 20%). Other reasons that prevented entrepreneurs from borrowing start-up and expansion capital were lack of collateral and inadequate credit (24 respondents or 15.7% and 11 respondents or 7.14% respectively).

During the discussions with the operators of small enterprises in both study sites, it was found that the requirement of significant prior savings and the need for collateral were the major hurdles.

Figure 4.24: Reasons for Credit Failure in Each Study Site



Source: (Own Data, 2013)

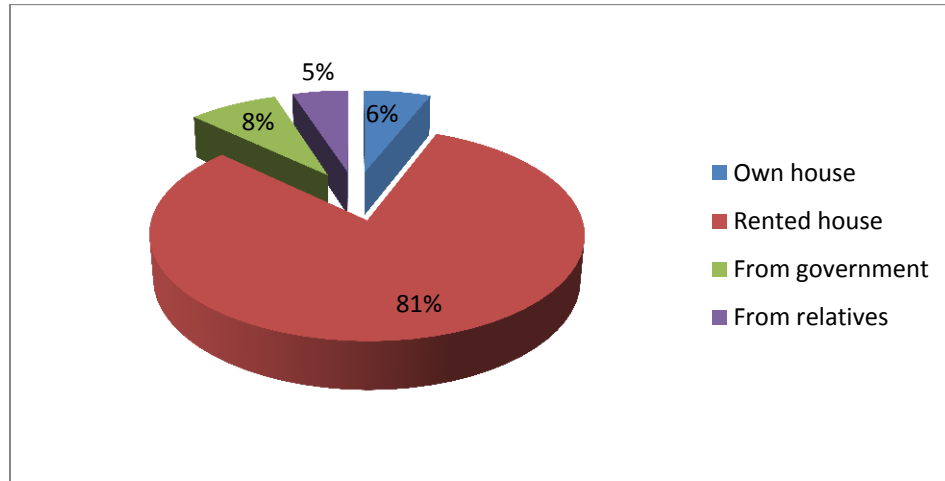
Figure 4.26 shows that 34 (30%) of the respondents in Mekelle and 14 (35%) in Adigrat could not access credit as they were not able to meet the group requirement demanded by microfinance institutions. On the other hand, 38 (33%) and 34 (30%) of the respondents in Mekelle and Adigrat respectively complained that the collateral requirement of the banks was a problem. The remaining 24 (21%) respondents in Mekelle and five (13%) in Adigrat also reported that the procedures for obtaining credit were complex. Generally, collateral and group requirements were the most pressing problems when compared to other constraints.

4.4.5 Ownership of Business Premises

During the field survey, problems related to the scarcity of land for business premises and market outlets and numerous related challenges were observed. These problems, according to the officials in Mekelle, resulted in the dissolution

of partnerships and organised groups before the premises became available. This led to further frustrations and loss of confidence among organisers and operators of small enterprises. In cases where operators had obtained land, most were not working on the particular land because of the inconvenience of the location.

Figure 4.25: Possession of the Working Locations



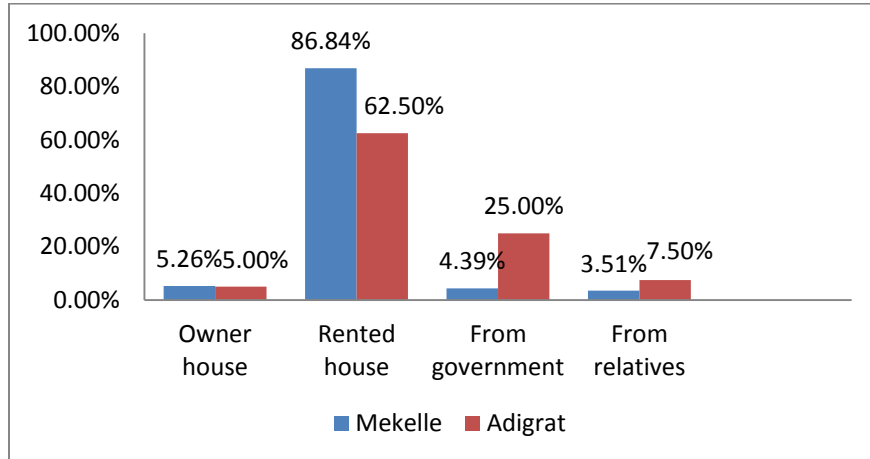
Source: (Own Data, 2013)

Figure 4.27 shows that the majority, i.e., 124 (81%), of the respondents in the survey operated their businesses from rented houses, while 12 (8%) rented their premises from the government. Only nine (6%) of the respondents owned their own premises and eight (5%) rented their premises from relatives on a temporary basis.

In the interview conducted with the managers/owners of enterprises in Mekelle, it became apparent that the absence of suitable sales outlets aggravated the already inadequate workspaces provided by the government in cluster form. Michael (1998: 78) defines a 'cluster' as the geographic concentration of interconnected small enterprises, institutions, suppliers and service providers that compete and cooperate. The operators in this study argued that the lack of sales outlets was a direct contributor to their inadequate market and low income.

Apparently, the absence of a sales outlet also narrows the chances of access to new customers.

Figure 4.26: Ownership of Workplace in Study Sites



Source: (Own Data, 2013)

Figure 4.28 reveals that 99 (87%) of the respondents in Mekelle and 25 (63%) in Adigrat operated their businesses from rented premises. Only eight (20%) respondents in Adigrat and four (3.5%) in Mekelle rented their workplace and sales outlet from the government. Those who operated their businesses from their own homes amounted to five (4.4%) in Mekelle and four (10%) in Adigrat. The remaining three (7.5%) respondents in Adigrat and five (4.4%) in Mekelle had inherited their premises from their relatives.

The focus group discussions with operators of small enterprises in Mekelle made it clear that the rent of houses was too high and the current workplace obtained from the government was not convenient for business. The group also disclosed their dissatisfaction with the location of the workplaces and sales outlets provided by the government. They believed that the manufacturing areas and sales outlets were not located in places convenient to most entrepreneurs. Furthermore, the availability of these premises, the manner of their allocation and their adequacy in the future were major concerns.

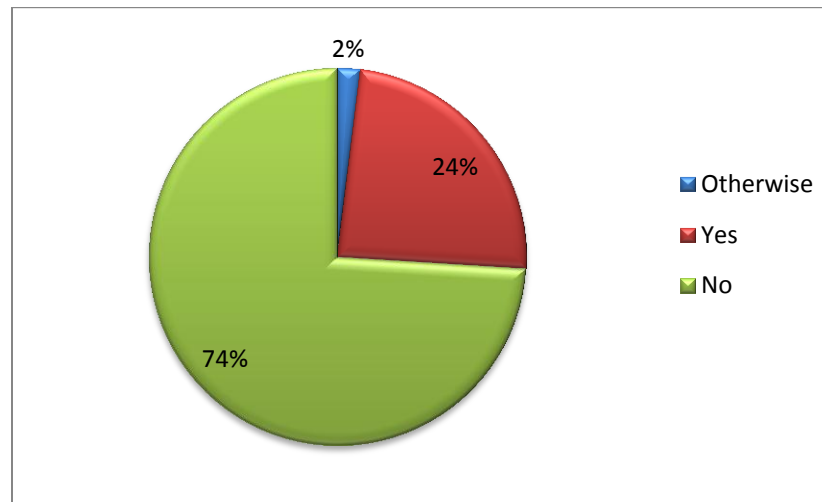
On the other hand, the interview with government officials from the Office of Micro and Small Enterprise Agency revealed that they had complaints. During the discussions, they observed that the focus of some operators of small enterprises was not to access manufacturing and sales premises built with government capital in a cluster form, even in a convenient place. Rather, they were keen, according to the government officials, to get open urban land and to transfer it to a third party through various illegal means. As a result, in many urban areas including Mekelle and Adigrat, several manufacturing and sales outlets that had been built with government capital had been left unused by operators of small enterprises.

According to these officials, because of these misconceptions about entrepreneurs in small enterprises, preparing fertile ground for the future industrialisation objectives of the country would prove to be a challenge unless the attitudes of entrepreneurs were changed through proper training and capacity building interventions.

4.4.6 Market Linkages of Small Enterprises

One of the most common challenges facing the growth of small enterprises is the weak links among themselves and with other institutions, including research organisations. Based on this fact, the linkages with and support of various institutions for small enterprises was assessed. To this end, entrepreneurs in the study sites were asked whether they had links with other institutions and stakeholders.

Figure 4.27: Market Linkage of Small Enterprises

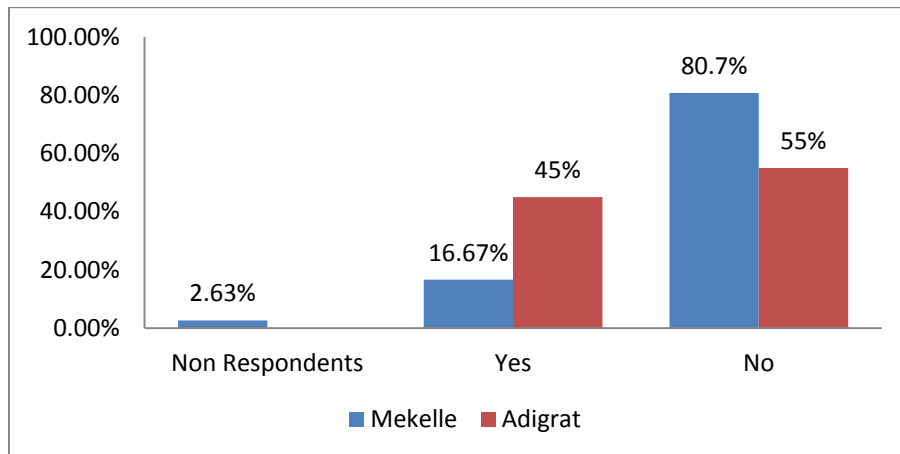


Source: (Own Data, 2013)

As indicated in Figure 4.29, the vast majority (114 or 74%) of respondents in the study sites had no formal or well-organised linkages either among themselves or with other institutions. Only 37 (24%) of the respondents had developed links among themselves or with other institutions such as government sector offices and other consumers.

The interview held with entrepreneurs confirmed that the majority had no linkages and this reality had contributed to the slow growth rate of their enterprises. These findings are in keeping with Liedholm and Mead's (1999: 86–87) argument that where small enterprises have linkages among themselves or with other institutions, they are more likely to grow faster than those enterprises that have no such links.

Figure 4.28: Market Linkages of Small Enterprises in Each Study Site



Source: (Own Data, 2013)

When we observe the market linkage situation in each study site, a very high proportion, i.e., 92 (80.7%) of the respondents in Mekelle had no market linkages, while 22 (55%) in Adigrat had none. Only seven (16.7) of the respondents in Mekelle and 51 (45%) in Adigrat reported the existence of any market linkages among themselves and with other institutions. This suggests that links to markets pose serious problems, especially in Mekelle. Clearly, this will slow down growth in small enterprises unless this state of affairs is improved.

4.4.7 Training Related Challenges

Continuous training provides a particular entrepreneur with the skills and competencies necessary for successful entrepreneurship (Elkan 1988: 18). Adequate training places a manager in a better position to make tough decisions and forecasts under conditions of uncertainty. The competencies the manager gains from such training capacitate him/her to perform better than untrained individuals. Good training is essential in addressing the growing challenges emanating from competition and the technology required by entrepreneurs in small enterprises.

An official from the Office of Micro and Small Enterprises in Mekelle revealed that the extension services given to entrepreneurs in small enterprises included training in basic business start-up, operation and expansion, technical support in the preparation of business plans, keeping a database and technology related assistance. Furthermore, advice from extension workers on sources and proper use of credit, credit arrangements, creating market integration, workplace provision and creating links with cooperating institutions were some of the business development services available to operators of small enterprises. Table 4.17 below reflects training related challenges.

Table 4.15: Training Related Challenges

Business type	No problem	Not relevant	On-off nature	No-response	Total
Trade	22(27.5)	18(22.5)	21(26.3)	19(23.8)	80(100)
Service	8(19.5)	9(22)	12(29.3)	12(29.3)	41(100)
Manufacturing	3(27.3)	3(27.3)	4(36.4)	1(9.1)	11(100)
Urban agriculture	2(18.2)	2(18.2)	6(54.5)	1(9.1)	11(100)
Construction	3(27.3)	3(27.3)	5(45.5)	0	11(100)
Total	38(24.8)	35(22.7)	48(31.2)	33(21.4)	154(100)

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

The survey result revealed that 38 (24.8%) of the respondents were represented in the 'no problem' category of training related challenges. These respondents reported that they had benefited from the training given, and because of this, they were able to keep records of income and expenses, keep a database of their business transactions and prepare sound business plans. According to these respondents, the consultancy and support provided by extension workers had helped them to render satisfactory services to their customers.

However, 35 (22.7%) of the respondents reported that they had not benefited from the training and were categorised in the 'training was not relevant' category. Forty-eight (31.2%) of the respondents fell into the 'on-off' category of training. Generally, the majority (83 or 53.9%) of the respondents complained of the shortcomings of the training. This suggests that the training service should be more technical, predictable and continuous in order to fulfil the expectations of entrepreneurs.

According to the interview with the officials from the Office of Micro and Small Enterprises in Mekelle, the most important support provided to small enterprises was in training and they believed that many operators had benefited from the scheme. Training, they believed, enabled operators to keep records of their income and expenses and to begin to provide satisfactory services to their customers.

Nevertheless, the officials complained that when training was arranged, some operators of small enterprises were not willing to participate unless they were given per diem payment. In a similar vein, although experts from the Technical and Vocational Education and Training (TVET) institutions of the government were responsible on a permanent basis for providing training to the extension agents, they were reluctant and failed to discharge their duty. They considered it to be part-time job and sought additional payment.

On the other hand, the focus group discussions held with operators of small enterprises revealed that the training they had received did not reflect their needs and was rated of little use in solving their problems. Furthermore, the extension agents who were supposed to provide the training did not have the required technical knowledge or skills to deliver training in technical areas, as most of them had only a two-year diploma.

The experts in the area of small enterprise at various levels of government also confirmed that the absence of technical staff in specific sectors was conspicuous. Staff turnover, particularly among technical staff, was very high. Low salaries and the lack of incentive were part of the problem. As far as the extension workers were concerned, the officials made the point that their responsibility was considerable. They sometimes engaged in assignments that were not strictly meant for extension workers. Officials also underlined the fact that more extension workers than were currently available were required to deliver efficient and effective services that would address the needs and skill gaps of business operators.

The discussions with the extension workers also revealed that the budget allocation was inadequate to run small enterprise development services in general and extension work in particular. Most of the extension workers indicated that they did not have enough space or the facilities at their place of work. The facilities they lacked included transport, office furniture and capacity building training. Table 4.18 below illustrates the training related challenges in each study site.

Table 4.16: Training Related Challenges in Each Study Site

Study Sites	Business type	No problem	Not relevant	On-off nature	No response	Total
Adigrat	Trade	4(36.4)	4(36.4)	2(18.2)	1(9.1)	11(100)
	Service	2(16.7)	3(25)	5(41.7)	2 (16.7)	12(100)
	Manufacturing	0	1(50)	1(50)	0	2(100)
	Urban agriculture	1(16.7)	1(16.7)	3(50)	1(16.7)	6(100)
	Construction	2(22.2)	3(33.3)	4(44.4)	0	9(100)
	Total	9(22.5)	12(30)	15(37.5)	4(10)	40(100)
Mekelle	Trade	18(26.1)	14(20.3)	19(27.5)	18(26.1)	69(100)
	Service	6(20.7)	6(20.7)	7(24.1)	10(34.5)	29(100)
	Manufacturing	3(33.3)	2(22.2)	3(33.3)	1(11.1)	9(100)
	Urban agriculture	1(20)	1(20)	3(60)	0	5(100)
	Construction	1(50)	0	1(50)	0	2(100)
	Total	29(25.4)	23(20.2)	33(29)	29(25.4)	114(100)

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

It is clear from Table 4.18 above that the problem was more acute in Adigrat than in Mekelle. In Adigrat, 12 (30%) and 15 (37.5%) of the entrepreneurs fell into the 'training is not relevant' and the 'not consistent or on-off nature' category respectively. In Mekelle, only 23 (20%) and 33 (29%) entrepreneurs were classified in the 'training is not relevant' and in the 'not consistent or on-off nature' categories respectively.

The interview conducted with the operators of small enterprises confirmed that they had many skills problems, especially poor record keeping and planning, which stemmed from factors such as inadequate training as a result of a lack of relevant qualifications among extension workers. Furthermore, most of these enterprises operated without systems of good management practice; in most cases the owner-manager was the sole decision-maker and his/her absence led to a temporary halt in decision-making. Similarly, the interviewees unanimously

indicated that their inabilities, that is their poor technical skills and inability to troubleshoot failures in machinery or equipment was a critical problem, as they could not afford to employ specialists in the field.

4.5 Conclusion

Small enterprises have been accepted worldwide as one instrument of economic growth and development. Despite the institutional and policy support by governments to enhance the capacity of these small enterprises, they have not lived up to their potential. This has generated serious concerns over whether small enterprises can bring about economic growth and national development in Ethiopia. In fact, this study has explored the challenges facing entrepreneurs that compromise their ability to function optimally and to fulfil the expectations of stakeholders.

Various theoretical models have been discussed in the literature, among them the industrial organisation model (I/O) and the resource-based model. These were selected as the theoretical models for this study. The industrial organisation model (I/O) explains the influence of the external environment on a firm's strategic actions. The model specifies that the environment in which an enterprise chooses to compete has a stronger influence on performance than the choices that managers make inside their organisations.

In this regard, the findings of the study reveal that situations where a range of factors that are external to the organisations, such as location, access to credit, training, market and the degree of concentration of small enterprises, influence the performance of entrepreneurs in the study sites. For instance, proximity of location to demand sources and the concentration of competitors has a direct influence on the performance of small enterprises. That is, the location of business premises implies differential costs regarding rent payments, where home-based enterprises have lower rental costs than shops in a commercial

district. Furthermore, the study revealed that the performance of small enterprises is the function of external characteristics, that is, the interactions between suppliers and buyers, competition among firms and potential new entrants into the industry.

The resource-based model that argues for a firm's unique internal resources and capabilities as the major determinant factors of its performance has also explained the characteristics of small enterprises in the study sites. In this regard, the findings echo the resource-based model, where the performance of the small enterprise is influenced in part by the level of human capital, such as education and experience, embodied in its operators. Other internal characteristics of entrepreneurs such as marital status and gender were found to be important determinant factors in the likelihood of starting a small enterprise and its success. More specifically, the intangible resources of entrepreneurs that have been accumulated over time and that are rooted deeply in the firm's history, such as knowledge, managerial capabilities, the capacity for innovation and so on are some of the unique internal resources that influence the performance of small enterprises in the study sites.

Owing to the fact that the I/O model and the resource-based model explain the performance of small enterprises, both models were used in this study to investigate the external and internal dynamics of small enterprises; thus the study was holistic in nature.

As far as the sampling and data gathering techniques are concerned, both probability and non-probability sampling methods were used to collect the primary and secondary cross-sectional data during the study.

The data were analysed to explore the challenges facing entrepreneurs and their prospects, using descriptive statistical tools such as averages, percentages, standard deviations. Pie charts, bar graphs and tables were used to illustrate the

results of these procedures. The study uncovered many challenges facing small enterprises in the study sites. These were the result of a number of factors including scarcity of capital because of the reluctance of formal financial institutions to cater for the sector, lack of business premises and infrastructure, lack of demand for products/services, limited access to business services, and constraints related to policy and institutional linkages. Finally, the interpretation of the results in order to understand the general challenges facing entrepreneurs led to the investigation and rating of sector specific constraints.

CHAPTER 5

RATING CHALLENGES ACROSS SMALL ENTERPRISES

5.1 Introduction

Chapter Four examined the general challenges that influence growth and performances of small enterprises in the study sites. While knowledge of the challenges that affect all enterprises is a crucial factor in the decision-making process of those who assist small enterprises, it is not sufficient. An equally important piece of the puzzle is an understanding of which specific small enterprise sectors are most affected by particular types of challenges, for instance by the absence of market links.

Such an understanding is essential to policy makers as it provides answers to questions of whether a particular sector should be assisted, and whether this particular assistance is deemed appropriate, and what specific policy measure and intervention would be most effective. Hence, rating different challenges such as access to finance, markets, institutional linkages, policy and legal challenges across different business types is warranted and provides insight into the critical factors that affect the performance of each sector. Chapter Five therefore provides an in-depth examination and rating of these challenges across the sectors of small enterprise.

5.2 Rating Financial Challenges across Small Enterprises

A government that is genuinely committed to the promotion and development of small enterprises will create stable fiscal and monetary settings with reasonable interest and exchange rates, moderate tax and policies that minimise the costs related to running a small business. Table 5.1 below displays the severity of financial challenges across small enterprises in this study.

Table 5.1: Rating Financial Challenges across Small Enterprises

Variables	Trade				Service				Manufacturing				Urban Agriculture				Construction			
	Degree of Problems				Degree of Problems				Degree of Problems				Degree of Problems				Degree of Problems			
	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T
High interest rates	19(32.2)	26(44.1)	14(23.7)	59(100)	4(22.2)	12(66.7)	2(11.1)	18(100)	2(20)	5(50)	3(30)	10(100)	5(55.6)	3(33.3)	1(11.1)	9(100)	1(9.1)	6(54.6)	4(36.4)	11(100)
Tax burden	51(63.8)	19(23.8)	10(12.5)	80(100)	16(41)	17(43.6)	6(15.4)	39(100)	6(54.6)	3(27.3)	2(18.2)	11(100)	4(36.4)	6(54.6)	1(9.1)	11(100)	2(18.2)	4(36.4)	5(45.5)	11(100)
Limited access to working capital	50(62.5)	2(2.5)	10(12.5)	80(100)	22(57.9)	12(31.6)	4(10.5)	38(100)	5(45.5)	5(45.5)	1(9.1)	11(100)	6(54.5)	5(45.5)	0	11(100)	2(18.2)	5(45.5)	4(36.4)	11(100)
High collateral requirements	50(61.7)	12(14.8)	16(19.8)	78(100)	24(63.2)	8(21.1)	6(15.8)	38(100)	4(40)	5(50)	1(10)	10(100)	8(72.7)	2(18.2)	1(9.1)	11(100)	2(18.2)	7(63.6)	2(18.2)	11(100)
Complex Loan procedures	40(50)	24(30)	16(20)	80(100)	14(37.8)	9(24.3)	4(10.8)	37(100)	4(36.4)	5(45.5)	2(18.2)	11(100)	6(55)	4(36.4)	1(9.1)	11(100)	3(27.3)	8(72.7)	0	11(100)

Key: S= Severe, M= Moderate, N= None, T= Total Respondents

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

The majority (26 or 44.1%) of the respondents in the trade, 12 (66.7%) in the service, five (50%), in the manufacturing and six (54.6%) in the construction sectors considered high interest rates to be a 'medium problem'. Of all the different small enterprise sectors that reported high interest rates as a 'severe problem', operators of urban agriculture constituted the highest representation with five (55%); followed by 19 (32.2%) traders, four (22.2%) service providers,

two (20%) manufacturers and one (9.1%) construction operator. These results suggest that interest rates do not pose a serious threat to the growth and expansion of most entrepreneurs' enterprises.

As to limited access to working capital, the majority, i.e., 50 (62.5%), of the respondents in the trade, 22 (57.9%) in the service, five (45.5%) in the manufacturing and six (54.5%) in the urban agriculture sectors regarded this as a 'severe problem'. Five (45.5%) respondents in the construction sector said this was a 'moderate problem'. These results suggest that the challenges of access to working capital affected the various sectors to different degrees, with the highest degree in the trade sector and the lowest in the construction sector. In general, the findings were that loans granted for the operation and the expansion of enterprises were severely limited and this had a negative effect on the growth and expansion efforts of small business operators.

Affordable credit from both formal and informal sources that could fill this gap is essential for the growth of these enterprises. Informal sources comprise loans from fellow operators such as family, relatives or friends. According to the respondents in the focus group discussions, the requirements for collateral and loan application procedures are not stringent in the case of informal sources. Since such loans usually take place between parties who are intimately acquainted and trust each other, and where the need for guarantees in the form of assets is limited.

Micro Finance Institutions (MFIs) are a formal source of credit that is used by business operators in addition to other financial service providers such as state-owned and indigenous private banks. MFIs are party-oriented in their establishment and are affiliated to regional governing political parties. Officials in MFIs in the region reported that they provided loans to small enterprises but treated them differently from other clients, focusing mainly on the unemployed, especially on those individuals who had skills and the potential to grow. The

maximum credit they gave to such operators varied according to the type of business organisation, i.e., partnerships, sole proprietorships or joint ventures, and the type of business project and plans that were submitted.

The focus group discussions with the operators of small enterprises revealed that the credit generated from informal sources, along with a few loans secured from MFIs and personal savings constituted the capital for a start-up operation and the expansion of a small enterprise. Selected operators of small enterprises from all sectors were also interviewed for their opinions regarding financial constraints. It was found that operators often suffered from a shortage of credit since they were unable to meet the collateral and group requirements of the lending institutions. Another problem facing operators was the increasing expense incurred by their respective sector in relation to the purchase of raw materials and services, in addition to the cost of utilities consumed both at home and in the workplace.

The results of the interview held with entrepreneurs in the small enterprises reflected the argument of Morrison (2000: 177–201) who observed that formal money lending institutions have so far failed to produce innovative, affordable and user-friendly financial services with a particular view to assisting struggling small enterprises in developing countries.

On the other hand, the officials of the MFIs argued that those operators who presented good business plans were not denied access to credit. However, the discussions held with managers/owners of small enterprises in both study sites revealed that the terms of credit of MFIs were not favourable. These institutions fixed very short repayment periods with high interest rates, such as 15% compared to the interest rate of 9.5% charged by the commercial banks of Ethiopia. This high cost of loans to users made them unaffordable. Clearly, such high loan costs further damage the already meagre revenue of small enterprises. The participants pointed out that the short repayment period scheduled by MFIs also caused anxiety when they were faced with shortages in the market. This

meant that they were unable to repay their loans within the period stipulated by the MFIs. Thus, it emerged from the focus group discussions that the majority of small enterprise operators frequently used informal lenders as their main source of finance.

Table 5.1 also shows the complexity of banks' and other lending institutions' loan procedures, where 40 (50%) of the respondents from trade, 14 (37.8%) from service and six (55%) from urban agriculture were in the 'severe problem' category. However, five (45.5%) respondents from the manufacturing and eight (72.7%) from the construction sectors were in the 'medium problem' category.

High collateral requirements pose a serious difficulty for small enterprises, as indicated in Table 5.1. The majority of the respondents from the trade sector (50 or 61.7%), 24 (63.2%) from the service and eight (72.7%) from the urban agriculture sectors fell into the category of 'severe problem' in this regard. On the other hand, five (50%) of the respondents from the manufacturing and seven (63.6%) from the construction sectors said that this constituted a 'medium problem' only. Cooper et al. (1994: 87–90) observe that:

The majority of small enterprises in developing countries operate at below capacity due to lack of credit or complex procedures and the collateral requirement by banks as a prerequisite for the approval of loans.

Respondents selected from all sectors of small enterprise were also interviewed for information on whether they had other sources of income for the start-up and expansion of their businesses. The majority of them reported that they had personal savings. Some operators indicated that they had opened a savings account at the Mekelle Commercial Bank of Ethiopia (CBE) in their own name. In addition to this form of saving, some used the Iqqub scheme, where each member made equal monthly contributions and the pooled amount was given to contributors on a rotational basis. Members usually spent the money accessed from Iqqub sources on income generating activities such as start-up and

expansion of their enterprises. Such informal indigenous saving and credit schemes play a significant role in enhancing social networks among operators.

With regard to the problem of tax burden, a high proportion (51 or 63.8%) of respondents from the trade sector, six (54.6%) from the manufacturing and 16 (41%) from the service sector observed that this was a 'severe problem'. A significant proportion (six or 54.6%) of the respondents from urban agriculture, 17 (43.6%) from the service sector, four (36.4%) from construction and 19 (23.5%) from the trade sector were in the 'medium problem' category. The rest of the respondents from the construction sector (5 or 45.5%), followed by two (18.2%) from manufacturing, six (15.4%) from service and one (16.7%) from urban agriculture reported that they experienced no tax burden.

The findings of this study revealed that different small enterprise sectors were hampered by challenges to varying degrees. This situation calls for government agencies and other concerned bodies to intervene and mitigate the challenges and constraints pertinent to the various sectors of small enterprise.

5.3 Rating Market Challenges across Small Enterprises

As Table 5.2 below indicates, the market factor consists of four items. These are lack of market information, inadequate input supply, shortages of marketing skills and limited market opportunity creation.

Table 5.2: Rating Market Challenges across Small Enterprises

Variables	Trade				Service				Manufacturing				Urban Agriculture				Construction			
	Degree of Problems				Degree of Problems				Degree of Problems				Degree of Problems				Degree of Problems			
	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T
Lack of market information	47(58.8)	23(28.8)	10(12.5)	80(100)	17(43.6)	12(30.8)	10(25.6)	39(100)	2(18.2)	5(45.5)	4(36.4)	11(100)	1(9.1)	7(63.6)	3(27.3)	11(100)	2(18.2)	5(45.5)	4(36.4)	11(100)
Lack of adequate input supply	45(56.3)	23(28.8)	12(15)	80(100)	10(25.6)	18(46.2)	11(28.2)	39(100)	7(63.6)	3(27.3)	1(9.1)	11(100)	8(72.2)	2(18.2)	1(9.1)	11(100)	6(54.6)	4(36.4)	1(9.1)	11(100)
Shortage of marketing skills	36(45)	33(41.3)	11(13.8)	80(100)	22(56.4)	10(25.6)	7(17.9)	39(100)	3(27.3)	7(63.6)	1(9.1)	11(100)	5(45.5)	6(54.6)	0	11(100)	0	8(72.7)	3(27.3)	11(100)
Limited market opportunity creation	49(61.3)	24(30)	7(8.8)	80(100)	25(64.1)	12(30.8)	2(5.1)	39(100)	3(27.3)	7(63.3)	1(9.1)	11(100)	7(63.6)	3(27.3)	1(9.1)	11(100)	1(9.1)	9(81.8)	1(9.1)	11(100)

Key: S= Severe, M= Moderate, N= None, T= Total Respondent

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

The majority of the respondents in trade (47 or 58.8%) and 17 (43.6%) in the service sector said that a lack of market information was a 'severe problem'. A significant proportion, i.e., five (45.5%) of the respondents in the manufacturing, seven (63.6%) in urban agriculture and five (45.5%) in the construction sector were in the 'medium problem' category. Four (36.4%) respondents in the manufacturing and in the construction sectors observed that they had no difficulties with marketing information. On the other hand, only three (27.3%) of the respondents in urban agriculture, 10 (25.6%) in service and 10 (12.5%) in the trade sector reported that no marketing information was provided by

development agents. These results, therefore, suggest that small enterprises in the trade and service sectors were more affected by a lack of market information than those in other sectors; the trade sector was most affected by the limitations of this specific business development service.

Furthermore, the lack of adequate input supply was another market related factor that hindered the growth and performance of small enterprises. In this regard, a high proportion (7 or 63.6%) of the respondents from the manufacturing sector, eight (72.2%) from urban agriculture, six (54.6%) from the construction and 45 (56.3%) from the trade sector found themselves in the 'severe problem' category. However, a smaller proportion (18 or 46.2%) of respondents in the service sector was in the 'severe problem' category. Input supplies appear thus to affect the service sector to a lesser degree than other small enterprise sectors.

A lack of marketing skills to attract potential users caused 'severe problems' for only 36 (45%) of respondents from trade and 22 (56.4%) from the service sector. The remainder of the respondents, that is, seven (63.6%) from manufacturing, six (54.6%) from urban agriculture and eight (72.7%) from the construction sector experienced this as a 'medium problem'. Thus, a lack of marketing skills is a problem that mainly affects the performance of entrepreneurs engaged in the service sector.

With regard to market opportunity creation, a high proportion, i.e., 49 (61.3%) of the respondents from trade and 25 (64.1%) from the service sector were in the 'severe problem' category. However, four (36.4%) respondents from manufacturing, seven (63.3%) from urban agriculture and nine (81.8%) from construction fell into the 'medium problem' category as far as this problem was concerned. This suggests that operators of small enterprises in construction, urban agriculture and the manufacturing sector were less affected than other sectors in this regard.

5.4 Rating Linkage Challenges across Small Enterprises

This section explores the extent of challenges related to the linkages with customers and government institutions across the different sectors of small enterprise. Table 5.3 below shows the degree of linkage challenges across the small enterprises.

Table 5.3: Rating Linkage Challenges across Small Enterprises

Variables	Trade				Service				Manufacturing				Urban Agriculture				Construction			
	Degree of Problems				Degree of Problems				Degree of Problems				Degree of Problems				Degree of Problems			
	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T
Links with research institutions	80(100)	0	0	80(100)	39(100)	0	0	39(100)	11(100)	0	0	11(100)	11(100)	0	0	11(100)	11(100)	0	0	11(100)
Links with different enterprises	68(85)	11(13.8)	1(1.3)	80(100)	30(78)	8(20.5)	1(2.6)	39(100)	9(81.8)	1(9.1)	1(9.1)	11(100)	11(100)	0	0	11(100)	3(27.3)	6(54.6)	2(18.2)	11(100)
Links with Gov. org.	67(83.8)	10(12.5)	3(3.8)	80(100)	30(76.9)	7(17.9)	2(5.1)	39(100)	7(63.6)	2(18.2)	2(18.2)	11(100)	10(90.9)	1(9.1)	0	11(100)	3(27.3)	5(45.5)	3(27.3)	11(100)
Links with customers	40(50)	38(47.5)	2(2.5)	80(100)	7(43.6)	20(51.3)	2(5.1)	39(100)	4(36.4)	4(36.4)	3(27.3)	11(100)	7(63.6)	4(36.4)	0	11(100)	2(18.2)	5(45.5)	4(36.4)	11(100)

Key: S= Severe, M= Moderate, N= None, T= Total Respondents

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

Linkages between small enterprises and research organisations were a 'severe problem' for 154 (100%) of the respondents from small enterprises. Entrepreneurs in the study sites had no direct relationships with research organisations in the form of workshops or seminars to disseminate and share research outputs.

Linkages among enterprises, see Table 5.3 above, were a 'severe problem' for 68 (85%) of the respondents from trade, 30 (78%) from service, nine (81.8%) from manufacturing and for all 11 (100%) respondents from urban agriculture. On the other hand, a high proportion (6 or 54.6%) of respondents from the construction sector said that this was a 'medium problem', revealing that they had links with other sectors of small enterprise such as trade and manufacturing.

During the interviews held with entrepreneurs, they disclosed that they had backward linkages where medium and the large enterprises provided input to small enterprises. According to the operators, these linkages were exploitative, placing small enterprises at a disadvantage in many instances. These imbalanced linkages in sectors are among the factors that contribute to the sluggish growth or the limited competence of small enterprises. In general, it was observed that the forward linkages were not common in the study sites; these would have had a more positive effect on the performance of the small enterprises in question.

Moreover, the weakness of the links between small enterprises and government institutions was also evident: 67 (83.8%) of the respondents from the trade sector, 30 (76.9%) from service, seven (63.6%) from manufacturing and 10 (90%) from the urban agriculture sector stated that this was a 'severe problem'. However, five (45.5%) respondents from the construction sector were in the 'medium problem' category, indicating that they had links to institutions such as government housing development agencies as well as private organisations.

In the case of links between small enterprises and customers, a significant proportion (70 or 45.5%) of the respondents reported that the government had rarely facilitated market linkages with customers. Forty (50%) of the respondents from trade and seven (63.6%) from the urban agriculture sector were in the 'severe problem' category, while the majority (20 or 51.3%) of the respondents

from service and five (45%) from the construction sector were classified in the 'medium problem' category.

Focus group discussions held with government officials in Adigrat revealed their concerns about complaints about links made by entrepreneurs. They claimed that the government had facilitated market linkages between small enterprises and government institutions, among small enterprises themselves and with the customers. According to the participants, operators of small enterprises were expected to use these links to provide their services and goods to markets for the purpose of fair prices and better quality. However, the officials explained that operators remained dependent on government-created markets. Besides, they wanted the government to buy their products and services, even those of poor quality, simply because they were small enterprises. The officials added that entrepreneurs in small enterprises did not provide their products and services based on the interests and satisfaction of customers, but continued to provide the same products or services with the same design.

According to these officials, some operators of small enterprises were not honest with their customers and frequently disappeared after they had signed a contract and taken some advance payment for the products or services they were to provide. As a result, these operators were unable to attract the markets available in the study sites.

The findings of the interview conducted with government officials in Mekelle revealed that operators of small enterprises were supposed to integrate the support they received from government with their own efforts, talents and capacity. This was crucial to effecting tangible changes in their lives as well as to laying the foundation for the broader objectives and industrialisation efforts of the country at large. However, according to these officials, because of the support given to them by the government, business operators had developed a dependency syndrome and now engaged in the widely observed rent-seeking

behaviour of the urban political economy. This dependency syndrome is defined as a condition in which business operators modify their social and economic behaviour in anticipation of external assistance. It is characterised by 'aspiration failure' that is manifest in a lack of systematic and pro-active efforts to improve one's own future.

According to Belay (2000: 123–135), rent-seeking behaviour denotes the gathering of wealth, not in reward for one's labour and innovation, but by exploiting public resources. It increases one's share of the existing wealth without creating any additional value. The effects of rent-seeking behaviour are reduced government revenue, economic inefficiency, reduced wealth creation and national wealth and it often results in high-income inequality. Generally, rent seeking implies the extraction of uncompensated value from others without contributing to productivity.

The officials observed that although the economic policy of the country was a market-based economy, entrepreneurs in small enterprises demanded market linkages based on a round base rather than on a competition base. Besides, there were situations where entrepreneurs had been involved in illegal activities and where they had conspired with government officials from various institutions. However, these officials did not deny that some extension workers, who were meant to provide business development services, were suspected of taking commissions and receiving money from the entrepreneurs in return for the services they rendered, which was also likely to jeopardise the efforts of both entrepreneurs and the government.

5.5 Rating Policy Challenges across Small Enterprises

Small enterprises require encouraging policies, packages of good incentives and operating environments that are conducive to the production of goods that are competitive both locally and internationally. Indeed, a government that is

devoted to the promotion and development of small enterprises would devise policies that minimise the costs of business, complex loan procedures and the complexity of business registration and licensing. It would also follow up on the diligent implementation of such policies and incentive schemes. Table 5.4 below discloses the degree of policy challenges across small enterprises.

Table 5.4: Rating Policy Challenges across Small Enterprises

Variables	Trade				Service				Manufacturing				Urban Agriculture				Construction			
	Degree of problems in %				Degree of problems in %				Degree of problems in %				Degree of problems in %				Degree of problems in %			
	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T	S	M	N	T
Complex loan procedures	40(50)	24(30)	16(20)	80(100)	20(54.1)	14(37.8)	3(8.1)	37(100)	3(27.3)	6(54.5)	2(18.2)	11(100)	6(54.6)	4(36.4)	1(9.1)	11(100)	0	8(72.7)	3(27.3)	11(100)
Complexity of business registration and licensing	21(26.3)	17(21.3)	42(52.5)	80(100)	10(25.6)	7(18)	22(56.4)	39(100)	1(9.1)	4(36.4)	6(54.6)	11(100)	7(63.6)	2(18.2)	2(18.2)	11(100)	0	9(81.8)	2(18.2)	11(100)
Too many rules and regulations	31(38.6)	35(43.8)	14(17.5)	80(100)	19(48.7)	11(28.2)	9(23.1)	39(100)	5(45.5)	3(27.3)	3(27.3)	11(100)	7(63.6)	2(18.2)	2(18.2)	11(100)	2(18.2)	4(36.4)	5(45.5)	11(100)
Lack of encouraging government policy	26(32.5)	46(57.5)	8(10)	80(100)	17(43.6)	17(43.6)	5(12.8)	39(100)	4(36.4)	4(36.4)	3(27.3)	11(100)	2(18.2)	9(81.8)	0	11(100)	2(18.2)	5(45.5)	4(36.4)	11(100)

Key: S= Severe, M= Moderate, N= None, T= Total Respondents

× The numbers in brackets indicate percentages.

Source: (Own Data, 2013)

Forty (50%) of the respondents from trade, 20 (54.1%) from service and six (54.6%) from the urban agriculture sector regarded the complexity of loan procedures as a 'severe problem'. However, a high proportion (6 or 54.5%) of the respondents from the manufacturing and eight (72.7%) from the construction

sectors rated this as a 'medium problem'. This finding indicates that complex loan procedures affected more entrepreneurs from the trade, service and urban agricultural sectors than from the construction and manufacturing sectors.

As far as complex business registration and licensing processes were concerned, a high proportion (42 or 52.5%) of respondents from trade, 22 (56.4%) from service and six (54.6%) from the manufacturing sectors were in the 'no problem' category. However, the majority (7 or 63.6%) of respondents from urban agriculture and nine (81.8%) from the construction sector regarded this as a 'severe' and a 'medium problem' respectively.

As to the problem of the lack of encouraging government policy to assist entrepreneurs in small enterprises, the same proportion (17 or 43.6%) of respondents from the service sector regarded this as a 'severe' and a 'medium problem'. A significant proportion (4 or 36.4%) of the respondents from the manufacturing sector believed this was a 'severe' and a 'medium problem'. The rest, that is, 46 (57.5%), of the respondents from trade, nine (81.8%) from urban agriculture and five (45.5%) from the construction sectors were in the 'medium problem' category.

Thirty-five respondents (43.8%) from the trade sector and four (36.4%) from the construction sector regarded government rules and regulations concerning small enterprises as a 'medium problem'. A high proportion (19 or 48.7%) of respondents from service, five (45.5%) from manufacturing and seven (63.6%) from the urban agriculture sectors saw this as a 'severe problem'. This suggests that these rules and regulations are more likely to be regarded as burdensome in the service, the manufacturing and the urban agriculture sectors as in the trade and construction sectors.

In this regard, an interview was conducted with the operators of small enterprises in Adigrat; it emerged that they believed that the government had the general

perception that operators of small enterprises avoided regulation and taxation and operated under semi-legal or illegal conditions. This perception has resulted in the imposition of penalties in the form of lump-sum fees, leading to a reduction in the income of entrepreneurs. In extreme cases, this could mean the closure of a business or the confiscation of a business property, where the net result would be the creation of uncertainty and the discouragement of investment in business.

The focus group discussions held with the operators of small enterprises in Mekelle corresponded with the survey findings. The discussants pointed out the implementation problems at grassroots level, emanating from a lack of awareness among government officials about the peculiar procedures, policies and proclamations established in favour of small enterprises. Furthermore, they argued that there was a complex government bureaucracy, which often resulted in delays and high costs during the registration process, securing of workplaces and the restoration of electric power interruptions. This posed major challenges for enterprises in Mekelle, as business owners were often forced to close for days in order to access these services, sometimes without success. Operators believed that this situation jeopardised their growth.

On the other hand, the focus group discussions with government officials dealing with small enterprises in Mekelle revealed that small enterprises were regarded as areas where significant employment opportunities could be created; in the end, these would be the centre from which developmental capitalists would emerge. However, according to these officials, the evaluation of small enterprises over the last five years had demonstrated that some entrepreneurs had developed distorted development perspectives. Among these were attempts by people with permanent jobs and regular incomes to form business groups by including the name of physically non-existent peoples. According to these government officials, there were some cases where the manufacturing and sales premises given to operators of small enterprises had been transferred to the rent-

seekers through various illegal means. Rent seekers are doing this by pleading the case for youths to give some commissions. However, the government's objective was to create job opportunities for those without employment.

Even when a business form had been organised by following legal procedures, the capital and status could not be determined as their leaders, in the case of an association, kept no financial records and had no organisational structure. These and other related problems resulted in many associations of small enterprises being liquidated soon after they had accessed credit for start-up and expansion because their address was unknown.

As a result of these problems, MFIs that were established to serve sections of societies that were unable to borrow from banks had been forced to carry debts of millions of birr from year to year. However, entrepreneurs in small enterprises were expected to use the common resources, capital and knowledge of innovations to improve their competitive ability in the free market economy of the country.

The interview held with the operators of small enterprises in both study sites revealed that management and experts in the government agencies dealing with small enterprises played a role in some illegal activities. Collaborating with their relatives, the authorities were directly or indirectly involved when limited amounts of money in the form of credit and urban lands were transferred to rent-seekers. These officials often set preconditions and modalities to suit their own situations, allowing them to access the money available for credit as well as the urban land in the name of false small enterprise associations. Furthermore, no precautions were taken when registering members of different business forms to ensure that they actually existed.

5.6 Conclusion

Despite the fact that the Federal and Regional State Governments of Ethiopia are taking several policy initiatives for the development of small enterprises, these sectors are grappling with numerous problems. Furthermore, entrepreneurs who are engaged in the various sectors of small enterprise face multifaceted problems of varying degrees of severity. This means that the difficulties that are affecting the performance of traders, for instance, are not affecting the performance of other business operators who are engaged in the service, manufacturing, urban agriculture or construction sectors. As small enterprises are heterogeneous in many respects, strategies that are appropriate to the challenges of each sector should be designed.

Finally, the analysis and interpretation of the data allowed conclusions and policy recommendations to be made.

CHAPTER 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

Chapter Six summarises and concludes the general findings of the study and makes recommendations to policy makers, researchers and practitioners or entrepreneurs in small enterprises.

6.2 Summary and Conclusion

Small enterprises in the study sites were heterogeneous across different sectors and homogeneous within each sector. Each sector was used purposively as a stratum from which the required samples were drawn to represent the whole population, using a stratified proportional random sampling technique. In order to determine the sample size, the study applied a simplified formula provided by Yamane (1967), as cited in Yilma (2005: 42), to achieve the minimum required sample size at 95% confidence level, 0.5 degrees of variability and 0.9% precision level (e). Using these techniques, 154 small enterprises were randomly selected from the two study sites (114 entrepreneurs from Mekelle and 40 from the Adigrat).

6.2.1 Demographic Characteristics and Entrepreneurs' Prospects

In assessing and comparing the general characteristics and prospects of the entrepreneurs in the study, variables such as age, level of education, gender distribution and marital status were discussed. In addition, the family background of entrepreneurs, their previous occupations and their status were some of the points discussed in relation to the growth and expansion of the small enterprises.

6.2.1.1 Age

The discussions revealed that most of the small enterprises were owned and run by a youthful labour force. This meets one of the objectives of the government, that of creating employment opportunities for the youth. However, being predominantly staffed by the working age group alone will not fulfil of the sectors' important requirement of growth in small to medium and large enterprises.

In order for small enterprise sectors to play a significant role in the economy, other issues such as capital requirements, training, availability of business premises and markets for products/services are of paramount importance. Despite these reservations, however, it can be deduced that the majority of the entrepreneurs were young people with the energy and motivation to be more productive and consequently to accelerate the realisation of the country's desired economic development plan. When the age of the respondents in the two study sites was compared, most entrepreneurs in Mekelle were younger than those in Adgirat.

6.2.1.2 Level of Education

Entrepreneurs' level of education was also assessed; the level of education of the majority in both study sites was below grade nine. A high level of education is a significant criterion if one is to be able to make strategically important business decisions, carry reasonable costs and take calculated risks. Furthermore, high levels of education increase operational efficiency, profitability and the success of business operators. However, the results of the survey indicated that operators of small enterprises were generally less educated, and that they were lacking in the skills and knowledge that are derived from higher formal education. This may jeopardise entrepreneurs' operational efficiency, unless the necessary training and other interventions are made.

The findings also revealed that the respondents in Mekelle were more highly educated than those in Adgirat.

6.2.1.3 Gender Composition of Small Enterprises

The study found that women's participation in small enterprises, particularly in heading these enterprises was relatively low. The male-dominated nature of the small enterprises in this study was ascribed to cultural norms and societal attitudes that regard women as inferior to men and place too much emphasis on women's family responsibilities. This implies that women entrepreneurs encounter more operational and strategic impediments than men.

Owing to such impediments and without the proper interventions by the bodies concerned, the participation of females in business and the growth of enterprises seems a distant reality. The findings also showed that more female entrepreneurs participated in small enterprises in Mekelle than in Adigrat. This can be ascribed mainly to the relatively more urbanised, less rigid cultural and societal attitudes in Mekelle.

6.2.1.4 Revenue Prospects by Gender

The majority of male entrepreneurs were in the 'increasing revenue' category, while very few female respondents were classified in this category. When the two study sites were compared, a relatively higher number of female respondents in Mekelle were in the 'increasing revenue' category than in Adigrat.

Generally, while 43 (37.7%) of the respondents in Mekelle fell into either the 'decreasing revenue' or the 'remains the same revenue' category, 16 (40%) respondents in Adigrat were categorised thus. This implies that entrepreneurs in small enterprises in Mekelle were relatively better off than those in Adigrat as more female and male respondents were in the 'increasing revenue' category in this city.

The interviews with female entrepreneurs in both study sites revealed a range of constraints impeding women's success in business, including family responsibilities and subtle gender discrimination when applying for loans; they were frequently refused on the grounds that they were too young or not adequately qualified.

6.2.1.5 Marital Status and Revenue Prospects

A high proportion of the entrepreneurs (87 or 56.5%) was married and was placed in the 'increased revenue' category. This confirmed a direct correlation between marriage and improved business performance. This implies that married respondents are more successful at using small enterprises as opportunities to create employment and generate income. When the marital status of respondents in the two study sites was compared, it was found that there were more unmarried entrepreneurs in Mekelle; on the other hand, there was a higher proportion of divorced entrepreneurs in Mekelle. It can be deduced from this that marriage is relatively more common in less urbanised and rural areas while divorce is a recurrent phenomenon in more urbanised areas.

6.2.1.6 Entrepreneurs' Family Background

Informal learning opportunities through contact with entrepreneurial family members can play a key role in developing entrepreneurial capacity. In this study, it was found that entrepreneurs' family background was mainly agrarian implying that the significant majority lacked the practical experience that might have been derived from an entrepreneurial family background. It is imperative that interventions providing training identify the shortcomings of entrepreneurs to assist them in becoming more competitive and improving the performance of their enterprises.

Comparing the two study sites, more entrepreneurs in Adigrat came from a background of business people than in Mekelle. This suggests that immigrants from rural areas, i.e. agrarians, preferred to move to Mekelle.

6.2.1.7 Entrepreneurs' Previous Occupations

In general, small enterprise owners/managers with experience in the sector or prior small enterprise experience as owners/managers tended to correlate with greater enterprise growth. The survey result revealed that there were only 20 (13%) entrepreneurs who had had relevant previous occupations. Thus, the experience of most entrepreneurs in the study did not match their current occupations, a fact which in turn affected the performance of their current business. As the majority of the respondents lacked the relevant experience to expand and grow their businesses, there is clearly a need to enhance the support given to them in each sector through various business development services. In this regard, Adigrat had a larger proportion of entrepreneurs with relevant previous experience than Mekelle.

6.2.1.8 Status of Small Business Operators

The majority (125 or 81%) of the entrepreneurs in the study sites were owner managers. In fact, it was claimed that small enterprises had become the major playing field for policy makers and donors with the dual objective of enhancing economic growth and creating employment opportunities. However, a critical investigation of the study sites generated serious concerns and scepticism as to whether small enterprises can realise the envisaged economic growth and significant employment opportunities unless the capacity of entrepreneurs is increased to meet each sector's specific demands. When we compare the proportion of small enterprise employees in the two study sites, there were more employees in Adigrat than in Mekelle. The study thus met the research objectives

of assessing and comparing the demographic features and prospects of the entrepreneurs in the study sites.

6.2.2 Characteristics and Prospects of Small Enterprises

With regard to the research objectives of assessing and comparing the characteristics and prospects of small enterprises, features such as the presence of a business plan, use of commercial media, business types, revenue changes and legal forms of business organisation were considered. In addition, enterprise age, business location and growth of small enterprises measured in terms of employment increase were included in the discussions.

6.2.2.1 Engagement of Entrepreneurs in Small Enterprises

In Ethiopia, there are five types of small enterprise sectors, namely, trade, service, manufacturing, urban agriculture and construction. The emphasis placed by the Federal and the Regional Governments on housing development is assumed to have attracted many entrepreneurs to the construction and manufacturing sectors. However, the findings of this study were that the proportion of entrepreneurs engaged in the trade, service and urban agriculture was higher than in the manufacturing and construction sectors.

The small proportion of entrepreneurs in the manufacturing and construction sectors implies there were other factors, other than the market, that prevented entrepreneurs from becoming involved in these sectors. Some of these factors were high capital demands, complex procedures and specific requirements set by the government.

Comparing the proportion of entrepreneurs engaged in different small enterprise sectors in the two study sites, a greater proportion of entrepreneurs was engaged in trade and manufacturing in Mekelle. The survey also revealed that Adigrat was more suitable for urban agriculture than Mekelle as the former is relatively less

urbanised, the rental of premises is relatively lower and good cattle feed is available in the area.

6.2.2.2 Sectors' Revenue Change and their Prospects

The survey indicated that the majority of the entrepreneurs in the manufacturing, construction and trade sectors were in the 'increased revenue' category, while more respondents in the service and urban agriculture sectors were in the 'decreased revenue' category. According to interviews with some of the entrepreneurs from the manufacturing and construction sectors, the attention given to small enterprise by the Federal and Regional Governments in these sectors had created a market for their business that had resulted in an increase in their revenue.

A larger proportion of entrepreneurs in Mekelle who were engaged in trade and service were in the 'increased revenue' category compared to the proportion of those engaged in the same sectors in Adigrat. While more entrepreneurs from all sectors in Adigrat reported that their 'revenue remained the same', a relatively smaller proportion of those in Mekelle were in this category. As the majority of entrepreneurs in Adigrat city reported that their revenue had remained unchanged, one can deduce that there were common problems in the city that would perpetuate their difficulties unless interventions were implemented to change their situation.

6.2.2.3 Legal Forms of Business Organisations

The majority of small enterprises operated under a sole proprietor. The entrepreneurs revealed that the complex procedures of establishing and giving up a business, the high costs of registering and formalising a partnership and the mistrust among operators involved in taking equal responsibility for the business had prevented them from pursuing a partnership. However, a partnership has been said to have higher profits and growth rates than a sole proprietorship. This

potential will not be realised without doing away with complex procedures and the high costs of registering and formalising business partnerships.

When we compare the two study sites, more respondents in Mekelle had chosen to operate their business under sole proprietorship. In relative terms, the percentage of respondents that was engaged in partnerships was greater in Adigrat than in Mekelle. This suggests that the process of establishing a partnership was less costly in Adigrat.

6.2.2.4 Revenue Changes by Legal Forms of Small Enterprises

The findings revealed that sole proprietorship as a business form had a high representation in the 'increased revenue' category. Generally, while partnerships were categorised mainly as either 'revenue decreased' or 'revenue remained the same', only a few sole proprietors fell into in these categories. When we compare the revenue status of the legal forms of small enterprises in the two study sites, Mekelle had a higher proportion of sole proprietors in the 'revenue increased' category.

6.2.2.5 Age of Small Enterprises

Studies conducted on the growth of small enterprises have established that business age plays an important role, with smaller and newer businesses being less likely to survive than larger and older businesses. This study found that the majority of respondents had operated their businesses for a period of less than three years, while there were very few who had been in operation for more than five years. While 10 (8.8%) of the enterprises in Mekelle were more than six years old, only three (7.5%) in Adigrat had reached this age. These findings suggest that entrepreneurs faced acute challenges in their start-up stage and described their businesses as doing poorly within the first three years of their start-up stage.

6.2.2.6 Suitability of Operating Locations

Almost half, i.e., 76 (49.4%), of the respondents in the survey confirmed that the location of their business was advantageous. It was also found that 59 (38.3%) of the small enterprises were in trouble because of the unsuitability of their location; this requires urgent attention from the regional and local governments. A relatively high number, i.e., 21 (52.5%) of entrepreneurs in Adigrat reported that their business was situated in a 'good location', compared to the 55 (48.2%) in Mekelle who reported the same.

This implies that Adigrat is not as saturated with small businesses as Mekelle and those entrepreneurs have a better chance of expanding their businesses if they are supervised and supported by the bodies concerned.

6.2.2.7 Entrepreneurs with a Business Plan

Operators of small enterprises need to develop a business plan to establish a strategy, set targets for new alliances, allocate resources according to their strategic priority and to ensure that they are on the right track. However, the survey revealed that a significant number of the respondents in both study sites had no business plan. Comparing the existence of business plans in the two study sites, a greater proportion of entrepreneurs in Adigrat had developed business plans, but only to meet the requirements of financial institutions. They were not actually using the plan as a guideline in their daily business operations.

This suggests that as entrepreneurs in the study sites lack experience in developing and effectively using a business plan, the bodies concerned should persuade operators to use this business tool in order to ensure efficient and effective performance of their business.

6.2.2.8 Use of Commercial Media

Advertising is the use of product and/or service promotion strategies with the objective of familiarising existing and prospective customers with the kind, quality, and use of one's products or services. However, the study revealed that a percentage of the respondents had not used advertising tools such as posters, business cards, radio or TV to promote their products and/or services. Generally, the findings revealed that there was a relatively greater use of advertising products and/or services among entrepreneurs in Adigrat than among those in Mekelle.

This could be the result of a number of factors, including limitations on the efforts of the regional support institutions to influence entrepreneurs' marketing skills, and the overall underdevelopment of the business culture of the community. These and other challenges that hamper the promotion of activities should be addressed.

6.2.3 Growth of Small Enterprises in Terms of Employment Increase

As far as the objectives of the research to examine and compare the growth of small enterprises in terms of employment increase were concerned, the findings were that very few small enterprises had registered growth in terms of full-time and paid family workers between their establishment and the current period (2013). The average number of full-time and paid family workers decreased over time while temporary (part-time) workers had shown some growth.

At the time that this study was conducted, small enterprises in the study sites were operated mainly by the owners themselves and their contribution to employment and income generation for others was very limited. This had the result that, once enterprises had been established, they could not expand and their growth was hindered by various constraints.

When the two study sites were compared, the average full-time employment in Adigrat had decreased more significantly than was the case in Mekelle. Similarly, while the average number of paid family workers in Adigrat decreased from 0.4 employees at start-up to 0.3 by 2013, no change was observed in Mekelle. The study also found that the average number of part-time employees increased more in Adigrat than in Mekelle. Thus, the study met its objectives of examining and comparing the growth of small enterprises in terms of employment.

6.2.4 Challenges to Small Enterprises

With regard to the research objectives of examining and comparing the general challenges facing small enterprises, the most serious challenges cited by respondents during the pilot survey were analysed. These contributed to a better understanding of how certain types of obstacles to growth, such as inadequate credit and challenges related to rent of work premises, market linkages and training had a negative effect on the various sectors of small enterprise and their entrepreneurs.

6.2.4.1 Access to Credit

The majority of entrepreneurs (83 or 53%) did not get access to credit from formal financial institutions for the start-up and expansion of their businesses; a higher proportion of these were from Adigrat. This suggests that operators of small enterprises in Mekelle had better access to credit. Generally, the finding revealed that entrepreneurs were short of credit despite the fact that there were many indigenous financial institutions in the study sites.

6.2.4.2 Source of Start-up and Expansion Capital

The study explored the main sources of finance for small enterprises; these were revealed as family, Iqqub and their own savings. The proportion of small enterprises that had received credit from banks and microfinance institutions was

very small. The most frequently mentioned reasons given for the exclusion of potential borrowers from the credit services of formal financial institutions were group and collateral requirements, followed by complex borrowing procedures.

Although the requirement of collateral is justified by many financial institutions, demands for physical collateral under stringent conditions, especially on the part of commercial banks, is not necessarily useful as the majority of small enterprises have a limited capacity to raise the required collateral because of the under-resourced nature of the sectors. When the two study sites were compared, the proportion of respondents in Mekelle who had received credit from banks was higher than in Adigrat.

6.2.4.3 Adequacy of the Amount of Credit

The majority of the respondents who had access to credit from formal financial institutions reported that the amount of credit was not adequate. This indicated that formal financial institutions were very far from meeting the credit demands of small enterprises. According to the discussions held with owners/managers of small enterprises, the reluctance of formal financial institutions to introduce innovative ways of providing adequate financial assistance was attributed to a lack of competition among service providers and the rudimentary nature of the capital market in the country.

Contrary to the frequent claim by formal financial institutions, and in particular by microfinance institutions that they were fulfilling the credit demands of the poor, the survey results revealed that these institutions still had a long way to go in improving their services to meet the demands and interests of their clients. The question of credit inadequacy in both study sites demands immediate intervention from the bodies concerned in order to improve accessibility to credit.

6.2.4.4 Reasons for Credit Failure from Formal Financial Institutions

The most frequently mentioned reasons for the exclusion of potential borrowers from the credit services of financial institutions, and especially from MFIs, were group requirements, followed by complex borrowing procedures. During the discussions with the operators of small enterprises, it became clear that the requirement of significant prior savings and the question of collateral were major hurdles. The source of collateral was also important as in many cases, borrowers own collateral was required by formal financial institutions.

When the two study sites were compared, a smaller proportion of respondents in Mekelle complained about the group requirements of MFIs. On the other hand, more respondents in Mekelle complained about the collateral requirement. Overall, in both study sites collateral and the group requirement were the most important obstacles.

6.2.4.5 Ownership of Workplace and Sales Outlet

The operators argued persuasively that the lack of sales outlets was a direct contributor to the inadequate market and low income of their enterprises. The majority, i.e., 124 (81%) of the respondents in the survey reported that continuously increasing rent of manufacturing and sales premises threatened their business. Relatively speaking, the proportion of respondents who had secured workplaces/sales outlets from the government or who had inherited these from relatives was higher in Adigrat than in Mekelle.

However, the discussions with officials of small enterprises in both study sites revealed that operators had no interest in securing manufacturing or sales premises that were built with government capital in a cluster form, including those in convenient locations. Their main interest was to secure open urban land and to transfer it to a third party through various illegal methods. This implies that

government and other concerned bodies have a still to change the misconceptions of entrepreneurs through proper training and capacity building interventions aimed at paving the way for future industrialisation objectives in the country.

6.2.4.6 Market Linkages

The majority, i.e., 114 (74%) of the respondents in the survey had no formally or well-organised market linkages among themselves or with other institutions. A larger proportion of the respondents in Adigrat had market linkages. We can deduce from this that forming market linkages is an acute problem, especially in Mekelle.

6.2.4.7 Training Related Challenges

The results of the survey showed that more than half (83 or 53.9%) of the respondents complained about the training. The interviews with respondents in both study sites underlined the fact that training needs to be predictable, continuous and that it should assess the needs of entrepreneurs. Furthermore, the focus group discussions held with the entrepreneurs in Mekelle revealed that extension agents who were supposed to provide training did not have the required technical knowledge and skills. This was attributed to the fact that most of them had only a two-year diploma. The training problems were more acute in Adigrat than in Mekelle as more entrepreneurs in Adigrat were categorised in the 'training is not relevant' and in the 'not consistent'/'on-off nature' categories. Using the techniques of descriptive and exploratory research design, the objectives of exploring and comparing the general challenges of small enterprises were achieved in this study.

6.2.5 Rating Challenges across Small Enterprises

In order to address the objective of rating the challenges across different sectors of small enterprise, problems such as financial hurdles, market access, institutional linkages, policy and legal issues were analysed. This was necessary as variables that critically affect the performance of the traders do not equally affect the performances of other business operators, for example.

6.2.5.1 Finance Related Challenges

6.2.5.1.1 Interest Rate

The study found that the majority of entrepreneurs across the different sectors considered high interest rates to be a 'medium problem'. This shows that interest rates did not pose a serious challenge for many of the entrepreneurs. Of those entrepreneurs who reported high interest rates as a 'severe problem', most were operators from urban agriculture, followed by operators from the trade, manufacturing, service and construction sectors, in that order.

6.2.5.1.2 Working Capital

The small enterprises faced difficulties regarding of working capital to varying degrees, with most, i.e., 50 (62.5%), in trade and least, i.e., five (45.5%), in urban agriculture. In general, the finding revealed that the loans awarded for the operation and expansion of small enterprises were severely limited and, consequently, had had a negative effect on the smooth operation and expansion of the small businesses.

6.2.5.1.3 High Collateral Requirements

High collateral requirements were serious problems for the respondents from the urban agriculture, service and trade sectors as the majority of them fell into the category of 'severe problem'. However, the majority of the respondents from the

manufacturing and construction sectors were in the category 'medium problem', indicating that entrepreneurs from the urban agriculture, service and trade sectors operated under capacity as a result of a lack of credit caused by high collateral requirements, compared to those in the manufacturing and construction sectors.

6.2.5.1.4 Tax Burden

A high proportion of respondents from the trade, manufacturing and service sectors were in the 'severe problem' tax burden category. The majority in urban agriculture, followed by entrepreneurs from the service, construction and trade sectors, in order of severity, were in the 'medium problem' category. Again, a significant proportion of entrepreneurs from urban agriculture, followed by respondents from the service sector reported no problems in this regard.

6.2.5.1.5 Complexity of Loan Procedures

The complexity of the loan procedures demanded by banks and other lending institutions was indicated as a 'severe problem' for the trade and urban agriculture sectors, compared to the other sectors. A relatively high proportion of respondents from the manufacturing and construction sectors regarded this as a 'medium problem'.

6.2.5.2 Market Related Challenges

6.2.5.2.1 Market Information

A large proportion of respondents from the trade and service sectors regarded a lack of market information as a 'severe problem'. A significant proportion of respondents from the urban agriculture, manufacturing and construction sectors (in order of severity) referred to it as a 'medium problem'. The result, therefore, confirms that almost all small enterprises were badly affected by a lack of market information, with the trade sector suffering most in this regard.

6.2.5.2.2 Inadequate Input Supply

The study found that the lack of an adequate input supply was another market related problem that hampered performance in small enterprises. In this regard, the majority of the respondents from the urban agriculture, manufacturing, trade and construction sectors (in order of severity) referred to this as a 'severe problem'. Several respondents from the service sector saw this as a 'medium problem'. This indicates that the problem of input supply affected the service sector to a lesser degree than the other four sectors.

6.2.5.2.3 Marketing Skills

As to the shortage of marketing skills, the respondents from the service and trade sectors were relatively more inclined to rate this as a 'severe problem'. The remainder, i.e., respondents from the construction, manufacturing and urban agriculture regarded this as a 'medium problem', in that order of severity. This finding points to a shortage of marketing skills as the main factor affecting the performance of those entrepreneurs in the service sector.

6.2.5.2.4 Market Opportunity Creation

In order of severity, respondents from the trade and service sectors regarded market opportunity creation as a 'severe problem'. On the other hand, a larger proportion of respondents from the construction, urban agriculture and manufacturing sectors (in order of severity) fell into the 'medium problem' category. This suggests that the emphasis given to housing development by the Federal and the Regional Governments has contributed to the creation of market opportunities in the manufacturing and construction sectors.

6.2.5.3 Linkage Problems of Small Enterprises

6.2.5.3.1 Linkage with Research Organisations

All respondents were unanimous in rating linkage with research organisations as a 'severe problem'. This indicates that they had no direct relationship with research organisations in the form of workshops or seminars that could otherwise have helped to disseminate research outputs to promote better performance and growth among small enterprises.

6.2.5.3.2 Linkage among Small Enterprises

In relation to linkages among different enterprises, the majority of the respondents from the urban agriculture, trade, manufacturing, service and construction sectors (in that order of severity) were represented in the 'severe problem' category. The interviews with entrepreneurs in the study sites revealed that they had backward linkages, where medium and large enterprises provided input to small enterprises. This type of linkage, according to the entrepreneurs, was exploitative and placed small enterprises in a disadvantageous position. However, a large proportion of the respondents from the construction sector rated this as a 'medium problem', reflecting the fact that they had moderate linkages with sectors such as the manufacturing and trade sectors.

6.2.5.3.3 Linkage with Government Institutions

The loose linkages between small enterprises and government institutions were evident as the majority of the respondents from the trade, service, manufacturing and urban agriculture sectors (in that order) were represented in the 'severe problem' category. However, a high proportion of respondents from the construction sector claimed that this was a 'medium problem', indicating that they had links with different institutions such as government housing development agencies and other private organisations.

6.2.5.3.4 Linkages with Customers

Operators of small enterprises in both study sites revealed that they sold their products and services mainly through their own efforts. According to them, the government seldom facilitated any linkages with customers. A significant proportion of these respondents in the urban agriculture, service, trade and construction sectors were represented in the 'severe problem' category (in that order or severity). However, the majority of respondents from the service and construction sectors regarded this as a 'medium problem'.

Nevertheless, government officials from Adigrat explained that some of the operators of small enterprises remained dependent on markets created by the government, and expected the government to buy their products and services, even though these were of poor quality, simply because they were small enterprises. The government officials from Mekelle corroborated this, observing that business operators had developed a dependency syndrome because of the support given to them by the government, and had become involved in the widely observed rent-seeking behaviour in the urban socio-political economy.

6.2.5.4 Policy and Legal Challenges

6.2.5.4.1 Business Registration and Licensing

Business registration and licensing procedures were regarded as 'no problem' by a high proportion of respondents from the service, trade and manufacturing sectors. However, the majority of respondents from the urban agriculture and construction sectors saw this as a 'severe problem' and a 'medium problem' respectively.

6.2.5.4.2 Lack of Encouraging Government Policy

The majority of respondents from the urban agriculture, trade and construction sectors regarded the lack of encouraging government policy as 'medium

problem' (in order of importance). However, the respondents from the service and manufacturing sectors were not differentiated as equally high proportions of them were in the 'severe' and the 'medium problem' categories.

6.2.5.4.3 Rules and Regulations of the Government

The complexity of government rules and regulations were judged by respondents from the service, manufacturing and urban agriculture sectors (in order of severity) as a 'severe problem'. This indicates that there were several burdensome government regulations in these sectors.

Using these techniques, the objective of analysing and rating challenges across the different sectors of small enterprises was met, together with indications of their prospects based on the situation at the time of the study.

In general, considering that a stratified simple random sampling technique was used in this study, the results revealed a high failure rate among small enterprises in the study sites. When the performance rating over the period these businesses had been in operation, it can be concluded that as businesses mature, their returns decline. This signals a lack of innovation on the side of entrepreneurs and weak support from the government and other supporting institutions.

From these findings, it seems that the majority of business operators who participated in this study faced numerous challenges; if these are not successfully addressed, they could lead to total business failure. Thus, it is imperative that entrepreneurs are proactive and innovative in their efforts to minimise these challenges and promote the performance and growth of their enterprises.

Hence, it is the researcher's belief that the seeds of future business performance are sown in the early stages of a business's life; tackling the challenges facing

entrepreneurs as early as possible could have positive results. It is also apparent that infant businesses need as much support and help in their early years when their motivation is high as in their mature phases, when their levels of innovation are lower. The logic is that older entrepreneurs are likely to achieve their initial aspirations, while firms that are run by younger owners/managers tend to have a higher probability of growth as they have the necessary motivation, energy and commitment to work and are more inclined to take risks.

6.3 Recommendations

The findings of the study have important implications for appropriate interventions in both Mekelle and Adigrat in particular, and in other similar sites in Ethiopia in general. Hence, based on the findings, the conclusions and the relevant literature, the researcher proposes the following recommendations for policy makers, researchers and practitioners or entrepreneurs in small enterprises in order to boost their growth and expansion.

6.3.1 Education of Entrepreneurs

Most entrepreneurs have low educational status. Hence, to make the small enterprises more competitive and profitable, boosting the capacity and skills of the operators through continuous training and provision of business advice and consultancy is crucial. This can be achieved by interaction between enterprises and Technical and Vocational Education and Training (TVET) institutions, in addition to making university study more accessible to the youth. Experience sharing by successful entrepreneurs is also desirable.

6.3.2 Experience of Entrepreneurs

The entrepreneurs in the study sites lacked relevant and practical experience that is gained from an entrepreneurial family background and relevant previous occupations. In addition to liaising with TVET, the government should establish

training institutions for entrepreneurs to provide short and long-term training with the objective of developing their entrepreneurial and managerial capacity. Furthermore, as immigrants from rural areas or agrarians prefer to move to Mekelle, the municipality should constantly strive to make the necessary infrastructure and other facilities available to these migrants and to provide them with entrepreneurial training as operators of businesses.

It is also advisable to create and capitalise on opportunities for sharing best experiences of small enterprises at national level through bazaars and trade fairs as this would inspire others to obtain better access to markets, technology, experience, knowledge and managerial skills.

6.3.3 Women Entrepreneurs

Women entrepreneurs encounter more operational and strategic impediments than their male counterparts. Therefore, the government should capitalise on affirmative action to support women entrepreneurs. Creating awareness of such schemes is also important as the lack of promotion and a participatory approach impedes the effective realisation of such schemes.

6.3.4 Access to Credit

The majority of the entrepreneurs did not have access to credit from formal financial institutions as the precondition of collateral and group requirements by these lending institutions proved insurmountable obstacles. In order to overcome these chronic problems, more innovative guarantee schemes should be designed to support entrepreneurs in small enterprises.

To this effect, a number of innovative mechanisms could be implemented, including small and increasing amounts of credit (contingent on success), attracting foreign financial institutions into the local market and linking MFIs with traditional institutions such as Iqqub schemes. However, the rather lengthy

waiting period in the lqub cycles often results in the loss of money and golden investment opportunities. This calls for an amendment to the indigenous lqub schemes so that they are able to lend more money to more entrepreneurs simultaneously. Given the market problems experienced by the smaller enterprises, these MFIs should also apply a fair grace period policy to the repayment of loans.

As has been outlined in the small enterprise development strategy, the support framework includes a series of programmes to help this sector overcome specific business obstacles. In line with this, regular evaluation of the supporting institutions and their programmes should be conducted to ensure their continued relevance and effectiveness to the target enterprises.

6.3.5 Infrastructure and Government Institutions

Improved provision and expansion of the necessary infrastructure, such as an uninterrupted electrical power supply, are necessary and basic to the effective performance of these enterprises. Through its various departments, the government should focus more on playing a facilitative role by reviewing all the impediments and addressing the issues of obtaining facilities such as licences or premises from which small enterprises can operate.

In particular, the provision of assistance and critical structural improvements by the government is essential in protecting women from the exploitative situations of illegal migration by developing and enhancing its capacity to empower women entrepreneurs in small enterprises.

6.3.6 Marketing

Market information is an important aspect and should be provided to potential small enterprise operators before they embark on a particular type of business. In order to resolve the problem of limited access to market, i.e., few customers

coupled with high competition, small enterprises should have access to differentiated market segments, which will help them to operate without stiff competition. This would allow them to increase their turnover at lower transaction costs and, hence, to achieve higher profits. As a result, small enterprises with access to differentiated markets would be encouraged to upgrade their production as they could expect to earn more income.

- Global Markets

As the majority of entrepreneurs serve customer who live and work in the same city, the mention of competition as a challenge was frequent. With globalisation, entrepreneurs need to look beyond their local catchment areas. Globalisation is a reality, presents both opportunities and challenges, which small businesses have to contend. Small businesses should consider global trends and look for a gap they might be able to fill. This may be a challenge to small enterprises but the government can help here by providing timely and current information on various business opportunities, threats and trends. Hence, as much as entrepreneurs engage in the local market, they should also consider global markets beyond their regional boundaries. In fact, there is no magic bullet in achieving business success; it is the result of embracing the whole gamut of strategies in order to succeed.

6.3.7 Policy Measures

From a policy perspective, some practical measures, such as the involvement of small enterprise operators in the public procurement market, should be undertaken by stakeholders to enhance small enterprises' access to the market. In addition, it is imperative for the city administrators of Mekelle and Adigrat to allocate sales outlets to small enterprise operators where possible. For instance, they could provide industrial land or workspaces as one feasible area of intervention to sustain and promote the growth of small enterprises.

The widely observed dependency syndrome and rent-seeking behaviour among entrepreneurs must be curbed. To this end, the concerned bodies should make a concerted effort to change these misconceptions through proper training and capacity building interventions, paving the way for the future industrialisation objectives of the study sites and the country at large.

6.3.8 Future Research Areas

The field of small enterprises is large, diverse and an interesting area with many unresolved issues that have attracted the interest of researchers. This study dealt with the contextual, internal and external factors that affect the performance and growth of small enterprise sectors: specifically, trade, service, urban agriculture, manufacturing and construction.

It is the researcher's view that future research undertakings could investigate more deeply the subsectors of these small enterprises, for instance, the textile and garment, food processing, wood and metal works under the manufacturing sector and local wholesale and retail under the trade sector. Future studies could also target medium and large-scale enterprises that have 'graduated' from small enterprises.

BIBLIOGRAPHY

Abdullah, M.A. and Baker, M. 2000. Small and medium enterprises in Asian Pacific Countries. *American Journal of Small Business*, 5.

Adera, A. 1995. Instituting effective linkages between formal and informal financial sector in Africa. *Savings and Development*, 26(4).

Adil Yassin. 2007. Challenges and constraints of micro and small-scale enterprises in Tigray: The case of two Sub-cities' Industrial Zones. MA Dissertation. Mekelle University.

Aggarwal, S. 2006. Social network and business success: the role of sub-cultures in an African context. *American Journal of Economics and Sociology*, 13(5).

Allen, B., Marco, E., Frame, S. and Nathan, M. 2006. *Debt maturity, risk, and asymmetric information: finance and economics discussion series 2004–60*. U.S.A: Federal Reserve System.

Albert, E. 1961. *Analysing qualitative data*. New York: John Wiley and Sons.

Allen, T. Harrell. 1978. *New methods in social science research*. New York: Praeger Publishers.

Anderson, T.W. 1958. *Introduction to multivariate analysis*. New York: John Wiley and Sons.

Andreff, M. and Dominique, R. 2001. *Start-ups and job creations: Econometric study on panel data, myths and realities of business creation, discussion paper*. France: University of Marnela-Vallee.

Andualem, T. 1997. Small scale enterprise and entrepreneurship development in Ethiopia: concepts, definitions and major issues. *Proceedings of the 6th Annual Conference on the Ethiopian Economy*. Addis Ababa: Ethiopian Economic Association.

Arimah, BC. 2001. *Nature and determinants of linkages between formal and informal sector in Nigeria*. Nigeria: African Development Review.

Aryeetey, E., Baah, A., Duggleby, T., Hettige, H. and Steel, W. 1994. *Supply and demand for finance of small enterprise in Ghana*. Washington, DC: World Bank.

Assefa, A. 1997. Comparative analysis of the development of small industry in Region 14 with other regions. *Proceedings of the 6th Annual Conference on the Ethiopian Economy*. Woldaye Amha, Chimpande, Andualem and Tegegn, Eds. Addis Ababa: Chamber of Commerce.

Assegedech W. 2004. *Marketing strategies for micro and small enterprises in Tigray*. Mekelle: Mekelle University Press.

Audretsch, D.B. and Fritsch, M. 1991. *Market dynamics and regional development in Federal Republic of Germany*. Berlin: Wissenschaftszentrum.

- Audretsch, D. 2005. The economic role of small and medium enterprises: *Journal of Business Economics*, 22(5).
- Bailey, K. 1978. *Methods of social research*. New York: John Wiley and Sons.
- Barbalet, J. 1980. Principles of stratification in Max Weber: interpretation and critique. *British Journal of Sociology*, 31(3).
- Barkham, R. 1992. Entrepreneurial characteristics and the size of the new firm model and an econometric test. *Proceedings the International Conference on Birth and Start-up of Small Firms*. Milan: Bocconi University.
- Barney, J.B. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 13(2).
- Barringer, B., Jones, F. and Neubaum, D. 2005. Quantitative content analysis of the characteristics of rapid-growth businesses and their founders. *Journal of Business Venturing*, 20.
- Barringer, B.R. and Ireland, R.D. 2006. *Entrepreneurship: successfully launching New Ventures Bank for reconstruction and development*. New York: World Bank Institute.
- Baum, J.R. and Locke, E.A. 2004. Relationship of entrepreneurial traits, skill and motivation to subsequent venture growth. *Journal of Applied Psychology* 10(3).
- Beaver, G. 2002. *Small business, entrepreneurship and enterprise development*. Harlow: Pearson.
- Belay, G. 2000. *Evaluation of the performance of the private sector economy in Ethiopia (1991–1999)*. Addis Ababa: Ethiopian Ministry of Trade and Industry.
- Beck, T. and Levine, R. 2003. *Small and medium enterprises, growth and poverty: cross country evidence*. New York: World Bank.
- Beck, T., Kunt, D.A., and Maksimovic, V. 2006. The influence of financial and legal institutions on firm size. *Journal of Banking and Finance*, 30(11).
- Berkham, R, Gudgin, M.H. and Hanvey, E. 1996. *Determinants of small firm growth*. England: Sassa Kingsley.
- Bernard, H.R. 2000. *Social research methods: qualitative and quantitative approaches*. Gold Coast: Griffith University.
- Berry, A. 1995. *Creating and enabling policy environment for small enterprises: traditional and innovative approaches*. Toronto: Centre for International Studies.
- Bigsten A.P., Collier, S., Dorcon, B., Gauthier, M. and Fafchamps, J.W. et al. .2003. Credit constraint in manufacturing enterprises in Africa. *Journal of African Economies* 12(1).
- Birley, S. and Westhead, P. 1990. Growth and performance contrasts between types of small firms. *Strategic Management Journal*, 11(3).

- Blackman, J.A. 2000. *Entrepreneurs: interrelationships and their characteristics, values expectations, management practices and small enterprise performance*. Gold Coast: Griffith University.
- Brownbridge, M. 1998. *Financial repression and financial reform in Uganda*. UK: Africa World Press.
- Bryman, A. 2004. *Social research methods*. 2nd ed. Oxford: Oxford University Press.
- Carpenter, R. and Petersen, B. 2002. Is the growth of small firms constrained by internal finance? *The Journal of Economics and Statistics*, 84(2).
- Carter, S. and Jones-Evans, D. Eds. 2000. *Enterprise and small business – principles, practice and policy*. Harlow: FT Prentice Hall.
- Casson, M. 2003. *Entrepreneur: an economic theory*. 2nd ed. UK: Edward Elgar.
- CDASED. 2001. *Business development services for small enterprises: guiding principles for donor intervention*. Washington DC: USA Central.
- Charmes, J. 2000. Contributions of informal sector to GDP in developing countries: assessment, estimates, methods, orientation for the future. *Proceedings of the 4th Meeting of the Expert Group on Informal Sector Statistics*. Geneva: Delhi Group.
- Chen, M. 2005. *Business environment and informal economy: creating conditions for poverty reduction*. Addis Ababa: Chamber of Commerce.
- Chilosi, A. 2001. Entrepreneurship and transition. *Economic Policy in Transitional Economies*, 11(4).
- Cooley, W.W. and Lohnes, P.R. 1971. *Multivariate data analysis*. New York: World Bank Institute.
- Cooper, A., Gimeno-Gascon, J. and Woo, C.Y. 1994. Initial human and financial capital as predictors of new venture performance. *Journal of Business Venturing*, 9(4).
- Cortes, M., Berry, A. and Ishaq. 1987. *Success in small and medium-scale enterprises: the evidence from Colombia*. Oxford: Oxford University Press.
- Cosh A.D., Hughes, A. and Wood, E. 1999. *Entrepreneurship, small and medium sized enterprises and the macro economy*. Cambridge: Cambridge University Press.
- Cothari, C.R. 2004. *Research methodology: methods and techniques*. Jaipur: University of Rajasthan.
- Craig, B.R, Jackson, W.E. and Thomson, J.B. 2007. Small firm finance, credit rationing, and the impact of SBA-guaranteed lending on local economic growth. *Journal of Small Business Management*, 25(6).
- Central Statistical Authority (CSA). 2003. *Urban informal sector sample survey*. Addis Ababa: Central Statistical Authority of Ethiopia.
- CSA. 1997. *Report on small scale manufacturing industries survey*. Addis Ababa: Central Statistical Authority of Ethiopia.

- CSA. 1991. *The 1984 population and housing census of Ethiopia: analytical report at national level*. Ethiopia: Central Statistical Authority.
- CSA. 2007. *Report on population and housing census*. Addis Ababa: Central Statistical Authority of Ethiopia.
- Cunningham, V.W. and Maloney, F.W. 2001. *Heterogeneity among Mexico's micro enterprises: application of factor and cluster analysis*. Washington DC: University of Illinois and World Bank.
- Woldekidan, D. 2007. *Micro and Small Scale Enterprises and their influences in alleviating Urban Poverty in Tigray*. MA Dissertation. Mekelle University.
- Dereje, L. 2008. *Micro and small scale enterprises in the construction sector in Tigray: Adigrat town*. MA Dissertation. Mekelle University.
- Desai, V. 1999. *Dynamics of entrepreneurial development and management*. 3rd ed. Mumbai: Himalaya Publishing House.
- Desta, S. 2010. *Studies conducted on women entrepreneurs in Ethiopia: Private sector development*. Addis Ababa: Chamber of Commerce and Sectoral.
- Dockel, J.A. and Ligthelm, A.A. 2005. Factors responsible for the growth of small businesses. *South African Journal of Economic and Management Sciences*, 8(1).
- Donnelly, J.H., Gibson, J. and Ivancevich, J. 1990. *Fundamentals of management*, 7th ed. Boston: Homewood.
- Duntman, G. 1997. Principal component analysis: quantitative applications in social science. *Developing Countries in Small Enterprise Development*, 5(2).
- Elkan, W. 1988. Entrepreneurs and entrepreneurship in Africa. *Finance and Development*, 25(4).
- Emebet. 2003. *Ethiopia: Assessment of the international labour migration situation-the case of female labour migrants*. London: International Labour Office.
- Emma I, Okoye, Akamoibi and Ndidika. L. 2009. Repositioning and micro small enterprises in Orumba south L.G.A. of Anambra state. *Multidisciplinary Journal of Research Development*, 12 (3).
- Evans, D.S. 1987a. Tests of alternative theories of firm growth. *Journal of Political Economy*, 95(4).
- Eshetu, B. and Eleke, W. 2008. Factors that affect the long-term survival of micro, small and medium enterprises in Ethiopia. *South African Journal of Economics*, 6(3).
- Everett, J. and Watson, J. 1998. Small business failure and external risk factors. *Small Business Economics*, 11(4).
- Fay and Clark. 2000. *Small and medium-sized business imperatives*. Boston: Homewood.

- Federal Micro and Small Enterprises (FDRE). 2000. *Micro and small enterprise support development support scheme, and implementation strategies*. Addis Ababa: Federal Micro and Small Enterprises Agency.
- FDRE. 2011. *Revised micro and small scale enterprises growth stage guideline*. Addis Ababa: Federal Micro and Small Enterprises Agency.
- Freel, M. and Robson, P. 2004. Small firm innovation, growth and performance. *International Small Business Journal*, 22(6).
- Gebeyehu, W. and Assefa, D. 2004. *Role of micro and small enterprises in the economic development of Ethiopia*. Addis Ababa: Federal Micro and Small Enterprises Agency.
- Gebrehiwot, G. 2006. Managerial performance measurement in small-scale industries. MA Dissertation. Addis Ababa University.
- Gebrehiwot, A. and Wolday, A. 2005. Policy impact and regulatory challenges of micro and small enterprises in Ethiopia. *Proceedings of the 2nd International Conference on the Ethiopian Economy*. Addis Ababa. Ethiopian Economic Association.
- Gebrehiwot, A. and Wolday, A. 2004. *Micro and small enterprises development in Ethiopia: survey report*. Addis Ababa: EDRI.
- Gebrehiwot, A. and Wolday, A. 2004. Policy impact on regulatory challenges of the micro and small enterprises in Ethiopia. *Proceedings of the 2nd International Conference on the Ethiopian Economy*. Addis Ababa: Ethiopian Economic Association.
- Gebrehiwot, A. and Wolday, A. 1997. Concepts, definitions and major issues: small scale enterprise development in Ethiopia. *Proceedings of the 6th Annual Conference on the Ethiopian Economy*. Addis Ababa.
- Gebrehiwot, A. and Wolday, A. 2006. Micro and small enterprises finance in Ethiopia: empirical evidence. *Eastern Africa Social Science Research Review*, 22(1).
- Gebreyesus, M. 2007. *Growth of micro-enterprises: Empirical evidence from Ethiopia*. Ethiopian Development Research Institute (EDRI). Available: <http://www.csae.ox.ac.uk/confer> [Accessed 2013, June 11].
- Getachew, A. and Getachew, B. 1997. Micro business development in Ethiopia. *Proceedings of the 6th Annual Conference on the Ethiopian Economy*. Addis Ababa.
- Ghosh, B.N. 1982. *Scientific methods and social research*. New Delhi: Sterling Publishers.
- Goedhuys, M. 2002. *Employment creation and employment quality in African manufacturing firms*. Geneva: International Labour Office.
- Goldman, H. 1990. Review: Max Weber in German history and political thought. *Journal of Modern History*, 62(2).
- Gopal, M.H. 1964. *Introduction to research procedure in social sciences*. Bombay: Asia Publishing House.

- Gunning J.W. and Mengistae, T. 2001. Determinants of African manufacturing investment: the microeconomic evidence. *Journal of African Economies*, 10(7).
- Gurmeet, S. and Rakesh, B. 2008. Entrepreneurship and micro and small enterprises in Ethiopia: evaluating the role, prospects and problems faced by women in this emergent sector. *An International Journal*, 23(2).
- Haggblade, S., Liedholm, C. and Mead, D. 1990. The effect of policy and policy reforms on non-agricultural enterprises and employment in developing countries. In *The influence of policies on technology choice and small enterprises development*. F. Stewart, H. Thomas and T. de Wild, Eds. Washington: IT Appropriate Technology International.
- Hailey, J.M. 1987. *Entrepreneurs and indigenous business in the Pacific, PIDP, East West Centre*. Honolulu: HI.
- Hallberg, K. 1999. *Small and medium scale enterprises: Framework for intervention*. World Bank: Small Enterprise Unit, Private Sector Development Department.
- Hansin, N. 1963. Protestant ethic as a general precondition for economic development. *Canadian Journal of Economics and Political Science*, 29(4).
- Harabi, N. 2003. *Determinants of firm growth: an empirical analysis from Morocco*. Northwestern Switzerland: Solothurn University of Applied Sciences.
- Harding, A. 2002. Survival and success in African manufacturing firms. *Centre for Study of African Economies*, 82(7).
- Henry, Blanc .1861. The Dynamics of micro and small enterprises in developing countries. *World Development*, 26(1).
- Henry, Holt, Phillips Co and Bernard S. 1971. *Social research strategy and tactics*. 2nd ed. New York: The Macmillan Company.
- Hillary, R. 2000. *Small and medium-sized enterprises and the environment*. Sheffield: Green Leaf Publishing Limited.
- Hisrich, R.D. and Brush, C.G. 1985. *Women and minority entrepreneurs: a comparative analysis*. Wellesley: Babson College.
- Hitt, A.M., Ireland, D.R. and Hoskisson, R.E. 2009. *Strategic management: competitiveness and globalization*. 8th ed. US: South-Western Cengage Learning.
- Holmes, S and Zimmer, I. 1994. Nature of small firms: understanding the motivations of growth and non-growth oriented owners. *Australian Journal of Management*, 19(1).
- Huang, X. and Brown, A. 1999. Analysis and classification of problems in small business. *International Small Business Journal*, 18(1).
- Hyytinen, A. and Pekka, I. 2007. Entrepreneurial aspirations: another form of job search? *Small Business Economics*, 14(3).
- International Labour Office (ILO). 2004. *Supporting growth-oriented women entrepreneurs in Ethiopia, Kenya and Tanzania: An Overview Report Prepared by*

International Labour Office (ILO), SEED Programme and African Development Bank (AFDB). Private Sector Department.

Ishengoma, K. and Kappel, R. 2006. *Economic growth and poverty: does formalization of informal enterprises matter?* Hamburg: German Institute of Global and Area Studies.

Ishengoma, E. and Kappel, R. 2008. *Business constraints and growth potential of micro and small manufacturing enterprises in Uganda.* Hamburg: German Institute of Global and area Studies.

Ishengoma, E. 2004. *Role of firm-resources: performance differentials between women and men- owned micro-enterprises in Tanzania.* Leipzig: University of Leipzig.

ISA. 2000. *Credit constraints in manufacturing enterprises in Africa: industrial survey group.* (Working paper 24). UK.

Ivy Russel. I. 1997. Entrepreneurial strategies and problems in post-communist Europe: a survey of micro and small enterprises in Slovakia. *Journal of Small Business Management*, 35(3).

Jennings, P.L. and Beaver, G. 1997. Performance and competitive advantage of small firms: a managerial perspective. *International Small Business Journal*, 15(2).

Johnson, P., Conway, C. and Kattuman, P. 1999. Small business growth in the short run. *Small Business Economics*, 12(2).

Jones, H., Sakyi, D., Harford, N. and Sey, A. 2000. *Linking formal and informal financial intermediaries in Ghana: Conditions for success and implications for RNR development.* Accra: Black Mask Ltd.

Jovanovich, B. 1982. Selection and evolution of industry. *Econometrica*, 50(3).

Kandasaami, T. and Tibbits, G.E. 1993. Empirical investigation of women small business owners: Fostering small enterprise growth. *Proceedings of the Joint SEANZ and IIE National Small Enterprise Conference.* Newcastle: University of Newcastle.

Kavanamur, D. 2002. *Credit information sources for small enterprises.* New Guinea: University of Papua.

Kawai, H. and Urata, S. 2001. *Entry of small and medium enterprises and economic dynamism in Japan.* New York: World Bank Institute.

Kayanula, D. and Quartey, P. 2000. *Policy environment for promoting small and medium-sized enterprises in Ghana and Malawi* (Paper No.15). Accra. Allied News Ltd.

Ken, K. 2003. Maximising the benefits of globalisation for Africa. *Proceedings of International Conference on Trade and Investment.* Dakar, 23–26 April.

Keeble, D., Potter, J. and Storey, D.J. 1990. *Cross-national comparisons of the role of SMEs in regional economic growth in the European community.* Coventry: University of Warwick.

- Kiggundu M.N. 2002. Entrepreneurs and entrepreneurship in Africa: What is known and what needs to be done. *Journal of Developmental Entrepreneurship*, 7(3).
- Kirschhoff, B.A. and Phillips, B.D. 1989. *Examining entrepreneurship's role in economic growth: frontiers of entrepreneurship research*. Wellesley: Babson College.
- Kimuyu, P. 2004. *Transformation of Small Firms and its Productivity Implication: Insights from Small Manufacturers in Kenya, Nairobi*. University of Nairobi Working Paper, Economics Department and Institute for Development Studies.
- Koch, A. 1993. Rationality, romanticism and the individual: Max Weber's "modernism" and the confrontation with "modernity". *Canadian Journal of Political Science*, 26(1).
- Kolvereid, L. and Isaksen, E. 2006. New business start-up and subsequent entry into self-employment. *Journal of Business Venturing*, 21(6).
- Kvale, S. 1996. Personal interview. 10 December 2010, Oaks.
- Lee, C.K. and Pennings, J.M. 2001. Internal capabilities, external networks, and performance: a study on technology based ventures. *Strategic Management Journal*, 22(4).
- Liedholm, C. 2001. *Small firm dynamics: evidence from Africa and Latin America*. New York: The World Bank Institute.
- Liedholm, C. 1992. Small-scale industries in Africa: dynamic issues and the role of policy. In F. Stewart, S. Lall and S. Wangwe, Eds. *Alternate Development Strategies in Sub-Saharan Africa*. London: Macmillan.
- Liedholm, C. 1987. *Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications*. Michigan: Michigan State University.
- Liedholm, C. and Joan P. 1989. *Small scale manufacturing growth in Africa: initial evidence*. (Working Paper No 33). MSU International Development Papers. Michigan: Michigan State University.
- Liedholm, C. 2002. Small firm dynamics: evidence from Africa and Latin America. *Small Business Economics*, 18(5).
- Liedholm, C. and Mead, D.C. 1999. *Small enterprises and economic development: the dynamics of micro and small enterprises*. New York: Routledge Studies in Development Economics.
- Little, I.M.D. and Nigatu M. 2003. *Small manufacturing enterprises: a comparative analysis of India and other economies*. Oxford: Oxford University Press.
- Lütkenhorst, W. 2004. Economic development, the role of micro and small enterprises and the rationale for donor support: some reflections on recent trends and best practices. *Proceedings of the Micro and Small Enterprises Partnership Group Meeting*. 19(5). Hanoi: UNIDO.
- Major, L.C. and Saade, R.N. 2010. *The role of small business in the economic development of the United States: from the end of the Korean War (1953) to the present*,

- a working paper. Available: <http://www.archive.sba.gov/./rs372tot.pdf> [Accessed 2013, September 29].
- Mazzarol, T., Volery, T., Doss, N., and Thein, V. 1999. Factors influencing small business start-ups: a comparison with previous research. *International Journal of Entrepreneurial Behaviour and Research*, 5(2).
- Mead, D.C. and Liedholm C. 1998. Contribution of small enterprises to employment and growth in Southern and Eastern Africa. *World Development*, 22(12).
- Meid, D.C. and Leidholm, C. 1998. Dynamics of micro and small enterprises in developing countries. *World Development*, 26(1).
- Mekonnen, Y. 2006. Youth entrepreneurship in Ethiopia: The case of manufacturing micro and small enterprises in Addis Ababa. MA Dissertation. Addis Ababa University.
- Mensah, J.V. 2005. Small-scale industry as a sponge? Empirical survey in the central region, Ghana. *Singapore Journal of Tropical Geography*, 26(2).
- Michael, H.M., Leyland, F. and Pitt, P.B. 1996. Entrepreneurial activity in the third world from the informal sector: the view from Khayelitsha. *International Journal of Entrepreneurial Behavior and Research*, 2(1).
- Michael A. and Jeffrey J. Rous. 2009. Access to finance and small enterprise growth in Ethiopia, evaluating the role, prospects and problems faced by women in this emergent sector, gender in management. *International Journal*, 23(2).
- Miles, M.B. and Huberman, A.M. 1994. *Qualitative data analysis: an expanded sourcebook*. London: Sage.
- Mishkin, F. 2006. *Economics of money, banking and financial markets*. 6th ed. Massachusetts: Addison-Wesley.
- MOFED. 2010. *Growth and transformation plan*. Addis Ababa: Federal Democratic Republic of Ethiopia.
- Monk, R. 2000. Why small businesses fail. *CMA Management*, 74(6).
- Moreno, A. and Casillas, J. 2007. High-growth micro and small enterprises versus non-high-growth micro and small enterprises: a discriminant analysis. *Entrepreneurship and Regional Development*, 19(5).
- Morrison, A. 2000. Entrepreneurship: What triggers it? *International Journal of Entrepreneurial Behaviour and Research*, 6(2).
- Morrison, A. 2006. Contextualisation of entrepreneurship. *International Journal of Entrepreneurial Behaviour and Research*, 12(4).
- MoTI. 1997. *Micro and small enterprise development strategy of Ethiopia*. Addis Ababa: MoTI.
- Mulatu, D. 2005. *Small businesses in small towns of the Eastern Tigray Region: Nature and economic performance*. Addis Ababa. Chamber of Commerce.

- Mulugeta, C. 2011. Factors affecting the performance of women entrepreneurs in micro and small enterprises (the case of Dessie town). MA Dissertation. Bahir Dar University.
- Mulu, G. 2009. Innovation and microenterprises' growth in Ethiopia. *Institute for Development and Economic Research*, 24(51).
- Mullei, A. 2003. *Growth and transformation of small manufacturing firms in Africa*, Nairobi: African Centre for Economic Growth.
- Muma, P.A. 2002. *Small business in the South Pacific: problems, constraints and solutions*. Suva: Zania Books.
- NADSME. 2005. *Research of potential for entrepreneurial activity* [Slovak version]. Bratislava: NARMSP.
- Negash, Z and Kena, T. 2003. *State, growth and dynamism of micro and small enterprises in Mekele*. Mekele University of Ethiopia: Microfinance Program and Economic Development.
- Newton, K. 2001. *Management skills for small business*. Available: http://strategis.ic.gc.ca/epic/site/sbrp_rppe.nsf/en/rd00255e.html [Accessed 2013, September30].
- Nicholas Walliman. 2006. *Social research methods*. New Delhi: Sage Publications Ltd.
- Nichter, S. and Goldmark, L. 2005. *Understanding micro and small enterprise growth*. Accelerated Microenterprise Advancement Project: USAID.
- Nieman, G., Hough, J. and Nieuwenhuizen, C. 2008. *Entrepreneurship: South African Perspective*. Addis Ababa: Kuraz Publishing Enterprise.
- NTSIKA 2004. Annual review: enterprise promotion agency. *Small Business Monitor*, 2(1).
- Odum, H.W. and Jocher, K. 1929. *An introduction to social research*. New York: Random House Inc.
- Papadaki, E. and Chami, B. 2002. *Growth determinants of micro-businesses in Canada*. Available: http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd01522.html [Accessed 2013, November 28].
- Paul I. and Rahel, W. 2010. Growth determinants of women-operated micro and small enterprises in Tigray region. *Journal of Sustainable Development in Africa*, 25(6).
- PCC. 2007. *Population and housing census of Ethiopia: statistical report*. Addis Ababa: Central Statistical Authority of Ethiopia.
- Peterson, R.A, Kozmetsky, G. and Ridgway, N.M. 1983. Perceived causes of small business failures: a research note. *American Journal of Small Business*, 8(4).
- Pier, G.R. 2002. *Gibrat's law and the firm size/firm growth relationship in Italian services* (Tinbergen Institute Discussion Paper-080/3). Amsterdam: University of Amsterdam.

- Porter, M.E. 1998. Clusters and New Economics of Competition. *Harvard Business Review*, 23(4).
- Preece, R. 1994. *Starting research: Introduction to academic research dissertation writing*. London: Pinter.
- Read, L. 1998. *Financing of small businesses*. London: Routledge.
- Reta, G. 2000. Women and micro finance: the case of women fuel wood carriers in Addis Ababa. MA Dissertation. Addis Ababa University.
- Rosmary, A. 2001. Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya: An empirical assessment. *The African Economic Research Consortium*, 21(5).
- Rutashobya, L. 2001. Female entrepreneurship in Tanzania: constraints and strategic considerations. *Proceedings of the International Academy of African Business and Development*. Washington, DC, 4–7 April.
- Scase, R. 2000. *Entrepreneurship and Proprietorship in Transition: Policy Implications for the Small and Medium-size Enterprise Sector* (Working Papers No. 193). New York: World Institute for Development Economics Research.
- Scholtens, B. 1999. Analytical issues in external financing alternatives for SBEs. *Small Business Economics*, 12(2).
- Schramm, C.J. 2004. Building Entrepreneurial Economies. *Foreign Affairs*, 83(4)
- Sharma, B.A.V. 1983. *Research methods in social sciences*. New Delhi: Sterling Publishers Pvt. Ltd.
- Silverman, D. 1993. *Interpreting qualitative data: methods for analysing qualitative data*. London: Sage.
- Sleuwaegen, L. and Goedhuys, M. 2002. Growth of firms in developing countries, evidence from Cote d'Ivoire. *Journal of Development Economics*, 68(5).
- Smallbone, D. and Welter, F. 2001a. Distinctiveness of entrepreneurship in transition economies. *Small Business Economics*, 16(4).
- Solymossy, E. and Penna, A.A. 2000. *Sustainable growth for the small business: a theory of organizational transition*. Illinois: Western Illinois University.
- Stiglitz, J. and Weiss, A. 1981. Credit rationing in markets with imperfect information. *American Economic Review*, 47(3).
- Sub-Saharan Africa Trade and Economic Cooperation Forum Report. 2003. *NGO perspective on implementation, progress and future objectives*. Indira: Centre for Indian Culture.
- Swierczek, F.W, and Ha, T.T. 2007. Entrepreneurial orientation, uncertainty avoidance and firm performance: an analysis of Thai and Vietnamese SMEs. *International Journal of Entrepreneurship and Innovation*, 4(1)

- Tandon, B.C. 1979. *Research methodology in social sciences*, Allahabad: Chaitanya Publishing House.
- Taye, M. 1998. *Age-size effects in firm growth and productive efficiency: the case of manufacturing establishments in Ethiopia*. Available: <http://www.ideasrepec.org> [Accessed 2013, October 6].
- TBoFED. 2006. *Concept paper for the formulation of private sector capacity building programme in Tigray*. Mekelle.
- TBoFED. 2013. *Bureau of Finance and Economic Development Report*. Mekelle.
- TBoFED. 2006. *Bureau of Finance and Economic Development*. Mekelle: GIS Department.
- TBOTTI. 2007. *Micro and small enterprise census in 40 Towns of Tigray*. Mekelle.
- Tegegne, Gebre-Egziabher and Meheret Ayenew 2010. *Micro and Small Enterprises as Vehicles for Poverty Reduction, Employment Creation and Business Development: The Ethiopian Experience*. (Forum for Social Studies, Research Report 6). Addis Ababa.
- Timmons, J. and Spinelli, S. 2004. *New venture Creation. entrepreneurship for the 21st century*. 6th ed. Boston : McGraw Hill Companies.
- TMSEDA. 2006. *Support package for metal and woodwork micro and small enterprises under the micro and small enterprise development program. The urban development package*. Mekelle: Tigray Micro and Small Enterprise Agency.
- TMSEA. 2001. *Micro and small enterprises development strategy*: Mekelle: Tigray Regional State.
- Todorovic, Z.W. and McNaughton, R.B. 2007. Effect of culture, resources and quality of entrepreneurship on economic development: a conceptual framework, *International Journal of Entrepreneurship and Small Business*, 4(4).
- Thurik, M. 2007. Policy induced constraints on small enterprise development in Asian developing countries: small enterprise development. *Journal of Small Business*, 5(2).
- UNIDO. 2002. *Entrepreneurial skills for group based micro and small enterprises: trainers' manual vehicles for poverty reduction, employment creation and business development: The Ethiopian Experience*. (Research Report No. 6). Addis Ababa: Ethiopia.
- USAID. 2002. *What makes small firms grow? A study of success factors for small and micro enterprise development*. Romania: Bucharest.
- Vandenberg, P. 2006. *Poverty reduction through small enterprises: emerging consensus, unresolved issues and ILO activities*. (Working paper no.75). Small Enterprise Development Programme (SEED), Job Creation and Enterprise Development Department. Geneva: ILO.
- Variyam, J. and Kraybill, D. 1994. Managerial inputs and the growth of rural small firms. *American Journal of Agricultural Economics*, 76(3)

- Verhees, F.J.H.M. and Muhlenberg, M.T.G. 2009. Market orientation, innovativeness, product innovation and performance in small firms. *Journal of Small Business Management*, 42(2).
- Wasihun, R and Paul, I. 2010. Growth determinants of women operated micro and small enterprises in Addis Ababa.' *Journal of Sustainable Development in Africa*, 12(6).
- Watson, J. and Everett, J. 1999. Small business failure rate: choice of definition and industry effects. *International Small Business Journal*, 17(5).
- Weber, M. 1905. *The Protestant ethic and the spirit of capitalism*: Penguin Classics. New York: Simon and Shuster.
- Webster, L. 1991. *World Bank lending for small and medium enterprises, fifteen years of experience* (World Bank discussion paper 113). Washington.
- Welday, A. and Gebrehiot, A. 2004. Business development services in Ethiopia: status, prospects and challenges in the micro and small enterprise sector. *Proceedings of the International Conference on Micro Finance Development in Ethiopia*. 21–25 Jan 2004, Awassa, Ethiopia.
- Wole, S. 2004. The micro and small enterprises sector in Ethiopia: an overview. In *The role of micro and small enterprises in the economic development of Ethiopia*, W. Gebeyehu and D. Assefa, Eds. Addis Ababa: FeMSEDA.
- World Bank. 2004. *Doing business in 2004: understanding regulation*. Washington D.C: International Finance Corporation and Oxford University Press.
- Workneh Fiseha. 2007. The Constraints of micro and small scale enterprises in addressing employment opportunity: The case of Mekelle city. MA Dissertation. Mekelle University.
- Yilma, M. 2005. *Measuring rural household food security status and its determinants in the Benshangul Gumuz region: the case of Assosa woreda*. Ethiopia: Alemaya University.
- Yu, S.O. 2002. *Infrastructure development and the informal sector*. Geneva: ILO Employment-Intensive Investment Branch.
- Zelege, W. 2009. Efficiency in management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia. *Problems and Perspectives in Management*, 7(3).
- Zewde, K. 2002. *Jobs, sex and small enterprises in Africa: women entrepreneurs in Ethiopia*. (A Preliminary Report). ILO, Geneva, IFP/SEED-WEDGE.

ANNEX A

SURVEY QUESTIONNAIRE

Dear respondent,

This research is being conducted by students of UNISA in order to comply with the requirements of the degree, Doctor of Development Studies. The study focus on the challenges and prospects of small enterprises' with particular reference to entrepreneur in Mekelle and Adgrat, Tigray Region, Ethiopia. Your participation in this study is strictly confidential. To guarantee the anonymity of your response, you should NOT write your name in the questionnaire. Any response you provide will be used exclusively for the research purpose only. Your response to this questionnaire will also benefit you by calling the attention of the government to your problems. On average, filling the questionnaire will take 10 minutes. Your honesty in responding the right answer is vital for the research outcome to be reliable. I would like to thank and appreciate for your kindly cooperation.

General Guideline:

- Circle for those questions that you think right.
- Give your short and precise answers for those followed by blank spaces.

Part 1: Demographic Characteristics of Entrepreneurs

1.1 Town _____

Kebele _____

Interview date _____

Interviewer: _____

Supervisor _____

1.2. Sex

1. Male

2. Female

1.3. Age _____ years

1.4. Marital status

1. Married 2. Unmarried 3. Divorced 4. Other (Specify) _____

1.5. Religion

1. Orthodox Christian 2. Muslim 3. Protestant 4. Other (Specify) _____

1.6. Family background

1. Business men 2. Civil servant 3. Agrarian 4. Other(Specify) _____

1.7. Educational level

1. Illiterate 2. 1-4 3. 5-8 4. 9-12 5. Diploma 6. First degree 7. Second degree and above

1.8. What was your previous occupation?

1. Student 2. Daily labourer 3. House wife 4. Private business

- employees 5. Government employee 6. Nongovernmental organization
- 7. Other_____

1.9. Your Status in the enterprise

- 1. Owner manger 2. Employee 3. Manger only 4. Other (Specify) _____

1.10. Could you indicate the Revenue Change and Prospects of your Business over the last year?

- 1. Increased 2. Decreased 3. Remain the same 4. Other(specify)_____

1.11. Does your enterprise have a business plan?

- 1. Yes 2. No

1.12. Which Advertising Media you have Used so far?

- 1. Posters
- 2. Business cards
- 3. TV and Radio
- 4. No Advertising Media

Part 2 Characteristics and Prospects of Small Enterprises

2.1. Indicate Business types of your Enterprises

- 1. Trade
- 2. Service
- 3. Manufacturing
- 4. Urban Agriculture
- 5. Construction

2.2. What is the legal form of your business?

- 1. Sole proprietorship
- 2. Partnership
- 3. Joint venture

2.3. When was your enterprise established (Ages of Small Enterprises)?

Month _____ Year _____

2.4 How many employees you had at the start of the business?

Type of employee	Male	Female	Total
Full time workers			
Part time workers			
Paid family members			
Total			

2.5. How many employees you have at presents?

Type of employee	Male	Female	Total
Full time workers			
Part time workers			
Paid family members			
Total			

2.6. Out of the total number of employment given in Q. 2.5 above, how many of them have educational qualification of 12th grade and above? _____

2.7. Indicate the suitability of your operating Locations.

1. Not hygienic
2. Far from market center
3. Good location
4. Others(specify)_____

Part 3. Challenges and Prospects of Small Enterprises

- Finance Related Challenges

3.1. Did you obtain a credit facility?

1. Yes
2. No
3. Not interested

3.2. If your answer for Q 3.1 is No, why?

1. Inadequate loan amount
2. High interest charge
3. Lack of collateral
4. The procedure is complex
5. I can use other sources
6. I don't need credit

3.3. If 'yes' to 'Q 3.1, what was the sources of your start-up and expansion capital?

1. Family
2. Own Saving
3. Microfinance
4. Iqqub
5. Bank
6. Others (please specify)_____

3.4 If your answer for Q. 3.1 is yes, is the amount of the loan sufficient?

1. Sufficient

severity?

S.N	Challenges	Sever	moderate	None
1	Lack of market information			
2	Lack of adequate input supply			
3	Shortage of marketing skill			
4	Limited market opportunity creation			

• **Rating Institutional Linkage Challenges**

4.3. How would you rate the following challenges based on the given degree of severity?

S.N	Challenges	Sever	moderate	None
1	Linkages of small enterprises with research organization			
2	linkage among different enterprises			
3	Linkage b/n government organizations and small enterprises			
4	Linkage b/n small enterprises and customers			

• **Rating Policy and Legal Related Challenges**

4.4. How would you rate the following challenges based on the given degree of severity?

S.N	Challenges	Sever	moderate	None
1	Complex Loan procedures			
2	Complexity in business registration and licensing			
3	Too many rules and regulations			
4	Lack of encouraging government policy			

Part 5. Open-ended questions

5.1. What are the main barriers you perceive in expanding your business?

5.2. In your opinion what measures should be taken by the different bodies that are involved in growth and promotion of the small enterprises.

- By government executive agencies:_____
- By other stakeholders (i.e. private institutions)_____
- By the beneficiaries of small enterprises_____

5.3. Any Additional comment? _____

5.4. What were the problems you face and solutions you have taken so far?

A. At the time of establishment of the business

1. Problems _____

2. Solutions _____

B. Running the business

1. Problems _____

2. Solutions _____

ANNEX B

STRUCTURED INTERVIEW, FOCUS GROUP DISCUSSIONS AND IN DEPTH INTERVIEW

A. With Government Agency of Small Enterprises

- What type of business development service does your organization offer to small enterprises?
- Who are the main segments (target groups) of the organization?
- Is there an operational manual for the business development service product?
- Does business development service benefits the users of business development service and Business service?
- Do the features of business development service match with small entrepreneurs' demand?
- What the main barriers you perceive in expanding the business/operation of the organization?
- Do small enterprises face challenges? If the answer is yes, what are the obstacles that faces small enterprises?
- What kinds of measures have to be taken to solve the challenges?
- What are some weakness and strength you have observed so far from the extension workers and entrepreneurs of small enterprises themselves?

B. With small enterprise operators (both female and male entrepreneurs) in group and separately

- What problems did you face while running small enterprises in relation to:
 - ✓ Politico-legal factors [government policy, bureaucracies (in relation to company registration and licensing), taxation and like]
 - ✓ Premises and Technology factors
 - ✓ Infrastructure (power, transportation, water supply and like)
 - ✓ Marketing factors (relationship with suppliers, customers and others)
 - ✓ Financial factors (situations of loan size, loan procedures, existing repayment period, interest rates, collateral requirements, etc from formal financial institutions)
 - ✓ The weakness and strength of the existing traditional saving and credit mechanisms, if any.
 - ✓ What do you think the journey of your business looks like in its operation/ sales volumes?
 - ✓ Do you have external linkage/network with other individuals or businesses?

- ✓ Who advises you in relation to your business and to what extent you have benefited from it?
- ✓ What was done to make this product /service more accessible and available to customer?
- ✓ What was done to increase the visibility of this product / service and to increase its usage or exposure?
- ✓ What promotional tools are appropriate such enterprises and which do the enterprise used?
- ✓ What problems you encountered concerning promotion of your product?
- ✓ What are some weakness and strength you have observed so far from the government officials of small enterprises and extension workers?

C. With officials of Commercial Bank and Microfinance Institutions

separately

- Financial factors (the existence and adequacy of the loan, interest rates, collateral requirements, etc)
- Availability of trust to small enterprises, reasons for not trusting, if there is any.
- What problems you encountered concerning your service to small enterprises?
- What mechanisms you recommend for better performances of small enterprises?

D. WITH EXTENSION WORKERS

- ✓ What are some weakness and strength you have observed so far from the government agents of small enterprises and entrepreneurs of small enterprises themselves?
- ✓ What are specific challenges and constraints related to your service delivery?
- ✓ How do you perceive the sufficiency of on-job training to extension workers, if any?
- ✓ Is there enough logistic facilities for your service delivery, such as bicycle, and other technical capability to give sufficient training and other required facilities?
- ✓ What is your recommendation for the better performance of small enterprises?

ANNEX C

OBSERVATION LIST

- 1 Animal fattening from urban agriculture,
- 2 Bricks, wood and metal works from manufacturing,
- 3 Retailers and wholesaler from trade
- 4 Restaurant and internet cafe from service

ANNEXURE D: INFORMED CONSENT LETTER

I here by confirm that I have been adequately informed by the researcher about the nature, conduct and benefits of the study. I have also received, read and understood the above written information. I am aware that the results of the study, including personal details regarding my age, business profile and educational level will be anonymously processed into a research report. I understand that my participation is voluntary and that I may, at any stage without prejudice, withdraw my consent and participation in the study. I had sufficient opportunity to ask questions and out of my free will, declare myself prepared to participate in the study.

Research participant's name: _____

Signature: _____

Date: _____

Researcher's name: _____

Signature: _____

Date: _____