

ORIGINAL ARTICLE

Impediments to Microenterprise Development in Bahir Dar City, North-Western Ethiopia

Bekele Melese¹

Abstract

Persistent unemployment and worsening poverty have become serious concerns in Ethiopia, particularly in urban areas. In response to this state of worsening poverty and unemployment, the country has been implementing microenterprise development program as a strategy to generate massive employment opportunities. The purpose of this article is to examine practical challenges and problems faced in implementing the program in Amhara National Regional State with particular reference to Bahir Dar city. To this effect, in-depth interview and focus group discussion along with document analysis were used to generate qualitative data pertaining to the day to day operations of the program. Participants in the interview and group discussions were selected using purposive sampling method considering their experience and knowledge about the program, and the data were analysed qualitatively. The findings reveal that microenterprises encountered a range of administrative and resource constraints including lack of credit, working premise and access to market. Most importantly, lack of experience and knowledge in running joint businesses and excessive dependence on government support were found formidable challenges emanating from the side of target beneficiaries. This paper shows that microenterprises provide temporary livelihood opportunities to the unemployed youth with likelihood of generating sustainable employment although limited in scope. Finally, the study recommends that a more sustainable approach to employment creation and poverty reduction would be directing resources to the promotion of large-scale industrial enterprises that could create sustainable employment opportunities.

Keywords: *Microenterprise, unemployment, urban poverty, job creation, Bahir Dar,*

Introduction

Microenterprises had been widely discussed and known as informal sector, subsistence economy or petty production activities. They were despised as traditional and even hindrance to economic development for they lack economies of scale and agglomeration benefits (Palmer, 2004). Scholars in the field of development studies used to advocate large-scale capital-intensive enterprises and considered the prevalence of microenterprises in national economies as a problem signalling economic dysfunction and backwardness (Portes and Sassen-Koob, 1987). Since the early 1990s, however, a reversal in development paradigm brought microenterprises to the centre-stage of development discourse as a priority intervention strategy in development policy and practice. Microenterprises turned from being a problem of development to a solution for development (Karides, 2010). Promoting microenterprises become a major employment creation strategy, and a secure social safety net for the economic crises brought about by the structural adjustment programs introduced in the 1980s (World Bank, 1989).

Microenterprise development has become a major strategy pursued by policy makers and donors as an ideal solution to tackle poverty and unemployment (Karides, 2010). As the saying *small is beautiful goes*, microenterprises promotion has been adopted as global anti-poverty strategy over the world. Microenterprises are hailed for being labour intensive as they absorb large number of workers with limited capital and also for diversifying

¹ College of Social Sciences and the Humanities, University of Gondar, Email: bekelem2004@gmail.com, P.O.Box: 196, Gondar, Ethiopia

livelihood strategies of poor people reducing unemployment and poverty (World Bank, 1993). Particularly in the aftermath of the *Arab Spring*, supporting microenterprises has increasingly come to be viewed as a “quick fix” to boost job creation for the young and growing populations of Africa, the Middle East and Asia (Page and Soderbom, 2012). The African Union, for instance, adopted the promotion of micro and small enterprises for the advancement of socioeconomic development throughout the continent (African Union, 2013). Empirical studies reveal that the promotion of microenterprises has shown positive outcomes in reducing poverty and unemployment in many African countries like in Botswana, Ghana, and Kenya (Mugo, 2016; Mensah, et al, 2007).

In Ethiopia, ‘poverty eradication’ is the single most important concern of public policy, and all development policies and programs of the country reiterate this goal since the 1990s (MoFED, 2010). The government holds the view that poverty is an existential threat to the country, and tackling poverty is its top priority concern (MoFED, 2010). Until recently, the government has been steadfastly banking on agriculture-led development policy, putting aside urban development, owing to its conviction that poverty is pervasive and deep entrenched in rural areas where the majority of the population resides (Tegegne and Meheret, 2010). However, in the face of increasing level of urbanization and demographic growth in the country, urban unemployment has grown into a serious socio-economic problem (Tegegne and Meheret, 2010; Dorosh and Schmidt, 2010). Currently, persistent unemployment and worsening poverty especially in urban areas has become a source public protest endangering the political stability of the country. The severity of the problem can be evinced by the phenomenal migration of Ethiopian youth particularly to the Arab countries through legal and illegal means (Girmachew, 2018). Lack of economic opportunities and outrageous inequality have been expressed in public protests.

In response to this condition of worsening poverty and unemployment in urban areas, the government launched Micro and Small Enterprise Development (MSED) program as a quick remedy (FDRE, 2011a). To implement the program, the micro and small enterprises development strategy drafted in January 2011 provides the policy framework, objectives and organizational structure of the sectors at federal, regional, city and sub-city levels (FDRE, 2011b). The strategy paper states that government gives top priority to the micro-enterprise sector and provides special financial, organizational and policy frameworks to implement the program. In 2017, for example, the government allocated 10 billion Birr as a revolving fund for job creation through microenterprise promotion (FDRE, 2017). The program aims at achieving the following objectives (FDRE, 2011a):

1. *generate massive employment opportunities that would increase the income levels of the target population and thereby reduce poverty and inequality,*
2. *create a mass of developmental entrepreneurs in urban centres, and*
3. *enable the microenterprise sector lay the ground for a strong and broad based industrial sector.*

In regards to the sector’s contribution to job creation, various studies reveal that it is yielding positive outcomes in creating employment opportunities and reducing poverty. Tegegne and Meheret (2010, p. 68) for example, provided an assessment of the program and concluded that the sector has undeniable positive impacts on employment creation and poverty reduction. Likewise, Bekele (2017) argued that the program is in fact benefiting poor and unemployed persons. Gebrehiwot and Wolday (2006) have provided an assessment of the sources of finance for microenterprises identifying a range of formal and informal sources. Others emphasize the importance of accessing financial services particularly credit and saving services in determining the performance of microenterpris-

es (Ermiyas, 2011; Mulu, 2007). Generally, previous researchers provided evidence for the positive role of the sector in creating employment opportunities and reducing poverty. But little is known about how the program is implemented and what practical problems and challenges are facing the programs in the implementation process.

Thus, this article is meant to contribute towards filling this knowledge gap, or the dearth of information and analysis relating to the practical challenges and constraints that impede the promotion of microenterprises in the country. Despite the efforts and commitments in mobilizing resources and the sector's positive outcomes in creating employment opportunities for the poor, the implementation is not as planned and the outcome is less than expected (Bekele, 2017). The sector is beset by a range of challenges and constraints impeding the realization of its potential. The unemployment problem is not resolved but growing worse in urban areas and it is becoming a cause for public protest and political crisis (Eyob, 2017). Assessing the practical problems and impediments faced by the microenterprise sector could help improve the performance of the sector in tackling unemployment and poverty. This paper would help identify constraining issues in the process of implementing the program in Bahir Dar city. Though microenterprise development in Ethiopia is a national urban development policy implemented throughout the country, this study was undertaken only in Bahir Dar considering resource and logistic limitations.

Objective of the Study

The purpose of this article is to examine practical challenges and problems deterring the implementation of the microenterprise development program in Bahir Dar city. More specifically, it was aimed at assessing policies, institutional arrangements and implementation procedures of the program; examining administrative, operational and resource constraints in the sector; and identifying cultural, personal and/or behavioural problems emanating from the side of target beneficiaries.

Data and Methods

Design

A qualitative study design was used as an appropriate strategy to capture reflective opinions and lived experiences of the study participants. Qualitative survey design has the advantage of establishing direct rapport between the researcher and the research participants to probe detail issues and processes that cannot be captured through quantitative designs (Creswel, 2009). It is a preferred approach to dig out rich descriptive information about the implementation process of microenterprises in Bahir Dar from day to day experiences of target beneficiaries and expertise of officers in the sector. Data were collected using in-depth interview, focus group discussion (FGD) and review of documentary sources.

Data Collection Methods and Instruments

In-depth Interview

In-depth interview was used to generate qualitative data from participants regarding their views, knowledge, experiences and practices relating to the performance of microenterprises using semi structured interview guide. The target population for the study consisted of individuals working as microenterprise operators and expert officers in the sector. A total of 17 purposively selected individuals were approached for interview of which six

of them (four men and two women) were experts and officials working in microenterprise development bureaus. The remaining 11(8 men and 3 women) were enterprise operators/owners approached to elicit their perspectives, experiences, challenges and problems.

Focus Group Discussion

FGD is a method of generating qualitative data by letting a group of people discuss on some issues using FGD guide. It is a preferred way to determine shared perspectives and evaluate policy ideas. FGDs were conducted with two groups: one consisting of microenterprise operators and the other consisting of officers working in the microenterprise development program. In the first group eight operators were selected purposively considering their experience as program beneficiaries. In the second group five purposively selected microenterprise development officers were involved.

Documentary Sources

The study also deployed extensive inspection of various documentary sources such as work manuals, periodic reports, proclamations, and policy documents relating to the microenterprise development program. This method was used particularly to generate archival information on the establishment, purpose, institutional arrangement and the modus operandi of the microenterprise development program.

Method of Data Analysis

Qualitative data generated through in-depth interview and FGD were analysed by presenting quotations, paraphrases and interpretive discussions. Policy documents and proclamations were also analysed by systematic review of contents.

Results and Discussion

Institutional Context of Microenterprise Development in Bahir Dar

Bahir Dar is a fast-growing regional city in the North-western part of Ethiopia, located 550 kilometres to the North-west of Addis Ababa and at the southern shore of Lake Tana, which is the source of Blue Nile River. It was established as a local administrative centre in 1940s. In 1965, its population was estimated at 362297 in 2017(CSA, 2013). Immigration from the surrounding rural areas is the major cause of high population growth in the city. Currently, the city is at its high point having the status of a metropolitan city and as the capital of Amhara National Regional State (ANRS), one of the nine regional states constituting the Federal Republic of Ethiopia. Administratively, the city is subdivided into ten sub-cities and three satellite small towns located within the range of 25-kilometre radius around the central city. The city's government is headed by a mayor who is accountable to the city council made up of elected representatives of the general population.

In an effort to implement the national microenterprise development towards tackling unemployment, the city government has established organizational structures entrusted with promoting microenterprises in the city. At the city-wide level, Technical and Vocational Enterprise Development (TVED) Office is established to coordinate, facilitate and oversee the development of microenterprises. The Amhara Credit and Saving Institution (ACSI) and Bahir Dar Technic and Vocational Education and Training (TVET) Institute also work in cooperation with TVED. These three organizations play an executive role in promoting the development of microenterprises. The TVED office serves as a mediator be-

tween enterprises and the different stake-holding bodies in providing support services to enterprises. The TVET agency is responsible to provide the various types of technical and entrepreneurial trainings and to produce and disseminate new technologies. ACSI has a major responsibility to provide saving and credit services to enterprises (FDRE, 2011b).

The TVED has branch offices referred to as *one-stop service centres* in each sub-city. These centres are staffed with expert officers who deal directly with the day to day routines relating to microenterprises. Enterprises get various support services from these centres in one window including awareness raising, organization, registration, licensing, and other support packages. According to the strategy document, each centre office has eight staff members, one coordinator and seven experts in different service areas. The roles and positions of the expert officers are as follows:

- *Organization, Registration, and Licensing Officer*: works on mobilizing potential target groups, recruiting organizing and licensing them to start new businesses. In doing so, he/she works in collaboration with different stakeholders including governmental bureaus and nongovernmental community organizations.
- *Credit and Savings Officer*: concerned with assessing the financial needs of entrepreneurs, helping them get credit by communicating with ACSI, advising them to pay back loans in time, encourage them to make savings, etc.
- *Production and Marketing Area Officer*: works in cooperation with the municipality of the city in getting land plots allocated for enterprises, constructing sheds for marketing and production, and distributing same to enterprises.
- *Industry Extension officer*: helps enterprises adapt new technologies produced by Technical and Vocational Education and Training (TVET) institute or assembled from other sources. He/she also facilitates technical and entrepreneurial trainings.
- *Market Development Officer*: Assesses market potentials for goods and services produced by enterprises at local, regional and national markets, and facilitate linkages.
- *Accounts and Auditing Officer*: Inspects the financial records of enterprises and mentors entrepreneurs to practice bookkeeping and enable them calculate profits and losses.
- *Database Officer*: compiles and keeps statistical data, and documents related to enterprises.

Support Services and Implementation Procedures

The promotion of microenterprises begins with the creation of awareness among target beneficiaries. The program specifically targets unemployed individuals and new graduates from colleges and universities. Awareness creation is done in different mechanisms including the TVED staff going door to door and announcements using local mass media. Different meetings of community residents are arranged by each sub-city authorities and community-based organizations such as youth and women's associations. In all such community forums, TVED officers provide awareness on the importance of self employment and entrepreneurship. The recurring themes of such discussion sessions are that poverty can be avoided by hard work, saving, cooperation, and partnership. The issue of mobilizing target groups to engage in microenterprise business is not left only to the TVED offices. It is just a "national agenda" and holds the attention of all government bodies, and TVED officers work in collaboration with local administrators to organize college and university graduates. In order to attract university graduates, the TVED office makes announcements inviting them to come and work as self-employed entrepreneurs.

Organizing and Registration

Following the awareness creation activities, interested individuals apply to engage in microenterprise program either in groups or individually. To be registered, applicants have to justify that they are residents of the city, and that they are not employed in any government or non-government organization. If one gets salaried employment after registration, they have to formally withdraw from the program, and if employed persons want to engage in the program, they have to resign from their employment.

After recruitment, applicants are given a series of orientations regarding the principles, objectives, advantages and types of enterprise organization. They are three types of enterprise formation modalities or business ownership types: Cooperatives, Partnership/private limited company and sole proprietorship. Cooperatives can be organized with ten or more members who work in the same activity. To get work licence, cooperatives are required to submit minutes of establishment bearing the signature and addresses of founding members, bylaw of the society, and business plan among other things. Partnerships can be established with two or more partners while sole proprietorships are established by an individual aged 18 and above.

Once enterprises are formed and given legal personality by the TVED office, they become legible to apply for the following support packages:

- Credit and saving
- Technical skills and entrepreneurship training
- Production/ marketing sheds
- Market linkage

Credit and Saving Services

The regulation credit and saving service provision requires enterprises to submit their business plans along with collaterals for the credit they request. In order to be eligible for credit, MSEs are required to demonstrate that they have a record of saving at least for six consecutive months. They have to open a saving account in Amhara Credit and Saving Institution (ACSI), and deposit uninterrupted monthly savings for six consecutive months. Their saving is counted to be part of their initial capital constituting 20 percent of it, and they then request credit from the same institution to obtain the remaining 80 percent of their working capital.

Enterprises that could not show a saving record due to lack of income are treated with a special arrangement. Those people who cannot afford to make the required savings are organized and allowed to work in the construction sector, particularly in the cobblestone subsector. In such a manner, they are supposed to work at least for six months in which they could start their own saving. Thereafter, by showing their saving record, they can get credit and start their preferred business. By doing so the program tries to make financial services accessible to the poor, and to accustom them to the habit of saving.

In either case, credit is given on collateral basis. The collateral could be any property like house, vehicle or any other asset that could compensate the value of the loan to be taken, and it could be provided by parents/relatives of the loan taker. Relatives who are civil service employees can also present their salary as collateral on behalf of credit takers. For those who cannot present collateral, there is an arrangement referred to as group collateral, this is a form of collateral in which all members of the group are held accountable for the credit taken by an individual member. The default of one member means that further

lending to other members is suspended until the default loan is repaid, or the mandatory savings of all members may be used to pay off the loan of the defaulter. Credit officers justify the importance of collateral as a means of reinforcing the commitment of operators to their business undertakings. The six months saving period also helps officers to judge the financial prudence and work discipline of operators, so that it can be used to decide whether or not the applicants are credit worthy.

Technical Skills and Entrepreneurship Training

Enterprises in the manufacturing sector receive skills training from Bahir Dar Technical and Vocational Education and Training (TVET) institute. The institute provides on-the-job training for enterprises. Such skill-based enterprises as construction, weaving, metal/wood works, leather and textile works that need training are first identified by TVED offices, and their list along with the type of training they need is sent to the TVET institute. The length of such training varies from three days to three months, and it is given entirely practically in technical workshops arranged by the institute. Trainees do not pay for the training they take. The institute provides trainings simply as its regular duties. Sometimes training are sponsored and arranged for specific target groups by different community based organizations such as women's associations and youth's associations that support their members.

Trainings on entrepreneurship and business development services are offered by TVED and ACSI officers. ACSI provides trainings on financial matters as saving, loan taking, loan repayment, and bookkeeping. TVED officers also give training on similar issues emphasising on business start-up, customer management, business development, and marketing management. They regularly visit enterprises and advise them to practice bookkeeping and auditing. Officers assigned for this specific task keep track records on the financial accounts of each enterprise; keep account balances, monthly savings, and credit repayments, and direct enterprises to adapt such financial discipline.

Production/marketing sheds

Microenterprises are provided with production workshops and marketing sheds. The municipality of the city allots land for this purpose and the TVED office builds workshops and market sheds that could be distributed to microenterprises on concessional rent basis. Enterprises pay subsidized rents for such working/marketing sheds for about three years and thereafter they pay full rent. They pay 25%, 50%, and 75% of the actual price during the first, second and third years respectively. Afterwards, they pay full price or leave the sheds for new enterprises. In principle, sheds are given only for enterprises organized in the form of cooperatives or partnerships but not for proprietorships. Enterprises that do not qualify to get working/marketing sheds are provided with open land on which they can build improvised sheds either individually or in groups. The construction of such sheds is done on behalf of the TVED office and it owes the cost of construction. This cost is recovered by the enterprises as they use such sheds for a specific period of time without paying rent. By the time the cost of construction incurred by enterprises is compensated, the TVED office begins receiving rent for the sheds.

Market linkage

TVED centre offices assist enterprises in accessing market outlets for their products. This includes advertising products, arranging product exhibition bazaars, and prioritizing

microenterprise products in government purchase. When government bureaux announce bids to purchase different supplies and services such as office furniture, food stuffs, construction and maintenance services, microenterprises are given a seven percent bonus marks to maximize their capacity to win bids. Besides, microenterprises are allowed to participate in such government bids without showing bank certificate bearing the amount of money used for the bid (Cashier Payment Order, CPO). The centre offices write support letters to different government organizations describing that microenterprises are entitled to get such affirmative action in government projects.

Challenges and Constraints Impeding Microenterprise Development

The implementation process of the microenterprise development program in Bahir Dar is beset by a series of practical challenges and constraints. This section provides a discussion of such challenges and constraints that impeding the promotion of microenterprises in Bahir Dar City.

Excessive Dependence on Government Support

A critical challenge faced in promoting microenterprises through government support is the high level of dependency they develop. Program implementers create awareness to target group beneficiaries, organize them to start businesses, provide them with support packages such as trainings, credit, working premises, and closely follow their day to day progress to ensure their stay in business. So, from the very beginning, enterprises continue to rely on the continuous support of the government. They expect the government to be engaged in dealing with all sorts of problems they face. They expect the government to provide working capital, production premise, and to purchase their products or sell on their behalf. They even call upon the government to resolve disagreements and conflicts that arise among themselves. Beneficiaries have developed a kind of “spoon-feeding” attitude towards the government. One centre officer from *Shum Abbo subcity* describes the problem like this:

...Obviously the problem of dependency is there. For example, there is one enterprise working on lentil grinding (ግምር ማከከት). We provided members with loan money for buying lentil, and a working place. But they did not start the business with the money and the working premise at their hand. They further asked us to supply the lentil (their production input) for them. Not only that, they further demanded that once they grind the lentil, we should sell their product for them. ... Imagine, we provided them with loan and shed, but they still requested us to supply them with their production input and sell out their final product. This is a problem of most enterprises. They complain on us saying that “they provided us with loan and shed, and afterwards they ignored us.” What can we do beyond that? They just want spoon feeding. ...

At the beginning, in order to convince people to join the sector, all sorts of supports were just given easily and freely to participants. There was over care, and in time, that had created dependency (ጠባቂነት) among them. Even when customs office asks them to pay tax, they refuse, saying that they are micros, as if they have a special privilege to be exempted from tax.

Another centre officer from *Hidar 11 subcity* also describes the problem as:

Most enterprises think that just because they are microenterprises they deserve privileges. For example, they do not want to compete in bids; they want to win without

competition; simply because they are micros. This is rent seeking. Without competition, without quality production, they want to take advantage in special case. They also demand production/marketing shed as a right, which is also rent seeking.

Another officer from *Fasilo subcity* also explains the problem like this:

We created conducive business environment, we give loan, and we arranged market linkage. But they sit hands folded complaining that they have no production/marketing place. They do not want to share the burden by working in rented shops/or premises, or they do not ask their parents to assist and proceed with their enterprise. They expect all things from the government. Even with regard to market linkage, they should not wait until the government sells their product out. There is a big attitudinal problem. Previously enterprises were privileged to work in government projects without competing with other firms. Now, when they are told to compete to take such projects (still with 7% bonus) they are not happy. They act like a child always. Government cannot do everything for them. They have to do their best effort, and parents also have to contribute. In fact, I do not mean all of them have this problem....

Enterprise operators, on their part, have got a series of complaints regarding the adequacy of services they receive from concerned government offices. Such informants state that they are not satisfied with the support services provided by government agencies. One such informant describes the problem as follows:

No question, the government's idea to make each person job creator and self reliant is a good idea. The problem is when it comes into practice. ... Once you are organized and registered to start a business, you do not get credit, you do not get working premise.... Only a few privileged enterprises get that. So, what is the use of organizing into micros if there is no adequate support?

Some operators feel that the way support services are provided is full of partiality and unfairness owing to the prevalence of rent seeking/corrupt officers in the sector. The provision of all sorts of services including credits, production/marketing sheds, trainings, market linkages, etc. is not free from this problem. Most often, it is people who have special connections to authorities and officers that get these benefits from such support services. According to the complaints, such drawbacks constitute a major reason for the failure of many enterprises.

Both opinions given by officers and operators indicate that microenterprises are highly dependent on government assistance. One possible explanation may be due to the fact that the government used to provide generous support services at the beginning of the program and this has made the operators to be accustomed to much reliance on government. An informant explains this:

For example, credits were given at the beginning with little collateral and without the condition of compulsory saving. Later, when credits come to be provided on tighter conditions of collateral and compulsory saving, operators start to complain recalling the good old days. At the beginning, MSEs were also privileged to sell their products/services to government institutions without competition with other suppliers. Not only that, they were also exempted from paying certain taxes.

Now, when they are made to compete with other firms and required to pay taxes, they start complaining because they lost the advantages they used to get previously. Besides,

they also used to get production/marketing premises and a variety of trainings at ease and even by the government's own initiative. In time, however, such generosity comes to wane and such services start to be provided on the basis of a series of conditions and priority criteria. All such conditions made operators to feel dissatisfied and complain about the inadequacy of services.

Another explanation for the existence of pronounced dependency on the government given by group discussants is the fact that at the time much of the economy is dominated by government ownership, and the economy under the domain of the private sector is relatively insignificant. That is, very important aspects of the economy such as land, telecommunications, electricity, banking/finance, water supply, and other infrastructural services are controlled and provided by the government. Hence, operators have no option but to rely on the government and deal in their day to day economic life with government officers. Discussants argue that *"for instance, credit and saving services for micros is given only by ACSI which is a government entity. The same is true for land. ..."*

Some interviewees reflect a broader view on the matter arguing that this reliance on government assistance is rather a general tendency of the Ethiopian society. *Probably, this culture of over reliance on the government in relation to the day to day economic life of the people might have developed during the socialist Derg era that used to try to eliminate the market mechanism and allocate all goods and services including everyday consumption items like bread and sugar by way of central planning.*

High Attrition Rate of Enterprises

Another critical challenge is the high attrition rate of enterprises. That is, once enterprises are established and started business, many of them face bankruptcy and fail to continue, they die out and the operators turn back to the status of unemployment. This problem is especially pronounced in the case of enterprises established as cooperatives. There are different reasons for this:

First, cooperative enterprises are formed with a greater number of people, ten or more persons, and as a greater number of people get-together there is more chance for disagreements and conflicts to arise. Everyone tries to get the maximum possible benefit from the joint venture while at the same time trying to minimize the cost they incur by refraining from contributing their time, energy and other resources to the enterprise. In short, they want to free ride. As rational beings, individuals do not want to share costs and benefits equally; everyone wants to escape responsibilities while eager to maximize benefits. That ultimately results in bankruptcy or failure of the enterprise. Let me quote one interviewee here:

You see, when there are more people, there is more conflict. Some members emphasize on their advantage but do not mind their duties. ... They come late or become negligent in doing their assignments, they do not discharge their tasks seriously. Some even steal the common property of the enterprise and hide themselves. ... Still there are many who work hard and devote themselves for growth. This condition creates conflict and finally the collapse of the enterprise.

While some members want to share profits, others want to expand the business by reinvesting the profits. Indeed, it is not always the case that the more "negligent and irresponsible" members are the cause for the collapse of enterprises. Those who are active and dedicated feel that they are wasting their time and energy, and think it would be better to

run their independent businesses and withdraw from the joint venture. The withdrawal of one or two such members would lead to the collapse of the enterprise. Cooperatives to function as an enterprise should have at least ten members, and an enterprise established by ten or eleven members for example would collapse if in case one or two of its members withdraw for one or another reason. If its members are less than ten, the enterprise loses its legality. Hence, lack of trust among members and the tendency of each member to win at the expense of others (win-loss) is a formidable challenge for enterprises to thrive. The culture of win-win approach in business partnership is yet to be cultivated. Informants argue that “*we (Ethiopians) do not have the culture of working together.*”

Therefore, cooperative enterprises are more prone to failure than partnerships or proprietorships. If that is the case, why not abandon cooperative enterprises and focus on the other types? Until very recently the government used to give top priority to cooperative enterprises rather than partnerships and individual enterprises. An officer explains:

Previously the emphasis was on cooperative enterprises because the government believes that it is better to treat groups in service provision and to improve the livelihoods of groups rather than individuals. It is difficult to provide services like credit and other support services to each and every individual. One thing, the overhead cost will be very high and unmanageable. Besides, it is impossible to provide land or shed for each individual separately. Resources will be scattered too much. When you provide services for groups rather than for individuals, it ensures fairness, and saves scarce resources.

Generally, cooperative enterprises are said to have the following advantages: First, since cooperatives are established by ten or more members, they can be very effective and efficient way of reaching a greater number of people in providing the various services meant to assist enterprises. It would be inefficient and ineffective to try to provide services on individual basis. Individual treatment stretches human, financial and material resources too much. Secondly, in cooperative enterprises, members pool their resources, experiences, knowledge and skills together, and be able to engage in production activities that are not reachable by the individuals alone. That is, cooperatives help to launch large-scale businesses.

In practice, however, proprietorships and partnerships are found to be more successful than cooperatives at least in terms of staying active businesses. As one officer confirms:

Proprietorships and partnerships are better. Cooperative enterprises are mostly a failure. They are really wasting our time. They do not even pay much tax like the others. ... So far, we used to give priority to cooperative enterprises, but now, there is a shift towards partnership enterprises. Currently, we have abandoned organizing cooperatives. ...

But this does not mean that the failure of enterprises is limited to cooperatives only. Many proprietorships and partnership enterprises fail for one or another reason, though generally most of them stay functional. The point is that not all enterprises are successful, some of them die out and some of them stay alive and thrive.

A major reason for the failure of enterprises is that operators simply abandon them to engage in other walks of life, finding formal employment for instance. Enterprises also fail due to personal/behavioural and attitudinal problems of operators. One TVED officer described this as follows:

There are enterprises that collapse in the morrow of their establishment. Even after receiving government credit and land, some people just abandon working and close their enterprises. There are many who are sent to jail because of failure to repay government credits. Some are caught stealing the common property of their own enterprises. They took and drink [alcohol] with it. Our culture is not good in that regard! People just emphasize on luxury and immediate consumption rather than seeing the future.

Some informants also stressed that credit and other support services are given to incompetent individuals because of corruption, while competent individuals who have no affiliations with authorities cannot get support packages. And this is a major reason for the failure of many enterprises. Officials at various levels of hierarchy's favour individuals on the basis of kinship, political affiliation and other connections. Those who are very committed and hard working do not get such services even if they are more likely to be successful in their efforts. And hence, one major reason for the failure of enterprises is corruption or "rent seeking" among executives of the sector. Such a complaint is prevalent among many enterprises that feel dissatisfied with the support services they receive from TVED office. Centre officers on the other hand argue that most corruption allegations are baseless, even if it is impossible to deny the existence of rent seeking behaviour among some officers at various levels. They assure that it is well understood that *rent seeking* is a threatening challenge of the country as a whole, and the TVED sector cannot be an exception.

Participants Insist on Engaging in Service Sector Enterprises

A critical challenge in promoting microenterprises is that most of the participants want to work in the services and trade sectors that actually do not create any value addition, and shy away from industrial activities. The services sector does not engage in material production and has little contribution to the development of production forces. One of the informants contends that:

You see, most people want to work in white shirt and white shoes such as in parking, internet centre, tour guidance, and the like. The government on the other hand gives priority to manufacturing and construction enterprises, and support services are geared to these sectors rather than to service enterprises.

While the government often reiterates that it would encourage manufacturing enterprises in providing support services, most people prefer to work in the service sector enterprises that do not present the challenge of technical skill and manual work. Activities in the manufacturing sector have direct relevance in spearheading industrialization and further job creation, while the activities in the service sector have little relevance in that regard. The challenge is, however, that people want to engage more in the service sector rather than in the manufacturing sector despite the government policy's preference to the other way round.

Clearly this is not a challenge faced only in the microenterprise sector. Even in the large-scale enterprises sector, Ethiopian business owners shy away from the manufacturing sector and tend to incline towards trade and service sectors such as hotels and tourism. As a matter of fact, they focus on importing goods and services from abroad instead of producing them at home. This malicious tradition is responsible for the dominance of the service sector over the industrial sector in the national economy. That is, the share of the service sector in the national economy is disproportionately large as compared with the industrial sector.

There could be various reasons for this malaise. One reason is that, as the respondent quoted above reveals, people want to avoid manual work, and instead prefer a status of gentility as opposed to craftsmanship, i.e., they prefer to engage in white-collar jobs. Or, alternatively it may be because the remuneration system of the economy is biased in favour of the service sector enterprises rather than the other way round. Indeed, manufacturing enterprises require more capital and higher skill compared with service sector enterprises that make it difficult for many to venture into it. But even when the government provides support to compensate the shortfall in capital and skills, people do not show outright willingness to make use of that advantage.

Lack of Knowledge and Experience

It is important to note that lack of knowledge and experience on the part of participants is a key factor for many of the problems and challenges faced by enterprises. Running cooperative business ventures or business organizations in general is not an easy task for beginners since it requires organizational and managerial skills such as planning, allocating, implementing, controlling and evaluation. Such capabilities develop gradually from practice and learning by doing. And participants themselves understand that such skills could not be gained easily from “classroom lessons.” Hence, given that most of the participants are young people with limited educational grounds and little experience in practical business, it is no wonder if they face failures in operating joint ventures. Such attributes would develop in time through trial and error and as participants develop risk-sharing behaviours. Thus, in most of the cases the failure of enterprises is the result of lack of experience in running businesses.

Microenterprise operators informing the study were asked to list in rank the major constraining problems they face in running their businesses. As presented in the following table, lack of knowledge and experience in running businesses is one of the major problems they face. They indicated that they are constrained by the problem of lack of experience and knowledge in their specific businesses, and conflicts arising among themselves resulting from their lack of experience in managing joint ventures.

Major Problems or Constraints in rank of significance

Rank	Problems/constraint
1st	Market Problem
2nd	lack of production premise
3rd	Lack of Finance/credit
4th	Lack of knowledge/ experience

Market Problem

Lack of market for products is indeed a daunting issue for microenterprises. They indicated that lack of market to their products is a number one constraint they face as indicated in the above table. An important reason for this is that enterprises highly depend on the market created by public sector projects. Most enterprises in the construction sector, for example, depend on government projects as in the case of cobblestone enterprises that entirely depend on intra-city road projects of the municipality. Cobblestones have little demand by the private sector or urban households. Other construction enterprises also depend highly on public projects such as condominium houses. Hence, when such government projects slowdown or terminate, enterprises suffer market crisis. Besides, many

enterprises depend on the market linkage arranged by the TVED office. That means, they rely on TVED office to search for market opportunities locally or nationally, while the enterprises themselves are not able to search market opportunities for themselves.

Another reason for the serious market problem is the redundancy of similar enterprises in certain subsectors. People tend to concentrate on a few traditional businesses like food, beverage and related service sectors. Generally, there is a tendency of imitating enterprises in the areas of food and beverage or service sector enterprises in general, and there is apparent lack of developing new business ideas. This concentration of enterprises in a few areas creates severe competition among such enterprises leading to market problem. Part of the market problem is also created due to the location of enterprises in peripheral parts of the city. Enterprises operating in the periphery where infrastructure and utilities are not available and where population settlement is sparse tend to face market problems. Such enterprises as internet cafes and restaurants that cater food are instances in this regard. Their market is narrowly limited to the surrounding neighbourhoods only.

Lack of Access to Finance

Despite efforts being made by ACSI, getting credit at the time of need is a serious problem faced by many of the enterprises. Participants indicated that lack of finance/credit as the second major constraining factor. Many of the enterprises are prevented from getting credits by a variety of preconditions like compulsory savings and collateral requirements. Yet, even if enterprises fulfil these requirements, they often do not get the credit on time. ACSI is sometimes unable to respond to all requests due to lack of funds at its disposal, and resorts to prioritize them and hence many enterprises had to stay on the waiting list.

In fact operators complain that:

The credit provision system suffers from deep entrenched corruption as there are apparent cases where people who deserve credit are denied while others who do not deserve it are allowed to take. ... Credit is given to the children of the wealthy not for the poor.

Some interviewees even assert that giving credits to “wrong clients” by way of favouritism is a key reason for the failure of many enterprises. Those who have the courage and commitment are denied credit while those with little dedication and less likelihood to succeed take the credit.

Getting loan is a fierce battle ground even among large scale business operators. Access to it is often hard that even prompts agents to engage into special affiliations with public authorities especially in such countries like Ethiopia where financial institutions are dominantly owned by the government. In this regard, Sen (1999:39) observes that:

The availability and access to finance can be a crucial influence on the economic entitlements that economic agents are practically able to secure. This applies all the way from large enterprises (in which hundreds of thousands of people may work) to tiny establishments that are run on micro credit. A credit crunch, for example, can severely affect the economic entitlements that rely on such credit.

Lack of Working Premises

In regards to lack of working/production premises, beginner enterprises can hardly afford to own or rent working premises at market prices owing to the meagre start-up capital at their disposal. Cognizant of this challenge, the city government allocates land specifically

for microenterprise activities. The TVED office is mandated to build working/marketing sheds on the allocated plots to be rented to enterprises at subsidized prices. The problem here is that such sheds are short of the demand and there is fierce competition among enterprises to have access to them. The TVED office had discriminatory criteria that favour some enterprises which are said to be “developmental”. However, the implementation of the priority procedure is contested by many informants. First, they allege that it is an area of “naked corruption” where officers do “good business by selling sheds”. Second, once they take sheds, operators do not return them back to be redistributed for others. Though in principle they are given for five years use right, they continue their hold for unlimited period of time, as there is no mechanism to enforce the principle. Anyways, lack of working premises is a daunting problem for the enterprises. While there is high demand for sheds, the supply is very inadequate.

Conclusion

Owing to the ever-accelerating rate of urbanization and explosive rural-urban migration combined with the low industrial base of the economy, persistent youth unemployment is currently an urgent concern confronted by policy makers in Ethiopia. In search of an immediate solution for this urgent social and economic problem, the promotion of microenterprise development has been adopted by the government. Microenterprise development is assumed to be a quick remedy in creating the urgently needed jobs for the urban poor. As microenterprises are fairly labour-intensive, they employ a large mass of unskilled and semi-skilled individuals. The sector is taken to be a potential powerhouse for generating the badly needed employment opportunities, and in fact empirical studies indicate that the sector has significant gains in terms of tackling urban unemployment.

This study has tried to explore the challenges and constraints that impede the sector from realizing its potential in employment generation and poverty reduction. The findings reveal that the government gives top priority to the sector and allocates a huge amount of human and material resources. Offices are opened in every sub-city, budget is allocated to run the routines, municipal land is allocated and sheds are built for beneficiaries. However, it is beset by a range of practical constraints and challenges that require the attention of policy makers and program implementers. An important issue is that the program is highly dependent on support packages provided by the government including access to finance, market linkage, trainings and working premises. This excessive dependence affects the sustainability of enterprises as they get into bankruptcy when the support is withdrawn. Since there is scarcity of resources, it is indicated that such support packages are not accessible to all enterprises and have become a source of corruption and favoritism.

It must also be noted that the survival rate of microenterprises is very low for they are run by people with limited knowledge and experience in business activities. Given that beneficiaries are organized into microenterprises as a last resort for their livelihood, they abandon the enterprises any time they get salary employment. So, the chance of microenterprises to create sustainable jobs is limited, and there is an evident wastage of resources in the sector.

Recommendations

If the program has to be accessible to all target beneficiaries and be able to create sustainable jobs, the dependency on government support has to be reduced and reoriented to market principles. It is also important to avoid the overdependence on microenterprise

development as a panacea to solve the ever-growing problem of youth unemployment in the area. A much more aggressive and sustainable approach to employment creation through the promotion of large-scale industrial development is needed.

This study therefore suggests redirecting human and material resources allocated to the microenterprise sector into large-scale business enterprises to be established and run by well experienced and trained personnel and create employment opportunities for employment seekers. This would reduce the wastage of resources in microenterprises that are operated by individuals who have no experience and hence not sustainable.

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