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Factors Affecting the Growth of Women-Operated Micro and Small Enterprises (MSEs) in Ethiopia

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Abstract

The study employed secondary sources to identify factors that challenge the growth of the women-operated Micro and Small Enterprises (MSEs) in Ethiopia. MSEs play an important role in creating employment opportunities mainly for the urban youth and women, serve as an engine to transform economies from agricultural-led to industrial-led, and are considered the best mechanisms by which citizens accumulate capital and empower women economically. However, in developing countries like Ethiopia, female entrepreneurs are facing various challenges in their day-to-day lives just because of their gender. Financial problems, lack of managerial and entrepreneurial skills, workplace and marketing problems, inadequacy of infrastructural facilities, unpredictable supply of raw materials are among the problems they face. In order to alleviate the situation, the Government of Ethiopia should provide female entrepreneurs with access to credit, supply them with a place to work, create a market link for MSEs with raw material suppliers, medium and large firms, make capacity-building training available to improve their business management skills, and provide information on market opportunities and appropriate/improved technologies.

Keywords: employment opportunities, growth, micro enterprises, small enterprises, transform economies, women-operated.



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Introduction

It is obvious that Micro and Small Enterprises (MSEs) are pivotal in the world socioeconomic development. Many highly-industrialized countries like Japan, China, and Taiwan have based their industrial development on MSEs in which they are now a role model for less-developed countries on how to utilize their domestic resources, unemployed labor and domestic technologies (Chemeda, 2003; Rudjito, 2003). Self-employment and/or entrepreneurship are important to socioeconomic development, for increasing productivity, innovation and for creating employment opportunities mainly for the youth. In addition, entrepreneurship reduces poverty and income inequality between rich and poor in any given country. MSEs are one of the means by which people become self-employed or entrepreneurs. Entrepreneurs are often pragmatic, innovative, have vision and ideas, are risk takers, able to exploit opportunities and capable of transforming their ideas into economic opportunities (Girma, 2015).

Several studies have revealed MSEs as one of the most important alternative sectors for socioeconomic development in both developed and developing countries, and that they play significant roles in the creations of employment opportunities, reduction of poverty and income generation for urban dwellers. In other words, as the Central Statistical Authority of Ethiopia's (2015) Report on Small Scale Manufacturing Industries Survey indicates, the importance of the sector can help transform the economy from agrarian-based to manufacturing-led, increasing agricultural productivity, reducing urban unemployment, and stimulating trade and construction.

This sector generates about 48% of the aggregate employment in North Africa, 51% in Latin America, 65% in Asia, 72% in Sub-Saharan Africa, 6.2% in the United States, 22.3% in China, 80% in India, 67% in Japan, and 70% in European countries. In Ethiopia, about half of the urban labor force is engaged in this sector and Addis Ababa alone accounts for nearly 40% of the total MSE operators (Endalsasa, 2012 as cited by Menda, 2015; ILO, 2002 as cited by Menda, 2015).

Despite this, in Ethiopia there are many more MSEs than ever before, where it is less likely to come across female entrepreneurs or, if any, most often they are participating in areas where they need limited capital such as service delivery, and much less so in manufacturing. Bekele and Worku (2008, p. 4 as cited in Clack, 2014) refer to surveys conducted by the World Bank (2005), World Trade Organization (2002), and the Ministry of Finance and Economic Development of Ethiopia (2002) that concluded female entrepreneurs in Ethiopia receive insufficient meaningful financial support and training to manage their businesses efficiently.

Historically, women in Ethiopia are politically, economically, socially, culturally and religiously abused and mistreated. This is manifested in their day-to-day affairs; for example, women face difficulty in accessing finance while establishing a new business or want to expand their business (Amha & Narayana, 2004).

This study has the following specific objectives:

- To identify challenges that female-operated MSEs face in their development to medium scale enterprises.

- To identify possible strategies to facilitate the development of MSEs and the management of challenges faced by MSEs seeking to develop into medium scale enterprises.
- Based on the discussions, findings and results of the study, to provide recommendations on how to better facilitate the development process of small-scale to medium scale enterprises in the area where the study is conducted.

In order to meet these objectives, the study employs secondary sources of data from existing research works, government reports, internet sources and other relevant information other than primary sources, making this study a 'desk research'.

On the researcher's opinion, there has been no significant research conducted so far related to problems faced by female-operated MSEs in their development to medium-scale enterprises in Ethiopia. Therefore, this research aims to contribute greatly to the existing literature, and may serve as a springboard for other studies focusing on similar topics and issues related to gender, female owned and operated MSEs.

Above all, the findings and recommendations of the researcher are intended to be significant to stakeholders and concerned bodies to assess the gaps in this research area and help them take possible measures as soon as possible.

Defining Micro, Small and Medium Enterprises

Though MSEs are common worldwide, there is no single universally agreed definition of what constitutes a micro and small firm, which can be used generically for all purposes (Lettice, 2004 as cited in Abrha, 2014). This is due to there being different organizations, laws, countries and agencies that all have their own ways of classification and definition (Bloem, 2012).

According to some international organizations such as the Organization for Economic Cooperation and Development (OECD), the variation in definition and size of enterprises indicates the economic, cultural and social dimension of the country (OECD, 2005). Regarding this point, Dababneh and Tukan (2007) noted that different criterion for categorizing and defining enterprises is being used by different countries. Among others are the number of employees, amount of capital invested, sales and nature of the business.

For the purpose of aiding reader understanding, the following are some of the definitions provided by different countries, agencies and laws. For example, the European Commission (2005) categorizes enterprises as Micro, Small or Medium-sized enterprises based on staff headcount, and annual turnover or annual balance sheet total. Accordingly, an enterprise is medium-sized if, and only if, it employs less than 250 labor with an average annual turnover of $\leq$ €50 million or has a balance sheet total of $\leq$ €43 million a year. A small enterprise, on the other hand, has a staff headcount of <50 and a turnover or balance sheet total of $\leq$ €10 million, while a micro enterprise has <10 employees and $\leq$ €2 million annual turnover.

On the other hand, in Kenya the 2009 Micro, Small and Medium Enterprise Bill indicated that the number of employees and the company's annual turnover is the standard applied. Accordingly, an enterprise can be said to be micro if it hires ≤ 10 people and has an annual turnover $\leq$ 500,000 Kenya Shillings. Whereas a small enterprise hires 11-50 people with an annual turnover of between 500,000 to 5 million Kenya Shillings, and an enterprise is

medium if it provides a job opportunity for 51-100 people and has an average annual turnover of 5 to 800 million Shillings (Kenya Association of Manufacturers, 2009).

Some other countries define or set legal definitions. The Ministry of Micro, Small and Medium Enterprises of India (2015), for example, defined micro, small and medium enterprises from the perspective of the amount of investment made in Rupees, including the machinery. Accordingly, if an enterprise's investment does not exceed 50 lakhs rupees (5 million), the business is considered micro. But, it is small if its capital possession is between 50 lakhs rupees (5 million) to ten crores rupees (100 million), while an enterprise with capital between ten crore rupees (100 million) and thirty crore rupees (300 million) is taken as medium.

In Ethiopia there are three types of definitions of MSEs. The first two are old definitions from the 1998 definition of MSE development strategy of Ethiopia and the Central Statistical Authority. The second definition provided by the Central Statistical Authority uses employment and favors capital intensive technologies as its measurement (Federal Democratic Republic of Ethiopia [FDRE], 2011). Accordingly, cottage and handicraft industry are the kind of businesses performed using the hands and manpower-driven machinery that employ less than 10 persons. However, due to the absence of any uniform definition for the sector, the agency failed in gathering data about cottage and handicraft industry for the seven years before the report was published (i.e. before 2011). The third definition is the new, improved definition of Micro and Small Enterprises of 2011 (Federal Democratic Republic of Ethiopia [FDRE], 2011), which was developed based on the experience of other countries, especially the case of South Africa. The definition was simply based on paid capital or capital investment as most business was confined to family manpower and there was a lack of manpower information in the sector (Federal Democratic Republic of Ethiopia [FDRE], 2011).

For the purposes of this study, the aforementioned 2011 definition given by the Ministry of Trade and Industry (MoTI) of the Federal Democratic Republic of Ethiopia will be used. According to the revised Small and Micro Enterprises Development Strategy of Ethiopia (Federal Democratic Republic of Ethiopia [FDRE], 2011, pp. 29-30) the working definition of MSEs is based on capital and labor. Based on the table, a micro enterprise refers to the industrial and service sectors, where a manufacturing sector is micro if it operates with up to five manpower with total assets up to 100,000 ETB. A micro enterprise in the service sector, however, and includes services related to retailing, transportation, hotel and tourism, ICT and communication can also hire up to five individuals, but with a reduced total asset of less than 50,000 ETB. On the other hand, a small industrial sector enterprise includes manufacturing, construction and mining activities, hires 6-30 persons with a capital possession of between 100,000 ETB to 1.5 million ETB. Of the same small enterprise type, but service sector, can also be run by 6-30 persons but possess a total asset from 50,001 to exceeding 500,000 ETB (Federal Democratic Republic of Ethiopia [FDRE], 2011, pp. 29-30).

Roles of Micro and Small Enterprises (MSEs)

Micro and small scale businesses are crucial in the socioeconomic development of any country. They are a veritable vehicle for the achievement of national macroeconomic objective in terms of employment generation for low level investment and the enhancement of apprenticeship training (Osotimehin, Jegede, Akinlabi, & Olajide, 2012).

The report of Nigeria's National MSME Collaborative Survey (2010) indicated that up to 2009-2010, the global MSE share 55%, 60% and 70% of the gross GDP and 65%, 70% and 95% of total employment opportunities created in high, low, and middle income countries respectively.

In Ethiopia, according to the FMSEDA report posted by the Ethiopian Economics Association (EEA) (2015), jobs created by SMEs have showed significant growth after 2010-2011. According to the report, the total number of jobs in 2010-2011 totaled 289,000, with 806,300 in 2011-2012, and 1,223,700 in 2012-2013. In the first nine months of 2013-2014, there were 289,000 jobs.

Since MSEs do not need sophisticated technology or scientific knowledge, they are very important to the context of Least Developed Countries (LDC) where there is high level youth unemployment and high levels of the population are uneducated. Therefore, largescale enterprises produce more value-added output alongside hiring greater numbers of labor than micro, small or medium enterprises (Tefera, Gebremichael, & Abera, 2013).

In Ethiopia during the period 2005/2006 to 2009/2010, about 1.5 million job opportunities were created by MSEs, 50% of which were taken up by women, more than ETB 4 billion in loans were given to MSEs via MFI, 1.2 million participants benefited from various trainings, Business Development Services (BDS) were provided to 10,000, and around 400-500,000 government purchases were issued by regional governments at the international level (Federal Democratic Republic of Ethiopia [FDRE], 2011).

By generating larger volumes of employment as well as higher levels of income, the MSEs will not only have contributed towards poverty reduction in Ethiopia, but they will also have enhanced the welfare and living standard of many (Mukras, 2003 as cited by Lenjisa, 2014). Employment share of overall employment opportunity worldwide can be significant; for example, Kenya's private sector (agriculture, industry and services) amounts to 81% of its GDP and provides more than half of formal waged employment (Mukras, 2003 as cited by Lenjisa, 2014). Apart from MSEs providing opportunities for income and employment generation, they are also effective means of curtailing rural-urban migration and help strengthen of industrial interlinkages and integration (Doguwa, Olowofeso, & Essien, 2011).

In developing countries like Ethiopia MSEs have tended to be looked upon from the perspective of development and poverty alleviation, and as promising entrepreneurial activities that potentially grow businesses (Kahsu, 2015). The government of Ethiopia has therefore given due attention to MSEs since 2004, although the MSE development strategy was founded earlier still. The sector has aided a large number of youth who had no or little capital where they have become role models for others, and have accumulated capital and created employment opportunity for others. Gelata (2013) summarizes the role that MSEs can and currently play in present day Ethiopia. He stated that MSEs are vital in creating employment opportunities so that they can be used as a tools for economic growth and means of sharing national fruits among citizens of a given state, help citizens develop the habit of saving and marginalized groups, mainly women, to take part in the economy and serve as a center for innovation and entrepreneurship.

Furthermore, MSEs can facilitate the utilization of indigenous resource, generate substantial employment, enable equitable income distribution, improve rural industrialization, lead towards developing a pool of skilled and semi-skilled workers essential

as back bones of the country's future industrialization and improve multiplier effects through backward and forward linkages (Kahsu, 2015).

To sum up, MSEs in Ethiopia created both temporary and permanent employment opportunities for over 1.6 million citizens within the first two years of the Growth and Transformation Plan-One (GTPI). Furthermore, the government targeted 56% of three million employment opportunities to be created by 2014/2015 to be in MSEs, yet the high level of poverty and unemployment in urban areas, as well as the low level of productivity and competitiveness of the enterprises, still remain huge challenges (International Labor Organization, 2014).

Micro and Small Enterprises Development Strategy of Ethiopia: An overview

MSEs serve as sources for sustainable job opportunities, not only for developing countries like Ethiopia, but also for developed countries like the USA and Japan. For instance, for globally recognized giants like Toyota and Sony, more than 50% of their manufactured products are produced by MSEs (Federal Democratic Republic of Ethiopia [FDRE], 2011). Having recognized the importance of this sector, the government of Ethiopia established the MSE development strategy in 1997 (Wasihun & Paul, 2010), and revised it 2011 (Drbie & Kassahun, 2013).

The Federal MSE Development Agency has 12 powers and duties awarded to it by the Federal Micro and Small Enterprises Development Agency (Establishment Council of Ministers Regulation No. 201/2011, Federal Negrit Gazeta, 17th Year, No. 24). These powers include design strategies and formulation programs to enhance the development of the MSE development sector, to follow-up MSE implementations with development support packages, identify challenges for MSEs and to provide solutions, and to build the capacity of regional institutions' providing support and coordination to MSEs.

The Ethiopian government has provided much support to the sector in order for it to have become so productive, helping the country economically, socially and technologically. Latest figures from FDRE (Federal Democratic Republic of Ethiopia [FDRE], 2011), indicate that the government is providing all necessary the support to the sector. From 2005 to 2010, around 34 million square meters of land was supplied for production purposes, and around 8,000 sheds and 380 buildings constructed for production and sales purpose (Federal Democratic Republic of Ethiopia [FDRE], 2011).

The FDRE (Federal Democratic Republic of Ethiopia [FDRE], 2011), also identified the challenges at startup level, at growth level and at maturity level with corresponding support at each stage. Accordingly, section two of the strategy lists the MSE development support framework. This includes human resource and technological development support (consisting of developing attitudinal change and initiation, training on the development of TVET, MSE technology development, facilitation of common property, and an extension service for industry), market development and marketing supply system (which includes strengthening the system of subcontracting, outsourcing, franchising and out-grower and marketing, raw materials supply, constructing organized market centers, exhibition and bazaar of MSE, and preparing enterprise website and directory), credit service system (i.e. strengthen the credit guarantee system, identifying focus areas of credit system, lease machine services etc.), under the condition that production and sales centers and establishing a system of one center service to be provided to MSEs involved in production and services legally, to be a beneficiary from government support and to enable the

provision of services in an integrated, transparent and efficient way (Federal Democratic Republic of Ethiopia [FDRE], 2011, pp. 39-56).

The FMSEDA was established by Council of Ministers Regulation No. 33/1998 which was later amended by regulation No. 201/2011 with its corresponding duties encouraging, coordinating, and assisting the development and expansion of MSEs. This regulation also mandated regional governments to establish their corresponding agency at regional level with the same aims and duties (Federal Micro and Small Enterprises Development Agency Establishment Council of Ministers Regulation No. 201/2011, Federal Negrit Gazeta, 17th Year, No. 24).

Challenges for female-operated MSEs in Ethiopia: An overview

Any kind of development is not a development so long as there is no or only limited participation of women. Although women make up half the world's population, they are poorly represented in every sector. To empower women economically is very important for the overall development of a country. In Kenya, for example, women play a key role in the economic growth of the country in which they are generating employment and 47.4% of MSEs are controlled by women. Despite this, female-run enterprises face challenges from a lack of finance, discrimination, problems with city councils, multiple duties, poor access to justice, and a lack of education (Mwobobia, 2012). A survey performed by Jagero and Kushoka (2011) in Dar Es Salaam, Tanzania, indicated the major challenges facing female micro entrepreneurs are poor infrastructure, lack of business premise, decline in business and lack of prime space.

Girme (2015) cited Samaiti (2006) and Tan (2000) in a study conducted in Gulele Sub-City, Addis Ababa, Ethiopia that classified the challenges that businessmen/ entrepreneurs face socially and economically. The economic factors include market competition, access to market, scarcity of capital, absence/inadequate knowledge about market, problem in quantity/ quality of production, poor infrastructure, lack of power supply and so on. While the social factors include lack of public trust, and unfair treatment or bias.

The FDRE (Federal Democratic Republic of Ethiopia [FDRE], 2011), also identified potential challenges faced by MSEs as those related to finance supply¹, production and sales cluster development², industrial extension service³, human resource development⁴, technological development and growth⁵, market and marketing system⁶, one-center service,

¹ Ineffective/inefficient service in delivering/collecting loans, mismatch between credit supply/demand, limited focus on skill and ability of MFI to organize savings, and poor refunding and collecting saving culture.

² Constructing production and sales cluster development without a master plan, absence of plan map, uniformity in design, unfulfilled infrastructure, and mismatch in size between enterprises and buildings etc.

³ Failure implementing extension service in line with industry development strategy, lack of sensitizing and implementing MSE development extension services, lack of understanding extension services with TVET teachers, failure of TVET in developing capacity and implementing extension service program.

⁴ Lack of self-reliance spirit and innovative culture, lack of integrated work between MSE development and TVET agencies, failure in providing training based on need/interest and result-oriented, and weaknesses of TVET in observation efficiently.

⁵ Failure of TVET to develop sensitizing on technology transfer and capacity/gap problem with experts in developing/disseminating technology, absence of readiness to accept/use new technology and readiness for change beside MSE, absence of incentive scheme for TVET teachers and other professionals etc.

⁶ Most MSEs are not competent in production and service supply, are government dependent rather than independent.

a lack of detailed understanding of the MSE development package⁷, and work commitments. Generally, as Drbie and Kassahun (2013) and Wasihun and Paul (2010) have identified, the challenges that hide the growth of female-operated MSEs in Ethiopia could be summarized as follows:

Finance-related problems

Many female-operated MSEs suffer from inadequate capital investment and run their businesses with little or no access to economic resources, and no or insufficient access to loans and ineffectual financial marketing (Drbie & Kassahun, 2013; Wasihun & Paul, 2010).

Women face startup difficulties such as lack of a source of initial capital. Many women find their initial financing by way of borrowing from formal sources. However, the major difficulty for entrepreneurs, especially for women, is accessing credit due to collateral requirements of the banks. Even if they can access financial credit, the money borrowed is rarely sufficient to address the financial gap or expand their businesses (Wasihun & Paul, 2010).

Lack of Managerial and Entrepreneurial Skills

The lack of awareness about institutions such as WISE (Women in Self Employment), that help women to participate in economic activities, and lack of entrepreneurial skills are important problems for women (Wasihun & Paul, 2010). The problem stems from a lack of experience or from the assumption that MSEs didn't need sophisticated or technical knowledge. The youth are expected to run these kind of businesses, but they lack the necessary managerial skills on how to run a business and cope with potential problems (Bekele & Worku, 2008, p. 4 as cited in Clack, 2014).

Working place and Marketing Problems

It is unusual to observe women participating in the manufacturing sector in Ethiopia. Most of the time women are involved in the service sector where they produce and compete with identical products, with an absence of market linkages which results in them experiencing marketing problems (Wasihun & Paul, 2010).

Most women do not have their own working premises, with some renting from private landlords or from the government. However, it was found that a few women sublet part of their working area in order to receive additional income. The lack of a healthy and clean workplace or the sustainability of the place is an issue, since these buildings are often in disrepair, the women have to pay out for the maintenance of these buildings. Failure to pay can result in a loss of their workplace (Wasihun & Paul, 2010). Even though the government has provided a large amount of land, buildings, sheds and display areas for the MSEs, the government still needs to give MSEs their attention (Drbie & Kassahun, 2013).

Inadequacy of Infrastructure Facilities

Osoimehin et al. (2012) pointed out that infrastructure facilities have their own implication on the establishment and success of MSEs. Daniel (2012 as cited by Drbie & Kassahun, 2013) stated that poor infrastructure such as access to roads, power

⁷ Lack of clear understanding on organization mission and application, management of one center service and failure in staffing.

interruptions, lack of sufficient provision of water, and telecommunication problems significantly affect the performance of their business productivity and sustainability.

Unpredictable Supply of Raw Materials

Since MSEs are value-adding enterprises, they do not sell on the raw materials they buy without some form of processing. They require a permanent supply of raw materials, but the problem is whether or not there is adequate regular supply of raw materials or the price is very high. This in turn has an effect on the growth and survival of the enterprise (Wasihun & Paul, 2010).

Conclusion and Recommendations

MSEs are deemed vital for the overall development of society. They are at the core of empowering citizens economically and socially, as governments cannot simply create jobs for all citizens. MSEs are one of the best places where the youth can be business innovative, create new technologies, and come up with substitute products that can replace imported goods. Governments, NGOs and any other concerned bodies have an obligation to support MSEs.

In Ethiopia, women mostly participate in the service and trade sector of MSEs, where there are low-level capital requirements and are often short-term profit gaining enterprises with low sustainability. Women should be encouraged to participate in the other sectors of the enterprises, where more capital is needed, and more technology is employed so that they are more robust and sustainable.

The researcher recommends the following points in order to improve the performance of female-operated MSEs in Ethiopia:

- The government should provide female entrepreneurs with access to credit.
- Supply female entrepreneurs with a working place and market sheds.
- Creating market link for MSEs with raw material suppliers, medium and large firms.
- Provision of capacity-building training to improve business management capacities.
- Provision of information on market opportunities and appropriate/ improved technologies.

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