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**Financial Needs of Micro and  
Small Enterprise (MSE)  
Operators in  
Ethiopia**

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## ACRONYMS

ACSI	:	Amhara Credit and Saving Institution
ADCSI	:	Addis Credit and Saving Institution
BDS	:	Business Development Service
CSA	:	Central Statistical Agency
DECSI	:	Dedebit Credit and Saving Institution
EBDSN	:	Ethiopian Business Development Services Network
FeMSEDA	:	Federal Micro and Small Enterprise Development Agency
FGD	:	Focus Group Discussion
MSE	:	Micro and Small Enterprise
MOTI	:	Ministry of Trade and Industry
NGO	:	Non Governmental Organization
OSCs	:	One Stop Service Centers
OSSCO	:	Oromia Credit and Saving Institution Share Company
ReMSEDA	:	Regional Micro and Small Development Agency
SACCOs	:	Saving and Credit Cooperatives





# **I. Introduction and Background**

## **I. I Introduction**

Micro and Small Enterprises (MSEs) are believed to have a vital role in poverty reduction, employment generation as well as economic development in poor countries like Ethiopia. The Ethiopian MSE sector includes a diverse set of operators ranging from petty traders to small restaurant owners; shoeshine boys to small shoe making enterprises; peddler in the streets to grocery business operators, etc.

Micro enterprises are the smallest, informally organized business activities while small enterprises are rather formal businesses that fall under the purview of the country's legal and regulatory system. MSEs operate in all sectors -manufacturing, trade, services (Fantahun, 2004) both in rural and urban areas. The micro enterprise is probably owned by an individual, perhaps supported by one or two family members, engaged in income-generating activity. It is likely to be a trading activity; selling food or clothing in street stalls or making and selling handicrafts. There is likely to be very little investment in fixed assets and inventory investment would be minimal. Enterprise sales may not be distinguished from any other kind of income the individual or household earns. These "enterprises" may be quite unstable and if better opportunities arise or if costs cannot be covered the individuals involved may move on. This situation can be based very much on a "hand-to-mouth" existence. A small business, by contrast, usually has an existence separate from that of the owner. The business may be incorporated or conducted as a sole proprietorship. Continuity would be anticipated. There would be some level of investment, if not in fixed assets then in inventory. It is likely that employees would include non-family members. One would expect business finances to be separate from the finances of the owner and her/his family.

In Ethiopia, like in any other developing countries, medium and large-scale manufacturing or service giving sectors and state bureaucracies could not create enough jobs to absorb the ever-increasing labor force, especially in urban areas. A range of interrelated factors contribute to this dismal situation. These include town-ward migration, popula-

tion growth, landlessness, structural adjustment policies etc. In such situations, MSEs may be reported to by poor and unemployed people in both urban and rural areas as source of livelihood. MSEs may therefore have a critical potential role in poverty reduction and economic recovery and growth.

## **1.2 MSE's Contribution to the National Economy**

Generally, MSEs are ubiquitous in Ethiopia. However, determining their number is not easy, partly due to lack of consistent definition of MSEs by concerned government agencies such as the Central Statistical Agency and the Ministry of Trade and Industry. The CSA Surveys do not define the term MSE as such. Instead, they are based on terms such as the informal sector, small scale manufacturing industry, and cottage and handicrafts. The consequence is that a credible estimate of the magnitude of micro and small enterprises is yet to come.

With the MSE sector cutting across all sectors of the economy, however, it has proved to be a source of productive employment next to agriculture, both in urban and rural set-ups. In rural areas, growing cohorts of landless youth are dictating the expansion of micro off-farm business activities. According to the 1997 CSA Survey, the Ethiopian informal sector along with the small scale manufacturing sector comprised of a labour force which is eight fold compared to the medium and large scale manufacturing sector (Ic Net limited 2007).

The cottage and handicrafts and small manufacturing sub-sectors account for 87% and 7% of total employment of the manufacturing sector respectively. Similarly, microenterprises constitute 97% of the establishments and account for 19% of the gross value of production in the manufacturing sector. The share of small scale manufacturing is 3% and 8% respectively. The percentage share of medium and large scale manufacturing is therefore 0.1% and 73% respectively (CSA 2003 as cited in Fantahun, 2004).

### **1.3 Review of MSE Development in Ethiopia**

In recognition of the important role of MSEs in creating employment opportunities and generating income, hence reducing poverty, the government introduced its first Micro and Small Enterprise Development Strategy in 1997 (MoTI, 1997). Measures that support the development of the private sector, including many measures to support the development of small enterprises were taken. Provision of incentives to the creation and development of micro-entrepreneurial activities is considered as one of the main components of economic growth and poverty reduction promotion strategies by the government and other development stakeholders. For the purpose of directing its policy and program support, the Ministry of Trade and Industry (MoTI) adopted definition of micro, small and medium enterprises based on paid up capital. The definitions outlined in the MSED strategy (1997) are as follows:

- Micro enterprises are those business enterprises with a paid up capital of less than birr 20,000 and excluding high-tech consultancy firms and technology establishments.
- Small enterprises are those business enterprises with a paid up capital of above birr 20,000 and not exceeding birr 500,000, and excluding high-tech consultancy firms and technology establishments.
- Medium and large enterprises, by default, are those with more than birr 500,000 in paid up capital

Other working definitions that were in use classify firms into different size categories based on number of workers as criteria. For example, according to the CSA, a micro enterprise is one with fewer than 10 workers; those with 10-50 workers constitute small enterprises while medium and large scale enterprises are those with more than 50 employees. Recently, the CSA classified manufacturing establishments as : (i) Large & medium scale that engage 10 or more persons and use power driven machines; (ii) Small scale manufacturing establishments engaging less than 10 persons and use power driven machines; and (iii) Cottage/handicraft manufacturing establishments performing their activities by hand (i.e. using non-power driven machines/hand tools).

**Table I.1 Classification of enterprises by paid up capital and number of employees**

Type of enterprise	Paid up capital	No. of workers
Micro enterprises	Less than Birr 20,000	Under 10
Small enterprise	Birr 20,000 – 500,000	10- 50
Medium and large enterprises	More than 500,000	Over 50

Source- Support for Growth-oriented Women Entrepreneurs in Ethiopia, ILO 2005

According to the CSA report on Survey of Small Scale Manufacturing Industries (2006), there are 39,027 small scale manufacturing industries. Of these, about 51% (100% in case of rural areas) are grain mill. The other important industrial groups are manufacturing of furniture (14%), manufacturing of wearing apparel (10%), manufacture of fabricated metal products (10%) and manufacture of food products (7%). The remaining is shared by publishing and printing, manufactures of wood and wood products, other non- metallic mineral products, textile, luggage, handbags, footwear, etc.

In terms of employment, they engaged a total of 129,592 persons, of which 88% are male. Permanent paid employees and unpaid family workers respectively account for 48% and 40% the rest being seasonal and temporary workers (6.6%), unpaid apprentices (3.4%) and paid apprentices (2.3%).

MSEs are known to face a host of problems at various stages in their life span. The CSA (2006) report indicates that 32% of the small scale manufacturing industries faced problems during the commencement of their operation; for 38% these the major problem was shortage of initial capital. Those establishments which were not working at full capacity were asked to state the reasons for the failure to do so. 57% cited absence of market demand as the key factor. Additional reasons were shortage of supply of raw materials (12%) and shortage of supply of spare parts (7%). The major problem for all the surveyed small scale manufacturing industries was absence of market demand (43%), lack of working capital (11%) and shortage of supply of raw materials (10%). In relation to lack of working capital, the survey participants were asked to state the most common problem hindering them. Collateral problem came up as the most important, reported by 42% of the establishments.

Another survey report by the CSA on Urban Informal Sector<sup>1</sup> (2003) indicates that there were 997,380 persons engaged in the informal sector in urban areas, 81% of which are informal sector operators while the remaining 20% are persons employed in the informal sector. In terms of gender, a large majority (60%) are female. About 46% of the total are engaged in manufacturing while 38% are in trade, hotels and restaurants. The informal sector is dominated by sole ownership, accounting for 99.09% of the total establishments/activities.

The report stated that the source of initial capital for 89% of the total urban informal sector establishments/activities was own savings (45%), borrowed from friends/relatives (23.92%) and assistance from relatives/friends (20%). These findings prove that informal sector operators getting loans from formal financial institutions mainly from banks are very few (only 0.12 were financed by banks and 0.74% were financed by Microfinance institutions).

According to the same report, the top three problems faced by urban informal sector operators during start up stage are: lack of sufficient capital (38%) inadequate skill (10%) and lack of premises (6%). Informal sector operators also face problems after starting their operation; once again shortage of working capital came up as the most important problem cited by 30% of the establishments; while limited market and health problems became the second and third obstacles with 30% and 6% of establishments identifying them as their key problems.

According to a survey of micro and small enterprises conducted by Gebrehiwot and Wolday (2004), sole proprietorship is the single dominant form of ownership of MSEs, accounting for 94%. It is sometimes argued that micro and small enterprises subsectors are different in that the former tend to operate on informal basis or as sole proprietorship (thereby making separation between finances of the owner's household and that of the enterprise difficult). However, their study revealed that this cannot be taken as a distinguishing characteristic since the proportion of sole proprietorships in both are comparable: 91% for small enterprises compared to 96% for micro enterprises.

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<sup>1</sup> The report defines the informal sector as those household type establishments/activities that fulfill the following six criteria: a) Which are mainly engaged in marketed production b) which are not registered companies or cooperatives c) which have no full written book of accounts d) which have less than 10 persons engaged in the activity and e) which have no license

## **The situation of women in MSEs**

Ethiopian women entrepreneurs are severely disadvantaged in both the economy and society. They generally have very low levels of education, a low literacy rate, and multiple responsibilities including caring for children (about six on the average), preparing family food, etc. while at the same time carrying on their enterprise activities to earn enough income to cover the basic necessities of life. In terms of sector of activity, women tend to pursue areas where they have gender-based skills and know-how, such as food processing, clothing, and hairdressing. Gender-biases in the technical training sector also tend to confine them to such areas. Others work in the agricultural sector, selling milk, yogurt, or vegetables from roadside market stalls (Zewde and Associates, 2002).

Many women turn to micro-enterprises because they are essentially marginalized in the labour force and unable to find employment alternatives; in effect, they are driven to entrepreneurial activity out of necessity. Their lack of mobility (due to their large families and household responsibility), coupled with their lack of ability to secure proper operating premises, limits women entrepreneurs to operate most often home-based businesses. This situation prevents them from seeking out markets, information on better economic opportunities, and business assistance. (Stevenson and St-onge, 2005)

## **Available Policy Support for the Development of MSEs**

Recently the micro and small enterprise sector has received growing attention both by the government and stakeholders alike. Some donors and NGOs have close involvement in the efforts to enhance the contribution of micro and small enterprises to the economy<sup>2</sup>. General policy guidelines and specific strategies that facilitate the development of the micro and small enterprise sector are well in place the government is also incorporating MSEs in its various sectoral policies and strategies.

For example,

- PASDEP considers the MSE sector as a development factor from perspective of the private sector development. It states that:

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2 The ILO and GTZ, for example, are closely working with MoTI to revise the existing Micro and Small Enterprises Development Strategy and develop a new Microfinance Strategy respectively.

Creating employment opportunities to alleviate the challenges of unemployment, especially in urban areas through integrating MSE growth with TVET and unleashing the potentials of Ethiopia's women will expedite the development of micro and small enterprises.

- The Industrial Development Strategy, which recognizes the private sector as an important factor for the implementation of the strategy, views MSEs as springboards for future industrialization.
- The National Urban Development Policy places high emphasis on MSEs as means of creating jobs and requires urban administrations to involve MSEs in their development projects like housing and roads construction.

Moreover, an institutional structure entrusted with the task of providing the necessary institutional support to MSEs has been established.

### **Support institutions**

At a national level, the Federal Micro and Small Enterprise Development Agency (FeMSEDA) is responsible for the overall implementation of the MSE Development Strategy. Each Regional State used to have its own Regional MSE Development Agency (ReMSEDA). Recently, however, the regional Bureaus of Trade and Industry have been delegated to develop and promote the MSE sector in their respective regions. In Addis Ababa, the structure goes down to the lowest administrative unit (Kebele) level and in the regions to Woreda level. Available information indicates that there is an attempt to revise the existing MSE Development Strategy to cope up with changing conditions.

### **Non - financial service provision**

Non-financial services provided to micro and small enterprises are generally referred to as Business Development Services (BDS). BDS, as defined in the BDS toolkit, refers to wide range of non-financial services provided by private suppliers (BDS providers) to entrepreneurs who use them to efficiently operate and make their businesses grow. The types of services in functioning BDS system are determined by the demand ar-

articulated on the part of the businesses” (BDS toolkit, Ethiopian Business Development Services Network (EBDSN)).

According to Fantahun (2004), the BDS needs of MSEs in Ethiopia can be summarized as follows:

- Market access services (market information, market linkages, trade fairs and product exhibitions, development of samples for buyers, subcontracting and outsourcing; marketing trips and meetings, market research, market space development, show-rooms, packaging and advertising);
- Input supply services (linkage to input suppliers, improving the capacity of suppliers to provide a regular supply of quality inputs, facilitating the establishment of bulk buying groups, information on input supply sources);
- Technology and product development services (technology transfer/commercialization, linking MSEs and technology suppliers, facilitating technology procurement, quality assurance programs, equipment leasing and rental, design services);
- Training and technical assistance (mentoring, feasibility studies and business plans, exchange visits and business tours, franchising, counseling/advisory services, legal services, financial and taxation advice, accountancy);
- Infrastructure-related and information services (storage and warehousing, transport and delivery, business incubators, telecommunications, courier services, money transfer, information via media, internet access, computer services and secretarial services);
- Policy and advocacy (training in policy advocacy, analysis and communication of policy constraints and opportunities, direct advocacy on behalf of MSEs (e.g., taxation problems and premises), sponsorship of conferences, policy studies); and
- Access to finance (linking business to banks and MFIs, information on credit schemes and conditions, saving, assistance in business planning for loan applications)

There are four categories of players in BDS: 1) public facilitators and providers (e.g. ReMSEDA); 2) private non-profit facilitators and providers; 3) private commercial BDS providers; and 4) development and technical operations. The following stylized facts may be identified regarding BDS in Ethiopia ([www.bds.ethiopia.com](http://www.bds.ethiopia.com)):



- Training and technical assistance dominate (offered by the majority of BDS providers).
- Public BDS providers tend to deliver more services per year than private ones;
- Private BDS providers tend to target medium and large enterprises whereas public BDS providers tend to target small and micro enterprises.
- Public BDS providers are the major focal points for MSE promotional activities and have long experience.
- Sector specific BDS are not well developed.
- The cost of BDS is mainly covered by donor support.

The demand for BDS is far from being met by the existing service providers. Besides, the BDS market is highly underdeveloped. There is a high degree of direct intervention by the government and donor projects, partly in order to cover the huge gap between the demand and supply of BDS. In the long run, however, the role of the government and donor projects in supplying direct services need to be minimized and replaced by the private organizations.

Existing Commercial BDS providers recognize that they have limited capacity for addressing the needs of MSEs for BDS. They suffer from lack of professional staff, office facilities, and limited market. This is mainly attributed to two factors: (i) MSEs are not ready or not able to pay for services; and (ii) donors have been major partners for a long time, which created dependency. The key challenges to the BDS market in Ethiopia are: First, how to establish a modern BDS with market orientation and non-subsidized delivery (i.e. full coverage of costs); and Second, how vulnerable target groups (e.g. rural women entrepreneurs) can benefit from certain BDS mechanisms, when they often can hardly afford commercial BDS (IC Net Limited, 2007).

## **2- Objective, Scope and Methodology**

### **2.1 Overall Objective and Scope**

In consideration of the vital and critical role of micro and small enterprises in poverty alleviation in rural and urban areas and their contribution to the growth policies of the country, a detailed study on the structure and pattern of micro and small enterprises has been found timely. Accordingly, the Association of Ethiopian Microfinance Institu-

tions (AEMFI) has sought a survey study under the title “The financial needs of micro and small enterprise operators in Ethiopia”. The core objective of this particular study is to contribute to “the understanding of the motivation, internal and external environment, challenges and opportunities of individual MSE operators and examine how the MSEs are affected by the macro economic policies and the regulatory mechanism. Hence, the study is expected to assist governments, NGOs, and other stakeholders to design financial services/ products that meet the needs of MSE operators. In line with the above, the study has the following specific objectives:

- Study the characteristics of the MSEs in urban and rural areas
- Assess the delivery of financial services to MSE operators
- Examine policies and institutional arrangements which affect the development of the MSE sector in Ethiopia
- Analyze the challenges of women MSE operators
- Analyze how the youth in rural and urban areas can take opportunities in the MSE sector
- Evaluate the weakness and strength of the existing financial products for MSE operators
- Identify new financial products required to improve the existing financial products which are not based on traditional collateral
- Identify the non-financial services required to promote MSE operators
- Identify the major constraints in the MSE sector
- Identify the role of MFIs, banks and cooperatives in the delivery of financial services to MSE operators
- Recommend overall directions and interventions and support (institutional, technical, financial, etc.) to address the problems of the MSE sector

## **2.2 Study Approach**

Considering the wide range of objectives stipulated in the terms of reference provided, a combination of methods have been used including literature review, primary and secondary data collection as well as case studies and focus group discussions. Both quantitative and qualitative data were collected. A quantitative survey of 997 micro and small enterprise operators in the six regions, namely: Addis Ababa, Afar, Amhara,

Oromiya, SNNPR and Tigray was conducted. For the qualitative study, focus group discussions with operators in different kebeles of the selected towns and MFIs' clients and non-clients were involved. Selected MSE operators who are MFI clients and those who have quitted borrowing have also been interviewed for case studies. Moreover, interviews were conducted with representatives of selected organizations considered key MSE stakeholders.

### **2.2.1 Secondary Data Sources**

Some secondary data sources like the Central Statistical Authority (CSA) were consulted both to get background information as well as to substantiate the findings of the primary research. Furthermore, relevant government policies and regulation and occasional papers on issues that relate to the delivery of microfinance in the country have been reviewed.

### **2.2.2 Primary Data Collection Instruments**

A survey questionnaire for collecting data on the socio-economic characteristics of the target population was designed with a scope limited to only the information that the team thought is vital for the study. Experienced enumerators were used to administer the structured questionnaire and the essence of each question was discussed before the interview was actually launched. The questionnaire survey was done through one-to-one interview.

## **2.3 Sampling design and survey instruments**

The study was conducted in six regions namely: Addis Ababa, Afar, Amhara, Oromia, SNNPe and Tigray. Quantitative and qualitative surveys were conducted.

### **Quantitative survey**

For this part of the survey, the size of the population was used to determine the sample size in each region. A mix of both random and purposive sampling was used in identifying the respondents. Kebeles in the selected towns were divided into two strata, namely

a group of Kebeles where micro enterprises dominate and another group of Kebeles where small enterprises dominate. Then kebeles were randomly selected from each strata. A sample of 1000 persons engaged in a variety of micro and small enterprises were selected for interview using the questionnaire prepared for the study. Then sub-samples of 500 enterprises were taken from each of the micro and small enterprises group. Adjustment to the sample size for each region is made in order to make the sample suitable to compare at least between two strata. To analyze statistically a given stratification variable has to be at least 30. For example, the sample size for the Afar region is increased from 5 to 60 in order to compare a variable between two strata, say, between micro and small enterprises (The actual sample of each region is given in Table 2.1).

The micro enterprises sub-sample covers both urban and rural areas, the proportion being 75% rural and 25% urban. This proportion is intended to reflect the existing dominance of rural clients of microfinance institutions. The urban microenterprises were selected from the same towns that the small enterprises sub-sample was taken while the rural microenterprises were selected from rural areas in close proximity to these towns.

**Table 2.1 Distribution of population by region and sample size determination**

Region	Share of rural population (%)	Share of urban population (%)	Share of regional total population. (%)	Proportional sample size	Actual (adjusted sample size)	Remark
Tigray	6.5	7.7	6.7	67	90	to see more stratification
Affar	0.4	1.0	0.5	5	60	given it has to have a sample of at least 30
Amhara	28.6	19.7	27.4	274	210	Sample size reduced in order to increase the sample size for other regions,

Oromiya	40.3	31.3	39.1	391	290	Sample size reduced in order to increase the sample size for other regions,
SNNPR	24.1	12.1	22.6	226	200	Sample size reduced in order to increase the sample size for other regions,
Addis Ababa	0.1	28.2	3.7	37	150	Given it is capital city, sample size increased
Total	100	100.0	100	1000	1000	

Once the regional sample size was determined as per the above table actual survey were conducted in the regional capitals and other selected towns as well as rural areas in the vicinity of these towns. The actual sample size on which usable data was obtained was 997 due to rejection of a few questionnaires as a result of poor quality.

**Table 2.2 Distribution of Surveyed MSEs by Region and Sex**

Region	Number Contacted				Percent contacted				% of Total	
	Micro		Small		Total	Micro		Small		n' 997
	M	F	M	F		M	F	M	F	
Tigray	31	14	41	4	90	11	6	11	3	9
Amhara	48	52	55	51	206	18	24	15	39	21
Oromya	67	73	121	30	291	24	34	32	23	29
Afar	28	2	22	8	60	10	1	6	6	6
SNNR	63	37	76	24	100	23	17	20	18	20
Addis Ababa	37	38	60	15	150	14	18	16	11	15
Total	274	216	375	132	997	100	100	100	100	100

As can be noted from Table 2.2 interactions were made with a total of 490 micro enterprise operators out of which 56% are male. While attempt was made to balance the number of male and female operators interviewed. In the case of Amhara and Oromiya, however, the number of female micro enterprise operators is slightly higher than the male operators contacted, partly because the male operators, especially in the rural areas, are more mobile than the female, hence not easily available in their work places

for the interview. Partly, it is a reflection of the fact that women dominate micro enterprises that are operated for survival purposes.

In some of the regions like Afar the number of micro enterprise operators in general, and female operators in particular is very low compared to other regions in the sample. A possible reason for this could be the culture, religion and other factors that hinder women to participate actively in income generating activities of their own. The absence of microfinance services may also be a factor.

**Table 2.3 Distribution of respondents by study site/location**

		Survey location	Frequency	Percent
1	Tigray	Shire	31	3.1
		Mekele	29	2.9
		Adigrat	30	3.0
2	Amhara	Bahirdar	64	6.4
		Dessie	65	6.5
		Debrebrehan	77	7.7
3	Afar	Assayta	13	1.3
		Dubti	27	2.7
		Awash 7 kilo	20	2.0
4	Oromiya	Jimma	98	9.8
		Shashemene	102	10.2
		Adama	91	9.1
5	SNNPR	Awassa	67	6.7
		Arbaminch	67	6.7
		Sodo	66	6.6
6	Addis Ababa	Addis ketema	54	5.4
		Arada	45	4.5
		Kirkos	51	5.1
		Total	997	100.0

Only 46% of the respondents were borrowers or clients of mainly micro finance institutions located in their respective areas while the rest are non-borrowers. Most (60%)

of the non-borrower respondents are engaged in small enterprises and do not have easy access to institutional finance due to various reasons.

The composition of respondents across various dimensions is presented in table 2.4 below. In almost all of the regions selected for the study, entrepreneurs engaged in small enterprises and were overwhelmingly male. This may reflect less visibility of female in growth oriented small enterprises. Although there is visible difference between the number of male and female enterprise operators in all the study regions, the difference is much significant in Oromiya (121 to 30).

**Table 2.4 Nature of respondents across various dimensions**

		Frequency	Percent
	Borrower	458	45.9
	non-borrower	539	54.1
	Total	997	100.0
<b>Urban /Rural</b>		Frequency	Percent
	Urban	691	69.6
	Rural	306	30.4
	Total	997	100.0
<b>Micro/Small</b>		Frequency	Percent
	Micro	490	49.1
	Small	507	50.9
	Total	997	100.0
<b>Male/Female</b>		Frequency	Percent
	Male	649	65.1
	Female	348	34.9
	Total	997	100.0

### Qualitative survey

To complement the result of the quantitative tool, with qualitative tools, the consultants conducted 21 focus group discussions in which 5-9 MSE operators participated. The focus group discussions revolved around the following major issues:

- Perception of the target groups regarding the existing MFI financial services
- Constraints facing the MSE operators

- Types of the business activities operated by MSEs in the target markets
- Sources of finance for business start-up, expansion and growth
- Types of financial products preferred by MSE operators
- Alternative collateral systems
- Other support services needed to support the growth and development of MSEs
- The level of awareness of government policies and regulations that relate to MSEs

A total of 127 micro and small entrepreneurs were involved in the focus group discussions, as informants and/or narrating case stories. In each of the regions (except Afar), focus group discussions were carried out in four groups (comprising 5-9 homogenous and mixed members) as follows:

- Small enterprise operators (mixed);
- Micro enterprise operators (mixed);
- Male youth micro entrepreneurs; and
- Female youth micro entrepreneurs

In addition to the above, individual interactions were made with representatives of important stakeholders. These include ReMSEDA, Cooperative Promotion Departments, MFIs, Women Entrepreneurs' Association and Chambers of Commerce.

## 2.4 Survey Implementation

**Questionnaire Design.** The design of the questionnaires involved a series of stages over several weeks. First, initial set of questions were set for each respondent group which were then discussed by all the consulting team members. Next the questionnaire was translated in to the Amharic language in order to make the questionnaire easily understandable and avoid any ambiguity to the enumerators as well as avoid independent translation by enumerators. The enumerators had also a chance to comment on the Amharic version of the questionnaire and suggest improvements. Then the questionnaires was pre-tested in Addis Ababa. The results of the pre-test led to further refinement of the instrument.

**Administration of the survey:** In administering the survey two teams were set up. The first team, composed of 10 enumerators with extensive experience in data collection and surveys, administered the quantitative questionnaires in the six regions. The



second team, consisting of 5 senior consultants from MDTCS, administered the qualitative questionnaires and conducted the focus group discussions, in addition to guided interviews with key informants.

**Data entry, validation and cleaning:** Prior to data entry a series of questions were checked for errors. In particular, attention was given to ensuring the completeness of each questionnaire and whether all the questions were answered as per the instruction. Attention was also given to identify miss recorded items and responses for the open ended and multiple answer questions. Then coding of variables was done for both multiple answer and open-ended questions. Data from questionnaires that passed through such checking were entered, using a prepared format in SPSS Version 15. A supervisor compared the entries and checked each anomaly against the original questionnaire and marked the correct value on the printout on the basis of which the data entry operator edited each file so as to show the corrected values. Data cleaning involved printing and reviewing a series of tables.

### **3. Profile of Micro and Small Enterprises**

#### **3.1 The Micro and Small Enterprises Sector**

The survey result of the study conducted on sample 997<sup>3</sup> MSEs in six regional states (i.e. Oromiya, Amhara, Southern Nations and Nationalities, Tigay, Addis Ababa and Afar) shall be presented in the paragraphs to follow to reflect the current situation of the MSE sector itself and that of the operators.

In this study, the issue of gender of the MSE operator has been given attention and every analysis was set to be gender sensitive. There is no significant variation in the gender composition of the respondents. The percentage of male and female respondents was 49 and 51, respectively. Likewise operational scale<sup>4</sup> of MSE enterprises as 'micro' and 'small' has been considered. The number of MSE operators that responded to the questionnaire in terms of this categorization is also the same as that of the gender proportion.

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<sup>3</sup> Though it was planned to reach 1,000 MSEs, it has been possible to get responses of 997 MSEs.

<sup>4</sup> The enterprises/operators included in this study are categorized as micro and small enterprises/operators based on the official definition of the Ministry of Trade Industry, issued in 1997.

### 3.2 Characteristics of the MSE operators

Individual characteristics of the entrepreneur may be expected to have direct relevance to the nature and performance of the enterprise. The study thus captured some general information on the key characteristics of the enterprise owners. These are summarized below

#### Sex, age and education of the MSE operators

Based on the gender of the enterprise owners, we could see that more male are engaged in the micro enterprise than female: 56% compared to 44% for female. Male participation is even much higher in case of small scale business activities with male operators constituting 74%. This was, actually, confirmed during the multiple focus group discussions (FGD) held with selected groups of operators and interviews conducted with MSE promotional institutions and MFIs. The major factors are limited access to financial and material resources as well as education because of the obvious historical disadvantages that women encountered in the past. The level of investment, knowledge and infrastructural services required to start and/or run a business enterprise is lesser for micro than small scale businesses and women tend to engage in the former because of their limited access to such resources.

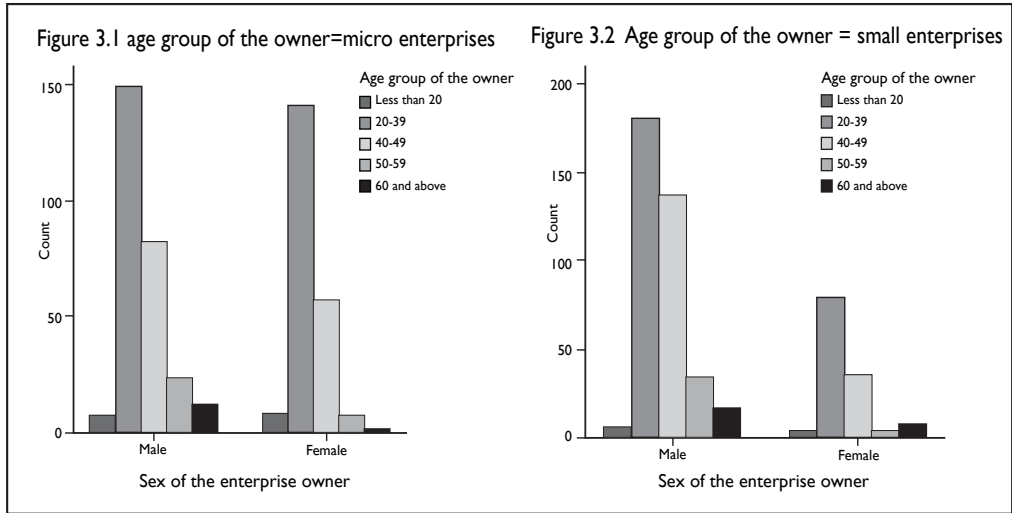
**Table 3.1 Sex of enterprise owner and scale of operation by region (n=997)**

Operational scale of the enterprise				Regional state of the enterprise						Total
				Tigray	Amhara	Oromia	Afar	SNNP	Addis Ababa	
Micro	sex of the enterprise owner	Male	Count	31	48	67	28	63	37	274
			% within sex of the enterprise owner	11.3%	17.5%	24.5%	10.2%	23.0%	13.5%	100.0%
	Female	Count	14	52	73	2	37	38	216	
		% within sex of the enterprise owner	6.5%	24.1%	33.8%	.9%	17.1%	17.6%	100.0%	

Small	Total	sex of the enterprise owner	Count	45	100	140	30	100	75	490
			% within sex of the enterprise owner	9.2%	20.4%	28.6%	6.1%	20.4%	15.3%	100.0%
	Male	sex of the enterprise owner	Count	41	55	121	22	76	60	375
			% within sex of the enterprise owner	10.9%	14.7%	32.3%	5.9%	20.3%	16.0%	100.0%
	Female	sex of the enterprise owner	Count	4	51	30	8	24	15	132
			% within sex of the enterprise owner	3.0%	38.6%	22.7%	6.1%	18.2%	11.4%	100.0%
	Total	sex of the enterprise owner	Count	45	106	151	30	100	75	507
			% within sex of the enterprise owner	8.9%	20.9%	29.8%	5.9%	19.7%	14.8%	100.0%

In the past, the MSE activity was largely left for the unskilled and non-educated partly because of its informality and ease<sup>5</sup> of entry. This has changed. More and more of the youth graduating from schools, TVET colleges and universities are getting into the sector in search of self-employment. In terms of age distribution, for both the micro and small enterprise operators, the dominant age group is 20-39 (accounting for close to 55%) followed by those aged 40-49 (constituting about 31%). Those younger than 20 and over 60 constitute only 3% and 4%, respectively. Thus, the sector is providing employment opportunity to the most economically active section of the society. Looking into this for micro and small enterprises separately, again the same age group dominates but with noticeable differences: The 20-39 age group accounts for 66% in case of micro enterprises compared to 51% for small enterprises.

<sup>5</sup> Ease of entry, on relative terms, is now becoming hard for today's business start-ups because of increased capital requirement, dwindling chance of accessing work premises and the rest of resources.



In terms of education, 71% of the small enterprise operators have at least secondary education while another 20% have vocational/TVET training. In contrast, among the micro operators, 67% have secondary education while 25% have non-formal education. In addition, more of those with TVET and similar education are joining the small enterprise subsector. A small percentage (3% of the total respondents) reported tertiary education (BA level). Interestingly, the number of respondents without any sort of education is almost non-existent (0.2% for micro enterprise operators and nil for small scale operators). Gender wise, more male operators attended the level of education with the highest frequency in this study than female operators, both in the case of micro as well as small enterprise levels. Gender wise the educational status of respondents is depicted below in figure 3.2a and 3.2b

Figure 3.2a level of education of micro entrepreneurs by gender  
operational scale of the enterprise=micro

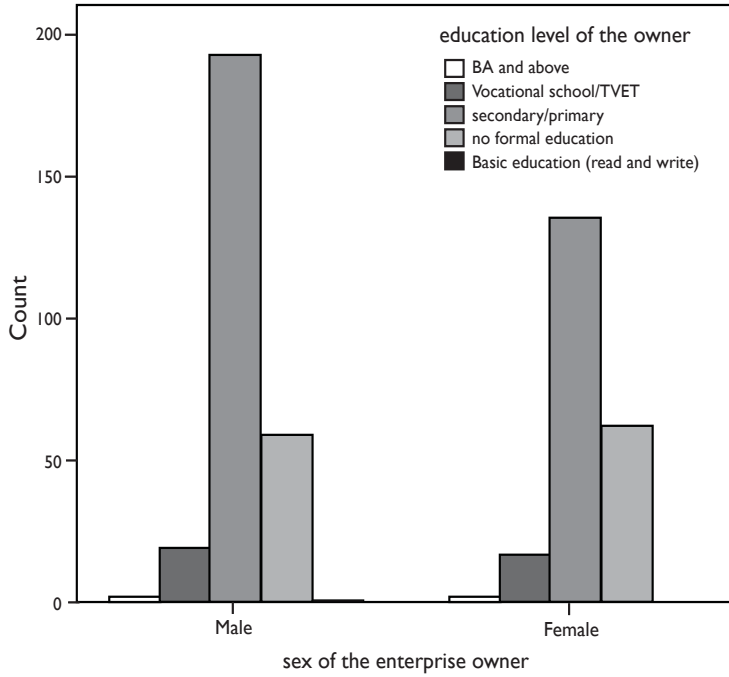
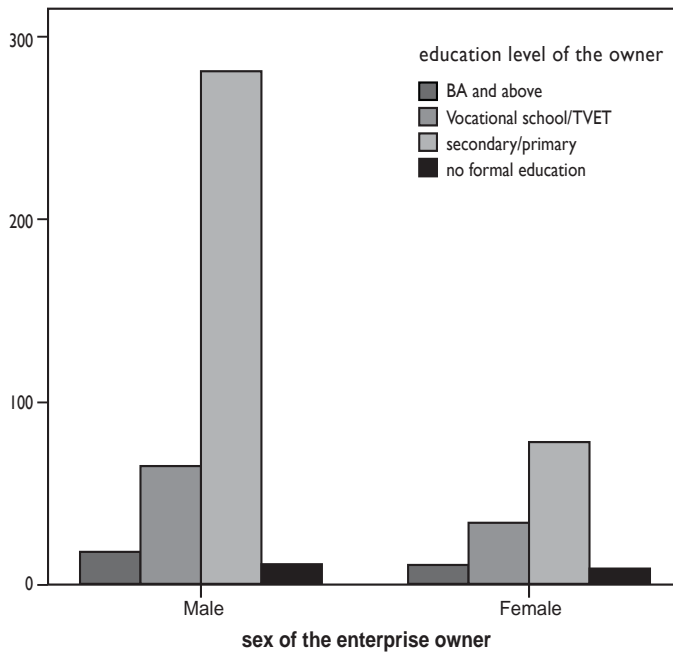


Figure 3.2b level of education of micro entrepreneurs by gender

operational scale of the enterprise=small



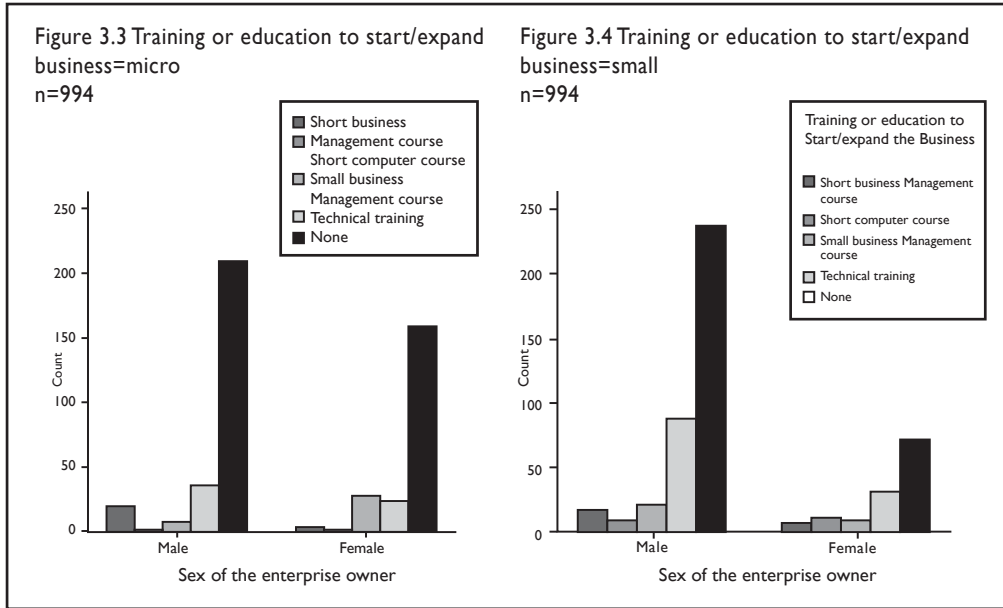
## Experience of the MSE operators

Respondents were asked whether they had prior experience related to their businesses. A good proportion had substantial experience (for both micro and small enterprise and male and female operators alike). However, a similarly high proportion had no such experience, more so for the female operators where 43% of those in the micro and 41% of those in the small business reported no experience at all.

**Table 3.2 Owner's experience prior to the business (n=992)**

Operational scale of the enterprise				Prior experience related to the business			Total
				yes, substantial	very little	no, started from scratch	
Micro	Sex of the enterprise owner	Male	%	42.5%	27.1%	30.4%	100.0%
Small	Sex of the enterprise owner	Female	%	30.0%	27.2%	42.7%	100.0%
			%	37.0%	27.2%	35.8%	100.0%
		Total		43.3%	27.5%	29.1%	100.0%
		Male	%	25.0%	34.8%	40.2%	100.0%
			%	38.5%	29.4%	32.0%	100.0%
		Total					

A general observation about the MSE sector shows that access to training and other business development services is limited. Thus, to check this, respondents were asked whether they had accessed training or education that helped them start/expand their business. The majority responded negatively, irrespective of their size category. In terms of gender, however, the percentage is higher for female operators (43% compared to 40%). The focus group discussion revealed that the reasons for not accessing training or education at the time of business start up include lack of information and awareness, limited capacity to pay for the services and shortage of time to attend training courses.



Respondents were also asked about their employment history prior to engaging themselves in their current businesses. A good percentage (28% and 36% of those in micro and small businesses, respectively) were students, followed by ‘unemployed’ for the micro and ‘self employed in others business’ for the small scale operators. Employment in government institutions was high for the small scale operators than for the micro business operators. Some others mentioned they were farmers (9% for micro and 0.6% for small scale operators). The percentage of women that used to be housewives is higher for the micro business operators (14%) than for the small scale operators (8%). Self employment in others’ businesses was much higher for women in the micro business than small business, with the implication that women’s capacity to start a small business as soon as they quitted from employment in others’ businesses is limited. Farmers’ possibility of entering into the micro and small scale businesses was found extremely lower for the later (0.6%) than for the former (11%). The table indicated below provides detailed information.

**Table 3.3 Type of engagement immediately before starting current business (n=989)**

Operational scale of the enterprise		Job immediately before starting this business										Total
		Student	Unemployed	Government employed	Self employed in other business	Housewife	Employed -private company	Working in family business	Working outside the country	Farmer	Solder	
Micro	Male	29.8%	21.0%	6.3%	20.2%	.0%	11.0%	.4%		11.0%	.4%	100.0%
	Female	24.5%	27.8%	1.9%	17.9%	14.2%	8.0%	.0%		5.7%	.0%	100.0%
	Total	27.5%	24.0%	4.3%	19.2%	6.2%	9.7%	.2%		8.7%	.2%	100.0%
Small	Male	35.4%	12.6%	13.9%	20.1%	.3%	15.3%	.8%	.5%	.8%	.3%	100.0%
	Female	38.6%	15.2%	18.9%	9.8%	7.6%	9.1%	.8%	.0%	.0%	.0%	100.0%
	Total	36.2%	13.3%	15.2%	17.4%	2.2%	13.7%	.8%	.4%	.6%	.2%	100.0%

### 3.3 Characteristics of the Micro and Small Enterprises (MSEs)

This section presents the characteristics of the MSE establishments based on the survey data. These include:

- Form of business (legal status), ownership type and years in business
- Urban-rural classification of the enterprises and business location
- Business line and main products/services
- Employee competence and proposed measures to overcome limitations, if any
- Availability of bank account, etc.

The MSE sector is often considered as more of informal, working under unfavorable environment, highly concentrated in urban areas than rural, having low labor productivity, limited business management capability and inferior product/service quality. The findings of this study are believed to shade some light on the current state of the MSEs in these respects.

#### Business Form (Legal Status)

The MSEs are run/managed by the owners themselves irrespective of the operational scale of the enterprise or the owner's gender. There was no indication that the owners hire others or fully delegate other family members to manage the businesses on



their behalf. This reinforces the finding that the business form of the great majority of the respondents is a *sole proprietorship*<sup>6</sup> as indicated in the table below. The two most common forms of business are *sole proprietorship and cooperatives*<sup>7</sup>, the former being the most dominant. This holds regardless of the operational scale or owners gender. This is partly a reflection of survival mechanisms undertaken by entrepreneurs.

**Table 3.4 Legal status of the business**

Operational scale of the enterprise			Legal status of the business				Total
			sole proprietor	partnership/ joint venture	private company	cooperative	
Micro	Male	n	237	3	10	23	273
		%	86.8%	1.1%	3.7%	8.4%	100.0%
	Female	n	195	5	3	12	215
		%	90.7%	2.3%	1.4%	5.6%	100.0%
Total	n	432	8	13	35	488	
	%	88.5%	1.6%	2.7%	7.2%	100.0%	
Small	Male	n	293	15	15	52	375
		%	78.1%	4.0%	4.0%	13.9%	100.0%
	Female	n	110	2	4	16	132
		%	83.3%	1.5%	3.0%	12.1%	100.0%
	Total	n	403	17	19	68	507
		%	79.5%	3.4%	3.7%	13.4%	100.0%

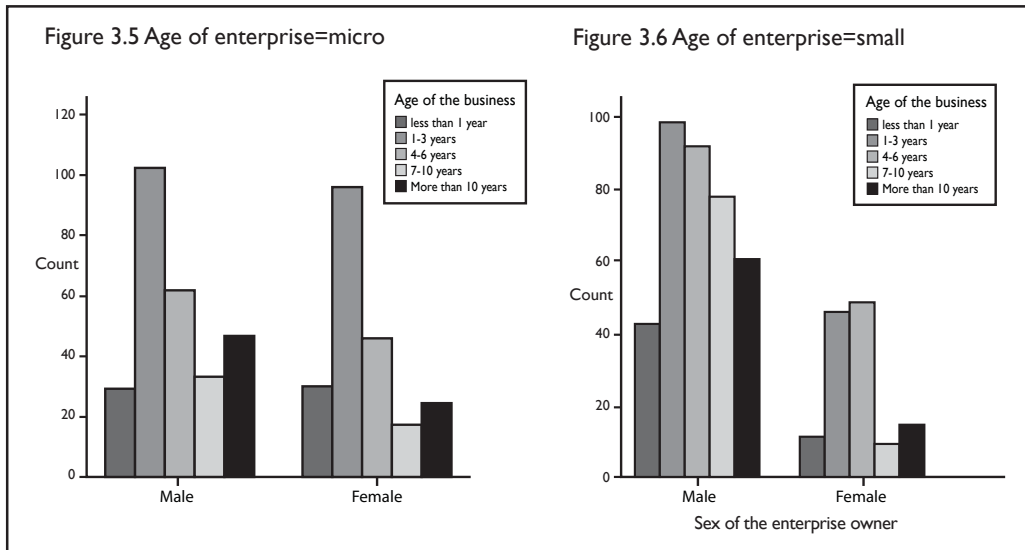
6 It is the simplest way to set up a business. A sole proprietorship is the cheapest and easiest form of business where most of the MSEs prefer to register their business in. Under a sole proprietorship, the entrepreneur is the owner as well as the manager of the business. As related to the MSE sector, sole proprietorship may not guarantee that the business is a formally registered legal entity as per the commercial code of the country.

7 This is when people associate on a voluntary basis to promote their economic interests, whereby resources are pooled together and used. People with financial constraints, especially, tend to form cooperatives to benefit from joint efforts and external support facilities. The present trend is to form service cooperatives rather than producers cooperative. Currently, thousands of MSE cooperative are being established to access common services such as production and infrastructure facilities.

### Age of the enterprise

The survey result shows that a high proportion (about 41%) of the micro enterprises have been in operation for 1 to 3 years compared to 29% for the small enterprises group. The next longest stay was for the time range between 4 to 6 years both for the micro and small enterprises (For more details, see chart below).

The age of an enterprise owned by male and female varies for each of the time scale. For the time frame between 1 and 3, female owned micro and small businesses have stayed for longer time. That means that women entrepreneurs were more persistent in conducting their businesses. For the time range between 4 and 6 years, women engaged in the small enterprises have registered even better result than male for the same range. But, as the time range goes beyond 6 years, the survey result indicated that businesses operated by male stay longer.



### Business type of the enterprises

General experience shows that MSEs cater for the needs of the lower and middle class consumers by availing affordable products/services, though the buyer should compromise for the quality of the product/service. Attempt was made to identify the lines of business the MSE enterprises are engaged in and the major products/services they render to the community. This was done partly to get an overview of the importance

of the MSE sector in the economy and also understand the types of financial and non-financial services to be availed to promote the growth of the sector. The data shows that the micro enterprises are mainly engaged in the trade business (39%), followed by agri business (32%). For the small enterprises, once again the majority (40% of the enterprises are engaged in trade similar to the micro enterprises. But the second most common business line is service sector, accounting for 33%. Women's involvement has also been analyzed. Trade is the most common type of activity for both male and female operators engaged in micro as well as small enterprises. However, in both cases, the proportions engaged in such activity are higher among the female operators compared to male (see Table..). In agribusiness operations, more male entrepreneurs have been found participating than female at micro level. Another observation is that more male entrepreneurs are running handicraft businesses than female, both at the micro and small enterprises level.

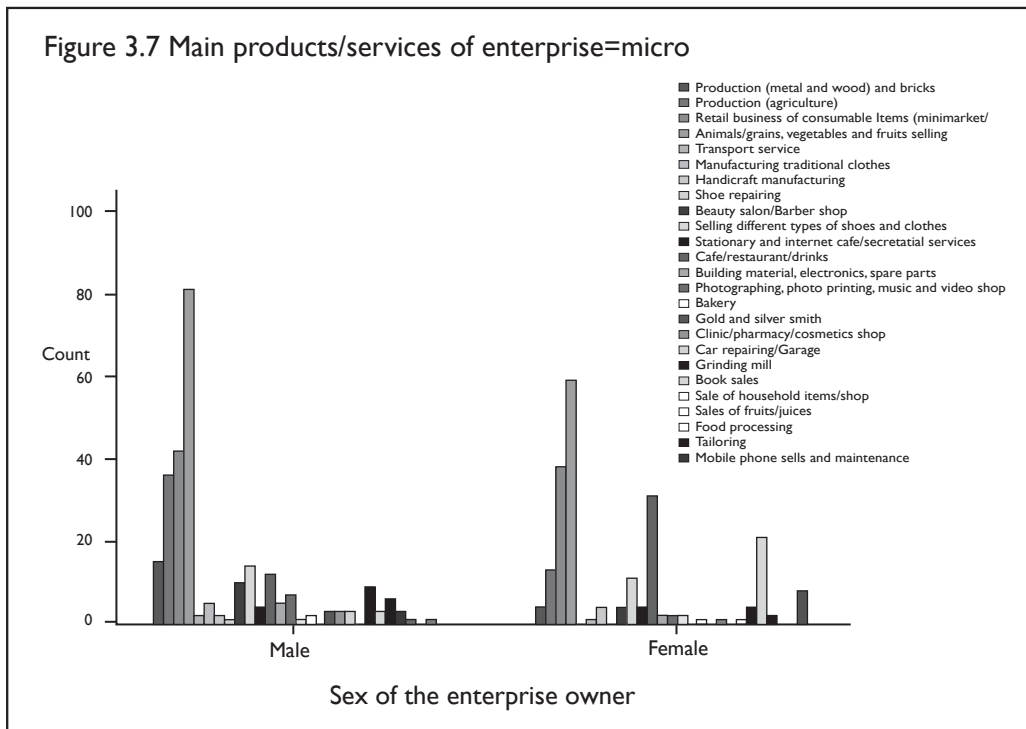
**Table 3.5 Business type (n= 997)**

Operational scale of the enterprise			Type of the business					Total
			trade	manufacturing	service	agriculture	handicraft	
Micro	Male	%	31.0%	5.1%	18.2%	39.8%	5.8%	100.0%
	Female	%	48.6%	5.6%	19.4%	21.3%	5.1%	100.0%
	Total	%	38.8%	5.3%	18.8%	31.6%	5.5%	100.0%
Small	Male	%	38.4%	15.2%	32.3%	.3%	13.9%	100.0%
	Female	%	43.2%	12.1%	35.6%	1.5%	7.6%	100%
	Total	%	39.6%	14.4%	33.1%	.6%	12.2%	100.0%

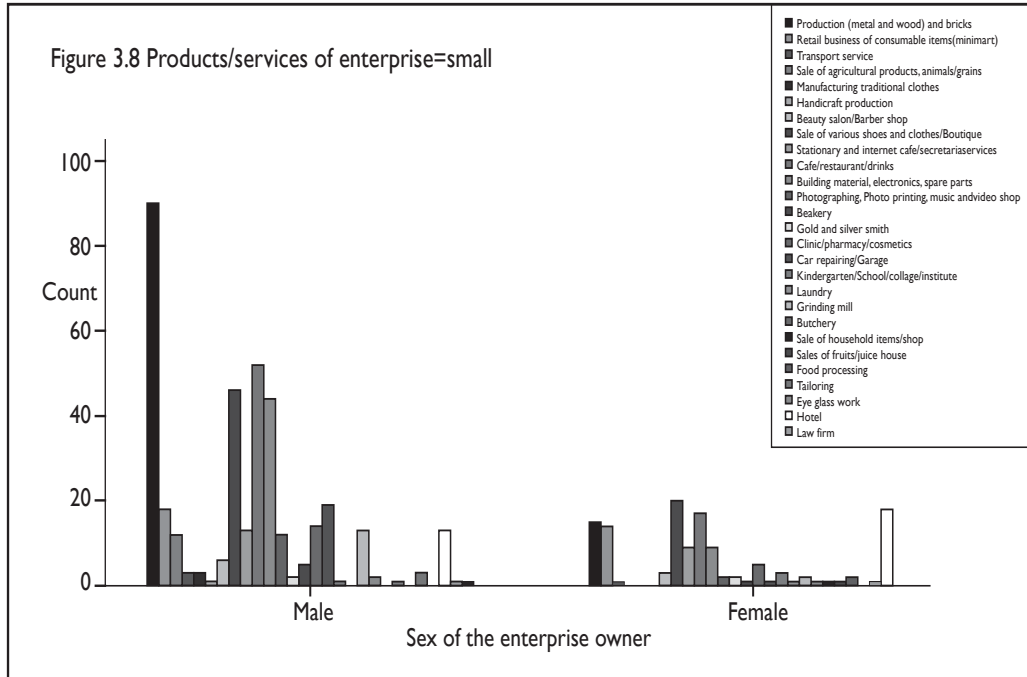
Figure 3.7 below depicts the specific business activities that the MSEs are conducting within each of the above business classifications. Accordingly, the majority of the micro enterprises are engaged in selling of agricultural products that include grains, vegetables and fruits and animals (30%), followed by retail business of consumable items in mini markets and shops (17%). The number of female operators engaged in the second activity (retail business) is higher than that of male operators, but with close proportion in the agribusiness activities.

Concerning the small scale operators, (fig.3.8) the three major business activities in order of importance are:

- Production: e.g. metal and wood items and production of bricks (21%).  
Less number of women participated in this business.
- Operation of cafés and restaurants (14%); More or less equal degree of participation by female and male operators was observed.
- Sale of shoes and clothes, i.e., boutiques (13%). More female operators take part in this business than male.



A total of 34 different types of business activities were reported by the respondents, ranging from shoe maintenance to laundry services, legal and architectural advisory services. In the majority of the cases, women’s participation was found less compared to men in each of the business activities considered.



### Maintenance of bank account

To understand their financial management situation respondents were specifically asked whether they maintain bank accounts in the name of their enterprises that is separate from their personal accounts. A large percentage (more than 72%) of the micro enterprise operators do not have such accounts. This holds true for both male and female operators alike. They usually indicated that the income they generate is very small to allow them to keep separate bank accounts. In fact, most of them do not separate the household expense from that of the business and as a result they do not mostly know whether they are making profit or not. This implies that this category of enterprises needs training in business management and other support services for them to run their businesses efficiently.

The situation is relatively better among the small enterprise operators in that about 50% maintain separate bank accounts which may indicate better level of awareness of prudent financial management (perhaps due to both maturity and experience of the operators).

**Table 3.6 presence of separate bank account for the business**

			presence of separate bank account for the business		Total
operational scale of the enterprise	micro		yes	no	yes
		Count	135	350	485
		% within operational scale of the enterprise	27.8%	72.2%	100.0%
	small	Count	247	249	496
		% within operational scale of the enterprise	49.8%	50.2%	100.0%
		Count	382	599	981
		% within operational scale of the enterprise	38.9%	61.1%	100.0%

### Competence of employees

The situation of the enterprises in terms of employees' competence was also investigated. A total of 695 persons that reported having employees have responded to this question. Some what surprisingly, a significant proportion of MSE owners (96% for micro enterprises and 90% for small enterprises) indicated that the existing skills of their respective employees are within an acceptable range of their requirements. Also, women owners are more satisfied with the skill of their workers than men. For some of the limitations in skills competence of their employees, the owners suggested to take actions such as providing on the job training, employing persons with good skills and formal training.

### Membership in Business Associations

The membership status in local business associations has been analyzed in order to see how far the MSEs network among themselves for a common benefit and advocacy. The responses show that membership in such associations is rare; more so among micro operators. About 97% are not members of local business association of any kind. Similarly, 89% of the small enterprise operators have never been members of

business associations. The implication is that there is little collaboration between MSEs within the same scale of operation and between micro and small enterprises to overcome their common problems such as policy constraints, access to land and any other emerging problems affecting the sector at large. For the small percentage who joined associations, the types of associations included farmers association, youth association, micro and small business associations, traders association, chambers of commerce, music recorders association, tailors association, women entrepreneurs association, garage owners association, metal and woodwork enterprise association, gold and silver smiths association, etc.

### Ownership of Premises

While a good proportion (48%) of the enterprises own the premises in which they operate, the majority (52%) do not. For the latter, the premises are either rented (47%) or access it from government agencies (4%) or are temporarily provided to them by family members (1%). Those with government provided premises are mostly operating trade activities for instance in tiny shops in Addis Ababa and those small enterprises operated by young TVET school leavers who are new comers to the MSE program. Those operating in rented premises complain frequent increase in rents.

**Table 3.7 Ownership of Premises**

Form of Ownership	Micr Enterprise	Small Enterprise	Total	%
Owned	272	200	472	48%
Rented	179	284	463	47%
Got it from family	9	4	13	1%
Got it from government	22	16	38	4%
Total	482	504	986	100

### MSE's Future plan or vision

MSE operators were asked about their vision. 97% of the micro and 98% of the small enterprise operators indicated that they have the ambition to continue and expand their business. The way they intend to stay in business was reported: a majority (79%

and 80% for micro and small business operators, respectively) singled out expansion of their existing operations. Improvement in product quality was the other strategy that the MSEs envisaged in sustaining their businesses.

### **3.4 Government policies and regulations affecting the MSE sector**

The Ministry of Trade and Industry issued the Micro and Small Enterprises Development Strategy in 1997 in recognition of the importance of the sector in job creation and poverty reduction. This strategy has been under revision but not officially issued so far<sup>8</sup>. The specific objectives of the MSE development strategy of Ethiopia include:

- Facilitation of economic growth and bringing about equitable development;
- Creation of long-term jobs;
- Strengthening of cooperation between MSEs;
- Provision of the basis for the growth of medium and large scale enterprises;
- Promotion of exports, and
- Balancing preferential treatment between MSEs and larger enterprises.

The target groups of the strategy are: women; small manufacturers of food, textiles, leather clothing, metalwork, and crafts; self employment with a focus on school leavers, the disabled and, the unemployed youth; small enterprises in nomadic and disaster areas; agro-businesses and small scale farming and fishing; small builders/contractors; small exporters and small scale tourism-industry operators; start-ups and expanding firms.

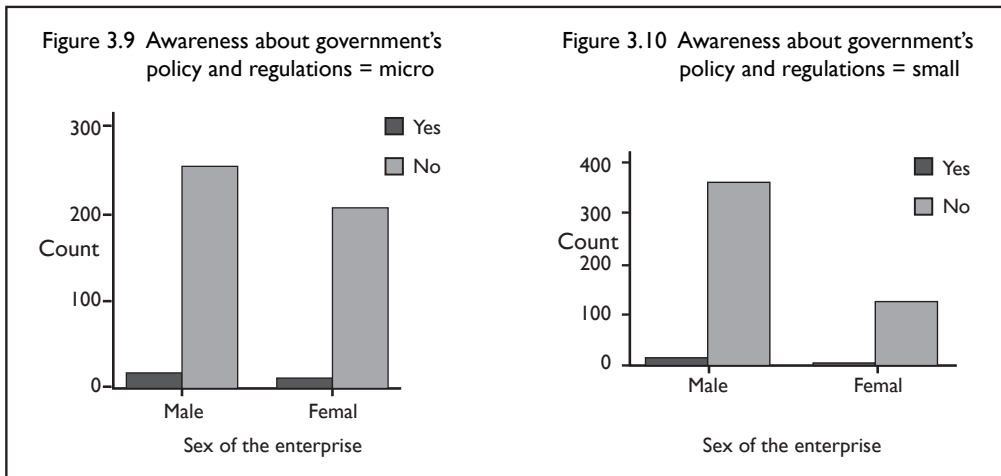
The government's overall development strategy document, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), covering the period 2005/06-2009/10, considers the MSE sector as vital factor for economic growth and poverty reduction. In line with this, other strategies such as the Industrial Development Strategy

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<sup>8</sup> In the draft strategy of 2007, it is stated that creating employment opportunities to alleviate the challenges of unemployment, especially in urban areas through integrating MSE growth with TVET and unleashing the potentials of Ethiopia's women will expedite the development of micro and small enterprises.



as well as Urban Development Strategy<sup>9</sup> also consider the MSE sector as an important factor for economic development. This is also reflected at regional level: The regional micro and small enterprises development agencies/offices specifically and the regional bureau of trade and industry in general are assigned responsibility for the promotion of the sector and are mandated to provide government support services. Other relevant entities are entrepreneurial and sectoral associations established to provide services to their respective members. But, to what extent are MSEs aware of these and other existing policies and regulations that are of relevance to their business operations?



9 The strategy supports the development of the MSE sector. Chapter IV of the strategy clearly outlined the interdependence of the development of urban centers with that of the MSEs. Development and expansion of MSEs recognized because of their decisive role in job creation and valuable economic importance to the community. The urban development strategy identifies the following problems of MSEs to be solved:

- a) Addressing the problems of lack of trained manpower and leadership limitations. The TVET institutions should provide training in basic business management and entrepreneurship in addition to technical training to their graduates.
- b) Addressing financial constraints of MSEs - the urban development strategy suggests the need to expand the services of rural banking facilities to the towns or encourage the establishment of non-banking institutions such as micro finance institutions.
- c) Addressing market problem because MSEs are unable to establish their own marketing channels and the low level of consumer confidence towards MSE's product quality and price
- d) Addressing the problem of access to infrastructure – MSEs need infrastructure services such as water and electricity supplies and means of communication and work premises. The urban strategy indicates the need to provide priority to MSEs to access legally recognized work premises. On top of that there must be possibility of accessing production shelters with the necessary infrastructure. Infrastructure is to be availed to group of MSEs to ease provision of business support services and boost experience exchange amongst the MSEs.
- e) Overcoming bureaucratic bottlenecks – It is necessary to identify specific bureaucratic bottlenecks that affect the performance of MSEs and provide all the necessary government services at one service delivery center (one-stop service center).

The percentage of MSEs with sufficient awareness about the MSE Development Strategy is very small (5% for micro and 4% for small scale operators). With such wide spread degree of lack of awareness, the MSEs are not in a position to maximize the benefits that the strategy promises to provide and of the supports being provided by the federal and regional MSE development agencies.

The National Bank of Ethiopia has also issued different guidelines for MFIs in 1996 and subsequent years. The guidelines gradually gave MFIs the opportunity to set lending interest rates and to improve their loan ceiling, and lending to individual MSE operators by applying tangible collateral to minimize the risk of lending to such segments of borrowers. However, the majority (95% for micro and 96% for small scale operators) are not aware of the micro finance policy.

**Table 3.8 MSEs' level of awareness of micro finance policy**

Operational scale of the enterprise				Awareness about micro finance policy		Total
Micro	Sex of the enterprise owner	Male	Count	18	254	272
			% within sex of the enterprise owner	6.6%	93.4%	100.0%
	Female	Count	11	204	215	
		% within sex of the enterprise owner	5.1%	94.9%	100.0%	
Total			Count	29	458	487
			% within sex of the enterprise owner	6.0%	94.0%	100.0%
Small	Sex of the enterprise owner	Male	Count	16	358	374
			% within sex of the enterprise owner	4.3%	95.7%	100.0%
	Female	Count	6	126	132	
		% within sex of the enterprise owner	4.5%	95.5%	100.0%	
Total			Count	22	484	506
			% within sex of the enterprise owner	4.3%	95.7%	100.0%

The other policy consideration included in the study was the tax policy and how far the MSEs are aware about it. The responses indicate that a majority of the MSEs were not aware of the tax law (82% and 77% for micro and small enterprises, respectively). The level of awareness of the existing labor law was also very minimal: 98% and 96% of the micro and small enterprises respectively, are totally unaware.

In summary, the existence of policy and regulatory framework that creates conducive environment for the MSEs is one of the critical factors for their proliferation and development. Accordingly, during the last few years, the Federal Government of Ethiopia has issued some legal frameworks that relate to the establishment and operation of microfinance institutions and micro and small enterprises. However, awareness of these among the target population is quite low.

### **3.5 Female owned micro and small enterprises**

Lack of wage employment opportunities drives many Ethiopian women into MSEs in various sectors of the economy as a survival strategy. However, limited studies on women entrepreneurs reveal that in addition to the constraints normally faced by MSE entrepreneurs in general, women entrepreneurs face various constraints both when starting their own businesses as well as at a later stage when there is a need to expand or diversify the activities of their enterprises. These additional constraints mainly stem from culture or the upbringing (which is usually gender biased), limited education, limited mobility as a result of their dual roles as mothers and homemakers, etc. As a result, though many women own and operate enterprises, few of them continue to develop their enterprises and graduate to small, medium and large- scale enterprises.

Some of the major constraints reported by the women covered in the study and those noted from various studies are summarized below.

- Low level of business knowledge and skills
- Limited financial source at start up and expansion
- Lack of confidence to venture into better paying enterprises
- Lack of premises for production and selling
- Lack of mobility to access information and market outlets
- Bureaucracy
- Gender based discrimination

One of the specific issues given attention in this study was to know the problems faced by women business operators. Accordingly, the responses obtained revealed that a majority of the women respondents said they did not face specific problems related to their gender (80%). Some respondents, however, reported that they faced discouragement by the society, including husbands (6%). Other problems, reported by some, were market problem, theft, limited business management skills and harassment.

**Table 3.9 Problems faced as a woman entrepreneur in starting and operating this business**

	Frequency	Percent
market problem/limited market	4	1.2
no problem	271	79.5
problem to know my profit and loss since i am not educated	2	.6
theft and cheated because i am a female	2	.6
society discourages women in businesses including my husband	19	5.6
Harassments	3	.9
no equal treatment with male by kebele administration	1	.3
high delay in getting government services	4	1.2
problem of working premises	15	4.4
financial problem	5	1.5
Lower capacity of doing business than men	1	.3
Problem to travel from place to place to do business	3	.9
I was Requested by MFI to bring a collateral to take loan	1	.3
Lack of confidence	1	.3
problem of getting work permit	1	.3
I less educated because I am a women	1	.3
discriminated by government offices	5	1.5
Discriminated by men/MFI to form a group to borrow from MFIs	2	.6
Total	341	100.0

A related question posed to the respondents was whether they sense any policy discrimination against women. The response (by both male and female respondents) was largely affirmative. The presence of policy discrimination against women as viewed by male business operators was high (81% and 85% for micro and small enterprises

respectively). A similarly high proportion of the female respondents (85% and 80% for small enterprises respectively) feel that there exists policy discrimination against women. People including the female feel and perceive there is a strong discrimination against women. However, when requested with concrete cases it turns out that it is difficult to cite specific cases.

### **Box 3.1 The Struggle for Survive**

*Tigist Tefera was borne 32 years ago to a family living in Dangila. Her parents sent her to a school in the area where she was born and she completed grade 12. However, her ESLCE result could not enable her to join higher educational institutions and she could not find any better employment in Dangila. As a result, Tigist decided to come to Bahirdar to work as a maid for a monthly salary of Birr 10. While working in this capacity, she used to do embroidery during her spare time and sell it to individuals from which she saved a small amount of money. Latter on, she got the opportunity to take part in a technical skill training program sponsored jointly by GTZ and the Mines and Energy Agency. It was on fuel saving stove, which was then provided free of charge. During the training she was able to show special interest in the said skill and an individual in one of the agencies gave her Birr300 - as a loan to buy the mold and start production of the stoves. She believes that the skill training on fuel saving stoves was an eye opener for her.*

*One of the key problems when she started the business, in addition to finance, was production space. As the nature of her work demands an open space where to put the raw material as well as the finished product, she was not able to produce easily. Initially, she got a contract to produce 40 fuel saving stoves using the material provided by the sponsoring agency. She got Birr 700 from that particular contract and, after much hassling, she rented a compound belonging to an individual for three months. The agencies that gave her the training helped her in promoting her work in various ways. Currently her fuel saving stove production business is licensed and employs 4-5 temporary laborers during production period.*

*Tigist remembers that when she started the business, she used to encourage people to pay cash in advance because she didn't have working capital. Later on when she got the opportunity to access credit, she produced in bulk and started promoting her work in the rural areas by transporting the stoves using hired vehicles. During slack seasons, Tigist strives to do sideline business like working as a freelance insurance agent to*

*augment her income. At times, she also works as a trainer for target groups selected by GTZ. She is an active client of ACSI. Tigist indicated that if there are suitable sources of finance she believes that it would motivate individuals unleash their potential.*

*Though she applied for a piece of land 8 years ago, she said she was not fortunate enough to acquire one. Instead, she bought a house built by a group or cooperative and she is currently using the open compound in her neighborhood. She again applied for a space to promote her product three years ago and lastly got a space but it is near a hospital, She stated that it obviously, is not a suitable place to promote her product type.*

*Tigist believes in hard work and in encouraging people to be hard workers and earn their living through their effort. Her principle is that there may be obstacles in life but one should see that the other side of the coin also carries opportunities.*

Some of the women MSE operators in Amhara Regional State indicated that gender bias was one of the problems that hinder them from accessing some of the basic resources such as land. In Tigray region some women revealed that some of the male household heads usually take the upper hand in decisions that relate to financial utilization and that such circumstances discourage women to work enthusiastically. Women who have been in the micro enterprise operation for years, indicated that they lacked both the confidence and sources of finance to diversify their business and as a result, though they kept it going, the profit generated is minimal.

From consultations with the leaders of the different women entrepreneurs associations, it was revealed that: (a) there should be specialized financial arrangement for women entrepreneurs as a means of accessing credit and such financial intermediation be undertaken by the National Network of Women Entrepreneurs recently established; (b) appropriate financial service is needed in order for the members to be able to upgrade business size from micro to small and medium enterprise levels; (c) higher loan size (more than Birr 5,000) with reduced interest rate (6-7%) and loans based on business viability (rather than physical collateral) is preferred; (d) increased non-financial services (BDS) to attract more members.

### **3.6 Youth owned micro and small enterprises**

Some NGOs in some parts of the country including Addis Ababa have been trying to assist young male and female persons, especially school dropouts and those who have completed high school but could not join higher educational institutions. Very recently, government agencies like ReMSEDA, in collaboration with microfinance institutions, have also started to assist those youth who have completed TVET to be self-employed. However, there are major challenges which include that they:

- Are more mobile
- Lack experience and motivation to be self-employed
- Prefer wage employment and as a result they easily abandon enterprises they started as a group and individually, whenever they find wage employment
- Lack marketable skills
- Join TVET due to lack of alternative

- Engage in MSEs not as a result of entrepreneurial drive; and
- Lack prior training in BDS

In the case of some of the youth's common businesses, especially those youth clients engaged in textile trade in Addis Ababa, indicated that the number of the group members usually is 10 and this makes the sharing of the profit very minimal because the market for the textile sector is not encouraging, and it is hard to reach at consensus with 10 people to implement viable business ideas, etc.

In general, there are two types of MSE operators: those who choose entrepreneurship and those for whom MSE engagement is the only option to earn income for survival. This is confirmed by the study. Some of the MSE operators, especially women, indicated that they stopped borrowing from the MFIs because they abandoned the business as they now can survive either on the income of their children or someone else in the household, or they have built a small house which they can rent and generate income on which to survive. This clearly indicates that most of the MSE operators, especially women, start the business purely for survival purposes rather than out of entrepreneurial drive.

As indicated above, one of the contributing factors for establishment, expansion and growth of MSEs is the low entry barrier to these activities. That the activities are less regulated and open to every one, provided the start up capital and working premises are available, facilitates this.

## **4. Financial and Non- financial services for MSEs**

### **4.1 Financial Services for MSEs: an overview**

#### **Banks**

With only two public and eight private commercial banks operating in the country, Ethiopia is believed to have inadequate banking service. The per capita commercial bank, which is about 9 million people per bank is very low even by African standards Getachew and Yishak ( 2005). The contrasts with per capita commercial bank of 1.1 million for Ghana, 0.6 million for Kenya, 2.2 million for Mozambique, and 0.9 million for South

Africa. This reflects the very low status of banking service in Ethiopia and the need for prudent allocation of the limited resources to involve as many sectors as possible.

Despite the large number of MSEs in the study areas, their access to financial services for vertical growth and diversification of activities is limited. Bank policies (public and private alike) make fixed asset collateral mandatory, thereby excluding MSEs from the credit market. Furthermore, due to various reasons, MSEs are considered high risk for commercial bank lending. Consequently, the conventional banks in the country do not dare to venture into financing MSEs. One of the key reason given is financing MSEs is costly because the size of loans involved is small making the transaction cost per unit of loan high. The current trend is that even the very few MSEs that can offer fixed asset as collateral prefer to access loans from microfinance institutions. This is so because the loan processing methods of the commercial banks is considered lengthy and does not seem to be suitable for the nature of work of MSEs which at times depends on grabbing opportunities as they come and so do not afford to wait till tomorrow.

#### **4.1.1 Microfinance Institutions**

Currently, there are 28 MFIs in the country, of which 12 are licensed to operate in regional states and the rest are licensed to operate nation wide. They provide financial service, mainly credit and saving and, in some cases, loan insurance. Almost all MFIs in the country have poverty alleviation as an objective. They are thus meant to address the lower strata of micro-entrepreneurs including those engaged in activities that are started and operated just for survival. Most of the MFIs are relatively young. They seem to replicate each other instead of innovating their own approach. Their financial products are almost the same with the exception of a few MFIs that have recently started adding some new products. The loan sizes of most of the MFIs are so small that some of their clients outgrow it very quickly. Some of the causes for high client drop out in both rural and urban areas seem to be small loan size, lack of product diversification on the part of the MFIs, lack of flexibility in approach, etc.

The NBE directive issued in 2006 (MFI/18/2006) allows MFIs to provide larger loans to individuals using appropriate collateral, subject to single borrower limit of 1% of their capital. On the basis of this framework, some MFIs have started extending relatively



larger loans for working capital and for investment in cases where government agencies are involved in the recovery of loans through different linkage mechanisms. Relatively bigger amounts of working capital loans are extended to those who have established businesses or can offer collateral in fixed asset form.

ACSI, DECSI and AdCSI opened 'micro-bank' windows<sup>10</sup> through which they offer larger amount of loans. These MFIs indicated that after they ventured into lending operation of this type, they found that the demand for relatively larger amount of loans for both working capital and long-term investment is huge and is beyond their available resource capacity.

ACSI is currently operating 'micro-bank lending' in three towns (Methema, Bahirdar and Sekota) and the biggest single loan extended so far is in Sekota, which is Birr 400,000. The target clients for such loans are mainly established clients who have out grown the group lending system. New clients who demand loans above Birr 5,000 have also started accessing loans from the MFIs. AdCSI has been extending larger loans to MSE operators spread all over the 10 Districts in Addis Ababa.

These MFIs state that they are trying to innovate in the area of alternative collateral system. For instance, AdCSI claims that it is doing its level best to introduce alternative collateral systems like using the legal status of cooperatives and their available properties as collateral, personal guarantee of individuals, using guarantee offered by well-established organizations. Diploma or certificate of a vocational school graduate combined with the signature of the parents or guardians are also used as collateral. ACSI has also designed alternative collateral systems like 'three party agreement' in which the MFI finances working capital or machinery of MSE operator while the third party with which the MSE has a work contract agrees to make direct payments to ACSI until the loan is fully settled. The MFIs are also trying to diversify their financial products. For instance, AdCSI provides six types of loan products in addition to two types of saving deposits and a loan insurance scheme.

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<sup>10</sup> They did so on the basis of the feedback they obtained from the existing clients in the case of the former two and, in case of AdCSI, from the market study conducted especially in Addis Ababa.

#### **Box 4.1 Challenges of 'Micro-bank lending'**

*ACSI believes that the major challenge is availability of financial resources to meet the financing requirements of at least 10% of the existing clients engaged in growth-oriented activities. This is because ACSI's major source of fund is savings mobilized from clients. To meet the demand the MFI thinks that it is important to identify various sources of fund like soft loans, grant and even borrowing from other banks. They reiterated that it is difficult to tell clients to wait once the service is initiated. One of the MFI's representatives suggested that a source of fund that has simple and short procedure has to be identified. Concerned institutions like AEMFI should be able to identify such sources and channel it to MFIs. Otherwise, shortage of fund could easily retard the current positive development in the sector. In fact, it was suggested that stakeholders who want to see poverty eradicated should facilitate the mobilization of resources in addition to issuing policies for the development of the MSE.*

*AdCSI's worry is also if the outreach expands, especially in financing small enterprises, the MFI may face shortage of loanable fund. The other challenge identified by one of the MFIs is that it is not easy to find the skilled manpower required to handle the new financial product as those trained usually prefer to join commercial banks.*

### **Saving and Credit Cooperatives**

Currently, there are three types of saving and credit cooperatives in the country: Institution based SACCOs; Community based SACCOs; and SACCOs sponsored by NGOs. According to information obtained from the cooperative office of respective regions, there are 2000 SACCOs in Addis Ababa alone, of which only 140 are Union members. In Amhara Region, there are 254 rural-based and 222 urban-based SACCOs.

The SACCOs in both urban and rural areas are said to have high potential for mobilizing savings that could be utilized productively for MSE programs. The terms and conditions of SACCO lending are based on the lending policy and procedures and the by-laws of the cooperatives. The lending interest rate usually is equivalent to the bank rates and the interest rate on saving is determined by the cooperatives.

One of the principles of SACCOs is that lending is limited to only members of the cooperatives and the amount of loan depends on the level of individual saving deposits.

There is no need of collateral outside of the members. The profit generated by SACCOs is distributed as dividends to members which, to some extent, limits the capital growth.

It was indicated that in rural areas saving and credit activities are not intensive. However, SACCOs are very important to reach the lowest layer of the rural off farm operators and poor farmers. According to the representative of the Cooperative Department in Amhara region, there is potential for saving mobilization among both rural and urban cooperatives. SACCOs have over Birr 35 million of savings. However, the experience to utilize this optimally is minimal. They are over-liquid partly because the concept of business idea development is not there to use the money more productively. Such saving could be lent to MFIs such as ACSI to finance it rural lending.

It was indicated that currently, there is an intention to set up a saving and credit cooperative bank in Amhara. It was pointed out that specialization is important to increase outreach and to serve all categories of entrepreneurs. In Addis Ababa as well there is an intention to establish a cooperative bank that would cater for the financial needs of cooperatives in the city and its peripheries.

#### **4.1.2 Entrepreneurs and financial Services**

One of the main objectives of the study is to understand the financing patterns of MSEs. Accordingly, several questions were asked in relation to the financing of micro and small enterprises. The results are discussed below.

#### **Source of Financing Business Start Ups**

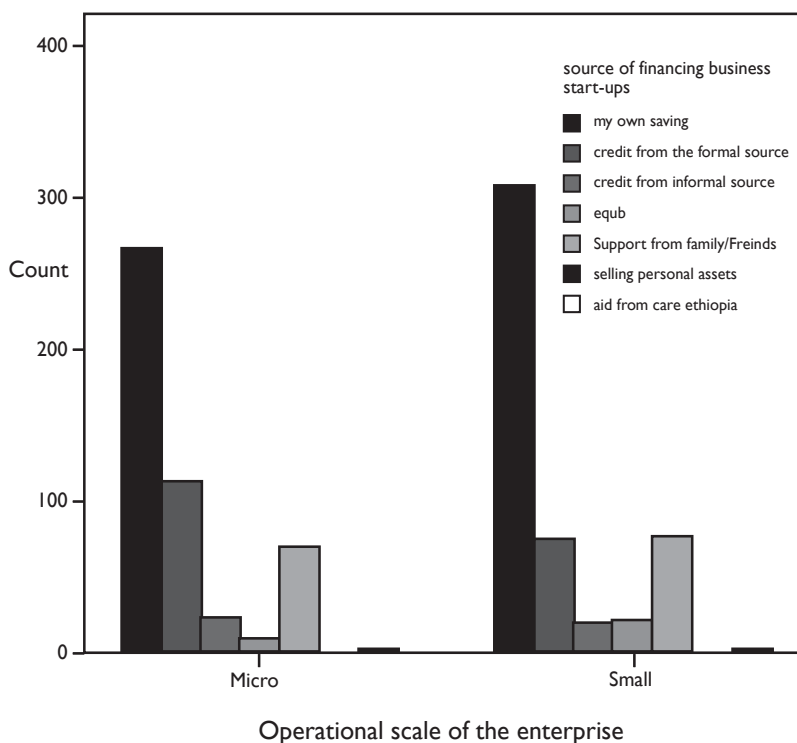
Starting a new business is a very difficult task and finance has been identified by several studies as one of the primary reasons that hinder many potential entrepreneurs from fulfilling their dreams. Those who succeed to start businesses usually use multiple sources of finance. Respondents were thus asked about the primary sources of finance they used. The responses are summarized in Table 4.1.

**Table 4.1 Source of financing business start-up**

	Frequency	Valid Percent
Own saving	574	57.9
Credit from formal sources	189	19.1
Credit from informal sources	43	4.3
Equip	32	3.2
Support from family/freinds	149	15.0
Selling personal assets	1	.1
Aid from care Ethiopia	3	.3
Total	991	100.0

The most commonly used sources of finance are own savings (58%), credit from formal sources (19%) and support from family and friends (15%). As depicted in Figure 4.1 below, the relative importance of the above sources were similar both for micro and small enterprises.

Figure 4.1 Source of financing for start up businesses



The fact that own-saving and support from family and friends came as prominent sources of finance during the establishment of new businesses indicates the difficulty of entry and the absence of any external formal support for new and dynamic potential entrepreneurs. Although the entry barriers are tremendous, there are some on-going attempts to encourage youngsters to set up their businesses. The illustration below from a group of five youngsters (operating a wood & metal workshop) in Awasa highlights this:

All of us were working as shoe shiners or vendors selling eye glasses. ReMSEDA had given us premises for our businesses; OMO MFI gave us the loans; that is how we came to business..

Once the business started operation, the dominant financing need will be working capital finance. Even for this, MSE operators once again mentioned that own-savings is the primary source followed by credit from formal sources, advance from clients and credit from informal sources, in that order (Table 4.2). In this case, however, credit from suppliers and advance from clients came up as additional mechanisms of financing working capital needs. This may be a result of experience, which brings better contact and networking possibilities.

**Table 4.2 preferred sources to finance your working capital need**

		Frequency	Percent
	Own-saving/retained earning	674	68.4
	Credit from formal sources (bank and MFI)	191	19.4
	Credit from informal sources (money lenders, equip and relatives)	39	4.0
	Credit from suppliers	11	1.1
	Advance from clients	68	6.9
	Government support	2	.2
	Total	985	100.0

The above results reflect that micro and small enterprise operators have little opportunity outside themselves both in their start up and working capital financing. They have to be largely self dependent for all their financial needs and there is little external arrangement that can meet their financial needs.

### **Working relationship with formal and informal financial sources**

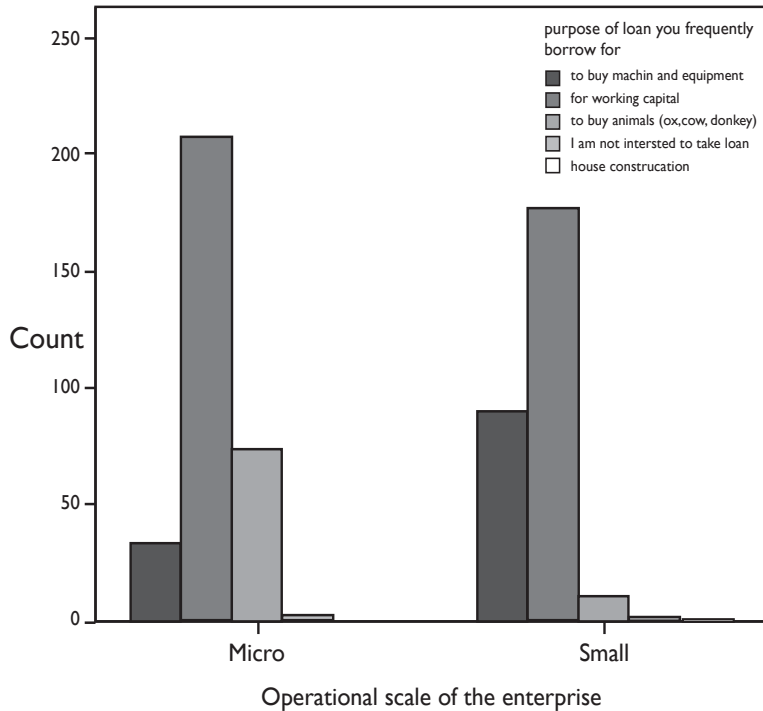
Micro and small enterprise operators may have a much better chance of success if they have working relationships with both formal and informal financial sources and preferably with formal ones. Respondents were thus asked several questions on the nature of their relationship with formal and informal financial sources including the primary purpose of borrowing. As can be seen from Table 4.3, the primary purposes are working capital, purchase of machine and equipment and buying animals.

**Table 4.3 purpose of loan you frequently borrow for**

	Frequency	Valid Percent
To buy machine and equipment	124	20.7
For working capital	384	64.1
To buy animals (ox, cow, donkey)	85	14.2
I am not interested to take loan	5	.8
house construction	1	.2
Total	599	100.0

Disaggregating the sample by size of business, the order of importance for micro enterprises slightly varies from that of small enterprises. While working capital financing is the most important reason for borrowing for both types of enterprises; buying machines becomes the second most important purpose for small enterprises while buying animals is the second most important reason for micro enterprises. This most likely is related with the rural setting of micro enterprise operators.

Figure 4.2 Reasons for borrowing



Respondents' relationships with informal financial sources were quite significant with 32.4 % of all respondent stating that they had some relationship with informal sources of financing (Table 4.4). The most commonly used informal sources of finance are borrowing from family and friends (46%), equip (31%), wholesalers and suppliers (13%). Their major reasons for preferring to borrow from these sources in order of importance were: simple process (43%), proximity (18%), more favorable interest rate (15%), and little or no collateral requirement (12%). Simple process and proximity are highly related to the importance of "time" to the MSE operator and the extremely busy schedule of a business man/woman; hence any financial service design should consider "time" as the most valuable resource of a micro and small enterprise operator.

**Table 4.4 Relationship with informal financial sources**

		Frequency	Percent
	I borrow from informal sources	319	32.4
	I don't borrow from informal sources	667	67.6
	Total	986	100.0
First Non-formal financial institute you have working relationship with		Frequency	Percent
	Relatives/friends	125	46.1
	Equb	85	31.4
	Wholesalers/suppliers	36	13.3
	Individual money lenders	21	7.7
	Iddir	1	.4
	NGO	3	1.1
	Total	271	100.0
Reasons for preferring to borrow from informal source		Frequency	Valid Percent
	More favorable interest rate	46	14.6
	Simple process	135	42.9
	Little or no collateral requirement	39	12.4
	Flexible payback arrangement	13	4.1
	Available near by the business	58	18.4
	Lack of formal financial sources	14	4.4
	It has no interest	9	2.9
	It is easily accessible when needed	1	.3
	Total	315	100.0

Relationship with formal financial institutions is the most critical indicator of access of citizens to financial services. Only 45% of the respondents stated that they have working relationships with formal financial service providers. Although one would have liked this percentage to be higher, this may not by itself be a disappointing achievement. However, this is not satisfactory considering the number of business enterprises in the country.



**Table 4.5 Presence of relationship with formal financial institutes**

Do you have relationship with any formal financial institution?		Frequency	Percent
	Yes	447	45.1
	No	544	54.9
	Total	991	100.0

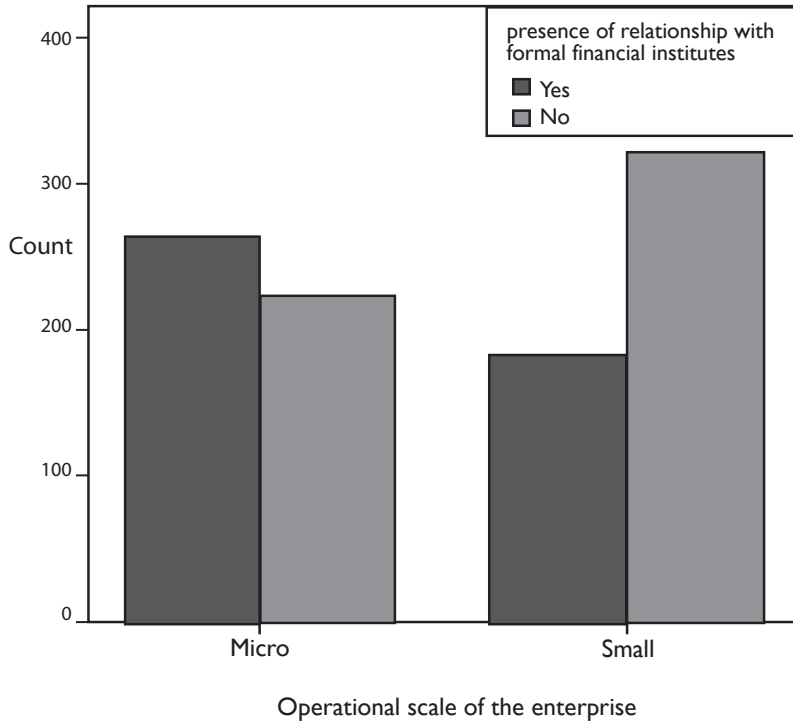
Disaggregating the data across operational scale of the enterprises, we see that more micro enterprises have working relationships with formal financial institutions as compared to small enterprises. The proportion of micro enterprises that stated that having working relationship with formal financial institutions is 54% compared 36% for small enterprises (Table 4.6).

**Table 4.6 Presence of relationship of Micro and Small enterprises with formal financial institutes**

			presence of relationship with formal financial institutes		Total
			yes	no	
operational scale of the enterprise	micro	Count	264	222	486
		% within operational scale of the enterprise	54.3%	45.7%	100.0%
	small	Count	183	322	505
		% within operational scale of the enterprise	36.2%	63.8%	100.0%
Total		Count	447	544	991
		% within operational scale of the enterprise	45.1%	54.9%	100.0%

In other words, small enterprises seem to be at a disadvantage in terms of access to formal finance. This is largely because MFIs focus more on micro rather than small enterprises while banks do not provide much funding to the latter either. Figure 4.3 below depicts this situation more clearly.

Figure 4.3 Relationship with formal financial institutions



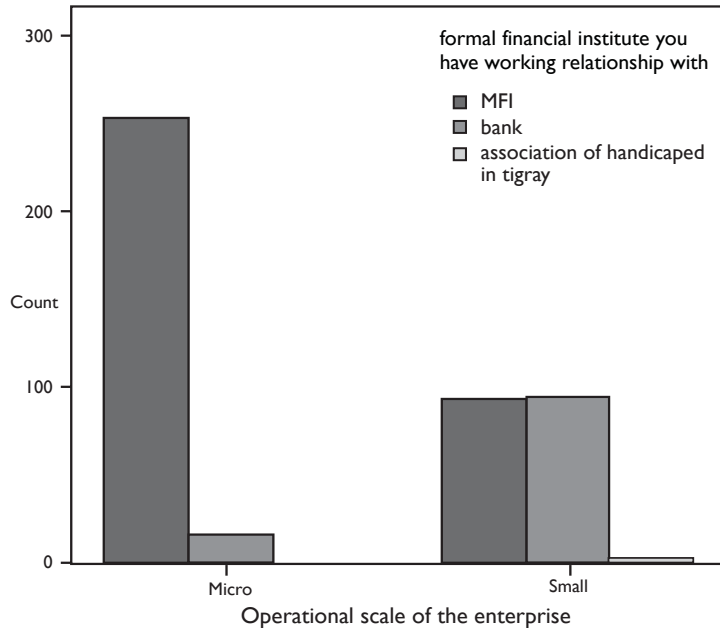
From Tables 4.7 and 4.8, we see that the formal financial service providers which have relationships with the respondents are mainly MFIs (76) followed by banks (24%). Looking at the issue by size, 94% of micro enterprises have relationships with MFIs whereas only 6% have relationships with banks. This contrasts with the situation for small enterprises where only 50% have working relationships with MFIs and 50% with banks. This indicates that MFIs are more active in MSE financing currently.

**Table 4.7 formal financial institute you have working relationship with**

		Frequency	Percent
	MFI	346	75.9
	Bank	109	23.9
	Association of handicapped in Tigray	1	.2
	Total	456	100.0

**Table 4.8 Working relationship of micro and small enterprises with formal financial institutions**

			formal financial institute you have working relationship with			Total
		MFI	Bank	Association of Disabled Veterans in Tigray	MFI	
micro	Count	253	15	0	268	
	%	94.4%	5.6%	.0%	100.0%	
small	Count	93	94	1	188	
	%	49.5%	50.0%	.5%	100.0%	
Total	Count	346	109	1	456	
	%	75.9%	23.9%	.2%	100.0%	

**Figure 4.4 Relationship of micro and small enterprises with formal Financial institutions**

Respondents were also asked for their reasons for not taking loans from banks or MFIs. A whole variety of reasons were mentioned as shown in Table 4.9, the main ones being: Not interested in loans (19%); Lack of collateral (16%); Business size not fitting MFI target groups (9%); and fear of failure to repay (9%). The lack of interest to borrow can be attributed to multiple reasons which are within and outside the control of banks and MFIs. It may also reflect unwillingness on the part of the respondent to provide

their real reasons for not taking loans. But, the collateral and targeting issues need to be addressed by the banks and MFIs through time. The focus group discussion results also show that some sort of innovation is required in the area of collateral. For example, discussion participants from Addis Ababa and Amhara Regional States indicated that ACSI and AdCSI have started providing larger loans for working capital and investment for individual clients. However, the collateral required is mainly in fixed assets though other alternative securities like personal guarantee are also accepted.

**Table 4.9 Reasons for not taking loans from banks or MFI**

	Frequency	Percent
No MFI/bank in the area	54	8.1
Not aware of MFI?banks	50	7.5
My business size is beyond MFI's target	63	9.4
Problem to form a group	44	6.7
MFI gives priority to rural borrowers	3	.4
MFI loans are only short-term	53	7.9
Affraid I may fail to repay the loan	57	8.5
I am not interested in loans	124	18.5
Lack of collateral	109	16.3
Lack of information	17	2.5
High interest rate	22	3.3
I got loan from another source	7	1.0
MFI loan amount is very small	5	.7
High bureaucracy	14	2.1
My business is very small/new and I don't have the capacity	11	1.6
Since they charge interest it is against my religion	3	.4
I have enough capital/working capital for the current bu	28	4.2
I have no reason	4	.6
Total	669	100.0

A vast majority of the MSEs are not in a position to offer tangible assets as collateral. This is considered as a major constraint particularly for those engaged in growth oriented enterprises.

During the focus group discussions, a question was raised as to why those clients that can offer fixed asset collateral wouldn't borrow from commercial banks rather than MFIs? The response by participants was that the short and simple credit process of MFIs makes it appropriate to the nature of their business which depends mainly on grabbing opportunities which may not wait till tomorrow. In some of the group discussions (e.g. Bahir Dar), participants also raised concern over the way the values of the assets such as houses to be offered are estimated as it determines the amount one can borrow.

### **Preferred form and place of saving of MSE operators**

Saving is a very strong tool in the poverty alleviation effort as it helps to smooth consumption. It is also usually the entry point for a potential user in interacting with financial service providers. Hence, financial institutions with better incentive (in terms of return, convenience and other product features) for savings may find it easier to attract potentially good borrowers. According to the survey data, banks are the most commonly used institutions for saving followed by MFIs and in-house savings. Table 4.10 and figure 4.5 below further clarify the commonly used saving places for micro and small enterprises. Micro enterprises prefer to save primarily in-house (36%) followed by MFIs (34%) and banks (19%). In-kind savings has also come up as an important form of saving as 11% of micro enterprise operators stated that they do savings in-kind. Small enterprise on the other hand significantly prefer to save in banks (78%) followed by MFIs (11%) and in-house (8%). Savings in-kind is very insignificant (at 2%).

**Table 4. 10 Where do MSE operators save?**

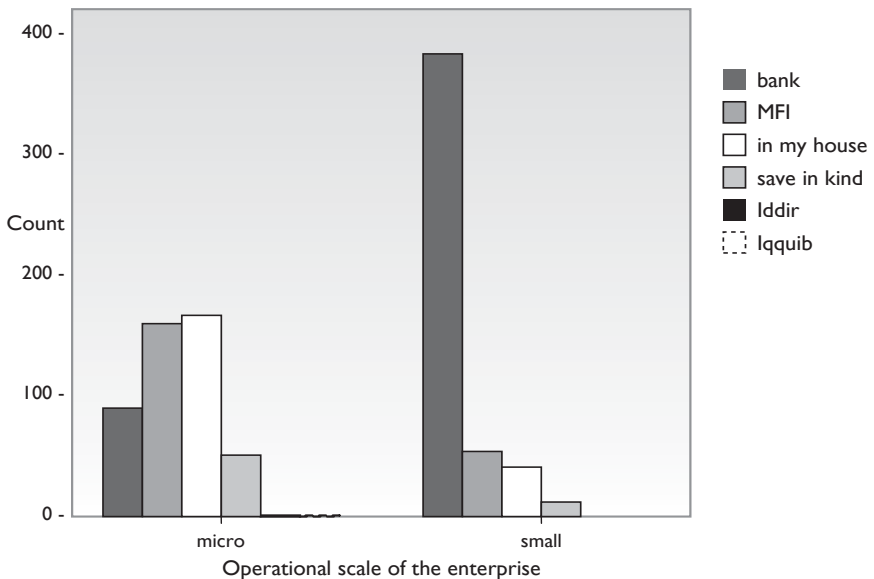
	Frequency	Percent
Bank	474	49.3
MFI	214	22.3
In house	208	21.6
In kind	63	6.6
Iddir	1	.1
Iqquib	1	.1
Total	961	100.0

The fact that almost all the small enterprise operators are urban based may have an implication on their preference as to where to save. They live in closer proximity to banks compared to rural ones. Rural micro enterprise operators may also tend to give more value to saving in kind given that their livelihood is strongly associated with crops and livestock.

**Table 4.11 Where MSE operators save**

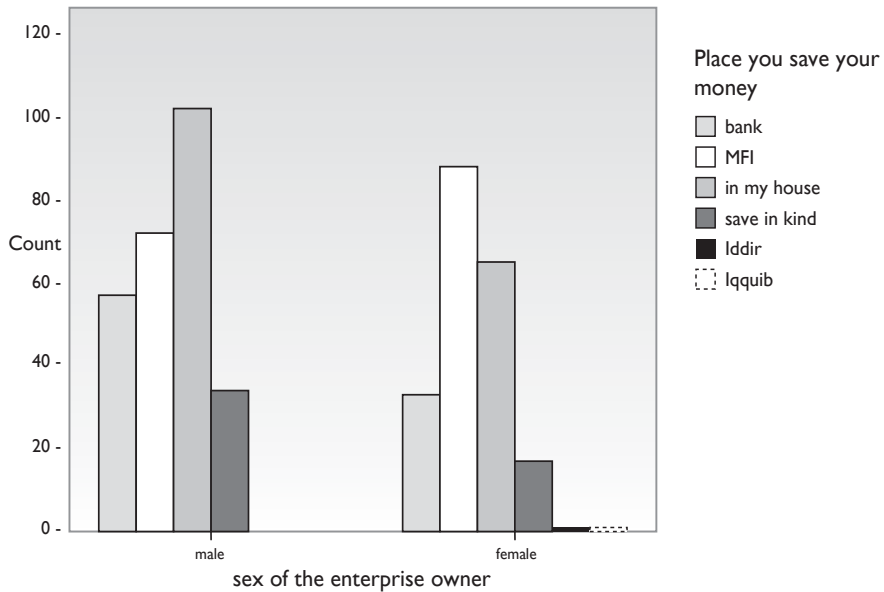
			place you save your money in						Total
			Bank	MFI	at home	save in kind	Iddir	Iqquib	
	micro	Count	90	160	167	51	1	1	470
		%	19.1%	34.0%	35.5%	10.9%	.2%	.2%	100.0%
	small	Count	384	54	41	12	0	0	491
		%	78.2%	11.0%	8.4%	2.4%	.0%	.0%	100.0%
		Count	474	214	208	63	1	1	961
		%	49.3%	22.3%	21.6%	6.6%	.1%	.1%	100.0%

Figure 4.5 where do micro and small enterprises save?



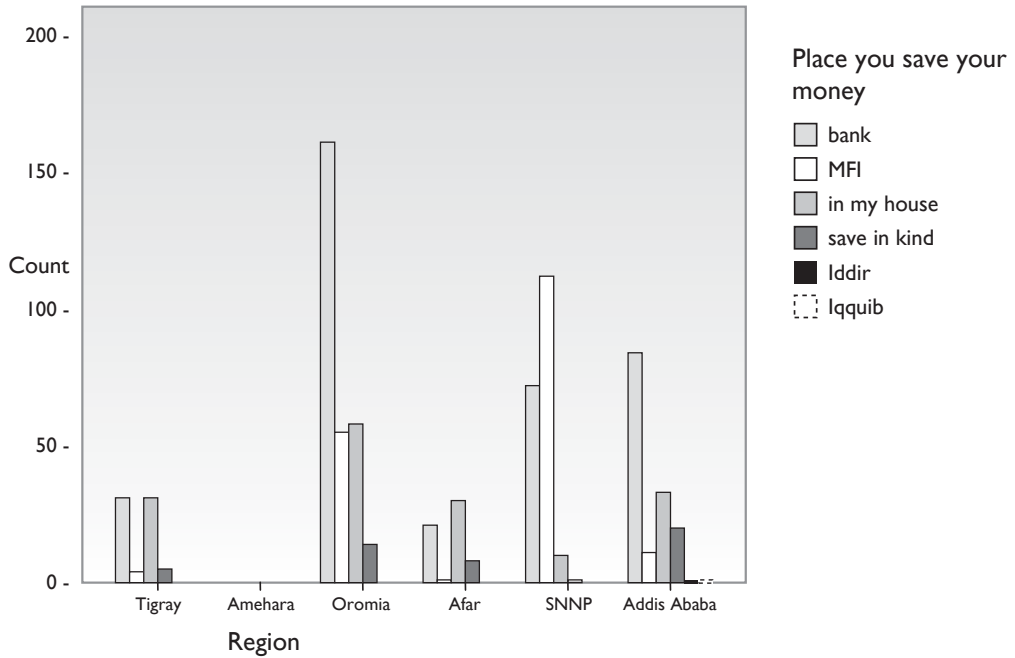
Considering the issue by gender, savings with MFIs seems most common among female micro enterprise owners followed by savings at home and bank deposits in that order. This may partly reflect their need for a more secure and less accessible place of saving. It may also be related to the focus of MFIs on women. For the male ones, on the other hand, saving at home is the most common followed by savings with MFIs and banks in that order.

Figure 4.6 where do micro enterprises prefer to save?



Disaggregating the data by region, most of those in Amhara, Addis and Oromiya regions reported preference for bank savings while MFIs and in-house saving are most preferred in SNNPR. In Tigray, similar number indicated preference for savings at home and bank saving. MFIs are not considered as important places for savings particularly in Tigray and Addis Ababa regions. Moreover in-house savings was more preferred than saving with MFIs in almost all regions with the exception of Afar where there is no functional MFI. It is also worth noting that saving with MFIs is the least preferred alternative in Addis Ababa. Saving in-kind is even more preferred than saving with MFIs in Addis. It is not clear why MFIs are not attractive to savers for keeping their savings.

Figure 4.7 Preference of saving place by region



### Problems related with borrowing from formal institutions

Respondents were asked to identify the problems faced in their effort to borrow from banks and MFIs. Collateral requirement by banks came out as the most significant (raised by 68% of the respondents), followed by long process (9%), distance (8%) and difficult criteria (7%).

Table 4.12 problems faced in borrowing from formal banks

	Frequency	Percent
Collateral requirement	316	68.4
Distance	39	8.4
Difficult criteria	32	6.9
Long process	40	8.7
No problem	28	6.1
Fear of high interest rate	5	1.1
High Interest rate	2	.4
Total	462	100.0



With respect to MFIs, again, collateral came on top (showing that collateral is becoming an issue both for banks and MFIs), the others being high interest rate, inappropriate loan amount and limited loan types. Participants (of micro enterprise focus groups in Bahir Dar) also indicated

**Table 4.13 Problems faced in borrowing from MFIs**

	Frequency	Percent
Inappropriate loan amount	63	12.0
Limited loan types	65	12.4
Collateral	146	27.8
High interest rate	130	24.7
Service problem, tiresome to get loan	13	2.5
No problem	92	17.5
Lack of information	1	.2
Establishing a group is very difficult	15	2.9
MFIs is not available in the locality	1	2
Total	526	100.0

The increase in the repeat loans amount is not commensurate with the growth of the enterprise and the hard work of the owner. Some also indicated that group guarantee does not allow fast advance in business because the loan amount is restricted.

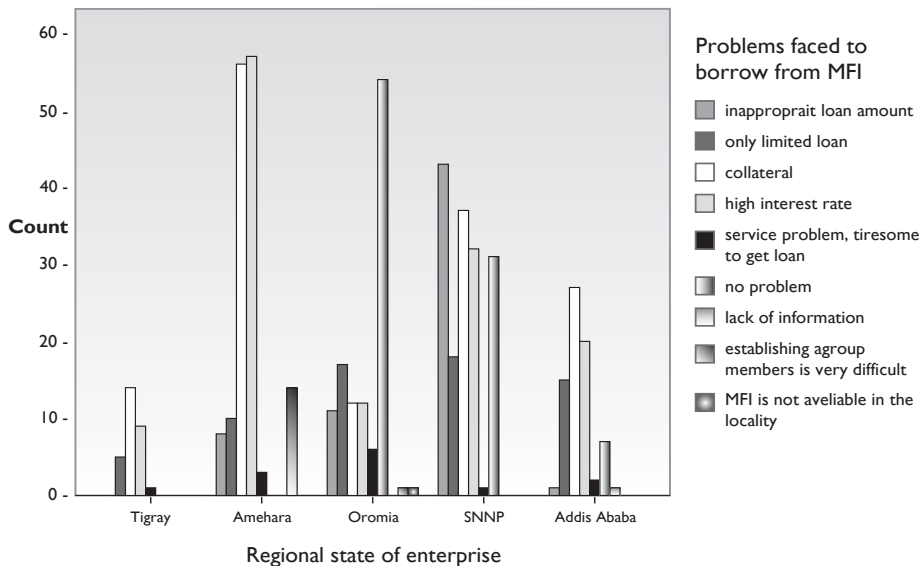
One example given was that, in small businesses operation the practice is to grab opportunities when they arise. In such situations, immediate financial assistance for working capital is needed. MFIs on the other hand do not encourage additional loans, though the value of the collateral already offered by the client is high compared to the client's outstanding loan. It was also suggested that: MFIs should be able to extend repayment of loans in cases where clients face problems beyond their control: loan repayment periods should be flexible and be based on the pattern of income flows from business activities. Slack periods for some of the activities should be identified and loan repayment periods be based on the specific circumstances. According to the micro enterprise operators group, loan repayment period should vary according to the amount of loan as repayment of large loans in one year is difficult, especially when turn over of the business is slow.

Interestingly, interest rate was not a critical issue during the focus group discussions, although some pointed out that MFIs charge much higher interest rates than commercial banks and that it is calculated at the beginning (flat method) which makes it exorbitant. Some discussion group participants in Bahirdar indicated that there should be significant difference between the interest rate for short-term and long-term loans. They suggested the rate on long-term loans and large loans should be much less because of the time involved. This, however, is contrary to common sense since larger loans and longer repayment periods involve more risk which needs to be compensated through higher interest rates. The top three problems associated with MFIs by region are shown in Table 4.14 and Figure 4.8 below.

**Table 4.14 Problems associated with MFIs by region**

Top three problems associated with MFIs	Addis Ababa	Amhara	Ormiya	SNNPR	Tigray
1	Collateral	High interest rate	No problem	Inappropriate loan amount	Collateral
2	High interest rate	Collateral	Limited type of loans	Collateral	High interest rate
3	Limited type of loans	Limited type of loans	Collateral and high interest rate	High interest rate	Limited type of loans

**Figure 4.8 Problems related to MFIs across regions**



## Collateral Preference of MSEs

Considering the importance of collateral respondents were asked to indicate their particular preferences. Fixed assets were singled out as the best form of collateral (34%) followed by hire purchase arrangement (19%), cash flow lending (16%) and cooperative guarantee (11%). Contrary to expectations, personal guarantee was preferred only by 5% of the MSE operators.

**Table 4.15 type of collateral you think is good to borrow from formal or informal source**

	Frequency	Percent
Hire purchase arrangement	169	18.5
Life insurance certificate	14	1.5
Cooperative guarantee	99	10.8
Peer group guarantee	81	8.9
Based on future cash flow	149	16.3
Fixed Asset	306	33.5
Personal guarantee	47	5.1
Trade license	26	2.8
Based on future profitability of the business	6	.7
Identification card	4	.4
salary guarantee	5	.5
I have no any Knowledge about credit	4	.4
Based on business activities	5	.5
Total	915	100.0

## Trade credit

Generally, trade credit as a form of financing is common with business people. Thus, the survey included questions related with trade credit; that is, purchase and sales on credit. As indicated in Table 4.16, almost half of the MSE operators did purchase on credit in the year 1998 while a higher percentage (60%) did the same in 1999. Sales on credit were less prevalent with 45% and 48% of the respondents practicing it in 1998 and 1999, respectively (see Table 4.17).

**Table 4.16 Did you purchase on credit in 1998 and 1999**

1998		Frequency	Percent
	yes	441	49.7
	no	446	50.3
	Total	887	100.0
1999		Frequency	Percent
	yes	551	55.9
	no	434	44.1
	Total	985	100.0

**Table 4.17 Did you sale on credit in 1998 and 1999 (EC)**

1998		Frequency	Percent
	yes	399	44.9
	no	490	55.1
	Total	889	100.0
1999		Frequency	Percent
Valid	yes	475	48.2
	no	510	51.8
	Total	985	100.0

MSE operators who do not practice purchase and sales on credit were asked to state their reasons. A good proportion (25%) stated that they do not like transacting on credit partly due to their perception of having sufficient capital. Unsuitability of products/services for credit (21%) and lack of credit providers (15%) were mentioned as the next important reasons for not transacting on credit.

**Table 4.18 Distribution by reason for not purchasing or selling on credit**

	Frequency	Percent
They don't give me on credit basis	67	15.2
The type of item is not suitable to sell on credit	91	20.7
I don't like transacting on credit b/c i have enough capital	109	24.8
Selling on credit ties my working capital	29	6.6
Because I have everything	14	3.2

	Because there is no credit supplier	2	.5
	Because I do not have good relationship with the community	5	1.1
	Fear of loss	12	2.7
	I do not have the capacity	31	7.0
	Because it takes more time and cost to collect the money fro	4	.9
	Lack of trust	29	6.6
	Because sales or purchase on credit is a cause for conflict	1	.2
	Lack of collateral	6	1.4
	Market Problem	1	.2
	The business was not operational	39	8.9
	Total	440	100.0

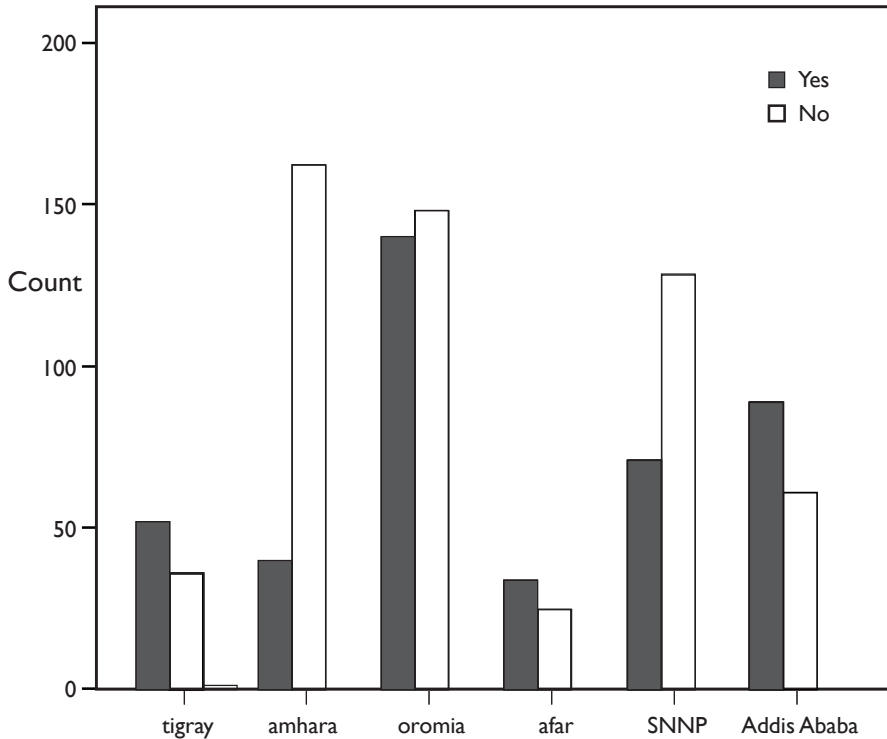
### Liquidity problem of the MSE operators

MSEs, like all other businesses, face cash shortages (liquidity problems) from time to time. Accordingly 43% and 42% of participants of this survey stated that they had faced liquidity problems in 1999 and 1998 respectively. Over all, the proportion of respondents that faced liquidity problems is less than 50%. Looking at the issue by region, a majority of the respondents in Addis, Afar and Tigray faced liquidity problems in both years. This was not the case for a majority of respondents from Amhara, Oromiya and SNNPR.

**Table 4.19 Did you face liquidity problem in 1999 and 1998?**

1999		Frequency	Percent
	yes	426	43.2
	no	560	56.7
	Total	986	100.0
1998		Frequency	Percent
	yes	412	41.8
	no	574	58.2
	Total	986	100.0

Figure 4.9 Liquidity problem by Region



Since cash shortage is a natural part of business, what is more critical is understanding the coping mechanisms. Hence, the alternative mechanisms of coping with cash shortages MSEs resorted to in 1999 and 1998 are summarized in Tables 4.20 and 4.21. In both years, own-savings (48% and 49%), MFI loans (21% and 18%) and borrowing from informal sources (12% and 13%) came up as the leading ways of coping liquidity problems.

**Table 4.20 First way of solving cash flow or liquidity problem of the business in 1999**

	Frequency	Percent
Used own saving	187	47.9
Sold raw material	10	2.6
Sold property	14	3.6

Bank loan	18	4.6
MFI loan	80	20.5
Borrowed from informal source (money lender, iquib, relative)	48	12.3
Credit from suppliers	23	5.9
Support from govt, NGO, etc	4	1.0
I have used Iquib	5	1.3
Reduced Business activities	1	.3
Total	390	100.0

**Table 4.21 First way of solving cash flow or liquidity problem of the business in 1998**

	Frequency	Percent
Used own saving	204	48.7
Sold raw material	18	4.3
Sold property	11	2.6
Bank loan	14	3.3
MFI loan	76	18.1
Borrowed from informal source (money lenders, iquib, relative)	55	13.1
Receiving advance from customers	3	.7
Credit from suppliers	23	5.5
Support from govt, NGO, etc	6	1.4
I have used Iquib	6	1.4
Cost reduction strategy	1	.2
Support from families	1	.2
No solution was implemented/continued with the cash shortage	1	.2
Total	419	100.0

### **Box 4.2 The need for alternative financial service providers**

*Tesfaye Abate runs a boutique shop in kebele 08, Adama town of the Oromiya region. Tesfaye has attended school up to grade 10. He is 30 years old, and married with one child. He opened his shop in 2000 after operating as shoe shiner for over 15 years. He used his own-saving and equib money as a start up capital.*

*Tesfaye opened his shop by renting a small premise from an individual; however, he was forced to evacuate because the space was needed for a different purpose. Currently, he works from a small rented room at the market center, paying a rental fee of Birr 400 per metre square. He thinks this is expensive.*

*Tesfaye used to be a client of an MFI and had taken loan three times before quitting. He mentioned three reasons for leaving the MFI: high interest rate, small loan size with short regular loan installments period of 15 days and restriction to withdraw from his mandatory savings even when there is acute financial need. Currently, he stated that “equib” and “own- saving” continue as means of meeting his financial needs.*

*Tefaye faced some problems at the establishment of his business, namely lack of work premises, finance and business training. Currently his main problems are work premises and need for special loans which he termed as “ peak time loans’ that can be repaid within few days after making use of specific business opportunity with flexible loan terms. He strongly believes that cost consciousness and **diversification of source of financing** are the most critical factors for the success of any business.*

## **Loan requests and rejection rates**

Some 11% of the MSE operators reported facing rejection of their request for loans for various reasons. The primary reason for rejection (as indicated in Table 4.23) were insufficient collateral (53%), insufficient income (21%) and problems associated with previous loan (16%). The issue with previous loan is most likely associated with poor repayment performance of group members and other borrowers. High bureaucracy was also mentioned as the fourth important cause for loan rejection. Here we can infer that borrowers decided to drop their case due to unreasonable delay to reach decision on the part of the financial institution.



**Table 4.22 Was your loan request declined in the last 12 months?**

		Frequency	Percent
	Yes	113	11.4
	No	875	88.6
	Total	988	100.0

**Table 4.23 reasons the requested loan was declined**

		Frequency	Percent
	Insufficient income	23	20.9
	Insufficient collateral	58	52.7
	In relation to previous loan	18	16.4
	Doubt about the profitability of my business	4	3.6
	I was asked to submit ID and evidence of not borrowed previous	2	1.8
	High bureaucracy	5	4.5
	Total	110	100.0

### **Box 4.3 Lack of Collateral as a cause of loan rejection**

*Hirut is in her late thirties, married with two young children. She is currently employed in one of the biggest hotels in Addis Ababa as floor supervisor. She was employed 14 years ago as cleaner in the same hotel.*

*She says she is very much interested in her work as cleaner and as a result she started providing cleaning services to big enterprises by hiring eight employees. She does the work during her spare time because her work at the hotel is carried out in shifts.*

*She started the work using borrowed money from her brother and father to buy some of the equipments and for working capital. Her cleaning service business has been licensed since 1998 E.C. Hirut emphasized that the problem of finance is key for people who have marketable skill but lack money to materialize viable business ideas. Hirut got the information about MFIs in Addis Ababa from a friend and immediately applied for a relatively larger amount of loan from Addis Saving and Credit Institution. But, her application was rejected due to collateral problem. According to her, one of her colleagues at the hotel was willing to assist her by providing personal guarantee for the loan. However, the MFIs requires that a letter regarding the guarantee be written by the employer of the [personal guarantor. But, the Hotel Administration was not willing to write such a letter. She indicated that the Hotel was not particularly willing to indicate in the letter that the organization is ready to inform the MFI if the employee who provided the guarantee leaves the organization before the loan is fully settled.*

*The MFI, on the other hand, insisted that it is a lending policy and there is no ground to violate it for the sake of Hirut.*

*Hirut thinks that MFIs should be flexible about the lending policy, especially if they find that the business ideas are viable and the operator has marketable skill. She indicated that the MFIs should design alternative collateral systems like*

*taking the machinery or tools to be purchased from the proceeds of the loan as collateral by registering it with the concerned kebeles.*

*The other comment forwarded by Hirut is that MFIs should try to specialize instead of all of them competing for the same layer of clients. Some of them who have resources should design suitable collateral system and finance relatively larger businesses having growth potential.*

*Furthermore, she stated that stakeholders in MSEs or authorities interested in poverty alleviation should facilitate for the provision of production and selling space in suitable areas if they are to reduce unemployment and poverty.*

## Financial plan of MSE operators

MSE operators were also asked if they have any future plans to get loans from external sources to which only 48% responded affirmatively. A vast majority of the respondents do not intend to borrow from any other source. Most of the respondents may simply have been realistic when they make such decision; that is they felt they will not get loans easily. However, this is indicative of the fact that financial access is at a very limited scale and majority of enterprises do not find it easy to access loans from financial institutions. This should be considered from the fact that some of those who have already planned to seek loans may also fail to obtain same for various reasons.

**Table 4. 24 Plan to get loan from other sources**

		Frequency	Percent
	yes	474	48.1
	no	512	51.9
	Total	986	100.0

Majority of the respondents intend to borrow from MFIs (59%) and banks (29%). Family and equib were also considered as alternative ways of borrowing to a lesser extent.

**Table 4.25 other source you planned to get loan from**

		Frequency	Percent
	Bank	137	28.9
	MFI	279	58.9
	family/relative	29	6.1
	Equb	17	3.6
	Friends	8	1.7
	NGO	3	.6
	from government	1	.2
	Total	474	100.0

Looking at the issue across the operational scale of the enterprise, a significant number of the micro enterprises (76%) are planning to seek loans from MFIs while about 11% intend to seek bank loans. These group may be once that feel that their businesses are now ready to entertain higher size loans beyond the policy of the MFIs and, hence, may be considered as a welcome news.

In contrast, about 57% of small enterprises seek to get loans from banks while 32% intend to approach MFIs indicating that more and more small enterprises are considering MFIs as possible source of finance. This is also a remarkable development considering the very recent entry of MFIs into small enterprise financing. However, it is also an indication of the severe financing challenge faced by small enterprises.

**Table 4.26 Potential sources of finance for Micro and small enterprises**

		other source you planned to get loan from								Total
		bank	MFI	family/ rela- tive	equb	friends	NGO	from govern- ment	bank	
micro	Count	31	220	17	12	6	2	1	289	
	%	10.7%	76.1%	5.9%	4.2%	2.1%	.7%	.3%	100.0%	
small	Count	106	59	12	5	2	1	0	185	
	%	57.3%	31.9%	6.5%	2.7%	1.1%	.5%	.0%	100.0%	
Total	Count	137	279	29	17	8	3	1	474	
	%	28.9%	58.9%	6.1%	3.6%	1.7%	.6%	.2%	100.0%	

### **Box 4.4 Ever growing need for external financing**

*Yehualashet Zewdie operates a metal and wood workshop in Makalle town Kebelle 07 H.No 0040. He is 32, married with one child. Yehualashet established his business in 2005 after serving for over seven years in the technology department of Mesfin Industrial Engineering and another private company. The sole source of his start up capital was his own personal savings.*

*He had prior training at the Dombosco technical school in electrical, mechanical and computer programming skills for three years. Initially, he used to operate from a rented premise with an area of 120 m<sup>2</sup> for a rental fee of Birr 250. He operated for two years from that building. Now Yehualashet has moved in to another premise (of about 200m<sup>2</sup>) secured from his family members. Although he is not paying any rent, the location is not as attractive as the previous one for his customers. Yehualashet feels that for an effective production and marketing of his outputs the size of the work premises should at least be around 500m<sup>2</sup>. More space is required for storage of raw materials, goods in process and finished goods. The workshop has machineries and equipment such as splitting machine (worth of Birr 24,000), circular cutter, sheet metal binder, grinder, drills, etc. (worth of Birr 70,000).*

*Although he had not received any special training when starting his business, he had recently received advices and exposure visit opportunity to similar businesses in Addis through the UNIDO cluster Development program.*

*He is consistently trying to diversify his line of business to include maintenance of electronics equipments, providing rental service for laundry machines etc. However his diversification efforts are demanding more financial strength. Due to this he is now processing to take a loan of Birr 50,000 from DECSI by pledging his residential house as collateral. However, Yehualashet estimates that he has a loan need of about birr 200,000 and is willing to take such amount for three years at interest rate of 15%. Larger amount is mainly required for raw material purchase to meet large orders emerging as a result of winning tenders.*

*In the beginning he was working by himself without any employee, but now he is hiring 6 regular and 6 temporary employees. He recalls that his most important concerns at the beginning were finance and premises.*

## **4.2 Non-financial Services**

### **4.2.1 Non-financial Support providers**

There are some governmental and non-governmental organizations that provide non-financial services such as training of micro-entrepreneurs and provision of advisory services for micro-enterprises in their target areas. The services are usually provided for micro-enterprises that are very small and are in the lower layer. In order to solicit ideas, discussions were held individually with representatives of organizations considered MSE stakeholders. These included ReMSEDA, Women Entrepreneurs Associations, and Cooperative Promotion Departments and Chambers of Commerce. The major services these agencies provide are summarized below.

**Table 4.27 Summary of major Non-financial Support Services Provided by Key Stakeholders**

Stakeholders	Support Services
ReMSEDA's	<ul style="list-style-type: none"> <li>* Facilitation for the provision of production space/premises</li> <li>* Organizing operators into groups or cooperatives</li> <li>* Facilitating for groups and individuals to join and benefit from the program's different support services.</li> <li>* Provision of training in business management and technical skills by creating linkages with educational institutions - like TVET and using the support of other stakeholders like UNIDO, GTZ. In some regions, the technical training includes: textile, wood and metal work, food processing, related to municipal activities like repair and maintenance.</li> <li>* Facilitation for operators to access financial services from MFIs. In some of the regions, the government provides guarantees for loans provided to TVET graduates for purchase of machinery and working capital [A kind of three party agreements is signed between the concerned MFIs, TVET graduates and government offices using the services of the TVET graduates. The program makes effort that the support services including credit at certain level and license are carried out as a one-stop service at kebele level]</li> <li>* Market Linkage: The creation of market linkage until the operators gain the experience and lay firm ground in identifying and sustaining the customers.</li> <li>* Job creation, especially for those who have marketable skills in construction are linked with government building projects.</li> </ul>
Cooperative Promotion Depts.	<ul style="list-style-type: none"> <li>* Give orientation on the principles of cooperatives, disciplines, etc.</li> <li>* Give certificate evidencing that they are legal entity</li> <li>* Provide training in record keeping, skill in cooperative management</li> <li>* Support in the preparation of their business plan and annual plans.</li> <li>* Provide Audit service</li> <li>* Identify model cooperatives and assist them to share experiences</li> <li>* Inspect their day-to-day activities</li> <li>* Prepare cooperative profile - data on their performance, etc.</li> <li>* Credit in-kind provided to rural MSE cooperatives by facilitating for them to access treadle pumps, beehives, drip irrigation equipments, etc.</li> </ul>
Women Entrepreneurs Association	<ul style="list-style-type: none"> <li>* Provide training, consultancy services like explaining government policies and regulations related to their businesses,</li> <li>* facilitate exchange of information</li> <li>* Organize trade fairs or exhibitions.</li> <li>* Networking with public organization and NGOs to build the Associations' capacities.</li> </ul>
Chamber of Commerce	<ul style="list-style-type: none"> <li>* Collecting and disseminating useful information</li> </ul>
	<ul style="list-style-type: none"> <li>* Organizing relevant training programs and trade fairs</li> <li>* Providing counseling services</li> <li>* Arbitration when business disputes arise.</li> </ul>

The ReMSEDAs in most of the Regional States are also making efforts to provide or facilitate the provision of financial and non-financial support services to MSEs, especially in urban areas. Discussions held with officers of ReMSEDAs revealed that the overall objective of the program is poverty alleviation mainly by facilitating self-employment and job creation. All the ReMSEDAs in the six regions indicated that the major activities carried out to achieve objectives include the provision of support services mainly through facilitation and direct delivery of the activities indicated in the table above.

The market linkage effort so far concentrates in linking cooperatives, groups and individuals mainly with government development agencies involved in variety of sectors and to a certain extent with non-governmental organizations and the private sector. For example, target groups engaged in the production of construction materials like hollow-blocks, metal, wood etc. are linked with agencies that build condominium houses and schools. Those engaged in food processing are also linked with hospitals, hotel, and higher educational institutions. Municipal related activities such as garbage disposal, parking lot administration are other sources of employment for the target group of the program in Addis Ababa.

#### **Box 4.5 Ambitious Plan of SNNPR REMSEDA**

*The southern regional micro and small enterprise office is dedicated to achieving full employment in the region by the end of 2008 E.C – to create a situation where not even a single individual within the productive age is unemployed.*

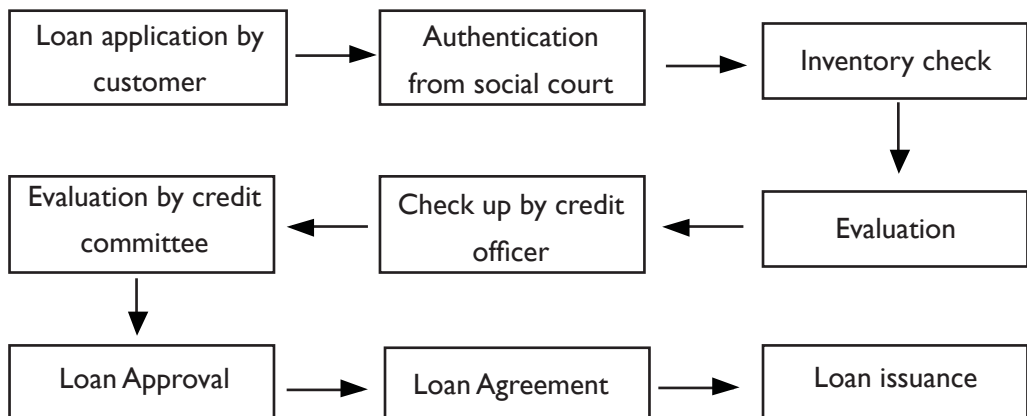
*The plan explains that 302400 persons would be organized under Regular Program while 627000 individuals would be served under the Package Program (the highest form of organization). To keep nurturing as per the plan, the region has allotted a budget of 675 million birr until 2008 Ethiopian Calendar.*

ReMSEDAs claim that the activities of the program appear to have picked during the last four years. It is claimed that the program has made a difference in the lives of many, especially in the creation of job opportunity. Just instilling the importance of work or being self-employed in the minds of people is considered one of the greatest achievements for ReMSEDAs.

Starting from 1996 E.C. business management and skill training have been provided intensively in at least five of the Regions (with the exception of Afar). For instance, in Amhara Region the number of people trained increased from 7,000 in 1996 E.C. to 73,000 in 1999 E.C. To illustrate the efforts of REMSEDAS in the Country we will briefly introduce the efforts of Tigray REMSEDA which included introduction of one-stop service centers; facilitating access to projects outside the tender procedures; establishing industrial zones for MSEs; skill upgrading centers; and support under the BOTIT - UNIDO Cooperation.

**One-stop Service Centers:** (OSCs) are facilities where MSEs access all the required services of the Bureau of Trade, Industry and Transport (BoTIT) are provided in one place in an organized manner within a short period of time. Because the workflow is organized systematically and activities are logically interconnected, it reduces the long bureaucratic procedures and facilitates easy access to services needed by the MSEs. The OSCs are found at Kebele levels in the towns, with the employees of BoTIT and DECSI providing the necessary supports. Entrepreneurship training, counseling on effective utilization of credit fund, information on markets and other BDS supports are given at the OSCs. Access to credit is also facilitated by DECSI staff stationed at the centers. BoTIT's plan is to extend the OSCs into the 40 towns of the region with proper organization that includes establishing proper database system, strengthening of networks with other stakeholders, increasing access to financial services, soliciting audio-visual equipment and connecting all the OSCs in wide area network. Services at the OSCs are not limited to BDS provision, but also business licensing and registration. The typical workflow of an OSCs in Tigray is indicated below:

**Figure 4. 10 Workflow for accessing loans above Birr 30,000 at Kebele level**





**Facilitating access to projects without tender:** The MSE sector usually faces problems in winning bigger government projects because of limited capacity to participate at official tenders and bidding processes. This is partly because they could not meet the requirements like bid bond and license. BoTIT helps MSEs get job orders without going through the conventional tender procedures. Under this scheme, MSEs were able to manufacture about 60,000 beehives during the last 2-3 years. On the supply side, BoTIT also helps MSEs access raw material (such as wood) from suppliers by writing letters of guarantee.

**Industrial zones for MSEs:** MSEs engaged in similar activities from priority areas (i.e., agro processing, urban agriculture, irrigation, poultry) came together in industrial zones where they got common production site at minimal fee, access to infrastructure services such as telephone, electric power and roads. The infrastructure development team provides technical assistance to MSEs in the industrial zones. There are nine industrial zones in the region and seven of them have already been operational.

**Skill upgrading training centers:** Under the supervision of BoTIT, these are established to help MSEs improve technical know-how in the production of leather, textile and garment, weaving and silk production. In addition, there are technology demonstration centers for urban MSEs and rural technology development centers for rural operators. Different prototypes are available for MSEs to manufacture new products. The industrial technology Department of Mekelle University is also collaborating with BoTIT in this respect.

**Cluster supports under BOTIT - UNIDO Cooperation:** UNIDO support is available to clusters on: (1) footwear; (2) handlooms/weaving; (3) garment; and (4) Wood and metal. The project started operation in Mekelle before 2 years, with the feasibility study done by an Indian expert. Eleven cluster development initiatives carried out in eleven major towns of Tigray region. There are about 400 MSEs organized into clusters, most of them employing 4-5 permanent people. The purpose of the project is to help MSEs in the clusters through technical training, networking, organization of experience-exchange visits, and facilitation of access to financial services and work premises. Project partners include: BoTIT; DECSI; Mekelle University (industrial engineering department); zonal trade,

industry and transport office; cooperative development office; Mesfin Industrial Engineering (A big workshop that produces trailers and car bodies, and other machines); Public and private training institutions; TVET schools and raw material suppliers.

#### 4.2.2 Entrepreneurs perception of non- financial services

Non-financial services refer to the various services provided by governmental or non-governmental organizations in order to increase the effectiveness of MSEs. Although such services can be provided either free of charge or at full market prices, the common practice is provision of such services for free. With out being specific, MSE operators were asked if they had received any support from governmental or non governmental organizations to enhance the effectiveness of their businesses. Table 4.28 summarizes the responses. 35% of the micro and 15% of the small enterprises reported receiving support indicating that non-financial support services are mainly directed to micro rather than small enterprises.

**Table 4.28 Support received from governmental or non-governmental organization**

				support from government or non-government organization	Total
			yes	no	yes
	micro	Count	171	317	488
		%	35.0%	65.0%	100.0%
	small	Count	74	431	505
		%	14.7%	85.3%	100.0%
Total		Count	245	748	993
		%	24.7%	75.3%	100.0%

#### Training services obtained

To understand the extent of opportunity actually availed to MSEs in terms of training, respondents were asked if they or their employees had taken any training related to their jobs. Only 17% of the male respondents confirmed that they had received some training compared to 25% for the female respondents. This may be due to the preva-

lence of gender sensitive interventions that deliberately target female entrepreneurs as well as the readiness of the female entrepreneurs themselves. Apparently, that most government or NGO related interventions which are provided in mass mostly attract the female compared to male Entrepreneurs deserve to receive training several times to successfully run their businesses. Instead, a very negligible portion of the MSE operators have received a single training only. The reason must lie in both the supply and demand side of training.

**Table 4.29 Training taken by employees of the enterprises**

Male		Frequency	Percent
	yes	85	16.7
	no	425	83.3
	Total	510	100.0
Female		Frequency	Percent
	yes	48	24.5
	no	148	75.5
	Total	196	100.0

MSE operators involved in the focus group discussions believe that they need training in business management, especially in marketing, record keeping, and trainings that build their confidence to diversify or expand their business. Some of the young operators indicated that it makes a difference in the success of the enterprises if training and adequate orientation is given to those who want to be self-employed before injection of any credit. Some of the operators have pointed out that they had taken part in BDS training programs but the training lacks continuity. One of the problems cited was that because of lack of orientation most people are tempted to start businesses whose market has saturated. Such practice, they pointed out, creates unhealthy competition among the operators and consequently, they usually are doomed to fail.

### **Marketing support services**

Similar to training, a very insignificant proportion (9) of the enterprises had received marketing assistance. This mainly is related to the supply side of the service. Marketing services are less developed in comparison to widespread efforts by REMSEDAs and other NGOs to offer various training support.

**Table 4.30 Marketing assistance received by the enterprise**

		Frequency	Percent
	yes	88	8.9
	no	901	91.1
	Total	989	100.0

A related issue raised to the respondents was about the type of constraints they face in relation to marketing. The main market related constraints faced are lack of transport facility (22%); limited production capacity (22%); lack of access to larger lucrative markets (20%); and lack of information (18%).

**Table 4.31 Marketing related constraints of the business**

		Frequency	Percent
1	Access to larger lucrative markets	181	19.5
2	Distance (lack of transport facility)	203	21.9
3	Poor quality, design and packaging problem	55	5.9
4	Limited production capacity	206	22.2
5	Lack of information	163	17.5
6	Increase price of raw materials, inflation	11	1.2
7	Low living standard of the society	3	.3
8	Large number of imported product in the Market	2	.2
9	High market competition	3	.3
10	Increasing rental cost of working premises	1	.1
11	Business location	3	.3
12	Lack of technical know-how	1	.1
13	No problem	65	7.0
14	High tax amount	2	.2
15	Lack of market	4	.4
16	Working premises problem	4	.4
17	Input problem	17	1.8
18	Low purchasing power of the customers	3	.3
19	Infrastructure Problem	2	.2
20	Total	929	100.0

## Other Assistances received

Some additional assistance such as technology and expansion related were also received by enterprises. However, their level of occurrence is consistently below 10% (see table 4.32)

**Table 4.32 Other assistance received by enterprises**

technological assistance		Frequency	Percent
	Yes	84	8.5
	No	905	91.5
	Total	989	100.0
expansion assistance		Frequency	Percent
	Yes	98	9.9
	No	891	90.1
	Total	989	100.0
management Training		Frequency	Percent
	Yes	86	8.7
	No	902	91.3
	Total	988	100.0

Similarly, all of the focus group participants feel that non-financial support services like training in BDS and technical skill up grading would contribute in making their businesses viable and growth oriented. In fact, some suggested that before extending money, especially for start ups, provision of training and of production and selling space have to be given priority. They suggested that the different MSE stakeholders like the agency responsible for providing land and other relevant sector bureaus should facilitate for the development of the sector in practice rather than creating bottlenecks for people who have the potential to grow and show great entrepreneurial inclination.

## 5. Constraints faced by MSEs

A number of previous studies as well as the CSA national survey indicated that the most common constraints faced by MSEs include insufficient access to finance, work premises, market, infrastructural services, material inputs, information on business op-

portunities and technology. For example, according to the study by the Federal Micro and Small Enterprises Development Agency (2003), the major constraints are:

- Lack of demand for the products/services
- Lack of finance
- Government rules and regulations
- Lack of information and advise
- Lack of premises
- Shortage of raw material.

A recent study by IC Net Limited for the Japanese Bank for International Cooperation (2007) on some industrial clusters<sup>11</sup> of MSEs in Addis Ababa identified the following major challenges:

- Market problem because of distance from city center, competition with local and international producers, problem of product quality and lack of investment to tap the export market;
- Problem of access to finance mainly because of lack of collateral to access individual loans which are with higher loan size;
- Limited access to non-financial services (Business Development Services – BDS) because of limited number of providers, lack of information about available services and limited capacity to pay for the services;
- Shortage of raw material, lack of improved equipment and tools.

So, it is clear that despite the significant contribution MSEs are making towards employment and national economy, their growth has been hampered by several challenges and constraints. In the current study, attempt is made to identify the factors that constrain MSEs at the time of establishment. Finance and lack of working space rank on top being reported as the major constraints by a large proportion of the enterprises (see Table 5.1). 44% of the micro and 25% of the small enterprises reported that lack of credit was their major problem in starting a business of their own. Similarly, lack of working space was identified as the greatest constraint for 35% of the micro and 42% of the small enterprises.

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11 Clusters included in this study were wood and metal works, foot wear producers, food processors, weavers and garment makers.

**Table 5.1 Greatest Constraints of MSE at establishment**

Constraints	Micro Enterprise		Small Enterprise	
	N	%	N	%
Working space	170	35	204	42
Lack of credit	212	44	125	25
Lack of access to raw material	32	7	59	12
Obtaining the license	8	2	34	7
Non-financial support services	39	8	54	11
No problem	21	4	14	3
Total	482	100	490	100

These two factors were also reported as major problems in all the focus group discussions held during the study.

The issue with respect to working space is not only limited to availability. Even when it is available, it is usually not suitable. Those who managed to acquire space after a long wait pointed out that it was not suitable for the kind of business they run. Some indicated that it is in an isolated area far away from the potential market. They suggested that the different MSE stakeholders like the agency responsible for providing land and other relevant sector bureaus should facilitate for the development of the program in practice rather than creating bottlenecks for people who have the potential to grow and show great entrepreneurial inclination.

Other important bottlenecks during establishment are lack of raw materials (reported by 7% of micro and 12% of the small enterprises) and non-financial support services. Most of the young MSE operators indicated that lack of prior orientation in business management has somehow negatively affected their level of success during the initial years. Somewhat surprisingly, a small fraction reported difficulty in obtaining license as a major problem. During all of the focus group discussion the majority of the MSE operators reported that obtaining license is no more a problem in most of the regional states. The consultants have also confirmed the same during the discussion with ReM-SEDA representatives who indicated that in most of the regions a kind of one-stop services is being practiced which includes granting of licenses.

Respondents were also asked about factors negatively affecting their smooth functioning currently. The responses reveal that MSEs are affected heavily by the lack of financial facilities (47%), lack of business development services (30%), economic slow-down (11%), and regulatory environment (7%). Though to a lesser extent, use of outdated technology and input problem were also reported.

**Table 5.2: Most important factor currently affecting your business negatively**

Factors affecting businesses negatively	Frequency	Valid Percent
regulatory environment (policy, regulation and institutions)	63	7.0
lack of financial facility	422	46.7
lack of business development service (marketing, management)	273	30.2
economic slow down	97	10.7
working place problem	11	1.2
problem of raw material	9	1.0
high inflation rate/increase price of raw materials	4	.4
no problem	17	1.9
Infrastructure problem	4	.4
all the listed problems	1	.1
high rent expense	2	.2
Total	903	100.0

A total of 127 MSE operators participated in the focus group discussions organized in 21 sessions. Most of the micro-enterprise operators involved in the focus group discussions in five of the regional states are repeat borrowers (taking more than three loans). In fact, some of them have been clients of MFIs for over 10 years. They were involved in various types of activities. For example, those from Addis were involved in computer software development, music and film shop, shower and DSTV service, ready made clothes shop, ladies' handbags and assorted accessories, textile products, kitchen ware, laundry service, vegetable production, hollow-block production, kindergarten, kiosk-food, selling of orthodox church-related items like incense, candles, umbrella, etc.; dry traditional food items – distribution; barbershop, bed spread production. Similarly, those from Bahir Dar were engaged in production of construction material, fuel sav-



ing stove, dairy and fattening; poultry, construction material shop, selling teff and other grain, grocery, restaurant, taxi, vegetable production and selling, dry food preparation, lumber whole selling business, and constructing small shops and residential houses for rent,

During the focus group discussions, MSE operators aired some constraints they faced at establishment and at a later stage which are summarized in Table 5.3.

**Table 5.3 Summary of Major Constraints**

Group	No. of Participant	Constraints	
		At Start up	At Growth Stage
1. Female Youth Micro Enterprise Operators	31	Production Space Finance Training Lack of confidence Culture related problems like gender bias Lack of viable business idea	Finance Production & Selling space Marketing Training Lack of diversification Lack of information Gender bias Lack of strong associations
2. Male Youth Micro Enterprise Operators	27	Lack of production & selling space Finance Appropriate technical skill Bureaucracy	Lack of suitable financial services, Lack of training in small business management. Lack of diversification due to lack of appropriate financial service
3. Adult Micro Enterprise Operators (mixed)	36	Finance roduction space Training & technical advice. Lack of proper screening for group lending. Male dominance in HH financial decisions	The loan size does not grow with the business growth. lack of permanent working space.  Lack of skill and confidence to diversify.
4. Small Enterprise Operators (mixed)			Finance, (high interest rate, collateral) lack of management skill.
Total	127	Finance Production and selling space, Lack of market.	Lack of permanent production and selling space Lack of incentive to work hard. Lack of market out let

As can be seen from Table 5.3, in almost all of the cases, finance and working space are the key constraints both at start up and at the development phase of their enterprises. Lack of appropriate and sustainable training has been the next critical component missing from the support services provided by MFIs and other stakeholders. There appears to be no regional variation in this respect. All of the focus group participants in all of the regions were of the opinion that these constraints are the major influencing factors for the growth and development of the MSEs.

All participants feel that non-financial support services like training in BDS and technical skill up grading would contribute in making their businesses viable and growth oriented. In fact, some suggested that before extending money especially, for start ups, training and the provision of production and selling space have to be given priority.

However, the constraints of MSEs in some regions are deeper than others. Afar could be a good case in point. In Afar, regional agencies like REMSEDA are not active enough and MFIs do not exist. Training institutions and cooperatives are words hardly heard in the region. The region needs to be brought to the mainstream economy through organizational and management capacity building efforts which in turn could lay ground to services of MSEs.

The National Micro and Small Enterprises Strategy emphasis strengthening cooperation between MSEs, emphasis on advancement of women and involvement of the private sector in the supply of commercial BDS to MSE operators. However, the present survey did not find evidence to this effect.

### **Box 5.1 Constraints of a growth oriented micro enterprise**

*Mekuanint Chere is in his early-thirties. He can read and write but has not attended formal school. He is married with two children. He was in grain trade business, which he started using his family's small saving.*

*In 1996 E.C. he started lumber wholesale business by borrowing money from ACSI using his group members as guarantors. Mekuanint indicated that he sells lumber on credit to his customers who mainly resell it in Metema and Sudan.*

*He pointed out that the constraints for his type of business are finance and working space. Although he has applied for a piece of land he is still operating from a rented space in the center of the town. The purchase of lumber for resell demands large amount of money. The group lending system does not allow that type of financing while individual borrowing requires offering fixed asset or house as collateral. Therefore, he believes that unless the loan ceiling in the group lending system is increased based on the type of enterprise or the nature of work, the growth of micro enterprises would be restricted. He indicated that at times he employs up to 4-5 temporary laborers in his business. Mekuanint indicated that, in addition to finance and working space, the motivation to be self-employed is very important for prospective micro enterprise operators.*

## 6. Financial Products for MSEs

### 6.1 Existing financial products for MSEs

In the current Ethiopian financial market one can list numerous sources of financial services such as Conventional Banks, Micro Finance Institutions, Cooperatives, Government projects, and Semi formal and informal lenders (which include relatives/friends, and individual money lenders).

The conventional banks, which may be most visible to the medium and large enterprises, are not able to reach significant number of MSEs in part due to the transaction costs and other associated -real or perceived, risks (Gebrehiwot and Wolday, 2004). This is also confirmed through this study where only 24% of the MSEs indicated having access to banks, the rest (75%) having relationship with MFIs. Respondents were asked to indicate the attributes that they like most and dislike most regarding the services of banks. Property collateral requirement (49%), interest rate (17%), and processing speed (16%) showed up as the top three most undesirable aspects (see Table 6.1 for more details).

**Table 6.1 What MSEs dislike most about Banks**

			the thing you dislike most about banks							Total
			interest rate	property collateral	Repayment schedule	processing speed	services of the bank	Bank pre-conditions	I like every thing	
micro	Count	4	14	2	4	1	0	1	26	
	%	15.4%	53.8%	7.7%	15.4%	3.8%	.0%	3.8%	100.0%	
small	Count	22	61	9	21	10	2	3	128	
	%	17.2%	47.7%	7.0%	16.4%	7.8%	1.6%	2.3%	100.0%	
Total	Count	26	75	11	25	11	2	4	154	
	%	16.9%	48.7%	7.1%	16.2%	7.1%	1.3%	2.6%	100.0%	

On the positive side, respondents identified loan amount (25%), repayment schedule (13%) and processing speed (12%) as reasons for liking to deal with banks.

**Table 6.2 What MSEs like most about banks**

		the thing you like most about banks									
		interest rate	property collateral	repayment schedule	processing speed	services of the bank	loan amount	not applicable	nothing is good	Its Reliability and availability in near by areas	I love everything
micro	Count	6	5	3	5	3	4	36	0	0	0
	%	9.7%	8.1%	4.8%	8.1%	4.8%	6.5%	58.1%	.0%	.0%	.0%
small	Count	11	12	23	18	19	45	0	1	2	1
	%	8.3%	9.1%	17.4%	13.6%	14.4%	34.1%	.0%	.8%	1.5%	.8%
Total	Count	17	17	26	23	22	49	36	1	2	1
	%	8.8%	8.8%	13.4%	11.9%	11.3%	25.3%	18.6%	.5%	1.0%	.5%

In light of the high transaction costs and risks associated with lending to MSEs from the perspective of conventional banks and the dissatisfaction by MSEs towards the services of conventional banks, puts a new challenge to MFIs to consider reaching MSEs in both rural and urban areas.

Given the complete absence of MFIs, the MSE financing gap may be expected to be more pronounced in the Afar region: all the other regions covered by the study have active MFIs that offer multiple financial products (in addition to banks and informal financial institutions). The study reviewed the operations of MFIs in the five regions namely: Addis Credit and Savings Institution (Addis Ababa), Amhara Credit and savings Institution (Amhara), Dedebit Credit and Savings Institution (Tigray), Omo Micro Finance Institution (SNNP), and Meklit Microfinance Institution . The major services being provided are savings (both compulsory and voluntary), credit, and insurance (with a couple of MFIs also offering leasing and money transfer services). The loan products on offer include:

- Agricultural loan
- MSEs loan
- General purpose loan

- Growth enterprise loan
- Housing loan; and
- Consumption or payroll loan

Partnership with regional governments and institutions is being used as one way of promoting MSE financing: For example, in Tigray DECSI has entered in to a credit guarantee arrangement with the regional government where the later provides one million Birr for guarantee for every 20 million Birr loan that DECSI grants to TVET graduates while BoTIT participates in credit analysis. All that is required is for the operators to submit valid business plans. Repayment so far is said to be encouraging (with some reservations regarding TVET graduates, because of their newness to the business world and lack of basic knowledge of entrepreneurship). It has been suggested that entrepreneurship training should be included in the school curriculum to nurture young business people with the potential to become self-employed after graduation. Entrepreneurship training and skill upgrading courses are also suggested for MSEs with established businesses.

#### **Box 6. 1 Loan products of DECSI**

DECSI's loan products are classified into the following categories:

- Input loan – group pressure as collateral, with interest rate of 12%, declining
- Regular loan – group pressure as collateral, with interest rate of 12%, declining
- Rural package – guarantee scheme as collateral, with interest rate of 9%, declining
- Urban package – guarantee scheme as collateral with interest rate of 9%, declining
- Disabled veterans – guarantee scheme as collateral with interest rate of 9%, declining
- Housing loan – asset as collateral with interest rate of 9.9%, declining.
- MSEs/MSMEs loan – asset collateral with interest rate of 10%, declining.

This is mainly meant for small and medium level enterprises that need to access larger loans of about Birr 500,000. This line of business has similarities with conventional banks as it involves pledge of physical collateral and documentation of project proposals. For the lower segment of the small enterprise sector, the institution has developed simplified project proposal format to be filled out with assistance from the loan officer. Loan officers, trained in basic asset valuation skills, also do valuation of buildings to be pledged as collateral. The only asset accepted as collateral is building or house from any material; Hand tools and machineries are not accepted as the law does not allow it.

In-kind Loans are also facilitated through collaboration between DECSI, the Bureau of Trade Industry and Transport( BoTIT) and other concerned parties. For example, beehives, triddle pumps and drip irrigation materials are given on loan. So far, BoTIT's collaboration with DECSI facilitated access to loans such as TVET loans, household loans and loans to clusters as well as MSEs in incubation centers without physical collateral.

But to what extent do MFIs offer products/services that suit the needs and preferences of MSEs? To shed light on this, respondents were asked to state their likes and dislikes about the MFIs operating in their respective areas. Repayment schedule, processing speed and service of the MFI, in that order, were reported as the most likable aspects of MFI services by 36%, 16% and 12% of the respondents, respective

**Table 6.3 What MSEs like most about MFIs**

		the thing you like most about MFIs								Total
		Interest rate	property collateral	repayment schedule	processing speed	services of the MFI	loan amount	I like everything	Everything is not good	
Micro	Count	27	25	94	44	27	19	18	5	259
	%	10.4%	9.7%	36.3%	17.0%	10.4%	7.3%	6.9%	1.9%	100.0%
small	Count	13	19	49	21	20	11	3	4	140
	%	9.3%	13.6%	35.0%	15.0%	14.3%	7.9%	2.1%	2.9%	100.0%
Total	Count	40	44	143	65	47	30	21	9	399
	%	10.0%	11.0%	35.8%	16.3%	11.8%	7.5%	5.3%	2.3%	100.0%

Regarding their dislikes, respondents identified high interest rate (29%), slow processing speed (17%) and small loan size (13%) as the most dissatisfactory aspects of MFI services. The processing speed has appeared as an important factor of both satisfaction and dissatisfaction reflecting its critical importance to the MSE operators. The misconception among formal institutions that MSE operators have ample free time needs to be reviewed and MFIs need to take the lead in this regard.

**Table 6.4 What MSEs dislike most about MFIs**

		the thing you like most about MFIs									
		interest rate	property collateral	repayment schedule	processing speed	services of the bank	Group collateral	Request of government employee as collateral	no Problem	loan size	interest rate
Micro	Count	78	26	35	41	9	8	2	24	33	256
	%	30.5%	10.2%	13.7%	16.0%	3.5%	3.1%	.8%	9.4%	12.9%	100.0%
small	Count	38	17	17	25	8	11	0	4	20	140
	%	27.1%	12.1%	12.1%	17.9%	5.7%	7.9%	.0%	2.9%	14.3%	100.0%
Total	Count	116	43	52	66	17	19	2	28	53	396
	%	29.3%	10.9%	13.1%	16.7%	4.3%	4.8%	.5%	7.1%	13.4%	100.0%

Concerned stakeholders such as ReMSEDA have also their own opinions about the services of MFIs based on their observation through their close collaboration with both MSEs and MFIs. The following is a summary of the opinion obtained from a key informant at the Oromiya ReMSEDA.

#### **Box 6.2 Oromiya ReMSEDA's reflection on MFI products**

*Regarding MSEs' access to finance, the existing supply of micro finance services is insufficient given increasing demand for finance by MSE. Besides, the interest rate is high, collateral options are limited, and the loan size is small. To overcome these problems, the office suggests that there should be more MFIs with diversified loan products, interest rates and loan terms, so that the MSEs get more options to meet their financial needs.*

Some MFIs are coming up with new product ideas in response to the needs of their potential clients. For example, according to its senior manager, Omo MFI is planning to introduce individual lending, with a loan size of Birr 5000 – 50,000, to be availed against security by physical collateral like house with legal certificate/title deed. According to the proposed product development document, it will involve 20% interest and maturity period of 1-3 years.

Savings and Credit Cooperatives have been viewed as one dependable source to provide financial services to MSEs. The Development of Savings and Credit Cooperatives in Ethiopia, as outlined in AMEFI (.....)<sup>12</sup> „, has been significant in terms of their number, membership size and amount of contributions and savings. Aggregate membership in mid-2006 increased from 8332 to over 381,000 and their capital and savings from birr 2 million to almost one billion. The sharp increase, both in the number and membership, over the last three years, particularly in the rural areas, is attributed to the on-going Rural Financial Intermediation program (RUFIP).

### **Box 6.3 Alem Getahun- A client who quit an MFI**

*Alem is married with four grown up children. She stated that when her husband went on retirement from the army, she started selling Areke (a local alcoholic drink) to make her contribution to the income of the household. Then when ACSI started its credit service in Bahirdar she was one of the first borrowers from her kebele to start dairy farming.*

*Since then she has been borrowing from ACSI through her group of 7 members and she was the group leader. The group members were good payers and had no problem, although, now all of them have temporarily stopped borrowing from the MFI. She implied that at one-point clients like her want to quit and rest for a while because being indebted to an institution has a stress.*

*Alem stopped borrowing after building service quarters in her existing compound and started generating good income by renting out each room to individuals. She is currently also selling Injera from her house. She indicated that since her children have now grown up she may be reconsidering going back to the dairy business by accessing loan from ACSI.*

*She commented, however, that the existing interest rate if applied on larger loan amounts is very high. The loan repayment period, she suggested should be longer than one year and the interest rate should be less as the repayment period extends and the loan amount increases.*

*Alem said that MSE operators or clients prefer to continue accessing loan from ACSI because the staff treats customers well and as long as a client is a good payer repeat loan is always guaranteed. She said when she started her Areke business, there was no institution giving financial services. Now for micro enterprise operators ACSI is a good source but there should be some flexibility in loan provision, especially for credit worthy clients.*

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## 6.2 Financial Products Targeting MSEs – the case of AdCSI and OCSSCO

Of the 28 registered MFIs, 26 were providing MSE loans in 2007 (Wolday, 2008). In comparison with other types of lending, micro and small enterprise lending comprised 7% of total lending (See table below)

**Table 6.5 Sectors financed by MFIs , 2007**

No.	Activities	Number of clients	Amount	Percentage
1	Agriculture	2,378,524	2,971,117,387	66%
2	Micro and Small Enterprise	61,882	294,559,587	7%
3	Trade	329,876	859,985,616.61	19%
4	Service	89,544.90	210,354,525.80	5%
5	Consumption	71,296	155,980,342.50	3%
6	Total	2,931,122	4,491,997,460	100%

The average loan size for each of the activities financed is: Birr 1250 for agriculture, Birr 4,760 for MSEs, Birr 2,606 for trade, Birr 2,349 for service and Birr 2,187 for consumption loan. The average loan size for MSEs is lower than it should be, probably due to inconsistent classification and the effect of cooperative loans which is based on considering all cooperative members.

To understand what is happening in the Ethiopian Microfinance sector regarding MSE financing the study reviewed two case study MFIs: Addis Credit and Savings Institution (ADCSI) and Oromia Credit and Savings Share Company (OCSSCO). It examined what they are doing in terms of MSE financing, how they are doing it, what they have achieved so far, and the challenges they are facing currently in their efforts to introduce financial services to the MSE sector.

Regarding MSE financing, both ADCSI and OCSSCO have more or less similar definitions. They define it to include all loans larger than Birr 5,000 and targeting established businesses with proper registration and license from the appropriate authority and cooperatives organized by the Bureau of trade and industry. Both MFIs give priority to

cooperatives organized by the Regional Bureau of Trade and Industry (formerly called Regional Micro and Small Enterprise Development Agency (REMSEDA). The cooperatives are organized mainly to mitigate youth unemployment and focus on graduates of TVET. While ADCSUI's MSE financing open to cooperatives and individual MSEs alike, OCSSCOs operation primarily targets the cooperatives organized by the regional trade and industry bureau. Its individual operation is limited only to a pilot program in two towns of the region: namely Adama and Bishoftu.

### **Products:**

Both offer two categories of financial products to MSEs: savings and credit. The savings products are similar to those offered to the active poor clients in that they include voluntary and compulsory savings. OCSSCO provides loans for working capital and investment while ADCSI offers working capital, lease financing and short term loans. The working capital loans are generally used for activities such as retail, services, handicrafts, and agricultural activities.

### **Terms and conditions**

According to Wolday (2008), the average size of MSE loans by Ethiopian MFIs ranges between Birr 5,000 and 250,000. Similarly, ADCIS loans range between 5,000 and 250,000 while OCSSCO seems to give larger loans ranging between 5,000 and 100,000. As per the legal ceiling which allows each MFI to lend up to 1% of its capital for a single borrower, both ADCSI and OCSSCO can lend a much higher amount for a single borrower; but they have preferred to approach it cautiously.

The duration of the loan goes as high the legal ceiling of 5 years for OCSSCO in case of investment loans and 1 year for working capital loans. ADCSI, on the other hand, gives short term loans with 6 months maturity period while its leasing and working capital loans involve 3 years maturity. Collateral arrangements at OCSSCO heavily rely on institutional guarantee while ADCSI has devised several collateral mechanisms. These include building, personal guarantee, salary deductions (for loans of up to 30,000), vehicles (for loans of up to 10,000), institutional guarantee and promissory checks (for up to six months). Interest rate for leasing and working capital loans at ADCSI is 10% while the rate for its short term loan is 1.5% per month (equivalent to 18% per annum). At OCSSCO, the interest rate for both working capital and investment loans is 10%.

**Table 6.6 Summary of the terms and conditions of loans at ADCSI and OCSSCO**

	Eligibility	Size of loans	Loan term	Collateral	Interest rate	Purpose of loan
Types of Loan	ADCSI					
Short term	. Licensed and registered . Organized as cooperative	5000-50,000	3 years	Personal guarantee and promissory check	9%	All kinds of legal businesses
Working capital	. Licensed and registered . Organized as cooperative	5000-250,000	3 years	-Building, vehicle, salary, personal guarantee, institutional, other fixed property	9%	-Retail trade, service, handicraft, agriculture
Leasing	. Licensed and registered . Organized as cooperative		Up to 6 months	Machinery and safe protection	18%	Purchase of machinery
Types of Loan	OCSSCO					
Working capital loans	Organized as cooperative	5,000- 150,000	1 yr.	Institutional	10%	-Retail trade, service, handicraft, agriculture -
Investment loans	Organized as cooperative	50,000- 1 mill.	5 yrs.	Institutional	10%	All legal fixed investments

### Performance and Achievements So far

ADCSI has ventured in to MSE financing three and half years back while OCSSCO did same two and half years ago. Since then, both have made substantial progress in fulfilling the financial needs of MSEs in their respective areas. The following table presents a disbursement data so far by the two MFIs:

**Table 6.7 Disbursement of Loans to MSEs by ADCSI and OCSSCO**

ADCSI		1999 (February to June)	1999	2000 ( till end of may)
Male	No.	745	1283	2212
	Amount	9,621,517.60	27,376,000	59,413,588
Female	No.	532	812	1316
	Amount	6,013,480.80	16,621,940	27,796,793.70
Institutional.	No.	455	37	220
	Amount	3,807,650.97	1,444,000	5,417,976.70
Total	No	1032	2132	3748
	Amount	19,442,649.37	45,441,940	92,628,357.70
<b>OCSSCO</b>				
		2006/7	2007/8 ( till end of may2008)	
	No.	918	1030	
	Amount	26,281,927.97	39,937,252.93	
Working capital		24,358,504.97	35,082,964.21	
Investment capital		1,923,423.00	4,854,288.72	

### Challenges and prospects

Both MFIs see a bright prospect for MSE financing in the immediate future. They both have intentions to significantly expand these services. However, currently, they are faced with the following challenges:

- Lack of or inadequate collateral by potential borrowers
- Loan diversion
- Exaggerated loan demands by borrowers
- Lack of integration among collaborating institutions
- Misconception of clients about the credit services and considering it as grant particularly by the cooperatives of unemployed youth
- Inadequate post-disbursement support
- Funding shortage of MFIs hampering timely disbursement

## **The External Environment**

MSE financing currently involves very close collaboration among different government and non- government agencies. Besides finance, MSEs face key challenges hampering their growth such as lack of working premises and skill limitations (both technical and business management). Thus, it is believed that better provision of working premises and training services will help the effort of MFIs to .

Further more, since the objectives of the different actors are obviously MSE development, their actions should be complementary and consistent with each other. Accordingly, MFIs would like the facilitation of the following by concerned external stake holders:

- Creation of funding mechanism to support their MSE financing effort in times of occasional funding shortages;
- Allowing MFIs to exercise foreclosure like banks;
- Enhancing existing collateral options by issuing appropriate legal frame work.

### **6.3 New product ideas for MSEs**

As has been observed in the study large number of MSEs still depend on their savings to start and expand their businesses implying that other financial services are less accessible and way behind in meeting the financial needs. Furthermore, the fact that only 22% of the respondents use MFIs to keep their savings (while 49% use commercial banks) suggests a need to look in to the existing savings products and take measures accordingly in order to make them attractive to savers including those who keep their savings at home (22%). Unless MFIs take steps to enhance their savings products so as to attract deposits to finance their lending activities shortage of funds may jeopardize the smooth functioning of their programs.

Moreover, at times when MSEs are vulnerable to frequent cash flow/liquidity problems, personal savings serve as easy options to resort to (48%). It is also noted that conventional banks are not friendly enough to MSEs' yet.

The number one challenge of MSEs, as identified by the study, is lack of financial facility. On the other hand, the government claims to have put in place the essential policies, strategies and other statutory framework to help nurture the growth and development of MSEs. This situation should provoke all stakeholders to seek ways and means of addressing the gap.

From what has been discussed so far, it is clear that MFIs are not responsive enough to meet the needs of MSEs to the level expected.

There is a need for new products and/or refining the existing ones to better reach and serve the MSEs for them to flourish and contribute more to reduction of poverty and well as the national economy.

Some of the measures that need to be taken to improve the services of financial institutions: include

- Conventional banks be more accessible and their products refined in the light of the needs of MSEs.
- Conventional banks to take innovative measures that reduce the transaction costs and associated risks and wholesale their services to MFIs and Savings and Credit Cooperatives which in turn can avail it to MSEs
- MFIs refine existing financial products and develop new ones based on the assessment of their financial needs
- Other stakeholders such as AEMFI be engaged in building the capacity of MFIs, availing study documents and creating linkages with conventional banks and others
- Enhance the efforts of savings and Credit Cooperatives to the extent possible until their service reach MSEs with good number

Considering the role of MFIs in savings so far, they also need to develop savings products with attractive features. Some of the products to consider include: Time deposits; Minors deposits; Joint deposit accounts; Lifelong deposits for children education, housing, and old age; They may also need to provide services such as payment of bills for utilities out of the savings deposits on behalf of customers; and nurture savings habits (e.g. in schools, coops, associations, etc.).

Finally considering that the most common purposes of borrowing by micro and small enterprise operators are for working capital, machinery and equipment and live animals, MFIs may also consider the suitability of the following product ideas.

- **Asset based lending**

A business loan secured by a pledge as collateral of any mobile/liquid assets used in the business such as inventory, accounts receivable (e.g. sales on credit), machinery and equipment.

- **In kind loans**

In lending in kind the lender takes up the item (inventory or equipment) as collateral and may need collaborators to supply and certify the appropriateness of the purchased item e.g. solar power energy, water pumps etc... may be appropriate for such lending activity.

- **Leasing**

Given the possibility of introducing a title deed system to a range of equipments and machinery, the current practice of equipment leasing by some MFIs to borrowers in the construction sector under the urban development program can be expanded to other sectors as useful methods of financing equipment investment for MSEs.

## **7. Conclusion and Recommendations**

### **7.1 Conclusions**

MSEs occupy an important place in the Ethiopian economy, at least in terms of the employment and income they provide, more so in urban areas. Micro entrepreneurs in the selected study areas undertake diverse activities that have growth potential but face a number of constraints, among which lack of finance for investment and working capital, production and selling space, marketing, sustainable training for the program are the major ones.

Even if the needs of MSEs appear or are superficially similar, according to the result of this study, in some of the cases finance and working space seems to be the most com-

mon problem while the level of need for other support services like training in business management, marketing etc. varies from enterprise to enterprises.

The study confirms previous findings that MSE operators are of two types: Those who start business just for survival purpose as they have no other alternatives; and those who have the entrepreneurial drive and want to pursue activities that are paying. The first type may be likely to abandon their businesses the moment they identify something to survive on while the later tend to continue to work harder to take the business somewhere higher until the end. These are the ones with the potential to engage in growth oriented activities.

The existing MFIs are minimalist in their approach in the sense that they only provide financial services. Moreover, the services are extended to the lower stratum of micro-enterprises. On the other hand, formal banks concentrate on financing the medium and large-scale enterprise, and shun the MSEs mainly due to the high cost and risk involved and absence of appropriate assets that can be pledged as collateral.

Although the current sources of finance for MSEs include MFIs, personal savings, ploughing back profits, suppliers, Equb and sometimes friends and relatives, with the possible exception of MFIs, the rest may not be reliable or sustainable sources for the development of MSEs. The fact that own savings and support from family and friends came as prominent sources of funding for start-up of new businesses indicates the difficulty of entry and the absence of any external support for new and dynamic potential entrepreneurs.

The assessment has shown that there exists a huge demand for credit for working capital and long term investment, especially from growth oriented MSEs. The short experience of some MFIs that started extending relatively larger loans to growth oriented MSEs provides some evidence in this respect. This, however, raises the issue of availability of loanable funds and savings mobilisation. Given that MFIs are the least preferred places for savings, this needs a rearrangement of the saving service by MFIs by considering issues such as proximity, opening hour, interest, physical image etc. Another challenge that needs utmost attention is skilled manpower since lending small loan amount for enterprises established for survival purposes and lending to growth oriented enterprises are not the same in many ways.



It is observed that working capital, buying machinery and equipment and purchase of animals are the most important reasons for borrowing by small enterprises, hence how can we simplify the lending activity for this purposes is a critical issue

We have seen that more micro enterprises have working relationships with formal financial institutions compared to small enterprises partly due to the focus on such enterprises by MFIs. The proportion of micro enterprises having working relationship with formal financial institutions is 54% compared to 36% for small enterprises. Out of the 997 respondents, 55% of the micro enterprises and 37% of the small enterprises have accessed credit , at least, once. On the other hand, 45% of micro enterprises and 63% of the small enterprises had no credit experience.

The study indicates that the nature of MSEs' businesses requires efficient and flexible lending policies and procedures on the part of the lending institutions. For example, some MSE operators , despite their ability to offer collateral in fixed asset form, prefer to borrow from MFIs because of their efficiency in loan processing compared to commercial banks. Some of the respondents also raised issue as to why some of the MFIs may not specialize in financing larger loans instead of all competing for only the bottom layer of clients in the MSE sector.

The above brief conclusion validates the idea that we do not have the right financial products in sufficient variety for growth oriented MSEs in urban areas as well as appropriate rural financial intermediaries that would support farmers to make use of the agricultural packages offered by the sector agencies. It would have been better if this could be written differently. It seems some what difficult to conclude this from what has been discussed above.

## **7.2 Recommendations**

Considering the well recognised importance of MSEs in job creation, income generation, and poverty alleviation, all stakeholders have the responsibility to make concerted effort to remove the constraints that stand on the development path of the MSEs, especially those with the potential to grow and contribute more to the national economy. Some of the measures that stakeholders need to take are outlined below.

### **7.2.1 Government institutions**

- In spite of government's past and current efforts to support the development of the MSE program, much remains to be done to facilitate the smooth growth and advancement of the MSEs with high potential of curbing the current problem of unemployment and income short falls. Based on the findings of the study, one of the chronic problems is lack of suitable working space. Therefore, government agencies responsible for land administration in all the regional states should make the provision of working space to MSE operators as one of their priority actions.
- The agencies should include the provision of land or working premises as one of the one-stop services based on identified real need of specific operators.
- Introduction of new policy frameworks for recognizing new form of assets such as machinery and equipment as new forms of collaterals by creating arrangements for providing title certificates.
- The current effort of government agencies like ReMSEDA, to facilitate market for MSEs engaged in different activities by creating linkages with different agencies, especially in the construction sector, is very encouraging. Nonetheless, effort should also be made to assist these groups to slowly learn to identify their own market niches so that the concerned MSE operators would not face market problem at the end of the life of the government projects that are currently the major buyers of the products or services of some of the MSEs. ReMSEDA should especially make effort in organizing sustainable training programs in marketing for these segments of the MSEs in particular and for all other growth oriented MSEs in general.
- The short experience of few MFIs that have started extending larger amount of loans to small enterprises reveals that one of the major challenges for them is sources of loanable funds to meet the demand. Stakeholders that proclaim would like to see poverty eradicated should make special effort to identify local and foreign sources of fund to meet this. Such fund could be in the form of soft loans from international financial institutions, revolving funds from bilateral agencies earmarked for poverty alleviation programs, loans from local banks and insurance companies, social security funds, etc. The government can play a central role in this effort.

- Government should plan and implement all rounded capacity building programs for agencies like ReMSEDA which are engaged in providing and facilitating for the provision of various support services to MSEs. Such agencies can create networking with variety of organizations to coordinate packages of services for MSEs. This is possible only if such government agencies are financially and organisationally strong enough to act as centers of this networking by having a reasonable range of critical services into which other institutions can hook to ensure the required packages for various needs of MSEs.

The acquisition and development of appropriate technology is an important factor for small enterprises. Research and development is the basic strategy for achieving this objective. The government in collaboration with local and foreign organizations should encourage the improvement of technological base in some of the small enterprises. One way of doing this is by seeking the support of advanced enterprises to make their facilities available for short-term attachments of small entrepreneurs.

### **7.2.2 Non-governmental Organizations**

- NGOs have been striving to assist poor people in Ethiopia for over 30 years now. One of the mechanisms to attain sustainability in livelihood programs is to make people engage in activities that would sustain the household even after the NGO programs phase out. However, the experience in most cases is not so. The moment the NGOs withdraw from a particular program, poverty sets in. Therefore, to ensure the sustainability of their efforts in poverty alleviation NGOs should create linkage with microfinance institutions. The linkage could be to:
  - provide resources as revolving fund to be provided as a loan to the active poor.
  - provide support services like training to clients and potential clients of MFIs by identifying the training needs of the different categories of clients.
  - assist MFIs to conduct various researches that could benefit poor people in the long run.
  - build the capacities of the MFIs in a form of human resource development and by providing facilities that would enhance the provision of efficient services to MSEs.

- assist the efforts of primary stakeholders of MSEs in building infrastructural facilities for MSE operators.
- assist the improvement of national self-confidence in the capacity to improve the range and quantity of the country's handi-craft, which provides employment to a large number of people in both urban and rural areas of the country.
- Involve in the purchase of shares of MFIs, particularly by local NGOs and international NGOs can support their partner local NGOs to do this.

### **7.2.3 MFIs and AEMFI**

MFIs in Ethiopia are now at the center of micro and small enterprise financing. However, they may need to consider the following to further enhance their role in the growth and development of the micro and small enterprise sector.

- Currently, MFIs are giving significant attention to micro compared to small enterprise financing. Micro enterprise financing focuses on the survival-type businesses with loan needs of less than Birr 5,000 whereas small enterprise financing involves loans ranging between birr 20,000 to 500,000. Small enterprise financing is currently no body's domain as banks are not involved either. MFIs thus need to re-position themselves to finance small enterprise. It is evident that MFIs have better inherent motivation to serve small enterprises as compared to conventional banks due to the following reasons
- The need to offer hope to the existing clients by promising that the MFI will be there when the micro enterprise progresses through various growth stages
- They will be able to address the second bottom line, that is profit, without much difficulty compared to what they are facing currently
- It will help them resolve their governance challenges by enabling them attract more private social investors thereby creating a lasting ownership arrangement

Considering that loans of up to birr 20,000 fall under the micro enterprise financing category, MFIs should be able to involve themselves in to financing of small enterprises ranging between Birr 20,000 and 500,000. Depending on their situation MFIs need to allocate between 20 and 49% of their annual disbursements for this purpose. This will

ensure that microfinance institutions still favor and are committed to poverty alleviation and micro enterprise financing by allocating a minimum of 51% of their disbursements to this sub sector.

- One of the critical problems of the MSEs is their inability to offer collateral in fixed asset form to access loans from MFIs. Even under the condition that MSEs were able to present personal or some other similar guarantors, the problem of collateral existed when trying to access repeat loans as the guarantors may not want to take responsibilities for the next loan. Therefore, as proposed by the majority of the MSEs included in the study, it would be good if MFIs consider business plan or project based lending to MSEs engaged in promising business activities. A wide range of collateral and collateral substitutes should also be considered in connection with the situation of each MFI and each branch. Some possibilities can be:
  - Multiple Guarantee arrangements
  - Warehouse certificates
  - Certificate of deposits for precious metals, jewelry and other valuables
  - Machinery and equipment
  - Condominium houses for a portion of their value
  - Personal guarantors
  - Merchandize
  - Parents or other family members
  - Share certificates
  - Life insurance
  - Cash flow pattern of the enterprise
  - Hire purchase arrangement
- Almost all of the interviewed MFIs explained shortage of loan fund as a bottle neck to expanding services to more MSEs. To solve this problem, aggressive fund raising efforts should be launched targeting commercial and non-commercial sources of funds.
- Devise new mechanism to attract new shareholders thereby to raise the equity of MFIs

- Come up with a new philosophy of saving mobilization. If MSE financing is to be a true domain of MFIs in Ethiopia, they need to be savings led institutions. Particularly it means they need to have more in savings balance rather than in loans balance as is the case currently.
- Assign somebody to be in charge of fund raising. The current practice of assigning the whole board and management group as in charge of fund raising is not good enough.
- Provide favorable conditions for multiple guarantee schemes to mushroom. Although credit guarantee schemes may not immediately bring attractive profits they facilitate risk free lending and bring in to the stage wide variety of actors who otherwise may not have interest in the sector. This option can be taken care of by the government, development agencies, business associations, cooperatives and social organizations such as Idir. It is, therefore, recommended that concerned institutions such as AEMFI, FeMSEDA, Regional governments, chambers of commerce and sectoral associations, Idirs and equbs, the private sector and donor programs may take the lead in facilitating the establishment of credit guarantee schemes.
- MFI services are completely unavailable in some regions such as Afar and are inadequate in others (Amhara and Tigray for example). Efforts should be made to establish new MFIs in the access deficit regions and in the regions without adequate services. Existing MFIs should also expand their outreach by opening new branches in new areas.
- Those MFIs with no liquidity problems should take the lead in designing and coming up with innovative new products or refining of existing products to serve existing clients in a better way and to reach so far unreached group of clients.
- Considering the importance of saving and credit cooperatives and other forms of cooperatives in MSE financing, MFIs should enhance the practice of using cooperatives as intermediaries to reach the poorer members of the community.

## Some Action points

The following matrix is given as a guide for developing action points and action plans by interested parties in relation to strategic issues and the constraints/problems as identified in the study.

**Table 7.1 Matrix of strategic issues, constraints and suggested action points**

Strategic issues	Constraints/obstacles	Suggested action points
I. Non financial Assistance	<ul style="list-style-type: none"> <li>- lack of Business Development Services (BDS)</li> <li>- lack of management assistance</li> <li>- lack of marketing assistance</li> <li>- lack of production and sales Premises</li> <li>- lack of Business information</li> <li>- outdated technology</li> <li>- skill and technology transfer</li> </ul>	<ul style="list-style-type: none"> <li>- Collaborate with other stakeholders, such as Regional Government, REMSEDA, private sector, NGOs, Chamber, etc to provide these services.</li> </ul>
2. Integrating support Services	<ul style="list-style-type: none"> <li>- Coordination, cooperation and integration among key actors: government, private sectors, NGOs, chambers etc. is not to the desired level</li> <li>- absence of partnership</li> <li>- lack of MSEs associations</li> <li>- women entrepreneurs associations do not seem well developed</li> </ul>	<ul style="list-style-type: none"> <li>- strengthen the cooperation and integration among the actors to effectively utilize their resources to the development of MSEs</li> <li>- promote and ensure partnership</li> <li>- form and strengthen associations</li> </ul>

<p>3. Attributes of financial products</p>	<ul style="list-style-type: none"> <li>- inflexible collateral</li> <li>- limited loan size</li> <li>- slow service</li> <li>- absence of nearby service</li> <li>- unattractive saving product</li> <li>- difficulty in group formation (Is this from the study?)</li> <li>- limited loan terms</li> <li>- high interest rate</li> </ul>	<ul style="list-style-type: none"> <li>- widen eligible collateral</li> <li>- improve loan size</li> <li>- apply simple &amp; quick loan appraisal process</li> <li>- apply a door-step service Policy</li> <li>- make the saving product attractive</li> <li>- resolve problems associated with group formation</li> <li>- revisit the interest rate based on cost, competitiveness &amp; affordability</li> </ul>
<p>4. Establishment of Institutions</p>	<ul style="list-style-type: none"> <li>- absence of MFIs in Afar, Gambellea and Somalia region</li> <li>- Inadequate number of MFIs in Amhara, Tigray and Southern regions</li> <li>- dearth of regional MSE support agencies</li> <li>- slow progress of cooperative formation</li> <li>- capacity limitation</li> </ul>	<ul style="list-style-type: none"> <li>- assist the regions in their effort to establish MFIs</li> <li>- encourage cooperatives</li> <li>- build the capacity of the regional MSE support institutions</li> </ul>
<p>5. Policy, strategy &amp; Regulatory framework</p>	<ul style="list-style-type: none"> <li>- no clear understanding among MSEs about policy environment</li> <li>- ensure the effectiveness of the policies, strategies and statutory frameworks</li> <li>- absence of tax incentive</li> <li>- issue rules, regulation &amp; guidelines</li> </ul>	<ul style="list-style-type: none"> <li>- assist MSEs in grasping the content of the policies, strategies and statutory frameworks</li> <li>- make sure that they are effective and guide applications as desired</li> <li>- introduce tax incentives, issue rules, regulation &amp; guidelines</li> </ul>
<p>6. Fund for MFIs for On-lending and Capacity building</p>	<ul style="list-style-type: none"> <li>- low level of saving</li> <li>- absence of adequate commercial funding</li> <li>- limited grant</li> </ul>	<ul style="list-style-type: none"> <li>- aggressive savings mobilization strive to getting loanable fund explore ways through which grants can be secured</li> </ul>
<p>7. Accessibility &amp; a need for new product</p>	<ul style="list-style-type: none"> <li>- finance is not adequately accessible to MSEs</li> <li>- unattractive products</li> </ul>	<ul style="list-style-type: none"> <li>- improve accessibility and reach significant number of MSEs</li> <li>- refine &amp; develop attractive products responsive to the needs of MSEs</li> </ul>



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- Occasional Paper No. 2, Review of Microfinance Industry in Ethiopia: Regulatory Framework and Performance (August, 2000), Wolday Amha.
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